Last to Come and Last to Go? On the Complex Role of Gender and Ethnicity in the Reputational Penalties for Directors Linked to Corporate Fraud

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LAST TO COME AND LAST TO GO? ON THE COMPLEX ROLE OF GENDER AND ETHNICITY IN THE REPUTATIONAL PENALTIES FOR DIRECTORS LINKED TO CORPORATE FRAUD

ABSTRACT

Scholars have found consistent evidence that directors who served on boards of firms accused of misconduct face reputational penalties in the director labor market. While this is often interpreted in terms of an *ex post* settling-up process that penalizes directors for failing in their role as monitors of management, the fundamentally social basis of the director labor market suggests that the *ex post* settling-up process may also incorporate a resource-provisioning role for directors as conferrers of legitimacy. We analyze how growing socio-economic pressures that aim to redress the longstanding underrepresentation of female and ethnic minority directors may lessen—for these sought-after directors—the penalties typically imposed by the labor market in the aftermath of corporate misconduct. Using a rich proprietary dataset on financial misconduct and directors' demographic characteristics, we find strong support for our hypotheses regarding a possible "reputational immunity" effect. We also provide supplementary analyses demonstrating the specific mechanisms underlying our predictions, and establishing the robustness of the results to a variety of alternative explanations. We discuss the implications of our theoretical perspective and empirical findings for future research on corporate governance, corporate misconduct, and the duality of minority status as it relates to discriminatory outcomes in modern labor markets.

Keywords: Board of directors, Corporate corruption, Agency theory, Resource dependence theory

INTRODUCTION

Scholars studying the consequences associated with corporate misconduct have demonstrated that legal and social sanctions are often imposed not only on the implicated firm but also on its managers and directors (Arthaud-Day, Certo, Dalton, & Dalton, 2006; Kapoff, Lee, & Martin, 2008a; Fich & Shivdasani, 2007; Gangloff, Connelly, & Shook, 2016; Srinivasan, 2005; Wiersema & Zhang, 2013). These results are often used to support the notion that there is indeed a well-functioning labor market for managers and directors: when negative organizational outcomes occur, individuals working at the firm are penalized for these outcomes, implying a relatively efficient labor market process known as *ex post* settling-up (Fama, 1980; Fama & Jensen, 1983). This process is typically understood in terms of evaluators' observation of corporate outcomes as signals, their drawing of inferences about the unobservable qualities of managers and directors, and their incorporation of this assessment into decisions regarding hiring or retaining these individuals.

The consequences of corporate misconduct are particularly pronounced for directors, given boards' formal role in monitoring senior management and preventing managerial deviance (Greve, Palmer, & Pozner, 2010; Mizruchi, 1983; Walsh & Seward, 1990). More specifically, fraudulent corporate outcomes are seen as evidence of a director's failure as a monitor, and that evidence triggers penalties for the fraud-tainted director in the labor market for directors. Indeed, in cases of accounting fraud, research has shown that directors serving on the board of an accused firm bear a professional cost in terms of a "net loss" of outside directorships after misconduct is uncovered, which includes the forfeiture of existing outside directorships and gaining fewer new outside directorships at non-fraudulent firms (Cowen & Marcel, 2011; Srinivasan, 2005).

This evidence of reputational penalties for directors, often found in the finance literature, has typically been interpreted from an agency theory perspective: that director labor markets function efficiently in ensuring that directors act as effective monitors of management (Fama, 1980). However, the management literature has long argued that directors also serve a resource-provisioning role, which includes provision of expertise, linkages to external stakeholders, and substantive and symbolic value as conferrers of legitimacy (Hillman & Dalziel, 2003; Pfeffer, 1972; Pfeffer & Salancik, 1978). This suggests that a singular focus on directors' roles as monitors of management (i.e., an agency theory interpretation of the *ex post* settling-up process) inevitably gives us an incomplete understanding of the penalties for individual directors associated with corporate misconduct. Indeed, we concur with Wiesenfeld, Wurthmann, and Hambrick (2008), who argued that social, legal, and economic arbiters all play a role in directors' settling-up processes, and that the director labor market "often deviates widely from the straightforward calculus of rationality and fairness envisioned by agency theorists" (2008: 231).

In this study, we build upon the recognition that the *ex post* settling-up process for directors goes considerably beyond the invisible hand of an efficient labor market disciplining the directors responsible for poor monitoring. Our specific focus is on analyzing the extent to which a director's demographic minority status within the population of directors (i.e., female or ethnic minority) affects the labor market process. We do so in a way that considers directors' roles not only as monitors but also as resource providers. This resource-provisioning role draws on directors' human and social capital, as well as their demographic characteristics, and it includes a legitimacy-conferring function related to the mounting social pressures for increased board diversity (Tasheva & Hillman, 2018). As we will discuss in subsequent sections, we take the view that the social context of the settling-up process creates a particularly complex calculus whereby longstanding social-psychological biases against minority directors may be partly or fully counterbalanced by socio-economic pressures that promote board diversity. The net effect is the possible weakening or even reversal of the reputational penalties that fraud-tainted minority directors would typically incur.

It is important to note that we are not disputing the indisputable historical discrimination against women and other minority directors. Instead, we suggest that the evolving social norms regarding preferences for board diversity have increased the capital of minority directors such that one might observe a partial, or even full, reversal of historical discrimination patterns in the market for directors. With respect to these evolving norms, researchers have shown that in societies that acknowledge the lack of diversity on boards, firms face significant socio-economic pressures to improve the representation of minority directors (Chang, Milkman, Chugh, & Akinola, 2019; Daily, Certo, & Dalton, 1999; Dobbin & Jung, 2011; Knippen, Shen, & Zhu, 2019). Moreover, researchers have highlighted the benefits of greater legitimacy, improved performance, and enhanced stakeholder support that come from increasing board diversity (Carter, Simkins, & Simpson, 2003; Post & Byron, 2015). Considering these possible benefits, researchers have also noted that "being a female or minority is an important factor behind director selection" (Withers, Hillman, & Cannella, 2012: 252).

In other words, although social-psychological biases against minority directors still exist, the higher demand for such directors (Withers et al., 2012) and perceptions of their relative scarcity (Farrell & Hersch, 2005) lead us to posit that these factors could cause such sought-after directors to experience—relative to their white male counterparts—a degree of "reputational immunity" from the penalties in the director labor market that usually follow an association with corporate wrongdoing.

Beyond this main hypothesis, we specify additional hypotheses that relate the primary hypothesis to environmental and organizational factors. Specifically, we theoretically and empirically analyze the extent to which (1) the prevailing media discourse and (2) a non-fraudulent firm's level of board diversity amplify or attenuate the reputational immunity of fraud-tainted minority directors. We also conduct supplementary analyses to assess the extent to which this reputational immunity extends to minority directors who served on the audit committee, and to directors who were overcommitted by serving on multiple boards. We test the predictions using a hand-collected dataset of directors who served on firms that were accused of accounting fraud by the Securities and Exchange Commission (SEC) and/or the Department of Justice (DOJ) in the period from 1996 to 2012.

By explicitly theorizing and testing hypotheses regarding how the *ex post* settling-up process for corporate directors may differ based on directors' demographic status rather than on their monitoring performance alone, we extend existing research that explicitly recognizes the social basis of director labor markets (e.g., Hillman & Dalziel, 2003; Pfeffer, 1972; Wiesenfeld et al., 2008). By analyzing these director labor market dynamics in the specific situation of fraud-tainted minority directors, we also contribute to the nascent literature on misconduct and the social embeddedness of markets (e.g., Graffin, Bundy, Porac, Wade, & Quinn, 2013; Piazza & Jourdan, 2018; Yenkey, 2018). Finally, by theoretically and empirically analyzing the possibility of a degree of reputational immunity for minority directors, we contribute to the understanding of discriminatory outcomes in modern labor markets. In this sense, our study is consistent with recent research challenging the assumption that minority status is uniformly disadvantageous in the upper echelons of corporations (e.g., Leslie, Manchester, & Dahm, 2017).

THEORY AND HYPOTHESES

Corporate outcomes such as misconduct serve as signals of the underlying quality of the individuals associated with a firm (Fama, 1980; Fama & Jensen, 1983). Thus, when firms engage in misconduct, there are negative penalties not only for the firm but also for its executives and board members (Arthaud-Day et al., 2006; Cowen & Marcel, 2011; Gangloff et al., 2016; Marcel & Cowen, 2014; Srinivasan, 2005). Moreover, previous research has provided strong evidence that negative stock market valuations extend beyond firms that are accused of accounting fraud to other firms that are themselves blameless but have directors who are interlocked with the fraudulent firm (Kang, 2008). In order to prevent association with directors who have been shown to be poor monitors, blameless firms are likely to dismiss or not hire such fraud-tainted directors (Cowen & Marcel, 2011; Fich & Shivdasani, 2007; Srinivasan, 2005; Wurthmann, 2014). Evidence that fraud-tainted directors have lower prospects for retaining old directorships and obtaining new ones flows predictably from the assumption of a well-functioning *ex post* settling-up process and efficient director labor markets.

It is not surprising that most studies of the *ex post* settling-up process have taken an agency theory perspective (Greve et al., 2010; Pozner & Harris, 2016), whereby the labor market for directors serves as the invisible hand disciplining directors who are poor monitors, and is particularly harsh when the misconduct is more severe and a director bears a greater responsibility for it (Fich & Shivdasani, 2007; Srinivasan, 2005). Indeed, directors who were considered to be in charge of monitoring and preventing financial misconduct (e.g., directors who serve on the audit committee) have been found to experience a greater net loss of directorships (i.e., they lost more and/or gained fewer new board appointments) in the years following the public revelation of the misconduct (Srinivasan, 2005). Given such findings, it has been concluded that "the market for outside directorships serves as an important source of incentives for outside directors to develop reputations as monitoring specialists" (Fich & Shivdasani, 2006).

While we do not deny that the monitoring role is critical for a corporate director, the management literature has clearly shown that it is not the only role. Research in this area has emphasized that directors provide resources beyond monitoring, including advice, ties to key stakeholders, and greater social legitimacy (Hillman & Dalziel, 2003; Lungenau & Zajac, 2016; Mizruchi & Stearns, 1994; Pfeffer & Salancik, 1978). Thus, we suggest in this study that director labor markets will likely consider not only the value of the director as a monitor of management but also as a provider of other resources. Furthermore, we propose that this resource-provisioning role is itself linked to the evolving socio-economic context in which governance standards and market evaluations occur (Granovetter, 1985, 2005; Westphal & Zajac, 2013).

We highlight the possibilities for analyzing this relationship by considering how growing socio-economic pressures for board diversity (Chu & Davis, 2016; Daily, Certo & Dalton, 1999; Hillman et al., 2007) could affect the labor market outcomes of women and ethnic minority directors associated with corporate misconduct. We seek to extend prior research emphasizing the relevance of social factors in director selection and evaluation (Hillman & Dalziel, 2003; Pfeffer, 1972; Wiesenfeld et al., 2008) by suggesting that the social context of the *ex post* settling-up process in director labor markets is itself non-monolithic. More specifically, as discussed in detail below, we advance the notion that longstanding social-psychological biases against minority directors may be partly or fully counterweighed by more recent socio-economic pressures promoting board diversity, resulting in a degree of reputational immunity for fraud-tainted minority directors.

Reputational Immunity and *Ex Post* Settling-Up Outcomes for Minority Directors

Research in sociology and psychology has documented the importance of demographic characteristics such as gender, race, and ethnicity in determining the extent to which individuals are penalized for their actions (Kruttschnitt & Green, 1984; Mazzella & Feingold, 1994). Given that race, ethnicity, and gender have been shown to be consequential in judging an individual's actions, we consider whether such salient demographic characteristics might also be consequential in the context of corporate misconduct and the penalties faced by directors who are implicated in it.

Gender, race, and ethnicity have been shown to play a significant (and, some would say, discriminatory) role in labor markets, including the labor market for directors. Governance researchers have noted both the strong degree of demographic homogeneity in U.S. corporate boards (i.e., white men with degrees from prestigious universities and similar social backgrounds) and the preference for demographically similar individuals in the appointment of new directors (Westphal & Zajac, 2013; Zhu, Shen, & Hillman, 2014). Such behavior is consistent with expectations derived from social identity theory (Tajfel & Turner, 1985), which holds that individuals categorize similar others as in-group and dissimilar others as out-group, and consequently favor the former when making judgments (i.e., the "in-group favorability bias"). Given the combination of in-group bias and the historically high majority of white male directors, one might expect the *ex post* settling-up process in the director labor market to be more generous and forgiving to white male directors than to women or ethnic minority directors.

However, we suggest that such an expectation fails to consider the evolving social norms regarding corporate diversity and specifically board diversity. We posit that the effect of social-psychological biases against minority directors could be attenuated—or even reversed—in the director labor market owing to more recent socio-economic pressures that promote board diversity. While we do not dispute the longstanding existence of discrimination against women and minority directors, we suggest that recent institutional realities and preferences for board diversity offer the possibility for fraud-tainted women and ethnic minority directors to enjoy a degree of reputational immunity relative to their white male colleagues.

Our focus on evolving social norms that affect issues of corporate governance is consistent with prior work that has noted that "prevailing theories of corporate governance […] contain culturally resonant social prescriptions and organizing principles" that lead firms to adopt socially prescribed board structures "to enhance their legitimacy" (Westphal & Zajac, 2013:

634). Moreover, researchers have explicitly tied evolving social norms to historically underrepresented minority directors, stating that "diversity within boards of directors adds legitimacy to an organization" and emphasizing that minority directors provide additional value by virtue of their "different experience sets, beliefs, and perspectives" (Hillman et al., 2007: 944). Other researchers have noted how the socio-economic imperative for greater diversity implies an increase in demand given that "women and minorities are highly sought after for directorships" (Withers et al., 2012: 252).

If we move from considerations of demand to ones of supply, we find that a perceived limited supply of minority directors has also been invoked to explain the continuing underrepresentation of minority directors (Hwang, Shivdasani, & Siminitzi, 2018). Surveys of boards have found that white male directors believed there was a lack of qualified candidates among women and ethnic minorities, and that boards were reluctant to appoint women and ethnic minorities who were not currently board members and/or did not have executive experience (Groysberg, Cheng, Stuart, & Bell, 2016). Given the tendency to recruit minority directors who have already penetrated the inner circle of the market of directors, a relatively small number of women and ethnic minority directors have been given board seats (Chu & Davis, 2016). This combination of a perception of a limited supply and prevailing recruitment practices has led to a small number of minority directors holding a large number of directorships (i.e., on average a minority director holds more board seats than does a white male director) (Chu & Davis, 2016; Farrell & Hersch, 2005). These perceptions of limited supply can, in part, be explained by evidence that suggests women and ethnic minorities are held to higher standards of ability when they are considered for board nominations (Hillman, Cannella, & Harris, 2002).

It is important to note that we are not addressing the veracity of the claim of a limited supply of minority directors. Indeed, such a claim may indicate a continued bias against minority directors. Rather, we argue that the value of a director (in this case, a minority director) is necessarily a function of both demand and supply, and that the increased interest in hiring and retaining such directors could significantly mitigate the typical labor market penalties imposed on directors associated with corporate fraud. In other words, when a non-fraudulent firm decides whether to retain or hire a fraud-tainted director, it will likely weigh the negative element ("this director failed as a monitor and will unfavorably affect our reputation") against the positive element ("this director will contribute to our board diversity"). Given such a calculus, the value of a fraud-tainted minority director is likely to be higher than his/her fraud-tainted white male counterpart, suggesting a greater likelihood that a fraud-tainted minority director will be retained or hired. Thus, we hypothesize the possible existence of a reputational immunity effect.

> *Hypothesis 1. Fraud-tainted minority directors (i.e., women and ethnic minorities) will experience reputational immunity in the director labor market relative to fraud-tainted majority directors (i.e., white males).*

Contextual Influences on the Reputational Immunity of Minority Directors

Thus far, we have argued that the socio-economic imperative for board diversity and the resulting increase in demand for minority directors shield those directors from reputational penalties when they are associated with fraud. We will now propose additional hypotheses that allow us to more deeply examine the mechanism we have proposed—that reputational immunity for minority directors is driven by a socio-economic imperative for board diversity, rather than alternative considerations (e.g., that minority directors are judged to be less accountable for wrongdoing). Specifically, we consider how minority directors' reputational immunity will likely be affected by the prevailing media discourse promoting board diversity and the marginal "diversity value" of a fraud-tainted minority director on the board of a non-fraudulent firm.

Media Discourse Promoting Board Diversity

First, we consider how the variations in socio-economic pressures for greater board diversity can affect directors' reputational immunity. Such forces are rarely uniform, and we therefore consider their possible variation over time. Just as judgments about the appropriateness of governance practices are sensitive to changes in prevailing social beliefs and assumptions (Davis & Thompson, 1994; Westphal & Zajac, 2013), the embrace of board diversity goals may be susceptible to change over time. Specifically, we analyze how variation in the prevailing media discourse may affect directors' reputational immunity.

Given its evaluative role, the media serves as a carrier of evolving norms and an important external constituent whose assessments can affect firms' strategic and governance choices (Aguilera, Desender, Bednar, & Lee, 2015). For example, media discourse has been shown to prompt firms to divest assets (Durand & Vergne, 2015) and adjust the compensation paid to their CEOs (Vergne, Wernicke, & Brenner, 2018). It can also affect director exit from their boards (Boivie, Graffin, & Pollock, 2012; Harrison, Boivie, Sharp, & Gentry, 2018) and boards' gender compositions (Chang et al., 2019). The media is also influential in the diffusion of corporate practices. Media attention to a practice can, of course, vary over time, as Naumovska, Zajac, and Lee (2020) showed in their analysis of how variation in the media coverage of "reverse mergers" affected the practice's adoption patterns.

We therefore consider how variations in media attention to board diversity may affect the degree of any reputational immunity for fraud-tainted minority directors. An increase in media coverage emphasizing the importance of diversity in the boardroom (Terjesen, Sealy, & Singh, 2009) would likely reflect and enhance valorization of board diversity. Indeed, studies of publicly listed firms have shown that the media and other stakeholders took informational cues from each other, thereby spreading social influence and consensus between their respective communities (Pollock, Rindova, & Maggitti, 2008). We therefore expect that increases in media discourse that reflect and reinforce the preference for board diversity will amplify the reputational immunity of fraud-tainted minority directors—i.e., improve their likelihood of retaining old board seats and obtaining new ones.

> *Hypothesis 2: The greater the media discourse promoting board diversity, the higher the reputational immunity of fraud-tainted minority directors.*

Board Diversity at the Non-Fraudulent Firm

We also consider another contextual factor that can affect the degree of reputational immunity of fraud-tainted minority directors: namely, differences in the levels of board diversity on the boards of non-fraudulent firms on which a fraud-tainted minority director serves. Given the earlier discussion on the socio-economic imperative for greater board diversity, we suggest that the likelihood of a fraud-tainted director to depart from the board of a non-fraudulent firm will also depend on the degree to which that director contributes to the diversity of the non-fraudulent firm, which is a function of that board's existing level of board diversity.

More specifically, we suggest that the perceived marginal benefit of the diversity conferred by the presence of a minority director will depend on the number of minority directors on the board. Farrell and Hersch (2005) found that the likelihood of a company to hire a female director was negatively related to the number of female directors already serving on its board, which suggests a decreasing perceived marginal value of an additional minority director. Acharya and Pollock (2013) suggested a similar diminishing marginal benefit in their discussion of the legitimacy improvements brought about by adding prestigious directors, and they showed that the greater the number of prestigious directors serving on a board, the lower the likelihood of that board adding another prestigious director. For some firms, therefore, the appointment of even a single member of a demographic minority group to the upper echelons could be perceived as a sign of a successful diversity policy (Wajcman, 2013). This evidence is further corroborated by Chang et al. (2019: 155), who provided compelling evidence that boards "would be discontinuously less likely to add additional women once they had met the relevant descriptive social norm for gender diversity."

Thus, we suggest that a non-fraudulent firm's likelihood of retaining a fraud-tainted minority director will depend on that firm's level of board diversity. Given that the relative value of a director is based on the director's "ability to widen the resource base provided by the board" (Hillman et al., 2002: 749), the existing level of board diversity will affect the marginal benefit associated with retaining rather than losing a particular minority director. For example, if there are fewer minority directors on the board of the non-fraudulent firm, a fraud-tainted minority director's marginal contribution to board diversity is greater and would, ceteris paribus, serve as a greater counterweight to the negative value coming from the director's tarnished reputation. We therefore predict that fraud-tainted minority directors are more likely to retain their seats on less diverse boards of non-fraudulent firms. Formally, we hypothesize that:

> *Hypothesis 3: The greater the board diversity of a non-fraudulent firm, the lower a fraud-tainted minority director's reputational immunity on that non-fraudulent firm.*

EMPIRICAL SETTING, DATA, AND MEASURES

Empirical Setting and Data

This study is about the *ex post* settling-up that occurs in the external labor market for directors. The process of *ex post* settling-up involves the possibility that an individual fraud-tainted director will experience both losses in existing directorships at other, non-fraudulent firms, and a reduced likelihood of gaining any new directorships. To test the hypotheses, we identified directors who served on boards of firms that had been accused of accounting fraud, and we then documented those directors' losses and gains of directorships. The sample of fraudulent firms came from the database compiled by Karpoff, Lee, and Martin (2008b) and by Karpoff, Koester, Lee, and Martin (2017), which contains firms subjected to enforcement actions by the SEC and the DOJ for financial misrepresentation ("cooking the books"). It excludes errors or non-fraudulent activities such as minor accounting irregularities.[1] This database also provides the exact date when a case of fraud was initially revealed, which is crucial for the purposes of the study, as this date is the point in time when others learned about the fraud and updated their perception of the implicated directors.

Our sample starts in 1996 and ends in 2012. In line with prior research, we used a three-year window after the point in time when the fraud was initially revealed to measure the employment outcomes for fraud-tainted directors in the director labor market (e.g., Boivie et al., 2012; Cowen & Marcel, 2011; Fich & Shivdasani, 2007). The final sample only includes firms with an asset value of at least $100 million USD in the year prior to the start of the misconduct; this minimum threshold for firm size raises the likelihood that market participants will have learned about the misconduct, which in turn increases the misconduct's potential to affect fraud-tainted directors' future labor market opportunities (Cowen & Marcel, 2011). For each fraudulent firm, we also required demographic data on at least 75 percent of the individuals who were serving as directors on its board at the time when the firm misrepresented its financials.

The demographic data on fraud-tainted directors and information on board membership at other, non-fraudulent firms came from multiple sources that are commonly used in research on

[1] We thank Jonathan Karpoff, Scott Lee, and Gerald Martin for graciously providing us with this proprietary dataset. For a more elaborate discussion of the advantages of this database for studying financial misconduct and the associated consequences, see Karpoff et al. (2017) and Amiram et al. (2018).

governance and *ex post* settling-up, including databases such as BoardEx and Institutional Shareholder Services (ISS, formerly RiskMetrics). Moreover, we relied on information that was hand-collected from annual reports, other corporate proxy statements, biographical databases such as Marquis Who's Who and the Notable Names Database (NNDB), and news outlets such as *Business Week* and *Forbes*. Data on media coverage was from Factiva, an archive of media content from major U.S. news outlets.

As noted above, the hypotheses center on two different units of analysis, and this required us to use two distinctive datasets. (More detail is provided in the subsequent section.) For Hypotheses 1 and 2, the unit of analysis is the fraud-tainted director. The final sample for testing these two hypotheses included 2,030 fraud-tainted directors who served at 197 firms with instances of financial fraud. For Hypothesis 3, the unit of analysis is the pairing between a fraud-tainted minority director and the non-fraudulent firm at which he or she served. This allowed us to examine the likelihood that a non-fraudulent firm would either retain or let go a fraud-tainted minority director as a function of the firm's board's diversity. We collected information on boards' gender and ethnic compositions for the sample of non-fraudulent firms that fraud-tainted minority directors served on. Once more, we required the availability of information on the gender and ethnicity of at least 75 percent of all board members. The data for Hypothesis 3 accounts for the gender and ethnicity of a total of 4,350 directors for 356 unique combinations of fraud-tainted minority directors serving at non-fraudulent firms.

Model Specifications and Dependent Variables

To test Hypotheses 1 and 2, the unit of analysis is the fraud-tainted director, and we examined his or her *net loss of outside directorships* at non-fraudulent firms. That is, the dependent variable for testing these hypotheses captured the number of outside directorships that a fraud-tainted director lost, minus the number of outside directorships he or she gained, in the three years after the fraud was initially made public. We tested Hypotheses 1and 2 with an ordinary least square (OLS) regression, and used Huber-White heteroskedasticity-robust standard errors clustered by firm (Petersen, 2009).

To test Hypothesis 3, we changed the unit of analysis to director-board pairings and examined a non-fraudulent firm's decision to retain or let go a fraud-tainted minority director. More specifically, the dependent variable *loss of a specific outside directorship* is a dummy that equals 1 if a minority director lost his or her directorship on the board of another, non-fraudulent firm that he or she was serving on as outside director within three years after the misconduct was revealed. Given that the dependent variable is dichotomous, taking the value of 0 or 1, we used a logit regression with heteroskedasticity-robust standard errors.

Independent Variables

To test Hypothesis 1, which suggests reputational immunity for minority directors, our independent variable *minority director* was set equal to 1 for female directors and those who belonged to an ethnic minority, and 0 for white male directors. In line with prior research, we categorized African Americans, Arabs, Asians, and Hispanics as ethnic minorities (e.g., Boivie et al., 2012; Zhu et al., 2014). We used two external coders and the following process to categorize directors' ethnicity. We started by identifying directors' gender and ethnicity based on their last and first names. This initial screening allowed us to identify a large portion of the women and some of the Hispanic and Asian directors whose names were representative of these ethnic groups. For all those directors we could not categorize based on names, we conducted a comprehensive search using a range of online sources such as annual reports, other corporate proxy statements, LinkedIn profiles, and biographical databases such as Marquis Who's Who, the Notable Names Database (NNDB), Ancestry.com, and news outlets such as *Business Week* and *Forbes*. We also checked for membership in clubs for minorities and used information on directors' ethnicity contained in the ISS database.[2] When coders were uncertain about a director's ethnicity, two of the authors considered each of the cases and reached agreement. To test the reliability of the coding, we tested the inter-coder reliability on a sub-sample of 500 randomly drawn directors using the two coders who performed the categorizing of directors' ethnicity for the full sample. The coders agreed in 97 percent of cases.

To test Hypothesis 2, which suggests that the reputational immunity effect experienced by minority directors would be amplified by greater media discourse on board diversity, we used an interaction term between the variables *media discourse on board diversity* and *minority director*. The media discourse variable was measured as the sum of articles that appeared in leading business media on the topic of board diversity in the 12 months prior to and the 36 months after the public revelation of the fraud (including the event month). We followed Fiss, Kennedy, and Davis (2012) and used articles that appeared in *New York Times*, *Wall Street Journal*, *Washington Post*, *Forbes*, *Fortune Magazine*, *Business Week*, and *Newsweek*.

As we explained before, to test Hypothesis 3—which suggests that fraud-tainted minority directors were more likely to retain their seats on the boards of non-fraudulent firms—we used a distinctive dataset of outside board membership of fraud-tainted directors at other, non-fraudulent firms, and also a different unit of analysis from that deployed in the other two hypotheses: namely the director-board pairing. The independent variable we used to test Hypothesis 3 was the number of female and ethnic minority directors who served on the non-

[2] Information on directors' ethnicity in ISS has been criticized for being inconsistent (Chu & Davis, 2016: 722–732). We therefore verified information in ISS on directors' ethnicity with information from the sources mentioned above.

fraudulent firm's board (*no. of minority directors at non-fraudulent firm*) (Farrell & Hersch, 2005).

Control Variables

To better isolate how socio-economic pressures for diversity shape fraud-tainted directors' labor market penalties, we controlled for a number of factors that have been shown in prior research to be pertinent to analyses of *ex post* settling-up in director labor markets. Specifically, we included a comprehensive set of variables to account for a variety of characteristics of fraud-tainted directors, fraudulent firms, and corporate misconduct.

Prior research has shown that a fraud-tainted director's labor market penalties are affected by the extent to which the director is perceived as accountable for the misconduct (e.g., Cowen & Marcel, 2011; Srinivasan, 2005; Fich & Shivdasani, 2007). To account for such differences in accountability, we controlled for a number of director characteristics. First, we included a dummy variable to capture whether a fraud-tainted director served on the audit committee of the fraudulent firm during the time of the misconduct (*audit committee at fraudulent firm*), and another dummy variable indicating whether the director served as either a board chair or lead director in the fraudulent firm (*board chair/lead director at fraudulent firm*) (Srinivasan, 2005). We controlled for the extent to which a director was overcommitted or "busy" (*director busyness*) by measuring the number of boards on which the fraud-tainted director served as outside director in the year when the fraud was revealed (Fich & Shivdasani, 2007). We also included a dummy variable to capture whether the fraud-tainted director served as an inside or affiliated director at the fraudulent firm (*inside director at fraudulent firm*) (Cowen & Marcel, 2011).

Given that directors with longer tenure likely possess greater knowledge of the firm and its practices, we controlled for the fraud-tainted director's tenure on the board of the fraudulent firm (*director tenure at fraudulent firm*), measured in years up to when the fraud was first revealed. We followed Cannella, Fraser, and Lee (1995) and Semadeni, Cannella, Fraser, and Lee (2008) in identifying directors who served on the board when the misconduct took place (*director during violation*) as opposed to only serving on the board when the misconduct was revealed.

We further controlled for whether a director was named as a defendant/respondent in the SEC's enforcement actions against the fraudulent firm (*defendant in SEC enforcement*). Given the possibility of directors leaving firms to protect their reputations, either in anticipation of a disclosure (Fahlenbrach, Low, & Stulz, 2017) or after organizational misconduct is revealed (Harrison et al., 2018; Marcel & Cowen, 2014; Withers et al., 2012), we included two dummy variables: one indicating whether a director left the fraudulent firm before the misconduct was publicly revealed (*left fraudulent firm before revelation*) and one indicating whether a director left in the period of three years after the misconduct was publicly revealed (*left fraudulent firm within 3 years*).

We also controlled for additional director characteristics that are unrelated to the specific corporate misconduct yet may be associated with the number of directorships individuals held. Given that some firms have mandatory retirement provisions for directors (Yermack, 2004), we controlled for a fraud-tainted director's age at the time when the fraud was first revealed (*director age*). We followed prior corporate governance research by controlling for whether a director *served in the military* or *attended an Ivy League school* before starting a corporate career (Koch-Bayram & Wernicke, 2018; Zhu et al., 2014). We also controlled for whether the director was employed as a *top executive at another firm* in the year when the financial fraud was initially revealed, and if the *director had financial skills*, as measured by being a certified CFA or CPA or being currently or previously employed as a CFO at another firm (Fich & Shivdasani, 2007; Reeb & Zhao, 2013). To further capture a director's standing within the external market for directorships, we controlled for the average return on assets (weighted by firm size) for all of the firms where a director served as an outside director in a given year (*aver. ROA of firms where director served*) (Chu & Davis, 2016).

With respect to the misconduct itself, we controlled for both the severity and duration of the misconduct by measuring the number of unique laws and rules that a firm was charged with violating by the SEC (*no. of rules violated*), and the number of days during which the firm misstated its financials (*violation time*). High values of these two variables would be expected to increase directors' reputational penalties (Karpoff et al., 2008a). We also controlled for the number of days that passed between the points in time when the fraud ended and when it was first revealed (*time btw. fraud and revelation*), given the possibility that a longer time gap would result in less severe penalties for directors.

Prior research suggests that characteristics of the fraudulent firm may also affect the reputational penalties resulting from corporate fraud. Given that financial market reactions to corporate fraud are affected by the diversity of the fraudulent firm's board (Cumming, Leung, & Rui, 2015), we controlled for the possibility that this could also affect the *ex post* settling-up process. Specifically, we controlled for board-level diversity at the fraudulent firm (*board diversity at fraudulent firm*), which we computed using the Blau index (Blau, 1977) for gender diversity and ethnic diversity (excluding the focal director from the calculations), then scaling the two indices by their respective median values and summing them up. Given prior research showing that media visibility affects board membership (Boivie et al., 2012), we controlled for the media visibility of the fraudulent firm (*media visibility of fraudulent firm*) using the number of news articles about the fraudulent firm in the twelve months prior to when the fraud was first revealed. Finally, we included *year dummies* to control for time-varying, unobserved variables affecting all firms in a given year and *industry dummies* based on 4-digit SIC classifications to control for firm heterogeneity driven by industry characteristics.

As discussed earlier, the testing of Hypothesis 3 necessitated moving the unit of analysis from the fraud-tainted director to the pairing of a fraud-tainted minority director and a specific non-fraudulent firm, which suggested yet more control variables. In the logit model used to test Hypothesis 3, we incorporated most of the controls used to test Hypotheses 1 and 2 pertaining to the fraud-tainted director and the fraudulent event and firm[3], but also controls related to the non-fraudulent firm. Specifically, we controlled for the fraud-tainted director's tenure on the board of the non-fraudulent firm (*director tenure at non-fraudulent*) and membership on the audit committee of the non-fraudulent firm (*audit committee at non-fraudulent*). To address the possibility that differences in board characteristics and prestige or performance of non-fraudulent firms may imply different reactions to fraud-tainted directors (Boivie et al., 2012; Cowen & Marcel, 2011), we included the following control variables: *board size at non-fraudulent*, *sales of non-fraudulent*, *ROA of non-fraudulent*, *return on equity (ROE) of non-fraudulent*, and *media visibility of non-fraudulent*; all these variables were measured in the same way as for the fraudulent firm.

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[3] We did not include the variable *defendant in SEC enforcement* since this was the case for only 16 minority directors. We also did not include the *aver ROA of firms where the director served* because this variable was highly correlated with the variable *ROA of non-fraudulent firm*. Finally, we also did not include the *board diversity at fraudulent firm* because our sample to test Hypothesis 3 was the cases where this variable was not equal to zero.

Finally, given the possibility that financial characteristics affected board diversity (Hillman et al., 2007), we included the following controls: *debt-to-equity ratio of non-fraudulent* (long-term debt plus current liabilities, divided by common equity), *Tobin's q of non-fraudulent* (sum of total assets and the market value of equity minus the common equity, divided by total assets), and *total risk of non-fraudulent* (standard deviation in the firm's daily stock returns over the fiscal year standardized to a mean of 0 and a standard deviation of 1).

RESULTS

To test Hypotheses 1 and 2 we ran OLS models with the dependent variable measuring *net loss of outside directorships*. For Hypothesis 3, we ran a logit model in which the dependent variable was the *loss of a specific outside directorship.* We first discuss the results of our tests of Hypotheses 1 and 2 and then address the results of Hypothesis 3. Table 1 displays summary statistics and correlations for the sample used to test Hypotheses 1 and 2. As Table 1 shows, about 17.19 percent of fraud-tainted directors were either an individual belonging to an ethnic minority or a woman. In terms of *ex post* settling-up outcomes, fraud-tainted directors experienced a 25.87 percent decline in the net number of their directorships at non-fraudulent firms (i.e., a net loss of about 0.50 board seats); this number was 17.96 percent (0.36 board seats) for fraud-tainted minority directors, compared to about 27.62 percent (0.53 board seats) for fraud-tainted white male directors. This finding offers potential support for the expectation that minority directors experience reputational immunity in light of corporate misconduct.

– Insert Table 1 about here –

Table 2 presents the results of fraud-tainted directors' net loss of outside directorships at other, non-fraudulent firms within three years after the financial fraud was initially revealed (Hypotheses 1 and 2). Model 1 shows the effects of the control variables. Models 2 and 3 include the independent variables individually. Model 4 includes both independent variables jointly, and Model 5 is the model with all the controls, independent variables, and interaction effects.

Considering the control variables, the results indicate that directors experienced a higher net loss of directorships in the following circumstances: if they served on the board of the fraudulent firm during the violation period; if they occupied a board leadership position; if they served on the audit committee; if they held more appointments as outside director in the year when the fraud was revealed; if they had longer tenure at the fraudulent firm; if they were older; if they were named as a defendant in the legal enforcement actions; and/or when the violation period was longer. In contrast, directors experienced a lower net loss of directorships in the following circumstances: if they served as the top executive at another firm in the year when the financial fraud was revealed; if they had financial skills; if the portfolio of firms at which they served as directors had a higher weighted average ROA; and/or if the fraudulent firm had higher levels of board diversity.

– Insert Table 2 and Figure 1 about here –

The findings lend support to Hypothesis 1 and show that fraud-tainted directors belonging to a demographic minority faced fewer negative consequences on the labor market for directors following an instance of accounting fraud than did their white male colleagues (Model 2: $\beta=-0.12$, $p<0.05$). The effects are also economically meaningful. Fraud-tainted minority directors experienced a 21.65 percent lower net loss of outside directorships than did their white male colleagues after an instance of fraud.

The results in Model 5 also indicate support for Hypothesis 2. Specifically, women and ethnic minority directors faced fewer negative consequences—in terms of net loss of outside directorships—compared to their white male colleagues when the media discourse on board diversity was higher (Model 5: β=-0.08, p<0.05). For example, when media discourse on board diversity increased two standard deviation from the mean, this resulted in a 24.17 percent decrease in minority directors' net loss of outside directorships. Figure 1 graphs the results.

– Insert Tables 3 and 4 about here –

Table 3 shows the descriptive statistics for the data used to test Hypothesis 3, and Table 4 shows the results of our test of the hypothesis. The probability of fraud-tainted minority directors losing a specific directorship at other, non-fraudulent firms was 30.93 percent. The results in Table 4 indicate that the probability of a minority director losing a specific directorship at a non-fraudulent firm increased with the number of minority directors serving on that firm's board (Model 2: β=0.26, p<0.05). To illustrate the results further, consider a fraud-tainted director who was the only minority director serving on the board of a non-fraudulent firm. Such a director had a 20.02 percent probability of exiting the board. This probability increased to 22.54 percent when one additional minority director served on the board, and to 48.28 percent if there were two additional minority directors. These findings support Hypothesis 3, suggesting that the reputational immunity of a fraud-tainted minority director decreases when that director's marginal contribution to a non-fraudulent firm's board diversity is lower.

SUPPLEMENTARY ANALYSES

In addition to the main analyses, we conducted a variety of supplementary analyses to assess the robustness of our findings and address a variety of potential alternative explanations (detailed results available from the authors upon request). The main hypotheses and findings in this paper show that evolving social norms have created a socio-economic imperative for board diversity that results in a degree of reputational immunity in the director labor market for minority directors associated with corporate fraud. Given that it is typically difficult to attribute blame for corporate misconduct to a single individual (Pinto, Leana, & Pil, 2008), arbiters rely on cues that position some individuals as more accountable than others, which should in turn influence the penalties incurred. We therefore begin the supplementary analyses by considering whether the reputational immunity effect extended even to fraud-tainted minority directors who are perceived as more accountable for the fraud.

Studies of corporate fraud and directors' labor market penalties have identified two director-specific characteristics that point to greater accountability for a monitoring failure and thus to more severe labor market penalties: (1) serving on the audit committee of the fraudulent firm, and (2) being an overcommitted or "busy" director. With respect to the first, the audit committee's most fundamental duty is to faithfully monitor a firm's accounting practices and prevent accounting fraud. Directors on the audit committee regularly meet with financial auditors and financial managers to review financial statements and oversee accounting practices (Klein, 2002). Hence, when accounting fraud is revealed, directors on the audit committee can be expected to face particularly harsh recriminations in terms of a net decline in outside directorships (Fich & Shivdasani, 2007; Srinivasan, 2005).

The second indicator used to identify particularly poor monitors is whether a director was "too busy"—often because the director holds directorships in multiple companies—to adequately monitor management and its practices (Beasley, 1996; Hambrick, Misangyi, & Park, 2015). As a result of that excessive busyness, when such directors are associated with failures of corporate governance, they experience a stronger decline in the number of board seats held outside of the accused firm (Fich & Shivdasani, 2007).

Our study, however, has suggested that the director labor market is sensitive to both a director's perceived value as a monitor *and* as a provider of resources such as social legitimacy.

We therefore sought to examine whether the hypothesized and observed reputational immunity effect for minority directors also extended to situations where director accountability was clearer. Using the same sample that was used for testing our Hypotheses 1 and 2, which focused on the net loss of directorships by fraud-tainted directors, we created two interactions: (1) *minority director* and *audit committee at fraudulent firm*, and (2) *minority director* and *director busyness*. Both interaction terms were negative and significant, suggesting that even for audit-committee members and busy directors, the reputational penalties were significantly less severe when the director belonged to a demographic minority.

In terms of additional supplementary analyses, we also tested if the reported findings in the paper were robust to considering female directors and directors belonging to an ethnic minority separately (please note that the demographic minority variable included both female directors and directors belonging to an ethnic minority). We found statistical support for the hypotheses across both groups, with the effect being somewhat stronger for females than for ethnic minority directors. We also tested for the effect of being a "double" minority director—that is, a fraud-tainted director who is both female and a member of an ethnic minority. Unfortunately, we could not run a formal model in which we separately account for these "double" minority directors, as there were only 26 such directors in our sample. We therefore conducted a t-test, which showed that the mean net loss of directorships for double minority directors (-0.04) was significantly smaller than for "single" minority directors (0.40) at a 0.01 level. This finding is in line with the proposed theoretical mechanism: the greater contribution of "double" minority directors to overall board diversity suggests they will experience the greatest reputational immunity.

We also assessed the robustness of the test for Hypothesis 3, which referred to the diminishing reputational immunity effect for minority directors when there was a diminishing marginal “diversity value” of a fraud-tainted minority director on the board of a non-fraudulent firm. Here, we addressed possible concerns about selection and unobserved director and/or firm heterogeneity. For example, consider the possibility that non-fraudulent firms with higher levels of board diversity might generally be more sensitive to removing any fraud-tainted director, independent of that director’s gender or ethnicity. To address this potential alternative explanation, we repeated the test of Hypothesis 3 on a random sample of white male directors from the population of fraud-tainted white male directors contained in our main sample. This necessitated collecting additional gender and ethnicity information on approximately 4,000 individual directors serving at the non-fraudulent firms where the fraud-tainted white male directors also served. In repeating the analyses, we found that a higher level of board diversity at a non-fraudulent firm did not increase the likelihood of a fraud-tainted white male director losing a specific directorship at that firm. In other words, the effect of higher levels of board diversity at a non-fraudulent firm on the probability of a fraud-tainted director losing his or her directorship at this specific firm applied only to minority directors, supporting the proposed mechanism underlying Hypothesis 3: there is a diminishing marginal contribution of a minority director for more diverse boards, decreasing the reputational immunity of that director.

We also examined another possible mechanism that could lead to the documented reputational immunity of minority directors: namely, the notion from social psychology that in cases of group wrongdoing, less typical members of a group (e.g., those in the minority) are seen as less influential, and therefore less susceptible to punishment (Fiske & Neuberg, 1990). Applying this perspective to the context of boards where the majority is white male directors, minority directors could potentially be seen as having less influence and therefore incur fewer penalties. To test this alternative explanation, we interacted a measure of "board diversity" of the fraudulent firm with the "minority director" variable. The interaction was insignificant. Moreover, the results were similar when we used the measure of director atypicality proposed by Zhu et al. (2014). This suggests that the reputational immunity for minority directors is less the result of minority directors being seen as less influential and more the outcome of increasing socio-economic pressures for greater board diversity.

Lastly, we conducted numerous robustness tests using alternative measures of the independent variables. For example, instead of using the number of minority directors who served on a non-fraudulent firm's board when testing Hypothesis 3, we included their proportion, and that measure yielded similar results. We also tested if the results for Hypothesis 2 were robust to using numerous different measures of media discourse on diversity. Overall, the supplementary analyses and robustness tests reaffirmed our findings and their interpretation.

DISCUSSION AND CONCLUSION

We began this study by noting that a growing body of evidence supports the popular notion that directors identified as poor monitors—as indicated by their serving on boards of firms accused of corporate misconduct—face an unforgiving process of *ex post* settling-up in the labor market for corporate directors. That is, fraud-tainted directors experience both a loss of directorships at other firms and a dearth of new directorships. We suggested, however, that such a perspective neglects the fact that *ex post* settling-up outcomes rest on a social sensemaking process (Wiesenfeld et al., 2008), and on directors' resource-provisioning role, including that of conferring legitimacy (Cowen & Marcel, 2011). Specifically, we posited that socio-economic pressures to redress the longstanding underrepresentation of women and ethnic minority directors have generated a rising demand for such minority directors (Chu & Davis, 2016; Hillman et al., 2002; Hillman et al., 2007). As we show, a consequence of this increase in demand and perceived limited supply (Farrell & Hersch, 2005) is a degree of reputational immunity granted to such sought-after directors when they are associated with corporate misconduct. Indeed, the results in this study suggest that the *ex post* settling-up process is not only a function of labor market assessments of a director's ability to monitor, but also a function of socio-economic pressures for board diversity.

To isolate the mechanism by which socio-economic pressures for diversity provide minority directors with reputational immunity, we analyzed two situations where such immunity would likely be strengthened. Specifically, we hypothesized and found evidence that minority directors' reputational immunity became more pronounced when (i) the media discourse asserting the need for board diversity intensified, and (ii) minority directors served on less diverse boards and were thus more valued for their marginal contribution to board diversity. To highlight the potential relevance of the resource-provisioning role of directors, we additionally showed that there was a degree of reputational immunity for women and ethnic minority directors even where there was a more explicit indication of their poor monitoring (i.e., when they served on the audit committee and when they were overly busy with additional directorships). In short, our theory and evidence suggest that, by boosting the demand for women and ethnic minority directors, institutional pressures for board diversity have elevated the resource-provisioning value of such directors—at least for those directors who have penetrated the inner circle of heretofore mostly white male directors (Chu & Davis, 2016; Useem, 1984).

We acknowledge that both our theoretical perspective and our findings may be considered at odds with prior research in social psychology and organization studies that linked minority status with negative discriminatory outcomes. While we accept the results of past research that has shown that women and ethnic minorities face challenges in the boardroom and in the labor market for directors (Westphal & Shani, 2016; Westphal & Stern, 2006, 2007; Zhu et al., 2014), we would also point out that recent research suggests that women and ethnic minorities are not uniformly disadvantaged; indeed, scholars have invoked the notion of growing socio-economic pressures for diversity in upper echelons to explain why qualified minorities are rewarded with higher salaries (Leslie et al., 2017).

It is important to note that the theoretical perspective and findings in this study make no claim that women and ethnic minority directors enjoy wide-ranging benefits as a function of their demographic minority status. Rather, the theorizing and results show more precisely how and why the process of *ex post* settling-up in the director labor market is affected not only by agency-theoretic assessments of the director as monitor but also by socio-economic-based assessments of the director as a conferrer of legitimacy. An important extension of our research would be to consider the magnitude of any rate of decay of such reputational immunity as boards in general move from historically low to more moderate levels of diversity. The test and our analyses pertaining to Hypothesis 3—that a fraud-tainted minority director is more likely to lose his or her board seats at non-fraudulent firms with more diverse boards—strongly point to a decreasing marginal value of diversity.

Nevertheless, we recognize that the pressures for more diversity on boards and the role played by minority directors are tightly coupled. An area for future research would be an examination of alternative consequences for fraud-tainted minority directors in terms of boardroom processes. Are such directors, despite keeping their directorships, likely to see themselves as more isolated and less influential in the boardroom? Moreover, pressures for diversity could elicit rebellion and backlash (Dobbin, 2009; Plant & Devine, 2001), which may be intensified when minority directors are not as severely penalized as their white male colleagues for their poor performance. More generally, there is a need to examine the issue of "tokenism" and the consequences of the perception that minorities are "tokens" in the boardroom (Chang et al., 2019; Kanter, 1977; Wiersema & Mors, 2016), especially in light of recent evidence that board diversity may have a negative effect on a firm's market value (Solal & Snellman, 2020).

It should also be noted that our study addressed the possibility discussed in social psychology that minority members of a group, who are perceived as less influential, may be less likely to be held accountable and penalized for group outcomes (Fiske & Neuberg, 1990). The supplementary analyses allowed us to test for this alternative explanation, yet we found no evidence of it. Another possible alternative explanation specific to why women might experience reputational immunity would be the notion of benevolent sexism (Oliver, Krause, Busenbark, & Kalm, 2018), and/or that women may be perceived as more ethical than white men and thus penalized less (Loe, Ferrell, & Mansfield, 2000). However, our results showed that ethnic minorities were treated similarly to women, despite the fact that ethnic minorities are typically seen as *less* ethical and are penalized more severely for criminal violations (Steffensmeier & Demuth, 2000). In other words, the findings cannot be explained by judgments about lower perceived influence and responsibility by minority members, nor by benevolent sexism, but rather as an outcome of socio-economic pressure for diversity. We encourage future research to more directly address perceptions of directors' influence or ethical dispositions and how these may affect *ex post* settling-up outcomes.

In terms of another alternative explanation, we examined whether more prestigious non-fraudulent firms were more or less likely to dismiss fraud-tainted directors, and specifically minority directors, relative to less prestigious firms. We did not find any evidence that firm status affected the decision to dismiss fraud-tainted directors. However, there may be two opposing forces in place that could explain this null finding. Namely, it has been suggested that status can act both as a buffer (e.g., Yu, Sengul, & Lester, 2008) and as an intensifier (e.g., Graffin et al., 2013) of reputational spillovers resulting from corporate misconduct. Future research could therefore examine how and when the status of the non-fraudulent firm may influence the fate of fraud-tainted directors, and specifically of minority directors.

Our interpretation of the director labor market outcomes associated with corporate misconduct in terms of reputational penalties is consistent with prior research (see, e.g., Cowen & Marcel, 2011; Marcel & Cowen, 2014; Srinivasan, 2005). However, we also welcome research that explores directors' voluntary exit from the market for directors in the wake of corporate misconduct (Boivie et al., 2012; Harrison et al., 2018). While we cannot rule out the possibility that some directors voluntarily exit the labor market for directors, the evidence is consistent with *ex post* settling-up. The finding related to Hypothesis 3—that fraud-tainted minority directors are more likely to lose their directorships on less diverse boards—is consistent with the interpretation that a director's exit in such circumstances is usually involuntary. Indeed, it is hard to imagine why fraud-tainted women and ethnic minorities would prefer to exit boards that are more diverse. However, directors' voluntary exit is an important mechanism, and research would benefit from additional work on how directors respond when they are associated with corporate misconduct and their reputations are threatened (Harrison et al., 2018).

This study's focus on how socio-economic pressure for diversity provides a degree of reputational immunity for minority directors is limited to boards of directors in the U.S., where diversity quotas are implicit (Dezso, Ross, & Uribe, 2016; Farrell & Hersch, 2005). Should one expect similar or even stronger results in countries with existing or planned explicit quotas for women directors, as are found in some European countries? We believe that any reputational immunity is likely tied to the notion of perceived scarcity, and that as minorities continue to penetrate the labor market for directors, the increased supply of female and ethnic minority directors will ultimately allow for a more homogenous level of *ex post* settling-up across different demographic groups. For example, Helfat, Harris, and Wolfson (2006) suggest that as the number of female CEOs and senior line managers grows, the pool of female directors will also deepen, with the result that the present imbalance in settling-up will diminish. The pipeline of minority directors appears to be growing, albeit more slowly than many might like. Expanding the supply of minority directors may therefore require boards, CEOs, and nominating committees to expand the search process and source directors through less traditional routes.

Taken as whole, our findings highlight the importance of recognizing the significance of factors affecting the *ex post* settling-up process that become evident when considering the socially embedded context of the director labor market. Even legal sanctions are likely to be affected by changing social sentiment. Consider, for example, how a new legal era—in terms of executives' and directors' penalties—unfolded in response to the scandals at Enron and WorldCom. Following the public outcry regarding corporate wrongdoing, the Sarbanes-Oxley Act was enacted in July 2002, imposing stiffer legal penalties on managers and directors (Orland, 2006). Since this legislation affected the legal sanctions that directors and managers face, it would be interesting to compare the legal and reputational penalties imposed on individuals.

Moreover, it is important to consider and examine the effects of reputational penalties on directors' performance, given that the incentives for an outside director to develop a reputation as a good monitor do not seem evenly distributed across minority and majority directors.

In conclusion, corporate misconduct, its causes, and its consequences have been a focus of considerable scholarly attention across a variety of disciplines, including economics, sociology, social psychology, and organizational and legal studies. While our study enhances the understanding of this complex phenomenon, there remains a noticeable lack of synthesis across these different perspectives that is likely attributable to differences in basic assumptions or presumed mechanisms and dynamics. While this absence is understandable, it has unfortunately limited the scope of analyses of corporate misconduct. We believe that a more integrative framework can advance our knowledge of this increasingly prevalent phenomenon, and we hope that our interdisciplinary approach will motivate additional innovative research in the domain of corporate misconduct.

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Table 1: Descriptive Statistics and Correlations (Sample for Hypotheses 1 and 2)

		Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1)	Net loss of outside directorships	0.50	1.04										
(2)	Minority director	0.17	0.38	-0.06									
(3)	Media discourse on board diversity[a]	3.30	0.43	0.07	0.02								
(4)	Audit committee at fraudulent firm	0.33	0.47	0.17	-0.00	0.02							
(5)	Board chair/lead director at fraudulent firm	0.07	0.25	0.08	-0.09	-0.00	-0.10						
(6)	Director busyness	1.92	1.52	0.27	0.03	-0.04	0.05	0.02					
(7)	Inside director at fraudulent firm	0.29	0.46	-0.10	-0.08	-0.05	-0.44	0.24	-0.14				
(8)	Director tenure at fraudulent firm	2.30	4.46	0.18	-0.01	0.01	0.12	-0.07	-0.17	-0.14			
(9)	Director during violation	0.98	0.15	0.05	0.00	-0.01	0.11	0.04	0.02	-0.01	0.06		
(10)	Defendant in SEC enforcement	0.03	0.17	0.07	-0.02	0.01	-0.11	0.19	-0.04	0.26	0.01	0.03	
(11)	Left fraudulent firm before revelation	0.35	0.48	-0.00	-0.04	0.02	-0.04	-0.07	-0.15	0.00	0.04	0.11	0.03
(12)	Left fraudulent firm within 3 years	0.06	0.23	-0.00	0.04	0.01	-0.07	-0.02	0.00	0.04	-0.05	-0.23	-0.04
(13)	Director age	56.99	8.96	0.13	-0.15	0.06	0.12	-0.03	0.11	-0.22	0.19	0.07	-0.15
(14)	Served in the military	0.11	0.32	0.06	-0.07	-0.01	0.04	0.00	0.08	-0.06	0.04	-0.01	-0.03
(15)	Attended an Ivy League school	0.29	0.46	0.01	0.01	-0.03	0.00	-0.04	0.06	-0.04	-0.04	0.01	-0.05
(16)	Top executive at another firm	0.12	0.33	-0.08	0.02	-0.04	0.04	-0.07	0.09	-0.08	-0.12	-0.00	-0.06
(17)	Director had financial skills	0.15	0.35	-0.08	-0.09	-0.02	0.03	-0.01	-0.01	0.08	-0.10	-0.13	0.07
(18)	Aver. ROA of firms where director served	0.01	0.09	-0.06	0.05	-0.10	0.03	-0.02	0.05	-0.03	0.04	0.02	-0.06
(19)	No. of rules violated	2.05	0.75	0.07	-0.03	0.03	-0.04	0.04	-0.06	0.03	-0.01	-0.06	0.10
(20)	Violation time[a]	6.98	0.87	0.04	-0.04	-0.02	0.05	0.04	-0.08	-0.02	0.02	0.08	0.05
(21)	Time btw. fraud and revelation[a]	2.54	2.55	-0.01	-0.03	-0.01	-0.01	-0.09	-0.08	-0.00	0.03	-0.18	-0.00
(22)	Board diversity at fraudulent firm	1.93	1.33	-0.01	0.32	0.08	-0.03	-0.03	0.16	-0.05	-0.07	-0.02	0.00
(23)	Media visibility of fraudulent firm[a]	6.04	1.89	0.01	0.12	0.08	-0.06	-0.01	0.20	-0.04	-0.06	0.07	-0.04

		(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
(12)	Left fraudulent firm within 3 years	-0.18											
(13)	Director age	0.05	0.01										
(14)	Served in the military	0.04	0.00	0.22									
(15)	Attended an Ivy League school	-0.04	-0.03	-0.01	0.03								
(16)	Top executive at another firm	-0.07	0.03	-0.12	-0.06	0.02							
(17)	Director had financial skills	-0.05	0.03	-0.11	-0.06	-0.02	0.05						
(18)	Aver. ROA of firms where director served	0.01	-0.06	0.06	0.03	0.02	0.05	-0.02					
(19)	No. of rules violated	-0.04	-0.04	-0.14	-0.06	-0.04	-0.01	0.02	-0.19				
(20)	Violation time[a]	0.13	-0.20	-0.08	0.03	-0.05	-0.04	0.01	0.06	0.14			
(21)	Time btw. fraud and revelation[a]	0.26	-0.02	-0.02	-0.01	-0.04	-0.03	-0.00	0.02	-0.02	-0.27		
(22)	Board diversity at fraudulent firm	-0.00	0.08	0.05	0.02	0.07	0.08	-0.06	0.03	-0.07	-0.11	-0.10	
(23)	Media visibility of fraudulent firm[a]	0.04	0.06	0.08	0.04	0.07	0.08	-0.04	0.03	-0.06	-0.02	-0.25	0.42

Notes: n=2030. [a] Variable included in logarithmic form. Values over 0.10 are significant on the 5% level.

Table 2: Main Effect and Interactive Effects of Demographic Minority Status on the Net Loss of Outside Directorships (Hypotheses 1 and 2, OLS Models)

	(1)	(2)	(3)	(4)	(5)
Independent and Control Variables	Dependent Variable: Net Loss in Directorships				
Minority director * Media discourse on board diversity[a]					-0.08*
					(0.04)
Minority director		-0.12*		-0.12*	-0.11*
		(0.05)		(0.05)	(0.05)
Media discourse on board diversity[a]			-0.03	-0.03	-0.01
			(0.16)	(0.16)	(0.16)
Audit committee at fraudulent firm	0.33***	0.33***	0.33***	0.33***	0.32***
	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
Board chair/lead director at fraudulent firm	0.26**	0.25*	0.26**	0.25*	0.25*
	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
Director busyness	0.23***	0.23***	0.23***	0.23***	0.23***
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Inside director at fraudulent firm	0.09	0.08	0.09	0.08	0.08
	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Director tenure at fraudulent firm	0.04***	0.05***	0.04***	0.05***	0.05***
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Director during violation	0.06	0.07	0.06	0.07	0.07
	(0.12)	(0.12)	(0.12)	(0.12)	(0.12)
Defendant in SEC enforcement	0.45***	0.44***	0.44***	0.44***	0.44***
	(0.12)	(0.12)	(0.12)	(0.12)	(0.12)
Left fraudulent firm before revelation	0.05	0.04	0.05	0.04	0.04
	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)
Left fraudulent firm within 3 years	0.17	0.17	0.17	0.18	0.17
	(0.12)	(0.12)	(0.12)	(0.12)	(0.12)
Director age	0.01**	0.01*	0.01**	0.01*	0.01*
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Served in the military	-0.00	-0.01	-0.00	-0.01	-0.01
	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)
Attended an Ivy League school	0.06	0.06	0.06	0.06	0.06
	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
Top executive at another firm	-0.12	-0.13	-0.12	-0.13	-0.13+
	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)
Director had financial skills	-0.19**	-0.20**	-0.19**	-0.20**	-0.20**
	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)

Table 2: continued

Aver. ROA of firms where director served	-0.98***	-0.96***	-0.98***	-0.96***	-0.95***
	(0.27)	(0.28)	(0.27)	(0.28)	(0.27)
No. of rules violated	0.08	0.07	0.07	0.07	0.07
	(0.05)	(0.05)	(0.06)	(0.06)	(0.06)
Violation time[a]	0.08*	0.08*	0.08*	0.08*	0.08+
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Time btw. fraud and revelation[a]	0.00	0.00	0.00	0.00	0.00
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Board diversity at fraudulent firm	-0.08**	-0.07*	-0.08**	-0.07*	-0.07*
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Media visibility of fraudulent firm[a]	0.02	0.02	0.02	0.02	0.02
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Constant	-1.36**	-1.29**	-1.41**	-1.36*	-1.29*
	(0.44)	(0.44)	(0.54)	(0.54)	(0.54)
Number of observations	2,030	2,030	2,030	2,030	2,030
R-squared	0.29	0.29	0.29	0.29	0.29

Notes: All models include industry and time dummies (untabulated). Standard errors in parentheses. [a] Variable included in logarithmic form. Levels of significance are: + p<0.10, * p<0.05, ** p<0.01, *** p<0.001; two-sided tests.

Table 3: Means and Correlations (Sample for Hypothesis 3)

		Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1)	Loss of a specific outside directorship	0.31	0.46									
(2)	No. of minority directors at non-fraudulent firm	1.76	1.38	0.12								
(3)	Director tenure at non-fraudulent firm	7.63	6.22	0.06	0.06							
(4)	Audit committee at non-fraudulent firm	0.09	0.28	-0.10	0.05	0.02						
(5)	Board size at non-fraudulent firm	10.00	3.82	-0.06	0.32	0.15	0.05					
(6)	Sales of non-fraudulent firm[a]	8.26	1.99	-0.04	0.44	0.17	0.00	0.47				
(7)	ROA of non-fraudulent firm	0.03	0.11	-0.03	0.10	0.08	0.02	0.04	0.28			
(8)	ROE of non-fraudulent firm	0.12	0.90	-0.03	-0.09	-0.09	-0.04	-0.09	-0.14	0.08		
(9)	Media visibility of non-fraudulent firm[a]	2.99	1.78	-0.03	0.41	0.03	0.01	0.35	0.66	0.05	-0.11	
(10)	Debt-to-equity of non-fraudulent firm	-0.42	5.00	0.07	-0.07	0.06	-0.09	-0.01	0.06	0.34	0.05	-0.08
(11)	Tobin's Q of non-fraudulent firm	2.37	1.19	-0.00	0.19	0.02	-0.00	0.28	0.37	0.28	0.12	0.36
(12)	Total Risk of non-fraudulent firm	-0.14	0.06	-0.01	-0.08	-0.08	0.00	-0.17	-0.19	-0.08	-0.01	-0.12
(13)	Media discourse on board diversity[a]	3.19	0.57	0.12	0.11	-0.04	0.09	0.16	0.07	-0.03	-0.05	0.10
(14)	Audit committee at fraudulent firm	0.33	0.47	-0.04	0.02	0.02	0.00	-0.04	0.03	0.09	-0.03	-0.10
(15)	Board chair/lead director at fraudulent firm	0.04	0.20	-0.12	0.05	0.10	-0.02	0.08	0.08	0.02	0.00	0.12
(16)	Director busyness	5.08	3.01	-0.04	-0.12	0.11	0.04	-0.04	0.03	0.08	0.01	-0.08
(17)	Inside director at fraudulent firm	0.07	0.26	0.31	0.19	0.02	0.13	0.04	0.04	-0.05	-0.03	0.11
(18)	Director tenure at fraudulent firm	7.73	6.32	0.05	0.06	0.98	0.05	0.15	0.18	0.09	-0.09	0.04
(19)	Director during violation	0.97	0.17	0.08	0.02	0.01	0.05	0.03	0.05	0.11	0.03	0.11
(20)	Left fraudulent firm before revelation	0.23	0.42	0.06	0.00	0.10	0.03	-0.06	-0.11	0.07	0.08	-0.12
(21)	Left fraudulent firm within 3 years	0.10	0.30	-0.09	0.06	-0.01	0.11	0.05	-0.08	-0.09	-0.02	-0.03
(22)	Director age	60.82	6.80	-0.10	-0.07	0.37	0.07	0.08	0.14	0.06	-0.00	0.02
(23)	Served in the military	0.12	0.33	-0.01	-0.09	0.03	0.03	-0.03	-0.03	0.03	-0.01	-0.08
(24)	Attended an Ivy League school	0.09	0.28	0.01	0.16	0.05	-0.03	0.05	0.14	0.08	-0.05	0.09
(25)	Top executive at another firm	0.12	0.32	0.15	-0.00	-0.13	0.06	-0.06	0.02	-0.00	-0.02	0.13
(26)	Director had financial skills	0.04	0.19	-0.04	-0.03	-0.02	-0.06	-0.05	-0.00	0.07	-0.02	-0.03
(27)	No. of rules violated	9.26	6.68	0.09	0.08	0.04	0.02	0.08	0.01	-0.10	0.00	-0.02
(28)	Violation time[a]	6.86	0.88	0.01	0.18	0.04	0.05	-0.02	-0.01	0.02	-0.06	-0.09
(29)	Time btw. fraud and revelation[a]	1.89	2.49	-0.01	-0.05	0.13	0.02	-0.15	-0.10	-0.01	0.05	-0.08
(30)	Media visibility of fraudulent firm[a]	7.11	1.73	0.13	0.21	0.08	0.04	0.20	0.24	0.06	-0.09	0.27

Notes: n=356; [a] Variable included in logarithmic form. Values over 0.10 are significant on the 5% level.

Table 3 continued

		(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
(11)	Tobin's Q of non-fraudulent firm	0.08										
(12)	Total Risk of non-fraudulent firm	-0.01	-0.12									
(13)	Media discourse on board diversity	-0.04	0.09	-0.09								
(14)	Audit committee at fraudulent firm	-0.04	0.05	-0.02	-0.07							
(15)	Board chair/lead director at fraudulent firm	-0.02	0.03	-0.08	-0.32	-0.02						
(16)	Director busyness	-0.00	-0.00	-0.01	-0.09	0.06	0.06					
(17)	Inside director at fraudulent firm	-0.02	0.07	0.01	0.03	-0.00	-0.01	-0.19				
(18)	Director tenure at fraudulent firm	0.07	0.02	-0.08	-0.03	0.00	0.11	0.11	0.00			
(19)	Director during violation	-0.04	0.07	-0.00	0.14	0.12	0.04	0.09	-0.07	0.03		
(20)	Left fraudulent firm before revelation	0.05	0.01	0.07	0.17	0.05	-0.06	-0.06	0.04	0.09	0.09	
(21)	Left fraudulent firm within 3 years	-0.04	-0.02	-0.02	-0.14	-0.01	0.14	-0.05	0.01	-0.01	-0.20	-0.04
(22)	Director age	-0.03	-0.04	-0.05	0.11	0.12	0.05	0.23	-0.22	0.38	0.07	0.15
(23)	Served in the military	0.07	-0.05	0.03	0.08	-0.06	-0.08	0.16	-0.04	0.02	-0.17	-0.03
(24)	Attended an Ivy League school	0.07	0.18	0.07	-0.17	0.06	0.16	0.09	0.02	0.05	-0.06	-0.13
(25)	Top executive at another firm	0.03	0.07	0.04	-0.01	0.02	0.04	-0.17	0.33	-0.12	0.06	-0.09
(26)	Director had financial skills	-0.06	0.07	-0.00	0.04	0.10	-0.04	-0.08	-0.00	-0.02	0.03	0.29
(27)	No. of rules violated	-0.02	0.06	-0.04	0.02	-0.01	0.24	-0.04	-0.00	0.06	0.04	0.10
(28)	Violation time[a]	-0.04	0.03	-0.13	0.07	0.01	0.06	-0.01	0.01	0.04	0.02	0.12
(29)	Time btw. fraud and revelation[a]	0.02	-0.04	0.06	0.03	0.14	-0.10	-0.18	-0.00	0.13	-0.18	0.32
(30)	Media visibility of fraudulent firm[a]	-0.07	0.15	-0.11	0.23	0.01	0.04	0.03	0.09	0.10	0.12	0.06

		(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)
(22)	Director age	0.02								
(23)	Served in the military	-0.10	0.14							
(24)	Attended an Ivy League school	0.29	-0.09	-0.12						
(25)	Top executive at another firm	-0.07	-0.27	-0.04	-0.03					
(26)	Director had financial skills	-0.02	-0.01	-0.07	-0.06	0.01				
(27)	No. of rules violated	0.24	0.09	-0.28	0.15	0.08	-0.07			
(28)	Violation time[a]	-0.13	-0.00	0.14	-0.04	-0.02	0.08	0.12		
(29)	Time btw. fraud and revelation[a]	0.05	0.14	0.02	-0.01	-0.07	0.08	0.10	-0.17	
(30)	Media visibility of fraudulent firm[a]	0.07	0.14	0.01	0.05	-0.00	0.02	-0.03	-0.06	-0.25

Notes: n=356; a Variable included in logarithmic form. Values over 0.10 are significant on the 5% level.

Table 4: Effect of Board Diversity on the Likelihood of Losing a Specific Directorship (Hypothesis 3, Logit Model)

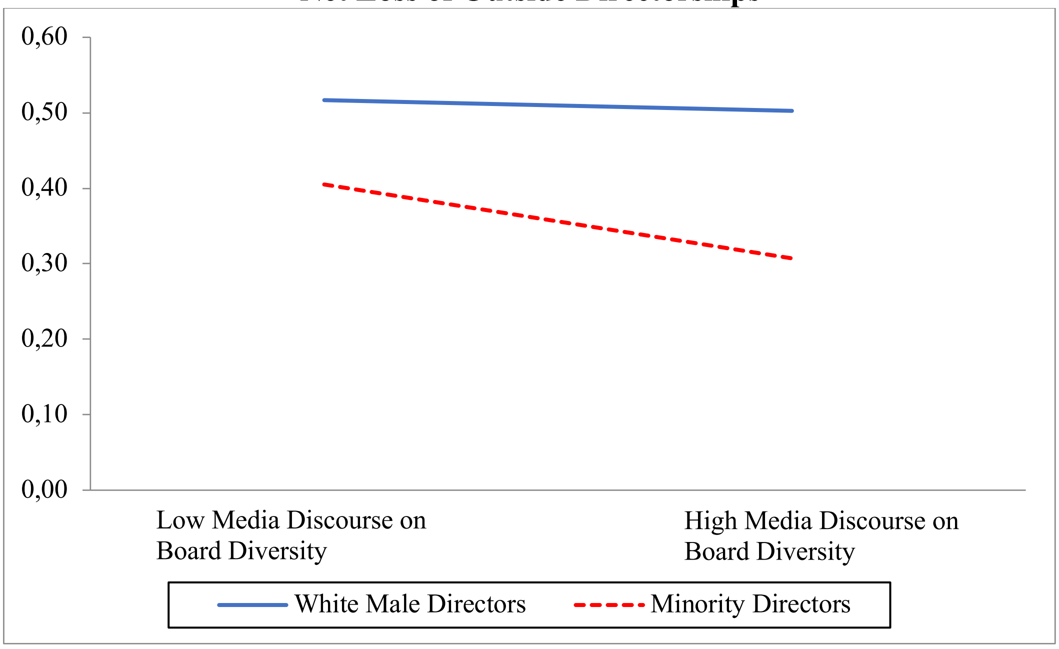
Independent Variables	(1)	(2)
	Dependent Variable: Loss of a Specific Outside Directorship	
No. of minority directors at non-fraudulent firm		0.26*
		(0.12)
Director tenure at non-fraudulent firm	0.11	0.11
	(0.11)	(0.11)
Audit committee at non-fraudulent firm	-2.27***	-2.22***
	(0.62)	(0.61)
Board size at non-fraudulent firm	-0.08+	-0.09*
	(0.04)	(0.04)
Sales of non-fraudulent firm[a]	0.03	-0.00
	(0.11)	(0.11)
ROA of non-fraudulent firm	-1.19	-1.47
	(1.28)	(1.28)
ROE of non-fraudulent firm	-0.07	-0.07
	(0.11)	(0.11)
Media visibility of non-fraudulent firm[a]	-0.08	-0.12
	(0.12)	(0.13)
Debt-to-equity of non-fraudulent firm	0.05*	0.06*
	(0.03)	(0.03)
Tobin's Q of non-fraudulent firm	0.01	0.04
	(0.14)	(0.14)
Total risk of non-fraudulent firm	-0.22	-0.25
	(1.96)	(1.96)
Media discourse on board diversity[a]	-0.30	-0.30
	(0.66)	(0.66)
Audit committee at fraudulent firm	-0.14	-0.17
	(0.34)	(0.35)
Board chair/lead director at fraudulent firm	-3.08**	-3.17**
	(1.12)	(1.13)
Director busyness	0.04	0.05
	(0.05)	(0.05)
Inside director at fraudulent firm	3.68**	3.58**
	(1.15)	(1.18)
Director tenure at fraudulent firm	-0.07	-0.07
	(0.11)	(0.11)
Director during violation	3.19	3.17
	(2.06)	(2.09)
Left fraudulent firm before revelation	0.02	-0.00
	(0.42)	(0.43)
Left fraudulent firm within 3 years	-0.94+	-1.16*
	(0.53)	(0.54)
Director age	-0.02	-0.02
	(0.02)	(0.02)
Served in the military	0.49	0.60
	(0.44)	(0.44)
Attended an Ivy League school	1.07	0.97
	(0.74)	(0.74)

Table 4: continued

Top executive at another firm	0.09	0.16
	(0.48)	(0.48)
Director had financial skills	-0.44	-0.31
	(0.68)	(0.69)
No. of rules violated	0.06*	0.06*
	(0.02)	(0.03)
Violation time[a]	-0.08	-0.21
	(0.19)	(0.20)
Time btw. fraud and revelation[a]	0.01	-0.00
	(0.08)	(0.08)
Media visibility of fraudulent firm[a]	0.19+	0.17
	(0.11)	(0.10)
Constant	-1.37	-0.88
	(2.64)	(2.66)
Number of Observations	356	356
Pseudo R-squared	0.212	0.222

Notes: All models include time dummies (untabulated). Standard errors in parentheses. [a] Variable included in logarithmic form. Levels of significance are: + p<0.10, * p<0.05, ** p<0.01, *** p<0.001; two-sided tests.

Figure 1: Effect of Media Discourse on Board Diversity on the Net Loss of Outside Directorships



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