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**Erasmus School of Economics**

**Master Thesis Financial Economics**

**“THE EFFECT OF CLASSIFIED BOARDS ON EXECUTIVE  
AND DIRECTOR INCENTIVES”**



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**October 2023**

## **Preface**

The views stated in this thesis are those of the author and not necessarily those of the supervisor, second assessor, Erasmus School of Economics or Erasmus University Rotterdam.

## **Acknowledgements**

This thesis remarks the end of my academic journey. I would like to take this opportunity to express my sincere gratitude for everybody who helped me during this final piece of my study. First, I would like to thank my supervisor dr. Marc Gabarro Bonet for his guidance and feedback. I further would like to thank Frederique Donders for supporting me mentally through the thesis. It is truly appreciated.

## **Abstract**

This master thesis examines the effect of classified boards on executive and director incentives. These incentives consist of director and executive compensation, vesting schedules, and performance goals. This study finds that classified boards decrease the compensation of executives and directors, especially executives have a lower compensation. It further finds that classified boards have longer vesting and performance periods. These results are in line with the shareholder interest perspective, which suggests that staggered boards could constrain managerial self-interest and motivate them to actively represent the interest of shareholders. Only the outcome related to performance goals opposes this view, as staggered boards allow for lower goal setting which makes it easier to achieve prespecified objectives.

**Keywords:** classified boards, staggered boards, executive and director compensation, vesting schedules, performance goals, grants

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## **CHAPTER 1 Introduction**

The board of directors plays an essential role in the corporate governance of companies (Balsmeier, Fleming, & Manso, 2017). There has been an ongoing discussion whether companies function better with or without a staggered board. With this corporate structure, the directors of a company are usually grouped into three different classes and only one class can be re-elected during the annual shareholder meeting. This is different from a unitary board structure, where all directors can be re-elected at once during the annual shareholder meeting (Bebchuk, Cohen, & Wang, 2011). Since there are still many classified boards in the United States and there is strong empirical evidence that classified boards compared to different corporate governance provisions have a bigger impact on several corporate outcomes (Jiraporn & Liu, 2008; Jiraporn and Chintrakarn, 2009), it is relevant to examine different implications related to staggered boards.

This study examines the impact of classified boards on executive- and director incentives. More specifically, I investigate the effect of staggered boards on performance and non-performance related compensation, vesting schedules, and performance goals. Theory suggests two opposing outcomes. On the one hand, there is the shareholder interest perspective, which argues that classified boards provide stability and are beneficial for shareholders. It ensures anti-takeover protection by forcing any potential hostile bidder to wait at least a year before they can have board control and constrains the bidder to gain board control in two separate elections spaced out over time rather than a one-off vote on their proposition (L. A. Bebchuk et al., 2002). This board structure could maintain a manager's dedication to the specific investments pushed by a firm's shareholders because there is a reduced chance of an abrupt change due to a takeover, which minimizes the potential costs imposed on shareholders by takeovers (Cremers et al., 2017). Furthermore, the security offered by a staggered board can be perceived by managers as a long-term employment contract, which increases their job security. This could diminish their inclination towards short-termism, promoting a more strategic, long-term outlook aligned with the goal of maximizing shareholder value in the long run (Cremers et al., 2017). Resulting in a situation where shareholders benefit from the stability from classified boards (Johnson et al., 2015).

On the other hand, there is the managerial discretion perspective, which argues that a classified board provides a shield for directors and managers against external governance

mechanisms, which leads to an increase in agency costs. They believe this encourages directors and management to entrench themselves, engage in unproductive behaviours such as shirking responsibilities, indulge in empire-building exercises, and extract benefits for personal gain (Cremers et al., 2017; Jensen, 1993). This perspective of staggered boards promoting management entrenchment is supported by several pieces of evidence. For example, lax board monitoring, implying that staggered boards may not be as observant in their oversight duties as they should be, leading to a possible reduction in managerial accountability (Faleye, 2007). Faleye (2007) even argues that staggered boards benefit CEOs at the expense of shareholders by protecting them and their compensation packages from poor company performance.

I begin the analysis by examining the effect of staggered boards on executive and director compensation. The compensation package is split up between base salary, performance related compensation, and total compensation. I find evidence that executives and directors in a classified board have lower compensation packages than in unitary boards, which is in line with the shareholder interest perspective. It is also similar to findings from Faleye (2007). The effect is bigger for executives than for directors. To be more specific, an increase of one standard deviation leads to a decrease in base salary of -0.104 for executives and -0.0269 for directors. It also results in a decrease in performance-related compensation of -0.0232 for executives and -0.00104 for directors. I continue by zooming in on the performance related compensation by looking at the vesting schedules and awards. Evidence shows that the vesting periods of grant in classified boards is longer than in unitary boards. In more detail, an increase in one standard deviation increases the vesting time by 0.979 and the performance time by 0.759. In my analysis, the pay-outs of awards are split up by a threshold, target, and maximum level. Evidence shows that the cash and equity pay-outs are lower for classified boards, which is also in line with the shareholder interest perspective. Especially threshold pay-outs are lower in classified boards, followed by target and maximum pay-outs. To give more context regarding cash pay outs, an increase in one standard deviation leads to a decrease in a threshold pay out of -0.399. It further leads to a decrease in a target pay out of -0.0872 and maximum pay out of -0.0751. Looking at equity related pay-out awards, there are decreases of -0.839 in a threshold pay-out, -0.104 in a target pay-out and -0.0733 in a maximum pay-out. This means that as soon as a specific goal is met, the reward for this performance is lower for classified boards. This doesn't imply that these goals are easier to achieve, but the reward for achieving them is lower. Lastly, I examine the

effect of classified boards on performance goals. The performance goals are split up between accounting and market related measures. This study finds that the performance period is longer for classified boards and that the performance goals are set lower. More specifically, an increase in one standard deviation increases the performance period by 0.759. The market related measures show the biggest impact of classified boards, followed by the accounting related measure. The negative relationship between classified boards and setting of performance goals is more in line with the managerial discretion perspective.

The majority of the outcomes of this study are in line with the shareholder interest perspective, which suggests that classified boards optimize shareholder value and mitigate the agency problems between shareholders, directors and executives. Staggered boards could help constrain managerial self-interest and motivate them to actively represent the interest of shareholders.

This study makes the following contributions to the existing literature. The research most related to mine is from Faleye (2007), which examines several effects of classified boards on companies and CEOs. One of his findings shows that CEOs in classified boards have lower compensation. My findings extend upon this literature by not only looking at CEOs but also at other executives and including directors. It further extends upon this literature by looking at the effects of classified boards on compensation incentives at t-1. Faleye (2007) connects the lower compensation to poor firm performance. This study finds the same outcome for executive compensation, but challenges Faleye's (2007) reasoning behind the lower compensation and proposes a different reasoning for the outcome. Moreover, his analysis was constrained by a limited dataset that provided insufficient data on executive and director compensation. This study includes a large dataset, which makes the results more reliable. Furthermore, this is the first study that makes a connection between staggered boards and vesting schedules, awards, and performance goals. Classified boards have already been studied quite extensively. However, these studies were mainly focused on other corporate governance provisions or other characteristics. Finally, my research highlights the significance of executives' and directors' incentives, which could help align their interests and decrease agency problems.

Next, in chapter two, the theoretical concepts of classified boards and executive- and director compensation are discussed, and the development of the hypotheses further explained. Then, in chapter three, the data and methodology for the results are described. Thereafter,



chapter four discusses the obtained results from the analysis. Chapter five includes the limitations and further improvements of the study. Finally, chapter six summarizes and concludes the findings of this study.

## **CHAPTER 2 Related Literature**

This research argues that there is a link between classified boards, executive and director compensation, and other incentives that influence corporate decision making. This section discusses the key concepts of classified boards and corporate incentives.

### **2.1 Classified boards and corporate decisions**

The board of directors plays an essential role in the corporate governance of companies (Balsmeier et al., 2017). There has been an ongoing discussion whether companies function better with or without a staggered board, also known as a classified board. With this corporate structure, the directors of a company are usually grouped into three different classes and only one class can be re-elected during the annual shareholder meeting (L. A. Bebchuk et al., 2002). For instance, a board composed of twelve directors could be categorized into three classes. Four directors would come up for re-election at the 2021 annual meeting, another four directors would be up for re-election in 2022, and the final four directors would stand for re-election in 2023. This is different from a unitary board structure, where all directors can be re-elected at once during the annual shareholder meeting (L. A. Bebchuk et al., 2011). The popularity of staggered boards has been changing over time. In the 1980s, shareholders generally supported the adoption of staggered boards. However, from the early 1990s onwards, their views changed, and they became more opposed against such a strategy (L. A. Bebchuk et al., 2011). Nevertheless, in 2011 more than half of the publicly traded companies tracked by FactSet Research Systems still had staggered boards and the proportion of classified boards in initial public offerings (IPOs) even increased from 38% to 81% between 2008 and 2016, indicating increasing popularity for classified boards among IPOs (Wang et al., 2022). Currently, 27% of the collected publicly traded companies by the Institutional Shareholder Services are classified boards, which makes them still an important part of the modern corporate landscape in the United States.

#### **2.1.1 Benefits of staggered boards**

One of the reasons why staggered boards are beneficial is because they function as a strong defence for hostile take-overs. This structure ensures anti-takeover protection by forcing any potential hostile bidder to wait at least a year before they can have board control and constraining

the bidder to gain board control in two separate elections spaced out over time rather than a one-off vote on their proposition (L. A. Bebchuk et al., 2002). The study by Bebchuk et al. used a sample of hostile bids between 1996 and 2000 and found that not one hostile bidder obtained control of an effective staggered board, which shows the effectiveness of staggered boards against hostile bids. Furthermore, the implementation of staggered boards could potentially enhance corporate value. This could happen in different ways. First, staggered boards might prevent managers from their tendencies to overinvest in short-term initiatives. The security offered by a staggered board can be perceived by managers as a long-term employment contract, which increases their job security. This could diminish their inclination towards short-termism, promoting a more strategic, long-term outlook aligned with the goal of maximizing shareholder value in the long run (Cremers et al., 2017). Secondly, a staggered board could maintain a manager's dedication to the specific investments pushed by a firm's shareholders. This reduces the risk that a company's business plan would be abruptly changed due to a takeover, thereby minimizing the potential costs imposed on shareholders by takeovers (Cremers et al., 2017). Resulting in a situation where shareholders benefit from the stability from classified boards (Johnson et al., 2015).

Moreover, several studies explore how staggered boards impact other aspects of a company. For instance, Jiraporn et al., (2012) argued that staggered boards lead to less earnings management. This is consistent with the argument that staggered boards provide managerial insulation against removal, thereby reducing the need for managers to manipulate earnings to safeguard their positions. In addition, Jiraporn & Liu (2008) report a significant decline in leverage when a board is staggered. They used data of more than 1900 firms across 15 years to determine the level of debt depending on the governance structure. This suggests that entrenched managers may avoid leverage as an internal governance tool, perhaps due to the increased security and control that staggered boards provide. Jiraporn & Chintrakarn (2009) further found that companies with staggered boards tend to distribute significantly higher dividends. This suggests that enhanced pay-outs might be necessary to balance the shareholders for the potential managerial entrenchment induced by staggered boards.

Table 2.1: Important benefits of classified boards

<b>Advantage</b>	<b>Effect of classified boards</b>
Strong anti-takeover defence	Forcing potential hostile bidder to wait at least a year before they can have board control, constraining the bidder to two separate elections instead of one. (L. A. Bebchuk et al., 2002).
Enhance shareholder value	Decrease the chance that managers overinvest in short-term incentives. (Cremers et al., 2017). Maintain a manager's dedication to the specific investments made by a firm's shareholders. (Cremers et al., 2017; Johnson et al., 2015).
Less earning management	Reducing the need for managers to manipulate earning to safeguard their positions provided by the managerial insulation against removal from staggered boards (Jiraporn et al., 2012).
Less leverage	Entrenched managers may avoid using leverage as an internal governance tool (Jiraporn & Liu, 2008).
Higher dividends	Shareholders receive significantly higher dividends (Jiraporn & Chintrakarn, 2009).

### 2.1.2 Critique on staggered boards

Critics of staggered boards mention that this corporate structure provides a shield for directors and managers against external governance mechanisms, which leads to an increase in agency costs. They believe this encourages directors and management to entrench themselves, engage in unproductive behaviours such as shirking responsibilities, indulge in empire-building exercises, and extract benefits for personal gain (Cremers et al., 2017; Jensen, 1993).

This perspective of staggered boards promoting management entrenchment is supported by several pieces of evidence. For example, lax board monitoring, implying that staggered boards may not be as observant in their oversight duties as they should be, leading to a possible reduction in managerial accountability (Faleye, 2007). Faleye (2007) even argues that staggered boards benefit CEOs at the expense of shareholders by protecting them and their compensation packages from poor company performance. This study proved managerial entrenchment by looking at CEO turnover, proxy contents, shareholder proposals, and compensation incentives.

The connection between staggered boards and market valuation has been extensively researched. In these studies, they show a negative relationship between firm value and classified boards (Cohen & Wang, 2013; Faleye, 2007; Guo et al., 2008). This suggests that markets may view these boards as a potential burden for good corporate governance. Resulting in a negative impact on a company's valuation. Further empirical research has demonstrated that firms with classified boards are likely to have a reduced value when assessed by Tobin's Q, a commonly used metric for valuing companies (L. Bebchuk et al., 2009; Faleye, 2007). This lower valuation might reflect investors' concerns about the potential governance issues and managerial inefficiencies.

Additionally, evidence shows that shareholders tend to experience smaller gains in completed takeovers when staggered boards are in place. This could be due to the ability of staggered boards to resist takeover attempts, potentially causing acquirers to withdraw or settle for less favourable terms (L. A. Bebchuk et al., 2002). Moreover, these boards have been associated with worse acquisition decisions, potentially due to the entrenchment and lack of accountability.

Table 2.2: Important disadvantages of classified boards

<b>Disadvantage</b>	<b>Effect of classified boards</b>
Shield for directors and executives	Shielding directors and executives against external governance mechanism. The management and directors might engage in unproductive behaviours (Cremers et al., 2017; Jensen, 1993).
Reduction in managerial accountability	Entrench management, leading to less observant in board monitoring duties, leading to a possible reduction in managerial accountability (Faleye, 2007).
Lower firm valuation	Have a negative impact on firm valuation which has been measured through different research methods (L. Bebchuk et al., 2009; Cohen & Wang, 2013, p. 201; Faleye, 2007; Guo et al., 2008)
Reduction in gains in completed takeovers	Reduce the gains in completed take overs. This could be due to the ability of staggered boards to resist takeover attempts (L. A. Bebchuk et al., 2002).

The existing literature on staggered boards primarily emphasizes their role as anti-takeover defence, their impact on firm value, and their effects on shareholders. However, there is less research on the influence of classified boards on the incentives for executives and directors. More specifically, there is a gap in our understanding of how staggered boards affect directors and executive compensation, vesting schedules, and performance goals.

While Faleye (2007) has contributed to this area of research by examining CEO compensation in relation to staggered boards, his study solely focused on the CEO position and didn't research the compensation structures of other executives or directors. Moreover, his analysis was constrained by a limited dataset that provided insufficient data on executive and director compensation. Therefore, there is a need to expand upon this research by using a broader range of compensation incentives and including executives and directors beyond the CEO position. This study aims to address these gaps by exploring various aspects of compensation incentives. By examining a wider range of individuals, a more comprehensive understanding of the impact of classified boards on compensation can be obtained. In addition, this study examines other factors related to corporate incentives such as vesting schedules and performance goals. These additional incentives play an important role in shaping the behaviour and decision-making of executives and directors. Understanding how staggered boards interact with these elements can provide valuable insights into the broader impact of classified boards on organizational dynamics.

## **2.2 Executive and director incentives**

As the existing literature regarding classified boards has been discussed, I continue with explaining agency problems and examining the existing literature regarding incentives for executives, directors, and shareholders to support my hypotheses development.

### **2.2.1 Agency problems**

Incentives are important for executives and directors because several agency problems arise between shareholders, management and directors. First, there could be a conflict between shareholders and management. Shareholders trust management to act in their best interest and provide them with a lot of power. However, managers might exercise their discretion for personal gain (L. A. Bebchuk & Fried, 2003). For instance, they might engage in empire build

(Jensen, 1993) or entrench themselves which makes it more difficult to remove them if they underperform (Shleifer & Vishny, 1989). This possible entrenchment gives them the opportunity to increase their compensation which is not in line with shareholders' interest. In practice, the structural design of the board and its related committees is important in addressing the agency issues between shareholders and managers (Conyon, 1997).

Second, the incentives of directors and shareholders could not be aligned. The primary role of the board of directors is to provide guidance to senior management, determine executive pay, and safeguard shareholder interests (Shleifer & Vishny, 1989). In theory, the board of directors is supposed to act in the interest of shareholders and determine executive pay that incentivises them to maximize shareholder value. However, in practice directors may face agency issues that could decrease the quality of their board monitoring. This is mainly because directors could be incentivized to align with the CEO because the CEO has a significant influence in their appointment process (Shivdasani & Yermack, 1999). It is common for CEOs to choose the board of directors which rarely gets contested by shareholders (Coles et al., 2014). This may lead directors to favour the CEO's interests to secure their reappointment, which increases the power of the CEO and management. Furthermore, directors, even if classified as independent, may be biased towards the CEO due to personal connections (Fracassi & Tate, 2012) or if the CEO nominates them, compromising their monitoring capabilities (Coles et al., 2014). As a result of these problems, the board might not create an executive compensation strategy that aligns with maximizing shareholder value (Brick et al., 2002). Therefore, to mitigate agency problems, it is important to create incentives that align the different interests between executives, directors, and shareholders.

### 2.2.2 vesting schedules

Vesting terms are an important incentive for executives because it is part of their compensation packages and can further bring the interests between the principal and the agent closer together. The limitations set by vesting conditions regulate the point in time when executives gain the rights to their stock option grants and when they can freely exercise them (B. D. Cadman et al., 2013). Opponents of compensation policies contend that the ability of managers to exercise their stock options prematurely has a negative impact on investors (L. A. Bebchuk & Fried, 2006). Even though it has a negative impact on investors, executives prefer shorter vesting times

because extended vesting conditions can be costly for managers because part of their wealth is locked in unvested stocks. This can result in liquidity issues and also expose them to the fluctuations in their company's stock price throughout the vesting period (B. D. Cadman et al., 2013). As managers prefer shorter vesting periods, firms' preference differs depending on the circumstances. Extended vesting periods can serve a company positively by prolonging the duration of equity incentives and the manager's investment timeframe (B. Cadman & Sunder, 2014; Kole, 1997). Balsam and Miharjo (2007) identify that significant quantities of unvested equity play a role in keeping skilled CEOs on board, as executives typically let go of equity holdings that have not yet vested upon voluntary resignation. However, deep in-the-money unvested options lead managers towards a risk-averse behaviour (Richard Lambert et al., 1991), while shorter vesting periods allowing early exercise of in-the-money options, paired with new at-the-money grants, is an effective strategy to maintain incentives that encourage risk taking (Brisley, 2006).

### 2.2.3 performance goals

Next to vesting schedules, performance goals are another way to incentivise executives to maximize shareholder value. To connect managerial pay to performance, firms increasingly try to link grants to specific performance goals. Rewarding managers for achieving these performance goals enhances transparency in compensation and provides strong incentives to act in the interest of shareholders, especially when the goal is challenging (Bennett et al., 2017). The setting of these goals is important, as you want the goal to be challenging enough to motivate executives. However, if the goal seems too far out of reach, the manager might give up completely and not put in any effort to attain the goal. In addition, If a manager's pay increases significantly when a certain performance target is met, and if the actual performance is almost at the target, the manager might feel tempted to postpone reported performance, which might have negative consequences in the long run (Bennett et al., 2017). Thus, from the shareholders perspective, it is important to create challenging but attainable performance goals. However, from the managers perspective, it is better to have lower performance goals because they are easier to achieve which gives them higher compensation (Crocker & Slemrod, 2007). They also benefit from a longer performance period to give them more time to attain the performance goal.



## 2.3 Hypotheses development

For the hypotheses development I take a similar approach as (Bates et al., 2008). In light of mergers & acquisitions, they construct two alternative hypotheses in which staggered boards impact corporate governance and shareholders. These two are the *managerial discretion* and *shareholder interest* hypotheses which are described in more detail below.

### 1. *Managerial Discretion*

This hypothesis implies that the process of board classification either increases managerial entrenchment or is an outcome of it (Bates et al., 2008). Classification methods can safeguard the private control benefits of the management team, either by proactively discouraging bids or by responding to received bids with hostility, subsequently leading to a lower rate of successful bids or auctions. Studies by Hartzell et al., (2004) and Wulf (2004) suggest that managers of target companies can act in their own interests during negotiations with acquiring parties, which could have a negative impact on their shareholders. If board classification increases negotiating advantages for the management to secure private benefits, then the managerial discretion hypothesis anticipates that such classification of target boards correlates with a reduced frequency of open bid negotiations, increased instances of self-interest driven activities by the management in final transactions, and lower financial gains for shareholders of the target company (Bates et al., 2008).

### 2. *Shareholder Interest*

According to the shareholder interest theory, board classification enables target management to resist opportunistic takeover attempts, increasing the outcomes for target shareholders during merger and acquisition discussions (Bates et al., 2008). Moreover, findings from Yermack (2004) and Harford (2003) suggest that incentives from external sources might constrain managerial self-interest, thus motivating directors to actively represent the interests of target shareholders. When board classification is employed to strengthen the negotiating power of managers from the target company, the shareholder interest hypothesis anticipates that staggered

boards serve to increase the portion of the transaction surplus designated to target shareholders (Bates et al., 2008).

This study focuses on several incentives for executives and directors, while the hypotheses developed by Bates et al., (2008) are related to mergers and acquisitions. However, the hypotheses create a clear distinction between classified boards serving in the personal gain for managers or in favour of shareholders. In my hypotheses development, I use the same structure and examine the different incentives through the perspective of either *managerial discretion* or *shareholder interest*.

Based on the given literature in chapter 2, from the managerial discretion perspective, staggered boards take advantage of their managerial entrenchment and increase agency problems. This results in the following hypotheses: 1) Staggered boards increases the compensation packages of executives and directors. 2) Staggered boards have shorter vesting periods compared to unitary boards. 3) Classified boards grant higher awards pay-outs to executives and directors once a specific performance goal is met. 4) staggered boards set lower performance goals. 5) classified boards allow a more extended period for achieving performance goals.

On the other hand, from the shareholder interest perspective, staggered boards might increase the executives and directors dedication to optimize shareholder value and mitigate agency problems. This leads to the following hypotheses: 1) staggered boards decrease the compensation packages of executives and directors. 2) Staggered boards have longer vesting periods compared to unitary boards. 3) Classified boards grant lower award pay-outs to executives and directors once a performance goal is met. 4) Staggered boards set higher performance goals for executives and directors. 5) Classified boards have a shorter period for achieving performance goals.

Table 2.3 Hypotheses development

<b>Incentive</b>	<b>Managerial Discretion</b>	<b>Shareholder Interest</b>
Executive & Director Compensation	Higher compensation	Lower compensation
Vesting Schedules	Shorter vesting periods	Longer vesting periods
Grant awards	Higher award pay-outs	Lower award pay-outs
Performance Goals	Lower performance goals	Higher performance goals
Performance Goals	Longer performance period	Shorter performance period

## **CHAPTER 3 Data & Methodology**

All data is from publicly traded companies located in the United States between 2007 - 2020 and is obtained from the following databases: BoardEx, Compustat, and Institutional Shareholder Services (ISS). I use Compustat, a financial and accounting database, to obtain information on the financial performance and operating characteristics of firms. I further use the Institutional Shareholder Services database to get information about firms' governance characteristics and executive and director compensation and incentives. Finally, BoardEx gives me more information about board characteristics.

### **3.1 Sample construction**

I start by obtaining governance data from ISS. Their governance dataset provides information on classic takeover defence and other corporate governance provisions, including classified boards, poison pills, golden parachutes, cumulative voting and state takeover laws from S&P 500 companies.<sup>1</sup> ISS collected different data regarding governance characteristics before 2007 and didn't collect all the data needed for my research after 2020. Consequently, the time period for my research is constrained to the years between 2007 and 2020. To maintain consistency, the timeframe is the same throughout my entire dataset. The obtained dataset regarding governance provisions consists of 20,949 observations. I continue with collecting data regarding director and executive compensation from the compensation databases in ISS. This database includes the compensation variables salary, bonus, stock awards, option awards, non-equity compensation, pension, and other compensation. I further collect data on ISS about directors and executives on a personal level, such as current role, previous roles, or age. Furthermore, I obtain data regarding absolute performance goals, which is collected by ISS from the CD&A section of proxy disclosures. This data includes information about the threshold, target, and maximum value that has to be met in order to reach the goal. I specifically solely chose absolute goals on ISS, as the relative performance goals are more complex to measure. I exclude all observations that aren't in a percentage of growth and that weren't an accounting or market metric. I continue with merging

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<sup>1</sup> This information is taken from the database of ISS on WRDS. <https://wrds-www.wharton.upenn.edu/pages/get-data/institutional-shareholder-services-iss-trial/>

this dataset with the grants of plan-based awards table from ISS, which includes the vesting schedules and size of the awards related to the performance goals.

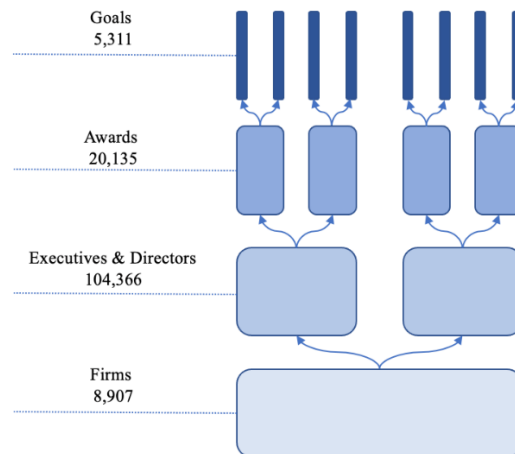
After having obtained all the data from ISS, I collect board characteristics provided by BoardEx. This gives me more information about the board size of the companies, board independence, gender ratio, time within a specific role, time to retirement, and the time the director or executive has been in the company. I further collect financial performance and operating characteristics through Compustat, variables such as: return on assets, market value, total sales, debt levels, or gross profit. Finally, I merge all the separate datasets to have all the variables combined. I exclude all missing variables among the different databases. As stated by Chen et al., (2019), a concern related to the compensation comes from the variable timing of when new executives take office within their initial fiscal year. The disclosed remuneration could be influenced by problems with timing. For instance, the reported compensation for executives who are promoted internally contain earnings from the entire fiscal year, not just the earnings post-promotion. To mitigate the problem with timing and assure the integrity regarding the test outcomes, executives that in their current position for a period shorter than 12 months are excluded. Furthermore, to decrease the impact of extreme values, I winsorize the variables at both the lower and upper 1st percentiles (Chen et al., (2019).

Table 3.1: Overview databases and corresponding variables

Database	Variables
ISS - Governance	Classified boards, cumulative voting, Golden parachutes, poison pills, state takeover laws
ISS – Participant information	Age, CEO, CFO, COO, Female, other roles
ISS - Compensation	Salary, bonus, stock awards, option awards, non-equity incentive plan compensation
ISS - Vesting	Vesting time, cash & equity compensation for achieving a threshold, target, or maximum
ISS – Grants of plan-based awards	Performance time, target goal, threshold goal, maximum goal
Compustat	Firm size, Tobin’s Q, leverage, ROA, gross profit

The entire dataset eventually contains 8,907 firms. 104,366 individuals, split up between 32,650 executives and 71,761 directors, 20,592 cash compensation grants and 15,404 equity compensation grants, 4,961 accounting and 357 market performance goals. The dataset is constructed in a way that multiple directors and executives are linked to one firm. There could be multiple grants connected to a single director or executive and one grant can consist of multiple performance goals. Figure 1 shows a visual representation of the entire dataset.

Figure 1: Visual representation of the entire dataset



### 3.2 Variables description

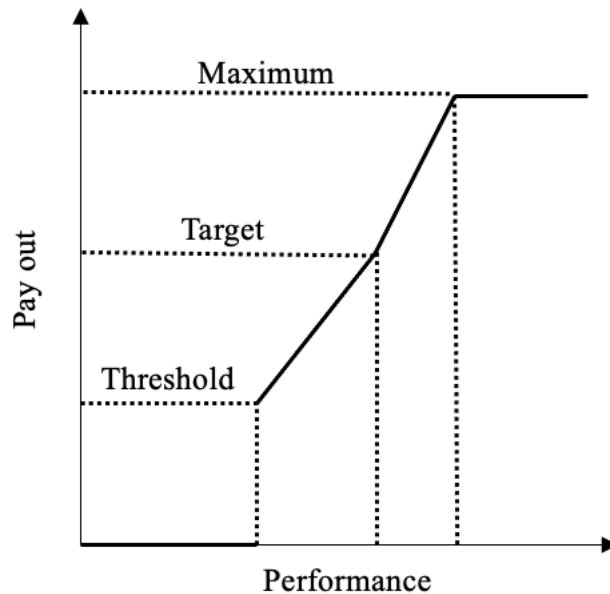
In this section, the construction of the empirical variables used in this study is discussed. First, the dependent variables regarding executive and director compensation, vesting schedules, and performance goals. Followed by the independent variable classified boards and other control variables.

### 3.2.1 Dependent variables

My model includes various measures of executive compensation as there can be many different determinants for each form of compensation (Finkelstein & Hambrick, 1989). Therefore, I construct three different dependent variables to examine executive compensation. These variables are split up between base compensation, performance related compensation, and total compensation. All these compensation variables are modelled as a logarithm. The first dependent variable is total compensation, which is computed by adding the base salary, bonus, stock awards, option awards, non-equity compensation, pension, and other compensation. The second dependent variable is base compensation and is the compensation of executive and directors regardless of their performance. This variable is the sum of base salary and pension related compensation. Lastly, the dependent variable performance compensation is constructed, which is the sum of bonus, stock awards, option awards, and non-equity compensation.

Furthermore, to test the effect of classified boards on vesting schedules, I have several dependent variables related to the vesting time and pay-outs. The dependent variable vesting time contains the total vesting period, which is the time between the grant date and the end date of the vesting period. This variable is denoted in months. I further use the equity and non-equity related awards given by ISS. Both types of awards are granted depending on the company's performance. ISS differentiates the awards into three categories: threshold, target, and maximum pay-out. This means that once a set performance threshold is achieved, compensation is rewarded either in the form of monetary payments or equity units. This compensation structure is the same once a target or maximum is met (Bettis et al., 2018).

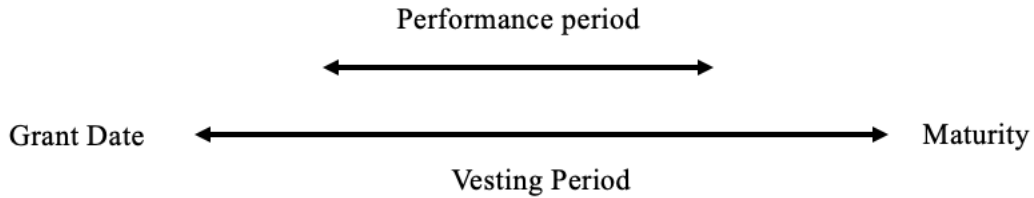
Figure 2: Award Pay Out



Moreover, to examine the impact of classified boards on performance goals, I created a variable that captures the total time of the performance period. This variable is denoted as Performance time, it contains the length of the performance period for awards with performance conditions. The length of the performance period is given in months and is calculated by subtracting the beginning date of the performance period from the end date. The performance period could be part of the total vesting time. Thus, the total vesting time could be a combination of the performance period for the performance metrics and an additional time vesting period. For example, if the performance period is 12 months and the additional vesting period is 12 months. The total vesting period is equal to 24 months. Additionally, I look at the different performance goals requirements. Similar to the vesting pay-outs, the performance goals are divided into three categories: threshold, target, and maximum. These variables are given in a multiple of growth of a specific accounting metric that is used such as earnings per share or return on assets. I categorize the different metrics into accounting and market measures. A complete list of the specific metric can be found in Appendix A.

Figure 3: Example performance and vesting period





### 3.2.2 Independent & control variables

For every regression in this study, the main independent variable of interest is classified boards. This is a binary dummy variable that is equal to one if the company has a classified board structure, and a zero if it has a unitary board structure. Other control variables are split up within four groups: governance, firm characteristics, board, and individual characteristics.

Following a similar approach as Faleye (2007) and Bebchuk & Fried (2006), I control for several other governance mechanisms that affect shareholders rights. As shown by Gompers et al., (2003), classified boards represent just one of the multiple potential entrenching strategies, which could either act as substitutes or complements. The research shows how different governance mechanism limit or boost shareholder rights. As a result, managerial entrenchment is affected by these different governance provisions which could have an impact on executive and director compensation. Therefore, to isolate the influence of classified boards, I control for these other provisions in my study. These governance mechanisms include golden parachute, poison pill, cumulative voting, confidential voting, dual class voting, and unequal voting rights. All these variables are explained in more detail in Appendix B.

I further control for firm specific characteristics. Murphy (1999) suggests that the main factor influencing the difference in executive compensation is the size of the firm. Larger corporations require more expertise and effort due to the more complex decisions that have to be made. As a result, these organizations tend to offer higher compensation packages to attract executives with superior skills. In this study, I measure the size of a firm using the logarithm of its sales. Moreover, according to agency theory, there is positive relationship between performance and compensation (Jensen & Murphy, 1990). Therefore, I include the operating measures return on assets and gross profit as indicators of performance. Furthermore, Smith & Watts (1992) find that if there is a larger share of firm value represented by growth opportunities, there is a closer link between managers' compensation and firm value, increasing the variance of their compensation. To offset this risk, higher compensation is required. Following (Chen et al.,

2019), I account for these growth opportunities with Tobin's Q, which is constructed as the market value divided by the total assets. Similarly, I include leverage, measured as total debt divided by total assets, because it enhances the risk associated with equity-based pay, which should have a correlation with higher compensation levels (Fernandes et al., 2013).

I also control for board characteristics. First, I control for busy boards and board size. As shown by Yermack (1996) and (Fich & Shivdasani, 2006), these two board characteristics are linked to reduced oversight, leading to an increase in compensation. Board size is measured as the total number of directors that are or were active in the board in a given year. The busy board is the number of all outside current boards that the director serves on, this includes other public, private, and other boards. Second, I control for board independence. Hermalin (2005) indicates that the monitoring effectiveness increases if the board is more independent. As a result, the compensation increases. I measure the board independence as the total number of outside directors divided by the board size. Third, I control for C-level executives. I construct dummy variables with a one if the director holds a CEO, CFO, or COO position because they correlate with higher compensation. Last, duality is a dummy variable that is equal to one if the CEO is also the chairman of the board.

My last set of control variables is related to individual characteristics. These are at the director or executive level. Time in role is the time of the director or executive in their current role. Ryan & Wiggins (2001) state an ambiguous relationship between tenure and compensation. Longer tenures have a higher change of entrenchment and pursue their personal benefits. However, the director or executive may hold his positions because he creates shareholder value. I further include age of the director or executive and their time to retirement, which is the number of years until the individual can retire. Older directors have incentives to focus their perspective on a strategy that pays off before their retirement (Baker et al., 1994). While younger directors or executives are trying to boost their reputation by focusing on short-term targets (Hirshleifer, 1993).

### **3.3 Methodology**

For all dependent variables in my study, I use ordinary least squares (OLS) regressions. To mitigate the problems of heteroskedasticity in my sample, I use robust standard errors (Newey & West, 1987). Recall from the previous section that I use multiple different dependent variables to test my hypotheses. These dependent variables are related to different compensation measures, awards, and performance goals. Even though I account for different firm characteristics, it is impossible to include all firm characteristics that influence compensation (Hermalin, 2005). For example, other firm features, like corporate culture or investment strategies, have an impact on compensation. Therefore, I use firm-fixed effects regressions to accommodate for these unobserved firm characteristics. One of the benefits of this approach are the provided estimates for firm characteristics that are not biased by omitted variables, if these omitted variables don't change over time (Graham et al., 2012). I further include yearly fixed effects to exclude the variation in the outcome that happens over time and is not attributed to the control variables (Collischon & Eberl, 2020). Lastly, I include a second model that contains the yearly fixed effects and the individual fixed effects.

## CHAPTER 4 Results

This chapter presents the empirical results of the study, which is the result of the research methodology that is described in chapter three. First, a review of the descriptive statistics is provided. Second, the correlation matrix between the independent variables is shown. Lastly, the results of the regressions are discussed.

### 4.1 Descriptive statistics

To create a clear overview of the descriptive statistics, I split them up in three different levels. These are the firm level, the individual level, which consists of the executive and directors, and the grant level.

#### 4.1.1 Firms

Table 4.1 presents an overview of the number of classified boards across years between 2007 and 2020. It indicates a decreasing popularity of staggered boards. In 2007, the percentage of classified boards was around 55%, which steadily decreased to 21% in 2020. Every year contains approximately the same number of observations. Table 4.2 further displays the descriptive statistics on a firm level. It includes the number of observations, mean, median, min, max, and standard deviation. The dataset contains of a total of 104,366 observations. The mean indicates that 33% of the observations has a staggered board. As the total number of firms across years is 8907 and the total number of observations is 104,366, it can be concluded that a unique firm occurs multiple times within the same year. The mean further indicates that boards consist of 10.8 members, 88% of the board is an independent member, and 82% is male. In this table, the control variables are split up between governance, board, and firm characteristics.

Table 4.1 Overview of classified boards across years

Year	Observations	Unitary boards	Classified boards	% Classified
2007	608	273	335	55.10%
2008	607	288	319	52.55%
2009	622	306	316	50.80%
2010	637	328	309	48.51%
2011	643	375	268	41.68%
2012	642	403	239	37.23%
2013	637	427	210	32.97%
2014	629	452	177	28.14%
2015	647	478	169	26.12%
2016	647	484	163	25.19%
2017	654	500	154	23.55%
2018	657	502	155	23.59%
2019	671	518	153	22.80%
2020	606	476	130	21.45%
<b>Total</b>	<b>8907</b>	<b>5810</b>	<b>3097</b>	-

Notes: This table shows the spread of classified and unitary boards between 2007 and 2020. The percentage of classified board significantly decreased over time.

Table 4.2 Descriptive statistics firm

Variable	N	Mean	Median	Min	Max	SD
<b>Governance</b>						
Classified Boards	104,366	0.33	0.00	0.00	1.00	0.47
Golden Parachute	104,366	0.75	1.00	0.00	1.00	0.43
Poison Pill	104,366	0.12	0.00	0.00	1.00	0.33
Confidential Voting	104,366	0.19	0.00	0.00	1.00	0.39
Cumulative Voting	104,366	0.05	0.00	0.00	1.00	0.21
Dual Class Shares	104,366	0.06	0.00	0.00	1.00	0.24
Unequal Voting Rights	104,366	0.05	0.00	0.00	1.00	0.21
<b>Board</b>						
Board Size	104,366	10.80	11.00	4.00	33.00	2.44
Board Independence	104,366	0.88	0.90	0.43	1.00	0.10
Gender Ratio	104,366	0.82	0.82	0.25	1.00	0.10
<b>Firm</b>						
Firm Size	104,366	8.68	8.59	2.96	13.23	1.35
Growth opportunities	104,366	1.40	1.00	0.01	18.86	1.47
Gross Profit	104,366	5,922	1,939	-15,036	9.23	13,284
Return on Assets	104,366	0.14	0.13	-0.51	0.96	0.09
Leverage	104,366	0.61	0.61	0.05	1.11	0.20

Notes: This table shows the descriptive statistics on a firm level. The sample contains of 105,077 observations collected between 2007 and 2020. It is split up between governance, board, and firm characteristics. The governance characteristics are all dummy variables that equal one if the firm has the mentioned governance mechanism in place. Board size indicates the number of directors on board, board independence is measured as the number of independent directors divided by the board size. Gender ratio is measured as the number of male directors divided by the board size. Firm size is measured as the log of sales. Gross profit is measured as a logarithm. Growth opportunities is equal to Tobin's Q. Leverage is calculated as total debt divided by total assets.

#### 4.1.2 Overview Directors & Executives across years

Table 4.3 shows the number of directors and executives per year between 2007 and 2020. The majority of the dataset contains of directors, with a total of 71,761 director observations and 32,605 executive observations. The percentage of executives is between the range of 28% and 37% during the observed years. The number of CEOs is stays around the same number in every year. Table 4.4 shows the descriptive statistics of directors. It presents the number of observations, mean, median, min, max, and standard deviation. This table indicates that the mean of the base salary is 94,114 with a maximum of 1,890,000. The performance compensation has a mean of 146,794 with a max of 1,000,000. The average age of the directors is 63.09 and number of other boards is 3.12. Table 4.5 presents the descriptive statistics of executives. The base compensation on average is 1,009,442 with a maximum of 9,921,436. The performance compensation further has a mean of 4,047,957 and a maximum of 49,200,000. Compared to directors, executives have a higher mean in base, performance and total compensation. The mean of duality is 0.13, which indicates there is a tendency that the chairman and CEO are different people. The mean age of executives is 55, which is lower than directors.

Table 4.3 Overview of directors & executives across years

Year	Observations	Directors	Executives	CEO	CFO	% Executive
2007	7770	4877	2893	619	624	37.23%
2008	7729	4900	2829	606	622	36.60%
2009	7941	5047	2894	629	634	36.44%
2010	7503	5156	2347	653	491	31.28%
2011	7383	5210	2173	651	380	29.43%
2012	7405	5249	2156	653	378	29.12%
2013	7333	5173	2160	665	372	29.46%
2014	7398	5236	2162	656	387	29.22%
2015	7667	5431	2236	689	399	29.16%
2016	7637	5395	2242	638	467	29.36%
2017	7704	5436	2268	640	481	29.44%
2018	7703	5476	2227	633	463	28.91%
2019	7926	5644	2282	664	473	28.79%
2020	7257	5145	2112	592	454	29.10%
<b>Total</b>	<b>104,366</b>	<b>71,761</b>	<b>32,605</b>	<b>8988</b>	<b>6625</b>	-

*Notes:* This table shows the spread of the directors and executives between 2007 and 2020. The percentage of executives slightly decreases over time. The number of CEOs is about the same every year, while the number of CFOs fluctuates a bit more.

Table 4.4 Descriptive statistics directors

Variable	N	Mean	Median	Min	Max	SD
Base compensation	71,761	94,114	91,000	1,000	1,890,000	54,108
Performance compensation	71,761	146,794	134,531	1,000	1,000,000	95,750
Total compensation	71,761	240,907	234,678	1,000	2,078,543	110,186
Age	71,761	63.09	64.00	30.00	96.00	7.72
Other Boards	71,761	3.12	3.00	0.00	10.00	1.87
Time to retirement	71,761	6.48	5.80	-27.20	41.50	7.83
Time in Company	71,761	8.72	6.90	0.00	68.90	7.44
CEO	71,761	0.04	0.00	0.00	1.00	0.20
CFO	71,761	0.01	0.00	0.00	1.00	0.09
Duality	71,761	0.02	0.00	0.00	1.00	0.15
Female	71,761	0.19	0.00	0.00	1.00	0.40

*Notes:* this table shows the descriptive statistics of the directors in my sample. The sample is between 2007 and 2020. Base compensation is the sum of the base salary and pension related compensation, performance compensation is the sum of bonus, stock, option, and other non-equity compensation. The variable other boards indicates the number of all other public and non-public boards the director is active on. Time in role refers to the executive's tenure. CEO, CFO, Duality, and Female are all dummy variables that equal one once the executive is the CEO, CFO, CEO and chairman of the board, or Female.

Table 4.5 Descriptive statistics executives

Variable	N	Mean	Median	Min	Max	SD
Base compensation (M)	32,605	1.0	0.7	0.0	9.9	1.0
Performance compensation (M)	32,605	4.0	2.6	0.0	49.2	4.6
Total compensation (M)	32,605	5.2	3.5	1.2	100	5.2
Age	32,605	55.27	56.00	29.00	97.00	6.60
Other Boards	32,605	1.17	1.00	0.00	10.00	1.47
Time to retirement	32,605	9.76	9.80	-33.30	35.40	6.94
Time in Company	32,605	13.55	10.90	0.00	65.80	10.30
CEO	32,605	0.27	0.00	0.00	1.00	0.44
CFO	32,605	0.18	0.00	0.00	1.00	0.39
Duality	32,605	0.13	0.00	0.00	1.00	0.34
Female	32,605	0.06	0.00	0.00	1.00	0.24

*Notes:* this table shows the descriptive statistics of the executives in my sample. The sample is between 2007 and 2020. Base compensation is the sum of the base salary and pension related compensation, performance compensation is the sum of bonus, stock, option, and other non-equity compensation which is expressed in million dollars. The variable other boards indicates the number of all other public and non-public boards the executive is active on. Time in role refers to the executive's tenure. CEO, CFO, Duality, and Female are all dummy variables that equal one once the executive is the CEO, CFO, CEO and chairman of the board, or Female.

### 4.1.3 Awards & performance goals

Table 4.6 presents the descriptive statistics of the awards given to directors and executives between 2007 and 2020. These awards are split up between cash related and equity related awards. The vesting time is the period between the grant date and the maturity. The threshold, target, and maximum indicate the pay-outs once a specific goal is met. The total number of observations for cash related awards is 20,592 and 15,404 for equity related awards. The mean vesting time of cash related awards is significantly lower than equity related 15<33.

Table 4.7 further shows the descriptive statistics of the performance goals. There can be multiple performance goals attached to one award. The performance goals are split up between accounting and market measures for performance goals. The accounting and market performance goals are both measured as a multiple. There are more observations for the accounting measure (4,961) because after dropping missing observations there weren't many market related performance goals left (357).

Table 4.6 Descriptive statistics awards

<b>Variable</b>	<b>N</b>	<b>Mean</b>	<b>Median</b>	<b>Min</b>	<b>Max</b>	<b>SD</b>
<b>Cash related</b>						
Vesting Time	20,528	15	12	2	60	8
Threshold	20,528	229,825	122,500	0	20,000,000	423,620
Target	20,528	802,886	533,407	0	50,000,000	1,033,992
Maximum	20,528	1,665,492	1,080,000	568	130,000,000	2,221,713
<b>Equity Related</b>						
Vesting Time	15,176	33	36	0	60	8
Threshold	15,176	22,326	4,594	0	6,667,500	127,885
Target	15,176	68,367	17,162	0	13,300,000	300,496
Maximum	15,176	126,255	31,296	69	22,300,000	568,932
Total	15,176	216,948	53,962	138	40,000,000	968,152

*Notes:* This table shows the descriptive statistics of the awards collected between 2007 and 2020. It is split up between cash related and equity related pay outs. Vesting time is the period between the grant date and the maturity. Threshold is the pay out once a threshold performance goal is met. Target is the pay out once a target performance goal is met. Maximum is the pay out once a maximum performance goal is met.



Table 4.7 Descriptive statistics performance goals

<b>Variable</b>	<b>N</b>	<b>Mean</b>	<b>Median</b>	<b>Min</b>	<b>Max</b>	<b>SD</b>
Performance Time	5,318	14.55	12.00	3.00	36.00	8.37
<b>Accounting</b>						
Goal Threshold	4,959	0.05	0.03	-0.60	1.29	0.14
Goal Target	4,959	0.10	0.07	-0.22	2.00	0.17
Goal Max	4,959	0.19	0.11	-0.17	71.00	1.31
<b>Market</b>						
Goal Threshold	352	-0.01	0.05	-0.50	0.80	0.26
Goal Target	352	0.17	0.10	0.00	1.20	0.26
Goal Max	352	0.49	0.22	0.09	2.40	0.50

*Notes:* This table shows the descriptive statistics of the performance goals collected between 2007 and 2020. It is split up between accounting and market related performance goals. Performance period is the time between the beginning of the performance period and the end. Goal threshold, target, and max are the goals to acquire the corresponding reward. They are all measured as a growth percentage.

## 4.2 Correlation matrix

Table 4.8 presents the Pearson matrix. According to Hair et al., (1995), control variables exceeding the threshold of 0.7 indicate multicollinearity, while values that are below 0.7 are seen as acceptable if their number of observations is sufficient ( $n > 1000$ ). As all numbers of the control variables are below the threshold of 0.7, the Pearson matrix doesn't show any signs of multicollinearity. The only control variables that show a moderately high positive correlation is firm size and gross profit ( $r = 0.62$ ), which is not surprising as bigger firms are more likely to have higher gross profits. In addition, return on assets indicates a relatively high positive correlation with growth opportunities ( $r = 0.60$ ), but still remains under the threshold of 0.7. I further tested for multicollinearity with the Variance Inflation Factor (VIF) test (Hair et al. 1995). Multicollinearity refers to the extent to which an additional variable can explain the variations in the explanatory variables. The VIF test is used to assess multicollinearity in a regression model. In this research, the VIF test results indicate that the mean VIF value is 1.47, and the maximum VIF value is 2.11. This suggests that there is not a significant issue with multicollinearity, as all the independent and control variables have VIF scores below the 5.0 threshold recommended by Becker, Wende & Ringle (2015) and Marquardt & Snee (1975). Appendix C Table C.1 provides a visual representation of the VIF test results.

Table 4.8 Correlation matrix

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
(1) Classified Boards	1.00																			
(2) Golden Parachute	0.03	1.00																		
(3) Poison Pill	0.20	-0.06	1.00																	
(4) Confidential Voting	-0.12	-0.03	-0.04	1.00																
(5) Cumulative Voting	-0.02	-0.01	0.04	0.03	1.00															
(6) Dual Class Shares	-0.02	-0.12	-0.02	-0.07	-0.04	1.00														
(7) Unequal Voting	-0.06	-0.10	-0.04	-0.06	-0.05	0.70	1.00													
(8) Firm Size	-0.28	-0.15	-0.16	0.31	-0.07	0.00	0.04	1.00												
(9) Growth Opp.	0.05	-0.04	-0.02	-0.07	-0.06	0.04	0.03	-0.16	1.00											
(10) Gross Profit	-0.20	-0.25	-0.09	0.27	-0.05	-0.01	0.04	0.62	-0.03	1.00										
(11) ROA	0.04	-0.06	0.05	-0.01	-0.05	0.02	-0.01	0.02	0.60	0.02	1.00									
(12) Leverage	-0.13	0.06	-0.11	0.16	0.00	-0.09	-0.03	0.28	-0.38	0.12	-0.35	1.00								
(13) Board Size	-0.04	-0.06	0.15	-0.03	0.10	0.09	0.06	0.38	-0.21	0.26	-0.18	0.32	1.00							
(14) Gender Ratio	0.20	-0.08	0.18	-0.14	0.09	0.00	-0.05	-0.28	-0.01	-0.19	0.03	-0.23	-0.15	1.00						
(15) Board Composition	0.14	-0.03	0.12	-0.02	-0.14	-0.10	-0.05	0.14	-0.09	0.07	-0.07	0.16	0.17	-0.14	1.00					
(16) Age	0.00	0.03	-0.03	-0.01	-0.01	-0.01	0.00	-0.01	-0.04	-0.01	-0.04	0.02	0.04	0.03	-0.01	1.00				
(17) CEO	0.01	0.00	0.00	0.00	0.00	0.00	0.00	-0.02	0.01	0.00	0.01	-0.01	-0.04	0.00	-0.01	-0.15	1.00			
(18) Time in Role	0.03	-0.01	-0.02	-0.02	0.01	0.02	0.03	-0.05	0.01	-0.03	0.00	-0.01	-0.01	0.05	-0.06	0.40	-0.06	1.00		
(19) Other Boards	0.03	-0.03	0.03	-0.01	-0.01	-0.01	0.02	0.05	-0.05	0.04	-0.06	0.07	0.07	-0.03	0.04	0.24	0.00	0.11	1.00	
(20) Duality	0.02	-0.01	0.00	0.02	0.01	-0.01	-0.01	0.02	-0.01	0.01	0.00	0.01	-0.01	-0.01	0.01	-0.05	0.69	-0.01	0.03	1.00

### 4.3 Regression results

The hypotheses are tested by regressing several dependent variables. All tables include two different models per dependent variable. The difference between these two models is different fixed effects.

#### 4.3.1 Director and executive compensation

Table 4.9 includes the results of the OLS regression model used to test the hypothesis regarding executive compensation. Model (1) contains the base salary of executives with yearly and individual fixed effects and model (2) includes the base salary of executives with yearly and firm fixed effects. The remaining models have a similar structure split up between performance related compensation model (3) and (4) and total compensation model (5) and (6). The hypothesis suggests that from the managerial perspective classified board have a higher compensation and from the shareholder perspective classified boards would have a lower compensation. Model (1) and (2) indicate a negative and significant coefficient ( $\beta = -0.104$  and  $\beta = -0.0877$ ,  $\rho < 0.01$ ). This result is in line with the shareholder perspective, it suggests that executives in a classified boards have a lower base salary. Moreover, one standard deviation increase in classified boards leads to a -0.104 decrease in base salary. Looking at the performance related compensation, there are similar results as for the base salary but with less significance and a lower impact ( $\beta = -0.0232$  and  $\beta = -0.0229$ ,  $\rho < 0.1$ ). Nevertheless, it still shows a negative relationship between classified boards and performance-based compensation, in line with the shareholder perspective. In model (5), there is also see a negative and significant coefficient ( $\beta = -0.0229$ ,  $\rho < 0.05$ ), which seems reasonable as base salary and performance compensation are components of total compensation. This outcome is in line with finding from Faleye (2007).

Table 4.10 includes the OLS regression results for director compensation, which has a similar structure as table 4.9. Model (1) and (2) indicate a negative relationship between classified boards and base salary ( $\beta = -0.0269$  and  $\beta = -0.0148$ ,  $\rho < 0.01$ ). Compared to executives, the effect is still significant but has a lower impact for directors. Looking at the performance related compensation, there is a similar relationship but with a lower significance and impact. Model (4) shows this negative relationship ( $\beta = -0.00104$ ,  $\rho < 0.1$ ). Model (5) also

indicates a negative relationship between classified boards and total compensation. Comparing the two models, classified boards have a bigger negative impact on executives' base salary performance related compensation, and total compensation compared to directors.

Table 4.9 Executive compensation

	<b>Base salary</b>		<b>Performance compensation</b>		<b>Total compensation</b>	
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Governance Characteristics</b>						
Classified Boards	-0.104***	-0.0877***	-0.0232*	-0.0229*	-0.0409**	-0.00254
Golden Parachute	0.102***	0.0912***	0.117***	0.0763***	0.102***	0.0577***
Poison Pill	-0.000681	0.0229	-0.0284	0.0317	-0.0267	0.0264
Confidential	-0.0418	-0.0691**	-0.239**	-0.151***	-0.0974*	-0.0888**
Voting						
Cumulative	0.106	0.0568	-0.158*	-0.0876*	-0.0850*	-0.0543
Voting						
Dual Class Shares	-0.0828	-0.1000	0.157	0.120	-0.00642	-0.00439
Unequal voting	0.317**	0.187***	-0.0790	0.00825	0.0415	0.0293
Rights						
<b>Firm Characteristics</b>						
Firm size	0.0584	0.159***	0.415***	0.347***	0.281***	0.285***
Growth opp.	0.0100	0.0228*	0.0588***	0.0573***	0.0514***	0.0501***
Return on assets	-0.0693	0.100	0.165	0.199	0.143	0.133
Leverage	-0.139	-0.120	-0.160	-0.242***	-0.0779	-0.0958*
Gross Profit	0.00670	0.0224***	0.0178	0.0243*	0.0199***	0.0132*
<b>Board Characteristics</b>						
Board Size	-0.00413	-0.00354	-0.00645	-0.00191	-0.00721**	-0.00587*
Board	-0.343	0.354	0.254	0.624**	0.105	0.217*
Composition						
Gender Ratio	-0.547***	-0.184	-0.0697	0.154	-0.204**	0.0303
Age	-0.00662	-0.0308***	0.0255***	-0.0337***	0.0201***	-0.0209***
Time to retirement	-0.0137***	-0.0173***	-0.0212***	-0.0172***	-0.0167***	-0.0138***
Tenure	0.0115***	0.00535**	0.00347	0.00433*	0.00467**	0.00311***
Other boards	0.00844	-0.0102	0.00767	0.0146**	0.0171**	0.0263***
CEO	0.402***	0.663***	0.718***	1.114***	0.588***	0.965***
Female	0.130	-0.000564	0.342**	-0.207***	-0.207***	-0.0981***
Duality	0.294***	0.230***	0.256***	0.263***	0.197***	0.217***
Constant	13.98***	13.14***	9.350***	12.08***	11.45***	12.73***
Observations	32,605	32,605	32,605	32,605	32,605	32,605
R-squared	0.181	0.293	0.232	0.257	0.300	0.353
<b>Fixed Effects</b>						
Year	Yes	Yes	Yes	Yes	Yes	Yes
Individual	Yes	No	Yes	No	Yes	No
Firm	No	Yes	No	Yes	No	Yes

Notes: This table provides regressions results on executive compensation. The dependent variables are the logarithm of base salary, performance compensation, and total compensation. The independent variable is classified boards. The governance characteristics are all dummy variables that equal one if the firm has the mentioned governance mechanism in place. Board size indicates the number of directors on board, board independence is measured as the number of independent directors divided by the board size. Gender ratio is measured as the number of male directors divided by the board size. Firm size is measured as the log of sales. Gross profit is measured as a logarithm. Growth opportunities is equal to Tobin's Q. Leverage is calculated as total debt divided by total assets. Robust standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 4.10 Director compensation

	Base salary		Performance compensation		Total compensation	
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Governance Characteristics</b>						
Classified Boards	-0.0269***	-0.0148***	-0.000663	-0.00104*	-0.00517**	0.00249
Golden Parachute	0.0149***	0.0194***	-0.0192***	0.00987	-0.0119**	0.0106**
Poison Pill	-0.0267***	-0.00882	-0.0264***	-0.00278	-0.0281***	-0.0102**
Confidential Voting	-0.0495***	-0.0304**	0.0717***	0.0952***	0.0124	0.0218*
Cumulative Voting	0.0204	-0.00843	0.00898	0.0227*	0.00109	-0.00293
Dual Class Shares	-0.0480**	-0.0195	0.0332	0.0469**	-0.0129	0.0144
Unequal voting Rights	-0.0387**	-0.0546***	0.0806***	0.0903***	0.0360***	0.0348***
<b>Firm Characteristics</b>						
Firm size	0.0835***	0.0901***	0.110***	0.102***	0.0944***	0.0990***
Growth opportunities	-0.00607***	-0.00369*	0.0173***	0.0196***	0.0115***	0.0148***
Return on assets	0.0549	0.0389	0.00365	0.00677	-0.0151	-0.0283
Leverage	-0.0320	-0.0263	-0.144***	-0.170***	-0.0977***	-0.103***
Gross Profit	-0.00985	0.0205*	0.0284***	0.0314***	0.00747***	0.00459
<b>Board Characteristics</b>						
Board Size	-0.00901***	-0.0152***	-0.00607***	-0.00628***	-0.00738***	-0.00903***
Board Composition	0.0986**	0.0756*	-0.109*	-0.0553	-0.0241	0.0249
Gender Ratio	-0.158***	-0.0163	0.149***	0.188***	0.0184	0.0938***
Age	0.0280***	-0.00283**	0.0342***	-6.09e-05	0.0291***	-0.000204
Time to retirement	-0.0208***	-0.0105***	-0.0155***	-0.00235**	-0.0171***	-0.00478***
Tenure	-0.00911***	0.00297***	-0.00132	0.00123***	-0.00528***	0.00145***
Other boards	0.00794***	0.00781***	-0.000957	0.00285***	0.00197	0.00449***
CEO	0.0371***	0.00696	-1.27e-05	0.00983	0.0140	0.00569
Female duality	-0.548***	-0.00732**	-0.278***	-0.0133***	-0.344***	-0.00488**
Constant	9.152***	10.89***	8.835***	10.32***	9.916***	11.17***
Observations	71,761	71,761	71,761	71,761	71,761	71,761
R-squared	0.195	0.287	0.221	0.277	0.291	0.323
<b>Fixed Effects</b>						
Year	Yes	Yes	Yes	Yes	Yes	Yes
Individual	Yes	No	Yes	No	Yes	No
Firm	No	Yes	No	Yes	No	Yes

Notes: This table provides regressions results on director compensation. The dependent variables are the logarithm of base salary, performance compensation, and total compensation. The independent variable is classified boards. The governance characteristics are all dummy variables that equal one if the firm has the mentioned governance mechanism in place. Board size indicates the number of directors on board, board independence is measured as the number of independent directors divided by the board size. Gender ratio is measured as the number of male directors divided by the board size. Firm size is measured as the log of sales. Gross profit is measured as a logarithm. Growth opportunities is equal to Tobin's Q. Leverage is calculated as total debt divided by total assets. Robust standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

### 4.3.2 Vesting and performance time

Zooming in on the performance related compensation, table 4.11 shows the OLS regression results regarding the vesting and performance time of grants awarded to directors and executives. The hypothesis regarding vesting time suggests that from the managerial discretion executives and directors prefer a shorter vesting time as their awards become sooner available. The shareholder interest perspective suggests a longer vesting period, depending on the circumstances. Model (1) and (2) use the total vesting time of the awards as dependent variable and model (3) and (4) include the total performance period as dependent variable. Model (1) and (2) show a positive and significant coefficient for classified boards and vesting time ( $\beta = 0.979$ ,  $\rho < 0.01$  and  $\beta = 0.686$ ,  $\rho < 0.1$ ). This implies that classified boards increase the total vesting time of the grants. More specifically, an increase of one standard deviation in classified boards increases the total vesting time by 0.979 following model (1) or 0.686 in model (2). Looking at the performance time, there is a similar effect with a smaller impact. Model (3) and (4) show a significant positive coefficient ( $\beta = 0.759$ ,  $\rho < 0.01$  and  $\beta = 0.399$ ,  $\rho < 0.1$ ). This implies that classified boards have a longer performance period. Compared to the vesting time, classified boards have a smaller impact on the performance time in both models.

Table 4.11 Vesting and performance time

	Vesting Time		Performance Time	
	(1)	(2)	(3)	(4)
<b>Governance Characteristics</b>				
Classified Boards	0.979***	0.686*	0.759***	0.399*
Golden Parachute	-0.676***	0.388*	-0.372*	0.379
Poison Pill	-0.821***	0.539	0.0680	1.116***
Confidential Voting	-0.757***	-0.205	0.0478	-1.424*
Cumulative Voting	-0.0690	2.264*	-0.458	2.701**
Dual Class Shares	-1.425***	2.139	0.0430	2.001
Unequal voting Rights	1.254**	2.925***	1.369***	0.535
Total Goals	-0.634***	-1.092***	-0.426***	-0.728***
<b>Firm Characteristics</b>				
Firm size	0.774***	-0.288	0.494***	0.350
Growth opportunities	-0.294***	-0.418**	-0.257***	0.190
Return on assets	4.834***	4.822*	1.861	-2.398
Leverage	3.175***	5.758***	1.238***	-2.162*
Gross Profit	-0.0484***	-0.0875**	-0.0207***	-0.0121
<b>Board Characteristics</b>				
Board Size	0.259***	-0.131	0.146***	-0.0329
Board Composition	1.594	2.658*	0.764	1.466
Gender Ratio	0.671	5.352***	-2.064**	7.468***
Age	0.0729	-0.0652	-0.0640	0.00257
Time to retirement	0.0243	-0.0957	-0.0849**	-0.0476
Tenure	-0.132***	-0.103***	-0.0120	-0.0593*
Other boards	-0.0920	-0.198**	-0.180***	-0.193**
CEO	0.133	-0.112	0.239	-0.321
CFO	0.416	-0.123	0.447*	-0.332
COO	1.965***	1.804**	0.222	-0.807
Female	0.244	0.476	0.220	0.379
duality	-0.443	-0.207	-0.188	-0.363
Constant	5.193	30.73***	16.16***	8.230
Observations	20,528	20,528	20,528	20,528
R-squared	0.075	0.182	0.052	0.148
<b>Fixed Effects</b>				
Year	Yes	Yes	Yes	Yes
Individual	Yes	No	Yes	No
Firm	No	Yes	No	Yes

Notes: This table provides regressions results on vesting and performance time. The dependent variables are vesting and performance time. The independent variable is classified boards. The governance characteristics are all dummy variables that equal one if the firm has the mentioned governance mechanism in place. Board size indicates the number of directors on board, board independence is measured as the number of independent directors divided by the board size. Gender ratio is measured as the number of male directors divided by the board size. Firm size is measured as the log of sales. Gross profit is measured as a logarithm. Growth opportunities is equal to Tobin's Q. Leverage is calculated as total debt divided by total assets. Robust standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1



### 4.3.3 Award pay-outs

Table 4.9 and 4.10 showed the negative relationship between classified boards and performance related compensation. Table 4.12 takes a closer look at the performance related compensation and shows whether the effect is the biggest in either a threshold, target, or maximum pay out. Table 4.12 consist of three different dependent variables. The threshold, target, and max pay out. These pay outs are made once a certain threshold, target or maximum is met. Similar as the previous regressions, the difference between the two models per dependent variable is different fixed effects. Similar to the executive and director compensation results, the hypothesis suggests that from the managerial discretion perspective executives and directors will have higher cash and equity pay-outs. This is the opposite of the shareholder interest hypothesis that expects lower equity and cash pay outs. Model (1) shows a negative significant coefficient for classified boards and a threshold pay out ( $\beta = -0.399, \rho < 0.01$ ). More specifically, an increase in one standard deviation of classified boards lowers the threshold pay out by 0.399. Looking at the target pay out in model (3), there is a similar relationship ( $\beta = -0.0872, \rho < 0.01$ ). However, the result has a lower impact then on the threshold pay out  $-0.0872 > -0.3999$ . Model (5) and (6) further show a negative relationship between classified boards and maximum pay out. ( $\beta = -0.0751, \rho < 0.01$   $\beta = -0.0293, \rho < 0.1$ ). This implies that the impact is the biggest for a threshold pay out, followed by a target pay out, and then a max pay-out.

Table 4.13 shows the equity related pay-out awards. It has the same structure as table 4.12. The results are similar as cash pay-outs. However, classified boards have a bigger impact on the threshold, target, and max equity pay-out compared to the cash compensation. Model (1) and (2) shows a negative significant coefficient ( $\beta = -0.830, \rho < 0.01$   $\beta = -0.275, \rho < 0.01$ ). Model (3) shows a negative relationship between classified boards and a target pay out ( $\beta = -0.104, \rho < 0.01$ ). The same relation holds for classified boards and the maximum pay-out, which is shown by model (5) and (6) ( $\beta = -0.0733, \rho < 0.01$   $\beta = -0.0266, \rho < 0.1$ ). Similar as the cash pay-outs, staggered boards have the biggest impact on the threshold pay-out followed by the target and maximum pay-out.

Table 4.12 Cash pay-outs awards

Cash pay-out	Threshold		Target		Max	
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Governance Characteristics</b>						
Classified Boards	-0.399***	-0.0364	-0.0872***	-0.0158	-0.0751***	-0.0293*
Golden Parachute	0.787***	0.489***	0.0743***	0.00830	0.0401***	0.000232
Poison Pill	-0.577**	-0.00929	-0.0872***	-0.0167	-0.101***	-0.0308
Confidential Voting	-0.759**	-0.000314	-0.0590***	-0.135**	0.0105	-0.182***
Cumulative Voting	-1.093**	0.593***	-0.259***	-0.153**	-0.307***	-0.154**
Dual Class Shares	0.699***	0.808*	0.180***	0.0764	0.188***	0.0194
Unequal voting Rights	0.864***	0.673***	0.102**	-0.185***	0.192***	-0.0654**
<b>Firm Characteristics</b>						
<b>Firm size</b>	-0.0300	0.0252	0.239***	0.172***	0.268***	0.187***
Growth opportunities	0.543**	-0.0365	0.0142***	0.0179***	0.0154***	0.0124*
Return on assets	2.015***	0.873*	0.348***	0.134	0.184***	-0.0826
Leverage	1.004***	0.845***	0.0568*	0.0266	0.0833***	0.123**
Gross Profit	1.03e05*	7.25e-05**	6.68e-06***	8.29e-06***	3.35e-06***	7.98e-06***
<b>Board Characteristics</b>						
<b>Board Size</b>	-0.134**	-0.00777	0.00431*	0.000541	-0.00141	-0.00139
Board Composition	-0.649*	0.222	-0.284***	-0.0235	-0.312***	-0.0598
Gender Ratio	-3.037**	1.714***	-0.380***	0.00226	-0.254***	0.180**
Age	0.0347***	0.0227***	0.0188***	0.0115***	0.0172***	0.0106***
Time to retirement	0.0367**	0.0228***	0.00787***	0.00266**	0.00736***	0.00232**
Tenure	0.033***	0.00331	0.00704***	0.00535***	0.00875***	0.00646***
Other boards	0.214***	0.154***	0.0762***	0.0916***	0.0679***	0.0914***
CEO	0.872***	0.572***	0.882***	0.828***	0.859***	0.813***
CFO	-0.0148	-0.0178	0.0131	0.0305***	0.00861	0.0224**
COO	1.046***	0.303***	0.300***	0.309***	0.287***	0.281***
Female duality	0.367***	0.0740	-0.0642***	-0.0785***	-0.0671***	-0.0789***
Total Goals	0.103	0.0201	0.0521***	0.108***	0.0573***	0.0941***
Constant	0.144***	0.0413***	0.00316**	0.00878***	0.00810***	0.0113***
Observations	12.38***	-3.277***	10.11***	10.25***	10.61***	10.74***
R-squared	20,528	20,528	20,528	20,528	20,528	20,528
	0.391	0.426	0.408	0.424	0.394	0.446
<b>Fixed Effects</b>						
Year	Yes	Yes	Yes	Yes	Yes	Yes
Individual	Yes	No	Yes	No	No	Yes
Firm	No	Yes	No	Yes	Yes	No

Notes: This table provides regressions results on cash pay-out awards. The dependent variables are the logarithm of a threshold, target, and maximum cash pay-out. The independent variable is classified boards. The governance characteristics are all dummy variables that equal one if the firm has the mentioned governance mechanism in place. Board size indicates the number of directors on board, board independence is measured as the number of independent directors divided by the board size. Gender ratio is measured as the number of male directors divided by the board size. Firm size is measured as the log of sales. Gross profit is measured as a logarithm. Growth opportunities is equal to Tobin's Q. Leverage is calculated as total debt divided by total assets. Robust standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 4.13 Equity pay-outs awards

Equity pay-out	Threshold		Target		Max	
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Governance Characteristics</b>						
<b>Classified Boards</b>	-0.830***	-0.275**	-0.104***	0.00241	-0.0733***	-0.0266*
Golden Parachute	0.195**	-0.0380	-0.124***	-0.00444	-0.116***	-0.00659
Poison Pill	-0.401***	0.114	0.261***	-0.145***	0.413***	-0.0512
Confidential Voting	0.185**	1.467***	0.113***	0.245**	0.134***	0.271***
Cumulative Voting	-0.799***	-0.00926	-0.466***	-0.299***	-0.470***	-0.250***
Dual Class Shares	-0.250	-0.369	0.167***	-0.0356	0.102*	0.0527
Unequal voting Rights	-0.878***	-1.103**	-0.160**	-0.183**	-0.171***	-0.134*
<b>Firm Characteristics</b>						
<b>Firm size</b>	0.383***	0.293***	0.0763***	0.362***	0.0937***	0.435***
Growth opportunities	0.132***	-0.00251	-0.116***	0.0784***	0.103***	0.0789***
Return on assets	0.192	0.960*	1.479***	0.415*	1.185***	0.464**
Leverage	-0.119	-0.00884	0.274***	0.515***	0.496***	0.502***
Gross Profit	0.0051***	0.0042**	0.0013***	0.0034	0.0097***	0.0053
<b>Board Characteristics</b>						
<b>Board Size</b>	-0.105***	-0.0328*	-0.0108*	0.0345***	-0.0100*	0.0360***
Board Composition	-0.429	0.623***	-0.330***	0.133	-0.306***	0.0193
Gender Ratio	1.162***	0.803**	0.616***	-0.396**	0.287**	-0.258*
Age	0.0238***	0.0211**	0.0149***	0.0127***	0.0116***	0.0111***
Time to retirement	0.0174**	0.0142**	0.00826***	0.000208	0.00939***	0.000276
Tenure	-0.0284**	0.00582	0.0120***	0.00156	0.00995**	0.00272
Other boards	0.164***	0.108***	0.150***	0.139***	0.148***	0.140***
CEO	1.248***	0.957***	0.920***	0.928***	0.945***	0.952***
CFO	0.0513	0.0294	-0.00858	0.00401	-0.0157	0.0101
COO	0.186	0.124*	0.253***	0.261***	0.205***	0.238***
Female	-0.372***	0.0915	-0.139***	-0.0927***	-0.100***	-0.103***
duality	-0.609***	-0.188**	0.200***	0.167***	0.183***	0.148***
Total Goals	-0.0274	0.00210	0.0527***	0.0476***	0.0678***	0.0606***
Constant	9.636***	-0.0324	8.152***	11.01***	9.040***	11.81***
Observations	15,176	15,176	15,176	15,176	15,176	15,176
R-squared	0.256	0.312	0.219	0.290	0.228	0.299
<b>Fixed Effects</b>						
Year	Yes	Yes	Yes	Yes	Yes	Yes
Individual	Yes	No	Yes	No	No	Yes
Firm	No	Yes	No	Yes	Yes	No

Notes: This table provides regressions results on equity pay-out awards. The dependent variables are the logarithm of a threshold, target, and maximum equity pay-out. The independent variable is classified boards. The governance characteristics are all dummy variables that equal one if the firm has the mentioned governance mechanism in place. Board size indicates the number of directors on board, board independence is measured as the number of independent directors divided by the board size. Gender ratio is measured as the number of male directors divided by the board size. Firm size is measured as the log of sales. Gross profit is measured as a logarithm. Growth opportunities is equal to Tobin's Q. Leverage is calculated as total debt divided by total assets. Robust standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

#### 4.3.4 Performance goals

Table 4.14 shows performance goals to meet a certain threshold, target, or maximum pay-out. This table is based up on performance goals related to an accounting measure. For example, a certain multiple of revenues or EBITDA has to be met in order to get a threshold, target, or maximum pay-out. Model (1) and (2) show a negative significant coefficient between classified boards and performance goals for a threshold pay-out ( $\beta = -0.0209, \rho < 0.05$   $\beta = -0.00844, \rho < 0.1$ ). Model (5) and (6) further indicate a similar relationship between classified boards and the maximum pay-out ( $\beta = -0.0497$   $\beta = -0.195, \rho < 0.05$ ). This implies that classified boards have lower performance goals, which is in line with the managerial discretion perspective. Similar results hold for market measured performance goals. Table 4.15 also indicates a negative relationship between classified boards and performance goals. Comparing the two tables, the negative relationship is more pronounced in the market related measures for performance goals.

Table 4.14 Accounting measure performance goals

	Threshold		Target		Max	
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Governance Characteristics</b>						
Classified Boards	-0.0209**	-0.00844*	-0.00256	-0.00533	-0.0497**	-0.195**
Golden Parachute	-0.00108	0.0331***	0.00107	0.0366***	-0.130*	0.0813*
Poison Pill	-0.0280**	-0.0167***	-0.0114	-0.0348*	-0.0359*	-0.249***
Confidential Voting	-0.0144**	-0.00309	-0.0220***	-0.0224	-0.0720**	-0.313*
Cumulative Voting	-0.0163**	0.160	-0.0325***	0.131	-0.121***	0.101
Dual Class Shares	0.0530**	0.0943***	0.0314	0.0359***	-0.0857	-0.142
Uneq. voting Rights	-0.0594**	-0.0310***	-0.0629***	-0.0225**	-0.0169	0.261
<b>Firm Characteristics</b>						
Firm size	0.00660*	-0.0148	0.0118***	-0.0251	-0.0110	0.303
Growth opp.	-0.000992	0.0255***	-0.00256	0.0379***	-0.0480***	0.00679
Return on assets	0.135***	-0.0820	0.257***	-0.223**	0.866***	3.601***
Leverage	-0.0205	0.203***	-0.0252*	0.208***	-0.445***	-0.483
Gross Profit	-6.8907**	-2.59e-06**	-7.52e-07***	-1.89e-06	8.57e-06	-9.78e-05
<b>Board Characteristics</b>						
Board Size	-0.0019**	-0.00318**	-0.00210**	-0.00729***	-0.0288**	-0.0680***
Board Composition	-0.0410**	0.00734	-0.0257*	0.0158	-0.205	-0.00405
Gender Ratio	0.0601*	0.197***	0.143***	0.267***	-0.102	-0.431*
Age	0.000213	-7.91e-06	0.000492	-0.000267	-0.0169***	-0.0123***
Time to retirement	0.000244	-0.000596*	0.000418	-0.00102**	-0.00433	-0.00981*
Tenure	0.000221	-0.000313	-0.000426	-0.000604	-0.00760*	-0.00767
Other boards	0.000658	-0.00166	-0.00147	-0.00149	0.0140	0.0326
CEO	0.0101	0.00535	0.0122	0.00696	-0.0953**	-0.0704
CFO	0.00363	0.00293	0.00211	0.00157	-0.125***	-0.0530
COO	0.00206	0.000304	-0.0118*	0.000985	-0.104***	-0.0253
Female	-0.00982	-0.0150***	0.00102	-0.00259	-0.0623*	-0.0194
duality	0.00375	-0.0190*	0.00376	-0.0257**	-0.00409	-0.0183
Total Goals	-0.0029**	0.000843	-0.00440***	-0.00613	-0.00224	0.0126***
Constant	0.00186	-0.0848	-0.0969	0.422***	2.242***	0.144
Observations	4,959	4,959	4,959	4,959	4,959	4,959
R-squared	0.130	0.205	0.136	0.254	0.123	0.230
<b>Fixed Effects</b>						
Year	Yes	Yes	Yes	Yes	Yes	Yes
Individual	Yes	No	Yes	No	No	Yes
Firm	No	Yes	No	Yes	Yes	No

Notes: This table provides regressions results on accounting related measure for performance goals. The dependent variables are a multiple of a threshold, target, and maximum performance goal. The independent variable is classified boards. The governance characteristics are all dummy variables that equal one if the firm has the mentioned governance mechanism in place. Board size indicates the number of directors on board, board independence is measured as the number of independent directors divided by the board size. Gender ratio is measured as the number of male directors divided by the board size. Firm size is measured as the log of sales. Gross profit is measured as a logarithm. Growth opportunities is equal to Tobin's Q. Leverage is calculated as total debt divided by total assets. Robust standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 4.3.7 Market measure performance goals

	Threshold		Target		Max	
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Governance Characteristics</b>						
Classified Boards	-0.0607**	-0.00995	0.0432	-0.0259**	-0.0933*	-0.0562
Golden Parachute	-0.0247	0.0696***	-0.0174	0.00206	-0.0159	-0.0689
Poison Pill	0.121***	0.0913***	-0.0432	0.0236**	-0.353***	-0.143***
Confidential Voting	-0.0909**	0.273**	-0.0882**	-0.292***	0.0664	-0.298*
Cumulative Voting	-0.122**	0.119*	-0.159**	-0.247***	-0.252**	-0.767***
Dual Class Shares	-0.0166	0.349	-0.201	-0.694***	-0.00272	0.196
Uneq. voting Rights	0.141	0.0354	0.329***	0.542***	0.250	-1.223**
<b>Firm Characteristics</b>						
Firm size	-0.0396*	-0.106**	0.0431*	-0.0443**	0.147***	0.259***
Growth opp.	-0.125***	-0.00141	-0.101***	-0.00188	-0.0928	-0.141***
Return on assets	-0.0973	0.0739	0.0617	0.139**	0.788	0.592**
Leverage	-0.156*	-0.0504	-0.553***	0.172**	-0.975***	-0.136
Gross Profit	1.24e-06	1.19e-05*	-4.59e-06**	-4.46e-06**	-7.67e-06	6.17e-06
<b>Board Characteristics</b>						
Board Size	-0.0333**	-0.0327***	-0.0592***	-0.00537***	-0.110***	-0.0156*
Board Composition	0.404	0.359*	0.202	0.339**	-0.167	-0.504
Gender Ratio	-0.161	0.294***	-0.634***	0.0599	-1.074***	-0.351*
Age	-0.000844	0.00116	0.00813*	0.000574*	0.0257***	-0.00194
Time to retirement	0.00251	0.000273	0.0121***	0.000677*	0.0256***	-0.000408
Tenure	-0.00829**	0.000836	-0.00847**	-0.000137	-0.00713	-0.00230
Other boards	-0.00951	-0.00391	-0.00430	-0.00123	-0.0109	0.00389
CEO	0.0427	0.0147*	0.00717	0.00712*	-0.0228	-0.0299
CFO	0.00260	0.00224	-0.00197	0.00106	0.00400	0.00362
COO	0.0104	0.00651	-0.0375	0.00761**	-0.102	-0.0199
Female	0.00924	-0.00804	0.0185	0.00653	0.129	0.0188
duality	-0.0428	-0.00771	-0.0316	-0.00308	-0.0683	0.0393
Total Goals	0.00752	-0.0332***	0.00196	-0.0181	-0.0314	-0.0170
Constant	0.806	0.756***	0.757	0.332**	0.577	-0.0373
Observations	352	352	352	352	352	352
R-squared	0.523	0.629	0.355	0.457	0.372	0.422
<b>Fixed Effects</b>						
Year	Yes	Yes	Yes	Yes	Yes	Yes
Individual	Yes	No	Yes	No	No	Yes
Firm	No	Yes	No	Yes	Yes	No

Notes: This table provides regressions results on a market related measure for performance goals. The dependent variables are a multiple of a threshold, target, and maximum performance goal. The independent variable is classified boards. The governance characteristics are all dummy variables that equal one if the firm has the mentioned governance mechanism in place. Board size indicates the number of directors on board, board independence is measured as the number of independent directors divided by the board size. Gender ratio is measured as the number of male directors divided by the board size. Firm size is measured as the log of sales. Gross profit is measured as a logarithm. Growth opportunities is equal to Tobin's Q. Leverage is calculated as total debt divided by total assets. Robust standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

#### 4.4 Robustness check

To strengthen the previously described results, I explore the effect of using a different time window on the results. More specifically, I examine how the presence of classified boards in a particular year (e.g., 2007) influences compensation incentives in the subsequent year (e.g., 2008).

The results show similar relationships between variables as the previously described results. To be more precise, there is a negative relationship between base salary and classified boards for both executives and directors ( $\beta = -0.0454$ ,  $\rho < 0.1$  and  $\beta = -0.0803$   $\rho < 0.01$ ). There is also a negative relationship between performance related compensation and classified boards with for both executives and directors ( $\beta = -0.0646$ ,  $\rho < 0.05$  and  $\beta = -0.0533$   $\rho < 0.1$ ).

Looking at the cash and equity pay-outs, there is a negative relationship with staggered boards for the threshold, target and maximum pay-out. Lastly, the performance goals are set lower for classified boards. This holds for both the market and accounting measure performance goals. The tables of these results can be found in Appendix D.

## **CHAPTER 5 Conclusion**

This section provides a brief summary of the conducted research and it includes the limitations and recommendations for future research.

### **5.1 Summary**

The board of directors plays an important role in the corporate governance of companies. There has been a long discussion whether firms function better with or without classified boards. This study examines the effect of classified boards on director and executive compensation, vesting schedules, and performance goals. It uses a large dataset from Institutional Shareholder Services (ISS), combined with firm and individual characteristics from Boardex and Compustat to examine the effects. Evidence is found that executives and directors in classified boards have lower compensation packages compared to a unitary board structure. This effect is bigger for executives than for directors. Zooming in on the vesting schedules and performance goals, this study finds that staggered boards increase the vesting and performance period of grants. Moreover, the cash and equity related compensation of awards is lower once there is a classified board. Staggered board further set lower performance goals for executives and directors which makes it easier to achieve the awards. Except for the performance goals, the findings are in line with the shareholder interest perspective. This perspective suggests that managers and directors try to optimize shareholder value and mitigates the agency problems between shareholders, directors and executives.

### **5.2 Limitations and further suggestions**

This study is subject to limitations. First the dataset only allowed for observations between 2007 and 2020. Even though this is a relatively large timeframe, the findings of this study may not be generalized to other years. Especially since the popularity of classified boards has been changing a lot over time. It would be interesting to further explore what the effect of the corona crisis (post 2020) is on the incentives for directors and executives of classified boards.

Second, there is an endogeneity issue with the measure for performance goals. In other words, an explanatory variable is correlated with the error term. Ideally, there should have been a variable indicating an expected goal, so the correct measure for performance would be performance goals minus expected performance goal. However, I found it difficult to find data to



get a measure for expected goals per firm. A suggestion for future research would be to get rid of this endogeneity issue and try to find a measure for expected performance goals.

Third, the dataset is limited to the data availability on classified boards from the Institutional Shareholder Services (ISS). ISS didn't not have data about every public firm in the United States and their board structure. More specifically, my initial ISS governance dataset only included around 20,000 firms. There are many more other public firms in the United States, therefore the data ISS examined can be biased. A suggestion for further research would be to redo this study with a different source for classified boards, for example FactSet research systems.

Fourth, the results of the models often show a significant difference depending on the specific fixed effects, which is not an obvious result. A possible explanation could be the different variation within groups. By introducing fixed effects, you essentially focus on the variation within groups. If there is a lot of variation within these groups, the results can also be significantly different. In the context of this study, there might be notable differences between the individual and firm fixed effects.

Furthermore, this study focused on executives and directors. Especially within the executives, there are many different roles, and this study didn't examine them individually. The effect of classified boards might have a bigger impact on CEOs than CFOs or other important functions. Therefore, it would be interesting to examine the effect of classified boards on specific roles within executives.

Lastly, the dataset of this study only included firms in the United States. This could impact the results of the study because there is the potential issue of the single country effect. Future research could potentially solve this problem by including multiple countries in the dataset.

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## APPENDIX

### Appendix A. An explanation of the metrics used for performance goals requirements

Table A.1: Explanation metrics performance goals

<b>Variable</b>	<b>Explanation</b>
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortization
EBT	Earnings before taxes
EPS	Earnings per share
EVA	Economic value added, economic profit
FFO	Funds from operations
Operating income	Operating income, earnings from operations, operating profit
Profit margin	Operating margin
ROA	Return on assets
ROE	Return on equity
ROI	Return on investment
ROIC	Return on invested capital
Sales	Revenue
Other	Other than the previously mentioned

## Appendix B. Explanation of the corporate governance provisions used in this study

Table B.1: Explanation corporate governance provisions

<b>Variable</b>	<b>Explanation</b>
Golden parachute	“A severance agreement/contract between a company and an executive contingent on a change in corporate control”
Poison pills	“Shareholder rights plans are among the more complicated anti-takeover devices. Although their terms and conditions vary considerably, the purpose of a poison pill is to force potential bidders to negotiate with a target company's board of directors. If the board approves the deal, it may redeem the pill. If the board does not approve a bid and the potential acquirer proceeds anyway, the pill would be "triggered," causing actions that would make the target financially unattractive or dilute the voting power of the potential acquirer”
Confidential voting	“Under a confidential voting policy, management does not know how shareholders vote on their proxy cards, or view ballots or voting tabulations that identify shareholders' votes”
Cumulative voting	“A provision that permits shareholders to apportion the total number of votes they are entitled to cast in the election of directors in any fashion they desire”
Dual class shares	“Some companies have two or more classes of common stock. The voting rights attached to each class of stock may (but do not always) vary from the one share per vote standard”
Unequal voting rights	Not all shares have the same voting rights

These explanations are directly taken from the ISS governance definitions PDF in WRDS. [https://wrds-www.wharton.upenn.edu/documents/718/Overview\\_of\\_IRRC\\_Legacy\\_Governance\\_Definitions.pdf](https://wrds-www.wharton.upenn.edu/documents/718/Overview_of_IRRC_Legacy_Governance_Definitions.pdf)

## Appendix C. Overview VIF results

Table C.1: VIF results of regression model 1

<b>Variables</b>	<b>Model 1 VIF</b>
Classified Boards	1.14
Golden Parachute	1.14
Poison Pill	1.09
Confidential Voting	1.14
Cumulative Voting	1.02
Dual Class Shares	2.05
Unequal Voting	2
Firm Size	2.11
Growth opportunities	1.78
Gross Profit	1.76
Return on Assets	1.72
Leverage	1.42
Board Size	1.32
Gender Ratio	1.21
Board independence	1.11
Age	1.29
CEO	1.95
Time in Role	1.21
Other Boards	1.07
Duality	1.91
Mean VIF	1.47
Observations	
Firm fixed effects	YES
Year Fixed Effects	YES



## Appendix D. Additional regressions with t-1

Appendix D shows the additional regressions tables that tested the outcomes after one year. More specifically, these tables show the compensation incentives of a year later. For example, if there was a classified board in 2007, these tables show compensation incentives of 2008. These tables also include the standard error between parentheses. I purposely chose to exclude the standard errors in the other tables because of the lay-out.

Table D.1 Executive compensation t-1

	Base salary		Performance compensation		Total compensation	
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Governance Characteristics</b>						
Classified Boards	-0.0454* (0.0276)	-0.0429** (0.0299)	-0.0546** (0.0277)	-0.00906* (0.0330)	0.0155 (0.0161)	-0.0207 (0.0186)
Golden Parachute	0.0743** (0.0298)	0.0918*** (0.0270)	0.0812** (0.0368)	0.102*** (0.0309)	0.0595*** (0.0194)	0.0956*** (0.0152)
Poison Pill	0.0207 (0.0336)	0.0141 (0.0527)	0.0168 (0.0365)	-0.0540 (0.0620)	0.0142 (0.0194)	-0.0452* (0.0269)
Confidential Voting	-0.0421 (0.0408)	-0.0455 (0.0427)	-0.0794 (0.0701)	-0.166 (0.107)	-0.0507 (0.0471)	-0.0812 (0.0628)
Cumulative Voting	0.0530 (0.0961)	0.124 (0.0843)	-0.120** (0.0550)	-0.225** (0.0971)	-0.0743* (0.0427)	-0.108** (0.0468)
Dual Class Shares	-0.122 (0.0969)	-0.134 (0.0814)	0.0505 (0.190)	0.0583 (0.127)	-0.0465 (0.0913)	-0.0481 (0.0666)
Unequal voting Rights	0.209*** (0.0734)	0.310** (0.126)	0.0478 (0.0808)	-0.0730 (0.0778)	0.0384 (0.0427)	0.0360 (0.0424)
<b>Firm Characteristics</b>						
Firm size	0.136*** (0.0393)	0.0310 (0.0437)	0.157*** (0.0425)	0.199*** (0.0614)	0.172*** (0.0243)	0.138*** (0.0288)
Growth opportunities	0.0292** (0.0136)	0.0205* (0.0109)	0.0572*** (0.0115)	0.0498*** (0.0118)	0.0524*** (0.00598)	0.0506*** (0.00624)
Return on assets	0.187 (0.169)	-0.231 (0.149)	0.203 (0.178)	0.0922 (0.213)	0.0765 (0.106)	0.0248 (0.120)
Leverage	-0.140 (0.106)	-0.183 (0.149)	-0.200* (0.102)	-0.103 (0.155)	-0.0504 (0.0575)	-0.0222 (0.0812)
Gross Profit	0.0448 (0.0293)	0.0560** (0.0236)	0.164*** (0.0289)	0.154*** (0.0292)	0.115*** (0.0185)	0.116*** (0.0166)
<b>Board Characteristics</b>						
Board Size	-0.00426 (0.00647)	-0.000399 (0.00646)	-0.00527 (0.00649)	-0.00886 (0.00654)	-0.0100*** (0.00377)	-0.00953*** (0.00358)
Board Composition	0.435* (0.255)	-0.241 (0.286)	0.639** (0.270)	0.434 (0.385)	0.248* (0.142)	0.199 (0.180)
Gender Ratio	-0.162 (0.148)	-0.553*** (0.156)	0.107 (0.132)	-0.0185 (0.186)	0.0225 (0.0783)	-0.206** (0.0969)
Age	-0.0327*** (0.00327)	-0.00813 (0.00595)	-0.0355*** (0.00368)	0.0288*** (0.00576)	-0.0214*** (0.00199)	0.0203*** (0.00343)

Time to retirement	-0.0172*** (0.00296)	-0.0138*** (0.00373)	-0.0166*** (0.00312)	-0.0181*** (0.00476)	-0.0128*** (0.00182)	-0.0161*** (0.00287)
Tenure	0.00764*** (0.00280)	0.0106*** (0.00356)	0.00619** (0.00251)	0.00390 (0.00610)	0.00396*** (0.00128)	0.00417* (0.00233)
Other boards	-0.00932 (0.00829)	0.00525 (0.0116)	0.0141** (0.00706)	0.0131 (0.0137)	0.0260*** (0.00419)	0.0182** (0.00785)
CEO	0.647*** (0.0317)	0.399*** (0.0744)	1.106*** (0.0272)	0.670*** (0.0874)	0.964*** (0.0156)	0.564*** (0.0390)
CFO	0.152*** (0.0131)	0.0326 (0.0634)	0.144*** (0.0148)	0.0920 (0.0584)	0.111*** (0.00882)	0.0408 (0.0395)
COO	0.399*** (0.0219)	0.147*** (0.0383)	0.530*** (0.0235)	0.201*** (0.0462)	0.433*** (0.0143)	0.151*** (0.0259)
Female	-0.000438 (0.0284)	0.132 (0.107)	-0.223*** (0.0396)	0.400** (0.176)	-0.103*** (0.0173)	0.278*** (0.0685)
duality	0.242*** (0.0339)	0.339*** (0.0690)	0.282*** (0.0321)	0.241*** (0.0689)	0.223*** (0.0181)	0.198*** (0.0344)
Constant	13.08*** (0.415)	13.79*** (0.657)	12.71*** (0.453)	9.665*** (0.877)	12.94*** (0.266)	11.73*** (0.396)
Observations	28,643	28,643	28,643	28,643	28,643	28,643
R-squared	0.356	0.249	0.347	0.207	0.398	0.332

#### Fixed Effects

Year	Yes	Yes	Yes	Yes	Yes	Yes
Individual	Yes	No	Yes	No	Yes	No
Firm	No	Yes	No	Yes	No	Yes

Notes: This table provides regressions results on executive compensation for t-1. The dependent variables are the logarithm of base salary, performance compensation, and total compensation. The independent variable is classified boards. The governance characteristics are all dummy variables that equal one if the firm has the mentioned governance mechanism in place. Board size indicates the number of directors on board, board independence is measured as the number of independent directors divided by the board size. Gender ratio is measured as the number of male directors divided by the board size. Firm size is measured as the log of sales. Gross profit is measured as a logarithm. Growth opportunities is equal to Tobin's Q. Leverage is calculated as total debt divided by total assets. Robust standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table D.2 Director compensation t-1

	Base salary		Performance compensation		Total compensation	
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Governance Characteristics</b>						
Classified Boards	-0.0803*** (0.0292)	-0.0966*** (0.0358)	-0.0533* (0.0318)	-0.00945* (0.0405)	0.00889 (0.00710)	-0.00786* (0.00883)
Golden Parachute	0.0547 (0.0341)	-0.0132 (0.0292)	0.0529 (0.0357)	-0.111*** (0.0383)	0.00315 (0.00811)	-0.0227*** (0.00719)
Poison Pill	0.0957*** (0.0309)	0.0660* (0.0354)	0.152*** (0.0351)	0.0930* (0.0481)	0.0165** (0.00735)	-0.00759 (0.00920)
Confidential Voting	0.0378 (0.0740)	0.0277 (0.0652)	0.286*** (0.0642)	0.190*** (0.0713)	0.0810*** (0.0218)	0.0437** (0.0219)
Cumulative Voting	-0.114 (0.0706)	-0.0757 (0.0689)	0.00982 (0.0624)	-0.0444 (0.0804)	-0.0173 (0.0165)	-0.0213 (0.0200)
Dual Class Shares	-0.0145 (0.0841)	-0.0917* (0.0523)	0.0995 (0.148)	0.179 (0.147)	0.0112 (0.0222)	-0.0288 (0.0223)
Unequal voting Rights	0.000367	0.0887	0.143**	0.112	0.0608***	0.0842***

	(0.0533)	(0.0769)	(0.0620)	(0.0810)	(0.0149)	(0.0200)
<b>Firm Characteristics</b>						
Firm size	0.166*** (0.0380)	0.124** (0.0542)	0.109** (0.0438)	0.162** (0.0715)	0.0813*** (0.00934)	0.0675*** (0.0118)
Growth opportunities	-0.0370*** (0.0129)	-0.0164 (0.0145)	-0.0461*** (0.0126)	-0.0602*** (0.0164)	-0.000108 (0.00280)	-0.00605* (0.00355)
Return on assets	0.142 (0.191)	0.230 (0.209)	-0.318 (0.202)	-0.226 (0.311)	-0.0289 (0.0469)	0.0107 (0.0540)
Leverage	-0.0354 (0.102)	-0.0573 (0.143)	-0.608*** (0.0980)	-0.628*** (0.132)	-0.147*** (0.0229)	-0.201*** (0.0300)
Gross Profit	0.00671 (0.0295)	0.0133 (0.0306)	0.225*** (0.0326)	0.209*** (0.0455)	0.0429*** (0.00721)	0.0439*** (0.00825)
<b>Board Characteristics</b>						
Board Size	-0.00426 (0.00647)	-0.000399 (0.00646)	-0.00527 (0.00649)	-0.00886 (0.00654)	-0.0100*** (0.00377)	-0.00953*** (0.00358)
Board Composition	0.435* (0.255)	-0.241 (0.286)	0.639** (0.270)	0.434 (0.385)	0.248* (0.142)	0.199 (0.180)
Gender Ratio	-0.162 (0.148)	-0.553*** (0.156)	0.107 (0.132)	-0.0185 (0.186)	0.0225 (0.0783)	-0.206** (0.0969)
Age	-0.0327*** (0.00327)	-0.00813 (0.00595)	-0.0355*** (0.00368)	0.0288*** (0.00576)	-0.0214*** (0.00199)	0.0203*** (0.00343)
Time to retirement	-0.0172*** (0.00296)	-0.0138*** (0.00373)	-0.0166*** (0.00312)	-0.0181*** (0.00476)	-0.0128*** (0.00182)	-0.0161*** (0.00287)
Tenure	0.00764*** (0.00280)	0.0106*** (0.00356)	0.00619** (0.00251)	0.00390 (0.00610)	0.00396*** (0.00128)	0.00417* (0.00233)
Other boards	-0.00932 (0.00829)	0.00525 (0.0116)	0.0141** (0.00706)	0.0131 (0.0137)	0.0260*** (0.00419)	0.0182** (0.00785)
CEO	0.647*** (0.0317)	0.399*** (0.0744)	1.106*** (0.0272)	0.670*** (0.0874)	0.964*** (0.0156)	0.564*** (0.0390)
CFO	0.152*** (0.0131)	0.0326 (0.0634)	0.144*** (0.0148)	0.0920 (0.0584)	0.111*** (0.00882)	0.0408 (0.0395)
COO	0.399*** (0.0219)	0.147*** (0.0383)	0.530*** (0.0235)	0.201*** (0.0462)	0.433*** (0.0143)	0.151*** (0.0259)
Female	-0.000438 (0.0284)	0.132 (0.107)	-0.223*** (0.0396)	0.400** (0.176)	-0.103*** (0.0173)	0.278*** (0.0685)
duality	-0.0156 (0.0777)	-0.172* (0.0926)	0.0171 (0.0516)	-0.0407 (0.0827)	0.00118 (0.0114)	-0.0215 (0.0203)
Constant	12.23*** (0.426)	9.154*** (0.580)	10.61*** (0.625)	6.084*** (0.983)	11.82*** (0.150)	9.932*** (0.257)
Observations	64,588	64,588	64,588	64,588	64,588	64,588
R-squared	0.414	0.236	0.434	0.248	0.474	0.206
<b>Fixed Effects</b>						
Year	Yes	Yes	Yes	Yes	Yes	Yes
Individual	Yes	No	Yes	No	Yes	No
Firm	No	Yes	No	Yes	No	Yes

Notes: This table provides regressions results on director compensation for t-1. The dependent variables are the logarithm of base salary, performance compensation, and total compensation. The independent variable is classified boards. The governance characteristics are all dummy variables that equal one if the firm has the mentioned governance mechanism in place. Board size indicates the number of directors on board, board independence is measured as the number of independent directors divided by the board size. Gender ratio is measured as the number of male directors divided by the board size. Firm size is measured as the log of sales. Gross profit is measured as a logarithm. Growth opportunities

is equal to Tobin's Q. Leverage is calculated as total debt divided by total assets. Robust standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table D.3 Cash pay-outs awards t-1

Cash pay-out	Threshold		Target		Max	
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Governance Characteristics</b>						
Classified Boards	-0.459** (0.0887)	-0.0830 (0.102)	-0.0699*** (0.0121)	-0.00721 (0.0175)	-0.0587** (0.0122)	-0.0185* (0.0181)
Golden Parachute	0.774*** (0.101)	0.529*** (0.113)	0.0723*** (0.0142)	0.00662 (0.0207)	0.0330** (0.0140)	0.00684 (0.0219)
Poison Pill	-0.562*** (0.130)	0.179 (0.113)	-0.0605*** (0.0201)	-0.0225 (0.0252)	-0.0741*** (0.0193)	-0.0355 (0.0256)
Confidential Voting	-0.762*** (0.108)	-0.132 (0.193)	-0.0573*** (0.0134)	-0.0977 (0.0846)	0.0168 (0.0150)	-0.132 (0.0866)
Cumulative Voting	-1.405*** (0.188)	0.712*** (0.179)	-0.214*** (0.0290)	-0.0649 (0.0442)	-0.258*** (0.0287)	-0.0681 (0.0450)
Dual Class Shares	1.076*** (0.231)	0.353 (0.496)	0.195*** (0.0305)	0.108* (0.0551)	0.216*** (0.0358)	0.0569 (0.0543)
Unequal voting Rights	0.453* (0.258)	0.436** (0.184)	0.0614 (0.0417)	-0.211*** (0.0635)	0.147*** (0.0406)	-0.0938*** (0.0338)
<b>Firm Characteristics</b>						
Firm size	-0.0569 (0.0428)	-0.0692 (0.101)	0.231*** (0.00536)	0.145*** (0.0173)	0.258*** (0.00577)	0.154*** (0.0178)
Growth opportunities	-0.589*** (0.0431)	-0.00665 (0.0339)	0.0150*** (0.00436)	-0.0142** (0.00689)	0.0142*** (0.00451)	-0.0119* (0.00701)
Return on assets	2.727*** (0.592)	-0.965** (0.470)	-0.321*** (0.0749)	-0.174* (0.102)	-0.170** (0.0707)	-0.0912 (0.0990)
Leverage	-1.351*** (0.244)	-1.154*** (0.329)	0.0695** (0.0323)	-0.0222 (0.0589)	0.0844** (0.0329)	0.0899 (0.0612)
<b>Board Characteristics</b>						
Board Size	-0.136*** (0.0195)	-0.0357 (0.0222)	0.00646*** (0.00249)	0.00387 (0.00415)	-8.63e-05 (0.00267)	0.000274 (0.00427)
Board Composition	-0.603 (0.379)	0.0102 (0.231)	-0.287*** (0.0524)	0.00551 (0.0421)	-0.327*** (0.0482)	-0.0413 (0.0417)
Gender Ratio	-2.941*** (0.412)	1.866*** (0.432)	-0.394*** (0.0604)	0.0180 (0.0880)	-0.276*** (0.0586)	0.128 (0.0918)
Age	0.0354*** (0.00962)	0.0261*** (0.00694)	0.0169*** (0.00158)	0.0106*** (0.00136)	0.0153*** (0.00157)	0.00945*** (0.00129)
Time to retirement	0.0353*** (0.00904)	0.0253*** (0.00637)	0.00654*** (0.00152)	0.00138 (0.00134)	0.00620*** (0.00151)	0.00102 (0.00121)
Tenure	0.0366*** (0.0101)	0.00224 (0.00644)	0.00793*** (0.00151)	0.00600*** (0.00123)	0.00990*** (0.00139)	0.00708*** (0.00122)
Other boards	0.217*** (0.0315)	0.150*** (0.0236)	0.0797*** (0.00484)	0.0962*** (0.00449)	0.0698*** (0.00473)	0.0934*** (0.00436)
CEO	0.859*** (0.124)	0.519*** (0.0779)	0.861*** (0.0156)	0.815*** (0.0141)	0.841*** (0.0158)	0.803*** (0.0144)
CFO	-0.0161 (0.103)	-0.0335 (0.0532)	0.0103 (0.0135)	0.0308*** (0.0111)	0.0101 (0.0136)	0.0255** (0.0107)
COO	1.097*** (0.150)	0.319*** (0.0880)	0.282*** (0.0250)	0.291*** (0.0215)	0.281*** (0.0233)	0.268*** (0.0189)

Female	0.368** (0.147)	0.102 (0.0982)	-0.0628*** (0.0181)	-0.0809*** (0.0157)	-0.0624*** (0.0191)	-0.0791*** (0.0172)
Duality	0.122 (0.163)	0.0892 (0.105)	0.0571*** (0.0203)	0.0996*** (0.0186)	0.0659*** (0.0189)	0.0891*** (0.0181)
Constant	12.70*** (0.899)	-2.498** (1.029)	10.29*** (0.132)	10.52*** (0.196)	10.84*** (0.133)	11.13*** (0.198)
Observations	18,443	18,443	18,443	18,443	18,443	18,443
R-squared	0.257	0.340	0.213	0.337	0.292	0.346

#### Fixed Effects

Year	Yes	Yes	Yes	Yes	Yes	Yes
Individual	Yes	No	Yes	No	No	Yes
Firm	No	Yes	No	Yes	Yes	No

Notes: This table provides regressions results on cash pay-out awards of t-1. The dependent variables are the logarithm of a threshold, target, and maximum cash pay-out. The independent variable is classified boards. The governance characteristics are all dummy variables that equal one if the firm has the mentioned governance mechanism in place. Board size indicates the number of directors on board, board independence is measured as the number of independent directors divided by the board size. Gender ratio is measured as the number of male directors divided by the board size. Firm size is measured as the log of sales. Gross profit is measured as a logarithm. Growth opportunities is equal to Tobin's Q. Leverage is calculated as total debt divided by total assets. Robust standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table D.5 Equity pay-outs awards t-1

Cash pay-out	Threshold		Target		Max	
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Governance Characteristics</b>						
Classified Boards	-0.741*** (0.0796)	-0.192* (0.0983)	-0.0764*** (0.0290)	-0.0350 (0.0388)	-0.0452 (0.0275)	-0.0166 (0.0366)
Golden Parachute	0.0640 (0.0863)	-0.0708 (0.0882)	-0.147*** (0.0315)	0.0244 (0.0404)	-0.140*** (0.0285)	0.0190 (0.0382)
Poison Pill	-0.346** (0.138)	-0.00715 (0.125)	0.283*** (0.0637)	-0.215*** (0.0567)	0.463*** (0.0464)	-0.100** (0.0444)
Confidential Voting	0.204** (0.0800)	0.208 (0.237)	0.108*** (0.0262)	0.275** (0.122)	0.134*** (0.0265)	0.269** (0.129)
Cumulative Voting	-0.811*** (0.170)	0.0937 (0.159)	-0.444*** (0.0550)	-0.279*** (0.0796)	-0.455*** (0.0543)	-0.253*** (0.0783)
Dual Class Shares	-0.227 (0.221)	-0.345 (0.405)	0.191*** (0.0701)	-0.0483 (0.160)	0.127* (0.0671)	0.0450 (0.158)
Unequal voting Rights	0.821*** (0.215)	-1.218*** (0.226)	-0.179** (0.0700)	-0.217** (0.0866)	-0.190*** (0.0668)	-0.148* (0.0864)
<b>Firm Characteristics</b>						
Firm size	-0.375*** (0.0367)	-0.247** (0.0982)	0.0717*** (0.0144)	-0.377*** (0.0444)	0.0781*** (0.0131)	-0.462*** (0.0398)
Growth opportunities	-0.140*** (0.0294)	0.00645 (0.0291)	-0.117*** (0.0126)	-0.0802*** (0.0154)	-0.109*** (0.0107)	-0.0807*** (0.0131)
Return on assets	0.0203 (0.459)	-0.891* (0.521)	-1.422*** (0.182)	-0.483** (0.225)	-1.106*** (0.172)	-0.538** (0.210)
Leverage	-0.162 (0.186)	-0.180 (0.291)	-0.254*** (0.0805)	0.446*** (0.121)	-0.473*** (0.0683)	0.444*** (0.116)
<b>Board Characteristics</b>						
Board Size	-0.115*** (0.0166)	-0.0503*** (0.0186)	-0.0162*** (0.00629)	0.0332*** (0.00734)	-0.0140** (0.00557)	0.0364*** (0.00720)
Board Composition	-0.599* (0.215)	0.632*** (0.215)	-0.323*** (0.0805)	0.176* (0.0805)	-0.324*** (0.0683)	0.0593 (0.116)

	(0.344)	(0.235)	(0.113)	(0.102)	(0.0988)	(0.0958)
Gender Ratio	1.418***	0.934**	0.596***	-0.430**	0.234*	-0.318**
	(0.333)	(0.394)	(0.136)	(0.170)	(0.123)	(0.162)
Age	0.0225***	0.0214***	0.0154***	0.0133***	0.0124***	0.0117***
	(0.00819)	(0.00538)	(0.00359)	(0.00314)	(0.00336)	(0.00299)
Time to retirement	0.0161**	0.0131***	0.00791**	-0.000205	0.00943***	-8.68e-05
	(0.00771)	(0.00498)	(0.00315)	(0.00281)	(0.00304)	(0.00270)
	-					
Tenure	0.0312***	0.00593	0.0121***	0.00178	0.0103***	0.00325
	(0.00926)	(0.00608)	(0.00315)	(0.00239)	(0.00305)	(0.00234)
Other boards	0.164***	0.114***	0.150***	0.138***	0.148***	0.139***
	(0.0261)	(0.0197)	(0.00890)	(0.00752)	(0.00878)	(0.00735)
CEO	1.233***	0.929***	0.917***	0.934***	0.938***	0.954***
	(0.0930)	(0.0640)	(0.0336)	(0.0285)	(0.0322)	(0.0266)
CFO	0.0525	0.0238	-0.00451	0.00891	-0.00944	0.0155
	(0.0794)	(0.0438)	(0.0296)	(0.0192)	(0.0282)	(0.0184)
COO	0.182	0.168**	0.249***	0.240***	0.203***	0.227***
	(0.125)	(0.0709)	(0.0446)	(0.0288)	(0.0438)	(0.0289)
Female	0.338***	0.0977	-0.128***	-0.0744**	-0.0871**	-0.0852***
	(0.101)	(0.0798)	(0.0414)	(0.0332)	(0.0367)	(0.0281)
Duality	-0.646***	-0.220**	0.196***	0.150***	0.184***	0.138***
	(0.140)	(0.0955)	(0.0449)	(0.0355)	(0.0437)	(0.0341)
Constant	9.810***	0.00920	8.227***	11.21***	9.224***	12.50***
	(0.769)	(0.940)	(0.344)	(0.454)	(0.297)	(0.422)
Observations	14,128	14,128	14,128	14,128	14,128	14,128
R-squared	0.255	0.320	0.220	0.396	0.229	0.305

#### Fixed Effects

Year	Yes	Yes	Yes	Yes	Yes	Yes
Individual	Yes	No	Yes	No	No	Yes
Firm	No	Yes	No	Yes	Yes	No

Notes: This table provides regressions results on equity pay-out awards of t-1. The dependent variables are the logarithm of a threshold, target, and maximum equity pay-out. The independent variable is classified boards. The governance characteristics are all dummy variables that equal one if the firm has the mentioned governance mechanism in place. Board size indicates the number of directors on board, board independence is measured as the number of independent directors divided by the board size. Gender ratio is measured as the number of male directors divided by the board size. Firm size is measured as the log of sales. Gross profit is measured as a logarithm. Growth opportunities is equal to Tobin's Q. Leverage is calculated as total debt divided by total assets. Robust standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table D.6 Accounting measure performance goals t-1

Performance goal	Threshold		Target		Max	
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Governance Characteristics</b>						
Classified Boards	-0.0222***	-0.0181***	-0.00665	-0.0176**	-0.0473**	-0.0823
	(0.00425)	(0.00567)	(0.00630)	(0.00715)	(0.0229)	(0.0999)
Golden Parachute	0.00516	0.0433***	0.0121**	0.0450***	-0.151*	0.0720
	(0.00453)	(0.00841)	(0.00529)	(0.0100)	(0.0828)	(0.0638)
Poison Pill	-0.0270***	-0.0118**	-0.00893	-0.0258	-0.0455*	-0.273***
	(0.00539)	(0.00581)	(0.0100)	(0.0205)	(0.0254)	(0.0769)
Confidential Voting	-0.0188***	0.00650	-0.0294***	-0.0285	-0.0711*	-0.676**
	(0.00534)	(0.0303)	(0.00653)	(0.0358)	(0.0370)	(0.341)
Cumulative Voting	-0.0273***	-0.0140	-0.0386***	-0.00720	-0.146***	-0.286***
	(0.00623)	(0.00944)	(0.00731)	(0.0115)	(0.0336)	(0.0990)
Dual Class Shares	0.0619***	0.0920***	0.0370	0.0269*	-0.117*	-0.273
	(0.0235)	(0.0280)	(0.0248)	(0.0152)	(0.0691)	(0.460)

Unequal voting Rights	-0.0656*** (0.0191)	-0.0329*** (0.00827)	-0.0687*** (0.0200)	-0.0230** (0.00942)	-0.000299 (0.0402)	0.296 (0.313)
<b>Firm Characteristics</b>						
Firm size	0.0105*** (0.00258)	-0.0136 (0.0108)	0.0158*** (0.00327)	-0.0225 (0.0169)	-0.00916 (0.0561)	0.502 (0.582)
Growth opportunities	-0.000475 (0.00242)	0.0262*** (0.00479)	-0.00170 (0.00266)	0.0390*** (0.00548)	-0.0557*** (0.0199)	0.00999 (0.0339)
Return on assets	0.145*** (0.0553)	-0.144 (0.115)	0.253*** (0.0568)	-0.237** (0.120)	1.058*** (0.279)	4.273*** (1.340)
Leverage	-0.0192 (0.0137)	0.204*** (0.0328)	-0.0261* (0.0153)	0.204*** (0.0410)	-0.511*** (0.177)	-0.601 (0.513)
<b>Board Characteristics</b>						
Board Size	-0.00140* (0.000780)	-0.00186 (0.00159)	-0.00171** (0.000842)	-0.00578*** (0.00204)	-0.0299** (0.0131)	-0.0674*** (0.0169)
Board Composition	-0.0159 (0.0121)	0.00667 (0.0119)	-0.0157 (0.0142)	0.0151 (0.0157)	-0.243 (0.258)	0.0105 (0.140)
Gender Ratio	0.0881*** (0.0232)	0.196*** (0.0530)	0.153*** (0.0261)	0.271*** (0.0584)	-0.122 (0.296)	-0.603** (0.271)
Age	0.000169 (0.000799)	-6.12e-05 (0.000416)	0.000211 (0.000847)	-0.000346 (0.000537)	-0.0190*** (0.00647)	-0.0135*** (0.00418)
Time to retirement	0.000324 (0.000612)	-0.000584 (0.000377)	0.000165 (0.000667)	-0.00108** (0.000480)	-0.00461 (0.00475)	-0.0109** (0.00546)
Tenure	0.000509 (0.000485)	-0.000321 (0.000526)	-0.000271 (0.000572)	-0.000614 (0.000608)	-0.00783* (0.00423)	-0.00831* (0.00498)
Other boards	-0.000240 (0.00140)	-0.000942 (0.00131)	-0.00193 (0.00180)	-0.000381 (0.00183)	0.0196 (0.0149)	0.0399 (0.0366)
CEO	0.0141* (0.00747)	0.00701 (0.00751)	0.0136* (0.00816)	0.00790 (0.00843)	-0.101** (0.0513)	-0.0749 (0.0848)
CFO	0.00432 (0.00563)	0.00441 (0.00509)	0.00255 (0.00738)	0.00274 (0.00695)	-0.131*** (0.0478)	-0.0501 (0.0324)
COO	-0.00979** (0.00487)	-0.00391 (0.00381)	-0.0237*** (0.00596)	-0.00239 (0.00474)	-0.119*** (0.0331)	-0.0332 (0.0315)
Female	-0.00975 (0.00637)	-0.00949* (0.00501)	0.00222 (0.0111)	0.00288 (0.0108)	-0.0647* (0.0361)	-0.00812 (0.0319)
Duality	-0.00303 (0.00984)	-0.0215** (0.0109)	-0.00125 (0.0115)	-0.0287** (0.0133)	-0.0167 (0.0289)	-0.0175 (0.0307)
Constant	-0.0898 (0.0590)	-0.0986 (0.103)	-0.143** (0.0637)	0.460*** (0.167)	2.457*** (0.905)	-0.970 (4.914)
Observations	4,539	4,539	4,539	4,539	4,539	4,539
R-squared	0.234	0.386	0.238	0.341	0.224	0.235
<b>Fixed Effects</b>						
Year	Yes	Yes	Yes	Yes	Yes	Yes
Individual	Yes	No	Yes	No	No	Yes
Firm	No	Yes	No	Yes	Yes	No

Notes: This table provides regressions results on accounting related measure for performance goals of t-1. The dependent variables are a multiple of a threshold, target, and maximum performance goal. The independent variable is classified boards. The governance characteristics are all dummy variables that equal one if the firm has the mentioned governance mechanism in place. Board size indicates the number of directors on board, board independence is measured as the number of independent directors divided by the board size. Gender ratio is measured as the number of male directors divided by the board size. Firm size is measured as the log of sales. Gross profit is measured as a logarithm. Growth opportunities is equal to Tobin's Q. Leverage is calculated as total debt divided by total assets. Robust standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table D.7 market measure performance goals t-1

Performance goal	Threshold		Target		Max	
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Governance Characteristics</b>						
Classified Boards	-0.0742** (0.0299)	-0.0619*** (0.0140)	-0.0314 (0.0257)	-0.0720*** (0.0121)	0.0993 (0.0619)	-0.203*** (0.0429)
Golden Parachute	-0.0634 (0.0493)	0.0515* (0.0274)	-0.0605 (0.0523)	-0.0234 (0.0162)	-0.0227 (0.0624)	-0.00668 (0.0542)
Poison Pill	0.214*** (0.0395)	0.112*** (0.0264)	0.0160 (0.0378)	0.0399*** (0.0110)	-0.467*** (0.0907)	-0.250*** (0.0437)
Confidential Voting	-0.0657* (0.0388)	0.155 (0.104)	-0.0756* (0.0454)	-0.482*** (0.0309)	0.0325 (0.0886)	-0.141 (0.148)
Cumulative Voting	-0.167*** (0.0610)	0.0212 (0.0329)	-0.234*** (0.0630)	-0.400*** (0.00978)	-0.356*** (0.106)	-0.673*** (0.0503)
Dual Class Shares	0.272 (0.189)	0.272 (0.257)	-0.0188 (0.159)	-0.838*** (0.110)	-0.315 (0.449)	0.173 (0.491)
Unequal voting Rights	-0.106 (0.164)	-0.0411 (0.240)	0.174 (0.112)	0.449*** (0.109)	0.545 (0.365)	-0.883* (0.526)
<b>Firm Characteristics</b>						
Firm size	-0.0544*** (0.0205)	-0.0954** (0.0443)	0.0386* (0.0227)	-0.0319* (0.0172)	0.183*** (0.0457)	0.191** (0.0915)
Growth opportunities	-0.129*** (0.0225)	-0.00512 (0.00871)	-0.102*** (0.0299)	-0.00557 (0.00691)	-0.0856 (0.0628)	-0.135*** (0.0247)
Return on assets	-0.159 (0.435)	0.0939 (0.158)	-0.0220 (0.598)	0.158** (0.0652)	0.705 (1.357)	0.482* (0.270)
Leverage	-0.179** (0.0841)	-0.0213 (0.115)	-0.582*** (0.110)	0.210*** (0.0744)	-0.981*** (0.212)	-0.249 (0.261)
<b>Board Characteristics</b>						
Board Size	-0.0369*** (0.0130)	-0.0289*** (0.00801)	-0.0653*** (0.0160)	-0.000867 (0.00218)	-0.121*** (0.0341)	-0.0301*** (0.00926)
Board Composition	0.683* (0.359)	0.312 (0.208)	0.361 (0.362)	0.223* (0.121)	-0.188 (0.650)	-0.400 (0.579)
Gender Ratio	-0.120 (0.144)	0.236** (0.114)	-0.642*** (0.150)	-0.0279 (0.0460)	-1.184*** (0.301)	-0.152 (0.207)
Age	-0.00246 (0.00386)	0.000917 (0.00161)	0.00678 (0.00472)	0.000222 (0.000262)	0.0266*** (0.00634)	-0.00100 (0.00168)
Time to retirement	0.00101 (0.00358)	0.000242 (0.00144)	0.0106*** (0.00407)	0.000518* (0.000305)	0.0254*** (0.00543)	-0.000451 (0.00186)
Tenure	-0.00808** (0.00336)	0.000930 (0.00135)	-0.00857** (0.00340)	-6.43e-05 (0.000296)	-0.00878 (0.00705)	-0.00311* (0.00176)
Other boards	-0.0163* (0.00909)	-0.00420 (0.00291)	-0.0105 (0.00908)	-0.00159** (0.000790)	-0.00929 (0.0216)	0.00519 (0.00419)
CEO	0.0295 (0.0401)	0.0161* (0.00850)	0.00207 (0.0455)	0.00854** (0.00373)	0.00204 (0.0940)	-0.0359* (0.0201)
CFO	0.00280 (0.0298)	0.00328 (0.00864)	0.000940 (0.0329)	0.00235 (0.00190)	0.0144 (0.0637)	-8.48e-05 (0.0106)
COO	0.00220 (0.0382)	0.00350 (0.0130)	-0.0417 (0.0520)	0.00429 (0.00261)	-0.0917 (0.111)	-0.00946 (0.0159)
Female	-0.00442 (0.0381)	-0.00644 (0.00987)	0.00659 (0.0385)	0.00751** (0.00353)	0.138 (0.0874)	0.0160 (0.0148)
Duality	0.0205	-0.00759	0.0283	-0.00212	-0.0711	0.0428



	(0.0574)	(0.0212)	(0.0582)	(0.00396)	(0.113)	(0.0294)
Constant	0.876*	0.581**	0.901	0.491***	0.453	0.115
	(0.485)	(0.256)	(0.552)	(0.150)	(0.888)	(0.692)
Observations	345	345	345	345	345	345
R-squared	0.332	0.470	0.368	0.497	0.379	0.483

**Fixed Effects**

Year	Yes	Yes	Yes	Yes	Yes	Yes
Individual	Yes	No	Yes	No	No	Yes
Firm	No	Yes	No	Yes	Yes	No

Notes: This table provides regressions results on a market related measure for performance goals of t-1. The dependent variables are a multiple of a threshold, target, and maximum performance goal. The independent variable is classified boards. The governance characteristics are all dummy variables that equal one if the firm has the mentioned governance mechanism in place. Board size indicates the number of directors on board, board independence is measured as the number of independent directors divided by the board size. Gender ratio is measured as the number of male directors divided by the board size. Firm size is measured as the log of sales. Gross profit is measured as a logarithm. Growth opportunities is equal to Tobin's Q. Leverage is calculated as total debt divided by total assets. Robust standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1