Do individual directors matter?

Dissertation thesis abstracts

Markus Senn

University of Bern

2014

Paper 1:
Pilot study of Swiss firms

Abstract

Using a fixed effects approach, we investigate whether the presence of specific individuals on Swiss firms' boards affects firm performance and the policy choices they make. We find evidence for a substantial impact of these directors' presence on their firms. Moreover, the director effects are correlated across policies and performance measures but uncorrelated to the directors' background. We find these results interesting but conclude that they should to be substantiated on a dataset that is larger and better understood by researchers. Also, further tests are required to rule out methodological concerns.

Paper 2:
Evidence from the S&P 1,500

Abstract

We ask whether directors on corporate boards contribute to firm performance as individuals. From the universe of the S&P 1,500 firms since 1996 we track 2,062 directors who serve on multiple boards over extended periods of time. Our initial findings suggest that the presence of these directors is associated with substantial performance shifts (director fixed effects). Closer examination shows that these effects are statistical artifacts and we conclude that directors are largely fungible. Moreover, we contribute to the discussion of the fixed effects method. In particular, we highlight that the selection of the randomization method is pivotal when generating placebo benchmarks.

Paper 3:
Robustness, statistical power, and important directors

Abstract

This article provides a better understanding of Senn's (2014) findings: The outcome that individual directors are unrelated to firm performance proves robust against different estimation models and testing strategies. By looking at CEOs, the statistical power of the placebo benchmarking test is evaluated. We find that only the stronger tests are able to detect CEO fixed effects. However, these tests are not suitable to analyze directors. The suitable tests would detect director effects if the inter quartile range of the true effects amounted to 3 percentage points ROA. As Senn (2014) finds no such effects for outside directors in general, we focus on groups of particularly important directors (e.g., COBs, non-busy directors, successful directors). Overall, our evidence suggests that the members of these groups are not individually associated with firm performance either. Thus, we confirm that individual directors are largely fungible. If the individual has an effect on performance, it is of small magnitude.