

**Department of Banking and Financial Management
University of Piraeus**



Research Seminar Series

Thursday, April 9th, 2009

Time: 16:00 - 18:00, Room 013

Seminar Title

“Boards of Directors: The Value of Industry Experience”

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Summary

We construct a unique 10-year panel dataset that contains an experience measure for the directors of 650 large corporations in the U.S., and investigate the marginal effect of board experience on firm performance. Our findings are the following: 1) Firms with more experienced independent directors experience higher abnormal returns and consistently beat analysts' earnings forecasts. 2) They have a lower covariance with the Fama French HML factor and a lower probability of bankruptcy, as measured by Altman's z-score. 3) They engage in less earnings manipulation as measured by fewer negative income restatements and lower accounting accruals. This evidence indicates not only that board experience has positive marginal monitoring (and possibly advisory) value, but also that both firms and the market fail to recognize this potential value. Our results are robust to the use of OLS fixed-effects and Instrumental Variables using lag transformations as instruments, which, to varying degrees help alleviate concerns that they are driven by unobserved firm heterogeneity, selection bias, and/or measurement error. Performing IV estimations that utilize successively deeper lags as instruments, we find that our results are robust to the presence of some serial correlation in the disturbance; while testing for serial correlation, we find evidence that it is both limited in horizon and small in magnitude.

Filippos Papakonstantinou received his PhD in Economics from Princeton University (2008), his MA in Economics from Princeton University (2004) and his AB in Economics from Harvard University (2002). At the moment he is Lecturer in Corporate Finance at Imperial College Business School, UK. His research interests include corporate finance, behavioral economics and applied econometrics.