Lead Independent Directors: Good Governance or Window Dressing

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Hypotheses:

H1: Firms with an LID perform better relative to firms without an LID and as a consequence have higher firm value.

H2: Firms with an LID have higher CEO turnover following poor performance relative to firms without an LID.

H3: CEOs of firms with an LID have stronger risk taking incentives and lower excess compensation, as compared to firms without an LID.

Summary of Results:

Overall, we find evidence that an LID represents an effective governance mechanism rather than governance window dressing. Specifically, firms with an LID have higher corporate profitability, higher market valuation, higher excess stock returns, higher likelihood of turnover of underperforming CEOs and stronger risk taking incentives to the CEO (i.e., higher CEO Vega and lower CEO Delta).

Implications:

This study contributes to the corporate governance literature on board structure and independent directors by showing that the LID board role has an important and prominent impact on firm value, CEO incentives and CEO turnover. Importantly, this role is unexamined in prior empirical studies of corporate governance and our findings support the view that the LID board role increases firm value.

Current Status:

We are in the process of revising for journal submission.

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