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Boardroom Brawls: An Empirical Analysis of Disputes Involving Directors

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We investigate the internal workings of US corporate governance with a hand-collected dataset of director resignations that are related to power struggles within the board. About two-thirds of the conflicts arise because of how board members interact in carrying out their duties, while most of the remaining cases involve disagreements between directors and top management over corporate strategy or financial policy. Conflicts are more likely to occur at companies where the CEO is the founder or is relatively new to the position. Tensions also increase when there are independent directors with large blockholdings. Stock prices decline sharply on average after a director turnover amid dispute, which may indicate that investors expect the firm to continue to have poor operating performance. The aftermath of such a resignation often includes shareholder class-action lawsuits, proxy contests, asset divestitures, and stock market delistings. Our results highlight the importance of a well-functioning board for reducing agency problems and maximizing shareholder value.

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1. Introduction

In an influential review article, Shleifer and Vishny (1997) define corporate governance as "the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment". Boards of directors play a critical role in a firm's governance, for they serve as fiduciaries of shareholders and are charged with hiring, advising, compensating, monitoring, and disciplining management. Yet, we know little about how board members actually carry out their duties.

Anecdotal evidence indicates that boards do not always function smoothly, either because the chief executive officer (CEO) has excessive power or because the firm has failed to adopt rules and procedures that make effective use of directors' expertise. An extreme example is the 2016 dispute at PulteGroup, Inc. over whether to replace CEO Richard J. Dugas, Jr. In April 2016, longtime director James Grosfeld resigned abruptly from the board in protest of Dugas' role in the firm's poor financial performance. In his resignation letter, Grosfeld said he had been excluded from board meetings and that the board had failed to be "responsive to the needs of shareholders" (Kirkham, 2016).

Similarly, resignations from the board of directors at TerraForm Power, Inc. in 2015 reflected major flaws in the firm's corporate governance. Two outside directors resigned after SunEdison, general partner of TerraForm, exercised its right to add three new members to the board. At a contentious board meeting on November 20, SunEdison nominated the new directors to lead TerraForm's Corporate Governance and Conflicts Committee, thereby displacing existing directors from that role and raising concerns about conflicts of interest. One director said in his resignation letter that he had quit as a result of being unable "to protect the interests of the stockholders" (Gara, 2015).

The PulteGroup and TerraForm Power incidents, along with other cases of director resignation, show that boardroom disputes often reveal serious issues facing a firm. The revelation of such issues can, in turn, lead to large declines in share prices. Board disputes can also trigger changes in top management or make a company vulnerable to being taken over. Despite the importance of understanding internal board conflict, however, there is little systematic evidence on the underlying causes of board disputes and their implications for firms. Because boards usually operate out of the public eye and data are limited, the previous literature instead has focused on easily

observed characteristics of boards, such as size, composition, or directors' experience.[1]

In this paper, we provide systematic evidence on the nature of internal board disputes and their consequences for the firm. Our study exploits a provision in US securities rules requiring firms to disclose the details of any internal disagreement when a director of a firm resigns or declines to stand for re-election. We rely on SEC Form 8-Ks that summarize the circumstances surrounding a director's departure (see Plitch, 2005). These filings provide extremely detailed information due to the requirement that the firm must publish any written correspondence from the director describing the reasons for the departure. Our sample includes 168 firms where directors resigned as a result of board conflict. We compile detailed data on the characteristics of 1,087 individuals who served as directors at these firms. While the typical firm in our sample is relatively small, we also examine a number of large, well-known firms such as Cigna Corp., Compass Bancshares, Emerson Radio Corp., Fair Isaac Corp., General Motors Corp., Janus Capital Group, Party City Corp., Smith & Wesson Holding Corp., and Wal-Mart Stores.

We start by examining the underlying nature of the boardroom disputes that lead to director turnover. We find that involvement in disputes is rarely limited to outside directors. Instead, boardroom disputes typically reflect a rift between directors and management regarding agency problems and firm strategy, suggesting power struggles between board factions and top management.

Next, we examine how the likelihood of internal conflict is related to board and director characteristics. We find that director turnover increases with the degree of structural power of the CEO, with CEO influence over director selection, with lower director equity ownership, and with a CEO who belongs

[1] See, e.g., Hermalin and Weisbach (1988, 1998) and Linck *et al.* (2008) on board composition; Yermack (1996) on the relation between firm value and board size; Agrawal and Knoeber (2001), Kroszner and Strahan (2001), and Fahlenbrach *et al.* (2010) on the practice of appointing directors with different professional backgrounds; Fich and Shivdasani (2006) on board business; and Klein (1998) on the performance implications of board committee structure. In addition, a sizeable literature examines the consequences of board composition for a variety of corporate phenomena, such as the disciplining of managers, the performance of bidding firms in tender offers, and the adoption of poison pills (see, e.g., Weisbach, 1988; Byrd and Hickman, 1992; Brickley *et al.*, 1994). Other research analyzes the consequences of major corporate events for the prospects of top executives and directors in the market for outside directorships (see, e.g., Gilson, 1990; Kaplan and Reishus, 1990; Harford, 2003). A new strand of research refines the notion of board independence (see, e.g., Hwang and Kim, 2009; Masulis and Mobbs, 2011; Agrawal and Nasser, 2012). John and Senbet (1998), Hermalin and Weisbach (2003), and Adams *et al.* (2010) provide excellent reviews of the literature on boards.

to the founding family. Our analysis also reveals that disputes often involve directors with shorter board tenures and those with particular backgrounds (i.e., entrepreneurs, venture capitalists, and investment bankers). In contrast, directors who are CEOs of other companies are significantly less likely to become embroiled in dispute.

Internal turmoil at the companies in our sample often has negative consequences for firm value and performance. Upon news of director resignations or failures to stand for re-election, stock prices of their companies decline significantly on average (both in statistical and economic terms). The cumulative average abnormal return (CAAR) in our sample is −2.6% over a three-day event window, growing to as much as −6.1% over a 12-day window. The CAAR is more negative when the departing director is an insider, and it is especially negative for disputes involving agency problems. The stock price declines are consistent with investors updating their expectations of future operating performance, which typically has already suffered for one to two years prior to the 8-K disclosure. On average, stock returns are negative over the post-dispute year, and disputes are often followed by shareholder class-action (SCA) lawsuits, proxy contests, asset divestitures, and stock exchange delistings. These results are consistent with the findings of Dewally and Peck (2010), Fahlenbrach *et al.* (2015), and Gupta and Field (2009), who identify resignations from news sources and press releases. Bar-Hava *et al.* (2015) and Marshall (2010) also rely on 8-K disclosures to study director turnover, and they find that director resignations are often associated with significant negative effects.

Our work relies on detailed disclosure made by firms in response to SEC rules, and as such we focus on cases of extreme disagreements. A number of other papers focus instead on broader samples of less serious disputes among directors. For example, using mandatory disclosures in China of board opinions and individual dissents, Tang *et al.* (2013), Du *et al.* (2014), Jiang *et al.* (2016), and Ma and Khanna (2016) find that turnover and poor performance are related to differences of opinion. Schwartz-Ziv and Weisbach (2013) examine unique data from Israel on private board meeting minutes and find that directors typically do not openly challenge management with negative votes, opting instead to use active boardroom discussion to request further information.

The rest of the paper is organized as follows. Section 2 briefly describes the evolution of disclosure rules about director departures amid dispute. Section 3 details our sample and data. Section 4 examines the key issues underlying the disputes and investigates the determinants of dispute likelihood at both the firm-level and at the level of the individual director. Section 5 examines the stock price reaction to dispute disclosures and the

cross-sectional determinants of the price reaction. Section 6 analyzes operating and stock price performance surrounding disputes and explores the aftermath of dispute episodes. Section 7 presents the results of several robustness checks, and the final section concludes.

2. Origin and Evolution of the Disclosure Rules

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

Following high-profile corporate scandals such as the collapse of Enron, in June 2002 the SEC proposed rules to strengthen the disclosure requirements. After reviewing public comments and holding public hearings, the SEC issued a revised rule, effective on August 23, 2004 (see Bernstein, 2004; and Federal Register, 2004), that reduced the filing deadline to four business days after a triggering event. In addition, the new rule lowered the threshold that triggers disclosure. Specifically, the rule currently requires that, whenever a director resigns, is removed for cause, or refuses to stand for re-election because of a disagreement known to an executive officer of the company, the company must disclose the event under Item 5.02(a) of Form 8-K.[2] As part of the required disclosure, the company must report the following items: (1) the date of the director's resignation, removal, or refusal to stand for re-election; (2) a brief

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

description of management's view of the nature and circumstances of the disagreement; and (3) any written correspondence provided by the director that describes the nature and circumstances of the episode. Importantly, disclosure is mandatory under the new rules even if a director does not supply a letter to the company or request that the matter be publicly disclosed.

3. Sample and Data

We construct our sample of disputes by identifying Form 8-K disclosures of written correspondence between companies and departing directors. Each year, US public companies file tens of thousands of 8-Ks with the SEC. To sift through the large amount of data, we use *10K Wizard*, an online search engine, to identify all 8-Ks filed between January 1, 1994[3] and December 31, 2006 that include an Exhibit 17, which consists of the departing director's letter and any response to it by the company. Our search yields an initial group of over 1,000 8-K filings with such letters.

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

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

[4] See footnote 2.

[5] Of the 13 companies experiencing two episodes, nine have episodes less than two months apart; two have episodes between two and five months apart; and two have episodes between six and 11 months apart.

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

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

Panel A of Table 1 reports frequencies of disputes by year and by the number of departing directors. Except for a low of two events in 1995 (and none in 1994), the number of dispute events per year hovers around 10 until 2004, the year of the August 23, 2004 tightening of the disclosure rules. The number of dispute events increases modestly to 15 in 2004 and more substantially to 33 events in 2005 and 39 events in 2006. Of the 168 observations in the sample, 137 involve departures of just one director, 18 involve departures of two directors, eight involve three departing directors, and five involve departures of four or more directors. Panel B shows that the sample firms are distributed across a wide range of industries.

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

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

Table 1. Frequency of disputes and characteristics of directors.

Panel A: Disputes, by year and by number of departing directors

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

Panel B: Disputes, by industry

Industry Groups	2-Digit SIC Codes	# of Firms	% of Sample
Agriculture, mining, construction	01–19	10	5.95
Food, textiles, paper products, printing	20–27	2	1.19
Chemicals, petroleum, and coal	28–29	15	8.93
Rubber, plastic, leather, and metal goods	30–34	4	2.38

Table 1. (*Continued*)

Panel B: Disputes, by industry

Industry Groups	2-Digit SIC Codes	# of Firms	% of Sample
Industrial machinery, transport equipment	35–37	27	16.07
Instruments and miscellaneous manufacturing	38–39	14	8.33
Transport, communications, and utilities	40–49	18	10.71
Wholesale and retail trade	50–59	12	7.14
Finance, insurance, and real estate	60–69	19	11.31
Hotels, consumer services, business services	70–79	38	22.62
Health, legal, and social services	80–99	9	5.36
Total		168	

Panel C: Individual director characteristics

	Departing Directors ($n = 214$)			Remaining Directors ($n = 873$)		
Characteristic	Mean	Median	S.D.	Mean	Median	S.D.
Director age	53.90	54	10.97	55.47	56	10.63
Tenure on the board	4.11	2	4.85	5.01	3	5.35
Stock ownership per director (%)	3.97	0.61	7.79	4.03	0.42	9.70
# of outside directorships	0.46	0	0.98	0.57	0	1.18
# of outside chairmanships	0.06	0	0.29	0.15	0	0.48
Directors who are female	0.02	—	—	0.05	—	—
Directors who are CEOs of the company	0.15	—	—	0.14	—	—

Table 1. (*Continued*)

Panel C: Individual director characteristics

Characteristic	Departing Directors ($n = 214$)			Remaining Directors ($n = 873$)		
	Mean	Median	S.D.	Mean	Median	S.D.
Directors who are former CEOs	0.04	—	—	0.03	—	—
Directors who are executive officers of the company	0.23	—	—	0.22	—	—
Directors who are Chairman	0.11	—	—	0.12	—	—
Directors who are former Chairman	0.02	—	—	0.02	—	—
Directors who belong to the founding family	0.02	—	—	0.04	—	—

Panel D: Directors' professional experience

Experience	% of Directors		All Directors, % of Total		
	Departing ($n = 214$)	Remaining ($n = 873$)	Inside ($n = 329$)	Gray ($n = 116$)	Independent ($n = 642$)
Occupation					
Consultant	11	14	10	17	15
Accountant	3	4	4	2	4
Lawyer	6	7	4	9	7
Engineer/Scientist	4	5	6	4	4
Medical professional	3	3	2	3	4
VC/Private equity financier	5	3	2	2	5
Investment banker	6	3	3	7	3
Commercial banker	1	3	5	4	1
Corporate executives	32	37	45	31	32
Other	29	21	19	21	25
Total	100	100	100	100	100

Table 1. (*Continued*)

Panel D: Directors' professional experience

Experience	% of Directors		All Directors, % of Total		
	Departing ($n = 214$)	Remaining ($n = 873$)	Inside ($n = 329$)	Gray ($n = 116$)	Independent ($n = 642$)
Corporate leadership/Entrepreneurship					
Current CEO of another company	19	29	13	23	35
Former CEO of another company	17	24	22	28	23
Current chair of another board	5	12	4	14	13
Former chair of another board	7	9	4	10	10
Founder of another company	23	20	16	21	23

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

We construct a control sample by matching each firm experiencing a dispute to a COMPUSTAT firm in the same year and 2-digit SIC industry that (1) did not have director turnover due to a dispute over the sample period; (2) used the same form type (either DEF 14A or 10-KSB) for proxy solicitation; and (3) was closest in size (total assets) at the end of the fiscal year preceding the dispute. For each firm in the two samples, we read the latest available proxy statements (or 10-KSBs), annual reports, and other SEC filings made prior to the director departure to obtain detailed information on the firm's board structure, ownership structure, CEO characteristics, and other governance arrangements. We also obtain data on other firm characteristics from Compustat, CRSP, 10-K or 10-KSB filings, securities registration filings and prospectuses, and other SEC filings.

Table 2 summarizes selected corporate governance and firm characteristics of the firms in the sample. The average board size of firms with disputes is 6.6 members, compared to 6.2 members on average at the control firms. The control sample has significantly fewer gray directors (8% versus 12%) and significantly more independent directors (56% versus 50%). The control firms are also more likely to have an independent audit committee and an independent compensation committee. The two samples have similar average CEO ages (53 years), and the fraction of CEOs belonging to one of the founding families is not significantly different between the two groups. CEOs of firms with disputes have served on the company's board for fewer years (only 5.8 years versus 8.4 years for the matching firms, which is a statistically significant difference at the 1% level).[7] Following Shivdasani and Yermack (1999), we define an indicator variable 'CEO picks board members' that equals 1 if the CEO serves on the nominating or corporate governance committee or if the board has no such committee, and equals 0 otherwise. By this definition, the CEOs of the firms with dispute are slightly less likely to be in a position to pick board members, but the difference is not significant. Median stock ownership of the CEO is below 5% in both samples, but both samples exhibit about 18% ownership among all officers and directors. Each group has one independent blockholder at the median. The samples do not differ significantly in their tendency to use a Big 6 auditor. For each of the two groups, the CEO chairs the board about half of the time.

Firms that have director turnover due to a dispute tend to be small (median market capitalization of US$53 million). By construction, the

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

Table 2. Summary statistics for dispute and control firms.

	Mean			Median			
Variable	Dispute Firms	Control Firms	p-value for Diff.	Dispute Firms	Control Firms	p-value for Diff.	Number of Pairs
Board structure							
Board size	6.55	6.18	0.071	6	6	0.051	168
Inside directors on the board (%)	38.90	35.82	0.131	33.33	28.57	0.069	168
Gray directors on the board (%)	11.53	8.21	0.035	0	0	0.021	168
Independent directors on the board (%)	49.57	55.97	0.006	50.0	60.0	0.001	168
Independent audit committee	0.51	0.61	0.019	—	—	0.020	168
Independent compensation committee	0.39	0.49	0.018	—	—	0.018	168
Independent audit and compensation committees	0.36	0.46	0.035	—	—	0.036	168
CEO characteristics							
Age (years)	52.58	53.29	0.501	52	53	0.389	167
Tenure on the board (years)	5.79	8.40	0.0004	4	5	0.001	168
Company founder	0.20	0.15	0.181	—	—	0.180	166
CEO picks board members	0.72	0.80	0.206	—	—	0.345	167
Ownership and governance							
CEO stock ownership (%)	10.60	10.93	0.837	2.85	4.80	0.723	165
Directors and officers stock ownership (%)	23.91	23.80	0.954	18.44	18.05	0.861	164
Independent blockholdings (%)	14.25	10.99	0.083	7.30	5.22	0.289	164
Number of independent blockholders	1.29	1.07	0.164	1	1	0.345	164
Co. has an independent blockholder	0.60	0.54	0.212	—	—	0.211	168
CEO chairs the board	0.53	0.48	0.384	—	—	0.383	168
Big 6 auditor	0.38	0.46	0.033	—	—	0.034	147
Firm characteristics							
Total assets (US$ millions)	3,521.00	2,149.71	0.180	13.25	13.23	0.186	168
Market value of equity ($ millions)	3,295.09	747.99	0.140	52.74	20.35	0.158	105
Total debt/firm value	0.29	0.36	0.037	0.17	0.31	0.035	99
Cash flow/firm value	−0.14	−0.08	0.202	−0.03	0.004	0.034	97

Table 2. (*Continued*)

Variable	Mean: Dispute Firms	Mean: Control Firms	Mean: p-value for Diff.	Median: Dispute Firms	Median: Control Firms	Median: p-value for Diff.	Number of Pairs
Net income/firm value	−0.17	−0.11	0.194	−0.04	−0.03	0.073	99
Firm on CRSP at 8-K filing date	0.46	0.49	0.557	—	—	0.149	168
Firm on NYSE at 8-K filing date	0.08	0.11	0.198	—	—	0.109	168
Firm on AMEX at 8-K filing date	0.06	0.02	0.109	—	—	0.166	168
Firm on Nasdaq at 8-K filing date	0.33	0.36	0.467	—	—	0.069	168
Firm age from date of CRSP listing, in years	9.78	13.42	0.094	6	11	0.008	64

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

matching firms are similar in size. At the time of the dispute, about a third of the sample firms trade on Nasdaq, a small fraction trade on the NYSE or AMEX, while the rest trade on regional exchanges or over the counter. The small size of firms with a dispute is partly due to poor performance: both median net income and median cash flow are negative in the dispute year for such firms.

4. Nature and Incidence of the Disputes

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

4.1. *Nature of the disputes*

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

4.2. *Determinants of dispute incidence*

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

Table 3. Categories of disputes involving directors.

Category of Dispute	Examples of Issues Cited	Frequency
Board functioning	• Special board meetings were called on short notice regarding important matters • Directors were given insufficient information on financials and operations • Resigner was forced to vote upon unfamiliar matters without adequate board discussion • No review of corporate disclosures and executive employment contracts • Company made inappropriate use of resigner's name as signatory in 10-K filing • Dispute over money (cash or stock) owed to resigner • D&O insurance coverage not renewed	65
Agency problems	• Management seems to pursue its own interests, unconstrained by the board of directors • Excessive option grant to the CEO • Board decisions regarding management personnel that failed to protect shareholders' interests • Disagreement with adoption of stockholder rights plan • Calls for resignation of CEO/Chairman were ignored • Board's governance practices, especially CEO compensation and succession • CEO used pseudonym to post misleading messages on Internet stock message boards	42
Corporate strategy and financial policy	• Disagreement over direction of the company • Company has moved away from its R&D focus, to the detriment of shareholders • Lack of clarity in business, marketing, and financial plans • Disagreement with management over how to restore the company to profitability • Board rejected takeover offer that would have added to shareholder value • Terms of going-private offer were inadequate • Company is undercapitalized and therefore unable to deliver on long-term plans • Resigner disagrees with company's decision to enter into US$15M credit facility	43
Miscellaneous issues	• Workplace environment was counterproductive • Management did not foster diversity in the workplace • CEO withheld wages from line employees • Payroll taxes were delinquent • Unspecified disagreement with the company's operations, policies, and practices	18

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

4.2.1. *Firm-level analysis*

This section examines whether the incidence of boardroom disputes is systematically related to certain firm and governance characteristics. Since our findings in Table 3 suggest that boardroom conflicts are usually manifestations of power struggles between management and directors,[8] we expect the probability of a dispute to be related to these four factors: (1) the degree of structural power or formal authority the CEO wields over the board; (2) the extent to which the CEO has been able to influence the selection of directors and shape their viewpoints over time; (3) whether or not the CEO belongs to the firm's founding family; and (4) the level of insiders' and outsiders' equity ownership.

A CEO who wields substantial authority over the rest of the board may be less inclined to listen to others' viewpoints, which can lead to more boardroom clashes. At the same time, greater CEO power could increase the penalty to a director who opposes the CEO, thus leading in equilibrium to a lower incidence of disputes (see, e.g., Warther, 1998). Since these two effects are not mutually exclusive, our tests measure the net impact of these opposing forces. We employ four measures of a CEO's power in the boardroom. First, we use a binary variable that equals 1 if a non-CEO director serves as board chairman, and equals 0 otherwise. If a CEO chairs the board, he can exercise more authority by controlling board processes or setting meeting agendas (see Fama and Jensen, 1983). Second, a large literature suggests that independent directors are more effective monitors of management, and such directors may help curb the power of the CEO (see, e.g., Weisbach, 1988; Byrd and Hickman, 1992; Brickley *et al.*, 1994). We measure board composition via the fractions of independent and gray directors.[9] Third, board size can also affect the balance of power in the boardroom. Jensen (1993) and Yermack (1996) argue that smaller boards are more effective monitors of management because they are better able to resolve conflict through communication and compromise. So we include as an independent variable the log of one plus the number of board members. Fourth, we use binary variables

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

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

indicating whether or not a board has entirely independent audit or compensation committees. These are key board committees that have figured prominently into recent corporate governance reforms. When such committees are present and when they exclude insiders, they can act as an additional check on the CEO's power.

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

In a similar vein, CEOs who are able to influence the director selection process could effectively pick board members who are ostensibly independent but who share views similar to the CEO. Recent research suggests that directors who owe their board seats to the CEO will tend to support the CEO (see, e.g., Morck, 2008). As noted earlier, we follow Shivdasani and Yermack (1999) and code a binary variable 'CEO picks board members' based on whether the CEO belongs to the nominating committee or corporate governance committee.

Being the founder or a member of the firm's founding family can also give a CEO significant clout in the boardroom. Adams *et al.* (2005) argue that founding family status can increase a CEO's influence on the strategic decision-making process. For instance, the presence of a founder-CEO may shape the organizational culture within the firm and determine the composition of the top management team. Also, founder-CEOs may derive informal power from their long-term relationships and interactions with board members and other key constituencies (Finkelstein, 1992). Thus, as with the CEO's formal authority over the board, being the company founder could lead to a higher incidence of disputes in equilibrium.

In addition to conferring informal power, being a member of the founding family could cause a CEO to have interests that differ from those of shareholders at large. Founders are typically under-diversified. Moreover, they often enjoy a "psychic" value from being in control (see, e.g., Dyck and

Zingales, 2004). In equilibrium, the presence of large private benefits of control and the divergence of interests between the CEO and shareholders could induce directors to monitor more intensively, giving rise to a higher overall incidence of dispute.[10] Overall, then, these arguments suggest that a firm's likelihood of experiencing boardroom conflict will tend to be greater when the CEO is a member of the founding family.

The level of equity ownership by insiders and outsiders can also have an important effect on the likelihood of a board dispute. A concentrated equity stake could give the CEO enough voting power to pursue his own agenda without having to consider the views of other shareholders, potentially leading to more clashes with directors. Concentrated shareholding by an independent outside blockholder could also embolden an outside director, especially one affiliated with the blockholder, to challenge the CEO. But when insiders and outsiders hold large equity stakes, they have a direct financial incentive to avoid public showdowns that reduce firm value. To capture these effects, we include the percentages of outstanding equity owned by the CEO, by other officers and directors, and by independent blockholders as measures of their relative powers and incentives. Since these opposing forces are not mutually exclusive, our tests measure their net effect.

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

Table 4 shows pairwise correlations among the variables in the regression. Firm size is negatively correlated with 'CEO picks board members' and CEO shareholdings, and it is positively correlated with board size, the percentage of independent directors on the board, and the presence of independent audit or compensation committees. The latter two binary variables are correlated positively with board size and the percentage of independent directors, and negatively with the 'CEO picks board members' dummy. The latter dummy variable is negatively correlated with board size and the percentage of independent directors. Finally, the last two variables are positively correlated.

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

Table 4. Correlations.

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

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

In Table 5, we present the estimated odds-ratio marginal effects from conditional logistic regressions.[11] Panel A reports the results for the full sample of all director departures, and Panel B for the sub-sample of outside director departures. Each panel presents four variants of our basic regression model.

The regressions indicate that disputes occur less often when CEO tenure is longer. As discussed above, there are two *a priori* reasons to expect such a relation. First, as Hermalin and Weisbach (1998) argue, the intensity with which the board monitors the CEO may decrease over the course of his tenure as he accumulates a record of superior performance and earns greater power. Thus, long-time CEOs are less likely to be challenged by directors, leading to fewer extreme disagreements. Second, with a longstanding CEO, the power structure between directors and management is likely to be clearly established, leading to fewer disputes, regardless of which group has more power.

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

The effects of these variables on the estimated odds ratio, i.e., the ratio of dispute probability to no-dispute probability, are quite large in magnitude. For example, in firms where the CEO is the company founder, the odds ratio is higher by about 1.368 to 1.477 relative to other firms, depending on the model employed. The odds ratio is about 0.45 lower in firms with independent

[11] Since our sample consists of matched pairs of firms with and without disputes and the dependent variable here is a binary variable for whether a dispute exists, the appropriate model is the conditional logistic (i.e., matched-pairs logistic) model. While this model cannot be used for prediction, it yields consistent maximum likelihood estimates of the slope coefficients (see, e.g., Hosmer and Lemeshow, 2000).

Table 5. Probability of dispute involving directors: Firm-level analysis.

Explanatory Variable	(1)	(2)	(3)	(4)
Panel A: All director departures amid dispute				
CEO Age > 63 years	1.433	1.566	1.559	1.712
	(0.87)	(1.09)	(1.06)	(1.14)
Ln (1 + CEO tenure on the board in years)	0.475***	0.465***	0.472***	0.487***
	(−3.87)	(−4.11)	(−4.06)	(−3.10)
Board has a non-CEO chairman	0.665	0.691	0.659	0.642
	(−1.26)	(−1.18)	(−1.33)	(−1.29)
CEO picks board members	0.694	0.671	0.671	0.690
	(−1.04)	(−1.16)	(−1.14)	(−0.89)
CEO is company founder	2.477**	2.397**	2.368**	2.388
	(2.11)	(2.02)	(2.04)	(1.54)
CEO stock ownership (%)	0.993	0.996	0.993	0.992
	(−0.76)	(−0.40)	(−0.82)	(−0.53)
D&O stock ownership, excluding CEO (%)	0.995	0.995	0.993	0.995
	(−0.48)	(−0.55)	(−0.67)	(−0.36)
Independent blockholdings (%)	1.022**	1.014*	1.014*	1.025***
	(2.25)	(1.70)	(1.67)	(2.78)
Ln (1 + board size)	4.765***	2.670*	2.575*	8.399***
	(3.02)	(1.93)	(1.94)	(3.46)
Gray directors (%)	0.858	4.302*	4.769*	2.034
	(−0.14)	(1.66)	(1.75)	(0.53)
Independent directors (%)	0.054***			0.087**
	(−3.13)			(−2.20)
Independent audit committee		0.440**		
		(−2.05)		
Independent compensation committee			0.460**	
			(−2.43)	
Avg. ROA, past two years				0.980*
				(−1.76)
Total debt/total assets				0.985
				(−0.68)
Ln (1 + total assets in $ millions)	0.769	0.825	0.806	1.080
	(−0.81)	(−0.40)	(−0.47)	(0.17)
p-value, likelihood ratio test	0.002	0.021	0.004	0.0005
Pseudo R-squared	0.203	0.173	0.173	0.245
Number of observations	324	324	324	256
Panel B: Only outside director departures amid dispute				
CEO Age > 63	2.052	1.997	2.025	2.581
	(1.19)	(1.18)	(1.19)	(1.34)
Ln (1 + CEO tenure on the board in years)	0.448***	0.396***	0.415***	0.448**
	(−2.86)	(−3.29)	(−2.95)	(−2.11)
Board has a non-CEO chairman	0.777	0.755	0.814	0.643
	(−0.60)	(−0.46)	(−0.69)	(−0.94)
CEO picks board members	0.466	0.254**	0.345**	0.489
	(−1.51)	(−2.52)	(−2.30)	(−1.21)
CEO is company founder	2.225	2.277	2.059	1.191
	(1.33)	(1.08)	(1.23)	(0.22)

Table 5. (*Continued*)

Explanatory Variable	(1)	(2)	(3)	(4)
CEO stock ownership (%)	0.995	1.003	0.995	1.005
	(−0.43)	(0.18)	(−0.44)	(0.29)
D&O stock ownership, excluding CEO (%)	0.995	0.990	0.986	0.994
	(−0.41)	(−0.65)	(−0.84)	(−0.33)
Independent blockholdings (%)	1.012	1.011	1.014	1.017
	(0.85)	(0.82)	(0.93)	(1.25)
Ln (1 + board size)	6.838***	7.845***	7.232***	17.406***
	(3.06)	(2.89)	(2.94)	(3.78)
Gray directors (%)	8.191	6.741	7.784*	21.843
	(1.39)	(1.51)	(1.77)	(1.36)
Independent directors (%)	0.393			0.926
	(−0.80)			(−0.05)
Independent audit committee		0.127***		
		(−2.49)		
Independent compensation committee			0.226***	
			(−2.95)	
Avg. ROA, past two years				0.951***
				(−2.84)
Total debt/total assets				0.143**
				(−2.56)
Ln (1 + total assets in $ millions)	0.882	1.861	1.509	0.841
	(−0.31)	(1.09)	(0.83)	(−0.32)
p-value, likelihood ratio test	0.047	0.033	0.006	0.0003
Pseudo R-squared	0.232	0.311	0.295	0.349
Number of observations	208	208	208	174

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

audit or compensation committees, compared to other firms. Similarly, a 10% increase in independent blockholdings increases the odds ratio by 0.14 to 0.25. And an increase in the CEO's tenure on the board by four years (from the sample mean of 7.095 years) reduces the odds ratio by about 0.21.

When the dependent variable is restricted to cases of outside director departures, most of the results are similar, but there are a few differences. As Panel B shows, there are significantly fewer disputes leading to outside director resignations when the CEO picks board members or when the firm has greater financial leverage. Also, the 'CEO is company founder' and 'Independent directors (%)' variables are no longer statistically significant.

4.2.2. *Director-level analysis*

We next examine whether certain director-level characteristics are associated with the likelihood that a given individual becomes involved in a boardroom conflict. In other words, for firms experiencing a dispute, which of the director(s) is more likely to be embroiled in the dispute? To examine this issue, we estimate logit regressions at the individual director-level. The dependent variable equals 1 if a director is involved in a dispute and 0 otherwise. The sample includes all individual directors of firms that experience disputes. The independent variables are measures of individuals' power, independence, incentives, tenure as director, and opportunities in the external labor market.

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

Table 6. Probability of dispute: Director-level analysis.

Explanatory Variable	(1)	(2)
Panel A: All directors		
Ln (1 + director tenure on the board in years)	−0.040**	−0.038**
	(−2.31)	(−2.21)
Director stock ownership (%)	0.031	0.054
	(0.28)	(0.49)
Director is CEO of another firm	−0.101***	
	(−3.02)	
Director is Chairman of another firm's board		−0.111***
		(−2.92)
Female	−0.078	−0.079
	(−1.33)	(−1.33)
Company founder	−0.055	−0.059
	(−0.85)	(−0.92)
Retired	0.016	0.018
	(0.31)	(0.34)
Number of outside directorships	0.002	0.003
	(0.15)	(0.31)
Founder of another firm	0.063**	0.054*
	(2.14)	(1.85)
Academic	−0.016	−0.012
	(−0.22)	(−0.17)
VC	0.227***	0.208**
	(2.66)	(2.43)
Investment banker	0.117*	0.133**
	(1.88)	(2.05)
p-value, likelihood ratio test	0.005	0.008
Pseudo R-squared	0.030	0.030
Number of observations	1071	1071
Panel B: Outside directors		
Ln (1 + director tenure on the board in years)	−0.030	−0.029
	(−1.54)	(1.48)
Director stock ownership (%)	−0.441***	−0.427***
	(−2.71)	(−2.58)
Director is CEO of another firm	−0.076**	
	(−2.01)	
Director is Chairman of another firm's board		−0.073*
		(−1.72)
Female	−0.070	−0.071
	(−1.15)	(−1.16)
Company founder	−0.107	−0.111
	(−1.09)	(−1.15)
Retired	0.023	0.023
	(0.40)	(0.40)
Number of outside directorships	0.005	0.006
	(0.48)	(0.55)
Founder of another firm	0.068**	0.063*
	(1.99)	(1.83)

Table 6. (*Continued*)

Explanatory Variable	(1)	(2)
Academic	0.033	0.037
	(0.43)	(0.48)
VC	0.200**	0.192*
	(1.98)	(1.91)
Investment banker	0.194***	0.211***
	(2.63)	(2.79)
p-value, likelihood ratio test	0.002	0.007
Pseudo R-squared	0.044	0.043
Number of observations	748	748

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

we might expect that, *ceteris paribus*, female directors are less likely to be involved in a dispute.

Table 6 shows the results of this analysis. Panel A shows the results for all directors, while Panel B focuses on outside directors. In both panels, directors with shorter tenures and directors who are venture capitalists, investment bankers, or founders of other companies are significantly more prone to dispute. The number of outside directorships held by an individual is not significantly related to the likelihood of his being involved in a dispute. However, directors who are CEOs or chairmen of other companies are significantly less likely to be engaged in a dispute. This result is consistent with the finding in Fahlenbrach *et al.* (2010) that outside directors who are CEOs of other companies are less likely to "rock the boat". In addition, as shown in Panel B, outside directors with greater stock ownership are less likely to be involved in a dispute. We do not find any significant differences between male and female directors.

The magnitudes of the effects implied by the model estimates are non-trivial. For instance, based on the average of the marginal effects in the two models in Panel A, the estimated probability of being involved in a given firm's dispute is about 5.8% higher when a director is an entrepreneur (i.e., founder of one or more firms), 22% higher when he is a VC, 12% higher when he is an investment banker, and 10% lower when he is a CEO of another firm. Similarly, an increase in a director's tenure on the board by four years, from the sample mean of 4.83 years, results in a 2% decrease in the probability of his being involved in a dispute.

5. Stock Price Reaction

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

5.1. *Average stock price reaction*

We define the announcement date (day 0) of the director departure to be the earlier of the date of the 8-K filing with the SEC and the date of the first news story, if any, about the director departure in the Dow Jones Factiva database. Stock prices are drawn from CRSP for companies listed on the NYSE, AMEX, or Nasdaq around the time of the dispute. For the other companies in the sample, we obtain stock price data from Datastream, to the extent available. Daily abnormal returns are calculated as market-adjusted returns using the CRSP equal-weighted index. CAARs are the sum of daily average abnormal returns over the relevant window. T-statistics for the CAARs are computed using the adjustment for cross-sectional dependence detailed in Brown and Warner (1985, Eq. (A.11)).

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

Table 7. Abnormal returns surrounding director disputes.

Panel A: Abnormal returns by departing directors' executive positions

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

Panel B: Abnormal returns by type of dispute

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

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

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

Panel A of Table 7 also shows that the magnitude of the average abnormal return is substantially larger when the group of departing directors includes at least one insider (i.e., executive) than when the group consists entirely of outsiders. Over the [−10, +1] window, the mean abnormal return is −10.3% for departures of insiders, but −4% for outsiders.[12] Although the difference between the two means is insignificant according to a standard *t*-test, the *p*-value from a Mann–Whitney test for differences is 0.09. For CEO departures, the mean (median) abnormal return over the [−10, +1] window is a striking −17.6% (−20.7%).

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

Panel B of Table 7 subdivides the sample based on the nature of the departing director's disagreement with the company. We employ the same

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

broad classification scheme that was used in Table 3. The results show differences in the average price reaction across the groups. In particular, the stock price reaction is substantially negative around the revelation of disputes involving agency problems (CAAR[-10, $+1$] = -10.3%) or corporate strategy or financing (CAAR[-10, $+1$] = -11.8%). Both CAARs are significantly different from zero at the 1% level in two-tailed tests. In contrast, disclosures of disputes involving board functioning have negligible effects on stock prices.

5.2. *Cross-sectional analysis*

We next examine whether stock market reactions to disputes are related in the cross-section to characteristics of firms' governance. We focus on the measures of CEO power discussed in Sec. 4: stock ownership by the CEO, other officers and directors, and independent blockholders; board structure; and characteristics of the group of departing directors such as the number of such directors, their tenures on the board, their membership on important board committees, or whether or not the departing director is the company CEO. In addition, we control firm size and whether or not there is media coverage of the dispute. Table 8 shows the regression results. To save space, we show results only for abnormal returns over the [-10, $+1$] window; results for the shorter [-1, $+1$] window are similar.

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

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

Table 8. Cross-sectional analysis of abnormal returns.

	All Director Departures amid Dispute			Only Outside Director Departures amid Dispute		
	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	0.173	0.364	0.362	0.487	0.667*	0.661*
	(0.71)	(1.39)	(1.35)	(1.44)	(1.92)	(1.85)
Ln (1 + avg. tenure of departing directors)	0.091**	0.099**	0.100**	0.128**	0.139**	0.141**
	(2.26)	(2.39)	(2.30)	(2.53)	(2.54)	(2.46)
Ln (1 + number of departing directors)	0.037	0.079	0.079	0.038	0.099	0.092
	(0.33)	(0.67)	(0.67)	(0.32)	(0.84)	(0.79)
Ln (1 + CEO tenure on the board in years)	0.122**	0.111**	0.112**	0.054	0.061	0.061
	(2.53)	(2.33)	(2.31)	(1.31)	(1.54)	(1.49)
CEO is company founder	−0.112*	−0.115*	−0.113*	−0.008	−0.003	0.003
	(−1.73)	(−1.74)	(−1.68)	(−0.11)	(−0.04)	(0.04)
Board has a non-CEO chairman	−0.113*	−0.095	−0.094	−0.007	0.003	0.003
	(−1.75)	(−1.45)	(−1.42)	(−0.08)	(0.03)	(0.04)
CEO picks board members	−0.146**	−0.158***	−0.158***	−0.109**	−0.117**	−0.117**
	(−2.57)	(−2.74)	(−2.71)	(−2.03)	(−2.04)	(−2.01)
CEO stock ownership (%)	−0.001	−0.001	−0.001	−0.002	−0.002	−0.002
	(−0.60)	(−0.75)	(−0.73)	(−1.28)	(−1.37)	(−1.31)
D&O stock ownership, excl. CEO (%)	0.007***	0.006***	0.006***	0.003	0.002	0.003
	(3.59)	(3.44)	(3.44)	(1.04)	(1.05)	(1.05)
Independent blockholdings (%)	0.002	0.003	0.003	0.004**	0.004**	0.004**
	(1.43)	(1.50)	(1.50)	(2.02)	(2.08)	(2.05)
Ln (1 + board size)	−0.117	−0.156	−0.156	−0.170	−0.214	−0.216
	(−0.81)	(−1.13)	(−1.13)	(−0.71)	(−0.99)	(−0.99)
Independent directors (%)	0.116	0.045	0.053	−0.239	−0.264	−0.241
	(0.70)	(0.24)	(0.29)	(−0.93)	(−0.97)	(−0.90)
Gray directors (%)	0.255	0.179	0.180	−0.169	−0.186	−0.178
	(1.00)	(0.66)	(0.66)	(−0.54)	(−0.56)	(−0.54)
Any departing director on audit committee		−0.005	−0.005		−0.042	−0.040
		(−0.09)	(−0.09)		(−0.68)	(−0.64)

Table 8. (*Continued*)

	All Director Departures amid Dispute			Only Outside Director Departures amid Dispute		
	(1)	(2)	(3)	(4)	(5)	(6)
Any departing director on compensation committee		−0.101	−0.099		−0.106	−0.101
		(−1.60)	(−1.56)		(−1.49)	(−1.39)
Any departing director is CEO		−0.101	−0.099			
		(−1.02)	(−1.02)			
Media coverage			−0.016			−0.027
			(−0.20)			(−0.33)
Ln (1 + total assets in $ millions)	−0.032*	−0.037*	−0.036*	−0.017	−0.024	−0.021
	(−1.75)	(−1.92)	(−1.86)	(−0.76)	(−0.98)	(−0.90)
p-value of F-test	0.001	0.003	0.005	0.095	0.166	0.199
Adjusted R^2	0.260	0.266	0.258	0.205	0.234	0.222
Number of observations	118	118	118	78	78	78

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

that the revelation of an internal dispute is viewed more negatively by shareholders when the CEO is powerful relative to other board members or when the power structure between the CEO and directors has yet to be clearly established.

6. Operating and Stock Price Performance and Dispute Aftermath

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

6.1. *Operating performance*

This section examines the operating performance of firms with disputes compared to control firms between year −2 and year +2, where year 0 is the fiscal year during which the 8-K filing on the dispute occurs. We do not construct a sample of control firms based on matched prior performance because our primary interest in this sub-section is in examining the operating performance of dispute firms in the years prior to the dispute. Table 9 shows median values of two operating performance measures for each sample: ROA and operating income before depreciation, scaled by assets (OIBDA). The table also reports absolute values of z-statistics from paired two-tailed Wilcoxon tests for differences in distributions. Panel A reports results for the full sample, while panels B through E report results for each of the four categories of disputes shown in Table 3.

Panel A shows that firms involved in director disputes have poor operating performance in the three years leading up to and including year 0. The median ROA of dispute (control) firms in years −2, −1, and 0 is −14.6% (−7.6%), −24.7% (−6.7%), and −29.9% (−2.6%), respectively. Dispute firms have been performing extremely poorly by any yardstick; their performance is significantly worse than that of control firms. While dispute firms continue to exhibit negative ROA after the director resignation, especially in year +1, their post-event performance is statistically indistinguishable from control firms.[13]

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

Table 9. Operating performance of sample and control firms surrounding disputes.

Year Relative to Dispute	Sample Size (# of Pairs)	ROA Dispute Firms	ROA Control Firms	ROA |z-stat| for Difference	OIBDA Dispute Firms	OIBDA Control Firms	OIBDA |z-stat| for Difference
Panel A: All disputes							
−2	140	−0.146	−0.076	1.713*	−0.086	0.007	1.593
−1	148	−0.247	−0.067	3.069***	−0.114	0.006	2.538**
0	125	−0.299	−0.026	3.270***	−0.119	0.027	3.825***
1	80	−0.188	0.008	0.990	−0.152	0.027	1.626
2	47	−0.030	0.011	1.129	−0.046	0.069	2.942***
Panel B: Board functioning							
−2	55	−0.170	−0.041	2.622***	−0.131	−0.005	2.061**
−1	57	−0.295	−0.067	2.817***	−0.144	−0.035	2.237**
0	48	−0.221	−0.035	1.877*	−0.083	0.022	2.092**
1	29	−0.186	−0.021	1.409	−0.189	0.020	1.633
2	13	−0.005	0.010	0.659	−0.120	0.022	1.922*
Panel C: Agency problems							
−2	36	−0.077	−0.023	0.330	0.002	0.077	0.754
−1	36	−0.082	−0.012	1.037	−0.055	0.062	1.414
0	32	−0.213	−0.042	1.295	−0.113	0.059	2.113**
1	23	−0.174	0.007	0.829	−0.096	0.015	0.639
2	15	−0.151	0.009	0.568	−0.071	0.063	1.704*
Panel D: Corporate strategy and financial policy							
−2	35	−0.266	−0.123	0.126	−0.112	0.004	0.098
−1	40	−0.373	−0.150	0.882	−0.194	−0.042	0.538
0	33	−0.576	−0.031	2.214**	−0.289	0.027	2.064**
1	20	−0.418	−0.039	0.896	−0.405	0.009	0.112
2	13	−0.060	0.012	0.804	0.015	0.031	0.804
Panel E: Miscellaneous issues							
−2	14	−0.154	−0.134	0.155	−0.197	−0.044	0.031
−1	15	−0.249	−0.066	1.189	−0.131	0.005	1.022
0	12	−0.084	0.016	0.235	−0.0002	0.080	0.706
1	8	0.011	0.036	0.415	−0.023	0.139	1.820*
2	6	−0.021	0.024	0.507	−0.060	0.098	1.572

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

The results for OIBDA generally mirror those for ROA, except that they show underperformance for dispute firms in year +2.

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

6.2. *Medium-term stock returns*

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

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

$$R_{p,t} - R_{f,t} = \alpha + b(R_{m,t} - R_{f,t}) + s\mathrm{SMB}_t + h\mathrm{HML}_t + \varepsilon_{p,t}, \quad (1)$$

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

$$R_{p,t} - R_{f,t} = \alpha + b(R_{m,t} - R_{f,t}) + s\mathrm{SMB}_t + h\mathrm{HML}_t + m\mathrm{UMD}_t + \varepsilon_{p,t}, \quad (2)$$

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

Panel A of Table 10 shows abnormal monthly returns (i.e., the estimated regression alphas), for the three-, six-, nine- and 12-month periods leading up to (and including) month −1. The first row shows results for the full sample of

Table 10. Medium-term abnormal stock price performance surrounding disputes.

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

Table 10. (*Continued*)

	3 Months		6 Months		9 Months		12 Months	
	F-F	Four-Factor	F-F	Four-Factor	F-F	Four-Factor	F-F	Four-Factor
Corporate strategy or financing	−0.034	−0.029	−0.014	−0.014	−0.020	−0.018	−0.022	−0.022
	(−1.20)	(−1.02)	(−0.64)	(−0.61)	(−1.23)	(−1.13)	(−1.55)	(−1.53)
Miscellaneous issues	−0.037	−0.038	−0.024	−0.023	−0.025	−0.019	−0.011	−0.007
	(−1.24)	(−1.24)	(−0.91)	(−0.86)	(−1.13)	(−0.84)	(−0.47)	(−0.29)

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

$$R_{p,t} - R_{f,t} = \alpha + b(R_{m,t} - R_{f,t}) + s\text{SMB}_t + h\text{HML}_t + \varepsilon_{p,t},$$

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

$$R_{p,t} - R_{f,t} = \alpha + b(R_{m,t} - R_{f,t}) + s\text{SMB}_t + h\text{HML}_t + m\text{UMD}_t + \varepsilon_{p,t},$$

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

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

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

6.3. *Interpretation of the results*

Taken together, the results in Tables 7, 8, and 10 suggest that the market was aware, at least to some extent, of the existence of problems before the occurrence of a director resignation. Yet, the large negative announcement returns suggest that a director departure amidst dispute reveals additional, more specific information about the nature of the underlying problems. Over the one-year post-dispute period, the market apparently continued to receive adverse signals about these firms' prospects as reflected in the negative and persistent abnormal stock returns.

For disputes involving agency problems, the lack of pre-dispute abnormal returns suggests that the revelation of major problems in these firms comes largely as a surprise to the market, and investors respond to the news quite

adversely. Presumably, the revelation of disputes increases investor scrutiny of the firms. Yet, the continued negative abnormal returns over the ensuing year suggest that the market receives additional negative signals and perceives the underlying problems to be difficult to rectify. The story is quite different for disputes involving board processes. Here, the combination of negative pre-dispute operating and stock performance suggests that the market was aware early on of internal problems. In line with this interpretation, the revelation of board-process disputes is not surprising to the market: the announcement effect is insignificantly different from 0. Moreover, the largely insignificant post-dispute abnormal returns suggest that the market does not receive additional negative signals and that firms are able to successfully resolve their underlying problems.

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

6.4. *The aftermath of disputes*

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

Given that the events covered in this table are major and rare corporate events, their observed frequencies are small in both samples, and it is difficult to draw strong conclusions. Nevertheless, firms with a dispute appear to have a significantly higher incidence of exchange delistings relative to control firms over the six- and 12-month post-event periods. Over both periods, the frequency of all non-merger delistings is also significantly higher for firms

Table 11. Aftermath of director disputes.

Panel A: Post-dispute delistings from CRSP

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

Panel B: Other post-dispute events

	Within 6 Months			Within 1 Year			Within 2 Years		
	Dispute Firms	Control Firms	p-value	Dispute Firms	Control Firms	p-value	Dispute Firms	Control Firms	p-value
SCA lawsuits	8 (4.8)	1 (0.6)	0.018	9 (5.4)	2 (1.2)	0.032	10 (6.0)	5 (3.0)	0.187
Proxy contests	5 (3.0)	1 (0.6)	0.099	6 (3.6)	1 (0.6)	0.056	9 (5.4)	2 (1.2)	0.032
Financial restatements	5 (3.0)	4 (2.4)	0.735	8 (4.8)	7 (4.2)	0.792	16 (9.5)	8 (4.8)	0.090

Table 11. (*Continued*)

Panel B: Other post-dispute events

	Within 6 Months			Within 1 Year			Within 2 Years		
	Dispute Firms	Control Firms	p-value	Dispute Firms	Control Firms	p-value	Dispute Firms	Control Firms	p-value
Asset divestitures	6 (3.6)	0 (0.0)	0.013	10 (6.0)	0 (0.0)	0.001	13 (7.7)	10 (6.0)	0.517
Debt refinancings	3 (1.8)	3 (1.8)	1.000	9 (5.4)	5 (3.0)	0.275	12 (7.1)	7 (4.2)	0.238
# of sample firms	168	168		168	168		168	168	

Note: This table reports the frequencies of different types of events experienced by dispute and control firms within six-month, one-year, and two-year periods following director disputes. Panel A reports various types of CRSP delistings. Each cell indicates the number of dispute (control) firms experiencing a particular type of delisting, followed in parentheses by its frequency as a percentage of the total number of dispute (control) firms listed on CRSP at the time of the relevant 8-K dispute filing. Delisting categories are not all mutually exclusive and are based on delisting codes reported by CRSP. The bankrupt category includes firms delisted due to insufficient assets or equity, or the stock price being too low. Panel B reports numbers and frequencies (as percentages of the overall sample of dispute or control firms) for other types of post-dispute events. The events are defined and identified as follows: *SCA lawsuits* are initiations of shareholder litigation as reported in the Stanford Class Action Clearinghouse database; *proxy contests* are filings of contested proxies (SEC Form DEFC14As) by a dissident shareholder group, identified via the SEC's Edgar database; *financial restatements*, identified from the GAO database or from Lexis-Nexis news stories, are instances of financial restatement due to accounting irregularities; *asset divestitures* are announced sales of company assets as reported in Lexis-Nexis news stories; *debt refinancings* are announced security issuances or debt renegotiations, identified from Lexis-Nexis news stories, in which existing debt is repaid or altered. p-values are from tests for equality of proportions between dispute and control samples.

experiencing disputes. The frequencies of acquisitions and bankruptcies do not differ significantly between the two samples.

Panel B reports the frequencies of other important corporate events — namely, SCA lawsuits, proxy contests, financial restatements, asset divestitures, and debt refinancing. The table shows figures for the two groups of firms over the six-month, one-year, and two-year periods following disputes. The format is the same as in Panel A.[14] These events are defined and identified as follows: SCA lawsuits are initiations of shareholder litigation as reported in the Stanford Class Action Clearinghouse database; proxy contests are filings of contested proxies (SEC Form DEFC14As) by a dissident shareholder group, identified by searching the SEC's Edgar database; financial restatements, identified from the U.S. Government Accountability Office (GAO) restatements databases or from Lexis-Nexis news stories, are instances of financial restatement due to accounting irregularities; asset divestitures are announced sales of company assets as reported in Lexis-Nexis news stories; debt refinancings are announcements of security issuances or debt renegotiations, identified from Lexis-Nexis news stories, in which existing debt is repaid or altered.

Panel B shows that, compared to control firms, firms with disputes experience a significantly greater incidence of SCA lawsuits, proxy contests, and asset divestitures. In untabulated results, we examine the possibility that the departing director abandons a "sinking ship" to preserve his reputation by avoiding being named a defendant in a shareholder lawsuit. Of the 10 firms that were targets of an SCA lawsuit initiated within two years after a director turnover, eight involved the resignation of an outside director. In two of these eight cases, no outside director was named as a defendant in the lawsuit. Of the other six cases where outside directors were named as defendants, the resigning director was named in three cases. In both the remaining two cases where the resigning director was an insider, other (non-CEO) directors were named as defendants and the resigning director was a defendant in one of these cases. Despite the small sample sizes, these findings offer modest evidence in support of a "sinking ship" motivation for director departures.

7. Robustness Checks

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

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

7.1. *Change in disclosure rules*

Disclosure rules pertaining to director departures underwent a major revision in August 2004. As discussed in Sec. 2, the new rules shift the onus of a disclosure trigger from the departing director to the company. Companies are now required to make Form 8-K disclosures whenever a director resigns due to a disagreement or is removed for cause, provided that the matter is known to an executive officer of the company. A letter or request from the departing director is no longer required to trigger the disclosure requirement. The new rules lower the threshold for disclosure, which may have led to an increase in the number of less serious disputes after 2004. Panel A of Table 1 reveals a marked increase in the number of disputes reported after 2004, which may mean a lower average stock price reaction after August 2004. We investigate this possibility and find that the rule change had little impact: differences in mean and median abnormal returns between the two sub-periods are statistically insignificant. To conserve space, we do not report these results in a table.

Do the new rules lead to changes in the determinants of dispute incidence or in the determinants of the cross-sectional reaction of stock prices to the dispute? We find no evidence of such changes. In untabulated results, we estimate our regressions in Tables 5 and 8 separately for dispute events revealed before and after the effective date of the rule change, and we find that results are qualitatively similar for the two sub-samples.

7.2. *The effect of outliers*

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

8. Summary and Conclusions

The internal functioning of corporate boards is generally unobservable to outsiders such as financial economists. We are able to peek inside the “black box” of board functioning with our sample of director resignations. In these cases, US securities rules require a company to make a timely 8-K filing that summarizes the disagreement and that discloses any written correspondence from the director describing the nature and circumstances of the dispute. We find that conflicts in the boardroom typically appear to be the result of power struggles between management and directors. When we examine the reasons

why a director resigns or refuses to stand for re-election, we find that the majority involve substantive disagreements about how the board functions or show evidence of agency problems. Another sizeable group of resignations arises from disagreements over corporate strategy or financing decisions.

Our matched-pairs logistic regressions indicate that disputes are more likely to occur at companies where the balance of power between board members and CEOs is lopsided or in flux. Specifically, companies where the CEO is the founder and companies with shorter CEO tenures are more likely to experience disputes. Directors with higher independent blockholdings are associated with a higher probability of a dispute, as are directors with shorter tenures or directors who are ostensibly more powerful and independent (e.g., entrepreneurs, VCs, or investment bankers). Directors who serve as CEOs or chairmen of other companies are less likely to be involved in disputes, suggesting that such directors tend to be more sympathetic to the CEO's point of view. Among non-employee directors, those with higher stock ownership are also less likely to become involved in a dispute.

We find that when the market learns of a dispute, the reaction is typically negative, which likely reflects investors' view that the underlying problems will not be resolved soon. Stock prices of firms with disputes decline by 2.6% on average over the $[-1, +1]$ day window and by 6.1% over the $[-10, +1]$ window. When the departing director is an insider, the decline is even more extreme. Stock prices also fall more sharply when a dispute involves agency problems, corporate strategy, or financing decisions. Finally, dispute firms experience poor operating performance in both the year of dispute and the prior year, poor stock price performance during the 12 months before and 12 months after the episode, and a significantly greater incidence of SCA lawsuits, proxy contests, asset divestitures, and stock-market delisting during the post-dispute year. These general patterns are present both before and after the SEC substantially tightened the relevant disclosure rules in 2004.

Overall, our findings suggest that, although boardroom disputes span a range of issues, they can be generally traced back to power struggles involving directors and top management. Our results therefore highlight the importance of studying how the functioning of boards is affected by their underlying power structures.

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Appendix A. Analysis of Director Departures without a Reported Dispute

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

Panel A of Table A.1 shows mean values and (in parentheses) median values of CARs for four windows around the announcement day (day 0). CARs are computed as in Sec. 5.1 and Table 7. Column 1 shows CARs for the full sample, and columns 2 through 4 show CARs for subsamples defined according to whether one of the departing directors was the CEO or whether at least one of the departing directors was an executive officer. The last column reports *p*-values from tests for differences in means (distributions) between CARs for turnovers of insiders vs. outsiders based on a *t*-test

Table A.1. Announcement abnormal returns, operating performance, and medium-term stock performance surrounding director turnover without disclosed dispute, and the aftermath for firms.

Panel A: Abnormal stock returns surrounding director turnover announcements

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

Panel B: Operating performance of firms surrounding director turnover

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

Table A.1. (*Continued*)

Panel C: Medium-term abnormal stock returns surrounding director turnover

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

Panel D: Aftermath of director turnover amidst dispute

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

Note: The table shows announcement abnormal returns, operating performance, and medium-term stock performance surrounding director turnover without disclosed dispute, and the incidence of company delistings after turnover events. The sample consists of director turnover events over 2001–2006 identified from the Audit Analytics database on Director and Officer Changes, in which one or more directors resigned or declined re-election, but no disagreement was cited. Sample sizes differ across the four panels due to data availability. Panel A shows CARs for four windows around the announcement date

Table A.1. (*Continued*)

(day 0) of 6,418 director resignation events. CARs are computed from daily market-adjusted returns using the CRSP equal-weighted index. CARs are reported for the full sample and for subsamples defined according to whether one of the departing directors was the CEO or whether at least one of the departing directors was an insider, i.e., a company officer. The table reports mean and (in parentheses) median CARs. *, **, and *** denote CARs significantly different from zero at the 10%, 5%, and 1% significance levels, respectively, using two-tailed Brown and Warner (1985) t-tests for means and two-tailed Wilcoxon tests for medians. The rightmost column reports p-values from tests for differences in means (distributions) between columns (3) and (4) based on a t-test (Mann–Whitney test). Statistics for the Brown and Warner t-tests are computed using daily stock price data over a 50-day estimation period ending 21 days before the event date. Panel B shows median values of firms' unadjusted and industry-adjusted operating performance measures surrounding 5,244 director turnover events. When more than one turnover event occurred for a given firm in a given calendar year, only the first one is included in the sample. ROA equals income before extraordinary items, and OIBDA equals operating income before depreciation, each divided by year-end total assets. We compute industry-adjusted ROA and OIBDA by subtracting from unadjusted measures the median performance measure in the same year across all firms in the same 2-digit SIC industry. Accounting data is from COMPUSTAT. The panel reports absolute values of z-statistics from Wilcoxon tests for differences in distributions. The sample sizes shown are for OIBDA; the sample sizes for ROA are slightly higher. Panel C shows pre- and post-announcement medium-term abnormal stock returns for 7,907 director turnover events. The portfolio return in calendar month t is calculated as the equally weighted average return during month t for stocks of firms that experienced a director turnover during the succeeding three, six, nine, and 12 months (for pre-event returns) or during the previous three, six, nine, or 12 months (for the post-event returns). The measure of abnormal stock return is the intercept from a regression of the monthly calendar-time excess portfolio returns on the Fama and French (1993) three-factor model (FF) or from the Carhart (1997) four-factor model. Monthly returns above the 98th percentile or below the 2nd percentile are excluded. T-statistics are shown in parentheses below coefficient estimates. Panel D reports the frequencies of different types of CRSP delisting events experienced by firms within six-month, 12-month, and two-year periods following 7,599 director turnover events. Each cell reports the number of firms delisted over a given time period, followed in parentheses by the frequency of delisting as a percentage of the total number of firms listed on CRSP at the time of the turnover. Delisting events are grouped into categories (not all mutually exclusive) based on CRSP delisting codes. The 'Bankrupt' category includes delistings due to insufficient assets or equity or an insufficiently high stock price.

(Mann–Whitney test). The announcement of a director turnover without dispute has a small, but statistically significant, negative effect on stock prices. The mean CAR for the full sample is −0.4% over the three-day [−1, +1] window, and it is −0.9% over the 12-day [−10, +1] window. These abnormal returns are substantially smaller in magnitude than those in Panel A of Table 7 for the full sample of director departures amid dispute (−2.6% and −6.1% for the short and long windows, respectively). Furthermore, the mean CAR over the long window is −1.3% (−0.5%) for inside (outside) director turnover at firms without a disclosed dispute, compared to a substantially more negative −10.3% (−4%) for corresponding director turnovers at dispute firms.

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

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

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

Appendix B. Excerpts from Departing Directors' Letters

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

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

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

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

Jerome T. Osborne, GLB Bancorp, Inc., 9/8/2003
This resignation is prompted by my profound disagreement with the decision of the Board of Directors to approve the proposed merger with Sky Financial Group, Inc. Accordingly to the preliminary proxy statement/prospectus ("Preliminary Proxy Statement") relating to the special meeting of shareholders of GLB, filed with the Securities and Exchange Commission by Sky Financial Group, Inc. in its Registration Statement on Form S-4, filed August 22, 2003, the Board of Directors of GLB has also voted to recommend approval of the transaction, a recommendation I disagree with. The Board has abandoned the original vision of GLB as a financial institution with a community focus and a substantial community ownership base. In addition, once the decision was made to sell the Company, I do not believe that the GLB Board of Directors received adequate information regarding, or adequately considered, the community impact or value of alternative proposals described in the Preliminary Proxy Statement, which is why I voted against the proposed merger with Sky Financial Group, Inc. For example, I believe that the transaction proposed by the institution described in the Preliminary Proxy Statement as "Bank X" would have provided a substantially greater value to the shareholders of GLB.

J. Peter Pierce, Iron Mountain Incorporated, 12/26/2002
My resignation from the Board will enable me to pursue shareholders' rights with other interested shareholders in seeing to it that Iron Mountain is governed and managed properly. Board meetings that are held in violation of the bylaws should not be countenanced. Actions taken by "rump" sessions of the Board without notice to all Board members should not be authorized. If there are issues that exist with any Board members, special committees should be formed and authorized to investigate. This did not happen at Iron Mountain at any time. No minutes were taken of the so-called surreptitious "Board meetings". The unauthorized nature of certain "Board actions" has been confirmed under oath by your general counsel Gary Watzke. It is also now clear that on March 27, 2002, the Executive Committee met and purported to authorize the lawsuit that was filed against me the next day in New Jersey state court, even though the Board had never given the Executive Committee this authority at a duly authorized meeting of which I received notice. Interestingly, even though the "Board", as of March 5th, had purported to authorize the lawsuit against me, no disclosure of that "fact" was made by you in your note to the shareholders in the 2001 Annual Report, dated March 20, 2002, nor was there any mention of my alleged secret

investment in Sequedex in the description of me as a Board member, that was set forth therein. In addition, there was no disclosure in the legal proceeding section of the first quarter Form 10-Q concerning the litigation filed against me as a material proceeding adverse to Iron Mountain. I simply will not be a part of a Board that attempts to conduct business in such a surreptitious and improper manner.

James Schroeder, Streamedia Communications Inc., 10/12/2000
Given the recent events at Streamedia and the vast disagreement and disarray of the principal shareholders I feel that I no longer represent the views and interests of those shareholders. I serve at their discretion and I in good conscience do not agree with the proposed direction of this company as set forth by the Chairman. It is the right of the shareholders to have the company run the way they want whether I, as a board member, agree or not. I do not agree to the recent direction and management suggestions of the Chairman and feel there will be severe consequences to the corporation. Therefore, I feel that I must resign as a director and allow the shareholders to choose a board of their liking.

Clifford Wyatt, Electropure, Inc., 4/20/1999
I have become increasingly concerned by the fact that the Company is seemingly unable to finalize its audit with respect to its financial statements for Fiscal October 1998, and accordingly is unable to issue a 10-K in compliance with Federal securities laws. Since the end of the fiscal year, several months have passed, including the end of the first quarter of fiscal 1999, and I have yet to receive any financial statements for any period of the current year....It was only after repeated requests and having a call made to the Company's counsel for corporate matters that I finally received a draft 10-K....The draft 10-K contained numerous material misstatements and omissions which I found quite shocking. For example, it did not mention the cross-complaint filed by Wyatt Technology against the Company, although it did mention the action filed by the Company against Wyatt Technology. Further it appears that the Company had not informed its auditors that Wyatt's position was that it was entitled to obtain rescission or termination of the technology license described at length in the draft 10-K.

Vaughan Shalson, Discovery Laboratories, Inc., 3/27/1998
In summary, I have serious reservations about the judgement of Dr. Capetola and feel deeply that the compensation proposed for the management team, and in particular for Dr. Capetola, involves an excessive use of cash.

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

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

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

Nirmal Mulye, Ph.D., Synovics Pharmaceuticals, Inc., 9/21/2006
During the past several months, however, you, the other members of the Board, and employees of the Company under your direction have acted in a manner designed to curtail meaningful participation by me in my role as a director of the Company....Specifically, I have been asked to vote on matters as a director of the Company while being denied access to the information needed by me to make informed decisions with respect to such matters. . ..I have also been denied the opportunity, on a number of occasions, to engage in full substantive deliberations with the other members of the Board with respect to matters on which I was then being asked to vote. For example, you as Chairman of the Board have severely restricted the ability of directors to discuss matters on which the Board was requested to act by either refusing to allow discussion of certain items at all or by abruptly and prematurely terminating discussions with respect to certain items and calling for an immediate vote on those items prior to all views of Board members being properly aired.

Stephen D. Moses, AcuNetx, Inc., 5/5/2006
As each of you knows, I have endeavored to coordinate and mediate concensus on the issues confronting us from time to time. That is my style. I believe it to be not only appropriate, but optimal. But that technique does not work at AcuNetx. It does not work with a C.E.O. who responds to suggestions with petulance....It does not work with a C.E.O. who declines to be open and forthcoming with his Board...It does not work when the Board decides that it will not and cannot yet be fully Sarbanes-Oxley compliant, but allows the C.E.O. to announce to its shareholders that it will be Sarbanes-Oxley compliant and then reacts angrily when the Chairman notes that paying consulting fees to the Compensation Committee Chairman would be a violation of Sarbanes-Oxley....It does not work when the C.E.O. responds to suggestions, or worse, criticism, with McCarthy-like investigations and mischaracterizations of his critic. It is unfortunate that the C.E.O. can stifle dissent and/or creative advice with tyrranical conduct.

Richard A. Ajayi, Surgilight, Inc., 6/5/2001
Dr. Lin controls 70% of the voting shares of the company and I am convinced that he has repeatedly refused to accept, or simply ignored, some decisions and guidance of the Board regarding compliance with regulations of the Food and Drug Administration and the Securities and Exchange Commission. Therefore, after working diligently, but unsuccessfully, for several months to

resolve these issues, I have come to the conclusion that there are no other alternatives for me but to resign from the board.

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

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

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