

# **The Consequences of Independent Director Reputation Incentives on Board Decision Making and Firm Actions**

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## **Abstract**

We find a large body of evidence that independent director reputation incentives can vary across directors and can significantly influence important board decisions and firm outcomes. Firms with a greater proportion of independent directors where the board is one of their most prestigious are associated with a lower likelihood of firm actions known to hurt director reputations including exchange initiated delisting, bond covenant violations, earnings management or restatements, being subject to shareholder class action lawsuits, dividend reductions and CEO option back dating. These firms are also associated with CEO compensation contracts that are more sensitive to stock performance, but also higher CEO total compensation. We find evidence that greater reputation incentives are associated with a propensity to grow and defend the empire, which provides some evidence of the countervailing incentives arising from reputation concerns. The evidence indicates that director reputation concerns can have significant influence on key board decisions important to shareholders.

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## **Introduction**

Reputation concerns can create important incentives. In studying corporate governance and boards of directors in particular, understanding outside director incentives that arise from their individual reputation concerns can be very informative. Prior literature has found evidence of the importance of the reputation of investment banks, venture capitalists, and auditors (Carter and Manaster (1990), Carter, Frederick and Singh (1998), Chemmanur and Fulghieri (1994), Megginson and Weiss (1991), Fang (2005), Krishnan, Ivanov, Masulis and Singh (2011), Titman and Trueman (1986) and Beatty (1989)). However, until recently little research has focused on reputation incentives at the individual agent level. Building on the recognition that reputation is a valuable asset (Alchian and Demsetz (1972)) and the specific application to directors and the director labor market (Fama and Jensen (1983)), Masulis and Mobbs (2012) uncover interesting new evidence about the reputation concerns of individual independent directors and the relative ranking of their directorships. In other words, the implicit assumption in the governance literature that a director equally values each directorship they hold appears to be false. This new perspective on director motives suggests several avenues for research on the effects of individual director reputation incentives on board decision-making and firm actions, which we explore in this study.

Masulis and Mobbs (2012) find evidence that directors are more active and exhibit greater willingness to remain on boards through periods of poor firm performance when a directorship has greater reputation value to them. Conversely, directors appear more willing to relinquish directorships, especially when firm performance is poor, when a directorship has relatively less reputation value to them. These heterogeneous incentives can have serious consequences for many significant board decisions and firm actions that can affect shareholder value. Masulis and Mobbs (2012) document a positive relation between measures of firm performance and value with the proportion of independent directors on the board who have stronger reputation incentives. The intent of this study is to extend their findings by examining the impact of director reputation incentives on a wide range of important board actions and firm outcomes. The prior literature has established that certain key board decisions can significantly impact director reputation. For example, Kaplan and Reishus (1990) find that after a board decides to

implement a dividend reduction, the firm's directors receive fewer subsequent directorship appointments. Similarly, other research finds directors of firms that restate earnings or are associated with financial fraud have fewer directorships in the future (Srinivasan (2005), (Fich and Shivdasani (2007)). The implication is that their reputations as independent directors are diminished, perhaps due to a lack of strong oversight and diligent monitoring and advising. We examine these and other firm outcomes and key board actions that are likely to have a significant positive or negative impact on director reputation. While endogeneity is an ever present concern in corporate governance studies, we avoid much of this concern by focusing on specific board decisions and firm outcomes (Hermalin and Weisbach (2003)).

In this study, we view firm size as a useful measure of board prestige. Several prior studies offer evidence that relative firm size is a useful measure of a director's reputation incentives at a particular firm. Knyazeva, Knyazeva and Masulis (2011) find that executives are willing to travel greater distances from their home offices to serve as independent directors of larger firms. They argue the primary reason for their finding is that reputational benefits associated with holding a directorship in a larger firm in terms of the greater visibility, career growth opportunities, experience, which enhances the possibility of future directorships and other career benefits. Our findings complement theirs by showing that directors are willing to commit more time and effort in their relatively most prestigious directorships, not only by incurring greater travel costs, but in their more careful monitoring of management and firm decision making. In another recent study, Fahlenbrach, Low and Stulz (2010a) find that CEOs are more likely to sit on the boards of larger firms similar to theirs, which they argue is due in part to their concern for their reputation. Our findings extend theirs to reveal that reputation incentives are important for all independent directors, not just CEOs and they can have important consequences for board decisions and firm outcomes.

Using a director dataset of S&P 1500 firms in years 1997-2006, we sort independent directors into those with and without other outside directorships. Then for each independent director with multiple directorships, we rank these directorships of based on each firm's market capitalization. To capture reputational incentives at the board level, we use one of two measures. First, we measure the percentage

of independent directors for whom this directorship is one of their highest ranked (i.e. at least 10% larger than their smallest directorship). Our second measure is an indicator variable that equals one if a majority of the independent directors view this directorship as one of their highest ranked, measured by firm size exceeding their smallest directorship by at least 10%.

The value of these reputation measures is that they capture three very important director characteristics. First, these measures capture the proportion of independent directors who rank the directorship in this firm more highly, which is where they have the most incentive to exert effort and to be viewed as careful monitors and valuable advisors to management. Second, these measures capture the proportion of directors with multiple directorships, who are viewed as more talented directors in the labor market for directors.<sup>1</sup> Third, more talented and experienced independent directors are likely to be appointed to larger firm boards, based on the arguments in Gabaix and Landier (2008).

While an agent with only a single directorship may have incentives to retain their sole directorship, we do not include them in our primary measures of director incentives since the lack of strong demand for their services in the external director labor market suggests that they are not as highly valued outside directors. However, we do separately examine their impacts on board decisions and firm actions.

To summarize, when boards are comprised of a greater percentage of these talented and motivated directors using our primary measures of director incentives, we expect better monitoring and advising by these boards, which can in turn lead to better board decisions and firm outcomes. These directors are also motivated to avoid firm actions that are associated with negative reputation effects such as an exchange delisting, covenant violations or dividend reductions (Kaplan and Reishsus (1990)), and other indicators of poor monitoring skills such as earnings restatements, accounting rule violations, serious earnings management (Srinivasan (2005)), option backdating (Ertimur, Ferri and Maber (2012))

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<sup>1</sup> Non-independent outside directors are excluded from our primary measures of director incentives because they are likely to have very different incentives from independent directors.

and shareholder class action suits (Fich and Shivdasani (2007)). These incentives are especially strong for their most reputable directorships, where their actions are most visible.

Consistent with this view, we find that firms with greater representation by independent directors for whom this directorship is their most highly ranked are associated with a lower incidence of firm actions that adversely affect independent director reputations. Specifically, greater representation by such directors is associated with a lower likelihood of exchange delisting, debt covenant violations, earnings management, earnings restatements, option backdating, class-action lawsuits and cash dividend reductions.

One countervailing incentive arising from a director's reputation concerns is that wanting to retain a directorship can be at odds with the incentive to be viewed externally as a careful monitor. Incentives to retain directorships in more prestigious firms should be greater, which can decrease an independent director's willingness to impose close monitoring or to pursue critical questioning of a CEO. One area where this dual tension is particularly likely to manifest itself is with respect to CEO compensation contracts. As Bebchuck and Fried (2003) point out, compensation is often a source of "outrage" among shareholders. Thus, directors wishing to avoid this negative attention have the discretion and flexibility of CEO compensation contracts to appear to pursue both shareholders and CEO interests. Specifically, directors can impose greater performance based pay in the form of equity compensation to appease shareholders. However, they can also appeal to CEO interests by not offsetting increased equity based compensation with less cash compensation, resulting in a generous level of total compensation. Indeed, we find that boards with greater representation by independent directors who rank this directorship highly are associated with greater CEO equity based pay, but without an offsetting reduction in cash based pay. These findings are consistent with directors wanting to be viewed favorably by shareholders, but at the same time trying not to upset the CEO, who can influence their reappointment to the board. This evidence is also consistent with Homstrom (1999)'s argument that reputation concerns can create incentives for directors to avoid risky actions that could have negative consequences on their future as outside directors. It is also similar to the CEO turnover findings in Masulis and Mobbs (2012)

and reflects the dual tension faced by independent directors to be viewed as a valuable monitor externally and to be viewed positively by the CEO to retain this valuable directorship (Warther (1998)).

Finally, if firm size is a measure of the reputational value of a directorship, then directors have incentives to both increase the size of these firms and defend against actions that increase the probability of losing the directorship. Mergers and acquisitions provide an excellent example of situations that affect both of these director incentives. For their most valuable boards, representing their largest firms, directors have incentives to support expansion of a firm's empire through mergers and acquisitions (M&As), which enhance the visibility of their directorships. While these M&A transactions may not be in the interests of shareholders, it increases independent director visibility and thus, gives them reputational benefits. Likewise, directors in their most prestigious directorships have incentives to oppose a takeover to avoid the increased risk of losing their more prestigious directorships (Harford (2003)). We find evidence that boards with a greater proportion of independent directors with strong reputation concerns are more likely to support firm expansion through acquisitions and to support adopting strong takeover defenses. These findings further reinforce the use of firm size as a proxy for director reputation incentives.

For robustness and to address the concern that some of the results could be driven by very large or small firms or other firm characteristics, we conduct two additional tests. First, we split our full sample in half based on firm size and re-examine our tests for the large and small firm sub-samples. Second we create a matched sample based on firm size and industry and repeat all of the primary analysis after subtracting out the same characteristic in the matched sample. For most of the primary tests, the results continue to hold, which decreases concern that the results are driven by firm size or other endogenous relations.

These findings make several important contributions to the literature. First, they extend the earlier reputation findings of Masulis and Mobbs (2012) and illustrate various channels through which directors with greater reputation incentives can improve firm performance and value. Namely, through greater monitoring, which leads to fewer restatements, lower likelihood of fraud or corporate improprieties and more performance based CEO incentive contracts.

Second, these findings extend the literature on busy directors and busy boards by clarifying that busy boards need not be associated with poor oversight and negative firm outcomes. Rather, boards with busy directors who view a particular firm as one of their most important directorships are likely to make better decisions that are beneficial to that firm's shareholders. On the other hand, firms with busy directors who view the firm as relatively less reputable are at a greater risk of the board making poor decisions detrimental to shareholders. These findings also help to reconcile the mixed results in the literature on directors with multiple directorships. In contrast to the negative firm outcomes associated with busy directors (i.e. those with multiple directorships), there is also evidence that multiple directorships is a reflection of director talent. For example, in studies of directors with multiple directorships find directors with multiple directorship are associated with a lower likelihood of a firm cutting its dividend (Kaplan and Reishsus (1990)), committing fraud (Chidambaran, Kedia and Prabhala (2011)) or filing for bankruptcy (Gilson (1990)), and they are also associated with better stock performance (Shivdasani and Yermack (1999)). Also, Masulis and Mobbs (2011) and Mobbs (2012) find that when inside directors hold outside directorships, their boards make better decisions and more closely monitor CEOs. Again, our findings underscore the importance of determining the relative reputational value a director assigns to a directorship, rather than simply counting the number of outside directorships to measure talent or busyness.

Third, the findings also reveal additional potentially countervailing director incentives that arise from greater director incentives to retain their most valued directorships. For example, finding that greater reputation incentives can motivate directors to be more supportive of fighting unsolicited takeovers and to support firm expansion and greater CEO compensation suggests potential avenues for future research and policy reforms.

The remainder of the paper is organized as follows. Section I discusses the sample data and descriptive statistics for the directors and the firms. Section II presents our primary analysis. Section III concludes.

## **I. Sample data and descriptive statistics**

U.S. boards of director data are drawn from the Risk Metrics database for the years 1997-2006. Risk Metrics contains individual director information for the S&P 1500 firms resulting in 131,325 director-year observations. Using the “classification” variable, we exclude directors who are either firm employees, former employees or otherwise affiliated with the firm or its management.<sup>2</sup> This leaves us with 86,330 independent outside directors for 15,215 firm-years. See Masulis and Mobbs (2012) for further director level descriptive statistics. We draw firm financial and accounting data from Standard and Poor’s Compustat, stock returns and delisting data from the Center for Research and Security Prices (CRSP), CEO compensation data from the Execucomp database, takeover defenses from the Risk Metrics Governance database and merger and acquisition information from the Thompson Securities Data Corporations (SDC) database. Data on covenant violations are from Nini, Smith and Sufi (2011) and data on class action lawsuits are from the Stanford University’s corporate litigation database. Finally, we classify industries based in the Fama-French industry definitions.

Table I presents firm level descriptive statistics. The average firm controls \$11.847 billion in total assets. In the sub-sample of 12,166 firms that exclude Fama-French defined finance and utility industries, the average firm controls \$5.258 billion in total assets. Equity market capitalization for the average firm is \$7.163 billion or \$7.011 billion after excluding finance and utility firms. The sample represents independent directors of 15,215 firm-years. In almost 80% of firm-years, independent directors represent a majority of the board.

As in Masulis and Mobbs (2012) we capture the relative importance of the director incentive effects associated with a specific firm by examining the relative size of the equity market capitalization of each firm where the director serves. The most (least) prestigious directorship, which represents the largest (smallest) share of the total market capitalization under a director’s oversight, is simply referred to as HIGHEST (LOWEST). However, to provide greater variability and to capture the relative reputation

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<sup>2</sup> Risk Metrics considers a director as affiliated if they are a former employee; an employee of or is a service provider, supplier, customer; a recipient of charitable funds; are considered an interlocking or designated director; or are a family member of a director or executive of the firm.

benefits to individuals with more than two independent directorships, we also create a variable HIGH (LOW), which is an indicator variable if their most prestigious directorship is in a firm that is at least 10% larger (smaller) than the firm representing their least (most) prestigious directorship. Since having a greater portion of motivated (on unmotivated) directors on the board could improve board decision making, we aggregate these director level measures to the board level by considering the percentage of directors for whom this directorship is classified as HIGH, LOW, HIGHEST or LOWEST. Across all boards, the mean percent of directors for whom this is a small directorship is 14.28% (15.29% when excluding finance and utilities). Fifteen percent of firms have boards where a majority of independent directors classify this directorship as being LOW ranked (17% when excluding finance and utilities), while 12.7% classify this directorship as HIGH ranked (12.43% when excluding finance and utilities). Also, 15% of the firms have boards where a majority of independent directors view this firm as being more prestigious, or larger than the smallest firm where they sit on the board by at least 10% (same when excluding finance and utilities). We also consider the presence of directors with only one directorship, since retaining the sole directorship may also create incentives to retain the position. The average board has almost 29% independent directors for whom this is their sole directorship and 45% of the firms have boards where the majority of independent directors have no other additional directorships. Finally, 12% of the boards are considered busy (i.e. having a majority of the independent directors holding three or more additional directorships).

Table I panel B reports descriptive statistics for the three sub-sample of firms that have a majority of independent directors for whom this directorship is a high ranking, low ranking or only directorship, respectively. As expected, firms with a majority of independent directors for whom this represents a high ranking directorship are the largest firms. Also, the sample of firms with a majority of independent directors for whom this is their only directorship comprises the smallest firms on average. Thus, in the subsequent analysis it is important to control for firm size. Firms with a majority of independent directors for whom this directorship is one of their highest ranked directorships are slightly more independent and have a greater fraction of busy boards on average.

## II. Firm Actions with reputational consequences

### A. *Delisting*

Extreme poor performance can result in the firm being delisted for failing to meet stock exchange listing rules. Such negative news can result in serious reputational damage to the outside directors of the firm. Moreover, if firms are guided by talented directors with a strong motivation to avoid the notoriety associated with an exchange delisting, then the greater proportion of these independent directors a firm has on its board, the less likely the firm is to succumb to such an undesirable fate. To examine the likelihood of a firm being delisted by the exchange for violating listing regulations (excludes acquisitions), we use a probit regression where the dependent variable is one if the firm experiences an exchange-initiated delisting as reported in the CRSP database. All regressions incorporate robust standard errors that are clustered by firm.

Our results are reported in Table II. In model 1 the percentage of independent directors on the board for whom this is a highly ranked directorship has a significant negative coefficient (at a 1% level). However, the percentage of independent directors for whom this is a lower ranked directorship has a marginally significant (at a 10% level) positive coefficient. Other control variables reveal that greater monitoring via a majority of independent directors or the presence of a founding family member are also associated with a lower likelihood of delisting. However, firms with larger institutional holders are associated with a greater likelihood of delisting. The governance variables CEO-Chair duality, board size and the GIM index are not significantly related to delisting. Finally, larger firms that have better performance measured by higher Q values and lower leverage are less likely to delist.

Model 2 uses indicator variables for a majority of independent directors having stronger or weaker reputational incentives. The results are similar, though they are not as strong statistically. When a majority of independent directors have stronger (weaker) reputational incentives, performance is significantly better (worse). The positive coefficient on the indicator for a majority of independent directors with no other outside board seats suggest firms with this type of board composition are more

likely to delist. Thus, although such directors have strong reputation incentives since this is their only directorship, their concern about being re-nominated or their limited experience as outside directors appears to undercut their disciplining role and is associated with greater occurrences of delisting. Model 3 uses year and industry fixed effects and yields similar results.

Finally, even though we characterize director incentives based on the relative size of firms where they are directors, firms with more directors for which this is their top ranked directorship are naturally likely to be larger firms. Even though we control for firm size in each of the above regressions, given the importance of this concern, we more carefully examine this issue. In models 4 and 5, we separate the sample into two sub-samples based on equity market capitalization. Model 4 uses the sample of larger firms that are above the median firm size and model 5 uses the sample of smaller firms that are below the median firm size. In both cases, the percentage of independent directors for whom this directorship is one of their most important has a significantly negative relation with the likelihood of delisting. The robustness of the initial findings to cutting the sample in half based on firm size and finding similar results in the sample of smaller firms suggests that the effect is not being driven by the largest firms in the sample, but rather by talented outside directors in their highest ranked directorships.

#### *B. Covenant violations*

One reason for a firm being delisted from an exchange is bankruptcy, which can also have negative reputational consequences for a firm's directors. Gilson (1990) finds directors of firms that file for bankruptcy are punished with fewer directorships in the future. Thus, the market for directorships creates some strong incentives for directors to want to avoid bankruptcy. Precursors to bankruptcy are covenant violations. Such covenant violations are an early signal to the market for directorships as to which directors have poor supervisory skills. Thus, firms with boards of directors with stronger reputational incentives and better supervisory skills should exhibit better performance and consequently are less likely to experience covenant violations.

Table III reports results on the likelihood of covenant violations based on the Nini, Smith and Sufi (2011) on covenant violation database. Panel A reports the univariate comparisons between firms with a majority of independent director for whom this is their highest and lowest ranked directorship. Firms with a majority of independent directors for whom this is their highest ranked directorship are significantly less likely to report an on-going or new covenant violation, relative to firms with a majority of directors for whom this is their lowest ranked directorship. Panels B and C report results for large and small firm subsamples. In the small firm subsample, firms with directors for whom this is their highest ranked directorship are still significantly less likely to experience a covenant violation. In the large firm sample, firms with directors for whom this is their highest ranked directorship are again less likely to experience a covenant violation, but the difference is not statistically significant.

Panel D examines covenant violations in a multivariate framework. The primary dependent variable is one if the firm violated a covenant during the fiscal year. Each probit regression incorporates robust standard errors that are clustered by firm. In model 1, the percentage of independent directors for whom this is a high ranked directorship has a significant negative relation to the likelihood of a covenant violation (or continued violation), whereas the percentage of independent directors for whom this is a low ranked directorship has a positive relation to the likelihood of a covenant violation (or continued violation). The dependent variable in model 2 equals one if the firm commits a new covenant violation during the fiscal year. The results are similar in that a greater portion of independent directors with greater reputation incentives is associated with a lower likelihood of a new covenant violation. Model 3, again examines any covenant violation, and uses the indicators for a majority of independent directors for whom this directorship represents a high or low ranked directorship. Firms with a majority of directors with greater reputational incentives from this directorship are negatively associated with the likelihood of committing a covenant violation. Again, firms with a majority of directors with weaker reputational incentives from this directorship are positively associated with the likelihood of committing a covenant violation. Model 4 includes an indicator for firms having a majority of independent directors with no other outside directorship. These directors are perhaps less skilled given their fewer directorship, but can

have strong incentives to preserve their reputation at their sole directorship. However, there is no significant relation between firms with this board characteristic and the likelihood of a covenant violation in the full sample. Models 5 and 6 break the sample in half into large and small firms respectively and investigate if our findings are consistent across the firm size subsamples. Consistent with the univariate results, the indicators for firms with boards having a majority of independent directors for whom this is a high or low ranked directorship are not significant for the large firm subsample. Model 6 finds evidence in the sample of small firms that have boards with a majority of independent directors for whom this is a high (low) ranked directorship are associated with a lower (higher) likelihood of violating a covenant. The finding of greater significance in the small firm sub-sample reinforces the presumption that large firms are not driving the results, but rather what matters is the director's ranking of each of these directorships.

CEO duality, board size and institutional ownership are not significantly related to the likelihood of violating a bond covenant. While founder-directors having large ownership stakes and more knowledge of the inner workings of the firm can put stronger pressure on management to run a "tighter ship" and not violate bond covenants. Surprisingly, more anti-takeover provisions are associated with a lower probability of covenant violations. One possible explanation for this association is that the market for corporate control and bondholder monitoring act as substitute governance mechanisms, possibly because managers with less pressure from the market for corporate control have incentives to take greater risks to obtain higher revenue streams. The other controls are generally statistically significant and consistent with prior findings. To be specific, we find that both larger and better performing firms are less likely to violate covenants, while firms with greater leverage, slower growth, higher stock return volatility and more segments are more likely to violate covenants.

### *C. Earnings management*

Another possible indicator of a director's reputation as a monitor is whether or not managers engage in earnings management. Earnings management can reflect manager manipulation of earnings and can subsequently lead to earning restatements when discovered. Such publicity can significantly hurt an

independent director's reputation (Srinivasan (2005)). Table IV examines earnings management by using the absolute value of firm discretionary accruals. Each regression employs robust standard errors clustered by firm. Model 1 reveals that a greater percentage of independent directors with multiple directorships is associated with lower levels of discretionary accruals and thus, a lower likelihood of earnings management. However, only firms that represent a director's highly ranked directorships are associated with significantly lower levels of discretionary accruals. Model 2 includes the percentage of independent directors for whom this is their only directorships. We find that these motivated boards are also associated with lower discretionary accruals, although the percentage of independent outsiders for whom this is their more prestigious directorship has the strongest association with lower discretionary accruals, both economically and statistically. Models 3 and 4 use indicator variables for when a majority of independent directors have stronger or weaker reputational incentives and find similar results. Model 5 uses the modified Jones model of discretionary accruals and uncovers similar findings. Finally, models 6 and 7 break the sample into large and small firm subsamples, respectively. The independent reputation effects are found to be strongest in the large firm subsample. Our control for firm size captures the greater incentives for managers of smaller firms to conduct earnings management. In unreported results, we find that all models yield similar significant results when we use the signed value of the accruals

There is also evidence that having a majority of independent directors, larger boards and greater institutional holdings are associated with lower levels of discretionary accruals in some of the earnings management models. The remaining controls generally exhibit consistent signs and statistical significance, with the exception of some controls in the small firm regression.

#### *D. Earnings restatements*

As noted above, a related indicator of weak board monitoring at a firm is an earnings restatement. Table V reports a multivariate analysis of earnings restatements using restatement data from Hennes, Leone and Miller (2008). There are 455 instances of earnings restatements for our sample firms during the sample period. Of these, 127 restatements are defined as the result of irregularities or intentional

misstatements. Each probit regression utilizes robust standard errors clustered at the firm level. Since the primary responsibility for monitoring accounting statements resides with the board's audit committee, we use an indicator variable that equals one if a majority of the audit committee members are independent directors for whom this directorship is either one of their higher ranked or lower ranked directorships. Also, since restatements are more likely in larger firms (measured by sales), we also interact firm size with these measures of the reputational incentives of independent directors on the audit committee.

Table V model 1 reveals that having a majority of independent directors for whom this is one of their highest ranked directorships is negatively associated with the likelihood of a subsequent earnings restatement. The interaction with firm size suggests a positive incremental effect on this relation, but it is not significant. An F-Test shown at the bottom of the table reveals that having an audit committee with a majority of more reputation motivated independent directors has a significant negative relationship with restatements ( $p$ -value=.03). Model 2 examines the smaller subset of highly motivated directors by considering only the portion of the audit committee's independent directors for whom this is their most prestigious directorship. These results are consistent with model 1, but stronger, both economically and statistically. The dependent variable in model 3 is one if the firm has an earnings restatement due to an accounting irregularity during the year, which is indicative of intentional accounting manipulation. Again, the presence on the audit committee of a majority of strongly motivated independent directors is associated with a lower likelihood of such an irregularity.

Model 4 considers firms with audit committees comprised of a majority of independent directors for whom this directorship is their lowest ranked directorship. There is no evidence that these directors are positively or negatively associated with the likelihood of intentionally misstatements. Finally, in model 5 indicators are added for the reputation incentives of all the independent directors on the board and for boards with a majority of independent directors for whom this is their only directorship. We find no evidence that having a majority of independent directors with greater reputation incentives on the board using either of these measures has a negative association with earnings irregularities. Yet, having a majority of these directors on the audit committee continues to have a significant negative association

with irregularities. This is consistent with the overall board relying on the audit committee to police the reporting of accurate accounting statements.

It is noteworthy that models 1 and 2 also show that having a majority of independent directors is associated with a greater probability of restatements. This may reflect the greater likelihood that if suspicions of accounting problems arise, they are more likely to be seriously investigated when a majority of the board is independent. Larger boards, greater institutional holdings and founding family member on the board are associated with a lower likelihood of earnings restatements, which is consistent with better supervision when the boards have these characteristics. For example a large board may enable the audit committee to have more members with accounting expertise.

#### *E. Lawsuits*

Fich and Shivdasani (2007) find directors on the boards of firms targeted by shareholder lawsuits for actions taken while they were directors receive fewer subsequent directorships and Fahlenbrach, Lo and Stulz (2010b) find these tainted directors are more likely to leave the boards prior to lawsuit filings. Both empirical observations are consistent with lawsuits causing large negative impacts to a director's reputational capital. Thus, in firms where directors have stronger (weaker) reputational incentives, directors have stronger (weaker) incentives to see that firms take actions that help them avoid becoming targets of lawsuits.

Table VI examines the occurrence of shareholder lawsuits in our sample firms using data on corporate lawsuits from the Stanford University corporate litigation database. Unless otherwise noted, the models in Table VI are probit models with robust standard errors, clustered by firms. In model 1, the percentage of independent directors for whom this is one of their most prestigious directorships has a significant negative association with the probability of being sued. Conversely, firms with a greater portion of independent directors for whom this is a relatively less prestigious directorship have no statistical association with the likelihood of the firm being sued. Model 2 uses indicator variables for majorities of independent directors having better or worse incentives, rather than continuous variables and

finds similar results. Model 3 adds an indicator variable for firms with a majority of independent directors for whom this is their sole directorship and finds similar results.

Model 4 is a Poisson regression, where the dependent variable is the number of times a firm is the subject of a class action lawsuit during the year. Again, firms with a majority of independent directors for whom this is a relatively important directorship are associated with significantly fewer lawsuits in a given year. Finally, model 5 and 6 are probit regressions examining the sub-samples of largest and smallest firms, respectively. Here we find the strongest effect in the largest firms, which are more visible and attractive target of class action lawsuits. Turning to the control variables, we find that greater CEO tenure, larger boards and greater institutional ownership are all associated with a lower likelihood of a firm facing a class action lawsuit. These controls are significant with the expected signs across all models, with the exception of ROA in the small firm sample, which becomes insignificant. Each model also controls for industry litigation activity and the resulting settlement value in the year relative to industry market capitalization. As expected, these industry-wide controls are positive and significant in each model.

#### *F. Dividend reduction*

Dividend reductions are another well-known firm action that has negative repercussions for a firm's directors. Kaplan and Reishus (1990) find that executives whose firms reduce dividends from the previous year are punished in the external market for directorships with fewer subsequent directorships. Table VII examines this measure of poor firm performance to see whether stronger director reputation incentives are associated with a lower likelihood of dividend reductions of 10% or more among the sample of dividend paying firms. All models include year fixed effects and robust standard errors clustered by firm.

Model 1 of Table VII reveals distinctly different relations with the likelihood of dividend reductions based on whether there are more independent directors for whom this directorship represents a high or low ranked directorship (thus, having relatively larger or smaller reputation consequences). A larger percentage of independent directors for whom this is a more prestigious directorship is associated

with a significantly lower likelihood of a dividend reduction. On the other hand, a larger percentage of independent directors for whom this is a less prestigious directorship is associated with a significantly higher likelihood of a dividend reduction. Model 2 uses indicator variables for the reputation incentives of a majority of the independent directors and finds similar results, though the indicator for the presence of a majority of independent directors who rank this directorship as high is not significant at traditional levels ( $p$ -value=.13). Model 3 incorporates an indicator for firms with a majority of independent directors for whom this is their only directorship and the results are similar to model 2 and there is no evidence that greater representation by independent directors for whom this is their sole directorship is associated with the likelihood of a dividend reduction.

Since Kaplan and Reishus impose a stricter dividend reduction indicator of 25%, model 4 reports results for reductions by firms of 25% or more. Again greater reputation by directors who rank this directorship as high is negatively and significantly related to the likelihood of the firm reducing its dividend. Although the coefficient estimate for representation of director who rank this directorship as low is not significant at traditional levels ( $p$ -value=.18) the positive sign is consistent with the prior results.

Finally, models 5 and 6 examine the subsample of the largest and smallest firms respectively (above and below the median firm size) for the stronger reduction of 25%. In both subsamples, the percentage of independent directors for whom this represents a higher ranked directorship is negatively related to the likelihood of a dividend reduction, though it is only statistically significant in the largest firms. The percentage of independent directors for whom this represents a lower ranked directorship is positive in both models and statistically significant in small firms. The difference between the coefficient estimates for the percent independent high and low ranked measures are significantly different ( $p$ -value=.05). Thus, director reputation incentives, or in this case a lack of them, are related to the likelihood of dividend reductions. This provides further insight into the Kaplan and Reishus findings by showing that directors with multiple directorships view dividend reductions differently depending on the relative rankings of their directorships. Thus, the market for directorships is a more effective mechanism for

motivating directors to monitor managers when a directorship is more important to the director. Finally, poorly performing firm and firms with greater leverage are more likely to reduce dividends.

In summary, the evidence in the prior sections is consistent with firms showing better firm performance when their boards have a larger fraction of their independent directors with strong reputation incentives. Likewise, the evidence supports the conclusion that firms with a larger fraction independent directors with weaker reputation incentives lead to poorer firm performance and a greater likelihood of board actions that indicate poor board decision making. Thus, the reputation incentives arising from the relative status of a director's outside board seats have an important bearing on director monitoring activities, which has a direct impact on firm value and performance. Reputation incentives can also have adverse consequences (Holmstron (1999)) because, in addition to being viewed as a strong monitor, directors often have strong incentives to seek to retain their most prestigious directorships. Thus, given CEOs are very influential in director retention decisions, directors can have strong incentives to please a CEO. We explore the effects of this second independent director incentive in the next section.

#### *G. CEO compensation*

CEO compensation is another area where directors can curry favor with their CEOs if they have want to preserve the reputational benefits of retaining their board seat. Table VIII reports several different regression specifications examining different elements of CEO compensation. Models 1 through 4 examine CEO compensation structure by considering what percentage of the CEO's total compensation is equity based. Greater equity compensation serves to align the interests of the CEO with shareholders. Directors associated with such compensation policies are generally viewed as stronger monitors.

In model 1 the coefficient for the percentage of independent directors on the board for whom this is a highly (lowly) ranked directorship is positive (negative) and significant. Model 2 provides similar results using the majority of independent directors indicator variables. In addition, the coefficient for a majority of independent directors for which this is their only directorship is negative and significant, perhaps reflecting their limited skill in bargaining with the CEO. Models 3 and 4 examine large and small

firm subsamples, respectively. The results continue to hold in the large firms, but not in the small firms. These large firm results indicate that directors with greater incentives to maximize their reputation capital in their more prestigious directorships are associated with paying their CEOs greater amounts of equity compensation. However, a CEO can still be better off if the increase in equity compensation is not associated with a reduction in cash compensation, so that their total compensation increases. Models 5 and 6 examine the relation between boards with greater representation of directors with larger (smaller) reputation incentives and the CEO's total compensation level. In model 5 the coefficient for the percentage of the independent directors for whom this is a highly (lowly) ranked directorship is positive (negative) and significant. This suggests that directors in their directorships with the greatest visibility and potential for positive or negative reputation benefits act as if they have incentives to please shareholders and CEOs. Model 6 uses the indicator measures of the incentives of a majority of independent directors and finds similar results, though the indicator for boards where a majority of independent directors rank this directorship highly is not significant at traditional levels. The negative coefficient in models 5 and 6 on the measures of boards where independent directors have a low rank for the directorship indicates that these directors are not as concerned with pleasing the CEO, since the benefit of retaining this directorship is relatively small. Conversely, model 6 also reveals a significant and negative association with directors for whom this is their only directorship. This is surprising, especially since directors are likely to be motivated to keep their sole directorship. However, it may be reflective of their significantly lower association with the use of equity based pay revealed in model 2.

Finally, equity compensation can be decomposed into option based and restricted stock based components. The dependent variable in model 7 is one if the equity compensation consists of options. The indicator variable for boards where a majority of independent directors rank this directorship highly is positive and significant, revealing these directors are associated with greater use of option based pay. The controls are generally statistically significant and have signs consistent with the existing literature.

#### *H. Option Back Dating*

Another means of increasing CEO compensation is to time the option grants, possibly retroactively, to coincide with low stock price dates in the surrounding period, since options are generally granted at the money. However, this practice can be costly for directors. Ertimur, Ferri and Maber (2012) find that directors involved in the option backdating scandal between 2006 and 2007 suffered higher turnover rates after the scandal and received a greater number of withheld votes when up for reelection. Their findings imply that if directors reward their CEO's egregiously by manipulating the option grant dates toward more favorable outcomes, they put their own directorship at greater risk. Therefore directors with greater reputation incentives for a particular directorship should be less likely to put their reputation and valuable position at risk by engaging in options backdating. While many firms have been or are still being investigated for such practices, option granting practices of numerous other firms suggest that many additional firms have either also engaged in option backdating or their CEOs are extremely "lucky" to have received options grants when the stock price was at one of its lowest points around the grant period. Bebchuk, Grinstein and Peyer (2010) define a lucky CEO stock option grant as one in which the effective grant date coincides with the day of the month of the lowest stock price. We also employ this measure to see whether independent directors with greater reputation incentives are associated with a lower likelihood that their CEO received a lucky option grant.

Following Bebchuk, Grinstein and Peyer (2010), we obtain option grant data from Thomson's Financial's Insider Trading database and using similar screening criteria. We find 21,106 CEO option grants for our sample CEOs and of these grants, 2,024 are defined as lucky. In Table IX, we use probit regression models to analyze the determinants of lucky CEO grants among the sample of firms with prior CEO option grants. The standard errors are robust and clustered by firm CEO. In model 1, the coefficient estimate on the percentage of independent directors for whom this directorship is highly ranked is negative and significant and the percentage of independent directors for whom this directorship is lower ranked is insignificantly related to the likelihood of the CEO's option grant being lucky. The controls variables all have the expected signs reported in Bebchuk et al. (2010), with the new economy and post-SOX indicators being significant. Model 2 considers the indicator variables for boards with a majority of

independent directors who rank this directorship as high or low. Consistent with model 1, the results indicate that when a majority of the independent directors rank this directorship as high, the board is less likely to issue the CEO lucky option grants. There is also no evidence that boards with a majority of independent directors for whom this is their sole directorship are more or less likely to engage in option backdating. Finally, models 3 and 4 examine the results in the sub-samples of the largest and smallest firms. The results continue to hold in the largest firm sub-sample, but the associations between our measures of independent director representation by directors with high or low reputation incentives and the likelihood of CEOs receiving lucky option grants are insignificant.

In summary, the results of Table IX indicate that while independent directors with greater reputation incentives may like to please their CEO to secure his or her support in retaining their directorship, they are not likely to engage in dishonestly backdating options to benefit their CEO. The negative reputation consequences appear to be too large since when the board is comprised of a greater proportion of these directors, a CEO is much less likely to receive “lucky” option awards.

### *I. Firm Preservation (or size) and M&A*

Another means for directors to preserve their most valuable directorships, as well as enhance their value, is to resist or deter takeovers and to increase firm’s size through acquisitions. This section examines both of these actions. Harford (2003) reports that directors of acquired firms are likely to lose their board seats as the acquiring firm fills the board with their own directors and due to the fact that target directors are likely viewed as poor monitors if their firms performed poorly, which is a common cause for acquisitions. For these reasons, when directors value their directorship highly they have incentive to avoid being acquired.

One standard method for deterring unwanted takeovers is to increase a firm’s anti-takeover provisions. The Gompers, Ishii and Metrick (2003) governance index (or GIM Index) is based on 24 common anti-takeover provisions and is often used to gage a firm’s exposure to the market for corporate control. However, Bebchuk, Cohen and Ferrell (2009) show that of the 24 common anti-takeover

provisions, six (staggered board, poison pill, limits to amend bylaws, limits to amend charter, supermajority and golden parachutes) are from a legal standpoint particularly potent in deterring takeovers and insulating management (and the board) from potential takeover attempts. The number of these six provisions in place at a firm is referred to as the entrenchment or E-index. We examine the relation between a firm's E-index and measures of independent director representation with greater (lesser) reputation incentives in Table X. Because larger firms are less susceptible to takeover due to their size, we also condition on firm size. The dependent variable is E-Index, which is the sum of the 6 potent anti-takeover provisions that the firm has adopted. All models are tobit regressions that are left censored at zero and right censored at six and only include firm observations where E-Index data is available, which is usually reported every other year.

Model 1 of Table X reveals that the E-Index is positively related to both the percentage of independent directors for whom this is a high or low ranked directorship, and is statistically significant for the high ranked directorship variable as expected. The interaction with these variables and firm size is negative and significant for the high ranked directorship sample. The net effect of each measure of board representation is shown at the bottom of the table along with  $p$ -values for the F-test of the joint significance of the individual variable and its interaction with firm size. The net effect of greater board representation by independent directors for whom this is a high ranked directorship is positively related to higher E-Index levels. Thus, greater board representation by directors with multiple directorships who rank this board highly are associated with more powerful takeover deterrent provisions, consistent with director monitoring acting as a substitute for monitoring by the market for corporate control. This interpretation is also consistent with the finding that the percentage of independent directors on the board is positively related to the strength of the takeover defenses. However, the difference between representation by independent directors for whom this represents one of their most prestigious directorships and those for which it represents one of their least prestigious directorships is statistically significant, with the greater effect being associated with boards comprised of directors with greater reputation incentives.

Models 2 and 3 consider the subsample of large and small firms, respectively. The results for large firms are consistent with the primary findings that greater board representation by independent directors with larger reputational incentives is associated with higher E-Index levels. However, the results for small firms reveal no statistically significant difference in takeover protections for firms with boards with a larger fraction of independent directors with strong reputation incentives. Conversely, in small firms with boards with a larger fraction of independent directors with weak reputation incentives are associated with higher E-Index levels. One interpretation is that the reduced monitoring incentives of independent directors in these small firms make it easier for management to adopt more powerful takeover defenses. Models 4 and 5 examine the subsample of firm-year observations pre- and post-SOX, respectively. The results are consistent with the primary findings and show slightly stronger effects post-SOX for boards with a greater proportion of directors with strong reputation incentives. This is consistent with a greater public concern about director actions and rising investor activism in this more recent era and greater scrutiny of directors increasing the threat of losing their directorship if the firm is a target of an acquisition strengthening their incentives to protect their director reputations, especially at their most valuable firms.

Finally, models 6 and 7 use indicators to measure the reputation incentives of a majority of independent directors and a majority of independent directors for whom this directorship is their only directorship and find similar, though stronger results, as expected. Model 7 also includes an indicator for busy boards and the main results remain robust to its inclusion. The coefficient estimate for busy boards is positive and significant and an unreported F-test for the net effect is also positive at the 10% level. In both models, 6 and 7, the coefficient estimate for a majority of independent directors for which this is their only directorship is negative and significant and in unreported F-test for the net effect for these boards is significant at the 1% level. In summary, Table X reveals a positive relation between greater representation by independent directors who have greater reputation incentives to protect the firm from acquisition and levels of the most powerful anti-takeover provisions. We also find similar results when we alternatively consider the 24 anti-takeover provisions of the GIM index, but we do not report these for brevity. These

findings are again consistent with directors acting to protect their most valuable directorships. Also, the results are consistent with board monitoring serving as substitutes for external monitoring by the market for corporate control. Monitoring CEO performance can require firm-specific investment by directors and thus, can warrant director protection against losing their positions due to a takeover. One means of providing such protection is through higher levels of anti-takeover provisions.

Table XI provides a different perspective on merger and acquisition activity to further explore director's incentives toward mergers and acquisitions. Models 1 and 2 examine firm acquisition activity. More talented and motivated directors can better advise management on M&A decisions, ruling out poor investments. Alternatively, directors who are motivated to preserve and enhance the prestige of their directorships can encourage empire building and acquisitions for the purposes of increasing firm size. Growing the firm through acquisitions serves two purposes for directors concerned with preserving their valuable directorship. First, it makes future takeover less likely given their subsequently larger size. Second, large size further increases their reputational benefits by increasing firm visibility. Both of these motives are stronger for relatively larger deals.

Models 1 and 2 reports results from logit regressions where the dependent variable is one if the firm engaged in at least one acquisition bid during the year as recorded in Thomson's SDC M&A database and zero otherwise. Standard errors are robust and clustered by firms and finance and utility firms are excluded. The percentage of independent directors for whom this directorship is highly (lowly) ranked is positively (negatively) associated with a greater likelihood of making at least one acquisition during the year. Model 2 reports similar results for firms with a majority of independent directors for whom this directorship is highly ranked. Model 2 also includes an indicator for boards with a majority of independent directors for whom this is their only directorship and finds no significant relation with M&A activity. Results repeating the analysis in model 1 for the large and small firms are reported in models 3 and 4, respectively. In the large firm sample, the coefficient estimate for the proportion of independent directors who highly rank this directorship is positive, though not significant at traditional levels, while the coefficient estimate on the proportion of independent directors who weakly rank this directorship is

negative and significant. For the small firm sample, the percentage of independent directors for whom this directorship is highly (lowly) ranked has a significant positive (negative) association with a greater likelihood of making at least one acquisition during the year, consistent with model 1. Thus, firm size does not seem to be driving these results. Thus, while better motivated boards may help firms make better investment decisions; they also can support more frequent acquisition activity. While acquisitions benefit directors by increasing firm size and boosting their visibility in the external market for directorships, in unreported results we find little evidence of a negative shareholder reaction to the acquisition announcements, which is inconsistent with directors supporting unprofitable empire building activities.

If independent directors who rank the directorship highly support empire building acquisitions, then we expect these firms to be very active in the market for corporate control. Although the evidence in the first two models suggests director support for greater acquisition activity, we explore this issue further by examining the number of acquisitions made during a year using Poisson regressions in models 5 and 6, where the dependent variable is the number of acquisitions by the firm during the year according to SDC. Model 5 examines only firms making acquisitions and model 6 using the full sample and reports results from the zero-inflated Poisson (ZIP) regression model. In both models, we see that firms with greater representation by independent directors for whom this is a highly ranked directorship are associated with fewer acquisitions during the year. Thus, even though these firms are more likely to make at least one acquisition during the year relative to other firms in the sample, they are less likely to make multiple acquisitions. This suggests that these directors want to ensure the success of the current acquisition prior to moving on to others. Next, models 7 and 8 focus on the sub-sample of large and small firms, respectively. The results for the largest firms in the sample are consistent with the primary models. However, neither the proportion of directors who strongly or weakly rank these board positions is significantly related to the number of acquisitions during the year.

Finally, in unreported regressions we examine the absolute and relative size of the acquired firms and find weak evidence that greater representation by independent directors with stronger reputation incentives is negative and significantly related to the target firm size. However, there is no significant

relation between representation of directors with weaker reputation incentives and target firm size. Since smaller target firms are likely easier to integrate into acquiring firms, this finding is consistent with independent directors with greater reputational concerns acting conservatively when firms seek to expand through acquisitions. Target firm size relative to the acquirer is not significantly related to the proportion of independent directors with stronger or weaker reputational concerns, suggesting that director reputation incentives do not appear to influence the relative size of the acquisitions. When we examine these results in the large and small subsamples of firms, we find similar results for target firm size in the larger firms and insignificant relations for the smaller firms.

In summary, these results reveal that reputation motivated directors are likely concerned with acquiring firms to further enhance their reputation. However, enhanced director reputation need not be influenced solely by increases in firm size, but also through the successful integration of these acquisitions. Thus, the relative prestige of the directorships held by directors with multiple directorships is important when considering their effectiveness in board monitoring and advisory functions.

### **III. Robustness**

In this section we attempt to isolate differences in performance or other firm outcomes and relate them to the difference between the reputation incentives of the board's independent directors. We create a matched sample based on firm size (market capitalization) and industry. Specifically, we match firms with boards that have a majority of independent directors for whom this directorship is highly ranked with a firm in the same industry that is closest in size and has a majority of independent directors for whom this directorship is low ranked. This approach addresses two potential concerns with our primary findings. First, by matching with similar firms we are reducing the concern that other endogenously determined firm characteristics are causing the prior results. Second, the matched sample further addresses the concern that the prior results are driven by firm size, which was partially addressed by the analysis in the prior tables that assess whether the subsample of large and small firms yield different conclusions.

Table XII reports the results of each of the previous pieces of firm level analysis using the matched sample. We report the matched sample results for the primary model of each table and for brevity we do not report the control variables, which are the same as in the previous tables. Model 1 reports the results for the delisting likelihood and finds results similar to the primary findings using the full sample. Model 2 reports results on bond covenant violations. Here the coefficient for firms with boards that have a majority of independent directors for whom this directorship is highly ranked is negative, but it is not significantly different from zero in the matched sample. However, the coefficient for firms with boards that have a majority of independent directors for whom this directorship is ranked low is positive and significant. Thus, within the matched sample the association between the likelihood of a bond covenant violation and measures of the reputation incentives of the board appears to be driven more by boards with weaker reputation incentives.

Model 3 reports findings on earnings management, which are consistent with the primary results for the full sample, that boards with stronger reputation incentives are associated with a lower likelihood of earnings management. Model 4, reports no significant relation between measures of board reputation incentives, specifically for the audit committee members, and the likelihood of subsequent earnings restatements. Models 5 and 6 report results consistent with the primary findings on the likelihood of the firm being sued and reducing dividends respectively, two outcomes that can negatively impact a director's reputation. Specifically, we again find that firms whose boards have more independent directors with strong reputation incentives are associated with a lower likelihood of either negative outcome.

Models 7 and 8 report the matched sample results for CEO compensation analysis. In both models, the results are again consistent with the primary findings, that boards with higher representation by independent directors with greater reputational incentives are associated with larger CEO total compensation and at the same time with greater CEO pay for performance sensitivity.

Finally, models 9 and 10 report results for the E-Index and merger and acquisition activity. Model 9 reveals that firms with higher representation by directors with greater reputational incentives are associated with more anti-takeover provision, consistent with their having stronger incentives to protect

their most valuable directorships. Model 10 reveals that firms with directors with higher reputational incentives are associated with fewer acquisition attempts in a given year relative to the matched control firms. Again, this result is consistent with our primary findings and that while firms with a larger fraction of directors on the boards with higher reputation incentives having greater incentives to expand the size of firms representing their most valuable directorships, these firms actually engage in fewer acquisitions compared to a matched sample of control firms that also are acquirers.

In summary, the results in Table XII confirm our primary findings. With the exception of the restatement analysis, all of the primary results are supported using a matched sample approach. In some cases the results are slightly stronger and others slightly weaker. The confirmation of the primary results using the matched sample reduces the concerns that our major findings are being driven by endogeneity or by firm size and it further underscores the importance of considering director reputation incentives.

#### **IV. Conclusions**

Reputation concerns create strong incentives for independent directors to be viewed externally as capable monitors as well as to retain their most valuable directorships. We extend this literature significantly by considering differing reputation incentives that arise when directors hold multiple directorships.

Firms with a board comprised of a greater portion of independent directors for whom this directorship represents one of their most prestigious are associated with firm actions known to reward directors and negatively associated with those known to be costly for directors. Specifically, they are associated with a lower likelihood of covenant violations, earnings management, earnings restatements, shareholder class action suits and dividend reductions.

We also find evidence that these directors are motivated to retain these valuable directorships and thus, they have incentive to not upset the CEO who can exert substantial influence over renominations of directors. Firms with boards comprised of a greater portion of directors for whom this is one of their most prestigious directorships, total CEO compensation is higher in these firms, though it is comprised of a

greater portion of equity based pay. Thus, shareholders can be pleased by the higher CEO pay for performance sensitivity and the CEO can be pleased with the higher expected compensation level. However, one concern with the greater use of option based pay and an incentive to please the CEO is the temptation to backdate the option grants in a manner that artificially increases the CEO compensation. However, we find that boards with a greater proportion of independent director with greater reputation incentives are less likely to issue their CEO “lucky” option grants. This suggests the incentives to please the CEO do not dominate the incentives to be viewed as a reputable monitor by the labor market. Finally, there is evidence that these boards also are more negatively disposed to takeovers and are more likely to support CEO empire building, which both protects and increase the relative prestige of their directorship and reinforces their reputation benefits from being on the board.

In summary, these findings underscore the importance of considering individual reputation concerns. Directors tend to concentrate their efforts in the directorships where they stand to gain the most reputational benefit. Likewise, shareholders of firms which are director’s most important directorships stand to benefit from the greater effort these skilled directors have to offer. Although directors have incentive to retain their more prestigious directorships and expand these firms’ empires, the main findings in this study indicate that director reputational concerns dominate directorship retention concerns. In conclusion, the findings of this study document reputation based incentives are import for researchers, firms and policy makers to understand.

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## Appendix: Variable Definitions<sup>3</sup>

Variable	Definition and Data Source
<i>Director Characteristics</i>	
High Ranked Directorship	Indicator variable: equals 1 if the directorship is 10% larger than the director's smallest directorship measured by the market capitalization of the firm. Source: Risk Metrics.
Low Ranked Directorship	Indicator variable: equals 1 if the directorship is 10% smaller than the director's largest directorship measured by the market capitalization of the firm. Source: Risk Metrics.
Highest Ranked Directorship	Indicator variable: equals 1 if the directorship is the director's largest directorship measured by the market capitalization of the firm. Source: Risk Metrics.
Lowest Ranked Directorship	Indicator variable: equals 1 if the directorship is the director's smallest directorship measured by the market capitalization of the firm. Source: Risk Metrics.
Sole Directorship	Indicator variable: equals 1 if the directorship is the director's only directorship. Source: Risk Metrics.
Number of Directorships	Number of additional directorship identified within the Risk Metrics data set. Source: Risk Metrics.
<i>Board Characteristics</i>	
Majority Independent	Indicator variable: equals 1 if the percent independent outside directors is greater than 50% and is 0 otherwise. Source: Risk Metrics.
Percent Independent Low Ranked	Percentage of board members who are independent outside directors and this directorship is 10% smaller than their largest directorship measured by the market capitalization of the firm. Source: Risk Metrics
Percent Independent High Ranked	Percentage of board members who are independent outside directors and this directorship is 10% larger than their smallest directorship measured by the market capitalization of the firm. Source: Risk Metrics.
Majority Independent Low	Indicator variable: equals 1 if the percent of independent outside directors for whom this is directorship is 10% smaller than their largest directorship by market capitalization of the firm is greater than 50% and is 0 otherwise. Source: Risk Metrics.
Majority Independent High	Indicator variable: equals 1 if the percent of independent outside directors for whom this is directorship is 10% larger than their smallest directorship by market capitalization of the firm is greater than 50% and is 0 otherwise. Source: Risk Metrics.
Majority Independent Lowest	Indicator variable: equals 1 if the percent of independent outside directors for whom this is directorship is their smallest directorship by market capitalization of the firm is greater than 50% and is 0 otherwise. Source: Risk Metrics.

<sup>3</sup> All dataxx variables refer to the corresponding variable identifiers in the COMPUSTAT annual data base

Majority Independent Highest	Indicator variable: equals 1 if the percent of independent outside directors for whom this is directorship is their largest directorship by market capitalization of the firm is greater than 50% and is 0 otherwise. Source: Risk Metrics.
Percent Independent (Sole)	Percentage of board members for whom this directorship is their only directorship. Source: Risk Metrics.
Majority Independent (Sole)	Indicator variable: equals 1 if for more than 50% of the independent outside directors, this directorship is their only directorship. Source: Risk Metrics.
Majority Independent High (Audit)	Indicator variable: equals 1 if the percent of directors on the audit committee are independent and this is directorship is 10% larger than their smallest directorship by market capitalization of the firm is greater than 50% and is 0 otherwise. Source: Risk Metrics.
Majority Independent Highest (Audit)	Indicator variable: equals 1 if the percent of directors on the audit committee are independent and this is directorship their largest directorship by market capitalization of the firm is greater than 50% and is 0 otherwise. Source: Risk Metrics.
Majority Independent Lowest (Audit)	Indicator variable: equals 1 if the percent of directors on the audit committee are independent and this is directorship their smallest directorship by market capitalization of the firm is greater than 50% and is 0 otherwise. Source: Risk Metrics.
Outside Director Ownership	Percent of common shares outstanding held by all outside directors of the board at year-end, including stock options. Source: Risk Metrics.
Board Size	Number of directors on the board at year-end. Source: Risk Metrics.
Percent Independent	Percentage of the board who are independent outside directors. Source: Risk Metrics.
Busy Board	Indicator variable: equals 1 if a majority of the independent outside directors each hold 3 or more additional directorships. Source: Risk Metrics.
Founder Present	Indicator variable: equals 1 if one of the directors is the founder. Source: Hand collected.
Founder Family Member Present	Indicator variable: equals 1 if one of the directors is a member of the founding family. Source: Hand collected.
<i><u>CEO Characteristics</u></i>	
Ln (CEO Tenure)	Natural logarithm of the number of years the CEO has served on the board. Source: Risk Metrics
CEO Ownership	Percent of common shares outstanding held by the CEO at year-end, including stock options. Source: Risk Metrics.
CEO Chair	Indicator variable: equals 1 if the CEO is also the chairperson and is 0 otherwise. Source: Risk Metrics
CEO Total Compensation	Consists of salary, bonus, the Black-Scholes value of option grants, restricted stock grants, long-term incentive payments and other annual compensation (ExecuComp data item tdc1) (\$1,000). Source: ExecuComp

CEO % Equity	Percentage of total CEO compensation that is equity compensation, stock options and restricted stock grants, received by the CEO in the fiscal year (\$1,000). Source: ExecuComp.
CEO Option Compensation	Indicator variable: equals 1 if the CEO received any option based compensation during the fiscal year. Source: ExecuComp.
Forced CEO Departure	Indicator variable: equals 1 if the CEO was forced out during the fiscal year. Source: Hand collected from press releases.
<i><u>Firm Characteristics</u></i>	
ROA	(EBITDA) / Beginning-year Total Assets: data13/lag(data6). Source: Compustat.
Operating Cash Flow (CF)	(Annual Cash Flow from Operations) / Beginning-year Total Assets: data308/lag(data6). Source: Compustat.
Tobin's Q	(Total Assets – Book Equity + Market Value of Equity) / Total Assets: (data6 – data60 + data199*data25)/data6 : All year end values. Source: Compustat.
Annual Stock Return	Twelve month monthly compounded return during the fiscal year. Source: CRSP.
R&D/Assets	R&D/Assets: Max(year-end R&D expense,0) / year-end Total Assets: max(data46,0)/data6 Source: Compustat database.
Capital Expenditure /Sales	Capital Expense/Sales: Year-end Capital Expenditure/ year-end Total Assets: (data128/data12) Source: Compustat database.
Depreciation Expense/Sales	Year-end Depreciation Expense/ year-end Total Sales: (data14/data12) Source: Compustat database.
Sales	Year-end sales, (data12) Source: Compustat database.
Assets	Year-end assets, (data6). Source: Compustat database.
Market Capitalization	Market value of equity at year end, (data25xdata199). Source: Compustat database.
Volatility	Standard deviation of most recent 3 years of monthly stock returns from CRSP.
Delisting	Indicator variable: equals 1 if the firm is delisted due to the exchange dropping the firm. Delistings due to mergers are not included. Source: CRSP.
Covenant Violation	Indicator variable: equals 1 if the firm violated a covenant during the year. Source: Nini, Smith and Sufi (2011).
New Covenant Violation	Indicator variable: equals 1 if the firm violated a covenant during the year and there was not a violation in the prior four quarters. Source: Nini, Smith and Sufi (2011).
Total Accruals	Defined as change in current assets minus change in cash and short term investments minus change in current liabilities plus change in debt in current liabilities minus depreciation all scaled by beginning year total assets. $((\Delta data4 - \Delta data1 - \Delta data5 + \Delta data34 - \Delta data14)/data6_{(t-1)})$ . Source: Compustat database.
Discretionary Accruals Jones Model	The residual from the regression: Total Accruals = $B_0 + B_1(1/assets_{(t-1)}) + B_2\Delta sales + B_3(PPE)$ , where PPE is net increases in property plant and equipment and both $\Delta sales$ and PPE are scaled by lagged total assets.

Discretionary Accruals Modified Jones Model	The residual from the year-industry regressions: Total Accruals = $B_0 + B_1(1/assets_{(t-1)}) + B_2(\Delta sales - \Delta account\ receivables) + B_3(PPE)$ , where PPE is net increases property plant and equipment and both are scaled by lagged total assets.
Sued (Class Action Lawsuit)	Indicator variable: equals 1 if the firm is the target of a class action lawsuit. Source: Stanford Law School Securities Litigation database.
Industry Litigation Activity	Number of lawsuits filed in an Fama-French defined industry during the year, scaled by the number of firms in the industry.
Industry Relative Settlement Value	The total dollar amount of the settlements of all claims in the Fama French defined industry during the year, scaled by the market capitalization of all the firms in the industry.
Dividend Reduction	Indicator variable: equals 1 if the firm reduced its dividends from the prior year by 25% or more. Source: Compustat database.
Institutional Holdings	Percent ownership from institutions. Source: Risk Metrics and Thompson Financial.
Growth Rate of Assets	Growth rate in total assets from prior year to current year. Source: Compustat database.
Leverage	$(\text{Year-ending Long-term Debt plus Debt in Current Liabilities}) / \text{year-end Total Assets}$ : $((data9 + data34)/data6)$ . Source: Compustat database.
Ln (# of Business Segments)	Natural logarithm of the number of business segments listed in Compustat.
Firm Age	Number of years a firm is listed in CRSP.
Recent M&A	Indicator variable: equals 1 if the firm engaged in M&A activity within the current or previous year from the SDC M&A database.
GIM-Index	Number of anti-take over provision from the Risk Metrics governance database as in Gompers et al. (2003). We use the most recent G-Index for missing years, unless otherwise noted.
E-Index	A subset of the GIM-Index based on Bebchuk, Cohen and Ferrell (2009). It includes staggered board, poison pill, limits to amend bylaws, limits to amend charter, supermajority and golden parachutes.
Dual Class	The firm has at least two different share classes. Source: Andrew Metrick website.
Restatement	Indicator variable: equals 1 if the firm restate earnings for one of the quarters during the year. Source: Hennes, Leone and Miller (2008) data set.
Irregularity	Indicator variable: equals 1 if the restatement is classified as an intentional misstatement following the procedure in Hennes, Leone and Miller (2008).
Tangible Assets	Percentage of year-end total assets that are tangible: $(1 - data33/data6) * 100\%$ . Source: Compustat database.
% Cash Financed	Percentage of the deal financed with cash. Source: SDC M&A database.

Relative Deal Size	Deal value from SDC scaled by the market capitalization of the acquirer 10 days prior to the announcement. Source: SDC M&A database.
Unsolicited Bid	Indicator variable: equals 1 if the acquisition was a surprise to the target board and 0 otherwise. Source: SDC M&A database.
Diversifying Acquisition	Indicator variable: equals 1 if the target is in a different Fama-French industry from the acquirer and 0 otherwise.
Friendly Acquisition	Indicator variable: equals 1 if the acquisition is classified as Friendly in SDC and 0 otherwise. Source: SDC M&A database.
Public Target	Indicator variable: equals 1 if the target is a publicly traded company and 0 otherwise. Source: SDC M&A database.
Private Target	Indicator variable: equals 1 if the target is private and 0 otherwise. Source: SDC M&A database.
Subsidiary Target	Indicator variable: equals 1 if the target is a subsidiary and 0 otherwise. Source: SDC M&A database.
Stock Runup	Buy and hold return of the acquiring firm's stock from day -211 to -10 of the acquisition announcement date.
Post-SOX	Indicator variable: equals 1 if the observations occurs in fiscal year 2001 or later and is 0 otherwise.
Herfindahl Index	Calculated using all available firms for each of the SIC 2-digit industry definitions as $\sum_i(\text{data12i}/\text{data12ind})^2$ , where $i$ is the number of firms in the industry.

**Table I. Firm Level Descriptive Statistics**

This table reports means and medians for various firm-year level variables from fiscal years 1997 to 2006. Panel A reports results for the full sample and for the sub-sample excluding finance and utility firms. Panel B reports results for the three subsample of firms with a (1) majority of independent directors for whom this is a high ranked directorship, (2) majority of independent directors for whom this is a low ranked directorship and (3) majority of independent directors for whom this is their only directorship.

<i>Panel A</i> <i>Firm Characteristics</i>	All firms			Excluding finance and utility		
	N	Mean	Median	N	Mean	Median
Assets	15107	11847.00	1559.1	12077	5258.23	1112.3
Market Capitalization	15074	7163.44	1515.9	12047	7011.40	1326.9
Percent Outside Directors	15215	79.56	83.3	12166	78.94	82.8
Percent Independent Directors	15215	66.15	69.2	12166	65.39	66.7
Majority Independent Directors	15215	0.79	1.0	12166	0.77	1.0
Percent Independent Low Ranked	15215	14.28	11.1	12166	15.29	12.5
Majority of Independent Low	15215	0.15	0.0	12166	0.17	0.0
Majority of Independent Lowest Ranked	15215	0.09	0.0	12166	0.11	0.0
Percent Independent High Ranked	15215	12.70	7.1	12166	12.43	0.0
Majority of Independent High	15215	0.15	0.0	12166	0.15	0.0
Majority of Independent Highest	15215	0.08	0.0	12166	0.08	0.0
Percent Independent (Only): Sole directorship	15215	28.87	28.6	12166	27.36	27.3
Majority Independent (Only): Sole directorship	15215	0.45	0.0	12166	0.43	0.0
Busy board	15215	0.12	0.0	12166	0.13	0.0
ROA	14813	0.15	0.1	12022	0.17	0.2
Q	15071	2.13	1.5	12044	2.32	1.7

**Table I.** (continued)

<b>Panel B</b> <i>Firm Characteristics</i>	Majority of Independent High			Majority of Independent Low			Majority of Independent (Only): Solo		
	N	Mean	Median	N	Mean	Median	N	Mean	Median
Assets	2235	45653.73	8668.0	2222	7241.66	1403.9	6916	4537.74	1023.6
Market Capitalization	2235	27528.10	9591.8	2222	3329.01	1155.9	6910	2528.73	1010.3
Percent Outside Directors	2235	81.16	83.3	2222	79.90	83.3	6916	77.23	80.0
Percent Independent Directors	2235	65.30	70.0	2222	63.76	66.7	6916	62.44	64.3
Majority Independent Directors	2235	0.78	1.0	2222	0.75	1.0	6916	0.73	1.0
Busy board	2235	0.43	0.0	2222	0.34	0.0	6916	0.00	0.0
ROA	2212	0.17	0.2	2209	0.14	0.1	6775	0.15	0.1
Q	2235	2.64	1.8	2222	1.84	1.4	6907	2.01	1.4

**Table II. Exchange Initiated Delisting**

This table presents results from multivariate probit regression analysis of board representation based on the portion of independent directors for which this board represents their largest or smallest board and firm delisting. Delisting is defined as the exchange dropping the firm. Delisting due to mergers are not included. There are 150 delistings from fiscal years 1997 to 2006. The dependent variable is one if the firm is delisted due to an exchange-initiated delisting as indicated in the CRSP delisting codes. Percent Independent High (Low) Ranked is the percentage of independent directors for whom the firm of this board is a high (low) ranked firm (by market capitalization) relative to all the firms for which the individual also serves as director. Majority of Independent High (Low) is an indicator variable that equals one if for more than 50% of the outside directors this board seat is for a High (Low) ranked firm (by market capitalization) relative to the size of the firms of the other boards on which they sit as a director. All models include year fixed effects. *p*-values are in parentheses beneath the coefficients. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels respectively.

<i>Dependent Variable: Delisted (1/0)</i>	Model 1	Model 2	Model 3	Model 4	Model 5
	Probit Delisted (1/0)	Probit Delisted (1/0)	Probit Delisted (1/0)	Probit Delisted (1/0) Largest Firms	Probit Delisted (1/0) Smallest Firms
Percent Independent High Ranked	-0.018*** ( <i>&lt;.01</i> )		-0.023*** ( <i>&lt;.01</i> )	-0.011** ( <i>0.05</i> )	-0.019** ( <i>0.04</i> )
Percent Independent Low Ranked	0.005* ( <i>0.09</i> )		0.004 ( <i>0.2</i> )	0.001 ( <i>0.88</i> )	0.004 ( <i>0.2</i> )
Majority of Independent High		-0.792* ( <i>0.05</i> )			
Majority of Independent Low		0.179* ( <i>0.1</i> )			
Majority Independent (Sole)		0.192** ( <i>0.03</i> )			
Majority Independent	-0.156* ( <i>0.09</i> )	-0.134 ( <i>0.15</i> )	-0.012 ( <i>0.91</i> )	-0.32* ( <i>0.06</i> )	-0.117 ( <i>0.28</i> )
CEO Chair	0.054 ( <i>0.53</i> )	0.043 ( <i>0.61</i> )	0.062 ( <i>0.5</i> )	0.068 ( <i>0.75</i> )	0.047 ( <i>0.62</i> )
Ln(Board Size)	-0.192 ( <i>0.29</i> )	-0.201 ( <i>0.27</i> )	-0.148 ( <i>0.42</i> )	0.299 ( <i>0.43</i> )	-0.285 ( <i>0.17</i> )
Institutional Holdings	0.064** ( <i>0.02</i> )	0.065** ( <i>0.02</i> )	-0.006 ( <i>0.89</i> )	-0.098 ( <i>0.5</i> )	0.066** ( <i>0.03</i> )
Founder Family Member Present	-0.87*** ( <i>&lt;.01</i> )	-0.88*** ( <i>&lt;.01</i> )	-0.97*** ( <i>&lt;.01</i> )		-0.829** ( <i>0.01</i> )
GIM Index	-0.02 ( <i>0.24</i> )	-0.018 ( <i>0.28</i> )	-0.019 ( <i>0.27</i> )	-0.077** ( <i>0.03</i> )	-0.007 ( <i>0.69</i> )
Ln(Assets)	-0.52*** ( <i>&lt;.01</i> )	-0.578*** ( <i>&lt;.01</i> )	-0.5194** ( <i>0.01</i> )	0.544 ( <i>0.42</i> )	-1.515*** ( <i>&lt;.01</i> )
Ln(Assets) <sup>2</sup>	0.03** ( <i>0.02</i> )	0.0332*** ( <i>&lt;.01</i> )	0.03** ( <i>0.03</i> )	-0.0271 ( <i>0.48</i> )	0.113*** ( <i>&lt;.01</i> )
ROA	-1.74*** ( <i>&lt;.01</i> )	-1.794*** ( <i>&lt;.01</i> )	-1.6731*** ( <i>&lt;.01</i> )	-1.285*** ( <i>&lt;.01</i> )	-1.7002*** ( <i>&lt;.01</i> )
Leverage	1.21*** ( <i>&lt;.01</i> )	1.254*** ( <i>&lt;.01</i> )	1.173*** ( <i>&lt;.01</i> )	0.6344 ( <i>0.16</i> )	1.284*** ( <i>&lt;.01</i> )
Q	-0.29*** ( <i>&lt;.01</i> )	-0.318*** ( <i>&lt;.01</i> )	-0.234** ( <i>0.02</i> )	-0.039 ( <i>0.71</i> )	-0.381*** ( <i>&lt;.01</i> )
Number of Observations	10774	10774	8717	4946	5232
Fixed Effect	none	none	Industry/Year	none	none
Pseudo-R <sup>2</sup>	19.50%	19.50%	26.01%	14.78%	16.28%

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

**Table III. Covenant Violations**

This table presents results from univariate analysis of board representation based on the portion of independent directors for which this board represents their largest or smallest board. The data are from fiscal years 1997 to 2006 and exclude finance and utility firms. Covenant violations are from Nini, Smith and Sufi (2011). There are 947 covenant violations and 623 new covenant violations. New covenant violations are ones where there was not violation in the prior four quarters. Lowest (Highest) for Majority of Independent is an indicator variable that equals one if for more than 50% of the independent directors this board seat is for the smallest (highest) ranked firm (by market capitalization) relative to the size of the firms of the other boards on which they sit as a director. Panel D presents results from multivariate probit regression analysis of occurrences of firm covenant violations. Percent Independent High (Low) Ranked is the percentage of independent directors for whom the firm of this board is a high (low) ranked firm (by market capitalization) relative to all the firms for which the individual also serves as director. All models include year fixed effects. Standard errors are robust, clustered by firm and  $p$ -values are in parentheses beneath the coefficients. \*, \*\*, \*\*\* indicate significance at the 10%, 5% and 1% levels respectively.

<b>Panel A:</b>			
	N	Mean Annual Violation	Mean New Annual Violation
Full Sample	11985	7.71%	5.08%
Majority of Independent Highest	925	3.57%	2.38%
Majority of Independent Lowest	1314	12.33%	7.23%
Difference		-8.76%***	-4.85%***
$p$ - value		(.01)	(.01)

<b>Panel B:</b>			
	N	Mean Annual Violation	Mean New Annual Violation
Small firms (Below Median Market Cap)	5991	11.27%	7.11%
Majority of Independent Highest	84	5.95%	3.57%
Majority of Independent Lowest	957	15.26%	8.88%
Difference		-9.3%**	-5.31%*
$p$ - value		(.02)	(.09)

<b>Panel C:</b>			
	N	Mean Annual Violation	Mean New Annual Violation
Large firms (Above Median Market Cap)	5994	4.15%	3.05%
Majority of Independent Highest	841	3.33%	2.26%
Majority of Independent Lowest	357	4.48%	2.80%
Difference		-1.15%	-0.54%
$p$ - value		(.33)	(.58)

**Table III. Covenant Violations (continued)**

<i>Panel D: Multivariate</i>	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
<i>Dependent Variable:</i>	Probit Covenant Violation (1/0)	Probit New Covenant Violation (1/0)	Probit Covenant Violation (1/0)	Probit Covenant Violation (1/0)	Probit Covenant Violation (1/0) Largest Firms	Probit Covenant Violation (1/0) Smallest Firms
Percent Independent High Ranked	-0.007*** ( <i>&lt;.01</i> )	-0.005*** ( <i>&lt;.01</i> )				
Percent Independent Low Ranked	0.003* ( <i>0.05</i> )	0.003* ( <i>0.06</i> )				
Majority of Independent High			-0.191** ( <i>0.02</i> )	-0.186** ( <i>0.02</i> )	0.069 ( <i>0.48</i> )	-0.708*** ( <i>&lt;.01</i> )
Majority of Independent Low			0.152** ( <i>0.01</i> )	0.16** ( <i>0.01</i> )	0.131 ( <i>0.21</i> )	0.134* ( <i>0.08</i> )
Majority Independent (Sole)				0.02 ( <i>0.71</i> )	0.108 ( <i>0.22</i> )	-0.049 ( <i>0.48</i> )
Majority Independent	0.041 ( <i>0.54</i> )	0.024 ( <i>0.71</i> )	0.028 ( <i>0.66</i> )	0.031 ( <i>0.63</i> )	-0.09 ( <i>0.46</i> )	0.077 ( <i>0.29</i> )
CEO Chair	0.029 ( <i>0.57</i> )	0.074 ( <i>0.12</i> )	0.025 ( <i>0.62</i> )	0.025 ( <i>0.62</i> )	0.006 ( <i>0.95</i> )	0.055 ( <i>0.38</i> )
Ln(Board Size)	0.063 ( <i>0.59</i> )	0.066 ( <i>0.54</i> )	0.065 ( <i>0.58</i> )	0.067 ( <i>0.57</i> )	0.165 ( <i>0.39</i> )	0.055 ( <i>0.71</i> )
Institutional Holdings	-0.001 ( <i>0.6</i> )	0.001 ( <i>0.51</i> )	-0.0004 ( <i>0.67</i> )	-0.0004 ( <i>0.68</i> )	0.001 ( <i>0.66</i> )	-0.001 ( <i>0.52</i> )
Founder Family Member Present	-0.181* ( <i>0.05</i> )	-0.058 ( <i>0.46</i> )	-0.177* ( <i>0.06</i> )	-0.177* ( <i>0.06</i> )	-0.195 ( <i>0.15</i> )	-0.164 ( <i>0.17</i> )
GIM Index	-0.027*** ( <i>&lt;.01</i> )	-0.024*** ( <i>&lt;.01</i> )	-0.028*** ( <i>&lt;.01</i> )	-0.027*** ( <i>&lt;.01</i> )	-0.029* ( <i>0.07</i> )	-0.026* ( <i>0.06</i> )
Ln(Assets)	-0.0894*** ( <i>&lt;.01</i> )	-0.07*** ( <i>&lt;.01</i> )	-0.116*** ( <i>&lt;.01</i> )	-0.114*** ( <i>&lt;.010</i> )	-0.009 ( <i>0.85</i> )	-0.021 ( <i>0.67</i> )
ROA	-0.886*** ( <i>&lt;.01</i> )	-0.465** ( <i>0.01</i> )	-0.918*** ( <i>&lt;.01</i> )	-0.919*** ( <i>&lt;.01</i> )	-0.503 ( <i>0.16</i> )	-1.062*** ( <i>&lt;.01</i> )
Leverage	1.143*** ( <i>&lt;.01</i> )	0.78*** ( <i>&lt;.01</i> )	1.173*** ( <i>&lt;.01</i> )	1.172*** ( <i>&lt;.01</i> )	1.102*** ( <i>&lt;.01</i> )	0.976*** ( <i>&lt;.01</i> )
Growth Rate of Assets	-0.001* ( <i>0.1</i> )	-0.0002 ( <i>0.7</i> )	-0.001* ( <i>0.09</i> )	-0.001* ( <i>0.09</i> )	-0.001 ( <i>0.15</i> )	0.0007 ( <i>0.45</i> )
Volatility	1.552*** ( <i>&lt;.01</i> )	1.294** ( <i>0.01</i> )	1.541** ( <i>0.01</i> )	1.544** ( <i>0.01</i> )	2.787*** ( <i>&lt;.01</i> )	1.422** ( <i>0.04</i> )
Number of Business Segments	0.034** ( <i>0.04</i> )	0.02 ( <i>0.19</i> )	0.034** ( <i>0.04</i> )	0.034** ( <i>0.04</i> )	-0.024 ( <i>0.3</i> )	0.064*** ( <i>&lt;.01</i> )
Number of Observations	10494	10494	10494	10494	5424	5070
Pseudo-R <sup>2</sup>	7.82%	4.17%	7.70%	7.70%	5.93%	6.21%

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

**Table IV. Earnings Management**

This table presents results from multivariate regression analysis of the absolute value of firm discretionary accruals as a measure of earnings management on the portion of independent directors for which this board represents their largest or smallest board. The data are from fiscal years 1997 to 2006. Percent Independent High (Low) Ranked is the percentage of independent directors for whom the firm of this board is a high (low) ranked firm (by market capitalization) relative to all the firms for which the individual also serves as director. Majority of Independent High (Low) is an indicator variable that equals one if for more than 50% of the outside directors this board seat is for a High (Low) ranked firm (by market capitalization) relative to the size of the firms of the other boards on which they sit as a director. Standard errors are robust, clustered by firm and *p*-values are in parentheses beneath the coefficients. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels respectively.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
<i>Dependent Variable:</i> <i> Discretionary Accruals (DA) </i>	DA	DA	DA	DA	Modified Jones Model  DA	DA  Largest Firms	DA  Smallest Firms
Percent Independent High Ranked	-0.0015*** ( <i>&lt;.01</i> )	-0.0016*** ( <i>&lt;.01</i> )					
Percent Independent Low Ranked	-0.0005 ( <i>0.1</i> )	-0.0006* ( <i>0.05</i> )					
Percent Independent (Sole)		-0.0003 ( <i>0.13</i> )					
Majority of Independent High			-0.054*** ( <i>&lt;.01</i> )	-0.054*** ( <i>&lt;.01</i> )	-0.06*** ( <i>&lt;.01</i> )	-0.061*** ( <i>&lt;.01</i> )	-0.007 ( <i>0.75</i> )
Majority of Independent Low			-0.014 ( <i>0.22</i> )	-0.015 ( <i>0.19</i> )	-0.012 ( <i>0.37</i> )	-0.013 ( <i>0.49</i> )	-0.013 ( <i>0.31</i> )
Majority of Independent (Sole)				-0.003 ( <i>0.740</i> )			
Majority Independent	0.004 ( <i>0.67</i> )	0.008 ( <i>0.4</i> )	-0.013 ( <i>0.18</i> )	-0.013 ( <i>0.15</i> )	-0.009 ( <i>0.37</i> )	-0.029* ( <i>0.07</i> )	0.004 ( <i>0.72</i> )
CEO Chair	-0.0048 ( <i>0.59</i> )	-0.004 ( <i>0.67</i> )	-0.009 ( <i>0.34</i> )	-0.008 ( <i>0.34</i> )	-0.005 ( <i>0.65</i> )	-0.012 ( <i>0.39</i> )	-0.008 ( <i>0.380</i> )
Ln(Board Size)	-0.102*** ( <i>&lt;.01</i> )	-0.102*** ( <i>&lt;.01</i> )	-0.109*** ( <i>&lt;.01</i> )	-0.11*** ( <i>&lt;.01</i> )	-0.131*** ( <i>&lt;.01</i> )	-0.1531*** ( <i>&lt;.01</i> )	-0.059*** ( <i>&lt;.01</i> )
Institutional Holdings	-0.019*** ( <i>&lt;.01</i> )	-0.019*** ( <i>&lt;.01</i> )	-0.02*** ( <i>&lt;.01</i> )	-0.02*** ( <i>&lt;.01</i> )	-0.022*** ( <i>&lt;.01</i> )	-0.028* ( <i>0.08</i> )	-0.018*** ( <i>&lt;.01</i> )
Ln(Assets)	-0.15*** ( <i>&lt;.01</i> )	-0.152*** ( <i>&lt;.01</i> )	-0.16*** ( <i>&lt;.01</i> )	-0.158*** ( <i>&lt;.01</i> )	-0.167*** ( <i>&lt;.01</i> )	-0.329*** ( <i>&lt;.01</i> )	-0.108* ( <i>0.08</i> )
Ln(Assets) <sup>2</sup>	0.012*** ( <i>&lt;.01</i> )	0.0122*** ( <i>&lt;.01</i> )	0.012*** ( <i>&lt;.01</i> )	0.012*** ( <i>&lt;.01</i> )	0.0133*** ( <i>&lt;.01</i> )	0.022*** ( <i>&lt;.01</i> )	0.009* ( <i>0.07</i> )
Leverage	0.093*** ( <i>&lt;.01</i> )	0.094*** ( <i>&lt;.01</i> )	0.096*** ( <i>&lt;.01</i> )	0.097*** ( <i>&lt;.01</i> )	0.078** ( <i>0.02</i> )	0.205*** ( <i>&lt;.01</i> )	0.02 ( <i>0.43</i> )
Ln(# Business Segments)	0.016** ( <i>0.04</i> )	0.016** ( <i>0.04</i> )	0.016** ( <i>0.05</i> )	0.015** ( <i>0.05</i> )	0.015* ( <i>0.09</i> )	0.024** ( <i>0.03</i> )	0.009 ( <i>0.35</i> )
ROA <sub>(t-1)</sub>	-0.0002** ( <i>0.02</i> )	-0.0002** ( <i>0.02</i> )	-0.0002** ( <i>0.04</i> )	-0.0002** ( <i>0.04</i> )	-0.0002 ( <i>0.12</i> )	-0.0001** ( <i>0.05</i> )	-0.0074 ( <i>0.52</i> )
Herfindahl Index	0.00001 ( <i>0.24</i> )	0.00001 ( <i>0.24</i> )	0.00001 ( <i>0.23</i> )	0.00001 ( <i>0.23</i> )	0.00001 ( <i>0.48</i> )	0.000014 ( <i>0.38</i> )	0.00001 ( <i>0.31</i> )
Number of Observations	12354	12354	12354	12354	12354	6207	6147
R <sup>2</sup>	4.92%	4.94%	4.72%	4.72%	4.54%	7.43%	1.54%

### **Table V. Earnings Restatements**

This table reports results of an analysis of the likelihood of firms restating earnings. There are 455 earnings restatements firm-years within the sample. The dependent variable in models 1 and 2 equals one if the firm subsequently restated earnings in that fiscal year and zero otherwise. The dependent variable in models 3 through 5 equals one if the restatement was an irregularity and zero otherwise. An accounting irregularity is defined as an intentional misstatement (Hennes, Leone, and Miller (2008)). There are 127 firm-years with accounting irregularities within the sample. Majority Independent High (Audit com.) is one if a majority of the audit committee consists of members who are independent outside directors for whom the firm of this board is the higher (lower) ranked firm (by market capitalization) by 10% of the lowest (highest) ranked firm for which the individual also serves as director. Majority Independent Highest (Lowest) (Audit com.) is one if a majority of the audit committee consists of members who are independent outside directors for whom the firm of this board is the highest (lowest) ranked firm (by market capitalization) of all the firms for which the individual also serves as director. High (Low) for Majority of Independent Outsiders is an indicator variable that equals one if for more than 50% of the independent directors this board seat is a high (low) ranked firm (by market capitalization) relative to the size of the firms of the other boards on which they sit as a director. Standard errors are robust, clustered by firm and *p*-values are in parentheses beneath the coefficients. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels respectively.

**Table V. (continued)**

	Model 1	Model 2	Model 3	Model 4	Model 5
	Probit	Probit	Probit	Probit	Probit
<i>Dependent Variable: Restatement or Irregularity</i>	Restatement	Restatement	Irregularity	Irregularity	Irregularity
	(1/0)	(1/0)	(1/0)	(1/0)	(1/0)
Majority of Independent High Ranked (Audit Com.)	-0.763** (0.04)				-1.14* (0.06)
Majority of Independent High Ranked (Audit Com.) X Ln(Sales)	0.066 (0.12)				0.111 (0.1)
Majority of Independent Highest (Audit Com.)		-1.001*** ( <i>&lt;.01</i> )	-0.973* (0.07)		
Majority of Independent Highest (Audit Com.) X Ln(Sales)		0.09** (0.04)	0.112* (0.06)		
Majority of Independent Lowest (Audit Com.)				-0.418 (0.59)	
Majority of Independent Lowest (Audit Com.) X Ln(Sales)				0.023 (0.81)	
Majority of Independent High					0.098 (0.88)
Majority of Independent High X Ln(Sales)					-0.002 (0.98)
Majority of Independent Low					-0.278 (0.6)
Majority of Independent Low X Ln(Sales)					0.028 (0.68)
Majority Independent (Sole)					-0.189 (0.69)
Majority Independent (Sole) X Ln(Sales)					0.021 (0.75)
Ln(Sales)	0.099*** ( <i>&lt;.01</i> )	0.096*** ( <i>&lt;.01</i> )	0.121*** ( <i>&lt;.010</i> )	0.13320*** ( <i>&lt;.01</i> )	0.109** (0.03)
Majority Independent	0.141** (0.03)	0.137** (0.04)	0.145 (0.15)	0.162 (0.11)	0.152 (0.11)
CEO Chair	-0.012 (0.81)	-0.017 (0.74)	-0.017 (0.84)	-0.024 (0.78)	-0.023 (0.78)
Ln(Board Size)	-0.316** (0.01)	-0.3260*** ( <i>&lt;.01</i> )	-0.5640*** ( <i>&lt;.01</i> )	-0.563*** ( <i>&lt;.01</i> )	-0.569*** ( <i>&lt;.01</i> )
Institutional Holdings	-0.076* (0.07)	-0.0747* (0.07)	-0.116 (0.15)	-0.113 (0.16)	-0.116 (0.15)
Outside Director Ownership	-0.00002 (1)	0.00001 (1)	-0.00006 (0.99)	0.0003 (0.94)	0.0002 (0.96)
Founder Family Member Present	-0.12* (0.09)	-0.124* (0.08)	-0.222* (0.08)	-0.234* (0.06)	-0.229* (0.07)
Operating Cash Flow / Assets	-0.9*** ( <i>&lt;.01</i> )	-0.8991*** ( <i>&lt;.01</i> )	-1.0953*** ( <i>&lt;.01</i> )	-1.1225*** ( <i>&lt;.01</i> )	-1.103*** ( <i>&lt;.01</i> )
Tobin's Q	0.01 (0.36)	0.013 (0.37)	-0.084** (0.04)	-0.084** (0.04)	-0.0844** (0.05)
Ln(Firm Age)	0.02 (0.49)	0.017 (0.52)	-0.0264 (0.49)	-0.0279 (0.46)	-0.026 (0.5)
Post-Sox	0.42*** ( <i>&lt;.01</i> )	0.42*** ( <i>&lt;.01</i> )	0.092 (0.34)	0.099 (0.3)	0.0977 (0.3)
Number of Observations	11207	11207	11207	11207	11207
Fixed Effect	none	none	none	Year	Year
Psuedo-R <sup>2</sup>	5.24%	5.29%	5.69%	5.77%	5.86%

**Table V. (continued)**

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**F Test:**

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Majority Independent High (Audit) + Majority Independent High (Audit) X Ln(Sales) =0	-0.6967**		-1.0297**
	(0.03)	(	(0.05)
Majority Independent Highest (Audit) + Majority Independent Highest (Audit) X Ln(Sales) =0	-0.9109***	-0.8608*	
	(<.01)	(0.08)	
Majority Independent Lowest (Audit) + Majority Independent Lowest (Audit) X Ln(Sales) =0			-0.3946
			(0.56)

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**Table VI. Shareholder Class Action Lawsuits**

This table presents results from multivariate regression analysis of board representation based on the portion of independent directors for which this board represents their largest or smallest board and the propensity of being sued. The data are from fiscal years 1997 to 2006. There are 376 class action lawsuits for the sample excluding financial and utility firms. Percent Independent High (Low) Ranked is the percentage of independent directors for whom the firm of this board is a high (low) ranked firm (by market capitalization) relative to all the firms for which the individual also serves as director. Majority of Independent High (Low) is an indicator variable that equals one if for more than 50% of the outside directors this board seat is for a High (Low) ranked firm (by market capitalization) relative to the size of the firms of the other boards on which they sit as a director. All models include year fixed effects. Standard errors are robust, clustered by firm and *p*-values are in parentheses beneath the coefficients. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels respectively.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
<i>Dependent Variable:</i>	Probit Sued (1/0)	Probit Sued (1/0)	Probit Sued (1/0)	Poisson #Sued/Year	Probit Sued (1/0) Largest Firms	Sued (1/0) Smallest Firms
Percent Independent High Ranked	-0.0034* (0.07)					
Percent Independent Low Ranked	-0.001 (0.61)					
Majority of Independent High		-0.1428** (0.05)	-0.124* (0.1)	-0.323* (0.08)	-0.217*** (<.01)	0.08 (0.7)
Majority of Independent Low		-0.056 (0.45)	-0.032 (0.69)	0.064 (0.790)	-0.029 (0.79)	-0.042 (0.75)
Majority of Independent (Sole)			0.055 (0.38)	0.125 (0.4)	0.036 (0.67)	0.089 (0.37)
Majority Independent	0.0891 (0.21)	0.0449 (0.5)	0.05 (0.46)	0.082 (0.64)	0.154* (0.08)	-0.084 (0.42)
CEO Chair	-0.021 (0.7)	-0.027 (0.61)	-0.026 (0.63)	-0.028 (0.83)	0.009 (0.9)	-0.071 (0.39)
CEO Board Tenure	-0.0078** (0.02)	-0.007** (0.02)	-0.008** (0.02)	-0.0162** (0.04)	-0.0004 (0.93)	-0.0197*** (<.01)
Ln(Board Size)	-0.294*** (<.01)	-0.309*** (<.01)	-0.302*** (<.01)	-1.074*** (<.01)	-0.14 (0.33)	-0.575*** (<.01)
Institutional Holdings	-0.146* (0.05)	-0.15** (0.05)	-0.151** (0.05)	-0.366** (0.01)	-0.047 (0.63)	-0.12 (0.17)
Ln(Market Capitalization)	0.1571*** (<.01)	0.1525*** (<.01)	0.1552*** (<.01)	0.3639*** (<.01)	0.185*** (<.01)	0.1613** (0.01)
ROA	-0.1156* (0.08)	-0.1135* (0.08)	-0.1154* (0.08)	-0.1162 (0.12)	-0.144** (0.02)	-0.0502 (0.76)
Growth Rate of Assets	0.0005** (0.04)	0.0005** (0.03)	0.0005** (0.03)	0.0003** (0.02)	0.0004* (0.05)	0.001** (0.01)
Industry Litigation Activity	64.39*** (<.01)	64.45*** (<.01)	64.62*** (<.01)	65.04*** (<.01)	93.45*** (<.01)	43.09*** (<.01)
Industry Relative Settlement Value	88.71*** (<.01)	89.83*** (<.01)	89.42*** (<.01)	229.32*** (<.01)	109.48*** (<.01)	68.69* (0.07)
Number of Observations	12006	12006	12006	12006	6005	6001
Pseudo-R <sup>2</sup> / Prob> $\chi^2$	13.46%	13.49%	13.51%	0.00%	16.60%	10.37%

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

**Table VII. Dividend Reductions**

This table presents results from multivariate regression analysis of board representation based on the portion of independent directors for which this board represents their largest or smallest board and the propensity of dividend paying firms to reduce its dividend by 10% or more. There are 642 instances of dividend reductions in the sample excluding financial and utility firms from fiscal years 1997 to 2006. Percent Independent High (Low) Ranked is the percentage of independent directors for whom the firm of this board is a high (low) ranked firm (by market capitalization) relative to all the firms for which the individual also serves as director. Majority of Independent High (Low) is an indicator variable that equals one if for more than 50% of the outside directors this board seat is for a High (Low) ranked firm (by market capitalization) relative to the size of the firms of the other boards on which they sit as a director. The dependent variable in models 1 through 3 equals one if the firm reduced its dividend by 10% or more from the prior year. The dependent variable in models 4 through 6 is one if the firm reduced its dividend by 25% or more from the prior year (493 instances). Standard errors are robust, clustered by firm and *p*-values are in parentheses beneath the coefficients. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels respectively.

<i>Dependent Variable: Dividend Reduction of <math>\geq 10\%</math> or <math>\geq 25\%</math></i>	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
	Probit	Probit	Probit	Probit	Probit	Probit
	Div. Red. (1/0)	Div. Red. (1/0)	Div. Red. (1/0)	Div. Red. (1/0)	Div. Red. (1/0) Largest Firms	Div. Red. (1/0) Smallest Firms
Percent Independent High Ranked	-0.005** (0.01)			-0.005** (0.03)	-0.005* (0.09)	-0.007 (0.16)
Percent Independent Low Ranked	0.004** (0.02)			0.003 (0.18)	0.001 (0.79)	0.004* (0.1)
Majority of Independent High		-0.119 (0.13)	-0.109 (0.16)			
Majority of Independent Low		0.155** (0.02)	0.17** (0.01)			
Majority Independent (Sole)			0.038 (0.550)			
Majority Independent	0.016 (0.83)	0.031 (0.67)	0.037 (0.61)	0.0054 (0.95)	-0.069 (0.57)	0.056 (0.6)
CEO Chair	-0.064 (0.31)	-0.063 (0.31)	-0.062 (0.33)	-0.06 (0.38)	0.063 (0.52)	-0.187* (0.06)
CEO Board Tenure	-0.0090*** ( $<.01$ )	-0.009*** ( $<.01$ )	-0.0090*** ( $<.01$ )	-0.0090*** ( $<.01$ )	-0.0160*** ( $<.01$ )	-0.004 (0.33)
Ln(Board Size)	-0.5425*** ( $<.01$ )	-0.5350*** ( $<.01$ )	-0.531*** ( $<.01$ )	-0.609*** ( $<.01$ )	-0.524** (0.02)	-0.6150*** ( $<.01$ )
Institutional Holdings	-0.001 (0.43)	-0.001 (0.45)	-0.001 (0.45)	-0.002 (0.15)	0 (0.84)	-0.004** (0.05)
Founder Family Member Present	-0.103 (0.21)	-0.101 (0.22)	-0.101 (0.22)	-0.2** (0.03)	-0.225* (0.08)	-0.1614 (0.22)
Ln(Assets)	-0.28* (0.09)	-0.299* (0.06)	-0.2939* (0.07)	-0.311* (0.08)	-0.593* (0.08)	-1.225** (0.02)
Ln(Assets) <sup>2</sup>	0.02 (0.11)	0.0158 (0.11)	0.016 (0.12)	0.018 (0.11)	0.032* (0.09)	0.09** (0.02)
Ind. Adj. Operational CF	-1.79*** ( $<.01$ )	-1.859*** ( $<.01$ )	-1.8582*** ( $<.01$ )	-1.695*** ( $<.01$ )	-1.2477** (0.02)	-2.115*** ( $<.01$ )
Leverage	1.03*** ( $<.01$ )	1.077*** ( $<.01$ )	1.073*** ( $<.01$ )	0.8947*** ( $<.01$ )	0.799*** ( $<.01$ )	1.015*** ( $<.01$ )
NYSE	-0.17* (0.06)	-0.156* (0.08)	-0.1533* (0.09)	-0.217** (0.02)	-0.4025** (0.02)	-0.147 (0.2)
Number of Observations	5192	5192	5192	5192	3041	2151
Pseudo-R <sup>2</sup>	8.49%	8.37%	8.38%	8.83%	6.96%	10.00%

### **Table VIII. CEO Compensation**

This table presents results from multivariate tobit regression analysis of board representation based on the portion of independent directors for which this board represents their largest or smallest board and percent of total CEO compensation that is equity based. The data are from fiscal years 1997 to 2006. Percent Independent High (Low) Ranked is the percentage of independent directors for whom the firm of this board is a high (low) ranked firm (by market capitalization) relative to all the firms for which the individual also serves as director. Majority of Independent High (Low) is an indicator variable that equals one if for more than 50% of the outside directors this board seat is for a High (Low) ranked firm (by market capitalization) relative to the size of the firms of the other boards on which they sit as a director. All models include year fixed effects. The dependent variable in model 5 is the natural logarithm of CEO total compensation in an OLS regression with industry and year fixed effects. *p*-values are in parentheses beneath the coefficients. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels respectively.

**Table VIII. (continued)**

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
<i>Dependent Variable:</i>	Tobit % Equity Comp	Tobit % Equity Comp	Tobit %Equity Comp Largest Firms	Tobit %Equity Comp Smallest Firms	OLS Ln(Total Compensation)	OLS Ln(Total Compensation)	Probit (1/0) Option Compensation
Percent Independent High Ranked	0.002*** ( <i>&lt;.01</i> )				0.005*** ( <i>&lt;.01</i> )		
Percent Independent Low Ranked	-0.001*** ( <i>&lt;.01</i> )				-0.002* ( <i>0.08</i> )		
Majority of Independent High		0.02* ( <i>0.08</i> )	0.022* ( <i>0.07</i> )	0.008 ( <i>0.79</i> )		0.022 ( <i>0.55</i> )	0.197*** ( <i>&lt;.01</i> )
Majority of Independent Low		-0.047*** ( <i>&lt;.01</i> )	-0.055*** ( <i>&lt;.01</i> )	0.016 ( <i>0.25</i> )		-0.1170*** ( <i>&lt;.01</i> )	-0.043 ( <i>0.43</i> )
Majority of Independent (Sole)		-0.056*** ( <i>&lt;.01</i> )				-0.133*** ( <i>&lt;.01</i> )	
Majority Independent	0.062*** ( <i>&lt;.01</i> )	0.064*** ( <i>&lt;.01</i> )	0.069*** ( <i>&lt;.01</i> )	0.069*** ( <i>&lt;.01</i> )	0.126*** ( <i>&lt;.01</i> )	0.13*** ( <i>&lt;.01</i> )	0.222*** ( <i>&lt;.01</i> )
Director ownership	-0.0001 ( <i>0.76</i> )	-0.0002 ( <i>0.66</i> )	-0.001 ( <i>0.26</i> )	0.001 ( <i>0.37</i> )	0.001 ( <i>0.46</i> )	0.001 ( <i>0.51</i> )	-0.002 ( <i>0.43</i> )
CEO Chair	0.024*** ( <i>&lt;.01</i> )	0.025*** ( <i>&lt;.01</i> )	0.003 ( <i>0.79</i> )	0.045*** ( <i>&lt;.01</i> )	0.201*** ( <i>&lt;.01</i> )	0.202*** ( <i>&lt;.01</i> )	0.161*** ( <i>&lt;.01</i> )
Ln(Board Size)	-0.0335* ( <i>0.06</i> )	-0.0402** ( <i>0.02</i> )	0.0062 ( <i>0.8</i> )	-0.0657** ( <i>0.01</i> )	0.0253 ( <i>0.79</i> )	0.0114 ( <i>0.9</i> )	0.237** ( <i>0.03</i> )
Institutional Holdings	0.001*** ( <i>&lt;.01</i> )	0.001*** ( <i>&lt;.01</i> )	0.00001 ( <i>0.96</i> )	0.002*** ( <i>&lt;.01</i> )	0.002** ( <i>0.03</i> )	0.002** ( <i>0.03</i> )	0.003** ( <i>0.01</i> )
Ln(Assets)	0.104*** ( <i>&lt;.01</i> )	0.0989*** ( <i>&lt;.01</i> )	0.1236*** ( <i>&lt;.01</i> )	0.0795 ( <i>0.22</i> )	0.6477*** ( <i>&lt;.01</i> )	0.6332*** ( <i>&lt;.01</i> )	0.1433 ( <i>0.27</i> )
Ln(Assets) <sup>2</sup>	-0.004*** ( <i>&lt;.01</i> )	-0.004*** ( <i>&lt;.01</i> )	-0.006*** ( <i>&lt;.01</i> )	-0.005 ( <i>0.33</i> )	-0.015** ( <i>0.01</i> )	-0.013** ( <i>0.03</i> )	-0.009 ( <i>0.32</i> )
Ln(Firm Age)	-0.0263*** ( <i>&lt;.01</i> )	-0.0244*** ( <i>&lt;.01</i> )	-0.0229*** ( <i>&lt;.01</i> )	-0.0231*** ( <i>&lt;.01</i> )	-0.0027 ( <i>0.91</i> )	0.0023 ( <i>0.92</i> )	0.0274 ( <i>0.38</i> )
Number of Business Segments	-0.01*** ( <i>&lt;.01</i> )	-0.01*** ( <i>&lt;.01</i> )	-0.004 ( <i>0.18</i> )	-0.014*** ( <i>&lt;.01</i> )	-0.009 ( <i>0.37</i> )	-0.01 ( <i>0.31</i> )	-0.002 ( <i>0.91</i> )
Capital Expenditure/Sales	0.045*** ( <i>&lt;.01</i> )	0.046*** ( <i>&lt;.01</i> )	-0.016 ( <i>0.7</i> )	0.045*** ( <i>&lt;.01</i> )	0.066 ( <i>0.13</i> )	0.065 ( <i>0.13</i> )	0.083 ( <i>0.27</i> )
Annul Stock Return	0.01* ( <i>0.1</i> )	0.012** ( <i>0.05</i> )	0.004 ( <i>0.57</i> )	-0.001 ( <i>0.95</i> )	0.13*** ( <i>&lt;.01</i> )	0.134*** ( <i>&lt;.01</i> )	0.064** ( <i>0.01</i> )
Annual Stock Return <sub>(t-1)</sub>	0.004 ( <i>0.46</i> )	0.005 ( <i>0.29</i> )	-0.002 ( <i>0.79</i> )	-0.0005 ( <i>0.94</i> )	0.079*** ( <i>&lt;.01</i> )	0.083*** ( <i>&lt;.01</i> )	-0.023 ( <i>0.25</i> )
ROA	0.075* ( <i>0.08</i> )	0.098** ( <i>0.02</i> )	0.145** ( <i>0.02</i> )	-0.009 ( <i>0.87</i> )	0.625*** ( <i>&lt;.01</i> )	0.681*** ( <i>&lt;.01</i> )	0.25 ( <i>0.17</i> )
ROA <sub>(t-1)</sub>	0.065* ( <i>0.1</i> )	0.078* ( <i>0.05</i> )	0.07 ( <i>0.22</i> )	0.002 ( <i>0.97</i> )	0.296* ( <i>0.05</i> )	0.326** ( <i>0.03</i> )	-0.031 ( <i>0.85</i> )
Volatility	0.799*** ( <i>&lt;.01</i> )	0.792*** ( <i>&lt;.01</i> )	0.932*** ( <i>&lt;.01</i> )	0.666*** ( <i>&lt;.01</i> )	1.308*** ( <i>&lt;.01</i> )	1.275*** ( <i>&lt;.01</i> )	0.758** ( <i>0.04</i> )
CEO Tenure	0.004*** ( <i>&lt;.01</i> )	0.004*** ( <i>&lt;.01</i> )	0.006*** ( <i>&lt;.01</i> )	0.002 ( <i>0.32</i> )	-0.003 ( <i>0.21</i> )	-0.003 ( <i>0.27</i> )	0.015** ( <i>0.02</i> )
CEO Tenure <sup>2</sup>	-0.0002*** ( <i>&lt;.01</i> )	-0.0002*** ( <i>&lt;.01</i> )	-0.0002*** ( <i>&lt;.01</i> )	-0.0002*** ( <i>&lt;.01</i> )	0.000002 ( <i>0.2</i> )	0.000001 ( <i>0.25</i> )	-0.001*** ( <i>&lt;.01</i> )
CEO Ownership	-0.015*** ( <i>&lt;.01</i> )	-0.015*** ( <i>&lt;.01</i> )	-0.015*** ( <i>&lt;.01</i> )	-0.012*** ( <i>&lt;.01</i> )	-0.016* ( <i>0.09</i> )	-0.016* ( <i>0.09</i> )	-0.054*** ( <i>&lt;.01</i> )
CEO Ownership <sup>2</sup>	0.0002*** ( <i>&lt;.01</i> )	0.0002*** ( <i>&lt;.01</i> )	0.0001 ( <i>0.2</i> )	0.0001** ( <i>0.03</i> )	0.0001 ( <i>0.69</i> )	0.0001 ( <i>0.69</i> )	0.001** ( <i>0.02</i> )
Founder CEO	0.035*** ( <i>&lt;.01</i> )	0.037*** ( <i>&lt;.01</i> )	0.015 ( <i>0.38</i> )	0.038** ( <i>0.03</i> )	-0.135** ( <i>0.04</i> )	-0.134** ( <i>0.04</i> )	0.085 ( <i>0.27</i> )
Number of Observations	8955	8955	4508	4447	8955	8955	8955
Psuedo-R <sup>2</sup>	15.30%	15.27%	12.84%	13.21%	39.71%	39.69%	7.41%

**Table IX. “Lucky” CEO Option Grants**

This table presents results from multivariate logit regression analysis of board representation based on the portion of independent outside directors for which this board represents their largest or smallest board and the CEO receiving a lucky option grant as in Bebchuk, Grinstein and Peyer (2010). The data are all the CEO option grants for option granting firms from fiscal years 1997 to 2006. A lucky grant is defined to be an option grant issued on the day with the lowest stock price for the month. There are 21,106 CEO option grants with 2,024 being identified as lucky. Percent Independent High (Low) Ranked is the percentage of independent directors for whom the firm of this board is a high (low) ranked firm (by market capitalization) relative to all the firms for which the individual also serves as director. Majority of Independent High (Low) is an indicator variable that equals one if for more than 50% of the outside directors this board seat is for a High (Low) ranked firm (by market capitalization) relative to the size of the firms of the other boards on which they sit as a director. Relative Size is the natural logarithm of the ratio of year end market capitalization to the median market capitalization for the sample year. New Economy is an indicator if the firm is in one of the following SIC industries, as in Murphy (2003), 3570, 3571, 3572, 3576, 3577, 3661, 3674, 4812, 4813, 5045, 5961, 7370, 7371, 7372 and 7373. Standard errors are robust, clustered by firm and *p*-values are in parentheses beneath the coefficients. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels respectively.

<i>Dependent Variable:</i>	Model 1	Model 2	Model 3	Model 4
	Probit "Lucky" Option Grant (1/0)	Probit "Lucky" Option Grant (1/0)	"Lucky" Option Grant (1/0) Largest Firms	"Lucky" Option Grant (1/0) Smallest Firms
Percent Independent High Ranked	-0.003** (0.02)			
Percent Independent Low Ranked	-0.001 (0.33)			
Majority of Independent High		-0.091** (0.03)	-0.082* (0.08)	-0.069 (0.46)
Majority of Independent Low		-0.01 (0.81)	-0.03 (0.66)	0.001 (0.98)
Majority Independent (Sole)		0.005 (0.86)		
Majority Independent	-0.016 (0.68)	-0.045 (0.23)	-0.169*** ( <i>&lt;.01</i> )	0.046 (0.32)
Relative Size	-0.004 (0.73)	-0.011 (0.36)	-0.028 (0.21)	-0.003 (0.91)
New Economy	0.082** (0.02)	0.091** (0.01)	0.05 (0.35)	0.111** (0.01)
CEO Board Tenure	0.002 (0.22)	0.002 (0.22)	0.0049* (0.08)	0.001*** ( <i>&lt;.01</i> )
CEO Ownership	0.004 (0.11)	0.004 (0.11)	0.003 (0.51)	0.0054* (0.06)
SOX	-0.129*** ( <i>&lt;.01</i> )	-0.122*** ( <i>&lt;.01</i> )	-0.153*** ( <i>&lt;.01</i> )	-0.106*** ( <i>&lt;.01</i> )
Number of Observations	21106	21106	10430	10676
Pseudo-R <sup>2</sup>	0.56%	0.52%	0.93%	0.35%

**Table X. Takeover Defenses**

This table presents results from multivariate tobit regression analysis of board representation based on the portion of independent outside directors for which this board represents their largest or smallest board and the Bebchuk, Cohen and Ferrell (2009) E-Index. The data are from fiscal years 1997 to 2006 and exclude finance and utility firms and only include years when the E-Index index is available. Percent Independent High (Low) Ranked is the percentage of independent directors for whom the firm of this board is a high (low) ranked firm (by market capitalization) relative to all the firms for which the individual also serves as director. Majority of Independent High (Low) is an indicator variable that equals one if for more than 50% of the outside directors this board seat is for a High (Low) ranked firm (by market capitalization) relative to the size of the firms of the other boards on which they sit as a director. All models include industry fixed effects. Standard errors are robust, clustered by firm and *p*-values are in parentheses beneath the coefficients. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels respectively.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
<i>Dependent Variable:</i>	Tobit E-Index	Tobit E-Index Largest Firms	Tobit E-Index Smallest Firms	Tobit Pre-SOX E-Index	Tobit Post-SOX E-Index	Tobit E-Index	Tobit E-Index
Percent Independent High Ranked	0.046*** ( <i>&lt;.01</i> )	0.04*** ( <i>&lt;.01</i> )	0.01 ( <i>0.8</i> )	0.033*** ( <i>&lt;.01</i> )	0.056*** ( <i>&lt;.01</i> )		
Percent Independent Low Ranked	0.006 ( <i>0.37</i> )	-0.002 ( <i>0.9</i> )	0.034** ( <i>0.02</i> )	0.004 ( <i>0.68</i> )	0.007 ( <i>0.42</i> )		
Percent Independent Directors	0.03*** ( <i>&lt;.01</i> )	0.051*** ( <i>&lt;.01</i> )	0.029** ( <i>0.02</i> )	0.03*** ( <i>&lt;.01</i> )	0.027*** ( <i>&lt;.01</i> )		
Majority of Independent High						1.541*** ( <i>&lt;.01</i> )	1.398*** ( <i>&lt;.01</i> )
Majority of Independent Low						-0.413 ( <i>0.12</i> )	-0.458* ( <i>0.09</i> )
Majority Independent						1.329*** ( <i>&lt;.01</i> )	1.325*** ( <i>&lt;.01</i> )
Ln(Market Capitalization)	0.053 ( <i>0.28</i> )	-0.017 ( <i>0.86</i> )	0.269** ( <i>0.03</i> )	0.057 ( <i>0.4</i> )	0.019 ( <i>0.8</i> )	-0.082** ( <i>0.03</i> )	-0.077** ( <i>0.05</i> )
% Independent High Ranked X Ln(Market Capitalization)	-0.005*** ( <i>&lt;.01</i> )	-0.004*** ( <i>&lt;.01</i> )	-0.002 ( <i>0.71</i> )	-0.004*** ( <i>&lt;.01</i> )	-0.006*** ( <i>&lt;.01</i> )		
% Independent Low Ranked X Ln(Market Capitalization)	-0.0005 ( <i>0.56</i> )	0.0002 ( <i>0.9</i> )	-0.005** ( <i>0.02</i> )	-0.0002 ( <i>0.86</i> )	-0.0007 ( <i>0.53</i> )		
% Independent X Ln(Market Capitalization)	-0.002*** ( <i>&lt;.01</i> )	-0.005*** ( <i>&lt;.01</i> )	-0.002 ( <i>0.26</i> )	-0.002* ( <i>0.09</i> )	-0.002* ( <i>0.08</i> )		
Majority Independent High X Ln(Market Capitalization)						-0.169*** ( <i>&lt;.01</i> )	-0.152*** ( <i>&lt;.01</i> )
Majority Independent Low X Ln(Market Capitalization)						0.0581 ( <i>0.11</i> )	0.0627* ( <i>0.09</i> )
Majority Independent X Ln(Market Capitalization)						-0.129*** ( <i>&lt;.01</i> )	-0.128*** ( <i>&lt;.01</i> )
Majority Independent (Sole)						-0.7474*** ( <i>&lt;.01</i> )	-0.6791*** ( <i>&lt;.01</i> )
Majority Independent (Sole) X Ln(Market Capitalization)						0.078*** ( <i>&lt;.01</i> )	0.07** ( <i>0.02</i> )
Busy Board							0.5471* ( <i>0.09</i> )
Busy Board X Ln(Market Cap)							-0.061 ( <i>0.11</i> )

**Table X. (continued)**

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
<i>Dependent Variable:</i>	Tobit E-Index	Tobit E-Index Largest Firms	Tobit E-Index Smallest Firms	Tobit Pre-SOX E-Index	Tobit Post-SOX E-Index	Tobit E-Index	Tobit E-Index
Outside Director Ownership	-0.015*** ( <i>&lt;.01</i> )	-0.02*** ( <i>&lt;.01</i> )	-0.008** ( <i>0.01</i> )	-0.012*** ( <i>&lt;.01</i> )	-0.019*** ( <i>&lt;.01</i> )	-0.018*** ( <i>&lt;.01</i> )	-0.018*** ( <i>&lt;.01</i> )
SOX	0.247*** ( <i>&lt;.01</i> )	0.2953*** ( <i>&lt;.01</i> )	0.2104*** ( <i>&lt;.01</i> )			0.2819*** ( <i>&lt;.01</i> )	0.2837*** ( <i>&lt;.01</i> )
Ln(Firm Age)	0.013 ( <i>0.54</i> )	0.013 ( <i>0.64</i> )	0.024 ( <i>0.46</i> )	0.058* ( <i>0.08</i> )	-0.043 ( <i>0.14</i> )	0.025 ( <i>0.25</i> )	0.024 ( <i>0.27</i> )
Herfindahl Index	-0.0002 ( <i>0.2</i> )	-0.0002 ( <i>0.29</i> )	-0.0001 ( <i>0.53</i> )	-0.0005 ( <i>0.22</i> )	-0.0003 ( <i>0.34</i> )	-0.0002 ( <i>0.21</i> )	-0.0002 ( <i>0.2</i> )
Industry Adjusted ROA	0.234 ( <i>0.16</i> )	0.301 ( <i>0.22</i> )	-0.039 ( <i>0.87</i> )	0.132 ( <i>0.6</i> )	0.386 ( <i>0.1</i> )	0.234 ( <i>0.16</i> )	0.236 ( <i>0.16</i> )
Q	-0.038*** ( <i>&lt;.01</i> )	-0.012 ( <i>0.34</i> )	-0.156*** ( <i>&lt;.01</i> )	-0.036*** ( <i>&lt;.01</i> )	-0.067*** ( <i>&lt;.01</i> )	-0.037*** ( <i>&lt;.01</i> )	-0.037*** ( <i>&lt;.01</i> )
Leverage	0.235** ( <i>0.03</i> )	0.235 ( <i>0.15</i> )	0.198 ( <i>0.17</i> )	0.279* ( <i>0.09</i> )	0.206 ( <i>0.17</i> )	0.278** ( <i>0.01</i> )	0.276** ( <i>0.01</i> )
Volatility	-0.487 ( <i>0.16</i> )	-0.477 ( <i>0.41</i> )	-0.229 ( <i>0.59</i> )	-0.31 ( <i>0.58</i> )	-0.816* ( <i>0.07</i> )	-0.612* ( <i>0.08</i> )	-0.613* ( <i>0.08</i> )
CEO Chair	0.156*** ( <i>&lt;.01</i> )	0.152*** ( <i>&lt;.01</i> )	0.121** ( <i>0.02</i> )	0.179*** ( <i>&lt;.01</i> )	0.139*** ( <i>&lt;.01</i> )	0.184*** ( <i>&lt;.01</i> )	0.184*** ( <i>&lt;.01</i> )
Board Size	0.091*** ( <i>&lt;.01</i> )	0.112*** ( <i>&lt;.01</i> )	0.066*** ( <i>&lt;.01</i> )	0.084*** ( <i>&lt;.01</i> )	0.1*** ( <i>&lt;.01</i> )	0.091*** ( <i>&lt;.01</i> )	0.092*** ( <i>&lt;.01</i> )
Dual Class	-0.814*** ( <i>&lt;.01</i> )	-0.509*** ( <i>&lt;.01</i> )	-1.092*** ( <i>&lt;.01</i> )	-1.017*** ( <i>&lt;.01</i> )	-0.505*** ( <i>&lt;.01</i> )	-0.844*** ( <i>&lt;.01</i> )	-0.845*** ( <i>&lt;.01</i> )
Number of Observations	5662	2791	2871	2443	3219	5662	5662
Pseudo-R <sup>2</sup>	6.27%	8.76%	6.18%	6.56%	5.94%	5.85%	5.86%
<b>F Test:</b>							
Percent Independent High Ranked + % Independent High Ranked X Ln(Market Cap) =0							
	0.0406*** ( <i>&lt;.01</i> )	0.0368*** ( <i>&lt;.01</i> )	0.008 ( <i>0.82</i> )	0.0293*** ( <i>&lt;.01</i> )	0.05*** ( <i>&lt;.01</i> )		
Majority Independent High + Majority Independent High X Ln(Market Cap) =0							
						1.3718*** ( <i>&lt;.01</i> )	1.2457*** ( <i>&lt;.01</i> )
Percent Independent Low Ranked + % Independent Low Ranked X Ln(Market Cap) =0							
	0.0052 ( <i>0.34</i> )	-0.0016 ( <i>0.90</i> )	0.0291** ( <i>0.01</i> )	0.0039 ( <i>0.65</i> )	0.006 ( <i>0.41</i> )		
Majority Independent Low + Majority Independent Low X Ln(Market Cap) =0							
						-0.3545 ( <i>0.13</i> )	-0.3957* ( <i>0.09</i> )

**Table XI. Mergers and Acquisitions**

This table presents results from multivariate regression analysis of merger and acquisition activity and board representation based on the portion of independent directors for which this board represents their largest or smallest board. The data are from fiscal years 1997 to 2006 and exclude finance and utility firms. Percent Independent High (Low) Ranked is the percentage of independent directors for whom the firm of this board is a high (low) ranked firm (by market capitalization) relative to all the firms for which the individual also serves as director. All regressions include industry fixed-effects. Standard errors are robust, clustered by firm and *p*-values are in parentheses beneath the coefficients. The dependent variable in models 1 through 4 is one if the firm had at least one acquisition during the year and zero otherwise. The dependent variable in models 5 through 8 is the number of acquisitions made during the year. Models 5, 7 and 8 are poisson regressions using only the sample of firms engaging in M&A activity. Model 6 uses the full sample and a zero-inflated poisson (ZIP) regression model to account for the many zero observations of firms not engaging in M&A activity. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels respectively.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
<b>Dependent Variable:</b>	Acquisition Activity Logit (1/0)	Acquisition Activity Logit (1/0)	Acquisition Activity Logit (1/0) Largest Firms	Acquisition Activity Logit (1/0) Smallest Firms	Acquisitions per Year Poisson	Acquisitions per Year ZIP	Acquisitions per Year Largest Firms	Acquisitions per Year Smallest Firms
Percent Indep. High Ranked	0.0038* (0.06)		0.003 (0.280)	0.009** (0.030)	-0.002* (0.1)	-0.002* (0.08)	-0.002* (0.10)	-0.0001 (0.96)
Percent Indep. Low Ranked	-0.005** (0.01)		-0.006** (0.04)	-0.006* (0.07)	-0.001 (0.5)	-0.0003 (0.79)	-0.0001 (0.96)	-0.0015 (0.29)
Majority of Indep. High		0.147* (0.070)						
Majority of Indep. Low		-0.109 (0.16)						
Majority Independent (Sole)		0.015 (0.81)						
Institutional Holdings	-34.5391 (0.32)	-34.97 (0.32)	30.993 (0.73)	41.791 (0.32)	-32.489* (0.06)	-31.895* (0.08)	54.641 (0.38)	-39.401** (0.02)
CEO Chair	0.026 (0.64)	0.024 (0.66)	-0.041 (0.59)	0.084 (0.29)	-0.011 (0.7)	-0.004 (0.89)	-0.053 (0.16)	0.036 (0.32)
Ln(Board Size)	-0.0658 (0.61)	-0.075 (0.560)	0.06 (0.740)	-0.223 (0.220)	-0.137** (0.04)	-0.105* (0.08)	-0.218** (0.02)	-0.066 (0.43)
Percent Indep. Directors	-0.00001 (1)	-0.001 (0.72)	-0.002 (0.45)	0.003 (0.37)	-0.0001 (0.890)	-0.0006 (0.540)	-0.0005 (0.70)	0.0006 (0.640)
Ln(Assets)	0.0221 (0.46)	0.033 (0.240)	-0.071* (0.10)	0.122* (0.070)	0.018 (0.28)	0.0173 (0.29)	0.0238 (0.29)	0.0632** (0.02)
Ln(# Business Segments)	0.11** (0.01)	0.11** (0.01)	0.12** (0.04)	0.07 (0.28)	0.086*** (<.010)	0.0765*** (<.01)	0.0987*** (<.01)	0.0707** (0.03)
Leverage	-0.2527 (0.13)	-0.2751 (0.1)	0.146 (0.55)	-0.6402*** (<.01)	0.141* (0.09)	0.1203 (0.17)	0.1563 (0.22)	0.1207 (0.19)
Q	0.02** (0.04)	0.022** (0.03)	0.005 (0.62)	0.054 (0.12)	0.017 (0.25)	0.0188 (0.17)	0.0168 (0.26)	-0.0075 (0.56)
Tangible Assets/Total Assets	-0.012*** (<.01)	-0.012*** (<.01)	-0.011*** (<.01)	-0.012*** (<.01)	-0.0025*** (<.01)	-0.0036*** (<.01)	-0.0028** (0.02)	-0.0017 (0.1)
Growth rate of assets	0.001** (0.03)	0.001** (0.04)	0.001* (0.09)	0.001* (0.07)	0 (0.55)	-0.0001 (0.4)	-0.0001 (0.23)	0.0003 (0.24)
ROA	0.379** (0.01)	0.413*** (<.01)	0.133 (0.23)	0.432* (0.08)	0.0237 (0.76)	-0.002 (0.98)	0.0247 (0.85)	0.0096 (0.91)
Number of Observations	11947	11947	5966	5979	2302	10708	1282	1020
Pseudo-R <sup>2</sup> / Prob> $\chi^2$	4.11%	4.06%	5.20%	4.27%	0.01%	0.00%	1.84%	2.02%

**Table XII. Matched Sample**

This table presents results from each of the previous firm-level regressions using a matched sample. The matched sample is created by matching firms with boards that have a majority of independent directors for whom this is a large directorship with firms with boards that have a majority of independent directors for whom this is a small directorship. Firms are matched based on size (market capitalization) and industry. The control variables are the same as in the prior tables and are not reported for brevity. *p*-values are in parentheses beneath the coefficients. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels respectively.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
	Covenant					Dividend	CEO %	Ln(CEO		Poisson
<i>Dependent Variable:</i>	Delisting	Violation	Earnings	Restate.	Sued	Reduction	Equity	Total	Tobit	Acquisitions
	(1/0)	(1/0)	Mgmt	(1/0)	(1/0)	(1/0)	Comp.	Comp.)	E-Index	per year
Percent Independent High Ranked	-0.024*** ( <i>&lt;.01</i> )	-0.003 ( <i>0.43</i> )	-0.002*** ( <i>&lt;.01</i> )		-0.007* ( <i>0.06</i> )	-0.015*** ( <i>&lt;.01</i> )	0.001** ( <i>0.02</i> )	0.005** ( <i>0.01</i> )	0.055*** ( <i>&lt;.01</i> )	-0.006** ( <i>0.05</i> )
Percent Independent Low Ranked	0.0004 ( <i>0.96</i> )	0.006* ( <i>0.06</i> )	0.00004 ( <i>0.94</i> )		-0.002 ( <i>0.59</i> )	-0.007 ( <i>0.12</i> )	-0.001** ( <i>0.03</i> )	-0.003* ( <i>0.08</i> )	-0.008 ( <i>0.68</i> )	0.001 ( <i>0.68</i> )
Majority of Independent High Ranked (Audit Com.)				0.37 ( <i>0.52</i> )						
Majority of Independent High Ranked (Audit Com.)X Ln(Sales)				-0.058 ( <i>0.36</i> )						
% Independent High Ranked X Ln(Market Capitalization)									-0.005*** ( <i>&lt;.01</i> )	
% Independent Low Ranked X Ln(Market Capitalization)									0.002 ( <i>0.42</i> )	
Number of Observations	1911	2084	3492	2232	2333	1221	1934	1934	1174	439
Adjusted or Psuedo-R <sup>2</sup>	18.62%	11.15%	9.05%	6.81%	18.42%	17.19%	17.69%	32.15%	9.30%	3.97%

