

Boardroom Brawls: An Empirical Analysis of Disputes Involving Directors

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January 2011

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Abstract

We examine the nature, determinants, and consequences of boardroom disputes. Using a novel, hand-collected dataset of internal disputes in publicly-traded U.S. companies over 1995-2006 that come to light upon the occurrence of director turnover, we find that such conflicts typically appear to be the result of power struggles between management and directors. About two-thirds of the conflicts pertain to board functioning or agency problems, while most of the remaining cases involve disagreements over corporate strategy or financial policy. Disputes are more likely to occur at companies founded by the CEO or companies with shorter CEO tenures, higher independent blockholdings, bigger or less independent boards, or worse performance. Within firms that experience a dispute, directors with shorter tenures and directors who are likely to be more independent of management (e.g., entrepreneurs, venture capitalists or investment bankers) are more likely to be involved in the dispute. Stock prices experience large and significant declines upon the revelation of boardroom disputes. Finally, dispute firms exhibit poor operating and stock price performance in the years surrounding a dispute episode, and they experience a greater incidence of post-dispute shareholder class-action lawsuits, proxy contests, asset divestitures, and stock market delistings compared to control firms. Our findings provide a rare glimpse into the internal functioning of corporate boards and contribute to our understanding of boardroom conflict.

Keywords: Boards of directors; Boardroom disputes; Board disputes; Director disputes; Director departures

JEL Classifications: G34, D23, D74, K22

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1. Introduction

In an influential review article, Shleifer and Vishny (1997) define corporate governance as “the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.” Boards of directors play a critical role in a firm’s governance, for they serve as fiduciaries of shareholders and are charged with hiring, advising, compensating, monitoring, and disciplining management.

Anecdotal evidence indicates that boards do not always function smoothly, and they sometimes experience discord and strife. A recent example is the board dispute that came to light when prominent venture capitalist Thomas J. Perkins resigned abruptly from the board of Hewlett-Packard in May 2006 (see Murray (2006)). Perkins claimed to have resigned in response to HP Chairwoman Patricia Dunn’s violation of his and other directors’ privacy in uncovering the source of a media leak concerning confidential boardroom deliberations. In the ensuing controversy, Dunn herself resigned from HP’s board in September 2006, and criminal felony charges were subsequently brought against her and other HP officials.

Another recent example is the internal conflict revealed in October 2006 by the sudden resignation of Jerome York from General Motors’ board of directors. York, the representative of GM’s then-largest shareholder Kirk Kerkorian, resigned over GM’s refusal to enter into a strategic alliance with Nissan Motor Company and Renault SA. Upon news of his departure, the stock fell by over 6%, reducing GM’s market value by approximately \$1 billion (see Langley, Boudette and White (2006)).

The HP and GM incidents, along with other episodes at prominent companies, show that boardroom disputes often reveal serious issues facing a firm. The revelation of such issues can, in turn, lead to large declines in share prices. Board disputes can also trigger changes in top management or even put a company ‘in play’ (e.g., Janus Capital Group Inc.; see Dale (2005)). Despite the importance of understanding internal board conflict, however, there is little systematic evidence on why board disputes occur and

what implications they hold for firms. Because boards usually operate out of the public eye, existing economic analyses tend to treat internal board functioning as a ‘black box’ and generally focus on observable characteristics of boards (e.g., size, composition, committee structure or compensation schemes) or directors (e.g., professional experience or networks).¹

In this paper, we provide some of the first systematic evidence on the nature, determinants, and consequences of major internal board disputes. Our study exploits a provision in U.S. securities rules requiring firms to disclose, in some circumstances, the details of internal disputes involving directors. Under this rule provision, when a director of a firm resigns or declines to stand for re-election due to a disagreement involving company operations, policies or practices, the firm must make a timely SEC Form 8-K disclosure summarizing the circumstances surrounding the director’s departure (see Plitch (2005)). In addition, the firm must include in its disclosure any written correspondence from the director describing the reasons for the departure.

We make use of these disclosure requirements to assemble a novel, hand-collected dataset consisting of 181 disputes involving 168 U.S. public companies over 1995-2006 that resulted in one or more director departures. The dataset contains detailed information on the governance characteristics of the 168 dispute firms and of 168 control firms matched by size and industry. We also assemble data on individual characteristics of all 1,087 directors who served on the boards of dispute firms. While the typical firm in our dispute sample is relatively small, the sample includes a number of large, well-known firms such as Cigna Corp., Compass Bancshares, Emerson Radio Corp., Fair Isaac Corp.

¹See, e.g., Hermalin and Weisbach (1988, 1998) and Linck, Netter and Yang (2008) on board composition; Yermack (1996) on the relation between firm value and board size; Agrawal and Knoeber (2001), Kroszner and Strahan (2001) and Fahlenbrach, Low and Stulz (2010a) on the practice of appointing directors with different professional backgrounds; and Klein (1998) on the performance implications of board committee structure. In addition, a sizeable literature examines the consequences of board composition for a variety of corporate phenomena, such as the disciplining of managers, the performance of bidding firms in tender offers, and the adoption of poison pills (see, e.g., Weisbach (1988), Byrd and Hickman (1992), and Brickley, Coles and Terry (1994)). Other research analyzes the consequences of major corporate events for the prospects of top executives and directors in the market for outside directorships (see, e.g., Gilson (1990), Kaplan and Reishus (1990), and Harford (2003)). A new strand of research refines the notion of board independence (see, e.g., Hwang and Kim (2009), Masulis and Mobbs (2010), and Agrawal and Nasser (2009)). John and Senbet (1998), Hermalin and Weisbach (2003) and Adams, Hermalin and Weisbach (2010) provide excellent reviews of the literature on boards.

(a provider of credit scores), General Motors Corp., Janus Capital Group, Party City Corp., Smith & Wesson Holding Corp. (a gun manufacturer), and Wal-Mart Stores.

We ask several questions. First, what are the key issues underlying internal board disputes? Second, how is the incidence of a dispute related to firm and governance characteristics? Third, within firms that do experience a conflict, how do individual directors' characteristics relate to their likelihood of being involved in the dispute? Fourth, how do stock prices react to dispute revelation? Fifth, how do firms perform in the years surrounding disputes, both in terms of operating performance and stock price performance? And finally, in the aftermath of a dispute, does a firm tend to experience a greater incidence of certain major events such as a takeover, bankruptcy, debt restructuring, restatement, or shareholder lawsuit?

We start by examining the underlying nature of the internal disputes that lead to director turnover. We find that board disputes rarely occur just among outside directors and usually involve a firm's top management. Moreover, disputes are often related to substantial rifts between the views of directors and management regarding board functioning, agency problems, overall firm strategy, or specific corporate control or financing transactions. These facts suggest that board disputes are largely the result of power struggles between board factions and top management.

To gain a better understanding of why major boardroom disputes occur and which firms might be more prone to them, we examine the relationship between governance characteristics and dispute incidence. We find that the likelihood of occurrence of such conflict is systematically related to observable aspects of corporate governance such as the degree of structural power the CEO wields over the board, CEO influence over director selection, whether the CEO belongs to the founding family, and the structure of equity ownership by insiders and outsiders.

Our empirical tests also reveal that, within dispute firms, a particular director's likelihood of being involved in the dispute is related to a number of individual characteristics. Directors with shorter tenures on the board and directors with professional backgrounds as entrepreneurs, venture capitalists or investment bankers are more likely to be involved in internal conflict. Directors who are CEOs or chairmen of other

companies are significantly less likely to be engaged in dispute, as are outside directors with greater equity ownership in the firm.

We also examine the consequences of dispute episodes for shareholder value and operating performance. Upon news of a director departure amidst dispute, stock prices tend to decline significantly (both in statistical and economic terms). The cumulative average abnormal return (CAAR) for our full sample of director departures is -2.6% over a three-day $[-1, +1]$ event window and -6.1% over a 12-day $[-10, +1]$ window. The CAAR is more negative when the departing director is an insider, and it is particularly negative for certain types of disputes, such as those involving agency problems, corporate strategy, or financing decisions. We also find that firms experiencing disputes have (1) poor operating performance in the year of dispute and in the prior year; (2) poor stock price performance in the 12 months before and 12 months after the dispute episode; and (3) a greater incidence of shareholder class-action lawsuits, proxy contests, asset divestitures, and stock market delistings during the post-dispute year. These results are qualitatively similar both before and after the SEC's adoption of new rules in 2004 that effectively tightened disclosure requirements for firms experiencing dispute-related director departures.

Although our paper is the first to systematically study 8-K disclosures of disputes involving directors and the first to focus on dispute-related turnover events, several recent papers analyze other aspects of director turnover. Dewally and Peck (2010) identify 52 news announcements of outside director resignations and show that, compared to unannounced director departures, announced resignations are associated with worse prior firm performance, better subsequent stock performance, and a higher likelihood of internal management change. Fahlenbrach, Low, and Stulz (2010b) examine a large sample of 'surprise' outside director departures and document that such events tend to precede federal class-action lawsuits, earnings restatements, and poor stock and operating performance. Gupta and Fields (2010) find that abnormal stock returns around announced director resignations tend to be less negative when board independence or institutional ownership is greater. Using a sample of about 900 director departures reported in 8-K filings, Bar-Hava and Segal (2010) document that outside director turnover tends to be followed by poor operating performance, poor financial performance, and a higher

incidence of litigation. However, the reasons that firms offer for such departures do not appear to convey additional information to investors. Finally, Marshall (2010) uses 8-K disclosures to find that directors who leave a firm amid dispute tend to suffer a net loss of board seats at other firms.

The rest of the paper is organized as follows. Section 2 briefly describes the evolution of disclosure rules about director departures amid dispute. Section 3 details our sample and data. Section 4 examines the key issues underlying the disputes and investigates the determinants of dispute likelihood at both the firm-level and at the level of the individual director. Section 5 examines the stock price reaction to dispute disclosures and the cross-sectional determinants of the price reaction. Section 6 analyzes operating and stock price performance surrounding disputes and explores the aftermath of dispute episodes. Section 7 presents the results of several robustness checks, and the final section concludes.

2. Origin and Evolution of the Disclosure Rules

In April 1977, the SEC instituted a broad re-examination of its corporate governance rules to address concerns about the efficacy of existing mechanisms of corporate accountability. It held public hearings on these issues in the fall of 1977. On July 18, 1978, the SEC proposed a rule requiring a company to disclose under Item 6 of Form 8-K any instances of director resignations or refusals to stand for re-election due to ‘differences involving company operations, policies or practices.’ The proposal aimed to promote board effectiveness by providing investors with information that would be useful in assessing management quality. On November 15, 1978, the SEC adopted a final version of the rule, effective January 15, 1979, that incorporated public comments on the proposed rule (see Wall Street Journal (1978) and Federal Register (1978)). Under the final rule, disclosure was required only in cases where a director provided the company with a letter describing the disagreement and requesting that the matter be disclosed. Upon receipt of such a letter, a company was required to file, within five business days, an SEC Form 8-K containing the date of the director’s departure, a summary of the director’s account of the disagreement, and a copy of the director’s letter.

Following high-profile corporate scandals such as the collapse of Enron, the SEC proposed on June 17, 2002 to strengthen the disclosure requirements under Item 6 of Form 8-K. After reviewing public comments and holding public hearings, the SEC issued a revised rule that became effective on August 23, 2004 (see Bernstein (2004) and Federal Register (2004)). The new rule reduces the filing deadline to four business days after a triggering event. In addition, the new rule lowers the threshold that triggers disclosure. Specifically, the rule requires that, whenever a director resigns, is removed for cause, or refuses to stand for re-election because of a disagreement known to an executive officer of the company, the company must disclose the event under Item 5.02(a) of Form 8-K.² As part of the required disclosure, the company must report the following items: (1) the date of the director's resignation, removal, or refusal to stand for re-election; (2) a brief description of management's view of the nature and circumstances of the disagreement; and (3) any written correspondence provided by the director that describes the nature and circumstances of the episode. Importantly, disclosure is mandatory under the new rules even if a director does not supply a letter to the company or request that the matter be publicly disclosed.

3. Sample and Data

We construct our sample of disputes by identifying Form 8-K disclosures of written correspondence between companies and departing directors. We use this approach to identify the more economically meaningful disputes, i.e., the ones that are serious enough to lead to a director turnover and an accompanying SEC disclosure. Each year, U.S. public companies file tens of thousands of 8-Ks with the SEC disclosing a range of material events. To sift through the large number of 8-K filings, we use *10K Wizard*, an online search engine, to identify all 8-Ks filed between January 1, 1994³ and December 31, 2006 that include an Exhibit 17, which consists of the departing director's

²In addition, under Item 5.02(b) of Form 8-K, the new rules require disclosure whenever a director retires, resigns, refuses to stand for re-election, or is removed for any reason other than for cause or as a result of disagreement.

³ The sample period begins in 1994 because online availability of 8-Ks filed before 1994 is very limited.

letter and any response to it by the company. Our search yields an initial group of over 1,000 8-K filings with such letters.

Because some of these disclosed turnover events may not have involved disagreement,⁴ we read each of the departing directors' letters as well as each company's account of the departure incident to determine whether the departure was in response to a dispute. In identifying departures that involve a dispute, we exercise no judgment since the letters and company descriptions clearly state whether or not the director is leaving due to 'differences involving company operations, policies or practices'. We identify a total of 181 episodes involving 168 companies where one or more directors left the company amidst dispute. Of the 181 dispute episodes, 13 are second occurrences that happen after a company has already experienced a previous dispute-related director turnover. Since the elapsed time between first and second occurrences is generally fairly short, we focus the analysis on the first occurrences of dispute-related departures.⁵ Our final sample thus consists of 168 disputes involving directors.⁶

To obtain information on the individual directors of firms experiencing disputes, we read each board member's biographical profile in the latest proxy statement (or the latest Form 10-KSB, in the case of small business issuers) prior to the director departure event. We gather information on individual director characteristics such as age, gender, occupation, tenure on the board, stock ownership, number of outside directorships, executive positions held, if any, in the company, and whether or not the director belongs to the firm's founding family.

Panel A of Table 1 reports frequencies of disputes by year and by the number of departing directors. Except for a low of 2 events in 1995 (and none in 1994), the number of dispute events per year hovers around 10 until 2004, the year of the August 23, 2004 tightening of the disclosure rules. The number of dispute events increases modestly to 15

⁴See footnote 2 above.

⁵Of the 13 companies experiencing two episodes, 9 have episodes less than two months apart; 2 have episodes between two to five months apart; and 2 have episodes between six to eleven months apart.

⁶In Appendix A, we separately analyze a large sample of director turnovers that involve no disclosed disputes to examine the possibility that a large fraction of these cases involved disputes that simply were not aired publicly. Based on an analysis of stock price reactions, medium-term stock returns, operating performance, and the aftermath for the companies involved, we conclude that director turnover events that involve no reported disputes are fundamentally different from those with disclosed disputes.

in 2004 and more substantially to 33 events in 2005 and 39 events in 2006. Out of the 168 total episodes in the sample, 137 involved departures of just one director, 18 involved departures of two directors, 8 involved three departing directors, and 5 involved departures of four or more directors. Panel B shows that the sample firms are distributed across a wide range of industries.

In Panel C of Table 1, statistics are reported for individual characteristics of the 214 departing and 873 non-departing directors in our sample of 168 dispute firms. The median departing (remaining) director is 54 (56) years old, has served for 2 (3) years on the board, and owns 0.6% (0.4%) of the outstanding equity. On average, a departing or remaining director holds about one-half of an additional outside board seat. About 2% (5%) of the departing (remaining) directors are women, and about 2% (4%) belong to the company's founding family.

Panel D provides frequency breakdowns, by most recent primary occupation, for departing and remaining directors. The panel also shows similar breakdowns for inside directors, gray directors, and independent directors. Among departing directors, corporate executives comprise the largest group (32%). Also represented are consultants (11%), lawyers (6%), investment bankers (6%), venture capitalists and private equity financiers (5%), engineers and scientists (4%), accountants (3%), and medical professionals (3%); the remaining 29% comprises a wide variety of professional backgrounds. The distribution of occupations for non-departing directors is roughly similar. Of the departing directors, about 36% are current or former CEOs of another company, 12% are current or former chairs of another board, and 23% are founders of another company. Compared to the departing directors, the remaining directors have more external CEO and board chairman experience in our sample.

We construct a control sample by matching each dispute firm to a COMPUSTAT firm in the same year and 2-digit SIC industry that (1) did not have a director dispute over the sample period; (2) used the same form type (either DEF 14A or 10-KSB) for proxy solicitation as the dispute firm; and (3) was closest in size (total assets) to the dispute firm at the end of the fiscal year preceding the dispute. For each firm in our dispute and control samples, we read the latest available proxy statements (or 10-KSBs), annual reports, and other SEC filings made prior to the director departure to obtain

detailed information on the firm's board structure, ownership structure, CEO characteristics, and other governance arrangements. We also obtain data on other firm characteristics from Compustat, CRSP, 10-K or 10-KSB filings, securities registration filings and prospectuses, and other SEC filings.

Table 2 summarizes selected corporate governance and firm characteristics of the dispute and control firms. The average board of the dispute (control) firm has 6.6 (6.2) members, of whom about 39% (36%) are insiders, 12% (8%) are gray, and 50% (56%) are independent. Of the dispute (control) firms, 51% (61%) have independent audit committees, and 39% (49%) have independent compensation committees. Matched pairs t-tests and Wilcoxon signed-ranks tests show that dispute and control firms exhibit statistically significant differences (at the 10% level or better) in board size, the fractions of gray or independent directors as well as in the incidence of independent audit or compensation committees.

The average age of CEOs at dispute (control) firms is about 53 (53) years, and about 20% (15%) of the CEOs belong to one of the founding families. CEOs of dispute (control) firms have served on the company's board for an average of 5.8 (8.4) years; this difference is statistically significant at the 1% level.⁷ Following Shivdasani and Yermack (1999), we say that a 'CEO picks board members' if the CEO serves on the nominating or corporate governance committee or if the board has no such committee. Accordingly, the CEO picks board members in 72% (80%) of the dispute (control) firms. The median stock ownership of the CEO is about 2.9% (4.8%) in dispute (control) firms; for all officers and directors, it is about 18% in each sample. Both groups of firms have a median of one independent blockholder. About 60% (54%) of the dispute (control) samples have an independent blockholder, and 38% (46%) have a Big 6 auditor. For each of the two groups, the CEO chairs the board about half of the time. None of these differences is statistically significant.

Although the median dispute firm is quite small, with total assets and market capitalization of \$13 million and \$53 million, respectively, mean values are substantially larger, at \$3.5 billion and \$3.3 billion, indicating that the sample includes some very large

⁷A CEO's tenure on the board is likely an upper bound on his tenure as CEO, because appointment to the CEO position invariably comes with a board seat.

firms. The median value of total assets for the control sample is almost the same as that for the dispute sample. The median net income to firm value ratio for the dispute (control) firms is -4% (-3%); their cash flow to firm value ratio is -3% (0.4%). At the time of the dispute, about 8% of the dispute firms are listed on NYSE, 33% on Nasdaq, and 6% on AMEX; the rest are listed on regional exchanges or trade over-the-counter.

4. Nature and Incidence of the Disputes

Section 4.1 examines the nature of the disputes, and section 4.2 investigates the determinants of dispute incidence.

4.1 Nature of the Disputes

To shed some light on the nature of the conflicts that lead a director to leave a company, we identify the issues mentioned in directors' letters and companies' descriptions pertaining to each of the 168 episodes in our sample. (Appendix B presents some excerpts from directors' letters to provide a sense for the types of issues that underlie the disputes). We classify these issues into four broad groups and report frequencies for each group, along with some representative examples, in Table 3. Almost 40% of the disputes pertain to deficiencies in board functioning, such as cases where directors were not given sufficient notice of board meetings or not provided with adequate background information prior to board discussions. About 25% of the disputes concern agency problems (e.g., alleged self-dealing by managers or disputes over hiring, compensation and firing of the CEO). Another 25% of the cases pertain to firm strategy or financing (e.g., disagreements over the company's strategic focus or disputes over the terms of specific corporate control or financing transactions). The remaining 10% of the disputes are over miscellaneous issues. Two general observations can be drawn from Table 3. First, most of the conflicts in the boardroom (about two-thirds) involve board functioning or agency problems. Second, conflicts usually involve top management. Overall, then, director departures amid dispute appear to be most often due to power struggles between management and directors.

4.2 Determinants of Dispute Incidence

Section 4.2.1 analyzes the determinants of dispute incidence at the firm-level. Given that a firm experiences a dispute episode, section 4.2.2 examines which of the individual directors are more likely to be involved in the conflict.

4.2.1 Firm-level analysis

This section examines whether the incidence of boardroom disputes is systematically related to certain firm and governance characteristics. If boardroom fights are merely random occurrences, we should not expect their incidence to be systematically related to such characteristics. However, since our findings in Table 3 suggest that boardroom conflicts are usually manifestations of power struggles between management and directors⁸, we expect dispute likelihood to be related to several categories of factors: (1) the degree of structural power or formal authority the CEO wields over the board; (2) the extent to which the CEO has been able to influence the selection of directors and shape their viewpoints over time; (3) whether or not the CEO belongs to the firm's founding family; and (4) the level of insiders' and outsiders' equity ownership.

A CEO who wields substantial authority over the rest of the board may be less inclined to listen to other viewpoints, which can lead to more boardroom clashes. At the same time, greater CEO power could increase the penalty to a director who opposes the CEO, thus leading in equilibrium to a lower incidence of disputes (see, e.g., Warther (1998)). Since these two effects are not mutually exclusive, our tests measure the net impact of these opposing forces. We employ four measures of a CEO's formal authority over the board. First, we use a binary variable that equals one if a non-CEO director serves as board chairman, and equals zero otherwise. If a CEO chairs the board, he can exercise more authority by controlling board processes or setting meeting agendas (see Fama and Jensen (1983)). Second, a large literature suggests that independent directors are more effective monitors of management, and such directors may help curb the power

⁸ We do not assume that the disclosure of a board dispute necessarily indicates a lack of effective board monitoring. Indeed, Warther (1998) develops a model of interactions between the CEO and outside directors in which open boardroom dissent and the ejection of board members, while occurring only very rarely in equilibrium, play an important disciplinary role.

of the CEO (see, e.g., Weisbach (1988), Byrd and Hickman (1992), and Brickley, Coles, and Terry (1994)). We measure board composition via the fractions of independent and gray directors⁹. Third, the size of the board can also affect the balance of power in the boardroom. Jensen (1993) and Yermack (1996) argue that smaller boards are more effective monitors of management because they are better able to resolve conflict through communication and compromise. Accordingly, we include the log of one plus board size as an independent variable. Fourth, we use binary variables indicating whether or not a board has entirely independent audit or compensation committees. These are key board committees that have figured prominently into recent corporate governance reforms. When such committees are present and when they exclude insiders, they can act as an additional check on the CEO's power.

While the effect of a CEO's formal authority on the likelihood of dispute is ambiguous *a priori*, the CEO's ability to shape the board over time into a more sympathetic group should reduce the likelihood of conflict. For example, the longer a CEO's tenure on the board, the more the CEO will have been able to shape the board's views via a bargaining process over time, leading to less intensive monitoring (Hermalin and Weisbach (1998, 2003)) and perhaps a lower incidence of dispute. In addition, *ceteris paribus*, the longer the CEO has been on the board, the more established and transparent the overall power structure will be to other directors, and hence the lower will be the likelihood of power struggles in equilibrium. To capture such effects, we use the natural logarithm of one plus the number of years the CEO has served on the board.

In a similar vein, CEOs who are able to influence the director selection process could effectively pick board members who are ostensibly independent but who share views similar to the CEO. Recent research suggests that directors who owe their board seats to the CEO will tend to support the CEO (see, e.g., Morck (2008)). We follow Shivdasani and Yermack (1999) and define a binary variable, 'CEO picks board members,' that equals 1 if the CEO serves on the board's nominating or corporate governance committee (or if the board has no such committee), and equals 0 otherwise.

⁹ Following the prior literature, we define an outside director to be a director who is not currently employed by the firm. A gray director is an outside director who is a founding family member, relative of an executive officer, former firm employee, or a person having business dealings with the firm. An independent director is an outside director who is not a gray director.

Whether or not a CEO belongs to the firm's founding family could also affect the degree of her influence over other board members. Adams, Almeida, and Ferreira (2005) argue that being the firm's founder or a member of the founding family can increase a CEO's influence vis-à-vis the strategic decision-making process. For instance, the presence of a founder-CEO may shape the organizational culture within the firm and determine the composition of the top management team. Also, founder-CEOs may derive informal power from their long-term relationships and interactions with board members and other key constituencies (Finkelstein (1992)). Thus, as with the CEO's formal authority over the board, being the company founder could lead to a higher incidence of disputes in equilibrium.

In addition to conferring informal power, being a member of the founding family could cause a CEO to have interests that differ from those of shareholders at large. Founders are typically under-diversified. Moreover, they often enjoy a 'psychic' value from being in control (see, e.g., Dyck and Zingales (2004)). In equilibrium, the presence of large private benefits of control and the divergence of interests between the CEO and shareholders could induce directors to monitor more intensively, giving rise to a higher overall incidence of dispute.¹⁰ Overall, then, these arguments suggest that a firm's likelihood of experiencing boardroom conflict will tend to be greater when the CEO is a member of the founding family.

The level of equity ownership by insiders and outsiders can also have an important effect on the likelihood of a board dispute. A concentrated equity stake could give the CEO enough voting power to pursue his own agenda without having to consider the views of other shareholders, potentially leading to more clashes with directors. Concentrated shareholding by an independent outside blockholder could also embolden an outside director, especially one affiliated with the blockholder, to challenge the CEO. But when insiders and outsiders hold large equity stakes, they have a direct financial incentive to avoid public showdowns that reduce firm value. To capture these effects, we include the percentages of outstanding equity owned by the CEO, by other officers and

¹⁰Adams and Ferreira (2007) show theoretically that, when a CEO enjoys large private benefits of control, he may be less willing to share his private information with other board members for fear of losing control. In equilibrium, this unwillingness to share information can induce the board to monitor more aggressively, giving rise to a higher likelihood of dispute.

directors, and by independent blockholders as measures of their relative powers and incentives. Since these opposing forces are not mutually exclusive, our tests measure their net effect.

Finally, our regressions control for other relevant CEO and firm characteristics, including whether the CEO is of retirement age (64 years or older), the size of the firm as measured by the logarithm of the book value of total assets, the degree of financial leverage, and the average return on assets over the preceding two years.

Table 4 shows pair-wise correlations among the variables in the regression. Dispute incidence is lower in firms with longer CEO tenures, a higher % of independent directors on the board, independent audit or compensation committees, and lower independent blockholdings. Also, a number of explanatory variables are significantly correlated with each other. In particular, firm size is negatively correlated with ‘CEO picks board members’ and CEO shareholdings, and it is positively correlated with board size, the percentage of independent directors on the board, and the presence of independent audit or compensation committees. The latter two binary variables are correlated positively with board size and the percentage of independent directors, and negatively with the ‘CEO picks board members’ dummy. The latter dummy variable is negatively correlated with board size and the percentage of independent directors. Finally, the last two variables are positively correlated.

Table 5 presents the estimated odds-ratio marginal effects from matched-pairs (i.e., conditional or paired) logistic regressions of dispute incidence.¹¹ Panel A reports the results for the full sample of all director departures, and Panel B for the sub-sample of outside director departures. Each panel presents four variants of our basic regression model.

The regressions indicate that dispute incidence is negatively and significantly related to CEO tenure on the board. As discussed above, there are two *a priori* reasons to expect such a relation. First, as Hermalin and Weisbach (1998) argue, the intensity with which the board monitors the CEO may decrease over the course of his tenure as he

¹¹Since our sample consists of matched-pairs of dispute and control firms, and the dependent variable here is a binary variable for a case or control firm, the appropriate model is the matched-pairs logistic model. This model cannot be used for prediction, but it yields consistent maximum likelihood estimators for the slope coefficients. See Hosmer and Lemeshow (2000) for an excellent exposition of this model. Nevertheless, the results are very similar to those shown here when we estimate the regular logistic model.

accumulates a record of superior performance and earns greater power. Thus, long-time CEOs are less likely to be challenged by directors, leading to lower dispute incidence. Second, with a longstanding CEO, the power structure between directors and management is likely to be clearly established, leading to lower dispute incidence, regardless of which group has more power.

Several other variables also are significantly related to dispute incidence. Disputes are more likely when the CEO belongs to the founding family and when independent blockholdings are large. These findings suggest that boardroom disputes are more apt to get out of hand when the CEO's private benefits of control are greater or when the presence of large outside blockholders emboldens directors. In addition, larger boards are significantly more likely to experience disputes, perhaps because large boards are less effective at resolving conflict or because the odds of a clash between individuals naturally increase with the number of individuals. The regressions also show that the degree of board independence as measured by the fraction of independent directors or the presence of independent board committees is negatively related to dispute likelihood. This finding suggests that a sizeable coalition of independent directors can help keep the CEO in check, even if the directors are not very powerful individually. Finally, boardroom conflicts are more likely during times of poor firm performance.

The effects of these variables on the estimated odds ratio, i.e., the ratio of dispute probability to no-dispute probability, are quite large in magnitude. For example, in firms where the CEO is the company founder, the odds ratio is higher by about 1.368 to 1.477 relative to other firms, depending on the model employed. The odds ratio is about 0.45 lower in firms with independent audit or compensation committees, compared to other firms. Similarly, a 10% increase in independent blockholdings increases the odds ratio by 0.14 to 0.25. And an increase in the CEO's tenure on the board by 4 years (from the sample mean of 7.095 years) reduces the odds ratio by about 0.21.

Most of the above relations also hold for the outside director departure subsample in Panel B except that dispute incidence is significantly lower in firms where the CEO picks board members and in firms with greater financial leverage. The 'CEO is company founder' and 'Independent directors (%)' variables are no longer significant.

4.2.2 Director-level analysis

We next examine whether certain director-level characteristics are associated with the likelihood that a given individual becomes involved in a boardroom conflict. In other words, for firms experiencing a dispute, which of the director(s) is more likely to be embroiled in the dispute? If an internal dispute is a random occurrence, then the likelihood that a particular director is involved should not be systematically related to her individual characteristics. To examine this issue, we estimate logistic regressions of dispute incidence at the individual director-level. The dependent variable equals 1 if a director is involved in a dispute and 0 otherwise. The sample includes all individual directors of firms that experience disputes. The independent variables are measures of individuals' power, independence, incentives, tenure as director, and opportunities in the external labor market.

The variables we include are chosen in view of a number of considerations. First, directors who are more powerful and independent are less likely to shy away from voicing their disagreements openly. Accordingly, we expect directors who are entrepreneurs (i.e., founders of other companies), venture capitalists, or investment bankers to be more assertive and hence more likely to be involved in a boardroom conflict. Second, directors who are themselves CEOs or chairmen at other companies may be more sympathetic to the CEO's perspective and hence less likely to clash with him. Third, disputes are more likely to involve directors who are relatively new to the board. Such directors may not fully understand the existing power structure in the boardroom and may not have had sufficient time to establish themselves on the board. Fourth, directors with greater stock ownership in the firm have stronger incentives to avoid getting involved in public disputes that can harm firm value. Fifth, individuals for whom the current directorship is more important are less likely to be willing to participate in a dispute that can jeopardize their board seat. Accordingly, we expect academics, retirees, and directors with fewer outside directorships to be less likely to become involved in a board dispute. Finally, if women are on average less aggressive than men, we might expect that, *ceteris paribus*, female directors are less likely to be involved in a dispute.

Table 6 shows the results of this analysis. Panel A shows the results for all directors, while Panel B focuses on outside directors. In both panels, directors with shorter tenures and directors who are venture capitalists, investment bankers, or founders of other companies are significantly more prone to dispute. The number of outside directorships held by an individual is not significantly related to the likelihood of his being involved in a dispute. However, directors who are CEOs or chairmen of other companies are significantly less likely to be engaged in a dispute. This result is consistent with the finding in Fahlenbrach, Low and Stulz (2010a) that outside directors who are CEOs of other companies are less likely to ‘rock the boat’. In addition, as shown in Panel B, outside directors with greater stock ownership are less likely to be involved in a dispute. While the coefficient estimate on women directors is negative in both panels, it is statistically insignificant.

The magnitudes of these effects are non-trivial. Based on the average of the marginal effects in the two models in Panel A, in firms that experience a board dispute, the estimated probability of a director being involved in the dispute is about 5.8% higher for entrepreneurs (i.e., founders of other firms), 22% higher for VCs, 12% higher for investment bankers, and 10% lower for CEOs of other firms. Similarly, an increase in a director’s tenure on the board by four years, from the sample mean of 4.83 years, decreases the probability of her being involved in the dispute by about 2%.

5. Stock price reaction

Section 5.1 deals with the average stock price reaction to the revelation of board disputes in our sample, and section 5.2 provides a cross-sectional analysis of the stock price reaction.

5.1. Average stock price reaction

We define the announcement date (day 0) of the director departure to be the earlier of the date of the 8-K filing with the SEC and the date of the first news story, if any, about the director departure in the Dow Jones Factiva database. Stock prices are drawn from CRSP for companies listed on the NYSE, AMEX, or Nasdaq around the time

of the dispute. For the other companies in the sample, we obtain stock price data from Datastream, to the extent available. Daily abnormal returns are calculated as market-adjusted returns using the CRSP equal-weighted index. Cumulative average abnormal returns (CAARs) are the sum of daily average abnormal returns over the relevant window. T-statistics for the CAARs are computed using the adjustment for cross-sectional dependence detailed in Brown and Warner (1985, equation (A.11)).

Panel A of Table 7 shows the CAARs for four windows around the event day. Column 1 shows the CAARs for the sample of all disagreement events. The next three columns show CAARs for sub-samples by the highest-ranking executive position in the firm held by any of the departing directors. Median values of cumulative abnormal returns are shown in parentheses below the means. In general, occurrences of director departures amid dispute have large negative effects on stock prices. Over a three-day $[-1, +1]$ announcement period, the average abnormal return for the full sample is a statistically significant -2.6% . Over a longer 12-day $[-10, +1]$ window intended to capture possible leakage of information about a developing board dispute, the CAAR is a more negative -6.1% .

Does the negative abnormal stock price reaction to dispute revelation imply that boardroom disputes are bad per se and cause stock prices to fall? We tend to doubt this interpretation. As discussed in Section 6 below, there is clear evidence that dispute firms typically were underperforming even before the revelation of their dispute. The revelation of a conflict likely uncovers more specific information on the underlying issues facing the firm, and the negative price reaction reflects the market's response to this new information.

Panel A of Table 7 also shows that the magnitude of the average abnormal return is substantially larger when the group of departing directors includes at least one insider (i.e., executive) than when the group consists entirely of outsiders. Over the $[-10, +1]$ window, the mean abnormal return is -10.3% for departures of insiders, but -4% for outsiders.¹² Although the difference between the two means is insignificant according to a standard t-test, the p-value from a Mann-Whitney test for differences is 0.09. For CEO

¹²The magnitudes of abnormal returns are considerably smaller for director turnover events without dispute. Table A.1 in Appendix A shows a mean abnormal return of about -0.9% over the $[-10, +1]$ window for a large sample of such events (-1.2% for insiders and -0.4% for outsiders).

departures, the mean (median) abnormal return over the $[-10, +1]$ window is a striking -17.6% (-20.7%).

Note that the departure of a CEO from the board almost certainly entails his departure from the CEO position. If such a departure occurs amid internal board conflict, it is likely to represent (or at least be perceived as) a firing. Thus, given that other researchers have documented an insignificant or slightly positive average stock price reaction to forced CEO turnover (e.g., Huson, Parrino and Starks (2001)), the large and negative stock price reaction to CEO departures in our sample is somewhat surprising. A possible reason for the contrast is that coverage by the media and analysts can play a quite different role depending on firm size. Given that the typical firm in our sample is a smaller company with scant media coverage, the disclosures surrounding CEO departure can be quite informative about the firm's underlying problems. For a larger firm (such as those in the Forbes 500 sample used by Huson, et al.), the media and analysts play a close monitoring role, and the problems facing the firm at the time of a CEO dismissal are likely already well-known to investors. Consequently, news of a CEO dismissal at such a firm is likely to be seen by the market as an indication that the board is working on a solution.

Panel B of Table 7 subdivides the sample based on the nature of the departing director's disagreement with the company. We employ the same broad classification scheme that was used in Table 3. The results show differences in the average price reaction across the groups. In particular, the stock price reaction is substantially negative around the revelation of disputes involving agency problems ($CAAR[-10,+1] = -10.3\%$) or corporate strategy or financing ($CAAR[-10,+1] = -11.8\%$). Both CAARs are significantly different from zero at the 1% level in two-tailed tests. In contrast, news of disputes involving board functioning has a relatively negligible effect on stock prices.

5.2 Cross-sectional analysis

We next examine whether the reaction of stock prices to the revelation of dispute is systematically related in the cross-section to characteristics of firms' governance, such as the measures of CEO power discussed in section 4; stock ownership by the CEO, other officers and directors, and independent blockholders; board structure; and characteristics

of the group of departing directors such as the number of such directors, their tenures on the board, their membership on important board committees, and whether or not the departing director is the company CEO. In addition, we control for firm size and whether or not there is media coverage of the dispute. Table 8 shows the regression results. To save space, we show results only for abnormal returns over the $[-10, +1]$ window; results for the shorter $[-1, +1]$ window are similar.

The first column of Table 8 shows the results of our basic regression model for the full sample. Column (2) adds dummy variables for whether any departing director is on the board's audit or compensation committee or is the company CEO, and column (3) adds a dummy variable for media coverage. Since the determinants of the stock price reaction to the disputes can be different where the departing director is an outsider, the next set of three columns reports estimates of the corresponding regressions for the sub-sample in which all departing directors are outsiders.

For the full sample of all director departures, the stock price reaction is more positive (or less negative) when the average tenures of the departing directors, CEO tenure on the board, and stock ownership of other officers and directors excluding the CEO are higher; it is more negative when the CEO is company-founder, the CEO picks board members or the firm is larger. All of these relations are statistically significant. The signs of the coefficient estimates for the sub-sample of outsider departures are largely similar to those for the full sample, although the statistical significance declines in some cases, possibly due to the reduction in sample sizes. Overall, these findings suggest that the revelation of an internal dispute is viewed more negatively by shareholders when the CEO is more powerful relative to other board members or when the power structure between the CEO and directors has yet to be clearly established.

6. Operating and stock price performance and dispute aftermath

Section 6.1 examines operating performance surrounding the disputes, section 6.2 examines medium-term stock returns, section 6.3 interprets the results on operating and stock performance and stock price reaction, and section 6.4 analyzes the aftermath of dispute episodes.

6.1 Operating performance

This section examines the operating performance of our samples of dispute and control firms from year -2 to year $+2$, where 0 is the fiscal year during which the 8-K filing on the dispute occurs. We do not construct a sample of control firms based on matched prior performance because our primary interest in this sub-section is in examining the operating performance of dispute firms in the years prior to the dispute. As discussed later in this sub-section, our results on post-dispute operating performance should be interpreted with caution.

Table 9 shows median values of two operating performance measures for each sample: Return on assets (ROA) and OIBD divided by assets (OIBDA). ROA is defined as income before extraordinary items divided by total assets. OIBD is operating income before depreciation. Total assets are end-of-year book value of assets. Financial data are obtained from Compustat and various SEC filings (including annual reports and 10-K, 10-KSB, and 10-Q filings). The table also reports absolute values of z-statistics from paired two-tailed Wilcoxon tests for differences in distributions. Panel A shows results for the full sample, and panels B through E show results for each of the four types of disputes shown in Table 3.

Panel A shows that firms involved in director disputes have poor operating performance in the three years leading up to and including year 0. The median ROA of dispute (control) firms in years -2 , -1 , and 0 is -14.6% (-7.6%), -24.7% (-6.7%), and -29.9% (-2.6%), respectively. Dispute firms have been performing extremely poorly by any yardstick; their performance is significantly worse than that of control firms. While dispute firms continue to exhibit negative ROA after the disagreement episode, especially in year $+1$, their performance is statistically indistinguishable from control firms.¹³ The results for OIBDA generally mirror those for ROA, except that they show underperformance for dispute firms in year $+2$.

¹³Notice that the post-dispute operating performance of control firms is probably understated because these firms are not matched on pre-dispute performance. Given mean-reversion in operating performance, matching on pre-dispute performance (which is particularly negative for dispute firms) would likely have resulted in a control sample with better post-dispute performance than that of the control sample used here (see Barber and Lyon (1996)). Furthermore, the post-dispute performance of both dispute and control firms in Table 9 is likely overstated because firms with extremely poor performance often get delisted and drop out of the sample in post-dispute years.

Panel B of Table 9 shows that firms with disputes involving board functioning have been significantly underperforming the control firms over years -2 , -1 and 0 based on both performance measures. With the exception of OIBDA in year $+2$, there is no evidence of significant underperformance in years after the dispute. Panel C offers little evidence of underperformance by firms involved in disputes over agency problems, except in year 0 for OIBDA. Panel D shows that firms with disputes over corporate strategy or financing significantly underperform in year 0 .

6.2 Medium-term stock returns

We next examine the stock performance of our dispute sample for up to 12 months before and 12 months after the month of dispute (month 0). The approach we use is similar to Barber, Lehavy and Trueman (2007) and Agrawal and Chen (2008). To evaluate stock performance over a given window, e.g. months $[+1, +12]$, we start by computing the return on an equal-weighted portfolio in each calendar month t . This portfolio consists of stocks of firms that experienced a dispute over the previous 12 months. Monthly firm returns above the 98th percentile or below the 2nd percentile are excluded.

We then measure the abnormal monthly return as the intercept from a regression of the monthly calendar-time excess portfolio returns on the three Fama and French (1993) factors:

$$R_{p,t} - R_{f,t} = \alpha + b(R_{m,t} - R_{f,t}) + sSMB_t + hHML_t + \varepsilon_{p,t} \quad (1)$$

where $R_{p,t}$ is the equal-weighted return of the portfolio of dispute firms in calendar month t ; $R_{f,t}$ is the 1-month T-bill return; $R_{m,t}$ is the return on the CRSP value-weighted market index; SMB_t is the difference between the return on a portfolio of small stocks and the return on a portfolio of large stocks; and HML_t is the difference between the return of a portfolio of high book-to-market stocks and a portfolio of low book-to-market stocks. We also compute abnormal returns using the Carhart (1997) four-factor model:

$$R_{p,t} - R_{f,t} = \alpha + b(R_{m,t} - R_{f,t}) + sSMB_t + hHML_t + mUMD_t + \varepsilon_{p,t} \quad (2)$$

where UMD_t is the return on high-momentum stocks minus the return on low-momentum stocks, and other variables are as defined above.

Panel A of Table 10 shows abnormal monthly returns (i.e., the estimated regression alphas), for the three-, six-, nine- and 12-month periods leading up to (and including) month -1 . The first row shows results for the full sample of dispute firms, followed by sub-samples defined according to dispute-type. T-statistics are shown in parentheses below coefficient estimates. In the full sample, there is evidence of large and statistically significant pre-dispute underperformance over the six-, nine- and 12-month horizons. For instance, the average monthly abnormal return over months $[-12, -1]$ using the four-factor model is -3.05% . Rows 2 and 4 show that stocks of firms that experience disputes over board processes or over corporate strategy or financing decisions significantly underperform over all four pre-dispute periods (the three-, six-, nine- and 12-month horizons). The magnitude of underperformance for firms with these types of disputes is quite substantial: under the four-factor model, the monthly average abnormal return over months $[-12, -1]$ is about -4.7% . There is no discernible pre-event underperformance for firms experiencing other types of disputes.

Panel B shows post-dispute performance in a format similar to panel A. In row 1, stocks of dispute firms experience further significant underperformance. Furthermore, the underperformance is large and persistent, extending across the six-, nine- and 12-month periods following the dispute month. For example, under the four-factor model, the mean abnormal return over months $[+1, +12]$ is a statistically significant -2.79% per month. Overall, the pattern of poor stock performance following dispute revelation is consistent with the poor operating performance seen in section 6.1 above. In row 3, stocks of firms that experience disputes over agency problems underperform significantly over the year following the dispute. The magnitude of this underperformance is quite large, averaging about 4.4% per month for the $[+1, +12]$ period under the four-factor model.

6.3 Interpretation of the results

Taken together, the results in Tables 7, 9, and 10 reveal an interesting pattern. For the full sample of dispute firms, the pattern of negative pre-dispute operating and stock performance suggests that the market was aware, at least to some extent, of the existence of problems at these firms. Yet, the large negative announcement returns suggest that the disputes reveal additional, more specific information about the nature of the underlying problems. Over the one-year post-dispute period, the market apparently continued to receive adverse signals about these firms' prospects as reflected in the negative and persistent abnormal stock returns over that period.

For disputes involving agency problems, the lack of pre-dispute abnormal returns suggests that the revelation of agency problems in these firms comes largely as a surprise to the market, and investors respond to the news quite adversely. Presumably, the revelation of disputes increases investor scrutiny of the firms. Yet, the continued negative abnormal returns over the subsequent year suggest that the market receives additional negative signals and perceives the underlying problems to be difficult to rectify. The story is quite different for disputes involving board processes. Here, the combination of negative pre-dispute operating and stock performance suggests that the market was aware early on of internal problems. In line with this interpretation, the revelation of board-process disputes is not surprising to the market: the announcement effect is insignificantly different from zero. Moreover, the largely insignificant post-dispute abnormal returns suggest that the market does not receive additional negative signals and that the firms are able to successfully resolve their underlying problems.

For disputes involving corporate strategy and financing, the negative pre-dispute operating and stock performance suggest that the market was aware of problems with these firms. But the large negative announcement returns indicate that the market underestimated the magnitude of the underlying problems. However, the lack of negative post-dispute abnormal returns suggests that the market does not uncover further problems with these firms over the year following the dispute.

6.4 The aftermath of disputes

Finally, we examine whether firms involved in public episodes of director disputes experience a greater incidence of certain major corporate events. Panel A of Table 11 reports the frequencies of acquisition, bankruptcy or delisting events experienced by dispute and control firms within 6-month, 1-year, and 2-year periods following director disputes, as reported in CRSP. Each cell reports the number of delisted dispute (control) firms, followed in parentheses by its frequency as a percentage of the total number of dispute (control) firms listed on CRSP at the time of the 8-K filing on the dispute. Delisting events are grouped into categories (not all mutually exclusive) based on CRSP delisting codes. The ‘Bankrupt’ category includes firms delisted due to insufficient assets, insufficient equity, or a low stock price. The table also shows p-values from tests of equality of proportions between the dispute and control samples.

Given that the events covered in this table are major, rarely occurring corporate events, their observed frequencies are small in both samples, precluding strong conclusions. Nevertheless, it is apparent that dispute firms experience a significantly higher incidence of exchange delistings relative to control firms over 6 and 12 months following disputes. The frequency of all non-merger delistings is also significantly higher for the dispute sample versus the control sample over both periods. The frequencies of acquisition or bankruptcy are no greater in dispute firms relative to control firms.

Panel B reports the frequencies of other important corporate events—namely, shareholder class-action (SCA) lawsuits, proxy contests, financial restatements, asset divestitures, and debt refinancing—for the two groups of firms over the 6-month, 1-year, and 2-year periods following disputes. The format is the same as in Panel A.¹⁴ These events are defined and identified as follows. SCA lawsuits are initiations of shareholder litigation as reported in the Stanford Class Action Clearinghouse database. Proxy contests are filings of contested proxies (SEC Form DEF14As) by a dissident shareholder group, identified by searching the SEC’s Edgar database. Financial restatements, identified from the GAO restatements databases or from Lexis-Nexis news stories, are instances of financial restatement due to accounting irregularities. Asset divestitures are announced sales of company assets as reported in Lexis-Nexis news stories. Debt refinancings are

¹⁴The analysis in the rest of this sub-section was suggested by David Yermack.

announcements of security issuances or debt renegotiations, identified from Lexis-Nexis news stories, in which existing debt is repaid or altered.

Panel B shows that, compared to control firms, dispute firms experience a significantly greater incidence of SCA lawsuits, proxy contests, and asset divestitures over the 6-month and 1-year periods following dispute. In untabulated results, we examine the possibility that the departing director abandons a ‘sinking ship’ to preserve his reputation by avoiding being named a defendant in a shareholder lawsuit. Of the ten dispute firms that were targets of an SCA lawsuit initiated within two years after dispute revelation, eight involved the resignation of an outside director. In two of these eight cases, no outside director was named as a defendant in the lawsuit. Of the other six cases where outside directors were named as defendants, the resigning director was named in three cases. In both the remaining two cases where the resigning director was an insider, other (non-CEO) directors were named as defendants; the resigning director was a defendant in one of these cases. Despite the small sample sizes, these findings offer modest evidence in support of a ‘sinking ship’ motivation for director departures.

7. Robustness checks

This section examines whether our results in Tables 5 and 8 differ before and after the 2004 change in disclosure rules and whether our Table 8 results are affected by outliers in the stock price reaction to news about a dispute.

7.1 Change in disclosure rules

Starting on August 23, 2004, there has been a major change in disclosure rules regarding director departures that result from disagreements with the company. As discussed in section 2, the new rules shift the onus of a disclosure trigger from the departing director to the company. The company is now required to make a Form 8-K disclosure whenever a director resigns due to a disagreement or is removed for cause, provided that the matter is known to an executive officer of the company. A letter or request from the departing director is no longer required to trigger the disclosure requirement. Thus, the new rules lower the threshold for disclosure, possibly leading to the revelation of a larger number of less serious disputes after 2004. A glance at Panel A

of Table 1 reveals a marked increase in the number of disputes reported after 2004, and hence a reasonable conjecture might be that the average stock price reaction should be smaller in magnitude after the August 2004 rule change than before the change. However, our findings do not support such a conjecture: differences in mean and median abnormal returns between the two sub-periods are statistically insignificant. To conserve space, we do not report these results in a table.

Do the new rules lead to changes in the determinants of dispute incidence or in the determinants of the cross-sectional reaction of stock prices to the dispute? We find no evidence of such changes. When we estimate our regressions in Tables 5 and 8 separately for dispute events revealed before and after the effective date of the rule change, the results are qualitatively similar for the two sub-samples. To save space, these results are not shown in a table.

7.2 The effect of outliers

Finally, we examine whether our Table 8 results are affected by outliers in the stock price reaction to the revelation of disputes. We re-estimate the regressions in Table 8 after winsorizing the dependent variable at the first and 99th percentiles. Our main results are qualitatively unaffected.

8. Summary and conclusions

The internal functioning of corporate boards is generally unobservable to outsiders such as financial economists. One instance in which it becomes possible to peek inside the ‘black box’ of board functioning is when a director resigns or refuses to stand for re-election due to a disagreement with the company. In such an instance, U.S. securities rules require a company to make a timely 8-K filing that summarizes the disagreement and that discloses any written correspondence from the director describing the nature and circumstances of the dispute.

In this paper, we address several questions regarding director disputes. First, what is the nature of disputes that lead to director departures? Second, what are the determinants of dispute likelihood at the firm-level? Third, what are the determinants of dispute likelihood at the individual director-level, i.e., within firms which experience a

conflict, how are characteristics of an individual director related to her likelihood of being involved in the dispute? Fourth, how do stock prices react to disclosures of internal board conflicts, and what factors explain the cross-sectional variation in these price reactions? Fifth, how do firms perform in the years surrounding the dispute, both in terms of operating performance and stock price performance? And finally, are disputes followed by a greater incidence of major events such as those involving corporate control changes, bankruptcy, restructuring, restatement, shareholder lawsuit, or delisting? To address these questions, we have assembled a novel, hand-collected dataset that consists of 181 board disputes in 168 U.S. public companies during 1995-2006, along with a control sample of firms matched by size and industry. The dataset includes detailed information, obtained from a variety of sources, on governance and firm characteristics for the 168 pairs of firms. In addition, the dataset contains information on characteristics of the 1,087 individual directors who served on dispute-firm boards at the time of dispute revelation.

Our main findings are as follows. First, conflicts in the boardroom typically appear to be the result of power struggles between management and directors. About two-thirds of the conflicts relate to board functioning or agency problems, and most of the remaining cases involve disagreements over corporate strategy or financing decisions. Second, matched-pairs logistic regressions indicate that disputes are more likely to occur at companies founded by the CEO, companies with shorter CEO tenures, and companies with higher independent blockholdings, bigger or less independent boards, or worse performance. Third, within firms that do experience disputes, we find that directors with shorter tenures or directors who are ostensibly more powerful and independent (e.g., entrepreneurs, VCs or investment bankers) are more likely to be involved in a conflict. Directors who serve as CEOs or chairmen of other companies are less likely to be involved in disputes, suggesting that such directors tend to be more sympathetic to the CEO's point of view. Among non-employee directors, those with higher stock ownership are also less likely to become involved in a dispute.

Fourth, stock prices decline significantly (both statistically and economically) upon news of director departures amid dispute. The cumulative average abnormal return (CAAR) for our full sample of departures is -2.6% over a $[-1, +1]$ day window and

−6.1% over a [−10, +1] window. When the departing director is an insider, the CAAR is even more negative, being −3.9% and −10.3% over the two windows, respectively. The decline in stock prices is typically greater surrounding disputes relating to agency problems, corporate strategy or financing decisions; it is generally more muted for other types of disputes, e.g., those dealing with board processes. Finally, dispute firms experience poor operating performance in both the year of dispute and the prior year, poor stock price performance during the 12 months before and 12 months after the episode, and a significantly greater incidence of shareholder class-action lawsuits, proxy contests, asset divestitures and stock-market delisting during the post-dispute year. These results are generally similar before versus after the 2004 tightening of disclosure rules.

Overall, our findings suggest that, although boardroom disputes span a range of issues and can have important consequences for firms, they can be generally traced back to power struggles involving directors and top management. Our results therefore highlight the importance of studying board functioning not just in traditional terms (e.g., board size or board composition), but also in terms of the board's underlying power structure. Future research can shed additional light on the consequences of boardroom disagreements, such as whether director disputes prompt firms to change their governance practices or whether other companies on whose boards the departing director serves experience contagion effects.

Appendix A

Analysis of Director Departures without a Reported Dispute

Here, we examine the possibility that director departures without *reported* disputes are the result of disputes that are simply not aired publicly. Using the Audit Analytics database, we identify 7,909 events in the CRSP universe during 2001-2006 where one or more directors resigned or declined re-election but no disagreement was cited. Out of these events, 6,418 events have stock returns available on CRSP for days $[-10, +10]$ around the departure announcement day (day 0), and 5,244 events have operating performance data available on COMPUSTAT. Using these data, we analyze the stock price reaction (in Panel A of Table A.1), operating performance (Panel B), medium-term abnormal returns (Panel C), and the aftermath of the departure (Panel D) for the companies involved. Sample sizes vary across the four panels depending on data availability. As discussed below, on each of these dimensions, director departures that do not accompany a dispute appear to be fundamentally different from director departures amidst dispute.

Panel A of Table A.1 shows mean values and (in parentheses) median values of cumulative abnormal returns (CARs) for four windows around the announcement day (day 0). CARs are computed as in section 5.1 and Table 7. Column 1 shows CARs for the full sample, and columns 2 through 4 show CARs for subsamples defined according to whether one of the departing directors was the CEO or whether at least one of the departing directors was an executive officer. The last column reports p-values from tests for differences in means (distributions) between CARs for turnovers of insiders vs. outsiders based on a t-test (Mann-Whitney test). The announcement of a director turnover without dispute has a small, but statistically significant, negative effect on stock prices. The mean CAR for the full sample is -0.4% over the three-day $[-1, +1]$ window, and it is -0.9% over the 12-day $[-10, +1]$ window. These abnormal returns are substantially smaller in magnitude than those in Panel A of Table 7 for the full sample of director departures amid dispute (-2.6% and -6.1% for the short and long windows, respectively). Furthermore, the mean CAR over the long window is -1.3% (-0.5%) for inside (outside) director turnover at firms without a disclosed dispute, compared to a

substantially more negative -10.3% (-4%) for corresponding director turnovers at dispute firms.

Panel B shows the operating performance of our sample of firms that experienced director turnover without dispute, over years -2 to $+2$ relative to the year of dispute announcement (year 0). The table shows unadjusted and industry-adjusted values of two operating performance measures: ROA and OIBDA. ROA equals income before extraordinary items, and OIBDA equals operating income before depreciation, each divided by year-end total assets. We compute industry-adjusted ROA and OIBDA by subtracting from unadjusted measures the median performance measure in the same year across all firms in the same 2-digit SIC industry. Over the years -2 to $+2$, the sample firms have an ROA of about 1% per year and an OIBDA of 6% to 7% per year. While these firms underperformed their industries, the magnitude of this underperformance is very small, amounting to 0.3% or less across each of the five years on both measures. By contrast, Panel A of Table 9 shows that firms that experience director turnover amidst dispute have substantially greater underperformance as measured by either ROA or OIBDA relative to the control sample.

Panel C shows medium-term abnormal returns for our sample of director departures without a reported dispute. Abnormal performance is measured over 3, 6, 9 and 12-month pre-event (in Panel A) and post-event (Panel B) periods. We use the same methodology for computing abnormal returns as used in section 6.2, and we present results in the same format as in the first row of Panels A and B of Table 10. Panel C of Table A.1 shows that over the 12-month pre-event period, stocks of firms without disclosed disputes underperform to the tune of about 1.7% per month, and there is no significant post-event underperformance. By contrast, Table 10 shows that stocks of firms that experience a director departure amidst dispute underperform by approximately 3.1% per month over the 12 pre-event months and 2.7% per month over the 12 post-event months.

Panel D shows, in a format similar to that of Table 11, the aftermath of director departures without disclosed disputes. Compared to Table 11, which shows a high rate of delistings (rows 3, 4 and 5) over 6 and 12 months after director turnovers amidst dispute, Panel D of Table A.1 shows a considerably lower incidence of post-turnover delisting.

Appendix B

Excerpts from Departing Directors' Letters

Robert D. Sanderson, Fair Isaac Corp., 6/1/2001

I am resigning because I disagree with the rest of the Board's willingness to grant 100,000 stock options to Tom Grudnowski in fiscal 2001. This was an incorrect decision for two principal reasons. First, the Company's 1992 Long-Term Incentive Plan limits the number of options which may be granted to any one employee to 50,000 a year. While it may be legal to grant Mr. Grudnowski 100,000 options, doing so would violate the spirit of the agreement among the Company, the Board and the shareholders embodied in the plan. Second, Mr. Grudnowski doesn't deserve the grant. He was hired to get the Company growing again and to develop Internet-based new business. During his tenure as CEO revenue growth has been below the Company's long-term record, and revenues from new business have been miniscule. He has not earned the reward of an extraordinary option grant. It is my hope that the Board will conclude, as I have, that the Company will not achieve long-term success with Mr. Grudnowski in charge and that the best way to increase shareholder value is to sell the Company.

James A. Miller, Surge Components, Inc., 8/1/2001

Since joining the board of directors of Surge, I have on numerous occasions expressed my belief that I have not been given appropriate and relevant information necessary for me to perform my duties. It has been difficult for me to receive requested information either in a timely manner or at all. Furthermore, it has come to my attention that there were significant events and actions taken which were not properly disclosed to me. Case in point: the company recently filed two 10-Qs without my advice, review or approval. This is particularly disturbing given the fact that I am chairman of the audit committee. As a result of these and other unacceptable circumstances, I do not believe I can discharge my responsibilities in the manner in which the shareholders deserve. This letter shall serve as my resignation from the Board of Directors of Surge Components Inc., effective as of today, July 25, 2001.

Jerome T. Osborne, GLB Bancorp, Inc., 9/8/2003

This resignation is prompted by my profound disagreement with the decision of the Board of Directors to approve the proposed merger with Sky Financial Group, Inc. Accordingly to the preliminary proxy statement/prospectus ("Preliminary Proxy Statement") relating to the special meeting of shareholders of GLB, filed with the Securities and Exchange Commission by Sky Financial Group, Inc. in its Registration Statement on Form S-4, filed August 22, 2003, the Board of Directors of GLB has also voted to recommend approval of the transaction, a recommendation I disagree with. The Board has abandoned the original vision of GLB as a financial institution with a community focus and a substantial community ownership base. In addition, once the decision was made to sell the Company, I do not believe that the GLB Board of Directors received adequate information regarding, or adequately considered, the community impact or value of alternative proposals described in the Preliminary Proxy Statement, which is why I voted against the proposed merger with Sky Financial Group, Inc. For example, I believe that the transaction proposed by the institution described in the Preliminary Proxy Statement as "Bank X" would have provided a substantially greater value to the shareholders of GLB.

J. Peter Pierce, Iron Mountain Incorporated, 12/26/2002

My resignation from the Board will enable me to pursue shareholders' rights with other interested shareholders in seeing to it that Iron Mountain is governed and managed properly. Board meetings that are held in violation of the bylaws should not be countenanced. Actions taken by "rump" sessions of the Board without notice to all Board members should not be authorized. If there are issues that exist with any Board members, special committees should be formed and authorized to investigate. This did not happen at Iron Mountain at any time. No minutes were taken of the so-called surreptitious "Board meetings". The unauthorized nature of certain "Board actions" has been confirmed under oath by your general counsel Gary Watzke. It is also now clear that on March 27, 2002, the Executive Committee met and purported to authorize the lawsuit that was filed against me the next day in New Jersey state court, even though the Board had never given the Executive Committee this authority at a duly authorized meeting of which I received notice. Interestingly, even though the "Board," as of March 5th, had purported to authorize the lawsuit against me, no disclosure of that "fact" was made by you in your note to the shareholders in the 2001 Annual Report, dated March 20, 2002, nor was there any mention of my alleged secret investment in Sequedex in the description of me as a Board member, that was set forth therein. In addition, there was no disclosure in the legal proceeding section of the first quarter Form 10-Q concerning the litigation filed against me as a material proceeding adverse to Iron Mountain. I simply will not be a part of a Board that attempts to conduct business in such a surreptitious and improper manner.

James Schroeder, Streamedia Communications Inc., 10/12/2000

Given the recent events at Streamedia and the vast disagreement and disarray of the principal shareholders I feel that I no longer represent the views and interests of those shareholders. I serve at their discretion and I in good conscience do not agree with the proposed direction of this company as set forth by the Chairman. It is the right of the shareholders to have the company run the way they want whether I, as a board member, agree or not. I do not agree to the recent direction and management suggestions of the Chairman and feel there will be severe consequences to the corporation. Therefore, I feel that I must resign as a director and allow the shareholders to choose a board of their liking.

Clifford Wyatt, Electropure, Inc., 4/20/1999

I have become increasingly concerned by the fact that the Company is seemingly unable to finalize its audit with respect to its financial statements for Fiscal October 1998, and accordingly is unable to issue a 10-K in compliance with Federal securities laws. Since the end of the fiscal year, several months have passed, including the end of the first quarter of fiscal 1999, and I have yet to receive any financial statements for any period of the current year....It was only after repeated requests and having a call made to the Company's counsel for corporate matters that I finally received a draft 10-K....The draft 10-K contained numerous material misstatements and omissions which I found quite shocking. For example, it did not mention the cross-complaint filed by Wyatt Technology against the Company, although it did mention the action filed by the Company against Wyatt Technology. Further it appears that the Company had not informed its auditors that Wyatt's position was that it was entitled to obtain rescission or termination of the technology license described at length in the draft 10-K.

Vaughan Shalson, Discovery Laboratories, Inc., 3/27/ 1998

In summary, I have serious reservations about the judgement of Dr. Capetola and feel deeply that the compensation proposed for the management team, and in particular for Dr. Capetola, involves an excessive use of cash. As I have stated repeatedly in our conference calls, I do not believe this to be in our shareholders' best interests....On the subject of Dr. Capetola's judgement, at our Board Meeting on December 5 we discussed a merger proposal from Dr. Capetola dated August 28, 1997. The compensation package included in this proposal was characterized by one of the other board members present at that meeting as egregious. I and others agreed with this sentiment....My own evaluation was that Capetola's proposal went so far beyond the pale of what could be considered negotiation posturing, as to lead any reasonable person to conclude that he exhibited either lack of experience or extremely poor judgement—neither of which should be acceptable qualities in the proposed CEO of the combined company....I regard this proposal as further evidence of Capetola's lack of judgement, by even proposing to expose the company to cash payments of such magnitude that they could severely strain the company's resources, and that are excessive by any reasonable standard for a development-stage company in such fragile financial condition.

Kenneth P. Weiss, RSA Security, Inc., 6/4/1996

In my opinion, you have surrounded yourself with a Board of Directors that does not, and perhaps is incapable, of providing you with independent objective guidance. To the contrary, from all of the actions that I have seen, these directors appear to be working for you, rather than you working for them. I have seen this time and time again under many circumstances. Illustrative is the way in which you are able to influence the Compensation Committee to pay you what you demand and to make decisions based upon on what you want, rather than on any objective policy. Recent events in this area have been consistent with a pattern of conduct that I have observed over the years. For example, contrary to the compensation consultant's recommendation for a consistent policy, you recently recommended that the vast majority of your bonus be calculated at "threshold" plan while the other executives had the majority of their bonus awarded at "stretch" plan. The Compensation Committee approved this unfair inconsistent treatment....On an individual basis, certain of these directors have performed particularly poorly for the company. In my opinion, one of them frequently disrupts meetings and appears to be motivated principally by self-aggrandizement and another appears to be inept and makes little or no positive contribution to the Board. Their continued participation on the Board is particularly glaring, especially in the light of your engineered forced departure of the most experienced director.

Nirmal Mulye, Ph.D., Synovics Pharmaceuticals, Inc., 9/21/2006

During the past several months, however, you, the other members of the Board and employees of the Company under your direction have acted in a manner designed to curtail meaningful participation by me in my role as a director of the Company....Specifically, I have been asked to vote on matters as a director of the Company while being denied access to the information needed by me to make informed decisions with respect to such matters....I have also been denied the opportunity, on a number of occasions, to engage in full substantive deliberations with the other members of the Board with respect to matters on which I was then being asked to vote. For example, you as Chairman of the Board have severely restricted the ability of directors to discuss matters on which the Board was requested to act by either refusing

to allow discussion of certain items at all or by abruptly and prematurely terminating discussions with respect to certain items and calling for an immediate vote on those items prior to all views of Board members being properly aired.

Stephen D. Moses, AcuNetx, Inc., 5/5/2006

As each of you knows, I have endeavored to coordinate and mediate consensus on the issues confronting us from time to time. That is my style. I believe it to be not only appropriate, but optimal. But that technique does not work at AcuNetx. It does not work with a C.E.O. who responds to suggestions with petulance....It does not work with a C.E.O. who declines to be open and forthcoming with his Board...It does not work when the Board decides that it will not and cannot yet be fully Sarbanes-Oxley compliant, but allows the C.E.O. to announce to its shareholders that it will be Sarbanes-Oxley compliant and then reacts angrily when the Chairman notes that paying consulting fees to the Compensation Committee Chairman would be a violation of Sarbanes-Oxley....It does not work when the C.E.O. responds to suggestions, or worse, criticism, with McCarthy-like investigations and mischaracterizations of his critic. It is unfortunate that the C.E.O. can stifle dissent and/or creative advice with tyrannical conduct.

Richard A. Ajayi, Surgilight, Inc., 6/5/2001

Dr. Lin controls 70% of the voting shares of the company and I am convinced that he has repeatedly refused to accept, or simply ignored, some decisions and guidance of the Board regarding compliance with regulations of the Food and Drug Administration and the Securities and Exchange Commission. Therefore, after working diligently, but unsuccessfully, for several months to resolve these issues, I have come to the conclusion that there are no other alternatives for me but to resign from the board.

Peter G. Leighton, Intellect Communications Systems Limited, 5/5/1997

This letter also conveys my resignation as a Director of ICSL. Because of my complete objection to the Facility, and the course on which ICSL has been set by a majority of its Board members, it is impossible for me to continue as a Director of this Company....In my view and belief, the Facility is not in the interest of ICSL in its present form. As a Director I disassociate myself from it as a funding option. The Facility is being forced upon ICSL by Mr. Frietsch (and certain other ICSL Directors, namely Anton Liechtenstein and Phillip Sudan) over my repeated objections. I have repeatedly made clear to Mr. Frietsch that I regard the Facility as a unilateral and improper initiative. I consider that ICSL's entry into the Facility has been engineered by Mr. Frietsch, acting completely in excess of his executive authority as regards the Company's affairs.

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Table 1: Frequency of Disputes and Characteristics of Directors

Panel A reports frequencies and descriptive statistics for our sample of 168 disputes involving directors during 1995 to 2006. Disputes are identified from SEC 8-K filings containing directors' resignation letters. Data on total assets are obtained from COMPUSTAT and various SEC filings. Panel B shows the sample distribution by industry (primary 2-digit SIC code as reported in the SEC EDGAR database). Panels C and D summarize the professional backgrounds and other characteristics of departing and remaining directors. Data on firms and individual directors are obtained from proxy statements, annual reports, 10-K filings, 10-KSB filings, and other SEC filings. Inside directors are current firm employees. Gray directors are non-insiders who are relatives of executive officers, former employees of the firm, founding family members, or persons having business dealings with the firm. Independent directors include all non-employee directors who are not gray directors. A director's occupation is determined from his or her most recent professional experience at the time of the dispute as described in proxy statements or 10-KSB filings. Total assets are in inflation-adjusted 1995 dollars.

Panel A: Disputes, by Year and by Number of Departing Directors	
Year	Number of Dispute Episodes
1995	2
1996	8
1997	11
1998	13
1999	7
2000	9
2001	10
2002	12
2003	9
2004	15
2005	33
2006	39
Total	168
One departing director	137
Two departing directors	18
Three departing directors	8
> Three departing directors	5
Total	168

Table 1 (cont.)

Panel B: Disputes, by Industry			
Industry Groups	2-digit SIC Codes	# of firms	% of sample
Agriculture, mining, construction	01-19	10	5.95
Food, textiles, paper products, printing	20-27	2	1.19
Chemicals, petroleum, and coal	28-29	15	8.93
Rubber, plastic, leather, and metal goods	30-34	4	2.38
Industrial machinery, transport equipment	35-37	27	16.07
Instruments and miscellaneous manufacturing	38-39	14	8.33
Transport, communications, and utilities	40-49	18	10.71
Wholesale and retail trade	50-59	12	7.14
Finance, insurance, and real estate	60-69	19	11.31
Hotels, consumer services, business services	70-79	38	22.62
Health, legal, and social services	80-99	9	5.36
Total		168	

Panel C: Individual Director Characteristics						
Characteristic	Departing directors (n = 214)			Remaining directors (n = 873)		
	Mean	Median	S.D.	Mean	Median	S.D.
Director age	53.90	54	10.97	55.47	56	10.63
Tenure on the board	4.11	2	4.85	5.01	3	5.35
Stock ownership per director (%)	3.97	0.61	7.79	4.03	0.42	9.70
# of outside directorships	0.46	0	0.98	0.57	0	1.18
# of outside chairmanships	0.06	0	0.29	0.15	0	0.48
Directors who are female	0.02	--	--	0.05	--	--
Directors who are CEO of the company	0.15	--	--	0.14	--	--
Directors who are former CEOs	0.04	--	--	0.03	--	--
Directors who are executive officers of the company	0.23	--	--	0.22	--	--
Directors who are Chairman	0.11	--	--	0.12	--	--
Directors who are former Chairman	0.02	--	--	0.02	--	--
Directors who belong to the founding family	0.02	--	--	0.04	--	--

Table 1 (cont.)

Panel D: Directors' Professional Experience					
Experience	% of directors		All directors, % of total		
	Departing (n=214)	Remaining (n=873)	Inside (n=329)	Gray (n=116)	Independent (n=642)
<i>Occupation</i>					
Consultant	11	14	10	17	15
Accountant	3	4	4	2	4
Lawyer	6	7	4	9	7
Engineer/Scientist	4	5	6	4	4
Medical professional	3	3	2	3	4
VC/Private equity financier	5	3	2	2	5
Investment banker	6	3	3	7	3
Commercial banker	1	3	5	4	1
Corporate executives	32	37	45	31	32
Other	29	21	19	21	25
Total	100	100	100	100	100
<i>Corporate leadership / Entrepreneurship</i>					
Current CEO of another company	19	29	13	23	35
Former CEO of another company	17	24	22	28	23
Current chair of another board	5	12	4	14	13
Former chair of another board	7	9	4	10	10
Founder of another company	23	20	16	21	23

Table 2: Summary Statistics for Dispute and Control Firms

The table reports mean and median values for selected characteristics of 168 firms experiencing director disputes and 168 matched control firms. Dispute firms are identified from SEC 8-K filings over the 1995 to 2006 period that contain directors' resignation letters. We match each dispute firm to a control firm in the same year and 2-digit SIC industry that (1) was not involved in any director disagreements over the sample period; (2) used the same form type (either DEF 14A or 10-KSB) for proxy filing as the dispute firm; and (3) was the closest in size (total assets) at the end of the fiscal year preceding the relevant 8-K filing. Data are obtained from CRSP, COMPUSTAT, proxy filings, annual reports, 10-K filings, 10-KSB filings, securities registration filings, and other SEC filings. Company founders include family members of the founder or co-founders. The variable 'CEO picks board members' equals 1 if the CEO serves on the nominating or corporate governance committee or if the board has no such committee; it equals 0 otherwise. Inside directors are current employees of the firm. Gray directors are outsiders who are former firm employees, relatives of executive officers, founding family members, or persons having business dealings with the firm. Independent directors are all outside directors who are not gray directors. An audit or compensation committee is independent if all members of the committee are independent outside directors. Independent blockholders are owners of 5% or more of the outstanding common equity who have no business ties with the company. Big 6 auditors include Arthur Andersen, Price Waterhouse, Coopers & Lybrand, Ernst & Young, Deloitte and Touche, and KPMG Peat Marwick. Financial and market value data are as of the end of the latest fiscal year preceding the dispute episode. Firm value equals the market value of equity plus the book value of total liabilities. Cash flow equals operating income before depreciation minus income taxes minus interest expense. Net income equals income before extraordinary items. Dollar values are inflation-adjusted 1995 dollars using CPI data from the U.S. Bureau of Labor Statistics. The table reports p-values from two-tailed, matched pairs t-tests for differences in means and Wilcoxon signed-ranks test for differences in distributions.

Variable	Mean			Median			Number of Pairs
	Dispute Firms	Control Firms	p-value for diff.	Dispute Firms	Control Firms	p-value for diff.	
<i>Board structure</i>							
Board size	6.55	6.18	0.071	6	6	0.051	168
Inside directors on the board (%)	38.90	35.82	0.131	33.33	28.57	0.069	168
Gray directors on the board (%)	11.53	8.21	0.035	0	0	0.021	168
Independent directors on the board (%)	49.57	55.97	0.006	50.0	60.0	0.001	168
Independent audit committee	0.51	0.61	0.019	--	--	0.020	168
Independent compensation committee	0.39	0.49	0.018	--	--	0.018	168
Independent audit and compensation committees	0.36	0.46	0.035	--	--	0.036	168
<i>CEO characteristics</i>							
Age (years)	52.58	53.29	0.501	52	53	0.389	167
Tenure on the board (years)	5.79	8.40	0.0004	4	5	0.001	168
Company founder	0.20	0.15	0.181	--	--	0.180	166
CEO picks board members	0.72	0.80	0.206	--	--	0.345	167

Ownership and governance

CEO stock ownership (%)	10.60	10.93	0.837	2.85	4.80	0.723	165
Directors and officers stock ownership (%)	23.91	23.80	0.954	18.44	18.05	0.861	164
Independent blockholdings (%)	14.25	10.99	0.083	7.30	5.22	0.289	164
Number of independent blockholders	1.29	1.07	0.164	1	1	0.345	164
Co. has an independent blockholder	0.60	0.54	0.212	--	--	0.211	168
CEO chairs the board	0.53	0.48	0.384	--	--	0.383	168
Big 6 auditor	0.38	0.46	0.033	--	--	0.034	147

Firm characteristics

Total Assets (\$ millions)	3,521.00	2,149.71	0.180	13.25	13.23	0.186	168
Market Value of Equity (\$ millions)	3,295.09	747.99	0.140	52.74	20.35	0.158	105
Total Debt / Firm Value	0.29	0.36	0.037	0.17	0.31	0.035	99
Cash Flow / Firm Value	-0.14	-0.08	0.202	-0.03	0.004	0.034	97
Net income / Firm Value	-0.17	-0.11	0.194	-0.04	-0.03	0.073	99
Firm on CRSP at 8-K filing date	0.46	0.49	0.557	--	--	0.149	168
Firm on NYSE at 8-K filing date	0.08	0.11	0.198	--	--	0.109	168
Firm on AMEX at 8-K filing date	0.06	0.02	0.109	--	--	0.166	168
Firm on Nasdaq at 8-K filing date	0.33	0.36	0.467	--	--	0.069	168
Firm age from date of CRSP listing, in years	9.78	13.42	0.094	6	11	0.008	64

Table 3: Categories of Disputes Involving Directors

This table provides a classification of our sample of 168 disputes into four categories based on the main issue cited: agency problems, board processes, corporate strategy, and miscellaneous disputes. Dispute episodes are identified from SEC 8-K filings made over the 1995 to 2006 period that contain an Exhibit 17 (director's resignation letter) citing disagreement.

Category of Dispute	Examples of Issues Cited	Frequency
Board functioning	<ul style="list-style-type: none">• Special board meetings were called on short notice regarding important matters• Directors were given insufficient information on financials and operations• Resigner was forced to vote upon unfamiliar matters without adequate board discussion• No review of corporate disclosures and executive employment contracts• Company made inappropriate use of resigner's name as signatory in 10-K filing• Dispute over money (cash or stock) owed to resigner• D&O insurance coverage not renewed	65
Agency problems	<ul style="list-style-type: none">• Management seems to pursue its own interests, unconstrained by the board of directors• Excessive option grant to the CEO• Board decisions regarding management personnel that failed to protect shareholders' interests• Disagreement with adoption of stockholder rights plan• Calls for resignation of CEO/Chairman were ignored• Board's governance practices, especially CEO compensation and succession• CEO used pseudonym to post misleading messages on Internet stock message boards	42
Corporate strategy and financial policy	<ul style="list-style-type: none">• Disagreement over direction of the company• Company has moved away from its R&D focus, to the detriment of shareholders• Lack of clarity in business, marketing, and financial plans• Disagreement with management over how to restore the company to profitability• Board rejected takeover offer that would have added to shareholder value• Terms of going-private offer were inadequate• Company is undercapitalized and therefore unable to deliver on long-term plans• Resigner disagrees with company's decision to enter into \$15M credit facility	43
Miscellaneous issues	<ul style="list-style-type: none">• Workplace environment was counterproductive• Management did not foster diversity in the workplace• CEO withheld wages from line employees• Payroll taxes were delinquent• Unspecified disagreement with the company's operations, policies, and practices	18

Table 4: Correlations

The table shows pair-wise correlations for the sample and variables in Table 5. ^{a,b,c} indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Dispute Firm	CEO Age > 63	Ln (1 + CEO tenure)	CEO is founder	Non-CEO chairman	CEO picks board members	CEO Shareholdings (%)	D&O shareholdings (%), excl. CEO	Independent blockholdings (%)	Ln (1 + board size)	Independent directors on the board (%)	Gray directors on the board (%)	Independent audit committee	Independent compensation committee	Avg. ROA, past two years	Total debt/total assets
CEO Age > 63	0.024															
Ln (1 + CEO tenure)	-0.174 ^c	0.257 ^c														
CEO is founder	0.071	0.026	0.247 ^c													
Non-CEO chairman	-0.031	-0.183 ^c	-0.180 ^c	-0.192 ^c												
CEO picks board members	-0.032	-0.034	-0.115 ^b	0.069	-0.038											
CEO shareholdings (%)	-0.013	0.149 ^e	0.116 ^b	0.273 ^c	-0.215 ^c	0.210 ^e										
D&O shareholdings (%), excl. CEO	0.008	-0.146 ^c	-0.150 ^c	-0.036	0.289 ^c	0.159 ^c	-0.093 ^a									
Independent blockholdings (%)	0.102 ^a	0.018	-0.063	-0.082	0.051	-0.203 ^c	-0.148 ^c	-0.049								
Ln (1 + board size)	0.077	-0.104 ^a	0.107 ^b	-0.059	0.219 ^c	-0.314 ^c	-0.281 ^c	0.034	0.087							
Independent directors on the board (%)	-0.129 ^b	-0.011	0.142 ^c	-0.058	0.124 ^b	-0.367 ^c	-0.246 ^c	-0.131 ^b	0.194 ^c	0.559 ^c						
Gray directors on the board (%)	0.117 ^b	-0.135 ^b	-0.119 ^b	-0.056	0.138 ^b	0.064	-0.024	0.196 ^c	0.028	0.104 ^a	-0.356 ^c					
Independent audit committee	-0.105 ^a	-0.029	0.112 ^b	-0.064	0.112 ^b	-0.416 ^c	-0.148 ^c	-0.174 ^c	0.129 ^b	0.382 ^c	0.577 ^c	-0.236 ^c				
Independent compensation committee	-0.110 ^b	-0.095 ^a	0.102 ^a	-0.081	0.069	-0.452 ^c	-0.249 ^c	-0.229 ^c	0.136 ^b	0.387 ^c	0.525 ^c	-0.183 ^c	0.673 ^c			
Avg. ROA, past two years	-0.026	0.014	0.047	-0.041	-0.002	-0.081	-0.072	0.007	0.067	0.241 ^c	0.249 ^c	-0.001	0.145 ^b	0.122 ^b		
Total debt/total assets	0.056	0.151 ^c	0.001	-0.012	-0.051	0.046	0.045	-0.046	-0.052	-0.042	-0.081	-0.036	-0.089	-0.071	-0.286 ^c	
Ln (1+total assets)	-0.003	-0.044	0.149 ^c	-0.037	0.129 ^b	-0.408 ^c	-0.244 ^c	-0.074	-0.130 ^b	0.652 ^c	0.476 ^c	0.059	0.338 ^c	0.377 ^c	0.170 ^c	-0.104 ^a

Table 5: Probability of Dispute Involving Directors: Firm-level Analysis

The table reports estimated odds-ratio marginal effects from paired (i.e., conditional) logistic regressions explaining the occurrence of disputes involving directors. The dependent variable in each regression equals 1 if a firm experienced a dispute and 0 otherwise. The base sample consists of 168 dispute firms over the 1995 to 2006 period and 168 matching control firms. The number of observations varies across regressions due to missing data for some variables. Data are obtained from COMPUSTAT, proxy filings, annual reports, 10-K and 10-KSB filings, securities registration filings, and other SEC filings. Company founders include family members of the founder or co-founders. The variable ‘CEO picks board members’ equals 1 if the CEO serves on the nominating or corporate governance committee or if the board has no such committee; it equals 0 otherwise. Inside directors are current employees of the firm. Gray directors are outsiders who are former employees of the firm, relatives of executive officers, founding family members, or persons having business dealings with the firm. Independent directors include all outside directors who are not gray directors. An audit or compensation committee is independent if all members of the committee are independent outside directors. Independent blockholders are owners of 5% or more of common stock who have no business ties with the company. Financial and market value data are as of the end of the most recent fiscal year preceding the dispute episode. Return on assets is income before extraordinary items divided by total book assets. Panel A includes all pairs of observations, and Panel B includes only observation pairs in which all resigning directors are outsiders. Z-statistics are computed using a robust variance estimator and are reported in parentheses below estimated odds-ratios. *, **, and *** denote estimates significantly different from zero at the 10%, 5%, and 1% levels, respectively, in two-tailed tests.

Panel A: All Director Departures amid Dispute				
Explanatory Variable	(1)	(2)	(3)	(4)
CEO Age > 63 years	1.433 (0.87)	1.566 (1.09)	1.559 (1.06)	1.712 (1.14)
Ln (1 + CEO tenure on the board in years)	0.475*** (-3.87)	0.465*** (-4.11)	0.472*** (-4.06)	0.487*** (-3.10)
Board has a non-CEO chairman	0.665 (-1.26)	0.691 (-1.18)	0.659 (-1.33)	0.642 (-1.29)
CEO picks board members	0.694 (-1.04)	0.671 (-1.16)	0.671 (-1.14)	0.690 (-0.89)
CEO is company founder	2.477** (2.11)	2.397** (2.02)	2.368** (2.04)	2.388 (1.54)
CEO stock ownership (%)	0.993 (-0.76)	0.996 (-0.40)	0.993 (-0.82)	0.992 (-0.53)
D&O stock ownership, excluding CEO (%)	0.995 (-0.48)	0.995 (-0.55)	0.993 (-0.67)	0.995 (-0.36)
Independent blockholdings (%)	1.022** (2.25)	1.014* (1.70)	1.014* (1.67)	1.025*** (2.78)
Ln (1 + board size)	4.765*** (3.02)	2.670* (1.93)	2.575* (1.94)	8.399*** (3.46)
Gray directors (%)	0.858 (-0.14)	4.302* (1.66)	4.769* (1.75)	2.034 (0.53)

Independent directors (%)	0.054*** (-3.13)			0.087** (-2.20)
Independent audit committee		0.440** (-2.05)		
Independent compensation committee			0.460** (-2.43)	
Avg. return on assets, past two years				0.980* (-1.76)
Total debt/total assets				0.985 (-0.68)
Ln (1 + total assets in \$ millions)	0.769 (-0.81)	0.825 (-0.40)	0.806 (-0.47)	1.080 (0.17)
P-value, Likelihood Ratio Test	0.002	0.021	0.004	0.0005
Pseudo R-Squared	0.203	0.173	0.173	0.245
Number of observations	324	324	324	256

Panel B: Only Outside Director Departures amid Dispute

Explanatory Variable	(1)	(2)	(3)	(4)
CEO Age > 63	2.052 (1.19)	1.997 (1.18)	2.025 (1.19)	2.581 (1.34)
Ln (1 + CEO tenure on the board in years)	0.448*** (-2.86)	0.396*** (-3.29)	0.415*** (-2.95)	0.448** (-2.11)
Board has a non-CEO chairman	0.777 (-0.60)	0.755 (-0.69)	0.814 (-0.46)	0.643 (-0.94)
CEO picks board members	0.466 (-1.51)	0.254** (-2.52)	0.345** (-2.30)	0.489 (-1.21)
CEO is company founder	2.225 (1.33)	2.277 (1.08)	2.059 (1.23)	1.191 (0.22)
CEO stock ownership (%)	0.995 (-0.43)	1.003 (0.18)	0.995 (-0.44)	1.005 (0.29)
D&O stock ownership, excluding CEO (%)	0.995 (-0.41)	0.990 (-0.65)	0.986 (-0.84)	0.994 (-0.33)
Independent blockholdings (%)	1.012 (0.85)	1.011 (0.82)	1.014 (0.93)	1.017 (1.25)
Ln (1 + board size)	6.838*** (3.06)	7.845*** (2.89)	7.232*** (2.94)	17.406*** (3.78)

Gray directors (%)	8.191 (1.39)	6.741 (1.51)	7.784* (1.77)	21.843 (1.36)
Independent directors (%)	0.393 (-0.80)			0.926 (-0.05)
Independent audit committee		0.127*** (-2.49)		
Independent compensation committee			0.226*** (-2.95)	
Avg. return on assets, past two years				0.951*** (-2.84)
Total debt/total assets				0.143** (-2.56)
Ln (1 + total assets in \$ millions)	0.882 (-0.31)	1.861 (1.09)	1.509 (0.83)	0.841 (-0.32)
P-value, Likelihood Ratio Test	0.047	0.033	0.006	0.0003
Pseudo R-Squared	0.232	0.311	0.295	0.349
Number of observations	208	208	208	174

Table 6: Probability of Dispute: Director-level Analysis

This table reports estimated marginal effects from logit regressions explaining the likelihood of individual director departures at companies experiencing board disputes. The dependent variable equals 1 if a director leaves the firm due to the dispute and 0 otherwise. Regressions in Panel A include all individual directors of dispute firms; those in Panel B include only outside directors of dispute firms. A director is considered to be a founder of a company if she founded or co-founded the company or is a member of its founding family. Only public companies are included in the number of outside directorships. A director's profession (academic, VC, investment banker, or retired) is determined from the most recent career information provided in biographical sketches disclosed in proxy statements. Z-statistics are computed using a robust variance estimator and are reported in parentheses below estimated marginal effects. *, **, and *** denote estimates significantly different from zero at the 10%, 5%, and 1% levels, respectively, in two-tailed tests.

Panel A: All Directors		
Explanatory Variable	(1)	(2)
Ln(1 + director tenure on the board in years)	-0.040** (-2.31)	-0.038** (-2.21)
Director stock ownership (%)	0.031 (0.28)	0.054 (0.49)
Director is CEO of another firm	-0.101*** (-3.02)	
Director is Chairman of another firm's board		-0.111*** (-2.92)
Female	-0.078 (-1.33)	-0.079 (-1.33)
Company founder	-0.055 (-0.85)	-0.059 (-0.92)
Retired	0.016 (0.31)	0.018 (0.34)
Number of outside directorships	0.002 (0.15)	0.003 (0.31)
Founder of another firm	0.063** (2.14)	0.054* (1.85)
Academic	-0.016 (-0.22)	-0.012 (-0.17)
VC	0.227*** (2.66)	0.208** (2.43)
Investment banker	0.117* (1.88)	0.133** (2.05)
P-value, Likelihood Ratio Test	0.005	0.008
Pseudo R-Squared	0.030	0.030
Number of observations	1,071	1,071

Table 6 (cont'd.)

Panel B: Outside Directors		
Explanatory Variable	(1)	(2)
Ln(1 + director tenure on the board in years)	-0.030 (-1.54)	-0.029 (1.48)
Director stock ownership (%)	-0.441*** (-2.71)	-0.427*** (-2.58)
Director is CEO of another firm	-0.076** (-2.01)	
Director is Chairman of another firm's board		-0.073* (-1.72)
Female	-0.070 (-1.15)	-0.071 (-1.16)
Company founder	-0.107 (-1.09)	-0.111 (-1.15)
Retired	0.023 (0.40)	0.023 (0.40)
Number of outside directorships	0.005 (0.48)	0.006 (0.55)
Founder of another firm	0.068** (1.99)	0.063* (1.83)
Academic	0.033 (0.43)	0.037 (0.48)
VC	0.200** (1.98)	0.192* (1.91)
Investment banker	0.194*** (2.63)	0.211*** (2.79)
P-value, Likelihood Ratio Test	0.002	0.007
Pseudo R-Squared	0.044	0.043
Number of observations	748	748

Table 7: Abnormal Returns Surrounding Director Disputes

The table shows cumulative abnormal returns (CARs) computed from daily market-adjusted returns using the CRSP equal-weighted index. The sample consists of 123 disputes involving directors that led to director turnover. Disputes are identified from SEC 8-K filings made over the 1995 to 2006 period that contained an Exhibit 17 (director's resignation letter). The event date is defined as the earlier of the 8-K filing date and the date of the first Factiva news story, if any, reporting the director departure. Stock price data are from CRSP and Datastream. Panel A reports CARs for the full sample and for subsamples defined according to the highest executive position held by any of the departing directors. The rightmost column in this panel reports p-values from tests for differences in means (distributions) between columns (3) and (4) based on a t-test (Mann-Whitney test). Panel B shows results partitioned by the type of dispute. The table reports mean CARs and (in parentheses) median CARs. P-values for differences in means (distributions) based on a t-test (Mann-Whitney test) are also reported. *, **, and *** denote CARs significantly different from zero at the 10%, 5%, and 1% significance levels, respectively, using two-tailed Brown and Warner (1985) t-tests for means and two-tailed Wilcoxon tests for medians. Statistics for the Brown and Warner t-tests are computed using daily price data over a 50-day estimation period ending 21 days before the event date.

Panel A: Abnormal Returns By Departing Directors' Executive Positions

Days around Announcement	All Disagree- ment Events (1)	Positions of Departing Director(s)			P-value of diff, (3) vs. (4)
		CEO (2)	Insider (3)	Outsider (4)	
[-1,1]	-2.58** (-2.08)***	-2.43 (-3.88)	-3.86*** (-3.16)**	-1.94 (-1.73)**	0.47 (0.30)
[-5,1]	-2.28* (-1.55)**	-7.83* (-10.53)	-4.72* (-2.26)*	-1.04 (-1.54)*	0.48 (0.44)
[-10,1]	-6.11*** (-6.06)***	-17.61*** (-20.74)**	-10.26*** (-16.31)**	-4.01* (-3.40)**	0.29 (0.09)
[-10,10]	-5.14** (-5.69)**	-25.10*** (-28.33)**	-13.45*** (-14.85)**	-0.93 (-4.61)	0.09 (0.07)
<i>N</i>	123	23	41	82	

Panel B: Abnormal Returns By Type of Dispute

	Days around Announcement		
	[-1,1]	[-5,1]	[-10,1]
Board functioning (n = 50)	-1.49** (-2.53)*	-1.39 (-1.08)	-0.60 -8.39
Agency problems (n = 35)	-1.91 (-2.08)*	-5.08*** (-1.01)	-10.32*** (-3.86)**
Corporate strategy and financial policy (n = 29)	-4.49 (-3.16)*	-7.78 (-6.61)***	-11.79** (-7.80)***
Miscellaneous issues (n = 9)	-3.35 (0.59)	8.16*** (-0.73)	-0.41 (0.61)

Table 8: Cross-sectional Analysis of Abnormal Returns

The sample consists of disputes that were disclosed upon departure of a director. Disputes are identified from SEC 8-K filings made over the 1995 to 2006 period that contained an Exhibit 17 (director's resignation letter) detailing the dispute. The table shows estimates of ordinary least squares regressions of the cumulative abnormal return over the [-10,+1] window surrounding the event date. The event date is the earlier of (1) the date of the SEC 8-K filing that revealed the dispute and departure or (2) the first Factiva news story, if any, reporting the director departure. Stock price data are from CRSP and Datastream. Cumulative abnormal returns (CARs) are computed from daily market-adjusted returns using the CRSP equal-weighted index. Company founders include family members of the founder or co-founders. The variable 'CEO picks board members' equals 1 if the CEO serves on the nominating or corporate governance committee or if the board has no such committee; it equals 0 otherwise. Independent blockholders are owners of 5% or more of common stock who have no business ties with the company. Media coverage equals 1 if the director departure was reported in at least one Factiva news story; it equals 0 otherwise. Inside directors are current firm employees. Gray directors are outsiders who are relatives of executive officers, former firm employees, founding family members, or persons having business dealings with the firm. Total assets are measured as of the end of the latest fiscal year preceding the dispute episode. Committee membership is defined according to whether a director belonged to a particular board committee or, when no such committee exists, whether the board consists of five or fewer directors. Each regression includes industry dummies (1-digit SIC). All regressions use a robust variance estimator. T-statistics are reported in parentheses below coefficient estimates. *, **, and *** denote significantly different from zero at the 10%, 5%, and 1% levels, respectively, in two-tailed tests.

	All Director Departures amid Dispute			Only Outside Director Departures amid Dispute		
	(1)	(2)	(3)	(7)	(8)	(9)
Intercept	0.173 (0.71)	0.364 (1.39)	0.362 (1.35)	0.487 (1.44)	0.667* (1.92)	0.661* (1.85)
Ln (1+avg. tenure of departing directors)	0.091** (2.26)	0.099** (2.39)	0.100** (2.30)	0.128** (2.53)	0.139** (2.54)	0.141** (2.46)
Ln (1+number of departing directors)	0.037 (0.33)	0.079 (0.67)	0.079 (0.67)	0.038 (0.32)	0.099 (0.84)	0.092 (0.79)
Ln (1+CEO tenure on the board in years)	0.122** (2.53)	0.111** (2.33)	0.112** (2.31)	0.054 (1.31)	0.061 (1.54)	0.061 (1.49)
CEO is company founder	-0.112* (-1.73)	-0.115* (-1.74)	-0.113* (-1.68)	-0.008 (-0.11)	-0.003 (-0.04)	0.003 (0.04)
Board has a non-CEO chairman	-0.113* (-1.75)	-0.095 (-1.45)	-0.094 (-1.42)	-0.007 (-0.08)	0.003 (0.03)	0.003 (0.04)
CEO picks board members	-0.146** (-2.57)	-0.158*** (-2.74)	-0.158*** (-2.71)	-0.109** (-2.03)	-0.117** (-2.04)	-0.117** (-2.01)
CEO stock ownership (%)	-0.001 (-0.60)	-0.001 (-0.75)	-0.001 (-0.73)	-0.002 (-1.28)	-0.002 (-1.37)	-0.002 (-1.31)
D&O stock ownership, excl. CEO (%)	0.007*** (3.59)	0.006*** (3.44)	0.006*** (3.44)	0.003 (1.04)	0.002 (1.05)	0.003 (1.05)
Independent blockholdings (%)	0.002 (1.43)	0.003 (1.50)	0.003 (1.50)	0.004** (2.02)	0.004** (2.08)	0.004** (2.05)
Ln (1+board size)	-0.117 (-0.81)	-0.156 (-1.13)	-0.156 (-1.13)	-0.170 (-0.71)	-0.214 (-0.99)	-0.216 (-0.99)

Independent directors (%)	0.116 (0.70)	0.045 (0.24)	0.053 (0.29)	-0.239 (-0.93)	-0.264 (-0.97)	-0.241 (-0.90)
Gray directors (%)	0.255 (1.00)	0.179 (0.66)	0.180 (0.66)	-0.169 (-0.54)	-0.186 (-0.56)	-0.178 (-0.54)
Any departing director on audit committee		-0.005 (-0.09)	-0.005 (-0.09)		-0.042 (-0.68)	-0.040 (-0.64)
Any departing director on compensation committee		-0.101 (-1.60)	-0.099 (-1.56)		-0.106 (-1.49)	-0.101 (-1.39)
Any departing director is CEO		-0.101 (-1.02)	-0.099 (-1.02)			
Media coverage			-0.016 (-0.20)			-0.027 (-0.33)
Ln (1+total assets in \$ millions)	-0.032* (-1.75)	-0.037* (-1.92)	-0.036* (-1.86)	-0.017 (-0.76)	-0.024 (-0.98)	-0.021 (-0.90)
p-value of F-test	.001	.003	.005	.095	.166	.199
Adjusted R ²	0.260	0.266	0.258	0.205	0.234	0.222
Number of observations	118	118	118	78	78	78

Table 9: Operating Performance of Sample and Control Firms Surrounding Disputes

This table shows median values of operating performance measures for firms experiencing director disputes and for matched control firms. Return on Assets is income before extraordinary items divided by total assets. OIBD is operating income before depreciation. Total assets are end-of-year book value of assets. Accounting data are obtained from COMPUSTAT and various SEC filings (including annual reports and 10-K, 10-KSB, and 10-Q filings). The table reports absolute values of z-statistics from paired two-tailed Wilcoxon tests for differences in distributions. The sample sizes shown are for OIBD/assets. The sample sizes for return on assets are slightly higher, ranging from three more pairs in year -2 to one more pair in year +2 for the sample of all disputes. *, **, and *** denote statistically significant differences at the 10%, 5%, and 1% levels, respectively.

Year relative to dispute	Sample size (# of pairs)	Return on Assets (ROA)			OIBD/Assets (OIBDA)		
		Dispute Firms	Control Firms	z-stat for difference	Dispute Firms	Control Firms	z-stat for difference
Panel A: All Disputes							
-2	140	-0.146	-0.076	1.713*	-0.086	0.007	1.593
-1	148	-0.247	-0.067	3.069***	-0.114	0.006	2.538**
0	125	-0.299	-0.026	3.270***	-0.119	0.027	3.825***
1	80	-0.188	0.008	0.990	-0.152	0.027	1.626
2	47	-0.030	0.011	1.129	-0.046	0.069	2.942***
Panel B: Board Functioning							
-2	55	-0.170	-0.041	2.622***	-0.131	-0.005	2.061**
-1	57	-0.295	-0.067	2.817***	-0.144	-0.035	2.237**
0	48	-0.221	-0.035	1.877*	-0.083	0.022	2.092**
1	29	-0.186	-0.021	1.409	-0.189	0.020	1.633
2	13	-0.005	0.010	0.659	-0.120	0.022	1.922*
Panel C: Agency Problems							
-2	36	-0.077	-0.023	0.330	0.002	0.077	0.754
-1	36	-0.082	-0.012	1.037	-0.055	0.062	1.414
0	32	-0.213	-0.042	1.295	-0.113	0.059	2.113**
1	23	-0.174	0.007	0.829	-0.096	0.015	0.639
2	15	-0.151	0.009	0.568	-0.071	0.063	1.704*
Panel D: Corporate Strategy and Financial Policy							
-2	35	-0.266	-0.123	0.126	-0.112	0.004	0.098
-1	40	-0.373	-0.150	0.882	-0.194	-0.042	0.538
0	33	-0.576	-0.031	2.214**	-0.289	0.027	2.064**
1	20	-0.418	-0.039	0.896	-0.405	0.009	0.112
2	13	-0.060	0.012	0.804	0.015	0.031	0.804

Table 9 (cont.)

Year relative to dispute	Sample size (# of pairs)	Return on Assets (ROA)			OIBD/Assets (OIBDA)		
		Dispute Firms	Control Firms	z-stat for difference	Dispute Firms	Control Firms	z-stat for difference
Panel E: Miscellaneous Issues							
-2	14	-0.154	-0.134	0.155	-0.197	-0.044	0.031
-1	15	-0.249	-0.066	1.189	-0.131	0.005	1.022
0	12	-0.084	0.016	0.235	-0.0002	0.080	0.706
1	8	0.011	0.036	0.415	-0.023	0.139	1.820*
2	6	-0.021	0.024	0.507	-0.060	0.098	1.572

Table 10: Medium-Term Abnormal Stock Price Performance Surrounding Disputes

The table shows pre- and post-announcement medium-term abnormal returns for our sample of firms experiencing director disputes and for four subsamples based on the type of dispute. The portfolio return in calendar month t is calculated as the equally-weighted average return during month t for stocks of firms that experienced a dispute during the succeeding 3, 6, 9, and 12 months (for pre-event returns reported in Panel A) or during the previous 3, 6, 9, or 12 months (for the post-event returns reported in Panel B). The measure of abnormal stock return is the intercept from a regression of the monthly calendar-time excess portfolio returns on the Fama and French (1993) three-factor model

$$R_{p,t} - R_{f,t} = \alpha + b(R_{m,t} - R_{f,t}) + sSMB_t + hHML_t + \varepsilon_{p,t}$$

where $R_{p,t}$ is the equal-weighted returns of the portfolio of dispute firms in calendar month t ; $R_{f,t}$ is the 1-month T-bill return; $R_{m,t}$ is the return on the CRSP value-weighted market index; SMB_t is the difference between the return on a portfolio of small stocks and the return on a portfolio of large stocks; HML_t is the difference between the return of a portfolio of high book-to-market stocks and a portfolio of low book-to-market stocks. Abnormal returns are also estimated using the Carhart (1997) four-factor model

$$R_{p,t} - R_{f,t} = \alpha + b(R_{m,t} - R_{f,t}) + sSMB_t + hHML_t + mUMD_t + \varepsilon_{p,t}$$

where UMD_t is the return on high momentum stocks minus the return on low momentum stocks. Monthly returns above the 98th percentile or below the 2nd percentile are excluded. T-statistics are shown in parentheses below coefficient estimates.

Table 10 (cont.)

	3 Months		6 Months		9 Months		12 Months	
	F-F	Four-Factor	F-F	Four-Factor	F-F	Four-Factor	F-F	Four-Factor
Panel A: Pre-Event Returns								
Full sample	-0.0266 (-1.50)	-0.0233 (-1.31)	-0.0335 (-3.05)	-0.0317 (-2.85)	-0.0326 (-3.93)	-0.0311 (-3.71)	-0.0323 (-4.38)	-0.0305 (-4.12)
Subsamples of disputes involving:								
Board Processes	-0.058 (-2.12)	-0.052 (-1.98)	-0.066 (-3.51)	-0.059 (-3.25)	-0.054 (-3.20)	-0.049 (-3.00)	-0.053 (-3.61)	-0.047 (-3.36)
Agency Problems	0.001 (0.04)	-0.004 (-0.19)	0.008 (0.45)	0.005 (0.29)	0.002 (0.12)	0.000 (0.00)	-0.002 (-0.15)	-0.003 (-0.26)
Corporate Strategy or Financing	-0.055 (-2.32)	-0.057 (-2.31)	-0.034 (-1.94)	-0.036 (-2.12)	-0.033 (-2.43)	-0.038 (-2.84)	-0.041 (-3.95)	-0.047 (-4.66)
Miscellaneous Issues	-0.022 (-0.31)	-0.012 (-0.16)	-0.017 (-0.42)	-0.019 (-0.46)	-0.017 (-0.58)	-0.022 (-0.75)	-0.014 (-0.59)	-0.016 (-0.66)
Panel B: Post-Event Returns								
Full sample	-0.0253 (-1.21)	-0.0262 (-1.24)	-0.0297 (-2.28)	-0.0314 (-2.38)	-0.0325 (-3.01)	-0.0334 (-3.06)	-0.0262 (-2.64)	-0.0279 (-2.79)
Subsamples of disputes involving:								
Board Processes	0.021 (0.49)	0.019 (0.44)	-0.034 (-1.52)	-0.036 (-1.58)	-0.032 (-1.70)	-0.031 (-1.61)	-0.031 (-1.93)	-0.031 (-1.90)
Agency Problems	-0.069 (-2.19)	-0.071 (-2.23)	-0.060 (-2.55)	-0.064 (-2.78)	-0.068 (-3.62)	-0.070 (-3.76)	-0.039 (-2.42)	-0.044 (-2.71)
Corporate Strategy or Financing	-0.034 (-1.20)	-0.029 (-1.02)	-0.014 (-0.64)	-0.014 (-0.61)	-0.020 (-1.23)	-0.018 (-1.13)	-0.022 (-1.55)	-0.022 (-1.53)
Miscellaneous Issues	-0.037 (-1.24)	-0.038 (-1.24)	-0.024 (-0.91)	-0.023 (-0.86)	-0.025 (-1.13)	-0.019 (-0.84)	-0.011 (-0.47)	-0.007 (-0.29)

Table 11: Aftermath of Director Disputes

This table reports the frequencies of different types of events experienced by dispute and control firms within 6-month, 1-year, and 2-year periods following director disputes. Panel A reports various types of CRSP delistings. Each cell indicates the number of dispute (control) firms experiencing a particular type of delisting, followed in parentheses by its frequency as a percentage of the total number of dispute (control) firms listed on CRSP at the time of the relevant 8-K dispute filing. Delisting categories are not all mutually exclusive and are based on delisting codes reported by CRSP. The bankrupt category includes firms delisted due to insufficient assets or equity, or the stock price being too low. Panel B reports numbers and frequencies (as percentages of the overall sample of dispute or control firms) for other types of post-dispute events. The events are defined and identified as follows: *shareholder class-action lawsuits* are initiations of shareholder litigation as reported in the Stanford Class Action Clearinghouse database; *proxy contests* are filings of contested proxies (SEC Form DEF14As) by a dissident shareholder group, identified via the SEC's Edgar database; *financial restatements*, identified from the GAO database or from Lexis-Nexis news stories, are instances of financial restatement due to accounting irregularities; *asset divestitures* are announced sales of company assets as reported in Lexis-Nexis news stories; *debt refinancings* are announced security issuances or debt renegotiations, identified from Lexis-Nexis news stories, in which existing debt is repaid or altered. P-values are from tests for equality of proportions between dispute and control samples.

Panel A: Post-Dispute Delistings from CRSP

Delisting Category (CRSP Delisting Codes)	Within 6 months			Within 1 year			Within 2 years		
	Dispute Firms	Control Firms	p-value	Dispute Firms	Control Firms	p-value	Dispute Firms	Control Firms	p-value
Acquired (231, 233, 241)	2 (2.3)	1 (1.1)	0.503	2 (2.3)	6 (6.3)	0.192	3 (3.5)	10 (10.5)	0.067
Bankrupt (552, 560, 561, 574)	1 (1.2)	0 (0.0)	0.292	2 (2.3)	1 (1.1)	0.503	5 (5.8)	4 (4.2)	0.620
Delisted by Exchange (550, 551, 570, 580, 582, 584, 585)	6 (7.0)	0 (0.0)	0.009	8 (9.3)	2 (2.1)	0.034	9 (10.5)	7 (7.4)	0.464
All non-merger delistings (500, 520, 550, 551, 552, 560, 561, 570, 574, 580, 582, 584, 585)	8 (9.3)	0 (0.0)	0.002	12 (14.0)	3 (3.2)	0.009	17 (19.8)	11 (11.6)	0.128
All delistings (231, 233, 241, 500, 520, 550, 551, 552, 560, 561, 570, 574, 580, 582, 584, 585)	10 (11.6)	1 (1.1)	0.003	14 (16.3)	9 (9.5)	0.170	20 (23.3)	21 (22.1)	0.854
# of sample firms listed on CRSP at the 8-K filing date	86	95		86	95		86	95	

Table 11 (cont.)

Panel B: Other Post-Dispute Events									
	Within 6 months			Within 1 year			Within 2 years		
	Dispute Firms	Control Firms	p-value	Dispute Firms	Control Firms	p-value	Dispute Firms	Control Firms	p-value
Shareholder class-action lawsuits	8 (4.8)	1 (0.6)	0.018	9 (5.4)	2 (1.2)	0.032	10 (6.0)	5 (3.0)	0.187
Proxy contests	5 (3.0)	1 (0.6)	0.099	6 (3.6)	1 (0.6)	0.056	9 (5.4)	2 (1.2)	0.032
Financial restatements	5 (3.0)	4 (2.4)	0.735	8 (4.8)	7 (4.2)	0.792	16 (9.5)	8 (4.8)	0.090
Asset divestitures	6 (3.6)	0 (0.0)	0.013	10 (6.0)	0 (0.0)	0.001	13 (7.7)	10 (6.0)	0.517
Debt refinancings	3 (1.8)	3 (1.8)	1.000	9 (5.4)	5 (3.0)	0.275	12 (7.1)	7 (4.2)	0.238
# of sample firms	168	168		168	168		168	168	

Table A.1: Announcement Abnormal Returns, Operating Performance and Medium-Term Stock Performance Surrounding Director Turnover without Disclosed Dispute, and the Aftermath for Firms

The table shows announcement abnormal returns, operating performance and medium-term stock performance surrounding director turnover without disclosed dispute, and the incidence of company delistings after turnover events. The sample consists of director turnover events over 2001-2006 identified from the Audit Analytics database on Director and Officer Changes, in which one or more directors resigned or declined re-election, but no disagreement was cited. Sample sizes differ across the four panels due to data availability. Panel A shows cumulative abnormal returns (CARs) for four windows around the announcement date (day 0) of 6,418 director resignation events. CARs are computed from daily market-adjusted returns using the CRSP equal-weighted index. CARs are reported for the full sample and for subsamples defined according to whether one of the departing directors was the CEO or whether at least one of the departing directors was an insider, i.e., a company officer. The table reports mean and (in parentheses) median CARs. *, **, and *** denote CARs significantly different from zero at the 10%, 5%, and 1% significance levels, respectively, using two-tailed Brown and Warner (1985) t-tests for means and two-tailed Wilcoxon tests for medians. The rightmost column reports p-values from tests for differences in means (distributions) between columns (3) and (4) based on a t-test (Mann-Whitney test). Statistics for the Brown and Warner t-tests are computed using daily stock price data over a 50-day estimation period ending 21 days before the event date. Panel B shows median values of firms' unadjusted and industry-adjusted operating performance measures surrounding 5,244 director turnover events. When more than one turnover event occurred for a given firm in a given calendar year, only the first one is included in the sample. ROA equals income before extraordinary items, and OIBDA equals operating income before depreciation, each divided by year-end total assets. We compute industry-adjusted ROA and OIBDA by subtracting from unadjusted measures the median performance measure in the same year across all firms in the same 2-digit SIC industry. Accounting data is from COMPUSTAT. The panel reports absolute values of z-statistics from Wilcoxon tests for differences in distributions. The sample sizes shown are for OIBDA; the sample sizes for return on assets are slightly higher. Panel C shows pre- and post-announcement medium-term abnormal stock returns for 7,907 director turnover events. The portfolio return in calendar month t is calculated as the equally-weighted average return during month t for stocks of firms that experienced a director turnover during the succeeding 3, 6, 9, and 12 months (for pre-event returns) or during the previous 3, 6, 9, or 12 months (for the post-event returns). The measure of abnormal stock return is the intercept from a regression of the monthly calendar-time excess portfolio returns on the Fama and French (1993) three-factor model (FF) or from the Carhart (1997) four-factor model. Monthly returns above the 98th percentile or below the 2nd percentile are excluded. T-statistics are shown in parentheses below coefficient estimates. Panel D reports the frequencies of different types of CRSP delisting events experienced by firms within 6-month, 12-month, and 2-year periods following 7,599 director turnover events. Each cell reports the number of firms delisted over a given time period, followed in parentheses by the frequency of delisting as a percentage of the total number of firms listed on CRSP at the time of the turnover. Delisting events are grouped into categories (not all mutually exclusive) based on CRSP delisting codes. The "Bankrupt" category includes delistings due to insufficient assets or equity or an insufficiently high stock price.

Table A.1 (cont.)

Panel A: Abnormal Stock Returns Surrounding Director Turnover Announcements

Days around Announcement	All Turnover Events (1)	Positions of Departing Director(s)			p-value of diff, (3) vs. (4)
		CEO (2)	Insider (3)	Outsider (4)	
CAR [-1,1]	-0.41*** (-0.41)***	-0.55*** (-0.43)**	-0.55*** (-0.50)***	-0.22*** (-0.28)***	0.091 (0.009)
CAR [-5,1]	-0.42*** (-0.56)***	-1.18*** (-0.96)***	-0.73*** (-0.76)***	0.02 (-0.30)**	0.007 (0.0002)
CAR [-10,1]	-0.91*** (-0.85)***	-1.67*** (-1.11)***	-1.25*** (-1.00)***	-0.45*** (-0.60)***	0.017 (0.007)
CAR [-10,10]	-1.24*** (-1.14)***	-2.47*** (-2.36)***	-1.60*** (-1.22)***	-0.73*** (-1.07)***	0.046 (0.101)
<i>N</i>	6,418	765	3,763	2,655	

Panel B: Operating Performance of Firms Surrounding Director Turnover

Year relative to dispute	# of Observations	ROA		Industry- Adjusted ROA		OIBDA		Industry- Adjusted OIBDA	
		Median	z-stat	Median	z-stat	Median	z-stat	Median	z-stat
-2	5,243	0.010	5.46	-0.001	9.03	0.066	18.84	-0.001	5.43
-1	5,244	0.011	3.74	-0.003	11.25	0.066	19.34	-0.002	7.29
0	4,846	0.011	2.71	-0.003	11.93	0.065	18.41	-0.003	8.12
1	2,787	0.014	0.87	-0.001	6.60	0.072	15.36	-0.001	3.93
2	806	0.013	0.66	-0.003	4.33	0.074	6.65	0.000	2.00

Panel C: Medium-Term Abnormal Stock Returns Surrounding Director Turnover

	3 Months		6 Months		9 Months		12 Months	
	F-F	Four-Factor	F-F	Four-Factor	F-F	Four-Factor	F-F	Four-Factor
Pre-dispute	-0.025 (-3.47)	-0.025 (-3.59)	-0.019 (-3.25)	-0.019 (-3.28)	-0.019 (-4.83)	-0.019 (-4.76)	-0.017 (-3.19)	-0.017 (-3.12)
Post-dispute	0.006 (0.69)	0.005 (0.66)	0.002 (0.35)	0.002 (0.35)	0.0002 (0.03)	0.0004 (0.07)	-0.002 (-0.32)	-0.001 (-0.25)

Table A.1 (cont.)

Delisting Category (CRSP Delisting Codes)	Number (Percent) of Delistings		
	Within 6 months	Within 12 months	Within 2 years
Acquired (231, 233, 241)	121 (1.59)	304 (4.00)	407 (5.36)
Bankrupt (552, 560, 561, 574)	77 (1.01)	114 (1.50)	120 (1.58)
Delisted by exchange (580, 582, 584, 585, 550, 551, 570)	76 (1.00)	141 (1.86)	162 (2.13)
All non-merger delistings (500, 520, 550, 551, 552, 560, 561, 570, 574, 580, 582, 584, 585)	188 (2.47)	325 (4.28)	340 (4.47)
All delistings (231, 233, 241, 500, 520, 550, 551, 552, 560, 561, 570, 574, 580, 582, 584, 585)	309 (4.07)	634 (8.34)	757 (9.96)
# of sample firms listed on CRSP at the turnover event date	7,599	7,599	7,599