The value of reputation in outside director appointments

Abstract

This study examines director reputation using a sample of outside director appointments. Relative to existing literature, we uniquely focus on outside director appointments involving CEO award winners in order to capture the value of reputation. Exploiting the award-induced increase in a director's reputation, we find evidence of an short-term reputation premium. Investors attach a premium of roughly 2% to the appointment of a CEO award winner to the board of directors. Looking at long-term performance following appointments, however, we find no evidence of abnormal returns. Our findings thus question whether star directors help contribute to the long-run success of a firm.

1

1 Introduction

Reputation is a well-known commodity in the market for outside directors (Fama, 1980; Fama and Jensen, 1983). Recent research has highlighted the importance of director-level reputation in respect to monitoring of firm activities (Masulis and Mobbs, 2014; Jiang et al., 2015) and firm outcomes (Masulis and Mobbs, 2016). However, given the difficulties involved in measuring and testing director reputation, many questions in respect to the costs and benefits of director reputation remain unanswered.

One area where reputation is particularly important but has not been directly studied is in the initial decision to appoint directors. Appointing prestigious outside directors to a firm's board of directors serves as a signal of quality to existing and potential shareholders. Kaplan and Reishus (1990) argue that while boards retain directors based on loyalty and relationships, director appointments are largely made based on reputation. It is not clear, however, whether firms benefit from the appointment of a reputable director and how investors view such appointments.

From the perspective of shareholders the appointment of highly reputable directors is a double-edged sword. On the one hand, reputation can be interpreted as an incentive that motivates directors to act in the best interest of shareholders to protect their own reputation. Directors will therefore have a strong interest to be viewed as diligent and effective monitors. As a result they are more likely to challenge management, promote corporate governance and transparency leading to positive firm outcomes (Jiang et al., 2015; Masulis and Mobbs, 2014, 2016). On the other hand, reputable directors are likely to be highly demanded in the director labour market. Given the

high demand for their services, the directors are more likely to "trade-up" as described in Masulis and Mobbs (2014). That is, directors are more likely to relinquish board seats at less prestigious firms and allocate time unequally with respect to the relative visibility and prestige they derive from different directorships. In addition, highly reputable directors may simply be heavily time constrained given the demand for their services, resulting in poor monitoring and firm outcomes (Fich and Shivdasani, 2006; Falato et al., 2015).

The question then is whether investors recognize reputation as a resource and an incentive device that motivates directors to act in their best interest? Or do they take a critical stance and view highly reputable directors as heavily time constrained directors waiting to "trade-up" to board positions at more prestigious firms? In either case the appointment of an external director with reputation should act as a value signal to investors. No studies, however, have directly studied the value of director reputation in outside director appointments.

Our approach involves denoting outside directors as having recognizable reputation if they have held a role of CEO in another company and won a prominent CEO award in that role. Specifically, we examine the announcement and long-term share price performance on the appointment of a sample of outside directors who have won a CEO award at some point in their career. A noteworthy feature of our study is that we test the reaction to an outside director appointment from this sample not just if at the time of their appointment they are active CEOs who have won an award, but also for appointments before they have won an award, and before and after they are in an active CEO role. This allows us to isolate the impact of winning

3

a reputation-conferring reputation award.

We use a hand-collected list of CEO award winners and search *LexisNexis* for outside director appointments. Our final sample consist of 432 director appointments across different career stages, before and after the directors win a first CEO award. As in Malmendier and Tate (2009), we use a sample of prestigious CEO awards conferred by editorials of major national publication, to identify an exogenous upward shift in director reputation. We exploit this shift to evaluate the value consequences of director reputation and gain a better understanding of the director selection process.

CEO awards are a public signal of the CEO's quality and achievements. While the influence of CEO awards has been studied in relation to the CEO's own firm[1], little is known about the influence of the enhanced reputation on external appointments to corporate boards. Yet Malmendier and Tate (2009) show that among other things, such as engaging in a range of "celebrity" activities, the CEO's outside board responsibilities increase considerably following a CEO award. We argue that CEO awards contribute significantly to a director's reputation and serve as an important signal in the market for corporate directors.

Outside director appointments are particularly well suited for the purpose of this study because firms actively communicate career highlights and achievements of the appointed director, as part of justifying the new appointment. The briefing note following the appointment of Leonard D. Schaeffer, CEO of WellPoint, as a director of Providian Financial provides an example and highlights how investors may be swayed through the appointment announcement:

---

[1]Malmendier and Tate (2009) show that CEOs receive higher compensation from their firm following receiving an award, indicating that their own Board of Directors value the increased reputation of the CEO, but that they also tend to underperform compared to similar CEOs who did not win an award.

"Mr. Schaeffer was recently selected by BusinessWeek magazine as one of the "Top 25 Managers of the Year," and by WORTH magazine as one of the "50 Best CEOs in America" for his leadership of WellPoint, one of the nation's largest publicly traded health care companies. WellPoint operates in California as Blue Cross of California and as UNICARE Life & Health Insurance Company throughout the rest of the nation." (*Business Wire*, 14 February 2001, retrieved from LexisNexis)

The approach presented in this paper has important advantages. Most existing studies compare investor reactions to CEO director appointments to those of non-CEO director appointments (Fich, 2005; Fahlenbrach et al., 2010). These studies generally find a more positive reaction to the appointments of CEO directors. This empirical approach, however, is likely to reveal differences in the quality of the appointed directors, rather than providing insights in respect to director reputation (Adams et al., 2010). Using a robust event study methodology we are able to alleviate the sample selection concerns present in most studies in this area; most importantly our sample compares only among those who are all at one point in their career award-winners.

A first key finding of the study is in line with recent research on CEO appointments (Masulis and Mobbs, 2014, 2016; Jiang et al., 2015), and shows the importance of director-level reputation in the market for outside directors. We show that investor reactions are significantly stronger for the appointment of a CEO award winner. The premium attached to an appointment of an outside director who is a CEO and has won an award ranges from 2.02% to 2.10%. For the average firm in our sample, this short-term value effect translates into an increase in market capitalization between $591 and $614 million.

Because our analysis covers directors across different stages of their career we cannot

fully rule out that our overall results reflect differences in the relative value attached to a director's career stage, rather than differences in reputation. We therefore re-estimate our baseline regression for a sample of director appointments while the award winner is also at that time in a CEO position. This subsample allows us to test our hypothesis using a more homogeneous sample of directors in terms of experience and achievements. Again, we find significantly more positive investor reactions if the appointed director has won an award. Our findings demonstrate that investors recognize and value director reputation.

Secondly, this study also contributes to our understanding of outside director effectiveness and whether or not individual directors are important for firm performance. Given the high quality of the directors in our sample (all the included directors at some point win a CEO award), we would expect that firms benefit in the long-run from the appointment of such a high profile director or, at least, that the firm's continue to perform as they did before the appointment. Our findings however show no effect on company value as measured by long-term abnormal equity returns.

Finally, we contribute through the introduction of a new event study sampling method to evaluate the value consequences of director reputation. The approach advocated in this study has important advantages. Most studies on the boards of directors are conducted at the firm-board level and given the concern of Hermalin and Weisbach (1998), that boards are, at least partially, endogenously chosen, any result suggesting a relation between corporate governance and firm outcomes is difficult to interpret. Using the event study methodology applied in this paper, and particularly the sample we choose, allows us to design a test of director reputation

6

that is not confounded by sample selection concerns.

The remainder of this paper is organized as follows. In Section 2 we develop and justify the testing approach and the data choices of the paper. The results are presented in Section 3, and Section 4 concludes.

2 Empirical strategy

2.1 Data and descriptive statistics

We use a hand-collected list of CEO awards awarded to US firm CEOs. In line with Malmendier and Tate (2009) and Shemesh (2014) the awards are from different sources such as *Business Week*, *Financial World*, *Forbes*, *Chief Executive*, *Morningstar.com*, *Electronic Business Magazine*, *Industry Week* and the *Harvard Business Review*. In total, our sample includes 839 CEO awards between 1975-2013. After accounting for those CEOs who have received multiple awards, we identify 582 individual award-winning CEOs.

Using the names of those individual award-winning CEOs, we search the *LexisNexis* data retrieval system for newspaper articles and press releases covering director appointments. We exclude appointments that were announced alongside other major company news such as dividend announcements, press releases around appointments or retirements of executives and directors or proposed acquisitions. Second, we exclude appointments that constitute a director re-election (Fich, 2005). This procedure yields a total of 920 outside director appointments for 269 individual directors. For every appointment we collect information from sources such as *Who's Who in*

Finance and Business and *NNDB*, accounting data from *Compustat* and stock market data from *CRSP*. Our final sample for which all required information is available consists of 432 first-time director appointments of 238 individual directors from 1977 to 2015.

We include control variables to capture various director characteristics. We note the stage of a director's main career at the date of appointment (*Other Chief Executive* and *Other Executive*) and the total number of awards they have won as a measure of ability (*Total Number of Awards*). We include a control variable for gender (*Female*) because female executives have been shown to behave differently compared to their male counterparts. Faccio et al. (2016), for example, show that firms run by female CEOs have lower leverage, are less volatile and a higher chance of survival. Further, Chevalier and Ellison (1999) provide an example of how mutual fund managers who attended higher-SAT undergraduate institutions earn higher risk-adjusted returns throughout their career. As a proxy for academic excellence and ability, we include an indicator variable for whether or not the director received part of his education in an Ivy League institution (*Ivy League*) and whether or not the director has a Ph.D or equivalent (*Ph.D./J.D./M.D*).

Additional controls include an indicator variable for whether or not the director is a founder or co-founder (*Founder/CoFounder*), a control for whether or not the appointee works in the US (*International Appointment*). We include the total number of board seats held by the director (*Number of Directorships*) (Fich and Shivdasani, 2006; Falato et al., 2015) and an indicator variable to identify appointments of industry CEOs (*Industry CEO*)[2]. To control for firm characteristics, we include a

---

[2]We define industries using the Fama-French 48 industry classifications. Using the Fama-French 12 industry

measures of firm size ($LN(Assets)$), firm value ($Market\text{-}to\text{-}Book$), research intensity ($R\&D\ Expense$) and the contemporaneous (ROA) and lagged operating profitability (ROA_{t-1})[3].

Information about the director sample and firm characteristics are presented in Table 1. Overall, at the time of the appointment, 4% of the directors are other non-chief executives, 11% are chief executives but not CEOs, 58% are active CEOs and 27% are retired. The majority of award winners in our sample are male (>90%). Approximately 5% of the appointees are founders or co-founders and a similar proportion constitutes appointments of individuals who primarily work outside the US. Moreover, at the time of appointment, the average director holds 2.2 corporate board seats. In respect to education, approximately 13% of the directors in the sample hold a Ph.D., J.D. or M.D. and almost 30% have received at least part of their education in an Ivy League institution. Finally, we find that just over half (57%) of the appointments occur after the director has won the first CEO award. On average, the directors in our sample win approximately 1.5 awards throughout their career.

Firm characteristics are presented in Table 2. The average appointing firm in our sample is very large with $46 billion in total assets and a market capitalization of $29 billion, has a market-to-book value of 3.4, research and development expenses of 6%, and a return on asset of 13%.

---

classification or 2-digit SIC Codes does not change our results

[3]Definitions of all variables throughout this study can be found in the appendix.

2.2 Testing approach

We follow the standard methodology of Dodd and Warner (1983) and estimate cumulative abnormal returns using the market model for one year of trading data prior to the event window[4]. This is similar to the methodology applied by Kang et al. (2010) in their study of investor reaction to the appointment of female directors. We then estimate the following regression model:

$$CAR_i = \alpha_0 + \beta_1 CEO_i + \beta_2 First\,Award_i + \beta_3 CEO \times First\,Award_i + \beta_4 X'_i + \mu_i, \quad (1)$$

where CAR_i is the 3-day cumulative abnormal return of director announcement i. CEO is an indicator variable equal to 1 if the director is the CEO of another firm at the time of appointment. $First\,Award$ is an indicator variable equal to 1 if the director has won an award at the time of the appointment. $CEO \times First\,Award$ is an interaction effect that is equal to 1 if the director is the CEO of another firm and has won an award at the time of appointment. Control variables (X_i) include director and firm characteristics. To ensure the robustness of our results we re-estimate a similar model for a subset of 237 CEO outside director appointments as Fich (2005) and Fahlenbrach et al. (2010) find evidence of a general certification effect associated with the appointments of CEOs as directors.

$$CAR_i = \alpha_0 + \beta_1 First\,Award_i + \beta_2 X'_i + \mu_i, \quad (2)$$

Lastly, we evaluate the long-term implications following director appointments, by testing for long-term share price outperformance. We look at long term excess returns

---

[4]We also estimate CARs with market-adjusted returns to eliminate the possibility that a bias in the market model parameters are driving our results. The results in our main analysis are robust to the use of market-adjusted returns.

for the 12-month, 24-month and 36-month event window pre- and post-appointment. We use a calendar-time approach and calculate monthly calendar-time portfolio returns for the director appointments in our sample. Then, we calculate the monthly abnormal return by estimating the intercept of calendar-time portfolio the following Fama and French (1993) three factor model.

$$AR_{it} = R_{it} - R_{ft} - \beta_{i1}(R_{mt} - R_{ft}) - \beta_{i2}HML_t + \beta_{i3}SMB_t \tag{3}$$

where AR_{it} or Alpha is the monthly abnormal return of the calendar-time portfolio. HML_t and SMB_t are the Fama-French book-to-market and size factor. As noted by Fama (1998), this methodology has distinct advantages over methodologies relying on buy-and-hold abnormal return to evaluate long-term performance. The calendar-time approach of Fama and French (1993) allows us to take into account cross-correlations across event firms and the return distribution provides a close approximation of the normal distribution.

3   Investor reaction to director appointments

In this section we evaluate whether returns to director appointments differ around the immediate window of the appointment announcement as well as over the long-run. Fich (2005) and Fahlenbrach et al. (2010) find positive announcement returns to the appointment of CEO directors and argue that investors react positively to the announcement because the appointment of a CEO provides a certification benefit for the appointing firm and because the CEO, through their innate ability and expertise, can help the firm realize its growth potential. This study takes a differ-

ent approach and specifically looks at the role of director reputation and evaluates whether investors attach a premium to the appointment of directors they perceive as more reputable. Given there can be both an immediate announcement price effect and a longer-term value impact of an appointment, we test for the presence of both of these potential features.

3.1 Announcement returns: univariate analysis

First, we look at univariate statistics comparing announcement returns for different groups of directors. We report mean and median cumulative abnormal returns across the 3-day, 5-day and 11-day event window. The results are presented in Table 3. Univariate results for directors who are currently CEOs are presented in Panel A, those directors who have won a CEO award in Panel B and those that are both currently CEOs and have also won an award in Panel C.

We find consistently more positive announcement returns for CEO director appointments compared to non-CEO appointments and for the appointments of directors who have won a CEO award compared to those who have not yet won an award at the date of announcement. However, in both cases the differences are not statistically significant. When we look at those directors who are active CEOs and have also won a CEO award we find a significant impact. These are the directors with the highest relative reputation in our sample; they derive reputation and status from their position as CEO of another firm and also from the CEO award. The CEO award can be viewed as a public signal of the CEO's quality and can thus considerably increase his or her perceived status. Consistent with our argument, we find statistically

significant and economically meaningful differences (0.85% vs. 0.17%) in announcement returns for the award-winning CEOs in our sample. An announcement return of 0.85% translates into an increase in market capitalization of approximately $249 million for the average appointing firm in our sample. The increase in market value is even more pronounced for the 5-day and 11-day event window.

3.2 Announcement returns: multivariate analysis

Next, we test our prediction in a formal model. We estimate a simple regression model with the 3-day cumulative abnormal return as the dependent variable. The variables of interest are an indicator variable equal to 1 if the director is the CEO of another firm (CEO), an indicator variable that is equal to one if the director has won an award ($First\,Award$) and the interaction term that is equal to 1 if the director is CEO and has won an award ($CEO \times First\,Award$). The analysis also includes a range of control variables to control for director- and firm-level characteristics. The results are reported in Table 4.

The results of our multivariate analysis are in agreement with the univariate results. We find convincing evidence that, across our sample, investor reactions are significantly stronger for the appointments of CEOs who have won an award. The premium attached to announcements of directors who are CEOs and have won an award at the time of the appointment ($CEO \times FirstAward$) ranges from 2.02% to 2.10% (column (1) to column (6) in Table 4). We call this the reputation premium. Our findings provide direct evidence that reputation is recognized and valued by investors. For the average firm, the short-term value effect of the reputation premium is equivalent

13

to \$591 to \$614 million.

Further, we find that the coefficients for CEO and $First\ Award$ are both significant and negative, suggesting that the overall positive announcement returns observed for our sample of director appointments is driven by a few "high reputation - high impact" appointments resulting in significantly value creation for the appointing firm. It is further important to note, that our results are not in conflict with the finding of Fich (2005) and Fahlenbrach et al. (2010) who generally find positive announcements for CEO directors and these researchers take a different approach and only compare announcement returns to CEO directors vs. non-CEO directors.

With respect to our control variables, we find that appointments of non-chief executives and the appointment of female directors in our sample are viewed especially critically by shareholders. While it makes intuitive sense why directors may not view the appointment of non-chief executives favourably, the strong negative coefficient for female directors is more puzzling. A possible explanation is, that especially for large firms, the pool of female directors with the right profile is small and that in an attempt to create gender-diverse boards, firms appoint female directors whose expertise does not match the core business of the appointing firm and is thus viewed as suboptimal by investors. It could also be that the small number of female directors in our sample is driving these findings. Finally, we find a negative association the firm's market-to-book ratio and a positive association with a firm's current operating profitability.

Having shown that investors react more positively if the appointed director is a CEO award winner, a natural follow-on question is whether the observed premium

increases with the number of CEO awards a CEO has won. While we expect that winning a second CEO award may still further increase a CEO's reputation, the second award does not carry the same weight and importance as the first CEO award. Our three variables of interest to measure this effect are: an indicator variable equal to 1 if the director has won two or more awards (*Multiple Award Winner*), an indicator variable equal to 1 if the director has won 3 or more awards (*3 Or More Awards*) and another indicator variable equal to 1 if the director has won 4 or more awards (*4 Or More Awards*). We interact those variable with an indicator variable indicating that the director is a CEO (*CEO*). The results are presented in Table 5.

Using the same set of control variables as in our main analysis, we find no evidence suggesting that the investor reaction increases with the number of awards a CEO has won. The coefficients on all our variables of interest are small and insignificant. As before we find a significant negative effect for the female directors of approximately 2%. Further, we also find that the market-to-book ratio is negatively associated with announcement returns. Finally, operating profitability, measured as return on assets, has a slight positive effect on the stock price reaction. We conclude that the benefit from winning an additional award does not increase the director's reputation in the same significant way as the first CEO award. Winning the first CEO award significantly improves the director's profile and visibility, winning another award does not.

To further establish the existence of a reputation premium, we re-estimate our baseline regression for a subsample of just active CEOs at the date of appointment. There is a possibility that our main results could be driven by the fact that investors

simply react more positively to the appointment of any CEO directors (Fich, 2005; Fahlenbrach et al., 2010). We therefore exclude all director appointments where the director was not a CEO at the time of appointment and with the reduced sample test whether investor reactions are stronger for the appointments of CEO's who have also won an award. Our sample includes 237 CEO outside director appointments. Similar to our main analysis we use the 3-day cumulative abnormal return around the director appointment. The results are reported in Table 6.

The results further support our argument that investors attach a premium to the recruitment of directors who have won a CEO award. The effect is significant and equivalent to an increase in the announcement returns of approximately 1% on average.

3.3   Long-term performance

Lastly we examine whether firms benefit in the longer-term from appointing highly skilled and reputable executives. We evaluate firm performance by looking at 12-month, 24-month and 36-month event windows. We first analyze post-appointment performance for all directors in our sample, and subsequently examine performance by CEO directors, award-winning directors, and award-winning CEO directors as per the analysis of announcement returns. The results, presented in Table 7, are based on the Fama-French three factor model using value-weighted monthly portfolio returns of acquiring firms.

Overall, there is little to no evidence of outperformance across all post-appointment periods. We find some signs of outperformance at the 10% significance level for

all director appointments at the 24-month and for CEO appointments at the 24- and 36-month event window, but it wouldn't be appropriate to overinterpret this as suggesting a significant relationship between appointment a director and the long-term performance of the firm. Our results thus shed doubt on the notion that individual outside directors have a significant effect on firm outcomes.

4   Conclusion

We study the role of director reputation using a short- and long-term event study based on stock market data. We collect outside director appointments for the CEO award winners across different stages of their career. Exploiting an exogenous shift in reputation, induced by prestigious CEO awards, we show that investors recognize and value the reputation of appointed outside directors. We confirm the robustness of the reputation premium for a subsample of CEO director appointments. Given the large average firm size in our sample the reputation premium translates into an economically meaningful short-term value effect.

Given the high quality of the directors in our sample (all the directors end up winning a CEO award), we might expect that firms benefit from the appointment of such a high profile director over the longer term. This intuition, however, is not supported by the data, as we find no evidence of such outperformance when we carry out a long-run abnormal equity returns test. The findings call into question the general consent that outside directors have a role apart from monitoring and can significantly affect firm value and performance.

The primary contribution of this study is the addressing of a gap in the literature on investor's perceived value of reputation in the appointment of outside directors. However our proxy of reputation; that the appointee has held a CEO position and been awarded for their performance in that CEO role, is likely to be just a subset of the measures by which investors might perceive the reputation of directors. Further exploration of appropriate measurement approaches to capture director reputation and the relationship with firm value is merited in future research.

5 Tables

Table 1
Director characteristics

The table below reports director-level descriptive statistics. The sample consists of 432 outside director appointments of 238 individual directors from 1977 to 2015. For every appointment we collect information from sources such as *Who's Who in Finance and Business* and *NNDB*. The number of observations are reported in column (1), mean and median in column (2) and (3) respectively, and standard deviation in column (4).

	Obs. (1)	Mean (2)	Median (3)	Std. Dev. (4)
CEO	430	0.584	1	0.494
Other Chief Executive	430	0.042	0	0.201
Other Executive	430	0.107	0	0.309
Retired	430	0.265	0	0.442
Female	429	0.096	0	0.294
Founder/CoFounder	430	0.051	0	0.221
International Appointment	432	0.049	0	0.215
Number of Board Seats	430	2.177	2	1.337
More Than 4 Board Seats	432	0.176	0	0.381
PhD/J.D./M.D.	430	0.126	0	0.332
Ivy League	430	0.288	0	0.454
First Award	432	0.567	1	0.496
Total Number Awards	432	1.479	1	0.975
Multiple Award Winner	432	0.269	0	0.444
3 Or More Awards	432	0.123	0	0.328
4 Or More Awards	432	0.060	0	0.238

Table 2
Firm characteristics

The table below provides descriptive statistics for all appointing firms in the main analysis. The sample consists of 432 outside director appointments of 238 individual directors from 1977 to 2015. Balance sheet data is from *Compustat* and stock market data from *CRSP*. Cumulative abnormal returns are computed using the market model for 1 year of trading data prior to the event window around the director appointment. The number of observations are reported in column (1), mean and median in column (2) and (3) respectively, standard deviation in column (4) and the 10th and 90th percentile in column (5) and (6).

	Obs. (1)	Mean (2)	Median (3)	Std. Dev. (4)	p10 (5)	p90 (6)
Firm characteristics:						
Assets ($M)	423	46,606	6,443	120,034	282	125,451
Market Capitalization	423	29,256	6,495	63,777	429	70,419
Market-to-Book	423	3.382	2.324	3.669	0.708	7.004
R&D Expense	417	0.059	0.005	0.183	0.000	0.138
ROA	423	0.133	0.146	0.113	0.013	0.253
$ROA_{(t-1)}$	417	0.126	0.144	0.118	0.000	0.247
Announcement returns:						
CAR[-1,1]	407	0.003	0.002	0.038	-0.038	0.049
CAR[-2,2]	407	0.006	0.004	0.048	-0.048	0.058
CAR[-5,5]	408	0.004	0.001	0.079	-0.077	0.088

Table 3
Appointing firm announcement CARs: Univariate analysis

This table presents univariate results for the 3-day, 5-day and 11-day cumulative abnormal return (CAR) around the outside director appointments in our sample. We report mean and median cumulative abnormal returns. Panel A compares CARs for CEO director appointments versus non-CEO director appointments. Panel B compares CARs for a subsample of award winners vs. non-award winners and Panel C compares CARs for a subsample of directors who are CEOs and have won an award to the remaining directors in the sample. We report we report a t-test for means in column (3) and a Wilcoxon signed-rank test for medians in column (4).

Panel A	Outside director is CEO Mean (Median) (1)	Outside director is not CEO Mean (Median) (2)	t-Value (t-test) (3)	z-Value (Wilcoxon test) (4)
CAR[-1,1]	0.0060 (0.0025)	-0.0002 (0.0001)	1.614	1.372
CAR[-2,2]	0.0074 (0.0060)	0.0035 (0.0002)	0.8197	1.430
CAR[-5,5]	0.0082 (0.0043)	-0.0007 (-0.0019)	1.125	0.970
Panel B	Outside director is award-winner Mean (Median) (1)	Outside director is not award-winner Mean (Median) (2)	t-Value (t-test) (3)	z-Value (Wilcoxon test) (4)
CAR[-1,1]	0.0035 (0.0024)	0.0033 (0.0011)	0.0655	0.373
CAR[-2,2]	0.0073 (0.0058)	0.0039 (0.0033)	0.7086	0.518
CAR[-5,5]	0.0074 (0.0011)	0.0009 (-0.0050)	0.8265	0.509
Panel C	Outside director is CEO and award-winner Mean (Median) (1)	Outside director is not CEO and not award-winner Mean (Median) (2)	t-Value (t-test) (3)	z-Value (Wilcoxon test) (4)
CAR[-1,1]	0.0085 (0.0057)	0.0017 (0.0002)	1.775*	1.969**
CAR[-2,2]	0.0116 (0.0084)	0.0038 (0.0015)	1.789*	1.979**
CAR[-5,5]	0.0172 (0.0118)	0.0002 (-0.0030)	1.955**	1.858*

Table 4

Determinants of appointing firm announcement CARs: First CEO award

This table reports regression results with the 3-day cumulative abnormal return associated with an outside director appointment as dependent variable. The sample consists of 432 outside director appointments of 238 individual directors from 1977 to 2015. An intercept is included in all regressions but not reported. $t-statistics$ given in parentheses are based on standard errors corrected for heteroskedasticity and director-level clustering. ***, **, and * indicate statistical significance at the 1%, 5% and 10% levels.

	CAR[-1,1]					
	(1)	(2)	(3)	(4)	(5)	(6)
CEO × First Award	0.0209***	0.0210***	0.0202***	0.0204***	0.0203***	0.0207***
	(2.78)	(2.75)	(2.66)	(2.63)	(2.62)	(2.66)
CEO	-0.0142**	-0.0141**	-0.0138*	-0.0137*	-0.0142*	-0.0147**
	(-2.00)	(-1.98)	(-1.92)	(-1.91)	(-1.96)	(-2.03)
First Award	-0.0126*	-0.0126*	-0.0115*	-0.0115*	-0.0114*	-0.0119*
	(-1.94)	(-1.93)	(-1.75)	(-1.72)	(-1.72)	(-1.81)
Total Number Awards	-0.00193	-0.00191	-0.00188	-0.00195	-0.00196	-0.00193
	(-0.89)	(-0.84)	(-0.82)	(-0.85)	(-0.86)	(-0.86)
Other Chief Executive	-0.00282	-0.00292	-0.00353	-0.00337	-0.00321	-0.00301
	(-0.29)	(-0.30)	(-0.35)	(-0.34)	(-0.32)	(-0.31)
Other Executive	-0.0205***	-0.0205***	-0.0212***	-0.0211***	-0.0211***	-0.0208***
	(-3.12)	(-3.09)	(-3.22)	(-3.18)	(-3.19)	(-3.15)
Female	-0.0180***	-0.0178***	-0.0183***	-0.0185***	-0.0188***	-0.0190***
	(-3.46)	(-3.35)	(-3.43)	(-3.37)	(-3.35)	(-3.39)
Founder/CoFounder		-0.000977	-0.00159	-0.00182	-0.00172	-0.00186
		(-0.14)	(-0.22)	(-0.26)	(-0.24)	(-0.27)
International Appointment		-0.00130	-0.00201	-0.00170	-0.00117	-0.00138
		(-0.19)	(-0.30)	(-0.24)	(-0.16)	(-0.20)
Number of Board Seats			-0.00126	-0.00134	-0.00127	
			(-0.84)	(-0.91)	(-0.86)	
More Than 4 Board Seats						-0.00649
						(-1.37)
Ph.D./J.D./M.D.				-0.00327	-0.00321	-0.00330
				(-0.62)	(-0.61)	(-0.61)
Ivy League				0.00124	0.00162	0.00158
				(0.29)	(0.37)	(0.35)
Industry CEO					0.00617	0.00577
					(0.61)	(0.56)
LN(Assets)	-0.00153	-0.00152	-0.00154	-0.00155	-0.00148	-0.00153
	(-1.59)	(-1.57)	(-1.58)	(-1.58)	(-1.48)	(-1.52)
Market-to-Book	-0.00107*	-0.00106*	-0.00112*	-0.00111*	-0.00115*	-0.00116*
	(-1.70)	(-1.67)	(-1.77)	(-1.77)	(-1.78)	(-1.81)
R&D Expense	-0.00328	-0.00302	-0.00121	-0.000521	-0.000181	-0.00170
	(-0.15)	(-0.14)	(-0.06)	(-0.02)	(-0.01)	(-0.08)
ROA	0.0669*	0.0674*	0.0675*	0.0666*	0.0673*	0.0692**
	(1.96)	(1.96)	(1.93)	(1.92)	(1.94)	(2.00)
$ROA_{(t-1)}$	-0.0237	-0.0240	-0.0234	-0.0227	-0.0219	-0.0245
	(-0.59)	(-0.60)	(-0.57)	(-0.55)	(-0.53)	(-0.59)
Observations	398	398	398	398	398	398
R^2	0.067	0.067	0.069	0.070	0.071	0.073

Table 5
Determinants of appointing firm announcement CARs: Multiple CEO awards

This table reports regression results with the 3-day cumulative abnormal return associated with an outside director appointment as dependent variable. The sample consists of 432 outside director appointments of 238 individual directors from 1977 to 2015. An intercept is included in all regressions but not reported. $t-statistics$ given in parentheses are based on standard errors corrected for heteroskedasticity and director-level clustering. ***, **, and * indicate statistical significance at the 1%, 5% and 10% levels.

	CAR[-1,1]		
	(1)	(2)	(3)
Multiple Award Winner	-0.000145		
	(-0.02)		
CEO × Multiple Award Winner	-0.00334		
	(-0.37)		
3 Or More Awards		0.00527	
		(0.34)	
CEO × 3 Or More Awards		-0.00783	
		(-0.49)	
4 Or More Awards			-0.0160
			(-1.52)
CEO × 4 Or More Awards			0.00738
			(0.50)
CEO	0.00390	0.00384	0.00277
	(0.71)	(0.79)	(0.57)
First Award	0.00439	0.00425	0.00473
	(1.11)	(1.08)	(1.20)
Other Chief Executive	0.00416	0.00424	0.00362
	(0.41)	(0.41)	(0.35)
Other Executive	-0.00980	-0.00969	-0.0104
	(-1.54)	(-1.53)	(-1.63)
Female	-0.0193***	-0.0189***	-0.0198***
	(-3.55)	(-3.44)	(-3.66)
Founder/CoFounder	-0.00225	-0.00234	-0.000409
	(-0.34)	(-0.34)	(-0.06)
International Appointment	-0.00170	-0.00138	-0.00149
	(-0.24)	(-0.20)	(-0.22)
Number of Board Seats	-0.00161	-0.00162	-0.00163
	(-1.06)	(-1.07)	(-1.09)
Ph.D./J.D./M.D.	-0.00267	-0.00231	-0.00280
	(-0.49)	(-0.43)	(-0.52)
Ivy League	0.00159	0.00160	0.00150
	(0.37)	(0.38)	(0.34)
LN(Assets)	-0.00151	-0.00150	-0.00148
	(-1.56)	(-1.56)	(-1.51)
Market-to-Book	-0.00109*	-0.00109*	-0.00110*
	(-1.73)	(-1.73)	(-1.76)
R&D Expense	-0.00131	-0.000835	-0.00156
	(-0.06)	(-0.04)	(-0.07)
ROA	0.0623*	0.0620*	0.0624*
	(1.81)	(1.79)	(1.79)
$ROA_{(t-1)}$	-0.0214	-0.0222	-0.0215
	(-0.53)	(-0.54)	(-0.52)
Observations	398	398	398
R^2	0.060	0.060	0.063

Table 6
Determinants of appointing firm announcement CARs: Active CEO appointments

This table reports regression results with the 3-day cumulative abnormal return associated with the appointment of an outside director who is an active CEO at the date of appointment. The sample consists of 237 CEO outside director appointments. An intercept is included in all regressions but not reported. $t-statistics$ given in parentheses are based on standard errors corrected for heteroskedasticity and director-level clustering. ***, **, and * indicate statistical significance at the 1%, 5% and 10% levels.

	CAR[-1,1]			
	(1)	(2)	(3)	(4)
First Award	0.00921**	0.00936**	0.00966**	0.00969**
	(2.08)	(2.08)	(2.10)	(2.10)
Total Number Awards	-0.00220	-0.00224	-0.00223	-0.00225
	(-0.84)	(-0.85)	(-0.85)	(-0.86)
Female	-0.0211	-0.0213	-0.0216	-0.0220
	(-1.59)	(-1.61)	(-1.60)	(-1.60)
Founder/CoFounder	0.000794	0.000572	0.000555	0.000587
	(0.09)	(0.07)	(0.06)	(0.07)
International Appointment	-0.0000542	-0.000608	-0.000871	-0.000401
	(-0.01)	(-0.07)	(-0.10)	(-0.05)
Number of Board Seats		-0.000867	-0.000810	-0.000725
		(-0.43)	(-0.40)	(-0.35)
Ph.D./J.D./M.D.			-0.00418	-0.00409
			(-0.70)	(-0.68)
Ivy League			-0.000636	-0.000252
			(-0.11)	(-0.04)
Industry CEO				0.00401
				(0.35)
LN(Assets)	-0.00268**	-0.00266**	-0.00267**	-0.00259*
	(-2.02)	(-1.98)	(-1.99)	(-1.84)
Market-to-Book	-0.00125	-0.00128	-0.00124	-0.00129
	(-1.45)	(-1.48)	(-1.43)	(-1.41)
R&D Expense	0.00211	0.00336	0.00354	0.00218
	(0.05)	(0.08)	(0.08)	(0.05)
ROA	0.0541	0.0542	0.0534	0.0535
	(1.44)	(1.42)	(1.41)	(1.40)
$ROA_{(t-1}$	-0.0276	-0.0264	-0.0262	-0.0243
	(-0.59)	(-0.55)	(-0.54)	(-0.49)
Observations	237	237	237	237
R^2	0.055	0.055	0.057	0.057

Table 7

Long-term firm performance after director appointments

This table reports results from Fama-French (FF) three factor regressions to detect abnormal returns around outside director appointments. This table specifically looks at the post-appointment period. Panel A reports results for the 12-month, Panel B for the 24-month and Panel C for the 36-month post-appointment period. RMRF is the difference between monthly stock return portfolio and 91-day T-bill rate. SMB is the difference between the returns of small size firm portfolios and large size firm portfolios. HML is the difference between the returns of value firm portfolios and growth firm portfolios. We use the weighted least square (WLS) technique in the value-weight portfolio analysis, in which the square root of the number of firms in each month is used as the weight in the regression model. The "Alpha" value reported in the regression model indicates the monthly average abnormal return of the sample. $t-statistics$ given in parentheses and ***, **, and * indicate statistical significance at the 1%, 5% and 10% levels.

	Factors				Model Characteristics	
	Alpha	RMRF	SMB	HML	Adj. R^2	F-stat
Panel A : Event window 0-12 (month)						
All appointments	0.0006	1.1229***	0.1859***	0.1826***	0.6626	283.16***
(N = 421)	(0.35)	(26.86)	(3.60)	(3.13)		
CEO appointments	0.0003	1.1561***	0.0864*	0.1914***	0.6516	263.40***
(N = 244)	(0.15)	(26.17)	(1.62)	(3.05)		
Award-winner appointments	0.0006	1.1433***	0.2077***	0.1767***	0.5978	170.92***
(N = 237)	(0.26)	(20.70)	(3.10)	(2.38)		
Award-winning CEO appointments	-0.0019	1.2437***	0.0423	0.2550***	0.5848	148.90***
(N = 108)	(-0.69)	(19.97)	(0.59)	(3.01)		
Panel B : Event window 0-24 (month)						
All appointments	0.0019*	1.1514***	0.1871***	0.1882***	0.7815	548.22***
(N = 421)	(1.43)	(37.82)	(4.83)	(4.40)		
CEO appointments	0.0020*	1.1563***	0.1236***	0.2107***	0.7323	415.05***
(N = 244)	(1.37)	(33.27)	(2.85)	(4.29)		
Award-winner appointments	0.0020	1.1994***	0.1485***	0.1925***	0.7350	341.14***
(N = 237)	(1.11)	(30.12)	(2.98)	(3.56)		
Award-winning CEO appointments	0.0018	1.2338***	-0.0202	0.2737***	0.6472	224.18***
(N = 108)	(0.81)	(25.25)	(-0.35)	(4.14)		
Panel C : Event window 0-36 (month)						
All appointments	0.0013	1.1732***	0.1625***	0.2283***	0.8354	787.68***
(N = 421)	(1.22)	(46.06)	(4.97)	(6.36)		
CEO appointments	0.0017*	1.1370***	0.1062***	0.2286***	0.7760	537.97***
(N = 244)	(1.35)	(38.38)	(2.87)	(5.52)		
Award-winner appointments	0.0012	1.2163***	0.1478***	0.2586***	0.7979	485.36***
(N = 237)	(0.79)	(36.40)	(3.49)	(5.65)		
Award-winning CEO appointments	0.0013	1.1639***	0.0344	0.3050***	0.6893	273.12***
(N = 108)	(0.71)	(27.93)	(0.69)	(5.43)		

6 Appendix

The governance data are from *RiskMetrics*, accounting data are from *Compustat*, stock return data are from *CRSP* and M&A data from SDC. The data is for the period from 1996-2013.

Variable	Definition	Data source
Panel A: Awards		
First Award	An indicator variable equal to 1 if the director has won an award at the time of appointment.	CEO awards; LexisNexis
Total Number Awards	The total number of awards the director wins throughout his or her career.	CEO awards
Panel B: Director characteristics		
CEO	An indicator variable equal to 1 if the director is a CEO at the time of appointment	NNDB; Who's Who in Finance and Business, Execucomp
Other Chief Executive	An indicator variable equal to 1 if the director is a chief executive other than CEO at the time of appointment	NNDB; Who's Who in Finance and Business; Execucomp
Other Executive	An indicator variable equal to 1 if the director holds a non-chief executive position at the time of appointment	NNDB; Who's Who in Finance and Business; Execucomp
Retired	An indicator variable equal to 1 if the director is retired at the time of the appointment.	NNDB; Who's Who in Finance and Business; Execucomp
Female	An indicator variable equal to 1 if the director is female	NNDB; Who's Who in Finance and Business
Founder/CoFounder	An indicator variable equal to 1 if the director is a founder or co-founder of a publicly traded company	NNDB; Who's Who in Finance and Business
International Appointment	An indicator variable equal to 1 if the director's primary work is outside the United States.	NNDB; Who's Who in Finance and Business
Number of Board Seats	Number of outside board seats director held at time of appointment	LexisNexis, NNDB, Bloomberg Businessweek, RiskMetrics
More Than 4 Board Seats	An indicator variable equal to 1 if the director held more than 4 outside board seats at the time of appointment.	LexisNexis, NNDB, Bloomberg Businessweek, RiskMetrics
Ph.D/J.D./M.D.	An indicator variable equal to 1 if the director has a Ph.D, J.D. or M.D.	NNDB; Who's Who in Finance and Business
Ivy League	An indicator variable equal to 1 if the director has completed at least parts of his or her education at an ivy league institution	NNDB; Who's Who in Finance and Business
Panel C: Appointing and appointee firm characteristics		
Assets ($M)	Total assets.	Compustat
Market Capitalization	Market capitalization.	CRSP
Market-to-Book	Market capitalization over book equity.	CRSP; Compustat
R&D Expense	R&D expenditure over lagged assets. Missing values are substituted with zeros unless indicated.	Compustat
ROA	Operating income before depreciation over lagged assets.	Compustat

References

Adams, R. B., B. E. Hermalin, and M. S. Weisbach (2010). The role of boards of directors in corporate governance: A conceptual framework and survey. *Journal of Economic Literature 48*(1), 58–107.

Chevalier, J. and G. Ellison (1999). Are some mutual fund managers better than others? cross-sectional patterns in behavior and performance. *The Journal of Finance 54*(3), 875–899.

Dodd, P. and J. B. Warner (1983). On corporate governance: A study of proxy contests. *Journal of Financial Economics 11*(1), 401–438.

Faccio, M., M.-T. Marchica, and R. Mura (2016). Ceo gender, corporate risk-taking, and the efficiency of capital allocation. *Journal of Corporate Finance*.

Fahlenbrach, R., A. Low, and R. M. Stulz (2010). Why do firms appoint ceos as outside directors? *Journal of Financial Economics 97*(1), 12–32.

Falato, A., D. Li, and T. Milbourn (2015). Which skills matter in the market for ceos? evidence from pay for ceo credentials. *Management Science 61*(12), 2845–2869.

Fama, E. F. (1980). Agency problems and the theory of the firm. *The Journal of Political Economy*, 288–307.

Fama, E. F. (1998). Market efficiency, long-term returns, and behavioral finance. *Journal of Financial Economics 49*(3), 283–306.

Fama, E. F. and K. R. French (1993). Common risk factors in the returns on stocks and bonds. *Journal of Financial Economics 33*(1), 3–56.

Fama, E. F. and M. C. Jensen (1983). Separation of ownership and control. *Journal of Law and Economics 26*(2), 301–25.

Fich, E. M. (2005). Are some outside directors better than others? Evidence from director appointments by fortune 1000 firms. *The Journal of Business 78*(5), 1943–1972.

Fich, E. M. and A. Shivdasani (2006). Are busy boards effective monitors? *The Journal of Finance 61*(2), 689–724.

Hermalin, B. E. and M. S. Weisbach (1998). Endogenously chosen boards of directors and their monitoring of the ceo. *American Economic Review*, 96–118.

Jiang, W., H. Wan, and S. Zhao (2015). Reputation concerns of independent directors: Evidence from individual director voting. *Review of Financial Studies 29*, 655–696.

Kang, E., D. K. Ding, and C. Charoenwong (2010). Investor reaction to women directors. *Journal of Business Research 63*(8), 888–894.

Kaplan, S. N. and D. Reishus (1990). Outside directorships and corporate performance. *Journal of Financial Economics 27*(2), 389–410.

Malmendier, U. and G. Tate (2009). Superstar CEOs. *The Quarterly Journal of Economics 124*(4), 1593–1638.

Masulis, R. W. and S. Mobbs (2014). Independent director incentives: Where do talented directors spend their limited time and energy? *Journal of Financial Economics 111*(2), 406–429.

Masulis, W. and S. Mobbs (2016). Supply and demand for independent director services: Major board decisions and corporate outcomes. *Working Paper, SSRN*.

Shemesh, J. (2014). Ceo social status and risk-taking. *Working Paper, Melbourne University*.