

## TIME FOR ME TO FLY: PREDICTING DIRECTOR EXIT AT LARGE FIRMS

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**One of the great unanswered questions in governance research is, Why do directors serve on boards? Drawing on self-determination theory, a theory of total motivation that combines both intrinsic and extrinsic motivations, we find that the prestige associated with being a director, the ability to have influence, and identification with the director role make directors less likely to exit; however, demotivating factors related to the time commitment required, such as holding other board appointments or serving as a CEO at another company, increase the likelihood of director exits. Finally, we find that the value of being on the board of a prestigious firm diminishes when the firm experiences events that tarnish its prestige, although these same events decrease the likelihood of director exit when firm prestige is lacking.**

One of the great unanswered questions in corporate governance research is, What motivates individuals to serve as outside directors on boards (Hambrick, van Werder, & Zajac, 2008)? Although research has addressed why directors may be motivated to perform well once they agree to serve on a corporate board (e.g., Cowen & Marcel, 2011; Fama & Jensen, 1983), it has failed to consider why someone who is already a highly paid, extremely busy executive or professional chooses to serve on a board, or continues to serve on a board. Studying the factors that influence whether or not an individual agrees to serve on a board is extremely difficult, if not impossible, because it requires knowledge of both board appointment offers that are declined and those that are accepted. However, it is possible to study what influences whether a director continues or exits existing board appointments.

The few studies examining director exit have focused on firms that experienced significant negative events, such as bankruptcies or earnings re-

statements (Arthaud-Day, Certo, Dalton, & Dalton, 2006; Cowen & Marcel, 2011; Srinivasan, 2005). Although informative, these studies provide limited insight into the more common occurrence of director exit during noncrisis periods. What little work has been done in noncrisis settings is anecdotal or primarily descriptive (e.g., Lorsch & MacIver, 1989). A director's decision to serve implicitly suggests that he or she perceives some net benefits from board service, but systematic research ascertaining the extent to which these factors influence the decision to remain on or leave a board has not been conducted. Furthermore, the calculus that goes into weighing the overall motivating potential of a particular board appointment has received no attention to date. Thus, little is still known about why most director exits occur.

We suggest part of the reason for this omission is that the theories used to study board service focus primarily on extrinsic motivations associated with pay or the fear of director labor market sanctions (e.g., Gillespie & Zweig, 2010) and do not adequately incorporate factors that enhance directors' sense of autonomy, competence, and ability to build social connections—that is, the potential *intrinsic* motivations of board service. Deci and Ryan defined intrinsically motivated activities as “those that individuals find interesting and would do in the absence of operationally separable consequences” (2000: 233). Over the last 40 years, Deci and his colleagues (e.g., Deci & Ryan, 1985, 2000;

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Gagne & Deci, 2005; Ryan & Deci, 2000) have studied how intrinsic and extrinsic motivations can operate in parallel and developed self-determination theory, a theory of total motivation (see Deci, Koestner, and Ryan [1999] for a review of this literature) to explicate this process. They suggest that extrinsic and intrinsic motivation can be blended to varying degrees, as extrinsic motivations become internalized and incorporated into an individual's identity.

We use self-determination theory to develop our arguments explaining why directors choose to remain on or leave boards. We argue that a combination of intrinsic and extrinsic motivating factors influences the likelihood a director will continue to serve on a board and that these factors will influence directors with varying backgrounds in different ways. Little prior research has analyzed how different types of outside directors may vary in their motivations for serving on boards (Hillman, Nicholson, & Shropshire, 2008). Understanding directors' motivations for serving is important because of the critical human and social capital directors bring to firms (Hillman & Dalziel, 2003), and because it can provide insights into when and why directors may fail to act as aggressive monitors of executives, and how incentives to increase their monitoring may have unintended consequences (Bebchuk & Fried, 2004). Although we do not measure motivation directly, we use a director's actions (specifically, his or her choice to leave a firm's board) as an indicator of the director's revealed preferences (Wood & Brumbaugh, 2009).

Our study makes a number of contributions to research and theory in corporate governance. First, despite the considerable research on boards in general, the question of what motivates directors is still largely unanswered (Hambrick et al., 2008). We generate novel predictions regarding a number of factors affecting director exit that have not been previously considered in the literature and assess their influence in light of their relative overall motivating potential. This study is unique in that we argue directors value their ability to have a positive influence on a firm through their board service and that board service can be extrinsically and intrinsically motivating.

Second, in contrast to previous research (e.g., Srinivasan, 2005), we challenge the assumption that most director exits are involuntary and instead argue that the majority of director exits are either voluntary or based on mutual consent. Challenging this taken-for-granted notion opens up new opportunities for theorizing about director exit to a wider array of possibilities than just the fear of sanctions and "settling up," and it facilitates developing a

richer and more complete picture of directors' perceptions and motivations.

Moreover, our theory and findings offer a middle-ground perspective between agency theory and stewardship theory. Although agency theory portrays executives as self-interested opportunists (Jensen & Meckling, 1976), stewardship theory suggests these individuals are primarily motivated to pursue the best interests of their organizations (Davis, Schoorman, & Donaldson, 1997). Our theory and findings help to bridge the gap between these two theories by suggesting that, in keeping with agency theory, directors can be self-interested, but, in keeping with stewardship theory, these motivating factors are not just extrinsic rewards enjoyed at the expense of organizations. Rather, directors may act in the best interests of organizations because they find their directorship duties to be fulfilling and intrinsically motivating. Thus, to properly understand how to improve corporate governance outcomes, scholars must gain greater insight into directors' motivations than those considered by either theory in isolation.

Our study also contributes to the literature on self-determination theory. The majority of self-determination theory studies have occurred in experimental settings, and those studies conducted in organizations have focused on their middle or lower levels (Deci et al., 2001; Ilardi, Leone, Kasser, & Ryan, 1993). A recent review of this literature noted that there has been little research on autonomous motivation in organizations, and "none of it has been longitudinal" (Gagne & Deci, 2005: 354). Thus, we contribute to self-determination theory research by conducting a longitudinal field study of multiple organizations' upper echelon members that develops theory regarding directors' total motivation to serve on boards.

Our results suggest that, at least within the board room, members of an organization's upper echelon may be motivated by nonfinancial concerns unrelated to the extrinsic carrots and sticks that have been the focus of most prior research. We also argue and find that the motivating aspects of board service differ between groups of directors (i.e., executives and nonexecutives) due to each group's level of identification with board service (Boivie, Lange, McDonald, & Westphal, 2011). These findings suggest that the degree to which board service positively affects a director's identity influences his/her motivation to serve.

In the following section we discuss the motivating potential associated with a number of factors associated with serving on boards and develop an associated set of hypotheses predicting how these

factors influence the likelihood of director exit from a board in a given year.

## THEORY AND HYPOTHESES

Studies of corporate governance generate a great deal of interest in both the business press and the research community. This interest has been amplified in recent years by visible corporate scandals that highlight the problematic aspects of poor governance practices. The most common remedies offered to address these problems are framed in terms of agency theory (Zajac & Westphal, 2002), which suggests that executives will pursue self-interested goals that diverge from the interests of the firm's owners (Jensen & Meckling, 1976). To address this problem, agency theory recommends that firms retain a majority of outsiders on their boards of directors to properly monitor executives; the belief is that outside directors will attempt to perform well to enhance their reputations as expert decision makers, and thus their standing in the director labor market (Fama & Jensen, 1983).

Implicit in these arguments is the notion that directors are influenced by both the rewards of being a director and the negative sanctions that result from doing a bad job. However, both the rewards and sanctions considered are purely extrinsic and focus only on externally controlling directors' behaviors (Fama & Jensen, 1983; Hermalin & Weisbach, 1991; Weigelt & Camerer, 1988). By focusing solely on extrinsic motivators, research in this area has failed to explicitly consider more autonomous, internal motivating factors, as well as the extent to which intrinsic motivations play a role in directors' choices about whether to stay on or leave a board. Indeed, prior research suggests that intrinsic motivators are less fragile and more robust to situational factors (e.g., Deci & Ryan, 2000). Thus, considering such factors may help to paint a more complete picture of director motivation.

Further, the dynamics of the director labor market have only been investigated by studying the likelihood of director exit following significant negative events. For example, Gilson (1990) found that a firm experiences increased board turnover after it declares bankruptcy, and other recent studies have similarly found increased board turnover for firms that restated earnings (Arthaud-Day et al., 2006; Cowen & Marcel, 2011; Srinivasan, 2005). Srinivasan (2005) found that restating a firm's earnings increased the likelihood a board member also left his/her positions on *other* boards. Although useful, these studies provide little insight into the

causes of director turnover under normal operating conditions.

A consequence of these studies' focus on departures following negative events is that scholars have assumed that the departures were primarily involuntary. We challenge this assumption and argue that director exits may be better understood as primarily voluntary events, even in crisis settings. If director departures are typically voluntary or by mutual consent, and directors have intrinsic as well as extrinsic motivations for serving on boards, then a more nuanced understanding of the determinants of board service is needed. In the following section we review the basic tenets of self-determination theory (Gagne & Deci, 2005), use it to explore several motivational aspects of board service, and develop hypotheses predicting the relationship between these different factors and the likelihood a director exits a board.

### Self-Determination Theory

Self-determination theory is an integrated theory of total motivation that recognizes both intrinsic and extrinsic motivating factors direct behavior (Deci & Ryan, 1985: 2000). Specifically, individuals vary in the degree to which they "assimilate and reconstitute formerly external regulations so that the individuals can be self-determined while enacting them" (Deci & Ryan, 2000: 236). Gagne and Deci wrote

Central to SDT is the distinction between *autonomous motivation* and *controlled motivation*. Autonomy involves acting with a sense of volition and having the experience of choice. . . . In contrast, being controlled involves acting with a sense of pressure, of *having to* engage in the actions. . . . SDT postulates that autonomous and controlled motivations differ in terms of both their underlying regulatory processes and their accompanying experiences. (2005: 333–334; emphasis in the original)

The self-determination theory argument is that intrinsic and extrinsic factors operate in parallel to influence the overall motivation of an individual (Deci & Ryan, 2000; Gagne & Deci, 2005). The intrinsic component of motivation is thought to be a response to the inherent fun and/or interestingness of the activity, which enhances the individual's sense of autonomy, competence, and relatedness, and/or the avoidance of self-inflicted punishment, such as shame or guilt. The extrinsic component of motivation is activated when behavior is influenced an offer of an external reward or the threaten of an externally administered punishment (Deci & Ryan, 2000).

In addition to identifying purely externally generated extrinsic motivations and purely internally generated intrinsic motivations, Deci and Ryan (2000) identify three combinations of total motivation—"introjected regulation," "identified regulation," and "integrated regulation"—that vary in the extent to which they reflect elements of both extrinsic and intrinsic motivation.

Introjected regulation skews more strongly towards extrinsic motivations; an individual has internalized an extrinsic motivation but has not accepted the motivation as his or her own. The "reward" may be externally motivated, but the punishment is internal. Examples of this form of motivation include contingent self-esteem, self-worth, or ego involvement (Gagne & Deci, 2005), wherein individuals are motivated to avoid negative consequences such as shame or guilt (Zapata-Phelan, Colquitt, Scott, & Livingston, 2009). Such consequences differ from purely external regulation because they are self-administered (Deci & Ryan, 2000). Identified regulation occurs when an individual identifies a behavior as congruent with his or her own objectives and thus feels a greater sense of freedom and volition because the action is considered valuable and important (Deci & Ryan, 2000; Gagne & Deci, 2005; Zapata-Phelan et al., 2009). Here the internalization is fuller than with introjected regulation, as the "behavior would have become more a part of their identity" (Deci & Ryan, 2000: 236). The fullest type of internalized extrinsic motivation—integrated regulation—occurs when an individual sees the behavior as an integral part of who they are; thus it is self-determined and a core part of their identity, as opposed to just consistent with their goals and identity. In these last two combinations, though there may still be external rewards, internal rewards become more predominant and avoiding punishments becomes less salient.

What is particularly noteworthy about self-determination theory is that although intrinsic motivation's effects are seen as the most desirable and stable, the theory's argument is that these various motivations may actually operate simultaneously, so individuals may be motivated by a combination of extrinsic and intrinsic factors in a parallel fashion (Deci & Ryan, 2000). In fact, the theoretical contention is that certain situational characteristics may influence action because they provide a combination of both extrinsic and intrinsic rewards to individuals. Consequently, we argue that self-determination theory can be used to understand the motivating and demotivating potential of various director and board service characteristics and to explore the trade-offs directors make among differ-

ent aspects of board service that affect the likelihood they will remain on or exit a board.

### Motivating Factors

**Prestige.** One aspect of board service that can motivate directors' continued service is the prestige derived from the appointment.<sup>1</sup> Prestige arises from the relationships and affiliations that an actor possesses (Certo, 2003; Podolny, 2005; Pollock, Chen, Jackson, & Hambrick, 2010; Washington & Zajac, 2005). Often prestige is considered an indicator of social capital (Podolny, 2005) and, consequently, may be considered an extrinsic reward for serving on a board. Prestigious affiliations are also thought to provide an endorsement that reveals the quality of an actor when directly assessing the actor's quality is difficult (Pollock et al., 2010; Sanders & Boivie, 2004). Thus, affiliating with a prestigious company provides an extrinsically motivating reward for serving on a company's board of directors. However, although the general effects of prestige may partially arise from its extrinsic rewards, the specific effect of prestige that arises from a firm's high performance may also result from increased intrinsic motivation.

An individual's status in the broader social order is likely to be a core aspect of his/her identity (Dutton, Dukerich, & Harquail, 1994; Johnson, Morgeson, Ilgen, Meyer, & Lloyd, 2006; McDonald, Khanna, & Westphal, 2008) and thus serves as a form of integrated regulation. Even if the individual has already achieved substantial prestige, she or he likely will continue seeking to reaffirm or to enhance that prestige (Merton, 1968). Therefore, directorships at prestigious firms may both provide extrinsic rewards and be perceived as more intrinsically motivating, leading directors at these firms to be less likely to exit the boards. Indeed, in interviews with directors, Lorsch and MacIver (1989) identified increased prestige as a primary reason that they accepted board appointments. If directors desire prestigious affiliations, then it is important to consider the factors that influence whether they believe a board appointment will enhance their prestige (Chen, Hambrick, & Pollock, 2008; Graffin, Wade, Porac, & McNamee, 2008).

<sup>1</sup> We focus on prestige or status, rather than related constructs such as reputation, because status is conferred by affiliating with other actors of a particular social rank. Reputation, in contrast, is derived from the quality and reliability of an actor's prior actions and outputs (see Rindova, Pollock, and Hayward [2006] and Washington and Zajac [2005] for more extensive discussions of these differences).

The motivating potential of associating with a given firm depends on how a director believes others view the firm. When a firm is perceived as highly successful because of superior performance, its upper echelons (i.e., its top management team and directors [Hambrick & Mason, 1984]) are often assumed to be responsible for the firm's success (Meindl, Ehrlich, & Dukerich, 1985). Therefore, directors who are affiliated with successful firms will benefit from the assumption that the firms' success is at least partly the result of their managerial acumen (Graffin et al., 2008) and experience a greater sense of accomplishment. Sitting on the board of such a "high-performing" firm can increase the likelihood that others believe a director possesses skills that are rare and difficult to acquire (Castanias & Helfat, 1991). It is also possible that simply associating with a successful CEO may cause directors to be perceived as more competent and more marketable executives themselves (Graffin et al., 2008). The relative prestige of a group has also been found to increase the degree to which an individual will identify with an organization or role (Bergami & Bagozzi, 2000; Mael & Ashforth, 1992). Prior studies suggest that positively identifying with a firm increases the likelihood an individual will spend time and effort improving the organization and exhibit increased satisfaction (Bergami & Bagozzi, 2000; Johnson et al., 2006; Riketta, 2005). Both increased effort and satisfaction arise from the fact that identification with an organization results in the internalization of a group's values (Ashforth & Mael, 1989; Riketta, 2005). Thus, both the external rewards and increased satisfaction that come from the prestige generated by associating with high-performing firms reduce the likelihood a director will exit the firm's board.

*Hypothesis 1a. A focal firm's performance is negatively associated with the likelihood a director leave its board.*

The visibility and attention a firm receives from the media can be another source of prestige for directors (e.g., Brooks, Highhouse, Russell, & Mohr, 2003; Deephouse, 2000; Pollock, Rindova, & Maggitti, 2008). Merton (1968) recognized that high-status actors are likely to receive more attention than low-status actors, even if all actors' performance is identical. Media coverage focuses the public's attention on particular actors, elevating both their familiarity and perceived importance in the public's mind by making them more cognitively available (Brooks et al., 2003; Pollock et al., 2008). Although there is some evidence that media visibility can be a double-edged sword, as the scrutiny associated with visibility can impose sanctions as

well as provide rewards (Brooks et al., 2003; Pfarer, Pollock, & Rindova, 2010; Wade, Porac, Pollock, & Graffin, 2006), prior studies suggest that rewards accrue to the affiliates of prestigious actors (e.g., Graffin et al., 2008; Podolny, 2005), while the prestigious actors themselves primarily incur any negative returns from undesirable events (e.g., Rhee & Haunschild, 2006). Such asymmetric rewards and burdens are likely to be amplified in the context of corporate governance, as the vast majority of blame for negative organizational outcomes is assigned to sitting CEOs (Meindl et al., 1985) rather than boards, which may be portrayed as having been manipulated or kept in the dark by the CEOs. Thus, much like the assignment of responsibility for poor firm performance (Finkelstein, Hambrick, & Cannella, 2009), most of the negative aspects of high media visibility are likely to be confined to the CEOs. In addition, as they do with the prestige conferred by high performance, directors are likely to partially attribute a firm's extensive media coverage to their efforts, thus enhancing the identified regulation associated with board service.

As with high performance, the relative prestige caused by media visibility is expected to increase the degree to which a director identifies with a given board (Bergami & Bagozzi, 2000; Mael & Ashforth, 1992). The prestige that is derived from media attention should increase directors' identification with a firm because it is likely to enhance the directors' self-esteem. Identification studies suggest that to the extent organization members' personal identities overlap with firm identity, their own self-image improves to the extent others hold the firm in high regard (Dutton et al., 1994; George & Chattopadhyay, 2005; Mael & Ashforth, 1992). Taken together, these ideas suggest that the rewards from serving on the boards of firms receiving extensive media coverage are likely to be both extrinsically rewarding and intrinsically motivating and esteem-enhancing, and these firms are less likely to experience director exits.

*Hypothesis 1b. A focal firm's media visibility is negatively associated with the likelihood a director leaves its board.*

Beyond a firm's prestige, certain types of directors are more likely to view any board appointments at large public companies as prestigious. In particular, we expect that individuals who come from outside the corporate ranks—such as academics, attorneys, and physicians—as well as retired corporate executives will place more value on board appointments. These appointments contribute more to these individuals' personal prestige than they do to that of executives of other large

public firms, who are already part of this status group by virtue of their current employment. For retired executives, these board appointments are likely a form of integrated regulation, because serving as a corporate officer is more likely to be a core part of their identity—an identity component they would otherwise have lost upon their retirements. For nonexecutive professionals, directorships may be more likely to provide identified regulation, because they are congruent with their goals and identities as high-achieving professionals.

In addition, nonexecutives are likely to identify with board service because of its distinctiveness relative to other aspects of their professional lives (George & Chattopadhyay, 2005). Research has found that organizational characteristics that help individuals sharpen the distinction between a focal firm and other organizations increase their identification with that firm (Dutton et al., 1994; George & Chattopadhyay, 2005; Mael & Ashforth, 1992). The fact that nonexecutives' board service is clearly differentiated from their other responsibilities and organizations gives them a salient and readily available social collective with which to identify, helping satisfy the need to feel a sense of belonging (Brewer, 1991).

The extrinsic motivations of board service may also be more salient for these individuals. Although all directors on a board are paid the same amount, the remuneration that accompanies such posts is typically more consequential to those who are not currently corporate executives, as their incomes are often a fraction of those earned by current senior executives (e.g., Bowley, 2010). Such associations may also be viewed as a valuable resource for a nonexecutive director's home institution or organization. Indeed, one academic noted, "I think that all of the universities with which I have ever been associated have benefited in some way from the contacts I have made as a corporate director" (Lorsch & MacIver, 1989). Thus, we expect directors who are not currently corporate executives will be less likely to leave their board seats because of the combination of intrinsic and extrinsic rewards associated with board service.

*Hypothesis 1c. Directors who are not currently corporate executives at other firms are less likely to leave a board.*

Prior research also suggests that individuals differ in the extent to which their current levels of prestige affect their actions (Palmer & Barber, 2001). Because its distinctiveness and salience are important features predicting identification with an in-group (Brewer, 1991; Dutton et al., 1994), individuals who already possess elite affiliations

may be more likely to seek out other such affiliations, as prestige is more likely to be a core part of their identities. Individuals with elite educational backgrounds share a classwide rationality and tacitly work together to support the interests of that group (Useem, 1982; Westphal & Khanna, 2003). Therefore, they will desire that other board members be part of this elite group. Research also suggests that directors with elite educational backgrounds are more likely to continue their board appointments because of common social ties, shared attitudes, internalized values, and compatible behavioral styles that arise out of shared backgrounds, such as elite educational institutions and social clubs (Domhoff, 1970; Useem, 1982; Useem & Karabel, 1986; Westphal & Stern, 2006). These arguments are consistent with the idea that individuals with elite educational backgrounds are more likely to identify with the elite, in-group aspects of board service and find in board appointments a source of relatedness that enhances their intrinsic motivation. Thus, we also expect directors with elite education credentials to be less likely to leave a company's board.

*Hypothesis 1d. A director's elite education credentials are negatively associated with the likelihood the director leaves a board.*

## **Influence and Commitment**

Another reason outside directors serve is to influence organizational outcomes. Indeed, when one of us posed the question "What leads you to serve on a particular board?" to a retired *Fortune* 500 CEO who sits on several boards, his immediate response was, "Whether I think I can make a difference." Similarly, Lorsch and MacIver noted that a director they interviewed commented, "I enjoy having the opportunity to make an intellectual contribution" (Lorsch & MacIver, 1989: 29). Although anecdotal, these comments suggest that an individual's board service provides intrinsic motivations via the ability to enhance the individual's sense of competence (Deci, Koestner, & Ryan, 1999; Grant & Berry, 2011). This is consistent with Gagne and Deci's contention that "when people experience satisfaction for the need for . . . competence with respect to a behavior, they will tend to internalize its value and regulation" (2005: 337) and Grant and Berry's (2011) finding that prosocial motivations enhance the effects of intrinsic motivations on creativity.

A variety of structural (Baysinger & Hoskisson, 1990; Brickley, Coles, & Terry, 1994) and psychosocial (Westphal & Khanna, 2003; Westphal &

Stern, 2006, 2007) factors affect the extent to which directors are likely to be able to exert influence on a firm's activities. One means through which influence can be exercised is chairing key board committees, such as the audit or compensation committee, and by serving as the chairperson of the board. The ability to exercise control over something leads to feelings of ownership and increases the sense that the object is an extension of self (Pierce, Kostova, & Dirks, 2001). Directors who hold these positions are thus more likely to personally identify with a company's successes and failures than those who do not hold these positions (Hillman et al., 2008). Gagne and Deci (2005) noted that the combination of task importance and autonomy promotes the internalization of extrinsic motivation.

In keeping with the expectations of self-determination theory, executives who identified more with their firms have been shown to act in ways that promote shareholders' interests (Boivie et al., 2011). Thus, because of their intrinsic motivation and increased ability to exert influence, and because of their heightened commitment to their firm and board, we expect that serving as a key contributor on a board places directors in a context in which intrinsic motivation is elicited.

*Hypothesis 2. Chairing key subcommittees and serving as the chairperson of a board are negatively associated with the likelihood a director leaves the board.*

### **Demotivating Factors**

In addition to factors that provide intrinsic and extrinsic rewards to directors, there are also board service and director characteristics that may decrease their motivations to serve. Of these, the two biggest are the time commitments directorships require and the personal reputational and financial risks that directors bear. We address each of these factors in turn. Following self-determination theory, we expect that controlling motivational factors, "which involve acting with a sense of pressure, a sense of having to engage in actions" (Gagne & Deci, 2005: 334), will reduce motivation, and thus will be positively associated with director exits.

### **Busyness**

One of the most direct downsides of board service is the time it requires. Indeed, time considerations have long been identified as the number one reason directors decline new board appointments and resign from current appointments (Lorsch & MacIver, 1989). Further, the time demands associ-

ated with being a director have increased in recent years (Felton & Watson, 2002; Ferris, Jagannathan, & Pritchard, 2003; Harris & Shimizu, 2004). Consequently, when evaluating whether or not to continue with a board appointment, a director is likely to evaluate how the appointment affects his/her own personal workload and level of busyness.

We noted earlier there is anecdotal evidence that directors primarily serve on boards to learn, to see new businesses, and to contribute to society (Lorsch & MacIver, 1989). Some of the earliest research on intrinsic motivation showed that individuals voluntarily spend more time on activities they find intrinsically motivating (e.g., Deci, 1971). However, self-determination theory also suggests that as external pressures and multiple deadlines accumulate, intrinsic motivation weakens and individuals begin to feel more controlled than autonomous (Deci & Ryan, 2000). Indeed, meta-analyses confirm that external controls and pressures can reduce internalized motivation and that making motivations more extrinsic can decrease individual levels of performance and creativity and lessen the amount of time voluntarily devoted to a task (Deci et al., 1999). Thus, factors that increase a director's sense of external pressure and control should be positively associated with the likelihood of board exit.

Two factors that can increase a director's sense of external pressure are the number of boards on which he or she sits and whether or not the director is the CEO of another company. Board service is less important to active executives as a means of maintaining their core identity, and serving on other boards can effectively meet the needs of directors who are not currently executives. Further, additional board appointments and active service as a CEO should weaken the degree to which an individual identifies with serving on a focal firm's board (Boivie et al., 2011). Additional board appointments should also weaken the perception that the focal firm's board is a distinct in-group relative to the out-group represented by other firms. As in-group distinctiveness declines, so should identification with the focal firm. Finally, to the extent that a director is achieving his/her needs for prestige via a position as a CEO and/or as a director at another company, additional board appointments may yield smaller marginal prestige rewards, relative to the demands associated with those appointments. Thus, currently serving as a CEO and the number of boards on which an individual currently serves also influence his or her level of busyness and reduce the likelihood the individual will continue to serve on a focal board.

*Hypothesis 3a. Currently serving as a CEO is positively associated with the likelihood a director leaves a board.*

*Hypothesis 3b. The number of directorships held is positively associated with the likelihood a director leaves a board.*

### Reputational and Financial Risk

One of the major extrinsic factors that should influence directors' willingness to continue serving on boards is the personal reputational risk associated with a particular board appointment. Agency theory has primarily focused on firm performance (e.g., Gilson, 1990; Semadeni, Cannella, Fraser, & Lee, 2008), and more recently, executive compensation (e.g., Wowak, Hambrick, & Henderson, 2011) as indicators of poor executive and director performance and predictors of dismissal. This concept, broadly known as "settling up" (Fama & Jensen, 1983), represents a form of external regulation whereby others administer the consequences of failing to meet performance objectives (Deci & Ryan, 2000). However, one key difference between CEOs and directors is that CEOs are more likely to be blamed for poor corporate performance and removed from their positions as a result (Finkelstein et al., 2009). Indeed, research has shown that CEOs are also more likely than other TMT members to shoulder the majority of the blame for poor corporate performance generally (e.g., Graffin et al., 2008). Research has found that directors of firms that restate earnings (Arthaud-Day et al., 2006; Srinivasan, 2005) or go bankrupt (Gilson, 1990) are more likely to leave their board appointments. However, we argue these departures are unlikely to be primarily involuntary; rather, they result from directors' wariness about their personal risk exposure.

When deciding whether or not to continue their board service, directors want to avoid being tainted by their association with firms that have engaged in illegitimate actions (Kang, 2008). Association with visible signs of organizational malfeasance can tarnish an upper echelon member's reputation (Semadeni et al., 2008; Wiesenfeld, Wurthmann, & Hambrick, 2008). For instance, Kang (2008) found that financial fraud had spillover effects on firms sharing directors with those that committed the fraud, so that even innocent firms with such interlocks experienced negative consequences. Thus, continuing on the board of a firm that has been associated with restatements should be unappealing, because it would lower the director's useful social capital (Certo, 2003; Kang, 2008; Semadeni et al., 2008). This suggests that directors will be con-

cerned about reputational penalties from associating with firms that experience these types of highly visible events (Wiesenfeld et al., 2008). A quote from a director we spoke with illustrates this concern:

It is definitely more difficult to recruit directors today than in the past. . . . The negative publicity associated with these corporate scandals has made directorships fall in their level of prestige. It used to be that sitting on a board was a badge of honor, or something to be proud of. It is not like that anymore. . . . [Also] directors are on the hook more than in the past, both financially and reputationally. They are at a greater risk of real loss.

The personal financial risk of board service is another concern for directors and is perhaps the clearest example of being motivated to avoid extrinsic punishment. The threat of being sued and possibly facing large personal liability can make directors wary of continuing to serve at recently sued firms (Cox, 2002). Although the actual risk of a financial loss has traditionally been quite low (Black, Cheffins, & Klausner, 2005), the availability heuristic suggests that directors will overweight the likelihood of the risk owing to its recency and salience (Tversky & Kahneman, 1974). Indeed, Klausner, Munger, Munger, Black, and Cheffins (2005) found that outside directors believed out-of-pocket liability from lawsuits occurred over five times more frequently than was actually the case.

Moreover, the actual risk of financial loss has increased. Recent court decisions finding the directors of Worldcom and Enron personally liable for their firm's criminal actions resulted in the largest payments by directors in U.S. history (Klausner et al., 2005). The former directors of Worldcom and Enron agreed to pay \$31 million dollars out of their own pockets on top of the \$36 million paid by their liability insurance to settle claims. Finally, even if a shareholder lawsuit is never successfully prosecuted, directors still bear costs in terms of time and money spent defending themselves against the suit, and there are also real risks to a director's reputation (Hermalin & Weisbach, 1991).

*Hypothesis 4. Director financial and reputational risk associated with shareholder lawsuits and financial restatements are positively associated with the likelihood a director leaves a board.*

### Moderating Effects of Reputational and Financial Risk on the Motivating Effects of Prestige

Thus far we have developed our hypotheses in a *ceteris paribus* fashion. However, interactions

among some factors are also likely (Deci et al., 1999). Specifically, we expect that the demotivating potential of a particular board appointment arising from a directorship's financial and reputational risk will reduce the intrinsic rewards of prestige derived from being associated with a high-performing firm and/or a firm that generates significant media coverage.

Prior studies of intrinsic motivation have highlighted that contextual factors such as reduced autonomy or increased control can diminish the positive effects of intrinsic motivation (e.g., Ambrose & Kulik, 1999; Deci et al., 1999). Dealing with scandals and major problems may also cause directors to feel that their duties are more controlled and less interesting. In turn, their autonomous motivation will be reduced, and continued service may be viewed less positively. Such pressures and reduced autonomy generally decrease the intrinsic motivation associated with a given context (Deci, 1971; Gagne & Deci, 2005). Further, high visibility can exacerbate the effects of negative events, just as it magnifies the benefits of positive events (Brooks et al., 2003). Thus, the prestige rewards of high performance and high media visibility can quickly evaporate if others believe that performance was achieved through illicit or illegitimate means (Harris & Bromiley, 2007; Mishina, Dykes, Block, & Pollock, 2010), and the media discuss and disseminate this view widely. We therefore hypothesize that:

*Hypothesis 5. The occurrence of a shareholder lawsuit or financial restatement weakens the negative relationship between being a director of a highly performing firm, or a firm with high media visibility, and the likelihood a director leaves a board.*

## METHODS

### Sample and Data Collection

The sample frame for this study included all outside directors listed in Risk Metrics (formerly IRRC), a database that includes all directors of large U.S. public companies. We randomly selected 30 percent ( $n = 2,266$ ) of the outside directors serving on the board of at least one Standard & Poor's 500-listed firm. We then constructed full board appointment data for each director during the period 1996–2003. We collected data on all firms at which the director served, including his/her home firm.<sup>2</sup> Thus, our sample of more than 11,000 direc-

tor-firm-years is larger and more comprehensive than those used in prior research (e.g., Arthaud-Day et al., 2006; Cowen & Marcel, 2011), and it allowed us to consider how the same director behaves in different board contexts, as opposed to considering how all directors on a given board react to the same set of events.

We obtained demographic data on the directors, board membership, and board characteristics from multiple sources, including Risk Metrics, Social Register, LexisNexis, corporate proxy statements, and annual reports. We obtained data on firm size and performance from Compustat. To identify firms that made financial restatements, we used the 2003 list compiled by the U.S. General Accounting Office. Data on director ownership and CEO compensation came from corporate proxy statements, Risk Metrics, and ExecuComp. Other data including press mentions came from Thomson SDC Platinum and LexisNexis.

### Dependent Variable

The dependent variable in our study is *director exit* from a focal firm, operationalized as a dichotomous variable for which a 1 indicates that a director left the board within three years of the year the independent variables were measured (Gillespie & Zweig, 2010). A three-year window is the standard term for director service and ensures that a director has the opportunity to avoid reelection at least once (Gillespie & Zweig, 2010; Srinivasan, 2005). However, to ensure robustness we also created dependent variables in which we measured director exit in the next year and within two years; our results were substantially similar.

As noted earlier, we depart from prior work and assume that when a director leaves a board, the exit is primarily voluntary. Prior work in this area has focused on director exit following significant negative events such as bankruptcies or earnings restatements and has assumed that all exits that follow these events are a result of settling up in the director labor market (Arthaud-Day et al., 2006; Cowen & Marcel, 2011; Srinivasan, 2005). For several reasons we think it is reasonable to assume that director exit is primarily voluntary in our data. One reason is setting. Whereas all prior studies have

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rectors, we did not want to potentially bias our sample by excluding directors' inside appointments. Consequently, we also controlled for whether a director was an executive at a focal firm. In addition, we ran separate analyses, not reported here, in which we excluded directors' service on their home firms' boards from the sample. Our results were substantively similar to those reported here.

<sup>2</sup> Although our theory primarily concerns outside di-

examined director exits following major organizational crises, we look at director exit in primarily noncrisis settings. So, even if settling up occurred in the prior research contexts, it is less likely to be occurring in our sample, because there are fewer precipitating events. Lawsuits occurred in only 8 percent of our firm-years, and restatements were even rarer—occurring in only 4 percent of our firm-years.

Further, the assumption in prior research that director exit is involuntary was based on situational factors rather than direct evidence of director dismissal. As even the authors of these studies acknowledge, it is extremely rare for directors to be fired from their board appointments (Cowen & Marcel, 2011). Our understanding of this prior work is that the observed director exit could also result from directors voluntarily leaving because they no longer wished to be associated with a poorly performing firm, or because board service had become less intrinsically motivating. In fact, recent theoretical work argues that poor firm performance may have exactly this effect (Withers, Corley, & Hillman, 2012).

The literature on CEO dismissal also provides some indirect evidence suggesting that involuntary director exit is likely to be rare. A recent study measuring CEO succession found that 11 percent of CEO successions followed involuntary dismissals (Graffin, Carpenter, & Boivie, 2011). Given that CEOs are much more likely to be held responsible for firm performance than any other actors (Meindl et al., 1985), it is unlikely that even if a portion of director exits are purely involuntary this rate would be higher than that for CEOs. This is especially true given that research has shown director exit is a relatively common occurrence, with as many as 60 percent of firms experiencing director turnover in a given year (Linck, Netter, & Yang, 2009).

We also took a number of steps to further validate the reasonableness of our assumption. First, we sought corporate directors with extensive experience on numerous boards and discussed the issue of director exit. One director we spoke with noted that firing a director was “extremely rare” and that if a director wishes to leave a board, he or she generally finishes the current term and does not go up for reelection. He noted that, even when there was disagreement or conflict between a director and the CEO or the rest of the board, the normal course for exit was to not seek reappointment. A second director confirmed that involuntary director exit was exceedingly rare; he could not recall one instance in which a director was involuntarily removed and only one case of a director stepping

down before the end of his term. In the single case he recalled in which a director’s term ended early, it was because of turmoil at the director’s home firm, and the decision to exit was a mutual decision between the director and the board.

Second, we conducted a LexisNexis search for media articles published in the last ten years documenting director exits to see if we could find examples of directors being fired. Again, the evidence here is that involuntary exit is exceedingly rare. A recent *Wall Street Journal* article showed that even when directors received less than a majority of the proxy votes submitted, they still retained their board seats (Lublin, 2009).<sup>3</sup> In addition, although we were able to find numerous articles discussing dismissals of CEOs (who also sit on boards), we were unable to find one article that definitively identified the firing of an outside director from a public U.S. board. Further, we discussed this issue with Joanne Lublin, the senior corporate governance reporter at the *Wall Street Journal*. She also said that she was unaware of any instances in which directors were fired. She pointed out that in 2004 the Securities and Exchange Commission (SEC) made a reporting change requiring companies to disclose the circumstances when a director resigns, is fired for cause, or declines to stand for reelection because of a disagreement with management or other members of a board. The requirement also mandates that firms must disclose the resignation letter. Since 2004 there have only been a handful of these letters, and all of the letters that we found appeared to be resignations, not firings.

Consequently, we feel that it is appropriate to assume director exits are primarily voluntary or by mutual consent. However, we do not discount the possibility that some exits are involuntary. But, to the extent that our assumption is incorrect, it makes the probability of finding significant effects less likely; thus our assumption can be viewed as conservative. We also consider the implications of this assumption more fully in the discussion section.

## Independent Variables

**Prestige.** We used four measures to test our prestige hypotheses: the performance of a focal firm, the

<sup>3</sup> Most director elections are structured in such a way that a director need not receive a majority of votes to be elected; they only need to receive more votes than an alternative candidate. Since almost all directors run unopposed, directors can be elected to a board with less than a majority vote of support from stockholders.

amount of media coverage the firm received, the director's executive status, and whether the director attended an elite educational institution. The first two measures capture firm-level characteristics that might make a board appointment more prestigious. We measured *firm performance* using the annual return on assets (ROA) of a focal firm. We also ran alternative models in which we measured the total stock returns to the firm, and our results were unchanged. We measured media visibility as the level of *media coverage* that the firm generates, using a count of press reports in the business and general press that mentioned the firm in a given year. We gathered this data from the LexisNexis database using keyword searches for the firm's name and ticker symbol in a selected set of major press outlets, including the *New York Times*, the *Wall Street Journal*, and others. Media coverage has the ability to focus public attention, raising the public awareness and prominence of the recipient (Deephouse, 2000; Pollock et al., 2010; Rindova, Williamson, Petkova, & Sever, 2005). Since this measure is highly skewed, we log-transformed it to reduce the effects of extreme values. Since many companies received zero coverage, a 1 was added to all observations before the measure was transformed. Our final two measures captured individual-level characteristics that identified individuals who were more likely to perceive that board appointments in general would increase their personal prestige. First, we created a dummy variable indicating if a director was *not a corporate executive*. Risk Metrics divides directors' occupations into eight separate categories (such as attorney, consultant, politician, academic, executive). Our variable takes on a value of 1 when a director is not currently a corporate executive and 0 otherwise. This classification was congruent with our theory and was also the most parsimonious. However, to ensure the robustness of our classification, we also ran a number of alternative models in which we entered each occupation separately, as well as models with a less exclusive classification of what constitutes an executive (e.g., we tested if our results were affected when we included directors who were classified as retired executives rather than as nonexecutives). In all cases our results were consistent with those reported here.

Second, following prior corporate governance research (e.g., Belliveau, O'Reilly, & Wade, 1996; Palmer & Barber, 2001), we measured whether a director attended an elite educational institution as an indicator of elite social status. We measured *elite education* using a dichotomous variable coded 1 if the focal director attended an exclusive second-

ary school as categorized by Domhoff (1970), and 0 otherwise.

**Director influence.** We created three measures to capture a director's ability to influence a firm: whether the director was *audit committee chair*, whether the director was *compensation committee chair*, and whether the director was *chair of the board*. Each of these variables was measured dichotomously, with 1 indicating holding the position and a 0 indicating not holding it.

**Financial and reputational risk.** We used two measures to indicate the financial and reputational risk associated with a particular board appointment: shareholder lawsuits and restated earnings. *Shareholder lawsuit* was the total number of lawsuits filed by shareholders of a focal firm in the prior year. We gathered these data from Institutional Shareholder Services. Shareholder lawsuits are a direct measure of the legal risk that directors face. We also ran models in which we lagged the lawsuit variable, and our results were unchanged. We would have liked to measure the size or magnitude of the lawsuits, but a large proportion of these suits are settled, so information on size was unavailable. We measured whether the focal firm announced a *financial restatement*<sup>4</sup> with a dichotomous variable coded 1 if a restatement was announced that year, and 0 otherwise (Srinivasan, 2005). We also ran models in which we lagged the restatement variable, and our results were unchanged.

We used two measures of director busyness: a dichotomous variable coded 1 if a director was an *active CEO* and 0 otherwise, and a count of the total number of board appointments held.

## Control Variables

We included an extensive set of controls for firm- and individual-level characteristics that could have influenced the likelihood a director exited a board. At the firm level, we controlled for size and diversification. *Firm size* was measured using the natural log of a firm's net sales (Lange, Boivie, & Henderson, 2009). This measure was log-transformed to reduce the effects of extreme values. We also ran

<sup>4</sup> Following prior research in this area, we excluded restatements made for routine reasons that were not conceptually related to observers' evaluative reactions (e.g., restatements made to combine bookkeeping following a merger, or restatements made to adjust for a stock split). See page 5 of the 2003 U.S. General Accounting Office Restatement Database for a list of the types of restatements that are made for routine reasons and therefore are excluded from that database as well as here.

models using the number of employees, and our results were unchanged. Larger firms may be more prominent and visible. We controlled for the level of *firm diversification* using an entropy measure of product-market diversification (Hoskisson, Hitt, Johnson, & Moesel, 1993). This measure takes into account the number of segments in which a firm participates and weights each segment by its sales.

We also controlled for a number of board and TMT characteristics that could affect director exit. We controlled for a firm's *board size* by counting the number of directors. *CEO duality* was operationalized using a dichotomous variable coded 1 if the firm's CEO was also the chair of the board and 0 otherwise. A board with an independent chairperson is thought to be better able to protect shareholder interests by preventing the CEO from controlling the agenda of board meetings (Ellstrand, Tihanyi, & Johnson, 2002; Finkelstein et al., 2009). Since there is often turnover among directors following a change in company leadership, we also controlled for whether the CEO left the firm in the next three years, using a dichotomous variable. Since managerial skill is complex, rare, and difficult to acquire (Castanias & Helfat, 1991; Pennings, Lee, & van Witteloostuijn, 1998), we controlled for *director TMT experience* by measuring the number of years of top management team experience each director possessed (Carpenter & Westphal, 2001). Although all directors on a given board are paid the same amount, since variations in director pay across firms may affect the likelihood of exit, we controlled for the *total director pay* by measuring the total annual compensation package a company's directors received, including their annual retainer, meeting fees, and stock option grants from the focal firm.

At the individual director level, we controlled for *director shares held*, whether a director was an *outsider*, and his/her *age* and *firm tenure*. The number of shares held captures a director's financial interest in a firm, and director age serves as a proxy for experience as well as controlling for the likelihood the director will retire. We also controlled for the total *years of director education* (Kosnik, 1987; Wiersema & Bantel, 1992). A director's education may affect his/her human capital and also his/her demand in the market for director labor market. We also ran models, not shown, including dummy variables for various degrees (e.g., bachelor's, master's, law degree, Ph.D., etc.) and our results were unchanged. Since we also included a director's home firm board appointment if she/he had one, *outsider* director status was coded 1 if the director was not currently or formerly employed by the focal firm and 0 otherwise. We also

controlled for whether a director was actually the *focal firm CEO* using a dummy variable coded 1 if the director was currently the CEO of a focal firm and 0 otherwise. *Firm tenure*, the number of years an individual had served as a director at the focal firm, is a proxy for firm-specific human capital (Buchholtz, Ribbens, & Houle, 2003). We ran models with squared terms for age and tenure to model curvilinear effects, but they were not significant. We also included dummy variables controlling for whether a director was female (*gender*) or an *ethnic minority* (specifically, African American, Asian, or Hispanic). We also controlled for whether the director was *appointed after (the current) CEO*. Being appointed after the CEO can affect the power of directors and their ability to contribute to board meetings (Wade, O'Reilly, & Chandratat, 1990). Finally, we also used dichotomous variables to control for whether a director was an *audit or compensation committee member*.

In gathering data on individual directors, we occasionally had to make assumptions or estimations. For example, not all directors' biographies listed their level of education. If we were unable to find data on a given variable after searching multiple sources, we then made an estimate for the most likely condition (i.e., that the director had no post-secondary education). If any data were estimated for a particular director, we created a dummy variable coded 1 to indicate that estimated data was used. This measure controls for any unintended bias that could be associated with having to estimate values. We estimated data for approximately 4 percent of the directors in the sample. When we ran models excluding these directors, our results were unchanged. We also included *year dummy* variables in all of our models; however, due to space considerations they are not shown in our results tables. We also ran models including a dummy variable for the post Sarbanes-Oxley Act time period, and this variable was not significant.

## Method of Analysis

Because we gathered data on the directors' board appointments over time, our data set was longitudinal. Further, because our data included information on multiple appointments for the same individual as well as information on each board appointment over time, our observations were not independent. We considered autocorrelation across years to be the most significant threat we faced; consequently we used time series logistic regression with random effects in Stata to run all of our analyses. The assumption of random-effects models is that the variance of the estimator (e.g., the

unobserved effect between panels that is being controlled for) is uncorrelated with the independent variables. We tested the validity of using random effects by performing a Hausman test, and the test statistic was not significant, suggesting that random-effects models were appropriate. We performed a number of additional checks and analyses to ensure the robustness of our findings. Because some directors held multiple directorships, we also ran our models using traditional logistic regression with robust standard errors, clustering by director, and clustering by both director and firm. Our results were substantively similar. We also ran generalized estimating equations (GEE) models, and again our results were very similar. Finally, we performed checks to ensure that multicollinearity was not biasing our results and obtained collinearity diagnostics well within acceptable levels.

## RESULTS

Table 1 presents the descriptive statistics and correlations for all the variables used in the study. Director exit occurs in 30 percent of the firm-years. In our sample, 45 percent of the individuals were currently serving as CEOs, 31 percent were not executives, and 24 percent were non-CEO level executives. However, because individuals serve across years and on multiple boards, in 57 percent of the firm-years the director was a current CEO. The table also shows that major negative events such as lawsuits and financial restatements are relatively rare, occurring in less than 10 percent of all firm-years.

Table 2 presents the results of the random-effects logistic regressions testing our hypotheses. Model 1 presents the results of the control variables. Model 2 adds all of the independent variables. Model 3 includes the interactions between firm performance and both lawsuits and restatements, and model 4 includes the interactions between press coverage, lawsuits, and restatements. Model 5 is the fully saturated model that includes all of the independent variables and interactions. We follow current "best practices" in reporting and interpreting logistic regression models (Hoetker, 2007). For all of our significant independent variables, in addition to the coefficient, standard error, and level of significance, we also calculated the magnitude of the effect of a change in the variable (Hoetker, 2007; Train, 1986) using values for each independent variable that were either one standard deviation below the mean and one standard deviation above the mean, or that were theoretically meaningful (Hoetker, 2007). We then calculated the average of the predicted value for changes in the independent

variable for each observation in our model. For each model we report the change in the model fit using the change in the log-likelihood.

Hypothesis 1a predicts that a firm's performance would decrease the likelihood of director exit. The results in model 2 support this hypothesis. The coefficient for firm performance of  $-0.01$  was significant at the .001 level. As the ROA of a firm moves from minus to plus one standard deviation, a director's likelihood of exit decreases by 13 percent. Hypothesis 1b predicts that the amount of press coverage a firm receives decreases the likelihood of director exit. This hypothesis was also supported. The coefficient of  $-0.11$  was significant at .01. As the level of press coverage of the firm moves from zero to plus one standard deviation (this measure cannot take on negative values), a director's likelihood of exit decreases by 13 percent. Hypothesis 1c predicts that directors who are not executives are less likely to exit a board. This hypothesis was also supported. The coefficient of  $-0.61$  was significant at .001. Compared to directors who are executives, nonexecutive directors have a 24 percent decrease in likelihood of exit. Hypothesis 1d predicts that directors with elite educational credentials are less likely to exit a board. This hypothesis was also supported. The coefficient of  $-0.77$  was significant at .001. If a director had an elite education, his/her likelihood of exit decreases by 31 percent.

Hypothesis 2 predicts that being the chair of a focal board and chairing key subcommittees decreases directors' likelihoods of exiting a board. This hypothesis was partially supported. The coefficient of  $-0.66$  for chairing the audit committee and the coefficient of  $-0.42$  for chairing the board of directors were both significant at .01. If a director was the chair of the audit committee, his/her likelihood of exit decreases by 29 percent. Additionally, if a director was the chair of the board, his/her likelihood of exit decreases by 16 percent. However, the coefficient for being the chair of the compensation committee was significant, but in the opposite direction than predicted. Chairing the compensation committee *increased* the likelihood of exit by 23 percent.

Hypotheses 3a and 3b predict that director busyness is positively associated with the likelihood a director has exited a board. As model 2 shows, this hypothesis was supported. The coefficients for currently serving as a CEO (0.59) and the number of board appointments (0.14) were both in the predicted direction and significant at .001 and .01, respectively. If a director was a CEO at another firm, his/her likelihood of exit increased by 33 percent. Additionally, if a director served on four

**TABLE 1**  
**Means, Standard Deviations, and Correlations of Key Variables<sup>a</sup>**

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29									
1. Director exit	Mean	0.30	0.46																																			
2. Firm performance	s.d.	4.27	12.73	-.02																																		
3. Media coverage <sup>b</sup>		1.04	1.29	-.06	.05																																	
4. Not executive		0.41	0.49	-.09	.04	.01																																
5. Elite education		0.27	0.44	-.11	.03	.07	.12																															
6. Audit committee chair		0.05	0.22	-.07	-.03	-.06	.07	.02																														
7. Compensation committee chair		0.06	0.24	.00	.01	-.06	.06	.03	-.03																													
8. Board chair		0.20	0.40	-.07	.01	.30	-.03	.03	-.04	-.02																												
9. Shareholder lawsuits		0.08	0.28	-.05	-.09	.09	.03	.02	.04	.05	.02																											
10. Financial restatement		0.04	0.21	-.01	-.09	.04	.01	-.01	.02	.00	.03	.13																										
11. Active CEO		0.57	0.49	.08	-.04	-.10	-.38	-.09	.00	.03	-.07	.00	-.01																									
12. Number of board appointments		2.52	1.41	.02	.02	.22	.21	.11	-.02	.07	.05	.18	.12	-.05																								
13. Firm size <sup>b</sup>		8.64	1.15	.03	.14	.04	-.02	-.01	.02	.02	.11	.05	.03	.10																								
14. Firm diversification		0.38	0.52	-.01	-.02	.02	.01	-.01	.01	-.02	.07	.03	.01	-.01	-.06	.13																						
15. Director TMT experience		8.16	9.85	-.15	.00	.20	.09	.08	-.01	.07	.19	.07	.04	-.04	.16	.10	-.02																					
16. Director years of education		16.15	3.44	-.17	.00	.10	.22	.27	.03	.00	.02	.04	.03	-.17	.22	.09	.00	.22																				
17. Total director pay <sup>c</sup>		27.87	19.90	-.11	.03	.08	.01	.01	.04	.00	.14	.04	.00	.00	-.13	.24	.33	.07	.01																			
18. Director shares held <sup>c</sup>		1,631	25,700	-.03	.01	.07	-.04	-.02	-.01	-.01	.06	.03	-.01	-.03	.00	.01	.03	.06	-.04	.03																		
19. Outsider		0.70	0.46	.02	-.02	-.21	.06	.07	.10	.13	-.20	.04	.01	.18	.13	.03	-.02	-.05	.05	-.06	-.08																	
20. Firm tenure		8.19	7.65	-.02	.03	-.05	.03	-.02	.03	.04	.11	-.02	-.01	-.07	-.08	-.03	.05	.09	-.09	.13	.08	-.14																
21. Age		56.51	6.59	.01	.04	-.02	.06	-.02	.02	-.01	-.01	-.04	-.02	-.11	.00	.09	.06	.02	.02	.03	-.04	.02																
22. Gender		0.10	0.30	.01	.01	-.08	-.01	-.01	.00	-.02	-.11	.01	.02	.01	-.01	.03	.05	-.08	.03	.05	-.01	.10	-.06	.00														
23. Ethnic minority		0.08	0.27	-.03	-.02	-.01	.04	-.02	-.02	-.03	.04	.02	-.01	.08	.16	.03	-.04	.12	.10	-.02	.08	-.08	.04	.13														
24. Board size		11.84	3.40	.08	-.02	-.01	-.03	-.07	-.04	-.04	-.02	-.03	-.04	.04	-.04	.38	.01	.00	-.06	.09	-.04	.00	-.01	.12	.02	.04												
25. Appointed after CEO		0.60	0.49	-.03	-.02	.02	.03	.03	.03	.08	.13	.04	.00	.03	-.01	.03	.09	.09	.01	.15	.04	-.05	.42	-.24	.00	.01	-.07											
26. CEO left within 3 years		0.33	0.47	.01	-.02	.01	.05	-.01	.00	-.01	.01	-.01	.03	-.08	.02	.04	.02	.03	.00	-.02	.03	-.01	.32	-.03	.01	-.02	-.08											
27. Focal firm CEO		0.09	0.29	-.04	.00	.33	-.06	.00	-.06	-.07	.45	-.01	.00	-.38	-.04	-.02	.03	.12	.00	.06	.10	-.48	.11	-.03	-.08	-.06	-.04	.15	-.01									
28. CEO duality		0.61	0.49	-.05	-.01	.08	-.03	.00	.02	-.02	.25	.01	.02	-.05	-.12	.11	.28	.03	-.01	.50	.00	-.04	.08	.14	.04	.08	.05	.03	.07	.15								
29. Audit committee member		0.34	0.47	-.07	-.03	-.13	.08	.06	.29	-.04	-.08	.01	.01	.04	.01	-.01	.04	-.05	.07	.08	-.04	.30	-.05	.01	.10	.09	-.06	.00	.01	-.18	.05							
30. Compensation committee member		0.34	0.48	-.03	.01	-.08	.03	.03	.00	.28	-.04	.05	.01	.06	.09	-.03	.01	.03	-.01	.02	-.04	.33	.01	-.01	.00	-.07	.05	.01	-.18	.00	.00							

<sup>a</sup>  $n = 11,437$ .  
<sup>b</sup> Logarithm.  
<sup>c</sup> In thousands.

**TABLE 2**  
**Time Series Logit Analysis Results<sup>a</sup>**

Variable	Predicted Effect	Model				
		1	2	3	4	5
Firm performance	H1a (-)		-0.01*** (0.00)	-0.03*** (0.00)	-0.01*** (0.00)	-0.03*** (0.00)
Media coverage	H1b (-)		-0.11** (0.06)	-0.11* (0.06)	-0.12* (0.06)	-0.12** (0.06)
Not executive	H1c (-)		-0.61*** (0.19)	-0.60*** (0.19)	-0.61*** (0.19)	-0.60*** (0.19)
Elite education	H1d (-)		-0.78*** (0.20)	-0.77*** (0.20)	-0.77*** (0.20)	-0.76*** (0.20)
Audit committee chair	H2 (-)		-0.66** (0.31)	-0.63** (0.31)	-0.66** (0.31)	-0.63** (0.31)
Compensation committee chair	H2 (-)		0.47* (0.26)	0.47* (0.26)	0.49* (0.26)	0.49* (0.26)
Board chair	H2 (-)		-0.42** (0.18)	-0.42** (0.18)	-0.42** (0.18)	-0.42** (0.18)
Shareholder lawsuits	H4 (+)		0.05 (0.18)	0.00 (0.18)	-0.17 (0.24)	-0.20 (0.24)
Financial restatement	H4 (+)		0.22 (0.22)	0.16 (0.22)	0.36 (0.28)	0.32 (0.28)
Active CEO	H3a (+)		0.59*** (0.17)	0.58*** (0.17)	0.60*** (0.17)	0.59*** (0.17)
Number of board appointments	H3b (+)		0.13** (0.05)	0.13** (0.05)	0.13** (0.05)	0.13** (0.05)
Performance × lawsuits	H5 (+)			0.02* (0.01)		0.02* (0.01)
Performance × restatement	H5 (+)			0.02** (0.01)		0.02** (0.01)
Media coverage × lawsuits	H5 (+)				0.18 (0.12)	0.17 (0.12)
Media coverage × restatement	H5 (+)				-0.13 (0.16)	-0.15 (0.16)
Firm size		0.34*** (0.07)	0.38*** (0.07)	0.38*** (0.07)	0.38*** (0.07)	0.38*** (0.07)
Firm diversification		-0.05 (0.13)	-0.03 (0.13)	-0.03 (0.13)	-0.03 (0.13)	-0.03 (0.13)
Director TMT experience		-0.05*** (0.01)	-0.05*** (0.01)	-0.05*** (0.01)	-0.05*** (0.01)	-0.05*** (0.01)
Director years of education		-0.28*** (0.02)	-0.24*** (0.03)	-0.24*** (0.03)	-0.24*** (0.03)	-0.24*** (0.03)
Total director pay		-0.02** (0.00)	-0.02*** (0.00)	-0.02*** (0.00)	-0.02** (0.00)	-0.02*** (0.00)
Director shares held		0.00* (0.00)	0.00** (0.00)	0.00** (0.00)	0.00** (0.00)	0.00** (0.00)
Outsider		0.28 (0.19)	0.21 (0.19)	0.20 (0.19)	0.21 (0.19)	0.21 (0.19)
Firm tenure		0.05*** (0.01)	0.06*** (0.01)	0.06*** (0.01)	0.06*** (0.01)	0.06*** (0.01)
Age		0.00 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)
Gender		0.27 (0.28)	0.21 (0.28)	0.19 (0.28)	0.20 (0.28)	0.19 (0.28)
Ethnic minority		-0.65* (0.32)	-0.79* (0.32)	-0.78* (0.32)	-0.79* (0.32)	-0.78* (0.32)
Estimation dummy		-1.77 (1.31)	-1.40 (1.30)	-1.42 (1.30)	-1.40 (1.30)	-1.42 (1.30)
Board size		0.03 (0.02)	0.02 (0.02)	0.02 (0.02)	0.02 (0.02)	0.02 (0.02)
Appointed after CEO		0.28 <sup>†</sup> (0.15)	0.24 (0.16)	0.24 (0.16)	0.24 (0.16)	0.24 (0.16)

Continued

**TABLE 2**  
**(Continued)**

Variable	Predicted Effect	Model				
		1	2	3	4	5
Director's exit		0.19 (0.12)	0.19 (0.12)	0.20 <sup>+</sup> (0.12)	0.19 (0.12)	0.20 <sup>+</sup> (0.12)
Focal firm CEO		-0.19 (0.27)	0.52 (0.32)	0.49 (0.32)	0.52 (0.32)	0.50 (0.32)
CEO duality		-0.12 (0.14)	-0.07 (0.14)	-0.07 (0.14)	-0.07 (0.14)	-0.07 (0.14)
Audit committee member		-0.50*** (0.15)	-0.43** (0.15)	-0.43** (0.15)	-0.43** (0.15)	-0.43** (0.15)
Compensation committee member		-0.14 (0.15)	-0.18 (0.15)	-0.18 (0.15)	-0.18 (0.15)	-0.18 (0.15)
Intercept		-0.92*** (0.90)	-2.49* (0.94)	-2.39* (0.94)	-2.48* (0.94)	-2.40* (0.94)
Log-likelihood		-3,697.917	-3,656.696	-3,653.511	-3,655.295	-3,652.221
Change in fit <sup>b</sup>			-41.22***	-3.185*	-1.401	-1.29

<sup>a</sup> Model 4 is compared with model 2, and model 5 is compared with model 3.

<sup>b</sup> Observed were 2,286 directors and 11,437 director-firm-years.

<sup>+</sup>  $p < .10$

\*  $p < .05$

\*\*  $p < .01$

\*\*\*  $p < .001$

One-tailed tests for hypothesized variables, two-tailed tests for control variables.

boards as compared to only one board, his/her likelihood of exit increased by 18 percent.

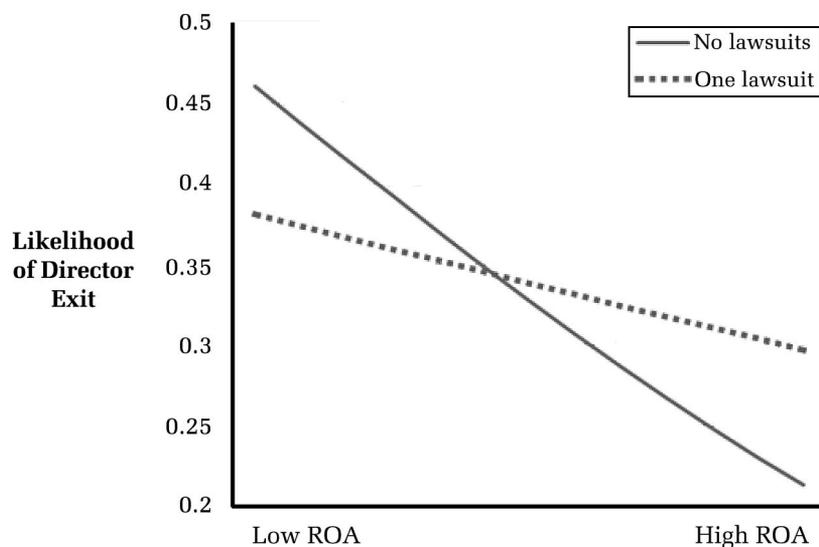
Hypothesis 4 predicts that increased financial and reputational risk is positively associated with the likelihood of director exit. As model 2 shows, this hypothesis was not supported. Although the coefficient for lawsuits and restated earnings were both positive, neither variable was statistically significant. However, we note that they do have contingent effects, as shown in models 3 and 5.

Hypothesis 5 predicts that the financial and reputational risk associated with lawsuits and restated earnings weakens the negative relationships between firm performance and press coverage affecting the likelihood a director exits a board. Models 3, 4, and 5 provide partial support for this hypothesis. Because model 5 (the fully saturated model) was not a statistically significant improvement over models 3 and 4, we interpret the results of these models. Model 3 shows the interactions between performance and lawsuits and performance and restated earnings. The coefficient for the interaction of performance and lawsuits was 0.02 and was significant at .05. The coefficient for the interaction between performance and restated earnings was 0.02 and was significant at .01. Model 4 shows the results for the interactions between press coverage and lawsuits and press coverage and re-

stated earnings. Neither was statistically significant. Thus, Hypothesis 5 was supported for firm performance but not for media coverage.

Figures 1 and 2 graph our significant interactions. Interpreting the coefficient for an interaction term in logistic regression models can be difficult (Hoetker, 2007). In order to present meaningful plots of the results, we calculated the predicted value for each observation in our sample at a number of meaningful levels of ROA (from -3 s.d. to +3 s.d.) as well as either 0 or 1 lawsuit and 0 or 1 earnings restatement. We then calculated the average of the predicted values at each level and plotted the results (Hoetker, 2007; Train, 1986). The graphs of these interactions suggest that the effects of performance on the likelihood of director exit are moderated in different ways when performance is very low and very high. Specifically, Figure 1 shows that all though in both instances the likelihood of director exit decreases as ROA increases, when a firm is not facing a lawsuit from shareholders, the likelihood a director exits the board is *greater* than when the firm has been sued if performance is low, but is *lower* than if the firm had been sued when performance is high. Figure 2 shows a similar pattern for the moderating effects of restated earnings on ROA. At high levels of ROA, the likelihood of exit is greater if the firm has restated earnings.

**FIGURE 1**  
**Firm Performance by Shareholder Lawsuits<sup>a</sup>**



<sup>a</sup> Performance was measured as ROA.

However, similar to Figure 1, Figure 2 shows that at low levels of ROA the likelihood of exit is actually lower if the firm has restated earnings. Indeed, it appears that when a firm has restated earnings, ROA has relatively little effect on the likelihood a director exits the board at all, as the line becomes almost flat.

## DISCUSSION

In this study we drew on self-determination theory to develop and test theory that focuses on how the intrinsic and extrinsic motivating potential of certain individual and firm-level aspects of board service affect the likelihood a director will exit a board. The results of our analyses suggest that the prestige derived from board service and holding some, but not all, formal positions of influence on a board decrease the likelihood a director leaves, but the time demands of board service increase the likelihood of exit. In addition, we found that the perceived reputational and financial risks associated with lawsuits and earnings restatements reduced the effects of prestige derived from firm performance when performance was high, but decreased the likelihood of director exit when firm performance was low. Our findings help us make a number of theoretical contributions to the literature on corporate governance.

### Contributions to Theory

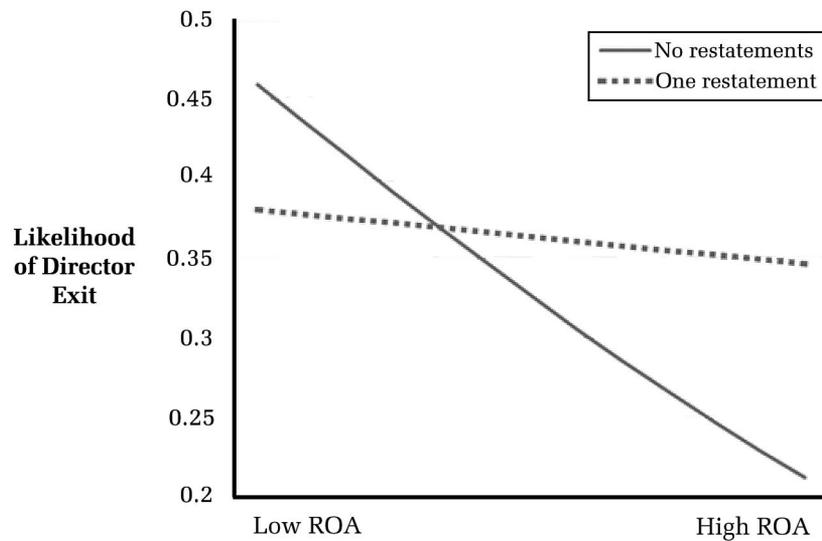
What motivates individuals to serve on boards of directors has been called one of the great unan-

swered questions in corporate governance research (Hambrick et al., 2008). This is the first study to systematically consider the rewards as well as the demands of board service, to simultaneously consider the intrinsic and extrinsic motivating potential of these various factors, and to develop theory related to director exit in a noncrisis setting. Our theory and findings begin providing insights into directors' motivations for serving on boards. Examining firm, position, and director characteristics that influence the likelihood a director will leave a board also offers insights into what directors value and what may influence their decisions to serve on boards in the first place. Our results also suggest a more complicated relationship exists between firm performance and director exit in crisis situations than previously proposed.

Our findings thus contribute to more broadly understanding directors' motives. As Hambrick and colleagues noted, "Until we understand directors' motives, we will have great difficulty in comprehending board processes and effectiveness. . . . A better understanding of these preferences and their influences is essential for governance researchers to consider" (2008: 384). As future studies build on our initial findings, governance theorists can begin to more fully understand directors' motivations and preferences, thereby increasing understanding of board processes and director effectiveness.

**Firm-level characteristics.** We argued that firm prestige provides a variety of intrinsic rewards associated with director identity and identification that combine with the extrinsic rewards of prestige

**FIGURE 2**  
**Firm Performance by Financial Restatement<sup>a</sup>**



<sup>a</sup> Performance was measured as ROA.

to decrease the likelihood of director exit. Indeed, the idea that certain factors may have both intrinsic and extrinsic components helps to more completely explain directors' motivations for serving. Directors are less likely to leave a firm when it is performing well or has high visibility in the media. The opposite implication of these findings, of course, is that directors are more likely to leave the boards of firm that have less media visibility or are performing poorly. This finding suggests that at a time when a firm may need stability in the board room the most, director turnover will increase (Withers et al., 2012). Future research may wish to examine if such untimely turnover among directors may be an underexamined cause of downward spirals in firm performance.

The finding that increases in firm performance decrease director exit may not be particularly surprising. However, when these findings are considered in conjunction with the moderating effects of the potential financial and reputational risks of board service, the overall pattern of results becomes more interesting and the implications more nuanced. Our results suggest the relationship between firm performance and director exit varies depending on whether a firm faces a crisis (a lawsuit or earnings restatement). It is notable that in contrast to prior researchers, we did not find a direct relationship between firm crises such as financial restatements or lawsuits and the likelihood of director exit. Although the basic relationship between firm performance and the likelihood of director exit is the same in both crisis and noncrisis

circumstances, our results suggest that when firm performance is very low, a crisis actually decreases the likelihood directors will leave as a consequence of firm performance.

One possible explanation for this result that is consistent with our theorizing is that absent the extrinsic motivational factors associated with concerns over the loss of prestige, directors are influenced more by intrinsic motivations to help turn a company around following a crisis than by the extrinsic motivations associated with gaining additional prestige (Deci et al., 2001; Gagne & Deci, 2005). When performance has been high and a crisis occurs, especially if the high levels of performance are the result of malfeasance (e.g., Mishina et al., 2010), then the prestige value of the firm's performance will evaporate more quickly, increasing the salience of the extrinsic costs and decreasing the likelihood a director will stay to help fix the problem. However, if the director is not currently receiving an extrinsic prestige reward from serving on the board, then the director may focus on other, more intrinsic reasons for staying. To the extent directors personally identify with firms, helping them recover and/or rectifying mistakes or problems the directors may see themselves as having contributed to may become more salient, thus serving as a more intrinsic source of motivation and decreasing the likelihood the directors will leave. These results highlight that director motivations are a combination of both extrinsic and intrinsic factors and that the relative influence of these factors can vary across contexts.

It is also possible that poorly performing firms may have already appointed new directors who were brought in to deal with problems that led to the poor performance, and these new appointees are thus less likely to leave. However, we controlled for a director's board tenure and found no curvilinear effects of tenure on the likelihood of exit. Thus, our theory and findings make a contribution to the corporate governance literature by suggesting that rather than treating governance characteristics independently, scholars should continue to consider the complex interactive relationships among different governance characteristics (Rediker & Seth, 1995).

Conversely, we did not find support for the expectation that lawsuits or restatements weaken the negative relationship between a firm's media visibility and director exit. This nonfinding may be partially a consequence of the fact that media coverage tends to be heavily skewed, so that firms receiving high levels of media coverage in one year are likely to receive high levels of coverage in subsequent years, whereas firm performance tends to fluctuate more from year to year. This stability may help to attenuate the short-term impact of negative occurrences, such as earnings restatements. This relationship presents an interesting opportunity for future research on highly visible firms engaging in acts of malfeasance.

It is also interesting to note that we did not replicate the direct relationship between lawsuits or restatements and director exit observed in prior research (Arthaud-Day et al., 2006; Cowen & Marcel, 2011; Srinivasan, 2005). The lack of a significant main effect may stem from the fact that our sample considers the likelihood of director exit over a much broader range of situations than prior research has. By selecting board service in general, we see that these significant crises are relatively rare, occurring in only 8 and 4 percent of our observations, respectively. Although a lack of variance in these measures could influence their significance, we did find they still had significant moderating effects on firm performance. Future research should continue to explore this issue.

**Position-level characteristics.** We also found support for our claim that directors view the ability to have an influence on a board as a source of integrated regulation and are therefore less likely to leave the board. Serving as the board chairperson and the chair of the audit committee were associated with lower likelihoods of director exit. Thus, whereas much of the recent research on boards has focused on factors that reduce the likelihood of board effectiveness (Westphal & Bednar, 2005; Westphal & Khanna, 2003), our theory and findings

provide evidence that at least some directors value the ability to have a beneficial influence on a firm (e.g., Donaldson, 1990; Lee & O'Neill, 2003; Waserman, 2006).

Indeed, our findings suggest that understanding corporate governance outcomes may require a more nuanced view in which directors (and executives) are both extrinsically motivated, self-interested agents—as is suggested by agency theory—and intrinsically motivated, autonomous agents—as is suggested by stewardship theory (Boivie et al., 2011; Davis et al., 1997). That is, although directors may be self-interested, the factors motivating their behavior are not necessarily extrinsic, and the rewards they enjoy do not have to be at the expense of organizations or stockholders. Rather, directors may act in the best interest of organizations because they find their directorship duties to be personally fulfilling and intrinsically motivating. These conclusions are consistent with the findings of self-determination theory, which suggest that in general individuals are motivated by a combination of extrinsic and intrinsic factors operating simultaneously (Ryan & Deci, 2000). Future research should continue pursuing a more inclusive understanding of director motivations in order to fully explain and predict how corporate governance practices and mechanisms are likely to influence firm outcomes (Boivie et al., 2011).

Prior studies of the director labor market (e.g., Arthaud-Day et al., 2006; Cowen & Marcel, 2011; Srinivasan, 2005) have implied that the majority of director turnover is purely involuntary; however, our results, as well as information we gathered from a series of interviews and analyses of media reports and government filings, are consistent with the idea that involuntary exit may be the exception, not the rule. Our pattern of results suggests that the director labor market differs significantly from the executive labor market, in which, unless an executive retires or accepts a position at another firm, exit is almost exclusively involuntary. Future studies may further examine the contrast between these two very different labor markets.

One additional and unexpected result of our analysis was our finding that serving in another influential role—as the chair of a board's compensation committee—actually increased the likelihood a director would exit the board. Given that negative perceptions of CEO pay are widely held, the political consequences and negative attention associated with overseeing executive compensation may overwhelm any positive effects of holding a structurally important board position. Future research should continue to explore both the rewards and demands of structurally powerful positions

and their consequences for a firm's corporate governance.

**Director-level characteristics.** Finally, our results were also consistent with our argument that different types of directors experience different levels of identification with and intrinsic motivation from serving on boards. Our findings support our contention that retired executives and nonexecutive directors such as academics, lawyers, and physicians gain more intrinsic rewards from board service and are less likely to exit boards. We also found that those holding degrees from prestigious schools, who we theorized would be more concerned with prestigious affiliations and count prestige as a core part of their identities more than individuals without these credentials, were less likely to exit boards. Additional post hoc analyses found that these relationships were unaffected by lawsuits or restatements, suggesting the motivations were likely more intrinsic than extrinsic in nature.

When considering the demotivating factors of board service, we found support for our expectation that directors currently serving as CEOs at other companies and who sat on more boards were more likely to resign a directorship. This finding suggests that the time and opportunity costs associated with serving as a director had a significant influence on the decision to continue on a board. In analyses not reported here we considered whether busyness, like the reputational and financial risks associated with crises, interacted with the motivating factors of board service. We did not find any significant interactions. Thus, unlike the risks associated with firm crises, for which we found contingent effects, time demands do not appear to moderate how the relative prestige and influence benefits of directorship are perceived.

Our theory and findings make a number of contributions to research on corporate governance. First, we contribute to the corporate governance literature in general and agency theory specifically by using self-determination theory to offer a more nuanced account of the complex set of motivations associated with board service, which can be used to explain why otherwise busy and successful individuals may choose to continue serving on or leave a particular board. To the extent that these individuals vary in the human and social capital they possess, gaining greater insight into the dynamics and factors that affect a firm's ability to access these resources by keeping directors from leaving is a valuable theoretical and practical contribution. Exploring this relationship is also a fruitful direction for future research.

A second implication is that by better understanding directors' reasons for staying on or leaving boards, we may be able to derive insights into why directors take actions that may not align with shareholder interests. Prior research has demonstrated a variety of ways that the monitoring function of outside directors can be subverted (Porac, Wade, & Pollock, 1999; Wade et al., 1990; Westphal, 1998, 1999; Westphal & Khanna, 2003). Scholars adopting an agency theory perspective have failed to consider how directors' perceptions of the rewards and demands of board service might influence whether and how they execute their monitoring duties, thereby generating very different results in practice than in theory (Bebchuk & Fried, 2004).

### Limitations and Directions for Future Research

Because our study used archival data that were collected longitudinally, we were unable to measure the mediating constructs about which we theorize. We were also unable to directly assess if current directors interpreted the various firm characteristics in the ways we argued. However, our empirical results are generally consistent with our theorizing, and our analyses and control variables rule out a variety of alternative explanations. Further, our research design allowed us to consider a far larger sample than would be possible with other research designs, and it allowed us to conduct a longitudinal analysis, which would not be possible with other research designs. Nonetheless, future research using other methods, such as surveys (e.g., Westphal, 1998, 1999) and policy capturing (Aiman-Smith, Scullen, & Barr, 2002) should verify whether directors' perceptions are consistent with our theory and whether the relative weighting of intrinsic and extrinsic motivations predicted by self-determination theory actually occurs.

A second opportunity arises from the coarseness of some of our measures. For example, our measures of busyness pertain specifically to corporate executives and the dimensions of busyness associated with directorial activities. It is likely that nonexecutive directors also have other substantial obligations and that some variance in the amount of busyness individual directors experience is based on their entire portfolio of activities. Future research using finer-grained measures collected at the individual director level could offer the opportunity to explore the demands and risks associated with board service in a more nuanced fashion. In a similar vein, future research could also explore whether the increased motivation suggested by our measures also translates into increased participation on a board by directors.

A third opportunity arises from our sample construction. We randomly sampled directors, rather than sampling companies and collecting data on all directors on the company's board. This approach allowed us to address the limitations of prior studies that used more restricted samples, as we were able to collect data on the complete set of directorships for over 2,000 different directors. However, because we did not collect data on all outside directors and their associated directorships for a given company, we were unable to explore issues regarding how other director characteristics or intragroup dynamics (e.g., social cohesion) affected director exit. Future research using different sampling structures can continue to explore how other aspects of board service, such as the ability to associate with different types of directors or to access different interlocking director networks, affect the likelihood of director exit.

A final opportunity arises from our assumption that director turnover is usually voluntary or by mutual consent. Although our empirical results are consistent with our theoretical perspective, we did not directly capture the degree to which the board exits we observed in our sample were voluntary or involuntary. Although we made every effort to validate our assumption by interviewing directors, searching for press articles that discuss director dismissals, interviewing a senior reporter at the *Wall Street Journal*, and reviewing SEC documents, we are nonetheless unable to definitively state that all instances of director turnover in our sample are voluntary.

However, if the majority of director turnover was involuntary, then a number of the observed relationships would be different from those reported here. For example, if director exit were primarily involuntary, we would expect to find a positive relationship between lawsuits and restatements and director exit, since it stands to reason that directors who allow malfeasance to occur would be forced out if they didn't already want to leave voluntarily. Further, we would expect the pressure on directors to leave would be even greater when malfeasance occurs and firm performance has been poor. Instead, we found no main effect relationship for lawsuits and restatements and that the likelihood of director exit was actually decreased when performance was poor and one of these events occurred. In addition, research on the "burden of celebrity" (Brooks et al., 2003; Fombrun, 1996; Wade et al., 2006) suggests that highly visible actors receive more acclaim for good performance, but also more blame for poor performance. This suggests high levels of media coverage should increase the likelihood lawsuits and earnings restate-

ments lead to director exit. However, no such relationship was observed.

We also argued and found that directors who were not executives were less likely to leave boards. If turnover is primarily involuntary, we would expect that directors with the least amount of executive experience and with fewer connections in the corporate elite (e.g., Davis, Yoo, & Baker, 2003) would be the most likely ones forced out. Thus, despite our inability to directly observe whether an exit was voluntary or involuntary (a limitation shared by all studies of director exit, including those that rely on different assumptions), our results are consistent with our assumption that exit is primarily voluntary. In addition, in analyses not reported here we excluded all firm years in which there were major negative events (lawsuits and restatements). The findings for all of our other independent variables were unchanged. These results support our contention the factors influencing director exit differ during crisis and noncrisis periods.

It is also possible that the voluntariness of director exit lies on a continuum ranging from purely voluntary to mutually agreed on (i.e., semivoluntary) to purely involuntary. For instance, it may be the case that when a firm is performing poorly a director may wish to leave the board to distance him-/herself from this negative outcome (Withers et al., 2012); at the same time, the firm may wish to have new directors on the board as a source of new ideas to aid in rebuilding the firm (e.g., Arthaud-Day et al., 2006). Other recent studies also suggest that the inclinations of a director and actions by firm leadership may interact to influence the director's preference to stay on a board. For instance, Westphal and Khanna (2003) found that when directors engaged in acts that increased a board's vigilance, they experienced higher levels of social distancing on other boards. This sort of social distancing may lead to a decrease in the intrinsically motivating aspects of board service that may then, in keeping with our theoretical framework, lead a director to leave a board. Thus, the director's decision to leave is voluntary, but it is in response to CEO actions making that board appointment less appealing to that individual. Future research could endeavor to more closely examine this sort of voluntary-to-involuntary continuum. It would be especially valuable if future research could develop a set of measures or heuristics equivalent to those developed for CEO succession that could be used as proxies for the extent to which director exit is voluntary or involuntary (Shen & Cannella, 2002).

Finally, to the extent involuntary turnover is more common than we assumed, our findings are

more conservative because we would be less likely to find significant effects in the direction we predicted. Future research should continue to explore the extent to which board turnover is voluntary or involuntary.

## Conclusion

In this study we have endeavored to increase scholars' understanding of what leads individuals to serve on boards and why they may choose to leave. We introduced self-determination theory to the corporate governance literature as a means for explaining the total motivating potential of board service. We demonstrated that different aspects of board service may offer a combination of intrinsic and extrinsic motivations to directors that operate in parallel and that intrinsic motivations can be particularly robust in situations in which extrinsic motivators are lacking. Corporate governance scholars should continue to avail themselves of this rich theory exploring individual motivations to develop a greater understanding of the intended and unintended consequences of corporate governance practices.

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