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An Exploration of the Social Mechanisms Driving the Consequences of Earnings Restatements for Organizational Elites

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ABSTRACT

AN EXPLORATION OF THE SOCIAL MECHANISMS DRIVING THE CONSEQUENCES OF EARNINGS RESTATEMENTS FOR ORGANIZATIONAL ELITES

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My dissertation investigates the social mechanisms that determine the allocation of consequences of earnings restatements for organizational elites, using a sample S&P1500 Index-listed firms restating earnings between 1997 and 2003. In chapter 1, I examine turnover following revelations of organizational misconduct. I find that outside director turnover is associated with greater board independence, which suggests voluntary departure. In contrast, insider turnover is associated with plausible claims of accountability and weaker chief executives, suggesting that their departure is involuntary. Taken together, these results indicate that turnover is a function of organizational stigmatization as regards outside directors and scapegoating as regards insiders. In chapter 2, I investigate the observed loss in external board seats that organizational elites suffer following earnings restatements. First, I ask whether organizational elites' reputations are damaged irrevocably through pollution, consistent with stigma by association, or if stigmatization can be measured in degrees, consistent with direct stigmatization. I elaborate the degree to which outcomes are determined by signals of underlying realities or symbols that may be decoupled from underlying realities. My findings suggest that although some pollution occurs, stigmatization is not binary, and the degree to which managers and directors of restating firms suffer on external labor markets is affected by both symbolic and substantive aspects of the restatement. In chapter 3, I investigate how the steps taken to shape public opinion by organizational elites in the wake of revelations of organizational misconduct affect

organizational elites' outcomes on internal and external labor markets. I study how the relative power of organizational elites affects their choice of symbolic management tactics, and how efforts to put themselves in the best light through attributions of responsibility affect both organizational elites' tendency to depart the restating firm and to retain seats on external boards. My analysis suggests that relative board power impacts the way the firm frames the restatement, but the majority of these efforts have little effect on turnover or the loss of seats on external boards. My findings suggest that efforts at symbolic management are often unsuccessful, although powerful elites who make difficult decisions are systematically rewarded.

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CHAPTER 1: WHEN BOARDS WALK: STIGMATIZATION AND SCAPEGOATING AS MOTIVATORS OF TURNOVER FOLLOWING EARNINGS RESTATEMENTS

Given the organizational scandals leading to the passage of the Sarbanes-Oxley regulations and the increasing rate of earnings restatements (D'Agostino 2002; Wu 2002), the question of how the consequences of organizational misconduct are allocated among organizational elites has become a topic of interest for organizational scholars. When things go wrong in organizations, when organizational actors violate rules or laws in pursuit of individual or organizational goals (Vaughan 1999), the costs incurred may range from reduced stock price to employee firings, criminal charges, and even organizational bankruptcy and failure. Given free and open markets, these costs should imply consequences in the form of turnover for those at the helm, who ultimately bear responsibility for firm behavior and outcomes (Carpenter, Geletkanycz and Sanders 2004; Hambrick and Mason 1984; Khanna and Poulsen 1995), and whose images are inextricably linked with those of their organizations (Pfeffer and Salancik 1978; Sutton and Callahan 1987). Yet the mechanisms through which organizational leaders are held accountable for misconduct are not yet fully understood.

Several recent studies have investigated both outsider and insider turnover following earnings restatements (Arthaud-Day et al. 2006; Desai, Hogan and Wilkins 2006; Srinivasan 2005). Although they have discussed the market and economic mechanisms through which this turnover is enacted, the social mechanisms affecting these outcomes have not yet been elaborated. The impact of social interaction is critical to a full understanding of the relationship between earnings restatements and turnover, particularly as research has so far indicated that both insiders and outsiders are at risk of turnover (e.g., Arthaud-Day et al. 2006), but has not

established the mechanisms that determine when one group is more likely to leave than the other. More importantly, the degree to which such turnover can be presumed to be voluntary or forced – a question that must take into consideration the social dynamics within groups of organizational elites – has not yet been addressed. This chapter addresses these gaps by applying a social and political framework to the problem, assessing the role of relative board power and plausible accountability in turnover.

I propose that post-restatement turnover can be attributed to two distinct mechanisms: organizational stigmatization, or devaluation of organizational identity leading to a voluntary severing of ties on the part of organizational elites; and scapegoating, or involuntary dismissal of organizational elites aimed at deflecting responsibility for the misconduct towards those that are plausibly accountable. Because public statements and regulatory filings do not provide reliable explanations for turnover, however, discerning between these two explanations is difficult. By studying turnover in light of the social and political dynamics among insiders and outsiders, and the degree to which subgroups of insiders and outsiders can be considered accountable for the misconduct, I find evidence consistent with both voluntary turnover of outsiders and the involuntary turnover of insiders. Consequently, I can infer which organizational elites depart to escape stigmatization, and which are scapegoated to prevent organizational stigmatization.

In this chapter, I investigate the social and political mechanisms that explain turnover for specific groups of insiders and outsiders following earnings restatements. This study contributes to the study of organizational misconduct by elaborating the social dynamics that determine the apportionment of its consequences. Inasmuch as it sheds light on the unique political dynamics that follow revelations of organizational misconduct, it also contributes to our understanding of organizational politics, insider and outsider turnover, and corporate governance. In addition, it

draws attention for the first time to the impact of board power on director outcomes, supplementing our understanding of the effect of board power on executive outcomes.

THEORY AND HYPOTHESES

Earnings Restatements

Earnings restatements are tantamount to restatements of a company's history (Wu, 2002), whereby firms announce that the earnings figures stated in prior SEC filings were materially incorrect. Restatements occur when a firm determines that its previously filed financial statements were materially incorrect, often on the recommendation of the SEC or outside auditors. The number of restatements has grown exponentially over the past decade; in 2006, it is estimated that 1,420 U.S. public companies restated earnings, representing a full ten percent of publicly traded companies (Harris 2007). This figure can be compared to 1,255 restatements filed in 2005, 330 restatements in 2002, the year the Sarbanes-Oxley Act was passed (Harris 2007), and only 58 in 1997 (Wu 2002). Consequently, earnings restatements have been the focus of increased academic attention (e.g., Agrawal & Chadha, 2005; Akhigbe et al., 2005; Arthaud-Day et al., 2006; Kedia & Philippon, 2004; McNichols & Stubben, 2005; Ozbas & Song, 2005; Srinivasan, 2005; Went, 2005; Wilson, 2005; Wu, 2002; Zahra, Priem, & Rasheed, 2005), particularly since the 2002 publication of the GAO report on earnings restatements conducted in conjunction with the Sarbanes-Oxley Act of 2002 (D'Agostino, 2002).

Restatements may result from legitimate errors, oversights, and mistakes in the interpretation of accounting regulations, or can result from "accounting irregularities," fraudulent misapplication of accounting regulations or manipulation of facts, although it is often difficult to distinguish between intentional and unintentional misstatements (Wu 2002). Restatements of

this type generally involve prematurely recognizing anticipated or non-existent revenue or deferring current costs and expenses, to increase current period net income, but can also result from attempts to hide true costs of firm acquisitions or after reassessment of the value of investments (Wu 2002). The primary motivation for earnings management is often to lower the cost of capital and to attract greater external financing (Collins, Reitenga and Sanchez-Cuevas 2005; Richardson, Tuna and Wu 2004). In contrast, so-called technical restatements may result from changes in accounting principles or firm adoption of new accounting policies, or from such benign causes as merger and acquisition activity, change of accounting period, or stock splits.

Restatements are different from many other instantiations of financial misconduct, such as bankruptcy and firm failure, because restatements are the result of purposive action rather than firm performance. Although restating firms are generally in poorer financial condition than non-restating firms (DeFond and Jiambalvo 1991; Kinney and McDaniel 1989), misstatement of earnings is not a necessary outcome of performance. Whereas performance-related issues are noisy and attributable to internal and external causes, and inasmuch as misstatements are seldom the consequence of mere mathematical error (Collins, Reitenga and Sanchez-Cuevas 2005; DeFond and Jiambalvo 1991; Erickson, Hanlon and Maydew 2004), they must be the result of misconduct (Arthaud-Day et al. 2006). Although there are many immediate reasons for restatement, most restaters share certain characteristics: comprehensive takeover protection methods that minimize the chance of successful takeover attempts aimed at preserving shareholder value placed at risk by incumbent management (Went 2005); fewer independent directors with financial expertise on the board or audit committee (Agrawal and Chadha 2005); Chief Executive Officers (CEOs) who are members of the founding family (Agrawal and Chadha 2005); staggered and busy boards (Fich and Shivdasani 2005); directors previously involved in

financial fraud (Fich and Shivdasani 2005); executive incentive compensation and firm performance relative to aspirations (Harris and Bromiley forthcoming); and the length of the organization's relationship with its independent auditor (Myers et al. 2005).

With the exception of technical restatements, earnings restatements are broadly seen as admissions of misconduct, and are accompanied by various market and non-market penalties. Restatements are often followed by a significant loss of shareholder value (Akhigbe and Kudla 2005; Collins, Reitenga and Sanchez-Cuevas 2005; Palmrose, Richardson and Scholz 2004; Wu 2002), impaired credibility of future financial disclosures (Farber 2005); diminished expectations of future earnings and a subsequent increase in the cost of capital (Farber 2005; Hribar and Jenkins 2004). In addition, both executives and outside directors experience diminished future employment opportunities for top management (Arthaud-Day et al. 2006; Collins, Reitenga and Sanchez-Cuevas 2005; Desai, Hogan and Wilkins 2006; Srinivasan 2005). Similarly, restatements are often followed by shareholder class action lawsuits (Lu 2004), leading to a loss of other board seats held for outside directors (Fich and Shivdasani 2005).

Because descriptions of and explanations for restatements are often provided primarily by the restating firms themselves (in the form of SEC filings) and are thus difficult to verify and subject to interpretation on the part of internal and external audiences, audiences may be skeptical of the explanations they receive (e.g., Barr 2000; Beck 2005). Personal interviews with members of corporate boards, activist investors and executive recruiters reveal that the initial reaction to earnings restatements is strongly negative, followed on reflection by a willingness to listen to justifications and explanations on the part of individual directors. This suggests that external audiences may not be attentive to differences among restatements, and that reactions to different types of restatement – even technical restatements – may be undifferentiated.

Consequently, penalties are both broadly and, to date, somewhat unpredictably apportioned among organizational elites. More than other instantiations of organizational misconduct, blame for earnings restatements can be attributed directly to the board of directors, who are therefore salient targets for blame (Arthaud-Day et al. 2006; Cannella, Fraser and Lee 1995; Tetlock 1985), despite the difficulty of correctly identifying the actor or actors actually responsible for the misconduct itself. Inasmuch as restatements indicate poor corporate governance, they are likely to be attributed to those with direct oversight over the financial reporting process, namely the board of directors and the audit committee (Arthaud-Day et al. 2006; Jensen and Meckling 1976; Srinivasan 2005), who are legally responsible for certifying financial statements according to the Sarbanes-Oxley Act. Combined with ambiguity around who is actually responsible for misconduct, the technical accountability of the board creates the opportunity for a political struggle, which may result in turnover among organizational elites (Arthaud-Day et al. 2006; Wiesenfeld, Wurthmann and Hambrick forthcoming).

It is precisely because of the potential for widespread consequences that we must elaborate the social mechanisms through which consequences are apportioned. Yet, surely, not all organizational elites are affected uniformly by the revelations of financial misconduct. Arthaud-Day and colleagues (2006) find that CEOs and Chief Financial Officers (CFOs) of restating firms, as well as directors and audit committee members, are significantly more likely to turn over as their counterparts in a matched sample of control firms. Srinivasan (2005) finds similar levels of director and audit committee member turnover following restatement, controlling for the effect and severity of the restatement on net income. Collins and colleagues (2005) also find that CEOs and executives are more likely to depart in the year prior to and the year of restatement, moderated by corporate ownership. Desai and colleagues (2006) find that

restating firms are almost twice as likely as matched firms to lose at least one top manager within two years of the restatement, and that they face fewer subsequent employment opportunities than those of control firm executives. Finally, Hennes and colleagues (2006) find that turnover among both CEOs and CFOs increases with the severity and type of restatement. Despite the preponderance of recent evidence of turnover following restatement and the economic rationales offered to explain this trend, however, the social and political factors that lead audit committee members to depart rather than CFOs, or CEOs to leave the firm rather than outside directors, have not yet been elaborated. I propose that post-restatement turnover can be attributed to either of two mechanisms, organizational stigmatization and scapegoating, and that we can discern between the two by investigating the political dynamics among and plausible accountability of organizational elites.

Stigmatization

Stigmatization is the process through which an actor's social identity is diminished through association with either discrediting characteristics or discredited others (Goffman, 1986). As Jones and colleagues (1984) explain, stigma is an emergent property, determined through the process of social interaction, whereby specific meanings are attached to categories of behavior and individuals. Observers attribute the stigma to the bearer's moral defect or deviant nature (Crocker & Major, 2003; Goffman, 1986; Jones et al., 1984; Kurzban et al., 2001; Lyons, 2006), thereby contaminating or spoiling the stigmatized actor's social identity (Goffman, 1986; Jones et al., 1984), making them less attractive interaction partners and forming the basis for reduced social interaction (Carter & Feld, 2004; Kurzban et al., 2001).

Goffman (1986) argues that stigma transfers through social relationships, threatening the identities of actors with whom the stigmatized individual interacts, but that the threat of

contamination diminishes with social distance from the stigmatized actor. This prediction has been supported by empirical research; social psychologists have found evidence of stigma transfer or "stigma by association" (Neuberg, Smith, Hoffman, & Russell, 1994), showing that ties to stigmatized actors taint relatives (Birenbaum, 1992; Levinson & Starling, 1981; Mehta & Farina, 1988), dating partners (Goldstein & Johnson, 1997), and even strangers next to whom they sit (Hebl & Mannix, 2003). Evidence of identity contamination is also observable in the realm of organizations, where scholars have found that firms linked to organizations filing bankruptcy (Gove & Janney, 2004) or in the same industry as others restating earnings (Da Dalt & Margetis, 2004) experience significantly negative stock price returns. Thus actors are incentivized not only to avoid becoming stigmatized themselves, but also to stay away from stigmatized others.

The threat of stigma by association has been demonstrated to lead actors to sever ties with individual (Cooper & Jones, 1969; Lerner & Agar, 1972; Taylor & Mettee, 1971), group (Snyder, Lassegard, & Ford, 1986; Spears, Doosje, & Ellemers, 1997), and institutional sources of stigma threat (Cialdini et al., 1976). By rejecting the stigmatized, the untainted actor not only prevents his identity from being contaminated (Cooper et al., 1969; Eidelman & Biernat, 2003), he also redefines what is socially acceptable (Bromberg & Fine, 2002; Ducharme & Fine, 1995; Jones et al., 1984). At the organizational level, therefore, firms tend to associate with others they perceive as legitimate, or conforming to socially acceptable standards of behavior (Haunschild, Sullivan, & Page, forthcoming; Suchman, 1995) and to sever ties with less legitimate partners, because of the potential for contagion (Elsbach, 1994; Elsbach & Sutton, 1992; Haunschild et al., forthcoming).

The desire to protect one's own social identity is likely to be a strong motivator of post-restatement turnover. If restatements are seen as illegitimate, and if organizational identity is tainted by undergoing the public exposure and negative organizational outcomes associated with restatement, members of the organizational elite may feel their own identities to be threatened by the potential for both direct stigmatization and by stigma by association (Pozner forthcoming). The direct threat arises because, in their official capacities, through acts of omission or commission, they allowed misconduct to take place; in turn, this leads to perceptions of limited organizational leadership and oversight skills or deviant dispositions on the part of those who allowed misconduct to be committed under their watch (Arthaud-Day et al., 2006; Fama, 1980; Fama et al., 1983; Johnson, Daily, & Ellstrand, 1996; Sutton et al., 1987; Tetlock, 1985; Wiesenfeld, Wurthmann, & Hambrick, forthcoming). At the same time, organizational elites also face an indirect threat to their social identities: that of denigration due to visible association with a tainted organization, or stigma by association. The fear of both direct and indirect stigmatization therefore lead organizational elites to sever ties by leaving voluntarily, rather than risk being tainted themselves.

Scapegoating

Whereas voluntary departure would indicate organizational stigmatization, involuntary turnover would suggest that scapegoating were at work. If elites perceive the threat to organizational identity to be less severe, and the threat of individual stigmatization to be manageable, they may not depart, but rather force the turnover of others. Although less effective than other impression management techniques (Ashforth and Gibbs 1990; Elsbach 1994), scapegoating can reestablish the legitimacy of remaining organizational elites while highlighting their own, untainted social identities in two ways: first, they may deny responsibility for the

misconduct, and second, they can maintain restore their credibility (Hennes, Leone and Miller 2006), enhance their legitimacy and assuage the concerns of external stakeholders by taking purposive action (Arthaud-Day et al. 2006; Boeker 1992; Pfeffer and Salancik 1978; Selznick 1957). In the face of revelations of misconduct, therefore, elites may attempt to scapegoat, or to shift blame to potentially culpable others (Burke 1969; Gephart 1978; Neilsen and Rao 1987). Although this can be accomplished through verbal accounts blaming other parties for the misconduct, the more germane approach is to sever relationships with potentially culpable others and force turnover. This form of scapegoating allows organizational elites to tangibly excise the past and offer a new vision for the future, demonstrating to external audiences that prior problems have been adequately addressed (Gephart 1978; Neilsen and Rao 1987), and minimize the threat of both organizational and individual stigmatization for those who remain.

It is important to note that scapegoating does not necessarily ensure that those responsible for poor decisions and negative outcomes are the ones to turn over. In fact, scapegoating is also called the "no-way causality theory," implying that the scapegoated actor's dismissal is a ritual, anxiety reducing act, disconnected from his actual influence or performance (Gamson and Scotch 1964; Rowe et al. 2005), and enacted only when blame needs to be assigned (Kesner and Sebora 1994). This argument is supported by Khanna and Poulsen (1995), who demonstrate that fired managers of firms undergoing Chapter 11 bankruptcy behave indistinguishably from a set of control firms, and are not found to make value-reducing actions, providing evidence of scapegoating. Similarly, Cannella, Fraser and Lee (1995) show that managers associated with banks that failed for reasons beyond managerial control were twice as likely to regain similar positions as those at other failed banks. At the same time, a number of studies find that CEOs of poorly performing firms are more likely to be dismissed and to have shorter tenure than those

heading better performing firms (Tushman, Virany and Romanelli, 1989; Lieberson and O'Connor, 1972; Helmich, 1977; McEachern, 1975; James and Soref, 1981; Allen and Panian, 1982). Nor is this to say that blame cannot be assigned correctly; in fact, those who suffer the greatest consequences may be the ones directly responsible for the misconduct. Rather, without private information, accounts of executives' and outside directors' departure make it almost impossible to discern whether blame has been appropriately assigned, or whether the departure is the result of symbolic scapegoating. Thus, although scapegoating may be tied to overall firm performance, it is likely to be only loosely coupled with individual responsibility or skill.

Given the difficulty associated in pinpointing which actor or parties are responsible for organizational misconduct such as earnings restatements, particularly when the misstatement was not due to intentional fraud, ritual house-cleaning through scapegoating seems a reasonable means of protecting the reputation of the organization and, consequently, of those who remain. Nevertheless, involuntary turnover is more likely to occur to those who might reasonably be argued to have had some involvement in the misconduct, to justify the ouster decision (Tetlock 1985). Thus, following earnings restatements, scapegoating will be evidenced by involuntary turnover, particularly among those responsible for overseeing financial reporting.

Power and Accountability

Although I am able to draw a theoretical distinction between departure due to stigmatization and that due to scapegoating, empirically disentangling the two is far more difficult (Richardson 2005). In general, public statements and regulatory filings do not provide reliable explanations for turnover; whereas proxy statements will often reveal that a director decided not to stand for re-election, or that an executive left for personal reasons, and 8K filings announce intra-term turnover, the true motivation for such turnover is almost impossible to

divine. Thus only indirect measures enable us to infer whether departures are voluntary or involuntary, and hence due to stigmatization or to scapegoating. The clearest indicator comes from the literature on managerial succession and corporate governance.

One of the strongest themes running through the literature on managerial succession is that powerful boards are more likely to dismiss executives, and particularly the chief executive, than are relatively weak boards (Boeker 1992). Pfeffer (1981) calls executive succession a public indication of the power structure underlying the organization, and Zald (1965) argues that CEO dismissal reflects board power, whereas mandatory CEO retirement reflects a relatively powerful chief executive. Building on these ideas, empirical studies have found that boards are most likely to oust CEOs when organizational performance is poor (Daily and Dalton 1995; Grusky 1960; Lauterbach, Vu and Weisberg 1999; Weisbach 1988), and when boards are dominated by outsiders (Fama and Jensen 1983; Fama 1980; Fredrickson, Hambrick and Baumrin 1988; Friedman and Singh 1989; Mizruchi 1983; Weisbach 1988). In particular, outside directors not appointed by the current CEO are less likely than insiders and those appointed by the current CEO to be loyal, unquestioning and passive directors (Herman 1981; Mace 1986), and less beholden to the norm of reciprocity (Boeker 1992; Gouldner 1960; Hirsch, Friedman and Koza 1990; Mizruchi 1983; Wade, O'Reilly and Pollock 2006), making them more likely to dismiss the CEO due to poor performance. Similarly, CEO dismissal is more likely when there is significant ownership by institutional investors than when ownership is dispersed (Boeker 1992; Friedman and Singh 1989), as concentrated ownership reduces the free rider problem and decreases managerial discretion and control (Boeker 1992; Davis 1991; Demsetz and Lehn 1985). Conversely, CEOs who are principal stockholders remain in office longer than those who are not (Allen 1981; Boeker 1992; Fredrickson, Hambrick and Baumrin 1988; Pfeffer

1981; Salancik and Pfeffer 1980). When CEOs remain in office despite poor performance, therefore, it is often because they are more powerful than their boards of directors (Boeker 1992; Fredrickson, Hambrick and Baumrin 1988; Pfeffer 1981). Thus, we can infer, CEOs who leave when they are relatively more powerful than their boards do so voluntarily.

The robustness of board power is demonstrated by the findings that the balance of power between boards and CEOs predicts the choice of CEO successor (Zajac and Westphal 1996b) as well as new board appointments (Westphal and Zajac 1995). When CEOs remain in office despite poor performance, therefore, it is often because they are more powerful than their boards of directors (Boeker 1992; Fredrickson, Hambrick and Baumrin 1988; Pfeffer 1981; Tushman and Rosenkopf 1996). Nevertheless, there is evidence that board power does not necessarily increase the likelihood of CEO turnover (Giambatista, Rowe and Riaz 2005), particularly when associated with certain organizational contingencies. For example, Ocasio (1994) finds evidence that CEO turnover increases with the number of inside directors under conditions of economic adversity consistent with the internal circulation of power. Thus it is reasonable to assume that board power is associated not simply with CEO turnover, but with the discretion necessary to do what they think is best for the organization and for their own careers.

In light of the argument that board power creates discretion, we must consider whether relatively powerful directors would prefer to remain on the board and to dismiss the CEO following restatement, or if they would be better served by departing themselves. If the stigmatization argument holds, organizational elites would prefer to leave with their own reputations intact, fearing contamination by association with the restating organization. Because they are independent, and therefore not particularly tied to the restating organization, they are also likely to have access to external resources and opportunities for the prestige and income

associated with a directorship. This is likely to be especially true of outside directors who own relatively little firm stock, and therefore likely to identify even less with the organization. Once they have left the restating organization, directors may be able to privately convey dissatisfaction with the corporate governance practices that enabled the misconduct to emerge, for example, and thereby protect his own identity by separating himself from the tainted organization and tainted others. When boards have discretion over who leaves and who stays, therefore, directors would be more likely to turn over following restatement. Evidence that members of relatively powerful boards depart following restatement therefore indicates voluntary turnover, and supports the stigmatization argument.

H1. Outside director turnover will be positively associated with board power following a restatement of earnings

Although relative power and independence imply that post-restatement turnover is the rational response to the fear of stigmatization, the assertion that it is voluntary is difficult to prove with turnover data alone. If one considers that directors have limited carrying capacity for board seats, however, supportive evidence might be found in the patterns of change in the number of other seats held by both insiders and outsiders (Richardson 2005). For example, a director might decide that he has time to devote adequate attention and resources towards sitting on three boards, but no more. Following this example, if an actor voluntarily leaves a restating firm whose reputation has been damaged, he might choose to accept a position on another board. This argument would lead us to predict a positive relationship between turnover and adding external board seats, and a negative relationship between turnover and losing external board seats. The problem with this argument is that it implicitly assumes unconstrained opportunities to accept new board seats, neglecting the evaluation processes that boards go through in making

nomination and decisions. Whereas it is reasonable to assume that organizational elites may depart the restating firm voluntarily, it requires more of a logical leap to assume that their volition is sufficient to gain seats elsewhere.

The more likely scenario is presented by the theory of *ex post* settling up (Fama and Jensen 1983; Fama 1980), which argues that firms tend to sever ties with poor performers, an argument supported by organizational research (Baum and Oliver 1991; Elsbach 1994; Haunschild, Sullivan and Page forthcoming; Jensen 2006). *Ex post* settling up therefore implies that actors associated with outcomes such as earnings restatements suffer consequences on external labor markets, demonstrated by a loss of existing seats on external boards, and diminished likelihood of gaining additional external appointments. Viewed in conjunction with organizational stigmatization, ex post settling up following organizational misconduct can be seen as the result of attempts to avoid stigma by association (Pozner forthcoming). If misconduct is viewed as unacceptable, it will result in stigmatization of the managers and directors involved, from which the process of ex post settling up follows. Other organizations will sever ties with actors associated with the restatement to avoid being tainted by association with the potentially tainted directors.

Following this logic, the loss of external seats acts as a signal that the restating organization and its leaders are being stigmatized, whereas invitations to join new boards signal the absence of stigmatization. The decision to stay at the restating firm or to leave may be influenced by these signals, resulting in the opposite pattern of results to the one posed by the capacity argument. This logic is also consistent with voluntary departure from the restating firm given board independence and power: organizational elites with discretion make the conscious decision to sever potentially damaging ties or to remain with the restating firm in light of

external evaluative cues. Thus, I predict that organizational elites are stigmatized themselves following restatement, leading to fewer new board seats and a loss of existing seats. It should be noted that these decisions are likely to be made simultaneously, and their sequence is difficult to discern, so this argument concerns associations, rather than causality.

H2. Turnover will be negatively associated with the addition of external board seats following a restatement of earnings

H3. Turnover will be positively associated with the loss of external board seats following a restatement of earnings

In contrast, some board members may choose not to depart following restatement, regardless of the balance of power. If elites perceive the threat to organizational identity to be less severe, and the threat of individual stigmatization to be manageable, they may choose to remain with the organization. As Boeker (1992: 404-5) points out, however, the preponderance of research suggests that organizations are likely to take some type of action, even if merely symbolic, in response to performance problems. In that case, the most reasonable alternative to departure would be to scapegoat other organizational elites (Boeker 1992; Brady and Helmich 1964; Gamson and Scotch 1964; Wagner, Pfeffer and O'Reilly 1984), particularly those who might have been directly associated with the negative outcomes, and about whom a plausible account of responsibility might be constructed.

The most salient target for scapegoating is the CEO. Whereas relatively powerful boards have the discretion to depart the organization, relatively powerful CEOs may react quite differently to revelations of misconduct. Because they are likely to identify more strongly with the organization than do outside directors, and perhaps because they are less attentive to external sanctions because of their feelings of power (Anderson and Berdahl 2002), powerful CEOs are

more likely to remain with the organization rather than departing voluntarily. Thus the effect of power on CEOs and outside directors is likely to be asymmetric. Evidence that less powerful CEOs depart the organization following restatement therefore indicates involuntary turnover, and provides support for the scapegoating argument.

H4. CEO power will be negatively associated with CEO turnover following a restatement of earnings

In addition to the CEO, the most likely candidates for symbolic action are those most directly involved in financial statement preparation and review and most visible to external stakeholders: the CFO and other executives in financial oversight positions. Insider turnover in the face of relatively strong boards is therefore evidence of involuntary departure, and thus provides support for the scapegoating argument.

H5. Insider turnover will be positively associated with board power following a restatement of earnings

The temptation to scapegoat may be even stronger when the case to be made against the parties most proximal to the restatement is particularly strong. It can be argued that those most responsible for the restatement, and therefore those most deserving of punishment, are those who were actually in office at the time the misstated financials were filed; those who came to office after the misstatements were filed are accountable in only a symbolic fashion. The likeliest candidates for such scapegoating are executives with responsibility for financial statement preparation and review, CFOs, and those seen as symbolic of and accountable for organizational action, CEOs (Dalton and Kesner 1985; Kesner and Sebora 1994; Vancil 1987); again these are actors about whom a plausible account of responsibility can be constructed. The departure of

insiders who were in office at the time the faulty statements were filed must therefore be seen as involuntary, and supportive of the scapegoating argument.

H6. Insiders who were in office at the time of the misstatement will turn over at a higher rate than those who joined the firm following the misstatement

Also potential targets for scapegoating following restatement are the board members closest to and technically responsible for winnowing out financial misconduct: members of the audit committee. Although members of relatively powerful boards are less likely to turn over in general, boards do not necessarily act as unified entities. The more powerful the board, the more independent it is, and independence may create a lack of identification not only with the organization, but also with other board members, leading then to offer up as scapegoats their own members. Given powerful boards, turnover among directors present at the time of misstatement must be seen as support for the scapegoating argument.

H7. Outsiders who were in office at the time of the misstatement will turn over at a higher rate than those who joined the firm following the misstatement

DATA AND METHODS

Sample Construction and Data Collection

To test my hypotheses, I collected data on firms restating earnings between 1997 and 2003, as reported by the GAO (D'Agostino, 2002), a population that includes approximately 1,239 restatements. Availability of complete information on the restatements themselves, as well as complete records of prior performance, directors and officers, ownership, market returns, and ancillary data narrowed resulted in a final sample of 311 restatements issued by 266 firms listed on the S&P 1500 Index between 1997 and 2003; my observation window extends to 2006 to

account for staggered board elections. Based on annual proxy statements, and based on the availability of data therein, I gathered information on each firm's board of directors and top executives, including the CEO as well as the CFO, President, COO, Treasurer and Comptroller, when available. This produced a sample of 3,138 unique actor-firm-year combinations for restating firms.

To establish the main effects of restatement on turnover, I also collected a matched sample of non-restating firms for 63 restaters included in the S&P500 Index based on 3-digit SIC code to indicate industry (Arthaud-Day et al. 2006; Hambrick and D'Aveni 1988) and total assets to indicate firm size (Arthaud-Day et al. 2006; D'Aveni 1989). Matched-pair sampling is a generally accepted way of modeling phenomena with a low base rate of occurrence (Cannella, Fraser and Lee 1995; Daily and Schwenk 1996; Zajac and Westphal 1996b), and has been used extensively in other studies of restatements (Agrawal, Jaffe and Karpoff 1999; Arthaud-Day et al. 2006; Khanna and Poulsen 1995; Kinney and McDaniel 1989; Richardson 2005). This resulted in a matched sample of 1,798 unique actor-firm-year combinations. None of the control firms issued a restatement during the observation period. Following Arthaud-Day et al. (2006), I tested for differences between the two samples in terms of assets, sales, employees and ownership structure, and found no statistically significant differences between the two samples. This sample is not used for hypothesis testing. Descriptive statistics and correlation coefficients are reported in tables 1 and 2.

Dependent Measures

The dependent variable in my analyses is *Departure*, a dummy variable coded as one if the actor left the restating organization within one year of the restatement. An actor was coded as leaving if he were listed in the proxy statement for the year prior to announcement of the

restatement, but not in the proxy from the calendar year of the restatement, or if here were included in the proxy statement from the year of the restatement, but not the following year. I then generated *Departure* by coding separate values for those outside directors, audit committee members, CEOs, CFOs and other outsiders who had left, leaving all those who had not departed as the comparison group. These data were collected from Thomson Research's *Compact Disclosure* database, as well as by hand-coding proxy statements in the *EDGAR* database. Descriptive statistics and correlation coefficients are reported in tables 1 and 2.

For the analysis of the matched sample, the dependent variable is *Departure within Two Years*, coded with a one if the actor left the firm within two years of the sample year, for models including all actors or all directors. Because insider turnover generally takes place more quickly than outsider turnover, however, analyses of the matched sample including only CEOs and CFOs use the dependent variable *Departure*, coded with a one if the actor left the firm within one year of the sampled year.

Independent Measures

Following Zajac and Westphal (1996b) I used several measures collected from annual proxy statements to operationalize board power relative to the CEO. First, CEO duality – joint occupation of the CEO and board Chairperson titles – has long been considered to impinge on board independence and promote managerialism (Cannella. Jr and Lubatkin 1993; Rechner and Dalton 1991; Zajac and Westphal 1996b). Certainly, executives occupying both positions simultaneously have greater formal authority and stature relative to the board (Harrison, Torres and Kukalis 1988; Patton and Baker 1987; Zajac and Westphal 1996b). *CEO Duality* was therefore coded with a one if the CEO was also the Chairman of the Board at the time of the restatement, and is negatively correlated with board power.

I also measured *Board Tenure Relative to CEO*, a measure of the average tenure of outside board members divided by the tenure of the CEO that is positively associated with board power. This measure operationalizes the effect of tenure on the relative influence of both parties (Singh and Harianto 1989; Wade, O'Reilly and Chandratat 1990; Zajac and Westphal 1996b). Outsiders with greater tenure are more likely to be familiar with organizational resources and operations, and therefore to possess expertise that enables them to speak up during board meetings, and consequently to exercise influence relative to the CEO (Alderfer 1986; Zajac and Westphal 1996b; Zald 1969). Similarly, CEOs with relatively long tenure may gain influence over the board through their personalities and the force of their identification with the organization (Finkelstein and Hambrick 1989; Zajac and Westphal 1996b).

Another measure of board power is *Independent Outsiders*, a count of the outside directors not appointed by the current CEO that is positively associated with board power. This derives from Wade and colleagues' (1990) observation that boards composed of directors appointed after the CEO were positively associated with golden parachute adoption. Because they have historically controlled the nominating process, CEOs have been able to choose directors with whom they have personal relationships or demographic similarities, making them more susceptible to CEO influence (Fredrickson, Hambrick and Baumrin 1988; Mace 1986; Zald 1969). Outside directors not appointed by the current CEO are less likely than insiders and those appointed by the current CEO to be loyal, unquestioning and passive directors (Herman 1981; Mace 1986), and less beholden to the norm of reciprocity (Boeker 1992; Gouldner 1960; Hirsch, Friedman and Koza 1990; Mizruchi 1983; Wade, O'Reilly and Pollock 2006), making the board more independent of the CEO and more likely to exercise their own preferences (Zajac and Westphal 1996b).

I included *Total Outsider Beneficial Ownership*, measured as the percentage of total stock outstanding beneficially owned by outside directors, as indicated in annual proxy statements. This measure, suggested by Zajac and Westphal (1996), captures the power of board members based on stock ownership (Zald 1969), as well as the degree of director vigilance and monitoring of managerial activity based on equity investment (Beatty and Zajac 1987; Finkelstein and Hambrick 1989). This measure is also positive associated with board power.

I also included several additional measures of relative independence and power. *Outsider Ratio*, or the ratio of outsiders to insiders on the board, was included, as it is generally considered a measure of board independence (Daily and Dalton 1994; Zajac and Westphal 1994; Zajac and Westphal 1996a; Zajac and Westphal 2004), and is positively associated with board independence. Because I am interested in the outcomes of individual actors, including insiders whose influence relative to the board would not be captured in board-level measures, I also included three measures of individual outside director independence. *Tenure* is measured as years in office, based on annual proxy statements, and is positively related to director independence. *Individual Beneficial Ownership* is measured as the percentage of shares outstanding beneficially owned by the focal actor, and is negatively related to director independence; the more stock a director owns, the more he is likely to identify with the organization, and the more tied he is to its fate and fortune. Finally, *Appointed by CEO* is a dummy variable coded with a one if the focal actor was appointed by the current CEO, and is hence an independent outsider at the individual level.

To test the capacity argument against the stigmatization and *ex post* settling up argument, I include *External Seats Added within One Year* and *External Seats Lost within One Year*. These count variables, derived from the *Thomson Financial* database of proxy statements, indicate the

number of seats, excluding the seat at the restating firm, gained and lost, respectively, by a given director or manager between the calendar year in which the restatement was filed and the following proxy year. I used these two measures, rather than one measure of net change in seats, to respond differentiate no change in board seats due to no movement from no net change in seats due to adding and dropping external seats in the same year (Richardson 2005).

Finally, to measure plausible accountability, I included a variable called *In Office at Time of Misstatement*. This dummy variable was coded with a one if the focal actor was in his current position before the statements for the final restated period were filed with the SEC.

Control Measures

I included the dummy variable, *After 2000*, which was coded as 1 if the restatement occurred in the years 2001 through 2003, and 0 if it occurred in or prior to the year 2000, to account for the salience of the corporate scandals that peaked around the collapse of Enron, as well as the passage of the Sarbanes-Oxley Act.

I also included three director-level controls. *Age 65* is a dummy variable coded as 1 if the actor were 65 or older in the year of the restatement, and 0 if he were younger than 65, as reported in annual proxy statements. I also included a dummy variable, *Female*, coded with a one if the actor is female, based on annual proxy statements. *Total External Board Seats* represents a count of the number of other boards on which the focal actor sits, and hence a proxy for the centrality of the focal actor in the network of U.S. publicly-traded corporations; this variable was collected from the *Thomson Financial* database of proxy statements.

Two firm-level variables collected from the *Compustat* database and lagged on year prior to restatement controlled for performance, *Return on Assets*, and organizational size, *Total Assets*. I also included dummy variables indicating that the restating firm was included in the

S&P 500 Index and *NYSE (New York Stock Exchange) Listing* during the year of its restatement. These were collected using the *CRSP* database.

Three measures of restatement severity and salience were also included. Based on unreported, stepwise analysis of the features of restatements most associated with director and insider turnover, I included measures *Restated Filing: 10K*, a dummy variable coded 1 if the restatement concerned annual 10K filings, and 0 if only quarterly 10Q filings were restated; *Restatement Reduces Net Income*, a dummy variable coded with a 1 if the net effect of the restatement was to reduce net income, and 0 if net income were increased or not changed by the restatement; and *Number of Restatements*, a discrete variable coded as 1 if the current restatement was the focal firm's first during my observation window, 2 if it were the second, etc. I also tested, but did not include in this analysis, other restatement characteristics, such as type of restatement, restatement prompter, magnitude of the effect on net income, time lag between the last year restated and the date the restatement was announced, and inclusion on the *Fortune* Reputation Index. Further discussion of the effect of these modifiers on turnover will be elaborated in a subsequent chapter.

Finally, I included two variables to measure board demographics that might influence departure behavior. First, *Board Size* is measured as the total number of inside and outside directors on the board based on SEC filings in the *EDGAR* database. Although board size has been argued both to enhance and to diminish firm performance (for a review, see Dalton et al. 1999), I have included this variable to account for the likelihood of any individual director departing. That is, the more directors on a given board, the less threatened any one director might feel by the potential for stigmatization, and the less likely they are as a body to feel the need to scapegoat others. I also included a variable called *Number of Outside Directors*

Departing, a count of outside directors, excluding the focal actor, who left the restating firm within one year of restatement. This measure was included to control for intra-firm contagion. Assuming that organizational actors are influenced by each other through various mechanisms (Burt 1987; Coleman 1988; DiMaggio and Powell 1983; Lorrain and White 1971; Mizruchi 1993; Strang and Soule 1998), particularly under conditions of uncertainty (Rao, Greve and Davis 2001), some might leave simply because others were jumping ship. This measure controls for this alternative explanation for departure, and allows me to isolate the discrete effects of stigmatization and scapegoating.

Method of Analysis

To demonstrate the main effect of restatement on turnover of all organizational elites, directors, CEOs and CFOs, I analyzed the matched sample using logistic regression using the Stata 8 statistical package. In these models, I specified robust standard errors by clustering on firm to control for interdependence of within-firm observations. Results of this analysis are included in table 3. To test for the clustering of restating organizations within industries and over time, and as a robustness check, I also ran the models using robust estimation and clustering on three-digit SIC codes, as listed in the *Compustat* database, and ran models with fixed effects by year. The unreported results of these models were not significantly different from those reported below.

To test my hypotheses, I employed a sample composed exclusively of the outside directors and insiders of restating firms, again using logistic regression in the Stata 8 statistical package. In these models, I specified robust standard errors by clustering on firm-year to control for interdependence of within-firm observations and multiple restaters. To facilitate comparison and generate the most parsimonious set of models possible, rather than run discrete models for

each group of organizational elites, I stacked them into two sets of models, one for outsiders, the other for insiders. I did this by first modeling each group independently, then conducting seemingly unrelated regression (Greene 1993) to test for equality of effects of each hypothesized relationship between groups one parameter at a time (see Greve 1998). After conducting pair-wise comparisons of effects, I collapsed the data into two groups – insiders and outsiders – and included interaction terms for only those parameters demonstrated to differ within group based on the seemingly unrelated estimation procedure. Thus, as the effect of CEO Duality on CEO turnover was found to differ significantly from its effect on CFO and other insider turnover, but the effects of CEO Duality on CFO turnover was not found to differ significantly from its effect on other insider turnover, I included an interaction term for CEO Duality on CEO turnover; all other effects can be read as statistically equivalent across collapsed groups. This procedure allowed me to present parsimonious models while accounting for differences in demographics, preferences and behavior among upper echelons (Jensen and Zajac 2004). Finally, I ran all models with fixed effects for both firm and year; as neither set of analyses increased model explanatory power nor changed the patterns of results and significance. I report only the most parsimonious models.

RESULTS

The results of my matched sample analysis are reported in table 3. Model 1 reports the results of a control model for all executives and directors in the matched sample, whereas model 2 includes the key instrumental variable, *Restatement Issued*. The results of model 2 indicate that, across directors and executives, turnover is significantly higher among restating firms within the first two years of the restatement than it is among non-restating firms. Models 3

through 5 test the effects of restatement on departure for directors only. Model 3 is a control model, whereas model 4 indicates that restatement significantly increases the odds of turnover among board members within two years of restatement. Model 5 suggests that, although members of the audit and corporate governance committee members are less likely to depart the firm generally, there is no significant difference between turnover rates among those sitting on the audit and corporate governance committees of restating firms and control firms. Models 6 and 7 represent control and test models for turnover of CEOs only, and reveal the large and significant difference in turnover rates for CEOs of restating firms within one year of restatement and non-restating firms. Models 8 and 9 demonstrate the same pattern of results for CFOs, with the magnitude of the effect of restatement on turnover within one year larger even than that for CEOs.

Table 4 reports the results of my analysis of turnover of outsiders within one year of restatement. Model 1 is a control model, and indicates that, consistent with the matched sample analysis, audit committee members are significantly less likely than other outside directors to depart the restating firm. In addition, this model suggests strong evidence of intra-firm contagion, with a highly significant effect of other directors departing on director turnover. Other significant controls include being of retirement age and female, both of which increase turnover, whereas restatements that reduce net income and more external board seats lower the odds of outsider turnover following restatement. In model 2, I add the instrumental variables for board power. Individual measures of power indicate that the risk of turnover increases with organizational tenure, but decreases significantly with individual stock ownership, indicating support for individual director independence increasing the risk of turnover. Although CEO duality and outsider ratio have no significant effect on turnover, relative tenure and total outsider

beneficial ownership significantly increase the rate of outsider turnover, providing support for H1. In model 3, I add the effects of adding and losing seats on other boards, and find that adding other seats is associated with a significant decrease in the rate of turnover, whereas losing external seats is associated with a significant increase in the rate of turnover among outside directors; this model therefore provides support for H2 and H3. Model 4 introduces the dummy variable indicating that the focal director was in office at the time of the misstatement, but is not significant, providing no support for H7.

My analysis of the impact of board power on the rate of turnover among insiders is reported in table 4. Model 5 is the control model, and is consistent with the matched sample analysis in its suggestion that CFOs are more likely than CEOs and other insiders to turn over following restatement. This model also indicates that executives are subject to intra-firm contagion, as the risk of turnover increases significantly with the number of directors departing, particularly CEOs. This model suggests that insiders are less likely to depart following restatement after the year 2000 and if they sit on other boards, although they are more likely to go if they are of retirement age and as the number of restatements the focal firm has issued increases. Model 6 introduces the instrumental variables for board power and the interactions suggested by my pair-wise comparison of effects following the seemingly unrelated regression analysis. The results of this model finds no effect for board power on the likelihood of insider turnover, but provides support for H4, indicating that more powerful CEOs, as measured by CEO stock ownership and duality, are at lower risk of turnover. Model 6 provides no support for H5, however, which predicted that more powerful boards would scapegoat insiders; this model instead provides evidence that relatively powerful CEOs are less likely to scapegoat insiders,

indicated by the decreased rate of turnover among insiders who were appointed by the CEO and those with significant stock ownership.

In model 7, I add the variables indicating that the focal insider has added or lost seats on external boards during the year following restatement. This model supports H2 and H3, which suggest that those actors losing external seats would be more likely to depart the restating firm, while those adding external seats would turnover at a lower rate. Finally, model 8 introduces the variable indicating that the focal director was in office at the time of misstatement. The significant, positive coefficient for this variable indicates support for the scapegoating argument forwarded in H6.

DISCUSSION

It has long been demonstrated that organizational elites may suffer consequences on internal and external employment markets following negative organizational outcomes. The degree to which such consequences might represent penalties imposed by external agents or, in contrast, the voluntary dissociation of organizational actors from the firm associated with those negative outcomes, however, has not yet been adequately determined. My analysis both supports that research and builds upon it by suggesting, for the first time, that we might actually be able to discern between voluntary and involuntary turnover. Although these results are not incontrovertible, they are highly suggestive that outside director turnover following restatement is associated with greater board independence, and therefore voluntary. In contrast, I find that turnover among insiders is associated with plausible claims of accountability and relatively weak CEOs, suggesting that their departure is involuntary. Taken together, these results suggest that

turnover following restatement is a function of organizational stigmatization as regards outside directors and scapegoating as regards insiders.

The results of my matched sample analysis supports previous studies, which find evidence of increased turnover following restatements (Arthaud-Day et al. 2006; Desai, Hogan and Wilkins 2006; Hennes, Leone and Miller 2006; Srinivasan 2005), although my findings do not support Srinivasan's (2005) report of particularly increased turnover rates among audit committee members. Interestingly, these findings indicate that the impact of restatements on the rate of insider turnover is stronger than it is for outsiders, in terms of both speed and magnitude. This suggests that if insiders are to depart, they will do so almost immediately, whereas board members may take longer to decide whether or not to stay with the troubled firm. This is consistent with my argument that insiders are more likely to depart because they are scapegoated, whereas board members leave voluntarily, taking more time to consider their movements. This finding is also consistent with staggered board elections, and might suggest that directors prefer inter-term departure to intra-term departure, which might raise eyebrows on the market for directors (see Morgenson 2005).

Supplemental analysis reported in table 5 provides additional evidence in support of voluntary departure. Although the rate of director turnover is higher through the two years following restatement, it is significant and negative for those who remain in the third year following restatement; if it were only a matter of waiting out one's term, the turnover rate in year three would also be significantly higher for restating firms than it is for non-restating firms. This suggests that directors depart as soon as they can following restatement, whereas those who remain demonstrate stronger commitment to the organization. In contrast, the increased rate of insider turnover is present only in the first year following restatement, again providing support

for the argument that insiders are scapegoated, and do not leave voluntarily. In future studies, I plan to test this empirically with additional data on board terms.

My analysis also provides strong evidence in support of intra-firm contagion. The number of directors who depart within a year of restatement increases the risk of each director departing over that same period, but significantly decreases the risk of turnover in the second year after restatement. This result suggests that outside directors leave en masse, and is inconsistent with the argument that directors are involuntarily dismissed in large numbers. A similar pattern is found among insiders: The number of directors departing within a year of restatement also increases the likelihood of CEO and CFO departure in year 1, but generally does not have impact beyond the first year following restatement, suggesting that house-cleaning may be done in one fell swoop.

More conclusive evidence of voluntary outsider departure is presented by my analysis of relative power and plausible accountability. This analysis indicates that relatively powerful and independent outsiders depart restating firms at a higher rate than those more beholden to the CEO. This finding, which would not be predicted by a strict reading of the CEO succession literature, suggests that independent directors leave voluntarily, rather than being forced out. With less stock ownership and less loyalty to the CEO, these directors are not highly committed to and do not strongly identify with the restating firm, and so are reasonably happy to leave rather than to risk further association with a tainted enterprise.

Voluntary departure might reasonably be driven by a desire to minimize personal financial losses – although the significant and negative effect of stock ownership on outsider turnover suggests the opposite – or because directors write the company off as unsalvageable and decrease their commitment to the firm. The data support a different motivation, however; as I

have argued, it is the fear of contamination of the outsider's own identity through association with a tainted organization that drives outsider turnover. This argument is supported by the finding that the addition of new board memberships following restatement is actually associated with a decreased likelihood of turnover, whereas the loss of external board seats is associated with an increased rate of turnover. Although I cannot argue that there is a causal relationship between changes in external board seats and turnover, I assert that a director's reception on external labor markets sends a clear signal as to how external agents assess the salience of the restatement. A warm reception on external labor markets suggests that the restatement is not seen as an indicator of director quality, mollifying fears of stigmatization and resulting in less turnover. In contrast, being snubbed by external agents suggests that the restatement is not looked upon favorably, and that the director's own reputation and identity might be further damaged were he to remain, resulting in higher rates of turnover. This argument is also consistent with the assumption that outsiders are less likely to have discretion over their appointment to new boards (i.e., invitations must be made in order to be accepted or declined) than over their ability to leave boards on which they no longer feel comfortable. The alternative explanation for the relationship between losing external seats and departing the restating firm – that actors voluntarily remove themselves from the market for directors following discrediting events – is also consistent with my argument.

The voluntary nature of outsider departure is further supported by my finding that plausible accountability for the initial misstatement does not affect turnover rates. That is, outside directors, including audit committee members, are no more likely to depart the restating firm if they were in office at the time the materially incorrect financial statements were filed than they are if they joined the firm after that wrongdoing occurred. This is surprising, given that

outside directors, and especially audit committee members, are technically responsible for overseeing the quality of financial disclosures, and legally responsible under the Sarbanes-Oxley Act. Because they do not leave the restating firm in greater numbers when they are more proximate to the misstatement, which would support involuntary departure and scapegoating, we must conclude that outsiders' departure is largely voluntary.

In sharp contrast to the picture my findings paint of outsider turnover, it seems that insiders are often shown the door, rather than leaving voluntarily. The strongest evidence of this is that those who were in office at the time of misstatement, and therefore those who were most likely to have a hand in overseeing or preparing the initial, incorrect disclosures, making accounts of their complicity plausible. This strongly suggests that insiders are scapegoated and asked to leave, not that they depart the restating firm voluntarily. Interestingly, however, this effect is undifferentiated across groups of insiders: my models indicate no discrete effects for plausible accountability of CFOs compared to CEOs or other insiders. One might anticipate that CFOs, as most visibly and directly associated with financial statements, would be the most useful symbols for boards attempting to convince external stakeholders of their trustworthiness and action orientation. Rather than contradicting my argument in favor of scapegoating, this finding might suggest that boards are less concerned with symbolism and more concerned with accountability when cleaning house.

Also somewhat surprising is my finding that insider turnover is not associated with greater board independence. Although the lack of evidence in support of voluntary CEO turnover is not unexpected, the evidence that board power is not significantly tied to CEO and other insider turnover is. My results indicate instead that it is powerful CEOs and the insiders they appointed who are likely to remain, and hence relatively weak CEOs and insiders not loyal

to the incumbent chief executive who are most likely to depart following restatements. Although a stronger CEO necessarily implies a weaker, less independent board, we might have expected the forces determining insider and outsider turnover to operate through the same mechanisms. Instead, it seems that only a powerful CEO can prevent the scapegoating of insiders, whereas less powerful CEOs are associated with increased involuntary turnover among insiders.

The finding that the forces driving insider turnover differ from those driving outsider turnover lends support to my assertion that there are two distinct mechanisms at play in apportioning the consequences of restatement. Outsider turnover appears to be driven by organizational stigmatization and fear of personal taint, and seems to be largely voluntary, especially among relatively powerful and independent boards. In contrast, scapegoating seems to motivate insider turnover, particularly in the absence of a strong, entrenched chief executive. This represents a marked improvement in our understanding of the fall-out of financial misconduct, which so far has identified economic mechanisms that affect organizational elites' labor market outcomes, but has not yet addressed the important political and social mechanisms that are also consequential.

Bringing the analysis of social mechanisms into an area traditionally studied by finance and accounting theory is itself a contribution, as well. The studies of the after-effects of earnings restatements conducted by finance and accounting scholars have contributed significantly to organizational theory's understanding of organizational misconduct, an area that has not always gotten the attention it deserved. The economic and market mechanisms identified by these scholars explain a significant portion of observed behavior, and enable us to isolate the discrete effects of social mechanisms. My addition of social and political mechanisms builds on those important foundations, adding what organizational theory and sociology take as foundations of

organizational behavior: human interaction. By bringing the social into the economic realm, this research should also enable finance and accounting scholars to account for heretofore unexplained variance in observed behavior, and contribute to the growing fields of behavioral finance and accounting.

In addition, these findings represent a significant contribution to the literature on executive succession. Whereas prior research has explored the role of board power and independence in CEO turnover, the role of independence in director turnover has been largely neglected. I argue that independent directors are less committed to and identify less strongly with the boards on which they sit, and therefore more apt to jump ship when they deem the investment of time and resources in governance to be unproductive. It must be this lack of commitment to an enterprise perceived to be failing that accounts for strong boards failing to remove insiders, when they are willing to remove chief executives for poor performance, a potentially less stigmatizing outcome.

Although the scope of this study is limited to restatements of earnings, a very specific and recently popular example of organizational misconduct, my findings should be generalizable to most forms of organizational misconduct, although not necessarily to all potentially stigmatizing organizational events. Vaughan's (1999) definition of misconduct differentiates the range of actions covered from those associated with accidents or disaster. The same pattern of results is unlikely to result from organizational accidents, because of their relatively low social costs, and because they are generally uncontrollable, making them weak signals and symbols of director ability. Similarly, the stigma that arises from organizational disaster – which indicates systemic failure, and therefore arouses suspicions of an organizational culture that tolerates laxity and persistent deviance – should entail more severe consequences for the executives and directors

overseeing the firm at the time, suggesting different mechanisms at work. Nevertheless, the results should generalize beyond the specific acts in this study to a range of behaviors that may exist in any social system; those that are controllable, and the costs of which can range from very limited to quite broad. Although further empirical investigation is merited, I expect that my findings would vary with the degree to which the misconduct is perceived to be controllable by the individual organizational actor and the severity of the social costs incurred.

Though I have elaborated some of the mechanisms that account for turnover following earnings restatements, there is still much to learn. This chapter represents the beginning of a comprehensive research stream on the mechanisms that determine how consequences of misconduct are allocated. In subsequent chapters, I investigate the mechanisms affecting the elites of restating organizations on external labor markets, focusing on the factors that account for the loss or gain of external board seats following restatement. In future work, I plan to probe more deeply into the characteristics of firms hiring and dismissing directors associated with stigmatized organizations, with the goal of understanding the mechanisms that drive board decision-making in this regard. Taken together, my research contributes to our understanding of the social processes that differentiate which actions and which actors will be stigmatized, how those determinations change, and the mechanisms that determine whether and to what extent there are consequences for organizations and individuals.

CHAPTER 2: STIGMATIZATION, POLLUTION, SIGNALING AND SYMBOLISM: EARNINGS RESTATEMENTS AND THE MARKET FOR DIRECTORS

How are the consequences of organizational misconduct allocated among organizational elites? This question has received much attention in the past several years among academics, who have found that organizational elites often lose their positions at organizations involved in the damaging process of restating earnings (Arthaud-Day et al. 2006; Desai, Hogan and Wilkins 2006; Hennes, Leone and Miller 2006; Srinivasan 2005), as well as on the boards of other firms following the restatement itself (Srinivasan 2005). Despite the preponderance of evidence demonstrating these effects and their economic motivators, however, we have not yet fully elaborated the social mechanisms through which they are allocated. Do all suffer the same consequences, their reputations polluted by the taint of misconduct? Or are labor markets more attentive to the characteristics of the misconduct itself, suggesting more severe consequences for some than for others? Finally, are those consequences proportional to the severity of the infraction, suggesting that the restatement signals director quality, or are they moderated by more symbolic aspects of labor markets, like reputation and market tolerance of misconduct itself? In this chapter, I probe deeper into the social-interactionist mechanisms that determine the distribution of consequences of organizational misconduct for organizational elites on the external market for directors.

Economic and finance theory argue that poor organizational performance and negative outcomes should imply consequences for managers and directors on both internal and external labor markets. Consistent with findings regarding outcomes after earnings restatements, the theory of *ex post* settling up (Fama and Jensen 1983; Fama 1980), argues that these

consequences accrue because organizational elites associated with negative organizational outcomes are considered poor managers and overseers. This theory assumes organizational performance to be a signal of manager and director quality, reflecting some underlying reality about organizational elites' skills and capabilities. Yet *ex post* settling up does not address whether the consequences of negative organizational performance are doled out by degree, or if they accrue equally to all involved. Nor does this theory account for the symbolic aspect of organizational performance, reflecting individuals' perceptions and interpretations of events, which may be decoupled from underlying reality. Given that corporate boards often make decisions not on the basis of economic soundness, but rather for symbolic or political reasons (e.g., Davis 1991; Davis and Thompson 1994; Westphal and Bednar 2005; Westphal and Fredrickson 2001; Westphal, Gulati and Shortell 1997; Westphal and Milton 2000; Westphal and Zajac 1995; Zajac and Westphal 1996a), signals of individual directors' human capital may not be the only factors that inform the market for directors. Instead, symbolic forces may also play a role, and may in fact dominate the power of signals, in determining the allocation of consequences for organizational elites.

Key to understanding the import of symbolic factors in the allocation of consequences among organizational elites is the concept of stigmatization. In applying the concepts developed by sociologists and social psychologists, tracing back to Durkheim (1995), Douglas (2004) and Goffman's (1986) seminal works, to the market for directors, we can better understand the social mechanisms through which consequences of organizational misconduct are allocated to organizational elites. Building on Douglas's (2004) conception of pollution, I argue that mere proximity to illegitimate acts or characteristics may affect an actor's social relationships, regardless of his or her own characteristics or actions, but that this pollution can be attenuated or

amplified by characteristics of the restatement itself. Drawing on Feldman and March's distinction between symbol and signal (1981), I argue that such consequences are driven both by the substantive signals provided by substantive characteristics of and reactions to organizational misconduct, as well as the symbolic factors that affect perceptions of the misconduct irrespective of its substantive aspects. In the case of earnings restatements, therefore, it is not only the signal posed by the substantive aspects of the restatement – such as its indication of fraud and its effect on net income – but also the symbolic salience of having been involved in a restatement, regardless of the severity or illegitimacy of that restatement, that determine to what degree organizational elites are affected.

In this chapter, I use stigma theory to build a case for the influence of symbolic forces on the *ex post* settling up process. Using a sample of 311 earnings restatements filed by 266 S&P 1500 firms between 1997 and 2003, I test the impact of both substantive and symbolic indicators associated with restatements on directors' and executives' subsequent loss of existing external seats and addition of new seats. I find that both substantive and symbolic indicators impact the outcomes of organizational elites, providing support for the argument that direct stigmatization influences the allocation of consequences of organizational misconduct as well as stigma by association. Moreover, I find that many of the substantive factors affecting outcomes on the external market for directors have more symbolic than signaling value. I also find that there is an aspect of stigmatization that corresponds to the idea of pollution, although this can be attenuated by certain characteristics of the misconduct itself. My findings therefore suggest that the symbolic aspect of earnings restatements should must be considered to fully understand the mechanisms through which organizational elites are affected by organizational misconduct.

THEORY AND HYPOTHESES

Earnings Restatements

Until recently, organizational theory has largely overlooked the potentially negative consequences of actions within organizations (Hirsch and Pozner 2005). Several notable exceptions exist, with considerable literatures on, for example, negative aspects of networks (Burt 1997; Granovetter 1985; Granovetter 1973; Uzzi 1997), the effects of social structure on opportunistic behavior (e.g., Baker and Faulkner 2003; Brass, Butterfield and Skaggs 1998; Faulkner et al. 2003), and more limited investigation of conflict and negative affect within social systems (e.g., Labianca and Brass 2006; Labianca, Brass and Gray 1998). In the aftermath of the corporate scandals and regulatory responses of the early 2000s, however, organizational scholars have begun to examine the antecedents and consequences of questionable business practices (Hirsch and Pozner 2005; Vaughan 1999), with particular emphasis on earnings restatements, an increasingly frequent occurrence among publicly traded firms.

Earnings restatements are tantamount to restatements of a company's history (Wu 2002), whereby firms announce that the earnings figures stated in prior SEC filings were materially incorrect. Restatements occur when a firm determines that its previously filed financial statements were materially incorrect, often on the recommendation of the SEC or outside auditors. The number of restatements has grown exponentially over the past decade; in 2006, it is estimated that 1,420 U.S. public companies restated earnings, representing a full ten percent of publicly traded companies (Harris 2007). This figure can be compared to 1,255 restatements filed in 2005, 330 restatements in 2002, the year the Sarbanes-Oxley Act was passed (Harris 2007), and only 58 in 1997 (Wu 2002). Consequently, earnings restatements have been the focus of increased academic attention (e.g., Agrawal and Chadha 2005; Akhigbe and Kudla

2005; Arthaud-Day et al. 2006; Kedia and Philippon 2004; McNichols and Stubben 2005; Ozbas and Song 2005; Srinivasan 2005; Went 2005; Wilson 2005; Wu 2002; Zahra, Priem and Rasheed 2005), particularly since the 2002 publication of the GAO report on earnings restatements conducted in conjunction with the Sarbanes-Oxley Act of 2002 (D'Agostino 2002).

Restatements may result from legitimate errors, oversights, and mistakes in the interpretation of accounting regulations, or can result from "accounting irregularities," fraudulent misapplication of accounting regulations or manipulation of facts, although it is often difficult to distinguish between intentional and unintentional misstatements (Wu 2002). Restatements of this type generally involve prematurely recognizing anticipated or non-existent revenue or deferring current costs and expenses, to increase current period net income, but can also result from attempts to hide true costs of firm acquisitions or after reassessment of the value of investments (Wu 2002). The primary motivation for earnings management is often to lower the cost of capital and attract greater external financing (Collins, Reitenga and Sanchez-Cuevas 2005). In contrast, so-called technical restatements may result from changes in accounting principles or firm adoption of new accounting policies, or from such benign causes as merger and acquisition activity, change of accounting period, or stock splits.

Restatements are different from many other instantiations of financial misconduct, such as bankruptcy and firm failure, because restatements are the result of purposive action rather than firm performance. Although restating firms are generally in poorer financial condition than non-restating firms (DeFond and Jiambalvo 1991; Kinney and McDaniel 1989), misstatement of earnings is not a necessary outcome of performance. Whereas performance-related issues are noisy and attributable to internal and external causes, and inasmuch as misstatements are seldom the consequence of mere mathematical error (Collins, Reitenga and Sanchez-Cuevas 2005;

DeFond and Jiambalvo 1991; Erickson, Hanlon and Maydew 2004), they must be the result of misconduct (Arthaud-Day et al. 2006). Although there are many immediate reasons for restatement, most restaters share certain characteristics: comprehensive takeover protection methods that minimize the chance of successful takeover attempts aimed at preserving shareholder value placed at risk by incumbent management (Went 2005); fewer independent directors with financial expertise on the board or audit committee (Agrawal and Chadha 2005); Chief Executive Officers (CEOs) who are members of the founding family (Agrawal and Chadha 2005); staggered and busy boards (Fich and Shivdasani 2005); directors previously involved in financial fraud (Fich and Shivdasani 2005); executive incentive compensation and firm performance relative to aspirations (Harris and Bromiley forthcoming); and the length of the organization's relationship with its independent auditor (Myers et al. 2005).

With the exception of technical restatements, earnings restatements are broadly seen as admissions of misconduct, and are accompanied by various market and non-market penalties. Restatements are often followed by a significant loss of shareholder value (Akhigbe and Kudla 2005; Collins, Reitenga and Sanchez-Cuevas 2005; Palmrose, Richardson and Scholz 2004; Wu 2002), impaired credibility of future financial disclosures (Farber 2005); diminished expectations of future earnings and a subsequent increase in the cost of capital (Farber 2005; Hribar and Jenkins 2004). In addition, both executives and outside directors experience diminished future employment opportunities for top management (Arthaud-Day et al. 2006; Collins, Reitenga and Sanchez-Cuevas 2005; Desai, Hogan and Wilkins 2006; Srinivasan 2005). Similarly, restatements are often followed by shareholder class action lawsuits (Lu 2004), leading to a loss of other board seats held for outside directors (Fich and Shivdasani 2005).

Because descriptions of and explanations for restatements are often provided primarily by the restating firms themselves (in the form of SEC filings) and are thus difficult to verify and subject to interpretation on the part of internal and external audiences, audiences may be skeptical of the explanations they receive. Interviews with members of corporate boards, activist investors and executive recruiters reveal that the initial reaction to revelations of earnings restatements is strongly negative, followed on reflection by a willingness to listen to justifications and explanations on the part of individual directors. This suggests that external audiences may not be attentive to differences among restatements, and that reactions to different types of restatement – even technical restatements – may often be undifferentiated. Consequently, penalties are both broadly and, to date, somewhat unpredictably apportioned among organizational elites.

It is precisely because of the potential for widespread consequences that we must elaborate the social mechanisms through which consequences are apportioned. Elsewhere in this dissertation, I investigate the mechanisms that determine who will depart the restating firm, building on previous findings regarding increased turnover following restatement (e.g., Arthaud-Day et al. 2006; Collins, Reitenga and Sanchez-Cuevas 2005; Desai, Hogan and Wilkins 2006; Hennes, Leone and Miller 2006; Srinivasan 2005), which represents consequences on internal labor markets. In this chapter, I address the social mechanisms that drive consequences on external labor markets, which are operationalized as changes in external board seats. To date, the only treatment of external labor market consequences finds that, on average, directors of restating firms lose one quarter of their external board seats (Srinivasan 2005). This study also finds that the loss of external board seats is greater for audit committee members and for restatements involving more significant changes to net income (Srinivasan 2005), supporting the

theory of *ex post* settling up. Like other studies of restatements, this chapter identifies significant economic mechanisms to explain the observed effects, yet none have so far addressed the symbolic factors that might moderate the consequences of restatements on internal and external labor markets. I propose that post-restatement turnover can be attributed to either of two processes: direct stigmatization, which is consistent with labor markets discriminating among different types of restatements and the theory of *ex post* settling up (Fama and Jensen 1983; Fama 1980), and stigma by association, which is consistent with Douglas's (2004) pollution argument. Moreover, the degree to which stigmatization affects different organizational actors can be explained both by signaling and symbolism, consistent with Feldman and March's (1981) arguments about the uses of information within organizations.

Direct Stigmatization and *Ex Post* Settling Up

Stigmatization can be understood as the process through which actors' social identities are diminished through association with either discrediting characteristics or discredited others (Goffman 1986). As Jones and his colleagues (1984) explain, stigma is an emergent property, determined through the process of social interaction, whereby specific meanings are attached to categories of behavior and individuals. Stigmatization leads others to perceive the stigmatized as unable to sustain predictable and consistent patterns of interaction, which in turn poses a threat to the perceiver's identity and well-being (Berger and Luckmann 1966; Elliott et al. 1982; Jones et al. 1984; Kurzban and Leary 2001). Observers attribute the stigma to the bearer's moral defect or deviant nature (Crocker and Major 2003; Goffman 1986; Jones et al. 1984; Kurzban and Leary 2001; Lyons 2006), thereby contaminating or spoiling the stigmatized actor's social identity (Goffman 1986; Jones et al. 1984), and making them less attractive interaction partners.

Viewing the stigmatized actor as a moral degenerate allows the untainted to view the world as ordered while accounting for the stigmatized actor's plight (Jones et al. 1984).

What distinguishes stigmatization from any other negative evaluation is that it forms the basis for reduced social interaction (Carter and Feld 2004; Kurzban and Leary 2001), thus redefining the boundaries of social acceptability. Leary and Schreindorfer (1998: 15) argue that stigmatization arises "when a shared characteristic of a category of people becomes consensually regarded as a basis for dissociating from (that is, avoiding, excluding, ostracizing, or otherwise minimizing interaction with) individuals who are perceived to be members of that category." Thus, stigmatization arises not merely from spoiled identity or negative evaluation, but because society views that evaluation as a basis for exclusion. Such exclusion may result from the fundamental desire to separate the pure or the sacred from the dangerous or profane (Douglas 2004; Durkheim 1995; Goffman 1986), or may be the result of an evolutionarily-determined desire to create physical distance between oneself and parasites or other contaminants that might drain or damage oneself (Kurzban and Leary 2001). The potentially damaging effects of interacting with stigmatized others motivates the untainted to minimize contact, or even to sever ties, with stigmatized actors. By rejecting the stigmatized, the untainted actor not only prevents his identity from being contaminated (Cooper and Jones 1969; Eidelman and Biernat 2003), he also redefines socially acceptable behavior (Bromberg and Fine 2002; Ducharme and Fine 1995; Jones et al. 1984).

Although this conceptualization suggests damage to organizational identity, organizational stigmatization also has the potential to tarnish individuals associated with the event, representing both a direct and an indirect threat to individual actors' identities. It is clear that being identified with organizational misconduct, or other potentially stigmatizing outcomes,

presents a direct threat to directors' identities. In their official capacity as directors, through acts of omission or commission, these actors allowed misconduct to take place, which in turn contributed to organizational stigmatization and attributions of deviance at the organizational level. This, in turn, leads to perceptions of limited organizational leadership and oversight skills or deviant dispositions on the part of directors who allowed misconduct to be committed under their watch (Arthaud-Day et al., 2006; Fama, 1980; Fama et al., 1983; Johnson, Daily, & Ellstrand, 1996; Sutton et al., 1987; Tetlock, 1985; Wiesenfeld, Wurthmann, & Hambrick, forthcoming). It is these attributions of deviance or poor leadership and oversight ability that may lead to the consequences associated with the process of *ex post* settling up.

The process of *ex post* settling up explains that managers and directors should be penalized for negative organizational outcomes on internal and external labor markets, just as they should be rewarded for positive organizational performance (Fama and Jensen 1983; Fama 1980). High quality managers are valued for their social capital (Mizruchi 1996), ability to advise, and as a signal of legitimacy (Deutsch and Ross 2003; Pfeffer and Salancik 1978; Selznick 1948) and strong performance (Herman 1981; Mace 1986), making them attractive outside directors. Conversely, firms tend to sever ties with poor performers (Baum and Oliver 1991; Elsbach 1994; Elsbach and Sutton 1992; Haunschild, Sullivan and Page forthcoming; Jensen 2006), who present unfavorable signals of firm quality; thus poor managers and overseers are devalued. If organizations reflect their top managers (Hambrick and Mason 1984), evidence of poor managerial and oversight ability reflects badly on the organization itself. This effect is likely to be even stronger for directors than for managers, as they are ultimately responsible, by legal definition, for organizational misconduct (Gove and Janney 2004; Johnson, Daily and Ellstrand 1996; Zahra and Pearce 1989). *Ex post* settling up therefore implies that actors

responsible for organizational misconduct will face consequences on internal and external labor markets; that is, in addition to potentially losing their positions in the misconduct firm, organizational leaders may also lose their appointments on other corporate boards.

The processes of *ex post* settling up and direct stigmatization both operate primarily through signaling. Signaling theory holds that, given uncertainty and asymmetric information, information about quality, expectations and performance must be gleaned through concrete actions and objective outcomes, or signals. For example, to signal product quality, car sellers can offer warranties, suggesting that they stand behind their products (Akerlof 1970). Similarly, firms might signal expectations of future profitability by enacting stock repurchases, securities issues or dividends (Asquith and Mullins 1986), or by announcing proactive layoffs (Lee 1997). Signaling theory assumes that the actions undertaken by organizations to convey information about their expectations, quality and value are tied to underlying realities; under such an assumption firms would certainly not repurchase their own stock, for example, if they expected its value to decline. Thus, poor organizational performance acts must be a signal of director and managerial quality: only poor or under-qualified managers and directors would make decisions or allow organizational actions that engendered such performance. How, then, do external labor markets interpret earnings restatements as signals of managerial and directorial skill? Consistent with signaling theory, it is the substantive aspects of earnings restatements such as their severity and salience that act as signals to labor markets (Hennes, Leone and Miller 2006; Srinivasan 2005), and result in direct stigmatization, implying the loss of external board seats and a decreased likelihood of being invited to sit on new boards. Therefore:

H1. The severity and salience of an earnings restatement will be positively associated with the subsequent loss of external board seats by outside directors and executives of restating firms

H2. The severity and salience of an earnings restatement will be negatively associated with the subsequent gain of external board seats by outside directors and executives of restating firms

Moreover, if restatements operate as a signal of director and executive quality, the degree to which organizational elites were directly involved in the initial misstatement of financial results, as well as the subsequent restatement, should be taken into account. That is, directors and executives who did not occupy their positions at the time of the initial misstatement, and who therefore cannot be responsible for the financial misconduct revealed by the restatement, should not be penalized on the external market for directors. Similarly, as the responsibilities of audit committee members or chief financial officers (CFOs) are directly tied to financial disclosure, earnings restatements represent a clearer signal of their quality and skills than they do of other board members and executives. Hence:

H3. Proximity to the initial misstatement of earnings will be positively associated with the subsequent loss of external board seats by outside directors and executives of restating firms

H4. Proximity to the initial misstatement of earnings will be negatively associated with the subsequent gain of external board seats by outside directors and executives of restating firms

Furthermore, if action on the part of organizational elites can be seen as a signal of their dispositions toward the restatement and the financial misconduct that led to it, departure from the

restating firm should be consequential to their external labor market outcomes. Departure represents dissociation from the restating firm, and the desire not to be affiliated with organizations demonstrating illegitimate behavior should be interpreted as disagreement with such acts and a signal of director quality. Thus, consistent with signaling theory:

H5. Departure from the restating firm will be negatively associated with the subsequent loss of external board seats by outside directors and executives of restating firms

H6. Departure from the restating firm will be positively associated with the subsequent gain of external board seats by outside directors and executives of restating firms

It is also important to note that not all aspects of restatements are informative signals; some aspects of restatements may instead act as symbols. Feldman and March (1981) distinguish between the symbolic and signaling value of information. They argue that organizations sometimes gather information that they do not use to symbolically establish their legitimacy, while other times they gather information because it is necessary for good decision-making, and thus a signal of decision-making quality. Linking this to earnings restatements, some data are useful as signals of organizational elites' quality, whereas others are more symbolic, and therefore not directly tied to actors' competency. Substantive characteristics of restatements that act as signals might include the net effect of the restatement of net income, the restatement of annual versus quarterly financial disclosures, and the type of restatement (i.e., whether it indicated fraud or misrepresentation of core accounts). In contrast, symbolic aspects of restatements that are less directly tied to organizational elites' oversight skills include market tolerance to the concept of restatement and the reputation of the organization prior to

restatement. In the language of Goffman (1971), signals indicate the degree to which the misconduct associated with the restatement was controllable, while symbols correspond to the degree to which the restatement makes the misconduct visible. The more controllable and visible the misconduct, the more severe the consequences are likely to be. Hence:

H7. Both substantive and symbolic aspects of an earnings restatement will be associated with the subsequent loss of external board seats by outside directors and executives of restating firms

H8. Both substantive and symbolic aspects of an earnings restatement will be associated with the subsequent gain of external board seats by outside directors and executives of restating firms

Pollution and Stigma by Association

In Purity and Danger (2004), Douglas argues that identities are polluted, symbolically sullied and contaminated, by contact with dangerous or threatening things. Thus the Brahmin is polluted by contact with the Untouchable just as food is polluted by contact with dirt. It is this idea of pollution and the related concept of stigma by association that provides the symbolic component of the mechanism that allocates consequences of organizational misconduct to organizational elites. According to this logic, not only does restatement represent a direct threat to individuals' identities, but it can also contaminate the identities of those who interact with tainted individuals and organizations. Goffman (1986) argues that stigma transfers through social relationships, threatening the identities of actors with whom the stigmatized individual interacts, but who do not demonstrate marks of deviant dispositions or other characteristics associated with the stigma itself. This prediction has been supported by empirical research; social psychologists have found evidence of stigma transfer or "stigma by association" (Neuberg

et al. 1994), showing that ties to stigmatized actors taint relatives (Birenbaum 1992; Levinson and Starling 1981; Mehta and Farina 1988), dating partners (Goldstein and Johnson 1997), and even strangers next to whom they sit (Hebl and Mannix 2003). The threat to individual identity represented by the stigmatization of a social tie has been shown to cause actors to distance themselves from the source of the threat, be it an individual (Cooper and Jones 1969; Lerner and Agar 1972; Taylor and Mettee 1971), a group (Snyder, Lassegard and Ford 1986; Spears, Doosje and Ellemers 1997), or an institution (Cialdini et al. 1976).

Evidence of identity contamination through stigma by association is also observable in the realm of organizations, where scholars have found that firms linked to organizations filing bankruptcy (Gove and Janney 2004) or in the same industry as others restating earnings (Da Dalt and Margetis 2004) experience significantly negative stock price returns. Firms therefore tend to associate with others they perceive as legitimate, or conforming to socially acceptable standards of behavior (Haunschild, Sullivan and Page forthcoming; Suchman 1995) and to sever ties with less legitimate partners, because of the potential for contagion (Elsbach 1994; Elsbach and Sutton 1992; Haunschild, Sullivan and Page forthcoming). Thus actors are incentivized not only to avoid becoming stigmatized, but also to distance themselves from stigmatized others.

Because pollution and stigma by association and driven not by attributions of deviance on the part of tainted actors, but rather by the fear that mere proximity might taint others, the mechanism through which they drive external labor market consequences is purely symbolic, rather than signaling. It is not the objective measures of salience and severity of the financial misconduct that are relevant, then, but rather the mere affiliation of an individual with perceived misconduct, and the perception that he might be tainted by that connection, that drives the concepts of pollution and stigma by association. Consistent with this perspective, organizational

elites will suffer on the market for directors for symbolic reasons of affiliation, unrelated to the substantive aspects of the restatement itself. This implies that organizational elites will suffer on external labor markets regardless of their presence in the restating firm at the time of the initial misstatement. Thus:

H9. Proximity to the initial misstatement of earnings will not be positively associated with the subsequent loss of external board seats by outside directors and executives of restating firms

H10. Proximity to the initial misstatement of earnings will not be negatively associated with the subsequent gain of external board seats by outside directors and executives of restating firms

Finally, if pollution and stigma by association indeed determines external labor market outcomes, departure from the restating firm will not necessarily signify protest and dissatisfaction, and therefore act as a signal of director and executive quality. Rather, the fact of any association with the restating firm at the time the financial misconduct came to light, but not necessarily at the time of the initial misstatement, implies a symbolic association that cannot easily be erased. The presence of one's name in the regulatory filings associated with financial statements and earnings restatements are sufficient to establish a tie, and imply more severe labor market consequences, rather than the less severe consequences predicted by signaling theory. Hence, in contrast to H5 and H6:

H11. Departure from the restating firm will be positively associated with the subsequent loss of external board seats by outside directors and executives of restating firms

H12. Departure from the restating firm will be negatively associated with the subsequent gain of external board seats by outside directors and executives of restating firms

DATA AND METHODS

Sample Construction and Data Collection

To test my hypotheses, I collected data on firms restating earnings between 1997 and 2003, as reported by the GAO (D'Agostino 2002), a population that includes approximately 1,239 restatements. Availability of complete information on the restatements themselves, as well as complete records of prior performance, directors and officers, ownership, market returns, and ancillary data narrowed resulted in a final sample of 311 restatements issued by 266 firms listed on the S&P 1500 Index between 1997 and 2003. My observation window extends to 2006 to account for staggered board elections. Based on annual proxy statements, and based on the availability of data therein, I gathered information on each firm's board of directors and top executives, including the CEO as well as the CFO, President, COO, Treasurer and Comptroller, when available. This produced a sample of 2,747 unique actor-firm-year combinations for restating firms. For analyses of the loss in external seats, I restricted my sample to those at risk of losing seats, hence those who sat on at least one other board, resulting in a sample of 1,453 unique actor-firm-year combinations.

To establish the main effects of restatement on changes in external board seats, I also collected a matched sample of non-restating firms for 63 restaters included in the S&P500 Index based on 3-digit SIC code to indicate industry (Arthaud-Day et al. 2006; Hambrick and D'Aveni 1988) and total assets to indicate firm size (Arthaud-Day et al. 2006; D'Aveni 1989). Matched-

pair sampling is a generally accepted way of modeling phenomena with a low base rate of occurrence (Cannella, Fraser and Lee 1995; Daily and Schwenk 1996; Zajac and Westphal 1996b), and has been used extensively in other studies of restatements (Agrawal, Jaffe and Karpoff 1999; Arthaud-Day et al. 2006; Khanna and Poulsen 1995; Kinney and McDaniel 1989; Richardson 2005). This resulted in a matched sample of 1,145 unique actor-firm-year combinations who sat on at least one other board, and were therefore at risk for losing external seats, and a total of 1,775 actor-firm-year combinations at risk of gaining seats. None of the control firms issued a restatement during the observation period. Following Arthaud-Day et al. (2006), I tested for differences between the two samples in terms of assets, sales, employees and ownership structure, and found no statistically significant differences between the two samples. This sample is not used for hypothesis testing. Descriptive statistics and correlation coefficients are reported in tables 6 and 7.

Dependent Measures

I test my hypotheses using two dependent variables: *Seats Lost*, and *Seats Gained*. These count variables, derived from the *Thomson Financial* database of proxy statements, indicate the number of seats, excluding the seat at the restating firm, gained and lost, respectively, by a given director or manager between the calendar year in which the restatement was filed and the following proxy year. I used these two measures, rather than one measure of net change in seats, to respond differentiate no change in board seats due to no movement from no net change in seats due to adding and dropping external seats in the same year (Richardson 2005). For the matched sample analysis, my dependent variables were *Seats Lost* and *Seats Gained* within three years of restatement.

Independent Measures

To measure the severity and salience of the restatement, I included a number of measures shown to significantly impact director and executive outcomes following restatement in existing research. Following Srinivasan (2005), I include a measure of magnitude of the restatement – *Net Effect of Restatement* – operationalized as the natural log of absolute value of the net impact of the restatement on net income. To account for the direction of the effect of the restatement, I included *Restatement Reduces Net Income*, a dummy variable coded with a 1 if the net effect of the restatement was to reduce net income, and 0 if net income were increased or not changed by the restatement (Palmrose, Richardson and Scholz 2004).

I also included dummy variables for type of restatement (Land 2006; Palmrose, Richardson and Scholz 2004), including *Revenue Recognition; Expense; Assets; Inventory; Mergers and Acquisitions; Technical; Error, Fraud Implied; Error, No Fraud Implied;* and *Response to SEC Guidance*; other was the comparison group (Wilson 2005). Wu (2002) finds that financial markets impose a greater penalty on restatement involving admitted fraud and revenue recognition, making these the most serious categories of restatement. In contrast, SEC guidance, technical restatements, and errors without fraud are the least salient types of restatement and the least threatening to organizational and individual identity, as they involve the fewest questions of director and executive integrity, and can be considered to represent more symbolic than substantive information about the restatement.

Several additional variables measure restatement salience. *Restated Filing: 10K* is a dummy variable coded 1 if the restatement concerned annual 10K filings, and 0 if only quarterly 10Q filings were restated. Wu (2002) finds that restatements of annual filings engender stronger reactions than restatements of other filings, particularly announced but unofficial estimates of earnings. I also included dummy variables indicating which organization prompted the

restatement: *SEC Prompted* and *Firm Prompted*; restatements prompted by the auditor are the reference group. Generally, restatements prompted by the firm have engendered milder market reactions than those prompted by auditors or regulators (Akhigbe and Kudla 2005; Wu 2002). Finally, I included *3-Day Cumulative Abnormal Returns*, which measures the extraordinary returns to the price of the restating firm's stock over a three day window surrounding the announcement of the restatement (i.e., from one day prior to the announcement through one day after the announcement).

To test the effect of multiple restatements on labor market outcomes, I included two measures: *Number of Restatements*, a discrete variable coded as 1 if the current restatement was the focal firm's first during my observation window, 2 if it were the second, etc.; and *First Restatement*, a dummy variable coded as 1 if the focal restatement were the firm's first in the observation window, and 0 if it were not.

I have included two discrete measures of departure to indicate dissociation from the restating organization: *Departure Prior to Restatement*, a dummy variable coded with a 1 if the focal actor was listed in the proxy statement for the year prior to announcement of the restatement, but not in the proxy from the calendar year of the restatement. A second indicator, *Departure Within One Year of Restatement*, is coded with a one if the focal actor was included in the proxy statement from the year of the restatement, but not the following year.

I also included measures indicating proximity to the initial misstatement. A related measure called *In Office at Time of Misstatement*, a dummy variable was coded with a one if the focal actor was in his current position before the statements for the final restated period were filed with the SEC, is also included. When appropriate, I included dummy variables for *Audit Committee Membership*, *Outside Director*, *CEO* and *CFO*. For the matched sample analysis, I

interacted each of these measures with *Restatement Issued* to account for the discrete effect of restatement on each position's likelihood of losing or gaining external board seats.

Finally, I include three measures representing purely symbolic aspects of restating companies and their elites. *Fortune Reputation Index* is a dummy variable coded with a one if the restating firm was included in the *Fortune* Reputation survey during the observation window. This survey asks over 8,000 executives, directors, and securities analysts to rate a list of the ten largest companies in their industries along eight measures: social responsibility, innovation, long-term investment value, use of corporate assets, employee talent, financial soundness, quality of product/service, and quality of management. I anticipate that inclusion on the reputation index will counteract the effect of association with restatement on director and executive outcomes. That is, the quality of organizational elites' associations with highly respected firms will outweigh the detrimental effect of restating earnings. *Order of Restatement* is a discrete variable indicating the number of firms in the focal organization's industry, measured by 2-digit SIC, that issued restatements prior to the focal firm. If restatements represent signals to external labor markets, the order of restatement should have no effect on labor market consequences; in contrast, if restatements play a symbolic role in determining labor market outcomes, markets should become accustomed to the phenomenon of restatement, engendering diminishing effects over time. *One Other Seat* is a dummy variable coded with a one if the focal actor sat on only one external board, and measures centrality in the network of directors.

Control Measures

I included the dummy variable, *After 2000*, which was coded as 1 if the restatement occurred in the years 2001 through 2003, and 0 if it occurred in or prior to the year 2000, to

account for the salience of the corporate scandals that peaked around the collapse of Enron, as well as the passage of the Sarbanes-Oxley Act.

I also included several director-level controls. *Age 65* is a dummy variable coded as 1 if the actor were 65 or older in the year of the restatement, and 0 if he were younger than 65, as reported in annual proxy statements. I also included a dummy variable, *Female*, coded with a one if the actor is female, based on annual proxy statements. *Total External Board Seats* represents a count of the number of other boards on which the focal actor sits, and hence a proxy for the centrality of the focal actor in the network of U.S. publicly-traded corporations; this variable was collected from the *Thomson Financial* database of proxy statements.

Two firm-level variables collected from the *Compustat* database and lagged on year prior to restatement controlled for performance, *Return on Assets*, and organizational size, *Total Assets*, of which I took the natural log. I also included dummy variables indicating that the restating firm was included in the *S&P 500 Index* and *NYSE (New York Stock Exchange) Listing* during the year of its restatement. These were collected using the *CRSP* database.

I also included three measures of individual outside director independence. *Tenure* is measured as years in office, based on annual proxy statements, and is positively related to director independence. *Individual Beneficial Ownership* is measured as the percentage of shares outstanding beneficially owned by the focal actor, and is negatively related to director independence; the more stock a director owns, the more he is likely to identify with the organization, and the more tied he is to its fate and fortune.

Method of Analysis

T o demonstrate the main effect of restatement on turnover of all organizational elites, directors, CEOs and CFOs, I analyzed the matched sample using logistic regression using the

Stata 8 statistical package. In these models, I specified robust standard errors by clustering on firm-year to control for interdependence of within-firm observations. Results of this analysis are included in table 8. To test for the clustering of restating organizations within industries and over time, and as a robustness check, I also ran the models using robust estimation and clustering on three-digit SIC codes, as listed in the *Compustat* database, and ran models with fixed effects by year. The unreported results of these models were not significantly different from those reported below.

To test my hypotheses, I employed a sample composed exclusively of the outside directors and insiders of restating firms, using zero-inflated negative binomial models using an event count model in the Stata 8 statistical package. Because the variance exceeds the mean in my data, I use the negative binomial model, which includes a gamma-distributed term to account for such over-dispersion. Negative binomial regression can be a poor fit to data with a high proportion of zero scores, however, and zero-inflated models have been recommended as a better approach in such cases. These models allow researchers to discern whether different processes account for zeros and non-zeros in the dependent variable. Therefore, I use the zinb procedure provided in the Stata 8 statistical package. Because individual directors are clustered within organizations, a violation of the assumption of independence among observations, I calculated the standard errors of coefficient estimates using a robust estimation procedure and clustering (White, 1982) within organization-years. To facilitate comparison and generate the most parsimonious set of models possible, rather than run discrete models for each group of organizational elites, I stacked them into two sets of models, one for outsiders, the other for insiders. I did this by first modeling each group independently, then conducting seemingly unrelated regression (Greene 1993) to test for equality of effects of each hypothesized

relationship between groups one parameter at a time (see Greve 1998). After conducting pair-wise comparisons of effects, I collapsed the data into two groups: insiders and outsiders. This procedure allowed me to present parsimonious models while accounting for differences in demographics, preferences and behavior among upper echelons (Jensen and Zajac 2004). Results of my zero-inflated negative binomial anlaysis are reported in table 4. To test for the clustering of restating organizations within industries, and as a robustness check, I also ran the models using robust estimation and clustering on three-digit SIC codes, as listed in the *Compustat* database, and fixed effects models for both three-digit SIC and year. The unreported results of these models were not significantly different from those reported in table 4.

RESULTS

The results of my matched sample analysis are reported in table 8. Model 1 reports the results of a control model for all executives and directors in the matched sample, whereas model 2 includes the key instrumental variable, *Restatement Issued*. The results of model 2 indicate that the loss of external seats within three years of restatement is significantly higher among directors and executives of restating firms than it is among the organizational elites of non-restating firms. Moreover, the loss of seats is markedly higher for audit committee members of restating firms than non-restating firms. Model 3 indicates that, although those with only one other board seat are less likely to lose that seat than are those more central to the director network, actors from restating firms with only one other seat are significantly more likely lose that seat than those in non-restating firms. In model 4, I test the effect of departure from the focal firm on the likelihood of losing additional external seats, and find that those departing restating firms are significantly more likely to lose additional seats, whereas those departing non-

restating firms are significantly less likely to experience a loss of other seats. This result is robust to model 5, which also includes the effect of network centrality, although the latter disappears when controlling for departure. Models 6 through 10 demonstrate the same analyses for outside directors alone, and find a strong effect for restatement, as well as departure and marginality to the director network. Models 11, 12 and 13 test the same effects for CEOs and CFOs only, and find a large effect for restatement, which also disappears when controlling for departure. In models 14 through 16, I test the likelihood of gaining additional seats within three years of restatement on the full sample, outsiders alone and insiders alone. I find no main effects for restatement on the likelihood of adding new board seats.

Table 9 reports the results of my analysis of outsiders' change in external board seats within one year of restatement. Model 1 is a control model, and suggests that the more boards one sits on, the more likely one is to lose seats the year following restatement; there is no significant effect for audit committee membership. Model 2 adds the independent variables for restatement severity, and finds that the greater the net effect of the restatement, the more seats one is likely to lose. A stronger and more significant effect, however, is found for restating annual filings (*Restated Filing: 10K)*, although type of restatement, market reaction and prompter are not significant, giving H1 only partial support. Model 3 provides partial support for H3, the impact of being in office at the time of restatement, with a marginally significant and positive effect. In model 4, I add the effects of leaving within the years prior to and of the restatement, and find significant, positive effects for both, providing evidence in favor of H11, which predicted that departure would not attenuate the loss of external board seats, rather than H5, which predicted that departure from the restating firm would minimize the number of external seats lost. The effects of symbolic measures are added in model 5, which finds that the

likelihood of losing seats declines as the number of firms restating in the same industry increases, providing support for H7. Model 6 adds all indicator variables simultaneously, while model 7 represents the most parsimonious model. In model 7, we find that the net effect of the restatement, restating annual filings, responding to SEC guidance, and departing the restating firm all increase the likelihood of losing external seats, whereas inclusion in the *Fortune* Reputation Index and restating after the market has become accustomed to restatements within a given industry reduce the likelihood of losing seats, and being there at the time of the initial misstatement is not consequential. The final model provides support for H9, which predicted no effect of being in office at the time of misstatement, rather than H3, which predicted that being in office at the time of the misstatement would lead to more external seats lost.

The second set of models in table 9 reports the analysis of outsiders' likelihood of adding seats following restatements. The control model, model 8, demonstrates that those directors above retirement age and those who have been in office longer are less likely to add new seats, as are directors whose firms restated after 2000. Model 9 tests H2, and finds that no substantive characteristics of restatements impact the likelihood of adding seats except restatements resulting from merger and acquisition activity. Subsequent models similarly fail to find evidence in support of H4, H6, and H8. Model 10 provides support for H10, which predicted no relationship between being in office at the time of misstatement and the gain of additional board seats. In addition, models 11, 13 and 14 find that departure in the year prior to restatement actually reduces one's likelihood of adding seats following restatement, providing support for H12.

Table 10 reports the results of my analysis of insiders' change in external board seats within one year of restatement. Model 1, the control model, suggests that female insiders and those who own significant shares of company stock are less likely to lose external seats, while

CFOs and those with more board seats are more likely to lose seats following restatement. Model 2 finds partial support for H1, providing evidence that restatements involve revenue recognition, technical restatements and restatements due to error without evidence of fraud increase the likelihood of losing more seats. In contrast, restatements prompted by the SEC and the firm result in fewer seats lost than restatements prompted by the external auditor, the reference category in this analysis. In model 3, I find no support for H3, as there is no significant effect for being in office at the time of misstatement. Model 4 provides support for H9 and against H5 by finding that departure from the restating firm increases the likelihood of losing additional seats following restatement. The symbolic variables included in model 5 do not prove significant, providing little support for H7. In model 6, the full model, and model 7, the most parsimonious model, I find that the likelihood of losing additional seats increases with the net effect of the restatement, for technical restatements and those resulting from errors without fraud, and when the focal executive departs the restating firm. In contrast, those executives with only one other seat are less likely to lose their positions on other boards, providing some support for H1, H7, H9 and H11.

Models 8 through 14 test the effects of restatement on the likelihood of executives gaining additional seats. Model 9 finds some evidence in favor of H2, with significant effects for market reaction and restatement effect on the likelihood of adding seats. Model 10 finds that being in office at the time of restatement does not impact an executive's likelihood of gaining seats, in contrast to H4, and in support of H10, which predicted no effect. Departure in the year prior to restatement, according to model 11, reduces one's likelihood of gaining future seats, providing support for H12. Model 12 finds partial support for H8, which predicted that symbolic factors would decrease the number of seats gained following restatement, driven by inclusion in

the Fortune Reputation Index. The full model, model 13, and the more parsimonious final model find that executives are less likely to gain seats the larger the net effect of the restatement, which is only partially counterbalanced when restatements reduce income; that they are more likely to gain seats when the market reaction to the restatement announcement is positive and when they are included in the *Fortune* Reputation Index. In contrast, departure in the year prior to the restatement results in fewer seats added following the restatement.

DISCUSSION

Although the theory of *ex post* settling up has not always withstood empirical scrutiny, it does seem to go far in explaining director and executive outcomes following earnings restatements (e.g., Srinivasan 2005). Yet *ex post* settling up only explains part of the story; although restatements do seem to act as a signal of organizational elites' skills and quality as directors, the bulk of their outcomes on external labor markets are explained by forces that seem more symbolic than substantive. The most significant symbolic factor, clearly, is the mere association with the restating firm, regardless of whether the organizational actor was in office at the time of the misstatement, and therefore plausibly responsible, or whether he dissociated from the firm subsequently. Thus, these consequences must be thought of as comprising both direct stigmatization and pollution, or stigma by association, as well as both signaling and symbolism. To fully understand the mechanisms through which the consequences of organizational misconduct are apportioned among organizational elites, therefore, we must take all of these factors into account.

It is clear that restatements serve as a strong signal of director and executive quality, as evidenced by the main effect of restatement on the loss of external board seats following restatements, clear evidence of individual stigmatization. At the same time, this main effect is

swamped by the effect of leaving the restating firm in the year prior to or the year of the restatement, both in terms of significance and magnitude. This begs a question that is difficult to parse empirically, and which is completely obscured by the explanations provided by investor relations departments and in regulator filings: is the loss of external seats voluntary? If directors and executives decide to leave the restating firm, either voluntarily, because they are concerned about their reputations or the value of their investments, or involuntarily, their chances of losing other seats increases dramatically, particularly inasmuch as their counterparts at non-restating firms tend not to lose other seats following departure. One explanation for this effect is that actors engaged in restatements are so overwhelmed with the experience that they prefer to retire from board work all together. Alternatively, it is possible that they are asked to leave the other boards on which they sit, resulting in a greater degree of stigmatization. My finding that these actors are neither more nor less likely to add board seats than their counterparts at non-restating firms does not shed light on the issue. Although lower odds of being invited to sit on additional boards might suggest that their loss of seats were voluntary, the lack of a main effect makes discerning among alternatives difficult. At the same time, the finding that the main effect of restatement on the loss of external seats for CEOs is completely explained by CEO departure does suggest that chief executives who leave the restating firm are ostracized from the market for directors, though this interpretation cannot be considered conclusive.

What is more conclusive, however, is my finding that both substantive and symbolic factors impact the degree to which directors and executives are penalized on the market for directors, rather than the purely symbolic explanation proposed by the theory of *ex post* settling up. Clearly restatements send signals about director quality to external labor markets, such that the severity of the restatement, as measured by the absolute value of the net effect of the

restatement, increases both directors' and executives' likelihood of losing external board seats immediately following restatement, and decreases executives' likelihood of being invited to sit on additional seats. For the most part, however, the magnitude of the restatement is the only substantive factor consequential to external labor markets. Market reaction to restatements only impacts executives' likelihood of gaining additional seats, for example, but has no significant impact on other director and executive outcomes. Perhaps more tellingly, the categories of restatement most closely associated with organizational misconduct – revenue recognition and error with fraud – are not consequential to those outcomes. Instead, it is error without fraud, SEC guidance, and technical restatements – those categories least associated with organizational misconduct – that are significant predictors of labor market outcomes. (In fact, the finding that merger and acquisition-related restatements actually increase directors' likelihood of gaining additional seats might be due to the fact that they have a demonstrated record of M&A experience.) Similarly, restatement of annual filings is found to be more consequential than the restatement of quarterly or unofficial earnings, an issue which also contains a symbolic component. These findings suggest that it is not the content of the restatement itself, but rather the mere fact of restatement, that drives external labor market outcomes, which in turn suggests a symbolic component to those consequences.

Not only are the substantive aspects of restatements minimally consequential to external labor market outcomes, they are also counterbalanced, at least in part, by factors that have nothing to do with the restatement at all. My finding that directors and executives of firms listed in the *Fortune* Reputation Index, that is, highly regarded firms central to their respective industries, lose fewer and gain more seats than their colleagues at firms of lower reputation implies that it is a general perception of the quality of an organization, rather than an objective

perception of one's role in creating a negative organizational outcome, that predominates as boards make decisions regarding nominations. If the signaling argument held to the exclusion of the symbolic argument, this would not be the case, but rather restatement would dominate reputation as an indicator of director quality. Similarly, the finding that labor markets become accustomed to restatements in certain industries, such that early restaters in a given industry suffer worse fates on external labor markets than later restaters, requires a symbolic interpretation. Again, if signaling were the primary explanation for such outcomes, we would expect no evidence that growing market tolerance toward restatement altered perceptions of director quality; rather, any evidence that one allowed financial misconduct to go on would likely be considered evenly over time.

Perhaps the most critical evidence that the symbolic nature of labor market consequences is provided by my findings that being in office at the time of the initial misstatement has no effect on the loss or gain of seats. The financial misstatements that necessitated the restatements cannot be considered a signal of director or executive quality if that actor were not present at the time of the misstatement. Such a finding can only be interpreted as evidence of stigma by association, rather than direct stigmatization, therefore, whereby the actor's perceived skill as a director is impacted by mere association with a restatement, rather than any substantive aspect of that relationship or the restatement itself, thus supporting the idea of pollution.

Less conclusive, although highly suggestive, are my findings regarding departure from the restating firm, which also suggest a symbolic interpretation. If the symbolic argument, supported by the concept of stigma by association, does explain labor market outcomes, departure from the restating firm is not necessarily a sign of protest or unwillingness to continue with the restating firm, and thereby a signal of director and executive quality. Rather, the fact of

any association with the restating firm at the time the financial misconduct came to light, but not necessarily at the time of the initial misstatement, implies a symbolic association that cannot easily be erased. Although it is difficult to determine both whether departure from the restating firm is voluntary and, as noted above, whether withdrawal from other boards is the voluntary act of the focal actor, both explanations are more consistent with a symbolic explanation than they are with the signaling argument.

It is possible, however, that the symbolic reaction to earnings restatements is a short-term effect, a knee-jerk reaction to a negative organizational outcome. Over time, with perspective, external labor market reactions may be determined more by substantive aspects of the restatement than by symbolic ones. To test this alternative explanation, I conducted supplemental analyses of the effects of restatement on the loss of seats two and three years after restatement. The results of these analyses are reported in table 11. This analysis suggests that the criteria by which directors and executives are evaluated after restatement do, in fact, change over time. Although the story for insiders remains more or less the same, with the net effect of the restatement losing its significance as a predictor, and the market reaction to the restatement becoming a significant predictor of lost seats in year three, the same is not true for outside directors. In the third year after restatement, outside directors are much more likely to lose seats on other boards if the restatement reduced income, if it was the result of fraud, and if they were in office at the time of restatement. These substantive characteristics are somewhat attenuated by the number of restatements the firm has undergone, as well as departure from the restating firm within the first two years of the restatement. The latter finding, however, also suggests an effect determined more by signaling than by symbolic forces.

The most likely explanation for the change in significance of substantive versus symbolic forces over time is that if outside directors of restating firms remain in their seats on other boards in the short term, they will be removed involuntarily in the long term. Based on these results, it is reasonable to assume that, given three-year staggered board elections, those who remain until the end of their terms are judged not by symbolic measures, but based on the severity and salience of the restatement itself. This suggests that they are not nominated for re-election to the board, rather than that they drop other seats voluntarily. In contrast, the finding that these substantive factors do not determine the outcomes of directors and executives in the first two years following restatement may be an artifact of staggered board elections, as well; if we could parse out which seats were dropped at the end of elected terms, and which were dropped before terms expired, we might get different results. If seats lost at the end of elected terms are predicted largely by substantive factors, and those dropped in the middle of terms predicted by symbolic factors, we might argue that substantive factors predict involuntary loss of seats, while symbolic association predicted voluntary withdrawal from the market for directors. This is an empirical question that can be answered in future research studies.

Although the scope of this study is limited to restatements of earnings, a specific and recently popular example of organizational misconduct, its findings should generalize to most forms of organizational misconduct, although not necessarily to all potentially stigmatizing events. Vaughan's (1999) definition of misconduct differentiates the range of actions covered from those associated with accidents or disaster. The same pattern of results is unlikely to result from organizational accidents, because of their relatively low social costs, and because they are generally uncontrollable, making them weak signals and symbols of director ability. Similarly, the stigma that arises from organizational disaster – which indicates systemic failure, and

therefore arouses suspicions of an organizational culture that tolerates laxity and persistent deviance – should entail more severe consequences for the executives and directors overseeing the firm at the time, suggesting different mechanisms at work. Nevertheless, the results should generalize beyond the specific acts in this study to a range of behaviors that may exist in any social system; those that are controllable, and the costs of which can range from very limited to quite broad. Although further empirical investigation is merited, I expect that my findings would vary with the degree to which the misconduct is perceived to be controllable by the individual organizational actor and the severity of the social costs incurred.

In this study, I have elaborated two of the social mechanisms that account for the penalties incurred on the external labor market by organizational elites of restating firms. Building on finance and accounting theory, as well as sociological social psychology, I contribute to our understanding of the consequences of misconduct for organizational elites, and to corporate governance more broadly. My findings that both substantive and symbolic factors play a role in determining outcomes on the external market for directors represents the addition of social interaction to finance and accounting, whereas my finding that many of the substantive factors affecting those outcomes have more symbolic than substantive value builds on stigma theory by highlighting the importance of stigma by association. Nevertheless, there is still much to learn about the consequences of organizational misconduct, particularly as regards the degree to which such consequences are consensual, the result of voluntary withdrawal, or to which they represent punishment. This chapter represents the beginning of a comprehensive research stream on the consequences of organizational misconduct and the mechanisms that determine how those consequences are allocated.

CHAPTER 3: POWER AND SYMBOLIC MANAGEMENT FOLLOWING EARNINGS RESTATEMENTS

When organizations engage in financial misconduct, the leaders of those organizations are certain to suffer consequences on both internal and external labor markets. When actors violate rules or laws in pursuit of individual or organizational goals (Vaughan, 1999), they incur social costs such as reduced stock price, employee turnover, criminal charges, and even bankruptcy and organizational failure. Given free and open markets, these social costs imply consequences for those at the helm, who bear responsibility for firm action and outcomes (Carpenter, Geletkanycz, & Sanders, 2004; Hambrick & Mason, 1984b; Khanna & Poulsen, 1995), and whose images are inextricably linked with their organizations (Pfeffer & Salancik, 1978; Sutton & Callahan, 1987), which can be understood as the stigmatization of organizational elites. To avoid potential stigmatization of their leaders, organizations have the opportunity to shape public perceptions of their actions through symbolic management. Organizational elites may attempt to avoid the firm- and individual-level fallout promised by such revelations by drawing on an arsenal of symbolic management tactics. Whereas the presence and relative effectiveness of both anticipatory and reactive symbolic management has been demonstrated in a number of organizational settings (e.g., Elsbach 1994; Elsbach 2005; Elsbach, Sutton and Principe 1998; Staw, McKechnie and Puffer 1983; Zajac and Westphal 1995; Zajac and Westphal 2004), the social mechanisms that drive the selection of a given tactic has not yet been fully explicated. This chapter therefore attempts to bridge the gap in the symbolic management literature by studying both the factors that motivate organizational reactions to financial misconduct as well as the consequences of those actions for the decision makers involved.

The relationship between the choice of symbolic management tactic and the effectiveness of that tactic is a critical, yet still missing, link in our understanding of impression management more broadly. Although we know that some strategies are superior to others in reframing negative organizational outcomes and establishing legitimacy with external stakeholders (e.g., Ashforth and Gibbs 1990; Elsbach 2005), the social mechanisms that determine which course an organization will take have not yet been elaborated. Because organizational action is the result of group decisions, it is necessary to understand the social and political dynamics that guide the decision-making process of organizational elites. These political dynamics, in turn, are likely to be consequential to the manner in which external audiences perceive and react to organizational efforts. Elaboration of both sides of this equation is necessary if we are to appreciate fully why some organizations appear better able to manage the perceptions of external stakeholders.

Some of these questions can be addressed with reference to the literature on corporate governance. For example, research on corporate governance suggests that boards of directors and Chief Executive Officers (CEOs) are engaged in a power struggle (Boeker 1992; Pfeffer 1981; Westphal and Zajac 1995; Zald 1965), the outcome of which might be predicted based on individual characteristics. At the same time, the research on corporate governance largely neglects the effects of organizational misconduct on organizational leaders, and the degree to which individual actors' careers are affected by association with tarnished organizations. By bringing the question of symbolic management to the study of corporate governance, therefore, we can better illuminate the forces that determine organizational leaders' choices and subsequent outcomes on both internal and external labor markets.

I propose that, by looking at the choice of tactics employed by organizational elites to frame revelations of misconduct, we can simultaneously fill the gaps in both the corporate

governance and the symbolic management literatures. In this chapter, I study the efforts to reframe the announcement of earnings restatements, arguing that organizational misconduct is a stigmatizing event (Goffman 1986; Wiesenfeld, Wurthmann and Hambrick forthcoming), which leads internal stakeholders to take purposive action in an attempt to avoid stigmatization. The actions taken in the struggle to remain untainted, as well as the relative power of various stakeholders, together determine the degree to which the individual directors and managers are stigmatized by association with organizational misconduct.

THEORY AND HYPOTHESES

Earnings Restatements

Earnings restatements are tantamount to restatements of a company's history (Wu 2002), whereby firms announce that the earnings figures stated in prior SEC filings were materially incorrect. Restatements occur when a firm determines that its previously filed financial statements were materially incorrect, often on the recommendation of the SEC or outside auditors. The number of restatements has grown exponentially over the past decade; in 2006, it is estimated that 1,420 U.S. public companies restated earnings, representing a full ten percent of publicly traded companies (Harris 2007). This figure can be compared to 1,255 restatements filed in 2005, 330 restatements in 2002, the year the Sarbanes-Oxley Act was passed (Harris 2007), and only 58 in 1997 (Wu 2002). Consequently, earnings restatements have been the focus of increased academic attention (e.g., Agrawal and Chadha 2005; Akhigbe and Kudla 2005; Arthaud-Day et al. 2006; Kedia and Philippon 2004; McNichols and Stubben 2005; Ozbas and Song 2005; Srinivasan 2005; Went 2005; Wilson 2005; Wu 2002; Zahra, Priem and Rasheed

2005), particularly since the 2002 publication of the GAO report on earnings restatements conducted in conjunction with the Sarbanes-Oxley Act of 2002 (D'Agostino 2002).

Restatements may result from legitimate errors, oversights, and mistakes in the interpretation of accounting regulations, or can result from "accounting irregularities," fraudulent misapplication of accounting regulations or manipulation of facts, although it is often difficult to distinguish between intentional and unintentional misstatements (Wu 2002). Restatements of this type generally involve prematurely recognizing anticipated or non-existent revenue or deferring current costs and expenses, to increase current period net income, but can also result from attempts to hide true costs of firm acquisitions or after reassessment of the value of investments (Wu 2002). The primary motivation for managing earnings is to lower the cost of capital and attract greater external financing (Collins, Reitenga and Sanchez-Cuevas 2005). In contrast, so-called technical restatements may result from changes in accounting principles or firm adoption of new accounting policies, or from such benign causes as merger and acquisition activity, change of accounting period, or stock splits.

With the exception of technical restatements, earnings restatements are broadly seen as admissions of misconduct, and are accompanied by various market and non-market penalties. Restatements are often followed by a significant loss of shareholder value (Akhigbe and Kudla 2005; Collins, Reitenga and Sanchez-Cuevas 2005; Palmrose, Richardson and Scholz 2004; Wu 2002), impaired credibility of future financial disclosures (Farber 2005); diminished expectations of future earnings and a subsequent increase in the cost of capital (Farber 2005; Hribar and Jenkins 2004). In addition, both executives and outside directors experience diminished future employment opportunities for top management (Arthaud-Day et al. 2006; Collins, Reitenga and Sanchez-Cuevas 2005; Desai, Hogan and Wilkins 2006; Srinivasan 2005). Similarly,

restatements are often followed by shareholder class action lawsuits (Lu 2004), leading to a loss of other board seats held for outside directors (Fich and Shivdasani 2005).

Because of the widespread potential for consequences, it is important that we investigate the social mechanisms through which consequences are apportioned. In separate chapters, I investigate the social and political mechanisms that determine who will depart the restating firm, building on previous findings regarding increased turnover following restatement (e.g., Arthaud-Day et al. 2006; Collins, Reitenga and Sanchez-Cuevas 2005; Desai, Hogan and Wilkins 2006; Hennes, Leone and Miller 2006; Srinivasan 2005), which represents consequences on internal labor markets. I also address the mechanisms that drive consequences on external labor markets, which are operationalized as changes in external board seats (Srinivasan 2005), arguing that post-restatement turnover can be attributed to either of two mechanisms: direct stigmatization, as proposed by the theory of *ex post* settling up (Fama and Jensen 1983; Fama 1980), and indirect stigmatization, or stigma by association. Nevertheless, to achieve a fuller understanding of the social mechanisms through which consequences are apportioned, we need to gain some appreciation for the way in which external stakeholders receive and process revelations of misconduct, and thus how they are framed by internal stakeholders.

Because descriptions of and explanations for restatements are often provided primarily by the restating firms themselves (in the form of SEC filings) and are thus difficult to verify and subject to interpretation on the part of internal and external audiences, audiences may be skeptical of the explanations they receive. Interviews with members of corporate boards, activist investors and executive recruiters reveal that the initial reaction to the announcement of an earnings restatement is strongly negative, followed on reflection by a willingness to listen to justifications and explanations on the part of individual directors. This suggests that external

audiences may not be attentive to differences among restatements, and that reactions to different types of restatement – even technical restatements – may often be undifferentiated. Consequently, efforts at symbolic management may be particularly effective in framing the way restatement announcements are perceived and reacted to, which should have significant impact on the degree and distribution of labor market consequences for organizational elites.

Organizational Misconduct and Stigmatization

Stigmatization can be understood as the process through which actors' social identity is diminished through association with either discrediting characteristics or discredited others (Goffman 1986). As Jones and his colleagues (1984) explain, stigma is determined through social interaction, whereby specific meanings are attached to categories of behavior and individuals. Stigmatization leads others to perceive the stigmatized as unable to sustain predictable and consistent patterns of interaction, which in turn poses a threat to the perceiver's identity and well-being (Berger and Luckmann 1966; Elliott et al. 1982; Jones et al. 1984; Kurzban and Leary 2001). Observers attribute the stigma to the bearer's moral defect or deviant nature (Crocker and Major 2003; Goffman 1986; Jones et al. 1984; Kurzban and Leary 2001; Lyons 2006), thereby contaminating or spoiling the stigmatized actor's social identity (Goffman 1986; Jones et al. 1984).

What distinguishes stigmatization from any other negative evaluation is that it forms the basis for reduced social interaction (Carter and Feld 2004; Kurzban and Leary 2001), thus redefining the boundaries of social acceptability. Leary and Schreindorfer (1998: 15) argue that stigmatization arises "when a shared characteristic of a category of people becomes consensually regarded as a basis for dissociating from (that is, avoiding, excluding, ostracizing, or otherwise minimizing interaction with) individuals who are perceived to be members of that category."

Thus, stigmatization arises not merely from spoiled identity or negative evaluation, but because society views that evaluation as a basis for exclusion. The potentially damaging effects of interacting with stigmatized others motivates the untainted to minimize contact, or even to sever ties to stigmatized actors. At the organizational level, firms tend to associate with others they perceive as legitimate, or conforming to socially acceptable standards of behavior (Haunschild, Sullivan and Page forthcoming; Suchman 1995) and to sever ties with less legitimate partners, because of the potential for contagion (Elsbach 1994; Elsbach and Sutton 1992; Haunschild, Sullivan and Page forthcoming). Evidence of identity contamination is observable in the realm of organizations, where scholars have found that firms linked to organizations filing bankruptcy (Gove and Janney 2004) or in the same industry as others restating earnings (Da Dalt and Margetis 2004) experience significantly negative stock price returns. Thus actors are incentivized not only to avoid becoming stigmatized themselves, but also to stay away from stigmatized others, so that negative organizational outcomes perceived to be illegitimate or dangerous will result in the severing of social ties for those involved, engendering the internal and external labor market consequences demonstrated after the announcement of earnings restatements (e.g., Arthaud-Day et al. 2006; Collins, Reitenga and Sanchez-Cuevas 2005; Desai, Hogan and Wilkins 2006; Srinivasan 2005).

Though earnings restatements are likely to result in contaminated social identity, the stigmatization of organizational elites associated with such misconduct is not a foregone conclusion. If definitions of what is acceptable and what is to be condemned are determined through social interaction, purposive action can be deployed to engender favorable definitions and reactions on the part of both the perceiver and the potentially stigmatized actor. As Jones and his colleagues (1984) argue, self-presentation mediates the response to stigmatizing events;

if the potentially stigmatized actor appears to conform to stereotypes associated with stigma, he will be condemned, but if his self-presentation is sufficiently inconsistent with stereotypes of social deviance, he may not suffer any consequences. Inasmuch as it can alter perceptions of misconduct and the actors associated with it, therefore, symbolic management can change the degree to which actors associated with misconduct are stigmatized.

Symbolic Management

When discussing negative outcomes, organizations often use symbolic language and action to promote positive interpretations of events and engender the support and endorsement of both internal and external stakeholders (Dutton and Dukerich 1991; Elsbach, Sutton and Principe 1998; Goffman 1971; Pfeffer and Salancik 1978; Schlenker 1980; Westphal and Zajac 1998; Westphal and Zajac 1994; Zajac and Westphal 1995; Zajac and Westphal 2004), particularly in the communication of bad news (Bettman and Weitz 1983; Bowman 1976; Bowman 1984; Salancik and Meindl 1984; Staw, McKechnie and Puffer 1983; Sussman, Ricchio and Belohlav 1983). With roots in both impression management theory (Goffman 1959; Schlenker 1980; Tedeschi and Melburg 1984) and institutional theory (DiMaggio and Powell 1983; Meyer and Rowan 1977), symbolic management research shows that both individuals (Leary and Kowalski 1990) and organizations (Elsbach and Sutton 1992; Giacalone and Rosenfeld 1989; Giacalone and Rosenfeld 1991; Staw, McKechnie and Puffer 1983) preserve and repair their legitimacy after image-threatening events (Elsbach 1994; Leary and Kowalski 1990) through verbal accounts and symbolic actions that highlight their trustworthiness. Organizations can also frame audience reactions by highlighting their links to institutionalized practices and structures to demonstrate their own worthiness and to account for negative outcomes (Galaskiewicz and Burt 1991; Meyer and Rowan 1977; Oliver 1991). In the area of corporate governance (e.g., Wade,

Porac, and Pollock 1997; Westphal and Zajac 1998; Westphal and Zajac 1994; Zajac and Westphal 1995), symbolic management research has shown that organizational elites respond to significant pressures imposed by external stakeholders (e.g., increased accountability to shareholders), while simultaneously protecting their own autonomy through the use of symbolic language (i.e., a particular way of saying what you do) and/or appearance (i.e., the decoupling of saying and doing). Symbolic management tactics span a broad range of linguistic framing and symbolic action, and can generally be parsed into those that accept responsibility and those that do not accept responsibility for the outcome, either through scapegoating or by reframing the outcome as legitimate.

Accepting responsibility. Perhaps the best means of establishing organizational legitimacy is to accept responsibility fully (Ashforth and Gibbs 1990; Elsbach 2005; Sutton and Callahan 1987; Sutton and Kramer 1990). Salancik and Meindl (1984) suggest that organizational elites who accept responsibility for negative organizational outcomes present the illusion that they control a hostile environment. The best way to effect such acceptances, according to Elsbach (2005), is through a public apology that includes demonstrating commitment to correcting the situation (Marcus and Goodman 1991) and effecting changes to organizational structures and practices that focus audiences on the organization's future, rather than its past shortcomings (Elsbach, 2005). Following a restatement, such an acceptance of responsibility may be accomplished by announcing a board investigation into the misconduct, whether or not such action is ever taken or its findings made public, or by delaying SEC filings until the organization is confident in the reliability of its financial statements.

Not accepting responsibility: Scapegoating. Organizations may also attempt to establish their legitimacy by denying accountability, although this is generally seen as a less effective

tactic than accepting responsibility (Ashforth and Gibbs 1990; Elsbach 1994). In the face of revelations of misconduct, organizational elites may reject responsibility by scapegoating, or shifting blame to potentially culpable others (Burke 1969; Gephart 1978; Neilsen and Rao 1987), either through verbal accounts blaming other parties for the misconduct or by severing relationships with potentially and plausibly culpable others – most often, Chief Financial Officers (CFOs) external auditors. Scapegoating allows the board to tangibly excise the past and offer a new vision for the future, demonstrating to external audiences that prior problems have been adequately addressed (Gephart 1978; Neilsen and Rao 1987). If successful, scapegoating executives, external auditors or other parties should limit stigmatization on internal and external labor markets. It is important to note that, although scapegoating implies symbolic assignment of blame, denying responsibility by blaming others may be an accurate representation of reality in some cases. That is, those who suffer the greatest consequences may in fact be the ones directly responsible for the misconduct. Without private information, public accounts of organizational actors' involvement in misconduct and the reasons behind the subsequent dropping of ties make it almost impossible to discern whether blame has been appropriately assigned, or whether the departure is the result of purely symbolic scapegoating.

Not accepting responsibility: Reframing action as legitimate. Perhaps the simplest way to redefine misconduct as socially acceptable is through the symbolic language of impression management. At the organizational level, this can be achieved through external communication projecting a legitimate organizational image (Elsbach and Sutton 1992; Giacalone and Rosenfeld 1989; Giacalone and Rosenfeld 1991; Pozner and Zajac 2006; Staw, McKechnie and Puffer 1983). In the case of an earnings restatement, this might be accomplished through detailed explanation and justification of the financial misconduct (Ashforth and Mael 1989; Bettman and

Weitz 1983; Salancik and Meindl 1984; Staw, McKechnie and Puffer 1983), as well as a full accounting of problems that might have predicated it, which signals that the board understands the issues and is committed to transparency. Through the use of symbolic language, organizations may cast the revelation of misconduct as a legitimate event, thus preventing stigmatization and enhancing organizational legitimacy.

Power and Choice of Symbolic Management Tactic

It is clear from the accumulated evidence provided by past research that accepting responsibility for negative outcomes is the best way to manage audience perceptions of the organization. Elsbach (1994) finds that acknowledgements of the image-threatening act are much more effective in repairing organizational reputation and legitimacy than denial, particularly when linked to institutional characteristics. Sutton and Callahan (1987) propose that denial is likely to be a successful strategy only in the short run, with long-run repair possible only through acceptance of responsibility, if only because it builds the perception that the organization is in control of its environment and outcomes (Salancik and Meindl 1984). Similarly, Lee, Peterson and Tiedens (2004) find that organizational making self-disserving attributions of corporate performance, providing both internal attributions and explanations of results as controllable, are rewarded with higher stock returns. Finaly, Elsbach (2005) argues that a symbolic management program that accepts responsibility, apologizes for negative outcomes and articulates a plan to avoid similar pitfalls in the future is the best way to repair reputational damage. Ashforth and Gibbs (1990) caution, however, that too many attempts at image-restoring action may result in further diminished legitimacy, as organizations protesting too much may be perceived as manipulative.

Although assuming responsibility for negative organizational outcomes might yield the best results, it is often quite difficult to do. Accepting responsibility and apologizing for negative outcomes go against our stereotypes of strong leadership (Elsbach 2005), and therefore requires strong will and on the part of organizational decision makers. Moreover, accepting responsibility for an earnings restatement through concrete action rather than a symbolic announcement – i.e., by delaying the announcement of financial results, rather than announcing a board investigation – is a particularly risky move, because delayed earnings announcements are taken as a signal of disappointing financial results, and therefore met with excess negative returns on securities markets (Begley and Fischer 1998; Givoly and Palmon 1982; Kross and Schroeder 1984; Trueman 1990). Such a decision is particularly unlikely under the leadership of a strong chief executive (CEO), because leaders who experience their sense of power and control too keenly may be inattentive to social sanctions and the particular dangers of risky courses of action (Keltner, Gruenfeld and Anderson 2003).

To arrive at the joint decision to accept responsibility, organizational elites must both recognize the need to manage perceptions, and feel secure enough in their positions to defy stereotypes. Hence the choice of symbolic management tactic is likely to be influenced by the social and political dynamics at work in the boardroom, and the balance of power between outside directors, who are more likely to think like shareholders, and insiders, who are more likely to act in a self-serving manner (Beatty and Zajac 1994; Eisenhardt 1989; Zajac and Westphal 2002). If outside directors are powerful relative to insiders, they are more likely to engage in the more difficult acceptance of responsibility for the restatement. In contrast, organizations dominated by powerful CEOs may be more likely to ignore the need to accept

responsibility, but rather to bolster the reputation and power of the chief executive by scapegoating or reframing the restatement as legitimate. Hence:

H1a. Organizations with relatively powerful boards are more likely to accept responsibility for the misconduct that led to the earnings restatement

H1b. Organizations with relatively powerful CEOs are more likely not to accept responsibility for the misconduct that led to the earnings restatement s

Consequences of Symbolic Management

The effectiveness of symbolic management cannot be understood in a uni-dimensional way. Although research has mainly looked at the effects of symbolic management techniques relative to organizational reputation (Elsbach 1994; Elsbach and Sutton 1992; Giacalone and Rosenfeld 1989; Giacalone and Rosenfeld 1991), organizational challenges (Elsbach, Sutton and Principe 1998) and stock performance (Lee, Peterson and Tiedens 2004; Pozner and Zajac 2006; Staw, McKechnie and Puffer 1983), its indirect impact can be much further-reaching. In particular, if symbolic management is effective at changing stakeholder perceptions, it can reduce the degree to which the organizational elites associated with negative outcomes such as earnings restatements will be stigmatized. At the same time, the process of engaging in symbolic management is likely to change internal audiences' impressions of and reactions to the organization with which they are involved. Thus, we must investigate the effectiveness of symbolic management tactics relative to both internal and external labor markets when evaluating their use in conjunction with earnings restatements.

In an earlier chapter, I address the social and political factors that influence turnover among organizational elites following earnings restatements. My findings indicate that outside directors are likely to leave following revelations of organizational misconduct if they are

relatively independent of the CEO, whereas powerful CEOs are associated with less insider turnover. Because, as I have argued, powerful outsiders on the board of directors are more likely to accept responsibility for the restatement than are less powerful boards, I anticipate that accepting responsibility will also have similar effects on turnover. In contrast, organizational elites who do not accept responsibility may convince themselves and others that they have found the culpable party or that their actions were legitimate, making them less likely to depart the restating organization, resulting in lower rates of insider and outsider turnover. Thus:

H2a. Accepting responsibility will be associated with a higher rate of outside director and executive turnover following the announcement of an earnings restatement

H2b. Not accepting responsibility will be associated with a lower rate of outside director and executive turnover following the announcement of an earnings restatement

Whereas the effect of symbolic management techniques on insider and outsider turnover is likely to be related to the balance of power within the organization, the effect of such tactics on the loss of external seats is likely to be more closely correlated to reputational repair. That is, if symbolic management is effective, the earnings restatement is less likely to be perceived as illegitimate, and stigmatization is less likely to occur. Consistent with symbolic management theory, denying blame and attempting to legitimate the restatement are likely to be seen as manipulative (Ashforth and Gibbs 1990), therefore indicative of organizational elites' untrustworthiness as directors of other firms. Therefore organizational elites who do not accept responsibility for the restatement are likely to be stigmatized, resulting in the net loss of seats on external boards. In contrast, acceptances of responsibility are more likely to repair reputational

damage and prevent stigmatization than are denials or attempts to legitimate the restatement (Elsbach 1994; Elsbach 2005; Sutton and Callahan 1987), particularly as they promote the perception that organizational elites are vigilant and in control of organizational outcomes (Salancik and Meindl 1984). Thus organizational elites who accept responsibility are less likely to be stigmatized, and consequently less likely to lose seats on external boards. Thus:

H3a. Accepting responsibility will be negatively associated with outside directors' and insiders' loss of seats on external boards following the announcement of an earnings restatement

H3b. Not accepting responsibility will be positively associated with outside director's and insiders' loss of seats on external boards following the announcement of an earnings restatement

Finally, the assumption of responsibility for a restatement is likely to be even more beneficial to those organizational actors who have the most to lose from that act. Audit committee members, who by accepting responsibility for the restatement essentially admit their own failures as overseers, are likely to be seen in juts the opposite light. Rather than accentuating their deficiencies, their willingness to accept responsibility and take purposive action to repair the damage caused by misconduct may highlight their dedication to monitoring and oversight, making them more desirable as directors. Similarly, both outside directors and insiders who accept responsibility when they are relatively more powerful, and therefore more able – if not more likely – to deny responsibility or to make external attributions are more likely to be seen to take their responsibilities as overseers seriously, and therefore less likely to lose seats on external boards. Hence:

H3c. Audit committee members who accept responsibility will lose fewer seats on external boards following the announcement of an earnings restatement

H3d. Members of relatively powerful boards that accept responsibility will lose fewer seats on external boards following the announcement of an earnings restatement

H3e. Insiders serving under powerful CEOs who accept responsibility will lose fewer seats on external boards following the announcement of an earnings restatement

DATA AND METHODS

To test my hypotheses, I collected data on firms restating earnings between 1997 and 2003, as reported by the GAO (D'Agostino 2002), a population that includes approximately 1,239 restatements. Availability of complete information on the restatements themselves, as well as complete records of prior performance, directors and officers, ownership, market returns, and ancillary data narrowed resulted in a final sample of 311 restatements issued by 266 firms listed on the S&P 1500 Index between 1997 and 2003. My observation window extends to 2006 to account for staggered board elections. Based on annual proxy statements, and based on the availability of data therein, I gathered information on each firm's board of directors and top executives, including the CEO as well as the CFO, President, COO, Treasurer and Controller, when available. This produced a sample of 2,773 unique actor-firm-year combinations for restating firms. For analyses of the loss in external seats, I restricted my sample to those at risk of losing seats, hence those who sat on at least one other board, resulting in a sample of 1,496

unique actor-firm-year combinations. Descriptive statistics and correlation coefficients are included in table 12.

Dependent Measures

To test hypothesis 1, I first created variables to measure each symbolic management technique. Acceptances of responsibility are tested using two measures: *Board Investigation*, coded as 1 if the board announced an internal investigation, and 0 if it did not; and *Delayed Filing*, coded as 1 if the board delayed filing its 10K or 10Q reports with the SEC until the restatement could be investigated, and 0 if it did not. These measures are based on coding of SEC filings in the *EDGAR* database, as well as news articles and press releases included from the *Lexis-Nexis* database. I operationalize the denial of responsibility with three indicators: *Auditor Change*, coded as 1 if the restating firm changed external auditors in the year of or the year following the restatement; *CFO Departure*, coded as 1 if the CFO left the restating firm within one year of the restatement; and *Blame 3rd Party*, coded as 1 if the restatement description cited a party other than management or external auditors as responsible for the restatement, 0 if no such allegation was made. These measures are based SEC filings and proxy statements in the *EDGAR* database. Finally, I test the degree to which detailed accounts of the restatement are given using two measures: *Length of account*, a count of the number of words used in the "Restatement Details" (or similar) section of the SEC filings amended to reflect the restatement that was included in the *EDGAR* database. These measures are included as independent variables in the analysis of hypotheses 2 and 3.

The dependent variable used to test hypothesis 2 is *Departure*, a dummy variable coded as one if the actor left the restating organization within one year of the restatement. An actor was coded as leaving if he were listed in the proxy statement for the year prior to announcement

of the restatement, but not in the proxy from the calendar year of the restatement, or if here were included in the proxy statement from the year of the restatement, but not the following year. I then generated *Departure* by coding separate values for those outside directors, audit committee members, CEOs, CFOs and other outsiders who had left, leaving all those who had not departed as the comparison group. These data were collected from Thomson Research's *Compact Disclosure* database, as well as by hand-coding proxy statements in the *EDGAR* database.

Hypothesis 3, which predicts the risk of losing seats following restatement, is tested using *Seats Lost Within One Year*. This dummy variable, derived from the *Thomson Financial* database of proxy statements, is coded with a 1 if the focal director or insider lost a seat, excluding his seat at the restating firm, between the calendar year in which the restatement was filed and the following proxy year. I used this measure, rather than a measure of net change, to differentiate between no change and no net change in seats due to adding and dropping external seats in the same year (Richardson 2005).

Independent Measures

As noted above, to test hypotheses 2 and 3, I include *Board Investigation*, *Delayed Filing*, *Auditor Change*, *CFO Departure, Blame 3rd Party*, and *Length of account* as measures of symbolic management techniques.

To measure the relative power of outsiders relative to insiders, I include several measures of board power. Following Zajac and Westphal (1996b) I used several measures collected from annual proxy statements to operationalize board power relative to the CEO. First, CEO duality – joint occupation of the CEO and board Chairperson titles – has long been considered to impinge on board independence and promote managerialism (Cannella. Jr and Lubatkin 1993; Rechner and Dalton 1991; Zajac and Westphal 1996b). Certainly, executives occupying both positions

simultaneously have greater formal authority and stature relative to the board (Harrison, Torres and Kukalis 1988; Patton and Baker 1987; Zajac and Westphal 1996b). *CEO Duality* was therefore coded with a one if the CEO was also the Chairman of the Board at the time of the restatement, and is negatively correlated with board power.

I also measured *Board Tenure Relative to CEO*, a measure of the average tenure of outside board members divided by the tenure of the CEO that is positively associated with board power. This measure has been used to operationalize the effect of tenure on the relative influence of both parties (Singh and Harianto 1989; Wade, O'Reilly and Chandratat 1990; Zajac and Westphal 1996b). Outsiders with greater tenure are more likely to be familiar with organizational resources and operations, and therefore to possess expertise that enables them to speak up during board meetings, and consequently to exercise influence relative to the CEO (Alderfer 1986; Zajac and Westphal 1996b; Zald 1969). Similarly, CEOs with relatively long tenure may gain influence over the board through their personalities and the force of their identification with the organization (Finkelstein and Hambrick 1989; Zajac and Westphal 1996b).

Another measure of board power is *Independent Outsiders*, a count of the outside directors not appointed by the current CEO that is positively associated with board power. This derives from Wade and colleagues' (1990) observation that boards composed of directors appointed after the CEO were positively associated with golden parachute adoption. Because they have historically controlled the nominating process, CEOs have been able to choose directors with whom they have personal relationships or demographic similarities, making them more susceptible to CEO influence (Fredrickson, Hambrick and Baumrin 1988; Mace 1986; Zald 1969). Outside directors not appointed by the current CEO are less likely than insiders and those

appointed by the current CEO to be loyal, unquestioning and passive directors (Herman 1981; Mace 1986), and less beholden to the norm of reciprocity (Boeker 1992; Gouldner 1960; Hirsch, Friedman and Koza 1990; Mizruchi 1983; Wade, O'Reilly and Pollock 2006), making the board more independent of the CEO and more likely to exercise their own preferences (Zajac and Westphal 1996b).

I included *Total Outsider Beneficial Ownership*, measured as the percentage of total stock outstanding beneficially owned by outside directors, as indicated in annual proxy statements. This measure, suggested by Zajac and Westphal (1996), captures the power of board members based on stock ownership (Zald 1969), as well as the degree of director vigilance and monitoring of managerial activity based on equity investment (Beatty and Zajac 1987; Finkelstein and Hambrick 1989). This measure is also positive associated with board power.

I also included several additional measures of relative independence and power. *Outsider Ratio*, or the ratio of outsiders to insiders on the board, was included, as it is generally considered a measure of board independence (Daily and Dalton 1994; Zajac and Westphal 1994; Zajac and Westphal 1996a; Zajac and Westphal 2004), and is positively associated with board independence. Because I am interested in the outcomes of individual actors, including insiders whose influence relative to the board would not be captured in board-level measures, I also included two measures of individual outside director independence. *Tenure* is measured as years in office, based on annual proxy statements, and is positively related to director independence. *Individual Beneficial Ownership* is measured as the percentage of shares outstanding beneficially owned by the focal actor, and is negatively related to director independence; the more stock a director owns, the more he is likely to identify with the organization, and the more tied he is to its fate and fortune.

Finally, I include several interaction variables: *Board Action * Total Outsider Beneficial Ownership, Board Action * CEO Duality, Delay Announcement * Audit Committee Member, Delay Announcement * CEO Duality,* and *Delay Announcement * Total Outsider Beneficial Ownership*.

Because I am studying the antecedents and consequences of symbolic management techniques employed by organizations, it is important to include the effects of external stakeholders' actions in response to the restatement. These variables can be categorized as indicators of divestiture, critique, blacklisting, and regulatory enforcement. Because most of these reactions take place following the announcement of the restatement, however, they are unlikely to affect restating organizations' choice of symbolic management technique, so external stakeholder reactions are not included in my tests of hypothesis 1.

Divestiture. Following revelations of organizational misconduct, shareholders may attempt to protect their interests from further devaluation by voicing their lack of confidence in current organizational leadership. If they feel organizational leadership sufficiently untrustworthy and incapable of enacting change, they may simply exit the relationship (Hawley, 1995; Hirshman, 1970) by divesting, or "voting with their feet." Institutional investors may sell their stakes in misconduct firms, even at a loss, to highlight the degree to which they mistrust current leadership (Attari, Banerjee, & Noe, 2006; Parrino, Sias, & Starks, 2003), the implication being that they feel losses will be more substantial the longer organizational leaders stay in place. Significant institutional investor sell-offs are often followed by relationship investors – those willing to work with management and directors to improve governance and address problems – taking greater positions of a security, and consequently changes in governance and leadership (Attari et al., 2006; Parrino et al., 2003). Subsequent severing of social ties indicates

stigmatization at both the board and individual levels. I use *Institutional Divestiture* to measure the total change in institutional investor ownership as a percentage of total shares outstanding between the year of the restatement and the following year. These data were collected using the *First Call Historical Database*, available through the Wharton Research Data Service.

Critique. A less severe means of expressing distrust of and dissatisfaction with current organizational leadership is through critique. By giving voice to their distrust (Hawley, 1995; Hirshman, 1970), shareholders, securities analysts and the media can call attention to organizational leaders' responsibility for the misconduct, their poor standards of corporate governance and their diminished credibility. Critique might take the form of shareholder lawsuits, aimed both at recouping part of the value of investment lost following revelations of organizational misconduct (Lu, 2004; Mohan, 2004), and at preventing directors associated with misconduct from putting other assets at risk (Fich et al., 2005). Greater press coverage of misconduct (Miller, 2006) and reduction in securities analyst coverage (Griffin, 2003) also highlight organizational leaders' responsibility for misconduct and the degree to which their trustworthiness has been diminished, respectively. By encouraging changes to organizational leadership and oversight, critique defends the external stakeholders' interests from stigma contagion, while increasing the likelihood of internal stakeholder stigmatization.

Critique is tested with three measures: *Shareholder Lawsuits* counts the class action lawsuits filed by shareholders in the year of and following the restatement; these data were collected from the *Stanford Securities Class Action Clearinghouse*. *Media Mentions* measures the number of articles referring to the restatement in the *Lexis-Nexis* database in the year of the restatement. *Change in Analyst Coverage* counts the change in the number of analyst estimates issued in the year of the restatement compared to those issued in the year prior to the

restatement; these data were collected from the *First Call Historical Database*, through the Wharton Research Data Service.

Blacklisting. Like critique, blacklisting is a form of voice that expresses distrust of, and dissatisfaction, with current organizational leadership. Blacklisting highlights the severity of the misconduct by making a direct causal link between the poor quality of governance and organizational leadership and the incidence of misconduct. Activist investors such as CalPERS and The Corporate Library explicitly target firms with poor governance by naming them to focus lists, whereupon reputation concerns force organizational leadership to improve governance and force out tainted organizational leaders (Wahal, 1996; Wu, 2004), thereby increasing stigmatization at the board and individual levels. Thus activist investors' efforts to protect shareholder interests, and minimize the spread of stigmatization to shareholder assets, are likely to encourage the stigmatization of organizational leaders, in turn. To measure blacklisting, I use two measures: *CalPERS Target*, coded as 1 if the firm was included in the CalPERS Focus List in the year of or following the restatement, and 0 otherwise; and *Problem Director*, coded as 1 if The Corporate Library listed a member of the board (for board-level analysis) or the focal director (for individual-level analysis), as a problem director.

Regulatory enforcement. Finally, external stakeholders will take action to redefine and reinforce the boundaries of socially acceptable behavior (Jones et al., 1984). This might be motivated by a desire to protect their own identities from stigma contagion, or by a wish to restore order and prevent others from engaging in unacceptable behavior in the future. Regulatory enforcement, in the form of SEC enforcement actions, signal that official institutional actors disapprove of and will not tolerate misconduct, highlighting its illegitimacy, and reinforcing the formal boundaries of socially acceptable practice. By highlighting the salience

and illegitimacy of misconduct, regulatory action makes it difficult for tainted organizational leaders to deflect attention and prevent stigmatization at both the board and individual levels. *SEC Enforcement* Actions is a dummy variable coded with a 1 if the SEC filed enforcement actions against the restating company following the restatement announcement.

Control Measures

To measure the severity and salience of the restatement, I included a number of measures that I have found to significantly impact director and executive outcomes following restatement in earlier analyses. Following Srinivasan (2005), I include a measure of magnitude of the restatement – *Net Effect of Restatement* – operationalized as the natural log of absolute value of the net impact of the restatement on net income. *Restated Filing: 10K* is a dummy variable coded 1 if the restatement concerned annual 10K filings, and 0 if only quarterly 10Q filings were restated. Wu (2002) finds that restatements of annual filings engender stronger reactions than restatements of other filings, particularly announced but unofficial estimates of earnings. I also included a dummy variable for the type of restatement I have found to impact labor market outcomes: *Response to SEC Guidance* (Land 2006; Palmrose, Richardson and Scholz 2004); the reference groups therefore included *Revenue Recognition; Expense; Assets; Inventory; Mergers and Acquisitions; Technical; Error, Fraud Implied; Error, No Fraud Implied;* and *Other.*

I also included measures indicating proximity to the initial misstatement. A related measure called *In Office at Time of Misstatement*, a dummy variable was coded with a one if the focal actor was in his current position before the statements for the final restated period were filed with the SEC, is also included. I also include three measures representing purely symbolic aspects of restating companies and their elites. *Fortune Reputation Index* is a dummy variable coded with a one if the restating firm was included in the *Fortune* Reputation survey during the

observation window. This survey asks over 8,000 executives, directors, and securities analysts to rate a list of the ten largest companies in their industries along eight measures: social responsibility, innovation, long-term investment value, use of corporate assets, employee talent, financial soundness, quality of product/service, and quality of management. I anticipate that inclusion on the reputation index will counteract the effect of association with restatement on director and executive outcomes. That is, the quality of organizational elites' associations with highly respected firms will outweigh the detrimental effect of restating earnings. *Order of Restatement* is a discrete variable indicating the number of firms in the focal organization's industry, measured by 2-digit SIC, that issued restatements. If restatements represent signals to external labor markets, the order of restatement should have no effect on labor market consequences; in contrast, if restatements play a symbolic role in determining labor market outcomes, markets should become accustomed to the phenomenon of restatement, engendering diminishing effects over time. *Total External Board Seats* is a counts the number of external boards on which the focal actor sat in the year of the restatement, and is a proxy for the focal actor's centrality in the network of directors.

I also included several director-level controls. *Age 65* is a dummy variable coded as 1 if the actor were 65 or older in the year of the restatement, and 0 if he were younger than 65, as reported in annual proxy statements. I also included a dummy variable, *Female*, coded with a one if the actor is female, based on annual proxy statements. *Total External Board Seats* represents a count of the number of other boards on which the focal actor sits, and hence a proxy for the centrality of the focal actor in the network of U.S. publicly-traded corporations; this variable was collected from the *Thomson Financial* database of proxy statements. When

appropriate, I included dummy variables for *Audit Committee Membership*, *Outside Director*, *CEO* and *CFO*.

Two firm-level variables collected from the *Compustat* database and lagged on year prior to restatement controlled for performance, *Return on Assets*, and organizational size, *Total Assets*, of which I took the natural log. I also included dummy variables indicating that the restating firm was included in the *S&P 500 Index* and *NYSE (New York Stock Exchange) Listing* during the year of its restatement. These were collected using the *CRSP* database.

Finally, I included the dummy variable, *After 2000*, which was coded as 1 if the restatement occurred in the years 2001 through 2003, and 0 if it occurred in or prior to the year 2000, to account for the salience of the corporate scandals that peaked around the collapse of Enron, as well as the passage of the Sarbanes-Oxley Act.

Method of Analysis

T o demonstrate the main effect of restatement on turnover of all organizational elites, directors, CEOs and CFOs, I analyzed the matched sample using logistic regression using the Stata 8 statistical package. In these models, I specified robust standard errors by clustering on firm-year to control for interdependence of within-firm observations. Results of this analysis are included in table 3. To test for the clustering of restating organizations within industries and over time, and as a robustness check, I also ran the models using robust estimation and clustering on three-digit SIC codes, as listed in the *Compustat* database, and ran models with fixed effects by year. The unreported results of these models did not differ significantly from those reported.

To test my hypotheses, I employed a sample composed exclusively of the outside directors and insiders of restating firms, again using logistic regression in the Stata 8 statistical package. In these models, I specified robust standard errors by clustering on firm-year to control

for interdependence of within-firm observations and multiple restaters. For the analysis of the effects of board power on length of accounts, I used OLS regression. For the analysis of hypotheses 2 and 3, rather than run discrete models for each group of organizational elites, I stacked them into two sets of models, one for outsiders, the other for insiders. I did this by first modeling each group independently, then conducting seemingly unrelated regression (Greene 1993) to test for equality of effects of each hypothesized relationship between groups one parameter at a time (see Greve 1998). After conducting pair-wise comparisons of effects, I found that the data collapsed into two groups: insiders and outsiders. Thus, as the effect of CEO Duality on CEO turnover was found to differ significantly from its effect on CFO and other insider turnover, but the effects of CEO Duality on CFO turnover was not found to differ significantly from its effect on other insider turnover, I included an interaction term for CEO Duality on CEO turnover; all other effects can be read as statistically equivalent across collapsed groups. This procedure allowed me to present parsimonious models while accounting for differences in demographics, preferences and behavior among upper echelons (Jensen and Zajac 2004). Finally, I ran all models with fixed effects for both firm and year; as neither set of analyses increased model explanatory power nor changed the patterns of results and significance. I report only the most parsimonious models.

RESULTS

The results of my analysis of the antecedents of the choice of symbolic management technique are reported in table 13. Models 1 and 2 test the effects of board power relative to insiders on the likelihood of accepting responsibility for the restatement. Model 1 indicates that boards are more likely to announce that they plan to investigate a restatement when their

individual tenure on the board is low, and when more directors are preparing to leave the board, providing little support for H1a. Model 2, however, supports H1a, as more powerful boards – those that are independent of loyalty to the CEO, and boards with fewer members – are more likely to delay the announcement of earnings to resolve misstatements. Models 3, 4, 5 and 6 test H1b, which predicted a positive relationship between weak boards relative to insiders and the likelihood of not accepting responsibility for the restatement. Model 3 suggests that less central outside directors – those who sit on fewer external boards – are more likely to blame third parties, as are those with more directors over age 65, with fewer assets, and those listed on the New York Stock Exchange. Model 4 indicates that board members who have served less time on their respective boards are more likely to change auditors following restatement, but that board power plays no significant role. Model 5 reports that older CFOs are less likely to be scapegoated, whereas those serving firms whose outside directors leave in greater numbers are more likely to depart, suggesting full-scale housecleaning, rather than scapegoating. These models suggest that firm characteristics, rather than relative board power, influences the decision not to accept responsibility by scapegoating others. Finally, model 6 tests the effects of board characteristics on the length of accounts of the misstatement given in SEC filings, a proxy for attempting to enhance the legitimacy of the restatement. This model suggests that powerful CEOs increase the number of words used in accounts of the restatement, as does filing the restatement after the year 2000, whereas more powerful boards – those with more outsiders – and board members who have served less time on their boards decrease the number of words used in SEC filings. Thus H1b receives mixed support.

Tables 14 and 15 report the results of my analysis of the effects of symbolic management technique on insider and outsider turnover. Table 14 reports the results of tests of hypothesis 2

for outside directors, table 15 tests the same effects on insiders. Model 1 in table 14 reports the effects of control variables on the likelihood of outsider turnover, and replicates the effects found in my earlier chapter. Model 2 adds the effects of external stakeholder reactions to the restatement, and finds that institutional divestiture significantly increases the likelihood of turnover, whereas blacklisting actually decreases the likelihood of turnover, while critique and regulatory enforcement have no effect. Models 3 through 8 add each symbolic management technique individually, with all included in model 9. Model 9 indicates that delaying earnings announcements increases the likelihood of outside director turnover, whereas announcing a board investigation and blaming third parties decreases the likelihood of turnover, and changing external auditor and length of account have no effect on director turnover. This provides partial support for H2a and H2b. In model 10, I interact board investigation and total outsider beneficial ownership, the indicator of board power that best predicted outsider turnover); this model suggests that members of relatively powerful boards that announce their intentions to investigate the misstatement are more likely to depart the restating firm within a year, providing full support for H2a.

Model 1 in table 15 again replicates earlier results concerning board power and insider turnover. In model 2, I add the effects of external stakeholder reaction on the likelihood of insider turnover, and find that insiders are more likely to depart the restating firm the more times the issue is raised in the media, although less likely to turn over when the SEC engages in enforcement actions against the restating firm. Models 3 through 8 add each symbolic management tactic separately, while model 8 reports the effects of all simultaneously. Model 9 indicates that delaying earnings announcements until the effects of the restatement are resolved significantly increases the likelihood of insider departure, while model 10 suggests that this

effect is moderated by the power of the CEO; that is, insiders serving under relatively powerful CEOs are significantly more likely to turn over following delayed earnings announcements than those serving under relatively less powerful chief executives. The results of these models provide support for H2a, although not for H2b.

The results of my analysis of the effects of symbolic management technique on outside directors' loss of external board seats are reported in table 16. Model 1 is a control model, and replicates the results of my previous study. Model 2 adds the effects of external stakeholder reaction on the loss of external board seats, and finds that outside directors are more likely to lose external seats when institutional shareholders sell their stock and when they are named problem directors, but that they are less likely to lose external seats when the firm is blacklisted by CalPERS. Models 3 through 9 add the effects of each symbolic management technique separately, while their simultaneous results are reported in model 10. Models 4, 5 and 10 suggest that delaying the earnings announcement significantly decreases outside directors' likelihood of losing seats on external boards, and that this effect is moderated by audit committee membership, providing support for H3a and H3c. Model 11 indicates that members of relatively powerful boards that delay earnings announcements are also significantly less likely to lose external board seats, thus indicating support for H3d. Hypothesis 3b, which predicted a positive relationship between the failure to accept responsibility and the loss of external seats, was not supported.

Table 17 reports the results of my analysis of the effects of symbolic management technique on insiders' loss of external board seats. Model 1 is a control model, and again replicates the results of my previous study. Model 2 adds the effects of external stakeholder reaction on the loss of external board seats, and finds that insider directors' likelihood of losing

of external board seats is unaffected by other stakeholders' reactions. Models 3 through 8 add the effects of each symbolic management technique separately, while their simultaneous results are reported in model 9. Model 9 indicates that insiders are less likely to lose seats on other boards when the board of the restating firm announces its intention to investigate the misstatement, but more likely to lose seats when the board delays its earnings announcement. Model 10, however, suggests that the effect of delaying earnings announcements is moderated by CEO power, such that insiders serving under powerful CEOs are less likely to lose external seats when they delay earnings announcements. This provides support for H3a and H3e, whereas no effects are found for attempts to legitimate the restatement or denial of responsibility, indicating no support for H3b, which predicted a positive relationship between the failure to accept responsibility and the loss of external seats, was not supported.

DISCUSSION AND CONTRIBUTIONS

The goal of this chapter is to examine the social and political mechanisms that affect insiders' and outsiders' outcomes on internal and external labor markets following earnings restatements, addressed through the lens of symbolic management. I have argued that the relative power of organizational elites affects their choice of symbolic management tactics, and that those efforts to put themselves in the best light through attributions of responsibility affect both organizational elites' tendency to depart the restating firm and to retain seats on external boards. My analysis suggests that the relative power of the board does significantly impact the public framing of the restatement, but that the many of these efforts have little effect on either turnover or the loss of seats on external boards. Moreover, I find that the riskiest symbolic management tactic from the perspective of finance theory – delaying the announcement of

quarterly results – actually improves the external labor market outcomes of powerful outside directors, but exacerbates the loss of external seats for insiders serving under less powerful chief executives. My findings suggest that, although organizational elites recognize that restatements are potentially stigmatizing events, requiring some degree of symbolic management, their efforts are not generally effective. When powerful organizational actors make difficult decisions, however, they are systematically rewarded with gentler treatment on external labor markets.

My analysis suggests that organizational elites' choice of tactics through which to frame audience perceptions of restatements is systematically determined by the process of social and political interaction. More powerful boards are more likely to accept responsibility, whereas more powerful CEOs are likely to downplay the illegitimacy of the restatement, and less powerful boards serving under less powerful CEOs more likely to deny responsibility for the event. This finding, combined with my evidence that accepting responsibility is the most effective way to limit stigmatization of individual organizational elites, is entirely consistent with Elsbach's (2005) analysis of leaders' reluctance to accept responsibility for organizational outcomes. Despite the effectiveness of apologies and mortification (e.g., Benoit 1995), powerful executives are reluctant to act in a way that is inconsistent with stereotypes of strong leadership, particularly when doing so might directly imperil their stock prices. This may be attributable to their sense of power, which prevents them from appreciating the severity of the situation and the potential for social sanctions (Keltner, Gruenfeld and Anderson 2003). Similarly, it could be argued that more powerful executives are more likely to commit financial misconduct in the first place, and thus less likely to accept responsibility when found out; this is an empirical question that can be addressed by future research.

The finding that powerful insiders are less likely to accept responsibility than are powerful outsiders might be the result of a different social mechanism, however. Insiders and outsiders as having multiple, overlapping identities, the cumulative effect of which determine the degree to which they are willing to monitor organizational action and take appropriate reparative action (Hillman, Nicholson and Shropshire forthcoming). The willingness of powerful outsiders to make the risky, difficult decision to accept responsibility and face the financial consequences of delaying earnings announcements suggests that their identification with the network of corporate directors committed to sound corporate governance and their identification with shareholders, who desire transparency and effective oversight, outweigh their particular identification with the restating organization (Hillman, Nicholson and Shropshire forthcoming). In contrast, this finding suggests that powerful insiders identify primarily with their roles as executives, with the well-documented consequences of domain-building and accompanying agency problems.

Understanding the decision to employ a given symbolic management tactic through the lens of identification (Hillman, Nicholson and Shropshire forthcoming) and relative power also explains the results of my analyses of both insiders' and outsiders' outcomes on internal and external labor markets. If only those organizations dominated by leaders who identify with the community of directors, who value their reputations as directors, and those who identify with shareholders and are therefore willing to make difficult decisions to ensure effective monitoring accept responsibility for restatements, then accepting responsibility has symbolic value to external labor markets. When assessing whether involvement with a potentially stigmatizing event taints the identities of potential colleagues, therefore, other boards will see accepting responsibility as the mark of a quality director. In contrast, external labor markets will evaluate

those who deny responsibility or attempt to minimize the illegitimacy of their actions more harshly, understanding their unwillingness to accept responsibility as a more self-centered orientation or more managerial identity.

Following the same logic, we can also account for the effects of symbolic management tactics on insider and outsider turnover. If relatively powerful organizational actors accept responsibility for the organizational misconduct, realizing that doing so might have mixed effects on their reputations as directors on the external labor market, they will be more willing to leave the restating organization. Alternatively, stronger identification with shareholders and the community of directors implies diminished identification with the organization, which also suggests that organizational elites are willing to leave when they disagree with or disapprove of organizational action.

My analysis also suggests that there are differences among acceptances of responsibility. In general, announcing a board investigation has a much less ameliorative effect on organizational elites' labor market outcomes than does delaying the release of financial statements. This is particularly interesting, because finance theory might suggest that delaying the announcement of results would be more deleterious than other symbolic actions, as delayed announcements are interpreted by securities markets as a signal of disappointing results (Begley and Fischer 1998; Givoly and Palmon 1982; Kross and Schroeder 1984; Trueman 1990). This finding implies that accepting responsibility is not sufficient to demonstrate contrition – it must be accompanied by action. Announcing a board investigation is a purely symbolic gesture, as the results of such an investigation – if in fact it is ever carried out – will only be revealed after some delay. Moreover, the announcement of a board investigation implies that there is scapegoating to come, inasmuch as acknowledging that some internal party is responsible for the

misstatement, but the board does not know who, does not actually imply the full acceptance of accountability on the part of the board. In contrast, making the decision to delay the release of financial results until the misstatement is fully investigated and trustworthy results are ready is a much more concrete action. It acknowledges internal responsibility without attempting to assign blame, which should itself be reassuring for labor markets. The decisive step of delaying an announcement is therefore a much more powerful signal than the more symbolic action involved in launching an investigation. This implies that, although symbolic management is generally an effective strategy, in the case of organizational misconduct, symbolic action may be insufficient to repair or prevent identities from becoming tainted.

It is also important to note that what might be considered the strongest form of denial of responsibility, and what might be considered the easiest to enact – firing the CFO – is inconsequential to organizational elites' outcomes. One might imagine that scapegoating financial officers who were plausibly responsible and technically accountable for the financial misconduct itself would ease the burden of reputational damage to other executives and outsiders. Yet, this is not borne out by my data and analysis. This suggests that labor markets are not so easily swayed by deflection of responsibility, and demand more concrete action or solid accounts of responsibility for the misconduct if they are not to stigmatize those involved. This issue also merits further investigation, including an analysis of the verbal accounts given when announcing CFO departure.

Beyond identifying the relationship between the choice of symbolic management tactic and the effectiveness of that tactic as an important component of our understanding of impression management, this chapter also contributes to the symbolic management literature by investigating explicitly what must be considered a second-order effect. Although we have

elaborated the effectiveness of various symbolic management tactics in reframing negative organizational outcomes and establishing legitimacy with external stakeholders (e.g., Ashforth and Gibbs 1990; Elsbach 2005), this chapter is the first to address the effect of those tactics on the outcomes of individual organizational actors. Because there are second order effects on individual outcomes, however, we must at least consider that anticipated outcomes might in turn affect the initial choice of symbolic management tactic. Thus my findings reinforce the need to understand the social and political dynamics that guide the decision-making process of organizational elites.

My analysis also provides further evidence of the stigmatization of both insiders and outsiders following revelations of organizational misconduct. Not only do they lose social ties following restatements, which indicates that they are directly stigmatized by their involvement with the restatement, but that they also attempt to distance themselves from the stigmatized organization, evidenced by their dropping ties with the restating firm, although it is difficult to distinguish voluntary from involuntary departure in my analysis. I assert, however, that although misconduct is a potentially stigmatizing event, the loss of social ties is not a foregone conclusion. If organizational elites assume responsibility for the negative organizational outcome and take purposive action to address it, they may not suffer ill effects on external labor markets, suggesting that reputational damage can be prevented through well-targeted symbolic management tactics.

At the same time, we cannot presume that reputational damage can be repaired through the same symbolic action. In tables 18 and 19, I report the analysis of the impact of symbolic management techniques on the likelihood of outsiders and insiders, respectively, gaining seats on external boards following revelations of misconduct. These analyses essentially replicate the

models presented in tables 16 and 17, with the dependent variable in this case a dummy coded as 1 if the focal actor gained any seats in the year following the restatement, and a zero if he did not. I find that symbolic management has no effect on outside directors' likelihood of being invited to sit on additional boards. Insiders who accept responsibility for the restatement through board investigations are more likely to be invited to sit on new boards than those who do not accept responsibility; this effect is moderated, however, by CEO power, as insiders serving under a relatively powerful CEO are significantly less likely to add seats than those who serve under less powerful CEOs. This analysis implies that identities are not repaired as easily as they are tarnished, and that it is easier to prevent reputational damage than it is to replenish one's reputation, at least through symbolic action.

Although the scope of this study is limited to restatements of earnings, a specific and recently popular example of organizational misconduct, its findings should generalize to most forms of organizational misconduct, although not necessarily to all potentially stigmatizing events. Vaughan's (1999) definition of misconduct differentiates the range of actions covered from those associated with accidents or disaster. The same pattern of results is unlikely to result from organizational accidents, because of their relatively low social costs, and because they are generally uncontrollable, making them weak signals and symbols of director ability. Similarly, the stigma that arises from organizational disaster – which indicates systemic failure, and therefore arouses suspicions of an organizational culture that tolerates laxity and persistent deviance – should entail more severe consequences for the executives and directors overseeing the firm at the time, suggesting different mechanisms at work. Nevertheless, the results should generalize beyond the specific acts in this study to a range of behaviors that may exist in any social system; those that are controllable, and the costs of which can range from very limited to

quite broad. Although further empirical investigation is merited, I expect that my findings would vary with the degree to which the misconduct is perceived to be controllable by the individual organizational actor and the severity of the social costs incurred.

In this study, I have elaborated some of the social and political mechanisms that account for the choice of organizational response to revelations of misconduct, and the effect of this choice on subsequent labor market outcomes of the organizational elites involved. Building on symbolic management theory, as well as research in sociology and finance, I contribute to our understanding of the consequences of misconduct for organizational elites, and to corporate governance more broadly. Nevertheless, there is still much to learn about the consequences of organizational misconduct, particularly as regards the degree to which such consequences are consensual, the result of voluntary withdrawal, or to which they represent punishment. This chapter represents just one step in a comprehensive research stream on the consequences of organizational misconduct and the mechanisms that determine how those consequences are allocated.

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APPENDIX A: TABLES

Table 1. Descriptive Statistics, Matched Sample (obs=1775)

Variable	Mean	St. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1 Departure within One Year	0.12	0.33	1.00																				
2 Departure within Two Years	0.22	0.41	0.71	1.00																			
3 Restatement Issued	0.49	0.50	0.03	0.06	1.00																		
4 Director	0.66	0.47	-0.05	-0.09	-0.18	1.00																	
5 CEO	0.09	0.28	0.00	-0.01	0.01	-0.44	1.00																
6 CFO	0.06	0.24	0.00	0.04	0.01	-0.36	-0.06	1.00															
7 Audit Committee Member	0.32	0.47	-0.04	-0.07	-0.01	0.33	-0.20	-0.17	1.00														
8 Audit Committee Member * Restater	0.16	0.36	-0.03	-0.04	0.44	0.10	-0.11	-0.10	0.63	1.00													
9 Corporate Governance Committee Member	0.21	0.41	-0.05	-0.06	0.02	0.19	-0.12	-0.11	0.02	-0.02	1.00												
10 Corporate Governance Committee * Restater	0.11	0.31	-0.01	-0.01	0.35	0.05	-0.06	-0.07	-0.04	0.11	0.68	1.00											
11 Age 65	0.27	0.44	0.12	0.16	-0.01	0.18	-0.11	-0.14	0.02	-0.01	0.10	0.07	1.00										
12 Female	0.12	0.33	-0.01	-0.01	-0.01	0.09	-0.08	-0.02	0.12	0.03	0.03	0.00	-0.13	1.00									
13 Tenure	7.99	7.80	0.13	0.10	-0.06	-0.07	0.13	-0.15	-0.04	-0.05	0.07	0.02	0.32	-0.11	1.00								
14 Beneficial Ownership	0.00	0.02	-0.04	-0.05	0.02	-0.15	0.18	-0.03	-0.11	-0.06	-0.04	-0.01	-0.01	-0.02	0.21	1.00							
15 CEO Duality	0.81	0.40	-0.02	-0.01	-0.05	0.03	0.01	0.00	-0.01	-0.02	-0.04	-0.02	0.01	-0.01	-0.06	-0.02	1.00						
16 Number of Directors	11.55	2.93	0.04	0.03	0.09	0.05	-0.06	-0.05	-0.05	-0.02	0.01	0.05	0.05	0.02	-0.04	-0.07	-0.01	1.00					
17 Number of Directors Departing	1.34	1.85	0.45	0.31	0.06	-0.01	-0.03	-0.03	-0.02	0.00	0.03	0.08	0.03	-0.01	0.03	-0.05	-0.04	0.29	1.00				
18 Outsider Ratio	4.68	3.62	-0.03	-0.04	-0.50	0.30	-0.03	-0.04	0.00	-0.23	0.02	-0.18	0.01	0.02	-0.08	-0.09	0.17	0.11	-0.06	1.00			
19 Return on Assets	0.04	0.09	-0.08	-0.07	-0.06	0.05	0.00	-0.01	-0.02	-0.03	-0.01	-0.02	-0.04	0.06	0.04	-0.01	-0.14	0.01	-0.15	0.05	1.00		
20 Total Assets	16621	15939	0.05	0.05	-0.04	0.03	-0.02	-0.03	-0.02	-0.04	0.05	0.01	0.04	0.05	-0.02	-0.11	-0.05	0.50	0.22	0.06	-0.11	1.00	
21 After 2000	0.61	0.49	0.04	0.01	0.00	-0.01	-0.03	0.01	0.01	0.00	0.03	0.02	0.04	0.05	0.01	0.00	0.19	0.23	0.10	0.05	-0.11	0.23	1.00

Table 2. Descriptive Statistics, Restating Firms (obs=2832)

Variable	Mean	St. Dev.	1	2	3	4	5	6	7	8	9	10	11	12
1 Departure Within One Year	0.18	0.39	1.00											
2 Audit Committee Member	0.34	0.47	-0.07	1.00										
3 Chief Executive Officer	0.10	0.30	0.03	-0.21	1.00									
4 Chief Financial Officer	0.08	0.27	0.05	-0.20	-0.08	1.00								
5 CEO Duality	0.68	0.47	-0.06	0.01	0.00	0.00	1.00							
6 Relative Tenure	2.37	3.95	0.02	-0.01	-0.05	0.01	-0.29	1.00						
7 Independent Outsiders	6.75	4.11	-0.02	-0.08	-0.05	-0.04	-0.13	0.23	1.00					
8 Total Outsider Beneficial Ownership	0.04	0.15	0.00	-0.03	0.00	-0.01	-0.16	0.12	0.05	1.00				
9 Outsider Ratio	3.41	2.88	0.01	0.00	-0.03	-0.01	0.04	0.03	-0.12	0.00	1.00			
10 Tenure	7	7	0.03	-0.01	0.09	-0.16	0.03	0.03	0.03	-0.05	-0.02	1.00		
11 Appointed by CEO	0.35	0.48	-0.05	0.03	-0.21	0.10	0.22	-0.29	-0.48	-0.04	0.09	-0.35	1.00	
12 Individual Beneficial Ownership	0.01	0.07	-0.04	-0.08	0.16	-0.04	-0.05	0.01	-0.06	0.32	-0.04	0.11	-0.10	1.00
13 External Seats Added within One Year	0.19	0.51	-0.06	0.03	0.00	-0.04	0.04	-0.03	-0.04	-0.01	0.01	-0.09	0.06	-0.02
14 External Seats Lost within One Year	0.54	0.87	0.39	0.03	-0.05	-0.06	0.00	0.02	0.00	0.00	0.06	-0.03	0.00	-0.05
15 In Office at Time of Misstatement	0.92	0.28	0.05	0.09	0.01	-0.11	0.03	-0.05	0.01	-0.02	0.02	0.29	-0.23	0.04
16 Total External Board Seats	1.09	1.45	-0.07	0.09	-0.04	-0.17	0.06	0.00	0.07	-0.04	0.02	-0.03	0.01	-0.06
17 Number of Directors	10.08	3.55	-0.04	-0.10	-0.07	-0.07	0.12	-0.11	0.58	-0.01	-0.03	0.06	0.01	-0.10
18 Number of Directors Departing	1.39	1.80	0.47	-0.02	-0.01	-0.01	-0.02	-0.02	0.02	-0.05	0.02	-0.03	0.00	-0.04
19 Age 65	0.23	0.42	0.05	0.08	-0.12	-0.15	0.02	0.03	0.04	-0.04	-0.01	0.30	-0.10	-0.04
20 Female	0.10	0.30	0.00	0.01	-0.06	0.02	0.06	-0.01	0.00	-0.02	0.04	-0.09	0.08	-0.03
21 Restatement Reduces Net Income	0.65	0.48	-0.01	0.01	-0.01	0.00	0.04	0.11	-0.05	-0.01	0.11	-0.01	0.00	0.03
22 Restated filing: 10K	0.63	0.48	0.02	-0.01	-0.01	-0.02	0.16	-0.05	0.11	-0.03	-0.05	0.04	0.01	-0.03
23 Number of Restatements	1.42	0.75	0.10	0.00	-0.01	0.01	0.06	0.14	0.05	-0.05	-0.06	-0.07	-0.05	-0.02
24 S&P 500 Member	0.36	0.48	-0.09	-0.03	-0.03	-0.04	0.21	-0.04	0.33	-0.14	-0.15	0.08	-0.05	-0.10
25 NYSE Listing	0.56	0.50	-0.01	-0.02	-0.02	-0.04	0.20	-0.05	0.21	-0.07	-0.02	0.05	-0.03	-0.08
26 Return on Assets	-0.04	0.31	-0.06	0.00	-0.01	-0.02	0.13	-0.13	0.07	-0.10	0.05	0.08	0.04	-0.10
27 Total Assets	6588	11053	-0.01	-0.04	-0.03	-0.03	0.21	-0.10	0.30	-0.11	-0.13	0.04	-0.01	-0.08
28 After 2000	0.56	0.50	0.02	0.02	-0.01	-0.02	0.09	-0.02	0.02	0.03	0.13	0.04	0.05	0.00

Table 2. Descriptive Statistics, Restating Firms, continued (obs=2832)

Variable	Mean	St. Dev.	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28
13 External Seats Added within One Year	0.19	0.51	1.00															
14 External Seats Lost within One Year	0.54	0.87	0.24	1.00														
15 In Office at Time of Misstatement	0.92	0.28	-0.03	0.01	1.00													
16 Total External Board Seats	1.09	1.45	0.28	0.37	-0.02	1.00												
17 Number of Directors	10.08	3.55	-0.01	0.02	0.04	0.12	1.00											
18 Number of Directors Departing	1.39	1.80	0.03	0.24	0.01	0.04	0.12	1.00										
19 Age 65	0.23	0.42	-0.06	0.04	0.09	0.10	0.08	0.02	1.00									
20 Female	0.10	0.30	0.00	-0.01	-0.02	0.02	0.04	0.00	-0.12	1.00								
21 Restatement Reduces Net Income	0.65	0.48	0.00	0.02	0.00	-0.03	-0.09	0.02	0.04	0.01	1.00							
22 Restated filing: 10K	0.63	0.48	-0.03	0.04	-0.09	0.00	0.17	0.03	0.02	0.00	-0.03	1.00						
23 Number of Restatements	1.42	0.75	0.01	0.07	-0.02	0.01	-0.01	0.13	0.04	0.01	0.09	-0.01	1.00					
24 S&P 500 Member	0.36	0.48	0.07	0.00	0.04	0.23	0.41	-0.03	0.06	0.07	-0.10	0.09	0.02	1.00				
25 NYSE Listing	0.56	0.50	0.03	0.03	0.02	0.17	0.28	0.12	0.12	0.06	0.00	0.03	0.06	0.45	1.00			
26 Return on Assets	-0.04	0.31	0.03	-0.03	0.10	0.04	0.17	-0.08	0.07	0.02	-0.01	-0.03	-0.06	0.18	0.18	1.00		
27 Total Assets	6588	11053	0.03	0.03	0.03	0.23	0.49	0.13	0.08	0.07	-0.09	0.07	0.11	0.55	0.34	0.10	1.00	
28 After 2000	0.56	0.50	-0.09	-0.03	-0.03	-0.03	0.10	0.10	0.03	0.03	-0.06	0.18	-0.04	0.01	0.01	-0.14	0.10	1.00

Table 3. Likelihood of Turnover Following Restatement, Logistic Regression (matched sample)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Departure within 2 Years					Departure within 1 Year			
	All		Directors			CEO		CFO	
Restatement Issued		0.357*		0.259+	0.355+		1.397*		1.939*
		(0.181)		(0.154)	(0.212)		(0.695)		(0.957)
Outside Director	-0.842**	-0.823**							
	(0.191)	(0.192)							
CEO	-0.27	-0.271							
	(0.268)	(0.266)							
CFO	0.232	0.263							
	(0.261)	(0.260)							
Audit Committee Member			-0.378*	-0.376*	-0.216				
			(0.158)	(0.157)	(0.214)				
Audit Committee*Restater					-0.299				
					(0.310)				
Corporate Governance			-0.703**	-0.716**	-0.759**				
Committee Member			(0.178)	(0.176)	(0.267)				
Corporate Governance					0.05				
* Restater					(0.366)				
Age 65	0.28	0.279	0.429*	0.441*	0.430*			1.143	0.788
	(0.194)	(0.194)	(0.208)	(0.209)	(0.205)			(0.924)	(0.996)
Female	0.983**	0.978**	0.990**	0.998**	0.994**	-0.445	-0.684		
	(0.190)	(0.191)	(0.190)	(0.190)	(0.191)	(1.194)	(1.155)		
Tenure	0.018*	0.021*	0.024**	0.025**	0.025**	0.046	0.051	0.067	0.112
	(0.008)	(0.008)	(0.009)	(0.009)	(0.009)	(0.031)	(0.034)	(0.073)	(0.085)
Individual Beneficial Ownership	-19.593*	-19.077*	-14.344+	-14.376+	-14.293+	-67.614	-63.768	-7.632	-82.933
(% shares outstanding)	(8.941)	(8.499)	(8.022)	(7.795)	(7.645)	(43.754)	(41.081)	(75.930)	(152.727)
Dual Chairman-CEO	0.095	0.102	-0.004	0.028	0.026	-1.606+	-1.254	-1.17	-0.728
	(0.181)	(0.182)	(0.191)	(0.197)	(0.199)	(0.844)	(0.840)	(0.933)	(0.986)
Number of Directors	-0.04	-0.05	-0.043	-0.048	-0.049	-0.281+	-0.317*	-0.236	-0.264
	(0.036)	(0.034)	(0.037)	(0.036)	(0.037)	(0.168)	(0.160)	(0.200)	(0.165)
Number of Directors Departing	0.407**	0.407**	0.415**	0.408**	0.409**	0.913**	0.886**	0.721**	0.703**
	(0.051)	(0.052)	(0.054)	(0.056)	(0.057)	(0.232)	(0.244)	(0.265)	(0.248)
Outsider Ratio	0.022	0.048*							
	(0.020)	(0.023)							
NYSE Listing	-0.351	-0.409+	-0.255	-0.285	-0.279	1.337+	0.897	1.890+	1.747
	(0.240)	(0.231)	(0.278)	(0.276)	(0.277)	(0.768)	(0.773)	(1.043)	(1.112)
Return on Assets (lagged)	-0.745	-0.763	-0.883	-0.821	-0.78	-2.553	-2.848	3.059	4.264
	(0.795)	(0.729)	(1.117)	(1.074)	(1.096)	(1.946)	(2.054)	(3.015)	(5.014)
Total Assets (lagged)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
After 2000	-0.156	-0.16	-0.072	-0.078	-0.075	0.841	0.669	0.592	0.556
	(0.146)	(0.145)	(0.160)	(0.160)	(0.160)	(0.752)	(0.730)	(0.766)	(0.794)
Constant	-1.103**	-1.298**	-1.545**	-1.643**	-1.684**	-0.351	-0.663	-1.931	-3.112
	(0.417)	(0.461)	(0.424)	(0.452)	(0.455)	(1.456)	(1.415)	(2.017)	(2.146)
Observations	1775	1775	1446	1446	1446	152	152	106	106
Likelihood Ratio	-807.29	-804.56	-636.5	-634.91	-634.4	-36.16	-34.34	-27.64	-25.47
LR Chi2	126.38	131	128.07	127.59	125.07	40.52	36.85	27.46	24.87
df	15	16	13	14	16	10	11	10	11

Robust standard errors in parentheses
+ significant at 10%; * significant at 5%; ** significant at 1%

Table 4. Effects of Board Power on Likelihood of Turnover within One Year of Restatement, Logistic Regression (restating firms)

	Outside Directors				Insiders			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Audit Committee Member	-0.340*	-0.292+	-0.31	-0.32				
	(0.173)	(0.176)	(0.191)	(0.196)				
Chief Executive Officer					-0.32	-0.06	-0.673	-0.644
					(0.257)	(0.389)	(0.584)	(0.586)
Chief Financial Officer					0.392*	0.358+	0.135	0.148
					(0.197)	(0.212)	(0.258)	(0.263)
CEO Duality		-0.134	-0.15	-0.153		-0.129	-0.217	-0.214
		(0.308)	(0.283)	(0.284)		(0.255)	(0.353)	(0.360)
CEO Duality * CEO						-1.146**	-1.158+	-1.174+
						(0.423)	(0.680)	(0.683)
Relative Tenure		0.033+	0.027	0.027		-0.044	-0.048	-0.042
		(0.018)	(0.020)	(0.020)		(0.028)	(0.035)	(0.034)
Independent Outsiders		-0.016	-0.028	-0.026		-0.003	0.008	0.02
		(0.066)	(0.057)	(0.056)		(0.062)	(0.044)	(0.045)
Total Outsider Beneficial Ownership		1.138*	1.216**	1.206**		0.808	0.342	0.438
(% shares outstanding)		(0.550)	(0.437)	(0.445)		(0.577)	(0.496)	(0.477)
Outsider Ratio		0.05	0.044	0.044		0.02	0.018	0.018
		(0.036)	(0.035)	(0.035)		(0.038)	(0.044)	(0.043)
Tenure		0.045**	0.042**	0.040**		-0.002	-0.021	-0.025
		(0.014)	(0.015)	(0.015)		(0.017)	(0.017)	(0.018)
Tenure * CEO						0.062*	0.133**	0.137**
						(0.027)	(0.038)	(0.039)
Appointed by CEO		-0.121	-0.107	-0.083		-0.511+	-0.643	-0.475
		(0.292)	(0.306)	(0.294)		(0.279)	(0.396)	(0.395)
Individual Beneficial Ownership		-3.230+	-2.44	-2.455		-12.090*	-13.135	-13.177
(% shares outstanding)		(1.935)	(1.695)	(1.710)		(6.115)	(9.498)	(9.646)
Individual Beneficial Ownership * CEO						-17.558	-29.192+	-29.371+
						(11.235)	(16.779)	(16.797)
External Seats Added within 1 Year			-0.808**	-0.806**			-1.302**	-1.282**
			(0.285)	(0.286)			(0.434)	(0.433)
External Seats Lost 1 One Year			1.071**	1.071**			3.405**	3.394**
			(0.128)	(0.129)			(0.393)	(0.387)
In Office at Time of Misstatement				0.19				0.743+
				(0.451)				(0.399)
Total External Board Seats	-0.145**	-0.121*	-0.425**	-0.424**	-0.172+	-0.187+	-1.224**	-1.220**
	(0.053)	(0.056)	(0.085)	(0.085)	(0.094)	(0.098)	(0.391)	(0.387)
Number of Directors	-0.122	-0.127	-0.116	-0.117	-0.061	-0.069	-0.092*	-0.105*
	(0.080)	(0.110)	(0.100)	(0.099)	(0.084)	(0.061)	(0.043)	(0.043)
Number of Directors Departing	0.783**	0.822**	0.825**	0.824**	0.498**	0.506**	0.401**	0.400**
	(0.087)	(0.102)	(0.096)	(0.096)	(0.078)	(0.074)	(0.106)	(0.105)
Number of Directors Departing * CEO					0.335**	0.401**	0.648**	0.646**
					(0.100)	(0.112)	(0.173)	(0.173)
Age 65	0.777**	0.554**	0.559**	0.563**	0.501*	0.544*	0.914**	0.907**
	(0.187)	(0.195)	(0.201)	(0.201)	(0.234)	(0.254)	(0.340)	(0.342)
Female	0.423+	0.491*	0.555*	0.556*	0.065	0.116	0.25	0.236
	(0.229)	(0.242)	(0.251)	(0.252)	(0.284)	(0.283)	(0.402)	(0.403)
Restatement Reduces Net Income	-0.315+	-0.427*	-0.525*	-0.537*	-0.071	-0.005	-0.308	-0.308
	(0.183)	(0.186)	(0.209)	(0.213)	(0.209)	(0.215)	(0.275)	(0.276)
Restated filing: 10K	0.252	0.336+	0.248	0.252	0.119	0.197	0.004	0.039
	(0.171)	(0.196)	(0.188)	(0.189)	(0.198)	(0.216)	(0.283)	(0.284)
Number of Restatements	-0.086	-0.049	0.001	0.001	0.333**	0.389**	0.15	0.152
	(0.120)	(0.121)	(0.127)	(0.127)	(0.119)	(0.119)	(0.183)	(0.186)
S&P 500 Member	-0.3	-0.238	-0.017	-0.031	0.137	0.176	0.345	0.323
	(0.406)	(0.437)	(0.408)	(0.413)	(0.213)	(0.223)	(0.274)	(0.278)
NYSE Listing	-0.136	-0.177	-0.143	-0.14	-0.179	-0.291	-0.091	-0.058
	(0.222)	(0.184)	(0.197)	(0.196)	(0.203)	(0.208)	(0.278)	(0.278)
Return on Assets (lagged)	-0.279	-0.263	-0.175	-0.186	-0.026	0.024	0.22	0.135
	(0.184)	(0.213)	(0.242)	(0.246)	(0.204)	(0.238)	(0.279)	(0.275)
Total Assets (lagged)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
After 2000	-0.017	-0.093	-0.088	-0.09	-0.355	-0.383+	-0.204	-0.185
	(0.290)	(0.283)	(0.270)	(0.271)	(0.218)	(0.226)	(0.224)	(0.225)
Constant	-1.561**	-2.005**	-2.423**	-2.593**	-1.923**	-1.537+	-1.777**	-2.512**
	(0.470)	(0.451)	(0.470)	(0.591)	(0.732)	(0.840)	(0.593)	(0.732)
Observations	1689	1689	1689	1689	1143	1143	1143	1143
Likelihood Ratio	-536.45	-523.69	-449.66	-449.53	-472.9	-451.53	-263.26	-261.85
LR Chi2	234.18	327.03	298.94	297.1	157.86	203.22	225.62	219.14
df	14	22	24	25	16	27	29	30

Robust standard errors in parentheses
+ significant at 10%; * significant at 5%; ** significant at 1%

Table 5. Supplemental Analysis: Likelihood of Turnover Following Restatement over Time, Logistic Regression (matched sample)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Outside Directors						CEO			CFO		
	Depart Within Two		Depart Year 2		Depart Year 3		Dep. Yr. 1	Dep. Yr. 2	Dep. Yr. 3	Dep. Yr. 1	Dep. Yr. 2	Dep. Yr. 3
Restatement Issued	0.24+	0.353+	0.562*	0.606*	-0.314	-0.542+	1.457*	-0.051	0.056	2.023*	0.469	-0.143
	(0.149)	(0.212)	(0.233)	(0.291)	(0.286)	(0.322)	(0.721)	(0.643)	(0.519)	(0.950)	(0.549)	(0.776)
Number of Directors Departing	0.399**	0.408**	-0.347**	-0.348**	0.142	0.142	0.873**	-0.004	-0.194	0.709**	-0.043	0.441+
	(0.055)	(0.057)	(0.085)	(0.087)	(0.108)	(0.111)	(0.255)	(0.150)	(0.252)	(0.236)	(0.193)	(0.237)
Audit Committee Member		-0.216		-0.257		-0.479+						
		(0.214)		(0.308)		(0.262)						
Audit Committee*Restater		-0.301		-0.233		0.582						
		(0.310)		(0.391)		(0.376)						
Corporate Governance Committee Member		-0.765**		-0.299		-0.044						
		(0.268)		(0.422)		(0.371)						
Corporate Governance * Restater		0.055		0.132		0.043						
		(0.366)		(0.514)		(0.453)						
Age 65	0.958**	0.991**	0.889**	0.877**	0.794**	0.795**	-0.568	1.287	0.763		2.746+	
	(0.187)	(0.190)	(0.226)	(0.225)	(0.234)	(0.233)	(1.066)	(0.840)	(0.842)		(1.430)	
Female	0.346+	0.425*	0.278	0.33	0.33	0.398+						
	(0.208)	(0.204)	(0.296)	(0.294)	(0.216)	(0.226)						
Tenure	0.022**	0.025**	-0.007	-0.007	0.002	0.003	0.063+	-0.015	-0.022	0.098	-0.049	-0.291+
	(0.008)	(0.009)	(0.011)	(0.012)	(0.014)	(0.015)	(0.032)	(0.031)	(0.024)	(0.079)	(0.070)	(0.165)
Individual Beneficial Ownership (% shares outstanding)	-11.485	-14.357+	-3.051	-4.569	-4.009	-4.828	-58.217	-23.054	0.905	-42.386	-29.095	39.651
	(7.107)	(7.647)	(5.247)	(5.566)	(5.955)	(6.360)	(38.240)	(22.604)	(3.662)	(126.589)	(85.108)	(67.023)
Dual Chairman-CEO	0.048	0.005	-0.023	-0.05	0.333	0.323	-0.873	1.648	1.376	-0.428	1.804	-0.625
	(0.183)	(0.196)	(0.324)	(0.333)	(0.311)	(0.315)	(0.767)	(1.151)	(0.962)	(0.870)	(1.446)	(1.455)
Number of Directors	-0.037	-0.051	0.048	0.038	-0.034	-0.035	-0.285+	0.159+	-0.095	-0.266	0.032	-0.146
	(0.034)	(0.037)	(0.051)	(0.052)	(0.061)	(0.061)	(0.173)	(0.092)	(0.111)	(0.181)	(0.078)	(0.150)
NYSE Listing	-0.345	-0.279	-0.587	-0.55	0.386	0.375	0.683	-1.183*	-0.051	1.469	-1.026	0.761
	(0.264)	(0.277)	(0.360)	(0.356)	(0.352)	(0.352)	(0.803)	(0.567)	(0.636)	(1.188)	(0.814)	(1.426)
Return on Assets (lagged)	-0.74	-0.738	-1.778	-1.848	-0.15	-0.239	-3.034	3.981	0.848	4.523	-0.139	-2.691
	(1.019)	(1.107)	(1.229)	(1.246)	(1.363)	(1.392)	(2.069)	(4.277)	(3.041)	(4.568)	(2.042)	(2.302)
Total Assets (lagged)	0	0	0	0	0	0	0	0	0	0	0	0
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Constant	-1.997**	-1.677**	-2.686**	-2.427**	-2.621**	-2.415**	-0.979	-4.150*	-1.662	-2.783	-3.100**	-0.23
	(0.437)	(0.457)	(0.665)	(0.684)	(0.614)	(0.611)	(1.506)	(1.977)	(1.208)	(2.268)	(1.193)	(1.152)
Observations	1446	1446	1446	1446	1154	1154	158	158	126	106	108	79
Likelihood Ratio	-646.34	-634.51	-410.36	-407.94	-424.42	-422.52	-35.68	-41.42	-48.38	-25.99	-41.63	-28.58
LR Chi2	109.69	122.29	31.06	37.58	35.88	39.84	38.55	13.26	9.81	18.95	10.27	13.92
df	11	15	11	15	11	15	10	10	10	9	10	9

Robust standard errors in parentheses
+ significant at 10%; * significant at 5%; ** significant at 1%

Table 6. Descriptive Statistics, Matched Sample (obs=1,145)

	Variable	Mean	Std. Dev	1	2	3	4	5	6	7	8	9	
1	Seats Dropped (Within 3 years)	1.87511	1.7283	1.00									
2	Seats Added (Within 3 years)	0.700	1.055	0.35	1.00								
3	Restatement Issued	0.509	0.500	0.20	0.01	1.00							
4	One Other Seat	0.376	0.485	-0.30	-0.22	0.01	1.00						
5	Order of Restatement	0.194	0.396	-0.11	-0.13	0.48	0.63	1.00					
6	Departure Prior to Restatement	0.110	0.313	-0.11	-0.09	0.06	0.05	0.05	1.00				
7	Departure Within One Year of Restatement	0.065	0.246	0.06	-0.06	0.26	0.02	0.15	0.75	1.00			
8	Age 65	0.276	0.447	0.13	-0.10	0.01	-0.05	-0.04	0.11	0.08	1.00		
9	Female	0.127	0.333	-0.03	0.04	-0.03	-0.03	-0.02	0.03	0.04	-0.15	1.00	
10	Tenure	7.451	6.979	-0.05	-0.11	-0.04	-0.01	0.00	0.11	0.08	0.26	-0.13	
11	Dual Chairman CEO	0.805	0.396	0.04	0.00	-0.03	-0.01	-0.01	-0.06	-0.08	0.01	-0.01	
12	Beneficial Ownership	0.002	0.011	-0.04	-0.04	0.02	0.08	0.07	-0.03	-0.02	0.00	-0.06	
13	Outside Director	0.737	0.440	0.18	0.10	-0.24	-0.14	-0.23	-0.06	-0.12	0.10	0.08	
14	Audit Committee Member	0.369	0.483	0.02	0.00	-0.02	-0.02	-0.02	-0.03	-0.05	-0.04	0.13	
15	Audit Committee Member * Restatement	0.183	0.386	0.15	0.03	0.46	-0.01	0.21	-0.02	0.06	-0.02	0.03	
16	CEO	0.091	0.287	-0.10	-0.04	0.07	0.06	0.08	0.02	0.05	-0.11	-0.07	
17	CEO * Restatement	0.056	0.230	-0.08	-0.05	0.24	0.05	0.17	0.05	0.11	-0.07	-0.05	
18	CFO	0.025	0.157	-0.02	0.00	0.02	0.12	0.10	0.03	0.07	-0.10	0.01	
19	Total Assets (lagged)	9.259	1.115	0.03	-0.10	0.01	-0.06	-0.05	0.06	0.07	0.06	0.04	
20	Return on Assets (lagged)	0.043	0.079	0.01	0.06	-0.10	-0.02	-0.06	-0.05	-0.06	-0.01	0.05	
21	After 2000	0.604	0.489	0.04	-0.22	-0.02	0.10	0.06	0.04	0.00	0.03	0.03	

		10	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**	**21**
10	Tenure	1.00											
11	Dual Chairman CEO	-0.04	1.00										
12	Beneficial Ownership	0.20	-0.05	1.00									
13	Outside Director	-0.15	0.03	-0.19	1.00								
14	Audit Committee Member	-0.06	-0.02	-0.10	0.27	1.00							
15	Audit Committee Member * Restatement	-0.08	-0.01	-0.07	0.06	0.62	1.00						
16	CEO	0.16	0.04	0.18	-0.53	-0.22	-0.13	1.00					
17	CEO * Restatement	0.09	0.02	0.17	-0.41	-0.16	-0.09	0.77	1.00				
18	CFO	-0.08	0.00	-0.02	-0.27	-0.12	-0.08	-0.03	-0.02	1.00			
19	Total Assets (lagged)	-0.02	0.02	-0.11	-0.02	0.00	0.00	-0.05	-0.02	0.04	1.00		
20	Return on Assets (lagged)	0.10	-0.12	-0.02	0.02	-0.04	-0.05	0.02	-0.02	0.03	-0.13	1.00	
21	After 2000	0.04	0.16	-0.04	-0.04	0.04	0.01	-0.01	-0.01	0.01	0.34	-0.08	1.00

Table 7. Descriptive Statistics, Restater Sample (obs=2,747)

Variable	Mean	St. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1 Seats Dropped (1 year)	0.522	0.853	1.00															
2 Seats Dropped (2 years)	0.504	0.911	0.27	1.00														
3 Seats Dropped (3 years)	0.752	1.041	-0.16	0.18	1.00													
4 Seats Added (1 year)	0.185	0.507	0.24	0.29	0.17	1.00												
5 Net Effect of Restatement (natural log)	13.571	6.254	0.08	0.03	-0.02	0.02	1.00											
6 Restatement Reduces Income	0.647	0.478	0.03	0.00	0.03	0.00	0.59	1.00										
7 Revenue Recognition	0.174	0.379	-0.01	0.00	0.01	-0.04	0.02	0.08	1.00									
8 Expense	0.214	0.410	0.04	0.00	-0.03	0.01	0.05	0.03	0.04	1.00								
9 Assets	0.144	0.351	0.00	-0.06	-0.03	0.02	0.17	0.06	0.00	0.12	1.00							
10 Inventory	0.076	0.265	0.01	-0.02	-0.06	-0.03	0.07	0.01	0.05	0.14	0.11	1.00						
11 Mergers and Acquisitions	0.179	0.383	0.04	0.02	-0.02	0.11	0.06	-0.02	-0.07	-0.06	0.02	-0.04	1.00					
12 Tehcnical	0.318	0.466	0.02	-0.02	-0.01	-0.02	-0.01	-0.01	0.12	-0.11	-0.15	0.16	-0.03	1.00				
13 Error, Fraud Implied	0.160	0.366	0.00	0.00	0.01	-0.01	0.15	0.21	0.06	0.09	0.02	0.03	-0.11	-0.03	1.00			
14 Error, No Fraud Implied	0.118	0.323	0.01	0.01	0.01	-0.04	-0.05	0.04	-0.06	-0.13	-0.03	0.05	-0.12	-0.10	-0.16	1.00		
15 Response to SEC Guidance	0.201	0.401	0.01	0.07	0.02	0.00	-0.01	-0.07	-0.05	-0.07	-0.12	-0.01	-0.06	-0.13	-0.16	-0.14	1.00	
16 Restated Filing: 10K	0.636	0.481	0.05	0.00	-0.02	-0.02	0.03	-0.02	0.06	0.05	0.05	0.03	-0.02	0.02	0.11	-0.06	-0.02	1.00
17 3-Day Cumulative Abnormal Return	-0.035	0.126	-0.03	-0.02	0.01	0.02	-0.02	-0.06	-0.04	0.00	0.03	0.06	0.02	0.04	-0.10	0.01	0.04	-0.04
18 First Restatement	0.831	0.375	-0.05	0.00	-0.01	-0.02	-0.08	-0.05	-0.12	-0.13	-0.01	-0.02	-0.01	0.04	-0.01	0.04	0.01	0.01
19 Number of Restatements	1.410	0.739	0.06	-0.01	-0.09	0.00	0.10	0.09	0.10	0.12	0.03	0.11	0.04	0.03	0.01	-0.05	-0.02	-0.02
20 SEC Prompted	0.238	0.426	0.00	0.01	-0.03	0.04	0.17	-0.15	0.00	0.12	0.05	0.06	0.16	-0.06	0.01	-0.16	0.00	0.25
21 Firm Prompted	0.721	0.449	-0.02	-0.03	0.01	-0.06	-0.19	0.10	-0.03	-0.15	-0.10	-0.06	-0.17	0.14	-0.03	0.18	-0.04	-0.24
22 Departure Prior to Restatement	0.038	0.191	0.15	-0.08	-0.14	-0.05	-0.04	-0.08	0.05	0.00	-0.05	0.04	0.01	0.03	-0.02	-0.01	0.02	0.03
23 Departure Within One Year of Restatement	0.139	0.346	0.35	-0.14	-0.26	-0.05	0.02	0.03	0.01	0.06	0.02	0.04	0.00	0.02	0.04	0.01	-0.05	0.03
24 In Office at Time of Misstatement	0.918	0.275	0.03	-0.01	-0.02	-0.02	-0.04	-0.01	-0.08	-0.01	-0.01	0.05	-0.03	0.04	-0.09	0.00	-0.02	-0.09
25 Fortune Reputation Index	0.310	0.463	0.01	-0.01	-0.01	0.06	-0.03	-0.18	-0.04	0.05	-0.03	0.15	-0.03	0.12	0.08	-0.08	0.04	0.07
26 One Other Seat	0.253	0.435	0.00	0.00	0.03	0.01	0.02	-0.03	-0.01	-0.01	-0.01	0.02	0.02	-0.01	0.03	-0.01	-0.03	0.05
27 Order of Restatement	9.009	8.467	-0.03	-0.03	0.06	-0.04	0.01	-0.02	0.27	0.05	0.08	0.03	-0.04	0.13	0.14	0.05	-0.06	0.10
28 Age 65	0.229	0.420	0.04	0.05	0.04	-0.06	0.00	0.03	-0.02	-0.01	0.03	0.04	-0.05	0.05	0.01	-0.01	0.00	0.02
29 Female	0.099	0.298	-0.01	0.00	0.02	0.00	0.01	0.01	0.00	0.04	-0.02	-0.02	-0.01	0.03	0.01	0.00	0.00	0.00
30 Tenure	6.747	7.108	-0.02	-0.05	-0.08	-0.09	-0.05	-0.02	-0.03	-0.05	0.03	0.06	-0.06	0.05	-0.02	0.01	-0.04	0.04
31 Audit Committee Member	0.337	0.473	0.03	0.05	0.16	0.03	-0.01	0.01	0.01	0.01	-0.03	0.02	-0.03	-0.01	0.01	0.03	-0.01	-0.02
32 CEO	0.099	0.299	-0.05	-0.09	-0.14	0.00	0.00	-0.01	0.01	0.00	0.00	0.00	0.00	0.01	0.01	0.00	-0.01	-0.01
33 CFO	0.083	0.275	-0.05	-0.07	-0.14	-0.04	-0.01	0.00	0.02	-0.01	-0.01	0.00	-0.02	0.03	0.01	-0.02	0.02	-0.01
34 Beneficial Ownership	0.011	0.058	-0.06	-0.01	-0.03	-0.02	-0.03	0.02	0.04	0.00	-0.02	0.00	-0.01	0.01	-0.02	0.00	-0.02	0.00
35 Total External Board Seats	1.085	1.453	0.37	0.39	0.32	0.28	0.03	-0.02	-0.02	0.00	-0.02	-0.03	0.07	-0.01	0.01	0.01	0.03	0.00
36 S&P 500 Member	0.367	0.482	0.02	-0.03	-0.01	0.07	0.06	-0.10	-0.01	-0.02	0.05	0.01	0.03	0.01	0.02	0.03	-0.09	0.09
37 NYSE Listing	0.560	0.496	0.03	0.02	-0.03	0.02	0.00	0.00	-0.17	-0.03	0.06	0.02	-0.06	-0.09	0.11	0.12	-0.03	0.03
38 Total Assets (lagged)	7.576	1.686	0.03	0.05	0.01	0.06	0.09	-0.03	-0.10	0.06	0.10	0.09	0.05	-0.02	0.05	0.00	0.06	0.13
39 Return on Assets (lagged)	-0.037	0.316	-0.03	0.01	0.02	0.03	-0.07	-0.02	-0.03	-0.03	0.04	0.00	0.04	-0.01	-0.07	-0.12	0.04	-0.02
40 After 2000	0.562	0.496	-0.05	-0.03	0.10	-0.10	-0.23	-0.05	0.08	-0.03	-0.03	-0.07	-0.22	0.09	0.08	0.13	0.01	0.17

Table 7. Continued

	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
17	1.00																							
18	-0.01	1.00																						
19	-0.05	-0.72	1.00																					
20	0.10	0.05	-0.04	1.00																				
21	-0.01	0.02	-0.03	-0.88	1.00																			
22	-0.03	-0.05	0.10	0.00	0.01	1.00																		
23	-0.03	-0.07	0.05	0.00	-0.01	-0.08	1.00																	
24	-0.06	0.08	-0.01	-0.03	0.06	-0.03	0.06	1.00																
25	0.10	-0.09	0.06	0.10	-0.04	0.02	-0.01	0.01	1.00															
26	0.01	-0.02	0.00	0.03	-0.02	-0.01	-0.01	-0.02	0.02	1.00														
27	0.02	-0.21	0.13	0.10	-0.11	-0.01	0.00	-0.09	-0.04	0.04	1.00													
28	0.02	-0.01	0.03	-0.01	0.03	0.01	0.06	0.09	0.05	-0.01	-0.05	1.00												
29	0.00	0.00	0.01	0.02	-0.01	0.00	0.00	-0.02	0.07	-0.03	0.04	-0.12	1.00											
30	0.04	0.06	-0.08	0.00	0.02	-0.03	0.06	0.29	0.08	-0.02	-0.05	0.30	-0.09	1.00										
31	0.00	0.01	-0.01	-0.01	0.00	-0.06	-0.04	0.10	-0.01	0.05	0.01	0.08	0.01	-0.01	1.00									
32	0.00	0.00	-0.01	-0.01	0.00	-0.03	0.05	0.01	-0.02	0.03	0.01	-0.12	-0.06	0.09	-0.21	1.00								
33	-0.01	-0.01	0.01	-0.03	0.02	0.04	0.04	-0.12	-0.02	-0.06	0.00	-0.15	0.02	-0.16	-0.21	-0.08	1.00							
34	-0.03	-0.02	0.00	-0.07	0.06	-0.04	-0.03	0.04	-0.07	0.00	0.04	-0.03	-0.02	0.13	-0.10	0.20	-0.04	1.00						
35	0.01	-0.01	0.01	0.07	-0.08	-0.03	-0.05	-0.01	0.17	-0.03	0.01	0.10	0.02	-0.03	0.08	-0.04	-0.17	-0.06	1.00					
36	0.02	-0.02	0.02	0.20	-0.14	-0.03	-0.07	0.04	0.53	0.00	0.05	0.06	0.07	0.07	-0.03	-0.03	-0.04	-0.10	0.24	1.00				
37	0.09	-0.04	0.03	0.09	-0.06	-0.03	0.00	0.01	0.41	0.01	-0.07	0.12	0.06	0.05	-0.02	-0.02	-0.04	-0.10	0.18	0.45	1.00			
38	0.10	-0.02	0.03	0.26	-0.25	0.00	-0.06	0.04	0.54	0.03	-0.02	0.09	0.08	0.07	-0.04	-0.05	-0.05	-0.12	0.24	0.68	0.53	1.00		
39	0.17	0.13	-0.06	0.06	-0.05	-0.02	-0.06	0.10	0.09	-0.01	-0.21	0.07	0.02	0.07	0.00	-0.01	-0.02	-0.12	0.04	0.18	0.18	0.21	1.00	
40	0.15	-0.07	-0.06	-0.10	0.16	-0.01	0.02	-0.02	0.09	0.04	0.47	0.03	0.03	0.04	0.02	-0.01	-0.01	0.02	-0.03	0.01	-0.01	0.09	-0.13	1.00

Table 8. Likelihood of Losing External Board Seats Following Restatement, Logistic Regression (matched sample)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
	Seats Dropped within Three Years of Restatement													Seats Added Within	
	All						Outside Directors				CEO & CFO			All	Outsiders
Restatement Issued		0.376**	0.314**	0.254**	0.234+		0.407**	0.370**	0.340**	0.310**		0.496+	0.26	0.013	0.02
		(0.085)	(0.097)	(0.086)	(0.125)		(0.116)	(0.104)	(0.097)	(0.113)		(0.321)	(0.371)	(0.094)	(0.098)
One Other Seat			-0.706**		-0.632**			-0.728**		-0.665**					
			(0.103)		(0.110)			(0.124)		(0.135)					
One Other Seat			0.233+		0.163			0.315*		0.256+					
* Restatement			(0.123)		(0.117)			(0.152)		(0.151)					
Departure Within One Year				-3.833**	-3.737**				-3.709**	-3.620**			-15.361**	-0.552	0.213
				(1.005)	(1.021)				(1.014)	(1.032)			(0.754)	(0.375)	(0.219)
Departure Within One Year				3.881**	3.809**				3.576**	3.492**			15.825**		
* Restatement				(0.977)	(0.976)				(1.003)	(1.011)			(0.785)		
Audit Committee Member		0.225*	0.217+	0.196+	0.205+		0.204	0.203+	0.194	0.193				0.186	0.151
* Restatement		(0.112)	(0.117)	(0.118)	(0.124)		(0.126)	(0.120)	(0.129)	(0.127)				(0.167)	(0.187)
CEO												-0.641+	-0.579		
* Restatement												(0.359)	(0.377)		
Age 65	0.107	0.061	0.137	0.164*	0.164	0.194*	0.149+	0.151	0.181*	0.181+	-0.055	-0.01	0.073	-0.318*	-0.185
	(0.077)	(0.084)	(0.131)	(0.081)	(0.122)	(0.099)	(0.082)	(0.154)	(0.084)	(0.105)	(0.478)	(0.257)	(0.266)	(0.139)	(0.126)
Female	-0.13	-0.107	-0.124+	-0.089	-0.111	-0.112	-0.066	-0.092	-0.039	-0.062	-0.124	-0.195	-0.11	0.082	0.168
	(0.091)	(0.085)	(0.074)	(0.077)	(0.075)	(0.087)	(0.080)	(0.081)	(0.079)	(0.075)	(0.493)	(0.454)	(0.429)	(0.157)	(0.149)
Tenure	-0.008	-0.004	-0.006	-0.003	-0.005	-0.002	0.004	0	0.004	0.001	-0.032**	-0.033**	-0.033**	-0.014+	-0.016
	(0.006)	(0.006)	(0.007)	(0.007)	(0.009)	(0.008)	(0.007)	(0.008)	(0.007)	(0.009)	(0.010)	(0.010)	(0.009)	(0.008)	(0.011)
Dual Chairman CEO	0.061	0.069	0.065	0.083	0.063	0.09	0.1	0.085	0.084	0.074	-0.089	-0.12	-0.051	0.089	0.149
	(0.094)	(0.093)	(0.105)	(0.088)	(0.093)	(0.110)	(0.105)	(0.129)	(0.106)	(0.105)	(0.393)	(0.207)	(0.216)	(0.092)	(0.099)
Outside Director	0.368**	0.530**	0.540**	0.542**	0.534**									0.408**	
	(0.110)	(0.104)	(0.107)	(0.122)	(0.109)									(0.157)	
CEO	0.054	0.125	0.15	0.103	0.128						0.033	0.416+	0.411+	0.322+	
	(0.119)	(0.118)	(0.127)	(0.140)	(0.126)						(0.222)	(0.239)	(0.244)	(0.195)	
CFO	0.408*	0.524**	0.531**	0.300+	0.484**									0.644**	
	(0.185)	(0.173)	(0.168)	(0.170)	(0.161)									(0.222)	
Audit Committee Member	-0.03	-0.175*	-0.154+	-0.145+	-0.140+	-0.004	-0.126	-0.113	-0.115	-0.102				-0.133	-0.093
	(0.058)	(0.080)	(0.080)	(0.081)	(0.081)	(0.067)	(0.081)	(0.080)	(0.079)	(0.079)				(0.110)	(0.114)
Beneficial Ownership	0.042	0.899	1.764	0.106	1.466	5.388*	7.744*	8.054*	7.019*	7.344*	-2.637	-2.46	-1.713	-4.495	1.559
(% shares outstanding)	(1.563)	(2.036)	(2.546)	(2.802)	(2.535)	(2.420)	(3.364)	(3.893)	(3.279)	(3.319)	(2.021)	(2.130)	(2.243)	(3.087)	(3.305)
Total External Board Seats	0.170**	0.176**												0.142*	
	(0.037)	(0.038)												(0.061)	
Total Assets (lagged)	0	0	0	0	0	0	0	0	0	0	0	0	0	-0.000+	0
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Return on Assets (lagged)	0.446	0.656	0.549	0.672	0.491	0.575	0.783	0.576	0.672	0.432	1.4	1.489	1.126	0.887+	0.791
	(0.519)	(0.472)	(0.580)	(0.499)	(0.571)	(0.620)	(0.539)	(0.616)	(0.506)	(0.632)	(1.327)	(1.341)	(1.283)	(0.525)	(0.582)
After 2000	0.167+	0.182*	0.172+	0.125	0.187+	0.122	0.125	0.197+	0.145	0.210+	-0.006	0.004	-0.047	-0.444**	-0.583**
	(0.090)	(0.081)	(0.090)	(0.082)	(0.096)	(0.099)	(0.095)	(0.119)	(0.099)	(0.128)	(0.190)	(0.151)	(0.161)	(0.089)	(0.101)
Constant	-0.158	-0.572**	0.079	-0.007	0.135	0.621**	0.334*	0.486**	0.406**	0.547**	0.781	0.499	0.499		
	(0.181)	(0.185)	(0.158)	(0.173)	(0.153)	(0.148)	(0.155)	(0.166)	(0.151)	(0.152)	(0.898)	(0.334)	(0.326)		
Observations	1145	1145	1145	1145	1145	844	844	844	844	844	132	132	132	1775	1176
Likelihood Ratio	-1932.62	-1887.75	-1912.82	-1890.47	-1848.18	-1538.32	-1501.11	-1467.63	-1442	-1410.72	-194.71	-193.28	-189.41	-1554.75	-1123.15
LR Chi2	77.91	133.06	157.73	81.03	155.02	19.98	55.37	128.34	74.61	137.03	14.54	19.01	477.77	68.66	60.52
df	13	15	16	16	18	9	11	13	13	15	9	11	13	15	11

Robust standard errors in parentheses
+ significant at 10%; * significant at 5%; ** significant at 1%

Table 9: Likelihood of Outside Directors Losing and Gaining External Board Seats within One Year of Restatement, Zero-Inflated Negative Binomial Models (restaters only)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	Seats Dropped Within One Year of Restatement							Seats Added Within One Year of Restatement						
Net Effect of Restatement (natural log)		0.016+				0.017	0.018*		-0.02				-0.018	
		(0.009)				(0.011)	(0.008)		(0.016)				(0.016)	
Restatement Reduces Income		0.033				0.039			0.181				0.169	
		(0.112)				(0.123)			(0.186)				(0.188)	
Revenue Recognition		-0.223				-0.183			-0.186				-0.159	
		(0.152)				(0.116)			(0.171)				(0.172)	
Expense		0.174				0.184			-0.089				-0.081	
		(0.120)				(0.113)			(0.205)				(0.219)	
Assets		0.041				0.096			0.179				0.191	
		(0.111)				(0.108)			(0.159)				(0.177)	
Inventory		-0.113				-0.232			-0.235				-0.237	
		(0.163)				(0.169)			(0.229)				(0.241)	
Merger and Acquisition		0.118				0.074			0.257+				0.289+	0.319*
		(0.116)				(0.107)			(0.141)				(0.151)	(0.145)
Technical		0.11				0.125			0.035				0.064	
		(0.106)				(0.104)			(0.200)				(0.222)	
Error, Fraud Implied		-0.101				0.034			-0.014				-0.024	
		(0.146)				(0.128)			(0.178)				(0.187)	
Error, No Fraud Implied		-0.014				0.061			-0.095				-0.048	
		(0.206)				(0.191)			(0.233)				(0.233)	
Response to SEC Guidance		0.156				0.312*	0.246*		0.16				0.136	
		(0.118)				(0.129)	(0.125)		(0.168)				(0.180)	
Restated Filing: 10K		0.316**				0.270*	0.224*		0.143				0.158	
		(0.108)				(0.106)	(0.091)		(0.146)				(0.147)	
3-Day Cumulative Abnormal Returns		0.239				0.15			0.417				0.405	
		(0.401)				(0.379)			(0.541)				(0.550)	
First Restatement		-0.082				-0.058			-0.268				-0.3	
		(0.204)				(0.209)			(0.286)				(0.319)	
Number of Restatements		-0.069				-0.037			-0.08				-0.082	
		(0.107)				(0.110)			(0.117)				(0.136)	
SEC Prompted		-0.048				0.187			-0.135				-0.192	
		(0.228)				(0.213)			(0.215)				(0.225)	
Firm Prompted		0.184				0.296			-0.196				-0.269	
		(0.219)				(0.205)			(0.201)				(0.223)	
In Office at Time of Misstatement			0.293+			0.31	0.306			-0.068			0.037	
			(0.173)			(0.200)	(0.192)			(0.205)			(0.226)	
Departure Prior to Restatement				0.874**		0.948**	0.910**				-0.857+		-0.867+	-0.836+
				(0.186)		(0.205)	(0.209)				(0.507)		(0.512)	(0.497)
Departure Within One Year of Restatemen				1.009**		1.024**	1.009**				-0.268		-0.288	
				(0.097)		(0.136)	(0.155)				(0.230)		(0.237)	
One Other Seat					0.074	-0.112						0.108	0.115	
					(0.147)	(0.131)						(0.225)	(0.332)	
Fortune Reputation Index					-0.167	-0.206	-0.195+					0.116	0.196	
					(0.122)	(0.126)	(0.118)					(0.167)	(0.217)	
Order of Restatement					-0.014*	-0.01	-0.014*					-0.007	-0.007	
					(0.006)	(0.007)	(0.007)					(0.010)	(0.011)	
Age 65	-0.093	-0.103	-0.088	-0.179+	-0.101	-0.190+	-0.205*	-0.513**	-0.490*	-0.512**	-0.520**	-0.511**	-0.488*	-0.512**
	(0.125)	(0.129)	(0.127)	(0.102)	(0.126)	(0.104)	(0.104)	(0.184)	(0.213)	(0.184)	(0.181)	(0.194)	(0.229)	(0.194)
Female	-0.003	-0.026	-0.01	-0.135	0.011	-0.17	-0.135	-0.058	-0.063	-0.055	-0.04	-0.048	-0.04	-0.079
	(0.133)	(0.129)	(0.133)	(0.131)	(0.134)	(0.133)	(0.137)	(0.232)	(0.223)	(0.233)	(0.233)	(0.234)	(0.228)	(0.227)
Tenure	0.019*	0.018*	0.015+	0.009	0.019*	0.002	0.004	-0.039**	-0.037*	-0.037*	-0.037*	-0.039*	-0.036*	-0.037*
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.009)	(0.015)	(0.015)	(0.016)	(0.015)	(0.015)	(0.017)	(0.014)
Audit Committee Member	-0.008	-0.001	-0.026	-0.003	0.000	-0.001	-0.006	0.022	0.043	0.026	0.005	0.019	0.022	0.011
	(0.084)	(0.084)	(0.087)	(0.082)	(0.085)	(0.086)	(0.088)	(0.123)	(0.126)	(0.123)	(0.123)	(0.126)	(0.136)	(0.122)
Beneficial Ownership (% shares outstanding)	-0.3	-0.19	-0.362	-0.011	-0.385	0.202	0.169	0.507	0.688	0.528	0.382	0.47	0.58	0.518
	(0.778)	(0.900)	(0.831)	(1.006)	(0.827)	(1.094)	(1.434)	(0.958)	(1.024)	(0.959)	(0.983)	(0.919)	(1.031)	(0.989)
Total External Board Seats	0.152**	0.146*	0.156**	0.215**	0.158**	0.200**	0.209**	0.156	0.135	0.155	0.159	0.16	0.144	0.155
	(0.055)	(0.063)	(0.055)	(0.037)	(0.059)	(0.037)	(0.050)	(0.097)	(0.161)	(0.099)	(0.099)	(0.109)	(0.192)	(0.118)
S&P 500 Member	-0.102	-0.061	-0.105	0.001	-0.031	0.105	0.135	0.171	0.234	0.173	0.141	0.17	0.175	0.107
	(0.137)	(0.136)	(0.140)	(0.136)	(0.135)	(0.129)	(0.144)	(0.184)	(0.203)	(0.185)	(0.186)	(0.195)	(0.226)	(0.186)
NYSE Listing	-0.137	-0.141	-0.123	-0.024	-0.146	0.014	-0.013	-0.445	-0.505	-0.452	-0.454	-0.508	-0.561	-0.452
	(0.157)	(0.176)	(0.160)	(0.149)	(0.144)	(0.135)	(0.172)	(0.375)	(0.625)	(0.383)	(0.376)	(0.456)	(0.776)	(0.461)
Total Assets (lagged)	-0.002	-0.023	-0.006	-0.017	0.009	-0.04	-0.039	0.012	0.009	0.015	0.02	0.008	-0.001	0.029
	(0.044)	(0.047)	(0.044)	(0.040)	(0.044)	(0.042)	(0.039)	(0.103)	(0.153)	(0.106)	(0.104)	(0.129)	(0.200)	(0.119)
Return on Assets (lagged)	0.006	0.035	-0.004	-0.007	-0.019	-0.018	-0.003	1.053*	0.987+	1.064*	1.041*	1.047*	1.031+	0.993+
	(0.220)	(0.258)	(0.223)	(0.111)	(0.225)	(0.138)	(0.139)	(0.482)	(0.507)	(0.485)	(0.498)	(0.464)	(0.563)	(0.561)
After 2000	-0.085	-0.1	-0.076	-0.13	0.043	-0.059	0.017	-0.549**	-0.574**	-0.551**	-0.538**	-0.502**	-0.500*	-0.467**
	(0.106)	(0.120)	(0.104)	(0.099)	(0.132)	(0.130)	(0.121)	(0.141)	(0.156)	(0.143)	(0.141)	(0.178)	(0.199)	(0.136)
Constant	-0.32	-0.6	-0.543	-0.665**	-0.337	-1.341**	-1.119**	-0.744	-0.127	-0.702	-0.766	-0.692	-0.021	-0.941+
	(0.348)	(0.627)	(0.387)	(0.248)	(0.413)	(0.456)	-0.379+	(0.518)	(0.880)	(0.523)	(0.527)	(0.579)	(0.853)	(0.527)
Observations	992	992	992	992	992	992	992	1636	1636	1636	1636	1636	1636	1636
Likelihood Ratio	-1186.01	-1171.33	-1184.39	-1136.75	-1182.03	-1113.83	-1120.56	-830.76	-823.48	-830.71	-828.07	-829.91	-819.39	-826.26
LR Chi2	32.79	67.2	34.66	149.02	36.72	199.7	158.16	90.64	137.69	91.91	95.77	106.04	154.52	90.12
df	11	28	12	13	14	34	19	11	28	12	13	14	34	13

Robust standard errors in parentheses
+ significant at 10%; * significant at 5%; ** significant at 1%

Table 10: Likelihood of Insiders Losing and Gaining External Board Seats within One Year of Restatement, Zero-Inflated Negative Binomial Models (restaters only)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	Seats Dropped Within One Year of Restatement							Seats Added Within One Year of Restatement						
Net Effect of Restatement		0.023				0.027+	0.024*		-0.045*				-0.045*	-0.042*
(natural log)		(0.019)				(0.014)	(0.011)		(0.021)				(0.022)	(0.020)
Restatement Reduces Income		0.008				-0.151			0.619*				0.666*	0.650*
		(0.226)				(0.175)			(0.302)				(0.296)	(0.258)
Revenue Recognition		0.265+				0.194			-0.287				-0.231	
		(0.149)				(0.139)			(0.270)				(0.252)	
Expense		0.183				0.034			-0.117				-0.085	
		(0.159)				(0.161)			(0.305)				(0.306)	
Assets		-0.162				-0.115			0.182				0.197	
		(0.267)				(0.236)			(0.308)				(0.315)	
Inventory		-0.162				-0.098			-0.599				-0.762+	
		(0.275)				(0.226)			(0.443)				(0.444)	
Merger and Acquisition		0.031				0.057			0.235				0.287	
		(0.211)				(0.207)			(0.228)				(0.226)	
Technical		0.332*				0.293*	0.263*		0.158				0.142	
		(0.167)				(0.138)	(0.128)		(0.225)				(0.225)	
Error, Fraud Implied		0.047				0.027			-0.067				-0.032	
		(0.163)				(0.158)			(0.242)				(0.231)	
Error, No Fraud Implied		0.507*				0.481*	0.391+		-0.124				0.033	
		(0.232)				(0.212)	(0.208)		(0.453)				(0.492)	
Response to SEC Guidance		0.031				-0.04			-0.208				-0.247	
		(0.196)				(0.180)			(0.253)				(0.251)	
Restated Filing: 10K		0.028				0.16			-0.212				-0.242	
		(0.150)				(0.152)			(0.210)				(0.203)	
3-Day Cumulative Abnormal Returns		-0.623				-0.016			1.769*				1.690*	1.824*
		(0.423)				(0.504)			(0.886)				(0.795)	(0.804)
First Restatement		-0.022				-0.022			-0.315				-0.341	
		(0.234)				(0.226)			(0.250)				(0.246)	
Number of Restatements		0.177				0.114								
		(0.119)				(0.121)								
SEC Prompted		-0.553+				-0.141			0.32				0.276	
		(0.329)				(0.356)			(0.459)				(0.488)	
Firm Prompted		-0.435+				0.016			0.221				0.17	
		(0.259)				(0.324)			(0.420)				(0.434)	
In Office at Time of Misstatement			0.089			-0.235				0.304			0.472+	0.428
			(0.199)			(0.184)				(0.295)			(0.275)	(0.280)
Departure Prior to Restatement				1.567**		1.483**	1.562**				-1.886+		-1.738+	-1.721+
				(0.176)		(0.207)	(0.170)				(1.000)		(1.047)	(1.033)
Departure Within One Year of Restatemen				1.425**		1.434**	1.432**				-0.165		-0.128	
				(0.138)		(0.129)	(0.135)				(0.282)		(0.293)	
One Other Seat			-0.254		-0.278	-0.476**	-0.508**					-0.006	0.152	
			(0.218)		(0.217)	(0.183)	(0.179)					(0.245)	(0.282)	
Fortune Reputation Index					-0.027	0.027						0.382+	0.510*	0.449*
					(0.198)	(0.170)						(0.226)	(0.230)	(0.206)
Order of Restatement					0.005	-0.004						-0.004	-0.009	
					(0.017)	(0.010)						(0.015)	(0.017)	
Age 65	-0.246	-0.329	-0.246	-0.248	-0.25	-0.277+	-0.235	-0.379	-0.273	-0.393	-0.319	-0.359	-0.268	-0.288
	(0.287)	(0.232)	(0.327)	(0.173)	(0.399)	(0.156)	(0.153)	(0.330)	(0.410)	(0.328)	(0.335)	(0.304)	(0.391)	(0.329)
Female	-0.506+	-0.536*	-0.539+	-0.523*	-0.541+	-0.532*	-0.563*	-0.203	-0.14	-0.218	-0.2	-0.222	-0.15	-0.181
	(0.281)	(0.255)	(0.287)	(0.235)	(0.292)	(0.233)	(0.236)	(0.356)	(0.375)	(0.355)	(0.354)	(0.347)	(0.364)	(0.349)
Beneficial Ownership (% shares outstanding)	-4.184+	-3.871	-4.004+	-1.404	-3.960+	-0.928	-0.912	0.103	-0.089	0.075	-0.269	0.025	-0.697	-0.48
	(2.285)	(2.521)	(2.309)	(1.247)	(2.320)	(1.229)	(1.177)	(2.250)	(2.567)	(2.276)	(2.558)	(2.363)	(3.079)	(3.119)
Tenure	-0.007	-0.003	-0.009	-0.013+	-0.007	-0.012	-0.016*	-0.025	-0.025	-0.029+	-0.026	-0.026	-0.031+	-0.034+
	(0.010)	(0.011)	(0.010)	(0.007)	(0.014)	(0.008)	(0.007)	(0.016)	(0.016)	(0.017)	(0.016)	(0.016)	(0.017)	(0.018)
CEO	0.021	0.028	0.03	-0.056	0.027	-0.119	-0.107	0.390+	0.387+	0.400+	0.379+	0.395+	0.387+	0.417+
	(0.148)	(0.162)	(0.143)	(0.126)	(0.189)	(0.123)	(0.122)	(0.215)	(0.219)	(0.215)	(0.215)	(0.215)	(0.223)	(0.220)
CFO	0.448*	0.483*	0.482**	0.112	0.488	0.204	0.199	0.4	0.43	0.413	0.430+	0.386	0.470+	0.434+
	(0.183)	(0.189)	(0.182)	(0.140)	(0.309)	(0.161)	(0.149)	(0.259)	(0.262)	(0.257)	(0.252)	(0.255)	(0.251)	(0.251)
Total External Board Seats	0.017	-0.017	0.011	0.065	0.005	-0.018	0.054	0.173	0.296	0.179	0.176	0.047	0.141	0.151
	(0.211)	(0.227)	(0.211)	(0.210)	(0.314)	(0.224)	(0.193)	(0.295)	(0.278)	(0.296)	(0.288)	(0.302)	(0.295)	(0.273)
S&P 500 Member	-0.018	0.052	0.011	-0.012	0.009	0.021	0.039	-0.051	-0.22	-0.029	-0.064	-0.127	-0.355	-0.222
	(0.259)	(0.278)	(0.295)	(0.195)	(0.486)	(0.200)	(0.166)	(0.309)	(0.336)	(0.313)	(0.299)	(0.314)	(0.341)	(0.299)
NYSE Listing	0.111+	0.150**	0.061	0.192**	0.059	0.105	0.076	0.294**	0.273**	0.301**	0.284**	0.282**	0.284*	0.259**
	(0.064)	(0.056)	(0.061)	(0.060)	(0.174)	(0.079)	(0.077)	(0.084)	(0.093)	(0.084)	(0.085)	(0.088)	(0.111)	(0.076)
Total Assets (lagged)	-0.062	-0.075	-0.065	-0.041	-0.06	-0.068	-0.07	-0.03	0.028	-0.036	-0.038	-0.058	-0.006	-0.043
	(0.058)	(0.076)	(0.062)	(0.052)	(0.066)	(0.059)	(0.047)	(0.102)	(0.102)	(0.104)	(0.102)	(0.107)	(0.116)	(0.106)
Return on Assets (lagged)	-0.049	0.171	-0.057	-0.17	-0.05	0.118	0.003	-1.745**	-1.771**	-1.756**	-1.749**	-1.719**	-1.815**	-1.534**
	(0.163)	(0.191)	(0.165)	(0.145)	(0.517)	(0.156)	(0.138)	(0.351)	(0.548)	(0.338)	(0.338)	(0.492)	(0.659)	(0.480)
After 2000	-0.233	-0.196	-0.229	-0.204+	-0.27	-0.186	-0.158	-0.243	-0.434+	-0.243	-0.257	-0.235	-0.413	-0.493*
	(0.158)	(0.184)	(0.163)	(0.124)	(0.227)	(0.175)	(0.133)	(0.215)	(0.231)	(0.217)	(0.214)	(0.242)	(0.286)	(0.232)
Constant	0.217	-0.358	0.366	-0.761*	0.4	-0.59	-0.543	-1.627*	-1.507+	-1.865**	-1.478*	-1.395+	-1.624+	-1.532*
	(0.498)	(0.696)	(0.510)	(0.368)	(1.632)	(0.595)	(0.417)	(0.666)	(0.870)	(0.694)	(0.665)	(0.751)	(0.984)	(0.735)
Observations	461	461	461	461	461	461	461	1111	1111	1111	1111	1111	1111	1111
Likelihood Ratio	-449.42	-435.06	-448.63	-394.58	-448.56	-383.55	-387.04	-422.38	-411.16	-421.95	-419.23	-421.11	-405.35	-411.69
LR Chi2	30.75	101.57	31.51	219.99	30.58	372.33	276.07	64.04	100.97	70.69	71.45	67.72	112.08	77.83
df	12	29	14	14	15	35	18	12	28	13	14	15	34	18

Robust standard errors in parentheses
+ significant at 10%; * significant at 5%; ** significant at 1%

Table 11. Supplemental Analysis: Likelihood of Losing External Board Seats Following Restatement over Time, Zero-Inflated Negative Binomial Models (restaters only)

	(1)	(2)	(3)	(4)	(5)	(6)
		Outsiders			Insiders	
	Drop Year 1	Drop Year 2	Drop Year 3	Drop Year 1	Drop Year 2	Drop Year 3
Net Effect of Restatement (natural log)	0.018*		-0.007	0.024*		
	-0.008		-0.008	-0.011		
Restatement Reduces Income			0.221+			
			(0.117)			
Expense					-0.515*	
					(0.215)	
Assets		-0.379**			-0.412+	
		(0.141)			(0.250)	
Technical				0.263*		
				(0.128)		
Error, Fraud Implied			0.221*			
			(0.097)			
Error, No Fraud Implied			0.077	0.391+		
			(0.092)	(0.208)		
Response to SEC Guidance	0.246*	0.163+	0.118			0.496**
	(0.125)	(0.101)	(0.083)			(0.189)
Restated Filing: 10K	0.224*		-0.057			
	(0.091)		(0.075)			
3-Day Cumulative Abnormal Returns					0.943+	0.824+
					(0.557)	(0.448)
First Restatement			-0.646**		-0.395*	
			(0.164)		(0.193)	
Number of Restatements			-0.418**			
			(0.109)			
SEC Prompted			0.083			
			-0.141			
Firm Prompted			0.077			
			-0.13			
In Office at Time of Misstatement	0.306		0.169+			
	(0.192)		(0.099)			
Departure Prior to Restatement	0.910**			1.562**		
	(0.209)			(0.170)		
Departure Within One Year of Restatement	1.009**			1.432**		
	(0.155)			(0.135)		
Departure Within Two Years of Restatement		0.399**	-1.902**		1.451**	-0.581+
		(0.106)	(0.192)		(0.136)	(0.331)
Departure in Third Year After Restatement						1.737**
						(0.140)
One Other Seat				-0.508**		-0.436*
				(0.179)		(0.200)
Fortune Reputation Index	-0.195	-0.353**	-0.003			-0.328
	(0.118)	(0.122)	(0.113)			(0.203)
Order of Restatement	-0.014*	-0.011	0			
	(0.007)	(0.007)	(0.004)			
Age 65	-0.205*	-0.029	0.088	-0.235	0.102	0.08
	(0.104)	(0.123)	(0.063)	(0.153)	(0.165)	(0.178)
Female	-0.135	-0.218+	0.033	-0.563*	0.086	-0.125
	(0.137)	(0.117)	(0.085)	(0.236)	(0.195)	(0.345)
Individual Beneficial Ownership	0.169	1.668	0.981**	-0.912	-0.305	-1.014
(% shares outstanding)	(1.434)	(1.257)	(0.373)	(1.177)	(0.536)	(1.212)
Tenure	0.004	-0.008	-0.009+	-0.016*	-0.01	-0.006
	(0.009)	(0.009)	(0.005)	(0.007)	(0.010)	(0.007)
Audit Committee Member	-0.006	-0.086	-0.068			
	(0.088)	(0.083)	(0.051)			
CEO				-0.107	-0.022	-0.125
				(0.122)	(0.149)	(0.153)
CFO				0.199	0.244	-0.204
				(0.149)	(0.233)	(0.355)
Total External Board Seats	0.209**	0.175**	0.124**	0.076	0.249**	0.185**
	(0.050)	(0.025)	(0.021)	(0.077)	(0.046)	(0.060)
S&P 500 Member	0.135	-0.342*	-0.195+	0.054	-0.199	0.252
	(0.144)	(0.151)	(0.109)	(0.193)	(0.230)	(0.225)
NYSE Listing	-0.013	-0.236+	-0.112	0.039	0.212	0.015
	(0.172)	(0.142)	(0.083)	(0.166)	(0.231)	(0.152)
Total Assets (lagged)	-0.039	0.079	0.002	-0.07	-0.039	-0.072
	(0.039)	(0.052)	(0.035)	(0.047)	(0.056)	(0.048)
Return on Assets (lagged)	-0.003	0.139	0.058	0.003	-0.202	-0.158
	(0.139)	(0.399)	(0.083)	(0.138)	(0.184)	(0.183)
After 2000	0.017	0.098	0.321**	-0.158	-0.135	0.021
	(0.121)	(0.120)	(0.095)	(0.133)	(0.161)	(0.172)
Constant	-1.119**	-0.511	1.013*	-0.543	-0.880+	-0.741
	(0.379)	(0.344)	(0.444)	(0.417)	(0.468)	(0.457)
Observations	992	992	992	461	461	461
Likelihood Ratio	-1120.56	-1166.93	-1246.99	-387.04	-348.21	-297.27
LR Chi2	158.16	268.45	244.03	276.07	243.44	367.94
df	19	16	25	18	17	18

Robust standard errors in parentheses
+ significant at 10%; * significant at 5%; ** significant at 1%

Table 12. Descriptive Statistics, Restater Sample (obs=2,773)

	Variable	Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1	Departure	0.177	0.382	DepartV	1.00																			
2	Seats Lost Within One Year	0.366	0.482	Drop1D	0.49	1.00																		
3	Seats Added Within One Year	0.146	0.353	Add1Du	-0.08	0.14	1.00																	
4	Board Investigation	0.178	0.382	BoardAc	0.05	0.05	0.00	1.00																
5	Delay Announcement	0.126	0.332	DelayAr	0.07	0.03	-0.01	0.20	1.00															
6	Blame 3rd Party	0.094	0.292	Blame3r	0.03	0.01	-0.02	0.16	0.03	1.00														
7	Change Auditor	0.097	0.297	auditorc	0.01	0.01	0.00	0.05	-0.04	-0.01	1.00													
8	CFO Departure	0.167	0.373	CFODep	0.24	0.17	-0.01	0.06	0.09	0.00	0.03	1.00												
9	Length of Account	302.953	313.473	WordCc	0.04	0.02	-0.02	0.20	0.14	0.23	0.06	0.01	1.00											
10	Institutional Divestiture	0.000	0.000	InstDiv	0.09	0.09	0.04	-0.05	-0.04	-0.05	-0.02	0.12	-0.08	1.00										
11	Shareholder Lawsuits	0.238	0.437	Lawsuit	0.07	0.07	-0.01	0.29	0.01	0.27	0.01	0.07	0.18	-0.09	1.00									
12	Media Mentions	9.625	23.578	Restate	0.03	0.06	0.01	0.05	0.15	0.22	0.08	0.06	0.21	-0.06	0.34	1.00								
13	Change in Analyst Coverage	8.972	335.872	ChAnalj	-0.07	-0.03	0.01	0.01	0.04	-0.01	-0.01	0.10	0.01	-0.01	0.06	0.13	1.00							
14	CalPERS Target	0.023	0.149	CalPER	-0.01	-0.03	-0.01	-0.01	0.12	0.07	0.23	0.00	0.07	-0.04	0.01	0.23	-0.04	1						
15	Problem Director	0.037	0.189	Problem	0.01	0.08	0.09	-0.04	0.02	0.02	-0.01	0.06	0.11	-0.04	0.05	0.07	-0.01	-0.02	1					
16	SEC Enforcement Actions	0.223	0.416	SECAct	0.04	0.05	-0.01	0.20	0.26	0.08	0.02	-0.03	0.34	-0.07	0.23	0.27	0.00	0.21	0.10	1.00				
17	Individual Beneficial Ownership	0.011	0.058	BenOwi	-0.04	-0.05	-0.02	-0.02	0.00	-0.02	0.00	0.00	0.02	0.00	-0.02	-0.03	-0.06	0.04	-0.03	0.00	1.00			
18	Total Outsider Beneficial Ownership	0.038	0.137	OutBenI	-0.01	0.00	-0.01	0.01	-0.03	0.00	0.06	0.04	0.06	-0.02	-0.08	-0.06	-0.05	0.05	-0.04	0.00	0.27	1.00		
19	CEO Duality	0.676	0.468	ChairCE	-0.07	0.02	0.03	-0.11	0.04	0.10	-0.07	-0.03	0.08	-0.01	0.03	0.08	0.05	0.05	0.08	-0.02	-0.03	-0.14	1.00	
20	Independent Outsiders	6.794	4.129	Indepen	-0.02	0.00	-0.04	0.07	0.01	0.09	0.04	-0.05	0.10	-0.02	-0.03	0.32	0.02	0.01	0.07	0.11	-0.06	0.07	-0.14	1.00
21	Outsider Ration	3.368	2.844	Outside	0.00	0.03	0.01	0.01	0.07	0.05	0.05	-0.04	-0.10	-0.06	-0.03	-0.13	-0.08	-0.03	-0.03	-0.13	-0.04	0.01	0.04	-0.12
22	Board Tenure Relative to CEO	2.403	3.986	Relative	0.03	0.03	-0.03	0.11	0.03	-0.05	0.06	0.03	0.00	0.08	-0.05	0.06	0.01	0.16	-0.02	0.03	0.02	0.14	-0.29	0.23
23	Tenure	6.732	7.093	Tenure	0.04	-0.03	-0.10	-0.06	0.01	0.02	-0.05	-0.03	-0.05	-0.03	-0.05	-0.03	-0.03	0.02	0.00	-0.04	0.14	-0.04	0.03	0.02
24	Number of Directors	10.131	3.548	NumDir	-0.03	0.01	0.00	-0.02	-0.06	0.15	0.02	-0.08	0.09	-0.09	0.03	0.29	-0.07	-0.08	0.10	0.05	-0.08	0.03	0.13	0.58
25	Number of Directors Departing	1.352	1.746	NumDir	0.45	0.28	0.03	0.13	0.00	0.06	0.00	0.27	0.13	0.11	0.02	-0.02	-0.18	-0.03	0.13	0.15	-0.04	-0.04	-0.05	0.02
26	Fortune Reputation Index	0.307	0.461	RepInd	0.00	0.03	0.07	-0.11	-0.03	0.04	0.02	0.00	0.05	0.02	-0.08	0.05	-0.17	0.14	0.17	0.07	-0.07	-0.08	0.21	0.18
27	Order of Restatement	8.982	8.439	OrderS	0.00	-0.02	-0.04	0.12	0.05	0.07	-0.02	0.05	0.28	-0.02	0.10	0.08	-0.01	0.04	0.11	0.23	0.04	-0.01	0.00	-0.03
28	In Office at Time of Misstatement	0.917	0.276	ThereRe	0.04	0.01	-0.03	-0.12	-0.02	0.02	-0.03	0.04	-0.07	-0.01	-0.03	0.02	-0.01	0.02	0.03	-0.07	0.04	-0.03	0.02	0.00
29	Total External Board Seats	1.083	1.450	TotalOt	-0.07	0.25	0.27	0.02	-0.02	-0.04	0.03	-0.01	0.00	-0.04	0.04	0.09	-0.01	0.01	0.21	0.02	-0.06	-0.04	0.06	0.07
30	Net Effect (natural log)	13.584	6.227	LnNetEf	0.00	0.08	0.04	0.13	0.08	0.04	0.07	-0.02	0.11	0.03	0.11	0.16	-0.01	0.02	0.07	0.14	-0.03	-0.12	0.03	0.01
31	Response to SEC Guidance	0.202	0.402	Guidanc	-0.03	-0.01	0.00	-0.12	-0.03	-0.05	0.04	-0.03	0.03	0.11	-0.19	-0.06	-0.05	-0.03	0.00	-0.08	-0.02	-0.08	-0.06	0.05
32	Restated Filing: 10K	0.639	0.480	Amend1	0.04	0.05	-0.01	0.07	0.12	0.03	-0.04	0.01	0.16	0.02	0.09	0.13	0.15	0.01	0.05	0.20	0.00	0.00	0.17	0.10
33	Age 65	0.230	0.421	age65	0.05	0.05	-0.04	0.00	0.01	0.06	0.01	-0.04	-0.01	-0.02	0.00	0.02	0.01	0.02	0.04	-0.02	-0.03	-0.03	0.01	0.04
34	Female	0.098	0.297	female	0.00	-0.01	-0.01	0.02	-0.01	0.01	0.00	0.00	0.03	0.00	0.03	0.01	0.00	0.01	0.01	-0.01	-0.02	-0.02	0.06	-0.01
35	Audit Committee Member	0.338	0.473	AudCon	-0.06	0.02	0.03	0.00	0.01	0.01	-0.01	0.00	-0.01	0.01	0.00	-0.01	-0.02	0.01	-0.02	0.00	-0.10	-0.02	0.01	-0.08
36	CEO	0.100	0.300	ceo	0.03	-0.04	0.01	-0.01	0.00	-0.02	-0.01	0.01	0.00	0.00	0.01	-0.02	0.02	-0.01	0.02	-0.01	0.19	0.00	0.00	-0.04
37	CFO	0.082	0.275	cfo	0.06	-0.03	-0.04	0.00	0.00	0.00	0.00	0.06	0.00	0.01	-0.01	-0.01	0.02	0.00	-0.02	-0.02	-0.04	-0.01	0.00	-0.04
38	Total Assets (lagged, natural log)	7.571	1.680	LnAsset	-0.05	0.03	0.07	0.02	0.00	0.11	0.02	-0.11	0.16	-0.15	0.07	0.27	-0.04	0.10	0.20	0.17	-0.12	-0.10	0.28	0.35
39	Return on Assets (lagged)	-0.038	0.315	ROALag	-0.07	-0.05	0.04	-0.14	0.01	-0.07	-0.06	0.02	-0.04	-0.09	-0.17	0.00	0.14	0.00	0.03	-0.11	-0.12	-0.11	0.12	0.07
40	S&P 500 Index	0.364	0.481	SP500	-0.08	0.01	0.08	-0.04	-0.05	0.02	0.04	-0.08	0.09	-0.13	0.07	0.26	0.08	0.07	0.15	0.10	-0.10	-0.13	0.21	0.33
41	NYSE Listing	0.558	0.497	NYSE	-0.01	0.04	0.05	0.05	-0.04	0.13	0.02	-0.05	0.09	-0.02	0.06	0.16	0.03	0.03	0.12	0.15	-0.10	-0.09	0.20	0.22
42	After 2001	0.560	0.496	PostSar	0.02	-0.04	-0.10	0.08	0.03	0.05	-0.02	0.00	0.12	0.01	-0.04	-0.04	-0.05	-0.02	0.00	0.03	0.02	0.07	0.09	0.02
43	Board Action * Total Outsider Ownership	0.007	0.056	BoardO	0.00	-0.01	-0.02	0.28	-0.01	0.04	-0.04	0.00	0.21	-0.01	0.01	-0.01	0.02	-0.02	-0.02	0.14	0.16	0.38	-0.15	0.06
44	Board Action * CEO Duality	0.100	0.300	BoardC	-0.01	0.03	0.00	0.72	0.20	0.15	0.05	0.03	0.12	-0.04	0.14	0.07	-0.04	0.02	-0.02	0.12	-0.05	-0.07	0.23	0.06
45	Delay Announcement * Audit Committee Member	0.045	0.207	AudDel	0.02	0.00	0.01	0.13	0.57	0.02	-0.01	0.05	0.09	-0.02	0.01	0.11	0.02	0.08	0.00	0.15	-0.03	-0.03	0.03	-0.01
46	Delay Announcement * CEO Duality	0.091	0.287	DelCEC	0.03	0.01	-0.01	0.15	0.83	0.07	-0.03	0.10	0.17	-0.04	-0.03	0.18	0.01	0.16	0.04	0.20	-0.01	-0.07	0.22	-0.01
47	Delay Announcement * Total Outsider Ownership	0.003	0.029	DelOutE	0.02	-0.02	-0.02	0.02	0.30	-0.02	-0.03	-0.03	-0.01	0.00	-0.02	-0.02	0.00	-0.02	-0.02	0.01	0.03	0.19	-0.11	0.05

Table 12. (continued)

	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45
22	1.00																							
23	0.04	1.00																						
24	-0.01	0.03	1.00																					
25	-0.04	-0.12	0.05	1.00																				
26	0.02	-0.01	-0.03	0.14	1.00																			
27	-0.03	0.01	0.08	0.30	0.08	1.00																		
28	-0.01	-0.03	-0.04	-0.07	0.03	-0.04	1.00																	
29	0.03	-0.05	0.29	0.05	0.00	0.01	-0.08	1.00																
30	0.02	0.00	-0.03	0.12	0.04	0.17	0.01	-0.01	1.00															
31	0.01	0.02	-0.05	0.00	-0.01	-0.04	0.01	-0.04	0.03	1.00														
32	-0.03	-0.01	-0.04	0.03	-0.08	0.04	-0.06	-0.02	0.03	-0.01	1.00													
33	-0.07	-0.06	0.04	0.15	0.06	0.07	0.10	-0.09	0.00	0.03	-0.02	1.00												
34	-0.01	0.03	0.30	0.07	0.02	0.04	-0.05	0.09	0.10	0.00	0.00	0.02	1.00											
35	0.05	-0.02	-0.09	0.04	0.01	0.07	0.04	-0.01	0.02	0.01	0.00	0.00	-0.12	1.00										
36	-0.01	-0.01	-0.01	-0.10	-0.02	-0.01	0.01	0.10	0.08	-0.01	0.00	-0.02	0.08	0.01	1.00									
37	-0.02	-0.05	0.09	-0.06	-0.01	-0.02	0.01	0.01	-0.04	0.00	-0.01	-0.01	-0.12	-0.06	-0.21	1.00								
38	0.00	0.01	-0.16	-0.07	-0.01	-0.02	0.00	-0.11	-0.17	-0.01	0.02	-0.01	-0.15	0.02	-0.21	-0.08	1.00							
39	-0.07	-0.14	0.07	0.61	0.09	0.54	-0.02	0.04	0.24	0.09	0.07	0.13	0.09	0.08	-0.04	-0.05	-0.05	1.00						
40	0.06	-0.13	0.07	0.17	-0.08	0.09	-0.21	0.10	0.04	-0.07	0.03	-0.02	0.07	0.02	0.00	-0.01	-0.02	0.21	1.00					
41	-0.14	-0.05	0.07	0.41	-0.01	0.54	0.06	0.04	0.24	0.06	-0.09	0.08	0.05	0.07	-0.03	-0.03	-0.04	0.68	0.18	1.00				
42	-0.03	-0.05	0.05	0.29	0.11	0.41	-0.07	0.01	0.18	0.00	-0.02	0.03	0.12	0.06	-0.02	-0.02	-0.04	0.53	0.17	0.45	1.00			
43	0.11	-0.02	0.04	0.09	0.10	0.09	0.46	-0.03	-0.03	-0.23	0.02	0.17	0.02	0.03	0.02	-0.01	-0.01	0.09	-0.14	0.01	0.00	1.00		
44	-0.03	0.09	-0.04	-0.01	0.00	-0.08	0.02	-0.10	-0.04	0.06	-0.06	-0.03	-0.02	-0.01	-0.02	-0.01	0.01	-0.02	-0.04	-0.08	0.04	0.10	1.00	
45	-0.02	0.00	-0.01	0.05	0.06	0.01	0.04	-0.06	0.02	0.10	-0.11	0.12	0.01	0.02	0.01	0.00	0.01	0.11	0.00	0.03	0.10	0.05	0.02	1.00
46	0.03	-0.01	0.01	-0.06	-0.01	-0.02	0.04	0.02	0.00	0.04	-0.01	0.06	0.01	0.00	0.30	-0.05	-0.06	-0.01	0.01	-0.03	-0.03	0.03	0.00	0.13
47	0.04	-0.06	0.03	-0.01	-0.06	-0.01	0.01	0.00	-0.02	0.06	0.01	0.14	0.01	0.01	0.02	0.00	0.01	0.07	0.04	-0.02	-0.07	0.07	-0.03	0.27
47	0.16	0.30	0.03	-0.01	-0.02	-0.07	0.00	-0.01	0.01	0.02	-0.05	-0.05	0.02	0.00	-0.03	-0.02	0.00	-0.03	0.00	-0.08	0.02	-0.03	0.02	-0.02

Table 13: Likelihood of the Use of Symbolic management Techniques following Earnings Restatements, Logistic Regression* (restaters only)

	(1) Board Investigation	(2) Delay Announce.	(3) Blame 3rd Party	(4) Change Auditor	(5) CFO Departure	(6) Length of Account
CEO Duality	-0.506	0.408	0.736	-0.474	0.22	58.423
	(0.400)	(0.422)	(0.559)	(0.533)	(0.437)	(36.784)
Outsider Ratio	0.017	0.072	-0.043	0.08	-0.051	-10.998+
	(0.061)	(0.059)	(0.086)	(0.092)	(0.069)	(6.190)
Total Outsider Beneficial Ownership	-0.41	-1.179	0.294	0.949	1.237	153.652
	(1.270)	(1.757)	(1.299)	(1.064)	(1.190)	(236.738)
Board Tenure Relative to CEO	0.034	0.011	-0.034	0.016	0.021	0.89
	(0.043)	(0.053)	(0.078)	(0.050)	(0.045)	(3.965)
Independent Outsiders	0.07	0.102+	0.029	0.000	-0.005	7.641
	(0.064)	(0.061)	(0.063)	(0.083)	(0.075)	(5.915)
Total External Board Seats	0.012	-0.038	-0.162**	0.014	0.031	-7.462
	(0.050)	(0.055)	(0.058)	(0.068)	(0.049)	(6.428)
Individual Beneficial Ownership	-0.834	0.474	-1.118	0.088	-0.871	104.691
	(0.914)	(0.858)	(1.389)	(0.830)	(1.210)	(134.338)
Tenure	-0.023*	0.002	0.002	-0.035+	0.002	-2.417*
	(0.011)	(0.010)	(0.013)	(0.021)	(0.009)	(1.071)
Number of Directors	-0.094	-0.160+	0.098	0.019	-0.059	-8.235
	(0.091)	(0.083)	(0.089)	(0.089)	(0.099)	(7.159)
Number of Directors Departing	0.150+	0.021	0.026	-0.014	0.414**	21.186
	(0.090)	(0.106)	(0.131)	(0.123)	(0.092)	(18.254)
Age 65	0.065	0.113	0.447**	0.201	-0.275+	-1.923
	(0.131)	(0.136)	(0.135)	(0.177)	(0.158)	(12.374)
Female	0.108	-0.09	0.119	-0.039	0.044	18.381
	(0.164)	(0.159)	(0.187)	(0.218)	(0.188)	(13.264)
Total Assets (lagged, natural log)	0.205	0.262	0.144	-0.016	-0.243	31.485
	(0.176)	(0.201)	(0.242)	(0.217)	(0.189)	(19.128)
Return on Assets (lagged)	-0.765*	0.219	-1.023*	-0.498	0.945	-27.808
	(0.381)	(0.395)	(0.415)	(0.384)	(0.774)	(44.434)
S&P 500 Index	-0.541	-0.599	-0.958	0.556	0.229	-14.328
	(0.525)	(0.637)	(0.650)	(0.602)	(0.595)	(43.860)
NYSE Listing	0.374	-0.447	0.958+	0.079	-0.088	1.614
	(0.421)	(0.510)	(0.536)	(0.452)	(0.472)	(39.743)
After 2001	0.365	0.151	0.172	-0.187	0.044	58.422+
	(0.370)	(0.375)	(0.457)	(0.480)	(0.361)	(34.721)
Constant	-2.859**	-3.232*	-5.468**	-2.396+	0.03	49.392
	(1.025)	(1.344)	(1.819)	(1.231)	(1.068)	(157.651)
Observations	2773	2773	2773	2773	2773	2773
Likelihood Ratio	-1202.8	-1008.15	-770.06	-853.86	-1109.62	
LR Chi2	26.74	19.66	72.64	11.96	37.15	
df	17	17	17	17	17	17
R-squared						0.08

Robust standard errors in parentheses
+ significant at 10%; * significant at 5%; ** significant at 1%

*NB: model 6 employs OLS regression

Table 14: Effect of Symbolic management on the Likelihood of Outside Director Turnover, Logistic Regression (restaters only)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Outsiders									
Board Investigation			-0.329						-0.382	-0.646**
			(0.231)						(0.238)	(0.235)
Delay Announcement				0.458					0.474	0.568*
				(0.286)					(0.290)	(0.287)
Blame 3rd Party					-0.513*				-0.449+	-0.413
					(0.246)				(0.261)	(0.252)
Change Auditor						0.244			0.335	0.455
						(0.369)			(0.351)	(0.329)
CFO Departure							0.176		0.104	0.07
							(0.231)		(0.220)	(0.219)
Length of Account								0.000	0.000	0.000
								(0.000)	(0.000)	(0.000)
Board Action * Total Outsider Ownership										5.505**
										(1.444)
Institutional Divestiture		-255.436+	-284.916+	-230.307	-284.834+	-247.679	-273.370+	-275.674+	-303.449+	-311.375+
		(150.584)	(151.205)	(155.298)	(154.455)	(153.765)	(154.510)	(154.592)	(164.713)	(163.756)
Shareholder Lawsuits		0.08	0.175	0.105	0.181	0.073	0.101	0.109	0.313	0.388+
		(0.205)	(0.223)	(0.209)	(0.210)	(0.207)	(0.205)	(0.215)	(0.219)	(0.218)
Media Mentions		-0.008	-0.007	-0.009	-0.009	-0.007	-0.009	-0.008	-0.01	-0.011
		(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.006)
Change in Analyst Coverage		0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
CalPERS Target		-1.960**	-2.047**	-1.826**	-1.583**	-2.180**	-1.978**	-1.879**	-1.844**	-1.631**
		(0.404)	(0.404)	(0.406)	(0.438)	(0.515)	(0.410)	(0.428)	(0.533)	(0.526)
Problem Director		-1.443*	-1.482**	-1.424**	-1.455*	-1.480**	-1.467*	-1.442*	-1.543**	-1.562**
		(0.571)	(0.560)	(0.547)	(0.567)	(0.574)	(0.573)	(0.583)	(0.536)	(0.553)
SEC Enforcement Actions		-0.022	0.017	-0.14	-0.043	-0.02	0.005	0.012	-0.077	-0.131
		(0.253)	(0.252)	(0.258)	(0.248)	(0.257)	(0.259)	(0.252)	(0.249)	(0.249)
Individual Beneficial Ownership	-3.337+	-3.474+	-3.476+	-3.357+	-3.578+	-3.550+	-3.518+	-3.388+	-3.577+	-6.081
	(2.012)	(2.003)	(2.040)	(2.039)	(2.019)	(2.021)	(2.014)	(1.988)	(2.148)	(4.939)
Total External Board Seats	-0.117*	-0.091	-0.09	-0.091	-0.098+	-0.09	-0.091	-0.093	-0.096+	-0.093
	(0.056)	(0.057)	(0.056)	(0.057)	(0.057)	(0.057)	(0.057)	(0.057)	(0.057)	(0.057)
Tenure	0.048**	0.048**	0.047**	0.048**	0.050**	0.049**	0.048**	0.047**	0.049**	0.051**
	(0.013)	(0.013)	(0.013)	(0.013)	(0.013)	(0.013)	(0.013)	(0.013)	(0.013)	(0.013)
Number of Directors	-0.112	-0.136	-0.14	-0.131	-0.133	-0.138	-0.138	-0.136	-0.136	-0.136
	(0.106)	(0.106)	(0.109)	(0.105)	(0.108)	(0.107)	(0.107)	(0.105)	(0.110)	(0.109)
Number of Directors Departing	0.830**	0.861**	0.869**	0.857**	0.868**	0.858**	0.849**	0.865**	0.863**	0.893**
	(0.086)	(0.090)	(0.093)	(0.088)	(0.092)	(0.090)	(0.091)	(0.088)	(0.092)	(0.092)
Outsider Ratio	0.042	0.032	0.034	0.024	0.03	0.029	0.033	0.03	0.018	0.024
	(0.039)	(0.040)	(0.041)	(0.043)	(0.041)	(0.039)	(0.040)	(0.042)	(0.043)	(0.043)
Independent Outsiders	-0.008	-0.004	0.004	-0.006	-0.006	-0.004	-0.004	-0.002	0.000	0.006
	(0.051)	(0.049)	(0.052)	(0.050)	(0.050)	(0.049)	(0.050)	(0.048)	(0.052)	(0.051)
Board Tenure Relative to CEO	0.024	0.035+	0.038*	0.033+	0.034+	0.036+	0.036+	0.035+	0.037+	0.039*
	(0.020)	(0.019)	(0.018)	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)
Total Outsider Beneficial Ownership	1.436**	1.696**	1.656**	1.666**	1.750**	1.677**	1.689**	1.714**	1.638**	0.921
	(0.514)	(0.477)	(0.508)	(0.506)	(0.482)	(0.489)	(0.485)	(0.478)	(0.577)	(0.822)
CEO Duality	-0.257	-0.186	-0.204	-0.198	-0.156	-0.172	-0.19	-0.172	-0.166	-0.109
	(0.362)	(0.351)	(0.355)	(0.355)	(0.358)	(0.358)	(0.351)	(0.343)	(0.364)	(0.364)
Net Effect of Restatement (natural log)	-0.01	-0.006	-0.005	-0.008	-0.004	-0.007	-0.006	-0.005	-0.004	-0.009
	(0.020)	(0.021)	(0.020)	(0.020)	(0.021)	(0.021)	(0.020)	(0.021)	(0.020)	(0.019)
Response to SEC Guidance	0.381	0.422+	0.406	0.444+	0.441+	0.381	0.422+	0.446+	0.403	0.455+
	(0.253)	(0.246)	(0.249)	(0.244)	(0.242)	(0.270)	(0.248)	(0.259)	(0.277)	(0.275)
Restated Filing: 10K	0.379+	0.367+	0.355	0.351	0.342	0.375+	0.370+	0.376+	0.336	0.386+
	(0.209)	(0.214)	(0.219)	(0.214)	(0.219)	(0.217)	(0.216)	(0.220)	(0.235)	(0.226)
Fortune Reputation Index	0.528	0.631+	0.606+	0.629+	0.675*	0.648*	0.600+	0.635*	0.641+	0.659*
	(0.323)	(0.322)	(0.327)	(0.322)	(0.325)	(0.322)	(0.326)	(0.323)	(0.332)	(0.331)
In Office at time of Misstatement	0.279	0.348	0.354	0.381	0.336	0.346	0.312	0.327	0.34	0.369
	(0.420)	(0.419)	(0.429)	(0.419)	(0.417)	(0.420)	(0.419)	(0.409)	(0.418)	(0.419)
Order of Restatement	0.001	0.008	0.007	0.009	0.01	0.009	0.008	0.011	0.012	0.019
	(0.012)	(0.014)	(0.014)	(0.014)	(0.013)	(0.014)	(0.014)	(0.015)	(0.015)	(0.014)
Audit Committee Member	-0.286	-0.324+	-0.332+	-0.323+	-0.316+	-0.321+	-0.322+	-0.323+	-0.320+	-0.325+
	(0.187)	(0.188)	(0.189)	(0.190)	(0.190)	(0.189)	(0.188)	(0.189)	(0.193)	(0.195)
Age 65	0.567**	0.603**	0.603**	0.585**	0.621**	0.611**	0.614**	0.604**	0.614**	0.613**
	(0.201)	(0.206)	(0.205)	(0.206)	(0.209)	(0.206)	(0.207)	(0.207)	(0.208)	(0.210)
Female	0.528*	0.527*	0.526*	0.532*	0.537*	0.532*	0.537*	0.525*	0.557*	0.570*
	(0.244)	(0.253)	(0.253)	(0.252)	(0.255)	(0.255)	(0.252)	(0.253)	(0.253)	(0.255)
Total Assets (lagged, natural log)	-0.051	0.016	0.02	0.032	0.004	0.026	0.03	0.021	0.052	0.049
	(0.103)	(0.105)	(0.105)	(0.107)	(0.107)	(0.105)	(0.109)	(0.106)	(0.114)	(0.112)
Return on Assets (lagged)	-0.31	-0.237	-0.252	-0.261	-0.262	-0.214	-0.236	-0.224	-0.27	-0.351
	(0.213)	(0.232)	(0.235)	(0.232)	(0.243)	(0.248)	(0.234)	(0.228)	(0.257)	(0.241)
NYSE Listing	-0.34	-0.311	-0.308	-0.32	-0.273	-0.323	-0.309	-0.32	-0.304	-0.379
	(0.246)	(0.227)	(0.230)	(0.225)	(0.237)	(0.230)	(0.226)	(0.230)	(0.246)	(0.235)
S&P 500 Index	-0.178	-0.338	-0.366	-0.317	-0.333	-0.367	-0.337	-0.345	-0.385	-0.344
	(0.424)	(0.442)	(0.447)	(0.441)	(0.448)	(0.437)	(0.443)	(0.445)	(0.452)	(0.446)
After 2001	-0.25	-0.345	-0.316	-0.335	-0.323	-0.341	-0.338	-0.352	-0.272	-0.42
	(0.315)	(0.322)	(0.332)	(0.319)	(0.321)	(0.322)	(0.320)	(0.327)	(0.334)	(0.327)
Constant	-2.386*	-2.800**	-2.825**	-2.945**	-2.796**	-2.861**	-2.871**	-2.817**	-3.124**	-3.164**
	(0.946)	(0.927)	(0.942)	(0.891)	(0.941)	(0.918)	(0.916)	(0.934)	(0.920)	(0.899)
Observations	1652	1652	1652	1652	1652	1652	1652	1652	1652	1652
Likelihood Ratio	-506.54	-499.02	-498.17	-497.51	-497.79	-498.68	-498.75	-498.81	-494.66	-489.25
LR Chi2	350.84	385.38	403.34	399.01	382.21	395.05	381.85	386.34	422.07	417.3
df	24	31	32	32	32	32	32	32	37	38

Robust standard errors in parentheses
+ significant at 10%; * significant at 5%; ** significant at 1%

Table 15: Effect of Symbolic management on the Likelihood of Insider Turnover, Logistic Regression (restaters only)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
					Insiders					
Board Investigation			0.068						-0.19	-0.224
			(0.226)						(0.253)	(0.256)
Delay Announcement					0.626*				0.433	-0.059
					(0.299)				(0.327)	(0.457)
Blame 3rd Party				0.155					0.126	0.09
				(0.314)					(0.306)	(0.299)
Change Auditor						0.192			-0.011	-0.01
						(0.353)			(0.307)	(0.298)
CFO Departure							1.333**		1.336**	1.300**
							(0.256)		(0.237)	(0.239)
Length of Account								0.000	0.000	0.000
								(0.000)	(0.000)	(0.000)
Delay Announcement * CEO Duality										0.783
										(0.608)
Institutional Divestiture		399.924	407.857	400.904	447.463	404.801	321.674	423.4	363.054	354.28
		(285.114)	(284.765)	(284.358)	(286.523)	(285.815)	(396.533)	(278.954)	(393.696)	(397.211)
Shareholder Lawsuits		0.308	0.289	0.278	0.348	0.313	0.315	0.285	0.34	0.421+
		(0.245)	(0.236)	(0.265)	(0.253)	(0.246)	(0.251)	(0.248)	(0.246)	(0.254)
Media Mentions		0.020**	0.020**	0.020**	0.019**	0.020**	0.018**	0.020**	0.016**	0.015**
		(0.004)	(0.004)	(0.004)	(0.005)	(0.004)	(0.004)	(0.005)	(0.005)	(0.005)
Change in Analyst Coverage		0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
CalPERS Target		0.517	0.51	0.497	0.48	0.395	0.661	0.549	0.673	0.616
		(0.546)	(0.549)	(0.552)	(0.548)	(0.647)	(0.615)	(0.567)	(0.685)	(0.673)
Problem Director		-0.354	-0.33	-0.369	-0.307	-0.354	-0.501	-0.388	-0.608	-0.64
		(0.658)	(0.661)	(0.651)	(0.658)	(0.652)	(0.851)	(0.600)	(0.751)	(0.752)
SEC Enforcement Actions		-0.522+	-0.523+	-0.519+	-0.628*	-0.512+	-0.335	-0.608*	-0.508+	-0.530+
		(0.273)	(0.273)	(0.272)	(0.287)	(0.274)	(0.308)	(0.256)	(0.294)	(0.294)
Individual Beneficial Ownership	-16.832**	-20.169**	-20.141**	-20.208**	-20.517**	-20.126**	-20.779**	-19.958**	-20.898**	-20.434**
	(5.613)	(6.545)	(6.544)	(6.635)	(6.873)	(6.526)	(6.851)	(6.512)	(7.077)	(6.977)
Total External Board Seats	-0.178*	-0.206*	-0.207*	-0.202*	-0.207*	-0.204*	-0.216+	-0.196+	-0.196+	-0.202+
	(0.089)	(0.101)	(0.101)	(0.101)	(0.102)	(0.101)	(0.111)	(0.101)	(0.110)	(0.110)
Tenure	0.014	0.024+	0.024+	0.024+	0.025+	0.025+	0.023	0.024+	0.022	0.022
	(0.014)	(0.013)	(0.013)	(0.013)	(0.014)	(0.013)	(0.014)	(0.013)	(0.014)	(0.015)
Number of Directors	-0.08	-0.098*	-0.096*	-0.100*	-0.084*	-0.098*	-0.068*	-0.096*	-0.061+	-0.062+
	(0.066)	(0.040)	(0.040)	(0.040)	(0.040)	(0.040)	(0.034)	(0.040)	(0.035)	(0.036)
Number of Directors Departing	0.567**	0.635**	0.632**	0.636**	0.629**	0.635**	0.542**	0.629**	0.538**	0.556**
	(0.073)	(0.065)	(0.065)	(0.065)	(0.066)	(0.065)	(0.066)	(0.064)	(0.067)	(0.069)
Outsider Ratio	0.009	0.006	0.007	0.007	-0.001	0.006	0.013	0.008	0.011	0.012
	(0.040)	(0.044)	(0.044)	(0.044)	(0.044)	(0.044)	(0.043)	(0.043)	(0.043)	(0.043)
Independent Outsiders	0.038	0.008	0.007	0.007	0.005	0.007	0.011	0.005	0.007	0.01
	(0.056)	(0.037)	(0.037)	(0.036)	(0.037)	(0.037)	(0.036)	(0.037)	(0.035)	(0.036)
Board Tenure Relative to CEO	-0.006	-0.02	-0.02	-0.019	-0.02	-0.021	-0.034	-0.02	-0.031	-0.032
	(0.026)	(0.027)	(0.027)	(0.027)	(0.026)	(0.027)	(0.031)	(0.027)	(0.030)	(0.032)
Total Outsider Beneficial Ownership	0.059	0.538	0.544	0.517	0.614	0.495	-0.074	0.476	-0.178	-0.092
	(0.687)	(0.619)	(0.619)	(0.627)	(0.618)	(0.618)	(0.584)	(0.617)	(0.589)	(0.588)
CEO Duality	-0.281	-0.444+	-0.442+	-0.446+	-0.455*	-0.444+	-0.482*	-0.469*	-0.541*	-0.649**
	(0.254)	(0.227)	(0.227)	(0.228)	(0.232)	(0.227)	(0.229)	(0.232)	(0.238)	(0.242)
Net Effect of Restatement (natural log)	0.008	-0.001	-0.001	0.000	0.000	-0.001	0.000	-0.002	0.001	0.002
	(0.021)	(0.021)	(0.022)	(0.021)	(0.020)	(0.021)	(0.019)	(0.021)	(0.018)	(0.017)
Response to SEC Guidance	-0.174	-0.093	-0.092	-0.094	-0.091	-0.105	-0.074	-0.116	-0.101	-0.107
	(0.247)	(0.279)	(0.278)	(0.278)	(0.279)	(0.285)	(0.279)	(0.277)	(0.279)	(0.273)
Restated Filing: 10K	0.189	0.116	0.117	0.122	0.054	0.116	0.068	0.1	0.01	0.008
	(0.213)	(0.239)	(0.240)	(0.239)	(0.240)	(0.239)	(0.229)	(0.240)	(0.234)	(0.234)
Fortune Reputation Index	-0.051	0.242	0.243	0.235	0.164	0.253	0.059	0.231	-0.021	0.029
	(0.367)	(0.279)	(0.279)	(0.280)	(0.278)	(0.280)	(0.304)	(0.285)	(0.311)	(0.316)
In Office at time of Misstatement	0.700*	0.616+	0.621*	0.618+	0.608+	0.636*	0.590+	0.637*	0.598+	0.611+
	(0.322)	(0.316)	(0.315)	(0.316)	(0.315)	(0.314)	(0.318)	(0.319)	(0.320)	(0.313)
Order of Restatement	0.018	0.028+	0.027+	0.027+	0.029+	0.028+	0.019	0.023	0.014	0.016
	(0.014)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.014)	(0.016)	(0.017)	(0.017)
CEO	0.434*	0.454*	0.457*	0.456*	0.460*	0.453*	0.465*	0.451*	0.453*	0.440+
	(0.202)	(0.217)	(0.219)	(0.217)	(0.221)	(0.216)	(0.229)	(0.217)	(0.231)	(0.230)
CFO	0.442*	0.429+	0.431+	0.430+	0.434+	0.433+	0.313	0.433+	0.31	0.296
	(0.212)	(0.232)	(0.233)	(0.232)	(0.233)	(0.232)	(0.239)	(0.234)	(0.244)	(0.245)
Age 65	0.513*	0.449+	0.447+	0.443+	0.449+	0.440+	0.529*	0.440+	0.515*	0.512*
	(0.248)	(0.259)	(0.260)	(0.256)	(0.253)	(0.259)	(0.266)	(0.257)	(0.256)	(0.254)
Female	-0.001	-0.109	-0.11	-0.102	-0.124	-0.111	-0.179	-0.098	-0.164	-0.161
	(0.285)	(0.319)	(0.319)	(0.318)	(0.328)	(0.318)	(0.320)	(0.316)	(0.322)	(0.325)
Total Assets (lagged, natural log)	-0.017	-0.04	-0.043	-0.041	-0.041	-0.039	-0.028	-0.054	-0.041	-0.05
	(0.115)	(0.111)	(0.111)	(0.110)	(0.109)	(0.110)	(0.112)	(0.111)	(0.115)	(0.115)
Return on Assets (lagged)	0.005	0.181	0.183	0.196	0.156	0.185	0.054	0.153	0.008	0.015
	(0.264)	(0.255)	(0.255)	(0.259)	(0.247)	(0.251)	(0.252)	(0.251)	(0.247)	(0.255)
NYSE Listing	-0.227	-0.259	-0.262	-0.269	-0.237	-0.259	-0.227	-0.241	-0.185	-0.113
	(0.234)	(0.236)	(0.237)	(0.240)	(0.234)	(0.236)	(0.221)	(0.235)	(0.225)	(0.231)
S&P 500 Index	-0.105	-0.334	-0.325	-0.312	-0.307	-0.349	-0.271	-0.3	-0.215	-0.214
	(0.283)	(0.298)	(0.301)	(0.302)	(0.295)	(0.306)	(0.312)	(0.300)	(0.329)	(0.326)
After 2001	-0.464+	-0.499+	-0.501+	-0.495+	-0.456+	-0.504+	-0.398+	-0.475+	-0.333	-0.362
	(0.254)	(0.281)	(0.281)	(0.280)	(0.269)	(0.281)	(0.233)	(0.281)	(0.232)	(0.234)
Constant	-2.138**	-1.651*	-1.648*	-1.632*	-1.796*	-1.685*	-2.042**	-1.593*	-2.052**	-2.021**
	(0.793)	(0.724)	(0.724)	(0.730)	(0.705)	(0.718)	(0.727)	(0.746)	(0.746)	(0.748)
Observations	1121	1121	1121	1121	1121	1121	1121	1121	1121	1121
Likelihood Ratio	-455.74	-434.31	-434.27	-434.18	-431.51	-434.11	-416.93	-433.5	-414	-413.21
LR Chi2	154.96	236.55	238.96	241.78	250.41	238.05	215.06	307.21	300.78	315.37
df	25	32	33	33	33	33	33	33	38	39

Robust standard errors in parentheses
+ significant at 10%; * significant at 5%; ** significant at 1%

Table 16: Effect of Symbolic management on Outside Directors' Likelihood of Losing External Board Seats, Logistic Regression (restaters only)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Drop Seats Within One Year										
Board Investigation			0.144							0.215	0.187
			(0.243)							(0.237)	(0.236)
Delay Announcement				-0.495+	0.176					0.07	0.258
				(0.287)	(0.401)					(0.388)	(0.418)
Delay Announcement * Audit Committee Member					-1.412**					-1.415**	-1.514**
					(0.521)					(0.526)	(0.539)
Blame 3rd Party						-0.111				-0.198	-0.201
						(0.275)				(0.304)	(0.302)
Change Auditor							0.206			0.148	0.143
							(0.264)			(0.268)	(0.272)
CFO Departure								0.325		0.339	0.323
								(0.232)		(0.221)	(0.220)
Length of Account									0.000	0.000	0.000
									(0.000)	(0.000)	(0.000)
Delay Announcement * Total Outsider Beneficial Ownership											-3.932*
											(1.725)
Institutional Divestiture		749.864**	757.205**	735.450**	734.410**	747.970**	751.514**	728.869**	754.870**	727.561**	720.880**
		(250.447)	(252.573)	(249.166)	(255.808)	(251.879)	(249.457)	(260.095)	(250.177)	(270.469)	(264.517)
Shareholder Lawsuits		0.153	0.125	0.114	0.144	0.169	0.148	0.116	0.145	0.062	0.078
		(0.216)	(0.224)	(0.211)	(0.209)	(0.218)	(0.216)	(0.217)	(0.218)	(0.216)	(0.217)
Media Mentions		-0.001	-0.001	0	0.001	-0.001	-0.001	-0.001	-0.001	0.001	0.000
		(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Change in Analyst Coverage		0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	0.000
CalPERS Target		-1.018**	-1.022**	-1.056**	-1.063**	-1.002**	-1.159**	-1.048**	-1.019**	-1.183*	-1.212*
		(0.363)	(0.353)	(0.391)	(0.398)	(0.357)	(0.438)	(0.380)	(0.373)	(0.486)	(0.487)
Problem Director		0.617+	0.621+	0.671*	0.730*	0.608+	0.621+	0.594+	0.623+	0.715*	0.696*
		(0.325)	(0.326)	(0.330)	(0.334)	(0.325)	(0.325)	(0.331)	(0.327)	(0.347)	(0.347)
SEC Enforcement Actions		0.269	0.26	0.373+	0.353	0.265	0.264	0.28	0.255	0.34	0.319
		(0.221)	(0.223)	(0.219)	(0.217)	(0.220)	(0.220)	(0.219)	(0.227)	(0.225)	(0.226)
Audit Committee Member	0.049	0.046	0.045	0.047	0.198	0.048	0.05	0.05	0.044	0.203	0.206
	(0.142)	(0.145)	(0.145)	(0.145)	(0.147)	(0.144)	(0.144)	(0.145)	(0.145)	(0.146)	(0.146)
Tenure	-0.02	-0.017	-0.018	-0.016	-0.018	-0.017	-0.016	-0.017	-0.017	-0.017	-0.017
	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)
Total External Board Seats	0.402**	0.390**	0.389**	0.395**	0.397**	0.389**	0.391**	0.389**	0.391**	0.393**	0.398**
	(0.059)	(0.060)	(0.060)	(0.060)	(0.059)	(0.060)	(0.060)	(0.061)	(0.060)	(0.060)	(0.060)
Departure within One Year	2.733**	2.691**	2.691**	2.719**	2.766**	2.687**	2.690**	2.668**	2.690**	2.739**	2.755**
	(0.325)	(0.328)	(0.327)	(0.330)	(0.334)	(0.327)	(0.328)	(0.330)	(0.328)	(0.337)	(0.339)
Total Outsider Beneficial Ownership	0.453	0.44	0.444	0.45	0.401	0.444	0.426	0.454	0.428	0.401	0.568
	(0.670)	(0.675)	(0.679)	(0.651)	(0.682)	(0.674)	(0.686)	(0.702)	(0.693)	(0.746)	(0.673)
Individual Beneficial Ownership	6.14	6.684	6.547	6.368	6.907	6.824	6.741	6.595	6.615	6.721	6.705
	(4.103)	(4.159)	(4.051)	(3.950)	(4.334)	(4.298)	(4.191)	(4.090)	(4.109)	(4.207)	(4.148)
CEO Duality	0.379*	0.416*	0.438*	0.432*	0.420*	0.420*	0.428*	0.421*	0.411*	0.470*	0.441*
	(0.185)	(0.184)	(0.187)	(0.182)	(0.181)	(0.184)	(0.184)	(0.184)	(0.185)	(0.185)	(0.186)
Net Effect of Restatement (natural log)	0.022+	0.018	0.017	0.021	0.022	0.018	0.017	0.018	0.018	0.021	0.022
	(0.014)	(0.014)	(0.015)	(0.015)	(0.015)	(0.014)	(0.014)	(0.014)	(0.014)	(0.015)	(0.015)
Response to SEC Guidance	0.326	0.337	0.351+	0.315	0.321	0.336	0.326	0.332	0.33	0.312	0.3
	(0.207)	(0.214)	(0.213)	(0.215)	(0.217)	(0.214)	(0.214)	(0.212)	(0.215)	(0.214)	(0.214)
Restated Filing: 10K	0.358*	0.281	0.272	0.305+	0.305+	0.279	0.293+	0.285	0.277	0.299+	0.284
	(0.172)	(0.175)	(0.172)	(0.175)	(0.177)	(0.174)	(0.177)	(0.175)	(0.175)	(0.176)	(0.177)
Fortune Reputation Index	-0.142	-0.179	-0.163	-0.188	-0.18	-0.176	-0.171	-0.221	-0.184	-0.201	-0.209
	(0.198)	(0.216)	(0.213)	(0.210)	(0.208)	(0.217)	(0.216)	(0.213)	(0.217)	(0.199)	(0.201)
In Office at time of Misstatement	0.31	0.353	0.38	0.342	0.374	0.354	0.347	0.327	0.357	0.385	0.363
	(0.302)	(0.306)	(0.309)	(0.305)	(0.303)	(0.307)	(0.305)	(0.305)	(0.306)	(0.305)	(0.308)
Order of Restatement	-0.018	-0.020+	-0.020+	-0.020+	-0.022+	-0.020+	-0.019+	-0.021+	-0.021+	-0.024*	-0.023+
	(0.012)	(0.011)	(0.011)	(0.011)	(0.011)	(0.012)	(0.012)	(0.011)	(0.012)	(0.012)	(0.012)
Age 65	-0.338+	-0.339+	-0.335+	-0.332+	-0.352+	-0.336+	-0.336+	-0.320+	-0.336+	-0.311+	-0.311+
	(0.176)	(0.181)	(0.180)	(0.180)	(0.180)	(0.181)	(0.180)	(0.181)	(0.181)	(0.177)	(0.178)
Female	-0.388+	-0.405+	-0.408+	-0.407+	-0.409+	-0.403+	-0.399+	-0.403+	-0.404+	-0.406+	-0.408+
	(0.234)	(0.233)	(0.233)	(0.235)	(0.238)	(0.233)	(0.233)	(0.233)	(0.233)	(0.240)	(0.240)
Total Assets (lagged, natural log)	-0.105	-0.088	-0.087	-0.093	-0.102	-0.087	-0.086	-0.078	-0.089	-0.093	-0.092
	(0.073)	(0.074)	(0.074)	(0.073)	(0.073)	(0.074)	(0.074)	(0.074)	(0.074)	(0.073)	(0.073)
Return on Assets (lagged)	-0.218	-0.111	-0.099	-0.087	-0.086	-0.109	-0.105	-0.166	-0.109	-0.109	-0.103
	(0.331)	(0.262)	(0.265)	(0.264)	(0.275)	(0.263)	(0.258)	(0.277)	(0.262)	(0.294)	(0.292)
NYSE Listing	0.134	0.067	0.057	0.057	0.059	0.075	0.063	0.071	0.069	0.063	0.089
	(0.208)	(0.207)	(0.205)	(0.206)	(0.209)	(0.209)	(0.209)	(0.206)	(0.208)	(0.211)	(0.212)
S&P 500 Index	0.162	0.161	0.157	0.119	0.163	0.152	0.145	0.19	0.162	0.153	0.142
	(0.236)	(0.245)	(0.243)	(0.239)	(0.239)	(0.247)	(0.248)	(0.242)	(0.245)	(0.240)	(0.241)
After 2001	-0.017	-0.002	-0.011	0.034	0.072	0	-0.013	-0.005	0	0.062	0.055
	(0.211)	(0.213)	(0.213)	(0.216)	(0.214)	(0.213)	(0.217)	(0.211)	(0.213)	(0.213)	(0.213)
Constant	-1.276*	-1.467**	-1.495**	-1.460**	-1.534**	-1.473**	-1.494**	-1.558**	-1.469**	-1.705**	-1.688**
	(0.553)	(0.560)	(0.566)	(0.553)	(0.557)	(0.559)	(0.560)	(0.577)	(0.560)	(0.581)	(0.580)
Observations	1023	1023	1023	1023	1023	1023	1023	1023	1023	1023	1023
Likelihood Ratio	-595.98	-586.91	-586.67	-584.94	-580.38	-586.83	-586.61	-585.74	-586.81	-577.89	-577.01
LR Chi2	132.47	156.57	158.57	158.65	158.06	157.35	155.14	155.82	158.38	160.86	160.93
df	20	27	28	28	29	28	28	28	28	34	35

Robust standard errors in parentheses
+ significant at 10%; * significant at 5%; ** significant at 1%

Table 17: Effect of Symbolic management on Insiders' Likelihood of Losing External Board Seats, Logistic Regression (restaters only)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Drop Seats Within One Year									
Board Investigation			-0.52						-0.738+	-1.345*
			(0.344)						(0.388)	(0.659)
Delay Announcement				0.46					0.652	2.304**
				(0.354)					(0.433)	(0.815)
Change Auditor					0.102				0.259	0.329
					(0.351)				(0.356)	(0.378)
Blame 3rd Party						-0.076			-0.132	-0.028
						(0.348)			(0.369)	(0.357)
CFO Departure							0.205		0.261	0.209
							(0.311)		(0.331)	(0.338)
Length of Account								0.000	0.000	0.000
								(0.000)	(0.000)	(0.000)
Board Investigation * CEO Duality										0.765
										(0.791)
Delay Announcement * CEO Duality										-2.093*
										-1.006
Institutional Divestiture		108.646	89.132	115.575	113.92	109.788	103.376	96.689	86.151	123.848
		(494.883)	(494.498)	(496.808)	(494.737)	(494.789)	(483.235)	(489.363)	(474.051)	(461.205)
Shareholder Lawsuits		-0.163	-0.047	-0.133	-0.162	-0.151	-0.174	-0.14	0.067	-0.019
		(0.276)	(0.277)	(0.277)	(0.276)	(0.286)	(0.275)	(0.276)	(0.284)	(0.312)
Media Mentions		0.003	0.001	0.003	0.003	0.003	0.003	0.003	0.001	0.002
		(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.004)	(0.004)
Change in Analyst Coverage		0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
CalPERS Target		-1.611	-1.35	-1.803	-1.685	-1.608	-1.588	-1.64	-1.674	-1.619
		(1.059)	(0.987)	(1.101)	(1.165)	(1.066)	(1.045)	(1.080)	(1.091)	(1.125)
Problem Director		-0.046	-0.137	0.002	-0.045	-0.043	-0.08	-0.036	-0.132	-0.086
		(0.437)	(0.447)	(0.439)	(0.439)	(0.437)	(0.433)	(0.436)	(0.452)	(0.458)
SEC Enforcement Actions		-0.224	-0.182	-0.3	-0.214	-0.227	-0.213	-0.173	-0.193	-0.121
		(0.362)	(0.362)	(0.368)	(0.365)	(0.365)	(0.361)	(0.370)	(0.387)	(0.389)
CEO	-0.017	-0.012	-0.024	0.001	-0.01	-0.015	-0.021	-0.012	-0.014	-0.028
	(0.227)	(0.228)	(0.231)	(0.228)	(0.228)	(0.227)	(0.228)	(0.229)	(0.235)	(0.234)
CFO	0.467	0.45	0.454	0.456	0.454	0.447	0.447	0.456	0.478	0.507
	(0.362)	(0.377)	(0.383)	(0.372)	(0.380)	(0.376)	(0.380)	(0.376)	(0.381)	(0.385)
Tenure	-0.023	-0.022	-0.025	-0.022	-0.022	-0.022	-0.022	-0.022	-0.024	-0.024
	(0.015)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)
Total External Board Seats	0.368**	0.380**	0.384**	0.385**	0.381**	0.378**	0.382**	0.378**	0.390**	0.389**
	(0.134)	(0.130)	(0.131)	(0.129)	(0.130)	(0.131)	(0.129)	(0.130)	(0.132)	(0.134)
Depart within One Year	2.841**	2.858**	2.903**	2.825**	2.857**	2.862**	2.834**	2.892**	2.881**	2.982**
	(0.412)	(0.418)	(0.410)	(0.417)	(0.418)	(0.420)	(0.423)	(0.429)	(0.419)	(0.453)
Total Outsider Beneficial Ownership	1.243*	1.325*	1.338*	1.373*	1.323*	1.326*	1.254*	1.386*	1.384**	1.381**
	(0.575)	(0.566)	(0.545)	(0.562)	(0.566)	(0.565)	(0.514)	(0.589)	(0.500)	(0.535)
Individual Beneficial Ownership	-2.810+	-3.247+	-3.258+	-3.244+	-3.242+	-3.242+	-3.202+	-3.195+	-3.172+	-3.159+
	(1.584)	(1.885)	(1.860)	(1.887)	(1.886)	(1.878)	(1.891)	(1.884)	(1.839)	(1.793)
CEO Duality	0.364	0.34	0.273	0.332	0.342	0.346	0.344	0.351	0.265	0.34
	(0.305)	(0.307)	(0.311)	(0.307)	(0.308)	(0.309)	(0.308)	(0.304)	(0.308)	(0.359)
Net Effect of Restatement (natural log)	0.03	0.03	0.033	0.028	0.029	0.029	0.029	0.03	0.03	0.028
	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)
Response to SEC Guidance	-0.062	-0.166	-0.168	-0.143	-0.164	-0.162	-0.168	-0.142	-0.106	-0.075
	(0.338)	(0.349)	(0.346)	(0.343)	(0.348)	(0.349)	(0.352)	(0.345)	(0.336)	(0.350)
Restated Filing: 10K	0.016	-0.049	0.003	-0.028	-0.048	-0.054	-0.048	-0.035	0.069	-0.034
	(0.288)	(0.281)	(0.283)	(0.275)	(0.280)	(0.284)	(0.282)	(0.284)	(0.277)	(0.289)
Fortune Reputation Index	0.314	0.471	0.38	0.433	0.47	0.468	0.443	0.484	0.251	0.154
	(0.342)	(0.369)	(0.372)	(0.375)	(0.369)	(0.372)	(0.374)	(0.367)	(0.397)	(0.396)
In Office at Time of Misstatement	-0.653	-0.651	-0.692	-0.619	-0.64	-0.653	-0.667	-0.637	-0.653	-0.623
	(0.410)	(0.420)	(0.431)	(0.416)	(0.419)	(0.419)	(0.426)	(0.423)	(0.441)	(0.437)
Order of Restatement	-0.002	0.004	0.006	0.007	0.004	0.004	0.003	0.007	0.016	0.011
	(0.018)	(0.021)	(0.020)	(0.020)	(0.020)	(0.021)	(0.021)	(0.021)	(0.022)	(0.022)
Age 65	-0.106	-0.103	-0.079	-0.121	-0.104	-0.103	-0.105	-0.096	-0.087	-0.083
	(0.293)	(0.296)	(0.300)	(0.297)	(0.295)	(0.296)	(0.296)	(0.298)	(0.302)	(0.311)
Female	-0.533	-0.529	-0.571	-0.521	-0.536	-0.532	-0.532	-0.521	-0.604	-0.65
	(0.402)	(0.408)	(0.422)	(0.406)	(0.400)	(0.409)	(0.406)	(0.407)	(0.413)	(0.422)
Total Assets (lagged, natural log)	-0.127	-0.071	-0.062	-0.097	-0.069	-0.071	-0.065	-0.072	-0.085	-0.07
	(0.130)	(0.139)	(0.137)	(0.145)	(0.139)	(0.139)	(0.138)	(0.139)	(0.145)	(0.142)
Return on Assets (lagged)	-0.374	-0.472	-0.527	-0.474	-0.462	-0.478	-0.481	-0.459	-0.561	-0.645
	(0.392)	(0.403)	(0.423)	(0.399)	(0.401)	(0.401)	(0.403)	(0.411)	(0.444)	(0.439)
NYSE Listing	0.079	0.023	0.116	0.081	0.018	0.025	0.004	0.045	0.24	0.174
	(0.372)	(0.370)	(0.375)	(0.380)	(0.370)	(0.372)	(0.374)	(0.369)	(0.403)	(0.400)
S&P 500 Index	-0.23	-0.443	-0.409	-0.38	-0.452	-0.442	-0.421	-0.467	-0.32	-0.372
	(0.406)	(0.428)	(0.428)	(0.438)	(0.432)	(0.428)	(0.435)	(0.431)	(0.455)	(0.457)
After 2001	-0.345	-0.38	-0.367	-0.406	-0.387	-0.383	-0.387	-0.38	-0.442	-0.361
	(0.306)	(0.303)	(0.307)	(0.304)	(0.304)	(0.305)	(0.302)	(0.304)	(0.313)	(0.308)
Constant	-0.255	-0.546	-0.6	-0.483	-0.571	-0.536	-0.579	-0.56	-0.614	-0.638
	(0.836)	(0.952)	(0.952)	(0.980)	(0.954)	(0.951)	(0.954)	(0.959)	(1.003)	(0.980)
Observations	473	473	473	473	473	473	473	473	473	473
Likelihood Ratio	-251	-247.87	-246.67	-247.13	-247.83	-247.85	-247.67	-247.62	-244.54	-242.58
LR Chi2	79.4	84.67	93.57	86.46	84.94	84.45	84.04	86.62	92.56	90.32
df	21	28	29	29	29	29	29	29	34	36

Robust standard errors in parentheses
+ significant at 10%; * significant at 5%; ** significant at 1%

Table 18: Supplemental Analysis: Effect of Symbolic management on Outside Directors' Likelihood of Gaining External Board Seats, Logistic Regression (restaters only)

	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
	Add Seats Within One Year								
Board Investigation			0.064						0.018
			(0.211)						(0.223)
Delay Announcement				0.112					0.139
				(0.212)					(0.223)
Blame 3rd Party					0.36				0.4
					(0.331)				(0.351)
Change Auditor						0.021			0.036
						(0.301)			(0.301)
CFO Departure							-0.047		-0.057
							(0.224)		(0.219)
Length of Account								0.000	0.000
								(0.000)	(0.000)
Institutional Divestiture		343.008	345.829	346.973	354.491	343.705	346.217	340.028	360.018
		(329.632)	(330.259)	(330.568)	(331.498)	(329.932)	(331.714)	(328.800)	(334.354)
Shareholder Lawsuits		0.212	0.199	0.216	0.17	0.211	0.216	0.218	0.186
		(0.231)	(0.242)	(0.231)	(0.226)	(0.232)	(0.232)	(0.234)	(0.239)
Media Mentions		-0.003	-0.003	-0.004	-0.004	-0.003	-0.003	-0.003	-0.004
		(0.004)	(0.004)	(0.004)	(0.005)	(0.004)	(0.004)	(0.004)	(0.005)
Change in Analyst Coverage		0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
CalPERS Target		-0.779	-0.773	-0.77	-0.865	-0.792	-0.775	-0.771	-0.853
		(0.753)	(0.748)	(0.738)	(0.823)	(0.781)	(0.750)	(0.746)	(0.811)
Problem Director		0.772*	0.775*	0.763*	0.797*	0.773*	0.777*	0.770*	0.790*
		(0.334)	(0.334)	(0.332)	(0.334)	(0.334)	(0.336)	(0.335)	(0.337)
SEC Enforcement Actions		0.037	0.032	0.016	0.049	0.036	0.034	0.047	0.044
		(0.214)	(0.211)	(0.220)	(0.216)	(0.213)	(0.214)	(0.216)	(0.221)
Audit Committee Member	0.122	0.135	0.134	0.135	0.131	0.135	0.135	0.135	0.131
	(0.138)	(0.138)	(0.138)	(0.138)	(0.138)	(0.139)	(0.138)	(0.138)	(0.139)
Tenure	-0.044**	-0.040*	-0.040*	-0.040*	-0.041*	-0.040*	-0.040*	-0.040*	-0.042*
	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)
Total External Board Seats	0.367**	0.346**	0.346**	0.346**	0.350**	0.346**	0.347**	0.346**	0.349**
	(0.041)	(0.044)	(0.044)	(0.044)	(0.045)	(0.044)	(0.044)	(0.044)	(0.045)
Departure within One Year	-0.538*	-0.578**	-0.578**	-0.583**	-0.567**	-0.579**	-0.569**	-0.576**	-0.561**
	(0.219)	(0.219)	(0.219)	(0.219)	(0.218)	(0.216)	(0.221)	(0.219)	(0.217)
Total Outsider Beneficial Ownership	0.498	0.589	0.59	0.587	0.576	0.587	0.588	0.597	0.588
	(0.425)	(0.399)	(0.400)	(0.406)	(0.404)	(0.401)	(0.398)	(0.393)	(0.403)
Individual Beneficial Ownership	-0.43	-0.702	-0.707	-0.689	-0.71	-0.699	-0.712	-0.688	-0.673
	(1.897)	(1.862)	(1.865)	(1.858)	(1.868)	(1.863)	(1.865)	(1.863)	(1.867)
CEO Duality	0.03	0.038	0.046	0.034	0.027	0.039	0.039	0.041	0.036
	(0.206)	(0.202)	(0.203)	(0.203)	(0.202)	(0.203)	(0.203)	(0.202)	(0.207)
Net Effect of Restatement (natural log)	0.01	0.008	0.008	0.007	0.007	0.008	0.008	0.008	0.007
	(0.015)	(0.015)	(0.016)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.016)
Response to SEC Guidance	0.032	0.034	0.041	0.04	0.044	0.032	0.035	0.038	0.062
	(0.216)	(0.220)	(0.224)	(0.220)	(0.219)	(0.224)	(0.220)	(0.221)	(0.226)
Restated Filing: 10K	0.084	0.071	0.069	0.068	0.069	0.072	0.071	0.073	0.072
	(0.180)	(0.184)	(0.185)	(0.185)	(0.183)	(0.181)	(0.184)	(0.184)	(0.183)
Fortune Reputation Index	0.163	0.105	0.115	0.105	0.098	0.106	0.11	0.107	0.112
	(0.226)	(0.235)	(0.241)	(0.236)	(0.236)	(0.233)	(0.231)	(0.235)	(0.236)
In Office at time of Misstatement	-0.144	-0.152	-0.144	-0.146	-0.155	-0.153	-0.148	-0.153	-0.145
	(0.256)	(0.266)	(0.268)	(0.266)	(0.266)	(0.265)	(0.267)	(0.267)	(0.269)
Order of Restatement	-0.01	-0.01	-0.01	-0.01	-0.011	-0.01	-0.01	-0.01	-0.009
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.013)	(0.013)
Age 65	-0.452*	-0.467**	-0.466**	-0.468**	-0.483**	-0.467*	-0.469**	-0.467**	-0.488**
	(0.183)	(0.181)	(0.181)	(0.181)	(0.180)	(0.181)	(0.180)	(0.181)	(0.181)
Female	-0.356	-0.362	-0.362	-0.362	-0.372	-0.361	-0.364	-0.361	-0.374
	(0.281)	(0.283)	(0.283)	(0.282)	(0.283)	(0.282)	(0.283)	(0.283)	(0.282)
Total Assets (lagged, natural log)	0.007	0.022	0.021	0.023	0.02	0.022	0.021	0.023	0.021
	(0.077)	(0.080)	(0.080)	(0.080)	(0.080)	(0.080)	(0.080)	(0.080)	(0.080)
Return on Assets (lagged)	0.611+	0.740+	0.747*	0.734+	0.742+	0.743*	0.750*	0.735+	0.740*
	(0.366)	(0.378)	(0.378)	(0.379)	(0.379)	(0.378)	(0.380)	(0.375)	(0.377)
NYSE Listing	0.033	0.01	0.004	0.011	-0.017	0.009	0.009	0.011	-0.019
	(0.198)	(0.195)	(0.197)	(0.196)	(0.201)	(0.195)	(0.195)	(0.196)	(0.202)
S&P 500 Index	0.054	0.076	0.077	0.089	0.109	0.074	0.072	0.075	0.12
	(0.250)	(0.247)	(0.248)	(0.249)	(0.254)	(0.243)	(0.248)	(0.247)	(0.253)
After 2001	-0.498*	-0.511*	-0.515*	-0.517*	-0.522*	-0.512*	-0.511*	-0.512*	-0.537*
	(0.222)	(0.229)	(0.231)	(0.229)	(0.225)	(0.230)	(0.229)	(0.229)	(0.230)
Constant	-1.669**	-1.792**	-1.794**	-1.802**	-1.757**	-1.794**	-1.780**	-1.789**	-1.750**
	(0.552)	(0.578)	(0.577)	(0.577)	(0.579)	(0.579)	(0.583)	(0.577)	(0.581)
Observations	1684	1684	1684	1684	1684	1684	1684	1684	1684
Likelihood Ratio	-681.16	-674.96	-674.91	-674.84	-674.03	-674.95	-674.93	-674.91	-673.63
LR Chi2	154.49	198.19	202.01	200.46	204.61	199.94	198.4	198.57	214.76
df	20	27	28	28	28	28	28	28	33

Robust standard errors in parentheses
+ significant at 10%; * significant at 5%; ** significant at 1%

Table 19: Supplemental Analysis: Effect of Symbolic management on Insiders' Likelihood of Gaining External Board Seats, Logistic Regression (restaters only)

	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
	Add Seats Within One Year									
Board Investigation			0.333						0.324	0.967*
			(0.265)						(0.287)	(0.486)
Delay Announcement				0.08					-0.007	-0.025
				(0.361)					(0.355)	(0.338)
Change Auditor					-0.157				-0.223	-0.164
					(0.335)				(0.334)	(0.333)
Blame 3rd Party						-0.377			-0.432	-0.469
						(0.520)			(0.511)	(0.517)
CFO Departure							0.173		0.137	0.122
							(0.289)		(0.288)	(0.288)
Length of Account								0.000	0.000	0.000
								(0.000)	(0.000)	(0.000)
Board Investigation * CEO Duality										-0.884
										(0.543)
Institutional Divestiture		477.628	495.87	479.072	467.355	471.401	472.987	487.122	481.72	498.82
		(395.106)	(400.403)	(396.133)	(395.634)	(390.615)	(391.698)	(399.859)	(397.955)	(408.689)
Shareholder Lawsuits		-0.750*	-0.832*	-0.747*	-0.747*	-0.708*	-0.768*	-0.757*	-0.802*	-0.894**
		(0.325)	(0.327)	(0.324)	(0.325)	(0.314)	(0.324)	(0.318)	(0.329)	(0.342)
Media Mentions		0.001	0.001	0.001	0.001	0.002	0.001	0.000	0.002	0.003
		(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Change in Analyst Coverage		0.000	0.001	0.000	0.000	0.000	0.000	0.001	0.000	0.000
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
CalPERS Target		0.253	0.184	0.233	0.325	0.267	0.269	0.273	0.343	0.314
		(0.570)	(0.555)	(0.571)	(0.614)	(0.578)	(0.571)	(0.571)	(0.647)	(0.655)
Problem Director		-0.673	-0.628	-0.666	-0.68	-0.683	-0.699	-0.666	-0.662	-0.708
		(0.599)	(0.598)	(0.599)	(0.601)	(0.601)	(0.603)	(0.593)	(0.600)	(0.615)
SEC Enforcement Actions		-0.309	-0.334	-0.326	-0.322	-0.32	-0.304	-0.339	-0.399	-0.373
		(0.268)	(0.259)	(0.281)	(0.271)	(0.268)	(0.268)	(0.275)	(0.287)	(0.281)
CEO	0.495*	0.494*	0.499*	0.494*	0.493*	0.486*	0.489*	0.491*	0.483*	0.488*
	(0.221)	(0.234)	(0.236)	(0.234)	(0.234)	(0.233)	(0.234)	(0.234)	(0.235)	(0.232)
CFO	0.159	0.151	0.156	0.151	0.148	0.148	0.144	0.152	0.143	0.149
	(0.268)	(0.264)	(0.266)	(0.264)	(0.264)	(0.264)	(0.262)	(0.264)	(0.264)	(0.264)
Tenure	-0.049*	-0.047*	-0.047*	-0.047*	-0.047*	-0.047*	-0.047*	-0.047*	-0.047*	-0.048*
	(0.020)	(0.020)	(0.020)	(0.020)	(0.020)	(0.020)	(0.020)	(0.020)	(0.020)	(0.020)
Total External Board Seats	0.508**	0.536**	0.536**	0.537**	0.537**	0.531**	0.534**	0.538**	0.533**	0.541**
	(0.068)	(0.073)	(0.075)	(0.073)	(0.073)	(0.073)	(0.073)	(0.073)	(0.076)	(0.076)
Depart within One Year	-0.513+	-0.473	-0.489	-0.479	-0.471	-0.475	-0.526+	-0.478	-0.536+	-0.553+
	(0.296)	(0.312)	(0.312)	(0.318)	(0.312)	(0.315)	(0.319)	(0.313)	(0.320)	(0.318)
Total Outsider Beneficial Ownershi	-0.397	-0.9	-0.902	-0.89	-0.881	-0.859	-0.92	-0.968	-0.93	-0.972
	(0.579)	(0.703)	(0.691)	(0.705)	(0.703)	(0.690)	(0.700)	(0.706)	(0.671)	(0.636)
Individual Beneficial Ownership	-0.914	-1.155	-1.118	-1.166	-1.169	-1.179	-1.14	-1.156	-1.147	-1.121
	(1.320)	(1.364)	(1.383)	(1.368)	(1.362)	(1.347)	(1.364)	(1.367)	(1.368)	(1.366)
CEO Duality	0.338	0.285	0.298	0.284	0.283	0.302	0.283	0.277	0.304	0.478+
	(0.243)	(0.252)	(0.245)	(0.252)	(0.252)	(0.249)	(0.250)	(0.253)	(0.239)	(0.272)
Net Effect of Restatement (natural	-0.004	-0.003	-0.006	-0.003	-0.002	-0.004	-0.003	-0.004	-0.006	-0.006
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
Response to SEC Guidance	-0.352	-0.553*	-0.544*	-0.554*	-0.553*	-0.534*	-0.564*	-0.565*	-0.541*	-0.551*
	(0.294)	(0.276)	(0.276)	(0.276)	(0.276)	(0.271)	(0.271)	(0.280)	(0.273)	(0.278)
Restated Filing: 10K	-0.209	-0.257	-0.287	-0.258	-0.255	-0.272	-0.259	-0.265	-0.308	-0.311
	(0.246)	(0.260)	(0.265)	(0.261)	(0.261)	(0.260)	(0.261)	(0.263)	(0.267)	(0.268)
Fortune Reputation Index	0.627*	0.541+	0.574+	0.538+	0.543+	0.524+	0.528+	0.537+	0.538+	0.534+
	(0.245)	(0.289)	(0.293)	(0.285)	(0.290)	(0.289)	(0.286)	(0.288)	(0.286)	(0.283)
In Office at Time of Misstatement	0.226	0.198	0.223	0.2	0.185	0.21	0.191	0.201	0.216	0.23
	(0.381)	(0.384)	(0.389)	(0.382)	(0.384)	(0.382)	(0.384)	(0.382)	(0.384)	(0.379)
Order of Restatement	0.003	0.015	0.014	0.016	0.015	0.015	0.015	0.014	0.012	0.013
	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.017)	(0.017)	(0.017)
Age 65	-0.464	-0.451	-0.467	-0.452	-0.455	-0.456	-0.448	-0.459	-0.484	-0.484
	(0.302)	(0.301)	(0.300)	(0.300)	(0.302)	(0.302)	(0.301)	(0.302)	(0.305)	(0.305)
Female	-0.216	-0.218	-0.221	-0.217	-0.206	-0.233	-0.231	-0.218	-0.232	-0.253
	(0.351)	(0.357)	(0.355)	(0.357)	(0.352)	(0.359)	(0.357)	(0.358)	(0.355)	(0.360)
Total Assets (lagged, natural log)	0.028	0.142	0.138	0.14	0.138	0.147	0.147	0.142	0.144	0.145
	(0.114)	(0.115)	(0.119)	(0.116)	(0.116)	(0.118)	(0.116)	(0.116)	(0.123)	(0.123)
Return on Assets (lagged)	-0.117	-0.41	-0.38	-0.415	-0.412	-0.442	-0.429	-0.42	-0.44	-0.372
	(0.236)	(0.262)	(0.261)	(0.260)	(0.261)	(0.272)	(0.266)	(0.262)	(0.274)	(0.276)
NYSE Listing	-0.056	-0.112	-0.138	-0.103	-0.105	-0.1	-0.111	-0.12	-0.124	-0.134
	(0.294)	(0.284)	(0.285)	(0.291)	(0.284)	(0.284)	(0.285)	(0.286)	(0.296)	(0.298)
S&P 500 Index	-0.413	-0.486	-0.486	-0.481	-0.474	-0.487	-0.476	-0.477	-0.453	-0.462
	(0.379)	(0.383)	(0.387)	(0.381)	(0.386)	(0.383)	(0.381)	(0.384)	(0.389)	(0.396)
After 2001	-0.397	-0.502	-0.521+	-0.505+	-0.492	-0.505	-0.508+	-0.501	-0.513+	-0.543+
	(0.305)	(0.308)	(0.309)	(0.306)	(0.307)	(0.308)	(0.308)	(0.307)	(0.309)	(0.313)
Constant	-2.502**	-3.109**	-3.078**	-3.109**	-3.083**	-3.123**	-3.145**	-3.117**	-3.102**	-3.212**
	(0.807)	(0.817)	(0.831)	(0.819)	(0.822)	(0.826)	(0.827)	(0.816)	(0.850)	(0.859)
Observations	1140	1140	1140	1140	1140	1140	1140	1140	1140	1140
Likelihood Ratio	-358.91	-349.35	-348.74	-349.32	-349.25	-348.93	-349.17	-349.27	-347.91	-346.84
LR Chi2	90.59	96.95	94.3	97.02	99.45	96.81	97.08	96.93	98	99.65
df	21	28	29	29	29	29	29	29	34	35

Robust standard errors in parentheses
+ significant at 10%; * significant at 5%; ** significant at 1%