

Exploring the Impact of Board Laziness on CEO Succession

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ABSTRACT

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This research analyzes and introduces "board laziness"—a term that describes the level of involvement of a company's board of directors—and its influence on selecting the next Chief Executive Officer (CEO), using 1100 succession events among S&P 1500 firms. Our hypothesis suggests that lazy boards are more likely to appoint an insider CEO than an outsider due to a lower engagement in the hiring process. We ran regressions on proxies separately to understand their connections to our dependent variable and also created the Index using ten laziness proxies. We controlled the size, performance, and industry of the firms. Whereas different tests showed a significant and reliable connection between both proxies, index, and the model, results showed a significant negative relationship between board laziness and the likelihood of hiring an insider CEO, indicating that lazier boards tend to favor outsider CEOs. This finding suggests that lazy boards might prefer outsider CEOs to initiate changes and improvements within the organization. Additionally, our research investigates another layer of corporate governance by examining the potential negative impacts of board laziness on Corporate Social Responsibility (CSR) activities. Both studies highlight the significant correlations between board laziness proxies, firm size, and performance. This study aims to enhance the existing corporate governance literature and provide valuable insights into how a board's involvement can impact hiring decisions and offer fresh views on leadership succession. It also opens windows for future research to explore the effects of external shocks, such as financial crises or scandals, on hiring decisions and to consider additional qualitative factors influencing board behavior and decision-making processes.

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Chapter 1 CEO Succession

1.1 Introduction and Research Goal

Recent studies have shown that the way a company's board of directors behaves and engages can significantly impact both its financial performance and ethical standards. While previous research has tended to examine how board activities directly impact financial performance or strategic decisions, such as sustainability initiatives and overall performance, this study explores the unexplored concept of "board laziness," which encompasses various aspects of board engagement. Our goal is to uncover its influence on crucial executive decision-making, particularly in the process of hiring the next CEO.

Paul (2017) emphasized the positive correlation between active participation in board meetings and firm performance, specifically Return on Assets (ROA) (Paul, 2017). Contrary to the traditional view that separating the roles of CEO and Chairman enhances performance, Pucheta-Martínez and Gallego-Álvarez (2019) found that CEO duality positively impacts firm performance. Additionally, the composition of the board, especially with regard to CSR orientation and diversity, is significantly linked to proactive CSR strategies and higher environmental and social performance (Shaukat et al., 2016). Moreover, larger board sizes are positively associated with firm performance, suggesting the benefits of a various range of perspectives (Zhou et al., 2018). Finally, board effectiveness was found to be crucial for organizational success, highlighting the importance of effective governance (Conheady et al., 2015).

Choosing a new CEO is a critical strategic move for a corporation, influencing both its current state and future direction. The board of directors plays a vital role in this process, with their traits and involvement levels significantly impacting this choice. This research introduces and investigates a less studied aspect of the board that can be described as "board laziness," focusing on how it affects the selection of a new CEO, particularly in terms of choosing an internal or external candidate. Though the previously mentioned studies investigate those aspects individually, "Board laziness" is a term that we want to introduce and use to describe a collection of different measures of board activity and engagement, such as CEO_duality, board makeup, attendance, etc., and is the main variable in this study.

Indexes can be constructed to aggregate multiple dimensions, such as socioeconomic, personal, environmental, and institutional factors, into a more readily interpretable format. This indexing methodology has shown applicability in different fields, such as psychology, environment, and management studies, where several proxies are used to build a main measure, such as job satisfaction (Lawrence et al., 2002). Generally, indexes serve as effective tools for data reduction, allowing for the simplifying of large datasets with several related variables into more manageable forms while preserving critical information content (Senna et al., 2019). This approach facilitates a comprehensive analysis of complex, multifaceted phenomena, like board laziness, by providing a combined representation of different variables. A composite score is a single variable created by aggregating multiple individual variables. This process is grounded in a conceptual framework designed to measure complex, multidimensional phenomena. Such composite indicators are essential for evaluating complex concepts like competitiveness, sustainability, and industrialization, which cannot be adequately represented by a separate metric (OECD, 2008). A

composite score is constructed from individual variables, each assigned a weight that reflects its relative importance (Nardo et al., 2005). Common methods include principal component analysis (PCA), factor analysis (FA), and multiple regression analysis to create these composite scores. In our study, we used the PCA method to create an index of Board Laziness.

The field of corporate governance is continuously evolving and adapting to new challenges and trends, and the way the board operates affects the success of the organization. The aim of this study is to advance the existing corporate governance literature by offering a detailed view of how board engagement influences critical executive decisions such as Hiring the next CEO, and this research will provide valuable insights into how a board's involvement can impact hiring decisions for a CEO and offer fresh views on leadership succession and corporate governance.

In addition to the main analysis, the research will include an extra step to examine the impact of board laziness on the Corporate Social Responsibility (CSR) activities of firms in greater detail. This examination will be presented in an appendix to the main study. In the contemporary business world, Corporate Social Responsibility (CSR) has gained significant popularity, emphasizing the growing responsibility of companies to address social, environmental, and ethical concerns. In this way, this study also seeks to broaden this knowledge by investigating a new aspect to examine how "board laziness" affects a company's performance in CSR. The idea that board laziness could lead to weaker CSR results is an angle that has yet to be deeply examined. By looking at how the involvement level of boards affects CSR actions and strategies, this research also aims to offer fresh perspectives on the connection between corporate governance and social responsibility, resulting in a contribution to the understanding of how the performance of a board influences a company's social and ethical impact.

1.2 Literature Review:

We are conceptualizing **board laziness**, a theoretical context reflecting board members' lack of engagement, effort, and diligence in supervising and overseeing firms' performance as their responsibilities. **Board laziness** includes behaviors and attitudes that result in insufficient oversight, limited participation in strategic decisions, and poor governance practices. Although **board laziness** is a novel term, it can be framed using existing literature on related concepts such as board engagement, effectiveness, and governance. Insufficient engagement in business and strategic oversight is identified as a weakness in current governance models, as highlighted by Vasudev (2014), that boards need to be more proactive and engaged, especially in troubled companies, to achieve better performance. Studying board laziness is important because it can lead to poor governance, increased risk of corporate failure, and a negative impact on firm performance and stakeholder trust. Engaged and active boards are essential for effective oversight and strategic decision-making. By thoroughly understanding and investigating board laziness, organizations can promote a culture of active participation and robust administration, improving corporate performance and maintaining stakeholder confidence. In the past, a lot of studies have been conducted on board governance from different angles, but in our research, we particularly focus on board laziness and its impact on CEO hiring decisions.

One of the most researched areas of board governance is the **board's composition**. Various studies suggest that a board's composition, especially the mix of internal and external members, significantly impacts firm performance. External board members bring valuable perspectives and connections, while internal members offer deep organizational knowledge, both of which are vital for effective governance and strategic decision-making. The composition of a company's board, particularly the balance between external and internal members, plays a crucial role in influencing firm performance. A study by (Barroso et al., 2016) highlighted the interaction between boards' internal and external social capital, finding that internal social capital can strengthen the positive effects of external capital on firm performance. Chiang and Lin (2011) observed that the presence of more outside independent directors is associated with better company performance, emphasizing the benefits of external perspectives in board decisions. Furthermore, boards with a high proportion of outsiders improved firm performance, mainly when these outsiders worked with top managers from outside the industry, underscoring the value of diversity in experience and perspective (Yoo & Kim, 2012). Finally, it has been found that outside directors from innovative firms positively influence the innovativeness of the firms they advise, suggesting that the background of external board members can be a critical factor for firm innovation (Balsmeier et al., 2011). Consequently, a proper combination results in a balance of comprehensive understanding of the organization and novel external perspectives, which results in better strategic decisions such as hiring the next CEO. In our study, we used a ratio of both internal and external directors as a proxy of board laziness as we are suspicious that boards with a higher proportion of insiders might be more likely to hire the next CEO from their current executive members.

The concept of **CEO duality**, where the Chief Executive Officer also holds the position of the Chairman of the Board, has been researched previously, with mixed findings on its impact on firm performance. Alves (2020) found a negative relationship between CEO duality and firm performance, measured by Tobin's Q, in Portuguese firms, suggesting that investors do not favor a concentration of power in dual leadership structures (Alves, 2020). Duru et al. (2016) reported that CEO duality has a significant negative impact on firm performance in U.S. firms. However, this effect is positively moderated by board independence. Yang and Zhao (2014) presented a different perspective, finding that firms with CEO duality outperformed the firms without this structure when faced with an external shock to their competitive environment, suggesting the benefits of CEO duality in specific circumstances (Yang & Zhao, 2014). Rashid (2010) found a negative but nonsignificant relationship between CEO duality and firm performance in Bangladesh, indicating that the impact of CEO duality might be different across different industries and contexts (Rashid, 2010). According to Tang (2017), the impact of CEO duality on firm performance is dependent on internal governance factors. When the CEO holds more power than the other executives, a negative effect is observed (Tang, 2017). Considering the importance of this aspect, it seems crucial to take a closer look into it in our study. So we used CEO duality as another proxy of board laziness because We believe that this concentration of power can reduce board independence, cause a dominant leadership, and decrease directors' intention and involvement in managerial decisions such as hiring a CEO.

The *attendance of board members at meetings* has previously been identified as a factor affecting firm governance and performance. A study on accounting firms proposed using board attendance as a measure of board supervisory quality and found that higher board attendance

enhances firm accounting performance, suggesting a correlation between diligent board supervision and better corporate outcomes (Lin et al., 2014). Another study similarly found a significant positive correlation between attendance in board meetings and Return on Assets (ROA) for firms in the FMCG sector, indicating that active participation in meetings is an indicator of suitable monitoring activities by the board (Paul, 2017). We used attendance as another proxy of laziness as it might show the level of involvement and dedication of board members in managerial decisions.

The *number of board members* has been shown to impact board decisions in various studies. A study that focused on smaller firms with poor operating performance found a positive correlation between increases in board size and share price performance, suggesting that larger board sizes can be beneficial in specific contexts (Larmou & Vafeas, 2010). While the number of board members can influence firm performance, some studies have shown that there is an optimal number of members for boards, and it may vary based on the specific context and needs of the firm. For example, (Boussenna, 2020) conducted a study on nonfinancial French firms listed on the CAC 40, finding a positive effect of board size on firm performance. The study suggests that an optimal number of board members, between 13 and 17, is beneficial for achieving good performance. On the other hand, Coerver and Byers (2012) argued that large boards could lead to inefficiencies, suggesting that a smaller board size, ideally no more than five members, could lead to more effective decision-making. Such contrasts indicate a need for additional research on board size and how it affects the board's performance and decisions. Consequently, we employed board size as an indicator of board laziness, as Larger boards can suffer from free-riding issues, where

some directors might contribute less, leading to increased board laziness and lower overall effectiveness (Jensen, 1993).

The *percentage of shares held by board members* is another factor that might have an impact on board decisions and outcomes. This subject has been investigated in several studies. A study that explored the effects of board capital, including managerial share ownership, on firm performance, found that managerial share ownership positively affects performance and that board capital strengthens this positive relationship, indicating the influence of stock ownership on board decisions and firm outcomes (Jeremias & Gani, 2014). However, a study on board structures and ownership in Indian firms discovered a significant negative association between controlling shareholder board membership and firm performance, suggesting that the concentration of shares in the hands of board members can impact board decisions and, consequently, firm performance (Jameson et al., 2014). These findings made us believe that the number of shares held by directors directly affects board decisions and performance and might be another piece of the puzzle when hiring the next CEO.

Recent studies have also explored the impact of the *age of board directors* on board decisions. For instance, research by Liao et al. (2011) highlights the importance of directors' age due to their higher experience in enhancing the performance of a corporation. The study focused on 863 listed companies from the Japanese manufacturing industry, and their findings indicate that there is a significant positive correlation between the average age of board members and corporate performance. In the corporate governance area, older directors were found to show poor board meeting attendance and weaker oversight in critical board functions. However, they provided valuable advisory services (Masulis et al., 2019). On the other hand, Nakano and Nguyen (2011)

indicated that older boards were negatively related to firm performance, suggesting that older directors may be more risk-averse and conservative, which could influence strategic and risky decisions. These findings made us suspicious that age might be another factor that affects big and risky decisions such as hiring a CEO.

The *number of independent directors* on a board also impacts board decisions. Although it is widely agreed in corporate governance that having more independent directors can improve the board's capacity to make unbiased decisions, the actual situation is more complex. Although independent directors are expected to remain impartial, they can still be persuaded by influential board members such as the CEO or chairman. This is particularly true when these individuals have considerable power over the appointment and compensation of directors. This influence can appear in various forms, from psychological manipulation to the creation of personal loyalties, which may ultimately compromise the independent judgment of these directors.

Further, the presence of independent directors does not always translate to better board decision-making. In some cases, these directors might form their own interest groups within the board, prioritizing their personal or collective interests over those of the company or its shareholders. This concern can be particularly problematic in situations where there is not adequate monitoring of the director's compensation, which might make them feel less involved and, hence, lazy (Bebchuk & Hamdani, 2017).

The effect of *directors holding multiple directorships* on the boards' performance is another aspect that might need to be investigated. An analysis was conducted on the effectiveness of independent directors who hold positions on several boards. This was done to measure their level of information and skill. Cook and Wang (2011) Found that multi-firm directors perform

better than single-firm directors, indicating that multiple directorships might contribute to exceptional ability rather than just better information. On the other hand, another study by (López et al., 2014) found a nonlinear relationship between multiple directorships and firm performance in Spanish-listed firms. They claim that serving on multiple boards may have both a reputation effect, where directors gain more skills and incentives, and a dedication effect, where having too many directorships can overwhelm their ability to perform their duties effectively. This made us suspect that multiple directorships may make directors spend less time on each board, which could potentially lead to increased laziness.

Building on the insights gained from the literature review, we believe board activities and engagement, conceptualized as "board laziness," might play a significant role in the process of Hiring the next CEO. We believe that if the board is lazy, it tends to hire an insider CEO. The rationale behind this is that lazy boards might lean towards internal candidates due to their familiarity with the company's operations and culture, reducing the perceived risk and effort involved in the selection process. Considering all the mentioned reasons and examples, the main hypothesis of this study is:

Hypothesis1: If the board is lazy, it tends to hire an insider CEO.

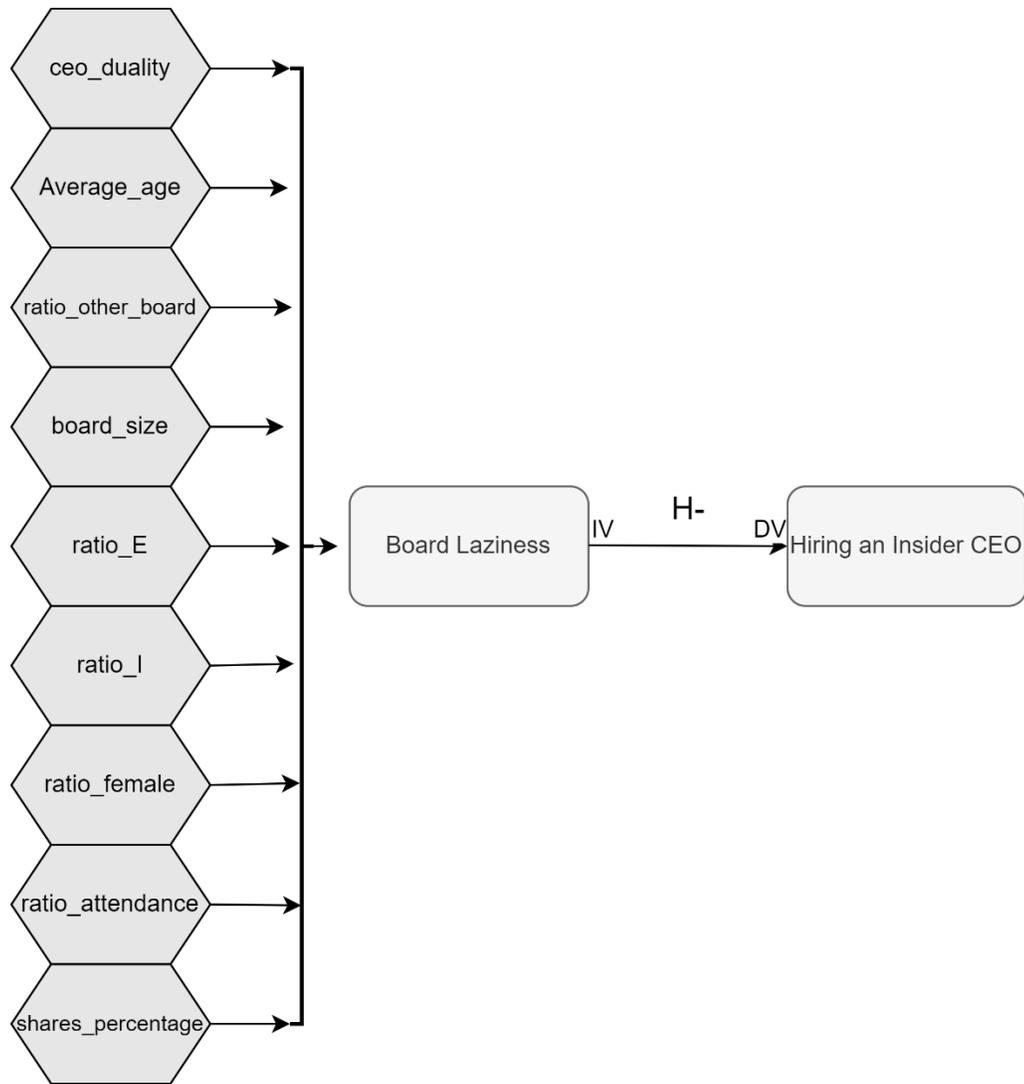


Figure 1 The Research Model Flowchart

1.3 Methods and Analysis

Data Sources and Sample

The data collection process involved several steps to ensure that the research objectives were met effectively. The main firms' board data for my research is obtained from the Compustat and Institutional Shareholder Services (ISS ESG) libraries available on the Wharton Research Data Services (WRDS) platform. The ISS ESG database, which is accessible on the WRDS platform, provides rich data on corporate governance, sustainability, and board characteristics. It is a key resource for researchers studying the dynamics of the board of directors and their influence on company performance. The ISS ESG dataset includes detailed information on individual board members, such as their age, gender, classification (employee or independent), number of other public boards served on, shares held, and attendance records. This level of information and details allows for a comprehensive analysis of how individual board member characteristics might influence overall board behavior and firm outcomes.

The Compustat database provides comprehensive financial and market data on publicly traded companies. It offers detailed firm-level information such as financial performance and ratios, valuation and efficiency ratios, and fundamental financial information. This data is essential for analyzing corporate performance and understanding the financial context within which governance decisions are made.

Initially, we had a sample of 1600 CEO turnover events among S&P 1500 firms. However, due to issues with dataset identifiers and missing governance data for some firms, we were able to obtain complete governance-related data for only 1,063 of these observations, as you can see in the 1-1. The missing data and mismatched identifiers resulted in a reduction of usable cases, which is a common challenge in empirical research involving large datasets.

		N	Marginal Percentage
SIC	1	66	6.2%
	2	183	17.2%
	3	384	36.1%
	4	73	6.9%
	5	158	14.9%
	6	36	3.4%
	7	119	11.2%
	8	39	3.7%
	9	5	0.5%
Valid		1063	100.0%
Missing		0	
Total		1063	

Table 1-1 Case Summary

In our study, the Turnover (CEO change) is considered to occur at time T. All variables related to directors are measured for the year prior to the CEO change (T-1). This alignment is essential because it allows for a comprehensive analysis of the board's behavior over the entire year leading up to the CEO turnover. Specifically, it enables us to evaluate the "laziness" of the board during this period and assess its impact on the new CEO's hiring decisions from either insiders or outsiders.

By analyzing the directors' characteristics and behaviors during the preceding year to the CEO turnover, we can capture a complete picture of the board's functioning and performance. This includes their attendance at meetings, engagement levels, and overall governance practices, which are crucial for assessing board "laziness."

This attitude also ensures that we capture the state of the board prior to the CEO turnover event. This pre-event context is crucial because it reflects the environment in which the decision to replace the CEO was made.

Variable	Description	Source
Age	The director's age is one year prior to the turnover.	ISS ESG
Classification	A director's affiliation to the company is categorized as Employee (E) or Independent (I).	ISS ESG
gender	Indicates whether the director is female.	ISS ESG
Outside_Public_Boards:	The number of other public U.S. company boards that the director serves on at the time of the meeting.	ISS ESG
Shares Held	The percentage of company shares held by the director.	ISS ESG
Attend_LESS75_PCT	Indicates if the director attended less than 75 percent of board and committee meetings.	ISS ESG
Chairman	Indicates whether the director holds the chairman position.	ISS ESG
CEO	Indicates whether the director holds the CEO position.	ISS ESG
ROE	Return on Equity	Compustat
P/E (Diluted)	Price-to-Earnings, excl. Extraordinary Items (diluted)	Compustat
SIC	Standard Industrial Classification	Compustat
employees	Total number of employees	Execucomp

Table 1-2 Variable Names, Descriptions, and Sources

Methods

This study employs a quantitative research approach to investigate the impact of "board laziness" on CEO hiring decisions. Using a range of measures related to board activities and characteristics, the research aims to provide results on how Board Laziness affects the next CEO's hiring, which is a critical corporate decision. In our quantitative study, several proxies will be used to assess the concept of "board laziness" and its impact on CEO hiring. Since our research focuses on the firm level, we also developed a method to aggregate individual-level data into firm-level measures.

Dependent Variable

The dependent variable in our study is whether the new CEO is hired among insiders or outsiders. This variable, labeled as "Insider4," is binary and has a value of 0 or 1. A value of 1 indicates that the hired CEO is an insider, which means that the individual has previous experience as part of the organization's executive team or has been significantly involved with the company in the past. Conversely, a value of 0 indicates that the hired CEO is an outsider, meaning the individual is hired from outside the organization with no prior affiliation.

Independent Variables

Board laziness as described in section 1.2, leads to poor oversight, minimal strategic participation, and ineffective governance. Although novel, it aligns with existing research on board engagement and effectiveness. The case of Nortel Networks underscores the need for proactive board involvement, especially in troubled companies (Vasudev, 2014). Studying board laziness is

crucial as it can cause poor governance, corporate failure, reduced firm performance, and stakeholder trust, as well as their tendency toward hiring a new CEO from insiders. To operationalize the concept of board laziness, we developed a set of proxies using specific variables for some of our measures. These proxies allow us to quantify and analyze the extent of board laziness in a systematic manner.

1. CEO Duality

Research indicates that CEO duality, as described in section 1.2, can have negative effects on board effectiveness and firm performance by undermining the board's ability to effectively monitor the company. According to Duru et al. (2016), CEO duality has significant negative impacts on firm performance and is moderated by board independence. We believe that this concentration of power can reduce board independence, diminish oversight, and decrease directors' intention and involvement in managerial decisions. We obtained the binary 'Ceo_duality' by comparing the CEO and Chairman in each and having the content of 1 for the presence of duality and 0.

2. Age of Directors

The age of directors can impact their risk tolerance, energy levels, and involvement in making important and risky decisions such as CEO hiring. Older directors might be more experienced but could also be less proactive and innovative. There is evidence suggesting that age diversity within boards can affect firm performance, either positively or negatively, depending on the context. According to Masulis et al. (2019), older directors exhibit poorer attendance at board meetings and are less likely to serve on key committees, which affects board effectiveness

negatively, and also, the performance of firms with older boards tends to be less favorable (Nakano & Nguyen, 2011). In our study, the average age of board members, which we calculated based on the **age variable, is used as another proxy for** board laziness.

3. Percentage of Shares Held by the Director

Directors who hold a significant number of company shares are more likely to have their interests more aligned with the interests of the shareholders. This ownership can motivate directors to be more active and engaged in their supervisory roles. Conversely, low share ownership might indicate less commitment and potential laziness. Some studies show a positive relationship between director shareholding and firm performance and also a strong positive impact of board ownership on operating performance, indicating the importance of equity stakes for active board participation and enhancing board effectiveness by aligning directors' interests with shareholders (Chatterjee, 2009; Cosh et al., 2005). This percentage is calculated by dividing the average number of shares held by directors by the total number of shares for each firm. That gives us the total percentage of the total shares of a firm held by each board member.

4. Director's Affiliation to the Company

We categorized Directors based on their affiliation with the company: Employee (E) or Independent (I). As suggested by studies, The presence of independent directors is positively associated with firm performance due to their objective oversight and lack of conflicts of interest. Also, effective governance is often linked to the proportion of independent directors, as they provide unbiased oversight and enhance decision-making processes (Conheady et al., 2015; Duchin et al., 2009). So, Independent directors are generally viewed as more objective and less

influenced by internal politics, which can enhance board effectiveness. Employees or linked directors may have conflicts of interest, reducing their effectiveness and increasing the signs of laziness. In our study, we calculated the ratio of director affiliations across two distinct groups, which we have designated as ratio_E and ratio_I. These ratios represent the proportion of affiliations that directors have within each group, allowing us to analyze the distribution and prevalence of director affiliations in a structured and quantitative manner. These ratios are calculated by taking the number of director affiliations in each Group and dividing it by the total number of affiliations across all groups. This provides insight into how concentrated the board is within each particular group.

5. Board Gender Composition

Gender diversity on boards is argued to enhance board effectiveness through diverse perspectives, improved decision-making, and enhanced governance practices. The presence of female directors can lead to more rigorous oversight and better alignment with stakeholder interests, which might mitigate issues related to board laziness.

Gender diversity has been shown to positively affect firm performance as explained in the literature review. Boards having about 30% of women directors, demonstrate higher firm performance, indicating that gender diversity contributes positively to board effectiveness (Campbell & Mínguez-Vera, 2008; Joecks et al., 2013). In our study, we examined the gender composition of boards by calculating the ratio of female directors. We first counted the total number of women serving on each board using the variable 'gender'; then, we calculated the ratio of female directors (Ratio_female) by dividing the number of female directors by the total number of directors.

6. Busy Boards

Directors who serve on multiple boards may have broader experience and networks, but they may also face time constraints and divided attention, leading to less effective oversight and increased laziness on individual boards. Holding multiple board seats can compromise a director's ability to perform monitoring duties effectively. Directors with multiple commitments tend to serve on fewer board committees and are less likely to be actively involved in each board's governance activities, potentially leading to higher board laziness (Jiraporn et al., 2009). In our study, we identified "Busy Boards" by calculating the ratio of directors who hold three or more seats on other public companies' boards to the total number of board members. This approach follows the methodology established by Fich & Shivdasani (2006). We first identified all the directors who hold three or more seats on the boards of other public companies using the variable 'Outside_Public_Boards' and then calculated the 'Busy_Board' ratio by dividing the number of directors sitting on three or more boards by the total number of board members.

7. Board Meetings Attendance

Attendance at board meetings is a direct measure of a director's involvement and participation. Directors' poor attendance can indicate a lack of commitment and engagement, which is a key aspect of board laziness. Studies show that directors with poor attendance at board meetings are less effective in their oversight roles, and this poor attendance correlates with weaker firm performance. Additionally, Regular attendance at board meetings is positively associated with better governance outcomes and improved firm performance, highlighting the importance of active participation (Adams & Ferreira, 2008; Masulis et al., 2019). Board behavior is mostly hidden, but U.S. publicly listed companies must reveal directors' board meeting attendance records in their

annual proxy statements. The disclosure is restricted to indicating if a director attended less than 75% of the board meetings during a fiscal year. We gather board meeting attendance data from the ISS database for all independent directors. Using a previously established methodology by Masulis et al. (2019), we used the ‘Attend_less75_pct’ variable to identify directors who attended less than 75% of the meetings in a given year, set to one if attendance is below 75% and zero otherwise. Then, we created the ‘ratio_attendance’ by dividing the number of ones by the total number of directors.

8. Board Size

The size of the board can influence its effectiveness. Larger boards might benefit from a wider range of skills and perspectives but can also suffer from coordination problems and reduced accountability, potentially decreasing involvement and increasing laziness among directors. According to Lipton & Lorsch (1992), smaller boards are generally more effective due to easier coordination and stronger individual accountability, which enhances decision-making and oversight. On the other hand, Larger boards can suffer from free-riding issues, where some directors might contribute less, leading to increased board laziness and lower overall effectiveness (Jensen, 1993). Thus, we employed ‘board_size’ as another proxy of laziness by counting the total number of board members for each specific year.

Control Variables

It is also important to control some variables to ensure a comprehensive analysis of this relationship. The firm size influences governance practices. Larger firms may have more formal

and complex procedures for hiring executives, while smaller firms might rely more on personal networks and relationships. By controlling for firm size, we can isolate the effect of board behavior on CEO hiring decisions from the other effects that might be due to the firm's scale, such as more exposure to the media. Therefore, we used the **total number of the firm's employees** as an indicator of firm size. We used the natural log of the number of employees as recommended by Kaen & Baumann (2003).

We also used another size control, the Total Assets of the firm, in order to increase the robustness of the study. In financial analysis, transforming total assets into their logarithmic values is a common method to prevent data skewness and stabilize variance. This approach helps normalize the data, facilitating more reliable statistical analyses and what's more, enhancing comparability across firms of different sizes. Log transformation helps to normalize data and reduce the impact of outliers by compressing the range of values. This is particularly useful when dealing with financial data, where total assets can vary greatly between firms (Bhattacharyya & Morrill, 2015).

Since different industries value different qualities in CEOs, industry norms and competitive environments also impact hiring decisions. Different industries have varying norms, competitive environments, and regulatory constraints, which can affect hiring practices. Controlling for industry helps us ensure that our study's findings are not too influenced by industry-specific factors and are more generalizable. In this study, we used **Standard Industrial Classification (SIC)** to categorize our firms in different industries 1 to 9.

To ensure a comprehensive analysis, we have incorporated some financial variables as performance controls into our study. This decision is based on the hypothesis that better-performing firms are more likely to retain insiders on their boards as Insiders possess firm-specific

knowledge that is valuable for navigating complex business environments and making informed decisions. This information aims to project the overall performance of the firms, which may influence firms' decisions in hiring the new CEOs. In our research, we used **Return on Equity (ROE)**, which is an important indicator of a firm's profitability relative to shareholders' equity. It measures how effectively management is using the firm's assets to generate profits. Studies have shown that higher ROE is associated with better management performance and is a strong predictor of firm success (Ahsan, 2013).

Indexes can be constructed to aggregate multiple dimensions, such as socioeconomic, personal, environmental, and institutional factors, into a more readily interpretable format. This indexing methodology has been shown to be applicable in different fields, such as psychology, environment, and management studies, where several proxies are used to build a main measure, such as job satisfaction (Lawrence et al., 2002). Generally, indexes serve as effective tools for data reduction, allowing for the simplifying of large datasets with several related variables into more manageable forms while preserving critical information content. This approach facilitates the comprehension and analysis of complex, multifaceted phenomena, like board laziness, by providing a consolidated representation of diverse variables. A composite score is a single variable created by aggregating multiple individual variables. This process is grounded in a conceptual framework designed to measure complex, multidimensional phenomena. Such composite indicators are essential for evaluating complex concepts that cannot be adequately represented by a separate metric (OECD, 2008). A composite score is constructed from individual variables, each assigned a weight that reflects its relative importance (Nardo et al., 2005). The commonly used method to create these

composite scores is principal component analysis (PCA) or factor analysis (FA). In our study, we used the PCA method to create an index of Board Laziness.

1.4 Results and Discussion

Correlation Analysis

The correlation matrix (Table 1-6) presents Pearson correlation coefficients among board laziness proxies and the control variables. The average age of board members shows a positive correlation with total assets ($r = 0.147, p < 0.01$), implying that larger firms usually have older board members. Additionally, there is a strong positive correlation between board size and total assets ($r = 0.604, p < 0.01$), indicating that larger firms often have larger boards as well. Furthermore, the gender ratio is positively correlated with total assets ($r = 0.277, p < 0.01$), indicating that bigger firms usually take gender composition more into consideration. The gender ratio (ratio_female) has a significant positive correlation with the ratio of internal members (ratio_I) ($r = 0.222, p < 0.01$), suggesting that boards with a higher female ratio are associated with a higher proportion of independent board members. Board size is positively correlated with ROE ($r = 0.115, p < 0.05$), suggesting that larger boards are associated with better financial performance.

Significant positive correlations are observed between total assets and several variables, including CEO duality, average age, gender ratio, and board size, all at the 0.01 significance level. This underscores the relationship between a firm's size and its governance structure. The positive correlations between CEO duality and both board size and total assets suggest that larger firms

might be more inclined to consolidate leadership roles, possibly due to the hierarchical structure of bigger firms and the need for more power concentration on the highest level. Additionally, the positive correlation between board size and ROE indicates that having a larger board might contribute to better financial oversight and performance.

The next step, before aggregating our laziness proxies and creating an index, is to find out if the medians of laziness proxies show a significant difference for firms that hired insiders compared to those that hired outsiders. Since the values of a continuous variable that we are comparing between groups (firms hired insiders versus outsiders) are not normally distributed in each of the groups, we use the Mann-Whitney U test, which is a non-parametric test. The Mann-Whitney U test is helpful in identifying differences in the distributions of two independent groups, and it provides a way to determine whether there is a significant difference between our two groups (Janković, 2022).

According to the model fitting table (Appendix 2), the results for `ratio_female` showed a Mann-Whitney U value of 117019.000, a Z value of -1.854, and a Sig. of 0.064. This p-value is slightly above the conventional 0.05 threshold, suggesting that the difference in the median proportion of female board members between firms with insider and outsider CEOs is not statistically significant at the 5% level. For CEO_duality, the value was 113554.500, with a Z value of -3.211 and a Sig. of 0.001, which indicates a significant difference in the median CEO duality between firms that hired insider and outsider CEOs. The variable `avg_age` had a value of 110405.000, a Z value of -3.234, and a Sig. of 0.001, which also shows a significant difference. For Board_size, the value was 100445.000, with a Z value of -5.390 and a Sig. of less than 0.001. This highly significant p-value indicates a significant difference in the median.

Lastly, for `shares_percentage`, the = value was 115501.500, with a Z value of -2.154 and a Sig. of 0.031, which also shows a significant p-value, indicating that the ownership stakes differ between firms hiring insider versus outsider CEOs. These findings suggest that the source of the CEO (insider vs. outsider) is associated with distinct proxies of laziness, and these proxies can be suitable for creating an Index of board laziness.

Creating Laziness Index

To have a better understanding of how our proxies individually are related to hiring decisions and contribute to our model, we ran individual regressions with the presence of our controls. The binary logistic regression analysis (Table 1-4Table 1-5 Table 1-5) reveals that CEO duality, average age of board members, ratio E, and board size significantly influence the decision to hire an insider CEO. Ceo_duality changes from significant to insignificant and vice versa for the board_size. When significance shifts upon the inclusion of other IVs in a regression model, it suggests that the relationship between the IV and the DV is influenced by the presence of other variables. This can

		Observed	
Step 0	insider4	0	355
		1	708

Table 1-3 Observations Classification Table

be due to multicollinearity and suppressor effects. Although the significance shows the extent to which the proxy is related to the model, it also shows the need to minimize the correlation between proxies

before running regression and creating an index. These findings provide support for the proxies that we want to employ in creating the index.

	Individual_reg.
1.ceo_duality	1.425*
2.avg_age	1.038*
3.ratio_E	16.042**
4.ratio_female	0.417
5.ratio_other_board	0.661
6.ratio_attendance	1.19
7.Board_size	1.067
8.ROE	4.47**
9.SIC	Sig.**
10.shares_percentage	1.103
11.Log_emp	1.266**
12.Log_AT	1.29**

** Correlation is significant at the 0.01 level.

* Correlation is significant at the 0.05 level.

Table 1-4 Individual Regression Results

	All_reg.
1.ceo_duality	1.190
2.avg_age	1.04*
3.ratio_E	22.14**
4.ratio_female	0.618
5.ratio_other_board	0.937
6.ratio_attendance	0.714
7.Board_size	1.098*
8.ROE	3.622
9.SIC	Sig.**
10.shares_percentage	1.037
11.Log_emp	1.150
12.Log_AT	1.074

** Correlation is significant at the 0.01 level.

* Correlation is significant at the 0.05 level.

Table 1-5 Regression Results for all variables in one equation.

Table 1-6 The correlation analysis results

	1	2	3	4	5	6	7	8	9	10	11	12
1.ceo_duality	--											
2.avg_age	0.036	--										
3.ratio_E	-0.011	-.172**	--									
4.ratio_female	.092**	-0.038	-.198**	--								
5.ratio_other_board	.070*	.129**	-.380**	.174**	--							
6.ratio_attendance	0.035	-0.031	0.015	-0.024	-0.024	--						
7.Board_size	.158**	.113**	-.238**	.276**	.303**	.096**	--					
8.ROE	.105**	-0.007	-0.033	.126**	.072*	0.035	.115**	--				
9.SIC	-.072*	-.150**	0.052	0.042	-.097**	-0.012	-0.018	-0.039	--			
10.shares_percentage	-.076*	-0.004	.351**	-.117**	-.266**	-0.009	-.247**	0.003	.061*	--		
11.Log_emp	.158**	.060*	-.119**	.309**	.344**	0.058	.554**	.171**	.136**	-.153**	--	
12.Log_AT	.166**	.147**	-.233**	.277**	.413**	0.043	.604**	.102**	-.066*	-.302**	.704**	--

** Correlation is significant at the 0.01 level.

* Correlation is significant at the 0.05 level.

Principal Component Analysis (PCA) is a method used to simplify complex datasets by transforming them into a set of linearly uncorrelated variables called principal components. This technique is particularly useful in fields where researchers often deal with datasets containing multiple interrelated variables. PCA can be used to aggregate multiple variables into a single index. This is done by using the principal component scores as weights to create a composite index (Vyas & Kumaranayake, 2006). Standardizing our laziness proxies to z-scores before performing the analysis ensures that each variable contributes equally to the principal components. This standardization process is crucial because PCA is sensitive to the scale of the variables. By using z-scores, we eliminate the influence of differing units and magnitudes.

As you can see in the statistics report (Appendix 3), each of the nine laziness proxies was standardized to have a mean of zero and a standard deviation of one. Moreover, we reverse-coded the variables that we believe have a negative contribution to laziness, such as the ratio of females on the board, the ratio of independent directors, and the percentage of shares held by directors, which might decrease laziness in boards as it appears in proxies correlation table (Appendix 4). The next step is to perform PCA analysis. Firstly, we computed the eigenvalues of the covariance matrix. Eigenvalues represent the variance explained by each principal component. As you can see in the table of total variance explained (Table 1-7), there are nine different components that are ranked by the amount of variance they explain. Also, the scree plot (Figure 2) helps visualize the eigenvalues. At the point where the slope of eigenvalues starts to level off, components to the left of this point are usually retained.

Total Variance Explained

Component	Total	Initial Eigenvalues		Extraction Sums of Squared Loadings		
		% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.566	28.515	28.515	2.566	28.515	28.515
2	1.240	13.780	42.296	1.240	13.780	42.296
3	1.028	11.425	53.721	1.028	11.425	53.721
4	.985	10.949	64.671			
5	.885	9.830	74.500			
6	.784	8.707	83.207			
7	.689	7.651	90.858			
8	.547	6.074	96.933			
9	.276	3.067	100.000			

Extraction Method: Principal Component Analysis.

Table 1-7 Total Variance Explained

Additionally, the coefficient matrix (Table 1-8) contains the loadings of each variable on the principal components. Each cell in the matrix represents the weight (loading) of a variable on a principal component, indicating the strength and direction of the contribution of each variable. As you can see, all the proxies of laziness, except for the ratio_attendance, have a strong positive and a negative coefficient, which means our proxies contribute significantly to the principal component, which is the laziness index. Based on these results, as some variables increase (ceo_duality, Average age, ratio_other_board, board_size, ratio_E), the score of the principal component (Laziness Index) increases and for the rest decreases, respectively. We can see that the proxies impact the laziness index both negatively and positively, which is aligned with our theory and expectations.

Component Matrix^a

	Component		
	1	2	3
Zceo_duality	.153	.540	.241
Zavg_age	.270	-.223	.826
Zratio_other_board	.664	.033	.057
Zratio_attendance	-.047	.485	.246
ZBoard_size	.494	.575	.115
Zshares_percentage	-.594	-.055	.196
Zratio_E	.799	-.244	-.011
ZRatio_I	-.784	.376	.058
ZRatio_Female	-.420	-.358	.411

Extraction Method: Principal Component Analysis.

a. 3 components extracted.

Table 1-8 Component coefficients Matrix

The next step is to create the final index. To create an index, researchers typically select the first principal component (or a combination of the first few) and use its scores as weights to aggregate the original variables into a single composite index. Considering the cumulative variance explained by the first three components, which explain a significant portion of the variance (53.72%), using the first component is justifiable in our study. The variable FAC1_1, which is the result of the PCA process, contains the scores for the first principal component for each observation. These scores can be used directly as the index since they represent the weighted sum of the original laziness variables according to their loadings on component 1. The scores (FAC1_1) are already a standardized linear combination of our proxies, weighted by the loadings. They inherently account for the variance explained by PC1, effectively summarizing the laziness contributors into a single measure that we can use for further analyses.

Correlations

	FAC1_1	log_emp	SMEAN (log_AT)	roe	SIC
FAC1_1	--				
log_emp	.351**	--			
log_AT	.495**	.704**	--		
roe	.092**	.171**	.102**	--	
SIC	-.092**	.136**	-.066*	-.039	--

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Table 1-9 Laziness Index Correlation Table

There is a moderate positive correlation between our two size controls (Table 1-9), the number of employees (log_emp, 0.351, $p < 0.001$), and the total assets (log_at, 0.495, $p < 0.001$) with the laziness index (FAC1_1). This suggests that larger firms tend to have higher laziness scores. This could imply that as firms grow larger, the propensity for board laziness increases, potentially due to increased bureaucracy or diffusion of responsibility. Also, larger firms may have more formal and complex procedures that reduce the responsibility and authority. The return on equity (ROE, 0.092, $p = 0.003$), while significantly correlated with the laziness index, has a very weak positive correlation. This indicates that performance, as measured by ROE, has a minimal but statistically significant impact on the laziness index. High-performing firms might experience a slight increase in laziness, potentially due to complacency and self-satisfaction.

Regression

Lastly, we performed a binary logistic regression on our index as the independent variable and the Insider/outsider hired CEO as the dependent variable in the presence of our controls. Logistic regression is specifically designed for situations where the dependent variable is binary (0/1), representing two possible outcomes. For our model with a binary dependent variable, logistic regression is the most suitable approach.

In terms of the model itself (Appendix 5), the -2 Log Likelihood value of 1263.317 indicates a relatively good fit when compared to the intercept-only model. The Cox & Snell R Square and Nagelkerke R Square values suggest that the model explains 8.2% and 11.4% of the variance in the dependent variable, respectively. The Hosmer and Lemeshow test, with a chi-square value of 5.474 and a p-value of 0.706, indicates that the model fits the data well, as there is no significant difference between observed and predicted values. These metrics all indicate that the model fits the data adequately.

		B	S.E.	Wald	df	Sig.	Exp(B)
binary Logistic regression	FAC1_1	-.185	.080	5.314	1	.021	.831
	ROE	1.273	.329	14.983	1	<.001	3.573
	log_emp	.201	.075	7.240	1	.007	1.222
	log_AT	.119	.079	2.248	1	.134	1.126
	SIC			24.005	8	.002	
	Constant	-.372	.650	.328	1	.567	.689

Table 1-10 The Binary Logistic Regression Result for the Laziness Index

In interpreting logistic regression results, the odds ratios ($\text{Exp}(B)$) are the exponentiation of the coefficients, representing the factor by which the odds of the DV occurring change for a one-unit change in the IV or control variable. A p-value less than 0.05 typically indicates statistical significance.

For our main Index (Table 1-10), the board laziness (FAC1_1), $\text{Exp}(B) = 0.831$ with $\text{Sig.} = 0.021$, means that for each unit increase in the laziness index, the odds of hiring an insider CEO decrease by 16.9%, and this effect is statistically significant. For the firm size (\log_emp), $\text{Exp}(B) = 1.222$ with $\text{Sig.} = 0.007$ means that for each unit increase in the log of the number of employees, the odds of hiring an insider CEO increase by 22.2%, and this effect is significant. The second size control, the log of total assets (\log_AT), with $\text{Sig.} = 0.134$, is not statistically significant.

Due to more exposure to the public, media, and regulators, larger firms are more likely to hire their next CEO from insiders because they often prioritize risk avoidance, stability, and deep organizational knowledge, which they typically can find in internal candidates. Insiders are already familiar with the firm's culture, processes, and strategic goals, reducing the learning curve and potential disruption associated with such major leadership transitions. Additionally, larger firms typically have established succession plans and dedicated committees that actively train internal candidates for top executive roles, ensuring that qualified insiders are ready to step into the CEO position.

For the performance control, Return on Equity (ROE), $\text{Exp}(B) = 3.573$ with $\text{Sig.} < 0.001$ means that for each unit increase in ROE, the odds of hiring an insider CEO increase by 257.3%, and this

effect is highly significant. Firms that have a good performance are more likely to hire their next CEO from insiders because successful firms often seek to maintain their current path and avoid the risks associated with leadership change. By promoting an internal candidate, they take advantage of the insider's deep organizational knowledge and proven success, ensuring that the strategies and policies that have contributed to their strong performance are maintained. The continuity provided by an insider helps sustain investor confidence and stakeholder relationships, reinforcing the firm's stability and ongoing success.

Similarly, the significance of the Standard Industrial Classification (SIC) indicates that industry classification has a significant effect on the likelihood of hiring an insider CEO. Since different industries value different qualities in CEOs, industry norms and competitive environments also impact hiring decisions. Different industries have varying norms, competitive environments, and regulatory constraints, which can affect hiring practices.

Marginal Effect

Marginal effects translate the results from a regression model into a more interpretable format, showing the effect of a one-unit change in an independent variable on the probability of the outcome. In non-linear models like logistic regression, the relationship between predictors and the outcome is not constant. While coefficients in logistic models indicate changes in log odds, these can be difficult to interpret. Marginal effects can vary depending on the levels of other variables, capturing these small differences better than coefficients. Marginal effects convey the impact in

terms of probabilities, which are more intuitive. First, we computed predicted probabilities (P), and then calculated the marginal effect using the following formula:

$\beta \times P \times (1 - P)$ in which β is the regression coefficient for our index, and P is the predicted probabilities.

According to Table 1-11, the minimum marginal effect is -0.0463, and the maximum is -0.0027.

This range suggests that the effect of the independent variable on the probability of the dependent

		Statistic	Bootstrap ^a			
			Bias	Std. Error	95% Confidence Interval	
					Lower	Upper
Marginal_Effect	Minimum	-.0463				
	Maximum	-.0027				
	Mean	-.037854	.000001	.000268	-.038363	-.037334
	Std. Deviation	.0086596	-.0000042	.0002313	.0081979	.0091067
Valid N (listwise)		1063	0	0	1063	1063

a. Unless otherwise noted, bootstrap results are based on 1000 bootstrap samples

Table 1-11 The Laziness Index Marginal Effect Statistics

event varies but is consistently negative across all observations. Also, the mean marginal effect is -0.037854. This negative value indicates that, on average, a one-unit increase in the Laziness index results in a decrease in the probability of the dependent event by approximately 3.78%. This suggests that higher values of the Laziness index is associated with a lower likelihood of Hiring an insider CEO. The standard deviation of 0.008 shows the extent of variability in the marginal effects across the sample. This small standard deviation suggests that the marginal effects are fairly consistent across observations.

The standard error of the mean (SE) in the context of marginal effects represents the precision of the estimated average marginal effect. Based on the method by (Moroney, 2023), we can use the

standard error to test if the mean marginal effect is significantly different from zero. The test statistic (z-value) is calculated as $z = \frac{\text{Mean Marginal Effect}}{SE}; \approx -141.25$

The P-value is calculated by $p - \text{value} = 2 \times (1 - P(Z < |z|))$, and since the probability $P(Z < |z|)$ is nearly 1, and the marginal effect is highly significant (almost zero).

Aligned with our regression results, The analysis shows that the index has a significant negative marginal effect on the DV.

While the hypothesis proposed that lazier boards are more intended to hire insider CEOs, the logistic regression and marginal effect results show a significant negative relationship between board laziness and the likelihood of hiring an insider CEO. The p-value of 0.021 (logistic regression) indicates that this finding is statistically significant. Moreover, Marginal Effects also showed the same results with very high significance, confirming the robustness and significance of our findings. Considering the results of individual regressions, the index component coefficients that contribute to the index aligned with our theoretical expectations, and the significance of index regression and the marginal effects, we can see that the hypothesis is not supported.

This result could imply that boards with higher laziness scores prefer to bring in outsider CEOs. This result is probably due to several reasons. First, Lazy boards might prefer outsourcing the effort of strategic realignment and change management to an external candidate who is expected to take charge and implement necessary changes without requiring constant board intervention. Also, an outsider CEO may be perceived as more self-sufficient and capable of making independent decisions, thus reducing the need for frequent board meetings, discussions, and Attendance. Moreover, appointing an outsider CEO can signal to shareholders, employees, and the

market that the board is serious about addressing issues and making changes despite their own lack of engagement. This also might help to enhance the company's reputation and credibility.

1.5 Conclusion

Our research aimed to explore the relationship between board laziness and the likelihood of hiring an insider CEO. The analysis utilized a variety of proxies to measure board laziness. These proxies were analyzed through various statistical methods, including correlation analysis, Mann-Whitney U tests, and logistic regression, and they were also used to create the laziness index using the Principal Component Analysis (PCA) method.

The findings from the correlation matrix indicated that several board laziness proxies were significantly correlated with firm size and performance. For instance, larger firms usually have older board members and pay more attention to gender diversity. The Mann-Whitney U test results revealed significant differences in several board laziness proxies between firms that hired insider CEOs and those that hired outsider CEOs. Notably, variables such as CEO duality, average age of board members, board size, and shares held by board members showed significant differences, indicating that our proxies differ between these two groups and might be well-chosen indicators of laziness and it also rejects the null hypothesis of no difference. Then, the PCA was employed to aggregate the board laziness proxies into a single composite index, which effectively summarized the laziness contributors into a standardized measure. The PCA results indicated that the laziness index was positively correlated with firm size, suggesting that larger firms tend to have higher laziness scores, possibly due to increased bureaucracy and diffusion of responsibility.

The binary logistic regression analysis provided insights into the relationship between the board laziness index and the likelihood of hiring an insider CEO. Contrary to the initial hypothesis (H1), the results showed a significant negative relationship between board laziness and the likelihood of hiring an insider CEO. Specifically, for each unit increase in the laziness index, the odds of hiring an insider CEO decreased by 16.9%. This finding was statistically significant and suggests that lazier boards are more inclined to hire outsider CEOs. Lazy boards might favor hiring an outsider CEO to manage strategic changes independently, reducing the need for board involvement. An outsider CEO's perceived self-sufficiency decreases the necessity for frequent meetings and the board's higher engagement. Additionally, for firms that do not have good performance, appointing an outsider signals to stakeholders that the board is committed to addressing issues and making changes, which enhances the company's reputation and credibility. Moreover, hiring can be done through headhunters, which reduces the effort and time required by the board to identify and evaluate internal candidates. Also, boards might have a certain level of distrust or lack of confidence in the existing management team, preferring an outsider who is perceived as more neutral and less involved in past internal politics. Another reason might be that outsiders come with ready-made reputations and track records, making it easier for the board to make a decision without extensive internal evaluations and discussions.

Additionally, the control variables revealed that larger firms and those with better financial performance are more likely to hire insider CEOs. Larger firms and better performance showed a significant increase in the odds of hiring an insider CEO. This indicates that successful and large firms prefer continuity and stability, which can be achieved by promoting internal candidates familiar with the firm's culture and strategic goals.

1.6 Limitations and Future Research

Our study has some limitations that should be acknowledged. One significant limitation was the need to drop two important proxies from our model: the total number of board meetings and the presence of a succession committee or plan. These measures were crucial for assessing board board laziness. Unfortunately, due to data unavailability for 7 out of the 15 years under study, we were unable to include these variables, which could be great indicators of laziness in our analysis.

Another limitation is the reliance on data from publicly listed North American firms, which may not be generalizable to private companies or firms in other regions with different corporate governance structures and cultural contexts. Additionally, the proxies used to measure board laziness may not capture all aspects of board behavior and engagement. Qualitative factors such as the interpersonal dynamics of board members, their decision-making processes, politics, and informal interactions were not considered, which could provide important information about board laziness.

Since we evaluated only the prior year to the turnover, future research could investigate the long-term performance implications of hiring insider versus outsider CEOs in the context of board laziness. This could involve a longitudinal study to track the performance and strategic direction of firms over several years before succession. Additionally, extending our sample to examine the role of different cultural and regulatory environments across countries could provide valuable insights into how board laziness projects in different contexts, which also helps the generalizability of the results.

Another area could be the psychological and behavioral aspects of board members, exploring how factors like cognitive biases, risk aversion, and groupthink contribute to board laziness and decision-making processes. Furthermore, contrary to the quantitative nature of our study, qualitative studies involving interviews with board members could offer richer anecdotal evidence and a deeper understanding of the motivations and constraints that might lead to laziness. Future research could also consider the effects of different shocks, such as financial crises or corporate scandals, on hiring decisions. These shocks can significantly influence board behavior and preferences in CEO hiring. During financial crises, boards may prefer insiders who are familiar with the company's operations and can ensure stability, while scandals might push boards to hire outsiders to restore credibility.

Chapter 2 CSR Performance

2.1 Introduction

In our research, we are conducting a second study by taking a closer look at how different companies govern their Corporate Social Responsibility (CSR) activities, considering their board members' involvement. This additional research will allow us to thoroughly explore CSR activities and understand the relationship between board engagement and corporate CSR activities. This additional analysis will help us understand how corporate social responsibility (CSR) is implemented and perceived in various organizational contexts. This will enrich the current corporate governance literature and complement the main focus of our study on board laziness and its impact on hiring the next CEO by exploring another aspect in this field.

The overlap of CSR and corporate governance is a key research topic these days. New research has provided insight into various aspects of CSR, from its fundamental principles to its implementation and impact assessment. Studies such as those by Harjoto and Jo (2011) discuss how different governance mechanisms affect CSR involvement and the value of a firm. The board's role is important in disclosing CSR activities, particularly in establishing clear reporting guidelines on social and environmental performance. Also, the definition and measurement of CSR were investigated, showing its complex nature and the difficulties in evaluating its impact. Corporate Social Responsibility (CSR) involves a mixture of actions, including protecting the environment and employing ethical business practices, as well as advocating for social equity and participating

in the community (Turker, 2009; Garriga & Melé, 2004). This broad area of study not only reflects the evolving connection and relationship between businesses and society but also emphasizes the crucial role of corporate governance in shaping the outcomes of CSR activities.

Based on the insights gained from the literature review, we hypothesize that a firm's level of participation in corporate social responsibility (CSR) activities may be influenced by the engagement and activities of the board, which we refer to as "board laziness." We propose that a lazy board is less likely to participate in CSR activities. This is because boards that are lazy may neglect or show less interest in CSR due to a lack of motivation or long-term sustainability and ethical practices, or they may believe that these activities do not directly contribute to the company's financial profitability.

Considering all the mentioned reasons, the second hypothesis of this study is:

Hypothesis 2: If the board is lazy, it tends to participate less in CSR activities.

2.2 Methods and Analysis

Dependent Variable:

Measuring CSR Using the Refinitiv ESG (previously Thomson Reuters ASSET4)

Dataset: Measuring CSR Using the Refinitiv ESG (previously Thomson Reuters ASSET4)

Dataset: Several previous studies have proposed different ways to measure Corporate Social Responsibility (CSR) performance. These include forced-choice survey tools (Aupperle et al., 1985), reputation and social responsibility indexes like Fortune's or Moskowitz's scales (Preston

& O'Bannon, 1997), content analysis of corporate documents (Wolfe, 1991), behavioral and perceptual measures (Wokutch & McKinney, 1991), and case study methodologies (Clarkson, 1991).

For our analysis, we evaluate CSR performance using a panel dataset sourced from Refinitiv ESG. This dataset offers scores for environmental, social, and governance (ESG) performance. Refinitiv ESG, headquartered in Switzerland, provides comprehensive and unbiased environmental, social, and governance (ESG) data, as well as investment analysis tools, to professional investors who integrate ESG considerations into their investment decision-making processes. Despite the absence of universally accepted reporting standards, the ESG data gathered each year is converted into uniform metrics for quantitative evaluation. For example, environmental data typically includes information on energy use, water recycling, carbon emissions, waste recycling, and pollution incidents. Social data typically covers employee turnover, injury rates, accidents, training hours, gender diversity, donations, and health and safety issues.

The data points gathered are categorized as either 'drivers' or 'outcomes.' Drivers include policies addressing issues like emission reduction, human rights, and shareholder rights, while outcomes refer to measurable results such as greenhouse gas emissions, employee turnover, and highest remuneration packages. Refinitiv ESG uses these data points to provide a platform for establishing benchmarks by sector, country, etc., to assess corporate performance. Each year, the 900 data points are used in a default equal-weighted framework to calculate 250 key performance indicators (KPIs), which are organized into 18 categories within four pillars: environmental performance, social performance, corporate governance, and economic performance.

In year t , a firm receives a z-score for each pillar, benchmarking its performance against other firms based on information from fiscal year $t-1$. Thus, our independent variable is lagged by one year. Our final sample is an unbalanced panel dataset with the firm-year dyad as the unit of observation, where each firm receives a score on each pillar annually.

For our analysis, we created a composite CSR index for each year and firm using the annual environmental, social, and corporate governance scores. Considering the lack of theoretical guidance on how to weigh each measure, we follow the method established by Waddock and Graves (1997) and later used by Waldman et al. (2006), Cheng et al. (2014), Ferrell et al. (2016), and Hawn and Ioannou, (2016). We assign equal weights to each of the three pillars, creating a composite CSR index (grade) that is the equally weighted average of the social, environmental, and governance scores for each firm annually in our panel dataset. Our sample consists of 3,100 observations across 546 different firms in North America from 2007 to 2023. We used the same ISS ESG dataset for information about the board members and laziness. This robust dataset provides a comprehensive view of board behavior and CSR performance across a diverse range of companies.

Independent Variables

For the second study, we used the same independent variables (IVs) as the main study. This method ensures uniformity and helps us have a robust comparison of outcomes. The concept of board laziness, which refers to the lack of involvement, effort, and attention by board members,

remains central to both analyses. Although This concept is novel, it is contextualized within the existing literature on board engagement and effectiveness. Board laziness can lead to poor governance, increased risk of corporate failure, poor firm performance and stakeholder trust, and a tendency to hire new CEOs from insiders.

To contextualize board laziness, we used a set of proxies that we generated from various variables. The first proxy is CEO duality, which indicates whether the same individual holds both the CEO and Chairman positions. CEO duality can compromise board independence and reduce oversight (Duru et al., 2016), contributing to board laziness. The binary variable 'Ceo_duality' is set to 1 if duality is present and 0 otherwise. The age of directors can influence their risk appetite and level of engagement in decision-making processes. The average age of board members, calculated from the 'Age' variable, serves as a proxy for board laziness, projecting how age variety can impact board effectiveness. Moreover, Directors who hold a significant number of company shares are more likely to have their interests aligned with shareholders, which leads to more involvement (Chatterjee, 2009). This variable indicates the significance of stock ownership in facilitating active board participation.

The director's affiliation to the company is classified as either Employee (E) or Independent (I). We calculated the ratios of affiliations (ratio_E, ratio_I) to analyze board composition. Gender diversity among board members, which we indicated by the ratio of female directors (Ratio_female), improves board effectiveness and governance practices. Boards with higher gender diversity often have better performance. Busy boards, where directors hold multiple board seats, may face time limits, leading to less effective oversight. We calculated the 'Busy_Board' ratio by identifying directors with three or more other public board seats. Board meetings

attendance measures director engagement through attendance records. Directors attending less than 75% of meetings are flagged, and the ratio of such directors (ratio_attendance) serves as a proxy for board laziness. Board size, or the total number of board members, is another proxy for board laziness. Larger teams may experience problems with coordination and individuals taking advantage of the group's efforts, which can decrease overall efficiency (Jensen, 1993).

It is also important to control some variables to ensure a comprehensive analysis of this relationship. The firm size influences governance practices, with larger firms often having more formal and complex procedures for implementing CSR initiatives. Larger firms may have more formal and structured CSR policies, while smaller firms might rely more on informal practices and individual efforts (Lipton & Lorsch, 1992). By controlling for firm size, we can isolate the effect of board behavior on CSR performance from the effects that might be due to the firm's scale, such as more resources or greater media exposure. Hence, we used the total number of the firm's employees as an indicator of firm size.

Industry norms and competitive environments also impact CSR performance, with different industries valuing different aspects of CSR. Different industries have various norms, competitive environments, regulatory restrictions, and stakeholder expectations, which can impact CSR practices. Controlling for industry helps ensure that the study's findings are not overly influenced by industry-specific factors and are more generalizable. In this study, we used Standard Industrial Classification (SIC) to categorize our firms into different industries. Moreover, it is essential to control firm performance using financial variables. Firm performance might significantly influence a company's ability to invest in and implement CSR initiatives. Better-performing firms

often have more resources to allocate toward CSR activities, which can enhance their overall CSR performance.

Research shows that CSR engagement positively correlates with firm market performance, suggesting that firms with strong financial performance are more likely to invest in CSR activities, emphasizing the importance of controlling for firm performance when analyzing CSR activities (Al-Shammari et al., 2022).

2.3 Results and Discussion

We performed a multinomial logistic regression to assess how board activity and other factors influence Corporate Social Responsibility (CSR) performance, considering our categorical dependent variable. CSR performance was rated using the grades A, B, C, and D, with D as the reference category. The hypothesis tested was that if the board is lazy, the firm's CSR performance is weaker. The dependent variable in this analysis was CSR performance (grade), categorized into four levels: A (best), B, C, and D (worst, reference category). The independent variables included proxies of board laziness (e.g., board meeting attendance, board size, gender diversity), financial performance indicators, and control variables such as industry classification and firm size.

		N	Marginal Percentage
grade	A	264	8.7%
	B	1011	33.3%
	C	1313	43.3%
	D	447	14.7%
SIC	1	92	3.0%
	2	568	18.7%
	3	784	25.8%

	4	180	5.9%
	5	414	13.6%
	6	575	18.9%
	7	291	9.6%
	8	113	3.7%
	9	18	0.6%
Valid		3035	100.0%

Table 2-1 Case Summary

The model fitting information showed a significant improvement from the intercept-only model to the final model by the reduction in -2 Log Likelihood from 7570.963 to 6056.163 (Chi-Square = 1466.08, $p < .001$). The Pseudo R-squared values (Cox and Snell (.387), Nagelkerke (.423)) suggest that while the model is not perfectly fit, it has a reasonable ability to explain the variation in CSR performance. The likelihood ratio tests indicated that several predictor variables significantly impacted the model. For example, the number of employees (emp), the average shares held by board members, various board composition ratios (ratio_I, ratio_E, ratio_female, ratio_other_board), and board size all significantly influenced CSR performance. These tests highlight the importance of both board characteristics and firm performance indicators in predicting CSR performance.

Variable	Grade A vs. D	Grade B vs. D	Grade C vs. D
Intercept	($p < .001$)	($p < .001$)	($p < .001$)
avg_age	Not significant	Not significant	Not significant
shares_held	0.656 ($p = 0.023$)	0.656 ($p < .001$)	0.656 ($p = 0.026$)
ratio_E	1.705e-5 ($p < .001$)	Not significant	Not significant
ratio_female	4060.377 ($p < .001$)	355.688 ($p < .001$)	12.381 ($p < .001$)

ratio_other_board	25.975 (p < .001)	10.722 (p < .001)	2.754 (p < .001)
ratio_attendance	Not significant	Not significant	Not significant
Board_size	1.626 (p < .001)	1.470 (p < .001)	1.104 (p = .006)
SIC (Industry Effects)	Significant negative	Significant negative	Significant negative
ceo_duality	Not significant	Not significant	Not significant
ROE	2.175 (p = .014)	1.825 (p = .03)	1.885 (p = .014)
P/E	Not significant	Not significant	1.011 (p = .006)
Emp (size)	1.031 (p < .001)	1.029 (p < .001)	1.011 (p = .010)

Table 2-2 Multinomial Logit Regression Results: Exponentiated Coefficients (EXP(B)) and Significance Levels.

The probability of getting Grade A increases significantly when the board size is larger (Exp(B) = 1.626, p < .001), B (Exp(B) = 1.470, p < .001), and C (Exp(B) = 1.104, p < .001) compared to D, indicating a consistent and statistically significant impact in all levels of the CSR performance which suggests that larger boards could offer additional resources and diverse perspectives, ultimately leading to improved CSR outcomes.

The proportion of female board members (ratio_female) also has a significant positive impact on CSR performance. Higher proportions of female directors increase the likelihood of achieving grades A (Exp(B) = 4060.377, p < .001), B (Exp(B) = 355.688, p < .001), and C (Exp(B) = 12.381, p < .001). The consistently significant positive impact of the proportion of female board members on achieving higher CSR performance grades (A, B, and C vs. D) demonstrates the critical role that gender diversity plays in corporate governance. Female directors contribute to more thorough supervision and a stronger commitment to social and ethical responsibilities, leading to enhanced CSR outcomes.

Higher return on equity (ROE) is associated with a significantly higher likelihood of achieving better CSR grades A (Exp(B) = 2.175, p = .014), B (Exp(B) = 1.825, p = .030), and C (Exp(B) =

1.885, $p = .014$) compared to D. This reflects the importance of financial performance in CSR outcomes. Higher return on equity (ROE) indicates that strong financial performance is important for positive CSR outcomes. Companies with higher ROE have more resources and financial stability, allowing them to invest in and maintain robust CSR initiatives. This financial strength allows them to meet stakeholder expectations, implement effective CSR strategies, and address social and environmental concerns more effectively, which results in achieving higher CSR grades. We also used the price-to-earnings ratio (P/E) as another indicator of financial performance, which was not a significant predictor for Grades A and B compared to Grade D, with p-values of 0.415 and 0.496, respectively. However, for Grade C compared to Grade D, the odds ratio was 1.011 ($p = 0.006$), indicating a slight but significant increase in the likelihood of achieving Grade C with higher price-earnings ratios. These results suggest that while the price-earnings ratio may have some impact on intermediate CSR performance, it is not a strong predictor of the best CSR performance.

The average percentage of shares held by board members (`shares_held`) also increases the likelihood of achieving better CSR grades A ($\text{Exp}(B) = .656$, $p = .023$), B ($\text{Exp}(B) = .656$, $p < .001$), and C ($\text{Exp}(B) = .656$, $p = .026$) consistently for all grades, suggesting that board members with higher ownership stakes are more committed to CSR. The significant increase in the likelihood of achieving better CSR grades when board members hold more shares can be explained by their financial incentives aligning with the company's long-term performance and prosperity. Board members with substantial ownership stakes are more committed to CSR activities because these practices improve the company's reputation, decrease the risks, and ensure sustainable profitability, which positively impacts the value of their shares. Their high ownership stakes

motivate them to adopt a long-term perspective, actively oversee CSR activities, and manage reputational risks effectively, all by being more involved as a board member and less lazy.

The ratio of executive (insider) directors on the board (ratio_E) was found to have a significant negative effect ($\text{Exp}(B) = 1.705e-5$, $p < .001$) on achieving the highest CSR performance grade (Grade A) compared to the worst grade (Grade D). This indicates that a higher ratio of executive directors decreases the likelihood of achieving the highest CSR grades. This negative relationship can be explained by several factors. Executive directors, who are also company employees, may face conflicts of interest that negatively impact accurate decision-making, prioritizing short-term financial goals over long-term CSR commitments. Their operational responsibilities may limit their focus on CSR initiatives, detracting from the attention needed to manage and employ effective CSR activities. Additionally, a higher ratio of executive directors can lead to a less diverse board, reducing the range of perspectives essential for comprehensive CSR strategies. Finally, a higher proportion of executive directors might weaken the board's oversight capabilities, as non-executive or independent directors typically have a better position to hold executives accountable and ensure the successful implementation of CSR strategies. These findings highlight the importance of board independence and diversity in promoting robust CSR practices and achieving high CSR performance.

These results also support our prediction that a higher proportion of independent directors increases the likelihood of achieving better CSR performance. This finding aligns with the hypothesis that a more uninfluenced and unbiased board is associated with stronger CSR performance. The positive relationship between the ratio of independent directors and higher CSR performance is due to their objective oversight and lack of conflicts of interest. Also, they provide

unbiased oversight and are less influenced by internal politics, which can enhance their intention to be more involved. This direct involvement contrasts with the notion of "laziness" and highlights the critical role of active board governance in achieving superior CSR performance.

The ratio of board members who serve on more than three public boards (ratio_other_board) significantly impacts the possibility of achieving better CSR grades, with higher ratios increasing the likelihood of achieving Grade A ($\text{Exp(B)} = 25.975, p < .001$), Grade B ($\text{Exp(B)} = 10.722, p < .001$), and Grade C ($\text{Exp(B)} = 2.754, p < .001$) compared to Grade D. While this result does not match our expectations that serving on multiple boards might lead to less supervision and increase laziness, this positive relationship can be attributed to several factors. Firstly, these board members have a lot of experience and knowledge. They have seen and learned about different ways of running companies and strategies for being responsible and ethical, which can enhance the quality of CSR activities. Additionally, their extensive networks and access to resources can be helpful and important to support and enhance CSR activities, enabling partnerships, funding opportunities, and the adoption of best strategies and practices. Furthermore, their broad perspective on industry trends, regulatory requirements, and stakeholder expectations enables them to make informed, strategic decisions that are important when it comes to CSR performance. These directors are likely to maintain high standards of governance and accountability, as their experience in managing multiple board responsibilities which means they will keep a close eye on decisions and commitment to CSR. Moreover, since they work in different organizational fields and areas, they are able to bring innovative ideas and best practices from other boards.

We also controlled our model using the number of employees (EMP) as an indicator of the firm size, which positively impacts the likelihood of achieving better CSR grades ($\text{Exp(B)} = 1.031, p <$

.001), indicating that larger firms may have more resources to invest in CSR activities. Also, this could be because they are being watched more closely by the public, regulators, and stakeholders. Their higher visibility and larger impact on the economy and society make them more accountable for their actions. As a result, they are often more motivated to engage in CSR practices to maintain their reputation, follow regulatory requirements, and meet the expectations of their stakeholders. Similarly, the industry classification (SIC) had a significant negative impact on CSR performance for all higher grades compared to Grade D ($p < 0.001$). These results indicate that certain industry contexts may cause challenges to achieving better CSR performance, highlighting the importance of considering industry-specific factors in CSR strategies.

On the other hand, the ratio of attendance (*ratio_attendance*) was not significant in predicting better CSR grades, suggesting that simply attending meetings does not impact CSR performance. This could be because the quality and effectiveness of participation matter more than presence. So, active engagement and effective governance structures might be more critical for achieving better CSR outcomes. Additionally, other factors like the company's culture and the presence of dedicated CSR committees may have a more important influence on CSR performance, which can be added to the model for future studies.

Also, CEO duality (*CEO_duality*) does not significantly influence CSR performance across any grades, with p-values of 0.2, 0.4, and 0.08 for Grades A, B, and C. This suggests that CEO duality does not have a tangible impact on CSR performance.

The average age of board members (*avg_age*) does not significantly affect the likelihood of achieving better CSR grades A, B, or C compared to D, as indicated by the non-significant p-values

in all comparisons. This suggests that the average age of board members doesn't seem to be an important factor in CSR performance.

2.4 Conclusion

The regression analysis provided comprehensive insights into the factors influencing Corporate Social Responsibility (CSR) performance, specifically examining proxies for board laziness. The hypothesis posited that lazy boards are less likely to engage in CSR activities. The findings offer partial support for this hypothesis, highlighting the complex relationship between board laziness and CSR outcomes as well as the model.

Key findings indicate that larger boards, larger firms, higher proportions of female board members, stronger financial performance (measured by ROE), having directors serving on multiple boards, higher board independence, and greater board ownership stakes significantly enhance CSR performance. These results suggest that boards characterized by diverse perspectives, robust financial health, and substantial personal investment in the company are more inclined to engage in CSR initiatives. Additionally, a higher ratio of executive directors negatively impacts the highest CSR performance grade, supporting the notion that more influenced and biased board governance correlates with weaker CSR outcomes. Additionally, firm size and industry context play crucial roles in CSR performance, with larger firms and specific industry characteristics influencing CSR outcomes.

Conversely, poor attendance at board meetings was insignificant, highlighting that other aspects, such as personal experience and knowledge, could compensate for the poor attendance. Also, the

average age of board members is not a determining factor in CSR performance. CEO duality also does not significantly impact CSR performance, suggesting that the concentration of power does not affect CSR activities. Overall, the study partially supports the hypothesis that lazy boards are more likely to come up with worse CSR outcomes. It underscores the importance of board composition, engagement, and financial health in shaping a company's social and ethical conduct. Future research could explore several avenues to deepen the understanding of the relationship between board laziness and CSR performance. First, qualitative studies involving interviews with board members could provide richer insights into how board engagement influences CSR initiatives. Understanding the motivations and perspectives of board members could help us recognize the mechanisms behind the observed relationships.

second, though we controlled for industry, exploring industry-specific factors in greater detail could reveal how different sectors influence the effectiveness of CSR initiatives. Third, investigating how media power and public pressure can influence the CSR activities of a firm might work as a moderator for future studies.

It is important to note that our sample may be biased due to the limited availability of data. Our analysis is based only on publicly listed companies, so the generalizability of our findings to private firms is not clear.

Additionally, other factors like the company's culture, resources allocated to CSR, and the presence of dedicated CSR committees may have a more substantial influence on CSR performance, which can be added to the model for future studies.

Finally, examining the role of other compensatory mechanisms, such as strong management practices or corporate culture, could explain why some firms achieve high CSR performance

despite lower board engagement. Identifying these factors could provide a more comprehensive understanding of effective CSR strategies.

In conclusion, while this study partially supports the hypothesis that lazy boards are less likely to engage in CSR activities, future research should continue to explore the multifaceted and dynamic nature of board governance and its impact on CSR performance. By doing so, it can contribute to the development of more effective corporate governance practices that promote social and ethical business conduct.

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Appendices

Pearson Correlations

	ceo_duality	avg_age	ratio_I	ratio_E	ratio_female	ratio_other_board	ratio_attendance	Board_size	roe	SIC	shares_percentage	log_emp	SME AN(log_AT)
ceo_duality	--												
avg_age	.036	--											
ratio_I	.018	.192**	--										
ratio_E	-.011	-.172**	-.689**	--									
ratio_female	.092**	-.038	.222**	-.198**	--								
ratio_other_board	.070*	.129**	.394**	-.380**	.174**	--							
ratio_attendance	.035	-.031	-.109**	.015	-.024	-.024	--						
Board_size	.158**	.113**	.089**	-.238**	.276**	.303**	.096**	--					
ROE	.105**	-.007	.053	-.033	.126**	.072*	.035	.115**	--				
SIC	-.072*	-.150**	-.067*	.052	.042	-.097**	-.012	-.018	-.039	--			
Shares_held	-.076*	-.004	-.369**	.351**	-.117**	-.266**	-.009	-.247**	.003	.061*	--		
Emp	.158**	.060*	.057	-.119**	.309**	.344**	.058	.554**	.171*	.136*	-.153**	--	
AT	.166**	.147**	.193**	-.233**	.277**	.413**	.043	.604**	.102*	-.066*	-.302**	.704**	--

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Appendix 1 The Laziness Proxies correlation matrix

Test Statistics^a

	ratio_female	ceo_duality	avg_age	ratio_I	ratio_E	ratio_attendance	Board_size	shares_percentage	ratio_other_board
Mann-Whitney U	117019.000	113554.500	110405.000	119583.000	118554.500	124518.500	100445.000	115501.500	120036.500
Wilcoxon W	180209.000	176744.500	173595.000	370569.000	181744.500	187708.500	163635.000	366487.500	183226.500
Z	-1.854	-3.211	-3.234	-1.291	-1.512	-.510	-5.390	-2.154	-1.194
Asymp. Sig. (2-tailed)	.064	.001	.001	.197	.131	.610	<.001	.031	.232

a. Grouping Variable: insider4

Appendix 2 The Test Statistics

Descriptive Statistics

	Mean	Std. Deviation	Analysis N
Zscore(ceo_duality)	.0000000	1.0000000	1063
Zscore(avg_age)	.0000000	1.0000000	1063
Zscore(ratio_I)	.0000000	1.0000000	1063
Zscore(ratio_female)	.0000000	1.0000000	1063
Zscore(ratio_other_board)	.0000000	1.0000000	1063
Zscore(ratio_attendance)	.0000000	1.0000000	1063
Zscore(Board_size)	.0000000	1.0000000	1063
new_zratio_E	.0000000	1.0000000	1063
new_zratio_shares	.0000000	1.0000000	1063

Appendix 3 Z-scores Descriptive Statistics

Correlations

	Zceo_duality	Zavg_age	Zratio_other_board	Zratio_attendance	ZBoard_size	new_zratio_E	R_Ratio_I	R_Ratio_Female	REGR factor score 1 for analysis 1	Zshares_percentage
Zceo_duality	--									
Zavg_age	.036	--								
Zratio_other_board	.070*	.129**	--							
Zratio_attendance	.035	-.031	-.024	--						
ZBoard_size	.158**	.113**	.303**	.096**	--					
new_zratio_E	.011	.172**	.380**	-.015	.238**	--				
R_Ratio_I	-.018	-.192**	-.394**	.109**	-.089**	-.689**	--			
R_Ratio_Female	-.092**	.038	-.174**	.024	-.276**	-.198**	.222**	--		
factor score (Index)	.153**	.270**	.664**	-.047	.494**	.799**	-.784**	-.420**	--	
Zshares_percentage	-.076*	-.004	-.266**	-.009	-.247**	-.351**	.369**	.117**	-.594**	--

*. Correlation is significant at the 0.05 level (2-tailed).

** . Correlation is significant at the 0.01 level (2-tailed).

Appendix 4 Z-scores and Index (REGR factor) Correlation Table

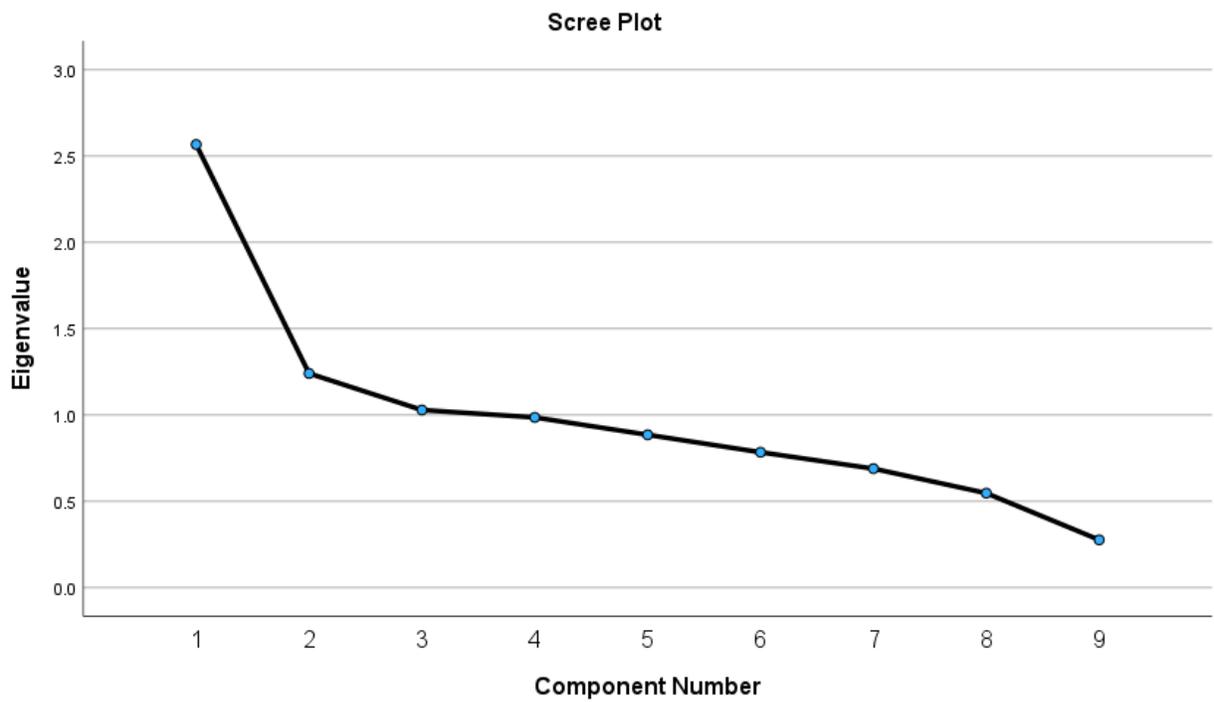


Figure 2 Eigenvalue Scree Plot for all Components

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	1263.317 ^a	.082	.114

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	5.474	8	.706

Appendix 5 Binary Logistic Regression model fit summary