BOARD ATTRIBUTES AND FIRM STRATEGIC DECISIONS: THE IMPACT OF BOARD COMPOSITION, DIRECTORS' EXPERTISE AND NOMINATING PRACTICES ON ACQUISITION SUCCESS

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Résumé:

La présente étude examine le rôle de certains attributs des conseils d'administration, notamment l'influence de leur composition et de l'hétérogénéité de leurs membres et leur expertise spécifique quant aux secteurs d'activités de la firme, ainsi que les pratiques de nomination de l'entreprise sur la probabilité de réussite des opérations de fusions et acquisitions. Nous mobilisons un cadre théorique multidimensionnel intégrant à la fois des postulats issus de la théorie de l'agence, de la perspective rationnelle/économique sous-tendant la sélection des administrateurs, ainsi que de la perspective du capital humain au niveau du conseil d'administration. Nos résultats supportent la perspective rationnelle/économique en pointant vers une relation positive entre les pratiques de nomination transparentes basées sur les besoins et les objectifs stratégiques de l'entreprise et la capacité de réussir des acquisitions stratégiques d'envergure. Par ailleurs, nous avons également constaté que les conseils d'administration composés d'administrateurs externes possédant un niveau d'expertise (en lien avec les industries dans lesquelles l'entreprise opère) supérieur à celui des hauts dirigeants, semblent prédire positivement et significativement la probabilité de réussir des opérations d'acquisition pour l'acquéreur. Ce résultat supporte les postulats issus de la perspective du capital humain. Quant à l'effet positif des conseils d'administration composés par une forte majorité de membres externes, tel que préconisé par la théorie de l'agence, nos résultats démontrent une relation plutôt convexe entre la proportion des membres externes et la probabilité de réussir des acquisitions stratégiques d'envergure. Ce denier résultat vient jeter un nouvel éclairage sur les conclusions mitigées que l'on constate dans la littérature traitant du lien entre la composition des conseils et la performance des entreprises.

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Abstract :

This study examines the role of Board attributes through the influence of board composition, Board heterogeneity, Directors' industry specific expertise and Directors' nominating practices on board ability to positively affect acquisition success. We argue that the presence of Outside Non-Executive Directors (NED) on the board is not linearly related to firm performance, and that the mixed results of extent research could be likely due to the existence of a curvilinear relationship. As for Boards relying on effective and transparent nomination and selection practices, we posit that they will positively contribute to firm acquisitions success. Furthermore, we consider also that Directors' expertise in the acquirer's related industries would positively predict successful M&A operations. Integrating insights from the agency theory, the rational economic perspective of directors selection and the Board Human Capital perspective, our findings support the hypotheses related to the two latter perspectives and show that Boards with appropriate Nominating committees and transparent nomination practices tied to firm long-term goals and strategy, composed by directors with heterogeneous occupational backgrounds and higher industry expertise relatively to their management teams are more likely to positively predict the probability of making successful acquisitions. While not supporting the agency theory propositions, our findings indicate that there is a convex downward relationship between board composition and the likelihood of making successful acquisitions, which could explain the highly inconclusive results reported by the mainstream research on corporate governance.

Key words: Board of Directors, Human Capital, Nominating Committee, Director Selection, Acquisitions, Strategic Decisions.

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INTRODUCTION

As the composition of boards evolved during the 1980s and 1990s towards a majority of independent members, the fiduciary role of boards, their responsibility for monitoring and oversight of management, became the focus of corporate governance. Relying on measures of Board Independence measured through the number of insiders versus independent outsiders or board members ownership accentuated the focus on the fiduciary role of boards, leaving behind the emphasis on its strategic one. This singular emphasis on the "*Independence*" of board members, mainly measured by outsiders/insiders ratios, turned out to be misguided by overshadowing the critical role of directors' relevant experience and expertise in assessing board effectiveness.

Agency theory considers boards as control instruments that serve to monitor management (Fama and Jensen, 1983; Eisenhardt, 1989; Tosi et al, 2000) and effective directors are those who are independent and vigilant. For the resource dependence theory, board members are considered as boundary spanners and means to access critical resources that contribute to reduce firm environmental uncertainty and transaction costs (Pfeffer and Slancik, 1978; Hillman et al, 2000; Hillman and Dalziel, 2003). Along with recent calls from other board and corporate governance scholars, we consider Directors rather as strategic resources that bring expertise and knowledge to the board, contributing therefore to firm performance by assisting management, through advice and counsel, in making critical decisions (Hillman and Dalziel, 2003; Krause, Semadeni and

Cannella, 2013). Thus, we believe that boards constitute valuable resources when composed by experienced directors with diverse occupational backgrounds, especially when nominated through clear and efficient nomination processes. We consider therefore that highly experienced directors with proven past records and achievements in firm's industries are supposed to be more independent from management than other inexperienced outsiders as they are more likely to overcome the negative effects stemming from the information asymmetry phenomena that plague many corporate governance systems. Directors having deep expertise related to the firm industry will consequently perform more efficiently their strategic role in counselling and advising top management, particularly in the context of critical strategic decisions.

We posit that the concept of Directors' Independence, as defined by the current rules and as used in extant research, particularly from the agency perspective, should be revisited in order to account with the potential counter effects that stem from boards composed by a majority of outsiders lacking relevant knowledge and experiences about firm industries and businesses (Sharpe, 2012; LeBlanc, 2016). However, we consider that while the presence of some independent outside Directors could have some positive effect on firm performance, it is likely that Boards composed by a high majority of outsiders will likely decrease the presence on the boardroom of Industry expert directors, outweighing therefore the benefits of having Independent outsiders on the board.

Recent studies showed a growing interest in Directors' expertise and its effect on decision making effectiveness and firm performance (Kroll et al, 2008; McDonald, Westphal and Graebner, 2008; Krause et al, 2013). Our paper contributes to this growing research stream by shedding light on the critical role of directors' expertise when considered from the board credibility perspective and its effect on board strategy role and firm performance. We argue that Directors, nominated through established Nominating Committees relying on sound and rigorous processes, possessing heterogeneous occupational backgrounds and relevant knowledge fitting with the firm long term strategic needs and objectives are more likely apt to positively enhance the Board decision making capabilities. Moreover, we consider that Directors having a higher degree of specific expertise related do the firm primary industries than their Top management teams will more likely overcome the information asymmetry issue, enhancing therefore Board decision making capabilities and its effective contribution to the firm strategy making processes.

In line with recent calls from several scholars (Kroll et al, 2008; Johnson et al, 2102; Withers et al, 2012), we believe that our understanding of board independence and its effect on firm performance will gain more depth when investigated through the degree of board members expertise and the diversity of their occupational backgrounds relatively to firm top management team rather than the usual reliance on the mere insider/outsider proxies. Our findings support the hypothesis that, in the context of discrete events such as strategic acquisitions, acquirers with effective directors' selection and nomination processes, higher occupational background diversity in the boardroom and those composed by directors possessing more expertise related to firm's specific industries than their firm top management teams are more likely to perform successful strategic deals.

ACQUISITION CONTEXT AND BOARD ROLE

To assess the effect of Board members' expertise, background diversity and Board nominating processes on firm performance, we focus on the acquisition success as a measure of firm performance instead of other overall performance measures for several reasons. First, Boards of directors are legally required to participate actively in these highly strategic decisions (Bacon, 1985; Lorsh and MacIver, 1989; Byrd and Hickman, 1992; Avery et al., 1998; Hayward & Hambrick, 1997; Wright et al. 2002; Thompson and Thomas, 2004). Second, acquisitions are discretionary managerial decisions and provide a relevant situation in which agency problems become manifest (Allen, 1981; Baysinger and Hoskisson, 1990, Cotter and Zenner, 1994; Hayward and Hambrick, 1997; Anderson et al, 2004). Strategic acquisitions are among the most important resource allocation decisions, involving corporate governance, strategic, organizational, economic and financial issues. These decisions constitute therefore salient contexts to consider when assessing how board control and strategy making capabilities could affect firm performance measured as an outcome of a specific event, and not as a general financial outcome realized under normal circumstances (Hermalin and Weisbach, 2003; Kesner and Johnson, 1990, McDonald et al, 2008). Furthermore, prior Acquisition studies show that in many cases, acquisitions failed to create value for the acquirers and many authors suggested that these letdowns could have been the result of corporate governance failures (Weston et al, 1998; Sudarsanam, 2000; Gaughan, 2005). Indeed, Sudarsanam (2000) argued that "…*the systematic nature of the evidence of failure of M&A suggests that the source of the problem may also be systematic if not systemic"* and "*… that poor corporate governance in the acquirer firms may have led to inadequate monitoring of the various stages of the acquisition process, such as pre-acquisition evaluation of the target, deal restructuring and negotiation, and post-acquisition integration*" concluding that "…*the causes of failure in acquisitions may, thus, be traced to the causes of failure of the corporate governance system*". We consider, however, that beyond the problem of monitoring the acquisition process, as noted by Sudarsanam (2000), Directors with a higher degree of firm industries' specific expertise will provide management with valuable strategic counsel and advice which may reduce the probability of acquisition failures and increase the chances for making successful deals. In the remaining sections of our paper, we will first review the literature on the role and characteristics of boards and posit our propositions. Subsequently, we will describe our sample and research methodology and report our results. Finally, a discussion of our findings and their implications for future research will be provided.

THEORY AND HYPOTHESES

Board Composition

Relying on the hypothesis that outside directors are more independent from management than insiders (Jensen and Meckling, 1976; Fama and Jensen, 1983), Board composition and its effect on firm performance was extensively investigated under the agency perspective, particularly in the case of studies relying on the outsiders/insiders ratio as a proxy for board effectiveness. However, empirical evidence of the impact of board composition on governance efficiency or firm performance is highly mixed and generally inconclusive (Daily, 1995; Johnson et al, 1996; Dalton et al, 1998). Thus, while Daily (1995) concluded that there is no systematic relationship between board composition and its ability to fulfill efficiently its service, resource and control functions, Johnson et al (1996) identified studies that reported (1) a positive relationship between the proportion of inside board members and firm performance (Vance, 1983; Cochran et al, 1985; Kesner, 1987); others reporting (2) a positive relationship between the proportion of outside board members and firm performance (Hill and Snell, 1988; Pearce and Zahra, 1992); and finally some studies reporting (3) a non significant relationship between the proportion of inside board members and performance (Molz, 1988). As for Allaire and Firsirotu (2003), they found a non-significant relationship (with a relatively negative tendency) between board composition and firm performance for Canadian firms. In its Meta-Analytic review of the impact of board composition as a governance mechanism, Deutsch (2005) identified three streams of research reporting at best a weak positive impact on firm performance: (1) studies examining the relationship between board composition and firm general performance (Dalton et al, 1998; Finkelstein and Hambrick, 1996; Zahra and Pearce, 1989) showing mixed and inconsistent evidence; (2) studies using meta-analytic reviews to assess the impact of board composition on firm financial performance (Dalton et al, 1998; Rhoades et al, 2000) concluding with weak and small positive relationships; and finally (3) studies relying on the assumption that the accurate evaluation of the impact of board composition should be examined by considering discrete critical decisions as dependent variables (Mallette and Fowler, 1992; Sundaramurthy, 1996). Evidence from the third stream is also inconclusive.

Most of the studies reported above have used the proportion of outsiders as a proxy for board independence (i.e. effectiveness), discarding the fact that the theoretical positive effect expected from the presence on the board of a large majority constituted by outside members, could likely be reversed by an exacerbated information asymmetry when these directors are lacking specific information, expertise and knowledge about the company and its businesses (Walsh and Seward, 1990; Allaire and Firsirotu, 2003; Van den Bergh and Levrau, 2004). Indeed, we suggest that severe information asymmetries suffered by these *Independent* directors (when considered merely as outsiders with no material link with the firm) may imply, therefore, a passive implication of the board in the firm decision making processes, in addition to an awkward accomplishment of its decision control role, as prescribed and depicted by the agency theory.

Thus, and while we believe that directors' independence should remain as the foundation of any governance system, we consider that the independence concept based solely on the existence of a majority of outside directors is not, by itself, a sufficient condition for board effectiveness. As on evidence from extant research, Beatty and Zajac (1994) found a negative association between the proportion of outside directors and firm performance, while Bhagat and Black (1997) found no significant evidence on the effect of the proportion of outside directors on firm performance. A possible explanation for these conclusions is that the many positive effects expected from the presence on the board of a large majority constituted by outside members, would likely be reversed by an exacerbated information asymmetry when these directors are lacking specific information, expertise and knowledge about the company and its businesses (Walsh and Seward, 1990; Allaire and Firsirotu, 2003). In the light of this discussion and given the mixed results of prior research, we consider that the presence of some Outsider Non Executive Directors (NED) on the board could have a positive effect by bringing new insight and fresh perspectives and hence positively affect the ability of the board to select successful acquisition. However, we suspect, contrary to extent research, that the relationship between Board composition and the likelihood of acquisition success is not linear but polynomial or convex, meaning that, at a given level, an increase in the proportion of outsiders will not generate more positive effect on firm performance, and could even decrease the benefits of having outsiders on the board. Hence, while lower and moderate proportions could positively increase the likelihood of acquisition success, higher proportions of Outside NED will widen the lack of firm and industry specific expertise on the board, contributing to produce what some scholars call the management knowledge-captured Board (LeBlanc, 2016; Maulis et al, 2012; Mule and Elson, 2014), which lead to our two first hypotheses:

Hypothesis 1(a): At lower and moderate levels, Board Independence measured by the proportion of outsiders Non Executive Directors' majority would positively affect the likelihood of acquisition success.

Hypothesis 1(b): At higher levels, Board independence measured by the proportion of outsiders' Non-Executive directors' majority would negatively affect the likelihood of acquisition success.

Directors' ownership

Directors' ownership could have a significant positive impact on board independence and firm performance (Bothwell, 1981; Kesner, 1987; Kren and Kerr, 1997; Bhagat et al, 1999; Zajac and Westphal, 1995; Morck et al, 1988). Hence, and according to agency theory, board effectiveness will increase when directors have higher interests invested in the firm. However, other authors argued that director pay is generally influenced by the CEO, which may reduce board independence (Kosnik, 1990; Bebchuck and Fried, 2004), while others reported a negative relationship between outside directors' ownership and Board independence degree, measured by the fraction of independent directors minus the fraction of insider directors (Bhagat and Black, 2002; Allaire and Firsirotu, 2003). Finally, others have found a negative relationship between the percentage of shares held by outside directors on the acquisition committee and board performance measured by the Market to Book ratio (Hayes et al, 2004). In a recent work, Feldman and Montgomery (2013) found that directors with significant ownership and low experience were associated with firm value decline. Given that several extant studies reporting a positive effect and that we consider that directors having stakes in the company will be more motivated and actively involved in the firm acquisitions decisions, we propose that:

Hypothesis 2: Outsider Board members' ownership would significantly predict the likelihood of firm acquisition success.

Directors' selection and nomination practices

While Board composition and ownership effect on firm performance were largely investigated under the agency theory research stream, the quality of board selection and nomination practices was not really considered in extant empirical studies. At our knowledge, our study is one of the first that attempts to assess the link between the quality of Directors' selection and nomination practices and the firm strategic decision-making effectiveness in the context of firm acquisition operations. Whereas normative statements, emanating from the managerial hegemony perspective, argue that Board nomination and selection processes are largely influenced by managers (Mace, 1971; Pfeffer, 1972), scant empirical evidence tend to support this view

(Shivdasani and Yermack, 1999). In their recent review on the determinants of directors' selection, Withers et al, (2012) reported that extant research on the topic could be divided on two broad perspectives: a rational economic and a socialized one. While the rational economic perspective is based on the assumption that directors selection should be based on the firm's governance and resource needs, the socialized perspective highlights the social factors that could distort the selection process by introducing biases such as the willingness of existing board and nominating committee members to nominate Directors similar to themselves or to look after shaping boards based on social status rather than good governance (Wither et al, 2012). Consequently, and relying on the rational economic perspective, we believe that nomination committees with established working procedures and relevant resources would somewhat alleviate the biases highlighted by the socialized perspective and may constitute an important institutional mechanism in improving directors' selection processes and independence (Ruigrok et al, 2006). Thus, and according to the rational economic perspective, the existence of nominating committees with charts describing clearly the link between potential directors' attributes and firm long term needs and strategies would have to face more pressure for showing rationally how a nominated director fits with the strategic challenges of the firm, reducing therefore nominations based on acquaintances, social and demographic similarity or other selection and nomination bias as those suggested by the social identity theory (Tajfel and Turner, 1986), the similarity-attraction paradigm (Schneider, 1987) or the organisational demography theory (Pfeffer, 1983). Furthermore, the existence of a clearly established rules and transparent nomination practices with a clear description of prospect director's profiles, based on the long term strategic objectives of the firm and the nature of its competitive advantage, will enhance the board ability to select and nominate effectively a fitting and highly Independent directors and contribute to firm aptitude to select successful acquisitions. In formal words we propose that:

Hypothesis 3: The existence of a Nominating Committee composed by experienced directors, with clearly defined goals linked to firm long term strategies and based on a transparent set of established rules and practices would positively predict firm acquisition success.

Directors' credibility

Credibility refers to board members' expertise and knowledge related to firm industries, businesses and main activities. Credibility is the real challenge for the publicly listed corporation and it is the joint product of competence and trustworthiness (Allaire and Firsirotu, 2009). In line with Director Human Capital stream of research in corporate governance (Johnson et al, 2012), *Credibility* results from director's expertise and relevant experiences as well as the trust he/she inspires and the lack of board members credibility may explain the weak performance and the little added value of governance in too many organizations (Allaire and Firsirotu, 2009). Board *Credibility* results from board's collective expertise and knowledge that are relevant to the firm industries and businesses, especially in regard of its operations and its business model. Thus, a credible director is generally an engaged and respected individual who raises difficult questions during board meetings, and without losing its independence from management, shares his experience with them and offers them counsel (Allaire, 2008). According to Allaire and Firsirotu, (2009), it is credibility that makes a board effective and value creating. *Credibility* encompasses therefore aspects such as directors' knowledge, experiences and expertise, which are common aspects found in the Resource Based View, the Resource dependence theory and the research on Director Human Capital as categorized by Johnson et al, 2012. Hence, the concept of Board credibility allow for a multi-theoretical integration that would enhance and refine our understanding of the complex nature of corporate governance effect on firm performance.

Rooted on the Human Capital stream of research in governance, Functional background diversity possess the advantage of capturing conjointly experience, information processing, and perspectives relevant to cognitive tasks performed by a team members (Simons et al, 1999). Thus, Directors with diversified backgrounds bring different perspectives and opinions, complementary skills and knowledge (Forbes and Milliken, 1999), which may facilitate advice and counsel (Baysinger and Butler, 1985; Hillman and Dalziel, 2003). Yet, some researchers contend that diversity could constitute a double-edged sword (Milliken and Martins, 1996) arguing that while it may provide boards with valuable resources, it could also induce, quoting Hillman and Dalziel, 2003 (pp. 497-98): "*higher levels of conflicts, interaction difficulties and lower levels of integration*". Furthermore, diversity could help to overcome some decision-making bias such those implied by the groupthink phenomenon (Maharaj, 2009). Moreover, and as Murphy and McIntyre (2007) noted, contexts are important for valuing the positive effect of diversity. They stated that "*Clearly, when discussing diversity, the context is the central question, and with highly unstructured, complex issues to tackle, BOD may benefit from being comprised of demographically and skill diverse individuals representing various value positions and sources of expertise" (Murphy and McIntyre, 2007. p.215).* As for Johnson et al, 2012, they concluded that while the effect of diversity remains a conflicting subject between researchers, it highlights the complex and contextual nature of Human Capital diversity and that future research on specific contexts could point those where diversity may have a positive effect. Accordingly, we argue that in the context of complex decisions, such as those related to firm strategic acquisitions, Board of directors with diversified occupational backgrounds will contribute better in making successful deals than those composed by directors having members with more homogeneous profiles:

Hypothesis 4: Board credibility based on directors' background diversity will positively and significantly enhance the likelihood of selecting a successful acquisition.

Industry context and specific strategic decisions in which directors were involved in the past contribute in shaping their experience and skills (Bluedorn et al, 1994). Common and similar or highly related industry experience may, therefore, provide directors with a higher credibility based on accurate and shared cognitive assumptions about the future tendencies in the industry and the course of action and alternatives needed to be taken (Hambrick and Mason, 1984), including the nature of acquisitions the firm should engage in (Hitt and Tyler, 1991). The nature and the level of Human Capital–defined as a set of abilities, expertise and knowledge acquired by an individual from previous work experience (Bailey and Helfat, 2003)–that directors bring to the Boardroom will largely affect the Board credibility, especially if directors' previous experiences match the acquirer industries. These industry-specific expertise refer to an individual director's knowledge and proven experiences about an industry-specific competitive conditions, consumer needs, technology, investment requirements, regulations, suppliers and other external stakeholders (Bailey and Helfat, 2003; Kor and MisanGyi, 2008).

In a recent empirical study, Kor and Sundaramurthy (2008) concluded that prior experiential knowledge of the industry helps outside directors to develop a sophisticated and tacit understanding of the current and future industry dynamics, which in turn enables them to better evaluate manager's strategic proposals. Another study by Kroll et al (2007) reported that advice and counsel of outside directors with industry experience affect positively firm performance. However, and as noted by McDonald et al (2008), extant literature showed little consideration on the performance implications of directors' experience. Moreover, we consider that outside directors with relevant experiences are not only more likely to give better advice to managers, but are also more able to contest objectively management proposals (Carter and Lorsh, 2004) and will be able to reduce their information asymmetry disadvantage when their collective average industry specific expertise is higher than the average expertise of the firm's top managers. In an original and unusual study based on the analysis of genuine board minutes, Schwartz and Weisbach (2013) reported, by relying on directors' interactions during Board meeting, that those who were more active and took initiatives or asked for further information were the most experienced members. Finally, our review of the literature led us to conclude that one of the aspects that were highly understated in extant research is the relative experience between the top management and board collective experience. At our knowledge, only Kor and Misangyi (2008) reported that they found a negative relationship between the top management team's collective level of industry experience and that of the Board members, suggesting that board collective expertise is a supplement to the management's lack of experience. Relying on this finding, we assert that beyond simply supplementing the management's lack of experience, credible boards having more collective industry specific and proven expertise than their management teams, will enrich Board interactions and discussions, bringing a solid knowledge about the firm's strategic issues, especially in the context of decisions related to strategic acquisitions. Following our discussion on board collective expertise effect, we formally put forward that:

Hypothesis 5: Board credibility based on higher collective board members' industry specific expertise and knowledge relatively to their top managers' collective industry specific expertise and knowledge will positively and significantly enhance the probability of selecting a successful acquisition.

The main relationships and formal hypotheses of our study are presented in our multi-theoretical model depicted in Figure 1. Hypotheses 1 and 2 aim to test the assumptions of agency theory and their effect on making successful acquisitions, while hypothesis 3 will allow us to test the assumptions of the rational economic perspective of directors selection on the likelihood of selecting successful deals. Hypotheses 4 and 5 aim to test the assumptions of the Board Human capital perspective, and more specifically, the Board *Credibility* aspects based on Board diversity and directors relative industry specific experiences and their effect on making successful acquisitions.

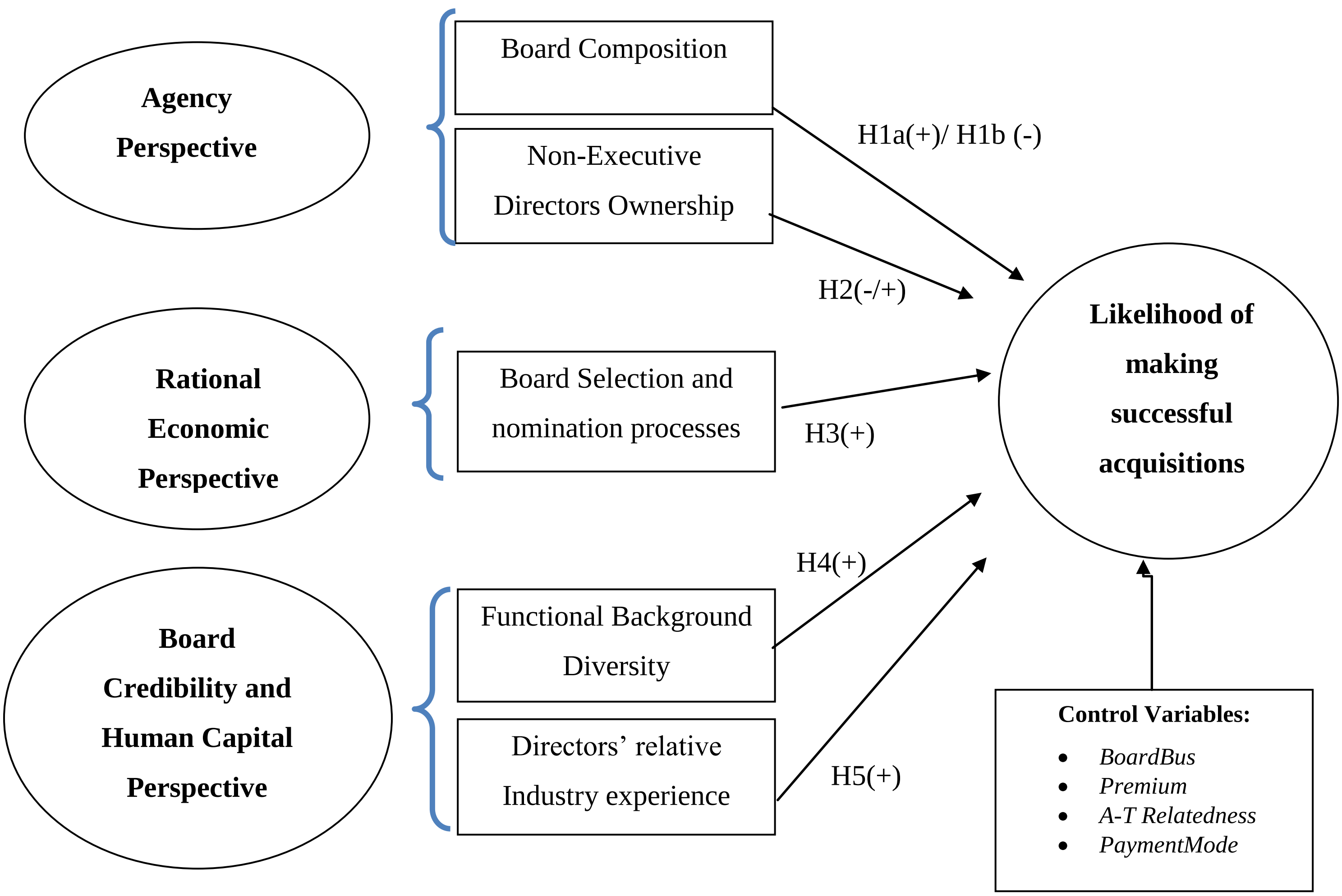

Figure 1. Multi-theoretical Model relating Board Characteristics to Acquisitions.

SAMPLE AND METHODOLOGY

Sample and Data collection

The sample for the present study was derived from the Crosbie and co's FPinformart database and covered the period from 2000 through 2006. The selection procedure was performed as follow: To be selected, an acquisition should respond to the following criteria: (1) Completed deals between Canadian publicly traded companies; (2) Large deals with a value of more than $10 million; (2) Acquisitions aiming a majority control; (3) Acquisitions that do not involve share buybacks operations, operations made by, or involving mutual funds, real estate assets, trusts or other type of financial or real estate funds; (4) Acquisitions where the total sales of the target represents at least 10% of the acquirer's total sales (Franks et al, 1991; Tosi and Gomez-Mejia, 1989; Wright et al, 2002) and/or those where the target market value represents at least 10% of the acquirer's value. Following these conditions, we ended with a sample of 133 acquisitions that fulfilled the four criteria.

Data on the variables included in our study were collected from company proxy statements available on the *Sedar* Database and other public documents for information on directors, executives, firm activities, Businesses and strategies, while financial and accounting data were gathered by using *Mergent Online* Database, *Stockguide, Chass@TSX*, and *Dun & Bradstreet* Databases. Information on acquisitions was gathered from *Financial Post Crosbie Mergers and Acquisitions* in Canada. Biographical Data on some 1482 Directors and Executive managers composing our sample (excluding multiple occupations by managers and directors if any) were extracted from the *BoardEx Database* and completed and cross checked by reviewing the biographical sections of *Business Week* and *Reuter's* websites.

Independent variables

Board composition

Based on the common measure used under the agency perspective, the main *Boardcomp* variable was computed as the number of outside directors that are considered as independent from the management and from any significant shareholder, divided by the total number of board members. To test hypothesis H1 (a), we created a dummy variable called *LowBoardcomp*, coded 1 if the value of the Boardcomp variable is lower than the Boardcomp variable sample mean minus one standard deviation, and 0 otherwise. We also computed another dummy variable to measure the moderate level of Outsider NED presenec on the Board, *ModBoardComp*, which was coded 1 when the Boardcom original value is higher than the sample mean minus one standard deviation but lower than the mean plus one standard deviation, and 0 otherwise.

To test Hypothesis H1b, we computed a third dummy variable, *HighBoardComp*, coded 1 when the Boardcomp value is higher than the sample mean plus one standard deviation.

Non Executive Outside Directors ownership (NEDown)

To measure this indicator we used the number of shares owned by all the acquirers' Non-executive outside directors during the acquisition year divided by the total number of shares outstanding during the same period (Morck, Shleifer and Vishny, 1988).

Quality of the selection and nomination practices (*Qualsnp*):

To assess the quality of Board selection and nomination practices (*Qualsnp*) we used a multidimensional scoring based on the examination of the attributes and practices of the incumbent acquirers' nomination committees. Indeed, nomination committees with established working procedures are seen as important institutional mechanisms that improve directors' selection and independence (Ruigrok et al, 2006). Although the Nominating Committee is not required by the Sarbanes-Oxley Act, such as the case for the Audit Committee, Carver (2006) considers the former as "*...a proper governance committee"* and as *"…the only board committee that may need to be described and empowered in the bylaws*" (2006, p.235). As it is virtually impossible to assess the quality of the nomination process itself without having first hand information coming from direct observation, we will use a proxy based on how each acquirer describe and disclose its nomination practices. Therefore, and based on the recommendations related to the disclosures regarding the nominating committee functions and communications between security holders and Board of Directors (SEC, 2004), we constructed a multidimensional score using the following components to score the quality of the acquirers' selection and nomination practices: (1) Existence of a nominating (or governance) committee with a clear mandate and specific charter (0 none- 1 if there is one); (2) A clear description of the selection process (0 none- 2 depending on the clarity and the extensiveness of the reported details related to the selection and nomination processes in the nomination committee charters); (3) The majority of the Nomination Committee members (more than 51%) seats on other firms' Nomination Committees (0 when the proportion is less than 51% and 1 otherwise); (4) Divulgation of an annually updated long-term plan for the composition of the board that takes into consideration the strategic direction of the firm, its risks and its opportunities along with a clear description of the desired mix of director's qualifications and profiles (0 none- 4 (1 for each of the four characteristics)); (5) The CEO is a member of the nominating committee (0) otherwise (1); (6) The Nominating committee confirms the use the services of external advisers (1 if the firm confirm the use of external advisers - 0 otherwise). The final measure is obtained by summing up the scores of the six items.

Board occupational background diversity (*Boarddiv*)

To measure the *Boarddiv* variable, we considered eleven occupational categories: *CEOs from TSX 100 companies, other executive functions from TSX 100 companies, other CEO of small or medium companies, other operational functions, lawyer, banker, consultant, chartered accountant (or CGA, CMA), academic, former politician and former state functionary (civil servants)*. We then computed the heterogeneity index proposed by Blau (1977), that is, a variation of the Herfindahl index. This indicator is widely used to measure group diversity in social sciences (Finkelstein an Hambrick, 1996; Carpenter, 2002). The heterogeneity index (HI) was obtained by using the following calculations:

$$HI = 1 - \left(\sum_{i=}^{k} (n_i/N)^2\right)$$

Where n_i is the number of directors composing the occupational category (i), N is the number of directors composing the entire board and k is the number of occupational categories. In order to eliminate the effect of extreme values, and to ensure a normal distribution for the *BoardDiv* variable, the third step consisted in creating a modified index from the one used by Finkelstein and Hambrick (1996) by taking the inverse of HI computed above (1/HI) and subtracting it from the highest value in the sample. Thus, higher values of *BoardDiv* will indicate a heterogeneous and a well-diversified board.

Board-Management relative Industry-Specific Expertise (BoardSpec)

To measure outside directors' industry experience, previous research used the average number of managerial positions that directors formerly held in the same industry as the focal firm (Kor and Misangyi, 2008; Kor and Sundaramurthy, 2008). However, Kor and Misangyi (2008) noted that the amount of advice that outsiders could provide to management is a function of their relative proven expertise. We argue that it is more fruitful to adopt a measure that captures the relative expertise of the board vis-à-vis its management's expertise and we anticipate that board members with more or equivalent collective industry- specific expertise, when compared to that of their management team, are likely to be more credible than boards with directors having less or little industry expertise than that of their managers. To proxy the collective Board Vs Management relative industry-specific expertise (*BoardSpec)*, we introduce an alternative measure to the one used in the recent studies by Kor and Misangyi (2008) and Kor and Sundaramurthy (2008), by dividing the average of the number of both previous successful managerial and Board positions held by outside NED in other firms having the same two-digit NAIC industry code as the acquirer by the average of the number of the CEO and the top managers' previous positions held in the focal firm and/or in other firms having the same two-digit NAIC code as the acquirer.

Thus, values higher than (or equal) to one will indicate more credible boards while values less than one will indicate a less credible board.

Control variables

Board and directors busyness (*BoardBus)*

Higher collective Board experience could imply that in some cases directors may hold multiple directorships, which could neutralize the positive effect expected from highly credible Boards. Indeed, by being too busy, these credible directors will lack time and energy that are necessary to contribute effectively in the focal firm decision-making processes. However, Ferris et al (2003) examined the effect of busy directors on firm performance and not only they found that there is no evidence of a negative impact of directors with multiple board appointments on firm performance or on the likelihood of securities fraud litigation against firms having busy directors, they went even further by concluding that these multiple directors could provide better managerial oversight and monitoring than their colleagues holding less directorships. Other studies concluded that firms relying on busy directors tend to exhibit higher performance (DiPietra et al, 2008; Perry and Peyer, 2005) and higher abnormal returns related to acquisitions (Harris and Shimizu, 2004). On the other hand, Fich and Shivdasani (2006) found that firm performance was negatively affected when boards are composed by a majority of busy directors and that these firms tend to display lower market-to-book ratios, lower Return On Assets (ROA), lower assets turnover (AT) and lower operating return on sales (ROS). As for Core et al (1999), they reported that directors serving on three or more other boards are associated with excessive CEO compensation which may subsequently affect firm performance, while Jiraporn et al (2009) found that board members with multiple directorships tend to exhibit a higher rate of absenteeism from board meetings.

To control for the BoardBus variable effect, we opted for a continuous measure derived from the one used by Harris and Shimizu (2004), that is, the number of busy directors holding five or more board seats divided by the total board size.

Premium paid

Extant literature on acquisitions shows that higher premiums may signal agency problems, winner's curse and managerial hubris, which may lead to acquisition failure (Hayward and Hambrick, 1997; Giliberto and Varayia, 1989; Sirower, 1997; Guaughan, 2005). As generally reported in the literature (Haunschild, 1994; Varaiya, 1987; Datta et al, 2001), this indicator will be computed as the price actually paid by the acquirer minus the target's pre-announcement market value (30 days before the announcement date) divided by the target's pre-announcement market value (30 days before the announcement date).

Acquirer-Target degree of Relatedness (A-T Relatedness)

Although mixed, evidence on the significant impact of relatedness on the post-merger performance has received some support from previous research (Healy et al, 1992; Weech-Maldonado, 2002; Flanagan, 1996; Chatterjee and Lubatkin, 1990). To control for this effect, we used the same procedures as in Morck et al (1990) and in Haleblian and Finkelstein (1999). This procedures consist in developing a continuous measure that take in account the degree of relatedness between the acquirer and the target and which will be computed as follow: First, for acquirers and targets having multiple Four-digits SIC codes, we have classified the main SIC codes in which they operate according to sales importance in every business segment. Second, we compared the six principal Four digit SIC codes of the acquirer and the target, and assigned Zero if no Four-digit SIC primary codes matched between the acquirer and the target during the year of acquisition and 1 if at least one primary Four- digit SIC codes matches. Third, for those that share at least one primary Four-digit SIC code, a weight was assigned for other matches than the primary one, as follow: One if Two-digit SIC codes are shared, two if Three-digit SIC are shared, three if Four-digit SIC are shared. Finally, the primary matches were weighted as follow: two when Two-digits primary SIC codes are shared, four when Three-digits are shared and six when the Four-digits are shared

PaymentMode

Previous research reported that the acquisition payment mode was related with acquisition performance (Haleblian and Finkelstein, 1999; Ben-Amar and Andre, 2006). We computed this control variable as the fraction of the price paid by the acquirer in form of common stocks.

Dependent variable

Post-mergers and acquisitions (M&A) performance is puzzling and the evidence on the post-acquisition performance of the acquirer yielded highly mixed results. However, the Canadian evidence seems to be somewhat different from the one that stems from US studies, suggesting a slight positive and significant post-acquisition performance for Canadian acquirers (Eckbo and Thurburn, 2000; Ben Amar and Andre, 2006). In addition, the use of short-term and long term perspectives, along with the use of market based or accounting based measures, rendered difficult the comparisons between the respective results of this studies and make it difficult to identify the most suitable one. Consequently, and rather than linking directly a continuous measure of post-performance outcomes to the governance attributes, we will rather assess how governance attributes related to Board characteristics are more likely to predict the probability of an acquisition success.

To classify an acquisition as a success or a failure, we will first identify if the latter was retained or divested during the three to five years following the acquisition. Indeed, and while some authors considers that the retention or divestment of a recently acquired firm reflects acquisition success or failure (Bergh, 1997; Kaplan and Weisbach, 1992), others have reported that the divestment of recently acquired targets was generally considered by the business community and the stock markets as a strategic failure (Alexander et al, 1984; Montgomery et al, 1984).

Another aspect that may also signal the success or failure of an acquisition is its corresponding Goodwill write-off. Indeed, Goodwill amounts reflect the difference between the fair value of the assets acquired and their net book value, and under the accounting standard (SFAS 142), the amortization of Goodwill was replaced by the annual impairment method, forcing managers to review their estimates of the Goodwill amount related to a particular acquisition, and to disclose all the information related to this evaluation. Consequently, when an acquisition is no longer worth what the acquirer has paid for it, managers should proceed to the reduction of the previous estimate of its corresponding Goodwill. This annual Goodwill impairment test highlights therefore whether an acquisition is still supporting its purchase value, and if it is no longer the case, auditors will put pressure on the acquirer to write down the value of this intangible asset. Furthermore, significant changes in the value of the Goodwill corresponding to a specific acquisition will signal overpayment and winner's curse problems (Giliberto and Varaiya, 1989) and could be used, therefore, to assess the success or the failure of an acquisition (Henning and Shaw, 2003). However, when the acquirer does not divest the target and does not undertake significant Goodwill write-offs in the years following the acquisition, it may likely indicate that the acquisition is performing more or less as anticipated.

Several past and recent studies used profitability measures, such as ROA, to estimate the post-merger abnormal performance related to an acquisition (Hoskisson and Hitt, 1990; Cosh et al, 2006) or to classify an acquisition as a successful or an unsuccessful one (Hitt et al, 1998). ROA is widely used in strategic management research (Hoskisson and Hitt, 1990; Chatterjee and Wernerfelt, 1991) and it is considered as highly correlated with other return measures (Barton and Gordon, 1988). Furthermore, Return measures such as ROA are more suited to capture the effect of private synergistic cash flows associated with acquisitions (Barney, 1988; Harrison et al, 1991). Thus, in addition to the aforementioned criteria such as Divestiture and Goodwill write-offs, we will also use the ROA-adjusted measure to confirm an acquisition success. To do so, we computed first, a *pro-forma* pre-acquisition performance ($ROApre_{i,t}$) of each transaction in the sample determined for the target and the acquirer for the three years prior to the acquisition:

$$\text{A- ROA}pre_{\,i,t} = \frac{\text{Acquirer's NOPAT}^{1} + \text{Target's NOPAT}}{(\text{Acquirer's economic assets}^{2} + \text{Target's economic assets})} - \textit{Sample average}\ \text{ROA}pre_{\,i,t}$$

[1] NOPAT = EBIT*(1-Tax rate)

Second, we computed the acquirer's post-acquisition performance measure (A-ROA$post_{\,i,t}$) as:

$$\text{A-ROA}post_{\,i,t} = \frac{\text{Acquirer's NOPAT}}{\text{Acquirer's economic assets}} - \textit{Sample Average}\ \text{ROA}post_{,i,t}$$

Following the above discussion on Divestiture, Goodwill write-offs and acquisition performance based on the ROA measure, we ultimately classified an acquisition as a *Successful* one if the three following conditions were satisfied: (1) Absence of any significant divestiture related to the acquisition under study during the two to five years after its completion, especially divestitures in incongruity with the initial arguments provided by management at the moment of making that specific acquisition; (2) No goodwill write-off related to the acquisition under study that exceeds 10% of the original value during the two to five years after the acquisition date; (3) All the acquisitions satisfying the criteria 1 and 2 should exhibit a three years Average post-acquisition Adjusted-ROA superior than its three years Average pre-acquisition Adjusted-ROA. The final dependent variable reflecting the probability of an acquisition success, *A-Success,* is therefore a dichotomous variable that takes the value of one if the three conditions above are observed, and zero otherwise.

Analysis

Our research seeks to investigate how some Board characteristics related to directors' nomination, experience and background diversity are related to the likelihood of acquisition success. As our dependent variable is a dichotomous one, we used a binary logistic regression method to test our hypotheses as follow:

[2] Economic Assets = Current assets- Current liabilities + Book value of long-term assets. t =the financial year (t= -3...,-1). The year of the merger (t=0) is excluded to avoid bias due to additional expenses caused by the acquisition and the consolidation timing differences due to the acquisition (Healy et al, 1992).

$$Log\,[p(A\text{-}Success_{i,t})/(1-p(A\text{-}Success_{i,t})]^{3} = \beta_0 + \beta_1\, Bcomp_i + \beta_2\, NEDown_i + \beta_3\, Qualsnp_i + \beta_4\, Boarddiv_i + \beta_5\, Boardspec_i + \beta_6\, BoardBus_i + \beta_7\, Premium_i + \beta_8\, A\text{-}TRelatedness_i + \beta_9\, PaymentMode_i + Ui.$$

RESULTS

Descriptive statistics and correlations are reported in Table 1. The correlations among our independent variables revealed no significant co-linearity problems. Some significant correlations could be noted between the quality of the nomination and selection processes and the acquisition success and also between the diversity of Directors' occupational background and acquisition success.

Table 1. Descriptive Statistics and Variable Correlations.

Variables	Mean	SD	Median		2	3	4	5	6	7	8	9	10
1. Constant					-,383	-,371	,076	-,682	-,182	-,198	-,146	-,213	,023
2. Boardcomp	0,717	0,147	0,750			-,201	-,386	-,157	-,102	,180	-,110	,126	,015
3. NedOwn	0,050	0,113	0,005				,163	,075	-,015	-,047	,079	,119	,078
4. Qualsnp	2,370	2,435	2,000					-,017	,148	-,185	,059	-,144	-,117
5. BoardDiv	1,642	0.405	0,707						,173	,001	,049	-,059	-,180
6. BoardSpecEx	1,058	1,036	0,815							-,114	-,028	-,065	-,148
7. Premium	0,253	0,274	0,231								-,026	,181	,113
8.. A-T Related	5,008	3,600	5,000									-,164	-,014
9. Payment	0,582	0,402	0,632										,021
10. BoardBus	0,194	0,193	0,181										

Results of our logistic regression models, reported in Tables 2 and 3, show that our Logit models are highly significant (χ^2=25.28, p<0.003) for Model 1 and (χ^2=25.77, p<0.002) for Model 2, (χ^2=25, 07, p<0.003) for Model 3 and (χ^2=23,10, p<0.006). In Model 1, we tested all the original variables, with the main Board composition variable (Boardcomp) as a continued measure. All

[3] *p*= probability of making a successful acquisition; *p/(p-1)*=Odds ratio

the variables were significant and in the expected direction for hypotheses 3, 4 and 5, while the *BoardComp* was considered as a control variable. As for the full logistic regression in Model 2, we substituted the *BoardComp* variable by the *LowerBoardComp* variable to test for hypothesis (H1a) and for which we found a positive and significant coefficient ($\beta = 0{,}854$, $p<0.10$), suggesting that a lower proportion of Outsider NED on the Board is positively and significantly related to the likelihood of making a successful acquisitions. However, when we introduce the *ModBoardcomp* variable in model 3, we found a negative, but insignificant relationship with the likelihood of making a successful acquisition. Thus, our hypothesis (H1a) is partially supported as only lower values of outside NED ratio (mean sample minus one standard deviation) are positively and significantly related to acquisition success. At higher levels, the proportion of Outside NED on the Board is also negatively related to firm acquisition success, confirming ou hypothesis (H1b). To get more insight on the nature of the relationship between the *Boardcomp* variable and the likelihood of acquisition success, we regressed the proportion of Outside NED on the Board by the predicted probabilities produced by Model 1.

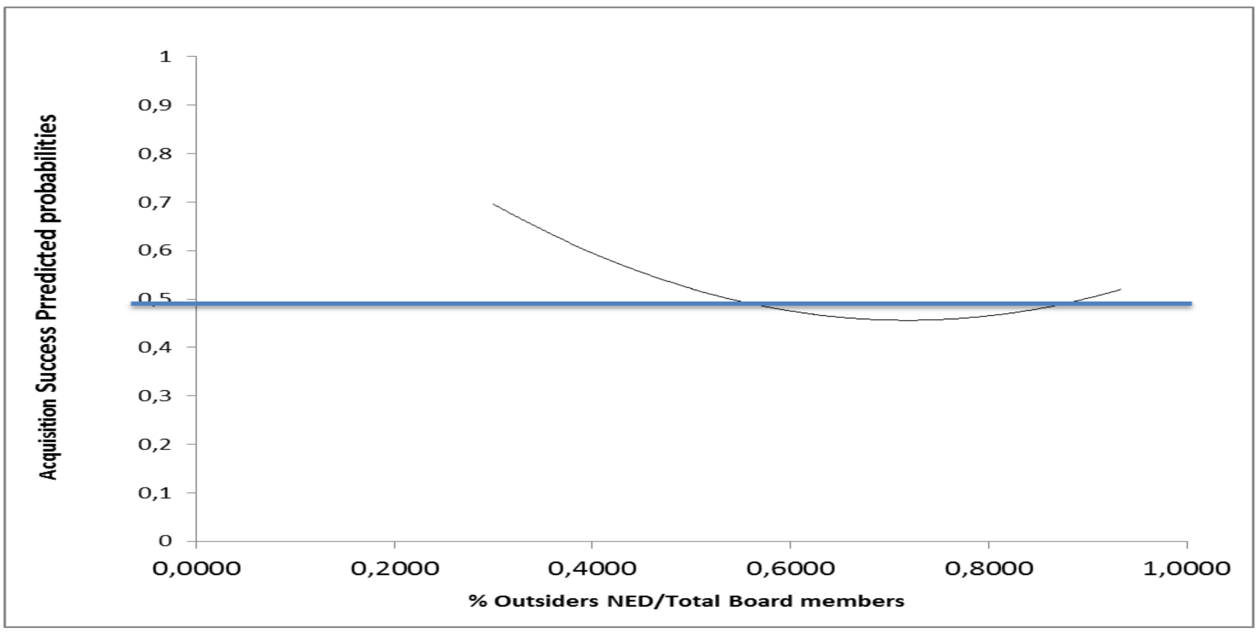

Figure 2: Predicted probabilities of acquisition success and Board Composition

As we notice in Figure 2, the relationship between the proportion of Outside NED on the board and the predicted probabilities of making successful acquisitions is convex. Board with lower Outside NED ratios (under 55%) exhibit higher probabilities in making successful acquisitions at a threshold of 50%. When this proportion is higher than 55% the likelihood of making a successful acquisition is slightly under or equal to 50%. Thus, increasing the proportion of Outside NED above 30% seems to decrease the likelihood of making successful acquisitions form 70 to around 50%.

Although insignificant, the relationship between the proportion of ownership held by outside NED and the likelihood of making successful acquisition was negative. Our Hypothesis 2 is therefore rejected. Consistent with Hypothesis 3, we found a positive and significant relationship (β=0.205, p=0.05), suggesting that the greater the quality of the nomination and selection processes at the Board level, the greater is the probability of making successful acquisitions. Supporting Hypothesis 4, our findings indicate that Boards with diversified occupational backgrounds are positively and significantly associated with the likelihood of making successful acquisitions (β= 3.52, p=0.06).

Our results show also that Board credibility based on higher collective board members industry-specific expertise and knowledge relatively to that of their top managers is positively and significantly related to the probability of selecting a successful acquisition (β=0.50, p=0.04), which support Hypothesis 5.

Elsewhere, our findings imply that Boards with a majority of members holding multiple directorships are negatively, but not significantly related to the probability of making a successful acquisition. And finally, the degree of relatedness between the acquirer and the target, the use of shares to pay for the acquisition and the premium paid were, in our case, not significantly related to the likelihood of acquisition success.

In order to test further the robustness of our model, we opted for the bootstrapping method given the small size of our sample. Indeed, the relevance of the Bootstrap procedure, relatively to other cross-validation methods, was widely confirmed by various scholars (Steyerberg et al, 2001; Harrel, 2001; Harrel et al, 1996; Efron and Tibshirani, 1993). Bootstrapping consists in replicating the process of sample generation on the same population by drawing random samples with replacement from the original data (Harrel et al, 1996). Using the bootstrapping procedure with 1000 randomly generated samples, our findings remain the same with these tests (not reported), suggesting that our models are robust and our results reliable. We also conducted an OLS (not reported), using a continuous dependent variable computed as the difference between the 3 years Average Adjusted $ROApre_i$, t-3 and the 3 years Average adjusted $ROApost_i$, t+3. The findings from the OLS regression were consistent with those yielded by our Logistic Regression model, confirming the stability of our results. Finally, and given the endogeneity problems encountered in many models used in corporate governance studies (Agrawal and Knoeber, 1996; Weisbach and Hermalin, 2000; Bhagat and Black, 2002), further analysis was conducted to ensure that our results are not biased. The endogeneity problem may, for example, be illustrated in our case by the fact that acquisition success could be, at the same time, the result of board diversity and a factor that will influence the degree of diversity in subsequent board composition. Thus, a variable is considered as endogenous when it is correlated with the error term in a regression model, meaning that the regression coefficients could be biased.

In our case, we used instrumental variables to perform the Hausman test (Hausman, 1978) for the detection of any potential endogeneity problems. To assess the endogeneity for our independent variables, we performed OLS regressions (not reported) as follow: (1) In the first step we considered separately each independent variable in our model (e.g. BoardDiv) as a dependent variable using a set of instrumental predictors, chosen among our variables, to run an OLS regression and save the unstandardized regression errors from this step as a new variable (e.g. UEBoardDiv); (2) We performed an OLS adding the unstandardized regression errors' variables (e.g. UEBoardDiv) obtained in step 1 along with the independent variable of interest (e.g. BoardDiv) and all the other 8 variables in our model; (3) We verified that the coefficient of the unstandardized regression errors' variable (e.g. UEBoardDiv) is not significant. Thus, when this term is not significant, we can conclude that there are no endogeneity issues. Our tests yielded no endonegeneity problems that would necessitate alternative models or additional treatments.

Table 2. Results of Logistic Regression Analysis Predicting Acquisition Success

	Model 1				Model 2			
Independent variables	**Coefficient**	**S. Est**	**Wald χ^2**	**Sig.**	**Coefficient**	**S. Est**	**Wald χ^2**	**Sig.**
Intercept	-,863	1,736	,247	,619	-2,549	1,673	2,322	,128
1. BoardComp	-2,280	1,522	2,243	,134				
2. NEDown	-1,493	,831	3,226	,072***	-1,449	,836	3,004	,083***
3. Qualsnp	,218	,092	5,628	,018**	,205	,089	5,367	,021**
4. Boarddiv	3,676	1,888	3,792	,052***	3,517	1,891	3,460	,063***
5. BoardSpec	,485	,242	4,029	,045**	,503	,248	4,122	,042**
6. Premium	-,372	,735	,257	,612	-,245	,728	,114	,736
7. A-TRelated	,067	,057	1,367	,242	,057	,057	,998	,318
8. PaymentMode	-,716	,515	1,933	,164	-,704	,514	1,875	,171
9. Boardbus	-,476	,420	1,287	,257	-,518	,420	1,522	,217
10. LowBoardComp					,854	,516	2,738	,098***
-2Log Likelihood	151.799				151.317			
Hosmer-Lameshaw χ^2	6.289			0.615	7.116			0.524
Model χ^2	25.286			0.003	25.768			0.002
Pseudo R^2	0.235				0.239			
Hit Ratio (%)	71				70			

* $p < 0,01$ ** $p < 0.05$ *** $p < 0.1$

Table 3. Results of Logistic Regression Analysis Predicting Acquisition Success

	Model 3				Model 4			
Independent variables	**Coefficient**	**S. Est**	**Wald χ^2**	**Sig.**	**Coefficient**	**S. Est**	**Wald χ^2**	**Sig.**
Intercept	-1,586	1,621	,958	,328	-1,909	1,597	1,429	,232
1. BoardComp								
2. NEDown	-1,516	,832	3,320	,068***	-1,778	,811	4,807	,028**
3. Qualsnp	,173	,085	4,096	,043**	,173	,086	4,061	,044**
4. Boarddiv	3,045	1,871	2,649	,100***	3,354	1,869	3,222	,073***
5. BoardSpec	,509	,250	4,151	,042**	,446	,241	3,418	,064***
6. Premium	-,171	,727	,055	,814	-,189	,734	,066	,797
7. A-TRelated	,058	,057	1,040	,308	,060	,057	1,113	,291
8. PaymentMode	-,633	,510	1,543	,214	-,643	,512	1,577	,209
9. Boardbus	-,518	,419	1,528	,216	-,471	,416	1,284	,257
10. LowBoardComp								
11. ModBoardComp	-,614	,428	2,055	,152				
12. HighBoardComp					-,614	,751	,079	,779
-2Log Likelihood	152.009				153.984			
Hosmer-Lameshaw χ^2	7.085			0.528	6.932			0.544
Model χ^2	25.075			0.003	23.101			0.006
Pseudo R^2	0.233				0.217			
Hit Ratio (%)	65				69			

* $p < 0{,}01$ ** $p < 0.05$ *** $p < 0.$

DISCUSSION AND CONCLUSIONS

The purpose of this study was to test several assumptions related to the agency perspective, the rational economic perspective of directors' selection and the Board credibility under the Director Human Capital perspective in the context of mergers and acquisition and provide evidence on the critical role of directors' nomination and selection practices and that of board credibility on firm strategic decision-making and firm performance. Corporate governance was largely dominated by the agency perspective with the conception of Boards as control instruments and Directors' independence based on the proportion of outsiders as its cornerstone. Recent research highlighted the importance of Directors as Resources and that of Boards as decision making groups (Krause et al, 2013; McDonald et al, 2008), while others clearly stated that the composition of Boards should not be done arbitrarily, but rather on considering carefully and formally the potential contribution that the directors may provide when they possess relevant expertise and diversified backgrounds (Kroll et al, 2008). Our findings contribute to this growing stream of research by providing evidence, first, on the positive impact of Boards on strategic decision-making when based on relevant and sound selection and nomination processes, supporting therefore the assumptions of the rational economic perspective of Directors' selection. Secondly, our findings highlight also the positive impact of board credibility on firm strategic decision outcomes through the presence on the boardroom of highly experienced directors with heterogeneous occupational backgrounds, supporting the Director Human Capital perspective.

Drawing on the Agency perspective, we found that Board composition when measured by the outsiders/insiders ratio was not linearly related with the firm ability to select successful acquisitions. Rather, our findings suggest that the relationship between the proportion of Outside NED on the board and the likelihood of making successful acquisition seems to be curvilinear and convex. Thus, when Outside NED represent more than the third of the total number of Directors, the Board contribution in making successful strategic decisions will likely decrease. Thus, we argue that the focus on populating the Board with Outside independent NED overshadowed the fact that these latter may lack specific information, expertise and knowledge about the company and its businesses and the they may suffer from information asymmetry and become heavily dependent on management or simply not activelyinvolved in the firm strategic decision-making as pointed by several researchers (LeBlanc, 2016; Walsh and Seward; 1990; Finckelstein and Hambrick, 1996; Allaire and Firsirotu, 2003; Van den Bergh and Levrau, 2004).

Our study suggests that the presence of a selection committee with sound, transparent and established practices is positively and significantly related to the likelihood of making successful acquisitions. Thus, Nominating Committees -composed by a majority of members sitting on other firms' nomination committees, having a clear mandate and a specific charter that describes in details the selection process, along with the existence and divulgation of an annually updated long-term plan for the composition of the board that take into consideration firm's strategic direction, its risks and its opportunities while defining clearly the ideal mix of director's qualifications- are positively related to the firm ability to select successful acquisitions. This finding raises the critical importance of the Nominating Committee as a structural component of efficient and value creating governance systems. Thus, our results support the fact that the existence of a Nominating Committee with established working procedures and relevant resources constitute an important institutional mechanism as suggested by Ruigrok et al (2006).

In terms of corporate governance practice, we believe that having credible directors sitting on the board starts with a clear definition of the specific needs of the firm, and these needs have to be rigorously tied to the strategic direction of the company, to its risks and its opportunities in order to define the right mix of directors' qualifications to consider. We assert that this exercise should not be seen as a mere formal fiduciary duty to add into the board checklist of routine tasks, but rather as a critical component of the firm strategic planning processes. The nomination of new board members should be considered therefore as a strategic decision aiming and explicitly intending the acquisition of valuable resources to be embedded in firm governance processes in order to build governance strategic capabilities that will contribute in creating sustainable economic value for the firm. Furthermore, our findings suggest that a Nominating Committee with members having experiences in other firms' nominating committees is also a differentiating attribute that would reinforce the quality of the firm's nomination practices.

Our results show that directors' ownership is not statistically significant when related to the firm likelihood of making successful acquisitions. This finding does not support the agency theory view claiming that director's compensation plays a significant role in improving firms' strategic decisions and consequently firm performance (Bothwell, 1980; Kesner, 1987; Kren and Kerr, 1997; Bhagat et al, 1999; Zajac and Westphal, 1995; Morck et al, 1988), but is rather in line with the findings of Hayes et al (2004) which found a negative relationship between the fraction of shares held by outside NED and firm performance. As in the case of insiders, we may explain this result by considering that outsiders, when possessing a significant portion of firm's shares, could be induced to exert insufficient effort, tolerate that managers maximize private benefits or adopt entrenchment behaviour (Morck et al, 1988, Short and Keasey, 1999). Another explanation could be found in the results reported recently by Feldman and Montgomery (2013), showing that directors with large ownership and low relevant experience were negatively associated with firm value. While we tried to assess if there was any interaction effect between the level of Directors experience and their share holdings on firm acquisition success, we found no evidence from our sample that support this view.

As for the Director Human Capital perspective, Board Credibility when based on the diversity of directors' occupational backgrounds was found to be positively and significantly related to the likelihood of making successful acquisitions. Our finding is in line with those reported by previous studies linking Top Management Teams (TMT) diversity and firm performance (Cannella et al, 2008; Eisenhardt and Schoonhoven, 1990; Norburn and Birley, 1988). Furthermore, in the context of critical strategic decisions, such as a significant acquisition, and particularly at the step of selecting a target, efficient generation and evaluation of alternatives are essential in making sound strategic choices (Finkelstein et al, 2009) and Boards composed by directors with heterogeneous occupational backgrounds will, therefore, be able to gather more information from different internal and external contacts (Jackson, 1992) and will possess greater problem-solving skills along with the ability to mobilize multiple perspectives (Bantel and Jackson, 1989). We argue that heterogeneous boards will also proceed with a more comprehensive evaluation of alternatives given the propensity and willingness of directors to challenge and debate each other (Gladstein, 1984; Schweiger et al, 1989) and as noted by Finckelstein et al, (2009), the decision quality may prove to be superior given that heterogeneous groups tend to have more analytical effectiveness (Amason, 1996; McGrath, 1984). Moreover, Sundaramurthy and Lewis (2003) noted that a balanced combination between *control* and *collaboration* attitudes is needed to create self-correcting cycles that replace the self-reinforcing ones, which may enable trust to cohabit with constructive cognitive and task-oriented conflicts. Finally, they concluded that for this integration to be successful, governance structures should, therefore, incite the diversity of board members' background as well as outsider-insider mix within the Boardroom, and through all Board-Management formal and informal interactions (Sundaramurthy and Lewis, 2003).

Consequently, our findings show that when it comes to assess the characteristics of firms accounting with a strategic capability of making successful acquisitions, what most matter in the board composition is not the mix of outsiders/insiders but rather the diversity of their occupational backgrounds, which found to be positively related with the likelihood of making successful and value-creating deals. Furthermore, directors' occupational background diversity could constitute a hard to imitate governance resource that would provide the firm with an essential ingredient of its competitive advantage.

Another interesting and original finding related to Board *Credibility*, is the relative level of industry specific experiences between board members and firm's Top Managers. Power dynamics at the top of the firm was extensively investigated in the TMT tradition (Finckelstein et al, 2009) and research in this field highlighted the influence of power on strategic decision-making processes (Finkelstein, 1992; Mintzberg, 1992; Bourgeois and Eisenhardt, 1988). According to Finckelstein (1992), *Power* comes generally from structural, prestige, ownership and expertise sources. From these sources, expertise was found to have the most predictive power among TMT members, which was previously assessed by matching functional experiences and strategic contingencies (Carpenter and Wade, 2002; Bunderson, 2003). We could therefore argue that Board Credibility, when based on directors' expertise and knowledge about the acquirer industries and businesses, may be considered as a source of *Power* that help directors to significantly influence firm strategic decision-making processes.

By comparing the degree of collective industry specific expertise and knowledge between Board members and the firm Top Managers, we could infer some considerations about *Power* dynamics at the C-suite level. Indeed, Non Executive Directors with higher relative level of industry specific expertise and knowledge will lead the board to exert some power in order to influence the firm strategic decision output, by contributing more effectively in the selection of sound and successful acquisitions, as sour findings suggest.

Board Credibility when based on the directors' relative expertise and knowledge about firm businesses and industries induce also some reduction of the negative effects that stem from information asymmetries between Boards and their Management teams. Thus, we argue that credible boards will experience lesser information asymmetry disadvantage due to outside directors' industry insight and knowledge, which would increase their ability to challenge management proposals, bring a critical view on management decisions and contribute efficiently in enhancing firm decision-making capabilities. Our results suggest that Boards, composed by outside Non Executive Directors with higher level of expertise related to the acquirer industries, were found to be positively and significantly related with the likelihood of making successful deals.

While it was not hypothesizes in our theoretical model but introduced as a control variable, our study shows also that outside directors with holding multiple directorships in other firms were not necessarily a source of Board Credibility as supported by the tenets of the resource dependence theory. Our results tend, rather, to be in line with those reported by Fich and Shivdasani (2006) holding the view that busiest directors sitting on more than three boards at the same time do not significantly contribute to firm value creation and are likely to lack sufficient time and energy to involve themselves actively in firm key strategic-decision making processes such as those associated with mergers and acquisitions. While other researchers reported a positive relationship between Board busyness and firm performance (Ferris et al, 2003; DiPietra et al 2008), our results suggest that Boards with a majority of directors holding multiple directorships at the same time are negatively related to the probability of making successful acquisitions, which support the view that the positive effects of directors' busysiness, such as complementing inside directors with knowledge on Mergers and Acquisitions issues and obstacles or helping in the reduction of decision-making biases (Harris and Shimizu, 2004) are likely to be reversed by the negative ones, such as the lack of time and energy to participate actively in the firm acquisition processes (Fich and Shivdasani, 2006). Thus, Future research could extend the context of our study to other settings and compare how our findings are replicable in the US, the Asian, Pacific or European contexts.

Other multi-theoretical models integrating additional perspectives such as the social Board social capital perspective and the socialized perspective of Directors' selection could shed more light on the complex nature and roles of Boards in modern corporate governance systems. Finally, and while the use of ROA measures for assessing firm performance is widely used in strategic management research, further research could test our hypotheses and findings by using Market and value based measures as indicators for acquisition success.

To conclude we consider that our study contribute in several ways to the corporate governance field. First, and at our knowledge, it's the first one that opens up the window to re-examine the assumption of a linear relationship between board composition and the likelihood of firm acquisition success. As we found a curvilinear-convex downward relationship between the presence of Outside NED on the Board and the likelihood of acquisition success, we believe that future research will gain more insight on this issue by investigating more extensively the implications of this finding, particularly by assessing the interaction effect of Board composition and the level of directors' expertise on firm performance. Second, we introduced for the first time an original measure of board collective expertise to assess the effect of Board Human Capital by comparing the relative level between directors' expertise and that of the firm top managers rather than just the expertise of the formers. This measure captures better the degree of information asymmetry than the traditional measures used in extent research. Finally, our findings suggest that further research may gain more insight by investigating more deeply and through direct observation how directors' nomination and selection processes effectively work, and how directors' with highly specific proven experiences, expertise, knowledge and backgrounds are able to impose their views on management and make a significant contribution by adding value to the firm strategic decision-making processes and outcomes. This will help us to capture better the elusive link between corporate governance and firm performance.

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