

**The role of prestige and networks in outside director appointment**

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# The role of prestige and networks in outside director appointments

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## **ABSTRACT**

We study the role of prestige and social networks in the selection of outside directors, and the subsequent effect on firm value. Both prestige and social networks may act as barriers to good corporate governance, as merit based candidates might be disadvantaged when compared to candidates with a similar social background to the incumbent board. Using a unique database of U.K. directors, Lord or Sir titles (one of the proxies we use for prestige) and networks, we find evidence of such self-selection amongst outside directors that hold the same title. Contrary to popular suspicion, appointments of prestigious outside directors have no effect on firm value, with the exception of appointments to very large boards. We find that titled directors are more likely to hold more directorships, and retire later from their positions. In addition to prestige, a director's professional qualifications and higher education are positively related to the number of directorships they hold. We find no evidence that a shared social network or prestige of outside directors is contrary to shareholder interests.

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“The company promoter wants a man whose name will appeal to the public and who does not know too much about the business. The name will attract capital – the company promoter will do the rest”

**Lord Justice Scrutton** *in the 1932 UK Court of Appeal judgment on Combined Pulp and Paper Mills Ltd*

Despite the lack of direct evidence linking board structure to firm value, policy makers on both sides of the Atlantic have, over recent years, worked on improving both the quality and proportion of outside (non-executive) directors. The importance of boards and outside directors was discussed as early as 1983 by Fama and Jensen (p. 314) who saw boards as “the top-level court of appeals of the internal agent market...”, where “the outside board members act as arbiters in disagreements among internal managers and carry out tasks that involve serious agency problems...”.<sup>2</sup> As accomplished and prestigious individuals, these outside directors carry a combination of attributes including prior experience, access to social networks and prestige that may help them in the nomination process and make them attractive to boards of directors. While the role of prior board and CEO experience is well documented in the market for outside directors (see for example Fich, 2005), the role of prestige and access to social circles has largely been neglected by the literature to date. This is due to two main reasons. First, there is little economic theory to guide empirical researchers as to the value or cost to organizations of social networks represented on the board of directors. The existing theory outlines the role of outside (independent) directors as ‘efficient’ monitors of the management who are themselves free of agency conflicts. Second, memberships of prestigious social circles are often not publicized and difficult to identify empirically. The empirical tests that link social networks to education face additional difficulties in differentiating between the effect of ability and that of prestige.

We address this gap in the literature by using a uniquely detailed database of U.K. non-executive directors that allows us to identify and study prestigious peer groups and networks in the market for outside directorships. We ask the questions: Does prestige matter in the selection of outside directors of firms? Does election of prestigious outside director impact firm value? How important a role does prestige play in shaping the allocation and distribution of outside directorships? We address these questions by using detailed information for over one thousand

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<sup>2</sup> In recognition, NYSE listing rules set out strict formal guidelines with respect to the number and identity of outside directors of U.S. firms. Equally, the Combined Code for U.K. firms highlights boards and especially outside directors as central to the good governance of firms; “When corporate strategies fail or governance lapses, attention rightly focuses on the contribution of the non-executive director.” (Higgs Report, 2003, p. 3).

outside directors of 264 U.K. non-financial firms, and by exploiting a British tradition of awarding titles (i.e. Lord, Baroness and Sir) to signal a person's ability and social standing and prestige. Using biographical information on the director's background, we supplement our database with further proxies of a privileged education and access to business (corporate) networks, charity and social organizations, membership of professional bodies and government experience. .

Our study is divided into three sections. First, we investigate and find evidence of self-selection among director peer groups. Self-selection is the probability that, *ceteris paribus*, boards with titled directors are more likely to select new directors with similar titles to their own. We find significant self-selection among politically titled directors (e.g., Lords, and The Rt. Hon. former cabinet members).<sup>3</sup> In line with this, directors with a Sir title are more likely to be appointed to larger boards, and boards that also include Sirs as outside directors. We observe a similar phenomenon for the self-selection of outside directors with the professor title.

Second, using instrumental techniques to control for business experience and ability, we can isolate and test for the effect of an outside director's prestige on firm value using announcement effects of new director appointments. We find that the prestige of a director – independent of his ability – has no significant effect on firm value. However, this is not the case for very large boards (over twelve directors), where prestige seems to carry value in itself, resulting in positive and significant announcement effects. We also find that previous outside directorship experience is associated with significant positive announcement effects.

Third, we observe that prestige helps directors to obtain multiple directorships, while controlling for professional and academic qualifications, prior work experience and firm performance. We find that prestigious directors are less likely to retire from boards, after controlling for tenure and age, suggesting that the greater number of directorship may in partly be due to the lower turnover of these directors. The results suggest that the number of directorships, commonly used as a proxy for experience and director quality, may also represent non-ability related attributes like prestige and peer group networks that increase director's ability to obtain outside directorships.

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<sup>3</sup> In this study, we assume that our economic relationships are driven by demand side factors. In fact, it is likely that they are an equilibrium outcome of a matching process between the firms choice to nominate (demand) and the directors' choice to accept (supply). However, without information about instances of refused directorships (non-supply) or refused nominations (non-demand), we are unable to distinguish between these two effects. We therefore follow the prior literature, and assume that directors always accept nominations, and therefore the supply of outside directors is perfectly elastic.

The importance of prestigious directors on British boards was identified as early as 1939 by Wilfred May, who argued that boards used peers to attract capital and wrote "... in particular for prospectus purposes, boards are dressed up for snobbery appeal". He pointed out that almost a third of all British peers held at least one UK board seat, and questioned the contribution (if any) they made to a board. He went on to quote a senior official as: "I so frequently find they [directors] are expert in nothing at all. They have merely got a nice sounding name to put onto the prospectus. They can offer nothing but that name or that acquaintance they have who can be induced to put up the capital" (p. 484). Despite the apparent frequency of prestigious directors, and the popular suspicion of agency costs, no studies have addressed their effect on governance. This is the first study to document the selection of prestigious outside directors to boards and their effect on firm value.

Prestige is in itself a multi-dimensional construct, which makes it difficult to quantify. In most general terms it can be defined as having status, which is composed out of a mixture of defined attributes like education, experience, social connections and skills. (D'Aveni, 1990, and D'Aveni and Fesner, 1993). Work in sociology suggests that an individual's prestige is in addition a partly subjective concept that "resides in the minds of other individuals – specifically that individual's subjectively associate prestige with another's occupational characteristics" (Certo, 2003, p. 436). On the "individual level, prestige helps to maintain an illusion of competence and control by influencing interpersonal reactions to the individual. That is, prestige is taken as an indication that the manager is competent, credible and trustworthy" (D'Aveni, 1990, p. 121). In this paper, we focus on the 'illusion of competence', hence the component of prestige that is not underpinned by hard attributes like education but is associated with a good name alone.

This paper is organized so that Chapter I below discusses the literature, Chapter II outlines the data and presents the summary statistics, and Chapter III analyses the self-selection of new directors amongst their peer groups. Chapter IV then analyses the impact on firm performance, while Chapter V discusses the determinants of multiple board appointments. Chapter VI concludes.

## **I. Boards, Non-executive Directors and Their Impact on Firms**

In general, boards comprise the executives who manage the firm, and non-executives who control and advise them. While the general structure is the same all over the world for publicly listed companies; their form and composition differs. Similarly, their fiduciary duty of protecting the interests of shareholders is uniform, but is supplemented in certain countries by their duty towards the interests of other stakeholders. The U.K. corporate governance system is in its structure very similar to the U.S. system with a unitary board and compulsory audit, nomination and remuneration committees. It differs from the U.S. system in respect to the separation of the role of the chairman and chief executive. In addition, English corporate law allocates substantially more power to shareholders, which effectively curtail the power of the board when compared to the US. The Combined Code (the U.K. Corporate Governance code) requires all members of the remuneration committee to be independent outside directors, and the majority of its nomination committee. All outside (non-executive) board members in the U.K. are elected on a three year basis, and should be re-elected for a maximum of three terms in total.

The academic evidence linking U.S. board structure to firm performance is inconclusive. Neither board composition nor board leadership structure has been consistently linked to firm performance (see for example Bhagat and Black, 2000; Klein, 1998; Hermalin and Weisbach, 2003). However, there has been more success linking board structure to particular events that ultimately help to improve the performance of the firm. Outside directors had been positively linked to performance-increasing restructuring programs (Perry and Shivdasani, 2005) and target shareholder gains in a hostile takeover (Cotter *et al.*, 1997), CEO turnover in underperforming firms (Weisbach, 1988), while Hermalin and Weisbach (1988) find that negative firm performance will lead to a higher number of outside directors on a board. Overall, there is considerable evidence that shows that smaller boards might be more effective than larger ones (Yermack, 1996; Wu, 2000), validating an opinion expressed earlier by Lipton and Lorsch (1992)).

Quantifying the quality of an outside director is a challenging task, as the director's personal characteristics are largely unobservable. In the U.S. context, a well-established indicator for a director's quality is the number of outside directorships held (Fama and Jensen, 1983; Kaplan and Reishus, 1990; Coles and Hoi, 2003; Farrell and Whidbee; 2000; Harford, 2003; Yermack, 2004). It is argued that directors get elected onto additional boards if their companies show

superior performance, and this performance is in part attributable to them (e.g., Gilson, 1990). These directors are termed professional directors, and are more likely to be hired by larger, more profitable firms (Ferris, Jagannathan and Pritchard, 2003). Opponents of this view argue that directors eventually become too busy to mind their boards, decreasing with every appointment the marginal value they can add to each board (e.g., Fich and Shivdasani, 2006). It is therefore not clear if directors with multiple directorships always represent value for the hiring board. As multiple directorships are the observed ex-post outcome of a decision to hire a director, they are an indirect measure of director quality. This is because the appointment of a new director is likely to reflect the outcome of a bargaining game that takes into account the firm's, as well as the director's, characteristics.

Another strand of the literature looks at the announcement effects of director appointments to develop attributes of non-executive directors that are well sought after by the market. Rosenstein and Wyatt (1990) find that - on average - there is a positive announcement effect following the announcement of a new appointment of outside director to U.S. boards. These results were subsequently qualified by Shivdasani and Yermack (1999), who confirmed on average announcement effects for appointments where the CEO was not involved, versus average negative announcement where the CEO was involved. Fich (2005) established that CEOs of other companies were comparatively more sought after by the market - as measured by their announcement effects - and that successful CEOs are particularly sought after by growth companies. However Lin *et al.* (2003) could not establish any general announcement effects for the U.K. for the period 1993-1996. The contrasting results may be due to differences in outside director quality that leads to some, but not all, appointments drawing positive stock price returns.

Our study primarily builds on the existing literature on corporate governance and the efficiency of boards. Our primary contribution lies in extending and refining the selection criteria for outside directorships.

## **II. Data and Summary Statistics**

We construct a unique dataset containing the board members of all non-financial firms that form part of the FTSE 350 in 2001 and 2004.<sup>4</sup> Our sample contains the largest 264 listed non-financial

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<sup>4</sup> Unfortunately, accurate information on directorships for the years prior to 2001 is not available.

U.K. firms that were constituents of the FTSE 350 in these years.<sup>5</sup> We obtain the firm's accounting information from Compustat Global and match these with share price information obtained from DataStream Advance. The median book (market) value of companies is £675.8 (£576.6) million and £828.62 (£664.8) in 2001 and 2004 respectively. The median market to book remains relatively stable at 1.4 in 2001 and 1.45 in 2004, as does the six month average daily stock price variance.

Our approach is to study the cross-sectional determinants of discrete changes in directorships over this three year period. We use three years as the appointment cycle for outside directorships. As these appointments are staggered, a three year window ensures that each director in our sample stands for re-election at least once. This way, we ensure that we collect data on every appointment, re-election or departure for every director once in the cycle.

Next, we obtain information about the firms' board of directors, including board size and individual board director characteristics from BoardEx<sup>6</sup> for both 2001 and 2004. The average board size of the firms in our sample declined from 9.39 in 2001 to 9.18 by 2004. In addition, the number of very large boards (of at least 14 directors or more) declined from 20 such boards to 14 over the same period. In line with changes to the U.K. Combined Code in 2003<sup>7</sup>, companies decreased instances of joint chairman/CEO roles from 7.2% to 4.2% and increased the ratio of outside directors on their boards.<sup>8</sup> The characteristics of the companies in our sample are depicted in Table I below.

<Insert Table I about here>

We focus our analysis on outside directors only and therefore excluded all directors that held executive positions either in 2001 or 2004. We obtain detailed information on director characteristics including age and tenure on the board, as well as information about the director's

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<sup>5</sup> We choose firms that survived over this three year period to control for variations in the composition of firms in our sample. Of the total number of non-financial firms in the FTSE 350, 47 exited through delisting, acquisition and/or bankruptcy between 2001 and 2004.

<sup>6</sup> BoardEx is a private data vendor that collects detailed information on board and director characteristics, including director identities and history of the board. For further information see [www.boardex.com](http://www.boardex.com).

<sup>7</sup> The recommendations of the Higgs Report were incorporated into the Combined Code - the U.K. Corporate Governance Code - and came into effect on the 01. November 2003.

<sup>8</sup> There was only one firm (Wm Morrison Supermarkets PLC) that did not appoint any outside directors to the board in both 2001 and 2004.



titles and networks from BoardEx. We ensured that all titles of outside directors were obtained prior to 2001, and so are not related to board appointments.

## **A. Outside Director Titles**

Directors in the U.K. may carry titles in their name including ‘Sir’, ‘Lord’, ‘The Rt. Honourable’ and ‘Professor’. Honours titles (Lord and Sir) go back as far as 1348 and are by now a distinctive feature of British society, where the Queen awards – at the recommendations of the Prime Minister and others – about 3000 titles and medals annually. They are awarded for outstanding achievements or exceptional service to the community, at all levels. They are therefore accolades and act as public signals of director’s reputation.

We argue that titles are an indicator of the otherwise unobservable prestige and peer groups of an outside director. Our empirical identification does not require a casual relationship between prestige and titles, only a positive association. As there is also likely to be a positive association between titles and a director’s expertise, we will later seek to separate these two effects of ability and prestige. To our knowledge, no other country in the world integrates a person’s honorable award into their name; this provides a unique opportunity for us to use it as an indicator for both the directors’ ability as well as prestige – which to the best of our knowledge nobody else has done before.

### **A.1. Lord, Baroness and The Rt. Honorable**

The title of Lord (or ‘Baroness’ if the recipient is a woman) is to a large extent awarded for achievements in political positions and involvement in political projects. It carries with it the right to vote in the House of Lords, the upper house of the English legislative system.<sup>9</sup> ‘Lord’ titles may be inherited, though there are a declining number of these on U.K. boards. For example in our sample, only three carry an inherited Lords<sup>10</sup> title. The other politically related title is ‘Right Honourable’, which identifies a current or former member of the cabinet, while the

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<sup>9</sup> Although all Lords have the theoretical right to vote on every decision, only a few actually do so. The House of Lords is divided into peers with a clear political orientation and party background and who sit on the Labour, Conservative or Liberal Democrats bench respectively. They are appointed with the expectation to regularly appear in the House of Lords and to follow party lines. In addition, there are those peers that are appointed with no clear party link, who sit on the cross-bench and who normally only vote on issues where they have a particular interest or knowledge in.

<sup>10</sup> Out of a total of 92 hereditary peers which were allowed to remain in the House of Lords following the House of Lords Act from 1999. The House of Lords has 746 members in January 2007.

‘Honourable’ identifies a member of parliament. These directors may obtain outside directorships after they have resigned their government posts, but may still maintain informal links with government.

## **A.2. Sir, Madam and Professor**

In contrast, achievement in other parts of society like business and management, sport or any other non-political achievements are awarded a honorary ‘Sir’ title. Individuals with this title are likely to have made significant achievements in one of a variety of fields, often in business or science but also in areas like the arts or sport. Unlike the political titles defined above, many of the Sirs may not have worked in government positions<sup>11</sup>.

The final group of titled directors is directors with the ‘Professor’ title. Though not directly related to business operations, these titles are either awarded for achievement in the academic sciences or indirect contributions to academic institutions that than merit an honorary degree. We observe instances of honorary degrees, but can not directly identify reasons for their award. However, we could establish that 43% of outside directors with a Professors title had their title awarded as an honorary academic degree (Table II).

## **B. Outside Director Networks**

As we have outlined above, access to social groups and networks might have a considerable influence on the likelihood of being appointed to a board. To analyze this, we have constructed a social network variable that captures the breath of business and government contacts of a director. We measure a director’s business network as the number of individuals a director has worked with in board or senior management positions over their available work history<sup>12</sup> through their positions in private companies both in the U.K. and internationally. BoardEx, our data supplier, sourced the information on the director’s work history through company websites, news announcements, and other publicly available information sources<sup>13</sup>. Formally:

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<sup>11</sup> Again, as an exception to the rule, lower ranked public servants, or those serving in less important ministries, will only receive a Sir and not a Lord title upon retirement from government.

<sup>12</sup> The work history of the director is often voluntarily disclosed, and may range back twenty or more years.

<sup>13</sup> In some instances this included the director’s CV.

$$N_i = \sum_m \sum_j I_{ijm}$$

Where  $N_i$  is the network of director 'i',  $I_{ijm}$  is the indicator variable if director 'i' worked with director 'j' in company 'm'.<sup>14</sup> The director's network is the number (breadth) of connections that indicates the range of professional experience a director has had in his/her professional life.<sup>15</sup> The sum of networks are likely to be higher for more experienced, as well as more transparent directors, two characteristics sought after in the market for outside directors.<sup>16</sup>

Table II depicts the key characteristics of titled directors on U.K. boards in 2001 and 2004. In both years of our sample, titled directors are – on average – older, hold higher degrees and are more likely to have graduated from Oxford or Cambridge, two of the most prestigious universities in the United Kingdom. There is little difference in professional qualifications, but titled directors do have significantly higher corporate networks, have worked at a greater number of companies and are more likely to hold government experience when compared with non-titled directors. Finally, titled directors sit on larger boards of larger companies, and with a greater share of outsider directors.

In contrast to Agrawal and Knoeber (2001), we do not find that political titled directors are statistically more likely in any one industry grouping, though they do feature more prominently in the services and manufacturing industries (Appendix Table I). However, Sir and Professor titles appear to be more prominent in the manufacturing sectors and in the chemical and pharmaceutical sectors. Our analysis suggests some, but not a great deal of, grouping by industry sector of titled outside directors.

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<sup>14</sup> Multiple network connections to a single individual, through companies and/or other work experience are counted as a single connection.

<sup>15</sup> In this sense, our variable is 'blind' to any single relationship between two directors.

<sup>16</sup> It is also likely to under-estimate networks of directors from the fields of consulting or the legal profession where the identity of the clients may be less transparent. This is a natural limitation of any network-related variable that seeks to identify less advertised professional relationships between directors.

### **III. Self-selection in the appointment of outside directors**

When sitting on boards, it is likely that directors derive some value from working with peers of the same background and characteristics. In addition, board functionality may increase with similarity of the directors' mindset, potentially at the cost of diversity and innovation.<sup>17</sup>

Zajac and Westphal (1996) observed that boards hiring a new CEO that is coming from outside the firm have a tendency to choose candidates that are demographically similar to themselves. In addition, Nguyen-Dang (2005) documents for the French corporate elite that once the CEO and the board members are from the same social circle, underperforming CEOs are less likely to lose their job. If these CEOs are nevertheless ousted from their position, they are then more likely to find a good position afterwards, supportive of the significance of peer group networks among CEOs and outside directors.

U.K. corporate governance standards require a formal, rigorous and transparent procedure by the board for the nomination of new outside directors. The nomination committee, usually chaired by the Chairman or an independent outside director, decides on the nominees that are usually subsequently elected by the shareholders. It is therefore likely that the identities of the chairman and other non-executives determine the new director's characteristics if self-selection is significant. Alternately, the CEO's characteristics may also impact the choice of new outside directors if she has significant influence over the board.

To separate the effect of prestige and ability in the director's title, we apply non-linear instrumentation to the ex ante presence of titles on a board, prior to the appointment of a new director. The choice of instruments is challenging and non-trivial as they should be correlated with the unobservable prestige of directors, but not with their ability to govern a firm. Our choice of instruments is motivated by indicators of prestige and upper class in the U.K. First, we argue that an education from Oxford, Cambridge or Eton College indicate the director's likely ex ante (or ex-post) access to peer groups arising from these institutions. Tuition at these prestigious institutions may compliment or establish an individual's access to prestigious peer groups. Second, we use the director's networks derived from non-commercial positions (in charities and

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<sup>17</sup> As information from heterogeneous information sources are systematically eliminated from the board.

government institutions) as possible indicators of the director's access to prestigious peer groups. Finally, directors born and raised in the U.K. and with an English heritage are more likely to have access to prestigious social groups within the U.K. than foreign directors. We include an indicator variable that is unity if the director's nationality is English.

The new appointment of a prestigious director may be due to some unobservable characteristics of the firm, rather than the directors that sit on it's board. Equivalently, the probability of a titled peer appointment may be conditionally observed based on the board's characteristics. To separate these two effects, we employ a first stage Heckman's selection model to address the systematic components of the selection of new titled directors to boards (Heckman, 1979). The first stage estimates the probability of having any titled directors on the board of directors prior to appointment. The instrumental (independent) variables are the proportion of English directors, those with studies from elite universities of Oxford, Cambridge and/or Eton College education. In addition, we add the board's mean government and non-private sector (charity and other NFP organizations) networks, calculated in the same manner as our primary private sector networks variable. The corrected error terms from the first stage regression are used to estimate the second stage in the form:

$$NewDirector\_Title_{2001-2004} = \beta_1(OutsideDirectors\_Title_{2001}) + \beta_2(Chair\_title_{2001}) + \beta_3(CEO\_title_{2001}) + \beta_4(ExitingDirector\_Title_{2001}) + \beta_4(Contols) + e_{ij}$$

*NewDirector\_Title<sub>2004</sub>* is the title of the newly appointed director that joined the firm between 2001 and 2004. *OutsideDirector\_Title<sub>2001</sub>* is a dichotomous variable that is unity if any of the outside directors on the board - prior to appointment - shared the same title as the appointed director. *Chair\_title<sub>2001</sub>* is unity if the chairman shared a title with the appointed director, while *CEO\_title<sub>2001</sub>* is unity if the CEO has any title at all<sup>18</sup>. The *ExitingDirector\_Title<sub>2001</sub>* is an indicator variable that is unity if any of the exiting director(s) has a title.

The empirical model is similar to Shivdasani and Yermack (1999) who examine the probability of appointment of an outside director in U.S. firms. The empirical estimation also requires us to identify those independent outside directors that were not promoted within the firm. We manually identify each director's election date and circumstances to ensure that the director was

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<sup>18</sup> The occurrence of CEO titles is very rare in our sample,

not promoted internally from an executive position that would compromise the otherwise objective selection criteria. We exclude all directors for whom we do not have an election date. We report in Table III below the probability of electing a titled director.

<Insert Table III about here>

We observe that the probability of electing a political titled director (Lord/The Rt. Hon) to a board is greater if the chairman of the board has also a political title; this effect is unrelated to other firm or board level effects. We do not find a similar effect for Chairmen that hold a Sir or Academic title, but we find that in these cases the peer-group specific self-selection works between the outside directors and the newly appointed directors. Consistent with U.K. corporate governance practices, we find that the CEO's peer group has no impact on the characteristics of the newly elected directors. In summary, our results show that Chairmen and outside directors exert significant influence on the nomination committees and seem to be favoring (implicitly or explicitly) their own peer group in the selection of new directors.

In addition to peer groups, we also examine the determinants of the newly elected director's networks, the results of which are shown in Table IV. As business networks of the board are likely to be correlated with both the board's ability and prestige, we instrument the board's networks using the instruments outlined in the previous analysis in a first stage regression. The instrumented variables represent the prestige element associated with greater networks. The second stage regression estimates:

$$\log(NewDirector\_Network_{2001-2004}) = \beta_1(OutsideDirector\_Network_{2001}) + \beta_2(Chair\_Network_{2001}) + \beta_3(CEO\_Network_{2001}) + \beta_4(ExitingDirector\_Network_{2001}) + \beta_4(Controls) + e_{ij}$$

We find that high corporate network directors are elected onto boards with greater business networks, supporting our previous findings of self-selection of directors with similar characteristics. The second regression shows that while both outside director's and the chairman's business networks are positive, it is the chairman's business network that is most successful in drawing high network directors to the board of directors. Our empirical results are consistent with the important role of the Chairman in the election of new outside directors on U.K. boards.

<Insert Table IV About here>

#### **IV. Outside Director Prestige and Firm Value**

The relationship between board structure and firm value is a long contested subject in finance due to difficulties in establishing causality between firm value and corporate governance. This is because the mechanism and timing through which corporate governance influences shareholder value is not readily observable. As an example, good boards may implement corporate strategic initiatives that enhance shareholder value over different time-horizons, sometimes years after the board has been replaced. Therefore, the marginal effect of a change in governance is often related to a change in the market value of the firm, and can be measured through the announcement effect of an outside director appointment.

There is a well established literature (e.g. Rosenstein and Wyatt (1990, 1997); Lee, Rosenstein and Wyatt (1999); Shivdasani and Yermack (1999); Fich and Shivdasani (2006); DeFond *et al.* (2005)) that examines and find statistically significant stock price reactions to the announcement of new outside directors to a board. We follow this methodology by examining the determinants of the announcement returns of appointments of new independent outside directors to our sample firms' boards.

We find 578 announcements of outside director appointments between 2001 and 2004 on Bloomberg news. Of these, 238 (79) coincided with AGM (interim) results announcements, 48 with major acquisition/sale of assets, seven with analyst recommendation changes and 19 with other major (unrelated) company announcements.<sup>19</sup> We focus our attention on the appointment of independent outside directors and find 157 announcements that meet these criteria. A total of 28 titled directors were appointed between 2001 and 2004, eight political titled directors (six Lords and two Rt. Honorable), seven Sirs/Madam and only three professors. The small sample size reflects the precise (albeit conservative) approach used to construct a clean sample of announcement effects. We calculate the abnormal announcement effect using Dodd and Warner

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<sup>19</sup> We also exclude multiple observations where firms made multiple director appointments, including senior executive positions.

(1983) two days around the announcement date ( $t_{-1}$  to  $t_{+1}$ ).<sup>20</sup> The distribution of returns is close to the normal distribution, centered at 0.001% and reported in Figure 1. The mean (median) return is 0.166% (0.108%), and is similarly small in magnitude, though different in sign, to those reported by Shivdasani and Yermack (1999). We model the determinants of the abnormal returns as being a function of the director's peer groups (titles) and of controls for exiting (titled) directors, the director's age, prior board experience and highest university degree. We also control for the firm's ROA, firm size, board size, percent of outside directors on the board and the CEO's age.

As outlined previously, titles reflect a combination of prestige and ability. The correlation between director titles and the unobserved ability is likely to bias our coefficient estimates and requires instrumentation. We estimate a first-stage probit regression using the director's title as the dependent variable and our instrumental variables, as described above, as the independent variable. The second stage employs the predicted probabilities<sup>21</sup> to estimate their effect on the abnormal announcement. Correctly chosen instruments will ensure that our estimates show the marginal effect of the reputation of a peer group (rather than ability) on the announcement effect of new outside directors.

The results for the second stage estimation are reported in Tables V and VI. Table V shows the result for the impact of the peer groups of an appointed outside director. The coefficient is positive but is only significant at the 10% significance level. The positive coefficient appears to indicate that there is some value (albeit very small in economic terms) associated with the prestige of peer groups joining a board. We further interact our indicator for peer groups with the board size indicator to test if this effect varies across different governance organizations. We separate boards into three size categories (i) from four to seven members, (ii) eight to twelve members and (iii) more than twelve directors. The cutoffs for the board size are chosen consistent with the bottom 25%, middle 50% and top 25% percentile groups of firms in our sample. The results, reported in the second regression of Table V, shows that the prestige of titled directors in itself seems to be of no value except for large boards. For these large boards, one standard deviation shift in the instrumented probability variable results in a 0.9% positive change in the abnormal return on announcement .

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<sup>20</sup> Using the natural logarithm of including only one day returns does not qualitatively alter our results.

<sup>21</sup> Using the continuous predicted values from the first-stage does not significantly alter our results.



As further evidence of our results, we adjusted the dependent variable ‘CAR’ with the inverse estimated probability  $(1 - \text{Pr}(x))^{-1}$  of an outside director appointment (Shivdasani and Yermack, 1999).<sup>22</sup> The adjusted CAR represents the estimated stock price reaction to the director appointment if the appointment had been unanticipated. The results are consistent with our baseline model and increase the economic significance of the appointment of a prestigious outside director, independent of the director’s ability, to 1.67% positive change per one unit change in standard deviation.

<Insert Table V about Here>

Table VI reports the regression results by dissecting titles into political, ‘Sir/Madam’ and Professor and interacting the instrumented values of each of these with the board size as before. We observe a positive and significant announcement effect for outside directors with a political and ‘Sir/Madam’ title joining large boards, while equally we find a negative announcement effect for directors with academic titles joining small boards. The positive announcement effect of the directors with political and Sir/Madam titles joining large boards may be due to the value of political clout and/or connections brought to large organizations (Agrawal and Knoeber, 2001).

An alternate explanation may be that prestige acts as a certification signal from the newly appointed director to the market about the quality of the firm. Consider the case where a prestigious director with reputation concerns is approached to sit on a board. If the appointee firm is large (with a large board) this is likely to result in significant public exposure for the director. The exposure of the firm is therefore directly related to the negative publicity the director may receive if the firm fails. Assuming that the appointee director conducts some due diligence before taking the position, she is likely to accept the position conditional on a favorable signal about the economic health of the firm. The greater the prestige and therefore reputation concerns of the director, the more likely that the director’s signal will be a significant determinant of the decision to accept the position. On the announcement date, the market may perceive the director’s decision to accept the nomination as an indicator of the director’s favorable private signal. In addition, the reputation concerns of a prestigious director may signal a greater motivation to monitor management.

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<sup>22</sup> We estimate the probability of an outside director appointment using a broader sample of both outside and executive director appointments and explanatory variables of the board’s characteristics including CEO age, exiting director characteristics, firm and board size and ROA following Shivdasani and Yermack (1999).

A third explanation is that our instruments for prestige are also capturing some form of business ability, and that we do not control for some of these in our regression. For example, if attendance at prestigious organizations like Oxford and Cambridge is correlated with a director's business skills on a board, then our instrumented proxy may also be capturing ability effects. Due to data limitations, we are unable to pursue a finer investigation of a director's background or family history that may provide a clearer indicator prestige.

<Insert Table VI About here>

We find that prior board experience as an outside director (by holding two or more such positions prior to the announcement of an additional board seat) is valued by the market, increasing the appointee firm's market value by an economically significant 2.2%.<sup>23</sup> Our positive economic effect arises from a small number of directors with two or three prior directorships, as our sample does not contain any directors with the large number of directorships that would classify them as a 'busy' director. We are therefore unable to test the hypothesis that 'busy' directors with many directorships are associated with weak corporates and lower firm value (Fich and Shivdasani, 2006).

## **V. Multiple Directorships, Director Reputation and Networks**

The choice of new board members may represent a combination of other, non-ability based, factors, as we have shown in Section III, This suggests that the number of directorships is a noisy indicator of director quality, which we aim to improve and qualify with this paper. The next part of our analysis provides a direct measure of the effect of non-board experience and prestige on the probability of obtaining outside directorships.

On casual observation, instances of directors with multiple directorships are relatively similar on both sides of the Atlantic. A majority of 87% and 82% of directors in 2001 and 2004 respectively hold only one outside position in the U.K., while Ferris, Jagannathan and Pritchard (2003) report a corresponding figure of 81.5% for the U.S.. Looking at the U.K., professional directors are more likely to have titles and command greater business networks than other

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<sup>23</sup> We are unable to test if directors become 'too busy' due to sample limitations as there is only one director that held more than three directorships in our announcement return sample.

directors. Interestingly, they are also more likely to hold degrees from prestigious institutions like Cambridge and Oxford, most significantly in 2001, but are equally likely to hold business degrees. Multiple board directors are more likely to be affiliated with professional bodies (like accounting or bankers associations), especially in 2004. The dissemination of recent changes in corporate governance standards (Higgs Report, 2003) is likely to have contributed to an increased shift toward accounting and other qualifications being present on the board. Neither government experience nor firm size is significantly different across single and multiple board directors.

<Insert Table VII about here>

To relate multiple directorships to our indicators for director quality, we regress the number of board positions held as at 2004 against (i) prestige component of a director's titles, (ii) a director's business networks, (iii) measures of director ability like the highest degree or affiliations to professional bodies, (iv) director's tenure<sup>24</sup> and age and (v) controls for the firm's characteristics motivated by Saunders and Shivdasani (1999). Due to the problems of endogeneity, the dependent variable of multiple directorships is measured at 2004 while the other directors' and firms' characteristics are measured at 2001.<sup>25</sup> The regression is estimated using an ordered probit with robust errors, with the results reported in Table VIII below.

< Insert Table VIII about here>

The prestige of holding a title increases the likelihood of holding multiple directorships, as do higher business networks. This result is consistent with our previous findings of self-selection among prestigious directors. Our findings compliment the existing literature on the value of business experience in the market for outside directors. The second regression estimates the probability of retirement; the probability that the director holds no board seats in 2004 given that they held at least one in 2001. The results in Table VIII show that prestigious directors are less likely to retire from boards even after controlling for their age, tenure and experience. Calculating the marginal effect, titled directors are 13% less likely to retire than their non-titled

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<sup>24</sup> We use an indicator variable for outside directors with over six years of service on the same board. The Higgs Report (2003) suggests that "A non-executive director should normally be expected to serve two three-year terms..".

<sup>25</sup> For professional directors, we take the average of the firm characteristics and tenure on the board, and set the committee membership as unity if the director is a member of any of these committees.

peers. This does not vary with the director's age and suggests some scope for agency costs related to prestigious outside directors

Our results also show that directors with higher degrees (qualifications) are more likely to hold multiple directorships suggesting that boards value academic and business training. Interestingly, government experience does not in itself lead to additional directorships. This supports the argument that a finer measure of networks, for example titles and particular social networks, are a more accurate measure of the role of prestige in these markets. In addition, directors above the retirement age of 65 are 38%, while director's with more than six years on the same board are 29% more likely to retire.

As a second test, we construct a matched sample of titled and non-titled directors shown in Table IX. The matching criteria are the director's age, business networks, firm size and formal education (the number of degrees).<sup>26</sup> The control group of directors matches in each of these criteria closely, as shown by the insignificant test-of-means scores between the two samples. Consistent with our earlier results, the titled directors hold more directorships in both 2001 and 2004, as well as, more chairmanships in 2001. These differences are statistically significant at the 99% confidence interval. Finally, titled directors are more likely to stay on boards, but have similar qualifications and sit on similar sized boards as their matched counter-parts. Titled directors are more likely to hold government experience, consistent with the search criteria associated with the selection of politically titled directors. In economic terms, titled directors hold on average 0.284 more directorships equivalent to an expected £12,567 a year in outside director salaries.<sup>27</sup> Using our average sampled tenure of 5.5 years and a discount rate of 5%, the direct value of a title in terms of an outside director's salary is £59,155.

< Insert Table IX about here >

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<sup>26</sup> The control sample is chosen from the other (non-titled) outside directors. For each pair of directors, we calculate the difference between each matching criteria (i.e. age) and standardise the difference by the standard deviation of the variable. We then take the sum of the standardised differences for all four of the matching criteria for each titled director. The (non-titled) director with the minimum value represents the closest match for our titled sample.

<sup>27</sup> The average salary of £44,250 for a U.K. outside (non-executive) director is obtained from KPMG 2004 Survey of FTSE 100 Directors' Compensation.

## **VI. Discussion**

This paper examines the economic impact of prestige and director networks on the choice of outside director and firm value. We have four primary results. First, we find evidence that outside directors on boards self-select other directors with a similar background (titles) and networks. Our empirical tests control for the endogeneity of the board composition prior to appointment, and find that both outside directors and the chairman have a significant bias towards their own peer group.

Second, when isolating the prestige component of titles (as compared to ability), we find that the election of titled directors (in particular Lords and Sirs) do not significantly impact firm value, except for the largest boards. This indicates that the selection process of outside directors is in general sufficient as it focuses on the ability of outside directors. It also shows that prestige can be of value on large boards. We present a number of hypotheses to explain how prestige may act as a positive signal of firm value.

Third, we find that investors value experienced outside directors, reflected by a positive and significant announcement effect. However, we are unable to test the ‘busy’ hypothesis of too many directorships as put forward by Fich and Shivdasani (2006). As we control for the ability and prestige of directors, our results suggest that the number of directorships may reflect other, non-ability based attributes that are valued by the market.

Fourth, we find that the number of directorships is positively related to an outside director’s prestige, as well as their ability measured by the number of formal qualifications and education. In addition, we also find that prestigious directors are less likely to retire from boards, after controlling for tenure and age as well as qualifications and experience. Our results are consistent with self-selection among directors of similar (social) backgrounds and suggest that the number of directorships is likely to represent a combination of director characteristics, including director’s prestige. Consistent with good corporate governance practices, professional qualification and higher university education are both valued in the market for outside directorships.

Our results show that social networks and prestige matter in the market for outside directors. It is not clear if this arises due to agency problems or through an efficient signaling mechanism of unobservable director quality. Contrary to popular suspicion, we do not find evidence of agency costs for firms that elect prestigious outside directors, while at the same time only the largest boards appear to benefit positively from the prestige of outside directors. One possible explanation for this is that prestige and social networks provide the glue that ensure that boards “maintain a shared sense of collegiality and a common understanding of all the issues facing the company”, which Martin Lipton claims is essential for the well functioning of a board (Lipton, 2006b, p. 2).

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**Table I: Firm Summary Statistics**

The sample consists of 264 U.K. listed firms that formed part of the FTSE 350 in 2001 and 2004. The accounting and market statistics are at the annual report date while the stock variance is measured over the six months prior to the reporting date. Statistics marked '\*' are reported medians.

	<b>2001</b>	<b>2004</b>
Board Size	9.39 (2.9)	9.18 (2.6)
Proportion of Outside Directors	0.54 (0.14)	0.58 (0.12)
CEO/Chairman Firms	7.2% (0.26)	4.2% (0.20)
Profitability (Earnings / Assets)	0.06 (0.10)	0.07 (0.11)
Book Value of Assets*	675.77	828.62
Market Value of Equity*	576.55	664.835
Market-to-Book*	1.40	1.45
Daily Stock Return Variance	1.884 (0.888)	2.291 (0.994)

**Table II. Titles and characteristics of Non-Executive Directors on UK boards**

The sample consists of outside directors on the boards of 264 U.K.'s largest non-financial firms that form part of the FTSE 350 index. Titled directors are classified as those with a 'Sir/Madam' title, those with political titles of 'Lord/Baroness' and 'The Rt. Hon.', and those with the 'Professor' title. Directors may hold multiple titles. The board size, percent of outside directors, tenure and firm size are recorded as at the firm's annual reporting date 2001 and 2004. The significance tests are Wilcoxon rank-sum (Mann-Whitney) test for discrete variables and test of proportions for dichotomous variables. The '\*\*\*', '\*\*' and '\*' denote significance at the 1%, 5% and 10% significance levels respectively.

	Non-Titled Directors	Titled Directors	Political Title	Sir/Madam Title	Professor Title	Title vs. Non- Titled Director
<b>Panel A - Director Education and Experience</b>	1363	263	98	164	30	
Director age	58.015 (7.660)	63.414 (6.436)	60.704 (7.681)	64.939 (5.376)	61.300 (7.231)	***
Highest degree (1 = B.A., 2 = M.A., 3 = Ph.D.)	0.938 (0.847)	1.506 (1.044)	1.388 (0.938)	1.482 (1.077)	2.367 (0.809)	***
Oxford / Cambridge degree (%)	0.166 (0.372)	0.300 (0.459)	0.388 (0.490)	0.305 (0.462)	0.167 (0.379)	***
Business school (%)	0.100 (0.300)	0.080 (0.272)	0.082 (0.275)	0.079 (0.271)	0.000 (0.000)	
Professional qualifications (%)	0.314 (0.467)	0.342 (0.475)	0.194 (0.397)	0.421 (0.495)	0.400 (0.498)	
Honorary degree (%)	0.000 (0.000)	0.049 (0.217)	0.000 (0.000)	0.012 (0.110)	0.433 (0.504)	***
Corporate networks	80.712 (104.318)	103.255 (100.055)	113.391 (121.981)	99.082 (80.608)	85.750 (107.748)	***
Number of companies worked at before 2001	6.915 (5.473)	9.049 (5.422)	8.439 (5.593)	9.232 (5.408)	7.933 (6.057)	***
Government experience (%)	0.095 (0.294)	0.433 (0.496)	0.592 (0.494)	0.378 (0.486)	0.167 (0.379)	***
<b>Panel B - Board Characteristics</b>						
Board size	9.984 (2.947)	10.953 (3.154)	11.168 (3.722)	10.678 (2.643)	10.883 (2.999)	***
Percent of outside directors on board	0.595 (0.135)	0.601 (0.132)	0.590 (0.131)	0.605 (0.127)	0.612 (0.147)	**
Tenure on board	6.372 (5.788)	6.861 (6.354)	7.356 (8.138)	6.523 (5.138)	6.464 (4.872)	
Log(Company Size)	7.108 (1.774)	7.588 (1.894)	7.726 (1.896)	7.599 (1.798)	6.751 (2.172)	***

**Table III. Self-selection among titled peer groups of directors.**

The table reports the results of the logit regression for the characteristics of appointment new directors on UK boards between 2001 and 2004. The sample consists of 464 non-executive director appointments for a sample of FTSE 350 industrial firms. The dependent variable is the title of the new non-executive director appointed while the board and firm characteristics are measured as at 2001. The titled director is a dichotomous variable that is unity if the director has any titles and zero otherwise. The political title indicator variables Lord, The Rt Hon, take the value of unity if the director has that title, while academic takes the value of the director is either a Doctor or a Professor. Firm size is the total book value of assets in 2001 while the cumulative abnormal return is the twelve month return prior to 2001 adjusted by the market. Statistical significance at the 10, 5 and 1 percent levels are indicated by \*, \*\* and \*\*\* respectively.

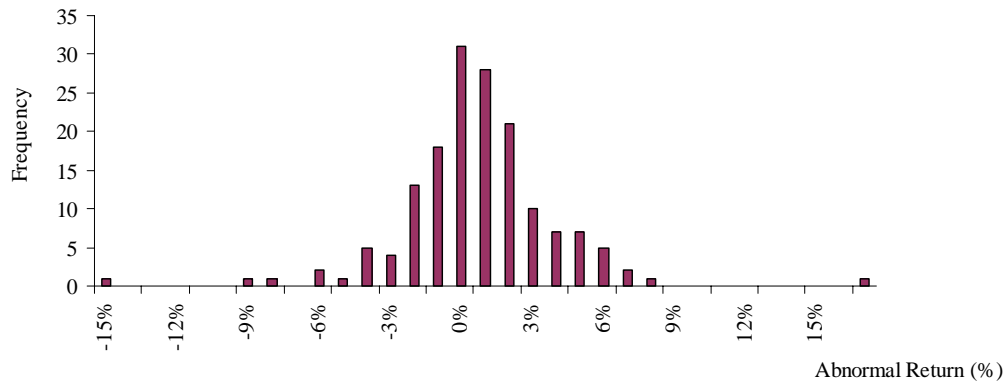
Variables	Appointed director has any title	Appointed director has Political title	Appointed director has Sir/Madam title	Appointed director has Professor title
At least one board outside director(s) has the same title as appointed director(1/0)	1.721*** (0.498)	-0.06 (1.901)	1.953*** (0.751)	1.895* (0.997)
Chairman has the same title as appointed director (1/0)	-0.024 (0.177)	1.037** (0.413)	0.439 (0.291)	0.506 (0.565)
The CEO has a title (1/0)	-0.098 (0.214)	0.085 (0.316)	-0.398 (0.346)	-0.513 (0.616)
Exiting director(s) has the same title as appointed director (1/0)	-0.412** (0.195)	-1.222* (0.638)	-0.221 (0.313)	-0.068 (-0.009)
Log(Firm Size)	-0.110* (0.067)	0.089 (0.104)	-0.04 (0.104)	0.158 (0.166)
Board Size	0.077* (0.040)	0.033 (0.059)	0.120** (0.06)	-0.009 (0.095)
Percent of Outside Directors	1.652** (0.679)	1.049 (1.074)	1.124 (0.967)	-1.334 (1.703)
CAR <sub>2001</sub>	0.153 (0.198)	-0.178 (0.410)	-0.015 (0.34)	-0.146 (0.538)
Wald-Chi <sup>2</sup>	1.5	8.22	1.63	5.33

**Table IV. The choice of business networks of new directors.**

The table reports the instrumental multinomial regression results for the business networks of newly appointed directors. The chairman and other outside directors' business networks are instrumented in the first stage. The second stage results are reported below. The dependent variable is the log of the newly appointed director's business network. Firm size is the total book value of assets in 2001 while the cumulative abnormal return is the twelve month return before 2001 adjusted by the market. Statistical significance at the 10, 5 and 1 percent levels are indicated by \*, \*\* and \*\*\* respectively.

Independent Variables	Business Networks of Appointed Director	
Board's Mean Business Network	0.013**	
	xxx	
Chairman's Business Network		0.008**
		(0.004)
Outside Directors Mean Business Network		0.005
		(0.005)
CEO Business Network (x10 <sup>3</sup> )		0.336
		(1.278)
Exiting Director's Network (x10 <sup>3</sup> )	-0.001	-0.860
	(0.002)	(2.602)
Log(Firm Size)	0.029	-0.03
	(0.065)	(0.082)
Board Size	-0.018	-0.026
	(0.03)	(0.033)
Percent of Outside Directors	-0.411	-0.508
	(0.552)	(0.564)
CAR <sub>2001</sub>	0.054	0.131
	(0.145)	(0.178)
F-Statistic	7.87	3.83
Adjusted R <sup>2</sup>	0.1148	.xxx

Figure 1. Abnormal Returns of Outside Director Appointments (2001 - 2004)



The figure reports the distribution of the sample 157 cumulative abnormal return announcements around the time of outside director appointments to U.K. boards of directors. The raw returns are adjusted using the method outlined by Dodd and Warner (1983), and taken around the time of the announcement date ( $t_{-1}$  to  $t_{+1}$ ). The scale is 0.1% for each bar of the histogram.

**Table V - Announcement Effects of prestigious outside directors**

The table reports the results of the multinomial regression of 157 announcement effects of new independent non-executive director announcements between 2001 and 2004 with robust errors. The cumulative abnormal announcement returns (CAR) are calculated as Dodd and Warner (1983) from one day prior to one day post the announcement date. The adjusted announcement returns are calculated as Shivdasani and Yermack (1999) by adjusting the market model CAR by the estimated probability of an outside director appointment. Directors with titled peers are instrumented and the predicted probabilities used to interact with board size. The Titled director replaced is a dichotomous variable that takes the value of unity if a titled director left board. The experienced director takes the value of unity if the director held two or more directorships prior to the appointment while the age indicator variable takes the value of unity if the director is over 65 years of age. The ROA is the return on assets in 2001 standardised by the two-digit SIC industry median in the same year while the percentage of outside directors is measured prior to appointment. The highest degree is a discrete variable for the highest degree of the new director (B.A., M.A., or Ph.D.). Statistical significance at the 10, 5 and 1 percent levels are indicated by \*, \*\* and \*\*\* respectively.

Independent Variables	CAR <sub>t-1 to t+1</sub>	CAR <sub>t-1 to t+1</sub>	Adjusted CAR <sub>t-1 to t+1</sub>	Adjusted CAR <sub>t-1 to t+1</sub>
Prestige of a Titled Director	0.036* (0.021)		0.065 (0.045)	
* Large Board (> 12)		0.071*** (0.022)		0.131*** (0.047)
* Med Board (8 - 12)		0.027 (0.029)		0.048 (0.061)
* Small Board (< 8)		-0.016 (0.028)		-0.036 (0.065)
Titled Director Replaced (1/0)	0.006 (0.006)	0.005 (0.006)	0.015 (0.012)	0.014 (0.013)
Experienced Director (1/0)	0.022*** (0.007)	0.021*** (0.008)	0.042*** (0.015)	0.041*** (0.015)
Director over 65 (1/0)	-0.01 (0.019)	-0.011 (0.019)	-0.018 (0.038)	-0.021 (0.038)
ROA	-0.017	-0.013	-0.03	-0.022

	(0.0130	(0.012)	(0.027)	(0.026)
Log (Total Assets)	-0.002	-0.001	0.001	0.001
	(0.007)	(0.007)	(0.007)	(0.004)
Log(Board Size)	-0.043	-0.008	-0.052*	-0.002
	(0.033)	(0.032)	(0.031)	(0.017)
Percent of Outside Directors	-0.019	-0.012	-0.006	0.004
	(0.063)	(0.063)	(0.066)	(0.03)
CEO Age (x10 <sup>3</sup> )	0.400	0.334	0.569	0.444
	(0.446)	(0.452)	(0.914)	(0.930)
Highest Degree	-0.001	-0.001	-0.002	-0.002
	(0.002)	(0.003)	(0.005)	(0.005)
<i>Industry Controls</i>	Yes	Yes	Yes	Yes
Adjusted R <sup>2</sup>	0.1043	0.1113	0.1435	0.0811



**Table VI - Announcement Date Effects and Director Titles**

The table reports the results of the multinomial regression of 157 announcement effects of new independent non-executive director announcements between 2001 and 2004 with robust errors. The abnormal announcement returns are calculated as Dodd and Warner (1983). Directors with political, Sir/Madam and academic peers are instrumented and the predicted probabilities used to interact with board size. The Titled director replaced is a dichotomous variable that takes the value of unity if a titled director left board. The experienced director takes the value of unity if the director held two or more directorships prior to the appointment while the age indicator variable takes the value of unity if the director is over 65 years of age. The ROA is the return on assets in 2001 standardised by the two-digit SIC industry median in the same year while the percentage of outside directors is measured prior to appointment. The highest degree is a discrete variable for the highest degree of the new director (B.A., M.A., or Ph.D.) Statistical significance at the 10, 5 and 1 percent levels are indicated by \*, \*\* and \*\*\* respectively.

Independent Variables	CAR <sub>t-1 to t+1</sub>	CAR <sub>t-1 to t+1</sub>	CAR <sub>t-1 to t+1</sub>	CAR <sub>t-1 to t+1</sub>
Prestige of a Political Director	0.042 (0.048)		0.026 (0.044)	0.051 (0.045)
* Large Board (>12)		0.110** (0.05)		
* Med Board (8-12)		0.011 (0.059)		
* Small Board (< 8)		-0.084 (0.065)		
Prestige of a Director with 'Sir'	0.058 (0.038)			0.064 (0.04)
* Large Board (>12)			0.114** (0.046)	
* Med Board (8-12)			0.047 (0.044)	
* Small Board (< 8)			0.03 (0.051)	
Prestige of an Academic Director	-0.25 (0.169)	-0.186 (0.154)	-0.273* (0.161)	

* Large Board (>12)				-0.138 (0.272)
* Med Board (8-12)				-0.212 (0.191)
* Small Board (< 8)				-0.824*** (0.308)
Titled Director Replaced (1/0)	0.006 (0.006)	0.006 (0.006)	0.005 (0.006)	0.007 (0.006)
Experienced Director (1/0)	0.017** (0.008)	0.017** (0.008)	0.018** (0.009)	0.016* (0.008)
Director over 65 (1/0)	-0.031 (0.032)	-0.032 (0.031)	-0.036 (0.036)	-0.033 (0.031)
ROA	-0.014 (0.013)	-0.009 (0.013)	-0.011 (0.013)	-0.016 (0.012)
Log (Total Assets) (x10 <sup>3</sup> )	0.074 (2.957)	0.812 (6.534)	-0.938 (6.687)	1.201 (4.014)
Log (Board Size) (x10 <sup>3</sup> )	-0.023 (0.015)	-0.052* (0.031)	-0.008 (0.032)	-0.002 (0.017)
Percent of Outside Directors	0.007 (0.029)	-0.006 (0.066)	-0.012 (0.063)	0.004 (0.03)
CEO Age (x10 <sup>3</sup> )	0.424 (0.449)	0.357 (0.455)	0.409 (0.448)	0.428 (0.458)
Highest Degree (x10 <sup>3</sup> )	-0.921 (2.442)	-0.882 (2.527)	-0.744 (2.436)	-0.796 (2.443)
<i>Industry Controls</i>	Yes	Yes	Yes	Yes
Adjusted R <sup>2</sup>	0.1326	0.1113	0.1435	0.0811

**Table VII. Outside Director Characteristics in 2001 and 2004.**

The sample consists of non-executive directors on the boards of 264 non-financial U.K. firms in 2001 and 2004. Directors with titles include all the titles of 'Lord/Baroness', 'The Rt. Hon.', 'Sir/Madam', or 'Professor'. Business networks is the sum of the directors networks gained from private business enterprise. The 'Years on the board' is the tenure of the director, averaged across all boards. Oxford/Cambridge graduate is the proportion with (under)graduate degrees from these institutions while 'Business School' is the proportion of directors that have attended a Business School. Professional Qualifications include membership to professional bodies like Chartered Accountants while government experience is the proportion of directors that have worked for government agencies. Figures in parentheses are standard errors. '\*\*\*', '\*\*', and '\*' refer to significance at the 99%, 95% and 90% confidence intervals respectively. The difference in means test for dichotomous variables is the difference in proportions, for discrete interval data it is the Mann-Whitney Wilcoxon Rank Sum Test, while for continuous variables it is the two-tail t-test.

	2001			2004		
	Single Board Directors	Multiple Board Directors	Difference in Mean / Proportion	Single Board Directors	Multiple Board Directors	Difference in Mean / Proportion
<i>Director Characteristics</i>	868	160		878	191	
Directors with a title	0.203 (0.402)	0.394 (0.490)	***	0.203 (0.402)	0.293 (0.456)	***
Business Networks	73.695 (101.407)	102.875 (85.821)	***	87.623 (106.522)	125.324 (102.520)	***
Director's Age	58.230 (8.287)	59.050 (6.507)		58.189 (7.545)	59.508 (5.590)	*
Average Years on the Board	5.723 (5.959)	4.891 (4.914)		5.716 (5.699)	4.970 (3.841)	
Oxford / Cambridge Graduate	0.162 (0.369)	0.294 (0.457)	***	0.166 (0.373)	0.204 (0.404)	
Business School Degree	0.101 (0.302)	0.094 (0.292)		0.122 (0.327)	0.079 (0.270)	*
(Any) Professional Qualifications	0.274 (0.449)	0.388 (0.489)		0.285 (0.452)	0.445 (0.509)	***
Government Experience	0.149 (0.356)	0.200 (0.401)	*	0.139 (0.346)	0.173 (0.379)	
<i>Firm Characteristics</i>						
Board Size	10.449 (3.389)	10.222 (2.332)		9.904 (2.712)	10.046 (2.156)	

Percent of outside directors on board	0.584 (0.149)	0.577 (0.103)	0.621 (0.128)	0.606 (0.084)
Log (Company Size)	7.134 (1.857)	7.512 (1.488)	7.142 (1.876)	7.807 (1.432)

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**Table VIII. Directorships, Retirement and Director Prestige.**

The table reports the ordered probit regression results for the number of directorships held by a director in 2004 and the probit regression for the probability of retirement (no board seats) in 2004. 'Titled Directors' prestige' is a continuous probability instrumented using variables correlated with the director's prestige described in the study. 'Business Networks' is the natural log of the number of senior management and board members the director has worked with including and prior to 2001. The 'Highest degree' is a discrete variable that takes the value of one for undergraduate, two for postgraduate and three for PhD. 'Professional Qualifications' is one if the director is affiliated with any professional bodies and zero otherwise. Government experience is a discrete variable that is unity if the director has worked for the government, while tenure over six years is unity if the director has sat on a board for more than six years. The age indicator takes the value of unity if the director is over 65, while company size is the book value of assets in 2001. ROA is the median industry adjusted return on assets while CAR is the stock price return of the company net of the market index for the 12 months prior to 2001. Figures in parentheses are the robust standard errors. '\*\*\*', '\*\*', and '\*' refer to significance at the 99%, 95% and 90% confidence intervals respectively.

Independent Variables	Number of Directorships 2004	Probability of Retirement in 2004
Titled Directors' Prestige	0.917** (0.378)	-0.758* (0.454)
Business Networks	0.072** (0.031)	0.047 (0.042)
Highest Degree (B.A., M.A., or Ph.D.)	0.078** (0.04)	-0.098** (0.046)
Professional Qualifications (1/0)	0.303*** (0.082)	-0.196** (0.100)
Government Experience (1/0)	-0.164 (0.115)	0.103 (0.140)
Tenure over 6 years (1/0)	-0.246*** (0.086)	0.287*** (0.097)
Director's Age is over 65 (1/0)	-0.881*** (0.103)	0.921*** (0.106)
Log(Company Size)	0.019 (0.023)	0.007 (0.029)
ROA	0.281 (0.182)	-0.364 (0.227)
CAR <sub>t-12</sub>	-0.014 (0.070)	-0.013 (0.097)
Number of Directorships in 2001		-0.402*** (0.101)
Wald $\chi^2$	142.04***	146.99***
Pseudo Adjusted R <sup>2</sup>	0.0724	0.1156

**Table IX - The Number of Outside Directorships and Director Titles; Directors Matched Sample**

The sample consists of outside directors that held at least one directorship in 2001 on the sample of U.K. firms. The Titled director sample consists of 162 outside directors with at least one title of Lord/Lady, Madam, Baroness, Sir/Dame, The Rt Hon., and Professor. The matched sample is constructed to find the closest comparable group of directors based on age, business network, firm size and educational background. The Tenure on board is the average number of years that the director has spent on their board as at 2001, while government experience is unity if the director has worked as part of a governmental organisation. Professional Qualifications is an indicator for directors that hold accredited qualifications. Figures in parentheses are standard errors. '\*\*\*', '\*\*', and '\*' refer to significance at the 99%, 95% and 90% confidence intervals respectively. The difference in means test for dichotomous variables is the difference in proportions, for discrete interval data it is the Mann-Whitney Wilcoxon Rank Sum Test, while for continuous variables it is the two-tail t-test.

	Outside Directors with a Title	Matched Sample Of Non-Titled Directors	Difference in Mean / Proportion
	162	162	
No. of Directorships (2001)	1.420 (0.694)	1.136 (0.410)	***
No. of Chairmanships (2001)	0.321 (0.607)	0.167 (0.463)	***
No. of Directorships (2004)	0.901 (0.828)	0.586 (0.656)	***
Tenure on Board	5.975 (6.095)	5.027 (3.857)	*
Government Experience	0.469 (0.501)	0.160 (0.368)	***
Professional Qualifications	0.321 (0.468)	0.340 (0.475)	
Board Size	11.005 (3.15)	10.899 (3.26)	
<b>Matching Criteria</b>			
Director's Age	62.574 (6.748)	62.111 (6.526)	
Director's Business Network	94.679 (94.261)	93.802 (95.502)	
Log(Company Size)	7.507 (1.810)	7.544 (1.711)	
Number of Degrees	1.444 (1.022)	1.438 (1.021)	

### Appendix Table - The Distribution of Titled Directors Across Industries

The sample contains all independent outside directorships on the sample of U.K. firms in 2001 and 2004. Industry Classifications are made as per the SIC codes. Titled Directors are those with any title, political titles are 'Lord', 'Baroness' or 'The Rt Hon' while Sir titles are 'Sir' or 'Madam. Academic titles are 'Professor' and include 'Dr' titles also. The significance intervals '\*\*\*', '\*\*', and '\*' signify 99%, 95% and 90% significance respectively in a test of a difference in proportions relative to all other directors.

SIC Classification	All Independent Directors		Outside Titled Directors		Political title		Sir Title		Academic title	
	N	%	N	%	N	%	N	%	N	%
Agriculture, forestry, & fishing (01-09)	8	0.3	0	0	0	0	0	0	0	0
Mining (10-14)	130	5.4	34	6	7	6.9	15	6.6	12	4.9
Construction (15-17)	136	5.7	15	2.7***	5	5	6	2.6**	6	2.4**
Manufacturing (20-39)	948	39.5	288	51***	47	46.5	117	51.5***	129	52.2***
Transportation & pub. utilities (40-49)	398	16.6	93	16.5	14	13.9	39	17.2	42	17
Wholesale and Retail trade (50-59)	355	14.8	53	9.4***	11	10.9	23	10.1**	19	7.7***
Services (70-89)	425	17.7	82	14.5**	17	16.8	27	11.9**	39	15.8
Total Directorships	2400		565		101		227		247	