Affiliated Corporate Donations and Director Independence[*]

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Abstract

This study uncovers a new determinant of director independence beyond business transactions and social connections: corporate charitable contributions to independent director-affiliated charities (*affiliated donations*). We show that affiliated donations affect board monitoring effectiveness. Excess CEO compensation is greater when a firm donates to the charities affiliated with compensation committee members, especially when the committee chair, multiple committee members, or a large fraction of the compensation committee are involved. However, the effect of affiliated donations on compensation practices is attenuated by strong corporate governance, as expressed by strong board oversight and concentrated stock ownership.

1. Introduction

The monitoring roles of independent directors of corporate boards have long been examined in the corporate governance literature.[1] Conventionally, director independence is defined based on whether the director has a material relationship with the company that may interfere with the exercise of independent judgment in carrying out director responsibilities. According to the NYSE rules, a director is *not independent* if the director is a current employee of an organization that "receives payments from the company for property or services exceeding the greater of $1 million, or 2% of the organization's consolidated gross revenue in any of the past three years."

Corporate charitable donations are exempted from the NYSE director independence test. In direct contrast to payments to director-affiliated organizations via business transactions, corporate charitable contributions to director-affiliated charities (*affiliated donations*), regardless of their amount, do not disqualify director independence.[2] Affiliated donations are typically much larger than director annual compensation, which has been under the scrutiny of shareholders and regulators for its potential influence on directors' monitoring incentives. Based on our sample of the Standard & Poor's (S&P) 500 companies from 2003 to 2012, the average affiliated donation per director (provided such a donation is made) is about $500,000, while the average director annual compensation is only $200,000. Corporate donations that help fulfill directors' fundraising obligations at their affiliated charities could create a conflict of interest and impair directors' independent judgment in carrying out their monitoring responsibilities. However, because information on corporate charitable contributions is not readily available in

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[1] See, for example, Weisbach (1988); Core, Larcker, and Holthausen (1999); Faleye, Hoitash, and Hoitash (2011); and Coles, Daniel, and Naveen (2016).

[2] 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.

companies' filings with the Securities and Exchange Commission (SEC), it has been largely overlooked by corporate governance research until very recently (Masulis and Reza, 2016).[3]

In this paper, we examine the determinants of corporate donations to charities affiliated with independent directors and the effect of such donations on the monitoring effectiveness of the board. Not surprisingly, we find that firms whose independent directors are affiliated with more charities are more likely to donate and donate in larger amounts to the charities affiliated with these independent directors. We also find that firms are more likely to donate and donate in larger amounts to a director's affiliated charities if director tenure is longer than CEO tenure. More interestingly, we find that affiliated donations may reflect governance problems. Firms with weaker governance (those with a larger board, lower CEO ownership, and lower institutional ownership) are more likely to make affiliated donations and donate in larger amounts. In contrast, corporate donations to charities not affiliated with independent directors (*unaffiliated donations*) are not correlated with weak corporate governance.

Next, we examine whether independent directors whose affiliated charities receive contributions from the firm monitor the management less effectively. We first look at the effect of affiliated donations on compensation practices, and later in the paper, on CEO replacement and financial reporting decisions. Regarding CEO compensation, we find that firms making affiliated donations pay their CEOs 9.2% more on average than do firms not making affiliated donations, after controlling for other determinants of CEO compensation. This corresponds to about $874,000 in excess CEO compensation, which is the level of CEO compensation unexplained by known economic factors.

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[3] Based on the NYSE rules, only corporate donations that exceed the greater of $1 million, or 2% of the consolidated gross revenue of a charity in which an independent director serves as an executive officer in any of the past three years are required to be disclosed at the typical data sources for corporate governance research (i.e., on the company's website, in its annual proxy statement, or in its 10-K filing). Corporate donations, regardless of the amount, are included in Form 990-PF, filed annually at the IRS.

Three additional analyses reinforce our interpretation of the relationship between CEO compensation and affiliated donations. First, we contrast affiliated donations 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 compensation committee members have stronger effects on compensation practices. Consistent with the hypothesis, we find that the CEO compensation level is higher only at firms that make donations to charities affiliated with compensation committee members. Third, looking within the compensation committee, we find that poor compensation practices occur only at firms that make donations to charities affiliated with the committee chair, multiple members, or a large fraction of the compensation committee.

We next examine whether strong board oversight and concentrated ownership mitigate the effect of affiliated donations on compensation practices. We find that affiliated donations distort compensation practices the most at firms with weak corporate governance. Specifically, affiliated donations are associated with greater excess CEO compensation at firms that have a smaller fraction of independent directors, a larger fraction of busy directors, lower outside directors' ownership, lower ownership by the top five institutional investors, and longer CEO tenure.

One may argue that the observed association between affiliated donations and poor compensation practices might be driven by omitted variables, even though our regression analyses already control for an array of firm financial and corporate governance measures. To further address such concerns, we conduct three sets of tests. We first show that our results continue to hold when we include director fixed effects or CEO fixed effects in our regression analyses, as well as when we use the propensity score matching (PSM) approach. For the

analyses with director fixed effects, we use a subsample retaining only those firms with independent directors who serve on the boards of two S&P 500 firms in a given year, only one of which makes donations to the director's affiliated charities. Regressions with director fixed effects yield results similar to those from our base analysis: CEO compensation is greater at firms with affiliated donations than at firms without affiliated donations, and the results concentrate in firms making donations to charities affiliated with compensation committee members.

To more directly tie affiliated donations to compensation, we examine the change in CEO compensation around the initiation of affiliated donations (the firm starts donating to a charity affiliated with any independent director for the first time in our sample period) and their termination (the firm stops donating to all charities affiliated with its independent directors). The regression of pay changes filters out firm-specific time-invariant factors that may jointly affect the decisions of charitable donations and CEO compensation. We find that the increase in CEO compensation is on average $1.2 million more when a firm initiates affiliated donations than in other years, and it is $1.2 million less when the firm terminates all affiliated donations. This analysis controls for firm financials and governance characteristics, as well as changes in sales and profits.

We next examine the timing of a firm's decision to initiate and terminate donations affiliated with an independent director. We find that a firm is more likely to initiate donations to charities affiliated with an independent director in the year after the director's initial appointment to the board. Conversely, a firm is more likely to drop the donations to charities affiliated with an independent director in the year after the director's retirement.

One may be concerned that the effect of affiliated donations on compensation practices is merely a manifestation of the effect of corporate donations to the CEO's charitable causes (Masulis and Reza, 2016). While such an interpretation is difficult to square with the coincidental timing of directors' board membership and the affiliated donations, we do conduct additional tests to address such concerns. We compare the determinants of corporate donations to the charities affiliated with independent directors with those affiliated with the CEO. We find that firms that donate to CEO-affiliated charities are more likely to donate to independent director-affiliated charities, and the donation amounts are highly correlated. Interestingly, firms at which the CEO serves as the chairman of the board are more likely to donate and donate in larger amounts to charities affiliated with the CEO but not to charities affiliated with independent directors once we control for CEO-affiliated donations. In addition, firms with a long-tenured CEO tend to make large donations to CEO-affiliated charities but not to independent director-affiliated charities. After controlling for CEO-affiliated donations, we still find that firms with lower CEO ownership, lower institutional ownership, and a larger board are more likely to donate and donate in larger amounts to charities affiliated with their independent directors. More importantly, the effect of independent director-affiliated donations on CEO compensation remains statistically and economically significant after controlling for CEO-affiliated donations.

Given that independent directors whose affiliated charities receive corporate donations may have distorted incentives in fulfilling their monitoring roles, we redefine such directors as *dependent* and revisit the literature examining the link between excess CEO compensation and board independence. The literature has mixed findings. For example, Core et al. (1999) find a puzzling positive correlation between the level of CEO compensation and the fraction of conventionally independent directors. Conversely, Hwang and Kim (2009) find a negative

correlation using conventionally and socially independent directors for the universe of S&P 100 companies. We find a significant negative correlation between excess CEO compensation and board independence after classifying conventionally independent directors as dependent, if their affiliated charities receive the firm's donations. This result is robust to including in the regression specifications other director independence measures: conventionally independent, conventionally and socially independent, and conventionally independent corrected for co-opted directors.

In addition to the effect on compensation practices, we show that corporate donations to charities affiliated with independent directors attenuate the link between forced CEO turnovers and poor firm performance. More specifically, when a company donates to the charities affiliated with three or more independent directors (Schwartz-Ziv 2016), the CEO is less likely to be replaced for poor stock performance.

Lastly, we examine the effect of affiliated donations on the quality of financial reporting. We measure reporting quality by accrual quality (Dechow and Dichev 2002; Wysocki 2009), and also based on whether a firm meets the analyst consensus on earnings or beats it by one cent (Degeorge et al. 1999; Burgstahler and Eames 2003; Cheng and Warfield 2005). Interestingly, we find poor reporting practices only at firms that make donations to charities affiliated with the committee chair or multiple members of the audit committee.

This paper contributes a new dimension of director independence (or lack thereof) to the corporate governance literature (Weisbach 1988; Parrino 1997; Core et al. 1999; and Faleye et al. 2011, among others). Our research extends the literature that examines how certain attributes of independent directors affect board monitoring decisions. For example, independent directors' social connections to insiders (Hwang and Kim 2009) and their status as CEO appointees (co-

opted directors; Coles et al. 2016) are shown to reduce monitoring effectiveness. We document that affiliated donations are an additional channel through which board independence may be impaired, after taking into account the social connections between independent directors and the CEO, as well as the presence of co-opted directors.[4]

In a related study, Yermack (2009) documents large charitable stock gifts made by chairmen and CEOs to their family foundations just before sharp declines in their companies' stock prices. Yermack attributes such behavior to the CEOs' fraudulent backdating of stock gifts for the purpose of increasing personal income tax benefits. In another related study, Masulis and Reza (2016) examine the effect of CEO charity preferences on corporate giving decisions and conclude that corporate giving reflects an agency problem. Although Masulis and Reza show greater CEO compensation at firms whose major charitable causes overlap with independent directors' charity interests, neither study examines corporate donations to charities affiliated with independent directors, nor do they examine the effect of affiliated donations on board monitoring effectiveness.[5,6]

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[4] Beneish, Marshall, and Yang (2016) 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.

[5] Masulis and Reza (2016) infer corporate donations to directors' charitable causes by overlapping the top three categories of corporate charitable contributions and the organization types of independent directors' charitable affiliations. In contrast, we identify corporate donations actually made to director-affiliated charities. Specifically, we match the names of non-profit organizations that receive a company's charitable contributions in any given year with the names of charities, with which the company's independent directors are affiliated.

[6] Exelon Corporation established a $50 million foundation in the 4th quarter of 2007, right before the great recession. Consistent with our view, Exelon routinely made donations to multiple charities affiliated with each independent director (and their spouses, in several cases). For example, seven charities affiliated with the chairwoman of the compensation committee (Ms. Greco) received donations from Exelon in 2008 alone, while five charities affiliated with its lead independent director, also a member of the compensation committee (Mr. D'Alessio), received contributions from the company that same year. "All payments were immaterial under the relevant independence criteria," stated Exelon in its 2008 proxy filing. Consistent with the results of Masulis and Reza (2016), Exelon donated to University of Wisconsin 10 times the amount it donated to University of Illinois. Although Exelon is based in Chicago, Illinois, its CEO was an alumnus of University of Wisconsin and active in his alma mater's fundraising activities.

Our paper is also related to a growing literature examining whether corporate spending in corporate social responsibility (CSR) improves firm value or satisfies CEO's personal preference at the costs of shareholders.[7] It is also related to the literature examining the determinants of corporate political activities and consequences of these activities on shareholder value (Cooper, Gulen, and Ovtchinnikov 2010; Aggarwal, Meschke, and Wang 2012; Coates 2012).

The remainder of the paper is organized as follows. Section 2 develops hypotheses and describes 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 the effects of affiliated donations on CEO replacement and financial reporting decisions. Section 7 concludes.

2. Hypothesis Development and Empirical Strategies

One of the major responsibilities of not-for-profit directors, officers, and trustees is fundraising. For example, the Georgia Center for Nonprofits states that "board members begin all fundraising efforts with their best prospects—themselves."[8] So any corporate donations to an independent director's affiliated charities help the corporate director fulfill his or her charitable fundraising obligations. This, in turn, enables the corporate director to achieve his or her philanthropic personal ambitions outside of the corporate boardrooms, whether that is to pursue a personal passion (e.g., cancer research), personal interest (e.g., aviation), or social prominence.

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[7] Empirical findings in the CSR literature are 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, Friedman (1970) states that "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, …." Along the same line, Cheng, Hong, and Shue (2016) find that corporate goodness reflects an agency problem because it is negatively associated with governance strength and after-tax insider ownership, and the passage of shareholder governance proposals leads to slower growth in corporate goodness.

[8] From the website of the Georgia Center for Nonprofits: http://www.gcn.org/articles/what-role-do-boards-and-individual-board-members-have-in-nonprofit-fundraising#sthash.5QtSpoaU.dpuf

Because a company's management influences corporate giving decisions,[9] an independent director whose charities receive corporate donations may be more sympathetic when monitoring and disciplining managers. This may "interfere with the exercise of independent judgment in carrying out director responsibilities" and change the status of the director from independent to dependent (one with a conflict of interest). Thus, affiliated donations can be viewed as hidden payments to independent directors (even though directors do not pocket the proceeds directly) in addition to direct compensation that is paid for their board services and reported in a firm's proxy statement. Provided that the charities of an independent director receive corporate donations, the average donation amount is about $500,000 per director, two and a half times of the average director compensation for our sample of S&P 500 firms from 2003 to 2012.

In establishing our empirical hypotheses, we focus on the effect of affiliated donations on CEO compensation. We examine whether a firm that makes donations to charities affiliated with its independent directors tends to grant a more generous compensation package to the CEO; that is, whether a quid pro quo exists between independent directors and the CEO. Our first empirical hypothesis is summarized as follows.

Hypothesis 1: Excess CEO compensation is greater at firms that make (large) donations to charities affiliated with their independent directors than at other firms.

Because the compensation committee is directly involved in determining the CEO's compensation package, the effect of affiliated donations on CEO compensation is expected to be more pronounced when the charities affiliated with compensation committee members receive the company's donations. Within the compensation committee, the committee chair should be

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[9] Exelon formed its corporate foundation to manage its charitable contributions just before the great recession. Its chairman and CEO, Mr. Rowe, served as the chairman and director of the foundation from its inception to 2012 (the end of our sample period). The foundation funded some of the contributions to independent-director affiliated charities.

more powerful, and more sympathetic committee members should be more influential than fewer sympathetic committee members. These lead to our second empirical hypothesis.

Hypothesis 2: Excess CEO compensation is greater at firms that make donations to charities affiliated with compensation committee members, especially when the donations are made to charities affiliated with the committee chair, multiple committee members, or a large fraction of the committee.

Lastly, we examine whether strong corporate governance mitigates the effect of affiliated donations on CEO compensation. This should be the case if affiliated donations are a means by which the CEO influences the board's monitoring decisions.

Hypothesis 3: Strong corporate governance attenuates the effect of affiliated donations on compensation practices.

3. Data and Univariate Analysis

Our sample contains the S&P 500 index companies as of December 31, 2012. We extract directors data from the BoardEx database, which includes committee assignments of each director, the director's affiliated not-for-profit organizations (*charities*), and the role of the director in his/her affiliated charity. We obtain CEO compensation and related information from ExecuComp, firm financial and market data from COMPUSTAT and CRSP, and governance variables from Riskmetrics and Thomson Reuters.

Data on corporate charitable donations is 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

more than $10,000 are included for all foundations with a total giving amount of at least $5 million (roughly, the top 1000 donors) that year.[10] 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. We match the directors' affiliated charities listed in BoardEx with charities that received corporate donations by charity names.[11] Our final sample contains 3,385 firm-years from 400 unique S&P 500 firms that are non-foreign and have all information required for our analyses from 2003 to 2012.

The summary statistics of the donation data is presented in Table 1. Panel A compares affiliated donations with general donations, which may or may not be affiliated. It shows that 1,272 out of 3,385 firm-year observations (37.6%) in our sample involve charitable contributions (of at least $5 million in total giving), and the average amount is $11.5 million provided that a donation is made. Approximately two thirds of those donating firms (822 firm-year observations, 24.3% of the sample) contribute to charities affiliated with their independent directors. Provided that a firm makes affiliated donations, the average amount is $1.5 million, and they are divided among the charities affiliated with three independent directors on average. Panel B describes the amount of affiliated donations by year. The highest level occurs in 2003. Finance, telephone and television transmission, and manufacturing are the three industries most likely to make affiliated donations (Panel C).

We compare CEO compensation, corporate governance, and firm characteristics between firms making affiliated donations and those not making such donations and report the results in

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[10] Beyond this, 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 million. Some of the data are generated by customized requests by database users for information on donations to certain types of charities.
[11] We use the Python function *ratio* to match names. The initial sample comprises perfect matches returned by running *ratio*. We supplement the data by manually checking all potential matches with a matching score greater than 0.85.

Table 2. Firms making affiliated donations differ along various dimensions of corporate governance from firms not making such donations. Specifically, CEOs of donating firms tend to serve as the chairman of the board, have shorter tenure as CEO, and own less equity of the firm. These firms also tend to have a larger board, more social connections between independent directors and the CEO, and lower ownership by the top five institutional investors. Overall, firms with weak corporate governance tend to make affiliated donations.

Not surprisingly, when non-co-opted independent directors (long-tenured directors who join the board before the CEO takes the corner office) are affiliated with more charities, firms are more likely to make affiliated donations and donate in larger amounts. A CEO whose appointment was approved by longer-tenured independent directors has a stronger incentive to gain leverage over these directors via making charitable donations to their affiliated charities. Moreover, we show that firms making affiliated donations are much larger in book assets and award their CEOs with greater total annual pay. These firms also tend to have worse performance (lower stock return, ROA, and market-to-book), appear less risky (lower market-to-book, stock return volatility, and R&D investments), and are located in states with higher corporate tax rates than firms not making such donations.

4. Determinants of Affiliated Donations

We now examine the economic determinants of corporate donations to charities affiliated with independent directors. We focus on the relationship between affiliated donations and corporate governance and use a regression specification similar to that in Masulis and Reza (2016). If affiliated donations mainly serve as side payments to independent directors, they are more likely to occur and are expected to be in larger amounts when corporate governance is weaker. For comparison, we also analyze the economic determinants of unaffiliated donations.

While affiliated and unaffiliated donations alike could be signs of governance failure, unaffiliated donations are unlikely to directly affect board monitoring effectiveness. [12] We include in our analyses firm financial characteristics as control variables. We also include industry fixed effects to parse out differences in donations across industries, and year fixed effects to control for general time trends in corporate donations. Throughout the paper, standard errors are clustered at the firm level to account for serial correlations in the data.

We show that firms with lower CEO ownership and a larger board are more likely to make affiliated donations and donate in larger amounts (Table 3, Panel A). We confirm the univariate result that when long-tenured independent directors are affiliated with more charities, firms are more likely to donate to their affiliated charities and donate in larger amounts. In addition, firms tend to make larger affiliated donations when independent directors are socially connected to the CEO and when the top five institutional investors have lower ownership. These results suggest that (large) affiliated donations are permitted at firms with weak monitoring by directors and large shareholders, and at firms with less alignment of interests between the CEO and shareholders. In contrast, the amount of unaffiliated donations is not affected by these governance measures. The likelihood of unaffiliated donations is marginally negatively correlated with CEO ownership. Interestingly, we find that the total number of charitable connections by a firm's long-tenured independent directors is negatively correlated with the likelihood of unaffiliated donations. The comparison reinforces our view that the problematic relationship between charitable donations and corporate governance pertains only to affiliated donations.

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[12] Throughout the paper, the term "unaffiliated donations" is defined as corporate donations made to charities not affiliated with independent directors. Unaffiliated donations include contributions to charities affiliated with the CEO and other top executives. The effect on monitoring outcomes of independent director-affiliated donations retains if we explicitly control for CEO-affiliated donations (see the results reported in Table 10).

Regarding firm characteristics, we find that larger firms and firms with greater ROA are more likely to make donations and donate in larger amounts to both affiliated and unaffiliated charities, perhaps because these firms have more resources for charitable causes. Moreover, firms with greater financial leverage tend to make larger affiliated donations, but not larger unaffiliated donations. Contrary to the univariate result, firms with greater R&D investments are more likely to make affiliated donations and donate in larger amounts, but not unaffiliated donations. Lastly, we find that firms in high-growth industries are more likely to donate and donate in larger amounts to affiliated charities, but not to unaffiliated charities.

We next investigate how director characteristics affect whether affiliated charities receive the firm's donations. We add four measures of director connections, three measures of director roles on the corporate board, two measures of director pay, and four other director characteristics in our regression specifications and report the results in Panel B of Table 3. The regression is conducted at the independent director-year level. A well connected director is presumably more valuable to the firm. We use four director connection measures: the number of the director's affiliated charities, the number of S&P 500 boards on which the director serves, a dummy variable indicating whether the director is a top executive of another S&P 500 firm, and a dummy variable indicating whether the director is socially connected to the CEO. Regarding director roles, we use three dummy variables indicating whether a director is the chairman of the board, the lead independent director, and/or the chair of a board committee. We further include total annual compensation that an independent director receives from the firm and a dummy variable indicating whether director compensation is in the top decile of our sample.[13] Greater director compensation may be a proxy for higher director ability. These two director pay

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[13] Compensation data on individual directors became available in 2006. Our results remain qualitatively the same if we use the average director pay of a firm as a proxy for director pay for 2003 through 2005.

measures help test the possibility that firms may compensate super talented directors by donating to their charities in addition to awarding them very generous director pay. Lastly, we consider a director's prior industry experience, tenure (in excess of CEO tenure), age, and whether the director is female.

We find that the likelihood and amount of affiliated donations are greater for an independent director who is affiliated with more charities, and whose annual compensation is not among the highest. There is little evidence that directors with greater ability are more likely to be involved in affiliated donations. We also find that the likelihood and amount of affiliated donations are greater if the director has longer tenure than the CEO, suggesting that firms tend to make charitable donations to influence more powerful directors.

The effects of corporate governance and firm characteristics on the likelihood and amount of affiliated donations are similar to the results presented in Panel A. For example, we find that firms with weaker corporate governance (CEO and chairman dual roles, lower CEO ownership, lower ownership by the top five institutional investors, and a larger board) are more likely to donate and donate in larger amounts to independent director-affiliated charities.

5. Effect of Affiliated Donations on CEO Compensation

5.1. Baseline specification

We examine the relationship between CEO compensation and corporate affiliated donations and report the results in Table 4. The dependent variable is the logarithm of total annual compensation (*TDC1* in ExecuComp) in thousands of dollars in Columns 1–4 and *TDC1* in millions of dollars in Column 5. We control for firm characteristics, governance measures, and include industry fixed effects and year fixed effects in our regressions (Core et. al 1999; Faulkender and Yang 2010). We show that on average, CEO annual compensation is greater by

9.2% at firms that make affiliated donations than at firms that do not make affiliated donations. Given that known economic determinants of CEO pay are included in the regression, CEOs at firms that make affiliated donations essentially receive an additional 9.2% in excess pay.

We next test how the level of CEO compensation is related to the magnitude of affiliated donations. We use four measures of the affiliated donation amounts, including the logarithmic transformation of (1 + dollar amount of the donations), the amount of affiliated donations scaled by average director pay, the amount of affiliated donations scaled by the total amount of the firm's charitable donations (affiliated and unaffiliated), and the amount of affiliated donations expressed in millions of dollars.[14] The results confirm a significant positive correlation between CEO total pay and the amount of affiliated donations (Columns 2–5). An increase of $1 million in affiliated donations is associated with an increase of $319,000 in excess CEO pay, according to the result reported in Column 5. Not surprisingly, we find that CEO compensation is greater when the CEO serves as the chairman of the board, and when the firm is larger, has better stock returns (contemporaneous and lagged), and a greater market-to-book value.

Our results are consistent with the hypothesis that affiliated donations serve as a channel through which the CEO seeks to influence independent directors' monitoring decisions. To alleviate the concerns that some omitted factors may affect the decisions related to both affiliated donations and CEO compensation, we explore the variation in affiliated donations based on the independent director's committee assignment. As stated in Hypothesis 2, we expect the effect of affiliated donations on CEO compensation to be stronger when the affiliated director serves on the compensation committee, which plays a vital role in designing CEO compensation packages. Among firms making donations to charities affiliated with compensation committee members,

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[14] Due to missing or zero values of the scaling variables, the number of observations is smaller in Columns 3 and 4.

the effect is expected to be stronger if the charities of the committee chair, multiple committee members, or a large fraction of the committee receive the company's charitable contributions.

We test Hypothesis 2 by splitting affiliated donations into two categories: (1) donations to charities affiliated with any compensation committee member(s), and (2) donations to charities affiliated with independent directors who do not serve on the compensation committee. Out of the 822 affiliated donations in our sample, 615 donations are affiliated with compensation committee members and 207 are not. The results reported in Table 5 are consistent with our hypothesis. CEO pay is on average greater by 10.5% at firms that make donations to charities affiliated with compensation committee members than at firms not making donations (Column 1).

We next split the 615 donations affiliated with the compensation committee into two groups along three dimensions. First, we compare donations to charities affiliated with the committee chair with those related to a non-chair member of the compensation committee. On average, excess CEO pay is 15.3% greater at firms that make donations affiliated with the compensation committee chair (statistically significant at the 5% level; Column 2). Second, we compare affiliated donations related to two or more compensation committee members with those related to only one committee member. On average, excess CEO pay is 15.2% greater at firms that donate to charities affiliated with multiple compensation committee members (Column 3). Third, we compare affiliated donations related to a large fraction of compensation committee members (above the sample median) with those related to a small fraction of the committee (below the sample median). On average, the CEO earns 14.4% more in excess pay if the charities affiliated with a large fraction of the compensation committee receive the firms' donations (Column 4).

In all specifications, we include an indicator for the 207 affiliated donations unrelated to the compensation committee as an explanatory variable and find that it is not significant in determining CEO compensation. We also include an indicator for the 434 unaffiliated donations as an explanatory variable. We do not expect to find a significantly positive link between CEO compensation and unaffiliated donations, neither do we find such a link.

Overall, we find a significant, positive correlation between excess CEO compensation and affiliated donations, according to the results reported in Tables 4 and 5. Our cross-sectional tests exploiting the affiliated director's compensation committee membership and his/her role on the committee reinforce our interpretation that making affiliated donations is a means by which the CEO gains leverage over independent directors. These affiliated independent directors tend to award generous compensation to the CEO in return.

5.2. Subsample analyses based on the strength of corporate governance

If affiliated donations serve as a channel by which the CEO gains leverage over independent directors and jeopardizes board monitoring, we expect strong corporate governance to attenuate the effect of affiliated donations on CEO compensation. We consider a list of governance measures: board characteristics (board independence based on the conventional definition, the fraction of busy independent directors, and board size), ownership of outside directors, ownership of the top five institutional investors, and CEO tenure. The cutoff points for forming subsamples are the sample medians for all variables.[15] We run the baseline regression for CEO total pay (leaving out the corresponding sorting governance measure in each regression) in each subsample, and compare the coefficient estimate of *D(Affiliated donation)* between the two subsamples.

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[15] The cutoff point for conventional board independence is the sample median of 89% instead of 50%, because the vast majority of boards have over 50% of independent directors following the conventional definition.

For all measures of corporate governance except board size, the effects of affiliated donations on excess CEO pay exist only in the weak governance subsample (the first column of Table 6). More specifically, the effects of affiliated donations on CEO compensation are economically large and statistically significant in the subsamples with a less independent board, a larger fraction of busy directors, lower ownership by the top five institutional investors, and longer CEO tenure. These results corroborate our hypothesis that strong governance mitigates the distortion of compensation practices by affiliated donations and support Hypothesis 3. The difference in the coefficient estimate of *D(Affiliated donation)* between the pair of the subsamples is statistically significant using all these measures of governance except outside director's ownership (which is marginally significant with a *p*-value of 0.115).

Interestingly, the effects of affiliated donations on CEO compensation are prominent at firms with a small board, which are typically used as a proxy for strong corporate governance (Yermack 1996). This is perhaps because an affiliated director has greater influence on board decisions on a small board than on a large board.[16]

5.3. Robustness: director fixed effects, CEO fixed effects, and propensity score matching

There are alternative interpretations for the positive link between CEO compensation and affiliated donations. One possibility is that some omitted director, CEO, or firm characteristics affect both CEO compensation and affiliated donation decisions, beyond the 16 measures of firm financial and corporate governance, industry fixed effects, and year fixed effects included in our

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[16] In addition to showing a robust and positive link between excess CEO pay and affiliated donations, we examine how CEO pay-for-performance sensitivity (PPS) relates to corporate affiliated donations. PPS is the sensitivity of the total value of stock and options held by a CEO 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). Using the same regression specifications as in Table 4, we find a significantly negative correlation between CEO PPS and affiliated corporate donations, in parallel to the positive correlation between excess CEO pay and affiliated donations. We further discover that such a negative correlation is stronger when compensation committee members are involved and that it is mainly present at firms with weak corporate governance. The results are not reported but are available upon request.

regression specifications. Another possibility is that firms making affiliated donations differ systematically from firms not making such donations, and the difference in CEO compensation merely reflects the difference in firm characteristics. We conduct three additional analyses to address these concerns.

The first test examines the possibility that a lenient director is more likely to award a generous pay package to the CEO and solicit charitable donations to his/her charities from the firm. Thus, the observed positive correlation between CEO pay and affiliated donations could be driven by the generosity of the director, especially if the director is selected to serve on the compensation committee. To alleviate such concerns, we conduct an analysis including director fixed effects. Specifically, we form a subsample of firms that have at least one independent director serving on the corporate boards of two S&P 500 firms in the same year, only one of which makes donations to charities affiliated with the director. We then run the baseline regression using director-year data and include director fixed effects in addition to industry fixed effects 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 their charities receiving and not receiving donations from the firms.

The results, summarized in Columns 1 and 2 of Table 7, are consistent with the results of the baseline regressions reported in Table 4. On average, CEOs at firms that make affiliated donations receive 8.2% more in excess pay (Column 1). If the common director serves on the compensation committee of the donating firm, excess CEO pay at the donating firm is 12.6% greater (Column 2). The latter result reinforces the interpretation that affiliated donations affect CEO compensation through the compensation committee.

To address the concern of omitted variables related to CEO characteristics, we re-estimate the regressions of CEO compensation reported in Table 4 using the whole sample, adding CEO fixed effects to the specification. CEO fixed effects parse out time-invariant CEO characteristics that simultaneously drive the variations in affiliated donations and CEO compensation. We find that excess CEO pay is 6.4% higher at firms making affiliated donations than at firms not making affiliated donations (statistically significant at the 5% level; Column 3).

Regarding the selection of firms into making affiliated donations, we use the PSM approach to control for observable differences in firm and CEO characteristics between firms with and without affiliated donations. Using a caliper equal to 0.25 standard deviations of the estimated propensity score without replacement, we are able to find close matches for 641 observations of affiliated donations. We show that excess CEO pay is 10.0% higher at firms that make affiliated donations than at firms that are otherwise similar but do not make affiliated donations (Column 5).[17] If the affiliated director serves on the compensation committee of the donating firm, excess CEO pay is 11.1% higher (Column 6).

Overall, these additional results suggest that the positive link between excess CEO compensation and affiliated donations is more likely a quid pro quo between independent directors and the CEO than merely a manifestation of omitted factors or a reflection of firms' selections into making affiliated donations.[18,19]

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[17] We find no significant differences in any of the matching variables within the pairs of matched observations (untabulated). Moreover, CEO total pay is 9.3% higher at firms making affiliated donations than at firms that are otherwise similar but do not make affiliated donations in the univariate comparison (t-statistic = 2.36).

[18] One may argue that donations made to educational institutions and local charities might be useful for maintaining a positive corporate image. Thus, these donations might not be tied to excess CEO pay. We test this possibility and find that affiliated donations made to educational institutions or local charities do not affect the excess CEO pay differently than do other types of affiliated donations.

[19] We also examine whether the link between affiliated donations and excess CEO compensation is stronger when the independent director holds a more important position in the charity. We classify positions such as director, trustee, and (vice or co-) chairman as important and contrast them with other positions. However, we do not find evidence of a significant difference in the CEO compensation and donation link between the two subsamples,

5.4. Changes in CEO compensation around initiation and termination of affiliated donations

To further address the concern that firms making affiliated donations may differ systematically from other firms, we examine the changes in CEO compensation when affiliated donations are initiated (or terminated). To do so, we regress the annual change in CEO total pay on a dummy variable that equals one in the year when a firm makes an affiliated donation for the very first time in our sample and zero otherwise. We expect CEO total pay to experience a larger increase around the initiation of affiliated donations. Because examining annual changes parses out firm-specific time-invariant components in CEO compensation, such evidence would support our interpretation of a genuine association between CEO compensation and affiliated donations.

In a similar vein, we examine the change in CEO compensation when a firm terminates all affiliated donations. We construct a dummy variable that equals one in the year when a firm ceases all affiliated donations and zero otherwise. We regress the change in CEO total annual pay on the termination dummy variable and a list of control variables. We expect the increase in CEO pay to decline substantially after the termination of affiliated donations. In addition, we contrast the initiation (termination) of affiliated donations involving directors serving on the compensation committee with those involving directors outside the compensation committee.

Table 8, Panel A reports the summary statistics of the main variables. The average annual change in CEO pay is $366,000. There is an initiation of affiliated donations in 2.4% of the firm-year observations and a termination of affiliated donations in 3.2% of firm-years. Panel B shows the regression results. When a firm initiates affiliated donations, the CEO receives an additional $1.2 million in pay increases than in other years (Column 1). This is driven by cases in which the firm initiates affiliated donations involving its compensation committee (Column 2). When a

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perhaps because all corporate directors have fundraising obligations at their affiliated charities, regardless of their titles.

firm terminates all of its affiliated donations, CEO pay change is $1.2 million lower than in other years (Column 3), and the result is driven by cases in which the firm terminates affiliated donations involving its compensation committee (Column 4).

In these regressions, we control for all determinants of CEO compensation including corporate governance and firm characteristics. We find that the top five institutions' ownership and stock returns are highly positively correlated with CEO pay changes. Board independence is negatively correlated with CEO pay changes. We additionally include the annual changes in sales and net income as controls for firm performance, and find that the change in CEO compensation is positively correlated with the improvement in net income.

5.5. Changes in affiliated donations around director appointment and retirement

If affiliated donations are intended to help the CEO gain leverage over the board, we expect the initiation (termination) of affiliated donations to follow independent directors' appointments (departures). We predict that when an independent director first joins the board, the firm is more likely to initiate donations to charities affiliated with the new director. Conversely, a firm is more likely to drop donations to charities affiliated with an independent director once the director leaves the firm.

We examine these predictions in two tests at the director-charity level. First, we examine the firm's propensity to initiate a donation to charities affiliated with a new independent director. We use a dummy variable, *D(Initiate donation to the charity affiliated with the director)*, to capture the incidence that a firm did not donate last year but donates this year to a charity affiliated with an independent director. Second, we consider the firm's intention to terminate a donation after the affiliated independent director retires from the firm. Director retirement is

defined as a director's departure at the age of 70 or older.[20] By focusing on director retirement, we limit the direct effect of the changes in firm characteristics on the termination of the firm's donations to charities. We define a dummy variable, *D(Terminate donation to the charity affiliated with the director)*, to capture the incidence that a firm donated last year but does not donate this year to a charity affiliated with an independent director.

Panels A and B of Table 9 summarize the univariate comparisons of these dummy variables by director appointment and director retirement. The results are consistent with our predictions. The probability of an affiliated donation being initiated is 6.6 percentage points higher in the year after the director's first appointment to the board than the baseline probability of 41.5% for an incumbent independent director (Panel A). Conversely, the likelihood of terminating an affiliated donation is 9.9 percentage points higher in the year after the director retires than the baseline probability of 38.9% for a non-retiring independent director (Panel B). These results are robust to controlling for firm characteristics in multivariate regressions (Panel C). Overall, corporate charitable donations tend to follow directors' moves, consistent with the notion that CEOs use charitable contributions to influence independent directors' monitoring decisions.

5.6. Controlling for CEO-affiliated donations

This paper focuses on corporate donations made to charities affiliated with independent directors. Masulis and Reza (2016) suggest that corporate giving to charities of a CEO's favorite causes reflects corporate governance failure. In this subsection, we compare the determinants of independent director-affiliated donations with those of CEO-affiliated donations. We further investigate whether the effect of independent director-affiliated donations on CEO compensation remains after taking into account CEO-affiliated donations.

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[20] Our results are robust to using 72 or 65 as the retirement age for directors.

Table 10 summarizes the results. Panel A shows that the likelihood and amount of independent director-affiliated donations are significantly positively correlated with those of CEO-affiliated donations (Columns 1 and 2). Moreover, CEO-affiliated donations are more likely and are larger if the CEO serves as the chairman of the board, has longer tenure and lower ownership; when the board is larger and its long-tenured independent directors are affiliated with more charities; and when the firm is larger, more profitable, and have greater R&D investments (Columns 3 and 4). While multiple factors affect independent director-affiliated donations and CEO-affiliated donations alike, the results of CEO-chairman duality and CEO tenure are unique to CEO-affiliated donations. More importantly, independent director-affiliated donations are more likely to occur and are larger at firms with weaker corporate governance even after controlling for donations to CEO-affiliated charities.

Panel B shows the relationship between CEO compensation and a firm's charitable donations that are affiliated with 1) independent directors but not the CEO; 2) the CEO but not independent directors; 3) independent directors and the CEO both; and 4) neither independent directors nor the CEO. We use a dummy variable indicating each of the four donation categories in Column 1 and the donation amount in Column 2. We find that donations affiliated with independent directors but not the CEO are significant determinants of CEO compensation in both specifications (statistically significant at the 5% level), donations affiliated with the CEO but not independent directors is statistically significant in neither specification. We conclude that the effect on CEO compensation of independent director-affiliated donations is not merely a manifestation of the effect of CEO-affiliated donations documented in Masulis and Reza (2016).

5.7. Excess CEO pay and board independence: Revisiting the link

After establishing the positive link between affiliated donations and excess CEO pay, we redefine director independence and examine the relationship between excess CEO compensation and board independence. Following the literature that redefines director independence by correcting for social connections between conventionally independent directors and the CEO (Hwang and Kim 2009) and correcting for the 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 run the baseline regressions of CEO total pay first using the conventional board independence measure, then adding each of the three redefined measures of board independence (social connections excluded, co-opted directors excluded, and affiliated donations excluded) to assess the incremental explanatory power of the redefined measures. Following the literature on the importance of a critical mass on corporate board decisions (three or more directors; Schwartz-Ziv 2016), we define each independence measure as a dummy variable indicating whether there are fewer than three non-independent directors except for the measure excluding co-opted directors (using 50% of independent directors as the cutoff point). We exclude the social connection, director co-option, and affiliated donation dummies in Columns 2 to 4, respectively, while retaining all other explanatory variables of Table 4.

We find that board independence after correcting for affiliated donations has the predicted negative sign in determining CEO compensation (Table 11). On average, CEO total pay is 12.7% lower at firms with an independent board than at firms with a non-independent board (t-stat = -2.77, Column 4 of Panel A). The result is similar when we include all four independence measures in a horserace specification (Column 5).[21] We repeat the analysis using

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[21] The correlation coefficients among the four board independence dummies range from 0.03 to 0.51. We check for multicollinearity in all models and find the variance inflation factors to be around 2.0, which is lower than the

the fraction of independent directors and obtain very similar results (Panel B). This validation test suggests that the relationship between directors and top executives via affiliated donations should be considered material in defining director independence.

6. **Effects of Affiliated Donations on CEO Replacement and Financial Reporting**

In this section, we examine the effects of affiliated donations on the outcomes of two other board monitoring decisions: CEO replacement and financial reporting.

6.1. Effect of affiliated donations on forced CEO turnovers

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 contemporaneous return, lagged return, and Ln(Sales).[22] We add a dummy variable indicating that a CEO's age is between 63 and 66 (retirement age) and a dummy variable indicating that a CEO owns more than the sample median fraction of the company's stock, following Jenter and Kanaan (2015). While CEO forced turnover is significantly negatively correlated with stock returns absent affiliated donations, we predict such relations to be weakened at firms making affiliated donations.

We first contrast firms making affiliated donations to at least three independent directors with those not making such donations. We then contrast firms that make affiliated donations to a larger fraction of independent directors (a fraction greater than the sample median) with those not making such donations. Table 12 summarizes the regression results. Absent substantial affiliated donations, forced CEO turnover is significantly negatively correlated with both

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typical cutoff level indicating concerns of multicollinearity. Moreover, we obtain similar results for each redefined board independence measure if we include in the regression specification the conventional board independence measure and the regression residual of the redefined measure over the conventional measure (i.e., the orthogonalized portion).

[22] We thank Kai Li for generously sharing the data set of forced CEO turnovers.

contemporaneous and lagged stock returns (Columns 1 and 3). In contrast, when a firm makes donations affiliated with a significant number or fraction of independent directors, forced CEO turnovers become insensitive to stock returns (Columns 2 and 4). The difference in the coefficient estimate of the contemporaneous stock return between firms with and without intensive affiliated donations is significant (p-value = 0.007 for the difference between Columns 1 and 2, and p-value = 0.017 for the difference between Columns 3 and 4). The difference in the turnover-to-lagged performance sensitivity between the two groups of firms is not statistically significant at a conventional level (p-value = 0.285 and 0.235, respectively). Overall, the results on forced CEO turnovers suggest that making affiliated donations involving a critical mass of independent directors helps poorly performing CEOs to retain their jobs.[23]

6.2. Effect of affiliated donations on financial reporting quality

In the final set of tests, we examine whether affiliated donations compromise director independence and impair monitoring effectiveness of the audit committee. We investigate the effect of affiliated donations on financial reporting quality using two measures of reporting quality (Dechow, Ge, and Schrand 2010). Our first measure is accruals quality (*AQ*, Biddle, Hilary, and Verdi 2009; Beatty, Liao, and Weber 2010), which was derived by Dechow and Dichev (2002) and modified by Wysocki (2009).[24] A greater *AQ* indicates higher financial reporting quality. Our second measure of reporting quality is an indicator of whether a firm's reported earnings per I/B/E/S equals or exceeds the analyst consensus forecasts by just one cent (*MorJustB*). There is ample evidence that earnings are likely to be managed when firms meet or

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[23] Our conclusion is the same if we use a hazard model instead of a probit model in the regression of forced CEO turnovers.

[24] We follow Biddle et al. (2009) and calculate *AQ* 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-4 to t.

just beat the analyst consensus forecasts (Dhaliwal et al. 2004; Cheng and Warfield 2005; Ayers, Jiang, and Yeung 2006; McVay 2006). *MorJustB* is more likely to be one for firms with lower financial reporting quality.

Table 13 presents the regression results. We regress *AQ* on the indicator *D(Affiliated donation)* and other determinants of accrual quality in Panel A. The coefficient of *D(Affiliated donation)* is negative but not statistically significant (Column 1). We then separate affiliated donations into donations made to charities affiliated with audit committee members and those unrelated to the audit committee. Because directors on the audit committee are in charge of monitoring financial reporting procedures, we expect the negative correlation between financial reporting quality and affiliated donations to be more pronounced at firms that make donations to charities affiliated with audit committee members. Consistent with the hypothesis, we find that the coefficient of *D(Affiliated donation related to audit committee)* is negative and statistically significant at the 5% level, while the coefficient of *D(Affiliated donation unrelated to audit committee)* is not significantly different from zero (Column 2). The economic magnitude is also large given the sample average *AQ* of 2.93, suggesting that making donations to audit committee-affiliated charities is associated with a decrease of 12.5% (= 0.366/2.93) in accruals quality.

We further separate donations affiliated with the audit committee into donations related to the audit committee chair and those related to other audit committee members. We find a significantly lower *AQ* only at firms that make donations affiliated with the audit committee chair (Column 3). Moreover, we find that the negative effect of affiliated donations on financial reporting quality is stronger when the charities of more members or a larger fraction of the audit committee receive the company's donations (Columns 4 and 5).

We run similar regressions using *MorJustB* as the dependent variable. This alternative measure of reporting quality yields results (Panel B) similar to those reported in Panel A. We find lower reporting quality at firms that make donations to charities affiliated with the committee chair, multiple committee members, or a large fraction of the audit committee. These findings are consistent with our hypothesis that affiliated donations compromise the independence of conventionally independent directors and impair their monitoring effectiveness.

7. Conclusion

This paper shows that corporate donations to independent director-affiliated charities are associated with less effective board monitoring and are suggestive of an agency problem. In particular, we find that excess CEO pay is greater by 9.2% at firms making affiliated donations than at other firms. The effect of affiliated donations on CEO compensation is stronger when compensation committee members are involved, and especially when the charities of the compensation committee chair or multiple compensation committee members receive corporate donations. The adverse effect of affiliated donations on compensation practices mainly exists at firms with weak corporate governance. Our agency view is reinforced by additional findings that poorly performing CEOs retain their jobs at firms heavily engaging in affiliated donations and that poor reporting quality is tolerated by audit committee members whose charities receive corporate donations. Overall, our paper uncovers a new determinant of director *dependence* in addition to the corporate governance literature on related-party transactions, social connections, and director-appointment decisions.

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Table 1. Summary statistics of director charity donation variables

The sample consists of all S&P500 firms from 2003 to 2012 with full data excluding foreign firms. Panel A provides summary statistics on affiliated donations and on all donations (affiliated or unaffiliated). Panel B tabulates the distributions by year, the number of firms in the sample, the number of firms with affiliated donations, and the dollar amount of affiliated donations. Panel C tabulates the distribution by industry.

Panel A. Affiliated donations versus general donations

	Full sample			
	Number	Mean	Median	STD
Decision to make donation:				
All donation	3,385	0.376	0	0.484
Affiliated donation	3,385	0.243	0	0.429
Amount of donation conditional on donation is made (in millions of dollars):				
All donation	1,272	11.459	4.192	22.771
Affiliated donation	822	1.535	0.440	3.086

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

Year	Number of firms	Number of firms with affiliated donation	Amount of affiliated donation provided affiliated donation is made			
			Mean	p25	Median	p75
2003	287	67	2,089,390	182,588	730,000	1,925,000
2004	289	71	1,225,765	107,000	512,447	1,730,000
2005	299	83	1,448,871	54,000	520,723	1,660,000
2006	323	92	1,158,340	50,600	437,427	1,287,200
2007	339	97	1,121,570	60,124	281,190	1,250,000
2008	344	83	1,775,345	80,000	372,000	1,830,000
2009	364	89	1,361,341	50,000	398,000	1,334,000
2010	372	91	1,778,441	54,949	343,000	1,535,000
2011	383	83	1,791,406	50,000	460,000	1,638,000
2012	385	66	1,817,606	66,000	467,075	1,575,000
Total	3,385	822	1,534,835	68,000	440,000	1,534,487

Panel C. Distribution by industry

Industry	Number of firms	Number of firms with affiliated donation	Percent of firms with affiliated donation
Finance	436	177	41
Telephone and Television Transmission	61	24	39
Manufacturing	359	132	37
Consumer Non-durables	258	78	30
Consumer Durables	70	20	29
Healthcare, Medical Equipment, and Drugs	276	75	27
Utilities	268	71	26
Chemicals and Allied Products	149	39	26
Other	333	70	21
Wholesale, Retail, and Some Services	388	78	20
Oil, Gas, and Coal Extraction and Products	196	16	8
Business Equipment	591	42	7
Total	3,385	822	24

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 with full data excluding foreign firms. Panel A compares CEO compensation between firm-years with affiliated donations and those without such donations. Panel B compares corporate governance variables. Panel C compares firm financial variables. All continuous 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(CEO total pay in thousands of dollars)	822	9.105	0.713	2,563	8.785	0.785	0.320	10.91
Panel B. Corporate governance								
D(CEO serving as Chairman)	822	0.468	0.499	2,563	0.348	0.476	0.120	6.08
CEO tenure	822	5.292	4.602	2,563	6.355	5.868	-1.063	-5.37
CEO ownership (%)	822	0.254	0.853	2,563	0.881	2.706	-0.627	-10.25
Ln(Number of charities affiliated with non-co-opted independent directors)	822	2.775	1.363	2,563	1.996	1.414	0.779	14.13
Board size	822	11.953	2.283	2,563	10.213	2.193	1.739	19.19
D(Independent board, conventional)	822	0.915	0.279	2563	0.915	0.278	0.000	-0.04
D(Independent director is socially connected to the CEO)	822	0.444	0.497	2,563	0.346	0.476	0.098	4.95
Top five institutions' ownership	822	0.231	0.071	2,563	0.260	0.084	-0.030	-9.88
Panel C. Firm financials								
Ln(Assets)	822	9.894	0.928	2,563	9.090	1.104	0.804	20.60
Stock return	822	0.114	0.308	2,563	0.154	0.341	-0.040	-3.13
ROA	822	0.137	0.083	2,563	0.152	0.092	-0.015	-4.29
M/B	822	1.825	0.899	2,563	2.165	1.358	-0.340	-8.25
Stock return volatility	822	0.125	0.193	2,563	0.142	0.186	-0.016	-2.10
Debt/Assets	822	0.243	0.145	2,563	0.215	0.161	0.028	4.71
Advertisement/Sales	822	0.013	0.025	2,563	0.011	0.026	0.002	1.54
R&D/Assets	822	0.020	0.036	2,563	0.028	0.055	-0.007	-4.31
Industry growth	822	0.081	0.085	2,563	0.080	0.085	0.001	0.35
State corporate tax rate	822	0.069	0.027	2,563	0.065	0.031	0.004	3.77

Table 3: Determinants of affiliated and unaffiliated donations

In Panel A, the propensity to make affiliated donations equals 1 in firm-years with affiliated donations and 0 otherwise. The propensity to make unaffiliated donations equals 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. The data used in Panel B are at the director-year level. The decision to make donation equals 1 if a director is affiliated with a charitable donation in that year and 0 otherwise. The amount of donation is the amount of affiliated donation for that director and year. Regressions of the donation propensity use the probit model and regressions of the donation amount use the Tobit model. 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 parentheses below the corresponding regression coefficients. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Firm level regressions of affiliated and unaffiliated donations

Dependent variable:	Affiliated donation		Unaffiliated donation	
	Propensity	Amount	Propensity	Amount
	(1)	(2)	(3)	(4)
D(CEO serving as Chairman)	0.045	0.317	0.016	0.811
	(1.41)	(1.21)	(0.74)	(1.04)
CEO tenure	0.003	0.032	-0.003	-0.076
	(1.09)	(1.58)	(-1.59)	(-1.17)
CEO ownership	-0.019**	-0.164**	-0.007*	-0.190
	(-2.35)	(-2.38)	(-1.74)	(-1.38)
Ln(Number of charities affiliated with	0.041***	0.427***	-0.010*	-0.365
non-co-opted independent directors)	(3.64)	(4.32)	(-1.66)	(-1.51)
Board size	0.026***	0.195***	-0.002	-0.048
	(4.06)	(3.41)	(-0.38)	(-0.31)
D(Independent board)	-0.004	0.058	0.028	1.386
	(-0.08)	(0.17)	(1.01)	(1.20)
D(Independent director is socially	0.037	0.387*	0.013	0.267
connected to the CEO)	(1.45)	(1.93)	(0.78)	(0.46)
Top five institutions' ownership	-0.241	-3.945***	-0.085	-3.050
	(-1.54)	(-2.81)	(-0.81)	(-0.78)
Ln(Assets)	0.092***	0.886***	0.031***	1.591**
	(4.93)	(5.43)	(2.78)	(2.39)
Stock return	0.005	0.026	-0.007	-0.802
	(0.19)	(0.12)	(-0.32)	(-0.97)
ROA	0.555**	3.296	0.230*	14.618*
	(2.34)	(1.62)	(1.85)	(1.77)
M/B	-0.007	0.057	-0.005	-0.242
	(-0.50)	(0.45)	(-0.38)	(-0.47)
Stock return volatility	-0.009	-0.179	-0.051	-1.131
	(-0.15)	(-0.39)	(-0.80)	(-0.48)
Debt/Assets	0.083	1.789**	0.058	1.728
	(0.91)	(2.23)	(0.97)	(0.81)
Advertisement/Sales	-0.105	0.362	0.253	15.402
	(-0.18)	(0.08)	(0.70)	(0.97)
R&D/Assets	0.902**	7.581**	-0.025	3.724
	(2.57)	(2.56)	(-0.11)	(0.44)
Industry growth	0.164**	0.943*	-0.053	-1.224
	(2.10)	(1.72)	(-0.74)	(-0.45)
State corporate tax rate	0.419	0.649	0.470	5.472
	(0.81)	(0.15)	(1.35)	(0.43)
Industry FEs	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Number of observations	3,385	3,385	3,385	3,385
Pseudo R^2	0.217	0.149	0.070	0.039

Panel B: Director level regressions of affiliated donations

Dependent variable:	Propensity to make donation	Amount of donation
	(1)	(2)
Ln(Number of charities director is affiliated with)	0.049***	0.766***
	(9.10)	(6.44)
Ln(Number of SP500 boards director sits on)	0.006	0.052
	(1.10)	(0.61)
D(Director is an NEO in another SP500 firm)	-0.010	-0.157
	(-1.49)	(-1.24)
D(Director is socially connected to CEO)	0.001	0.047
	(0.12)	(0.38)
D(Director is independent chairman)	0.019	0.195
	(0.99)	(0.92)
D(Director is lead director)	0.002	0.013
	(0.31)	(0.10)
D(Director is chair of a board committee)	-0.002	-0.011
	(-0.72)	(-0.20)
Ln(1+Director pay in $1,000)	0.000	-0.009
	(0.06)	(-0.12)
D(Director pay is in the top decile)	-0.017***	-0.222
	(-2.61)	(-1.64)
D(Director has prior industry experience)	-0.010	-0.099
	(-1.41)	(-0.71)
Director age	-0.000	-0.001
	(-0.20)	(-0.10)
Director tenure in excess to CEO tenure	0.001***	0.021***
	(4.18)	(3.61)
D(Director is female)	-0.004	-0.115
	(-0.86)	(-1.64)
D(CEO serving as Chairman)	0.029**	0.317**
	(2.56)	(2.26)
CEO tenure	-0.001	-0.005
	(-0.49)	(-0.35)
CEO ownership	-0.008**	-0.123**
	(-2.07)	(-2.00)
Board size	0.005**	0.047
	(2.24)	(1.57)
D(Independent board)	-0.023	-0.231
	(-0.92)	(-0.95)
Top five institutions' ownership	-0.156***	-2.710***
	(-3.07)	(-3.10)
Ln(Assets)	0.024***	0.379***
	(4.37)	(4.31)
Stock return	0.007	0.040
	(1.06)	(0.46)
ROA	0.137*	1.615
	(1.79)	(1.48)
M/B	-0.004	-0.035
	(-0.66)	(-0.42)

Stock return volatility	0.007	0.061
	(0.60)	(0.38)
Debt/Assets	0.058**	1.031***
	(2.27)	(2.59)
Advertisement/Sales	-0.097	-0.707
	(-0.60)	(-0.30)
R&D/Assets	0.240**	3.282**
	(2.52)	(2.30)
Industry growth	0.032*	0.262
	(1.96)	(1.18)
State corporate tax rate	0.121	1.516
	(0.75)	(0.64)
Industry FEs	Yes	Yes
Year FEs	Yes	Yes
Number of observations	23,254	23,254
Pseudo R^2	0.230	0.179

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 in Columns 1–4 and in millions of dollars in Column 5. 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 parentheses below the corresponding regression coefficients. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable:	Ln(Total pay)				Total pay
	(1)	(2)	(3)	(4)	(5)
D(Affiliated donation)	0.092*				
	(1.94)				
Ln(1+ Affiliated donation in		0.017**			
thousands of dollars)		(2.07)			
Ln(1+Affiliated donation amount,			0.012*		
scaled by average director pay)			(1.75)		
Ln(1+Affiliated donation amount, scaled				0.021**	
by total annual donation of the firm)				(2.13)	
Affiliated donation amount					0.319**
(in millions of dollars)					(2.06)
D(CEO serving as Chairman)	0.196***	0.195***	0.180***	0.114*	1.212**
	(3.35)	(3.35)	(3.19)	(1.67)	(2.47)
CEO tenure	0.003	0.003	0.004	0.003	0.072
	(0.41)	(0.40)	(0.52)	(0.30)	(1.15)
CEO ownership	-0.031	-0.031	-0.031	-0.057	-0.028
	(-1.61)	(-1.60)	(-1.60)	(-1.18)	(-0.15)
Board size	0.019	0.018	0.016	-0.009	0.048
	(1.57)	(1.55)	(1.47)	(-0.48)	(0.50)
D(Independent board)	0.045	0.047	0.064	0.249*	-0.579
	(0.43)	(0.46)	(0.62)	(1.79)	(-0.61)
D(Independent director is socially	-0.005	-0.006	-0.002	0.075	-0.003
connected to the CEO)	(-0.12)	(-0.14)	(-0.05)	(1.47)	(-0.01)
D(Above median fraction of co-opted	0.007	0.007	0.009	0.018	0.174
directors)	(0.15)	(0.17)	(0.20)	(0.33)	(0.45)
Top five institutions' ownership	0.173	0.183	0.170	-0.439	0.368
	(0.64)	(0.67)	(0.63)	(-0.90)	(0.18)
Ln(Assets)	0.332***	0.328***	0.332***	0.344***	3.304***
	(7.55)	(7.34)	(7.97)	(9.37)	(10.32)
Stock return	0.131*	0.131*	0.137***	0.290***	1.121**
	(1.95)	(1.95)	(2.60)	(4.47)	(2.48)
Lagged stock return	0.263***	0.264***	0.295***	0.318***	2.284***
	(3.92)	(3.94)	(5.88)	(5.33)	(4.92)
ROA	0.589	0.595	0.497	0.833	3.718
	(1.44)	(1.46)	(1.28)	(1.41)	(1.05)
Lagged dROA	0.377	0.385	0.356	0.545	2.448
	(1.30)	(1.33)	(1.22)	(1.14)	(0.85)
M/B	0.070**	0.068**	0.075***	0.081***	0.943***
	(2.37)	(2.30)	(2.66)	(2.83)	(3.62)
Stock return volatility	-0.109	-0.107	-0.069	-0.387*	-0.668
	(-0.96)	(-0.94)	(-0.60)	(-1.78)	(-0.80)
Debt/Assets	0.050	0.044	0.017	0.004	0.718
	(0.34)	(0.30)	(0.12)	(0.02)	(0.43)
Industry FEs	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes
Number of observations	3,385	3,385	3,340	1,272	3,385
Adjusted R^2	0.304	0.305	0.307	0.320	0.293

Table 5. Effect of affiliated donations on CEO compensation, roles of compensation committee

Total pay is annual direct compensation for the CEO (*TDC1* in ExecuComp) in thousands of dollars. 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 parentheses below the corresponding regression coefficients. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable:	Ln(Total pay)			
	(1)	(2)	(3)	(4)
D(Affiliated donation related to compensation committee)	0.105* (1.89)			
D(Affiliated donation related to compensation committee chair)		0.153** (2.38)		
D(Affiliated donation related to compensation committee member)		0.072 (1.02)		
D(# of affiliated compensation committee ≥ 2)			0.152*** (2.69)	
D(# of affiliated compensation committee = 1)			0.046 (0.63)	
D(Above median % of affiliated comp committee)				0.144** (2.53)
D(Below median % of affiliated comp committee)				0.066 (0.94)
D(Affiliated donation unrelated to compensation committee)	0.090 (1.18)	0.090 (1.18)	0.091 (1.20)	0.091 (1.19)
D(Unaffiliated donation)	0.038 (0.91)	0.038 (0.92)	0.039 (0.94)	0.039 (0.93)
Firm and CEO controls (same as Table 4)	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Number of observations	3,385	3,385	3,385	3,385
Adjusted R^2	0.304	0.304	0.304	0.304

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

The table reports regression coefficients on D(Affiliated donation) of Ln(Total pay) in subsamples sorted based on various corporate governance measures. CEO total pay is in thousands 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 parentheses below the corresponding regression coefficients. ***, **, and * beside the coefficients denote statistical significance at the 1%, 5%, and 10% levels, respectively. In each panel, the right-most column reports the *p*-value from testing the difference in the coefficient of D(Affiliated donation) between the two subsamples.

Dependent variable:	Ln(Total pay)		*p*-value (Difference)
Panel A: Subsamples by conventional board independence			
	Below median	Above median	
D(Affiliated donation)	0.173**	0.034	0.011
	(2.12)	(0.75)	
Panel B: Subsamples by fraction of busy directors among independent directors on the board			
	Above median	Below median	
D(Affiliated donation)	0.120**	0.024	0.090
	(2.37)	(0.35)	
Panel C: Subsamples by outside directors' ownership			
	Below median	Above median	
D(Affiliated donation)	0.115**	0.030	0.115
	(2.08)	(0.41)	
Panel D: Subsamples by the top five institutions' ownership			
	Below median	Above median	
D(Affiliated donation)	0.122**	0.031	0.097
	(2.36)	(0.43)	
Panel E: Subsamples by CEO tenure			
	Above median	Below median	
D(Affiliated donation)	0.170***	0.009	0.002
	(3.02)	(0.18)	
Panel F: Subsamples by board size			
	Above median	Below median	
D(Affiliated donation)	0.045	0.205***	0.003
	(0.77)	(3.20)	

Table 7. Effect of affiliated donations on CEO compensation, director fixed effects, CEO fixed effects, and propensity score matching specifications

The dependent variable is logarithmic transformation of CEO total pay in thousands of dollars. The sample for Columns 1 and 2 includes directors who serve on the boards of two S&P 500 firms in a given year, where D(Affiliated donation) equals 1 for only one of the two firms. Director fixed effects are included. We use the entire sample and include CEO fixed effects in Columns 3 and 4. The sample for Columns 5 and 6 includes firms making affiliated donations and their matching firms not making affiliated donations. The propensity score matching model is estimated with a caliper of 0.05 (i.e., 0.25 of the standard deviations of the estimated propensity score). The matching model is a logit model that estimates the propensity to make affiliated donations based on the explanatory variables in Table 3, Panel A. 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 parentheses below the corresponding regression coefficients. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	Director fixed effects specifications		CEO fixed effects specifications		Propensity score matching tests	
	(1)	(2)	(3)	(4)	(5)	(6)
D(Affiliated donation)	0.082**		0.064**		0.100**	
	(1.98)		(1.99)		(2.16)	
D(Affiliated donation related to		0.126**		0.063*		0.111**
compensation committee)		(2.09)		(1.65)		(2.21)
D(Affiliated donation unrelated to		0.059		0.066		0.073
compensation committee)		(1.13)		(1.63)		(1.02)
Firm and CEO controls (same as Table 4)	Yes	Yes	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Other FEs	Director	Director	CEO	CEO		
Number of observations	1,750	1,750	3,385	3,385	1,282	1,282
Adjusted R^2	0.481	0.481	0.686	0.686	0.317	0.317

Table 8. Changes in CEO compensation around initiation and termination of affiliated donations

Panel A summarizes the main variables and Panel B reports the regression results. The dependent variable is the annual change in CEO total pay in millions of dollars. D(Initiation of affiliated donation) equals 1 if a firm makes an affiliated donation for the first time to any independent director-affiliated charity and 0 otherwise. D(Initiation of affiliated donation related to comp committee) equals 1 if a firm makes a donation to any charity that is affiliated with an independent director on the compensation committee for the first time and 0 otherwise. D(Initiation of affiliated donation unrelated to comp committee) equals 1 if a firm makes a donation to any charity that is affiliated with an independent director outside the compensation committee for the first time and 0 otherwise. D(Termination of affiliated donation) equals 1 if a firm stops making donations to all charities that are affiliated with independent directors and 0 otherwise. D(Termination of affiliated donation related to comp committee) equals 1 if a firm stops making donations to all charities that are affiliated with independent directors on the compensation committee and 0 otherwise. D(Termination of affiliated donation unrelated to comp committee) equals 1 if a firm stops making donations to all charities that are affiliated with independent directors outside the compensation committee and 0 otherwise. 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 parentheses below the corresponding regression coefficients. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Summary statistics

Variable	N	Mean	STD
Annual change in CEO total pay (in millions of dollars)	3,071	0.366	5.473
D(Initiation of affiliated donation)	3,071	0.024	0.154
D(Initiation of affiliated donation related to comp committee)	3,071	0.022	0.148
D(Initiation of affiliated donation unrelated to comp committee)	3,071	0.021	0.144
D(Termination of affiliated donation)	3,071	0.032	0.177
D(Termination of affiliated donation related to comp committee)	3,071	0.028	0.166
D(Termination of affiliated donation unrelated to comp committee)	3,071	0.024	0.152

Panel B. Regressions

	(1)	(2)	(3)	(4)
D(Initiation of affiliated donation)	1.204***			
	(2.60)			
D(Initiation of affiliated donation related to comp committee)		1.129**		
		(2.16)		
D(Initiation of affiliated donation unrelated to comp committee)		0.775		
		(1.18)		
D(Termination of affiliated donation)			-1.197*	
			(-1.80)	
D(Termination of affiliated donation related to comp committee)				-1.073*
				(-1.67)
D(Termination of affiliated donation unrelated to comp committee)				-0.273
				(-0.40)
D(CEO serving as Chairman)	0.067	0.058	0.078	0.066
	(0.25)	(0.21)	(0.29)	(0.25)
CEO tenure	0.021	0.021	0.021	0.022
	(1.19)	(1.18)	(1.17)	(1.19)
CEO ownership	0.008	0.009	0.009	0.009
	(0.23)	(0.26)	(0.27)	(0.26)
Board size	0.034	0.031	0.039	0.039
	(0.93)	(0.87)	(1.08)	(1.08)
D(Independent board)	-0.450*	-0.451*	-0.392	-0.397
	(-1.82)	(-1.85)	(-1.60)	(-1.61)
D(Independent director is socially connected to the CEO)	0.051	0.046	0.069	0.078
	(0.34)	(0.31)	(0.46)	(0.53)
D(Above median fraction of co-opted directors)	-0.090	-0.092	-0.079	-0.091
	(-0.49)	(-0.50)	(-0.43)	(-0.50)
Top five institutions' ownership	2.763***	2.753***	2.676***	2.726***
	(2.98)	(2.97)	(2.89)	(2.94)
Ln(Assets)	0.074	0.072	0.057	0.063
	(0.88)	(0.86)	(0.68)	(0.74)
Stock return	1.681***	1.683***	1.668***	1.678***
	(3.66)	(3.66)	(3.63)	(3.65)
Lagged stock return	1.848***	1.847***	1.814***	1.816***
	(4.53)	(4.51)	(4.43)	(4.44)
ROA	1.032	1.078	1.155	1.126
	(0.88)	(0.92)	(0.98)	(0.96)
Lagged dROA	-1.460	-1.406	-1.501	-1.475
	(-0.47)	(-0.45)	(-0.48)	(-0.47)
M/B	-0.134	-0.134	-0.142	-0.141
	(-1.32)	(-1.32)	(-1.41)	(-1.39)
Stock return volatility	-1.045	-1.014	-1.022	-1.030
	(-1.40)	(-1.37)	(-1.37)	(-1.39)
Debt/Assets	0.267	0.273	0.274	0.276
	(0.63)	(0.65)	(0.65)	(0.65)
Annual change in sales in billions of dollars	0.042	0.043	0.043	0.042
	(0.96)	(0.97)	(0.96)	(0.95)
Annual change in net income in billions of dollars	0.348***	0.345***	0.342***	0.342***
	(2.71)	(2.69)	(2.67)	(2.66)
Industry FEs	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Number of observations	3,071	3,071	3,071	3,071
Adjusted R^2	0.038	0.038	0.038	0.037

Table 9. Changes in affiliated donations around director hiring and retirement

Tests in this table are conducted at the director-charity-year level in a subsample of independent directors that are affiliated with a charity to which their firm made a donation this year. Panel A compares a firm's propensity to initiate donations to charities affiliated with a new director with its propensity to start donations to the charities affiliated with an incumbent director. Panel B compares a firm's propensity to drop its donations to charities that are affiliated with an independent director who retired last year with its propensity of dropping the donations to charities affiliated with a director who remains on the board. Director retirement is defined as director departure from a firm at the age of 70 or older. Panel C reports corresponding regression results. D(Initiate donation to the charity affiliated with the director) equals 1 if a firm did not make an affiliated donation last year but makes an affiliated donation this year to the charity affiliated with the director and 0 otherwise. D(Terminate donation to the charity affiliated with the director) equals 1 if a firm made an affiliated donation last year but does not make an affiliated donation this year to the charity affiliated with the director and 0 otherwise. We report t-statistics based on heteroskedasticity robust standard errors adjusted for firm clusters in parentheses below the corresponding regression coefficients. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Propensity of a firm to initiate donations to charities affiliated with a new independent director

		D(Initiate donation to the charity affiliated with the director)	
Became independent director last year?	N	Mean	STD
No	8,102	0.415	0.493
Yes	368	0.481	0.500
Difference (yes minus no)		0.066**	
t-statistic		2.48	

Panel B: Propensity of a firm to terminate donations to charities affiliated with a retired independent director

		D(Terminate donation to the charity affiliated with the director)	
Director retired last year?	N	Mean	STD
No	8,171	0.389	0.488
Yes	299	0.488	0.501
Difference (yes minus no)		0.099***	
t-statistic		3.36	

Panel C. Regressions

Dependent variable:	D(Initiate donation to the charity affiliated with the director)	D(Terminate donation to the charity affiliated with the director)
	(1)	(2)
D(Became independent director last year)	0.093***	
	(3.29)	
D(Director retired last year)		0.079*
		(1.88)
D(CEO serving as Chairman)	-0.024	-0.018
	(-0.47)	(-0.42)
CEO tenure	-0.001	0.002
	(-0.16)	(0.54)
CEO ownership	0.002	0.007
	(0.08)	(0.29)
Ln(Number of charities affiliated with non-co-opted independent directors)	-0.011	-0.009
	(-0.62)	(-0.58)
Board size	0.010	0.008
	(1.15)	(0.90)
D(Independent board)	0.016	0.055
	(0.22)	(1.04)
D(Independent director is socially connected to the CEO)	0.010	0.074**
	(0.29)	(2.02)
Top five institutions' ownership	-0.170	0.001
	(-0.58)	(0.00)
Ln(Assets)	-0.090***	-0.112***
	(-3.06)	(-3.95)
Stock return	0.060	-0.014
	(0.78)	(-0.21)
ROA	-0.786*	-0.375
	(-1.81)	(-0.89)
M/B	0.058*	-0.005
	(1.67)	(-0.16)
Stock return volatility	0.120	0.033
	(1.38)	(0.41)
Debt/Assets	0.157	0.128
	(1.10)	(0.91)
Advertisement/Sales	0.449	0.232
	(0.49)	(0.27)
R&D/Assets	-0.652	-0.014
	(-0.81)	(-0.02)
Industry growth	0.150	0.153
	(0.75)	(0.93)
State corporate tax rate	0.966	0.876
	(1.24)	(1.37)
Industry FEs	Yes	Yes
Year FEs	Yes	Yes
Number of observations	7,076	7,076
Pseudo/Adjusted R^2	0.155	0.110

Table 10. CEO-affiliated donations and independent director-affiliated donations

Panel A reports results from regressions of the propensity and the amount of independent director-affiliated donations in millions of dollars, controlling for CEO-affiliated donations (Columns 1 and 2) and of the propensity and the amount of CEO-affiliated donations in millions of dollars (Columns 3 and 4), on various determinants of affiliated donations. The regression models follow Table 3, Panel A. Panel B reports results from regressing CEO compensation on an indicator for independent director- but not CEO-affiliated donations, an indicator for CEO- but not independent director-affiliated donations, an indicator for CEO- and independent director-affiliated donations, and an indicator for donations unaffiliated with either. The regressions also include the same controls as in Table 4. We report *t*-statistics based on heteroskedasticity robust standard errors adjusted for firm clusters in parentheses below the corresponding regression coefficients. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Determinants of CEO-affiliated donations and independent director-affiliated donations

Dependent variable:	Independent director-affiliated donation		CEO-affiliated donation	
	Propensity (1)	Amount (2)	Propensity (3)	Amount (4)
D(CEO-affiliated donation)	0.752***			
	(25.46)			
Amount of CEO-affiliated donation		2.061***		
		(7.80)		
D(CEO serving as Chairman)	0.003	0.065	0.063**	0.388***
	(0.10)	(0.30)	(2.28)	(2.76)
CEO tenure	0.000	0.003	0.003	0.028**
	(0.07)	(0.20)	(1.51)	(2.36)
CEO ownership	-0.016**	-0.092*	-0.013**	-0.093**
	(-2.20)	(-1.93)	(-2.07)	(-2.36)
Ln(Number of charities affiliated with	0.028**	0.337***	0.027***	0.138**
non-co-opted independent directors)	(2.38)	(4.58)	(2.98)	(2.56)
Board size	0.024***	0.146***	0.013**	0.065**
	(3.68)	(3.22)	(2.41)	(2.21)
D(Independent board)	0.023	0.097	-0.023	-0.105
	(0.66)	(0.34)	(-0.64)	(-0.64)
D(Independent director is socially	0.006	0.231	0.034	0.196*
connected to the CEO)	(0.25)	(1.43)	(1.61)	(1.65)
Top five institutions' ownership	-0.180	-3.911***	-0.104	-0.300
	(-1.15)	(-3.40)	(-0.76)	(-0.40)
Ln(Assets)	0.049***	0.552***	0.079***	0.494***
	(2.97)	(3.91)	(5.12)	(5.93)
Stock return	0.018	0.055	-0.011	-0.066
	(0.62)	(0.31)	(-0.47)	(-0.51)
ROA	0.329	1.675	0.505**	3.138**
	(1.44)	(0.89)	(2.54)	(2.49)
M/B	-0.010	0.006	-0.007	-0.031
	(-0.68)	(0.05)	(-0.56)	(-0.37)
Stock return volatility	-0.002	-0.300	0.002	0.082
	(-0.04)	(-0.69)	(0.05)	(0.33)
Debt/Assets	0.108	1.775***	0.013	0.060
	(1.26)	(2.79)	(0.19)	(0.15)
Advertisement/Sales	0.526	1.570	-0.686	-3.051
	(0.91)	(0.39)	(-1.45)	(-1.14)
R&D/Assets	0.318	4.331	0.854***	4.858***
	(0.98)	(1.63)	(2.90)	(2.74)
Industry growth	0.145	0.856	0.073	0.198
	(1.31)	(1.61)	(1.32)	(0.68)
State corporate tax rate	0.301	3.459	0.238	-0.750
	(0.67)	(1.01)	(0.51)	(-0.27)
Industry FEs	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Number of Observations	3,385	3,385	3,385	3,385
Pseudo R-squared	0.487	0.224	0.201	0.158

Panel B: CEO compensation

Dependent variable:	Ln(Total pay)	
	(1)	(2)
D(Independent director but not CEO	0.108**	
affiliated donation)	(2.36)	
D(CEO but not Independent director	0.099	
affiliated donation)	(1.19)	
D(Independent director and CEO	0.096	
affiliated donation)	(1.45)	
D(Unaffiliated donation)	0.028	
	(0.62)	
Ln(1+Independent director but not CEO		0.020**
affiliated donation in thousands of dollars)		(2.24)
Ln(1+CEO but not Independent director		0.010
affiliated donation in thousands of dollars)		(0.75)
Ln(1+Independent director and CEO		0.017*
affiliated donation in thousands of dollars)		(1.72)
Ln(1+unaffiliated donation in thousands of dollars)		0.004
		(0.47)
Firm and CEO controls (same as Table 4)	Yes	Yes
Industry FEs	Yes	Yes
Year FEs	Yes	Yes
Number of observations	3,385	3,385
Adjusted R^2	0.304	0.304

Table 11. Board independence redefined and its relationship to CEO compensation

CEO total pay is in thousands of dollars. D(Independent board) is the dummy variable for independent boards according to various definitions of independent directors. A board is defined as independent if it has fewer than three no-independent directors except in the case when co-opted directors are considered non-independent (where 50% is used as the cutoff). All regressions include industry fixed effects and year fixed effects. Industries are Fama-French 12 industries. All regressions include the control variables as in Table 4, although their coefficients are omitted. We report t-statistics based on heteroskedasticity robust standard errors adjusted for firm clusters in parentheses below the corresponding regression coefficients. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Independent board dummy

Dependent variable:	Ln(Total pay)				
	(1)	(2)	(3)	(4)	(5)
D(Independent board, conventional)	0.048	0.048	0.049	0.146	0.142
	(0.46)	(0.43)	(0.48)	(1.35)	(1.25)
D(Independent board, social connections excluded)		0.000			0.008
		(0.01)			(0.18)
D(Independent board, co-opted directors excluded)			-0.013		-0.016
			(-0.30)		(-0.36)
D(Independent board, affiliated donations excluded)				-0.127***	-0.127***
				(-2.77)	(-2.77)
Firm and CEO controls (same as Table 4)	Yes	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes
Number of observations	3,385	3,385	3,385	3,385	3,385
Adjusted R^2	0.303	0.302	0.302	0.306	0.305

Panel B. Fraction of independent directors

Dependent variable:	Ln(Total pay)				
	(1)	(2)	(3)	(4)	(5)
Board independence, conventional	0.185	-0.006	0.219	0.442	0.283
	(0.55)	(-0.02)	(0.63)	(1.23)	(0.74)
Board independence, social connections excluded		0.208			0.238
		(1.43)			(1.64)
Board independence, co-opted directors excluded			-0.076		-0.100
			(-0.88)		(-1.14)
Board independence, affiliated donations excluded				-0.257**	-0.272**
				(-2.06)	(-2.15)
Firm and CEO controls (same as Table 4)	Yes	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes
Number of observations	3,385	3,385	3,385	3,385	3,385
Adjusted R^2	0.303	0.303	0.303	0.305	0.306

Table 12. Effect of affiliated donations on forced CEO turnovers

The dependent variable is forced turnover, which is 1 if there is a forced turnover this year, 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 parentheses below the corresponding regression coefficients. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	Three or more directors are involved in affiliated donations		Above median fraction of directors are involved in affiliated donations	
Subsample:	No	Yes	No	Yes
	(1)	(2)	(3)	(4)
Stock return	-0.028***	0.055	-0.026***	0.061
	(-3.25)	(1.40)	(-3.08)	(1.27)
Lagged stock return	-0.039***	-0.015	-0.039***	-0.010
	(-4.53)	(-0.41)	(-4.53)	(-0.23)
Ln(Sales)	0.003*	0.020*	0.003	0.020
	(1.66)	(1.65)	(1.60)	(1.45)
D(CEO age between 63 and 66)	0.004	0.111	0.013	0.065
	(0.41)	(1.40)	(1.13)	(0.86)
D(CEO ownership is above median)	-0.022***	0.035	-0.022***	0.029
	(-4.02)	(1.10)	(-4.06)	(0.91)
Industry FEs	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Number of observations	3,319	522	3,392	449
Pseudo R^2	0.110	0.132	0.109	0.094
p- value (Col1 = Col2 or Col3 = Col4) on:				
Stock return		0.007		0.017
Lagged stock return		0.285		0.235

Table 13. Effect of affiliated donations on financial reporting quality

Panel A reports the OLS regressions of affiliated donations on *AQ*. Panel B reports the marginal effects from the probit regressions of affiliated donations on *MorJustB*. *AQ* is the accrual quality measure derived by Dechow and Dichev (2002) and modified by Wysocki (2009). *MorJustB* 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. We report *t*-statistics based on heteroskedasticity robust standard errors adjusted for firm clusters in parentheses below the corresponding regression coefficients. ***, **, 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)	-0.233				
	(-1.26)				
D(Affiliated donation related to audit committee)		-0.366**			
		(-2.49)			
D(Affiliated donation related to audit committee chair)			-0.301**		
			(-2.33)		
D(Affiliated donation related to audit committee member)			-0.413		
			(-1.50)		
D(# of affiliated audit committee ≥ 2)				-0.544**	
				(-2.55)	
D(# of affiliated audit committee = 1)				-0.181	
				(-1.41)	
D(Above median % of affiliated audit committee)					-0.572**
					(-2.55)
D(Below median % of affiliated audit committee)					-0.187
					(-1.15)
D(Affiliated donation unrelated to audit committee)		0.077	0.077	0.070	0.071
		(0.25)	(0.25)	(0.23)	(0.23)
D(Unaffiliated donation)	-0.170	-0.174	-0.173	-0.179	-0.179
	(-1.36)	(-1.40)	(-1.40)	(-1.44)	(-1.44)
Ln(Assets)	-0.040	-0.028	-0.029	-0.021	-0.020
	(-0.63)	(-0.43)	(-0.45)	(-0.33)	(-0.32)
M/B	-0.042	-0.037	-0.037	-0.038	-0.038
	(-0.38)	(-0.33)	(-0.33)	(-0.34)	(-0.34)
ROA	1.239	1.300	1.298	1.312	1.308
	(0.71)	(0.75)	(0.75)	(0.75)	(0.75)
Debt/Assets	0.475	0.498	0.501	0.513	0.506
	(0.62)	(0.66)	(0.66)	(0.67)	(0.66)
R&D/Assets	-5.777***	-5.734***	-5.733***	-5.640***	-5.639***
	(-4.90)	(-4.67)	(-4.73)	(-4.46)	(-4.51)
A&D/Assets	1.627	1.358	1.368	1.443	1.450
	(0.42)	(0.35)	(0.35)	(0.37)	(0.37)
Loss	-0.335	-0.337	-0.336	-0.343	-0.344
	(-1.28)	(-1.29)	(-1.27)	(-1.32)	(-1.32)
Ln(No. of analysts)	-0.138	-0.143	-0.142	-0.141	-0.142
	(-0.98)	(-1.01)	(-1.00)	(-1.00)	(-1.01)
Board size	0.017	0.015	0.015	0.015	0.014
	(0.69)	(0.61)	(0.61)	(0.63)	(0.59)
D(Independent board)	-0.132	-0.140	-0.141	-0.136	-0.136
	(-0.53)	(-0.57)	(-0.57)	(-0.55)	(-0.55)
D(Independent director is socially connected to the CEO)	-0.072	-0.065	-0.064	-0.061	-0.060
	(-0.29)	(-0.26)	(-0.25)	(-0.24)	(-0.24)
D(Above median fraction of co-opted directors)	-0.175	-0.181	-0.182	-0.175	-0.171
	(-1.56)	(-1.61)	(-1.62)	(-1.55)	(-1.54)
Top five institutions' ownership	0.240	0.243	0.237	0.214	0.216
	(0.23)	(0.24)	(0.23)	(0.21)	(0.21)
Constant	1.875***	1.782***	1.791***	1.719***	1.722***
	(3.46)	(3.30)	(3.36)	(3.19)	(3.28)
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 = MorJustB

	(1)	(2)	(3)	(4)	(5)
D(Affiliated donation)	0.009				
	(0.44)				
D(Affiliated donation related to audit committee)		0.022			
		(0.92)			
D(Affiliated donation related to audit committee chair)			0.081***		
			(2.86)		
D(Affiliated donation related to audit committee member)			-0.017		
			(-0.58)		
D(# of affiliated audit committee ≥ 2)				0.055*	
				(1.84)	
D(# of affiliated audit committee = 1)				-0.011	
				(-0.37)	
D(Above median % of affiliated audit committee)					0.074**
					(2.31)
D(Below median % of affiliated audit committee)					-0.020
					(-0.71)
D(Affiliated donation unrelated to audit committee)		-0.020	-0.020	-0.018	-0.018
		(-0.73)	(-0.73)	(-0.67)	(-0.65)
D(Unaffiliated donation)	-0.013	-0.013	-0.013	-0.012	-0.012
	(-0.59)	(-0.58)	(-0.57)	(-0.54)	(-0.52)
Ln(Assets)	-0.008	-0.010	-0.010	-0.011	-0.012
	(-0.82)	(-0.97)	(-1.05)	(-1.11)	(-1.17)
M/B	0.028***	0.027***	0.027***	0.027***	0.027***
	(2.85)	(2.81)	(2.82)	(2.83)	(2.83)
ROA	-0.058	-0.063	-0.060	-0.066	-0.066
	(-0.34)	(-0.37)	(-0.36)	(-0.39)	(-0.39)
Debt/Assets	0.017	0.015	0.018	0.012	0.013
	(0.27)	(0.24)	(0.28)	(0.19)	(0.21)
R&D/Assets	-1.018***	-1.022***	-1.011***	-1.038***	-1.045***
	(-3.50)	(-3.52)	(-3.49)	(-3.58)	(-3.60)
A&D/Assets	-0.260	-0.229	-0.223	-0.240	-0.246
	(-0.65)	(-0.56)	(-0.55)	(-0.59)	(-0.61)
Loss	-0.064***	-0.064***	-0.063***	-0.062***	-0.062***
	(-2.97)	(-2.96)	(-2.92)	(-2.89)	(-2.86)
Ln(No. of analysts)	0.056***	0.057***	0.057***	0.056***	0.057***
	(2.70)	(2.77)	(2.77)	(2.74)	(2.75)
Board size	0.002	0.003	0.003	0.002	0.003
	(0.54)	(0.60)	(0.60)	(0.57)	(0.62)
D(Independent board)	0.019	0.020	0.018	0.019	0.019
	(0.80)	(0.84)	(0.75)	(0.81)	(0.82)
D(Independent director is socially connected to the CEO)	0.014	0.013	0.014	0.012	0.012
	(0.85)	(0.80)	(0.86)	(0.76)	(0.76)
D(Above median fraction of co-opted directors)	-0.006	-0.006	-0.006	-0.006	-0.007
	(-0.37)	(-0.34)	(-0.37)	(-0.39)	(-0.46)
Top five institutions' ownership	-0.080	-0.080	-0.084	-0.077	-0.076
	(-0.90)	(-0.89)	(-0.94)	(-0.86)	(-0.85)
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	0.062	0.063	0.065	0.064	0.065

Appendix. Variable Definitions

Donation variables:	
D(Affiliated donation)	Indicator that equals 1 if a firm makes donation(s) to at least one charity affiliated with one or more independent directors of the firm in the year and 0 otherwise.
Ln(1+ Affiliated donation in thousands of dollars)	Logarithm of 1 plus all donations made to charities affiliated with independent directors of the firm in the year, in thousands of dollars.
Ln(1+Affiliated donation amount, scaled by average director pay)	Logarithm of 1 plus 1000 times affiliated donation amount scaled by average director pay.
Ln(1+Affiliated donation amount, scaled by total annual donation of the firm)	Logarithm of 1 plus 1000 times affiliated donation amount scaled by total annual donation.
D(Affiliate donation related to compensation committee)	Indicator that equals 1 if a firm makes donation(s) to at least one charity affiliated with at least one independent director who serves on the firm's compensation committee in the year and 0 otherwise.
D(Affiliated donation related to compensation committee chair)	Indicator that equals 1 if a firm makes donation(s) to at least one charity affiliated with the compensation committee chair and 0 otherwise.
D(Affiliated donation related to compensation committee member)	Indicator that equals 1 if a firm makes donation(s) to at least one charity affiliated with at least one non-chair member of the compensation committee and 0 otherwise.
D(# of affiliated compensation committee $\geq$ 2)	Indicator that equals 1 if a firm makes donation(s) to at least one charity affiliated with two or more compensation committee members and 0 otherwise.
D(# of affiliated compensation committee = 1)	Indicator that equals 1 if a firm makes donation(s) to at least one charity affiliated with one compensation committee member and 0 otherwise.
D(Above median % of affiliated compensation committee)	Indicator that equals 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 compensation committee)	Indicator that equals 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 compensation committee)	Indicator that equals 1 if a firm makes donation(s) to at least one charity affiliated with at least one independent director who does not serve on the compensation committee in the year and 0 otherwise.
D(Unaffiliated donation)	Indicator that equals 1 if a firm makes donation(s) to at least one charity not affiliated with any independent directors of the firm in the year and 0 otherwise.
D(Initiation of affiliated donation)	Indicator that equals 1 if a firm makes donation(s) to at least one charity affiliated with at least one independent director for the first time and 0 otherwise.
D(Initiation of affiliated donation related to compensation committee)	Indicator that equals 1 if a firm makes donation(s) to at least one charity affiliated with at least one compensation committee member for the first time and 0 otherwise.
D(Initiation of affiliated donation unrelated to compensation committee)	Indicator that equals 1 if a firm makes donation(s) to at least one charity affiliated with at least one independent director outside the compensation committee for the first time and 0 otherwise.

D(Termination of affiliated donation)	Indicator that equals 1 if a firm stops making donations to all charities that are affiliated with any independent directors and 0 otherwise.
D(Termination of affiliated donation related to compensation committee)	Indicator that equals 1 if a firm stops making donations to all charities that are affiliated with any compensation committee members and 0 otherwise.
D(Termination of affiliated donation unrelated to compensation committee)	Indicator that equals 1 if a firm stops making donations to all charities that are affiliated with any independent directors outside the compensation committee and 0 otherwise.
D(Affiliate donation related to audit committee)	Indicator that equals 1 if a firm makes donation(s) to at least one charity affiliated with at least one independent director who serves on the audit committee in the year and 0 otherwise.
D(Affiliated donation related to audit committee chair)	Indicator that equals 1 if a firm makes donation(s) to at least one charity affiliated with the chair of the audit committee and 0 otherwise.
D(Affiliated donation related to audit committee member)	Indicator that equals 1 if a firm makes donation(s) to at least one charity affiliated with at least one non-chair member of the audit committee and 0 otherwise.
D(# of affiliated audit committee ≥ 2)	Indicator that equals 1 if a firm makes donation(s) to at least one charity affiliated with two or more audit committee members and 0 otherwise.
D(# of affiliated audit committee = 1)	Indicator that equals 1 if a firm makes donation(s) to at least one charity affiliated with one the audit committee member and 0 otherwise.
D(Above median % of affiliated audit committee)	Indicator that equals 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 equals 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(Affiliate donation unrelated to audit committee)	Indicator that equals 1 if a firm makes donation(s) to at least one charity affiliated with at least one independent director who does not serve on the audit committee in the year and 0 otherwise.
CEO compensation, forced CEO turnover, and reporting quality:	
Total pay	Total direct annual compensation (ExecuComp variable *TDC1*) in thousands of dollars.
D(Forced CEO turnover)	Indicator that equals 1 if the CEO is fired from the firm in the year and 0 otherwise. We thank 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 Gao, Harford, and Li (2016).
AQ	Derived by Dechow and Dichev (2002) and modified by Wysocki (2009). 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-4 to t. A greater AQ indicates higher financial reporting quality.
MorJustB	Indicator 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.

Corporate governance:	
D(CEO serving as Chairman)	Indicator that equals 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.
D(Independent board)	Indicator that equals 1 if there are fewer than three non-independent directors on the board and 0 otherwise.
Busy director	A director who serves on three or more corporate boards, based on information provided in BoardEx.
No. of analysts	Number of analysts covering the firm.
D(Independent director is socially connected to the CEO)	Indicator that equals 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 equals 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 five institutions with the largest holdings of the firm.
Director pay	Annual director compensation for his/her board service.
Firm financials:	
Ln(Assets)	Logarithm of total book assets (measured 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.
Advertisement/Sales	Advertisement expenditure divided by sales.
R&D/Assets	Research and development expenditure divided by book value of assets.
Industry growth	Two-digit SIC industry sales growth rate.
State corporate tax rate	State top statutory corporate tax rate.
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.

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