Why do Directors Join Troubled Firms?

Abstract

Why do independent directors join poorly performing firms? Studies show that directors have strong incentives to work for prestigious firms. Yet, more than 70% of the poorly performing firms are able to fill their board vacancies. We show that directors who join these firms do not appear to be poor quality directors. They are more likely to obtain powerful positions on the new boards. Subsequent analyses suggest that the announcements of such director appointments trigger a significantly positive market reaction at firms that already have these directors on boards. This positive price effect appears to be driven by a reduced level of competition for the powerful positions among independent directors on these boards.

JEL classification: G30; G34.

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1. Introduction

Sitting on the board of a poorly performing firm can be highly undesirable for directors. They suffer reputational damage (Fich and Shivdasani 2007; Srinivasan 2005), an increase in workload (Fahlenbrach, Low and Stulz 2016; Vafeas 1999), and sometimes even litigation risks (Agrawal and Chen 2011; Brochet and Srinivasan 2014). Consequently, many directors have an incentive to abandon the firm when they anticipate subsequent negative performance (Fahlenbrach, Low and Stulz 2016).

While many directors are willing to relinquish their board seats to avoid being connected with poor performance, the board size of these poorly performing firms rarely decreases. Among a sample of firms that experience poor industry-adjusted performance during 2004-2015, only 24.7% have smaller boards in the following year. Moreover, even within the poorly performing firms that have at least one independent director departure (58.4%), only 29.2% of these firms fail to fill in the vacancies, and 22.4% actually have more independent director appointments than departures. Therefore, even though some directors are willing to give up their directorships to avoid being involved in poor performance, there are also directors who are willing to join precisely at the same time.

In light of this, the first part of this paper tries to understand directors' decisions to join poorly performing firms. There can be two reasons behind such decisions. On the one hand, directors who join poorly performing firms may be unable to acquire any other board seats, in which case sitting on a board with poor performance might still be better than not sitting on any boards. Under this possibility, it is essentially poor quality directors that should join poorly performing firms. On the other hand, it is also possible that the directors who join poorly performing firms are not necessarily poor quality directors. Rather, there might be certain

benefits that are only accessible on the boards of poorly performing firms, in which case joining such boards is the optimal decision for these directors.

We begin our analysis by first testing whether there are significant distinctions between directors who join firms with prior poor performance and directors who join ordinary firms. Specifically, we construct a sample of US public firms with a sample period of 2004-2015. Within these firms, we define those whose prior year stock returns are ranked in the bottom tercile of the corresponding industry-year as poorly performing firms, and the remaining firms as regular firms. We also construct a sample of well performing firms, defined as those whose prior year stock returns are ranked in the top tercile of the corresponding industry. Thereafter, we identify the individuals who join poorly performing firms, regular firms, and well performing firms immediately in the following year as independent directors.

Overall, the results from a determinants model suggest that director time constraints have the strongest explanatory power on the choice between joining a poorly performing firm or an ordinary firm. Being an executive at another firm reduces the likelihood of joining a poorly performing firm by 30%-40%. In addition, directors are less likely to join poorly performing firms if they are female or if they are currently working for large firms. On the other hand, variables that tend to capture director quality such as the number of existing directorships, industry expertise, and the performance of the existing directorships, are largely insignificant in the model. These findings do not indicate a significant distinction among directors that join different types of firms.

Subsequently, we test for the existence of any potential benefits of joining poorly performing firms that directors may value. We find that directors who join poorly performing firms are significantly more likely to become the board chair or the committee chairs

immediately after the appointments. Such effects are stronger between directors who join poorly and well performing firms than between directors who join poorly performing and regular firms. Even though the results can also be explained by poorly performing firms simply having more board vacancies as a result of the negative performance, the above effects only exist in committee chairmanships and not in committee memberships, and thereby making this explanation unlikely. Overall, the results suggest that directors are more likely to obtain powerful board positions at firms that are performing poorly, which can be one source of the incentives of joining such firms.

Since board seats at poorly performing firms can be time-consuming, we subsequently test whether these director appointment announcements trigger a significant share price reaction at firms that currently have these joining directors on their boards (the "sender firms"). We find no evidence that the director appointments to poorly performing firms hurt the shareholder wealth at the sender firms. On the contrary, the sender firms experience a significantly positive share price reaction when one of their directors joins a poorly performing firm, as opposed to when the director joins a regular or well performing firm. Thus, not only are the appointments to poorly performing firms attractive to certain joining directors, they can also benefit the sender firms in some ways.

Three potential explanations exist to the positive market reaction at the sender firms documented above. First, the directors who join poorly performing firms could be ineffective directors, and the appointments signal a greater likelihood that the director will subsequently leave the sender firms, which is viewed as good news by shareholders of the sender firms. However, results from additional tests suggest that the likelihood of subsequently leaving the

sender firm does not vary among directors who join different types of firms, making this explanation unlikely.

Second, there could be uncertainty about the quality of the director on the sender boards. In this case the acquisitions of the powerful board positions (at the poorly performing firms) may provide a positive certification effect to the sender boards about the director, and therefore lead to a positive market reaction. However, this explanation would predict that the director subsequently plays more important roles on the sender boards. Yet, the results suggest that directors who join poorly performing firms experience a significant decrease, rather than increase, in the power they possess on the sender boards compared to directors who join well performing firms, making this explanation also unlikely.

The third explanation is that there is competition to obtain powerful positions among independent directors on the sender boards, and the market views such competition as value reducing. In this case, the acquisition of an important position at another board by one of its directors reduces the level of competition on the sender board, and therefore triggers a positive market reaction. The above finding that directors who join poorly performing firms subsequently play less important roles on the sender boards is consistent with this explanation. To further examine whether the results support this conjecture, we conduct a subsample analysis of the market reaction to director appointments based on whether the joining director immediately obtains a powerful board position. We show that the positive market reaction documented above mainly exists in the small subsample where the director immediately becomes a committee chair or the board chair.

This paper makes two contributions to the literature. First, the existing research on director incentives implies that directors prefer to sit on prestigious boards such as those of large

firms (Masulis and Mobbs 2014) and well performing firms (Yermack 2004). Yet, most firms that are performing poorly are still able to find directors who are willing to join their boards. This paper therefore attempts to identify the incentives behind these director appointments. We show that directors who join the presumably unattractive boards are more likely to obtain powerful board positions, which may be one source of the incentives.

Second, this paper adds to the literature on insider tournament incentives. Studies in this area have mostly focused on top executive tournament incentives, and have shown that tournament incentives among senior managers relate positively with firm performance (Kale, Reis and Venkateswaran 2009), but can also encourage greater risk-taking (Kini and Williams 2012). Yet, little is known about whether there are also tournament incentives among independent directors and, if so, whether such incentives create or hurt shareholder value. By documenting that firms react positively to news which credibly signals a subsequent reduction in the level of competition among independent directors, this paper provides evidence that such competition appears to be value reducing.

2. Data & sample

We start the analysis by constructing a sample of poorly performing firms (hereafter "PPFs"). Specifically, within the Compustat universe, we define PPFs as those whose annual fiscal year stock returns are ranked in the bottom tercile of the corresponding industry. Industry is defined based on the 2-digit SIC codes. For comparison purposes, we also construct a sample of Regular Firms (hereafter "RF") defined as all of the remaining firms, and a sample of Well Performing Firms (here after "WPF") defined as those whose annual stock returns are ranked in the top tercile of the corresponding industry. Thereafter, we merge the three samples to BoardEx to

obtain board level information. Because there is a substantial increase in the BoardEx coverage after 2003, our sample period is 2004-2015.

Table 1 reports summary statistics at the firm level. Overall, PPFs tend to be smaller and have higher leverage. Consistent with these firms having poor performance, their ROA and Tobin's Q are both significantly lower. At the board level, PPFs have smaller and relatively less independent boards. These firms are less likely to make their CEOs hold the board chairman title, and the directors on these boards are less busy.

Note that even though the PPFs appear to be different from the RFs and WPFs in most of the observable dimensions, we do not conduct firm level matching in this study. This study aims to compare directors who join different types of firms, and therefore does not require the PPFs and the remaining firms to be otherwise identical. Matching, which minimizes the differences at the firm level, is neither necessary, nor appropriate, as it may lead to an underestimation of the differences between directors who join different types of firms.

Next, we use the BoardEx information to identify the number of independent director departures and appointments in the following year. Consistent with the idea that boards remove incompetent directors upon suffering poor performance, PPFs experience significantly more director departures than RFs and WPFs. However, even though the poor performance presumably makes these firms less attractive from the directors' perspective, the evidence suggests that it is not difficult at all for these firms to refill the board vacancies. Compared to RFs, PPFs have slightly fewer director appointments, and the difference is not statistically significant. Compared to WPFs, PPFs actually appoint more directors to their boards, and the difference is significant at the 5% level. Therefore, even though there are various costs of being a

director of a troubled firm, there are still a non-trial number of directors who are willing to sit on these boards.

Subsequently, we identify all individuals who join a PPF, a RF, or a WPF as independent directors in the following year. We do not consider those who join as inside directors because there are clear benefits of being executives of firms that are performing poorly.[1] We also do not consider those who join as gray directors because these appointments can sometimes be a result of other stakeholder requirements and may not reflect the director's own cost-benefit decision. Table 2 reports summary statistics at the director level.

Overall, directors who join PPFs (hereafter "PPF Directors") appear to be significantly younger than directors who join RFs (hereafter "RF Directors") and WPFs (hereafter "WPF Directors"). They are also less likely to be female. PPF Directors also tend to hold fewer directorships than RF and WPF Directors, although these differences are not economically significant. If the number of directorships positively measures a director's quality, then the evidence here does not indicate an economically meaningful difference among these directors.

Another way of inferring a director's quality is to observe the roles they play on their existing boards. According to the results, PPF Directors are significantly less likely to be an inside director on another board. This finding could suggest that PPF Directors are less competent, but it could also be reflecting the mere fact that directors who face smaller time constraints can simply afford more time on the troubled boards. Meanwhile, other variables that measure the importance of a director to a board, such as the number of committee chairmanships or memberships, and whether the director is the board chairman, do not indicate notable differences among these directors.

[1] For example, being an executive and turning the firm around into a well performing firm can have strong reputational benefits. Meanwhile, it is less clear whether being an independent director in such a scenario can provide similar benefits.

Lastly, we also compare the roles that directors play after joining the new board. Even though the roles on other boards tend to be similar among these directors, there appear to be significant differences in the roles that they play on the new boards. Specifically, PPF Directors are more likely to be the chairman of the new boards. They also tend to chair more committees than RF Directors (32.8% more) and WPF Directors (32.3% more) on the new boards. Considering that these directors play similar roles on their existing boards but more important roles once they join troubled firms, it is possible that the possession of greater power is one source of benefits.

3. Joining a troubled firm – incentives

3.1 Determinants analysis

To further understand the characteristics that are correlated with a director's decision of joining a PPF, we conduct a regression analysis within all of the directors identified in Table 2. The results are reported in Table 3. We compare PPF Directors to RF Directors in Columns 1-2 and to WPF Directors in Columns 3-4. The dependent variable in Columns 1-2 (3-4) is an indicator variable that takes the value of one if the director joins a PPF and zero if the director joins a RF (WPF). We estimate logit regressions with industry and year fixed effects, and cluster standard errors at the industry level.

In Columns 1 and 3, the regressions include directors' personal attributes such as age, gender, number of directorships, whether the director possesses the relevant industry expertise, whether the director has recently lost a board seat, whether the director is an inside director on another board, whether the director is the chairman of another board, and the number of committee chairmanships the director holds on other boards. In Columns 2 and 4, the regressions also include characteristics of the other boards where the director is a board member. Because

not all directors hold additional board seats, the sample size decreases substantially in these two columns. If a director holds multiple board seats, the board level variables are taken as the average.

The results suggest that young directors and male directors are relatively more likely to join PPFs. Consistent with Table 2, being an insider significantly reduces the likelihood that the director joins a PPF. Meanwhile, most of the variables that measure a director's quality (e.g., *Industry Expertise*, *Committee Chairmanships*, and *Board Chairman*) tend to be insignificant. The only exception is firm size, which has a significantly negative coefficient, suggesting that directors are less likely to join PPFs when they are currently working for prestigious firms (Masulis and Mobbs 2014). Overall, the evidence presented in Table 3 tends to indicate that directors who join PPFs are not less competent than directors who join the ordinary firms.

3.2 Roles on the board after joining

After examining the characteristics of the directors before the appointments, we then examine the roles they play on the new boards after the appointments. The evidence in Ellis (2012) suggests that playing an important role during the process of turning around a troubled firm (i.e. turnaround specialists) makes a CEO more valuable to other firms that require such skills. Following this logic, it is possible that some directors are willing to join PPFs because they can play more important roles on these boards. Therefore, we construct three variables to measure the importance of the director to the board: whether the director is the board chairman (*Board Chair*), whether the director is the chair of the audit, compensation, or nomination committees (*Committee Chair – Any*), and the total number of chairmanships the director has among these three committees (*Committee Chair – Total*). These three measures are the primary dependent variables in this section.

The results are reported in Table 4. We compare the director appointments at PPFs to the appointments at RFs in Panel A and to the appointments at WPFs in Panel B. In both Panels A and B, the key independent variable *Poor* is significantly positive in Columns 1-3 using the above three dependent variables. This suggests that directors are more likely to chair the board, are more likely to chair a board committee, and overall hold more committee chairmanships immediately after joining a PPF board than after joining an RF or WPF board. Further, the coefficient of *Poor* is both statistically and economically *more* significant in Panel B, where the comparison is made between the poorly and well performing firms. As such, the evidence in Table 4 implies a linear and negative relation between the probability of playing powerful roles on the board and the prior performance of the receiver firm.

One alternative interpretation of the results is that PPF Directors may obtain more titles on the boards merely because there are more vacancies on the board. To examine whether the results are driven by this mechanical effect, we also construct two additional dependent variables *Committee Member – Any* and *Committee Member – Total*. If the results are driven by PPF boards having more vacancies, then the relations observed above should hold not only in committee chairmanships, but also in committee memberships. According to the results in Columns 4-5, the coefficient of *Poor* is insignificant. Therefore, the evidence presented here suggests that directors who join PPFs tend to possess stronger power compared to those who join RFs and WPFs.

4. Joining a troubled firm – impacts

So far, the evidence suggests that directors who join different types of firms do not exhibit systematic differences in terms of their quality. Yet, those who join PPFs are able to obtain relatively more powerful board positions, which may be one source of incentives that motivated

these board appointments in the first place. However, directors tend to face heavier workloads on boards that are suffering poor performance (Vafeas 1999). Even if joining a PPF's board is optimal from the director's perspective, it is important to examine whether meeting the time-demanding nature of these board positions brings any valuation impacts to the other firms that have this director on their boards.

4.1 Market reaction to board appointments

To examine the valuation impacts, we observe how firms react to the announcements that one of their directors is appointed to the board of a PPF, RF, or WPF. Examining the immediate share price reactions is preferable to observing the long-run performance (e.g., ROA or Tobin's Q) changes because it eliminates the confounding effects of time varying unobservable factors. For example, a director could anticipate a subsequent performance decline and then decide to seek positions at other firms. In this case, observing how ROA or Tobin's Q changes before and after the director appointment does not provide convincing evidence.

According to the evidence in Falato, Kadyrzhanova and Lel (2014) and Masulis and Zhang (2017), directors have limited attention. Therefore, if the newly acquired powerful positions lead directors to shift their attention away from the existing directorships, then announcements of these board appointments should trigger a negative market reaction at firms that currently have these directors on their boards. Conversely, if these connected firms are able to benefit from the appointments of their directors to another board, then one should observe a positive reaction to such announcements.

To examine whether director appointments to different types of firms cause different market reactions to the firms that currently have these directors on their boards, we identify firms that have at least one director who joins a PPF (hereafter "PPF Connected Firms"), as well as

firms that have at least one director who joins a RF (hereafter "RF Connected Firms") or a WPF (hereafter "WPF Connected Firms"). Among these firms, we calculate their Cumulative Abnormal Returns (CARs) to the corresponding director appointment announcements based on an estimation window of [-230, -30] and an event window of [-1, 1].

Data on director appointment announcements are from the Key Development segment of Capital IQ, which collects news on material corporate events that can affect stock prices such as executive/director changes, M&A rumors, SEC inquiries, and many more. To ensure that the announcement is not confounded by other events, we exclude observations that are accompanied by another news article covering the same firm within three days before the announcement. The types of events we focus on include "Executive/Board Changes - Other" (Type ID = 16), "Executive Changes - CEO" (Type ID = 101), and "Executive Changes - CFO" (Type ID = 102).

When a director of a firm joins another board, the sender firm does not often make immediate announcements of such information. Therefore, we focus on the announcements made by the receiver firm, and examine the simultaneous market reactions at the sender firms. After collecting the announcements and excluding observations with missing values, the final sample contains 134, 352, and 182 announcements where a director joins a PPF, RF, or WPF respectively.

The results are reported in Table 5. We once again compare the appointment announcements between PPFs and RFs in Panel A and between PPFs and WPFs in Panel B. Within each sample, the regression models include various sets of control variables. In Column 1, we only include the basic director attributes including age, gender, and busyness (measured by the number of directorships). Thereafter, Column 2 adds board level characteristics at the sender

firm, while Column 3 further adds board level characteristics at the receiver firm. Lastly, Columns 4-5 add financial characteristics of the sender firm to Columns 2-3.

According to the results, the key independent variable *Poor* has a positive and significant coefficient in all of the five columns in Panel A as well as in Panel B, suggesting that, conditional on having a director joining another firm, the market reaction at the sender firm is significantly more positive when the director joins a PPF, compared to when the director joins an RF or WPF. Therefore, even though board seats at troubled firms tend to be more time-consuming, the evidence in Table 5 suggests that this effect does not dominate the market reactions.

One potential explanation of the results above is that the market expects directors to shift more attention from the sender firm to the receiver firm not when the receiver firm is performing poorly, but when the receiver firm is performing well. The evidence in Masulis and Mobbs (2014) suggests that directors tend to allocate more attention to boards that are relatively more important and valuable within their directorship portfolios. If board seats at WPFs are more prestigious, then the results above could indicate that the attention-shifting effects are in fact weaker at PPFs, and thereby causing a relative *less negative* share price reaction.

However, if the results are driven by the attention-shifting effects, then the CARs should be negative across all types of appointment announcements and of a smaller magnitude when the appointment occurs at a PPF. Yet, within the subsamples where the director joins a PPF, RF, and WPF, the mean values of the CARs are 0.142, -0.008, and -0.01 respectively. The positive CARs for PPF appointments are significant at the 10% level. The fact that the PPF appointments trigger positive market reactions means the results are not driven by the attention-shifting effects. Rather,

certain benefits appear to outweigh the attention-shifting effects, leading to an overall positive market reaction.

4.2 Likelihood of leaving other existing boards

To investigate the benefits that drive the results in Table 5, we test whether obtaining a powerful board seat increases the likelihood that this director subsequently leaves his/her remaining boards. The evidence in Fich and Shivdasani (2006) and Nguyen and Nielsen (2010) suggests that the market reacts positively when an ineffective director leaves the board, and vice versa. If the directors' appointments to PPFs increase the likelihood that they subsequently relinquish their other directorships, then the positive market reaction at the connected firms documented in Table 5 could be driven by the shareholders of these firms not appreciating the presence of these directors on the boards.

Among all the directors who join PPFs, RFs, or WPFs, we gather all of the existing directorships these directors were holding during the 12 months prior to the appointments. Within these directorships, we construct an indicator variable that takes the value of one if the director leaves this board in the three-year period following the appointment to another firm, and zero if the director stays on the board after three years. This indicator variable is the dependent variable in this section.

The results are reported in Table 6. We compare the likelihood of relinquishing an existing board seat between PPF Directors and RF Directors in Columns 1-3 and between PPF Directors and WPF Directors in Columns 4-6. We estimate logit regressions with industry and year fixed effects, and control for characteristics at both the sender firm and the receiver firm. Overall, the evidence suggests that young, long-tenured, and busy directors are more likely to leave a board. The likelihood is lower when the sender firm is large or performing well, but

higher when the receiver firm is large or performing well. This finding is consistent with the notion that directors have greater incentives to work for more visible and prestigious firms.

Further, the key independent variable *Poor* is insignificant in all of the six columns, suggesting that whether a director subsequently leaves the sender firm does not depend on the type of the firm he/she joins. This result is observed even after controlling for the amount of power each director possesses (i.e. board chairman and committee chairmanships) on both the sender firm and the receiver firm. Therefore, the evidence in Table 6 does not support the conjecture that director appointments at PPFs trigger a positive market reaction by signaling a higher likelihood that the director will subsequently leave his/her other boards.

4.3 Power competition on sender boards

Another interpretation of the positive market reaction is that the appointments to PPFs reduce the tournament incentives on the sender boards. The existing literature on tournament incentives has mainly focused on such effects among top executives. Studies have shown that tournament incentives among senior managers (i.e., the competition to become the CEO) relate positively with firm performance (Kale, Reis and Venkateswaran 2009), but can also encourage greater risk-taking (Kini and Williams 2012). Yet, little is known about whether there are also tournament incentives among independent directors and, if so, whether such incentives create or hurt shareholder value.

Recall that the evidence in Table 4 shows directors are more likely to play powerful roles on the receiver boards when they join PPFs. If there is competition among independent directors for the powerful positions on the sender boards such as the board chairman or the committee chairman, and if such competition is viewed by the market as value-reducing rather than value-enhancing, then news that one director in this competition has acquired a powerful position at

another board could signal a potential reduction in the level of competition on the sender board. This can be one potential channel through which the director appointments at PPFs trigger a positive market reaction for the sender firms.

In this section, we test whether directors have a lower likelihood of obtaining important board positions at the sender firm once they join PPFs. Specifically, we observe the role that PPF Directors play on their sender boards immediately before and after they join the PPFs, and compare this change to the change of RF Directors and WPF Directors. As in previous sections, we use two variables to measure the power each director possesses on the board – the number of committee chairmanships, and an indicator of whether the director is the board chairman. These two variables are the dependent variables in this section.

The results are reported in Table 7. The key explanatory variables include an indicator variable that equals one if the director joins a PPF and zero otherwise (*Poor*), an indicator variable that equals one for the post-appointment year and zero for the pre-appointment year (*Post Appointment*), and the interaction term between these two variables (*Poor* × *Post Appointment*). As explained previously, we expect the interaction term to have a significantly negative coefficient. We estimate OLS regressions when the dependent variable is the number of committee chairmanships and logit regressions when the dependent variable is the *Board Chair* indicator.

According to the results, the interaction term has an insignificant coefficient in Panel A, where the comparison is between PPF Directors and RF Directors. However, in Panel B where PPF Directors are compared to WPF Directors, the interaction term is significantly negative in all of the four columns. In Columns 1-2, a negative coefficient means that the director loses more committee chairmanships on his/her sender boards once he/she joins a PPF relative to a WPF. In

Columns 3-4, an odds ratio below one means that the likelihood of becoming the chairman of the sender board decreases after the director joins a PPF relative to a WPF. Overall, the evidence in Panel B is consistent with the conjecture that acquiring a new board seat at PPFs leads to a reduction in the importance of the role that the director plays on the sender boards.

Lastly, the positive market reaction might also be driven by a certification effect of the director appointments. If there is uncertainty about the quality of a director, then news that this director obtains a new directorship and plays an important role on the new board could send a positive signal to the sender boards, and therefore trigger a positive share price reaction at the sender firms. However, if this explanation drives the results, then a director should subsequently play more important roles on the sender boards after his/her (high) quality is revealed. Given that Table 7 shows the opposite effects, this explanation is not likely to be the driver of the positive market reaction.

4.4 Subsample analysis of the market reaction

One concern with the analysis so far is that, because competition among independent directors is not observable, it is impossible to directly measure whether the level of competition has actually decreased. Instead, we indirectly measure the competition change based on the observable outcomes such as the board chair or the committee chairs. As a result, the analysis has not yet established a strong causal link between the expected reduction in competition and the positive market reaction.

To provide additional evidence on whether it is the expected reduction in competition that triggers a positive market reaction, we conduct a subsample analysis on the announcement returns tests. Specifically, we divide the director appointment announcements sample in Table 5 based on whether the director joins as the chair of any of the three major monitoring committees

(i.e. audit, compensation, and nomination) or the chair of the board. On average, 13% of the director appointments are "Chair Appointments" while the remaining 83% are "Non-Chair Appointments."

The results are reported in Table 8. For brevity, we only repeat Columns 3-5 of Table 5 within each subsample, leading to six columns in Panel A and Panel B respectively. In Panel A, when appointment announcements by PPFs are compared to those by RFs, the key explanatory variable *Poor* is insignificant in both subsamples. On the other hand, in Panel B, while the coefficient of *Poor* is insignificant within the "Non-Chair Appointments" sample, it is positive and significant mostly at the 1% level within the "Chair Appointments" sample. Even though the "Chair Appointments" sample is much smaller in size, the results indicate that this small subsample is driving the positive market reactions documented in Table 5.

Overall, the evidence in Panel B suggests that the market reaction at sender firms that have a director joining a PPF is significantly positive only when the director immediately becomes the committee chair or the board chair of the receiver board. Since Table 7 shows that acquiring a new board seat at PPFs reduces the importance of the director on the sender boards, the evidence in Tables 7 and 8 is generally consistent with the conjecture that the market views the competition among independent directors as value-reducing. Therefore, announcements that signal a potential reduction in the competition (i.e. one director in the competition has acquired a powerful position elsewhere) trigger a significantly positive shareholder reaction.

5. Conclusion

The existing literature implies that it is optimal for directors to sit on boards of large and well performing firms. Yet data shows that most firms that are performing poorly do not find it difficult to appoint new directors to their boards. To understand directors' decision to join these

firms, we compare directors who join poorly performing firms to those who join regular firms, and find that directors who join poorly performing firms are more likely to obtain powerful board positions, such as the board chair or committee chairs. This result does not seem to be driven by poorly performing firms merely having more board vacancies.

We subsequently examine whether director appointments to poorly performing firms bring any valuation impacts to other firms that have these directors on their boards. The results suggest that firms react positively when one of their directors joins a poorly performing firm. We test for several conjectures that can explain this result, and find evidence consistent with the notion that competition among independent directors to obtain powerful board positions is viewed as value reducing by the market. Consequently, announcements that one director has acquired an important position at another board triggers a positive market reaction by signaling a subsequent reduction in competition on the sender boards.

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Table 1: Firm level summary statistics.

This table reports summary statistics at the firm level. *Poor* refers to firms whose fiscal year annual stock returns are ranked within the bottom tercile of the corresponding 2-digit SIC industry in a given year. *Regular* refers to all the remaining firms. *Top* refers to firms whose fiscal year annual stock returns are ranked within the top tercile of the corresponding 2-digit SIC industry in a given year. *Busy Board* is an indicator variable that equals one if half or more of the independent directors on the board hold three or more directorships. *New Appointments* (*Departures*) refers to the number of independent directors who join (leave) the firm in the following year. *Smaller Board* is an indicator variable that equals one if the overall board size is smaller in the following year. *, **, and *** indicate significance at the 10%, 5%, and 1% levels respectively.

	Poor	Regular	Top	Poor-Regular	Poor-Top
Observations	10,433	21,792	11,270		
Assets	2,916.324	4,908.397	4,027.047	-1,992.073***	-1,110.723***
Sales	2,504.228	4,036.204	3,539.964	-1,531.976***	-1,035.736***
Cash	0.169	0.159	0.173	0.009***	-0.004
Leverage	0.228	0.209	0.206	0.019***	0.022***
CapEx	0.054	0.05	0.049	0.004***	0.005***
ROA	-0.071	0.063	0.056	-0.134***	-0.127***
Prior Year Stock Return	-0.555	0.271	0.514	-0.826***	-1.069***
Tobin's Q	1.869	2.336	2.594	-0.467***	-0.724***
Board Size	7.858	8.309	8.117	-0.451***	-0.258***
Board Independence	0.74	0.751	0.747	-0.012***	-0.007***
CEO Duality	0.539	0.567	0.554	-0.028***	-0.014**
Busy Board [0,1]	0.194	0.212	0.203	-0.018***	-0.009*
New Appointments	0.454	0.46	0.435	-0.006	0.019**
New Departures	0.584	0.561	0.532	0.023**	0.052***
Smaller Board [0,1]	0.247	0.212	0.202	0.036***	0.046***
Fewer Independent Directors	0.204	0.177	0.168	0.027***	0.036***
Fewer IDs - Boards with Departures	0.292	0.241	0.238	0.052***	0.054***
More Independent Directors	0.22	0.236	0.233	-0.016***	-0.013**
More IDs - Boards with Departures	0.224	0.236	0.235	-0.012	-0.011

Table 2: Director level summary statistics.

This table reports summary statistics at the director level. *Poor* refers to firms whose fiscal year annual stock returns are ranked within the bottom tercile of the corresponding 2-digit SIC industry in a given year. *Regular* refers to all the remaining firms. *Top* refers to firms whose fiscal year annual stock returns are ranked within the top tercile of the corresponding 2-digit SIC industry in a given year. *Busy* is an indicator variable that equals one if the director holds three or more directorships. *Industry Expertise* is an indicator variable that equals one if the director sits on the board of a firm within the same 2-digit SIC industry in the current or previous year. *Recent Departure* is an indicator variable that equals one if the director has just left another firm in the current or previous year. *Insider – Other* is an indicator variable that equals one if the director takes an insider role on another board in the current or previous year. *Tenure – Other* is the mean value of the director's current length of tenure at all other boards. *Committee Chairmanships* (*Memberships*) – Other is the total number of committee chairmanships (memberships) the director currently has at all other boards. *Board Chairman – Other* is an indicator variable that equals one if the director is the Chairman at any other board. "Current" refers to the focal board the director is joining. *, **, and *** indicate significance at the 10%, 5%, and 1% levels respectively.

	Poor	Regular	Top	Poor-Regular	Poor-Top
Observations	4,614	9,960	4,758		
Age	55.864	56.529	56.524	-0.665***	-0.660***
Female	0.138	0.173	0.166	-0.035***	-0.029***
Directorships	1.748	1.824	1.794	-0.076***	-0.046**
Busy	0.216	0.227	0.212	-0.011	0.004
Industry Expertise	0.124	0.13	0.133	-0.006	-0.009
Recent Departure	0.13	0.134	0.132	-0.005	-0.002
Insider - Other	0.07	0.109	0.103	-0.040***	-0.033***
Tenure - Other	4.407	4.846	4.898	-0.439***	-0.491***
Committee Chairmanships - Other	0.216	0.213	0.213	0.003	0.003
Committee Memberships - Other	0.642	0.702	0.705	-0.06	-0.063
Board Chairman - Other	0.078	0.09	0.086	-0.012	-0.008
Committee Chairmanships - Current	0.166	0.125	0.127	0.042***	0.040***
Committee Memberships - Current	1.102	1.086	1.09	0.016	0.011
Board Chairman - Current	0.018	0.011	0.01	0.007***	0.007***

Table 3: Determinants analysis.
This table reports logit regression results of the effects of certain director characteristics on the likelihood of joining a poorly performing firm as opposed to a regular or well performing firm. The sample in Columns 1-2 includes independent directors who join a poorly performing firm or a regular firm; while the sample in Columns 3-4 includes independent directors who join a poorly performing firm or a well performing firm. The dependent variable is an indicator variable that equals one if the director joins a poorly performing firm and zero otherwise. *Industry Expertise* is an indicator variable that equals one if the director sits on the board of a firm within the same 2-digit SIC industry in the current or previous year. *Recent Departure* is an indicator variable that equals one if the director has just left another firm in the current or previous year. *Insider – Other* is an indicator variable that equals one if the director takes an insider role on another board in the current or previous year. *Committee Chairmanships – Other* is the total number of committee chairmanships the director currently has at all other boards. *Board Chairman – Other* is an indicator variable that equals one if the director is the Chairman at any other board. *Busy Board* is an indicator variable that equals one if half or more of the independent directors on the board hold three or more directorships. *Firm Size* is the natural log value of total assets. When a director has multiple outside board seats, the firm level and board level variables are taken as the mean values across these boards. P-values are reported beneath each odds ratio. Standard errors are clustered at the industry level. *, **, and *** indicate significance at the 10%, 5%, and 1% levels respectively.

	Poor vs Regular		Poor vs Top	
	(1)	(2)	(3)	(4)
Age	0.991***	0.993	0.991***	0.994
	(0.000)	(0.130)	(0.001)	(0.218)
Female	0.737***	0.796**	0.784***	0.848
	(0.000)	(0.019)	(0.000)	(0.147)
Directorships	0.940***	1.050	0.970	1.025
	(0.008)	(0.186)	(0.248)	(0.538)
Industry Expertise	1.027	0.975	1.009	0.990
	(0.685)	(0.758)	(0.904)	(0.912)
Recent Departure	1.017	1.038	1.005	1.010
	(0.758)	(0.627)	(0.937)	(0.915)
Insider - Other	0.592***	0.654***	0.626***	0.679***
	(0.000)	(0.000)	(0.000)	(0.000)
Committee Chairmanships - Other	1.089**	1.038	1.051	1.054
	(0.034)	(0.437)	(0.283)	(0.325)
Board Chairman - Other	1.119	1.077	1.108	1.057
	(0.114)	(0.338)	(0.198)	(0.534)
Board Size - Other		0.978		0.976
		(0.291)		(0.288)
Board Independence - Other		0.895		1.235
		(0.683)		(0.497)
CEO Duality - Other		0.934		0.982
		(0.407)		(0.845)
Busy Board - Other		1.031		1.081
		(0.751)		(0.475)
ROA - Other		1.005		0.992
		(0.772)		(0.690)
Firm Size - Other		0.889***		0.911***
		(0.000)		(0.001)
Observations	14,144	4,912	9,071	3,047
Pseudo R-squared	0.017	0.038	0.018	0.033
Fixed Effects	Industry, Year			

Table 4: Power on the new board.

This table reports regression results of the effects of joining a poorly performing firm as opposed to joining a regular or well performing firm on the amount of power the director obtains on the board. The sample in Panel A includes independent directors who join a poorly performing firm (*Poor* equals one) or a regular firm (*Poor* equals zero); while the sample in Panel B includes independent directors who join a poorly performing firm (*Poor* equals one) or a well performing firm (*Poor* equals zero). *Board Chair* is an indicator variable that equals one if the director becomes the Chairman on the new board in the first year of the appointment. *Committee Chair* (*Member*) – *Any* is an indicator variable that equals one if the director becomes the chair (a member) of any of the three major committees (audit, compensation, and nomination) in the first year of the appointment. *Committee Chair* (*Member*) – *Total* refers to the total number of committee chairmanships (memberships) the director holds among the three major committees in the first year of the appointment. The regressions in Columns 1, 2, and 4 are logit regressions (reported as odds ratios), while the regressions in Columns 3 and 5 are OLS regressions. *Industry Expertise* is an indicator variable that equals one if the director sits on the board of a firm within the same 2-digit SIC industry in the current or previous year. *Firm Size* is the natural log value of total assets. P-values are reported beneath each odds ratio or coefficient. Standard errors are clustered at the industry level. *, **, and *** indicate significance at the 10%, 5%, and 1% levels respectively.

Panel A: Poor vs Regular

	Board Chair	Comm Chair - Any	Comm Chair - Total	Comm Member - Any	Comm Member - Total
	(1)	(2)	(3)	(4)	(5)
Poor	1.371*	1.154**	0.018**	0.907	-0.022
	(0.052)	(0.015)	(0.012)	(0.193)	(0.162)
Age	1.023**	1.018***	0.002***	1.005*	0.003***
	(0.046)	(0.000)	(0.000)	(0.063)	(0.001)
Female	0.285***	0.841**	-0.019***	1.121**	0.020
	(0.001)	(0.042)	(0.007)	(0.049)	(0.258)
Directorships	1.430***	1.124***	0.012***	1.025	0.008
	(0.000)	(0.000)	(0.000)	(0.279)	(0.218)
Industry Expertise	0.967	1.002	-0.007	0.988	-0.029
	(0.879)	(0.981)	(0.475)	(0.849)	(0.174)
Board Size - Other	0.833***	0.710***	-0.030***	0.868***	-0.082***
	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)
Board Independence - Other	12.963***	0.056***	-0.363***	0.624**	-0.537***
	(0.004)	(0.000)	(0.000)	(0.028)	(0.000)
Busy Board - Other	0.970	0.918	-0.001	0.895*	-0.032
	(0.892)	(0.330)	(0.896)	(0.085)	(0.125)
Firm Size	0.789***	0.906***	-0.011***	1.101***	0.023***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Sales Growth	1.031	1.059	0.003	0.965	-0.028*
	(0.810)	(0.312)	(0.759)	(0.459)	(0.087)
Leverage	1.179	1.122	0.008	1.011	-0.050
	(0.520)	(0.286)	(0.574)	(0.925)	(0.171)
CapEx	0.131	1.035	-0.025	1.838	0.321*
	(0.220)	(0.946)	(0.720)	(0.244)	(0.066)
Cash Holding	1.319	1.007	-0.008	1.121	-0.022
	(0.573)	(0.969)	(0.764)	(0.506)	(0.698)
Observations	11,422	13,502	13,610	13,606	13,610
Pseudo R-squared	0.126	0.134		0.022	
Adjusted R-squared			0.089		0.060
Fixed Effects			Industry, Year		

Panel B: Poor vs Top					
	Board Chair	Comm Chair - Any	Comm Chair - Total	Comm Member - Any	Comm Member - Total
	(1)	(2)	(3)	(4)	(5)
Poor	1.536**	1.246***	0.027***	0.906	-0.013
	(0.028)	(0.001)	(0.001)	(0.117)	(0.468)
Age	1.018	1.017***	0.002***	1.007**	0.004***
	(0.187)	(0.000)	(0.000)	(0.031)	(0.000)
Female	0.372**	0.903	-0.011	1.138*	0.017
	(0.021)	(0.318)	(0.232)	(0.088)	(0.436)
Directorships	1.391***	1.153***	0.017***	1.025	0.007
	(0.000)	(0.000)	(0.000)	(0.386)	(0.389)
Industry Expertise	1.206	1.002	-0.005	0.937	-0.038
	(0.492)	(0.989)	(0.716)	(0.426)	(0.154)
Board Size - Other	0.809***	0.711***	-0.032***	0.869***	-0.084***
	(0.005)	(0.000)	(0.000)	(0.000)	(0.000)
Board Independence - Other	16.473***	0.074***	-0.330***	0.640*	-0.570***
	(0.010)	(0.000)	(0.000)	(0.087)	(0.000)
Busy Board - Other	0.690	0.937	0.001	0.921	-0.034
	(0.230)	(0.549)	(0.944)	(0.318)	(0.207)
Firm Size	0.830***	0.916***	-0.010***	1.101***	0.025***
	(0.004)	(0.001)	(0.001)	(0.000)	(0.001)
Sales Growth	0.903	0.986	-0.007	1.029	-0.014
	(0.397)	(0.845)	(0.547)	(0.655)	(0.523)
Leverage	0.775	0.935	-0.013	1.068	-0.045
	(0.444)	(0.616)	(0.462)	(0.604)	(0.284)
CapEx	0.274	1.232	-0.019	1.443	0.255
	(0.502)	(0.740)	(0.819)	(0.546)	(0.214)
Cash Holding	1.513	1.052	-0.006	1.179	-0.031
	(0.470)	(0.810)	(0.841)	(0.414)	(0.633)
Observations	7,165	8,652	8,704	8,699	8,704
Pseudo R-squared	0.125	0.126		0.023	
Adjusted R-squared			0.082		0.058
Fixed Effects			Industry, Year		

Table 5: Market reaction on director appointment announcements.
This table reports OLS regression results of the market reaction when a firm has a director joining another firm. The dependent variable in both Panel A and Panel B is the Cumulative Abnormal Returns based on a market model with an estimation window of [-230, -30] and an event window of [-1, 1]. The sample in Panel A includes the market reactions of firms that have a director joining a poorly performing firm (*Poor* equals one) or a regular firm (*Poor* equals zero); while the sample in Panel B includes the market reactions of firms that have a director joining a poorly performing firm (*Poor* equals one) or a well performing firm (*Poor* equals zero). *Independent* is an indicator variable that equals one if the director who is joining another board is an independent director at the sender firm, and zero otherwise. *Busy Board* is an indicator variable that equals one if half or more of the independent directors on the board hold three or more directorships. *Firm Size* is the natural log value of total assets. "Receiver" refers to the firm that the director is joining. P-values are reported beneath each coefficient. Standard errors are clustered at the industry level. *, **, and *** indicate significance at the 10%, 5%, and 1% levels respectively.

Panel A: Poor vs Regular

	(1)	(2)	(3)	(4)	(5)
Poor	0.022**	0.023**	0.020**	0.025**	0.023***
	(0.028)	(0.023)	(0.014)	(0.016)	(0.010)
Age	-0.000	-0.000	-0.000	0.000	-0.000
	(0.815)	(0.875)	(0.721)	(0.867)	(0.930)
Female	-0.006	-0.006	-0.007	-0.006	-0.007
	(0.552)	(0.550)	(0.503)	(0.553)	(0.501)
Directorships	-0.002	-0.003	-0.001	-0.001	0.000
	(0.376)	(0.331)	(0.693)	(0.559)	(0.794)
Independent		0.002	0.002	-0.000	0.000
		(0.802)	(0.753)	(0.934)	(0.990)
Tenure		0.000	0.000	-0.000	0.000
		(0.654)	(0.481)	(0.940)	(0.966)
Board Size		-0.001	-0.001	-0.003*	-0.002
		(0.499)	(0.612)	(0.083)	(0.167)
Board Independence		0.050*	0.059**	0.031	0.039*
		(0.052)	(0.041)	(0.132)	(0.096)
Busy Board		0.005	0.006	0.001	0.002
		(0.630)	(0.614)	(0.941)	(0.874)
Committee Chairmanships		-0.005	-0.008	-0.008	-0.011*
		(0.413)	(0.189)	(0.196)	(0.065)
Board Size - Receiver			-0.001		-0.002
			(0.454)		(0.271)
Board Independence - Receiver			-0.092**		-0.081*
			(0.041)		(0.070)
Busy Board - Receiver			-0.008		-0.009
			(0.363)		(0.345)
Committee Chairmanships - Receiver			0.011		0.011
			(0.442)		(0.436)
Firm Size				0.003	0.004
				(0.421)	(0.292)
Sales Growth				-0.002	-0.001
				(0.778)	(0.818)
Leverage				-0.002	-0.004
				(0.844)	(0.754)
Annual Stock Return				-0.000	-0.000
				(0.981)	(0.970)
Observations	486	486	486	475	475
Adjusted R-squared	0.020	0.027	0.014	0.022	0.011
Fixed Effects	Industry, Year				

Panel B: Poor vs Top					
	(1)	(2)	(3)	(4)	(5)
Poor	0.023**	0.024**	0.022**	0.027**	0.025**
	(0.025)	(0.030)	(0.031)	(0.027)	(0.027)
Age	-0.000	-0.001	-0.001	-0.000	-0.000
	(0.656)	(0.609)	(0.386)	(0.831)	(0.538)
Female	-0.009	-0.010	-0.009	-0.009	-0.009
	(0.530)	(0.530)	(0.537)	(0.577)	(0.561)
Directorships	-0.004	-0.006	-0.004	-0.004	-0.002
	(0.270)	(0.191)	(0.303)	(0.296)	(0.480)
Independent		0.015	0.017**	0.010	0.013
		(0.103)	(0.039)	(0.283)	(0.121)
Tenure		0.000	0.001	-0.000	0.000
		(0.702)	(0.348)	(0.985)	(0.732)
Board Size		-0.002	-0.001	-0.003	-0.003
		(0.369)	(0.336)	(0.229)	(0.316)
Board Independence		0.078**	0.076**	0.039	0.038
		(0.019)	(0.040)	(0.233)	(0.254)
Busy Board		0.013	0.011	0.009	0.008
		(0.414)	(0.511)	(0.646)	(0.702)
Committee Chairmanships		-0.008	-0.009	-0.012	-0.014*
		(0.443)	(0.311)	(0.191)	(0.092)
Board Size - Receiver			0.001		0.000
			(0.808)		(0.911)
Board Independence - Receiver			-0.127**		-0.110*
			(0.050)		(0.095)
Busy Board - Receiver			-0.010		-0.010
			(0.322)		(0.430)
Committee Chairmanships - Receiver			0.016		0.016
			(0.450)		(0.460)
Firm Size				0.002	0.002
				(0.710)	(0.650)
Sales Growth				-0.002	-0.002
				(0.829)	(0.830)
Leverage				-0.010	-0.006
				(0.566)	(0.720)
Annual Stock Return				0.007	0.007
				(0.710)	(0.720)
Observations	316	316	316	305	305
Adjusted R-squared	0.067	0.076	0.065	0.082	0.075
Fixed Effects	Industry, Year				

Table 6: Probability of leaving remaining boards.
This table reports logit regression results of the effects of joining a poorly performing firm on the probability of subsequently leaving existing boards. The sample in Columns 1-3 includes the existing board seats of independent directors who join a poorly performing firm or a regular firm; while the sample in Columns 4-6 includes the existing board seats of independent directors who join a poorly performing firm or a well performing firm. The dependent variable is an indicator variable that equals one if the director leaves this board within three years of joining a poorly performing, regular, or well performing firm and zero otherwise. *Board Chairman* is an indicator variable that equals one if the director is the Chairman on the sender board. *Committee Chairmanships* is the number of committees of the sender board on which the director is the chair. *Busy Board* is an indicator variable that equals one if half or more of the independent directors on the board hold three or more directorships. *Firm Size* is the natural log value of total assets. *Receiver* refers to the poorly performing, regular, or well performing firm that the director is joining. P-values are reported beneath each odds ratio. Standard errors are clustered at the industry level. *, **, and *** indicate significance at the 10%, 5%, and 1% levels respectively.

	Poor vs Regular			Poor vs Top		
	(1)	(2)	(3)	(4)	(5)	(6)
Poor	1.069	1.026	1.141	1.035	0.962	1.031
	(0.337)	(0.770)	(0.173)	(0.674)	(0.708)	(0.805)
Age	0.984***	0.981***	0.982***	0.980***	0.978***	0.979***
	(0.001)	(0.003)	(0.004)	(0.001)	(0.004)	(0.005)
Female	0.964	0.995	0.992	1.049	1.003	1.007
	(0.711)	(0.969)	(0.950)	(0.698)	(0.987)	(0.965)
Directorships	1.076***	1.104***	1.095**	1.095***	1.123***	1.121**
	(0.006)	(0.007)	(0.014)	(0.004)	(0.008)	(0.011)
Tenure	1.003	1.019*	1.021**	1.020**	1.041***	1.044***
	(0.703)	(0.056)	(0.034)	(0.031)	(0.001)	(0.000)
Board Chairman	1.181	1.212	1.160	1.131	1.125	1.083
	(0.124)	(0.152)	(0.275)	(0.380)	(0.506)	(0.659)
Committee Chairmanships	0.758***	0.715***	0.715***	0.783***	0.735**	0.721***
	(0.000)	(0.000)	(0.000)	(0.008)	(0.010)	(0.007)
Board Size	0.976*	1.048*	1.047*	0.973	1.065*	1.066*
	(0.080)	(0.072)	(0.078)	(0.112)	(0.056)	(0.053)
Board Independence	0.727*	0.664	0.644	0.874	0.625	0.597
	(0.093)	(0.293)	(0.255)	(0.567)	(0.310)	(0.263)
Busy Board	1.009	0.986	0.999	0.950	0.903	0.930
	(0.908)	(0.892)	(0.994)	(0.587)	(0.415)	(0.568)
Firm Size		0.875***	0.846***		0.856***	0.834***
		(0.000)	(0.000)		(0.000)	(0.000)
Sales Growth		0.921	0.921		0.937	0.931
		(0.350)	(0.342)		(0.534)	(0.499)
Leverage		0.977	0.977		1.413	1.420
		(0.912)	(0.913)		(0.170)	(0.165)
CapEx		0.316	0.320		0.404	0.399
		(0.285)	(0.290)		(0.478)	(0.475)
Cash Holding		1.340	1.315		1.131	1.114
		(0.358)	(0.385)		(0.747)	(0.778)
Annual Stock Return		0.835*	0.827**		0.816*	0.792*
		(0.051)	(0.039)		(0.095)	(0.056)
Board Chairman - Receiver			1.314			1.468
			(0.310)			(0.257)
Committee Chairmanships - Receiver			1.093			1.258
			(0.467)			(0.110)
Board Size - Receiver			0.972			0.961
			(0.236)			(0.208)
Board Independence - Receiver			2.256*			1.815
			(0.051)			(0.256)
Busy Board - Receiver			0.991			0.862
			(0.926)			(0.217)
Firm Size - Receiver			1.073**			1.083**
			(0.025)			(0.044)
Annual Stock Return - Receiver			1.412**			1.245
			(0.013)			(0.185)
Observations	6,087	4,137	4,137	3,768	2,539	2,539
Pseudo R-squared	0.0624	0.0473	0.0504	0.0725	0.0582	0.0607
Adjusted R-squared			Industry, Year			

Table 7: Committee roles at other boards.

This table reports results of the effects of joining a poorly performing firm on the committee roles the director plays on his/her other boards. The sample in Panel A includes the existing board seats of independent directors who join a poorly performing firm (*Poor* equals one) or a regular firm (*Poor* equals zero); while the sample in Panel B includes the existing board seats of independent directors who join a poorly performing firm (*Poor* equals one) or a well performing firm (*Poor* equals zero). The sample only contains firm-director-year observations immediately before and after the director appointment. The indicator variable *Post Appointment* equals one for the post-appointment year and zero for the pre-appointment year. Columns 1-2 are OLS regressions where the dependent variable is the number of committee chairmanships the director holds. Columns 3-4 are logit regressions where the dependent variable is an indicator variable that equals one if the director is the board chairman, and zero otherwise. *Busy Board* is an indicator variable that equals one if half or more of the independent directors on the board hold three or more directorships. *Firm Size* is the natural log value of total assets. P-values are reported beneath each odds ratio or coefficient. Standard errors are clustered at the industry level. *, **, and *** indicate significance at the 10%, 5%, and 1% levels respectively.

Panel A: Poor vs Regular

	Committee Chair		Board Chair	
	(1)	(2)	(3)	(4)
Poor	0.035**	0.023	0.775**	0.843
	(0.011)	(0.117)	(0.033)	(0.179)
Post Appointment	0.042***	0.017	1.079	1.071
	(0.000)	(0.106)	(0.199)	(0.328)
Poor × Post Appointment	-0.004	-0.003	0.986	0.975
	(0.815)	(0.835)	(0.818)	(0.703)
Age		0.008***		0.952***
		(0.000)		(0.000)
Female		0.036		0.116***
		(0.278)		(0.000)
Directorships		0.042***		0.756***
		(0.000)		(0.000)
Tenure		0.005**		1.145***
		(0.020)		(0.000)
Board Size		-0.033***		0.941***
		(0.000)		(0.005)
Board Independence		-0.030		8.770***
		(0.741)		(0.000)
Busy Board		-0.024		1.361***
		(0.114)		(0.002)
Firm Size		-0.015*		1.006
		(0.099)		(0.889)
Sales Growth		-0.005		1.106
		(0.825)		(0.331)
Leverage		-0.004		1.429*
		(0.917)		(0.056)
CapEx		0.434*		0.532
		(0.057)		(0.425)
Cash Holding		0.158**		0.590
		(0.015)		(0.343)
Annual Stock Return		0.013		1.068
		(0.399)		(0.378)
Observations	5,606	5,606	5,386	5,580
Adjusted R-squared	0.025	0.091		
Pseudo R-squared			0.019	0.130
Fixed Effects	Industry, Year			

Panel B: Poor vs Top				
	Committee Chair		Board Chair	
	(1)	(2)	(3)	(4)
Poor	0.046**	0.037*	0.810	0.885
	(0.033)	(0.077)	(0.203)	(0.483)
Post Appointment	0.050***	0.018	1.263***	1.243**
	(0.001)	(0.134)	(0.001)	(0.022)
Poor × Post Appointment	-0.038*	-0.037**	0.849**	0.821**
	(0.051)	(0.046)	(0.028)	(0.014)
Age		0.009***		0.949***
		(0.000)		(0.000)
Female		0.010		0.134***
		(0.803)		(0.000)
Directorships		0.043***		0.722***
		(0.000)		(0.002)
Tenure		0.008***		1.145***
		(0.001)		(0.000)
Board Size		-0.028***		0.966
		(0.000)		(0.364)
Board Independence		-0.057		19.080***
		(0.552)		(0.000)
Busy Board		-0.026		1.290
		(0.155)		(0.109)
Firm Size		-0.017**		0.951
		(0.023)		(0.389)
Sales Growth		-0.020		1.096
		(0.405)		(0.569)
Leverage		-0.013		1.187
		(0.796)		(0.597)
CapEx		0.592**		1.086
		(0.041)		(0.934)
Cash Holding		0.227***		0.429*
		(0.010)		(0.071)
Annual Stock Return		0.013		1.228**
		(0.434)		(0.037)
Observations	3,546	3,546	3,331	3,331
Adjusted R-squared	0.022	0.092		
Pseudo R-squared			0.025	0.132
Fixed Effects	Industry, Year			

Table 8: Market reaction on director appointment announcements – subsample analysis.
This table repeats Columns 3-5 in Table 5 using different subsamples. The sample in Panel A includes the market reaction of firms that have a director joining a poorly performing firm (*Poor* equals one) or a regular firm (*Poor* equals zero); while the sample in Panel B includes the market reaction of firms that have a director joining a poorly performing firm (*Poor* equals one) or a well performing firm (*Poor* equals zero). The sample in Columns 1-3 contains director appointments where the director does not join as a committee chair or the board chair; while the sample in Columns 4-6 contains director appointments where the director joins as a committee chair or the board chair. P-values are reported beneath each coefficient. Standard errors are clustered at the industry level. *, **, and *** indicate significance at the 10%, 5%, and 1% levels respectively.

Panel A: Poor vs Regular						
	Non-Chair Appointments			Chair Appointments		
	(1)	(2)	(3)	(4)	(5)	(6)
Poor	0.013	0.015	0.014	0.044	0.048	0.032
	(0.158)	(0.138)	(0.137)	(0.437)	(0.516)	(0.578)
Age	-0.001	-0.000	-0.000	0.000	-0.001	0.000
	(0.337)	(0.583)	(0.497)	(0.969)	(0.797)	(0.925)
Female	-0.003	-0.003	-0.004	-0.082	-0.060	-0.059
	(0.739)	(0.754)	(0.739)	(0.107)	(0.187)	(0.336)
Directorships	0.001	0.001	0.002	-0.015	-0.007	-0.021
	(0.785)	(0.373)	(0.218)	(0.683)	(0.761)	(0.526)
Independent	0.002	-0.001	-0.000	-0.006	-0.054	-0.072
	(0.668)	(0.792)	(0.933)	(0.846)	(0.558)	(0.411)
Tenure	0.001	0.000	0.000	-0.004	-0.006	-0.009
	(0.129)	(0.563)	(0.513)	(0.604)	(0.485)	(0.224)
Board Size	0.000	-0.001	-0.001	-0.025***	-0.026***	-0.031***
	(0.505)	(0.489)	(0.490)	(0.002)	(0.006)	(0.001)
Board Independence	0.011	-0.007	-0.005	0.320*	0.322*	0.318*
	(0.665)	(0.796)	(0.859)	(0.060)	(0.062)	(0.071)
Busy Board	-0.001	-0.007	-0.006	-0.026	-0.035	-0.020
	(0.815)	(0.244)	(0.368)	(0.668)	(0.526)	(0.792)
Committee Chairmanships	-0.011*	-0.013**	-0.015**	0.021	0.014	0.010
	(0.056)	(0.014)	(0.018)	(0.585)	(0.772)	(0.815)
Board Size - Receiver	-0.000		-0.001	-0.009		-0.010
	(0.636)		(0.398)	(0.565)		(0.601)
Board Independence - Receiver	-0.063*		-0.047	0.040		0.224
	(0.052)		(0.111)	(0.935)		(0.708)
Busy Board - Receiver	-0.005		-0.006	0.036		0.040
	(0.287)		(0.296)	(0.394)		(0.379)
Firm Size		0.003	0.003		-0.000	0.009
		(0.210)	(0.173)		(0.996)	(0.533)
Sales Growth		0.002	0.003		0.013	0.012
		(0.636)	(0.558)		(0.295)	(0.468)
Leverage		0.003	0.001		-0.027	-0.051
		(0.815)	(0.899)		(0.771)	(0.756)
Annual Stock Return		-0.007	-0.006		0.045	0.081
		(0.338)	(0.405)		(0.742)	(0.504)
Observations	426	415	415	60	60	60
Adjusted R-squared	0.045	0.032	0.029	0.034	0.079	0.052
Fixed Effects	Industry, Year					

Panel B: Poor vs Top						
	Non-Chair Appointments			Chair Appointments		
	(1)	(2)	(3)	(4)	(5)	(6)
Poor	0.012	0.013	0.012	0.241***	0.225*	0.192***
	(0.254)	(0.265)	(0.282)	(0.000)	(0.087)	(0.005)
Age	-0.001	-0.001	-0.001	-0.006**	-0.008*	-0.005
	(0.153)	(0.474)	(0.398)	(0.034)	(0.057)	(0.108)
Female	0.001	0.002	0.003	-0.106	-0.419*	-0.419**
	(0.959)	(0.896)	(0.817)	(0.239)	(0.067)	(0.034)
Directorships	-0.002	0.001	0.001	-0.044	0.054	0.071
	(0.646)	(0.741)	(0.684)	(0.554)	(0.333)	(0.336)
Independent	0.012	0.002	0.002	-0.108	-0.316	-0.237
	(0.179)	(0.790)	(0.719)	(0.482)	(0.279)	(0.105)
Tenure	0.001	0.000	0.000	-0.011	-0.016	-0.023***
	(0.179)	(0.814)	(0.641)	(0.196)	(0.222)	(0.003)
Board Size	-0.000	-0.001	-0.001	-0.053***	0.004	-0.061***
	(0.859)	(0.706)	(0.563)	(0.005)	(0.914)	(0.000)
Board Independence	0.027	-0.005	-0.011	-0.646**	0.360	0.601
	(0.477)	(0.909)	(0.803)	(0.040)	(0.189)	(0.418)
Busy Board	0.001	-0.004	-0.005	-0.012	-0.118	-0.102*
	(0.931)	(0.639)	(0.581)	(0.833)	(0.291)	(0.100)
Committee Chairmanships	-0.012*	-0.018***	-0.017**	0.088	0.113	-0.020
	(0.069)	(0.008)	(0.011)	(0.286)	(0.481)	(0.761)
Board Size - Receiver		0.002	0.002		-0.085	-0.046**
		(0.507)	(0.467)		(0.226)	(0.034)
Board Independence - Receiver		0.003	0.004		0.041	0.028**
		(0.520)	(0.430)		(0.114)	(0.034)
Busy Board - Receiver		-0.003	-0.003		0.489	0.416**
		(0.863)	(0.890)		(0.242)	(0.015)
Firm Size		-0.007	-0.007		0.020	0.284
		(0.359)	(0.423)		(0.920)	(0.146)
Sales Growth	0.001		0.001	-0.035***		-0.012
	(0.508)		(0.547)	(0.002)		(0.539)
Leverage	-0.073**		-0.052	0.553		1.685*
	(0.033)		(0.103)	(0.244)		(0.073)
Annual Stock Return	-0.004		-0.001	-0.171***		0.028
	(0.668)		(0.901)	(0.003)		(0.832)
Observations	273	262	262	43	43	43
Adjusted R-squared	0.082	0.061	0.067	0.091	0.071	0.059
Fixed Effects	Industry, Year					