# ARE GOOD DEEDS REWARDED?

# DIRECTOR AWARDS AND THE MARKET FOR DIRECTORSHIPS

by

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A DISSERTATION

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DISSERTATION ABSTRACT

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Prior studies document that board directors who fail to act as effective monitors of management are penalized by the labor market in the form of fewer subsequent board seats. However, there is little evidence on how the market rewards directors for exceptional advising and monitoring on corporate boards. In this paper, I use national director awards as a positive shock to directors' reputations and examine changes in board seats for award-winning directors. Award-winning directors gain more board seats than non-winning directors, both after and before the awards. Event study tests suggest that the quality of award-winning directors may have been revealed to the labor market before the awards but not to the broader stock market. Stock market reactions to appointments of award-winning directors are positive and statistically significant only after the awards, not before.

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# CHAPTER I

# INTRODUCTION

Outside directors are expected to monitor and advise management on behalf of shareholders. But what motivates them to perform their tasks effectively? Fama and Jensen (1983) hypothesize that "outside directors have incentives to develop reputations as experts in decision control…They use their directorships to signal to internal and external markets for decision agents that they are decision experts" (p. 315). The finance literature provides extensive empirical support for this conjecture, mostly focusing on whether directors are penalized for failing to act as effective monitors of management. However, there is little evidence on whether the director labor market rewards outside directors for strong performance on corporate boards.

The primary reason for the lack of evidence on the reward side of the director labor market is that there are few observable positive shocks to directors' reputations. In contrast, negative shocks to reputations are much more visible (e.g., bankruptcies, hostile takeovers, earnings restatements, shareholder lawsuits, option backdating scandals, proxy contests). Multiple studies document that these negative reputational shocks result in fewer subsequent directorships for outside directors (Gilson, 1990; Harford, 2003; Srinivasan, 2005; Fich and Shivdasani, 2007; Fos and Tsoutsoura, 2014).[1] On the other hand, only a study by Coles and Hoi (2003) analyzes a positive shock to reputation, examining the decision to opt out of state-mandated anti-takeover provisions by Pennsylvania boards. These anti-takeover provisions were perceived to be detrimental to firm value; Pennsylvania firms' cumulative abnormal returns from the introduction to the

[1] One exception to these results is Ertimur, Ferri, and Maber (2012). The authors find that directors of option backdating firms do not suffer loss of board seats at other firms.

enactment of these provisions were -9.09% (Szewczyk and Tsetsekos, 1992). Coles and Hoi find that outside directors who reject all provisions, thus acting in the shareholders' best interests, are three times as likely to gain additional external directorships as directors who retain all provisions. There are two key advantages of this setting: first, the decision to opt out of anti-takeover provisions clearly falls within the board's purview, and second, by opting out the firm's shareholder value is protected from negative stock market reactions.

In this paper, I use national awards for corporate directors as the setting to investigate the implications of the reward side of the director labor market, specifically whether award-winning directors gain more board seats than non-winning directors. Awards are given to directors with outstanding performance in a number of board roles, in both advising and monitoring functions, such as leading the board through mergers and acquisitions, providing strategic vision and advice, or improving financial reporting and disclosures. The advantage of this setting is that these accomplishments are more representative of the typical responsibilities of the board, compared to the one-off decision of opting out of anti-takeover provisions. On the other hand, there is no definitive evidence that these accomplishments are value-enhancing for shareholders, since there are only a few accomplishments with clear event dates to perform event studies. To mitigate this concern, I examine the firm's stock performance during the year of the director's accomplishment. The average cumulative return during this year is 25.8% for firms that nominate award-winning directors, whereas the average return during the same year for other S&P 500 firms is 15.6%. The difference is statistically significant at the 5% level.

The director awards setting offers several additional advantages in studying the director labor market. First, awards are given to individual directors, not the whole board. This feature allows me to cleanly isolate the reputational shock to a single director, using other outside directors on the same board as benchmarks. Using firm fixed effects in regressions controls for any firm-specific characteristics that may be driving the subsequent gain in board seats for award-winning directors. For example, firms with more frequent mergers and acquisitions activities provide their directors with critical experiences that may be valuable to other firms (Harford and Schonlau, 2013).

Second, this setting allows me to distinguish supply and demand effects on labor market outcomes. Disentangling whether any increase or decrease in board seats is due to the supply side or the demand side of the labor market has been a challenge for previous studies. For example, directors of companies sued by shareholders may have fewer future board seats either because companies force them to resign from the boards, or because directors voluntarily resign to minimize future legal exposure. Likewise, directors of better performing firms may gain more board seats because (i) there is an increase in demand for their services, or (ii) demand always existed, but now there is a shift in supply of director's time. The challenge in interpretation is due to the fact that researchers cannot observe the number of directorships offered, only the number of directorships accepted. In my setting, it is possible that after successful turnarounds, restructurings, spin-offs, or sales of the companies, award-winning directors would have more free time, but so would other outside directors on the same boards. If any increase in board seats is purely driven by the supply side, I would not observe any difference in

change in board seats between award-winning directors and non-winning directors on the same boards.

Further evidence on the reward side is important in assessing the functioning of the director labor market. To provide the proper incentives for directors to perform, the labor market needs to demonstrate that not only poor performance is punished but also that strong performance is rewarded, i.e., a "stick and carrot" approach. This has been documented in the executive labor market as well as the mutual fund industry. Malmendier and Tate (2009) show that "superstar" CEOs, those who win awards for strong firm performance, are rewarded with higher compensation after the awards. Chevalier and Ellison (1999) show that mutual fund managers who had better than average performance tend to have greater total assets under management afterwards. Deuskar, Pollet, Wang and Zheng (2011) find that top-performing mutual fund managers are rewarded by being allowed to run side-by-side hedge funds, which offer managers a more lucrative compensation structure than mutual funds.

I use a sample of 89 directors who have been awarded either Outstanding Director by the Outstanding Directors Exchange (ODX) or Director of the Year by the National Association of Corporate Directors (NACD) from 1999 to 2009. I find that award-winning directors gain more board seats than their non-winning cohorts over a three year period from the year immediately before the awards to two years after the awards. To address endogeneity concerns, I control for potential confounding firm effects by comparing award-winning directors to non-winning outside directors on the same boards, using firm fixed effects in multivariate regressions.

One distinct feature of the director awards setting is that due to the nominating and vetting process for selecting award recipients, the actual accomplishments of award-winning directors typically occur two years before the year awards are presented. In some cases, this period can reach three or four years, which is due to the necessity of observing the final outcome of a turnaround or restructuring. This lag between the actual accomplishments and awards provides an opportunity to examine an implication of the director labor market not tested before in the literature, whether the labor market relies on private information among directors to make board appointment decisions. If that is true, directors' qualities may have been revealed to the labor market even before award winners are chosen, and thus these award-winning directors may already gain additional board seats before their external recognition. As a result, any observable difference in board seats between award-winning directors and non-winning directors after the awards may underestimate the true effect of the revelation of the quality of the award-winning directors.

To investigate this issue, I examine press coverage preceding the year of the award to identify the actual timing of the director's accomplishment. I examine the change in board seats for award-winning directors from one year before the accomplishment to one year before the award, matched to cohorts based on age and number of prior directorships at the beginning of the period. I find that award-winning directors also gain more board seats than non-winning directors during this pre-award period, consistent with the conjecture that the qualities of award-winning directors have already been revealed to the director labor market.

To examine whether the qualities of award-winning directors are also revealed to the stock market, I perform event studies of appointments of award-winning directors and matched non-winning directors during three different periods: before the accomplishment, from the accomplishment to the award, and after the award. The results of this exercise reveal that investors react favorably only to announcements of appointments of award-winning directors and only in the period *after* the award. Investor reactions to announcements in the pre-award period (either before or after the accomplishment) are close to zero. Taken together, these results provide some supportive evidence that the director labor market relies on private information to make its board appointment decisions.

Even though I also use a setting of national awards, my study differs from the Malmendier and Tate's paper along several dimensions. First, they use CEO awards to study how shifts in reputation allow CEOs to become more entrenched in their jobs, engage in more outside activities and shirk their core responsibilities, which result in poorer future performance for the firms. Alternatively, I examine the direct impact of directors' awards on their career opportunities, or in other words, whether proper incentives exist for directors to exert extra time and effort in their roles. Second, Malmendier and Tate use propensity score matching to construct a sample of "predicted" winners – CEOs who did not win awards but are otherwise similar to award-winners. While there is only one CEO per firm, there are multiple outside directors on one board, allowing me to use the non-winning directors on the same board as the comparison group. Finally, CEO awards are selected by the media based on publicly available information, whereas public information is only used for initial screening in the director

awards selection process. Eventual winners of director awards are determined from nominations and endorsements by fellow directors, using private information that is unobservable to outsiders.

My paper contributes to the literature in several ways. First and foremost, it provides supportive evidence of a well-functioning market for directorships, specifically that directors with exceptional performance in typical board roles are subsequently rewarded with additional board seats. Second, it complements the literature on the advising role of directors. A recent number of studies analyzes the advising role of certain types of board members: CEO directors (Fahlenbrach, Low, and Stulz, 2010), multinational directors (Naveen, Daniel, and McConnell, 2013), directors with experience in supplier industries or customer industries of the firm (Dass, Kini, Nanda, Onal, and Wang, 2014), and venture capitalists (Field, Lowry, and Mkrtchyan, 2013). In this paper, I show that the majority of awards recognize directors' accomplishments in advising management, and these directors tend to gain more board seats than directors with monitoring accomplishments. This is consistent with anecdotal evidence and board surveys suggesting that directors are valued for their advice and counsel. Third, my paper provides empirical evidence suggesting that the director labor market is operating on private information among fellow directors, a potentially important channel of the labor market not studied previously in the literature.

The paper proceeds as follows. Section 2 reviews the related literature as well as institutional details of the awards selection process. Section 3 describes the data and the sample selection process. Section 4 presents the results of my univariate tests as well as multivariate regression analyses, and section 5 concludes.

# CHAPTER II

# DIRECTOR AWARDS AND THE MARKET FOR DIRECTORSHIPS

## 2.1. The market for directorships

Fama (1980) and Fama and Jensen (1983) argue that the labor market can provide additional incentives, besides direct compensation, for managers and directors to perform through the process of ex post settling up. If outside opportunities for managers and directors are sensitive to their on-the-job performance, then they will be motivated to act in the best interests of shareholders. The prior literature has attempted to document empirical evidence regarding this conjecture, primarily focusing on how the labor market penalizes directors who did not act in shareholders' best interests or failed in their role as monitors of management. Gilson (1990) studies directors of companies that either go bankrupt or privately restructure their debt; he finds that directors who resign from these firms following the bankruptcy or debt restructuring hold significantly fewer board seats following their departure. Harford (2003) examines the consequences for directors of poor performing firms that become targets of takeover offers. The directors who reject a takeover offer are penalized by the market in the form of fewer future directorships, whereas the directors who accept do not face this penalty. Srinivasan (2005) finds that outside directors, particularly those serving on audit committees, are much more likely to leave the boards of firms that restate earnings. He also finds a decline in other board seats for these directors. Fich and Shivdasani (2007) study the reputation of outside directors on boards of firms that are targets of shareholder lawsuits for financial fraud. The authors find that these directors also suffer reputational penalties, facing a significant decline in the number of future board seats.

Most recently, Fos and Tsoutsoura (2014) examine directors who are targets of proxy contests by activist investors. They document findings consistent with the prior literature: these directors suffer reputational losses from being revealed as poor monitors, thus they have fewer directorships in the three years following the proxy contests. These results still hold when the authors use as benchmarks outside directors who are on the same boards but not up for election that year (i.e., due to the staggered election feature of a classified board). The use of directors on the same board as the comparison group is very similar to the identification strategy I adopt in this study. Taken together, previous empirical findings suggest a well-functioning labor market for directorships with regards to penalizing directors for poor performance. However, it is much less clear as to how the labor market views directors who are strong monitors or advisers of management.

One single study by Coles and Hoi (2003) analyzes a positive shock to directors' reputation. The authors look at the decision to opt out of state-mandated anti-takeover provisions by Pennsylvania boards. They argue that by opting out, directors reveal themselves to be strong monitors who act in the best interests of shareholders. The authors find that the outside directors who reject anti-takeover provisions are three times more likely to gain additional external directorships than directors who do not. However, there still remain several questions unanswered regarding the functioning of the labor market for directors. How does the market recognize and reward directors who perform well in the more typical tasks associated with the board such as CEO succession and hiring, CEO compensation setting, or mergers and acquisitions? Does the market favor directors with strong advising ability or those with higher monitoring intensity? Harford and Schonlau (2013) examine one decision particularly within the purview of the board:

mergers and acquisitions. The authors find that with regards to prior mergers and acquisitions experience, the director labor market does not function as expected. CEOs and directors with acquisition experience, regardless of whether the acquisitions are value-enhancing or value-destroying, gain more board seats subsequent to the acquisitions. In this case, experience seems be more valued than ability.

Arguing that previous studies tend to focus on extreme circumstances, Yermack (2004) studies the incentives for directors in more general market conditions. Yermack investigates how a firm's prior performance influences the change in board seats of directors on its board. He finds that one standard deviation outperformance of the market for 2 years leads to an increase of 0.2 directorships for each outside director. These results are similar to those of Ferris, Jagannathan, and Pritchard (2003), who find that past operating margin is associated with a higher number of board seats as well as a higher likelihood of being appointed to a new board. While these results do provide some answers to the question of whether the labor market rewards directors for effective performance, several issues remain that require a more cautious interpretation of the results. First, it is ambiguous as to which component of performance is driven by external factors and which is under the board's control. Second, the relationship between past firm performance and future change in board seats of directors is complicated by potential endogeneity issues. Firms with strong prior performance are more visible to investors and analysts. As a result, any increase in directorships for award-winning directors may be due to increased visibility instead of effective monitoring. The director awards setting allows me to mitigate these endogeneity concerns by including firm fixed effects, controlling for time-invariant firm-specific characteristics.

## 2.2. Director awards

There are a number of organizations and business magazines that award directors for outstanding performance on the boards of companies in specific geographical regions (e.g. the Corporate Directors Forum in the San Diego area, Utah Business magazine, and a number of business journals in large cities). However, in the context of this study, I focus exclusively on director awards by prominent national organizations for two main reasons: any director can win these awards, and the award is prominent enough to affect the reputation of the award-winning director. This is the same rationale used by Malmendier and Tate (2009) in their study of CEO awards.

Two national organizations evaluate and select directors for awards every year: the Outstanding Directors Exchange (ODX), a unit of the Financial Times, and the National Association of Corporate Directors (NACD). The ODX's Outstanding Directors Awards program started in 1998, selecting from five to ten directors each year.[2] The award announcements are followed by individual profiles on the award-winning directors, detailing the accomplishments of each director on his/her board, complete with endorsements from fellow board members and, in some cases, company management. These profiles are published in Agenda Week, a weekly corporate governance publication sent to board members of the majority of Fortune 1000 firms.[3] The NACD selects only one director each year for its Director of the Year program. Since 2007, the organization also started awarding directors of non-profit organizations, directors of private companies, and directors with extensive lifetime achievement. For the purpose of this

[2] The list of award winners from prior years can be obtained from http://event.ft-live.com/ehome/odx2014/128158/

[3] Prior publications of these profiles (before 2008) used the names Director's Alert or Board Alert.

study, however, I focus on the awards for public company directors, specifically those that I can obtain a reason or accomplishment for the award, as well as the company at which this accomplishment occurred. Throughout this paper, I call these companies "nominating companies" because award-winning directors have to be nominated by a fellow board member or company executive, and the nomination has to be seconded by another independent director on the same board.

Since the NACD program only accounts for four observations in my final sample, in this paper I will only describe the awards selection process for the ODX's program, as there are no important differences between the two programs. After all nominations are received, the ODX selection committee uses a number of initial screens such as attendance records, poor relative stock performance, or high relative CEO pay to winnow the field down to 10-15 finalists. The selection committee then conducts research into the directors' accomplishments by talking to at least three people who have been long time fellow directors with the finalists. The research is presented to an advisory board, which consists of prior award winners as well as other prominent executives and academics, who offer their feedback on the finalists. Based on its research and feedback from the advisory board, the selection committee then chooses five to ten winners from the list of finalists. The typical timing for accomplishments is two years before the awards, but in some cases this could reach three years if the committee feels the need to wait to observe the final outcome of a turnaround or restructuring effort before awarding. The results of the awards are publicized, and award winners' accomplishments are profiled extensively in an article.

To illustrate, I use the example of Barbara Alexander, who won one of the awards in 2003. The article describes her outstanding work as an audit committee member on the board of Homestore from 2001 to 2002, raising red flags and starting an internal investigation into accounting fraud at the company. Ms. Alexander was selected as an Outstanding Director for "her tenacity in ferreting out fraud at Homestore.com." Even though she stepped down from the board of Homestore in 2002, Ms. Alexander joined the boards of two other firms in 2004, bringing her total number of directorships to four.

There are important differences between the director awards selection process and the CEO awards selection process. First, CEO awards are selected by the media based on publicly available information. For example, Business Week starts its "Best Manager" awards selection process by surveying its editors and writers for nominees. Final winners are then selected based on observable outcomes such as stock returns performance or successful turnarounds. On the other hand, public information is only used as initial screens for the director awards selection process. Because the inner workings of a board are "a black box" to outside observers, it is impossible to identify award winners relying on public information alone. As a result, winners of director awards are determined from qualitative research and interviews with fellow directors, or in other words, private information rather than public information. This is advantageous because award-winning directors' qualities are verified and endorsed by other directors.

The second difference is a longer lag time between actual accomplishments and awards in the director awards process. The advantage of this lag is that it provides an opportunity to test an implication of the director labor market not studied before in the literature, whether the labor market operates on private information. If the director labor

market relies on private information to make board appointment decisions, then some directorships may have already been offered to award-winning directors before they actually receive the awards. I test for this possibility by examining the change in board seats from one year before the accomplishment to one year before the award. In addition, I perform event study tests to examine whether information about the qualities of award-winning directors are also revealed to the stock market before the awards. I compare investor reactions to the announcements of appointments of award-winning directors to those of non-winning directors on the same boards.

# CHAPTER III

## DATA AND SAMPLE DESCRIPTION

Because I need to track directors' board service for two years following the awards and my directorships data end in 2011, I identify all director awards from 1998 to 2009. During these years, a total of 121 awards were given by the two organizations. However, using a number of filters to ensure that I have the necessary data to conduct my analysis, I reduce my sample to 89 awards, 85 by the ODX and 4 by the NACD. The reason for the low number of NACD awards included in the sample is that the NACD only selects one award recipient each year, and for a number of years I could not obtain the accomplishments and the nominating companies for the award-winning directors. Table 1A lists all the filters I use as well as the final number of awards included in my sample (see appendix A for all figures and tables). The final sample covers awards from 1999 to 2009.

For each of the awards included in my final sample, I read the award announcement as well as the accompanying director profile. I then categorize each director's primary accomplishment, cited as the reason for the award, into different groups. These categories and the associated number of awards in each category are presented in Table 1B. The most common accomplishment for directors is leading their companies through difficult times, turnarounds, or restructurings, accounting for 19% of the awards. The second most common reason cited for outstanding directors is their role in driving a successful spin-off, merger, or acquisition. Overall, the accomplishments cited are consistent with the extensive literature on the monitoring role of the board:

leadership of audit committees, improving financial reporting and disclosures, setting more performance-sensitive CEO compensation.

The reasons cited are also consistent with the evidence documented in a nascent strand of literature focusing on the advising value of directors. Some of these award reasons include extensive political background, international experience, scientific or technical expertise, or analytical focus. Column 4 of Table 1B divides award categories into either Advising or Monitoring. All accomplishments related to work performed by the audit committee (improving financial reporting and disclosures), the compensation committee (strengthening executive compensation programs), and the nominating committee (introducing good corporate governance practices) are categorized under monitoring activities. In addition, I also consider managing an effective CEO succession or hiring process to be a monitoring function of the board. All other accomplishments are classified under advising activities. Using this rationale, 70% of the awards are given for exceptional performance in advising management, and the remaining 30% are due to effective monitoring.

To test my hypotheses, I obtain data on the number of directorships from a comprehensive dataset that I construct and hand collect from proxy statements, covering board service in all US public companies from 1994 to 2011. This dataset has broader coverage than the RiskMetrics dataset, which only covers the top 1,500 firms. It also contains complete data on all board committee memberships and chairmanships. I obtain supplementary data on director characteristics (e.g. director independence, CEO status, etc.) from the RiskMetrics and BoardEx databases.

Table 2 presents summary statistics on nominating firms (Panel A) and award-winning directors (Panel B). Because nominating firms are typically larger, I compare them to other firms in the S&P 500.[4] I investigate the differences between the two groups with regards to size and performance measures. Panel A of Table 2 documents the results of this comparison. While nominating firms appear to be larger than S&P 500 firms on average, only the difference in market cap between the two groups is statistically significant. With regards to performance, I find that nominating firms have higher cumulative stock returns during the fiscal year before the awards than other S&P 500 firms. This is not surprising given that stock performance is one of the criteria used in the initial screening phase for selecting award winners. There are no statistically significant differences between the two groups regarding other performance measures. These results, in contrast to those of the Malmendier and Tate (2009) study, are consistent with the described differences between the CEO awards selection process and the director awards selection process. Specifically, public information does not seem to play a significant role in the selection of director awards.

Panel B of Table 2 compares the characteristics of award-winning directors with other outside directors on the same boards of nominating companies.[5] These characteristics are measured at the annual meeting of the year before the award. If the nominating company no longer exists (due to a sale or a merger), or if the award-winning director is no longer with the company (resignation), then I use data from the most recent

[4] Comparison to all public firms, including those not in the S&P 500, does not produce any statistically significant differences between the two groups with regards to all performance measures. As expected, in this comparison, nominating firms are much larger than non-nominating firms.

[5] In this paper, I use the term "outside directors" to include both independent directors and gray directors. A number of awards in my sample are given to gray directors. I do not exclude these directors because in my setting, the affiliations may serve as additional incentives for gray directors to contribute efforts above and beyond those of independent directors.

annual meeting at which the award-winning director is still on the board of the nominating firm. I find that award-winning directors are on average older and have longer tenure than other outside directors. They are members of more board committees, and are more likely to be chairs of those committees. This is not surprising considering that leadership roles on board committees afford directors more opportunities to provide strong leadership and make significant contributions to firm outcomes, eventually earning them recognition of external organizations.

Interestingly, the percentage of award-winning directors who are also CEOs is very close to that of non-winning directors, suggesting that CEO directors do not necessarily play an outsized role in influencing the final outcomes at their firms. This is consistent with results reported by Fahlenbrach, Low and Stulz (2010), who find that CEO directors do not have an impact on the firm's operating performance or the board's decision-making quality. In addition, directors who win awards are usually cited for their dedication to going above and beyond the normal duties required of a typical director. CEO directors may not have the time or incentives to exert the additional effort necessary to be recognized for awards.

Some other differences between award-winning directors and non-winning directors should be noted. Award-winning directors have a higher number of other directorships than non-winning directors, 2.31 vs. 1.49 directorships. Including the seat on the nominating firm, the majority of award-winning directors can be classified as "busy" directors, those with three or more board seats in total. Fich and Shivdasani (2006) find that busy boards – boards dominated by busy directors – are associated with lower future firm performance and lower sensitivity of CEO turnover to performance. On

the other hand, Field, Lowry, and Mkrtchyan (2013) argue that in certain circumstances such as the IPO phase, busy directors can provide an important advising function to the firm. This seems to be the case with award-winning directors, as two thirds of the awards are given based on advising accomplishments. In addition, because award-winning directors tend to have longer tenure than non-winning directors, the appointing CEO is no longer in office for 73% of the award-winning directors vs. 60% for the non-winning directors. Lastly, ten percent of award-winning directors are gray. While gray directors are criticized for having ties to management that may introduce conflicts of interest and prevent them from effectively monitoring management, they may also have stronger incentives than independent directors to exert significant time and effort to contribute to board activities.

# CHAPTER IV

# EMPIRICAL TESTS

I perform a number of different empirical tests examining the change in board seats for award-winning directors during the period after the award, before the award but after the director's accomplishment, and before the accomplishment. The timing of the accomplishment is not explicitly stated in the award-winning director's profile, so I examine the press coverage of the events described in the profile to identify the year in which these events occur. Typically the accomplishment happens two to three years before the award, but in some cases it can occur as far back as 5 years before. When I cannot identify specific press coverage of the events in question, I assume that the director's accomplishment occurs two years before the award, relying on the information provided to me by the Outstanding Directors Exchange program. Figure 1 illustrates the timeline of the director awards process as well as various empirical tests associated with each time period. In the following sections, I describe these analyses in more detail.

## 4.1. Impact of awards on directors' reputations

### 4.1.1. Univariate change in board seats

The first test for the ex post settling up hypothesis involves examining the change in board seats held by award-winning directors subsequent to receiving awards. As awards are announced in the first quarter and annual meetings typically occur in the second and third quarters of each year, I use the number of directorships in the year before an award ($t_{award}$ - 1) as the starting point and measure the abnormal change in board seats from this year to two years after the award ($t_{award}$ + 2). As shown in Table 2 Panel B, award winning directors in my sample are older and have a higher number of

directorships. To control for downward trends in directorships over time, I follow the approach described in Harford (2003) by matching award-winning directors to non-winning director cohorts based on age and number of directorships at $t_{award}$ - 1. In a few cases where an exact match could not be obtained, the closest match is selected. For each matching cohort, I calculate the median change in board seats from $t_{award}$ - 1 to $t_{award}$ + 2 and subtract this number from the actual change in directorships of award-winning directors. The resulting number is the abnormal change in directorships of award-winning directors compared to non-winning peers.

Table 3 presents the results from two sets of analyses: the first set examines the change in total number of board seats including that of nominating firms, whereas the second set focuses on other board seats only. As the first set of numbers shows, award-winning directors gain more board seats than their non-winning peers subsequent to the awards. At two years after the awards, award-winning directors will hold, on average, 0.57 board seats more than their non-winning counterparts. This represents 24% of the starting number of directorships at t-1, as shown in row "all directors - % change" of Table 3.

To further understand the drivers of the results, I stratify the sample by age at the time of awards, number of prior directorships, type of accomplishments (advising or monitoring), and the level of involvement in decision making (member or chair of at least 2 of the top 3 committees). The results observed for award-winning directors are driven by younger directors, since directors 70 years and older in my sample are likely to have retired from board service by the time they reach 72, either through voluntary retirement or mandatory retirement policies. In addition, the market seems to value directors with

strong advising capabilities, as they gain 0.71 additional board seats compared to 0.26 seats added by directors with monitoring accomplishments. The difference in board seats gained by advising directors and monitoring directors seems to support the conjecture that management is more open to appointing capable advising directors than intense monitoring directors. Another way to gauge the monitoring intensity of a potential director is to look at his/her committee memberships, i.e. how many monitoring committees of which this director is a member (Faleye, Hoitash, and Hoitash, 2011). The gain in board seats seems to be driven by the subsample of directors who are members or chairs of at most one of the top three monitoring committees,[6] i.e. directors with lower monitoring intensity.

The second set of numbers presents the abnormal change in other board seats, not including that of nominating firms. The results are very similar to those obtained from the analysis on total number of board seats. In future tests, I focus on the change in total number of board seats, including those of the nominating firms, and report results from these analyses only.

### 4.1.2. Multivariate regressions with firm fixed effects

In this section, I address the possibility that the observed results may be driven by firm-specific characteristics. Because some directors win awards for their performance in mergers and acquisitions activities, the subsequent gain in board seats may be due to having acquisition experience rather than winning awards. To control for this possibility, I use outside directors on the same boards of nominating firms as the comparison group and run a regression analysis with firm fixed effects included.

[6] Audit, compensation, and nominating/corporate governance committees

The results are presented in Table 4. The dependent variable is the net change in the number of total directorships from $t_{award}$ - 1 to $t_{award}$ + 2. The key variable of interest is an indicator of whether the director is an award-winning director, as well as whether the director wins for advising or monitoring. Control variables include director-specific characteristics and director-firm-specific characteristics that have been shown to influence both the retention of board seats as well as change in number of other seats. All director-specific characteristics and director-firm-specific characteristics are measured at time $t_{award}$ - 1. Therefore, directors who are no longer on the boards of nominating firms, or the nominating firms no longer exist, at $t_{award}$ – 1 are included in specifications 1 and 2 but not in specifications 3 and 4, which require director-firm characteristics to be available. Firm fixed effects are included in all specifications to capture firm-specific characteristics that are common to all directors of the same firm: mergers and acquisitions activities, past performance, firm size and leverage. These variables are thus not explicitly included in the regressions. In all models, standard errors are robust and clustered at the firm level, as recommended by Petersen (2009).

In all four specifications, the coefficient estimates suggest that award-winning directors enjoy a higher change in subsequent board seats than non-winning directors on the same boards, to the order of 0.41 board seats as shown in model 3. Directors who win for advising accomplishments tend to gain more board seats than directors who win for monitoring, as shown in models 2 and 4. The change in board seats for monitoring directors, compared to that of non-winning directors, is positive but not statistically significant. These results are consistent with the univariate results reported in Table 3. The coefficients on the key control variables are qualitatively similar to those reported in

prior studies. Older directors, as well as directors with a high number of prior directorships, are more likely to lose more board seats in the future.

Collectively, the results presented in Table 3 and 4 are consistent with the ex post settling up hypothesis. The magnitude of the estimate is also non-trivial. Yermack (2004) reports that one standard deviation in stock return outperformance for two years will lead to an expected increase of 0.2 directorships. Coles and Hoi (2003) show that non-executive directors who reject all anti-takeover provisions experience a subsequent gain of 0.17 in external board seats. In this paper, I find that an award-winning director is expected to have 0.5 more directorships than non-winning peers on average. To compute the economic significance of these results, I use the following assumptions. Since the average age of award-winning directors is 63, they have 9 years until retirement on average. Assuming that an award-winning director receives compensation of $0.144 million per year (Fos and Tsoutsoura, 2014) and a real discount rate of 3%, I estimate the present value of one board seat to be approximately $1.12 million. Given the estimate of 0.5 additional board seats, the benefit accruing to award-winning directors is in the range of $0.56 million. These are not trivial incentives for directors. Adams and Ferreira (2008) find that even modest meeting fees ($1,000 per meeting) encourage directors to attend board meetings more frequently. They conclude that directors seem to perform even for very small financial rewards. Alternatively, directors could be motivated by the social standing and recognition of their peers (Dyck and Zingales, 2002), which would provide strong motivations to perform and win director awards.

### 4.2. Changes in board seats of award-winning directors before awards

As I describe the awards selection process in section 2.2, there is a lag between when director accomplishments actually occur and when award winners are chosen. As a result, it is possible that some of award-winning directors' accomplishments may have already been revealed to other firms, and some directorships may have been offered before directors are publicly recognized with awards. To investigate this possibility, I examine the change in board seats from one year before the accomplishment to one year before the award, $t_{accomp}$ - 1 to $t_{award}$ - 1, using the same methodology by matching to director cohorts based on age and number of directorships at $t_{accomp}$ - 1. The results of this analysis are presented in Table 5, and they are consistent with the conjecture that award-winning directors may have already captured some of the rewards by the time the awards are presented. Award-winning directors, on average, enjoy 0.67 more board seats than their matched cohorts from $t_{accomp}$ - 1 to $t_{award}$ - 1. As a result, the observable gain in board seats after receiving awards may underestimate the true effect of the revelation of directors' quality to the labor market.

#### 4.2.1. Robustness check

A possible explanation for both the post-awards and pre-awards gain in board seats for the award-winning directors is that they are simply higher quality directors already known to the market. As a result, they will gain more board seats regardless of whether they have won an award or made a significant contribution to the board. To address this possibility, I conduct a placebo test by examining the change in board seats for award-winning directors in the pre-accomplishment period, specifically from three years before the accomplishment to one year before. If the change in board seats is indeed

attributable to the director's accomplishment and award and not simply due to director's quality, then I should not observe any difference in change in board seats between the award-winning directors and the matched cohorts during this period.

The results in Table B1 of Appendix B provide some evidence that this is the case. During this period, the raw abnormal gain in board seats for award-winning directors is not statistically significant. The percentage change in board seats is significant, however. Many of the subsamples with statistically significant gains reported in Table 3 and 5 are now no longer significant (e.g. busy directors and advising directors). Interestingly, the change in board seats for monitoring directors during this pre-accomplishment period is economically and statistically significant.

### 4.3. Stock market reaction to appointments of award-winning directors

#### 4.3.1. Univariate results

In section 4.2., I show that award-winning directors gain more board seats prior to being publicly recognized with awards, which suggests that the director labor market relies on private information for board appointment decisions. To further validate that the information is private, I perform an event study of announcements of appointments of award-winning directors and matched non-winning directors on the same boards, in the period from three years before the accomplishment to four years after the award. Because Fich (2005) reports that appointments of CEO directors generate positive and significant investor reactions, I match award-winning directors to non-winning directors based on CEO status. When there are multiple non-winning directors that fit this criteria, I choose the control director closest in age and number of prior directorships.

I search the archives of Lexis-Nexis for newspaper articles or news wires that announce appointments of award-winning directors and matched non-winning directors. I eliminate appointments of directors based on mergers, acquisitions, spin-offs, or purchases of block holdings. I also eliminate director appointments for which announcement dates could not be obtained. In total, I identify 230 announcements that fit my selection criteria. I examine investor reactions by estimating cumulative abnormal stock returns (CARs) over the (-1,1) event window surrounding the announcement date. To estimate market model parameters, I use daily returns from 250 trading days before the event to 10 trading days before the event. All daily returns are obtained from the CRSP Daily Stock File.

I divide the sample of announcements into three distinct time periods: before the accomplishment, after the accomplishment but before the award, and after the award. The results presented in Table 6 provide supportive evidence that information about director's quality is not publicly revealed before the award. One-sample t-tests of mean CARs and Wilcoxon signed-rank tests of median CARs of announcements after the awards produce positive and statistically significant estimates, whereas mean CARs and median CARs of announcements before the awards are statistically insignificant and close to zero, regardless of whether the announcement occurs before or after the accomplishment. With regards to the matched non-winning directors, mean CARs and median CARs are either negative or close to zero in all three time periods. T-tests of difference in means and Wilcoxon-Mann-Whitney tests of difference in medians between the award-winning group and non-winning group reveal that only a statistically significant difference in

medians exists in the after-awards period.[7] The event study evidence supports the idea that information about the qualities of award-winning directors is revealed to the broader stock market only at the time of the awards.

**4.3.2. Multivariate regressions**

In this section, I include all announcement CARs in a cross sectional regression to allow for the inclusion of nominating company fixed effects. The main variables of interest are AFTER_AWARD, BEFORE_AWARD_AFTER_ACCOMP, and BEFORE_ACCOMP. AFTER_AWARD is an indicator variable, which equals 1 for appointments of award-winning directors during the after-award period and 0 otherwise. BEFORE_AWARD_AFTER_ACCOMP equals 1 for appointments of award-winning directors in the pre-award period but after their accomplishments have occurred. Finally, BEFORE_ACCOMP equals 1 for appointments of award-winning directors in the pre-accomplishment period. Model 1 is an OLS regression without fixed effects included, whereas model 2 adds the fixed effects of the nominating companies in the regression.

In both model 1 and model 2, only the coefficient on AFTER_AWARD is positive and statistically significant at the 5% level. The appointment of an award-winning director generates an additional 1.9% in CARs over the (-1,1) event window for the appointing firm, and this impact becomes stronger when fixed effects are added into the regression. Award-winning directors, compared to non-winning directors on the same board, on average generate 3% more in CARs for the nominating firms. However, in time periods before awards, appointments of winning directors do not generate statistically different reactions from those of non-winning directors. Taken together, the results

[7] In subsequent iterations, I eliminate announcements that coincide with the release of other major news about the appointing firms (including proxy statement filing dates), as well as announcements that include multiple director appointments. Statistical inferences remain unchanged and results are not tabulated.

shown in Table 5, 6, and 7 suggest that the director labor market is relying on private information among fellow directors to hire those who have made significant contributions on the boards of other firms.

### 4.4. Other measures of career consequences

#### 4.4.1. Change in committee service

Besides a change in total board seats, there are other aspects of a director's reputation that could be explored further. In this section, I examine a feature of the director labor market not studied previously, change in committee memberships and chairmanships. While the prior literature has relied exclusively on the number of directorships to study the implications of the director labor market, studying the change in directors' committee service provides several advantages. One advantage is that it provides insights into a different dimension of the labor market: existing boards where the directors are already a member, versus potential boards looking to add new members. Another advantage is that there are fewer frictions in offering and accepting committee memberships and chairmanships than in offering and accepting board seats. As a result, there may be a faster response time to reputational shocks in changes to committee service than in changes to board seats.

On the other hand, a disadvantage in using committees is that the costs can potentially outweigh the benefits of serving as a committee member or chair. Even though some companies do offer additional retainers for serving as members or chairs of a committee ($5,000 to $10,000 a year) and attending committee meetings ($500 to $1,000 per meeting), the additional meeting time and preparation time may be too costly for directors compared to the financial incentives, making them unwilling to accept new

assignments of committee service. This constraint in supply may negate the increase in demand, leading researchers to observe no change in committee service. Another disadvantage, and more pragmatic reason for lack of use in prior studies, is the unavailability of data on committee memberships and chairmanships of all board committees. A proprietary dataset I have constructed and hand collected from proxy statements contains data on members and chairs of all board committees of US public companies, enabling me to bypass this problem.

For this analysis, I identify all boards that the award-winning directors and non-winning directors stay on between $t_{award}$ - 1 to $t_{award}$ + 2. I focus on the boards that stay the same during this time period because I want to differentiate the change in committees due to existing directorships from the change in committees due to new boards being added. The unit of analysis is director-board pair. The dependent variable is net change in committee memberships for models 1 and 2 and net change in committee chairmanships for models 3 and 4. The key independent variable is an indicator for whether the director wins an award, and control variables include director-specific characteristics that may influence whether they obtain a new committee. The key controls are number of prior committee memberships and number of prior committee chairmanships. Directors who are already members or chairs of most committees on the board are unlikely to add more, as there are only so many committees on a board (a typical board has three to four committees). Nominating company fixed effects are included in all specifications to control for firm-specific characteristics.

The results of this analysis are documented in Table 8. Despite the small change in subsequent number of board seats, monitoring directors seem to gain more committee

memberships than advising directors, suggesting that their services are valued by firms in which they already serve as board members. The coefficients on other variables of interest are positive but not statistically significant. This is not surprising given what I report in Table 2 Panel B: award-winning directors already serve on a higher number of committees at nominating firms, thus they may be limited in the number of committees or chairmanships that they can add.

### 4.4.2. Size of the appointing firms

Masulis and Mobbs (2014) argue that firm size plays an important role in providing incentives for directors to perform. They find that directors are significantly less likely to miss board meetings at relatively larger firms in their portfolio of directorships. In addition, firms with a greater proportion of directors who would rank this directorship highly (measured by size) tend to have better operating performance and board decision-making quality. In this section, I investigate whether award-winning directors are able to join larger firms, and thus increase their visibility and prestige, after they win awards.

To conduct this analysis, I start with computing the average size of all firms in the portfolio of directorships held by award-winning directors and non-winning directors, from one year before the awards to two years after. The advantages of using an average size measure are twofold: first, it not only captures the new board seats added but also the seats lost, and second, it is independent of the higher number of seats added by award-winning directors. If these new seats are on boards of smaller size companies, the average size of all firms in the award-winner's portfolio would be smaller than before, even if he or she may be gaining more board seats in total.

I use log of market capitalization and log of total assets as a measure of firm size, and I compute a ratio of average firm size two years after the award over average firm size one year before the award. These ratios are used as the dependent variables in fixed effect regressions to assess whether award-winning directors are able to capitalize on the reputational shock and join the boards of larger firms. Directors who have no board seats at one year before the award or at two years after are not included in the regressions. Table 9 presents the results of these regressions. Nominating company fixed effects are included to control for firm-specific characteristics. Year fixed effects are included to control for time trends that may affect changes in firms' market capitalization. Models 1 and 2 use the ratio of log of market cap as the dependent variable, while models 3 and 4 use the ratio of log of total assets as the dependent variable. The coefficient on award-winning directors is positive in both models 1 and 3, but only significant in model 3. On the other hand, the coefficient on advising directors is positive in both model 2 and 4 but only significant in model 2. While the statistical significance of the results is weak, they still suggest that award-winning directors, especially those who win for advising, are able to join relatively larger firms after the win.

### 4.4.3. Change in percent of votes withheld

Ertimur, Ferri, and Maber (2012) utilize another measure of director's reputation, votes withheld, to study the response of the labor market to a negative reputation shock – option backdating scandals. They find that the percentage of votes withheld is twice as high for option-backdating directors than for similar directors at non-option-backdating firms. This percentage of votes withheld is highest for directors who sit on the compensation committee, which is responsible for allowing backdated options. The

results indicate that vote support can be used as a mechanism to penalize poor performing directors, possibly preventing them from being re-elected.

However, it is unclear whether shareholders would vote for or against award-winning directors. These directors are typically busy directors with multiple board seats, and as such they may earn a "withhold" recommendation from the proxy advisory firm Institutional Shareholder Services (ISS). In a recent paper, Ertimur, Ferri and Oesch (2014) examine the determinants of director election results. They find that ISS recommendations play a very influential role in impacting the number of votes withheld or against a particular director. On the other hand, they also find that ISS does not pay as much attention to a number of issues that matter more to firm value, such as the director's skill set or his/her advising capability, as these issues are difficult for ISS to evaluate and make a recommendation.

To study the implications of awards on shareholder votes, I utilize the voting records provided by Voting Analytics from 2003 to 2011. I merge each award-winning director and non-winning directors on that same board to four years of vote results, from two years before the award to two years after. I use a difference-in-differences specification to estimate the impact of the award on shareholder votes. The dependent variable for model 1 is an indicator variable that equals 1 if the ISS issues a "withhold" recommendation. Model 2 examines the percentage of votes "withheld" or "against" the director, and model 3 uses the percentage of votes "for" the director. The main variable of interest here is the interaction term between an indicator variable for award-winning directors and an indicator variable for the period after the awards. The coefficient on the interaction term is the difference-in-differences effect, and in all three specifications its

magnitude is small and not statistically significant. Interestingly, holding more board seats leads to higher probability of an ISS "withhold" recommendation, a higher percentage of votes "withheld" or "against" the director, and a lower percentage of votes "for." The results here are consistent with the argument that a director's quality or skill set is not a focus for ISS recommendations, and thus director awards have a negligible impact on shareholder votes.

# CHAPTER V

# CONCLUSION

Prior studies have documented a well-functioning market for directorships, which penalizes directors who fail to act as proper monitors of management. However, the evidence on whether the market rewards directors for exceptional performances is scant. It is important to understand whether adequate incentives exist for outside directors to allocate extra time and effort into monitoring and advising management. In this paper, I use director awards as a setting to study the implications of the "reward" side of the director labor market. I find that award-winning directors indeed gain more board seats subsequent to receiving awards, compared to cohorts matched on age and number of prior directorships and compared to fellow outside directors on the same boards. I also find that award-winning directors gain more board seats during the pre-award period, whereas appointments of these directors only generate positive investor reactions in the post-award period. The results suggest that the director labor market relies on private information among fellow directors to make board appointment decisions. This is a potentially important channel of information in the labor market nor previously explored in the literature. More work is needed to better understand the inner workings of this labor market.

APPENDIX A

FIGURE AND TABLES

**Figure 1: Timeline of the director awards selection process**
This figure illustrates the timeline of the director awards selection process and the various empirical tests performed over different time periods. For the timing of the director's accomplishment, I examine the press coverage of the events described by the director's profile and identify the year in which these events occur. Typically this accomplishment occurs two to three years before the award year, but sometimes it can go as far back as five years before.

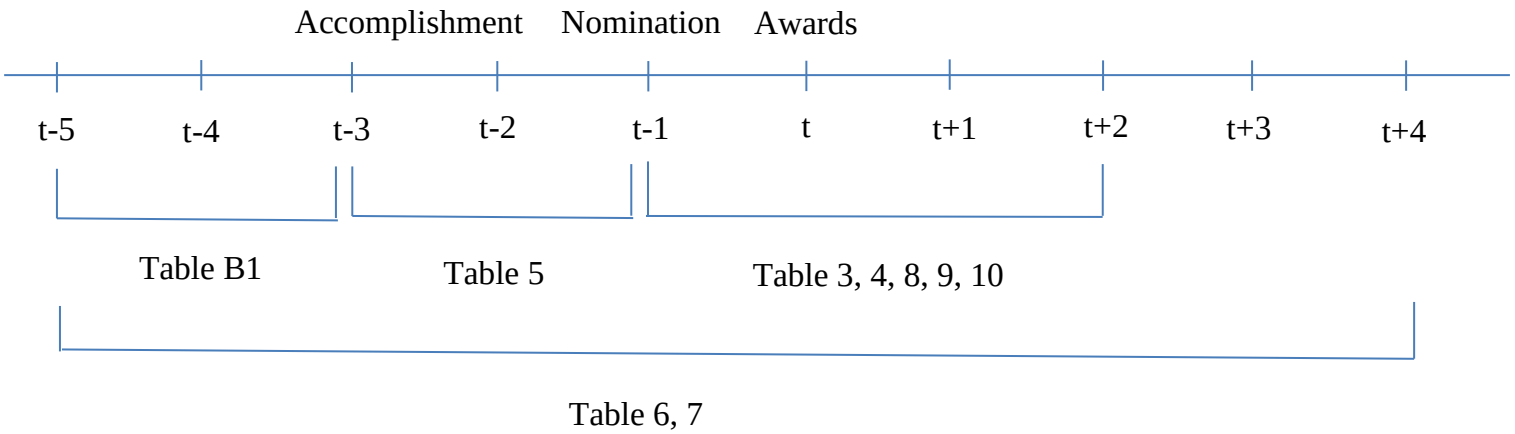

**Table 1A: Sample size from 1999 to 2009**
This table details the total number of awards given by the Outstanding Directors Exchange and the National Association of Corporate Directors, as well as the filters I use to obtain the final sample used in this study.

| **Sample and filters** | **Number of awards** |
|---|---|
| Total number of awards given by NACD and ODX | 121 |
| NACD lifetime achievement awards | 3 |
| Directors who passed away in the year of or the year after the award | 3 |
| Directors who receive a second award | 2 |
| Directors who are or were CEOs of nominating companies | 5 |
| Directors who retired from all board service by the year before the award | 2 |
| Directors whose accomplishments could not be obtained | 15 |
| Directors whose nominating companies do not have available data | 2 |
| **Total awards in final sample** | **89** |

**Table 1B: Accomplishments cited in the awards**

This table describes the primary reasons that outstanding directors are chosen for awards by the Outstanding Directors Exchange and the National Association of Corporate Directors. For the award announcements that do not state the directors' accomplishments explicitly, I read the accompanying director profile and obtain the most significant contribution of the director described in the profile and attributed by fellow board members.

| Category | Number of awards | Percent of total | Advising or Monitoring |
|---|---|---|---|
| Leading the company through difficult times, restructurings, and turnarounds | 17 | 19% | Advising |
| Driving successful spin-offs, mergers, or acquisitions | 12 | 13% | Advising |
| Managing an effective CEO succession or CEO hiring process | 8 | 9% | Monitoring |
| Introducing good corporate governance practices | 8 | 9% | Monitoring |
| Providing a particular set of expertise or knowledge | 8 | 9% | Advising |
| Providing strategic vision and advice | 7 | 8% | Advising |
| Improving financial reporting and disclosures, or serving as a strong audit committee chair | 7 | 8% | Monitoring |
| Strong leadership of the board | 5 | 6% | Advising |
| Strengthening executive compensation programs | 4 | 4% | Monitoring |
| Scientific or technological expertise | 3 | 3% | Advising |
| Intellectual ability, analytical focus | 3 | 3% | Advising |
| Consensus building skills | 3 | 3% | Advising |
| Extensive international experience | 2 | 2% | Advising |
| Political background and understanding of inner workings of the government | 2 | 2% | Advising |
| **Total** | **89** | **100%** | |

**Table 2: Summary statistics**

**Panel A: Comparison of nominating firms and non-nominating S&P 500 firms**

This panel reports the mean values of characteristics of nominating firms and non-nominating firms in the S&P 500. All firm variables (except where specified) are measured as of the most recent fiscal year-end date before the award announcements. Book leverage is measured as long-term debt plus short-term debt, scaled by total assets. Market leverage is measured as long-term debt plus short-term debt, scaled by total assets minus book equity plus market equity. Tobin's Q is total assets minus book equity plus market equity, scaled by total assets. Return on assets (ROA) is operating income, scaled by total assets. Fiscal-year stock returns are cumulative 12-month stock returns during the most recent fiscal year before the awards. The table reports the p-values of tests of differences in means between characteristics of nominating firms and those of non-nominating firms. ***, **, and * represent significance level at the 1%, 5%, and 10%, respectively.

| | Nominating firms | | Non-nominating firms | | p-values |
|---|---|---|---|---|---|
| | Mean | N | Mean | N | T-test |
| Market capitalization | 34,211 | 86 | 20,918 | 5,909 | 0.064* |
| Assets | 45,456 | 87 | 39,864 | 5,912 | 0.642 |
| Sales | 22,336 | 87 | 13,871 | 5,915 | 0.132 |
| Book leverage | 0.28 | 87 | 0.25 | 5,893 | 0.160 |
| Market leverage | 0.17 | 86 | 0.17 | 5,890 | 0.915 |
| Tobin's Q | 2.49 | 86 | 2.07 | 5,909 | 0.268 |
| ROA | 0.15 | 85 | 0.14 | 5,801 | 0.515 |
| ROA – 2 years before awards | 0.14 | 85 | 0.14 | 5,799 | 0.707 |
| ROA – 3 years before awards | 0.13 | 85 | 0.15 | 5,786 | 0.391 |
| Fiscal-year stock returns | 0.32 | 86 | 0.09 | 5,866 | 0.070* |
| Fiscal-year stock returns – 2 years before awards | 0.20 | 85 | 0.18 | 5,819 | 0.624 |
| Fiscal-year stock returns – 3 years before awards | 0.24 | 84 | 0.22 | 5,760 | 0.694 |

**Panel B: Comparison of award-winning directors and non-winning outside directors on the same nominating firms**

This table reports mean values of the characteristics of award-winning directors on the boards of nominating companies, compared to other outside directors on the same boards. These characteristics are measured at the annual meeting one year before the awards are given. If the nominating companies no longer exist (due to a sale or a merger), or if the award winning director is no longer at the nominating company (due to resignation), then these characteristics are measured at the most recent annual meeting before the awards that the award-winning directors are still on the boards of the nominating companies. The table reports the p-values of tests of differences in means between characteristics of award-winning directors and those of other outside directors on the same boards. ***, **, and * represent significance level at the 1*, 5%, and 10%, respectively.

| | Award-winning directors | | Outside directors on the same nominating companies | | p-values |
|---|---|---|---|---|---|
| | Mean | N | Mean | N | T-test |
| Age | 63.09 | 89 | 61.26 | 787 | 0.026** |
| Tenure | 9.43 | 89 | 7.48 | 787 | 0.013** |
| Director is a current CEO | 0.13 | 89 | 0.13 | 787 | 0.808 |
| Director is female | 0.20 | 89 | 0.18 | 787 | 0.572 |
| Director is gray | 0.10 | 89 | 0.10 | 787 | 0.928 |
| Appointing CEO no longer in office | 0.73 | 89 | 0.60 | 787 | 0.019** |
| Number of other board seats | 2.31 | 89 | 1.49 | 787 | 0.000*** |
| Number of committee chairmanships | 0.80 | 89 | 0.33 | 787 | 0.000*** |
| Number of committee memberships | 2.36 | 89 | 1.94 | 787 | 0.000*** |
| Member of audit committee | 0.38 | 89 | 0.45 | 787 | 0.242 |
| Chair of audit committee | 0.11 | 89 | 0.09 | 787 | 0.588 |
| Member of executive committee | 0.37 | 89 | 0.17 | 787 | 0.000*** |
| Chair of executive committee | 0.06 | 89 | 0.01 | 787 | 0.000*** |
| Member of compensation committee | 0.47 | 89 | 0.41 | 787 | 0.264 |
| Chair of compensation committee | 0.25 | 89 | 0.07 | 787 | 0.000*** |
| Member of nominating/governance committee | 0.58 | 89 | 0.42 | 787 | 0.005*** |
| Chair of nominating/governance committee | 0.17 | 89 | 0.08 | 787 | 0.011** |

**Table 3: Abnormal change in number of directorships for award-winning directors**
This table reports the abnormal change in the number of directorships for award-winning directors from one year before the award to two years after. Following Harford (2003), each award-winning director is matched to a cohort of non-winning directors based on age and number of starting directorships. The abnormal change is calculated by subtracting the median 3-year change in board seats of the matching cohort from the actual change in board seats of the award-winning director. Statistically significant estimates are highlighted in bold. ***, **, and * represent significance level at the 1%, 5%, and 10%, respectively. T-statistics are reported in parentheses.

| | Abnormal change – including seats at nominating firms | N | Abnormal change – other seats only | N |
|---|---|---|---|---|
| All directors – raw change | 0.573*** | 89 | 0.567*** | 89 |
| | (4.10) | | (5.07) | |
| All directors – % change | 0.240*** | 89 | 0.266*** | 77 |
| | (4.05) | | (3.86) | |
| Directors 70 years and older | 0.184 | 19 | 0.395* | 19 |
| | (0.72) | | (2.00) | |
| Directors 69 years and younger | 0.679*** | 70 | 0.614*** | 70 |
| | (4.18) | | (4.66) | |
| Directors 65 years and older | 0.510** | 49 | 0.510*** | 49 |
| | (2.56) | | (3.26) | |
| Directors 64 years and younger | 0.650*** | 40 | 0.638*** | 40 |
| | (3.33) | | (3.98) | |
| Directors with 2 or fewer directorships at t-1 | 0.533** | 30 | 0.510*** | 51 |
| | (2.57) | | (3.48) | |
| Directors with 3 or more directorships at t-1 | 0.593*** | 59 | 0.645*** | 38 |
| | (3.23) | | (3.69) | |
| Directors whose awards are based on advising accomplishment | 0.710*** | 62 | 0.677*** | 62 |
| | (3.87) | | (4.81) | |
| Directors whose awards are based on monitoring accomplishment | 0.259 | 27 | 0.315* | 27 |
| | (1.46) | | (1.84) | |
| Directors are members or chairs of at most 1 of the top 3 monitoring committees | 0.735*** | 49 | 0.622*** | 49 |
| | (3.73) | | (4.26) | |
| Directors are members or chairs of at least 2 of the top 3 monitoring committees | 0.375* | 40 | 0.500*** | 40 |
| | (1.92) | | (2.87) | |

**Table 4: Regression analysis of the net change in total public company directorships of award-winning directors, compared to outside directors on the same boards**

This table contains estimates from a fixed effects regression of the change in total directorships from one year before to two years after the award for the award-winning directors and non-winning outside directors on the same boards of nominating companies. Director characteristics are measured at one year before the award. Directors who are no longer on the nominating companies, or whose nominating companies no longer exist, are included in models 1 and 2 but not models 3 and 4. In models 3 and 4, additional control variables are included. These controls are director's tenure, indicator variable for whether the director is a gray director, indicator for whether the director is a member of the audit committee, indicator for compensation committee membership, indicator for nominating or governance committee membership, and indicator for whether the director chairs any committee. Nominating company fixed effects are included in the regression. ***, **, * indicate significance at the 1%, 5%, and 10% levels. Reported in parentheses are robust t-statistics clustered at the firm level.

| | Dependent variable is the change in total directorships from year -1 to year +2 | | | |
|---|---|---|---|---|
| VARIABLES | Model 1 | Model 2 | Model 3 | Model 4 |
| Director who wins an award | 0.414*** | | 0.364** | |
| | (2.74) | | (2.16) | |
| Director who wins for advising | | 0.330** | | 0.286* |
| | | (2.40) | | (1.91) |
| Director who wins for monitoring | | 0.202 | | 0.102 |
| | | (0.71) | | (0.33) |
| Director is a CEO | 0.265 | 0.273 | 0.203 | 0.217 |
| | (1.48) | (1.53) | (1.11) | (1.20) |
| Director age | -0.009 | -0.009 | -0.012 | -0.011 |
| | (-1.23) | (-1.12) | (-1.48) | (-1.40) |
| Director age 70 and above | -0.467** | -0.481** | -0.587*** | -0.603*** |
| | (-2.33) | (-2.38) | (-2.76) | (-2.82) |
| Director age 65 to 69 | -0.414*** | -0.413*** | -0.386*** | -0.385*** |
| | (-3.05) | (-3.03) | (-2.81) | (-2.79) |
| Director is female | 0.124 | 0.131 | 0.095 | 0.104 |
| | (1.15) | (1.20) | (0.85) | (0.92) |
| Number of prior directorships | -0.182*** | -0.178*** | -0.174*** | -0.170*** |
| | (-3.80) | (-3.69) | (-3.39) | (-3.33) |
| Other controls | No | No | Yes | Yes |
| Constant | 2.054*** | 2.045*** | 0.449 | 0.431 |
| | (4.56) | (4.55) | (0.79) | (0.76) |
| Robust SEs clustered at firm level | Yes | Yes | Yes | Yes |
| Observations | 877 | 877 | 803 | 803 |
| R-squared | 0.228 | 0.322 | 0.247 | 0.327 |

**Table 5: Abnormal change in number of directorships for award-winning directors *before* the awards**

This table reports the abnormal change in the number of directorships for award-winning directors from one year before the accomplishment to one year before the award. Each award-winning director is matched to a cohort of non-winning directors based on age and number of starting directorships. The abnormal change is calculated by subtracting the median change in board seats of the matching cohort from the actual change in board seats of the award-winning director. Statistically significant estimates are highlighted in bold. ***, **, and * represent significance level at the 1%, 5%, and 10%, respectively. T-statistics are reported in parentheses.

| | Abnormal change – including seats at nominating companies | N |
|---|---|---|
| All directors – raw change | 0.673*** | 84 |
| | (5.02) | |
| All directors – % change | 0.338*** | 84 |
| | (4.99) | |
| Directors 70 years and older | 0.559** | 17 |
| | (2.61) | |
| Directors 69 years and younger | 0.701*** | 67 |
| | (4.40) | |
| Directors 65 years and older | 0.404** | 47 |
| | (2.42) | |
| Directors 64 years and younger | 1.014*** | 37 |
| | (4.89) | |
| Directors with 2 or fewer directorships at t-3 | -0.08 | 25 |
| | (-0.53) | |
| Directors with 3 or more directorships at t-3 | 0.992*** | 59 |
| | (6.07) | |
| Directors whose awards are based on advising accomplishment | 0.675*** | 57 |
| | (3.86) | |
| Directors whose awards are based on monitoring accomplishment | 0.667*** | 27 |
| | (3.37) | |
| Directors are members or chairs of at most 1 of the top 3 monitoring committees | 0.542*** | 48 |
| | (2.98) | |
| Directors are members or chairs of at least 2 of the top 3 monitoring committees | 0.847*** | 36 |
| | (4.30) | |

**Table 6: Investor reactions to appointments of award-winning directors**

This table shows the 3-day cumulative abnormal returns (CARs) associated with announcements of appointments of award-winning directors and non-winning directors on the same boards, closest matches based on CEO status, age, and number of prior directorships. The timings of the appointments range from before the actual accomplishments to after the awards. Press announcements are obtained from the Lexis-Nexis news archives. Market model parameters are estimated from 250 trading days before the event date to 10 days before the event date. I report both the mean CARs and median CARs for the 3-day announcement period (-1, 1). Reported in parentheses next to estimates are p-values from two-tailed t-tests for means and two-tailed Wilcoxon signed rank tests for medians. For tests of difference between the means and medians of two samples, appointment announcements after awards and before awards, I use the t-test for difference between means and the Wilcoxon-Mann-Whitney test for difference between medians. T-statistic and Wilcoxon Z-statistic are reported, as well as p-values in parentheses.

| | Award-winning directors | Non-winning directors | Test statistic for dif. b/w means and medians |
|---|---|---|---|
| Director appointments after awards | | | |
| Mean CAR | 1.70%** (0.02) | -0.11% (0.95) | 1.08 (0.28) |
| Median CAR | 0.93%***(0.00) | -1.49% (0.04)** | 3.25*** (0.00) |
| Number of observations | 34 | 27 | |
| Percentage of CARs with positive values | 76% | 26% | |
| Director appointments before awards but after accomplishments | | | |
| Mean CAR | 0.71% (0.60) | -0.02% (0.98) | 0.52 (0.61) |
| Median CAR | 0.04% (0.57) | -0.21% (0.98) | 0.42 (0.68) |
| Number of observations | 27 | 33 | |
| Percentage of CARs with positive values | 52% | 42% | |
| Director appointments before accomplishments | | | |
| Mean CAR | -0.08% (0.93) | -0.29% (0.67) | 0.20 (0.84) |
| Median CAR | -0.22% (0.26) | -0.23% (0.80) | 0.29 (0.77) |
| Number of observations | 48 | 61 | |
| Percentage of CARs with positive values | 46% | 48% | |

**Table 7: Cross-sectional regressions of cumulative abnormal returns surrounding director appointments**

This table contains estimates from an OLS regression of cumulative abnormal returns over the event window (-1,1) surrounding the appointments of award-winning directors and non-winning directors. Non-winning directors are on the same boards of award-winning directors and matched based on CEO status, age, and number of prior directorships. AFTER_AWARD is an indicator variable, which equals 1 for appointments of award-winning directors during the after-award period and 0 otherwise. BEFORE_AWARD_AFTER_ACCOMP equals 1 for appointments of award-winning directors in the pre-award period but after their accomplishments have occurred. BEFORE_ACCOMP equals 1 for appointments of award-winning directors in the pre-accomplishment period. ***, **, * indicate significance at the 1%, 5%, and 10% levels. Reported in parentheses are robust t-statistics.

| | Dependent variable is the cumulative abnormal returns over window (-1,1) | |
|---|---|---|
| VARIABLES | Model 1 | Model 2 |
| AFTER_AWARD | 0.019** | 0.030** |
| | (2.19) | (2.37) |
| BEFORE_AWARD_AFTER_ACCOMP | 0.009 | 0.009 |
| | (0.62) | (0.58) |
| BEFORE_ACCOMP | 0.001 | 0.004 |
| | (0.10) | (0.27) |
| Constant | -0.002 | 0.024 |
| | (-0.33) | (1.65) |
| Nominating company fixed effects | No | Yes |
| Robust SEs | Yes | Yes |
| Observations | 230 | 230 |
| R-squared | 0.013 | 0.381 |

**Table 8: Regression analysis of the net change in number of committee memberships and chairmanships of award-winning directors**

This table contains estimates from a fixed effect regression of the change in number of committee memberships and chairmanships from one year before award to two years after award for winning directors, compared to non-winning outside directors on the same boards. Director characteristics are measured at one year before. Nominating company fixed effects are included in the regression. ***, **, * indicate significance at the 1%, 5%, and 10% levels. Reported in parentheses are robust t-statistics.

| | Dependent variable is net change in number of committee memberships | | Dependent variable is net change in number of committee chairmanships | |
|---|---|---|---|---|
| VARIABLES | Model 1 | Model 2 | Model 3 | Model 4 |
| Director who wins an award | 0.088 | | 0.029 | |
| | (1.48) | | (0.74) | |
| Director who wins for advising | | 0.037 | | 0.052 |
| | | (0.55) | | (1.19) |
| Director who wins for monitoring | | 0.265*** | | 0.038 |
| | | (2.86) | | (0.54) |
| Director is a CEO | -0.100* | -0.114* | -0.028 | -0.027 |
| | (-1.67) | (-1.88) | (-0.72) | (-0.69) |
| Director age | -0.002 | -0.002 | -0.003 | -0.003 |
| | (-0.45) | (-0.35) | (-0.93) | (-0.95) |
| Director age 70 and above | -0.010 | -0.016 | -0.002 | -0.002 |
| | (-0.10) | (-0.16) | (-0.03) | (-0.03) |
| Director age 65 to 69 | -0.056 | -0.063 | -0.054 | -0.054 |
| | (-0.86) | (-0.97) | (-1.27) | (-1.26) |
| Director is female | 0.039 | 0.041 | -0.053 | -0.053 |
| | (0.71) | (0.74) | (-1.48) | (-1.48) |
| Director tenure | 0.000 | 0.000 | -0.000 | -0.000 |
| | (1.16) | (1.25) | (-0.65) | (-0.65) |
| Number of prior committee memberships | -0.450*** | -0.452*** | 0.061*** | 0.061*** |
| | (-16.01) | (-16.05) | (3.56) | (3.52) |
| Number of prior committee chairmanships | -0.031 | -0.037 | -0.545*** | -0.546*** |
| | (-0.69) | (-0.82) | (-16.94) | (-16.92) |
| Constant | 1.916*** | 1.885*** | 0.811 | 0.816 |
| | (3.09) | (3.04) | (1.32) | (1.33) |
| Observations | 1423 | 1423 | 1423 | 1423 |
| R-squared | 0.323 | 0.325 | 0.279 | 0.279 |

**Table 9: Regression analysis of change in size of firms in award-winning director's portfolio of board seats**

This table contains estimates from a fixed effect regression of the relative change in firm size from one year before the award to two years after. Directors who have no board seats one year before the award or two years after are not included in the regression. The dependent variable used in models 1 and 2 is the ratio of average firm size two years after award over average firm size one year before, measured by log of market cap. Models 3 and 4 use a similarly defined dependent variable, except that size is measured by log of total assets instead of market cap. Director characteristics are measured at one year before. Nominating company fixed effects are included in the regression. ***, **, * indicate significance at the 1%, 5%, and 10% levels. Reported in parentheses are robust t-statistics.

| | Dependent variable is ratio of log of market cap | | Dependent variable is ratio of log of total assets | |
|---|---|---|---|---|
| VARIABLES | Model 1 | Model 2 | Model 3 | Model 4 |
| Director who wins an award | 0.017 | | 0.033** | |
| | (1.41) | | (2.29) | |
| Director who wins for advising | | 0.024* | | 0.023 |
| | | (1.75) | | (1.38) |
| Director who wins for monitoring | | -0.016 | | 0.021 |
| | | (-0.99) | | (0.98) |
| Director is a CEO | 0.023** | 0.026** | 0.031*** | 0.032*** |
| | (2.16) | (2.34) | (2.75) | (2.66) |
| Director age | -0.000 | -0.000 | -0.001 | -0.001 |
| | (-0.47) | (-0.39) | (-0.84) | (-0.74) |
| Director age 70 and above | -0.127*** | -0.129*** | -0.141*** | -0.141*** |
| | (-4.64) | (-4.68) | (-4.76) | (-4.74) |
| Director age 65 to 69 | -0.006 | -0.006 | 0.003 | 0.003 |
| | (-0.54) | (-0.53) | (0.21) | (0.20) |
| Director is female | 0.007 | 0.008 | 0.011 | 0.011 |
| | (0.82) | (0.87) | (1.04) | (1.07) |
| Director tenure | -0.000 | -0.000 | -0.001 | -0.001 |
| | (-0.64) | (-0.58) | (-1.38) | (-1.31) |
| Constant | 1.074*** | 1.074*** | 1.103*** | 1.099*** |
| | (16.44) | (16.65) | (21.74) | (21.71) |
| Year fixed effects | Yes | Yes | Yes | Yes |
| Robust SEs | Yes | Yes | Yes | Yes |
| Observations | 714 | 714 | 714 | 714 |
| R-squared | 0.376 | 0.378 | 0.306 | 0.303 |

**Table 10: Regression of votes withheld between award winning directors and non-winning directors on the same boards**

This table contains regression estimates of voting support for award-winning directors compared with non-winning directors on the same boards. For model 1, the dependent variable is an indicator for whether ISS has issued a "withhold" recommendation for this director in this year. For model 2, the dependent variable is the percentage of votes "withheld" or "against" the director over the total number of votes cast. For model 3, the dependent variable is the percentage of votes "for" the director over the total number of votes cast. Director characteristics are measured at one year before. Nominating company fixed effects are included in the regression. ***, **, * indicate significance at the 1%, 5%, and 10% levels. Reported in parentheses are robust t-statistics.

| VARIABLES | Dependent variable is: | | |
|---|---|---|---|
| | Indicator variable=1 when ISS recommendation is "withhold" | Percentage of votes "withheld" or "against" the director | Percentage of votes "for" the director |
| Director who wins an award | -0.003 | 0.011 | -0.001 |
| | (-0.14) | (1.29) | (-0.10) |
| Indicator =1 if vote is on or after the award year | 0.054*** | 0.006 | -0.003 |
| | (2.59) | (1.19) | (-0.34) |
| Interaction term | -0.022 | -0.008 | -0.010 |
| | (-0.94) | (-0.85) | (-0.81) |
| Director is a CEO | 0.063*** | 0.016*** | -0.017 |
| | (3.07) | (2.65) | (-1.45) |
| Director age | 0.002* | 0.001** | -0.000 |
| | (1.77) | (2.12) | (-0.62) |
| Director age 70 and above | -0.038 | -0.004 | 0.017 |
| | (-1.29) | (-0.56) | (1.27) |
| Director age 65 to 69 | -0.010 | -0.010** | 0.006 |
| | (-0.57) | (-2.27) | (0.73) |
| Director is female | -0.011 | -0.004 | 0.002 |
| | (-0.83) | (-1.05) | (0.33) |
| Director tenure | 0.000 | -0.000 | -0.000 |
| | (0.16) | (-1.10) | (-0.79) |
| Number of board seats | 0.017*** | 0.003*** | -0.008*** |
| | (3.16) | (3.00) | (-3.11) |
| Constant | 0.356 | -0.009 | -0.052 |
| | (1.19) | (-0.39) | (-1.48) |
| Year fixed effects | Yes | Yes | Yes |
| Robust SEs | Yes | Yes | Yes |
| Observations | 1966 | 1904 | 1895 |
| R-squared | 0.118 | 0.134 | 0.159 |

APPENDIX B

SUPPLEMENTAL TABLE

**Table B1: Abnormal change in number of directorships for award-winning directors before the actual accomplishment**

This table reports the abnormal change in the number of directorships for award-winning directors from three years before to one year before the actual accomplishment. Each award-winning director is matched to a cohort of non-winning directors based on age and number of directorships three years before the accomplishment. The abnormal change is calculated by subtracting the median 2-year change in board seats of the matching cohort from the actual change in board seats of the award-winning director. Statistically significant estimates are highlighted in bold. ***, **, and * represent significance level at the 1%, 5%, and 10%, respectively. T-statistics are reported in parentheses.

| | Abnormal change – including seats at nominating companies | N |
|---|---|---|
| All directors – raw change | 0.237 | 76 |
| | (1.51) | |
| All directors – % change | 0.161** | 76 |
| | (2.32) | |
| Directors 70 years and older | 0.176 | 17 |
| | (0.48) | |
| Directors 69 years and younger | 0.254 | 59 |
| | (1.46) | |
| Directors 65 years and older | 0.133 | 45 |
| | (0.57) | |
| Directors 64 years and younger | 0.387** | 31 |
| | (2.18) | |
| Directors with 2 or fewer directorships at t-1 | 0.323* | 31 |
| | (1.83) | |
| Directors with 3 or more directorships at t-1 | 0.178 | 45 |
| | (0.75) | |
| Directors whose awards are based on advising accomplishment | 0.115 | 52 |
| | (0.56) | |
| Directors whose awards are based on monitoring accomplishment | 0.500** | 24 |
| | (2.30) | |
| Directors are members or chairs of at most 1 of the top 3 monitoring committees | 0.167 | 42 |
| | (0.80) | |
| Directors are members or chairs of at least 2 of the top 3 monitoring committees | 0.324 | 34 |
| | (1.33) | |

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