

# Are Prestigious Directors Mere Attractive Ornaments on the Corporate Christmas Tree?

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**Using the United Kingdom's unique institutional setting of Queen's [now King's] honours, we examine the influence of director prestige on both short-term and long-term firm performance. We find that the market reacts positively to the appointments of Prestigious Award-Winning Directors (PAWDs). Firms appointing PAWDs also show significantly improved long-term performance, and this performance change is higher when firms appoint PAWDs according to their needs. The evidence suggests that PAWDs make important contributions to the firm by providing effective monitoring, facilitating preferential access to resources and offering legitimacy. We conclude that director prestige not only signals higher human and social capital but also incentivizes effective monitoring of managerial decisions.**

## Introduction

The board of directors influence firm performance by monitoring the management (Jensen and Meckling, 1976) and providing resources such as advice and counsel (e.g. Hillman and Dalziel, 2003) and legitimacy (Pfeffer and Salancik, 1978). In this context, the board's effectiveness will largely be determined by individual director's ability, which depends on their human and social capital (Hillman and Dalziel, 2003). Director prestige is an aggregate of their human capital (education and experience) and social/relational (networks and connections) capital (Certo, 2003; D'Aveni, 1990; Hillman and Dalziel, 2003). Hence, prestigious directors will have greater ability to discharge their fiduciary duties, contributing to improved firm performance.

In the corporate governance literature, mitigation of agency costs through monitoring seems to be a dominant theme for explaining directors' roles. Agency theorists consider maintaining and enhancing reputation as a key incentive for directors to effectively perform their monitoring role (Fama and Jensen, 1983). The central tenet is that independent directors, acting out of self-interest, will perform their monitoring roles effectively because not doing so will damage their reputation and reduce the likelihood of obtaining future director-

ships (Jiang, Wan and Zhao, 2016). Further, stakeholders expect them to make better judgements, since they are likely to have achieved prestige by making prudent decisions in the past.

Resource dependence theory (RDT) provides an alternative view regarding the role of directors. As far back as 1939, A. Wilfred May noted: 'Particularly for prospectus purposes, boards are dressed up for snobbery appeal' (May, 1939, p. 484). He also contended that a third of all British peers held at least one UK board seat, primarily owing to their networks. Boivie *et al.* (2016) argue that independence of a director on its own is unlikely to resolve the agency problem through monitoring, because of limits to information processing and conflicts of interest. Instead, the primary channel through which directors add value is by providing preferential access to resources, such as providing legitimacy and signalling firm quality (Certo, 2003; Pollock *et al.*, 2010), and access to networks (Boivie *et al.*, 2016). Prestigious directors with higher human and relational capital will be superior at providing key resources than other directors (Certo, Daily and Dalton, 2001; Hillman and Dalziel, 2003).

In this paper, using the United Kingdom's unique institutional setting, we propose Queen's [now King's] honours as a novel measure of director prestige. They are conferred by the sovereign after a rigorous process

involving several independent experts and government stakeholders.<sup>1</sup> These awards meet the two criteria of Spence (1973) for a credible signal: (1) costly to imitate, since they are given for lifelong exemplary services through a very demanding selection process and (2) highly visible, since the recipient uses the title of the honour as either a suffix or a prefix to their name.

We hand-collect a unique sample of 375 award-winning director appointments between 2003 and 2020 and analyse the impact of Prestigious Award-Winning Directors (PAWDs) appointments on both short- and long-term financial performance of firms listed in the FTSE All-share Index. First, our event study shows that the market reacts positively to appointment announcements of PAWDs, and it is significantly higher compared to appointment announcements of Non-Award-Winning Directors (NAWDs). This confirms that investors believe prestigious directors add value to the firm. We find that this market reaction is driven by the first appointment of a PAWD, suggesting that there is no incremental value in appointing another PAWD. Further, we match appointments of PAWDs to NAWDs of the same subgroup (e.g. politically connected PAWDs vs politically connected NAWDs) and demonstrate that the significant market reaction is due to the award. Additional analysis investigating differences in the market response to PAWD appointments based on director, board and firm characteristics shows that the positive market reaction is associated with the monitoring, preferential access to resources and legitimacy contributions of PAWDs.

Second, we investigate whether PAWDs improve long-term performance by analysing changes in operating performance before and after their appointment. We find that firms appointing PAWDs exhibit a 1.8–2.5% improvement in return on assets (ROA) compared to those appointing NAWDs. Further, long-term performance improves significantly when a PAWD is appointed based on company needs (optimal appointment).<sup>2</sup> Our results are robust after controlling for endogeneity arising from observed heterogeneity, omitted variables and self-selection bias.

We make three novel contributions to the current literature. First, we extend the existing literature on measures of reputation (e.g. Malmendier and Tate, 2009; Shivdasani, 1993) by introducing ‘The Queen’s Honours’ as an unambiguous proxy of director prestige. Li, Ma and Scott (2019) and Raff and Siming (2019) use similar titular honours in New Zealand. However, award winners in New Zealand are selected by a cabinet committee chaired by the Prime Minister and therefore are arguably an indication of political connection.

In contrast, in the United Kingdom, the cabinet and the Prime Minister have little influence in the selection of award winners. Thus, we argue that the Queen’s honours signal recognition of outstanding contributions and represent a credible proxy of prestige.<sup>3</sup>

Extant research commonly uses the number of additional directorships (e.g. Ferris, Jagannathan and Pritchard, 2003; Fich and Shivdasani, 2007; Kaplan and Reishus, 1990; Shivdasani, 1993) as a proxy for director prestige. However, this measure may have lost its relevance due to recent efforts by investors, regulatory authorities and firms to address the issue of director overboarding (Papadopoulos, 2019).<sup>4</sup> Business awards are another popular measure (e.g. Graffin *et al.*, 2008; Li *et al.*, 2022; Malmendier and Tate, 2009; Shi, Zhang and Hoskisson, 2017) but they are not as credible as Queen’s honours.

Second, we provide new evidence of the channels through which prestigious directors contribute to both short- and long-term financial performance. Chen, Garel and Tourani-Rad (2019), Fahlenbrach, Low and Stulz (2010) and White *et al.* (2014) highlight the importance of going beyond the board characteristics and considering how different types of directors contribute to the firm. Extant empirical literature also does not provide evidence of how prestigious directors influence firm performance (Gogolin, Cummins and Dowling, 2018; Oehmichen *et al.*, 2017). To the best of our knowledge, this is the first study that provides evidence of whether the market values the legitimacy, access to resources and monitoring provided by prestigious directors.

Finally, as discussed in Louca, Petrou and Procopiou (2020), the board of directors is expected to perform both monitoring (agency theory) and resource-providing (RDT) roles. Previous studies have focused on either the monitoring or the resource-providing roles of directors (Hillman and Dalziel, 2003). Hence, looking at their contribution in a holistic way is both insightful and valuable in overcoming the current myopia in the literature. Our paper adds to the theoretical literature on director prestige by integrating its role both as a signal of higher human and social capital and as an incentive in

<sup>3</sup>There are other key differences. Li, Ma and Scott (2019) investigate which firms are more likely to appoint an award winner on the board, whereas we examine the effect of appointing prestigious directors on a firm’s short- and long-run financial performance. Raff and Siming (2019) examine the ex-ante effect of the prospect of receiving the award on CEO behaviour, while we test the ex-post effect of appointing prestigious directors. We thank an anonymous referee for suggesting these additional references.

<sup>4</sup>Most proxy advisory firms and large institutional investors consider those with more than four non-executive directorships as ‘too busy’ and vote against their appointment. Similarly, almost two-thirds of S&P 500 firms had already established a limit of four on additional board seats for their directors by 2018 (SpencerStuart, 2018).

<sup>1</sup>See Appendix D for details of the award selection process.

<sup>2</sup>We thank an anonymous referee for suggesting this important analysis.

performing both the resource provision and monitoring roles effectively.

The rest of the paper is organized as follows. The next section provides a review of the current literature and develops our research hypotheses. The third section describes the data. The fourth section presents and discusses the results and the final section concludes the paper.

## Literature review and hypothesis development

Agency theory, which suggests that there is a potential for conflict due to separation of decision-making and risk-bearing functions in modern corporations, has been the dominant perspective in corporate governance research (Dalton *et al.*, 2007). One way to mitigate this conflict is to separate the decision-making function into decision management and decision control, and entrust the board of directors with the latter. This ensures that managers do not act out of self-interest, to the detriment of the owners (Fama, 1980; Fama and Jensen, 1983; Jensen and Meckling, 1976). But what prevents independent directors from colluding with the management, particularly when the CEO has significant influence on their appointment (Jiang, Wan and Zhao, 2016; Shivdasani and Yermack, 1999)? We argue that directors with ‘more to lose’ will be more effective in monitoring the management. Fama and Jensen (1983) explain that external directors are motivated to act as diligent monitors to protect and enhance their reputation and career advancement. Regulatory response to corporate scandals (e.g. the Sarbanes–Oxley Act in the United States) has also increased legal risks to independent directors if they fail in discharging their monitoring obligations.

RDT provides an alternative view on the role of directors. The central tenet of this theory is that firms are subject to substantial uncertainty due to their dependence on external resources that are critical for their operations. The board of directors is expected to help firms gain better control of their external environment by: (1) offering legitimacy; (2) acting as an information channel between the firm and external organizations; (3) providing advice and counsel; and (4) facilitating preferential access to resources (Pfeffer and Salancik, 1978). However, how do we identify directors with greater ability? Following Hillman and Dalziel (2003), we argue that director capital is an appropriate proxy of their ability, as both are strongly correlated. Hence, higher director capital will help in establishing more linkages between the firm and key stakeholders and bring more resources to the firm.<sup>5</sup>

<sup>5</sup>The role of directors is also aligned with stakeholder theory, which suggests that the board has a fiduciary duty to safeguard

Both agency theory and RDT imply that directors with higher motivation and ability will add more value to the firm, though the channels may differ. We argue that prestigious directors will offer superior monitoring and facilitate greater resource provisioning. Previous research offers several reasons for a positive impact of director prestige on firm performance. First, prestigious directors can benefit firms by signalling greater legitimacy. Stakeholders such as employees, suppliers and customers are more likely to engage with more reputable firms (Deephouse, 2000), and firms’ reputation is affected by the quality of personnel serving on the board (Bazerman and Schoorman, 1983). Certo (2003) argues that since prestigious directors will be hesitant to associate themselves with a ‘low-quality’ firm, their appointment to the board of an initial public offering firm may enhance its legitimacy for the investors and improve performance. In the presence of information asymmetry and uncertainty, directors with external endorsements can signal useful information about the quality of the firm and reduce the impact of uncertainty on organizations (Finkelstein, 1992; Pollock *et al.*, 2010). Indeed, empirical research finds support for the view that investors value the legitimacy prestigious personnel bring to the firm. For instance, Wade *et al.* (2006) find that the announcement of a CEO winning the ‘CEO of the Year’ award generates positive market return. Likewise, Gogolin, Cummins and Dowling (2018) show that the market reacts positively to appointments of reputed outside directors, implying that prestige has a positive influence on the status of the firm.

Anecdotal evidence also supports this argument. For instance, while announcing the appointment of Eileen Burbidge as an independent non-executive director, Currys plc specifically highlighted that she ‘was made an MBE for services to business in the Queen’s Birthday Honours in 2015’. This is an example of how director prestige is used by firms to enhance their legitimacy. This is also consistent with Pfeffer and Salancik’s (1978, p. 145) argument that ‘prestigious or legitimate persons or organisations represented on the focal organisation’s board provide confirmation to the rest of the world of the value and worth of the organisation’.

Second, compared to other independent directors, prestigious directors will provide preferential access to resources and act as a key information channel between the firm and external organizations, because of their prior relationships (D’Aveni, 1990). Firms can

the interests of all stakeholders, not just shareholders (Freeman, 1984). This perspective considers directors as facilitators who create a collaborative environment between the firm and various stakeholders (Berman, Phillips and Wicks, 2005; Freeman, Dmytriiev and Phillips, 2021). We argue that higher director capital will instil confidence within stakeholders, and they are more likely to engage collaboratively with such directors. We thank an anonymous referee for this observation.



also leverage directors' prestige in soliciting favours and preferential treatment. For instance, Brown and Huang (2020) and Schoenherr (2019) find that politically connected (a measure of prestige) directors help firms gain key government contracts, and enhance value and performance.<sup>6</sup>

Third, prestigious directors will provide valuable advice and counsel to firms due to high human capital derived from their past work experience (D'Aveni, 1990). Firms can utilize their knowledge in making prudent decisions. For example, White *et al.* (2014) show that the market reacts positively to appointments of academic directors, while Chen, Garel and Tourani-Rad (2019) find that resignation of academic directors leads to a negative market reaction as well as lower long-term operating performance. They interpret this as evidence of the market recognizing and valuing the advice and monitoring roles of these directors.

Finally, we contend that prestigious directors will act as diligent monitors since not doing so may lead to a substantial devaluation of their human capital. Empirical evidence shows that reputation helps in career advancement. For instance, reputed directors are more likely to become CEOs, be rewarded with more appointments (Mobbs, 2013) and experience lower incidence of regulatory sanctions (Jiang, Wan and Zhao, 2016). The evidence also shows that they are more diligent monitors as they are more likely to dissent (Jiang, Wan and Zhao, 2016) and level the playing field against powerful incumbent CEOs (Fahlenbrach, Low and Stulz, 2010). Their superior monitoring also contributes to higher long-term performance, as evidenced by Oehmichen *et al.* (2017), who argue that prestigious directors benefit firms by protecting the interests of stakeholders. Anecdotal evidence also supports the view that firms value monitoring provided by prestigious directors. For instance, while announcing the directorial appointment of Eileen Burbidge MBE, Currys plc highlighted that she will be joining their Audit Committee.

In summary, agency theory and RDT imply that directors provide careful monitoring and key resources, respectively. We argue that prestigious directors will have higher motivation and greater ability in discharging their fiduciary duties relative to other directors, and therefore will add greater value to the firm. On the one hand, prestigious directors will have greater ability to bring in resources to the firm that are critically required in the presence of environmental uncertainty (Pfeffer

and Salancik, 1978). On the other hand, they will have sufficient motivation to act as diligent monitors to preserve their reputation (Fama and Jensen, 1983). Hence, we expect firms with prestigious directors to experience increased long-term operating performance, because they will have greater access to crucial resources as well as improved oversight of management. Hence, we hypothesize:

*H1a:* The market will react positively to the appointment announcements of prestigious directors.

*H2a:* Appointments of prestigious directors will lead to higher long-term firm performance.

Although prestigious directors provide legitimacy (Certo, 2003), access to social capital (Boivie *et al.*, 2016) and lend additional power to the board of directors over the management (Fahlenbrach, Low and Stulz, 2010), there are several reasons why firms may not benefit by appointing award winners. First, prestigious directors often come from elite social or business groups, and such groups can have a significant influence on business practices by setting the rules and norms (Scott, 1991; Useem, 1982). This has the potential for conflict of interest arising from the network's pressure to do favours for the other members of the group, which may adversely affect their ability to monitor managerial decisions at the expense of the interests of the stakeholders (Oehmichen *et al.*, 2017). Second, winning awards can potentially induce narcissistic behaviour.<sup>7</sup> For example, Malmendier and Tate (2009) show that since 'superstar' CEOs spend more time writing books and getting external directorships, they underperform relative to non-award-winning CEOs, as well as their own past performance. Li *et al.* (2022) find that award-winning CEOs are more likely to commit financial misconduct. They attribute this to the inflated sense of entitlement that prompts them to break the rules. Third, winning an award may also increase self-worth and hubris (Hayward and Hambrick, 1997), which can lead to overconfidence. For instance, Malmendier and Tate (2005) find that overconfident CEOs make sub-optimal investments because they overestimate their ability to generate returns. Hence, we hypothesize:

*H1b:* The market will react negatively to the appointment announcements of prestigious directors.

*H2b:* Appointments of prestigious directors will lead to lower long-term firm performance.

<sup>6</sup>Legitimacy and access to resources could be related, since legitimacy could improve access to resources. We thank an anonymous referee for highlighting this relationship. However, legitimacy is about how stakeholders perceive the appointment of PAWDs, while resource provisioning is real. For example, politically connected directors are likely to improve access to resources but may not necessarily provide legitimacy.

<sup>7</sup>This is also true for award winners in other fields. For instance, in academia, Field Medal recipients focus more on unfamiliar topics than writing papers in their own research fields after winning the award (Borjas and Doran, 2015). Similarly, Samuelson (2002) notes that Nobel Prize winners 'become pontificating windbags, preaching to the world on ethics and futurology, politics and philosophy'.

Table 1. Key roles performed by different categories of PAWDs

Role	Politically connected	Voluntary	Business	Specialized
Preferential access to resources	Yes			
Advice and counsel				Yes
Information channels between firm and external organizations		Yes	Yes	
Legitimacy	Yes	Yes	Yes	Yes
Monitoring	Yes	Yes	Yes	Yes

This table lists the potential roles performed by each PAWD category.

## Data and method

### Data sources

Our sample comprises all constituents of the FTSE All-share Index any time between 2003 and 2020. We collect appointment announcement dates of all independent directors from BoardEx.<sup>8</sup> Our full sample consists of 375 PAWD and 2948 NAWD appointment announcements. This includes 278 unique PAWDs and 2221 NAWDs covering 818 firms. Accounting and financial data of firms are collected from Datastream.

### Independent variable: prestigious directors

We manually search for names of individual directors in the semi-annual lists of Queen’s honours published in the *London Gazette* to construct our sample of PAWDs. We identify the dates when a director won the award, the reason and the title of the award, and the job description of the director at the time of winning the award.<sup>9</sup> The hand-collected data enable us to identify those directors who won award(s) prior to announcement of their appointments.

*Classification of PAWDs.* Hillman, Cannella and Paetzold (2000) show that the type of director appointed to the board depends on the resources needed by the firm. We therefore classify PAWDs into four categories: politically connected, voluntary, business and specialized, based on the nature of the award<sup>10</sup> (see Appendix B for a detailed description). Table 1 summarizes the roles performed by different categories of PAWDs.

Prior studies show that the impact of the appointment of independent directors depends on the existing composition of the board. For instance, Fahlenbrach, Low and Stulz (2010) find that there is a positive market reaction when the CEO of another company is appointed as a director when there is no existing CEO outside direc-

tor on the board. Hence, we further divide our sample of PAWDs into two categories:

- First PAWD – if a director is the first PAWD appointed to the board.
- Existing PAWD – if there is at least one PAWD on the board at the time of the appointment announcement.

*PAWD distribution.* Table 2 reports the distribution of PAWDs. It shows that the most common type of PAWD appointed by firms is specialized director, representing nearly 46% of the total sample, followed by politically connected (30%), business (17%) and voluntary directors (7.5%).

### Dependent variable: abnormal returns

We use cumulative average abnormal returns (CAARs) over the 3-day window  $[-1, +1]$  surrounding the appointment announcements of both PAWDs and NAWDs. Past research shows that a 3-day window is appropriate for measuring abnormal returns as it allows for information leakage prior to the event and slow response on the day after the event (Pfarrer, Pollock and Rindova, 2010).

$$CAR_i = \sum_{t=-1}^{+1} [R_{it} - E(R_{it})] \quad (1)$$

$$CAAR = \left( \sum_{i=1}^n CAR_i \right) / n \quad (2)$$

where  $CAR_i$  is the CAR for firm  $i$  from  $t = -1$  to  $t = +1$ ;  $R_{it}$  is the return for firm  $i$  on day  $t$ ;  $E(R_{it})$  is the CAPM expected return for firm  $i$  on day  $t$  with  $\beta$  estimated over  $-250$  to  $-45$  days; CAAR is the cumulative average abnormal return and  $n$  is the total number of appointments.

We test for the significance of CAAR over the event window using the test-statistic

$$t = \frac{CAAR}{\sigma_{CAR}/\sqrt{n}} \quad (3)$$

where  $\sigma_{CAR}$  is the cross-sectional standard deviation of the CARs, and other variables are as defined previously.

<sup>8</sup> Although the tradition of awarding honours dates back many centuries, BoardEx data on the appointment of award-winning directors are available only from 2003.

<sup>9</sup> If a director has won multiple awards, then the information is collected for all the awards.

<sup>10</sup> Their job description at the time of the award is used if the reason for the award is missing.

Table 2. Distribution of PAWD appointments by announcement year

Year	Total	Politically connected		Voluntary		Business		Specialized	
		Frequency	% Total	Frequency	% Total	Frequency	% Total	Frequency	% Total
Total	375	112	29.87	28	7.47	63	16.80	172	45.87
# Unique directors <sup>a</sup>	278	87		23		47		122	
# Unique firms	259	100		28		58		134	

This table presents the distribution of 375 appointment announcements of PAWDs. We report announcements of all PAWDs and four subgroups. <sup>a</sup>Baroness Denise Patricia Kingsmill was awarded a CBE on 31 December 1999 and joined the House of Lords on 15 June 2006. We therefore consider her a business director (appointment announcement 11/10/2004) for British Airways plc and a politically connected director (appointment announcement 01/02/2011) for Betfair Group plc. Hence the total number of unique directors is one less than the sum of all unique directors of four subgroups.

Table 3. Firm, board and director characteristics of firms appointing PAWDs

Variable	Full sample (1)	Politically connected (2)	Voluntary (3)	Business (4)	Specialized (5)
# Appointments	375	112	28	63	172
Panel A: Firm characteristics					
Market-to-book	2.98	2.62	2.99	4.35 <sup>b</sup>	2.71
Volatility	0.32	0.32	0.30	0.29	0.33
Market value (£m)	9117.53 <sup>+</sup>	7232.22	8813.06	10100	10100
ROA	0.06	0.06	0.07	0.07	0.05
Beta	0.84 <sup>+</sup>	0.78 <sup>c</sup>	0.91	0.82	0.87
Leverage	0.39	0.41	0.30	0.39	0.39
Intangible investment	0.12 <sup>-</sup>	0.13	0.14	0.12	0.12
Panel B: Board characteristics					
Board size (#)	9.26 <sup>+</sup>	9.14	8.36 <sup>c</sup>	8.82	9.65 <sup>b</sup>
% Independent directors	59.33	56.69 <sup>c</sup>	64.32	59.49	60.13
CEO duality (%)	12.23	20.37 <sup>a</sup>	3.57	6.45	10.59
Panel C: Director characteristics					
Director age (years)	58.99 <sup>+</sup>	59.30	59.36	58.59	58.88
Gender (1 = Male) (%)	68.00 <sup>-</sup>	74.11 <sup>c</sup>	78.57	47.62 <sup>a</sup>	69.77
Postgraduate (%)	82.40 <sup>+</sup>	79.46	75.00	82.54	85.47
Current boards (#)	3.85	4.79 <sup>c</sup>	2.86	3.57	3.51

This table presents firm, board and director characteristics of PAWD appointments in Panels A, B and C, respectively. In column (1), <sup>+</sup> and <sup>-</sup> denote that sample means are significantly greater or less than the matched sample of NAWDs at 10% significance levels or better. In columns (2) to (5), <sup>a</sup>, <sup>b</sup> and <sup>c</sup> denote that the means of a particular PAWD subgroup are significantly different from the remaining PAWDs at 1%, 5% and 10% significance levels, respectively. All firm characteristics except market value and beta are winsorized at the 1% and 99% levels. See Appendix A for definitions.

### Control variables

We control for firm, board and director characteristics that could influence the appointment of prestigious directors. See Appendix A for variable definitions and Appendix C for the rationale for including control variables.

## Empirical analysis

### Firm, board and PAWD characteristics

Table 3 presents the summary statistics of the firm, board and director characteristics at the time of PAWD

appointment announcements.<sup>11</sup> Column (1) of Panel A shows that firms appointing PAWDs are larger, have higher beta and lower intangible investments compared to those appointing NAWDs. They are similar in terms of other characteristics.<sup>12</sup>

Column (1) of Panel B shows that on average, boards of firms appointing PAWDs comprise approximately

<sup>11</sup>The correlation matrix in Appendix E shows that there is no multicollinearity amongst our variables.

<sup>12</sup>For ease of presentation, we do not present the mean values of firms appointing NAWDs. However, in column (1) we show that the sample means of PAWD firms are significantly greater (+) or less (-) than the NAWD firms at 10% significance level or more.

Table 4. Market reaction to appointments of PAWDs

	All (1)	Politically connected (2)	Voluntary (3)	Business (4)	Specialized (5)
Panel A: All appointments					
N	375	112	28	63	172
CAAR[−1, +1]	0.50%*** (2.85)	0.55% (1.40)	0.11% (0.23)	0.05% (0.12)	0.78%*** (2.88)
Panel B: First PAWD					
N	147	46	10	27	64
CAAR[−1, +1]	1.01%*** (3.16)	1.50%** (2.53)	0.38% (0.77)	−0.68% (−0.86)	1.46%*** (3.09)
Panel C: Existing PAWD					
N	228	66	18	36	108
CAAR[−1, +1]	0.24% (1.02)	−0.12% (−0.23)	−0.04% (−0.06)	0.60% (1.25)	0.38% (1.16)

This table reports the cumulative average abnormal returns (CAARs) for the day before, on the event day and the day after PAWD appointment announcements. All variables are defined in Appendix A. t-stats are reported in brackets (two-tailed) and \*, \*\* and \*\*\* denote the statistical significance at 10%, 5% and 1% levels, respectively.

nine members (significantly higher than firms appointing NAWDs), with around 59% of them being independent directors. Further, 12% of firms appointing PAWDs exhibit CEO duality. Panel C reports that the average PAWD is 59 years old, male and has a postgraduate degree. It also shows that the PAWDs are older, better educated and more likely to be female compared to the NAWDs.

In columns (2) to (5), we present the sample means for each of the PAWD categories. Panel A shows that there is little difference in firm characteristics when appointing different categories of PAWDs except in the case of politically connected PAWDs, where firms have a lower beta, and those appointing business PAWDs show significantly higher market-to-book ratio.

However, Panels B and C show that there are significant differences in board and director characteristics. Boards of firms appointing specialized PAWDs are larger (mean 9.65), whereas those appointing voluntary PAWDs are smaller (mean 8.36). Similarly, the boards of firms appointing politically connected PAWDs are less independent (57% independent directors) and exhibit CEO duality. Moreover, politically connected PAWDs are more likely to be male (74.11%) and business PAWDs are more likely to be female (52.38%).<sup>13</sup>

#### Market reaction to the appointment of PAWDs

We analyse short-term market reaction to the appointment announcements of PAWDs through an event study. We expect the market to react positively to appointments of PAWDs, since prestige signals higher human and social capital (D'Aveni, 1990) and incentivizes

them to carefully monitor the management (Fama and Jensen, 1983).

The results in column (1) of Panel A in Table 4 confirm our expectations. The CAAR (0.5%) is significant at the 1% level.<sup>14</sup> Column (5) shows that the market reacts positively to the appointment of specialized PAWDs (CAAR 0.8%; significant at the 1% level). However, as seen from columns (2) to (4), the reaction to the appointment of PAWDs in other categories is statistically insignificant. This suggests that the significant market reaction to the appointment of PAWDs is driven by the specialized PAWDs.

Panel B presents CAARs when there is no existing PAWD on the board. Column (1) shows that the market reaction to the appointment of first PAWDs is positive and significant at 1%. Further, columns (2) and (5) show that the market reacts significantly positively to the appointment of politically connected and specialized PAWDs. However, appointments of voluntary and business PAWDs do not generate a significant market reaction.<sup>15</sup> Panel C shows that there is a lack of market

<sup>13</sup>One reason could be that there are more males serving in both parliament and civil services. As of 11 September 2021, women constituted 28.26% and 34.15% of the House of Lords and the House of Commons, respectively (UK Parliament, 2021). In the British Senior Civil Service, as of March 2020, 46.7% were women, rising from 35.2% in March 2010 (Cabinet Office, 2021).

<sup>14</sup>We repeat our analysis using buy-and-hold abnormal returns (BHARs). Our results are qualitatively similar and are omitted for brevity. They are, however, available from the authors.

<sup>15</sup>This may be due to the small sample size of such appointments of voluntary (n = 10) and business (n = 27) PAWDs.



Table 5. Difference in appointment announcement returns between PAWDs and NAWDs

	All (1)	Politically connected (2)	Voluntary (3)	Business (4)	Specialized (5)
Difference CAAR[−1, +1]					
Panel A: Versus PSM matched NAWDs					
All appointments	0.69%** (2.19)	1.22%** (2.10)	0.19% (0.21)	0.00% (0.05)	0.74%* (1.85)
First PAWD	1.19%** (2.53)	1.57%* (1.90)	1.75% (0.97)	−0.08% (−0.08)	1.42%** (2.03)
Existing PAWD	0.33% (0.94)	0.99% (1.25)	−0.53% (−0.54)	0.12% (0.17)	0.23% (0.59)
Panel B: Versus NAWDs of same subgroup					
All appointments		0.81% (1.37)	−0.76% (−0.99)	−0.18% (−0.33)	1.04%** (2.41)
First PAWD		1.76%** (2.49)	−0.49% (−0.42)	−0.91% (−1.11)	1.72%** (2.95)
Existing PAWD		0.14% (0.22)	−0.91% (−0.96)	0.38% (0.53)	0.64% (1.34)

This table reports the difference in appointment announcement returns between PAWD and NAWD appointments. In Panel A, we report the difference in market reaction between appointments of PAWDs and PSM matched NAWDs. In Panel B, we report the difference in market reaction to appointments of politically connected, voluntary, business and specialized PAWDs and NAWDs. PSM is done using the nearest-neighbourhood matching technique. Definitions of all variables used in the matching process are provided in Appendix A. t-stats are reported in brackets (two-tailed) and \*, \*\* and \*\*\* denote the statistical significance at 10%, 5% and 1% levels, respectively.

reaction to the appointment of PAWDs when there is at least one PAWD already on the board.<sup>16</sup>

Overall, the above findings indicate that there is a strong positive market reaction to the appointment of PAWDs, implying that the market values the monitoring and/or resource-providing roles of prestigious directors. The market reaction is significant when the firms appoint the first PAWD on their board, and subsequent appointments of PAWDs are not seen as value-adding by the market. Our results are similar to those of Fahlenbrach, Low and Stulz (2010), who find that the market reacts significantly positively only to the appointment of the first outside CEO director.

#### *Difference in market reactions to PAWD and NAWD appointments*

In this subsection, we investigate if the market reaction is stronger when the independent director is prestigious. Past research shows that the appointment of an independent director is not random but depends on the needs of the firm, the board and the director's own characteristics (e.g. Fahlenbrach, Low and Stulz, 2010). We use propensity score matching (PSM) with the nearest neighbour to identify our control sample, following Rosenbaum and Rubin (1983), who argue that it is sufficient to address endogeneity emanating from observed covariates. We match treatment (PAWD) and control (NAWD) samples on firm, board and director characteristics (size, industry, ROA, market-to-book, volatility,

beta, leverage, intangible investments, board size, board independence, CEO duality, director gender, education, age and busyness). Hence, the difference in the market reaction between sample and control firms should be due to the prestige of the award.

Column (1) of Panel A of Table 5 shows that the market reaction is significantly higher (0.69%; significant at the 5% level) to appointments of PAWDs compared to a matched sample of NAWDs. Columns (2) and (5) show greater market reaction to the appointments of politically connected and specialized PAWDs. We further examine the market reaction when there is no existing PAWD on the board (*First PAWD*) and find similar results. Furthermore, there is no significant difference in market reaction between appointments of PAWDs and NAWDs when there is already a PAWD on the board (*Existing PAWD*). These findings suggest that it is the first appointments of 'politically connected' and 'specialized' PAWDs that are driving the significant market reaction. Our results in Panel A of Table 5 are similar to

<sup>16</sup>Market reaction could vary by the type of director already on the board (e.g. if a politically connected PAWD is on the board, then adding a specialized PAWD could be of significance). Hence, we divide the observations in Panel C into: (1) when the newly appointed PAWD is of the same category as an existing PAWD and (2) when they are of a different category. Untabulated results show that our findings are not dependent on the presence of any particular type of PAWD on the board, and any existing PAWD is sufficient to capture the implied benefits of prestigious directors.



those reported in Table 4, which suggest that the market only values the first appointment of PAWDs.

*Robustness check.* In Panel B, we match PAWDs to NAWDs of the same subgroup (e.g. politically connected PAWD to politically connected NAWD) to verify that the market reaction is due to the award.<sup>17</sup>

We find that our results in Panel B are similar to those reported in Panel A of Table 5. They confirm that the significant difference in market reaction is a consequence of the prestige of the appointed director and not due to their political connections, specialization or expertise.

Although PSM is widely used in the literature, Shipman, Swanquist and Whited (2017) argue that the technique is susceptible to researcher bias and even seemingly minor changes in the way the matching is done can lead to substantially different results. Further, the one-to-one matching in PSM may lead to a significant reduction in control-sample observations. We therefore use entropy balancing (Hainmueller, 2012), a quasi-matching technique wherein each observation is weighted such that there is no difference in the distributional properties (mean and variance) of the treatment and control sample.<sup>18</sup> In contrast to PSM, where control observations are assigned a weight of 0 or 1 (i.e. they are either excluded or included in the final matched sample), entropy balancing weighs observations on a continuous scale and identifies the precise weights of each control observation such that an optimally weighted match with the treated observations is achieved, thereby preserving the whole control sample (Chapman, Miller and White, 2019).

We test the robustness of our findings in Table 5 by regressing the CAARs of our PSM and entropy balanced sample against a PAWD indicator variable, and a set of control variables.

$$\begin{aligned} \text{CAAR}_i = & \alpha_i + \beta_1(\text{PAWD indicator})_i \\ & + \beta_2(\text{First PAWD indicator})_i \\ & + \beta_3(\text{Existing PAWD indicator})_i + kZ_i + \varepsilon_i \end{aligned} \quad (4)$$

where 'PAWD indicator' is a dummy variable set to 1 if a PAWD is appointed to the board, and 0 otherwise; 'First PAWD indicator' sets to 1 if it is the first PAWD,

<sup>17</sup>We identify politically connected NAWDs as those with past or present experience in the government, voluntary NAWDs by their experience with charities and the remaining NAWDs as business NAWDs, that is all NAWDs excluding politically connected, voluntary and specialized NAWDs. Following the literature, which argues that academic directors are appointed for their specialized expertise (Chen, Garel and Tourani-Rad, 2019; White *et al.*, 2014), we define specialized NAWDs as those associated with universities.

<sup>18</sup>We thank an anonymous referee for suggesting this method.

and 0 otherwise; 'Existing PAWD indicator' sets to 1 if there is already a PAWD present on the board, and 0 otherwise.  $Z_i$  is a vector of control variables, including industry and year dummies.

The results in Table 6 confirm our earlier findings that the market rates the appointment of PAWDs more highly than that of NAWDs. Columns (1) and (2) present the results with a PSM matched control sample, and columns (3) and (4) with the entropy balanced control sample. Column (1) shows that the CAARs associated with the announcement of PAWD appointments are higher by 0.7% (significant at the 5% level). Similarly, the CAARs of the announcement of the first PAWD in column (2) are higher by 1% (significant at the 5% level). As expected, our control variables remain insignificant. In columns (3) and (4) we find similar results when an entropy balanced control sample is used, albeit they are significant at the 10% level.

#### *Does the market reward monitoring and resource provision contributions of PAWDs?*

We expect that due to their higher capital, PAWDs would be more effective at monitoring as well as in providing resources. Following Chen, Garel and Tourani-Rad (2019), we partition our sample using above- and below-median values of firm, board and director characteristics and examine the market response to the first appointment of a PAWD.<sup>19</sup>

From the results in Table 7, we note that firms with above-median volatility (CAAR 1.67% above median vs 0.36% below median; significant at the 5% level) and below-median ROA (CAAR 1.56% below median vs 0.39% above median; significant at the 10% level) earn higher returns. This suggests that the market recognizes the first appointment of a PAWD as more valuable for risky and low-performing firms. Further, we find that the appointment of a first PAWD to firms with below-median market value generates a significantly higher reaction compared to firms with above-median market value (CAAR 1.79% below median vs 0.22% above median; significant at the 5% level). This shows that the market puts greater value on the appointment of PAWDs to smaller firms compared to larger firms. Our results are consistent with those of Certo, Daily and Dalton (2001), who find that the appointment of prestigious directors reduces information asymmetry and offers legitimacy for smaller and less-known firms.

Further, the market reacts significantly to the first appointment of a PAWD in firms with CEO duality (1.88%; significant at the 10% level). Our evidence lends support to the argument that firms with CEO duality

<sup>19</sup>We restrict our analysis to the first PAWD because, as shown, the market only reacts significantly to the first PAWD appointment.

Table 6. Multivariate analysis of CAARs

Dependent variable: CAAR	PSM matched sample		Entropy balanced sample	
	(1)	(2)	(3)	(4)
PAWD indicator	0.007** (2.04)		0.004* (1.75)	
First PAWD indicator		0.010** (2.13)		0.007* (1.83)
Existing PAWD indicator		0.005 (1.18)		0.003 (0.82)
<i>Firm characteristics</i>				
Market-to-book	-0.000 (-0.73)	-0.000 (-0.72)	0.000 (0.07)	0.000 (0.08)
Volatility	0.020 (1.14)	0.020 (1.15)	0.005 (0.38)	0.005 (0.38)
Beta	-0.005 (-0.79)	-0.005 (-0.78)	-0.004 (-0.95)	-0.004 (-0.94)
Log(firm size)	0.000 (0.03)	0.000 (0.17)	-0.001 (-0.49)	-0.001 (-0.35)
ROA	-0.006 (-0.36)	-0.006 (-0.39)	-0.014 (-0.97)	-0.015 (-1.00)
Leverage	0.003 (0.52)	0.003 (0.55)	-0.000 (-0.04)	0.000 (0.00)
Intangible investment	0.002 (0.21)	0.002 (0.21)	0.001 (0.14)	0.001 (0.13)
<i>Board characteristics</i>				
Log(board size)	0.004 (0.41)	0.004 (0.42)	0.005 (0.68)	0.005 (0.69)
% Independent directors	-0.013 (-1.02)	-0.012 (-0.94)	-0.012 (-1.41)	-0.012 (-1.34)
CEO duality (1 = Yes)	0.008 (1.53)	0.008 (1.54)	0.008** (2.19)	0.008** (2.20)
Award-winning CEO (1 = Yes)	-0.019 (-1.13)	-0.017 (-1.03)	-0.008 (-0.61)	-0.007 (-0.54)
<i>Director characteristics</i>				
Log(director age)	-0.006 (-0.25)	-0.007 (-0.29)	0.013 (0.81)	0.013 (0.79)
Director gender (1 = Male)	0.002 (0.46)	0.002 (0.40)	0.004* (1.69)	0.004 (1.63)
Education (1 = Postgraduate)	0.002 (0.40)	0.002 (0.42)	-0.002 (-0.57)	-0.002 (-0.58)
Director busyness	0.003 (1.29)	0.003 (1.31)	0.002 (1.21)	0.002 (1.23)
Constant	0.016 (0.17)	0.016 (0.17)	-0.044 (-0.69)	-0.046 (-0.71)
Industry dummies	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes
Observations	572	572	3151	3151
R-squared	0.082	0.084	0.057	0.058

This table reports results from regressions of CAARs. In columns (1) and (2), we matched the control sample of NAWDs on firm, board and director characteristics using propensity score matching. In columns (3) and (4), we used an entropy balanced sample. All firm characteristics except firm size and beta are winsorized at the 1% and 99% levels, respectively. Industry and year dummies are taken in all regressions and robust standard errors are taken. t-stats are presented in brackets and \*, \*\* and \*\*\* denote the statistical significance at 10%, 5% and 1%, respectively.

need greater monitoring due to the concentration of power in the hands of one person (Goyal and Park, 2002). These results are also consistent with the argument that PAWDs are more likely to monitor effectively, since their own reputational capital is at stake (e.g. Jiang, Wan and Zhao, 2016).

Next, we examine the other functions performed by PAWDs, which include preferential access to resources,

advice and counsel and external linkages to other organizations. First, we examine the preferential access to resources channel of PAWDs. Firms with smaller board size will likely have fewer networks to solicit preferential access to resources. However, previous research has shown that politically connected PAWDs could bring several benefits, including easier borrowing and winning government contracts (Schoenherr, 2019; Tihanyi

Table 7. Difference in market reaction to the value created by PAWDs based on firm, board and director characteristics

	CAAR[-1, +1]				Difference
	≤ Median	Obs.	> Median	Obs.	
<i>Firm characteristics</i>					
Market-to-book	0.88	74	0.87	73	-0.27
Volatility	<b>0.36</b>	<b>74</b>	<b>1.67</b>	<b>73</b>	<b>-1.31**</b>
ROA	<b>1.56</b>	<b>78</b>	<b>0.39</b>	<b>69</b>	<b>1.16*</b>
Leverage	0.93	74	1.09	73	-0.15
Intangible investments	0.76	75	1.27	72	-0.51
Beta	1.00	74	1.02	73	-0.00
Market value	<b>1.79</b>	<b>74</b>	<b>0.22</b>	<b>73</b>	<b>1.58**</b>
<i>Board characteristics</i>					
Board size	1.16	88	0.79	59	0.37
% Independent directors	1.14	79	0.86	68	0.29
CEO duality	<b>0.81</b>	<b>125</b>	<b>2.68</b>	<b>18</b>	<b>-1.88*</b>
<i>Director characteristics</i>					
Director age	0.83	86	1.26	61	-0.43
Director gender (1 = Male)	0.38	48	1.32	99	-0.94
Postgraduate degree	2.51	31	0.61	116	1.91**
# Current board seats	0.94	93	1.13	54	-0.19

\* \*\* and \*\*\* denote the statistical significance at 10%, 5% and 1%, respectively. In case of categorical variables (i.e. CEO duality, director gender, postgraduate degree), the sample is divided based on 0 and 1.

Table 8. Difference in market reaction to the value created by PAWD subgroups

	CAAR[-1, +1]											
	Politically connected (n = 46)			Voluntary (n = 10)			Business (n = 27)			Specialized (n = 64)		
	≤ Med	> Med	Difference	≤ Med	> Med	Difference	≤ Med	> Med	Difference	≤ Med	> Med	Difference
<i>Firm characteristics</i>												
Market-to-book	1.07	1.93	-0.86	-0.27	1.03	-1.30	-0.28	-1.25	0.98	1.53	1.40	0.13
Volatility	<b>0.35</b>	<b>2.40</b>	<b>-2.05*</b>	<b>1.07</b>	<b>-1.23</b>	<b>2.30***</b>	-0.91	-0.29	-0.62	0.92	1.94	-1.02
ROA	1.82	1.10	0.71	-0.21	0.97	-1.17	-0.19	-1.06	0.87	<b>2.21</b>	<b>0.56</b>	<b>1.66*</b>
Leverage	1.61	1.39	0.22	0.60	0.04	0.56	0.09	-1.50	1.58	0.86	2.00	-1.14
Intangible investments	1.52	1.49	0.03	0.09	0.58	-0.49	-0.64	-0.72	0.08	0.92	2.12	-1.19
Beta	1.08	2.05	-0.97	1.04	-0.28	1.32	-0.86	-0.45	-0.42	1.91	1.11	0.80
Market value	<b>2.44</b>	<b>0.05</b>	<b>2.39**</b>	<b>-0.79</b>	<b>0.88</b>	<b>-1.68*</b>	0.07	-2.17	2.23	<b>2.61</b>	<b>0.73</b>	<b>1.89*</b>
<i>Board characteristics</i>												
Board size	<b>2.22</b>	<b>0.03</b>	<b>2.19*</b>	<b>-0.42</b>	<b>1.57</b>	<b>-1.99**</b>	-0.51	-1.16	0.65	1.47	1.45	0.02
% Independent directors	1.53	1.45	0.08	0.40	0.35	0.05	-0.50	-0.82	0.32	1.55	1.39	0.16
CEO duality	1.17	2.91	-1.74				-0.64	-1.84	1.20	1.30	3.02	-1.72
<i>Director characteristics</i>												
Director age	2.25	0.62	1.63	-0.10	1.49	-1.59	-1.23	0.27	-1.50	0.99	2.11	-1.11
Director gender (1 = Male)	1.80	1.39	0.41	0.72	0.30	0.42	-1.90	0.46	-2.35	0.89	1.72	-0.83
Postgraduate degree	3.30	0.87	<b>2.43*</b>	0.54	0.31	0.23	2.13	-1.66	<b>3.79**</b>	2.42	1.31	1.12
# Current board seats	0.97	2.14	-1.17	0.58	-0.09	0.67	0.03	-1.70	1.73	1.30	1.85	-0.55

\*, \*\* and \*\*\* denote the statistical significance at 10%, 5% and 1%, respectively. In case of categorical variables (i.e. CEO duality, director gender, postgraduate degree), the sample is divided based on 0 and 1.

et al., 2019). Therefore, we expect that the appointments of politically connected PAWDs in firms with smaller board size should generate greater market reaction.

Further, Hillman (2005) argues that government is a major source of uncertainty for firms, while Hassan et al. (2019) show that firms facing greater political risk establish links with politicians. Hence, we posit that high-volatility firms will benefit more by appointing politically connected PAWDs.

The results reported in Table 8 are consistent with the above expectations. We find a stronger market reaction to the appointment of a politically connected PAWD in firms with below-median board size (CAAR 2.22% below median vs 0.03% above median) and above-median volatility (CAAR 0.35% below median vs 2.40% above median).

Second, we investigate the advice and counsel role of PAWDs. Specialized PAWDs have the necessary knowl-

edge, skills and expertise to advise and counsel firms. Therefore, firms in need of advice and counsel, such as those with high intangible investments (Chen, Garel and Tourani-Rad, 2019; White *et al.*, 2014), will benefit more by appointing specialized PAWDs. However, we find that the market reaction to the first appointment of a specialized PAWD to firms with above-median intangible investments is not significantly different to those with below-median intangible investments. Hence, our evidence does not support the advice and counsel role of PAWDs.

Third, we examine the links to non-business organizations provided by voluntary PAWDs. Pfeffer and Salancik (1978) argue that firms which have greater need for external links, should have larger boards. Therefore, appointments of voluntary PAWDs to firms with smaller board size should generate a higher market reaction. However, contrary to our expectations, our results show that the market reacts significantly positively to the appointment of a first voluntary PAWD for firms with above-median board size ( $-0.42\%$  below median vs  $1.57\%$  above median).<sup>20</sup>

Finally, we investigate the links to business organizations by considering the number of board seats currently held by PAWDs. We expect the market to react positively to the appointment of PAWDs with greater additional directorships. However, our findings suggest that there is no significant difference in the market reaction to the first appointments of PAWDs for firms with above- and below-median current number of board seats. Overall, PAWDs' role of providing links to external organizations does not seem to matter.

#### *PAWD appointments and long-term performance*

So far, we have examined the short-term investor reaction to the appointment of prestigious directors. In this subsection, we investigate the long-term performance implications of appointing PAWDs. Drawing on the implications of agency theory and RDT, we expect that a firm's operating performance will improve after the appointment of a PAWD. We obtain the effective dates when a director in our sample started their directorship.<sup>21</sup> To avoid any bias due to multiple appointments, we restrict our sample to firms that appointed only one director (either PAWD independent, NAWD independent or inside director) in any given year. We also remove 22 independent directors appointed in 2020 due

to the lack of availability of long-term data. Our final sample consists of 1509 appointments of independent directors (151 PAWDs) from 2003 to 2019.

We measure operating performance using the ROA. Following Fahlenbrach, Low and Stulz (2010), we estimate ROA as the average of  $-2$  and  $-3$  years before and 1, 2 and 3 years following the directors' appointments. We further control for industry, past performance and size using PSM and compare the operating performance around the PAWD appointments with a matched sample of NAWDs.<sup>22</sup>

Operating performance could change as a result of appointments of all types of directors (prestigious or not), so care is needed in attributing the significant change in performance to the PAWD appointments. We therefore employ a difference-in-differences (DID) approach and compare the change in performance around PAWD appointments with the change in performance around NAWD appointments.

In Table 9, we report multivariate regression results. In columns (1) and (2), we show the results when the control sample is identified using PSM. Column (1) shows that firms appointing a PAWD experience a larger change in performance ( $2.5\%$ ; significant at the  $5\%$  level) than those appointing NAWDs. In column (2), we separate the appointments of PAWDs into first appointments and when there is an existing PAWD on the board. We find that appointments of first PAWDs show a significant change in operating performance ( $4.3\%$ ; significant at the  $5\%$  level). Further, we find that the appointment of a PAWD does not result in a significant change in operating performance when there is an existing PAWD on the board. When the control sample is identified using the entropy balancing technique, we find similar results (columns (3) and (4); significant at the  $5\%$  level). This is similar to the results of the short-term study in Table 6, where we reported that the market only reacts to the first PAWD appointments.

*Endogeneity.* Endogeneity is a key concern in corporate governance research (e.g. Wintoki, Linck and Netter, 2012). In this paper, there are three potential sources of endogeneity: observed heterogeneity, omitted variables and self-selection bias, as PAWDs may choose larger and better-performing firms. Indeed, in Table 3 we do find that firms appointing PAWDs are bigger in size compared to firms appointing NAWDs.<sup>23</sup>

We address this issue using three different approaches. First, to control for observed heterogeneity, we follow Roberts and Whited (2013), Liu, Hu and Cheng (2021)

<sup>20</sup>The results should be viewed with caution; the sample size for voluntary PAWDs is only 10.

<sup>21</sup>Earlier, we used the announcement date of a director's appointment for our event study analysis. However, since we are now focusing on operating performance, we use the starting date of a director's tenure for our subsequent analysis of firm performance.

<sup>22</sup>We rerun PSM by (1) excluding firms that appoint more than one director during the year and (2) matching the firms based on characteristics 2 years before the actual appointment of the directors.

<sup>23</sup>However, there is a statistically insignificant difference between the ROAs of firms appointing PAWDs and NAWDs.



Table 9. Multivariate analysis of change in operating performance (ROA)

Dependent variable: ΔROA	PSM matched sample		Entropy balanced sample	
	(1)	(2)	(3)	(4)
PAWD indicator	0.025** (2.00)		0.018** (2.32)	
First PAWD indicator		0.043** (2.26)		0.027** (2.18)
Existing PAWD indicator		0.012 (0.93)		0.009 (1.16)
<i>Firm characteristics</i>				
Market-to-book	-0.002 (-0.93)	-0.002 (-0.90)	0.001 (0.78)	0.001 (0.78)
Volatility	-0.148* (-1.84)	-0.155* (-1.94)	-0.029 (-0.81)	-0.032 (-0.93)
Beta	0.010 (0.38)	0.011 (0.39)	0.006 (0.40)	0.006 (0.40)
Firm size	-0.003 (-0.46)	-0.002 (-0.27)	-0.001 (-0.42)	-0.001 (-0.20)
Leverage	0.057** (2.07)	0.060** (2.19)	0.037* (1.91)	0.039** (2.01)
Intangible investment	0.041 (1.35)	0.041 (1.35)	0.044* (1.93)	0.044* (1.92)
<i>Board characteristics</i>				
Ln(board size)	0.004 (0.11)	0.006 (0.17)	-0.018 (-0.69)	-0.017 (-0.65)
% Independent directors	-0.010 (-0.18)	0.006 (0.12)	-0.061* (-1.74)	-0.053* (-1.66)
CEO duality	0.016 (0.81)	0.014 (0.71)	-0.011 (-0.81)	-0.012 (-0.93)
Award-winning CEO	-0.006 (-0.25)	-0.001 (-0.04)	-0.011 (-0.96)	-0.009 (-0.76)
<i>Director characteristics</i>				
Ln(director age)	0.014 (0.20)	0.013 (0.19)	0.003 (0.07)	0.002 (0.05)
Director gender (1 = Male)	0.002 (0.15)	0.003 (0.16)	-0.000 (-0.04)	0.000 (-0.01)
Director education (1 = Postgraduate)	-0.010 (-0.54)	-0.012 (-0.66)	-0.016 (-1.52)	-0.017* (-1.65)
Director busyness	0.013 (1.50)	0.014 (1.52)	0.003 (0.60)	0.003 (0.60)
Constant	0.110 (0.35)	0.096 (0.31)	0.127 (0.67)	0.125 (0.66)
Observations	242	242	1419	1419
R-squared	0.215	0.225	0.155	0.159
Industry effects	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes

This table reports results from regressions of changes in ROA. Performance before the appointment is calculated as the average over -2 and -3 event years, whereas performance after the appointment is calculated as the average over +1 to +3 event years. PAWD indicator is a dummy variable that equals 1 if a PAW is the appointed director. First PAWD indicator is an indicator variable equal to 1 if at the time of appointment, no other PAWD is on the board. Existing PAWD indicator is a dummy variable equal to 1 if a PAWD is present on the board at the time of the appointment of a PAWD. In columns (1) and (2), the dependent variable is the change in ROA over the propensity score matched sample of NAWD appointments. In columns (3) and (4), we compare ROA around PAWD appointments to an entropy balancing matched sample of NAWDs. We match them on their industry, performance and natural logarithm of total assets, wherein performance and total assets 2 years prior to the event are used. t-stats are presented in brackets and \*, \*\* and \*\*\* denote the statistical significance at 10%, 5% and 1%, respectively.

and Usman *et al.* (2022), and employ the DID method with either a PSM or an entropy balanced matched sample. The results in columns (1) to (4) of Table 9 highlight that firms appointing PAWDs exhibit a significantly larger change in performance compared to a matched sample of firms appointing NAWDs. However,

our results can still be influenced by unobserved heterogeneity.

Hence, we employ 2SLS regression using the instrumental variable (IV) approach. Following Usman *et al.* (2022), we use the percentage of firms in the same industry that appoint PAWDs as the IV. A valid instrument

Table 10. Endogeneity

	2SLS		Two-part model	
	First stage (1)	Second stage (2)	First stage (3)	Second stage (4)
% Firms with PAWDs in an industry (instrument)	0.503*** (3.51)		2.984*** (3.21)	
PAWD indicator (instrumented)		0.143** (2.58)		
PAWD indicator				0.015* (1.77)
Inverse Mills ratio (IMR)				0.126 (1.05)
<i>Firm characteristics</i>				
Market-to-book	0.001 (0.89)	0.001 (1.03)	0.008 (0.85)	0.002 (1.35)
Volatility	-0.025 (-0.36)	-0.067*** (-3.07)	-0.250 (-0.50)	-0.085** (-2.02)
Beta	-0.010 (-0.40)	0.017* (1.93)	0.046 (0.27)	0.017 (1.49)
Ln(firm size)	0.011 (1.39)	-0.005 (-1.63)	0.071 (1.26)	0.006 (0.86)
Leverage	0.001 (0.04)	0.019* (1.95)	-0.021 (-0.10)	0.021 (1.58)
Intangible investment	-0.053 (-1.64)	0.015 (1.17)	-0.444 (-1.59)	-0.039 (-0.82)
<i>Board characteristics</i>				
Ln(board size)	0.020 (0.56)	-0.015 (-1.04)	0.122 (0.49)	-0.009 (-0.45)
% Independent directors	-0.010 (-0.19)	0.005 (0.29)	-0.086 (-0.22)	-0.013 (-0.54)
CEO duality (1 = Yes)	-0.016 (-0.65)	-0.002 (-0.20)	-0.092 (-0.55)	-0.019 (-1.30)
Award-winning CEO	0.034 (0.30)	-0.012 (-0.26)	0.230 (0.33)	0.025 (1.06)
<i>Director characteristics</i>				
Ln(director age)	0.450*** (6.88)	-0.092*** (-2.71)	3.952*** (7.10)	0.399 (0.99)
Director gender (1 = Male)	-0.051** (-2.79)	0.009 (1.30)	-0.444*** (-3.47)	-0.049 (-1.08)
Director education (1 = Postgraduate)	0.040** (2.26)	-0.012 (-1.61)	0.286** (2.17)	0.023 (0.79)
Director busyness	0.004 (0.33)	0.008* (1.69)	0.061 (0.78)	0.013* (1.67)
Constant	-1.945*** (-6.93)	0.435*** (3.18)	-18.954*** (-8.10)	-1.867 (-0.95)
Observations	1419	1419	1419	1419
Industry effects	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes
Adjusted R <sup>2</sup>	0.058		0.156	0.052
Tests for endogeneity (H <sub>0</sub> : regressors are exogenous)				
Durbin chi <sup>2</sup> (p-value)		0.019		
Wu-Hausman F-test (p-value)		0.019		

This table reports the results of the two-stage least squares (2SLS) (columns (1) and (2)) and Heckman two-part model (columns (3) and (4)) regressions. We use the percentage of firms appointing PAWDs in an industry as the instrumental variable. We also report the p-value of the Durbin chi<sup>2</sup> and Wu-Hausman F-test for endogeneity. The null hypothesis is that the regressors are exogenous. t-stats are presented in brackets and \*, \*\* and \*\*\* denote the statistical significance at 10%, 5% and 1%, respectively.

Table 11. Multinomial logit regression of PAWDs

	Politically connected (1)	Voluntary (2)	Business (3)
Market-to-book	0.030 (0.69)	0.066 (1.31)	0.060 (1.50)
Volatility	-1.871* (-1.75)	-2.901 (-1.61)	-1.089 (-0.94)
ROA	0.013 (0.01)	0.254 (0.08)	-0.374 (-0.22)
Cash	0.199 (0.15)	0.822 (0.53)	-2.859* (-1.65)
R&D intensity	-15.182* (-1.83)	-9.290 (-1.00)	-13.385 (-1.48)
SG&A intensity	-1.110 (-0.98)	-2.832 (-1.38)	1.713 (1.61)
Ln(board size)	-1.340* (-1.65)	-3.934*** (-3.43)	-1.728** (-2.15)
% Independent directors	-2.012* (-1.74)	-1.775 (-0.93)	-0.592 (-0.59)
Director education	-0.264 (-0.58)	-0.829 (-1.18)	-0.413 (-0.84)
Director busyness	0.102 (0.40)	-0.502 (-1.30)	0.362 (1.53)
Ln(firm age)	0.142 (0.80)	0.517* (1.81)	0.175 (0.93)
Small cap	0.102 (0.22)	-0.427 (-0.53)	0.001 (0.00)
Large cap	0.361 (0.76)	1.305 (1.23)	0.355 (0.56)
Constant	6.268** (2.37)	-2.435 (-0.54)	-11.896*** (-4.57)
Industry dummies	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes
Observations	305	305	305
Pseudo R <sup>2</sup>	0.186		

This table reports results from multinomial logit regression of PAWDs. The base category is specialized PAWDs. Z-stats are reported in brackets. Robust standard errors were taken and \*, \*\* and \*\*\* denote the statistical significance at 10%, 5% and 1%, respectively.

should be correlated with the endogenous variable (relevancy condition) and should not affect the dependent variable other than via the endogenous variable (exclusion condition), although this condition cannot be empirically tested.

The first-stage results in column (1) of Table 10 show that our IV meets the first condition; it is significantly related to the PAWD indicator (significant at the 1% level). Column (2) shows the results of the second-stage 2SLS regression. We find that after correcting for endogeneity, the appointment of a PAWD leads to a larger change in firm performance (coefficient 0.143; significant at the 5% level). We further test whether our ordinary least squares coefficients were consistent using Durbin chi-square and Wu–Hausman F-tests (e.g. Chakravarty and Hegde, 2019; Farag and Dickinson, 2020). We find that the p-value for both tests is 0.019, indicating that the PAWD indicator was endogenous.

Finally, we apply the Heckman two-part model to further address any concerns regarding self-selection bias. First, we run the following probit model to estimate the

likelihood of appointing PAWDs.

$$\text{Probability(PAWD indicator)}_i = \alpha_i + \beta_1 \text{Instrument}_i + kZ_i + \varepsilon_i \quad (5)$$

where ‘PAWD indicator’ is a dummy variable equalling 1 when a firm appoints a PAWD, and 0 otherwise. Instrument is the percentage of firms with PAWDs in an industry; Z is the set of variables controlling for firm, board, director characteristics and industry and year dummies.

Column (3) of Table 10 reports the results. We find that our IV is significantly related (at the 1% significance level) to the likelihood of appointing PAWDs, as required for Heckman’s estimators (Tao *et al.*, 2022). We then estimate the inverse Mills ratio (IMR) from the first-part probit model and include it as an additional independent variable in our second-part model. In column (4), we see that the coefficient of IMR is not statistically significant, indicating that there is no self-selection bias in our model. However, even without IMR being

significant, we find that the PAWD indicator is positive and significant (albeit at the 10% level), confirming that PAWDs indeed lead to a significantly larger change in operating performance of firms compared to those appointing NAWDs.

#### *Demand for PAWDs and effect of optimal PAWD appointment(s) on long-term performance<sup>24</sup>*

In the previous section, we find that firms appointing PAWDs experience an increase in long-term performance compared to NAWDs. However, companies may actively appoint certain types of PAWDs according to their needs. Hence, we examine whether the long-term performance significantly improves when such 'optimal' PAWDs are made relative to firms appointing 'sub-optimal' PAWDs. To address this issue, we first conduct a multinomial logit regression to identify the probability of appointing a certain type of PAWD based on firm, board and director characteristics. The results are reported in Table 11. We find that firms with low volatility and R&D are significantly more likely to appoint politically connected PAWDs compared to specialized PAWDs. We further find that older firms are more likely to appoint voluntary PAWDs in comparison to specialized PAWDs. Lastly, firms with smaller boards are less likely to appoint specialized directors compared to other PAWDs. This could be because these firms are in need of a director's external network to solicit preferential access to resources or to create linkages with external organizations.

Second, we identify the 'optimal appointment' of a PAWD type using the multinomial logit regression and create a dummy that sets to 1 if the appointment is of the same PAWD category as predicted, and 0 otherwise. We then run an additional set of analyses with the same set of control variables as used in Table 9. The results in Table 12 show that the change in operating performance is significantly greater when an 'optimal appointment' of a PAWD type is made.

## Conclusion

Using the United Kingdom's unique institutional setting of Queen's [now King's] honours as an unambiguous proxy of prestige, we examine whether prestigious directors add value to the appointing firms. We contribute to the extant literature by highlighting the relevance of director prestige and the associated benefits of appointing PAWDs on corporate boards. Drawing on the implications of agency theory and RDT, we argue that director prestige not only acts as an incentive

<sup>24</sup>We thank an anonymous referee for suggesting this analysis, which has lent further robustness to the results.

Table 12. Change in operating performance after optimal appointment of PAWD

Dependent variable: $\Delta$ ROA	(1)
Appointed as required	0.027** (2.16)
Market-to-book	0.000 (0.33)
Volatility	-0.036 (-0.44)
Beta	-0.014 (-0.46)
Ln(firm size)	0.007 (0.79)
Leverage	0.044 (1.55)
Intangible investment	0.091** (2.44)
Ln(board size)	-0.002 (-0.04)
% Independent directors	-0.074 (-1.33)
CEO duality	-0.026 (-1.23)
Award-winning CEO	-0.032 (-0.75)
Ln(director age)	0.047 (0.51)
Director gender	-0.006 (-0.41)
Director education	-0.023 (-1.18)
Director busyness	0.009 (0.91)
Constant	-0.138 (-0.32)
Industry dummies	Yes
Year dummies	Yes
Observations	120
R-squared	0.446

This table reports results for the long-term change in operating performance when an optimal appointment of PAWD is made. We introduce a new dummy variable 'Appointed as required', which sets to 1 when the optimal appointment of a PAWD category is made based on a firm's needs, and 0 otherwise. We further match firm size, performance and industry using the entropy balancing method. t-stats are reported in brackets. \*, \*\* and \*\*\* denote the statistical significance at 10%, 5% and 1%, respectively.

to effectively monitor the management but also signals greater human and social capital.

Consistent with the above arguments, we find that appointing a PAWD is beneficial to firms both short and long term. We show that the market reacts positively to the appointments of PAWDs, and that it values monitoring, preferential access to resources and legitimacy roles of prestigious directors. Our findings with regard to the long-term performance suggest that firms appointing PAWDs experience a larger positive change in their operating profits compared to those appointing NAWDs. Our results are robust to various sources of endogeneity. However, our evidence with



regard to the resource provisioning role of PAWDs should be interpreted with caution. For example, one direct way of testing the resource provisioning role could be to investigate whether firms that appoint politically connected PAWDs win relatively more government contracts.

Moreover, our results suggest that firms actively appoint certain PAWDs according to their needs. For example, those with smaller boards are less likely to appoint specialized directors compared to other PAWDs. This may be because such firms need a director's external network to solicit preferential access to resources or to create linkages with external organizations. We further extend our analysis of long-term performance change and find that firms where the appointed PAWD type is consistent with their needs outperform those which make 'sub-optimal' appointments.

Our empirical evidence has important implications for both agency theory and RDT. Our finding that prestigious directors are better monitors imply that reputation plays an important role in a board's oversight of managerial decisions, particularly in firms with CEO duality, high volatility and low ROA. Our evidence that prestigious directors provide important resources and legitimacy rejects the perception that they are mere 'attractive ornaments on the corporate Christmas tree' (Mace, 1986, p. 107).

Our findings can also help in informing firms and policymakers. First, as with any award, there is some negative press associated with the Queen's honours, especially for those who are politically connected. Our evidence shows that contrary to the scepticism, firms do benefit both in the short and long term by appointing PAWDs, particularly if the appointees have the skillset required by the firm. Second, our study enhances understanding of the mechanisms through which prestige translates into increased firm value. The evidence presented in the study may help firms to know how they can get the most out of a director's prestige. Finally, regulators need to consider the role of boards more holistically, since our evidence shows that boards can provide useful resources and their role is not merely restricted to monitoring managerial decisions.

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## Supporting Information

Additional supporting information can be found online in the Supporting Information section at the end of the article.