Affiliated Corporate Donations and Director Independence*

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Abstract

This paper examines how corporate charitable contributions to independent directors-affiliated charities (*affiliated donations*) affect board monitoring effectiveness. We find that firms with weaker corporate governance tend to make affiliated donations. Moreover, CEO compensation is greater, while CEO pay-for-performance sensitivity (*PPS*), CEO turnover to performance sensitivity, and reporting quality of the firm are lower at firms that make affiliated donations. We further link monitoring ineffectiveness to committee assignments. Specifically, we find poor compensation practices (reporting quality) only at firms that make charitable contributions to charities affiliated with compensation (audit) committee members. Our results are stronger when corporate governance is weaker, and when corporate donations are made to charities affiliated with committee chairs or multiple committee members. Interestingly, corporate donations to charities affiliated with any independent directors affect the CEO turnover decisions because the entire board is engaged in such decisions. This paper contributes to the corporate governance literature by uncovering a new determinant of director independence, incremental to those identified based on business transactions, social connections, and director appointment decisions.

Key Words: Director Independence; Corporate Charitable Contributions; Monitoring Incentives.

1. Introduction

The monitoring roles of independent directors of corporate boards have long been examined in the literature of corporate governance (e.g., Weisbach 1988; Core, Larcker, and Holthausen 1999; Faleye, Hoitash, and Hoitash 2011; Coles, Daniel, and Naveen 2016). Conventionally, director independence is defined based on whether the director has a material relationship with the company that may create a conflict of interest and interfere with the exercise of independent judgement in carrying out director responsibilities. Based on the NYSE rule, a director is *not independent* if the director is a current employee or an immediate family member of the director is a current executive officer of an organization that receives, from the company, payments for property or services exceeding $1 million or 2% of the organization's consolidated gross revenue in any of the past three years.

In contrast to payments to directors-affiliated organizations via business transactions, corporate charitable contributions to directors-affiliated charities, regardless of their amount, do not disqualify director independence.[1] Information on corporate charitable contributions is included in the Form 990-PF, filed annually at the IRS, which has been largely overlooked by corporate governance research until very recently (Masulis and Reza 2015). Based on the NYSE rule, only corporate donations that exceed $1 million or 2% of the consolidated gross revenue of a director's affiliated charity are required to be disclosed on the company's website, in its annual proxy statement, or in its 10-K filing. The amount of corporate donations to directors-affiliated charities is often much larger than that of director annual compensation (which has been under the shareholders' and regulators' scrutiny for its potential influence on directors' monitoring

[1] Independence tests of directors can be found at http://nysemanual.nyse.com/lcm/Help/mapContent.asp?sec=lcm-sections&title=sx-ruling-nyse policymanual_303A.02&id=chp_1_4_3_3.

incentives), and it could create conflict of interest and impair the director's independent judgement in carrying out their monitoring responsibilities.

In this paper, we first examine how the strength of corporate governance affects firms' decisions to make charitable contributions to independent directors-affiliated charities (*affiliated donations*). We find that firms with weak corporate governance (with a large board, a combined role of CEO and chairman of the board, low CEO ownership, and low institutional ownership) are more likely to make affiliated donations and tend to make large donations. To make our interpretation less ambiguous, we contrast affiliated donations with firms' charitable donations not affiliated with independent directors (*unaffiliated donations*). We find that only affiliated donations are correlated with weak corporate governance, suggesting that affiliated donations may mainly reflect corporate governance issues. Independent directors, whose affiliated charities receive charitable contributions from the firm, may have conflict of interest and impaired incentives and/or judgement to effectively monitor the management.

We next examine how affiliated donations affect the effectiveness of board monitoring decisions, starting with looking at compensation practices. We find that firms that make affiliated donations pay their CEOs 9.9% more than firms without affiliated donations after controlling for other determinants of CEO compensation. Moreover, we find that the portfolio delta of the CEO (pay-for-performance sensitivity, *PPS*) at firms with affiliated donations is lower than that at firms without affiliated donations by $500,000.

We conduct three additional analyses that reinforce our interpretation of the results regarding CEO compensation. First, we contrast affiliated with unaffiliated donations and find that only affiliated donations affect compensation practices. Second, positing that different board committees hold different governance roles, we hypothesize that charitable donations affiliated

with directors on compensation committees have stronger effects on compensation practices. Contrasting compensation committee members with other board members, we find that compensation practices are distorted only by corporate donations to charities affiliated with compensation committee members. Third, we examine within the compensation committee whether corporate donations made to charities affiliated with the committee chair or more committee members affect CEO compensation to a greater degree. Interestingly, we find that CEO compensation level is higher and PPS is lower at firms that make affiliated donations to the compensation committee chair, to multiple committee members, or to a large fraction of committee members (above sample median).

One may argue that the observed association between affiliated donations and poor compensation practices might be driven by omitted director characteristics even though an array of corporate governance measures are included in our regression analysis as control variables. To address such concerns, we conduct a subsample analysis retaining only directors who serve on two corporate boards in a given year, of which only one firm makes donations to the director's affiliated charities. The specification with director fixed effects yields a similar result: CEO compensation is greater and PPS is lower at firms with affiliated donations than at those firms without affiliated donations.

We next examine whether the effect of affiliated donations depends on the strength of corporate governance. In other word, does strong governance mitigate the effect of affiliated donations on compensation practices? We find that affiliated donations distort compensation practices mainly at firms with weak corporate governance. Specifically, affiliated donations are associated with higher CEO compensation and lower PPS at firms that have a lower fraction of conventionally independent directors (below the sample median), a lower fraction of

conventionally and socially independent directors, and a lower fraction of conventionally independent directors after correcting for co-opted directors (who became a board member after the CEO took the corner office; Coles et al. 2016). Moreover, we find a stronger effect of affiliated donations on compensation decisions at firms that have a larger fraction of busy directors, lower outside directors' ownership, lower ownership by the top five institutional investors, and at firms with longer CEO tenure.

Given that those independent directors whose affiliated charities receive corporate donations have conflict of interest, and perhaps distorted incentives in performing monitoring roles, we redefine such directors as *dependent* and revisit the literature examining the link between CEO compensation and board independence. The literature has mixed findings. For example, Core et al. (1999) find a puzzling positive correlation between CEO compensation and the fraction of conventionally independent directors, while Hwang and Kim (2009) find a negative correlation using conventionally and socially independent directors for the universe of S&P 100 companies. We run horse race tests among four director independence measures: conventionally independent, conventionally and socially independent, conventionally independent corrected for co-opted directors, and conventionally independent corrected for donation-affiliated directors. We find lower CEO compensation and higher PPS only at firms with a large fraction of independent directors whose charities do not receive corporate donations.

In addition to compensation practices, we examine the effect of affiliated donations on firm's financial reporting quality and CEO replacement decisions. We find that at firms with affiliated donations, the quality of financial reporting is poor and CEO turnover-to-performance sensitivity is low. We measure reporting quality by accrual quality (Dechow and Dichev 2002; Wysocki 2008), opacity (Billett and Yu 2016), and meeting or beating analyst consensus on

earnings by one cent (Degeorge et al. 1999; Burgstahler and Eames 2003; Cheng and Warfield 2005). Interestingly, we find that under all three measures, poor reporting practices are solely driven by corporate donations to charities affiliated with audit committee members, especially when the committee chair's charities or multiple committee members' charities receive the company's charitable contributions.

Regarding CEO replacement decisions, we find that the link between forced CEO turnover and poor firm performance is attenuated by corporate donations to charities affiliated with any independent directors, regardless of their committee assignment, perhaps because all directors are engaged in CEO employment/retention decisions. Our results are stronger if corporate donations are made to charities affiliated with three or more independent directors (Schwartz-Ziv 2016) or a large fraction of independent directors.

The paper contributes to the corporate governance literature examining the effect of director independence on board monitoring effectiveness (Weisbach 1988; Parrino 1997; Core et al. 1999; Faleye et al. 2011). We test a new dimension of director dependence based on corporate charitable contributions to charities affiliated with independent directors. The payment to charitable causes that an independent director cares about could create a conflict of interest and reduce monitoring incentives and effectiveness.

Our research extends the recent literature that examines how certain attributes of independent directors affect monitoring decisions. For example, independent directors' social connections to insiders (Hwang and Kim 2009) and their status as CEO appointees (Coles et al. 2016) are shown to reduce monitoring effectiveness. In addition, Beneish, Marshall, and Yang (2015) provide evidence that collusive abnormal selling conducted by independent directors and the CEO during a fraud period makes those directors less willing to replace the CEO when the

fraud is uncovered. We control for the social connections between independent directors and the CEO following Hwang and Kim (2009) as well as the co-opted directors following Coles et al. (2016), and show that we are uncovering a new channel through which board independence is impaired.

A closely related paper is Masulis and Reza (2015), which examines the effect of CEO charity preferences on corporate giving decisions, and concludes that corporate giving reflects an agency problem. Masulis and Reza show that corporate giving is negatively correlated with CEO shareholdings and corporate governance quality. Although Masulis and Reza hint that donations to directors' charitable causes are associated with greater CEO compensation, they do not examine how corporate donations to independent directors-affiliated charities affect the overall monitoring effectiveness.[2] Yermack (2009) studies large charitable stock gifts by CEOs, particularly to their own family foundations, without special attention to independent directors.

Our paper also contributes to a growing literature that examines whether corporate spending in corporate social responsibility (CSR) improves firm value or satisfies CEO's personal preference at the costs of shareholders. Empirical findings in the CSR literature are largely inconclusive. On one hand, Edmans (2011) shows that corporate goodness improves employee morale and efficiency, and Flammer (2016) shows that the adoption of CSR-related shareholder proposals that narrowly passed the majority vote leads to positive announcement returns and superior accounting performance via increases in labor productivity and sales growth. On the other hand, Cheng, Hong, and Shue (2014) find that corporate goodness reflects an agency problem because it is negatively associated with governance strength and after-tax insider

[2] Masulis and Reza (2015) identify donations to directors' charitable causes by the overlaps between the top three categories of corporate charitable contributions and the organization types of directors' charitable affiliations. In contrast, we match the names of non-profit organizations that receive a company's charitable contributions in any given year with the names of charities that the company's independent directors are affiliated with.

ownership, and the passage of shareholder governance proposals leads to slower growth in corporate goodness.

The remainder of the paper is organized as follows. Section 2 develops hypotheses and describes our empirical strategies. Section 3 describes the data on affiliated donations. Section 4 examines economic determinants of affiliated donations. Section 5 presents the empirical results on the effect of affiliated donations on compensation practices. Section 6 reports effects of affiliated donations on financial reporting quality and CEO replacement decisions. Section 7 concludes.

2. Hypothesis Development and Empirical Strategies

Directors' charitable causes benefit from donations made by a company even though those directors are unlikely to pocket the donations. As a result, such directors may become more sympathetic when monitoring and disciplining managers, which "interferes with the exercise of independent judgment in carrying out director responsibilities" and changes the status of those directors from conventionally independent to non-independent (one with a conflict of interest). Thus, corporate affiliated donations can be viewed as side payments to directors in addition to direct compensation for their board services, and the amount of the former tends to be much larger than that of the latter ($1.4 million vs. $0.2 million on average for the S&P 500 firms).

We test the effectiveness of three types of monitoring decisions that independent directors make: CEO compensation, CEO turnover, and financial reporting quality. First, we examine whether firms that make affiliated donations tend to grant more generous compensation package to the CEO and provide a weaker link between pay and performance. We measure PPS by the portfolio delta of a CEO's equity holdings (Core and Guay 2002). Second, we examine whether firms that make affiliated donations tend to have poor reporting quality. We measure the

quality of financial reporting using accrual quality followed Dechow and Dichev (2002) accruals quality measure modified by Wysocki (2008), opacity (Billett and Yu 2016), and meeting or just beating analyst consensus on annual earnings (Degeorge et al. 1999; Burgstahler and Eames 2003; Cheng and Warfield 2005). Third, we examine whether firms that make affiliated donations tend to have a lower CEO turnover-to-performance sensitivity; that is, the boards of firms with affiliated donations tend to keep poorly performing CEOs. Our first empirical hypothesis is summarized as follows.

H1: When a company makes an (large) affiliated donation, we expect to find greater excess CEO compensation, and lower CEO PPS, forced CEO turnover-to-performance sensitivity, and reporting quality.

Moreover, we expect the adverse effect of affiliated donations on monitoring effectiveness is more pronounced when related committee members are involved.

H2: We expect monitoring ineffectiveness caused by affiliated donations to be linked to related committee members. Specifically, we expect to find poor compensation practice (reporting quality) when the firm makes a (large) donation to charities affiliated with compensation (audit) committee members. In contrast, poorly performing CEOs are less likely to be removed at firms making donations to charities affiliated with any independent directors because CEO replacement decisions need the approval of the whole board.

Lastly, we expect to find stronger effects of affiliated donations on monitoring outcomes when donations are made to the chair of the corresponding committee (compensation or audit), to a large number of committee members, or to a large fraction of the committee.

H3: We expect monitoring ineffectiveness (compensation or reporting) caused by affiliated donations to be stronger when such donations are made to the corresponding

(compensation or audit) committee chair, multiple members of the committee, or to a large fraction of the committee.

3. Data and Univariate Analysis

Our sample is the S&P 500 index companies as of December 31, 2012. We extract directors' affiliation data from the BoardEx database, which includes the board membership and committee assignment of each director, the director's affiliated not-for-profit organizations (*charities*), and the role of the director in the affiliated charity. For the period from 2003 to 2012, BoardEx covers 4,356 firm-years and 471 unique firms of the S&P 500 index members.

Data on corporate charitable donations was extracted from *Foundation Directory Online* (FDO), provided by Foundation Center via https://fconline.foundationcenter.org/. FDO data start in 2003 and are compiled from IRS Forms 990-PF (for returns of private foundation) and 990 (return of organization exempt from income tax), grant maker web sites, annual reports, printed application guidelines, the philanthropic press, and various other sources. Generally, all grants of over $10,000 are included for all foundations with a total giving amount of at least $5,000,000 (roughly, the top 1000 donors each year).[3] Only corporate donations of at least $1,000 are kept in the database, which is helpful for leaving out corporate matching programs of employee donations.

Using Python function *ratio*, we match directors' affiliated charities listed in BoardEx with charities that received corporate donations by charity names. The initial sample comprises perfect matches returned by running *ratio*. We then supplement the data by manually checking all potential matches with a matching score greater than 0.85.

[3] Beyond that, an assortment of grants of less than $10,000 are included for these foundations and an assortment of grants of all sizes are included for foundations with a total giving amount of less than $5,000,000. Some of the data are generated by customized requests for information on donations to certain types of charities by database users.

We present summary statistics of the donation data in Table 1. As Panel A shows, 1,020 out of 4,356 firm-year observations in our dataset have affiliated donations. Provided that an affiliated donation is made, the average annual amount of affiliated donations ranges between $1.1 million and $2.7 million and the median annual amount of affiliated donations ranges between $0.3 million and $0.7 million. Panel B shows that finance, manufacturing, and consumer durables are the top three industries most likely to make affiliated donations. Panel C presents summary statistics of affiliated donations compared with general donations that may or may not be affiliated. In the full sample, while 35.5% of firm-years involve some charitable donations, only 23.4% firm-years involve donations affiliated with independent directors. The unconditional average amount of all donations is $3.95 million while it is only $0.30 million for affiliated donations.

We compare CEO compensation, firm financial variables, and corporate governance variables between firms making affiliated donations and those not making such donations in Table 2. CEO total annual pay is larger at firms making affiliated donations. However, CEO portfolio delta (*PPS*) is significantly smaller at firms making affiliated donations. These results are consistent with the notion that CEOs are able to negotiate for greater pay with a weaker link between pay and performance if companies make affiliated donations

Firms making affiliated donations are larger, have worse performance (lower stock return, ROA, and market-to-book), and appear to be less risky (lower market-to-book, stock return volatility, and R&D investments) than firms not making affiliated donations. Moreover, firms that make affiliated donations differ along various dimensions of corporate governance. Specifically, CEOs of these firms tend to serve as the chairman of the board of directors, have a shorter tenure as CEO, and lower equity ownership. These firms also tend to have larger boards,

more independent boards, their independent directors are more likely to be socially connected with the CEO, and the fraction of directors hired after the CEO takes position is smaller. Furthermore, ownership by the top five institutional investors is lower and the average director compensation is greater at firms making affiliated donations.

4. Determinants of Affiliated Donations

We now examine the economic determinants of corporate donations to charities affiliated with independent directors. We focus on how corporate governance is associated with affiliated donations and use a regression specification similar to that in Masulis and Reza (2015). If affiliated donations serve as side payments to independent directors, they are more likely to happen, and to be greater, when corporate governance is weaker. For comparison, we also analyze the determinants of unaffiliated donations.[4] While both affiliated and unaffiliated donations could be the outcome of governance failure, unaffiliated donations are unlikely to directly affect monitoring effectiveness of the board of directors. Firm financial characteristics are included as control variables. In addition, we include industry-fixed effects in the model to parse out differences in donations across industries and year-fixed effects to control for general time trends in corporate donations.

Table 3 summarizes the regression results. We find that firms that have larger boards, lower CEO ownership, and lower ownership by top five institutional investors are more likely to make, and make larger affiliated donations. CEO duality is positively related to the amount of affiliated donations. These empirical results suggest that (large) affiliated donations are permitted at firms with weak monitoring from directors and large shareholders, and at firms with less

[4] Throughout the paper, unaffiliated donations are defined as corporate donations not affiliated with independent directors. Sometimes, firms also make donations to charities affiliated with the CEO or other executives. Because such donations are more likely to be an outcome of poor corporate governance, rather than a factor jeopardizing governance quality, we treat them separately from donations affiliated with independent directors and include them in unaffiliated donations.

alignment of interests between the CEO and shareholders. In contrast, none of the governance measures are important determinants for unaffiliated donations. The comparison reinforces our hypothesis that the aforementioned relationship between corporate governance and donations only pertains to affiliated donations.

Social connections between independent directors and the CEO are a weak determinant of the amount of affiliated donations when other aspects of governance and firm financials are accounted for. Thus, the charitable donation channel through which independent directors and the CEO are connected is unlikely to be a mere manifestation of the previously documented social connections. Interestingly, we observe a lower tendency and a smaller amount of affiliated donations at firms with a larger fraction of independent directors appointed by the CEO (co-opted directors), perhaps because it is not necessary to donate to charities affiliated with those independent directors who are loyal to the CEO due to appointment decisions. We include social connections and director co-option as control variables in all subsequent analyses on the effects of affiliated donations.

Among control variables of firm characteristics, larger firms and firms with greater ROA are more likely to make and make larger donations, both affiliated and unaffiliated. This is perhaps because these firms have more resources for charitable activities. Contrary to the univariate result, firms with greater R&D investments are more likely to make and make larger affiliated donations, but not unaffiliated donations. In addition, we find that firms with higher financial leverage make larger affiliated donations, but not larger unaffiliated donations.

5. CEO Compensation

In this section, we examine how affiliated donations affect firms' compensation practices. More specifically, we examine the effect of affiliated donations on the level of CEO annual compensation and the PPS for the CEO.

5.1. Baseline specification

In Table 4, we examine how CEO compensation is related to affiliated donations. Two dependent variables are used — the logarithm of total annual pay in thousands of dollars (*TDC1* in ExecuComp) and portfolio equity incentives (Delta). In Panel A, we test how CEO compensation practices are related to the firm's decision to make affiliated donations and the size of these donations. As the results show, CEO total pay is significantly greater (by 9.9%) at firms that make affiliated donations (Column 1). However, greater total pay comes with significantly lower equity incentives (lower by $500,000, Column 3). Such results are obtained after controlling for firm financial characteristics and governance quality. The results are also robust when we replace the indicator for affiliated donations by the dollar amount of affiliated donations (Columns 2 and 4).

Regarding control variables, as expected, we find that CEO total pay and portfolio delta are greater at larger firms and firms with greater market-to-book ratios. Total pay is also greater when the CEO serves as chairman of the board. Portfolio delta is greater when the change in ROA is smaller the previous year, when stock return is less volatile, when the firm uses less financial leverage, and when CEO ownership is higher. We find no correlation between CEO compensation and board size, board independence based on the conventional definition of independent directors, or ownership by top five institutional investors.

Our results thus far show that corporate charitable donations to organizations affiliated with independent directors are significantly associated with greater CEO pay and weaker equity incentives. The results are consistent with the hypothesis that affiliated donations are a new channel through which the CEO befriends independent directors, which in turn affects monitoring outcomes. To further strengthen this interpretation and alleviate the concerns that some omitted factors affecting decisions on both affiliated donations and CEO compensation, we explore the variation in affiliated donations based on the independent director's committee assignment. As stated in H2, because the compensation committee is vital in designing CEO compensation packages, we hypothesize that the effect of affiliated donations on CEO compensation should be stronger when the affiliated director serves on the compensation committee. Among firms making donations to charities affiliated with directors on the compensation committee, the effect is expected to be stronger if the committee chair is among the affiliated directors, or if the charities of multiple compensation committee members receive the company's charitable contributions.

We test H2 by splitting affiliated donations into two categories: (1) donations to charities affiliated with one or more independent directors serving on the compensation committee, and (2) donations to charities affiliated with independent directors who are not compensation committee members. Out of the 811 affiliated donations used in this table (fewer than 1,020 due to missing control variables), 606 donations are affiliated with compensation committee members and 205 are not. The results, presented in Columns 1 and 5 of Table 4, Panel B, are consistent with our hypothesis. CEO pay is significantly greater only when the firm makes donations to charities affiliated with compensation committee members. Moreover, we find that CEO portfolio delta is significantly lower at firms making donations to charities affiliated with the compensation

committee, but is unrelated to corporate donations to charities affiliated with independent directors not serving on the compensation committee.

We test H3 by splitting donations affiliated with the compensation committee into two subgroups along three dimensions. First, we contrast donations affiliated with the committee chair with donations affiliated with non-chair members of the compensation committee. As shown in Columns 2 and 6, donations affiliated with the compensation committee chair have a stronger effect on CEO total pay and portfolio delta. Second, we compare donations affiliated with two or more compensation committee members and those affiliated with a single member. We find that donations affiliated with multiple members of the compensation committee have stronger effects on CEO compensation (Columns 3 and 7). Third, we compare donations affiliated with a large fraction of independent directors on the compensation committee (above sample median) and those affiliated with a small fraction of directors the committee. As shown in Columns 4 and 8, the effects of affiliated donations are stronger when they are affiliated with a large fraction of directors on the compensation committee.

In all specifications, we include affiliated donations unrelated to the compensation committee as an explanatory variable and it remains irrelevant for CEO compensation. We also include an indicator for the 434 unaffiliated donations as an explanatory variable in all specifications. We do not expect unaffiliated donations to affect CEO compensation. Consistently, neither CEO total pay nor equity incentives are significantly related to unaffiliated charitable donations.

Overall, the results in Table 4 show a significant positive relation between affiliated donations and CEO total pay, and a significant negative relation between affiliated donations and CEO equity incentives. Our cross-sectional tests exploiting the affiliated director's committee

membership reinforces our interpretation that making affiliated donations is a means by which the CEO befriends independent directors who provide favorable compensation packages in return.

5.2. Specification with director fixed effects

One alternative interpretation of our main results is that some omitted director characteristic affects both CEO compensation and corporate donations. For instance, a lenient director may both be lax about CEO pay setting and strive to solicit charitable donations from the firm. To alleviate such concerns, we conduct additional analysis including director fixed effects.

We form a subsample of directors who serve on two corporate boards in the same year but with different affiliated donation status – one firm makes donations to charities affiliated with the director and the other firm does not. We then run the baseline regression using director-year data and include director fixed effects in addition to the industry and year fixed effects. Thus, the regression specification parses out time-invariant director characteristics that may affect both affiliated donations and CEO compensation, and the remaining variation captured by the coefficient on affiliated donations is, for the same director, the difference between receiving and not receiving a donation from the firms.

The results, summarized in Table 5, are consistent with the results of the baseline regressions as reported in Table 4. Affiliated donations are significantly and positively related to CEO total pay and negatively related to CEO portfolio delta. Thus, the effect of affiliated donations on CEO compensation is unlikely to be a manifestation of some omitted director characteristics that affect both corporate donations and CEO pay practices.

5.3. Subsample analysis

To further substantiate our interpretation that affiliated donations are a means by which the CEO befriends independent directors, which jeopardizes board monitoring, we explore whether the effect of affiliated donations on CEO compensation is attenuated by strong corporate governance. We consider a list of governance measures: board characteristics (board independence based on the conventional definition, board independence corrected for social connections between independent directors and the CEO, board independence corrected for director co-option, fraction of busy independent directors on the board, and board size), outside directors' ownership, ownership of top five institutional investors, and CEO tenure. The cutoff points for forming subsamples are the sample medians for all variables except board independence corrected for director co-option, which uses a cutoff point of 50% to capture majority independence.[5] We run the baseline regression for CEO total pay and portfolio delta (leaving out the sorting governance measure in each regression) in each subsample, and compare the coefficient estimate of affiliated donations between two subsamples. If affiliated donations negatively affect monitoring effectiveness, we expect such effects to be particularly strong in poorly governed firms where the effort of the CEO to befriend independent directors is more likely to be fruitful.

The results, presented in Table 6, are consistent with our hypothesis. For all measures of corporate governance except board size, the effects of affiliated donations on CEO total pay and portfolio delta are much stronger in the weak governance subsample (the first two columns) than in the strong governance subsample (the last two columns). The differences in the coefficient estimate of affiliated donations between two subsamples are largely statistically significant.

[5] The cutoffs for conventional board independence and independent board corrected for social connections are the sample medians of 89% and 82% instead of 50%, because the super majority of boards have over 50% of independent directors following either definition.

More specifically, the effects of affiliated donations on CEO compensation are larger and statistically significant in the subsamples with less independent boards based on all three definitions of director independence, while they are statistically insignificant and economically small in the subsamples with more independent boards. The effects of affiliated donations on CEO compensation are also stronger in the subsamples with a high fraction of busy directors, low ownership by top five institutional investors, and long CEO tenure. These results corroborate the hypothesis that poor governance exacerbates the distortion of compensation practices by affiliated donations. Interestingly, the effects of affiliated donations on CEO compensation are stronger at firms with smaller boards, which are typically used as a proxy for strong corporate governance (Yermack 1996), perhaps because an affiliated director has more influence on board decisions on a small board than on a large board.

5.4. CEO compensation and board independence – revisit the link

After establishing the effects of affiliated donations on CEO compensation, we redefine board independence and examine its relation to CEO compensation. Following the literature that redefines board independence by correcting for social connections between conventionally independent directors and the CEO (Hwang and Kim 2009) and that corrects for co-option of conventionally independent directors (Coles et al. 2016), we define a director as independent if the director is conventionally independent and is not affiliated with any charities that receive donations from the firm. We then compute board independence as the fraction of the redefined "independent" directors.

We run the baseline regressions of CEO total pay and portfolio delta using board independence defined under four definitions (conventional, social connections excluded, co-opted directors excluded, and affiliated donations excluded). These regressions exclude the

social connections, director co-option, and affiliated donations dummies while retaining all other explanatory variables including the fixed effects. We first include the four board independence variables one by one, and then include all four measures in one regression to conduct a horse race.

The results reported in Table 7 suggest that board independence, when corrected for corporate donations to charities affiliated with conventionally independent directors, is a significant determinant of CEO compensation. Specifically, a higher fraction of independent directors after correcting for affiliated donations is associated with lower CEO pay and more equity incentives. In contrast, other board independence measures are not significantly related to CEO compensation.

6. Financial Reporting Quality and Forced CEO Turnover

In this section, we examine the effects of affiliated donations on the outcomes of other board monitoring decisions, starting with looking at financial reporting quality.

6.1. Financial reporting quality

According to FASB Statement of Financial Accounting Concepts No. 1 (1978), one important objective of financial reporting is to provide information that is useful to potential investors in making rational investment decisions and in assessing the expected firm cash flows. Affiliated donations may impair the monitoring role of the board of directors, and such firms may be more likely to manage earnings and have lower financial reporting quality. Various measures for financial reporting quality have been used in the literature and there is no consensus on which measure is the best (Dechow, Ge, and Schrand 2010). Therefore, we use three measures of financial reporting quality to investigate the effect of affiliated donations.

Our first measure of reporting quality is accruals quality (*AQ*, Biddle et al. 2009; Beatty et al. 2010), which was derived by Dechow and Dichev (2002) and modified by Wysocki (2008). Accruals can improve the informativeness of earnings by smoothing out transitory fluctuations in cash flows, and it has been used extensively in the prior literature. More specifically, *AQ* is calculated as the ratio of the standard deviation of the residuals from the simpler model to that derived from the full model of accruals quality. The simpler model is a regression of working capital accruals on current cash flows. The full model is a regression of working capital accruals on lagged, current, and future cash flows. We then compute the standard deviation of the residuals of each model during the years from t-5 to t-1. A greater *AQ* indicates higher financial reporting quality.

Our second measure of reporting quality is opacity (*Opacity*). The definition of *Opacity* follows Billett and Yu (2016). Specifically, for each Fama-French 49 industry with at least 20 firms in a given year, we run five separate regressions for each of year t-4 to year t. In each regression, total current accruals of a firm is regressed on 1) lagged, current, and leading cash flows from operations; 2) change in sales; and 3) property, plant, and equipment. Total current accruals equals change in current assets minus change in current liabilities minus change in cash and short-term investments plus change in current debt. For each firm-year, opacity is the standard deviation computed across the residuals of total current accruals from the five industry-year regressions. A greater *Opacity* indicates lower financial reporting quality.

Our third measure of reporting quality is an indicator of whether the firm meets or beats analyst consensus forecast on earnings by one cent (*JustMorB*). There is ample evidence that earnings are likely to be managed when firms meet or just beat analyst forecast (Dhaliwal et al. 2004; Cheng and Warfield 2005; Ayers et al. 2006; McVay 2006). We follow the literature and

define *JustMorB* as an indicator variable that equals one if the firm's reported earnings per I/B/E/S equals or exceeds consensus analyst forecasts by one cent, and zero otherwise. *JustMorB* is more likely to be one for firms with lower financial reporting quality.

Table 8 presents the results of regressing the three proxies of financial reporting quality on affiliated donations. The dependent variable in Panel A is *AQ*. In Column 1, we regress *AQ* on *D(Affiliated donation)*, controlling for *D(Unaffiliated donation)* and other determinants of accrual quality. The coefficient of the indicator *D(Affiliated donation)* is negative but not statistically significant. In Column 2, we separate affiliated donations into two categories: donations to charities affiliated with some members of the audit committee, and donations to charities affiliated with directors not serving on the audit committee. Because directors on audit committee are in charge of monitoring financial reporting procedures, we expect the negative relation between financial reporting quality and affiliated donations to be more pronounced when the firm makes donations to charities affiliated with audit committee members. We find consistent results, as the coefficient of *D(Affiliated donation related to audit committee)* is negative and significant at the 5% level, while the coefficient on *D(Affiliated donation unrelated to audit committee)* is not statistically different from zero. The economic magnitude is also large given the sample mean *AQ* of 2.93, suggesting that making donations to audit committee-affiliated charities is associated with a decrease of 12.5% (= 0.365/2.93) in accruals quality.

In Column 3, we further separate donations affiliated with audit committees into those related to audit committee chairs and those related other audit committee members. We find that the coefficient on *D(Affiliated donation related to audit committee chair)* is negative and significant at the 5% level, while the coefficient on *D(Affiliated donation related to audit committee member)* is also negative but not statistically significant. If companies make affiliated

donations to audit committees, we expect the negative effect on financial reporting quality to be stronger when they make affiliated donations to multiple audit committee members or to a larger fraction of committee members. We test these conjectures and find consistent evidence as the coefficients on *D(# of affiliated audit committee >= 2)* in Column 4 and *D(Above median % of affiliated audit committee)* in Column 5 are negative and significant at the 5% level for both specifications.

We run similar regressions in Panel B and Panel C where the dependent variables are *Opacity* and *JustMorB*. These alternative reporting quality measures give us mostly consistent results. Overall, we find lower financial reporting quality in firms that make affiliated donations to audit committee, especially when this affiliated donation is related to audit committee chairs, to multiple audit committee members, or to a larger fraction of the committee. These findings are consistent with our hypothesis that affiliated donations compromise the independence of conventionally independent directors and impair their monitoring incentives.

6.2. Forced CEO turnover

We next examine the effect of affiliated donations on the link between forced CEO turnover and firm performance. If affiliated donations are made (or approved) by the CEO to cultivate relationship with independent directors, we expect such practices to weaken the forced CEO turnover-to-performance sensitivity. We define forced turnover following Parrino (1997) and regress it on stock return and control variables. While stock return should be negatively related to CEO forced turnover absent affiliated donations, we predict that such a negative relation should be weaker at firms making affiliated donations.

Table 9 summarizes the regression results. In Panel A, we compare firms making affiliated donations with those not making such donations. Column 1 shows that when there are

no affiliated donations (there are either unaffiliated donations or no donations), forced CEO turnover is significantly and negatively associated with both contemporaneous and lagged stock returns. In contrast, forced CEO turnover is not significantly related to contemporaneous stock return when affiliated donations are made. The difference in the contemporaneous turnover-to-performance sensitivity between firms with and without affiliated donations is marginally significant (*p*-value=0.13). The turnover-to-lagged performance sensitivity is significant for both groups of firms but the difference between the two is not statistically significant (*p*-value=0.84). Thus, it seems that affiliated donations reduce the likelihood that a CEO is fired immediately for poor performance, although they do not significantly alter the likelihood that the CEO gets fired for past poor performance.[6]

We then contrast firms making "less intense" affiliated donations and those making "more intense" affiliated donations. A firm is classified as making "less intense" affiliated donations if it makes donations to charities affiliated with fewer than three independent directors, and classified as making "more intense" affiliated donations if it makes donations to charities affiliated with three or more independent directors. The results in Columns 1 and 2 of Table 9, Panel B show a significant difference in the CEO forced turnover-to-performance sensitivity for both contemporaneous and lagged performance. That is, when there are three or more affiliated directors on the board, the CEO is not fired for current or past poor performance. The same results obtain when we classify "less intense" and "more intense" affiliated donations based on the sample median fraction of affiliated directors (see Columns 3 and 4). This result is consistent

[6] In untabulated tests, we analyze the effect of affiliated donations on forced CEO turnover based on whether the affiliated director is on the compensation, audit, governance, or nomination committees of the board. We find no significant contemporaneous CEO turnover-to-performance sensitivity in any of the subsamples. The sensitivity of CEO turnover-to-lagged performance is only statistically significant in the audit committee subsample. Thus, it seems that a joint force among all committees of the board makes the CEO firing decision.

with the literature on the importance of a critical mass (three or more directors) on a corporate board on board decisions (Schwartz-Ziv 2016).[7]

Overall, the results on forced CEO turnover suggest that affiliated donations are associated with lower CEO turnover-to-performance sensitivity. When a firm makes donations affiliated with independent directors, the CEO is less likely to be fired immediately for poor performance. The CEO is also less likely to be fired for last year's poor performance if the firm makes charitable donations affiliated with three or more board members, or with a large fraction of the board.

7. Conclusion

This paper shows that corporate charitable contributions to independent directors-affiliated charities are associated with less effective monitoring and are suggestive of an agency problem. It contributes to the literature of corporate governance by uncovering a new determinant of director independence, incremental to those identified based on business transactions and social connections.

[7] There seems to be a difference in the CEO turnover-to-performance sensitivity between firms not making affiliated donations (Panel A, Column 1) and those making "less intense" affiliated donations. We check the statistical significance of these differences, but do not find systematic evidence supporting a significant difference (*p*-values range from 0.13 to 0.86).

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Appendix. Variable Definitions

Donation variables:	
D(Affiliated donation)	Indicator that takes the value of 1 if a firm makes at least one donation to a charity affiliated with an independent director of the firm in the year, and 0 otherwise.
Ln(1+ Affiliated donation in $thousand)	Logarithm of 1 plus all donations in a firm-year made to charities affiliated with independent directors of the firm, in thousands of dollars.
D(Affiliate donation related to compensation committee)	Indicator that takes the value of 1 if a firm makes at least one donation to a charity affiliated with an independent director of the firm who serves on the compensation committee in the year, and 0 otherwise.
D(Donation made to compensation committee-chair-affiliated charity)	Indicator that takes the value of 1 if a firm makes at least one donation to a charity affiliated with the chair of the compensation committee, and 0 otherwise.
D(Donation made to compensation committee-member-affiliated charity)	Indicator that takes the value of 1 if a firm makes at least one donation to a charity affiliated with a non-chair member of the compensation committee, and 0 otherwise.
D(# of affiliated comp. committee >= 2)	Indicator that takes the value of 1 if a firm makes donations to charities affiliated with 2 or more members of the compensation committee, and 0 otherwise.
D(# of affiliated comp. committee = 1)	Indicator that takes the value of 1 if a firm makes donations to charities affiliated with only 1 member of the compensation committee, and 0 otherwise.
D(Above median % of affiliated comp. committee)	Indicator that takes the value of 1 if the fraction of independent directors on the compensation committee whose affiliated charities receive the firm's donations exceeds or equals the sample median, and 0 otherwise.
D(Below median % of affiliated comp. committee)	Indicator that takes the value of 1 if the fraction of independent directors on the compensation committee whose affiliated charities receive the firm's donations is less than the sample median, and 0 otherwise.
D(Affiliate donation unrelated to comp. committee)	Indicator that takes the value of 1 if a firm makes at least one donation to a charity affiliated with an independent director of the firm who does not serve on the compensation committee in the year, and 0 otherwise.
D(Affiliated donation related to audit committee)	Indicator that takes the value of 1 if a firm makes at least one donation to a charity affiliated with an independent director of the firm who serves on the audit committee in the year, and 0 otherwise.
D(Donation made to audit committee-chair-affiliated charity)	Indicator that takes the value of 1 if a firm makes at least one donation to a charity affiliated with the chair of the audit committee, and 0 otherwise.
D(Donation made to audit committee-member-affiliated charity)	Indicator that takes the value of 1 if a firm makes at least one donation to a charity affiliated with a non-chair member of the audit committee, and 0 otherwise.
D(# of affiliated audit committee >= 2)	Indicator that takes the value of 1 if a firm makes donations to charities affiliated with 2 or more members of the audit committee, and 0 otherwise.
D(# of affiliated audit committee = 1)	Indicator that takes the value of 1 if a firm makes donations to charities affiliated with only 1 member of the audit committee, and 0 otherwise.
D(Above median % of affiliated audit committee)	Indicator that takes the value of 1 if the fraction of independent directors on the audit committee whose affiliated charities receive the

	firm's donations exceeds or equals the sample median, and 0 otherwise.
D(Below median % of affiliated audit committee)	Indicator that takes the value of 1 if the fraction of independent directors on the audit committee whose affiliated charities receive the firm's donations is less than the sample median, and 0 otherwise.
D(Affiliated donation unrelated to audit committee)	Indicator that takes the value of 1 if a firm makes at least one donation to a charity affiliated with an independent director of the firm who does not serve on the audit committee in the year, and 0 otherwise.
D(Unaffiliated donation)	Indicator that takes the value of 1 if a firm makes donations to charities unaffiliated with any independent directors of the firm in the year, and 0 otherwise.
CEO compensation, financial reporting quality, and forced CEO turnover:	
Total pay	Total direct annual compensation (ExecuComp variable *TDC1*) in thousands of dollars.
Portfolio delta	Sensitivity of the total value of stock and options held by an executive to a 1% change in firm stock price in millions of dollars. This variable is estimated using the approximation algorithm developed by Core and Guay (2002).
AQ	A modified version of the Dechow and Dichev (2002) accruals quality measure as proposed by Wysocki (2008). It equals the ratio of the standard deviation of the residuals from the simpler accruals quality model to the full model (i.e., STD (Resid1)/STD (Resid2)). The simpler model is a regression of working capital accruals on current cash flows. The full model is a regression of working capital accruals on lagged, current, and future cash flows. We then compute the standard deviation of the residuals of each model during the years *t-5* to *t-1*.
Opacity	For each Fama-French 49 industry with at least 20 firms in a given year, we run five separate regressions for each of year *t-4* to year *t*. In each regression, total current accruals of a firm is regressed on 1) lagged, contemporaneous, and leading cash flows from operations; 2) change in sales; and 3) property, plant, and equipment. Total current accruals equals change in current assets minus change in current liabilities minus change in cash and short-term investments plus change in current debt. For each firm-year, opacity is the standard deviation computed across the residuals of total current accruals from the five industry-year regressions. The definition follows Billett and Yu (2016).
JustMorB	Indicator that takes the value of 1 if the firm's annual reported earnings per I/B/E/S equals or exceeds consensus analyst forecasts by one cent, and zero otherwise.
D(Forced CEO turnover)	Indicator that takes the value of 1 if the CEO is fired from the firm in the year, and 0 otherwise. We thank Ted Fee, Charlie Hadlock, and Kai Li for providing the data on forced turnover. Whether a CEO is forced out is determined based on Parrino (1997) and Jenter and Kanaan (2015). For more details about the turnover data, see Fee and Hadlock (2003), Gao, Harford, and Li (2015), Jenter and Kanaan (2015), and Peters and Wagner (2014).
Firm financials:	
Ln(Assets)	Logarithm of total book assets. Total book assets are in millions of dollars.
Stock return	Annual stock return as reported in ExecuComp.

ROA	Operating income before depreciation, divided by total book assets.
M/B	The sum of the market value of equity and total book assets minus total common equity, all divided by total book assets. The market value of equity is the fiscal year end stock price multiplied by total number of shares outstanding.
Stock return volatility	The standard deviation of daily stock returns in each year.
Debt/Assets	The sum of long-term debt and debt in current liabilities divided by total book assets.
R&D/Assets	Research and development expenditure divided by total book assets.
A&D/Assets	Advertisement expenditure divided by total book assets.
Loss	Indicator that takes the value of 1 if the revenue is negative is any of the previous three years, and 0 otherwise.
Corporate governance:	
D(CEO serving as Chairman)	Indicator that takes the value of 1 if the CEO is the Chairman of the board, and 0 otherwise.
CEO tenure	Number of years elapsed since the CEO became CEO of the firm.
CEO ownership	Ownership of the CEO in percentage.
Board size	The total number of members on the board.
Board independence	The percentage of independent board members. Independent directors are directors that are not affiliated with the company according to the RiskMetrics (formerly IRRC) definition.
No. of analysts	Number of analysts covering the firm.
D(Independent director is socially connected to the CEO)	Indicator that takes the value of 1 if any independent director is connected to the CEO through prior work (for profit or non-profit) or education, and 0 otherwise.
D(Above median fraction of co-opted directors)	Indicator that takes the value of 1 if the fraction of co-opted directors is above median, and 0 otherwise. A director is co-opted if she is hired after the current CEO takes position.
Top five institutions' ownership	Total ownership by the top five institutions with the most holdings of the firm.
Director pay	Average director pay at a firm in a given year.

Note: All variables (except indicators) are winsorized at the 1st and 99th percentiles.

Table 1. Summary statistics of director charity donation variables

The sample consists of all S&P500 firms in years 2003–2012 excluding foreign firms. Panel A tabulates the distributions by year of the firm-year observations, the observations in the FDO database, and the dollar amount of affiliated donations. Panel B tabulates the distribution by industry. Panel C provides additional summary statistics for affiliated donations and for all donations (affiliated or unaffiliated).

Panel A. Distribution and summary statistics of affiliated donations by year

			Amount of affiliated donation conditional on affiliated donation is made			
Year	# Firms	# Firms with affiliated donation	Mean	*P*25	Median	*P*75
2003	380	86	$2,009,313	$182,588	$697,160	$1,528,240
2004	396	95	$1,387,326	$107,000	$512,447	$1,778,710
2005	410	112	$1,271,826	$51,250	$387,500	$1,482,736
2006	433	113	$1,206,439	$52,000	$437,250	$1,278,000
2007	451	121	$1,095,258	$74,680	$289,000	$1,086,865
2008	447	104	$1,610,320	$103,600	$334,837	$1,566,350
2009	453	104	$1,334,589	$50,000	$359,000	$1,205,607
2010	459	108	$1,700,290	$81,750	$346,695	$1,373,878
2011	463	100	$2,697,679	$77,751	$461,250	$1,605,510
2012	464	77	$1,758,369	$130,985	$494,150	$1,175,450
Total	4,356	1,020	$1,579,372	$79,750	$427,000	$1,431,375

Panel B. Distribution by industry

Industry	# Obs	# Obs with affiliated donation	% with affiliated donation
Finance	733	250	34%
Manufacturing -- Machinery, Trucks, Planes, Off. Furn., Paper, Com. Printing	422	142	34%
Consumer Durables -- Cars, TV's, Furniture, Household Appliances	71	21	30%
Telephone and Television Transmission	130	37	28%
Healthcare, Medical Equipment, and Drugs	321	90	28%
Utilities	331	89	27%
Consumer NonDurables -- Food, Tobacco, Textiles, Apparel, Leather, Toys	334	83	25%
Chemicals and Allied Products	161	39	24%
Wholesale, Retail, and Some Services (Laundries, Repair Shops)	473	94	20%
Other -- Mines, Constr., Bld. Mt., Trans., Hotels, Bus. Serv., Entertainment	437	86	20%
Oil, Gas, and Coal Extraction and Products	257	32	12%
Business Equipment -- Computers, Software, and Electronic Equipment	686	57	8%
Total	4,356	1,020	23%

Panel C. Affiliated donations versus general donations

	Full sample			
	# Obs	Mean	Med	STD
Decision to make donation:				
Affiliated donation	4,356	0.234	0	0.424
All donation	4,356	0.355	0	0.479
Amount of donation ($million):				
Affiliated donation	4,356	0.298	0	1.090
All donation	4,356	3.954	0	13.942
Amount of donation ($million) conditional on donation is made:				
Affiliated donation	1,020	1.579	0.427	4.400
All donation	1,547	11.135	4.215	21.623

Table 2. CEO compensation and firm characteristics by whether affiliated donation is made

The sample consists of all S&P500 firms in years 2003–2012 excluding foreign firms. Panel A compares CEO compensation between firm-years without affiliated donations and those with such donations. Panel B compares firm financial variables. Panel C compares corporate governance variables. All variables are winsorized at the 1st and 99th percentiles.

Affiliated donation is made:	Yes			No			Yes minus No	
Variable	*N*	Mean	STD	*N*	Mean	STD	Diff	t-stat
Panel A. CEO compensation								
Ln(1+CEO total pay in $thousand)	1,020	9.083	0.884	3,336	8.717	1.104	0.366	10.89
CEO portfolio delta in $million	997	1.412	2.757	3,132	2.393	7.121	-0.981	-6.35
Panel B. Firm financials								
Ln(Assets)	1,020	9.893	0.988	3,335	8.996	1.162	0.897	24.29
Stock return	936	0.115	0.314	3,129	0.164	0.360	-0.049	-4.02
ROA	1,009	0.131	0.083	3,208	0.149	0.091	-0.018	-5.73
M/B	1,020	1.790	0.954	3,305	2.139	1.435	-0.350	-8.99
Stock return volatility	936	0.143	0.221	3,110	0.169	0.239	-0.025	-3.00
Debt/Assets	1,018	0.241	0.153	3,326	0.235	0.180	0.006	1.13
R&D/Assets	1,020	0.020	0.041	3,336	0.023	0.050	-0.004	-2.30
Panel C. Corporate governance								
D(CEO serving as Chairman)	1,020	0.477	0.500	3,336	0.355	0.478	0.123	6.94
CEO tenure	1,019	5.141	4.649	3,317	6.452	6.354	-1.310	-7.17
CEO ownership (%)	1,009	0.302	1.240	3,305	1.138	3.251	-0.836	-12.16
Board size	947	12.025	2.414	2,830	10.166	2.226	1.859	20.91
Board independence (conventional)	946	0.791	0.117	2,829	0.760	0.136	0.031	6.74
D(Independent director is socially connected to the CEO)	1,020	0.453	0.498	3,336	0.356	0.479	0.097	5.48
D(Above median fraction of co-opted directors)	1,020	0.403	0.491	3,336	0.515	0.500	-0.112	-6.35
Top five institutional ownership	946	0.227	0.079	3,020	0.257	0.093	-0.030	-9.86
Ln(1+Director pay in $thousand)	1,019	5.165	0.647	3,334	5.059	0.952	0.106	4.07

Table 3: Determinants of affiliated and unaffiliated donations

The decision to make affiliated donations takes the value of 1 in firm-years with affiliated donations, and 0 otherwise. The decision to make unaffiliated donations takes the value of 1 in firm-years making donations not affiliated with independent directors, and 0 otherwise. The amount of unaffiliated donation is the total amount of donations unaffiliated with independent directors for the firm-years making unaffiliated donations. Marginal effects of the coefficients are reported. All regressions include industry fixed effects and year fixed effects. Industries are Fama-French 12 industries. We report *t*-statistics based on heteroskedasticity robust standard errors adjusted for firm clusters in the parentheses below the corresponding regression coefficients. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Regression model:	Probit		Tobit	
Dependent variable:	Decision to make donation		Amount of donation	
	Affiliated	Unaffiliated	Affiliated	Unaffiliated
D(CEO serving as	0.048	0.016	0.683*	0.764
Chairman)	(1.48)	(0.73)	(1.93)	(0.98)
CEO tenure	0.001	-0.002	0.027	-0.059
	(0.52)	(-1.22)	(0.98)	(-0.89)
CEO ownership	-0.023**	-0.006	-0.331***	-0.164
	(-2.51)	(-1.52)	(-2.95)	(-1.17)
Board size	0.030***	-0.004	0.288***	-0.122
	(4.63)	(-0.87)	(3.85)	(-0.73)
Board independence	0.117	0.181	-1.693	6.373
	(0.62)	(1.51)	(-0.83)	(1.33)
D(Independent director is socially	0.032	0.015	0.501*	0.344
connected to the CEO)	(1.27)	(0.92)	(1.78)	(0.59)
D(Above median fraction of co-opted	-0.066***	0.008	-0.695**	0.408
directors)	(-2.75)	(0.53)	(-2.32)	(0.71)
Ln(1+Director pay in $thousand)	0.017	0.000	0.107	-0.093
	(1.20)	(0.05)	(0.71)	(-0.30)
Top five institutional ownership	-0.233	-0.087	-3.546*	-2.921
	(-1.53)	(-0.85)	(-1.95)	(-0.76)
Ln(Assets)	0.099***	0.027**	1.440***	1.501**
	(5.19)	(2.50)	(6.36)	(2.33)
Stock return	0.004	-0.013	-0.035	-0.983
	(0.15)	(-0.60)	(-0.12)	(-1.17)
ROA	0.558**	0.238*	6.409**	14.996*
	(2.39)	(1.96)	(2.35)	(1.79)
M/B	-0.009	-0.004	-0.092	-0.176
	(-0.62)	(-0.31)	(-0.49)	(-0.36)
Stock return volatility	-0.019	-0.041	0.075	-0.835
	(-0.33)	(-0.67)	(0.12)	(-0.37)
Debt/Assets	0.086	0.044	2.249**	1.400
	(0.97)	(0.71)	(2.11)	(0.63)
R&D/Assets	0.923***	-0.001	12.724***	4.492
	(2.64)	(-0.01)	(3.19)	(0.53)
Industry FEs	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Number of observations	3,402	3,402	3,402	3,402
Pseudo R^2	0.210	0.068	0.122	0.038

Table 4. Effect of affiliated donations on CEO compensation

Total pay is annual direct compensation for the CEO (*TDC1* in ExecuComp) in thousands of dollars. Portfolio Delta is in millions of dollars. All regressions include industry fixed effects and year fixed effects. Industries are Fama-French 12 industries. All regressions in Panel B include the same firm and CEO control variables as in Panel A. We report *t*-statistics based on heteroskedasticity robust standard errors adjusted for firm clusters in the parentheses below the corresponding regression coefficients. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Propensity and size of affiliated donations

Dependent variable:	Ln(1+Total pay)		Portfolio Delta	
	(1)	(2)	(3)	(4)
D(Affiliated donation)	0.099*		-0.500**	
	(1.92)		(-2.14)	
Ln(1+ Affiliated donation in $thousand)		0.018*		-0.105**
		(1.96)		(-2.38)
Ln(Assets)	0.300***	0.297***	1.687***	1.717***
	(3.80)	(3.69)	(4.51)	(4.50)
Stock return	0.047	0.047	0.072	0.070
	(0.33)	(0.33)	(0.28)	(0.28)
Lagged stock return	0.207	0.208	-0.234	-0.242
	(1.48)	(1.49)	(-0.77)	(-0.79)
ROA	0.549	0.556	3.728	3.710
	(1.32)	(1.34)	(1.36)	(1.36)
Lagged dROA	0.275	0.284	-3.720**	-3.771**
	(0.80)	(0.83)	(-2.43)	(-2.47)
M/B	0.061*	0.059*	0.801***	0.814***
	(1.74)	(1.67)	(4.46)	(4.48)
Stock return volatility	-0.209	-0.207	-0.750**	-0.762**
	(-1.41)	(-1.39)	(-2.05)	(-2.09)
Debt/Assets	0.138	0.131	-1.487*	-1.439*
	(0.77)	(0.73)	(-1.94)	(-1.89)
D(CEO serving as Chairman)	0.241***	0.240***	-0.520	-0.513
	(2.82)	(2.82)	(-1.32)	(-1.31)
CEO tenure	0.004	0.003	0.043	0.043
	(0.35)	(0.35)	(0.99)	(1.00)
CEO ownership	-0.037	-0.037	1.777***	1.775***
	(-1.40)	(-1.39)	(8.40)	(8.42)
Board size	0.027	0.026	0.009	0.014
	(1.38)	(1.37)	(0.15)	(0.22)
Board independence	0.004	0.020	1.656	1.581
	(0.01)	(0.05)	(0.90)	(0.86)
D(Independent director is socially connected to the CEO)	0.007	0.006	-0.149	-0.143
	(0.13)	(0.12)	(-0.66)	(-0.64)
D(Above median fraction of co-opted directors)	-0.033	-0.032	0.143	0.137
	(-0.60)	(-0.59)	(0.51)	(0.49)
Top five institutional ownership	0.370	0.380	-1.120	-1.193
	(1.17)	(1.20)	(-0.83)	(-0.88)
Industry FEs	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Number of observations	3,386	3,386	3,286	3,286
Adjusted R^2	0.203	0.203	0.667	0.668

Panel B. Different types of donations

Dependent variable:	Ln(1+Total pay)				Portfolio Delta			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
D(Affiliated donation related to	0.115*				-0.612**			
compensation committee)	(1.78)				(-2.44)			
D(Donation made to compensation		0.163**				-0.671**		
committee-chair-affiliated charity)		(2.15)				(-1.99)		
D(Donation made to compensation		0.082				-0.570**		
committee-member-affiliated charity)		(1.06)				(-2.44)		
D(# of affiliated comp committee >= 2)			0.159**				-0.730***	
			(2.43)				(-2.59)	
D(# of affiliated comp committee = 1)			0.060				-0.462*	
			(0.74)				(-1.84)	
D(Above median % of affiliated				0.152**				-0.756**
comp committee)				(2.27)				(-2.53)
D(Below median % of affiliated				0.078				-0.466**
comp committee)				(1.01)				(-1.98)
D(Affiliated donation unrelated to	0.107	0.107	0.108	0.108	-0.220	-0.219	-0.222	-0.221
compensation committee)	(1.30)	(1.29)	(1.31)	(1.30)	(-0.94)	(-0.94)	(-0.95)	(-0.95)
D(Unaffiliated donation)	0.056	0.056	0.057	0.057	-0.027	-0.027	-0.030	-0.030
	(0.85)	(0.85)	(0.87)	(0.86)	(-0.15)	(-0.15)	(-0.17)	(-0.17)
Firm and CEO controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	3,386	3,386	3,386	3,386	3,286	3,286	3,286	3,286
Adjusted R^2	0.203	0.203	0.203	0.203	0.667	0.667	0.667	0.668

Table 5. Effect of affiliated donations on CEO compensation, director fixed effects specification

The sample includes directors that sit on two boards in a given year where D(Affiliated donation) equals 1 in one board and equals 0 in another board. Portfolio Delta is in $million. All regressions include industry fixed effects, year fixed effects, and director fixed effects. Industries are Fama-French 12 industries. We report *t*-statistics based on heteroskedasticity robust standard errors adjusted for firm clusters in the parentheses below the corresponding regression coefficients. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable:	Ln(1+Total pay)	Portfolio Delta
	(1)	(2)
D(Affiliated donation)	0.081*	-0.519*
	(1.95)	(-1.81)
Ln(Assets)	0.293***	2.083***
	(6.52)	(3.70)
Stock return	0.182*	0.511
	(1.89)	(1.25)
Lagged stock return	0.364***	0.265
	(3.90)	(0.71)
ROA	-0.350	8.642**
	(-0.71)	(2.43)
Lagged dROA	0.132	-4.883
	(0.28)	(-1.56)
M/B	0.126**	0.831**
	(2.51)	(2.52)
Stock return volatility	-0.880	-0.022
	(-1.64)	(-0.04)
Debt/Assets	0.077	-1.193
	(0.37)	(-0.80)
D(CEO serving as Chairman)	0.064	-0.733
	(0.87)	(-1.61)
CEO tenure	0.005	0.064
	(0.39)	(1.31)
CEO ownership	0.006	2.029***
	(0.27)	(7.96)
Board size	0.013	-0.241
	(0.86)	(-1.51)
Board independence	0.246	0.138
	(0.47)	(0.04)
D(Independent director is socially	0.151**	-0.288
connected to the CEO)	(2.16)	(-0.72)
D(Above median fraction of	0.011	0.063
co-opted directors)	(0.19)	(0.16)
Top five institutional ownership	0.333	2.059
	(1.00)	(1.21)
Industry FEs	Yes	Yes
Year FEs	Yes	Yes
Director FEs	Yes	Yes
Number of observations	1,750	1,729
Adjusted R^2	0.497	0.732

Table 6. Effect of affiliated donations on CEO compensation, subsamples by corporate governance

The table reports regression coefficients on D(Affiliated donation) of Ln(1+CEO total pay) and portfolio delta in subsamples sorted on various corporate governance measures. CEO total pay is in thousands of dollars and portfolio delta in millions of dollars. All regressions use the same specifications as in Table 4, Panel A excluding the sorting variable. Industries are Fama-French 12 industries. We report *t*-statistics of the coefficients based on heteroskedasticity robust standard errors adjusted for firm clusters in the parentheses below the corresponding regression coefficients. ***, **, and * beside the coefficients denote statistical significance at the 1%, 5%, and 10% levels, respectively. For each dependent variable and in each panel, the superscripts a, b, and c beside the *t*-statistic denote statistical significance of the difference in coefficients between the two subsamples at the 1%, 5%, and 10% levels, respectively.

Dependent variable:	Ln(1+Total pay)	Portfolio Delta	Ln(1+Total pay)	Portfolio Delta
Panel A: Subsample by conventional board independence				
	Below median		Above median	
D(Affiliated donation)	0.207**	-0.952**	0.023	-0.098
	(2.00)	(-2.12)	(0.48) [a]	(-0.71) [a]
Panel B: Subsample by board independence corrected for social connections				
	Below median		Above median	
D(Affiliated donation)	0.122*	-0.959**	0.058	-0.145
	(1.73)	(-2.55)	(1.04)	(-0.83) [a]
Panel C: Subsample by board independence corrected for director co-option				
	<50%		>=50%	
D(Affiliated donation)	0.147**	-0.823**	0.028	-0.028
	(2.19)	(-2.21)	(0.52) [b]	(-0.38) [a]
Panel D: Subsample by fraction of busy directors among independent directors on the board				
	Above median		Below median	
D(Affiliated donation)	0.130**	-0.477*	0.029	-0.271*
	(2.23)	(-1.68)	(0.40) [c]	(-1.67)
Panel E: Subsample by board size				
	Above median		Below median	
D(Affiliated donation)	0.031	-0.153	0.242***	-0.646
	(0.51) [a]	(-1.07) [b]	(3.09)	(-1.41)
Panel F: Subsample by outside directors' ownership				
	Below median		Above median	
D(Affiliated donation)	0.132*	-0.656*	0.028	-0.310
	(1.94)	(-1.87)	(0.37) [c]	(-1.25) [c]
Panel G: Subsample by top five institutional ownership				
	Below median		Above median	
D(Affiliated donation)	0.127**	-0.532	0.031	-0.306
	(2.22)	(-1.56)	(0.42) [c]	(-1.53)
Panel H: Subsample by CEO tenure				
	Above median		Below median	
D(Affiliated donation)	0.177***	-0.566*	0.010	-0.240
	(2.84)	(-1.86)	(0.18) [a]	(-1.17) [c]

Table 7. Board independence redefined and its relation to CEO compensation

CEO total pay is in thousands of dollars and portfolio delta in millions of dollars. Board independence is the fraction of independent directors following various definitions. All regressions include industry fixed effects and year fixed effects. Industries are Fama-French 12 industries. All regressions include the same firm and CEO control variables as in Table 4, Panel A, although their coefficients are omitted. We report *t*-statistics based on heteroskedasticity robust standard errors adjusted for firm clusters in the parentheses below the corresponding regression coefficients. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable:	Ln(1+Total pay)					Portfolio delta				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Board independence, conventional	0.002				0.075	1.619				0.051
	(0.00)				(0.17)	(0.86)				(0.02)
Board independence, social		0.174			0.228		0.637			0.313
connections excluded		(1.09)			(1.45)		(1.02)			(0.43)
Board independence, co-opted			0.009		-0.015			-0.117		-0.152
directors excluded			(0.08)		(-0.13)			(-0.23)		(-0.29)
Board independence, affiliated				-0.223	-0.276**				1.417**	1.353**
donations excluded				(-1.64)	(-1.98)				(2.11)	(2.04)
Firm and CEO controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	3,386	3,386	3,386	3,386	3,386	3,286	3,286	3,286	3,286	3,286
Adjusted R^2	0.202	0.202	0.202	0.203	0.203	0.666	0.666	0.666	0.668	0.667

Table 8. Effect of affiliated donations on financial reporting quality

Panels A and B report the OLS regressions of affiliated donations on *AQ* and *Opacity*, respectively. Panel C reports the marginal effects from the probit regressions of affiliated donations on *JustMorB*. *AQ* is the accrual quality measure derived by Dechow and Dichev (2002) and modified by Wysocki (2008). *Opacity* is the information opacity proxy from Billett and Yu (2015). *JustMorB* is an indicator variable which equals one if the EPS meet or beat analyst consensus by one cent, and zero otherwise (Cheng and Warfield 2005). All regressions include industry fixed effects and year fixed effects. Industries are Fama-French 12 industries. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Dependent variable = AQ

	(1)	(2)	(3)	(4)	(5)
D(Affiliated donation)	-0.232				
	(-1.277)				
D(Affiliated donation related to audit committee)		-0.365**			
		(-2.515)			
D(Affiliated donation related to audit committee chair)			-0.302**		
			(-2.334)		
D(Affiliated donation related to audit committee member)			-0.410		
			(-1.508)		
D(# of affiliated audit committee >= 2)				-0.545**	
				(-2.558)	
D(# of affiliated audit committee = 1)				-0.178	
				(-1.394)	
D(Above median % of affiliated audit committee)					-0.573**
					(-2.561)
D(Below median % of affiliated audit committee)					-0.184
					(-1.138)
D(Affiliated donation unrelated to audit committee)		0.078	0.078	0.071	0.072
		(0.260)	(0.258)	(0.236)	(0.238)
D(Unaffiliated donation)	-0.168	-0.171	-0.171	-0.176	-0.176
	(-1.366)	(-1.412)	(-1.412)	(-1.447)	(-1.453)
Ln(Assets)	-0.039	-0.026	-0.028	-0.020	-0.019
	(-0.609)	(-0.412)	(-0.437)	(-0.311)	(-0.301)
M/B	-0.044	-0.039	-0.039	-0.040	-0.040
	(-0.394)	(-0.350)	(-0.350)	(-0.361)	(-0.360)
ROA	1.212	1.272	1.270	1.284	1.280
	(0.706)	(0.741)	(0.743)	(0.746)	(0.743)
Debt/Assets	0.493	0.517	0.519	0.532	0.525
	(0.628)	(0.667)	(0.670)	(0.683)	(0.676)
R&D/Assets	-5.807***	-5.767***	-5.766***	-5.669***	-5.668***
	(-4.886)	(-4.677)	(-4.731)	(-4.462)	(-4.517)
A&D/Assets	1.653	1.386	1.398	1.468	1.476
	(0.425)	(0.353)	(0.356)	(0.374)	(0.375)
Loss	-0.340	-0.341	-0.340	-0.348	-0.349
	(-1.321)	(-1.335)	(-1.313)	(-1.368)	(-1.361)
Ln(No. of analysts)	-0.136	-0.141	-0.140	-0.140	-0.141
	(-0.970)	(-1.001)	(-0.994)	(-0.995)	(-1.000)
Board size	0.024	0.022	0.022	0.023	0.022
	(0.930)	(0.862)	(0.861)	(0.868)	(0.838)
Board independence	-0.687	-0.716	-0.715	-0.715	-0.719
	(-0.460)	(-0.484)	(-0.484)	(-0.482)	(-0.484)
D(Independent director is socially connected to the CEO)	-0.071	-0.064	-0.063	-0.060	-0.060
	(-0.286)	(-0.256)	(-0.254)	(-0.241)	(-0.240)
D(Above median fraction of co-opted directors)	-0.172	-0.177	-0.178	-0.171	-0.168
	(-1.537)	(-1.571)	(-1.590)	(-1.505)	(-1.497)
Top five institutional ownership	0.233	0.234	0.228	0.206	0.208
	(0.224)	(0.228)	(0.225)	(0.204)	(0.203)
Constant	2.246**	2.167**	2.174**	2.107**	2.112**
	(2.941)	(2.729)	(2.676)	(2.722)	(2.732)
Industry FEs	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes
Observations	3,524	3,524	3,524	3,524	3,524
Adjusted R-squared	0.132	0.133	0.133	0.133	0.133

Panel B: Dependent variable = Opacity

	(1)	(2)	(3)	(4)	(5)
D(Affiliated donation)	0.002*				
	(2.106)				
D(Affiliated donation related to audit committee)		0.003**			
		(2.645)			
D(Affiliated donation related to audit committee chair)			0.003		
			(1.665)		
D(Affiliated donation related to audit committee member)			0.003*		
			(1.851)		
D(# of affiliated audit committee >= 2)				0.004*	
				(2.087)	
D(# of affiliated audit committee = 1)				0.002	
				(1.328)	
D(Above median % of affiliated audit committee)					0.004*
					(2.226)
D(Below median % of affiliated audit committee)					0.003
					(1.683)
D(Affiliated donation unrelated to audit committee)		0.001	0.001	0.001	0.001
		(0.294)	(0.295)	(0.302)	(0.301)
D(Unaffiliated donation)	-0.001	-0.001	-0.001	-0.001	-0.001
	(-1.054)	(-1.037)	(-1.038)	(-1.025)	(-1.029)
Ln(Assets)	-0.002**	-0.002**	-0.002**	-0.002**	-0.002**
	(-2.660)	(-2.781)	(-2.841)	(-2.974)	(-2.971)
M/B	-0.000	-0.000	-0.000	-0.000	-0.000
	(-0.528)	(-0.570)	(-0.570)	(-0.558)	(-0.562)
ROA	0.021*	0.020*	0.020*	0.020*	0.020*
	(2.199)	(2.175)	(2.173)	(2.155)	(2.166)
Debt/Assets	-0.005	-0.005	-0.005	-0.005	-0.005
	(-0.822)	(-0.845)	(-0.854)	(-0.853)	(-0.850)
R&D/Assets	0.088*	0.088*	0.088*	0.088*	0.088*
	(1.831)	(1.832)	(1.832)	(1.826)	(1.829)
A&D/Assets	0.044	0.045	0.045	0.045	0.045
	(1.101)	(1.158)	(1.160)	(1.152)	(1.149)
Loss	0.009***	0.009***	0.009***	0.009***	0.009***
	(3.974)	(3.986)	(3.987)	(3.963)	(3.984)
Ln(No. of analysts)	-0.001**	-0.001**	-0.001**	-0.001**	-0.001**
	(-2.649)	(-2.674)	(-2.699)	(-2.696)	(-2.691)
Board size	-0.000	-0.000	-0.000	-0.000	-0.000
	(-1.472)	(-1.427)	(-1.429)	(-1.406)	(-1.404)
Board independence	0.010	0.010	0.010	0.010	0.010
	(1.211)	(1.226)	(1.228)	(1.232)	(1.232)
D(Independent director is socially connected to the CEO)	-0.001	-0.001	-0.001	-0.001	-0.001
	(-0.361)	(-0.372)	(-0.376)	(-0.375)	(-0.377)
D(Above median fraction of co-opted directors)	0.000	0.000	0.000	0.000	0.000
	(0.165)	(0.183)	(0.185)	(0.168)	(0.161)
Top five institutional ownership	0.009	0.009	0.009	0.009	0.009
	(1.113)	(1.111)	(1.112)	(1.117)	(1.117)
Constant	0.051***	0.052***	0.051***	0.052***	0.052***
	(4.813)	(4.846)	(4.882)	(5.013)	(4.974)
Industry FEs	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes
Observations	3,331	3,331	3,331	3,331	3,331
Adjusted R-squared	0.106	0.106	0.106	0.106	0.106

Panel C: Dependent variable = JustMorB

	(1)	(2)	(3)	(4)	(5)
D(Affiliated donation)	0.009				
	(0.450)				
D(Affiliated donation related to audit committee)		0.022			
		(0.916)			
D(Affiliated donation related to audit committee chair)			0.082***		
			(2.884)		
D(Affiliated donation related to audit committee member)			-0.017		
			(-0.599)		
D(# of affiliated audit committee >= 2)				0.056*	
				(1.852)	
D(# of affiliated audit committee = 1)				-0.011	
				(-0.379)	
D(Above median % of affiliated audit committee)					0.074**
					(2.328)
D(Below median % of affiliated audit committee)					-0.020
					(-0.714)
D(Affiliated donation unrelated to audit committee)		-0.019	-0.019	-0.018	-0.017
		(-0.703)	(-0.707)	(-0.647)	(-0.630)
D(Unaffiliated donation)	-0.013	-0.013	-0.012	-0.012	-0.011
	(-0.569)	(-0.559)	(-0.555)	(-0.521)	(-0.505)
Ln(Assets)	-0.008	-0.009	-0.010	-0.011	-0.011
	(-0.784)	(-0.932)	(-1.017)	(-1.073)	(-1.143)
M/B	0.028***	0.027***	0.027***	0.027***	0.027***
	(2.846)	(2.803)	(2.814)	(2.827)	(2.830)
ROA	-0.054	-0.058	-0.056	-0.062	-0.062
	(-0.319)	(-0.345)	(-0.333)	(-0.367)	(-0.366)
Debt/Assets	0.020	0.019	0.021	0.016	0.017
	(0.320)	(0.294)	(0.328)	(0.244)	(0.261)
R&D/Assets	-1.008***	-1.012***	-1.002***	-1.029***	-1.036***
	(-3.469)	(-3.479)	(-3.461)	(-3.544)	(-3.568)
A&D/Assets	-0.267	-0.236	-0.229	-0.247	-0.253
	(-0.666)	(-0.586)	(-0.569)	(-0.612)	(-0.627)
Loss	-0.064***	-0.064***	-0.063***	-0.062***	-0.062***
	(-2.965)	(-2.960)	(-2.918)	(-2.886)	(-2.852)
Ln(No. of analysts)	0.056***	0.057***	0.057***	0.056***	0.057***
	(2.700)	(2.773)	(2.774)	(2.739)	(2.750)
Board size	0.002	0.002	0.002	0.002	0.002
	(0.389)	(0.431)	(0.446)	(0.413)	(0.460)
Board independence	-0.003	0.000	0.002	0.001	0.002
	(-0.026)	(0.000)	(0.014)	(0.005)	(0.022)
D(Independent director is socially connected to the CEO)	0.015	0.014	0.015	0.013	0.013
	(0.896)	(0.847)	(0.902)	(0.805)	(0.802)
D(Above median fraction of co-opted directors)	-0.005	-0.004	-0.005	-0.005	-0.006
	(-0.306)	(-0.275)	(-0.312)	(-0.330)	(-0.397)
Top five institutional ownership	-0.078	-0.078	-0.083	-0.075	-0.074
	(-0.879)	(-0.872)	(-0.921)	(-0.836)	(-0.830)
Industry FEs	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes
Observations	3,174	3,174	3,174	3,174	3,174
Pseudo R-squared	0.0619	0.0626	0.0652	0.0638	0.0650

Table 9. Effect of affiliated donations on forced CEO turnover

The dependent variable is forced turnover, which is 1 if there is a forced turnover, and 0 if there is no turnover. Probit models are used and marginal effects of the coefficients are reported. All regressions include industry fixed effects and year fixed effects. Industries are Fama-French 12 industries. We report *t*-statistics based on heteroskedasticity robust standard errors adjusted for firm clusters in the parentheses below the corresponding regression coefficients. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A. affiliated donations vs. others

Subsample:	Affiliated donations	Unaffiliated donations or no donation
	(1)	(2)
Stock return	-0.005	-0.027***
	(-0.27)	(-3.05)
Lagged stock return	-0.055**	-0.032***
	(-2.14)	(-3.85)
Ln(Assets)	0.004	0.008***
	(0.46)	(3.30)
M/B	-0.019*	0.002
	(-1.86)	(1.13)
Stock return volatility	0.019	0.004
	(0.50)	(0.55)
Debt/Assets	-0.023	0.007
	(-0.44)	(0.52)
D(CEO serving as Chairman)	0.002	-0.005
	(0.13)	(-0.93)
CEO tenure	0.001	-0.001**
	(1.12)	(-2.23)
Industry FEs	Yes	Yes
Year FEs	Yes	Yes
Number of observations	885	2,962
Pseudo R^2	0.094	0.111
p-value (Col1=Col2) on:		
Stock return	0.13	
Lagged stock return	0.84	

Panel B. Intensity of affiliated donations

	# affiliated directors		% affiliated directors	
Subsample:	1 or 2	3 or more	Below median	Above median
	(1)	(2)	(3)	(4)
Stock return	-0.096*	0.046	-0.056	0.023
	(-1.92)	(1.13)	(-1.21)	(0.78)
Lagged stock return	-0.108*	-0.030	-0.136**	-0.018
	(-1.88)	(-0.64)	(-2.38)	(-0.59)
Ln(Assets)	0.014	-0.006	0.010	-0.005
	(0.80)	(-0.34)	(0.75)	(-0.51)
M/B	-0.014	-0.047**	-0.024	-0.026**
	(-0.77)	(-2.29)	(-1.43)	(-2.07)
Stock return volatility	0.088	0.022	0.017	0.001
	(1.04)	(0.36)	(0.20)	(0.03)
Debt/Assets	-0.168	-0.014	-0.133	0.005
	(-1.34)	(-0.14)	(-1.03)	(0.08)
D(CEO serving as Chairman)	-0.014	-0.010	0.014	-0.020
	(-0.49)	(-0.30)	(0.55)	(-0.76)
CEO tenure	0.000	0.003	0.001	0.002
	(0.19)	(1.38)	(0.70)	(1.06)
Industry FEs	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Number of observations	362	523	435	450
Pseudo R^2	0.195	0.084	0.165	0.093
p-value (Col1=Col2 or Col3=Col4) on:				
Stock return		0.02		0.12
Lagged stock return		0.14		0.09