Board Destaggering: Corporate Governance Out of Focus?

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We examine the determinants and consequences of the decision to destagger the election of directors of a public company's board of directors. Using a sample of firms that switched from a staggered to a destaggered board structure from 1991 through 2011, we find that the likelihood of destaggering is increasing in shareholder activism, firm size, and poor prior performance. Furthermore, we find that firms that destagger tend to have larger boards prior to destaggering and CEOs who had been with the firm for longer periods of time. Firms are also less likely to destagger when they have a poison pill in place. We then use our determinants model to construct a control sample of firms that opted to continue having a staggered board structure, and use a difference-in-differences research design to examine the consequences of the destaggering decision. Although we find no evidence that board structure changes after firms move to destaggered boards, we find evidence of negative consequences, consistent with existing board members changing their incentive horizon following the destaggering. In particular, we find that accounting performance, measured by ROA, deteriorates and investment in R&D falls. Finally, CEO pay-for-performance sensitivity decreases for firms that destagger. Taken together, our evidence is contrary to the earlier studies that claim that destaggered boards are always optimal and value-increasing. Our results speak to the ongoing debate on the benefits and costs of having a destaggered board structure.

1. Introduction

Staggered boards of directors, also known as classified boards, are boards in which directors are divided into several classes (usually three), and in each annual shareholders' meeting only one class of directors is elected (usually each for a term of three years). Although the costs and benefits of staggered boards have been widely discussed in both the academic literature and the popular press, we know little about the firms that have chosen to switch from a staggered to a destaggered board structure. In this paper, we examine the determinants and consequences of destaggering by analyzing the characteristics of firms that destagger their boards and the effects of board destaggering on corporate decisions, firm performance, as well as board characteristics.

The current literature claims that staggered boards are a powerful antitakeover governance mechanism that makes it difficult for a bidder to gain control of the board.[1] In fact, staggered boards have been widely criticized for looking out for themselves and management instead of shareholders; therefore, opponents of staggered boards claim that the annual election of directors makes directors more accountable to shareholders and improve firm performance as a result (Bebchuk and Cohen, 2005; Bebchuk, Coates and Subramanian, 2002). Guided by this view, efforts led by the Harvard Law School Shareholder Rights Project and proxy advisory firms like Institutional Shareholder Services have led to the recent wave of destaggering boards.[2] According to Factset, more than 60% of S&P 500 companies had a staggered board in 2002; by 2013, this number had declined to 12%.

[1] In particular, for a staggered board whose directors have three-year terms, a bidder must win two annual elections to acquire a majority of seats on the board, thus shielding poorly performing directors and managers from being replaced.

[2] The Harvard Law School Shareholder Rights Project reports that their work resulted in a total of 86 S&P 500 and Fortune 500 companies being destaggered in 2012 and 2013, and they plan to target another 31 companies in 2014. See the Shareholder Rights Project Reports on the 2012 and 2013 proxy seasons for a detailed description. In addition, Tonello and Anguilar (2012) show that, among shareholder proposals that target changing corporate governance practices, the largest proportion is related to destaggering boards.

It has been well-documented in the literature that staggered boards are associated with lower firm value and director effectiveness (Bebchuk and Cohen, 2005; Faleye, 2007; Cohen and Wang, 2013). This evidence is consistent with the argument that the staggered nature of boards allows these captive boards to be entrenched, consequently insulating managers from the market for corporate control, and thereby allowing managers to potentially engage in opportunistic behaviors (such as shirking, empire-building, and other actions that extract value from shareholders). These studies suggest that the presence of a staggered board is a symptom of corporate governance failure, and therefore board destaggering would lead to an improvement in shareholder value.

In contrast, in a thought piece by Koppes, Ganske, and Haag (1999), the authors argue that staggered boards bring value to shareholders by promoting the continuity and stability of the corporation's leadership and preventing drastic changes in corporate strategies. It is likely that a three-year term offers directors stronger incentives to invest in firm-specific human capital, which results in better director performance. In fact, the boards of companies such as Netflix, Boeing, and Safeway recommended that shareholders vote against the proposals to destagger their respective boards for the aforementioned reasons. Therefore, it may be premature to conclude that a staggered board is unconditionally a poor governance practice for most firms and that board destaggering leads to an improvement in shareholder value.

Prior studies have largely taken the staggered nature of boards as given and have focused on the association between staggered boards and firm value. In their survey paper on the role of boards of directors, however, Adams, Hermalin, and Weisbach (2008) argue that governance structures are chosen endogenously in response to firm-specific governance issues. To shed light on the above debate on the value of staggered boards, and in response to the criticism in Adams

et al. (2008), we begin our analyses by investigating the determinants of a firm's decision to destagger. We compile a sample of 384 firms with staggered boards that opted to destagger from 1991 through 2011. Relying on the extant literature on staggered boards, we posit that shareholder activism, the expected role of the board (i.e., advisory vs. monitoring), firm performance, and other governance mechanisms all influence the decision to destagger.

We find that firms under more pressure from active shareholders are more likely to destagger their boards; the extent of shareholder activism is evident in the increased likelihood of having a shareholder proposal that advocates having a destaggered board, as well as a greater degree of institutional ownership. This finding is consistent with the increasing trend of shareholder empowerment subsequent to the Sarbanes-Oxley Act of 2002 (Ferri, 2012). We also find that destaggering firms tend to be larger and have poor prior performance (measured as both accounting based return on assets and annual market-adjusted stock returns for the prior year), consistent with the idea in Koppes et al. (1999) that shareholders blame poor performance on firms' board structure and demand changes to the board. In terms of governance attributes, firms with poison pills are less likely to destagger their boards, consistent with the claim that directors of such firms prefer to keep the staggered board structure to provide a deterrent to takeovers. We also find that destaggering firms have larger boards and CEOs who have been with the firm longer relative to CEOs of other firms that choose not to destagger. To the extent that CEO tenure captures CEO entrenchment, this finding is consistent with shareholders demanding more director accountability when the likelihood of management entrenchment is high.

We next perform a difference-in-differences analysis to examine how board destaggering influences board attributes, firm performance, and investment decisions. As the above findings suggest, destaggering firms are systematically different from firms that did not destagger their

boards; therefore, we generate a matched control sample by matching each destaggering firm to a non-destaggering firm using the probability of destaggering based on our determinants. Generally, we find that board structure (i.e, director turnover, board size) remains relatively unchanged after destaggering. Moreover, we find insignificant to significantly negative results regarding the consequences in terms of firm performance, with results being more negative as we look at future performance further removed from the destaggering decisions. In particular, we find evidence that accounting performance, measured by return on assets, deteriorates after the first year subsequent to destaggering. In terms of corporate investment, we find that destaggering firms experience a decline in the level of R&D expenditure, consistent with the reduced incentive horizon for directors following destaggering.

We then examine how destaggering affects CEO compensation. We find some evidence of reduced CEO pay-for-performance sensitivity following destaggering, indicating reduced effectiveness of board monitoring subsequent to destaggering. We conjecture that these negative consequences could be mitigated by the appropriate compensation scheme; however, we do not find evidence that directors are rewarded with more equity-based compensation to mitigate potentially shorter horizon concerns resulting from annual elections.

Finally, we provide some evidence that larger firms and firms with high cash flows are more likely to have declining Tobin's Q subsequent to destaggering, consistent with these firms having greater advisory needs, and thus destaggering has not improved their performance. We also find that firms with more intangible assets tend to decrease total investments following destaggering, suggesting that these firms are taking more myopic investment strategies after destaggering. Taken together, our findings suggest that, contrary to the implications of the extant research on staggered boards and claims made by active investors, destaggering does not

appear to always lead to improved firm performance; on the contrary, destaggering could lead to managerial short-termism and less effective board monitoring.

Our study contributes to the literature in several ways. First, our findings shed light on the current debate on destaggering boards. While proxy advisor firms have unconditionally called for the destaggering of all public boards (Davidoff, 2012), there has been limited evidence on determinants and consequences of the recent trend of board destaggering. Although activists for shareholders' rights hold the belief that staggered boards are value-destroying for shareholders, our findings suggest that shareholder activism plays a significant role in a board's destaggering decision but this "one size fits all" approach for board structure is not always beneficial for shareholders. Our findings are consistent with the implications of Larcker, McCall, and Ormazabal (2013), who find that proxy advisor firms' suggestions do not result in increased firm value. Further, our results corroborate the arguments made by Koppes et al. (1999) that whether or not the board is staggered is not necessarily critical in ensuring that the board provides good governance in terms of better monitoring and advising.[3]

Additionally, our paper extends the recent literature on staggered boards. Ahn and Shrestha (2013) find that staggered boards have differential effects on firm value conditional on firms' monitoring costs and advisory needs. While their results imply that board destaggering would not necessarily be value-enhancing for any firm, our study speaks directly to the effects of board destaggering on firm performance. Guo, Kruse, and Nohel (2008) also examine the

[3] If firms make destaggering decisions optimally, then we would not expect to observe an association between board destaggering and future firm performance or investment decisions, especially given that our difference-in-differences design already takes into account the likelihood that destaggering firms are systematically different from firms that chose not to destagger their boards. Our findings of declining future performance are consistent with the conjecture that some firms are not making optimal decisions with respect to moving to staggered boards. However, to the extent that our performance variables explain the destaggering decision but do not fully capture expected future performance at the time of destaggering, it is still possible that our findings of declining performance indicate that firms with expected poor future performance are those that chose to destagger boards. Nevertheless, the latter explanation would still be inconsistent with the assertion that board destaggering would lead to an improvement in shareholder value.

consequences of board destaggering; they focus on the short-window stock returns to the announcement of destaggering and conclude that destaggering the board is beneficial to shareholders. We draw a different conclusion by using a difference-in-differences research design and a more recent sample to examine the long-term consequences of board destaggering, and our results suggest that board destaggering is not always beneficial to shareholders.

Our results also complement the findings in the concurrent working paper by Cremers, Litov, and Sepe (2013). Like our paper, they question the standing view in the literature that staggered boards are value-decreasing corporate governance structures. They question the research methodology in Bebchuk and Cohen (2005) by replicating the study and subjecting their data to a series of additional tests. Cremers et al. (2013) find that staggered boards are associated with increased firm value, contrary to the findings in Bebchuk and Cohen (2005). While our results are consistent with Cremers et al. (2013), the two studies differ on at least two dimensions. First, as previously mentioned, we use a difference-in-differences approach, which we believe effectively addresses the issue of the endogenous choice of board structure suggested by Adams et al. (2010) and acknowledged by Cremers et al. (2013). Second, in addition to Tobin's Q, we examine both accounting performance and the mechanisms by which board destaggering may help or hurt firm value and accounting performance (e.g., changes in R&D). We find that firms that destagger tend to have poorer accounting performance, particularly after a year subsequent to destaggering. We then examine the reasons behind poorer performance, including board characteristics, investment decisions, and board monitoring as shown in CEO pay-for-performance sensitivity.

The remainder of the paper is organized as follows. Section 2 discusses the background and our predictions. Section 3 describes our sample and research design. Section 4 presents our empirical results, and Section 5 concludes.

2. Background, motivation and predictions

2.1. Background and research motivation

Corporate governance consists of the various mechanisms that direct and influence the actions of top-level decision-makers within a corporation, including the board of directors. The role of boards of directors is an issue of fundamental importance in the literature on corporate governance. Boards are generally involved in making decisions regarding the hiring and firing of CEOs, the setting of strategy, and the selection of projects (Adams et al., 2008). A board's actions could be influenced by various board attributes such as the percentage of independent directors, board size, and CEO-chairman duality. An attribute that has been currently receiving much attention from active investors and researchers relates to the timing of election of directors within a board. Boards are either staggered, in which only a fraction of directors are subject to election at any given year, or destaggered, in which all directors are subject to election at the same time—usually annually.[4] For firms with staggered boards, usually only a third of the directors are elected in a given year at the annual shareholders' meeting to serve three-year terms. For example, for a company with nine directors on the board, a destaggered board would have all nine directors up for election each year, while a staggered board would have three directors up for election each year. Therefore, for a staggered board, it would take at least two

[4] Staggered boards are also known as "classified" boards and categorize directors into several groups or classes. Every year, only one group or class of directors is up for elections; the others maintain their seats on the boards and are eligible for election at a future date. Destaggered boards are also known as declassified, single-class, or unitary boards.

years to acquire a majority of seats on the board and three years to completely turn over the board. Having a staggered board is said to be useful in two ways: (1) to promote the stability for long-term strategic planning; and (2) to serve as an antitakeover device (Koppes et al., 1999).

Opponents of staggered boards have latched onto the role served by staggered boards as an antitakeover mechanism. Recent research has criticized staggered boards for allowing ineffective managers to remain entrenched and offering protection to these managers. According to the literature, the staggering of elections renders boards ineffective and unable to quickly fire and replace poorly performing managers. Empirical evidence to date seems to be consistent with the above view of the entrenchment effect of staggered boards. For instance, staggered boards are associated with lower firm valuation, lower sensitivity of CEO compensation to performance, and lower sensitivity of CEO turnover to firm performance (Faleye, 2007; Bebchuk and Cohen, 2005; Frakes, 2007). Firms with staggered boards have also been found to have more value-decreasing acquisitions (Masulis, Wang, and Xie, 2007). Furthermore, takeover targets with staggered boards are associated with lower returns to shareholders (Bebchuk, Coates, and Subramanian, 2002).

The above-mentioned evidence has motivated the recent wave of investor activism to push for the destaggering of boards. In fact, the Harvard Law School Shareholder Rights Project (SRP) considers the annual election of directors as best practice and has been advocating that shareholders submit proposals to destagger boards.[5] For instance, the SRP represented and advised the Los Angeles County Employees Retirement Association to submit the shareholder proposal to destagger Netflix board during the 2012 shareholder meeting. In the proposal, shareholders argue that "having directors stand for elections annually makes directors more accountable to shareholders, and could thereby contribute to improving performance and

[5] See http://srp.law.harvard.edu/.

increasing firm value." The proposal also cites academic research findings that identify the costs of having a staggered board in order to convince shareholders to vote for the destaggering of Netflix's board.

Despite the evidence, there is also the argument that staggered boards are valuable for shareholders in promoting the continuity and stability of the corporation's leadership and allowing the board to focus on long-term strategies (Koppes et al., 1999). Typically, the board of directors is responsible for developing and implementing long-term strategies, which often take years. The annual election of one-third of the boards prevents drastic changes in corporate strategy that might happen if the entire boards were elected each year. Turning to the example of Netflix, the Board of Netflix recommended that the shareholders vote against the proposal to destagger the Board. They made the following statement on the 2012 proxy statement:[6]

"The Board believes that maintaining the Company's classified board is in the best interest of its shareholders. In particular, the Board believes that a classified board encourages directors to look to the long-term best interest of the Company and its shareholders by strengthening the independence of non-employee directors against the often short-term focus of special interests. In addition, a classified board allows for a stable and continuous board, providing institutional perspective both to management and other directors. The Board also believes that a classified board reduces the Company's vulnerability to hostile and potentially abusive takeover tactics, by encouraging persons seeking control of the Company to negotiate with the Board and thereby better positioning the Board to negotiate effectively on behalf of all of the Company's stockholders. These benefits are particularly important for shareholders of the Company as it operates in a highly competitive and extremely dynamic marketplace."

Prior studies have largely taken the staggered nature of boards as given, and have focused on the association between staggered boards and firm value. One challenge with the above approach is how to disentangle between poor performing firms choosing staggered boards and staggered boards causing poor firm performance. In their survey paper, Adams et al. (2010) point out that "when we observe what appears to be a poor governance structure, we need to ask

[6] 75% of shareholders voted for this proposal, but Netflix did not adopt the proposal. According to the proxy statement in 2013, Netflix still has a staggered board.

why that structure was chosen" (p. 59, emphasis in original). Thus, it is not clear that we can necessarily conclude from the various cross-sectional studies that a staggered board is a poor governance practice for all firms and that board destaggering would lead to an improvement in shareholder value. To shed light on the above debate and in response to the criticism in Adams et al. (2010), we use a sample of firms from 1991 through 2011 with staggered boards that opted to destagger, to address two research questions: (1) What are the factors that influence the decision to destagger boards? (2) What are the consequences of board destaggering on subsequent firm performance, board characteristics, and board actions?

2.2. Determinants of board destaggering

We first examine the determinants of the decision of the board to opt for a destaggered structure. Based on the extant literature and on anecdotal evidence, we posit that several factors influence the destaggering decision, which we discuss below.

2.2.1. Shareholder Activism

We expect that firms under more pressure from active shareholders are more likely to destagger their boards. In the post-Sarbanes-Oxley years, evidence has surfaced suggesting that low-cost shareholder activism in the form of shareholder proposals and shareholder votes have helped push through shareholder-initiated governance changes at target firms (Ferri, 2012).[7] Moreover, in the past decade, there has also been a remarkable increase in monitoring from active hedge funds. Brav et al. (2008) have documented that hedge funds are able to influence management and board decisions. Anecdotal evidence also suggests that pressure from shareholder rights activists has played a significant role in convincing companies into destaggering. For example, the Harvard Project has been representing and advising several

[7] For example, Proctor and Gamble has received shareholder proposals to destagger their board for at least sixteen consecutive years and the proposal has gained majority shareholder support. But P&G only destaggered their board in 2003.

institutional investors, such as Illinois State Board of Investment, the Los Angeles County Employees Retirement Association, and the Massachusetts Pension Reserves Investment Management Board, to submit shareholder proposals to destagger boards. Other proxy advisory firms (e.g., Institutional Shareholder Services) have also been working with institutional investors to destagger boards. The push to destagger boards seems to coincide with the dramatic increasing trend of shareholder empowerment subsequent to the Sarbanes-Oxley Act of 2002 (SOX). After the public disclosures of accounting fraud cases such as Enron, WorldCom, and Tyco International, active shareholders have increased their demand for accountability of management and directors and the effectiveness of such shareholder pressure has also improved over time. Therefore, to the extent active shareholders believe in the view in favor of destaggering boards, we expect to observe a positive association between firm-specific shareholder activism level and the likelihood of destaggering boards.

2.2.2. Monitoring and Advisory Roles of the Board

Ahn and Shrestha (2013) argue that the decision to opt for a destaggered board is contingent on the tradeoff between two general roles that the board takes on. Boards have both a monitoring and an advisory function when dealing with managers.[8] On one hand, there are firms whose shareholders benefit from high monitoring from the board, such as firms with opaque operations or complex firm structures (Harris and Raviv, 2008; Hermalin and Weisbach, 1998; Rajeha, 2005). In these cases, any mechanism that allows for managerial entrenchment, such as staggered boards, increases the ability of managers to reap private benefits, and thus potentially increases monitoring costs. Therefore, firms requiring more monitoring from the board are likely

[8] The management literature analogously refers to the monitoring and advisory functions as the control and service roles, respectively, of the board. See Johnson, Daily, and Ellstrand (1996) for a review.

to adopt a destaggered board structure to reduce any entrenchment effect that increases monitoring costs.

On the other hand, there are firms that have greater advisory needs from the board, such as firms with substantial R&D projects that may involve multiple years to implement and see payoffs (Boone et al., 2007; Coles, Daniel, and Naveen, 2008). In these particular firms, a staggered structure promotes continuity and stability within the board, thereby strengthening the ability of the board to provide advisory services. We contend that a staggered board which is more stable can help in the implementation of long-term strategies. For instance, in response to shareholders' proposal to destagger the board, Weyerhaeuser states in its 2005 proxy filing the following (emphasis added):

"The Company's Board of Directors continues to believe that the classified board provides significant benefits to the Company and its shareholders. **For a company like Weyerhaeuser, which must plan effectively over the long term**, a staggered board provides greater assurance that the directors will understand its business. **It is the Board's belief that longer board terms serve to support longer-term strategies** and enable companies to benefit more effectively from directors' experience, knowledge of the company and wisdom. The staggered board also helps the Company attract and retain highly qualified individuals willing to commit the time and dedication necessary to understand the Company, its operations and its competitive environment. The Board of Directors strongly believes that multi-year terms increase directors' independence by insulating them from outside short-term influences and abuses, including the abusive tactics of hostile acquirers. The classified board does not preclude unsolicited acquisition proposals but, by eliminating the threat of imminent removal, puts the incumbent Board of Directors in a position to act to maximize value to all shareholders. In addition, the Board of Directors does not believe that directors elected for staggered terms are any less accountable to shareholders than they would be if elected annually, since the same standards of performance apply regardless of the term of service."

We therefore expect that firms that would benefit from a strong advisory board are less likely to adopt a destaggered board structure. However, firms do not necessarily have to trade off the monitoring function of its board for the board's advisory role, and vice versa; that is, a firm in need of more monitoring (and therefore would benefit from having a destaggered board) might also have strong advisory needs (and therefore would also benefit from having a staggered

board). Therefore, empirically it might be difficult to parse out one effect from the other. In addition, Kim, Mauldin, and Patro (2014) find that outside director tenure is positively associated with both advising performance (acquisition and investments) and monitoring performance (CEO compensation); thereby, to the extent that a staggered board is associated with longer director tenure, even firms with strong monitoring needs might not always desire a destaggered board.

2.2.3. Firm Performance

In their review paper, Finegold, Benson, and Hecht (2007) suggest that poor firm performance (in terms of accounting and stock market measures), which itself is a function of current corporate governance mechanisms, increases demand in reforming the governance practices within the firm. Indeed, research has shown that poor prior year performance is associated with increasing the number of outside directors (Pearce and Zahra, 1992) and replacing the CEO (Bhagat, Carey, and Elson, 1999). Similarly, we conjecture that poor prior year performance likely increases the demand for potential changes to the board and positively influences the decision to destagger. Thus, we expect firm performance to influence the pressure from shareholders to destagger boards. Firms with poor performance are likely to get more attention from shareholders, and shareholders might blame poor performance on firms' board structure (Koppes et al., 1999).

2.2.4. Governance Attributes

In terms of governance mechanisms, we believe that firms that have stronger board and management protection, and thus a higher likelihood of management and director entrenchment, are faced with two countervailing forces regarding the destaggering decision. On one hand, some boards are protected by mechanisms that allow directors (and managers) to be entrenched, such

as poison pills and insider directors, and these mechanisms are enhanced by a staggered board structure. These boards are likely to be pushed by investors to destagger. This is exacerbated by the increasingly urgent call by several organizations, including the Harvard Law School Shareholder Rights Project and proxy advisor firms (Davidoff, 2012), who claim that boards should be destaggered. When shareholders are concerned about poor corporate governance practices, credibility of management, or transparency of corporate disclosures, managers are likely to face greater pressure to destagger boards.

On the other hand, however, incumbent directors may want to keep mechanisms such as (poison pills and staggered boards) that prevent them from easily being removed or replaced. For example, since a board controls the implementation of poison pills without the necessity of having shareholder approval, the combination of a staggered board and a poison pill creates a veritable fortress for the incumbent board. Thus, to the extent that incumbent directors have control over whether or not these mechanisms are present, we expect directors to push back on the removal of these mechanisms that provide powerful deterrents for hostile takeovers (e.g., Netflix has a poison pill in place and has been pushing back to destagger its board despite shareholders' support for destaggering).

Overall, it is not clear which forces are stronger between the demand to destagger versus the reluctance of boards to do so. We therefore do not make any directional predictions on how governance attributes influence the choice to destagger.

2.3. Consequences of board destaggering

We now turn to the consequences following the decision to destagger boards. First, we discuss how board structure and characteristics are expected to change subsequent to board

destaggering. Then, we make predictions regarding the effects of destaggering on firm performance, investment strategy, and board monitoring.

2.3.1. Board Structure

We first examine how the composition of the board changes upon destaggering. We expect there to be an increase in director turnover. Destaggered boards require all directors to be subject to annual elections (as opposed to being elected every three years under a staggered board structure), and because these elections happen more often and involve more people, it is reasonable to assume that more directors turnover in a destaggered board relative to a staggered board. Furthermore, voluntary turnover likely increases if it is costly for directors to constantly go through the election process to ensure that they get reelected annually (Lipton and Savitt, 2007). We also examine how board size changes after a board destaggers, but make no prediction on it.

2.3.2. Firm Performance, Investment Strategies, and Board Monitoring

We make two-sided predictions regarding the performance consequences of the decision to destagger the board of directors. On one hand, the extant cross-sectional studies (e.g., Bebchuk, et al., 2002; Bebchuk and Cohen, 2005; Faleye, 2007) argue that a destaggered structure is optimal. In this case, we expect improvements in accounting and market-related performance consequences that we examine. In addition, we expect to observe improvements in board monitoring of management following destaggering. On the other hand, destaggering of the board may have several unintended consequences. First, staggered boards are argued to preserve the continuity and stability of the board, which are important for advisory purposes. Thus, destaggering may undermine board stability and continuity, thereby resulting in potentially lower subsequent performance. Second, destaggered boards may encourage directors to think

myopically about firm decisions, which would lead to a decline in long-term investments such as R&D expenditures. Because destaggering causes director's terms to be reduced from three years to one year, it may lead these directors to focus on short-term performance rather than long-term value creation. Dechow and Sloan (1991) show that CEOs spend less on R&D in their final years of office, suggesting an effect of the CEO horizon on corporate investments. Following the same logic, destaggering and moving toward annual elections increase the possibility of directors being removed after one year, and thus likely shortens directors' incentive horizons; as a result the board might be less inclined to invest their human capital in understanding the projects that would take longer to implement.

3. Sample selection and research design

3.1. Sample selection

We construct our sample based on the Governance Data in the Risk Metrics Database through ISS (Institutional Shareholder Services) Governance Services, which provides the classification status of the board for S&P 1,500 companies. We identify 384 firms that de-classified their boards from 1991 through 2011. Table 1 Panel A reports the frequency of destaggering across years based on the year of destaggering as reported on Risk Metrics. Consistent with the cited trend in the business press, only 2.6 percent of firms on Risk Metrics destaggered their boards in the 1991-1993 period, while this percentage steadily increased to 22.9 percent in 2011. The number of firms opting to destagger their boards increased particularly after 2004. In the Risk Metrics population, the percentage of firms still having classified boards remained at around 60 percent prior to 2005; in contrast, only 45 percent of firms have classified boards in 2011.

Panel B of Table 1 presents the distribution of destaggering firms across industries. We follow the Fama and French 12 industry classification scheme. It appears that the destaggering firms in our sample are generally distributed across industries in a similar fashion to the Compustat population. The only exception is the utilities industry; 8.3 percent of our destaggering firms are in the utilities industry, while only 3 percent of Compustat firms are in this industry.

[Table 1]

There are two limitations of the Risk Metrics Database, however. First, the database only provides data about various corporate governance provisions for each included company in 1990, 1993, 1995, 1998, 2000, 2002, 2004, 2006, and annual data after that.[9] Second, the year that is identified by Risk Metrics as the year of destaggering is unclear and inconsistent, particularly if the destaggering process takes place over several years. The data on Risk Metrics span three different possible destaggering events: (1) when the board has chosen to adopt a destaggered board structure, regardless of when the destaggering actually takes place; (2) when all new directors elected during that year have one year terms (while the other directors finish out their respective terms); and (3) when all directors have one year terms (i.e., when the board truly is destaggered). Thus, to supplement the Risk Metrics data, we hand collect data from the destaggering firms' proxy statements and identify the three different dates mentioned.

As an example of timing, shareholders of Starbucks approved the proposal to declassify the board at the annual shareholders' meeting on February 8, 2006. The board of directors of

[9] Because Risk Metrics did not have annual staggered board status before 2006, Bebchuk et al. (2005) fill in missing years by assuming that the governance provisions reported in any given year were in place also in the year/years following the current year. For example, if a firm is reported to have a staggered board in 1993 but a destaggered board in 1995, Bebchuk et al. (2005) assume for year 1994, which is not covered by Risk Metrics, that this firm also had staggered board. We used this approach for our main analysis. In a robustness check, we also varied it by assuming the governance provision is in place only in the year reported, and results were inferentially similar.

Starbucks consequently decided to support their shareholders' vote and declassify the board. Beginning with the 2007 shareholders' meeting, all the directors of Starbucks will stand for re-election for one-year terms.[10] For Starbucks, we consider 2006 as the year of destaggering in our determinants analysis. It is unclear whether the financial information for the preceding fiscal year is available to shareholders when the proxy statement for the 2006 meeting is released. We thus assume that at the time of voting, the shareholders had information for two fiscal years (which would have been FY 2004) coming into the February 2006 meeting, so for this analysis, we collect and use the financial information for 2004.[11] For our consequences tests, we examine all years beginning the year in which new directors are elected to one-year terms, which in this case would be FY 2007.[12]

Starbucks Fiscal year end	**Date of annual shareholders' meeting that approved the proposal to declassify the Board**	**Date of annual shareholder's meeting when all directors will be elected to one-year terms**
October 2, 2005	February 8, 2006	January 17, 2007

3.2. Research design

3.2.1. Analysis for the determinants of the destaggering decision

We analyze the determinants of the destaggering outcome using the following logistic regression specification. We regress the destaggering indicator variable ($DESTAGGER_{it}$, equal

[10] Some companies take the "phase-out" approach to destagger their board. Taking Bed Bath & Beyond Inc. as an example, at the companies' 2006 Annual Meeting of Shareholders, the proposal to eliminate the classification of the board was approved by shareholders. Starting with the 2007 annual meeting, newly elected directors will have one year terms, although the terms of the directors elected at the 2005 and 2006 Annual Meetings will expire at the 2008 and 2009 Annual Meetings, respectively. In such cases, we still take the fiscal year of 2006 as the year of destaggering.

[11] Note that we relax the assumption that the shareholders do not have the prior fiscal year's financial information and also run our determinants tests using the information from the fiscal year immediately preceding the shareholder's annual meeting, and our results are not sensitive to the selection of lagged firm data.

[12] We also run our analysis using the date when all directors are elected to one-year terms, and the results are qualitatively similar to when new directors are elected to one-year terms.

to one for firms that destaggered classified boards in year t and zero otherwise) on our measures of investor activism, monitoring costs, advisory needs, financial performance, and governance variables.

$$\begin{aligned} DESTAGGER_{it} = {} & \alpha_0 + \alpha_1 PROPOSAL_{it-1,t-2} + \alpha_2 \%INSOWN_{it-1} + \alpha_3 INTANG_{it-1} + \alpha_4 RD_{it-1} \\ & + \alpha_5 FCF_{it-1} + \alpha_6 SIZE_{it-1} + \alpha_7 AGE_{it-1} + \alpha_8 NBSEG_{it-1} + \alpha_9 NGSEG_{it-1} \\ & + +\alpha_{10} LEVERAGE_{it-1} + \alpha_{11} TOBINQ_{it-1} + \alpha_{12} ROA_{it-1} + \alpha_{13} ROA_{it-2} \\ & + \alpha_{14} RETURN_{it-1} + \alpha_{15} RETURN_{it-2} + \alpha_{16} POISON_{it-1} + \alpha_{17} DELAWARE_{it-1} \\ & + \alpha_{18} BOARDSIZE_{it-1} + \alpha_{19} \%INDDIRECT_{it-1} + \alpha_{20} CEOTENURE_{it-1} + \varepsilon_{it} \end{aligned} \quad (1)$$

We estimate the above regression using all the RiskMetrics firms that have staggered boards, and either (a) continue to have staggered boards, or (b) chose to destagger their boards at any point within our sample period. The indicator variable *DESTAGGER* is equal to zero for firms that did not choose to destagger, and for destaggering firms, *DESTAGGER* is equal to zero in the years prior to destaggering and one during the year of destaggering; we exclude the destaggering firms' post-destaggering observations from estimating Equation (1). We measure all the independent variables prior to the destaggering year to capture the information that shareholders (and the board) have when the destaggering decision was made.

We group our determinants variables into four categories, as discussed in Section 2.2: shareholder activism, monitoring costs and advisory needs, financial performance, and governance attributes.

As discussed earlier in the paper, low cost shareholder activism in the form of shareholder proposals has become more effective in pushing through governance changes following the Sarbanes Oxley. Thus our first measure for shareholder activism is *PROPOSAL*, an indicator variable equal to one if there is at least one shareholder proposal to destagger boards

in the previous two fiscal years and zero otherwise.[13] Our second measure is the percentage of institutional ownership obtained from the Thomson Financial database *(%INSOWN*). Crane, Michenaud, and Weston (2013) have shown that an increase in institutional ownership is associated with a significant increase in proxy voting. Given their investment, institutional investors probably have strong incentives to actively monitor the firms they invest in.[14] Thus we expect both *PROPOSAL* and *%INSOWN* to be positively associated with the destaggering decision.

With regard to the monitoring versus advisory functions of the board, firms requiring more monitoring from the board are likely to adopt a destaggered board structure to reduce any entrenchment effect, while firms that would benefit from a strong advisory board are less likely to destagger their boards. However, it is difficult to identify firm characteristics that are correlated with monitoring costs but uncorrelated with advisory needs. As pointed out earlier, a firm in need of greater monitoring might also have strong advisory needs so it is not clear whether such a firm would prefer a staggered or destaggered board; thus, we do not make directional predictions for our measures of firms' monitoring and advisory needs.

We begin with using asset intangibility (*INTANG*, measured as the ratio of intangible assets to total assets). Firms with largely intangible assets are likely more difficult to monitor (Ahn and Shrestha, 2013). In line with this idea, Dechow et al. (2011) find that firms involving in accounting fraud have significantly more soft assets (i.e., intangible assets) than control firms. However, firms with substantial R&D expenditure are likely to have more intangible assets. Higher R&D expenditure potentially indicates firms' advisory needs for long-term strategic

[13] Our results are similar if we modify the *PROPOSAL* variable to capture the shareholder proposal submitted in the previous three years or one year.
[14] As stated in the Shareholder Rights Project Report for the 2012 and 2013 proxy seasons, "there is a clear and widespread opposition to classified boards among institutional investors."

planning. Thus we do not make a directional prediction for asset intangibility (*INTANG*) and R&D expenditure (*RD*).

We also examine the association between destaggering and free cash flows (*FCF*), defined as the sum of net income and depreciation minus capital expenditure scaled by average total assets. Prior research has documented that the presence of free cash flows creates the potential for these cash flows to be squandered. For example, Harford (1999) finds that cash-rich firms are more likely to make acquisitions that subsequently experience abnormal declines in operating performance. This heightens the need for board monitoring. At the same time, we argue that cash-rich firms are likely to benefit from the advisory role of the board as to where to invest these cash flows. Therefore, we make no directional prediction for free cash flows (*FCF*).

We include firm size, firm age, complexity (measured by the number of business and geographic segments), and financial leverage as variables associated with firms' advisory and monitoring needs. As argued in a few prior studies (Boone et al., 2007; Coles et al., 2008; Ahn and Shrestha, 2013), advisory needs are greater for firms that have more contractual relationships and these firms tend to be bigger, older, more complex, and dependent on outside resources (e.g., creditors). On the other hand though, such firms might also be hard to monitor due to their complexity. Therefore, it is difficult to determine the tradeoff between the costs and benefits of staggered boards. We do not make directional predictions for these variables.

We now turn to measures of financial performance. We first follow the literature on staggered boards by using Tobin's q as a measure for firm performance. Tobin's q (*TOBINQ*) is measured as the ratio of the market value of assets to book value of total assets. The market value of assets is calculated as (total assets – common equity – deferred taxes + market value of equity). We note that Tobin's q also captures firms' investment opportunities, but R&D

expenditure included in the regression would also serve as a control for investment opportunities. Next, to capture past firm performance, we use an accounting based performance measure, return on assets (*ROA*) in the previous two years and market adjusted stock returns over the fiscal year (*RETURN*) in the previous two years. We expect firm performance to be negatively associated with the likelihood of destaggering boards.

Finally, we discuss our measures of governance. As described earlier in Section 2.2, it is not clear whether strong governance is associated with a higher or lower likelihood of destaggering boards. Among our measures of governance, we include the presence of a poison pill (*POISON*), which works as an anti-takeover device. We also examine whether a firm is incorporated in Delaware (*DELAWARE*). Daines (2001) finds that firms incorporated in Delaware are generally worth more, are more likely to receive takeover bids, and are more likely to be acquired than firms incorporated elsewhere, and suggests that Delaware incorporation is an important feature of corporate governance. In addition, we examine two board characteristics: board size (*BOARDSIZE*) and the percent of independent directors on board (*%INDDIR*). Jensen (1993) suggests that agency problems are likely to become more severe as board size increases and as a result CEOs will have greater power over the board. Prior studies have also suggested that the extent of director independence is positively associated with the effectiveness of board's monitoring role (e.g, Klein, 2002). Finally, we include CEO tenure (the number of years the manager has been in the CEO position) as a variable that is potentially correlated with the extent of management entrenchment (Hill and Phan, 1991). We note that, for the reasons discussed in Section 2.2.4, we do not make any directional predictions on how these governance measures affect the choice to destagger boards.

3.2.2. Analysis for the consequences of the destaggering decision

We perform a difference-in-differences analysis to examine the consequences of destaggering. Destaggering firms are likely systematically different from firms that did not destagger their boards as our determinants analysis is trying to demonstrate; therefore, the difference in the consequences of destaggering could be driven by omitted variables that are correlated with the destaggering decision and the consequence variables. That is why we perform a difference-in-differences analysis to mitigate the omitted variable concern driven by time-invariant differences between destaggering firms and control firms as well as the same temporal trends for both groups of firms. To further alleviate this concern, we generate a matched control sample by using propensity score matching (Lemmon and Roberts, 2010). Specifically we match each destaggering firm to a firm that did not destagger using the probability of destaggering based on the estimation of Equation (1). We use the same set of matched control firms for all the tests of consequences. In addition, we also include time-varying control variables in our analysis.

We employ the following model to test the consequences of destaggering decision (i.e., board characteristics, firm performance, and investment).

$$CONSEQUENCE_{it} = \beta_0 + \beta_1 DESTAGGER_i + \beta_2 AFTER_t + \beta_3 DESTAGGER_i * AFTER_t + \sum \beta_k CONTROLS_{it} + \sum \gamma_k YEAR + \sum \sigma_k INDUSTRY + \varepsilon_{it} \quad (2)$$

Again, *DESTAGGER* is an indicator variable, equal to one for destaggering firms. *AFTER* is an indicator variable, equal to one for the period following the destaggering decision. For control firms, *AFTER* is equal to one for the same years as *AFTER* for the corresponding matched destaggering firms. The coefficient of interest, β_3, represents the difference in the dependent variable between destaggering firms and control firms from the pre-destaggering period to the post-destaggering period. The control variables differ with the consequence variables. Further,

we include year and industry indicator variables to control for macroeconomic and industry specific effects.

For each consequence variable, we include all years following the destaggering decision as part of the analysis. However, the effects of destaggering may not be immediately evident; we do not necessarily expect drastic changes to take place instantly upon destaggering, especially given that we use the year in which new directors are elected to one-year terms as the first destaggering year. Thus, in addition to looking at all periods in the post-destaggering periods, we also present analyses examining the post-destaggering period *excluding* (a) the first year, and (b) the first two years, that immediately follow the destaggering decision to examine the longer-term consequences of destaggering.

4. **Empirical results**

4.1. The determinants of the destaggering decision

In Table 2 Panel A, we examine each destaggering firm and compare its characteristics during the year of destaggering to itself during the years prior the destaggering. This comparison helps us identify the possible changes in firm characteristics that led to destaggering (using firm itself as its own control). As shown in Panel A of Table 2, as predicted, the percentage of destaggering firms having a shareholder proposal in the previous two years has significantly increased in the year of destaggering (i.e., an increase from 14 percent to 27 percent, on average) relative to the preceding firm-year observations. In addition, there is a statistically significant increase in institutional ownership from 67 percent to 77 percent. There is some evidence of increasing asset intangibility (*INTANG*) in the year of destaggering (at the 10 percent significant level). Also, total assets are greater when a firm destaggers relative to previous years, suggesting that firm size is associated with the decision to destagger. Firm complexity declines as shown by

declining number of business and geographic segments (*NGSEG* and *NGSEG*). The next set of variables relates to financial performance. Tobin's Q, prior two years' return on assets (*ROA*) and market adjusted stock returns (*RETURN*) have declined significantly in the year of destaggering (e.g., $RETURN_{t-1}$ has an average of 8 percent prior to destaggering and it declined to 2 percent in the year of destaggering), consistent with our prediction that concerns with poor performance is likely associated with changes in governance practices. Finally, turning to our governance variables, the destaggering decision is significantly associated with a smaller likelihood of having a poison pill and a higher percentage of independent directors.

Panel B of Table 2 provides results for our comparisons of the destaggering firms versus other firms with staggered boards covered by Risk Metrics. The objective of this analysis is to identify the characteristics of destaggering firms relative to the population. This broad comparison is directly linked with our regression analysis (Equation 1). Generally, the inference from the cross-sectional comparison is similar to the inferences from the time-series comparison. Compared to other firms with classified boards that did not eliminate the classification structure, destaggering firms tend to have more active investors and higher institutional ownership. It is worth noting that that the percentage of having shareholder proposals to destagger boards is much lower for other firms with classified boards; that is, 4 percent compared to 27 percent of destaggering firms. This suggests the effectiveness of shareholder activism in the form of submitting proposals. Destaggering firms also have less R&D, be larger and older, have less complex operations, have poorer prior financial performance, be less likely to have a poison pill, have a larger board, have more independent directors and CEOs with longer tenure.

[Table 2]

Table 3 reports the results of our multivariate analysis of the variables discussed in Table 2. Similar to the univariate findings, firms having shareholder proposals of board declassification are more likely to destagger their boards.[15] In terms of the economic magnitude, we find that firms with shareholder proposals to destagger are 1.9 percent (untabulated) more likely to destagger their boards than other firms. This economic magnitude is quite large as the mean likelihood for destaggering in our sample is 2.7%.[16] In addition, firms with greater institutional ownership *(%INSOWN*) and large firms (*SIZE*) tend to eliminate board classification. Further, as predicted, firms with poor prior accounting (ROA_{t-1}, ROA_{t-2}) and stock market ($RETURN_{t-1}$) performance are more likely to choose to destagger their boards. Firms with poison pills are significantly less likely to destagger their boards. Finally, the likelihood of destaggering is positively associated with board size and CEO tenure. We note that the differing signs of the statistically significant coefficients do not paint a clear picture of whether destaggering is associated with good or weak corporate governance given that our governance variables capture different aspects of governance.

[Table 3]

4.2. The consequences of the destaggering decision

We use a difference-in-differences design to examine the consequences of the destaggering decision. As the starting point for identifying a matched sample for the analysis of consequences of destaggering, our determinants model's overall fitness seems reasonable given the likelihood ratio of 489.18.

[15] Given the significant role of shareholder proposals in determining firms' destaggering decision, we also examine the characteristics of firms that receive shareholder proposals to destagger their boards. In the untabulated logistic analysis, we find that, similar to our results for firms that decide to destagger boards, the firms that receive shareholder proposals to destagger tend to have lower intangible assets, are larger, and exhibit poorer firm performance and longer CEO tenure.

[16] Within firms with shareholder proposals, we also find that the voting percentage for declassifying the board is significantly and positively associated with the decision to destagger the board (not tabulated).

We generate the matched control sample by matching each destaggering firm to a firm that did not destagger using the probability of destaggering in the year prior to destaggering. The probabilities of destaggering are calculated as the fitted values from the estimating the logistic model of Equation (1). The analyses of consequences would only be meaningful if destaggering firms have at least one valid observation before and after boards are declassified; therefore, we require that both destaggering firms and matched control firms have at least one valid observation before the year of destaggering and one observation after the year of destaggering. The average probability of destaggering boards is 12.02% for destaggering firms and 11.85% for matched control firms (not tabulated); the difference is insignificant (p-value=0.82). In addition, t-tests (untabulated) suggest that all determinant variables except for lagged ROA (ROA_{t-1}) are not significantly different between destaggering firms and matched control firms.[17]

We present our analysis of the consequences of the decision to destagger the board in the following order. First, we examine whether destaggering affects the structure and characteristics of the board. Second, we determine whether destaggering has performance consequences. Third, we take a closer look at investment decisions the destaggered board makes relative to when the firms' boards were still staggered. Finally, we examine how the effectiveness of board monitoring has changed subsequent to board destaggering.

4.2.1. Board characteristics

We first examine how the destaggering decision influences board characteristics. Using the Directors Data on RiskMetrics, we investigate two board characteristics: director turnover (the percentage of directors from the previous year who are no longer on board during the current year) and board size (the number of directors on the board). The regression results based on

[17] The mean lagged ROA is 0.035 for destaggering firms vs. 0.02 for control firms (difference is marginally significant, p-value =0.08).

Model (2) are reported in Table 4. Columns (1) and (4) present the results using all available data. Columns (2) and (5) present results after we remove the first year immediately following the destaggering decision (that is, all the future years including and after the second year following the destaggering decision), and Columns (3) and (6) remove the two years immediately following the destaggering decision. As previously discussed, we present results that remove the years immediately following destaggering to include the possibility that the consequences of destaggering take time to manifest. On all specifications, the coefficients on *DESTAGGER*AFTER* are statistically insignificant (p at least > 0.21 on all coefficients), indicating that we are not able to find any change in director turnover or board size. In untabulated results, we also examine whether the average age of directors (as a proxy for director experience or quality) is impacted by the destaggering decision, and likewise we find no statistically significant results. The lack of results is inconsistent with the conjecture that the board structure will change following the decision to destagger the board. However, even if the board structure does not change, incentives of the directors could still change as a result of board declassification, which would affect firm performance and strategies. Therefore, we still examine whether there are any performance consequences and if decisions change post-destaggering.

[Table 4]

4.2.2. Firm performance

We examine two consequence variables used in the extant literature related to financial performance: Tobin's Q (*TOBINQ*), and annual return on assets (*ROA*). Table 5 presents the regression results based on Model (2) described in Section 3.2. Similar to the analyses presented in Table 4, the results presented in the first columns for each variable (Columns (1) and (4)) use

all observations, while the results in the following columns examine the results without the first year (Columns (2) and (5)) or the first two years (Columns (3) and (6)) following the destaggering decision. The coefficient estimates on our variable of interest (*DESTAGGER*AFTER*) are statistically no different from zero for our Tobin's Q regressions, suggesting no change in firm value after the destaggering decision. Our results are inconsistent with prior research that link staggered boards with reduced firm value (Bebchuk, Coates, and Subramanian, 2002; Bebchuk and Cohen, 2005) and the belief that board declassification would lead to improving performance and increasing firm value.[18] Our results for return on assets (*ROA*) suggest a more definitive pattern. The coefficient on *DESTAGGER*AFTER* in Column (4) is negative but statistically insignificant; however, the coefficients in Columns (5) and (6) are significantly negative (two-tailed p=0.08 and 0.05, respectively). These results suggest that accounting performance eventually becomes worse for firms that destaggered, although this deterioration in performance is not immediate.

Overall these findings suggest that destaggering does not result in improved firm value, as argued by the Harvard Law School Shareholder Rights Project; on the contrary, there is some evidence that the destaggering of boards eventually leads to reduced firm operating performance.

[Table 5]

4.2.3. Investment strategies

We next investigate whether destaggering results in any changes in investment strategies, in terms of research and development expenditures and net expenditures for total investment (*ITOTAL*, which Richardson (2006) defines the sum of all outlays on capital expenditures,

[18] Our results are different from those in the concurrent working paper by Cremers et al. (2013), who find that destaggering is associated with a decrease in Tobin's Q. The difference in the results could be driven by the differences in the sample and/or the methodology. In unreported analyses, when we examine only firms that destagger, we find that in the times series, similar to Cremers et al. (2013), Tobin's Q does decrease after destaggering.

acquisitions and R&D, less receipts from the sale of property, plant, and equipment).[19] We scale both investment variables by average total assets. The regression results are reported in Table 6. The significant and negative coefficient on *DESTAGGER*AFTER* ($p < 0.05$) in Columns (1) through (3) suggests that destaggering firms have decreased R&D spending following destaggering, and that the decreased R&D spending persists beyond the first two years following destaggering.

The coefficients on *DESTAGGER*AFTER* in Columns (4) through (6), where *ITOTAL* is the dependent variable, are negative but statistically insignificant. We note, however, that the coefficients are increasing in magnitude, the p-values (two-tailed) of these coefficients are decreasing as we drop the years immediately following the destaggering decision ($p = 0.11$ for the analysis presented in Column (6)). Overall, these above results are consistent with the idea that board destaggering shortens the director incentive horizon and leads to manager "short-termism" actions.[20,21]

[Table 6]

4.2.4. CEO pay-for-performance sensitivity

[19] Financial institutions typically have low levels of R&D expenditure. We already include industry fixed effects in our consequence analyses (Equation 2); nevertheless, we examine the robustness of our results to excluding financial firms from our sample (untabulated). We obtain inferentially similar results.

[20] Our results are also consistent with the findings of Harford, Mansi, and Maxwell (2008), who provide evidence that firms with weak governance tend to spend less on R&D. Harford et al. (2008) also find that firms with weak governance spend more on capital expenditures. They argue that, consistent with the spending hypothesis, firms with weaker governance spend their cash more quickly than firms with strong governance. Particularly, the spending of weaker governance firms tends to be on acquisitions and capital expenditures, which represent longer, multiyear commitments. In untabulated results, we examine how the spending on capital expenditures changes after the destaggering decision, and we find that the coefficients on *DESTAGGER*AFTER* are positive but statistically insignificant.

[21] We expect to find the opposite results for firms that switched from a destaggered to a staggered board structure. However, empirically the frequency of this happening during our sample period is rather low (i.e., 70 cases over our sample period of 1991-2011). This is consistent with the finding in Cremers et al. (2013) that most staggering-up happened during the 1978-1989 period. We have available data for only 19 firms that moved to staggered boards, but find that for these firms, capital expenditures and R&D spending increased after moving to a staggered board structure.

We also examine how destaggering influences the effectiveness of board monitoring of CEOs. Although monitoring is inherently difficult to measure, we focus on the sensitivity of CEO compensation to firm performance, which has been used in prior research as being indicative of the effectiveness of board monitoring (Hwang and Kim, 2009). We expect that under a regime of more effective board monitoring, CEO compensation is more sensitive to firm performance. We test the relation between CEO pay to performance sensitivity using the following equation:

$$\begin{aligned} CEOCOMP_{it} = {} & \beta_0 + \beta_1 AFTER + \beta_2 ROA_{t,t-1} + \beta_3 RETURN_{t,t-1} + + \beta_4 AFTER * ROA_{t,t-1} \\ & + \beta_5 AFTER * RETURN_{t,t-1} + + \sum \beta_k CONTROLS_{it} + \sum \gamma_k YEAR + \\ & \sum \sigma_k INDUSTRY + \varepsilon_{it} \end{aligned} \quad (3)$$

We estimate this regression separately for destaggering firms and matched control firms. For this specification, we define our dependent variable (*CEOCOMP)* as the logarithm of the sum of salary, bonus, long-term incentive plan payouts, the value of restricted stock grants, the proceeds from options exercised during the year, and any other annual pay for the CEO during the year. We measure performance by both average past two-year return on assets ($ROA_{t,t-1}$) and average past two-year market-adjusted stock return ($RETURN_{t, t-1}$), each for the concurrent and previous years. The other variables are as described in our other specifications presented earlier. Our coefficients of interest are those on the interaction terms between *AFTER* and each of the performance variables (i.e., β_4, and β_5). Generally, we expect that CEO compensation is increasing in performance. Given that our previous findings are more consistent with the hypothesis that destaggering results in poorer governance, we expect negative coefficients on the interaction terms for firms that destagger, while we expect the coefficients on the interaction terms to not be significantly different from zero for our control sample. Decreases in pay-

performance sensitivity after destaggering would indicate that monitoring becomes worse after destaggering.

Table 7 presents the results. Results for firms that destagger are presented in Columns (1), (3), and (5), while the results for control firms are presented in Columns (2), (4), and (6) of Table 7. First, across all columns, *CEOCOMP* is significantly and positively associated with the performance variables (*RETURN and ROA*). Next, turning to the interaction terms, the coefficients on the *AFTER*RETURN* and *AFTER*ROA* are generally significantly negative ($p<0.05$) for destaggering firms (with the exception of *AFTER*RETURN* in Column (1)), suggesting that pay-for-performance sensitivity decreased following destaggering, consistent with the less effective monitoring prediction. Furthermore, the coefficients are more statistically significant and also higher in absolute magnitude for later years, as seen in Columns (3) and (5). In contrast, the results in Columns (2), (4), and (6) for our control firms suggest that control firms do not experience similar significant reductions in pay-for-performance sensitivity following board destaggering. These findings are consistent with deteriorating monitoring following board destaggering.

[Table 7]

Taken all together, the results of our consequence analyses suggest that in spite of there being no apparent changes in board composition following board destaggering, there appears to be poorer firm performance and no negative changes in firm value following destaggering, in contrast to what Bebchuk and Cohen (2005) and Faleye (2007) have argued.

4.3. Additional analyses

4.3.1. Director compensation

In this section, we investigate whether director compensation serves as a mechanism that can potentially mitigate the effect of board destaggering on director incentives. We test the conjecture that directors are rewarded with more equity-based compensation to mitigate potentially shorter horizon concerns resulting from annual elections. In addition, we also examine whether directors' total compensation increases on average, to compensate for the increased risk of losing the seat in one year. In our untabulated analysis, we do not observe any significant changes in total director compensation (in terms of both median director compensation (within each board) or the compensation of the highest-paid director), nor in the proportion of equity-based compensation, subsequent to destaggering relative to control firms, inconsistent with the idea that directors are compensated for a shorter horizon.

4.3.2. Short-window stock market reaction

To further explore whether board destaggering is beneficial for shareholders, we also examine the short-window stock market reaction to the announcement of destaggering. We hand collect the following event dates and examine the combined three-day market-adjusted stock returns around them: (1) the day of which the proposal to destagger the board was announced, (2) the day of which the destaggering decision was announced in the press, and (3) the release date of the proxy statement containing a proposal to destagger the board. We note that not all the companies have three dates. We find that the mean (median) market-adjust returns are -0.0014 (-0.0015), and are insignificantly different from zero (not tabulated). This finding is consistent with the conjecture of Larcker, Ormazabal, and Taylor (2011) that investors do not always view destaggering the board as value-enhancing for shareholders.[22,23]

[22] Our results are different from those in Guo et al. (2008) who find positive and significant return to the announcement of firms' intention to destagger boards when the implementation of the annual election of directors is immediate. This might be due to the sample difference – we use a more recent sample (1991-2011) while their sample period is 1987-2004.

4.3.3. Cross-sectional variation in the effects of destaggering

Following the analyses of the consequences of destaggering, a natural follow-up analysis is to examine the types of firms for which destaggering would either be value-enhancing or value-decreasing. When firms have more advisory needs, destaggering might not be beneficial for the firm; destaggering is likely beneficial when firms have greater monitoring needs. However, as discussed earlier, it is difficult to identify firm characteristics that are correlated with monitoring costs but uncorrelated with advisory needs. Therefore, in an untabulated exploratory analysis, we focus on the three monitoring/advisory variables that are significant in the determinant regression (intangible assets (INTANG), free cash flows (FCF), and firm size (SIZE)) to examine how they influence the effects of board destaggering on firm performance and investments. Specifically, we create three indicator variables based on the medians of INTANG, FCF, and SIZE, equal to one when the value is greater than the median value in the year prior to the year of destaggering and zero otherwise. Then we estimate the following regression (not tabulated):

$$\begin{aligned} CONSEQUENCE_{it} = {} & \beta_0 + \beta_1 DESTAGGER_i + \beta_2 AFTER_t + \beta_3 DESTAGGER_i * AFTER_t \\ & \beta_4 INDICATOR_i + \beta_5 DESTAGGER_i * INDICATOR_i + \beta_6 AFTER_t * INDICATOR_i \\ & + \beta_7 DESTAGGER_i * AFTER_t * INDICATOR_i + \sum \beta_k CONTROLS_{it} \\ & + \sum \gamma_k YEAR + \sum \sigma_k INDUSTRY + \varepsilon_{it} \end{aligned} \quad (4)$$

The coefficients of interest are those on the interaction terms between *AFTER*, *DESTAGGER*, and each of the indicator variables (i.e., β_7). We find that larger firms and those with high free cash flows are more likely to have declining Tobin's Q subsequent to destaggering (i.e., significantly negative β_7). To the extent that firms that are larger and have greater free cash flows benefit more from strong advisory boards, our results are consistent with the expectation

[23] Note that Larcker et al. (2011) examine market short-window returns to corporate governance regulation, and one proposed regulatory change they study involves the Shareholder Bill of Rights Act, which, if passed, would have require destaggered boards across all publicly listed firms.

that destaggering weakened the advisory function of our sample firms' boards, resulting in weaker subsequent performance. In addition, we find that firms with more intangible assets tend to decrease total investments following destaggering, suggesting that these firms take more myopic investment strategies. However, we find no significant interactions for future return on assets or R&D expenditure. These mixed results might be due to the complication in identifying firms' ex ante advisory versus monitoring needs.

5. Conclusions

This study examines (1) the determinants of the decision to destagger the election of directors of a public company's board of directors, and (2) the consequences of the destaggering decision. In our analysis of determinants of destaggering, we find that the likelihood of destaggering is increasing in shareholder activism, firm size, and poor prior performance. Furthermore, we find that firms that destagger tend to larger boards and CEOs who have been with the firm for longer periods of time. Finally, we find that firms are less likely to destagger when they have a poison pill in place.

Using the determinants analysis, we construct a control sample of firms that opted to continue having a classified board structure, and use a difference-in-differences research design to examine the consequences of destaggering. We present our analyses in the following order. First, we determine how destaggering affects board structure. We do not find any statistically significant evidence that board structure changes after the destaggering decision. We then examine performance consequences of the destaggering decision and find that long-term accounting performance, measured by ROA, is lower after destaggering, while Tobin's Q remains unchanged. Next, we try to determine if boards behave differently after the destaggering decision. We find evidence that investment in R&D decreases after the decision to destagger the

board. In supplemental analysis, we also find some evidence that pay-for-performance sensitivity is lower after a firm destaggers its board, consistent with the hypothesis that monitoring quality decreases post-destaggering.

Taken all together, the evidence provided in this study suggests that destaggering results in potentially negative consequences for shareholders. These findings are contrary to some of the earlier cross-sectional studies on destaggered boards, and are consistent with the view held by proponents of keeping the previously more popular staggered board structure. The study is timely, given the current wave of destaggering that has taken place over the past decade. Our results speak to the debate on the benefits and costs of having a destaggered board structure.

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Table 1
Sample and Variable Description

Panel A: Frequency of the destaggered firms by year

Year	Number of destaggering	Percentage of total destaggered firms	Percentage of firms on Risk Metrics with classified boards	Total N of firms on Risk Metrics
1991-1993	10	2.6%	58.4%	1,463
1994-1995	10	2.6%	59.7%	1,496
1996-1998	15	3.9%	57.8%	1,913
1999-2000	24	6.3%	57.9%	1,887
2001-2002	11	2.9%	59.4%	1,894
2003-2004	28	7.3%	59.7%	1,982
2005-2006	72	18.8%	56.6%	1,896
2007-2008	60	15.6%	53.8%	1,460
2009-2010	66	17.2%	50.2%	1,481
2011	88	22.9%	45.2%	1,470
Total	384	100%		

Panel B: Frequency of the destaggered firms by industry

Industry	Destaggering Firms (number)	Destaggering Firms (%)	Compustat Population
Consumer NonDurables	27	7.26%	4.42%
Consumer Durables	8	2.15%	2.09%
Manufacturing	34	9.14%	8.38%
Energy	15	4.03%	4.88%
Chemicals	9	2.42%	1.90%
Business Equipment	42	11.29%	15.73%
Telecom	14	3.76%	3.41%
Utilities	31	8.33%	2.97%
Wholesale, Retail, and Some Services	42	11.29%	8.09%
Health	24	6.45%	8.54%
Finance	82	22.04%	24.82%
Other	44	11.83%	14.77%
Total	372	100%	100.0%

Table 1 (Continued)

Panel C: Variable definitions

Variable	Definition
DS	an indicator variable for firms which destaggered classified boards during 1991-2011 sample period
POST	an indicator variable for years after the year of destaggering
Variables for shareholder activism	
PROPOSAL	an indicator variable for shareholder proposal to de-stagger, equal to one if there is a shareholder proposal to de-stagger in the previous two fiscal year and zero otherwise
%INSOWN	percentage of institutional ownership
Variables for monitoring costs and advisory needs	
INTANG	intangibility, calculated as one *minus* the ratio of net property, plant and equipment, to total assets: *1-PPENT/AT*
RD	the ratio of research & development expense to total assets: XRD/AT
CAPEX	the ratio of capital expenditure to total assets: CAPX/AT
FCF	free cash flow to assets, calculated as the ratio of free cash flow to total assets. Free cash flow is defined as the sum of net income and depreciation minus capital expenditure: *(IB+DP-CAPX)/AT*
SIZE	the logarithm of the total assets at the end of the fiscal year: *log(AT)*
AGE	firm age, measure as the number of years since a firm's first appearance in the CRSP monthly stock return files
NBSEG	the logarithm of the number of business segments from the Compustat segment files at the end of a fiscal year
NGSEG	the logarithm of the number of geographic segments from the Compustat segment files at the end of a fiscal year
LEVERAGE	leverage ratio, measured as total debt (the sum of debt in current liabilities and long-term debt) to total assets:*(DLC+DLTT)/AT*
Variables for financial performance	
TOBINQ	Tobin's *q* is the ratio of the market value of assets to book value of total assets. The market value of assets is obtained as total assets – common equity – deferred taxes + market value of equity: *(PRCC_F×CSHO+AT-CEQ-TXDB)/AT*
ROA	return on assets, defined as the ratio of income before extraordinary items to beginning total assets:*IB/LAG(AT)*
RETURN	value weighted market adjusted annual returns
Governance variables	
POISON	indicator variable for poison pill
DELAWARE	indicator variable equal to one if the firms is incorporated in Delaware and zero otherwise
BOARDSIZE	board size: the number of directors on the board for the year
%INDDRECT	percentage of independent board of directors
CEOTENURE	the logarithm of the number of years the manager has been in the CEO position
Investment variables	
CAPEX	capital expenditure deflated by average total assets
RD	research and development expenditure, deflated by average total assets. It is set to

	zero when this variable is missing
ITOTAL	total investment, defined as the sum of all outlays on capital expenditure, acquisitions and research and development less receipts from the sale of property, plant and equipment, deflated by total assets
Director compensation and Board characteristics	
DIR_TURN	the % of board members from the previous year who leave the board
DIRCOMP	the median of total annual compensation for the board members
DIR%EQUITY	the median % of equity for the annual compensation of the board members
BSIZE	board size: the number of directors on the board for the year
BAGE	the average board age for the year
DCMP_MAX	the highest total annual compensation among board members
CEO compensation and turnover	
TDC1	CEO total compensation. It is the sum of salary, bonus, long-term incentive plan payouts, the value of restricted stock grants, the value of options granted during the year, and any other annual pay for the CEO in the year
CEOCOMP	total payout to CEO. It is the sum of salary, bonus, long-term incentive plan payouts, the value of restricted stock grants, the proceeds from options exercised during the year, and any other annual pay for the CEO in the year
CEO_TURN	an indicator variable for CEO turnover for the year
SP500	an indicator variable for S&P500. It is set to one if the firm is in the S&P500 at the end of year, and zero otherwise
BTM	book to market ratio, calculated as book value of assets deflated by the sum of book value of liabilities and market value of equity at the end of the year

Table 2
Summary Statistics

Panel A: Descriptive statistics for destaggering firms before and during the year of destaggering

Variables	Before destaggering (N=1,458)		Predicted	During the destaggering year (N=233)		Difference in Mean (C) – (A)
	Mean (A)	Median (B)		Mean (C)	Median (D)	
PROPOSAL	0.14	0.00	<	0.27	0.00	0.13***
%INSOWNt-1	0.67	0.70	<	0.77	0.80	0.10***
$INTANG_{t-1}$	0.68	0.71	?	0.71	0.78	0.04**
RD_{t-1}	0.02	0.00	?	0.02	0.00	0.00
FCF_{t-1}	0.03	0.03	?	0.03	0.03	-0.01
$SIZE_{t-1}$	8.19	8.22	?	8.48	8.47	0.29***
AGE_{t-1}	23.47	25.00	?	24.71	23.00	1.25
$NBSEG_{t-1}$	3.77	3.00	?	2.52	1.00	-1.24***
$NGSEG_{t-1}$	3.19	3.00	?	2.23	1.00	-0.96***
$LEVERAGE_{t-1}$	0.24	0.24	?	0.24	0.22	0.00
$TOBINQ_{t-1}$	2.02	1.52	>	1.63	1.26	-0.39***
ROA_{t-1}	0.06	0.05	>	0.04	0.04	-0.02***
ROA_{t-2}	0.07	0.06	>	0.04	0.04	-0.03***
$RETURN_{t-1}$	0.08	0.01	>	0.02	-0.03	-0.05*
$RETURN_{t-2}$	0.09	0.00	>	0.07	0.00	-0.03
$POISON_{t-1}$	0.56	1.00	?	0.33	0.00	-0.23***
$DELAWARE_{t-1}$	0.57	1.00	?	0.55	1.00	-0.02
$BOARDSIZE_{t-1}$	10.34	10.00	?	10.51	10.00	0.17
$\%INDDIRECT_{t-1}$	70.47	75.00	?	75.70	77.78	5.23***
$CEOTENURE_{t-1}$ *(unlogged)*	4.12	2.08	?	4.01	1.92	-0.11

***, **, * indicates that the destaggering years are significantly different from the years prior to destaggering at the 1%, 5%, and 10% level respectively, based on a two-tailed t-test for the mean. All the variables are defined in Table 1 Panel C. Each of the continuous variables is winsorized at 1 percent and 99 percent to mitigate outliers.

Panel B: Descriptive statistics of destaggering firms during the year of destaggering vs. other (staggered) firm-years in the Risk Metrics population

Variables	Other staggered firms in the Risk Metrics population (N=6,933)			De-staggering firms (N=233)		Difference in Mean (C)-(A)
	Mean (A)	Median (B)	Predicted	Mean (C)	Median (D)	
PROPOSAL	0.04	0.00	<	0.27	0.00	0.23***
%INSOWNt-1	0.70	0.73	<	0.77	0.80	0.06***
$INTANG_{t-1}$	0.73	0.79	?	0.71	0.78	-0.02
RD_{t-1}	0.03	0.00	?	0.02	0.00	-0.01***
FCF_{t-1}	0.03	0.04	?	0.03	0.03	-0.01
$SIZE_{t-1}$	7.19	7.04	?	8.48	8.47	1.29***
AGE_{t-1}	18.94	15.00	?	24.71	23.00	5.77***
$NBSEG_{t-1}$	2.87	2.00	?	2.52	1.00	-0.35***
$NGSEG_{t-1}$	2.76	2.00	?	2.23	1.00	-0.53***
$LEVERAGE_{t-1}$	0.21	0.20	?	0.24	0.22	0.03***
$TOBINQ_{t-1}$	1.90	1.49	>	1.63	1.26	-0.27***
ROA_{t-1}	0.05	0.06	>	0.04	0.04	-0.02***
ROA_{t-2}	0.06	0.06	>	0.04	0.04	-0.02**
$RETURN_{t-1}$	0.08	0.01	>	0.02	-0.03	-0.06**
$RETURN_{t-2}$	0.12	0.01	>	0.07	0.00	-0.05**
$POISON_{t-1}$	0.55	1.00	?	0.33	0.00	-0.22***
$DELAWARE_{t-1}$	0.60	1.00	?	0.55	1.00	-0.05
$BOARDSIZE_{t-1}$	9.05	9.00	?	10.51	10.00	1.46***
$\%INDIRECT_{t-1}$	70.38	72.73	?	75.70	77.78	5.32***
$CEOTENURE_{t-1}$ *(unlogged)*	1.27	0.00	?	4.01	1.92	2.74***

***, **, * indicates that the destaggering firm-years are significantly different from the non-destaggering firm-years at the 1%, 5%, and 10% level respectively, based on a two-tailed t-test for the mean. All the variables are defined in Table 1 Panel C. Each of the continuous variables is winsorized at 1 percent and 99 percent to mitigate outliers.

Panel C: Pearson (above) / Spearman (below) Correlations

	PROPOSAL	*%INSOWNt-1*	*INTANGt-1*	*RDt-1*	*FCFt-1*	*SIZEt-1*	*AGEt-1*	*NBSEGt-1*	*NGSEGt-1*	*LEVERAGEt-1*	*TOBINQt-1*	*ROAt-1*	*ROAt-2*	*RETURNt-1*	*RETURNt-2*	*POISONt-1*	*DELAWAREt-1*	*BOARDSIZEt-1*	*%INDIRECTt-1*	*CEOTENUREt-1*
PROPOSAL		0.00	-0.08	-0.05	-0.03	0.23	0.16	0.02	0.00	0.09	-0.03	-0.03	-0.04	-0.03	-0.03	0.00	-0.03	0.15	0.08	0.09
%INSOWNt-1	-0.01		0.13	0.03	0.11	-0.02	-0.07	-0.20	0.14	-0.08	0.00	0.09	0.07	0.01	0.03	-0.02	0.17	-0.13	0.28	0.00
INTANG t-1	-0.08	0.13		0.28	-0.24	-0.08	-0.19	-0.10	0.00	-0.32	0.14	0.00	0.00	0.04	0.05	-0.10	0.09	-0.10	0.02	-0.02
RD t-1	-0.03	0.08	0.22		-0.05	-0.27	-0.17	0.05	0.16	-0.26	0.35	-0.11	-0.06	0.05	0.06	0.06	0.08	-0.21	0.02	-0.06
FCF t-1	-0.05	0.13	0.22	0.16		0.04	-0.04	0.00	0.02	-0.23	0.30	0.81	0.43	0.14	0.10	-0.04	-0.01	0.01	0.05	-0.01
SIZE t-1	0.21	0.02	-0.04	-0.24	-0.12		0.33	-0.10	0.03	0.33	-0.20	-0.06	-0.08	-0.04	-0.06	-0.02	-0.02	0.55	0.21	0.23
AGE t-1	0.15	-0.09	-0.22	-0.07	-0.01	0.33		0.20	0.05	0.17	-0.19	-0.01	-0.04	-0.06	-0.09	0.07	-0.26	0.35	0.21	0.10
NBSEG t-1	0.01	-0.26	-0.15	0.04	-0.03	0.00	0.11		0.43	0.14	-0.05	-0.03	-0.03	-0.03	-0.02	0.21	-0.06	0.13	-0.05	0.03
NGSEG t-1	-0.01	-0.21	-0.10	0.25	-0.03	0.06	0.01	0.60		0.02	0.10	0.01	0.00	-0.02	-0.01	0.19	0.04	-0.01	-0.12	0.00
LEVERAGE t-1	0.09	-0.08	-0.33	-0.23	-0.27	0.36	0.20	0.14	0.04		-0.26	-0.23	-0.21	-0.05	-0.09	0.09	-0.03	0.20	0.01	0.06
TOBINQ t-1	-0.05	0.09	0.07	0.34	-0.49	-0.23	0.18	0.01	0.15	-0.32		0.43	0.35	0.31	0.17	-0.04	0.10	-0.12	-0.09	0.01
ROA t-1	-0.05	0.10	-0.03	0.06	-0.77	-0.13	-0.05	0.02	0.04	-0.27	0.61		0.60	0.16	0.15	-0.03	0.00	-0.02	-0.02	0.00
ROA t-2	-0.06	0.08	-0.04	0.07	-0.47	-0.15	-0.07	0.02	0.04	-0.24	0.51	0.67		-0.07	0.10	-0.04	0.01	-0.05	-0.04	0.00
RETURN t-1	-0.02	0.05	0.02	0.00	0.21	-0.01	-0.01	-0.02	0.04	-0.07	0.30	0.22	-0.01		-0.03	-0.01	0.04	-0.04	-0.03	-0.01
RETURN t-2	-0.03	0.07	0.04	0.00	0.18	-0.01	-0.04	-0.01	0.01	-0.09	0.21	0.26	0.19	-0.03		-0.03	0.04	-0.06	-0.02	-0.01
POISON t-1	0.00	-0.04	-0.12	0.10	-0.04	0.01	0.06	0.25	0.23	0.11	-0.02	-0.02	-0.03	0.01	-0.02		0.04	0.02	0.05	0.03
DELAWARE t-1	-0.03	0.18	0.09	0.07	-0.03	-0.03	-0.27	0.05	0.04	-0.05	0.12	0.04	0.04	0.03	0.03	0.04		-0.17	0.00	-0.06
BOARDSIZE t-1	0.16	-0.13	-0.10	-0.18	-0.06	0.56	0.37	-0.08	0.01	0.25	-0.13	-0.07	-0.09	-0.01	-0.02	0.04	-0.18		0.08	0.16
%INDIRECT t-1	0.08	0.27	0.01	0.08	0.01	0.22	-0.19	-0.14	0.17	0.05	-0.08	-0.06	-0.09	0.03	0.01	0.03	0.00	0.13		0.00
CEOTENURE t-1	0.16	-0.02	-0.06	-0.07	-0.04	0.38	0.19	0.11	0.06	0.13	-0.01	-0.02	-0.02	0.01	0.01	0.04	-0.08	0.28	0.09	

Panel C of Table 2 reports pair-wise correlations between the variables. All the variables are defined in Table 1 Panel C. Each of the continuous variables is winsorized at 1 percent and 99 percent to mitigate outliers.

Table 3
The Determinants of the Decision to Destagger the Board: Logistic Regression

	Dependent variable: $DESTAGGER_t$		
	Pred. sign	Coefficients	P-value
Intercept	+/-	-4.050***	0.00
$PROPOSAL_{t-1}$	+	0.717***	0.00
$\%INSOWN_{t-1}$	+	0.406*	0.06
$INTANG_{t-1}$	+/-	-0.321*	0.06
RD_{t-1}	+/-	-0.388	0.72
FCF_{t-1}	+/-	1.575*	0.06
$SIZE_{t-1}$	+/-	0.133***	0.00
AGE_{t-1}	+/-	0.001	0.74
$NBSEG_{t-1}$	+/-	-0.003	0.89
$NGSEG_{t-1}$	+/-	0.001	0.97
$LEVERAGE_{t-1}$	+/-	0.029	0.90
$TOBINQ_{t-1}$	-	0.065	0.13
ROA_{t-1}	-	-1.573*	0.08
ROA_{t-2}	-	-1.707***	0.00
$RETURN_{t-1}$	-	-0.178*	0.10
$RETURN_{t-2}$	-	-0.062	0.43
$POISON_{t-1}$	+/-	-0.325***	0.00
$DELAWARE_{t-1}$	+/-	0.016	0.83
$BOARDSIZE_{t-1}$	+/-	0.038**	0.02
$\%INDDIRECT_{t-1}$	+/-	-0.001	0.63
$CEOTENURE_{t-1}$	+/-	0.024***	0.00
Year fixed effects		YES	
N		8,624	
Pseudo R^2		0.06	
Max-Rescaled R^2		0.25	
Likelihood ratio		489.18	

This table reports the logistic regression results for the decision to destagger for a sample of 233 firms that de-staggered and the control group of firms which continue to have staggered board throughout the sample period. The dependent variable is an indicator variable that equals one for the sample firms which de-staggered classified boards in the de-stagger year. Coefficient estimates and P-values are reported. *, **, and *** denote two-tailed statistical significance at 10%, 5%, and 1%, respectively. Standard errors are clustered by firm. All the variables are defined in Table 1 Panel C.

Table 4
The Effects of Destaggering on Board Characteristics

	Director Turnover			*Board Size*		
	AFTER includes all years	***AFTER includes all years after t+1***	***AFTER includes all years after t+2***	***AFTER includes all years***	***AFTER includes all years after t+1***	***AFTER includes all years after t+2***
	(1)	***(2)***	***(3)***	***(4)***	***(5)***	***(6)***
Intercept	6.262*	4.992	4.891	5.334***	4.025***	2.701***
	[0.08]	[0.24]	[0.34]	[0.00]	[0.00]	[0.00]
DESTAGGER	0.843	0.979	0.287	0.035	-0.185	-0.298**
	[0.20]	[0.20]	[0.76]	[0.74]	[0.13]	[0.03]
AFTER	1.220	2.257	1.009	-0.328*	-0.536**	-0.289
	[0.24]	[0.11]	[0.59]	[0.05]	[0.02]	[0.32]
DESTAGGER*	-1.393	-0.302	-1.576	-0.191	-0.170	-0.209
AFTER	[0.21]	[0.38]	[0.33]	[0.29]	[0.43]	[0.40]
$TOBINQ_t$	-0.130	-0.302	-0.701*	0.163***	0.154***	0.119*
	[0.68]	[0.38]	[0.09]	[0.00]	[0.01]	[0.05]
$SIZE_t$	1.285***	1.609***	1.764***	0.674***	0.825***	0.894***
	[0.00]	[0.00]	[0.00]	[0.00]	[0.00]	[0.00]
FCF_t	6.070	6.859	26.076*	5.115***	5.733***	5.794**
	[0.53]	[0.57]	[0.09]	[0.00]	[0.00]	[0.01]
$LEVERAGE_t$	-0.655	-3.125	-5.730*	-0.508	-0.024	0.281
	[0.74]	[0.19]	[0.05]	[0.11]	[0.95]	[0.53]
ROA_t	-15.586	-14.758	-25.405*	-5.416***	-4.822**	-5.423**
	[0.14]	[0.24]	[0.10]	[0.00]	[0.01]	[0.02]
ROA_{t-1}	-3.077	-4.483	-3.174	0.206	0.752	1.606*
	[0.51]	[0.39]	[0.62]	[0.78]	[0.36]	[0.09]
RET_t	-1.447**	-1.447*	-1.585*	-0.151	-0.122	-0.008
	[0.04]	[0.06]	[0.07]	[0.17]	[0.32]	[0.95]
RET_{t-1}	-0.534	-0.477	0.238	-0.125	-0.142	-0.095
	[0.41]	[0.51]	[0.78]	[0.22]	[0.21]	[0.44]
$INTANG_t$	-0.308	0.165	-0.257	-0.294	0.128	1.102**
	[0.88]	[0.95]	[0.93]	[0.38]	[0.75]	[0.02]
RD_t	-15.798	-11.736	-7.044	-3.159*	-3.077*	-1.855
	[0.13]	[0.31]	[0.61]	[0.06]	[0.10]	[0.37]
$CAPEX_t$	7.585	-3.292	4.701	5.856***	7.964***	9.944***
	[0.56]	[0.83]	[0.81]	[0.00]	[0.00]	[0.00]
$NBSEG_t$	-0.015	-0.127	-0.253	0.075***	0.062**	0.063**
	[0.91]	[0.42]	[0.18]	[0.00]	[0.01]	[0.03]
$NGSEG_t$	-0.030	-0.003	0.160	0.003	0.007	-0.024
	[0.85]	[0.99]	[0.44]	[0.90]	[0.80]	[0.46]
AGE_t	-0.006	-0.014	-0.039	0.025***	0.018***	0.012**
	[0.81]	[0.63]	[0.27]	[0.00]	[0.00]	[0.03]
$\%INST_t$	-0.269	-0.693	0.557	-1.565***	-1.473***	-1.169***
	[0.87]	[0.72]	[0.81]	[0.00]	[0.00]	[0.00]
$PPILL_t$	0.331	0.509	0.365	0.072	0.230**	0.459***
	[0.56]	[0.44]	[0.64]	[0.43]	[0.03]	[0.00]
DLW_t	0.319	0.245	0.249	-0.652***	-0.743***	-0.791***
	[0.59]	[0.72]	[0.76]	[0.00]	[0.00]	[0.00]
$CEOtenure_t$	-0.735**	-0.887**	-1.039**	-0.056	-0.117**	-0.204***
	[0.01]	[0.01]	[0.01]	[0.24]	[0.03]	[0.00]
$BSIZE_t$	-0.700***	-0.761***	-0.789***			
	[0.00]	[0.00]	[0.00]			
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N observations	2,261	1,635	1,269	2,306	1,665	1,291
Adj. R squared	0.11	0.11	0.11	0.37	0.42	0.45

This table reports the results of the consequence regressions regarding board characteristics. Dependent variables are specified in column headings. All P-values are two-tailed. Fama French 12 industry effects and year fixed effects are included. All the variables are defined in Table 1 Panel C.

Table 5
The Effects of Destaggering on Firm Performance

	Tobin Q			*ROA*		
	AFTER** includes all years* ***(1)	***AFTER** includes all years after t+1* ***(2)***	***AFTER** includes all years after t+2* ***(3)***	***AFTER** includes all years* ***(4)***	***AFTER** includes all years after t+1* ***(5)***	***AFTER** includes all years after t+2* ***(6)***
Intercept	1.039***	0.944***	0.919**	-0.052***	-0.058***	-0.071***
	[0.00]	[0.00]	[0.02]	[0.00]	[0.00]	[0.00]
DESTAGGER	0.065	0.032	0.048	-0.003*	-0.003	-0.002
	[0.16]	[0.57]	[0.47]	[0.06]	[0.12]	[0.18]
AFTER	-0.094	-0.180*	-0.185	0.003	0.003	0.007*
	[0.22]	[0.09]	[0.19]	[0.24]	[0.31]	[0.10]
DESTAGGER	-0.092	0.011	0.010	-0.004	-0.005*	-0.007*
****AFTER***	[0.26]	[0.92]	[0.94]	[0.17]	[0.08]	[0.05]
ROA_t	11.537***	12.523***	13.418***			
	[0.00]	[0.00]	[0.00]			
$SIZE_t$	-0.034**	-0.035	-0.008	0.003***	0.004***	0.004***
	[0.04]	[0.11]	[0.74]	[0.00]	[0.00]	[0.00]
FCF_t	-4.669***	-6.049***	-4.539***	0.936***	0.978***	1.031***
	[0.00]	[0.00]	[0.00]	[0.00]	[0.00]	[0.00]
$LEVERAGE_t$	-0.709***	-0.920***	-1.402***	-0.006	-0.001	0.002
	[0.00]	[0.00]	[0.00]	[0.14]	[0.90]	[0.74]
$INTANG_t$	0.234	0.341*	0.050	0.064***	0.060***	0.064***
	[0.11]	[0.06]	[0.82]	[0.00]	[0.00]	[0.00]
RD_t	11.446***	11.776***	8.314***	0.005	-0.009	0.035
	[0.00]	[0.00]	[0.00]	[0.82]	[0.69]	[0.18]
$CAPEX_t$	0.869	1.233	0.993	0.972***	0.928***	0.944***
	[0.34]	[0.28]	[0.46]	[0.00]	[0.00]	[0.00]
$NBSEG_t$	-0.027***	-0.032***	-0.074***	-0.001***	-0.001	0.000
	[0.01]	[0.01]	[0.00]	[0.00]	[0.14]	[0.24]
$NGSEG_t$	0.084***	0.087***	0.122***	0.000	0.000	-0.001
	[0.00]	[0.00]	[0.00]	[0.25]	[0.43]	[0.18]
AGE_t	-0.001	-0.003	0.000	0.000	0.000	0.000***
	[0.50]	[0.20]	[0.99]	[0.44]	[0.30]	[0.00]
$\%INST_t$	-0.277**	-0.258*	-0.451***	-0.002	-0.006	-0.007
	[0.02]	[0.07]	[0.01]	[0.61]	[0.18]	[0.12]
$BOARDSIZE_t$	0.029***	0.032***	0.034***	-0.001***	-0.001**	-0.001**
	[0.00]	[0.00]	[0.01]	[0.00]	[0.01]	[0.04]
$PPILL_t$	-0.090**	-0.132***	-0.160***	0.001	0.002	0.000
	[0.03]	[0.01]	[0.01]	[0.49]	[0.24]	[0.94]
$\%IND_t$	0.001	0.001	0.000	0.000***	0.000***	0.000***
	[0.71]	[0.70]	[0.96]	[0.00]	[0.00]	[0.00]
DLW_t	0.178***	0.232***	0.359***	-0.001	-0.003**	-0.005***
	[0.00]	[0.00]	[0.00]	[0.32]	[0.02]	[0.00]
$CEOtenure_t$	0.067***	0.081***	0.072**	0.001	0.001*	0.002**
	[0.00]	[0.00]	[0.01]	[0.37]	[0.08]	[0.01]
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N observations	2,414	1,751	1,360	2,414	1,751	1,360
Adj. R squared	0.56	0.56	0.62	0.87	0.89	0.88

This table reports the results of the consequence regressions regarding future firm performance. Dependent variables are specified in column headings. All P-values are two-tailed. Fama French 12 industry effects and year fixed effects are included. All the variables are defined in Table 1 Panel C.

Table 6
The Effects of Destaggering on Firm Investment

	R&D			*iTOTAL*		
	AFTER includes all years ***(1)***	***AFTER includes all years after t+1*** ***(2)***	***AFTER includes all years after t+2*** ***(3)***	***AFTER includes all years*** ***(4)***	***AFTER includes all years after t+1*** ***(5)***	***AFTER includes all years after t+2*** ***(6)***
Intercept	-0.015**	-0.002	0.002	0.106***	0.123***	0.147***
	[0.02]	[0.82]	[0.85]	[0.00]	[0.00]	[0.00]
DESTAGGER	0.000	0.004**	0.004**	-0.001	0.004	0.005
	[0.87]	[0.03]	[0.02]	[0.84]	[0.30]	[0.23]
AFTER	0.006***	0.007**	0.009**	0.005	0.012	-0.002
	[0.00]	[0.02]	[0.02]	[0.36]	[0.11]	[0.79]
DESTAGGER	-0.005**	-0.009***	-0.012***	-0.005	-0.010	-0.012
****AFTER***	[0.02]	[0.00]	[0.00]	[0.36]	[0.15]	[0.11]
TOBINQ$_t$	0.010***	0.010***	0.007***	0.005***	0.004**	0.000
	[0.00]	[0.00]	[0.00]	[0.00]	[0.02]	[0.99]
SIZE$_t$	0.000	0.000	0.000	-0.005***	-0.006***	-0.006***
	[0.79]	[0.55]	[0.78]	[0.00]	[0.00]	[0.00]
FCF$_t$	-0.006	0.032*	0.040*	-0.667***	-0.674***	-0.741***
	[0.68]	[0.09]	[0.08]	[0.00]	[0.00]	[0.00]
LEVERAGE$_t$	-0.012***	-0.012**	-0.012**	0.025**	0.024**	0.025*
	[0.00]	[0.01]	[0.03]	[0.01]	[0.05]	[0.06]
ROA$_t$	-0.083***	-0.123***	-0.080***	0.544***	0.558***	0.653***
	[0.00]	[0.00]	[0.00]	[0.00]	[0.00]	[0.00]
ROA$_{t-1}$	-0.027***	-0.026**	0.011	0.094***	0.079***	0.124***
	[0.00]	[0.02]	[0.38]	[0.00]	[0.00]	[0.00]
RET$_t$	-0.003**	-0.004**	-0.003*	-0.006*	-0.006	-0.002
	[0.03]	[0.02]	[0.06]	[0.07]	[0.15]	[0.70]
RET$_{t-1}$	-0.002	-0.002	-0.004**	-0.003	-0.003	-0.006
	[0.24]	[0.10]	[0.02]	[0.44]	[0.40]	[0.14]
INTANG$_t$	0.013***	0.011***	0.004	-0.037***	-0.040***	-0.043***
	[0.00]	[0.01]	[0.37]	[0.00]	[0.00]	[0.00]
NBSEG$_t$	-0.001***	-0.001***	-0.001*	0.001	0.001	0.001
	[0.00]	[0.02]	[0.07]	[0.44]	[0.36]	[0.43]
NGSEG$_t$	0.001**	0.000	0.000	0.001	0.001	0.001
	[0.03]	[0.76]	[0.37]	[0.35]	[0.56]	[0.46]
AGE$_t$	0.000	0.000	0.000	0.000**	0.000**	0.000
	[0.72]	[0.34]	[0.19]	[0.01]	[0.03]	[0.71]
%INST$_t$	-0.014***	-0.018***	-0.021***	-0.020**	-0.015	-0.015
	[0.00]	[0.00]	[0.00]	[0.01]	[0.16]	[0.15]
BSIZE$_t$	0.000	0.000	0.000	0.001	0.001	0.001
	[0.20]	[0.25]	[0.60]	[0.31]	[0.32]	[0.33]
PPILL$_t$	-0.001	-0.002	-0.002	-0.003	-0.004	-0.002
	[0.41]	[0.24]	[0.16]	[0.33]	[0.31]	[0.60]
%IND$_t$	0.000***	0.000***	0.000***	0.000	0.000	0.000
	[0.00]	[0.00]	[0.00]	[0.22]	[0.93]	[0.61]
DLW$_t$	-0.006***	-0.007***	-0.007***	-0.001	0.000	0.001
	[0.00]	[0.00]	[0.00]	[0.70]	[0.92]	[0.88]
CEOtenure$_t$	0.000	-0.001	-0.001	0.001	0.000	-0.003
	[0.68]	[0.26]	[0.12]	[0.71]	[0.89]	[0.17]
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N observations	2,306	1,665	1,291	2,137	1,527	1,181
Adj. R squared	0.62	0.62	0.59	0.46	0.43	0.46

This table reports the results of the consequence regressions regarding investment decisions. Dependent variables are specified in column headings. All P-values are two-tailed. Fama French 12 industry effects and year fixed effects are included. All the variables are defined in Table 1 Panel C.

Table 7
The Effects of Destaggering on CEO Pay-for-Performance Relation

	Dependent Variable: *Log(CEOCOMP)*					
	AFTER includes all years		***AFTER includes all years after t+1***		***AFTER includes all years after t+2***	
	Destagger firms (1)	***Control firms (2)***	***Destagger firms (3)***	***Control firms (4)***	***Destagger firms (5)***	***Control firms (6)***
Intercept	4.924***	5.325***	5.281***	4.756***	5.677***	4.596***
	[0.00]	[0.00]	[0.00]	[0.00]	[0.00]	[0.00]
AFTER	0.058	0.057	0.028	0.180	-0.099	0.181
	[0.49]	[0.57]	[0.81]	[0.13]	[0.54]	[0.32]
$ROA_{t,t-1}$	2.992***	1.990***	3.797***	1.428***	4.087***	1.969**
	[0.00]	[0.00]	[0.00]	[0.00]	[0.00]	[0.01]
$RETURN_{t,t-1}$	0.628***	0.597***	0.580***	0.612***	0.584***	0.638***
	[0.00]	[0.00]	[0.00]	[0.00]	[0.00]	[0.00]
$AFTER*ROA_{t,t-1}$	-2.636***	-1.409	-3.392***	-0.600	-4.759***	-0.787
	[0.00]	[0.12]	[0.00]	[0.50]	[0.00]	[0.51]
$AFTER*RETURN_{t,t-1}$	-0.282	0.076	-0.412**	-0.088	-0.519**	-0.180
	[0.10]	[0.75]	[0.04]	[0.72]	[0.03]	[0.54]
$CEOtenure_t$	0.095***	0.113***	0.077**	0.192***	0.087**	0.213***
	[0.00]	[0.00]	[0.02]	[0.00]	[0.03]	[0.00]
$SIZE_{t-1}$	0.449***	0.415***	0.430***	0.432***	0.397***	0.430***
	[0.00]	[0.00]	[0.00]	[0.00]	[0.00]	[0.00]
$SP500_t$	0.047	-0.195**	-0.004	-0.285***	0.089	-0.271**
	[0.46]	[0.03]	[0.95]	[0.00]	[0.32]	[0.01]
BTM_{t-1}	-0.585***	-0.876***	-0.593***	-0.688***	-0.655***	-0.521**
	[0.00]	[0.00]	[0.00]	[0.00]	[0.00]	[0.02]
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N observations	1,566	919	1,148	642	901	493
Adj. R squared	0.40	0.42	0.39	0.53	0.38	0.53

This table reports the results of the consequence regressions regarding CEO pay-performance relation. Dependent variables are specified in column headings. All P-values are two-tailed. Fama French 12 industry effects and year fixed effects are included. All the variables are defined in Table 1 Panel C.