Reputational Spillovers between Board Directors

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Abstract

This paper asks whether reputational spillovers occur between directors within a board. Because a board constitutes a small group of close-knit people who choose one another to ensure coordination and potentially influence one another's behavior, I ask if any revelation of a director as a poor monitor hurts the perception of the monitoring quality of other directors. Considering a closer knit of directors within a board – those that serve on the same committee – I show that directors experience such spillovers. I exploit negative shocks to the monitoring reputation of audit directors in firms experiencing securities fraud litigations and show that in non-shocked firms where they also serve on the audit committee, other audit directors experience spillovers even though they are themselves not shocked: their likelihood of obtaining a chair position and getting reappointed on the committee declines.

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I. Introduction

Board directors have the primary responsibility of representing shareholder interests and monitoring the manager. Therefore, which directors are effective monitors and how firms can discipline directors are questions that are important in the literature of corporate governance. In this paper, I study the effect of a director's network on the perception of the monitoring quality of the director and the resulting implications for his/her career.

A board generally constitutes a small group of close-knit directors – 8 on average – who carefully choose one another and work as one composite unit.[2] Literature shows that lack of coordination amongst directors is an important consideration when recruiting directors on a board. Cai, Nguyen, and Walkling (2022) find that 69% of new directors joining a board have prior professional ties to incumbent boards and these directors represent only 13% of potential directors. They argue that boards choose directors they know from before in order to facilitate coordination amongst directors as the board needs to act as a whole and needs consensus.[3] And Adams, Akyol, and Verwijmeren (2018) show that firms perform better if there is more commonality in director skillset as this avoids disagreements that hinder with decision making. Therefore, given that directors choose to associate with those that they can coordinate well with, it is likely that a board is perceived by others (e.g., shareholders) as a close-knit group of similar people who take similar actions and make similar decisions.

[2] This number is based on the sample used in this paper and described in section III. As will be discussed later, the main sample I use consists of firms and directors that do not receive the reputational shock that I use in this paper. However, to compute this number, I consider the entire sample of shocked and non-shocked firms and directors.

[3] Qualitative research in the literature also suggests that incoming directors carefully choose boards or committees they join to ensure coordination. For example, Beasley et al. (2009) document that incoming directors undertake due diligence before accepting offers to join a board or a committee to ensure that they can work well with other directors; that they continually assess whether they should stay associated with the board; and that they resign from a board if the board is not effective.

A growing body of literature also provides evidence that social interactions influence human behavior and that peers have an impact on how individuals and firms make financial decisions.[4] There is an exchange of information and learning between individuals and between firms that may lead them to behave similarly. In corporate governance, Intintoli, Kahle, and Zhao (2018) provide empirical evidence that director connectedness improves the monitoring quality of a board. They argue that connectedness offers directors access to information that allows them to be effective monitors. For example, directors can learn from the skills, knowledge, and experiences of other directors in their network. Such exchange of information and learning could lead directors to behave similarly and influence each other's behavior.

Therefore, to the extent that directors choose to associate with those that they can coordinate well with and to the extent that they influence each other's behavior, it is likely that a board is perceived as a close-knit group of similar people.

Furthermore, every board decision/action is a team decision/action such that individual director performance is not readily observable to outsiders.[5] This raises an important question: If individual director performance is not readily observable and a board of directors is viewed as a close-knit group of similar people, does the reputation of one director as a monitor affect the perception of another director as a monitor? If it is revealed that one director is a poor monitor, do people revise down their beliefs about the monitoring skills of directors that are associated with the poor monitor? In other words, do reputational spillovers occur between board directors?

[4] See Kalda (2020) for a review of the literature on peer effects on individual financial decision making. The section on literature review of this paper provides a review of the literature on peer effects on firms' financial decision making. Also see DeMarzo, Vayanos, and Zwiebel (2003), and Ellison and Fudenberg (1995) for theoretical models on how social interactions influence an individual's decision making.

[5] Arguing along similar lines, Srinivasan (2005) acknowledges the difficulty in measuring individual director performance as boards function as composite units.

To study this question, I consider an even closer knit of directors within a board: directors that serve on a committee together. There are, on average, 4 directors within each committee.[6] These directors share common committee responsibilities in addition to general board duties, so they have more opportunities to interact and work closely with one another. Directors in a committee are also experts in their committee duties; in other words, they have common areas of expertise. Furthermore, committee members are perceived as one united unit making decisions together. So I ask if reputational spillovers occur between directors serving on the same committee.

Studying spillovers between directors within a committee also offers the empirical advantage of conducting a within firm analysis to control for firm characteristics. While directors not serving on the same committee could also form close ties, in a within firm analysis, the existence of such ties should make it more difficult to find results of spillovers within a committee.

I exploit negative shocks to the reputation of a director who serves on the audit committee of firms experiencing securities fraud litigations. These litigations accuse firms of financial fraud, alleging misrepresentation of financial information. Because audit directors are responsible for the oversight of the auditing process, financial disclosure, and financial reporting, they are primarily affected by this shock (Brochet and Srinivasan (2014)). While the management is accused of committing the fraud, audit directors are generally viewed as poor monitors as they have an oversight role and are required by law to be independent (Srinivasan (2005)).[7] In a sample of non-shocked firms and non-shocked directors, I show that audit directors experience reputational

[6] This number is based on the sample used in this paper and described in section III. While the main sample I use consists of non-shocked firms and non-shocked directors, I consider the entire sample of shocked and non-shocked firms and directors to compute this number. I compute the average count of directors serving on committees for each firm-year observation and then take the average for all firm-year observations.

[7] While it is possible for directors to collude with the management in committing fraud, results in Section IV.A show that audit directors in shocked firms are primarily perceived to be poor monitors.

spillovers from other directors in the audit committee that are shocked from elsewhere. They are less likely than before to obtain a chair position and get reappointed on the audit committee.

Membership in a key committee like audit committee is a high-profile job and serving as the chair is a matter of power and prestige, which help directors earn new directorships in the director labor market. Therefore, these career consequences are significant for directors' career progression (Aggarwal, Dahiya, and Prabhala (2019), Farrell, Friesen, and Hersch (2008)). Furthermore, consistent with spillover effects being informative of only audit monitoring skills, directors face career costs only in the audit committee and not other committees, and they do not depart from the board.

Studying the underlying mechanism of spillovers, I find evidence consistent with reputational spillovers. I first show that the litigation shock is a negative shock to the reputation of an audit director as a monitor. Given literature that shows that board interlocked firms, i.e., firms with common directors, tend to behave similarly, and firms interlocked with sued firms receive negative reaction from the shareholders, one could argue that firms with shocked directors on their audit committee have reasons to reassess their committee assignments, which sets the premise for studying spillovers effects there.[8] I find that in a sample of non-shocked firms and non-shocked directors, results are consistent with the board revising down its beliefs regarding the monitoring skills of directors in the audit committee after one or more of the directors in the committee receive a shock from elsewhere. Moreover, the market/shareholders react positively to spillover costs borne by these non-shocked directors.

This paper makes the following contributions to the literature. First, it provides the first evidence of spillovers occurring between directors. While the literature studies spillovers

[8] See Literature Review for a review of the literature on the behavior of board interlocked firms.

occurring between firms that are interlocked via a common director, director-to-director spillovers have not been explored yet. While the shock I use is only relevant to audit directors, and I, therefore, document spillovers only between audit directors, the contribution of this paper is to show the existence of reputational spillovers between directors, which is an important result. Second, this paper identifies a novel governance mechanism that disciplines board directors – not only do poorly performing directors face career costs, but those that are associated with them face career costs as well. Calling out on poor performers is also a responsibility of a good monitor and the existence of such spillover effects could potentially incentivize directors to associate with good performers or call out on poor performers, which could ultimately encourage good behavior. Third, although the literature provides evidence of both costs and benefits of director/CEO networks for firms, it primarily focusses on benefits for directors/CEOs themselves. This paper shows that directors could also face costs from being connected if they choose the wrong people.

I begin with a sample consisting of all Compustat firms for which I obtain information on board directors from Boardex. Then, using Stanford Securities Class Action Lawsuit database, I identify firms that face financial fraud litigations in a given year. I first show that a financial fraud litigation is indeed a negative shock to the reputation of a director who serves on the audit committee of a shocked firm. Specifically, I show that the shock results in career costs for audit committee members; these members are less likely to hold a chair position in the audit committee and more likely to depart the committee in the three years following the incidence of the shock. Because directors are usually appointed on three-year terms, I study career consequences for directors in the next three years to ensure that a reappointment decision has been made. Consistent with audit directors being primarily responsible for not effectively monitoring financial

misconduct, I do not find evidence of career costs for directors serving on other committees – specifically, the governance, nominating, and compensation committees.

While shocked audit directors face career costs in the audit committee, I do not find that they depart the board, consistent with the results of Fich and Shivdasani (2007). This result sheds light on the nature of the shock and indicates that the shock predominantly reveals directors as poor audit monitors but that they are still valued for other board duties. Importantly, the result also indicates that the shock is not revealing of the character of audit directors as frauds or negligent monitors or those who put low effort, as such behaviors do not serve well for any other board duties either and one can expect such directors to be forced out of the firm. While one can expect spillovers whether the shock is revealing of a director's poor audit monitoring skills or poor personal character, this result is helpful for later discussions on whether spillovers documented are spillovers in the perception of the skills of a director or that of the character of a director. Given that the shock is primarily revealing of the skills of the director, later results show that the results of spillovers are about spillovers in the perception of the skills of the director.

I then proceed to provide evidence of spillovers from shocked to non-shocked directors. Because audit directors are primarily held responsible for the lapse in monitoring in firms being litigated, I consider spillovers emanating from these members only. To that end, I define a director to be shocked if he/she serves on the audit committee of a shocked firm. I define a director to be not shocked if none of the directorships he/she holds are facing litigations at a given point in time. And if two directors overlap in a committee, I say that they are linked. I then consider a sample of non-shocked firms and non-shocked directors to avoid any confounding effects of direct shock exposures of firms and directors. In this sample, I show that when an audit director gets shocked

from elsewhere, non-shocked directors linked with these shocked directors in the audit committee experience career costs.

I find that these audit directors are less likely than before to obtain a chair position and get reappointed on the audit committee in the next three years of a linkage audit director getting shocked from elsewhere. Within a firm, before a linkage audit member is shocked, non-shocked audit members have 16% more likelihood of attaining an audit chair position, compared to other directors in the firm. After the linkage director is shocked, these directors are only 12.7% more likely to become the chair. This difference of 3.3 percentage points is 12.3% of one standard deviation value of a director's probability of becoming an audit chair at time $t+3$ in the sample. Similarly, before a linkage director is shocked, an audit director is 56.5% more likely than others to get reappointed on the audit committee. However, after a linkage director is shocked, this relative likelihood declines by 2.53 percentage points, which is 5.9% of one standard deviation value of a director's probability of holding audit membership at time $t+3$ in the sample. Furthermore, audit directors continue to face career costs at other firms, even when those firms do not have any shocked directors in the audit committee.

If these results capture spillovers, then they should be stronger coming from directors that serve as audit chairs at shocked firms, given that committee chairs take leadership roles in the oversight of committee functions and are held more accountable (Aggarwal, Dahiya, and Prabhala (2019)). I find that this is indeed the case.

Next, I conduct two falsification tests – one uses a placebo shock and the other uses placebo links. Given lack of evidence for the impact of the shock on directors serving on the governance, nominating, and compensation committees of shocked firms, if results capture spillovers, then there should be no spillovers coming from these directors. Any results of spillovers would be

indicative of unobservables driving the results. As expected, when I redefine directors to be shocked if they are governance members at shocked firms, I do not find spillovers from them to other governance members in non-shocked firms. Similar tests show no spillovers from compensation or nominating directors of shocked firms.

Similarly, directors that are not linked with shocked directors should not experience spillovers. Defining directors to be shocked only if they serve on audit committees at shocked firms, I find that audit directors in non-shocked firms do not experience spillovers if shocked directors do not serve on the audit committee and instead serve on governance, compensation, or nominating committees. This result is important as it shows that results are not due to any common exposures/characteristics of shocked and non-shocked firms or any economic linkages existing between the two firms as the presence of a shocked director in the firm in question does not imply spillovers unless the shocked director serves specifically on the audit committee.

These results persist in a host of robustness tests. Results are not due to director characteristics, like director performance, past exposure to litigations, and multiple directorship holdings that make directors busy or more likely to be linked with shocked directors. Results are robust to firm effects, like firm size and performance. And they are also robust to dropping firms that themselves experience litigations in the next two years of a director receiving the shock.

Next, I study the underlying mechanism of spillovers. The mechanism posits that directors that overlap in a committee are perceived to be similar, so a shock that reveals a director to be a poor monitor subsequently leads to downward revisions of beliefs regarding the monitoring skills of other directors in the committee. Because the shock I use is revealing of the shocked director's poor audit monitoring skills, it should be informative of only audit monitoring skills of linked audit

directors. Consistent with this, I find that linked audit directors face career costs in audit committees but not other committees.

Next, consistent with directors facing reputational spillovers, whereby a non-shocked director's audit monitoring skills are revised downwards, I find that spillovers are felt more by directors that do not already have an established reputation as a monitor, as captured by the average size of the directorships they hold. Results show that spillovers are driven by low reputation directors. Finally, reputational spillovers should be stronger coming from directors that are more likely to influence the behavior of other directors. Since chair positions are positions of power and influence, I study if spillovers are stronger if the shocked director in the firm in question is an audit chair. I find that it is indeed the case.

Alternatively, the shock could reveal poor personal character of a director as a fraud or negligent monitor or someone who does not put effort, and this would raise concerns about him/her behaving similarly in the firm in question as well. In that case, other audit directors could be perceived as having poor character due to their complicity or inaction. However, based on earlier discussion, the shock is unlikely to be revealing of a director's character. Moreover, spillovers in the perception of a director's character should mean that there are spillovers from shocked to non-shocked directors in other committees as well and not just the audit committee; however, I do not find evidence of spillovers to other committee members.

It is also possible that results are due to voluntary departures as opposed to reputational spillovers. For example, non-shocked directors may no longer want to stay associated with shocked directors and depart from the audit committee. However, in a sample of both shocked and non-shocked directors in non-shocked firms, I find that shocked directors are less likely than others to

obtain audit chair positions and more likely to depart from the committee. Since shocked directors leave, it is unlikely that non-shocked directors feel the need to voluntarily leave as well.

Next, if departures from audit committees are not voluntary, then it is interesting to understand who induces such departures. Is it the board or is it the shareholders? Furthermore, do they depart the board altogether? To study this, I first note that shareholders cannot vote on committee assignments and the only way they can bring about changes in committee assignments is by voting them out of the board altogether. However, I do not find that reputational spillovers lead directors to leave the board, suggesting that audit departures are likely induced by the board.

This leads to a final question: How do shareholders view such departures? I address this question by studying market reaction to departures of non-shocked directors from audit committees after a linkage audit director receives a shock from elsewhere. If shareholders revise down their beliefs about the monitoring skills of non-shocked directors, then they should view such departures positively. Consistent with this intuition, I find that Cumulative Abnormal Returns from a day prior to five days after departure announcements ((-1,5)CARS) increase after non-shocked directors linked with shocked directors depart from the audit committee. This result provides additional evidence that these departures are likely not voluntary; if they were unexpected voluntary departures, one would expect the market to react negatively. This also goes to show that reputational spillovers have a positive valuation effect on firms.

The rest of the paper is organized as follows: Section II discusses related literature. Section III describes board committees and data. Section IV discusses methods and presents main results as well as robustness tests. Section V discusses the spillover mechanism, Section VI discusses shareholder/market reaction to reputational spillovers, and Section VII concludes.

II. Literature Review

This paper contributes to three strands of the literature. First, it contributes to the literature that studies firm-to-firm spillovers via interlocked boards i.e., boards that have a common director. This literature shows that the presence of a common director facilitates propagation of corporate governance practices (Foroughi et al. (2022), Bouwman (2011)), financial policies such as cash holdings, shareholder payouts, and CEO compensation (Zhang (2021)), and practices like earnings management (Chiu, Teoh, and Tian (2013), option backdating (Bizjak, Lemmon, and Whitby (2009)) and tax avoidance (Brown and Drake (2014)). This paper contributes to the literature by providing the first evidence of director-to-director spillovers.

Second, this paper contributes to the literature that studies labor market consequences of director reputation and performance. For example, the literature documents positive career consequences of director dissention (Jiang, Wan, and Zhao (2016)); and negative career consequences of proxy contests (Fos and Tsoutsoura (2014)), financial fraud litigations (Fich and Shivdasani (2007), Brochet and Srinivasan (2014)), option backdating (Ertimur, Ferri, and Maber (2012)), shareholder dissent votes (Aggarwal, Dahiya, and Prabhala (2019)), firm bankruptcy (Gilson (1990)), and earnings restatements (Srinivasan (2005)). This paper contributes to this literature by showing labor market consequences for *peer* directors and not just the directly affected directors.

Finally, this paper is related to the general literature on CEO and director networks and the benefits of having a large professional network for CEOs/directors. For example, having larger networks improves the likelihood of a director getting appointed to a board (Cai, Garner, and Walkling (2009)), increases compensation for a CEO (Engelberg, Gao, and Parsons (2013)), improves a CEO's outside options after poor performance (Liu (2014)), and improves a divisional

manager's likelihood of getting more capital (if connected with the CEO) (Duchin and Sosyura (2013)). While these papers provide evidence of positive effects of having larger professional networks to the CEO/director in question, this paper contributes to the literature by showing potential negative effects, whereby a negative reputational shock to a director in one's professional network hurts his/her own reputation. This suggests a novel governance mechanism of disciplining directors that associate with poor performers. This could potentially incentivize directors to associate with good performers or call out on poor performers.

III. Board Committees and Data

A. Board Committees

Here, I provide a brief description of board committees and discuss why committee positions represent opportunities that matter for a director's career. Every board constitutes different committees that are assigned with specific tasks and duties, and these committees are important in that most of board activity occurs in committees (Chen and Wu (2015), Adams, Hermalin, and Weisbach (2010), Adams, Ragunathan, and Tumarkin (2021)). Committees play an important role in conducting monitoring functions of the board, and the literature has also used committee assignments to proxy for how monitoring-intense a firm is (Faleye, Hoitash, and Hoitash (2011)). Furthermore, committee members are expected to have expertise in their respective committee duties. For example, audit committee members are expected to have financial expertise.

Committee assignments and chair positions in committees are determined by the board, which includes voting by all board directors. As Clune et al. (2014) describe in greater detail, while the nominating committee is tasked with the recruiting of new directors to boards and committees, the director that is chosen ultimately comes from the initial list of candidates recommended by the

board and the CEO in some firms as the nominating committee typically begins the recruiting process by soliciting recommendations from them. Furthermore, the board and the CEO, in some firms, make the ultimate hiring decision. While shareholders can vote for board positions, they cannot vote for committee positions.

Amongst the different committees in a board, audit, compensation, governance, and nominating committees are key committees that every board is required to have (Chen and Wu (2015), Field, Souther, and Yore (2020)). While some committees in a firm have advisory responsibilities (e.g., finance/investment/strategy committee, executive committee), these committees have monitoring responsibilities (Faleye, Hoitash, and Hoitash (2011)). Membership in any of these committees is considered a high-profile job and serving as the chair is a matter of power and prestige (Aggarwal, Dahiya, and Prabhala (2019)).

Memberships and chair positions in these key committees also provide directors with committee specific skills that are valued in the director labor market; committee experiences at a firm increases the likelihood of a director getting membership or chair position in a similar committee at another firm (Field, Souther, and Yore (2020)). While committee services also provide higher compensation for directors as discussed below, serving on a committee provides directors with benefits such as reputation, learning opportunities, and networking, which are generally considered more valuable than compensation benefits (Srinivasan (2005)). Aggarwal, Dahiya, and Prabhala (2019) also highlight the power enjoyed by chairs of key committees within the board. They find that amongst directors facing dissent votes from shareholders in uncontested elections, directors with leadership positions get the highest dissent votes but they are not likely to depart the firm; in other words, boards allow these directors to continue their service on the board.

Directors also get higher compensation for serving on committees or serving as chairs of committees. Unlike CEO compensation, director compensation is designed for a group of directors and follows a specific framework. As Farrell, Friesen, and Hersch (2008) describe in greater detail, all outside directors in a firm receive the same annual retainer and they get additional fixed compensation for attending meetings, serving on committees, or serving as chairs on board/committees. In some firms, directors get higher compensation for serving on key committees like audit and compensation committees.[9] So directors are paid additional compensation for any additional work they do and not for their individual characteristics (Farrell, Friesen, and Hersch (2008)). Although directors are not compensated for their individual performance, losing committee memberships and not obtaining chair positions represent missed opportunities of higher compensation.

B. Data and Sample

My sample consists of Compustat firms, for which I obtain board and director information from Boardex from years 2000 to 2021. Boardex provides detailed information on boards of more than nine thousand public and private companies (Fos and Tsoutsoura (2014)). It provides information on when directors join and leave the board, their role on the board, and their background such as their educational background. Boardex also provides information on board committees, dates for when directors join and depart committees, and director role in the

[9] For example, Fedaseyeu, Linck, and Wagner (2018) study compensations for directors who sit on the board of at least one S&P 1500 company between 2006 and 2010 and find that directors on average receive a total compensation of $172,320. In a random sample of 100 firms in 2009, they find that directors receive an annual average retainer pay of $58,810; serving on the audit, compensation, and nominating/governance committees provide additional average compensations of $8,580, $6,060, and $5,070 respectively; serving as the chair of the audit, compensation, and nominating/governance committees provide additional average compensations of $16,110, $10,400, and $9,190 respectively; attending board/committee meetings provide average compensation of $25,000 (assuming 8 board meetings and 8 audit meetings).

committees. Furthermore it provides data on announcements of directors joining and leaving a board or committee and of starting or stepping down from chair positions in a board or committee.

Using this database, I construct several director control variables. These variables include: #DIRSHIPS (number of directorships held by a director), #DIRSHIPS_AUDIT (number of directorships where a director serves on the audit committee), PRIOR_EXEC_EXP (indicator for whether a director has prior executive experience), #PRIOR_AUDIT (number of prior directorships where a director has served on the audit committee), #PRIOR_AUDIT_CHAIR (number of prior directorships where a director has served as an audit chair), TIME_ON_BOARD (number of years served on board), MBA (indicator for whether the director has an MBA), NON_EXEC_DIR (indicator for whether the director is a non-executive director), and GENDER (=1 if male). Table 1, panel A summarizes these variables.

I capture shocks to director reputation using incidences of securities fraud litigations at firms where they serve on the audit committee. I obtain data on the filings of such litigations from Stanford Class Action Clearinghouse (SCAC) database. This database consists of litigations filed since 1996 at the federal court against firms accused of violation of federal securities laws.[10] Because these litigations allege firms of financial fraud, they primarily represent a shock to the reputation of directors serving on the audit committee as shown empirically later. Therefore, I define a director on the audit committee of a firm facing securities fraud litigation as having a negative shock to their reputation.

In the entire sample consisting of both shocked and non-shocked firms, 1.6% of firms are shocked. To study reputational spillovers, I focus on a sub-sample of non-shocked firms and non-

[10] While a lawsuit may be brought against a firm by multiple plaintiffs with similar allegations, this database collects them under one filing, and the date and case summaries are provided using the first identified complaint. See https://securities.stanford.edu/about-the-scac.html for details.

shocked directors to avoid confounding effects from a firm's or a director's own exposure to the shock. My final sample spans years 2000 through 2021 and consists of 447,563 director-firm-year observations with 7,308 unique firms and 65,374 unique directors. As Table 1, panel A shows, the average for the number of directorships held by directors in my sample is 1.5 with a standard deviation of 0.89. Similarly, the average for the number of directorships held by directors where they serve on the audit committee is 0.5 and the standard deviation is 0.69. Because directors hold a small number directorships, career costs faced by them in one of the directorships will be significant.

Within a firm-year, panel C shows that a firm, on average, has 8 directors. Similarly, an audit director is shocked in 1.9% of the firm-year observations, as captured by the indicator variable AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM), which identifies observations for which a director serving on the audit committee of the firm in question gets shocked and this director is an audit member at the shocked firm as well. Some of the tests in this study require data on firm characteristics and firm stock prices (described in detail later), which I obtain from Compustat and CRSP respectively (summarized in Table 1, panel C).

Using securities class action lawsuits provides several advantages over other data used in the literature to identify misconducts (and thus shocks to director reputation) as Fich and Shivdasani (2007) explain in detail. Besides securities fraud litigations, literature commonly uses announcements of earnings restatements, and Accounting and Auditing Enforcement Release (AAER) issued by the SEC. Class action lawsuits are filed fairly quickly, on average 1.54 months after a trigger event such as announcements of reporting violations that prompt regulators to start investigation (Karpoff et al. (2017)). Literature has shown that these lawsuits also have material consequences on the firms (Skinner (1997), Karpoff et al. (2017)). Moreover, the Private Securities

Litigation Reform Act of 1995 makes it difficult for plaintiffs to bring about frivolous lawsuits such that these litigations represent valid shocks to director reputation (Pritchard and Ferris (2001)).

On the other hand, not all earnings restatements represent financial misconduct and not all firms being sued restate earnings. And firms that are issued AAER by the SEC are more likely to be only a subset of financial fraud cases that are more egregious than others since the SEC is not able to bring about enforcement actions against all cases due to limited resources (Agrawal and Chadha (2005)). Therefore, limiting shocked firms to firms receiving AAER misses out on a number of firms and directors receiving a negative reputational shock. Furthermore, the average time between a trigger event and the first AAER is 27.3 months (Karpoff et al. (2017)), which would miss reputational consequences on directors that would have occurred since the first date of litigation.

While firms receiving AAER are firms for which fraud has been proven while firms going through class action lawsuits constitute cases for which fraud is *alleged* and not yet proven, these lawsuits still capture a negative reputational shock as shown empirically in section IV.A. Furthermore, any inclusion of cases that are eventually dismissed in the future would only bias against finding reputational spillovers.

IV. Methods and Results

A. Reputational Shock and Career Consequences

I begin my analysis by showing that a securities fraud litigation is indeed a negative shock to an audit director's reputation, which then sets the premise for studying subsequent spillover effects. As mentioned before, securities fraud litigations serve as negative shocks to the reputation

of audit directors because these directors are responsible for ensuring proper oversight of the financial reporting process. For example, audit directors are expected to conduct proper independent review of firm's financial reports; hold committee meetings, prepare meeting agendas and other relevant material; ask management tough questions, verify their assertions, and demand proper information.[11] I show that the incidence of securities fraud litigations is indeed associated with negative career consequences for audit directors: these directors are less likely than before to obtain a chair position and get reappointed on the audit committee in the three years following the incidence of the shock.

Furthermore, consistent with audit directors being primarily responsible for the oversight of financial fraud, I do not find evidence that directors serving on other committees face such career consequences. Results also show that audit directors do not depart from the board, suggesting that the shock is primarily revealing of their monitoring skills and not of their personal character as frauds or negligent monitor or someone who puts in low effort. This is consistent with the fact that directors usually do not face regulatory or legal consequences when a firm is sued for financial irregularities. For example, Srinivasan (2005) finds that the Securities and Exchange Commission (SEC) does not cite outside directors when it brings about enforcement actions against the sued firm, and they are not likely to be named as defendants in lawsuits.[12]

For this study, I consider a sample consisting of both shocked and non-shocked firms and ask whether audit members face career consequences at shocked firms. Specifically, I consider the probability of an audit director obtaining an audit chair position and getting reappointed on the

[11] See Beasley et al. (2009) for a description of the audit committee oversight process.

[12] Brochet and Srinivasan (2014) find that only 11% of independent directors are named as defendants in their sample of securities class action lawsuits. As the authors discuss, plaintiffs' lawyers usually name directors as a strategic tactic in order to pressure the firm to settle faster and extract higher settlement amounts because directors want to protect their reputational capital.

committee in the next three years of the incidence of the shock. Because firms usually appoint directors for three-year terms, studying career consequences in the next three years ensures that decisions for chair appointments and reappointments to the committee have occurred (Fos and Tsoutsoura (2014), Fich and Shivdasani (2007)). In order to focus on the effects of the shock occurring at a given point in time, I drop observations for all firms that might have been shocked previously. Similarly, I only keep directors that are shocked in a given firm in question and not elsewhere so that I capture career consequences of the shock at the firm in question.

I use the following model:

$$(1) \quad Y_{i.j,t} = \alpha + \beta_1 \, Firm\_Shocked_{\,j,t} \times Audit\_Member_{i,j,t} + \beta_2 \, Shocked\_Firm_{j,t} + \beta_3 \, Audit\_Member_{i,j,t} + Director\ Controls_{i,t} + Firm\ F.E + Year\ F.E + \varepsilon_{i,j,t}$$

In this model, the unit of analysis is for a director in a firm each year. $Y_{i.j,t}$ is the dependent variable of interest for director *i*, in firm *j*, at time *t.* I consider two dependent variables – AUDIT_CHAIR(T+3), which is a dummy variable taking the value 1 if a director is an audit chair at time *t+3*, and AUDIT(T+3), which is a dummy variable taking the value 1 if a director serves on the audit committee at time *t+3*. The main independent variable of interest is the interaction term between FIRM_SHOCKED and AUDIT_MEMBER. This term captures the difference in career consequences for an audit member, relative to other directors, in a shocked firm before and after the incidence of the shock. All regressions include firm and year fixed effects, and standard errors are clustered by bank. I also include director control variables described before and winsorize all variables at 1%.

In the absence of any negative reputational shock, audit members are expected to have a greater probability of obtaining a chair position in the audit committee compared to other directors

because of their experience in the committee. Similarly, they are expected to have a greater probability of reappointment on the committee. Therefore, I expect $\beta_3 > 0$. If the incidence of the litigation is a negative shock to the reputation of a director, the probabilities of obtaining a chair position and reappointment on the committee should decline. In other words, I expect $\beta_1 < 0$.

Table 2 presents the results. This table shows evidence that directors serving on the audit committee face negative career consequences after the incidence of a litigation at a firm. Columns 1 and 2 consider their likelihood of obtaining a chair position in the audit committee in the three years following the incidence of the shock, and columns 3 and 4 consider consequences on their likelihood of getting reappointed on the audit committee in the three years following the shock.

Column 1 shows that prior to the incidence of the shock, audit directors have higher probability of obtaining a chair position in an audit committee relative to other directors, however, after the shock, this probability declines as shown by the negative and statistically significant interaction term between FIRM_SHOCKED and AUDIT_MEMBER. I account for any confounding effect of firm characteristics by conducting a within-firm analysis using firm fixed effects and comparing career consequences for directors within the same firm.

The effect of the shock is economically significant for audit members. Prior to the shock, audit members have 15.7% more probability of becoming the chair of the committee compared to other directors in the same firm. After the shock, these directors are 13.9% more likely to become a chair compared to other directors. The difference of 1.79 percentage points in the two probabilities is 6.65% of one standard deviation value of AUDIT_CHAIR(T+3) (=0.269).

In column 2, I include an additional interaction term between FIRM_SHOCKED and OTHER_COMM_MEMBER, which identifies other committee members. The base comparison group of directors here constitutes directors that do not serve on any committee. Column 2 shows that

results are driven by audit directors. This test serves as a placebo test to show that only audit members that are expected to be affected by the shock are driving the results. Any results for other committee members would have been indicative of unobservables driving the results. Moreover, audit directors also serve on other committees besides the audit committee, and this column addresses concerns that the career consequences documented in column 1 for audit directors could be due to things happening in other committees where they may also serve.

I conduct similar tests to study if audit directors get reappointed on the audit committee in the three years following a litigation. Columns 3 and 4 present the results, and I find that audit members are more likely to depart the committee after the incidence of the litigation. According to column 3, audit members are 56.5% more likely than other directors to remain in the audit committee before the incidence of the shock. However, after the shock, this probability declines to 51.26%. The difference of 5.24 percentage points is 12.16% of one standard deviation value of AUDIT(T+3) (=0.431). Column 4 shows that the results are driven by audit members and not other committee members, indicating that the results for audit members are not spurious.

In the Internet Appendix, I conduct similar tests to study if other committee members face similar career costs in their respective committees. For example, to study career consequences for governance members due to financial fraud litigations, I study their likelihood of obtaining a governance chair position or getting reappointed on the governance committee in the three years following the litigation. Table IA.1 presents the results. I do not find evidence of changes in the likelihood of governance members obtaining a chair position, however results indicate them departing the committee. I take such inconsistent results as lack of evidence for the impact of litigations on these directors. I conduct similar tests for nominating and compensation committee

members and find similar results; there is no evidence of changes in the likelihood of these directors obtaining a chair position but there is evidence of them departing the committee.

Given inconsistent results for career consequences for other committee members but strong evidence of career consequences for audit members, I conclude that a securities fraud litigation is primarily a shock on audit members. Later, I show that reputational spillovers occur only from audit committee members and not from other committee members.

Next, I ask if the litigation shock has career costs for audit members at the board level and present results in the Internet Appendix. I study their likelihood of obtaining a board chair position and getting reappointed on the board in the three years following the incidence of the shock. I find that their probability of obtaining a board chair position or of getting reappointed either increases or does not change depending on the specification, thus indicating no evidence of career costs at the board level. That audit directors do not leave the board is also consistent with the results in Fich and Shivdasani (2007) who find similar results for audit members in firms facing securities fraud litigations.

Therefore, while audit members face career costs within the audit committee, they are not penalized at the board level. This result is interesting and sheds light on the nature of the shock and reveals how the board and shareholders assess audit directors after the firm is shocked. It suggests that the shock is primarily a negative shock on a director's reputation as an audit monitor and that the director's general monitoring skills outside of the audit committee are still valued.[13]

Another important implication of this result is that audit directors are likely not perceived as frauds themselves, who collude with the management in committing fraud because any

[13] In unreported tables, I also verify that audit directors do not face career costs in other committees either. I run tests similar to those in Table 1 studying an audit director's probability of obtaining a chair position and of holding membership in other committees (governance, compensation, and nominating). Results are statistically and economically insignificant, implying that audit members do not face career costs at other committees.

revelation of a personal character of a director as a fraud should make it more likely for the board and shareholders to force the director out of the board. Arguing along similar lines, it is also unlikely that the shock is revealing of personal character of a director as a negligent monitor or someone putting in low effort as such behaviors do not bode well for performing any other board duties. This result is informative in understanding the type of spillover effect that I document later in the paper. While one could expect spillovers whether shocked directors are deemed to be poor monitors or to have poor personal character, given that the shock is less likely to be revealing of the character of the shocked director, I find later that subsequent spillover effects to other directors are not spillovers in the perception of the personal character of directors.

B. Reputational Spillovers – Probability of Audit Chair Position

Having presented results that show that a securities fraud litigation is a negative shock to an audit director's reputation, I now turn to presenting evidence of reputational spillovers. Specifically, I study spillovers occurring from shocked to non-shocked directors within the next three years in audit committees of *other* firms (not shocked) where shocked directors also serve on the audit committee.

Fich and Shivdasani (2007) show that firms that are director interlocked with firms facing financial fraud litigations are received negatively by investors. Abnormal returns for interlocked firms are more negative when the shared director serves as an audit member at the sued firm indicating the negative reputational effect of litigations on audit directors of sued firms. Moreover, such abnormal returns are more negative when the shared director serves on their audit committee, indicating shareholder concerns about the governance of these firms when the shocked director holds a position that is responsible for monitoring financial fraud. Similarly, Chiu, Teoh, and Tian

(2013) show that if a firm is currently managing earnings and issues earnings restatements, other firms that share a common director are also more likely to restate earnings in the next two years. Given this result, one could argue that if an audit director in a non-shocked firm receives a shock (from elsewhere), this could encourage firms to reassess the performance of audit directors in this firm as well. This sets the premise to study spillover effects to non-shocked directors. To that end, I consider a subsample of non-shocked firms and non-shocked directors and study reputational spillovers experienced by audit directors when linked with a shocked director. Later, I will also show that results are not driven by firms that themselves get litigated in the next two years.

Because results in the previous subsection showed that audit members are primarily held responsible in firms undergoing financial fraud litigations, I consider spillovers emanating from these shocked audit directors only. So I define a director to be shocked if he/she serves on the audit committee of a shocked firm. I define a director to be non-shocked if none of the directorships that a director holds are shocked. Then, I show that non-shocked audit directors in non-shocked firms experience negative career consequences as a result of serving on the same audit committee as the shocked directors. I will also be referring to directors overlapping in the same committee as linked. So I now study whether non-shocked directors linked with shocked directors via an audit committee experience spillovers.

Figure 1 illustrates my study in this subsection. In this figure, firm A is a non-shocked firm. My sample constitutes only those directors in firm A that are not shocked, i.e., none of the other directorships they may hold are going through a litigation. Directors X and Y serve on the audit committee of firm A. Director X is a non-shocked director, while director Y is shocked as Y serves on the audit committee of firm B, which is going through a securities fraud litigation. So we have

a non-shocked director X that is linked with a shocked director Y. I study whether director X faces career consequences as a result of being linked with Y.

From my sample of non-shocked firms and non-shocked directors, I also remove firms that were themselves shocked in the past in order to avoid any confounding effect from their past litigations. Similarly, I remove firms that have an audit director that was previously shocked elsewhere such that I focus on spillover effects from directors that are shocked at a given point in time and not from before.

In this sample, I construct a dummy variable AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM), which takes the value 1 when one of the linkage directors in the audit committee receives a shock from elsewhere and this director is either a member or the chair of the audit committee at the firm where the shock originates. I use an interaction term between this variable and an indicator variable identifying audit members in the firm, AUDIT_MEMBER, to study if there are reputational spillovers from shocked to non-shocked audit directors. I study if spillovers affect the likelihood of a director obtaining an audit chair position and that of getting reappointed on the audit committee in the next three years of a linkage director receiving a shock from elsewhere. I estimate the following model:

$$
\begin{aligned}
(2) \qquad Y_{i.j,t} = \alpha + \beta_1 \, & Audit\_Link\_Shocked(Audit\_Mem\_at\_Shocked\_Firm)_{j,t} \\
& \times Audit\ Member_{i,j,t} \\
& + \beta_2 \, Audit\_Link\_Shocked(Audit\_Mem\_at\_Shocked\_Firm)_{\ j,t} \\
& + \beta_3 \, Audit\_Member_{\ i,t} + Director\ Controls_{i,t} + Firm\ F.E \\
& + Year\ F.E + \varepsilon_{i,j,t}
\end{aligned}
$$

In this model, the unit of analysis is for a director in a firm each year. $Y_{i.j,t}$ is the dependent variable of interest for director *i*, in firm *j*, at time *t*. In this subsection, I consider

AUDIT_CHAIR(T+3), a dummy variable taking the value 1 if a director is an audit chair at time *t+3*, as the dependent variable. In the next subsection, I consider AUDIT(T+3), which is a dummy variable taking the value 1 if a director serves on the audit committee at time *t+3*. The main variable of interest is the interaction term between AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) and AUDIT_MEMBER. This interaction term captures the difference in career consequences for an audit member relative to other directors in a firm before and after a linkage audit director is shocked. I include director control variables and winsorize all variables at 1%. All regressions include firm and year fixed effects and standard errors are clustered by bank.

In the absence of any reputational spillovers, audit members are expected to have a greater probability of obtaining a chair position in the audit committee compared to other directors because of their experience in the committee. Similarly, they are expected to have a greater probability of reappointment on the committee. Therefore, I expect $\beta_3 > 0$. If there are reputational spillovers (that is, after AUDIT_LINK_SHOCKED(SHOCKED_FIRM_AUD) turns on), the probability of obtaining a chair position or the probability of reappointment on the committee should decline. In other words, I expect $\beta_1 < 0$.

Table 3 presents the results. Column 1 shows that the variable AUDIT_MEMBER is positive and statistically significant, and the interaction term between AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) and AUDIT_MEMBER is negative and statistically significant. Therefore, audit directors are more likely than others to obtain a chair position in the future before a linkage director is shocked. However, after a linkage director is shocked, other audit directors are less likely than before to obtain a chair position in the future.

This spillover effect is also economically significant. Before a linkage director in the audit committee is shocked, non-shocked audit members have 16% more probability of becoming the chair of the committee compared to other directors in the same firm, similar to the conclusions in the previous subsection. After one of the audit linkage directors is shocked, these directors are 12.7% more likely than others to become chairs. This difference of 3.3 percentage points in the two probabilities is 12.3% of one standard deviation value of AUDIT_CHAIR(T+3) (=0.269).[14]

A director may also be linked with a shocked director via audit committees at other directorships that he/she may hold. In order to focus on spillovers from the shocked director in the firm in question, in column 2, I include a control variable AUD_LINK_SHOCKED_AT_OTHER_FIRM, which takes the value 1 if a director overlaps with a shocked director at other directorships. Results do not change after including this variable. In unreported tables, I also find that results persist if I remove directors that overlap with shocked directors at other directorships.

In column 3, I include an additional interaction term between AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) and OTHER_COMM_MEMBER, the base comparison group of directors being directors that do not serve on any committee. As per the spillover mechanism, the litigation shock is revealing of ineffective audit monitoring skills of a shocked director and this further leads to downward revisions of the perception of the audit monitoring quality of other directors that are liked with the shocked director in an audit committee. Therefore, reputational spillovers should only affect members that serve on the audit committee and not other committees. The test in column 3 serves as a placebo test and shows that spillovers

[14] I also caution the reader that while this economic significance of spillover effect looks larger than the economic significance of the effect of a director's own shock on his/her likelihood of obtaining a chair position in the previous subsection, which may look surprising, the underlying samples for the two tests are different. An important difference is the fact that the sample on this section excludes shocked directors. Furthermore, this sample also excludes shocked firms while the sample on the previous section includes both shocked and non-shocked firms.

do not occur where they are not expected; results are driven by audit members and there is no evidence of spillovers to other committee members. Any results showing that other committee members experience spillovers would have been indicative of unobservable variables driving the results. Moreover, because audit directors may also serve on other committees, the results of this column addresses concerns that spillover effects documented in columns 1 and 2 for audit directors could be due to things happening in other committees where they may also serve.

Next, I test if spillover effects are stronger if the shock is stronger. I do so by studying spillovers coming from directors who serve as audit chairs at shocked firms. Since committee chairs take leadership roles in the oversight of committee functions, they would be primarily held responsible for litigations, such that any reputational spillovers should be stronger coming from chairs. To test this, in column 4, I define a director to be shocked only if this director serves as an audit chair in a shocked firm. I construct an indicator variable AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) which turns on when one of the linkage directors in the audit committee receives a shock and he/she serves as an audit chair at the shocked firm. In column 4, I use an interaction between this variable and the indicator variable AUDIT_MEMBER. I find that spillovers are indeed economically stronger if they originate from shocked directors that serve as audit chairs at shocked firms.

According to column 4, before an audit member in a firm is shocked, non-shocked audit members have 15.9% more probability of becoming the chair of an audit committee compared to other directors in the same firm, consistent with prior results. After one of the audit linkages is shocked and this member served as an audit chair at a shocked firm, non-shocked audit directors are only 9.15% more likely than others to become a chair. This difference of 6.75 percentage points in the two probabilities is 25.1% of one standard deviation value of AUDIT_CHAIR(T+3).

Therefore, the likelihood of attaining an audit chair position declines for an audit member after one of the linkage audit members receives a negative reputational shock. Having shown evidence of reputational spillovers on an audit director's likelihood of attaining a chair position, another natural question that arises is whether he/she continues to face such career costs at other firms that may not have any shocked directors. In section IA.2, I consider the same sample of non-shocked firms and non-shocked directors but filter for firms that do not have any shocked directors serving on the audit committee. I find that directors in these firms have lower likelihood of attaining a future chair position in the audit committee if they are linked with shocked directors via audit committees elsewhere. Therefore, directors linked with shocked directors in audit committees continue to experience reputational spillovers elsewhere. This result also addresses concerns that prior results could just reflect reshuffling of directors that may occur after a director is shocked, which may not necessarily entail downward revisions of the monitoring skills of the linked directors, as linked directors continue to experience spillovers at other firms even when a shocked director does not exist there.

C. Reputational Spillovers – Probability of Reappointment on Audit Committee

In this subsection, I study the effect of reputational spillovers on an audit director's probability of reappointment on the audit committee. I consider the model in equation 2 again and ask how likely audit directors are to get reappointed on the committee in the next three years of a linkage director receiving a negative reputational shock. Consistent with the results of the previous section, I find that audit directors are less likely to get reappointed on the committee.

I use AUDIT(T+3) as the main dependent variable, and the main independent variable of interest is the interaction between AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) and

AUDIT_MEMBER. Table 4 presents the results. Column 1 shows that while the indicator variable AUDIT_MEMBER is statistically significant and positive, the interaction term is statistically significant and negative. Therefore, while audit directors are more likely than others to get reappointed before a linkage audit director is shocked, this likelihood declines after the linkage director is shocked. When no director in the audit committee is shocked, audit members are 5.65% more likely than others to hold membership in the committee in the future. After one of the audit members receives the shock, this probability declines by 2.53 percentage points. This differential is 5.9% of one standard deviation value of AUDIT(T+3) (=0.431).[15]

Table 4, column 2 shows that results do not change after controlling for a director's link with other shocked directors at other firms. The economic significance of the impact of reputational spillovers on AUDIT(T+3) remains the same as in column 1. In unreported tables, results persist if I remove directors that are linked with shocked directors at other firms.

In column 3, as before, I include an interaction term between AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) and OTHER_COMM_MEMBER. As expected, column 3 shows that spillovers are driven by audit members and that there is no evidence of spillovers to other committee members. Therefore, results of spillover effects to audit directors are not likely to be spurious. Furthermore, this column addresses concerns that results may be due to audit directors' exposure to things happening at other committees.

[15] As argued previously, I study career consequences within three years of the linkage director getting shocked in order to ensure that decisions for reappointments to the committee have occurred, given that firms usually appoint directors for three-year terms. In unreported tables, I do not find statistically significant evidence of departures from the audit committee within a year, although I find evidence that they are less likely to obtain a chair position. This is likely because not all directors are up for reelection within a year. An implication of this result could be that directors are likely not fired, but are less likely to get reappointed, as one could imagine firing decisions to occur fairly quickly after a trigger event. While unreported tables show spillover consequences (for likelihood of obtaining a chair position and reappointment on the committee) within two years as well, I present results observed within three years to account for all directors for whom a reappointment decision has been made.

Finally, column 4 shows evidence of economically stronger spillovers if I use a stronger shock, in which shocked directors serve as audit chairs at shocked firms. After a linkage director in the audit committee is shocked, an audit director's probability of retaining membership in the audit committee relative to other directors declines by 3.76 percentage points, which is 8.7% of one standard deviation of value AUDIT(T+3) and economically stronger than the result documented in column 1.

In section IA.2, I ask if these audit directors continue to face lower likelihood of retaining audit membership at other (non-shocked) firms that may not have shocked directors serving on their audit committees. I find that directors in these firms have lower likelihood of getting reappointed on the audit committee in the future if they are linked with shocked directors via audit committees elsewhere. Therefore, reputational spillovers extend to other firms as well.

D. Falsification Tests

1. Placebo Shock

The results of subsection IV.A showed that securities fraud litigations affect directors serving on the audit committee of shocked firms but not directors serving on other committees. In section IV.B, I presented evidence of spillover effects coming from audit directors of shocked firms to non-shocked directors whom they overlap with on audit committees of other non-shocked firms. If these results capture spillovers from shocked to non-shocked directors, then there should be no spillovers coming from directors serving on other committees at shocked firms since they are not affected by the shock. In other words, a placebo shock, as captured by non-audit committee members at shocked firms, should yield no spillovers. Any evidence of spillovers from these directors would be indicative of unobservable factors driving the results documented as spillovers.

To test this, I check to see if there are spillovers coming from directors, who serve on the governance, nominating, and compensation committees of shocked firms. To test for spillovers from governance members of shocked firms, I redefine a director to be shocked if he/she is a governance member at a firm facing securities fraud litigation at a given point in time. I then ask if non-shocked governance members in non-shocked firms where this director also serves on the governance committee experience spillovers. I consider career consequences within the governance committee; in other words, I consider a director's likelihood of obtaining a governance chair position and of getting reappointed on the committee in the following three years. I check for spillovers from directors serving on the compensation and nominating committees of shocked firms similarly. As expected, I do not find any evidence of spillovers coming from these directors that are not affected by the shock.

Table 5, panel A presents the results. In columns 1 and 2, I consider spillovers from directors that serve on governance committees of shocked firms. As before, the sample consists of non-shocked directors in non-shocked firms, and a director is non-shocked if none of the directorships held by him/her is shocked. Column 1 considers GOV_CHAIR(T+3) as the dependent variable and column 2 considers GOV(T+3). GOV_CHAIR(T+3) takes the value 1 if a director is a governance chair at time *t+3* and GOV(T+3) takes the value 1 if a director holds membership in the governance committee at time *t+3*. I include the same director control variables as those in the regressions in Tables 3 and 4 except that instead of a director's prior experience as an audit member and audit chair, I include the director's prior experience as a governance member and governance chair. The main variable of interest is the interaction between GOV_MEMBER, which identifies governance members, and GOV_LINK_SHOCKED(GOV_MEM_AT_SHOCKED_FIRM), which takes the

value one when one of the linkage directors in the governance committee receives a shock from elsewhere and this director also serves as a governance member or chair at the shocked firm.

Column 1 shows that the variable GOV_MEMBER is statistically and economically significant. A governance member is 16.2% more likely than others to obtain a governance chair position at time *t+3* before one of the linkage directors in the governance committee receives a negative reputational shock. However, this likelihood does not change after a linkage director is shocked as shown by the statistically insignificant interaction term. Similarly, as per column 2, a governance member is 55.2% more likely than others to hold a governance position at time *t+3* before a linkage director is shocked. However, this likelihood does not change after a linkage director is shocked. These results show that there are no spillovers emanating from governance members of shocked firms. In unreported tables, I consider a stronger shock in which shocked directors serve as governance chairs at shocked firms. There are no spillover effects using this stronger shock either.

Columns 3 and 4 repeat the same exercise by redefining a director to be shocked if he/she serves on the nominating committee at a shocked firm. I replace dependent variables with indicator variables that identify whether a director holds a nominating chair position or membership in the next three years of a linkage director getting shocked. And I include a director's prior experience as a nominating member and nominating chair as control variables in addition to other control variables included in prior regressions. As results show, while nominating members are more likely to hold a chair position or membership before a linkage director is shocked, the statistically insignificant interaction between NOM_MEMBER and NOM_LINK_SHOCKED(NOM_MEM_AT_SHOCKED_FIRM), defined similarly, indicates that the

likelihood does not change after a linkage director is shocked. These results are robust to considering shocked directors that are nominating chairs at shocked firms.

In columns 5 and 6, I consider spillovers from compensation committee members of shocked firms. I redefine the dependent and independent variables accordingly. There is no evidence of spillovers from these shocked directors to non-shocked compensation committee members. Their likelihood of obtaining a chair position in the compensation committees at non-shocked firms does not change. However, there is some evidence of spillover effects on their probability of getting reappointed on the committee. When I consider spillovers from shocked compensation committee directors that were compensation chairs at shocked firms, there is no evidence of spillovers from them. Despite some evidence of spillovers on reappointment probability for compensation committee members, overall results in this table show that spillovers do not occur from non-audit committee members of shocked firms.

2. Placebo Linkages

Having shown that a placebo shock does not yield spillovers, I now confirm that placebo linkages do not yield spillovers either. As per the spillover mechanism, only directors serving on the same audit committee are linked and should experience reputational spillovers from one another. This is because securities fraud litigations reveal audit directors as poor monitors and this is informative of only audit monitoring skills of linked directors. To that end, I show that audit directors do not experience spillovers if shocked directors do not serve on the audit committee and serve on other committees instead – that is, there are no spillovers if shocked and non-shocked directors are not linked.

To that end, as before, I define a director to be shocked if he/she serves on the audit committee of a shocked firm. Then I ask if audit members at non-shocked firms experience spillovers if shocked directors serve on committees other than the audit committee. Specifically, I consider three exercises in which a shocked director serves on the governance committee (captured by the indicator variable "GOV_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM); the compensation committee (captured by the indicator variable "COMP_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)"; or the nominating committee (captured by the indicator variable "NOM_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)." As expected, audit directors in these tests do not experience spillovers.

Table 5, panel B presents the results. In columns 1-3, I consider a director's likelihood of attaining a chair position in an audit committee in the three years of a linkage director in the firm getting shocked. Column 1 considers the case when the shocked director serves on the governance committee of the firm in question; column 2 considers the case when the shocked director serves on the compensation committee; and column 3 considers the case when the shocked director serves on the nominating committee. As results show, none of the interactions between variables that identify the incidence of a shock on directors in the respective committees with the variable identifying audit members (AUDIT_MEMBER) are statistically significant. In other words, the likelihood of an audit member getting an audit chair position does not change after a director on a different committee receives a negative reputational shock.

In columns 4-6, I repeat the same exercise, now considering a director's likelihood of reappointment on the audit committee in the next three years. As before, none of the interaction terms are statistically significant, implying that an audit director's likelihood of reappointment on the committee does not change if he/she is not linked with shocked directors. In unreported tables,

I verify that these results are robust to using a stronger shock in which shocked directors serve as audit chairs at shocked firms.[16]

That there are no spillovers if shocked and non-shocked directors are not linked in the audit committee is important as it shows that the results are not due to any common exposures/characteristics of shocked and non-shocked firms or any economic linkages that might exist between the two firms. The existence of shocked directors in the firm in question should capture such common exposures or economic linkages between firms, however results show that their mere existence does not imply spillovers; they should serve specifically on the audit committee and thus be linked with other audit directors for spillovers to occur.

E. Robustness Tests

The results of this paper persist in a host of robustness tests discussed in detail in the Internet Appendix. First, I address concerns that results could be due to common industry effects that affect both shocked and non-shocked firms. Specifically, there could be industry effects that lead to litigations at shocked firms, thus leading to negative reputational shocks to audit directors there, and the same industry effects could cause potential issues at non-shocked firms, leading to negative career consequences for non-shocked directors there. However, prior results in subsection IV.D.2 show that directors do not experience spillovers if they do not overlap with shocked directors in audit committees. If common industry effects were driving the results, then directors should be affected irrespective of the committees that the shocked directors serve on; the existence

[16] The results of the unreported table show that none of the corresponding interaction terms are statistically significant except for one regression. This regression provides a statistically weak evidence (significant at 10%) that audit members may be less likely to obtain audit chair positions in the future if shocked directors serve on the compensation committee of the firm in question (and as audit chairs at shocked firms). Overall, results show that spillovers do not occur if directors are not linked via the audit committee.

of shocked directors in any committee should capture industry effects. In Table IA.3, I further show that results persist if I drop observations for which firms in question and shocked firms belong to the same industry.

Second, I address confounding effects from director characteristics. It is possible that the results are due to directors' own performance as a monitor. It is difficult to measure a director's own performance since directors work in a team on a board (Srinivasan (2005)). However, I proxy for a director's performance using the average Return On Assets (ROA) of directorships where he/she serves on the audit committee, and define a director to be a high (low) performance director if his/her performance measured as such is more (less) than the average for the audit directors in the sample. Table IA.4 shows that spillovers are either statistically indistinguishable between high and low performance directors or driven by high performance directors, depending on the specification, inconsistent with the hypothesis that director performance drives the results.[17] In unreported tables, I also proxy for a director's performance using average governance practices (captured by a firm's E-index) at directorships where he/she serves on the audit committee (details in section IA.3.2). Defining a director to be a high performance director if he/she serves as an audit director at shareholder friendly firms on average, I find similar results.

Furthermore, while the sample consists of non-shocked firms and non-shocked directors, it could still include directors that might have been shocked in the past. I find that results are robust to dropping these directors (Table IA.5). It is also possible that results are only driven by directors that hold multiple directorships since they have a greater probability of being exposed to shocked directors. These directors may also be busy due to responsibilities at multiple firms, and the results could reflect the impact of their busyness on their performance. I note that having multiple

[17] Results persist if I redefine high (low) performance directors instead to be those with positive (non-positive) average ROA for all directorships where they serve on the audit committee.

directorships does not necessarily imply high reputation. A director serving on the board of one large firm could have higher reputation than a director serving on boards of two small firms. In later analysis where I study director reputation, I use the average size of the directorships held by directors to capture their reputation. Results in Table IA.6 show that reputational spillovers experienced by directors with no outside directorships and those with outside directorships are statistically indistinguishable (or driven by those with no outside directorship depending on the specification), thus inconsistent with this alternate explanation.

Third, although all regressions include firm fixed effects, I provide additional evidence that results are not due to firm characteristics. To address concerns of confounding effects from firm performance, I distinguish between firms with positive ROA and those with negative ROA. I find that spillovers are in fact weaker in firms with negative ROA, inconsistent with the possibility that firm performance could be driving the results (Table IA.7, columns 1 and 3). Furthermore, results are robust to excluding the lowest 10 percentile firms by ROA (Table IA.7, columns 2 and 4).

Results could also be a phenomenon specific to large firms. If directors at large firms are busier because larger firms are more complex and need greater oversight that could affect their performance, results could be reflective of their busyness. Similarly, small firms could have smaller number of directors, thus adding statistical noise to the results. Table IA.8, columns 1 and 4 show that spillovers are indistinguishable between large and small firms, where a firm is defined to be large if its total asset size is above the mean for the sample, and small if it is below the mean for the sample. Results are also robust to excluding the smallest (Table IA.8, columns 2 and 5) and the largest (Table IA.8, columns 3 and 6) 10 percentile firms by size.

In unreported tables, I also show that results are not confounded by the introduction of SOX in 2002 that sought to improve auditing and financial disclosure practices in firms. I find that

results are robust to dropping observations prior to and including 2002. Furthermore, Chiu, Teoh, and Tian (2013) find contagion in earnings management behavior in board interlocked firms – that is, firms that have overlapping directors with firms that engage in earnings management have a higher likelihood of engaging in earnings management themselves. Given this result in the literature, one could also argue that firms that have a director on their board that is shocked due to litigations at a different firm, could also have an ineffective board and thus maybe more likely to face litigations themselves in the future. Given that I document career costs for audit directors in the three years following the incidence of a reputational shock on a linkage director, any litigation event at the firm in question in this timeframe could confound the results. In unreported tables, I confirm that results are robust to dropping observations for firms that themselves face securities fraud litigations within the next two years.

V. Spillover Mechanism

In this section, I study the underlying mechanism of spillovers between directors documented in the previous section. I posit that these spillovers are reputational spillovers and provide evidence in support of it.

As discussed before, literature shows that directors carefully choose who they associate with (Cai, Nguyen, and Walkling (2022), Beasley et al. (2009)). It also documents that connected directors exchange information and learn from others in their network (Intintoli, Kahle, and Zhao (2018)), and thus influence each other's behavior. Therefore, directors are likely to be perceived as similar. Within a board, directors serving on the same committee work closely and have common areas of expertise such that they constitute a closer knit of similar directors. Furthermore, they are viewed as one united unit making decisions together. Therefore, I posit that a negative

shock to the reputation of the monitoring skills of a director in a committee leads the rest of the board members and/or shareholders to revise down their beliefs about the monitoring skills of other directors in the same committee, leading to spillover effects.

The proposed mechanism leads to three testable hypotheses: (1) Audit members face career consequences only in the audit committee and not other committees because the shock reveals a director as a poor audit monitor and this should be informative of only audit monitoring skills of other directors; (2) Spillovers are felt more by directors that do not already have an established reputation; and (3) Spillovers are stronger coming from directors that are more likely to influence the behavior of other directors. I test each of these hypotheses in the following subsections.

I also test an alternate mechanism which posits that the spillovers documented are spillovers in the perception of the character of a director as opposed to the perception of the monitoring skills of the director. While prior results suggest that the shock is primarily revealing of the monitoring skills of a director which makes it unlikely that spillovers are about spillovers in the perception of the character of the director, I address this alternate hypothesis further in the following subsections.

A. Spillover Consequences in the Audit Committee Only

Since the shock is revealing of a director's poor monitoring skills relevant only to the audit committee, the spillover mechanism posits that the presence of a shocked director in an audit committee should be informative of other audit directors' monitoring skills relevant to the audit committee only. Therefore, reputational spillovers should result in career costs only in the audit committee and not other committees. On the other hand, if the alternate mechanism suggesting spillovers in the perception of the character of directors is true, then reputational spillovers should

result in career costs in other committees as well. Here, I show that audit members linked with shocked directors via audit committees do not face career costs in other committees.

For this test, I ask if audit members that overlap with shocked directors in an audit committee face career costs in the governance, nominating, and compensation committees. In my sample, 38% of audit members also serve on the governance committee, 39% of audit members also serve on the nominating committee, and 46% of audit members also serve on the compensation committee, allowing me to study if audit members continue to face career costs in other committees. Using the model in equation 2 again, I ask if audit directors are less likely to obtain a chair position or hold membership in each of these committees over the three years following the incidence of the shock on an audit member.

Table 6 presents the results. Columns 1 and 2 consider career consequences in the governance committee; columns 3 and 4 consider career consequences in the nominating committee; while columns 5 and 6 consider career consequences in the compensation committee. Columns 1, 3, and 5 consider the likelihood of holding a chair position, while columns 2, 4, and 6 consider the likelihood of holding memberships in the respective committees.

Columns 1 and 2 show that before a linkage director in the audit committee is shocked, non-shocked audit members were 0.63% less likely than others in obtaining a chair position and 1.36% less likely to hold membership at a governance committee in the next three years. One can expect these likelihoods to decline further if audit members were to face career costs in the governance committee after a linkage audit member receives a negative reputational shock. However, the interaction between AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) and AUDIT_MEMBER is statistically insignificant and positive in both columns.

Results for the rest of the columns for nominating and compensation committees corroborate the results in columns 1 and 2. They are less likely than others to hold a chair position or membership before a linkage director in the audit committee is shocked. This likelihood does not decline further after the linkage director is shocked. The corresponding interaction terms are statistically and economically insignificant in all regressions, except the last column. Despite the last column, overall results show little evidence that audit directors face career costs in these committees. In unreported tables, I consider a stronger shock in which shocked directors serve as audit chairs at shocked firms. The corresponding interaction terms are statistically and economically insignificant in all regressions. Overall, results suggest that audit committee members do not face career costs at other committees.

B. Spillovers for Low Reputation Directors

Next, if results are due to reputational spillovers, whereby a non-shocked director's quality of monitoring skills are being revised down, then spillovers should be felt more by directors that do not already have an established reputation as a monitor. To test this, I break audit directors into two parts – audit directors that have high reputation versus audit directors that have low reputation – and compare spillovers experienced by these two groups. The spillover mechanism implies that directors with low reputation should experience stronger spillover effects.

Since a director's reputation is determined by the size of directorships that the director holds, I define a director to have high (low) reputation if the average size of all directorships where this director serves on the audit committee, including the firm in question, is greater (smaller) than the mean for the sample in a given year. Note that this variable takes the average size across all directorships that a director holds and not just the size of the firm in question, making it unlikely

that this variable is simply capturing firm size effects; one could argue that the size of other directorships does not have a direct impact on what happens at the firm in question, but it does only through its impact on director characteristic, which is director reputation. While my sample does include directors that only hold one directorship and their reputation would be captured by the size of that firm, robustness tests in the earlier section show that firm size does not drive spillovers.[18]

Table 7 presents the results. In column 1, I include two interaction terms that are of primary interest. One is the interaction between AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) and AUD_MEM_LARGE_DIRSHP where AUD_MEM_LARGE_DIRSHP is an indicator variable identifying directors with high reputation as defined above. The other is the interaction between AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) and AUD_MEM_SMALL_DIRSHP where AUD_MEM_SMALL_DIRSHP is an indicator variable identifying directors with low reputation. I then study the impact of spillovers on the likelihood that a director holds an audit chair position in the next three years.

As column 1 shows, before a linkage audit director is shocked, both high and low reputation directors have similar likelihoods of obtaining a chair position. Specifically, the variable AUD_MEM_LARGE_DIRSHP shows that audit directors with high reputation are 15.8% more likely than other directors in the same firm but not serving on the audit committee to obtain an audit chair position; and the variable AUD_MEM_SMALL_DIRSHP shows that low reputation directors are 16% more likely than other directors in the same firm but not serving on the audit committee to obtain

[18] While some papers in the literature have used count of outside directorships to capture director reputation, I find that 72.6% of audit directors holding multiple directorships, where they also serve on audit committee, have small average directorship size, implying that this variable likely does not capture director reputation. Similarly, 15.8% of audit directors with only one directorship serve on large firms, so these directors are likely reputable even though they do not hold multiple directorships.

an audit chair position. However, after a linkage audit director is shocked, audit directors with low reputation face declines in their likelihood of becoming an audit chair while audit directors with high reputation do not face declines in their likelihood of becoming an audit chair. In economic terms, audit directors with low reputation are now only 11.6% more likely than others to become a chair. The difference of 4.4 percentage points in the probabilities before and after a linkage director is shocked is 16.2% of one standard deviation value of AUDIT_CHAIR(T+3).

In column 2, I conduct a similar test but consider a stronger shock in which shocked directors are audit chairs at shocked firms. Again, I find that while audit directors with high and low reputation both have similar likelihoods of becoming audit chairs before a linkage director is shocked, only directors with low reputation experience spillover effects. The spillover effect is economically larger as would be expected for a stronger shock. The likelihood of an audit director with low reputation obtaining a chair position in the audit committee relative to other directors declines from 16% before a linkage director is shocked to 6.93% after the linkage director is shocked. The difference of 8.36 percentage points is 31% of one standard deviation value of AUDIT_CHAIR(T+3).

Columns 3 and 4 conduct similar tests but study the impact of spillovers on the likelihood of a director holding audit membership in the next three years. As before, while directors with both high and low reputation have similar likelihoods of reappointment before a linkage director is shocked, I find that this likelihood declines only for low reputation directors after a linkage director is shocked. In economic terms, as per column 3, the likelihood of an audit director with low reputation getting reappointed on the audit committee relative to other directors declines from 56.2% before a linkage director is shocked to 51.8% after the linkage director is shocked. This decline of 4.4 percentage points is 10.3% of one standard deviation value of AUDIT(T+3). As per

column 4, a stronger shock, where shocked audit directors serve as audit chairs at shocked firms, leads to a 5.5 percentage point decline in similar relative likelihoods of reappointment on the audit committee for low reputation audit directors. This decline is 12.7% of one standard deviation value of AUDIT(T+3).

C. Spillovers from Shocked Audit Chairs

If reputational spillovers occur because a board of directors is perceived to be a close-knit group of similar people who likely influence each other's behavior, then spillovers should be stronger coming from directors that are influential and able to have an impact on the behavior of other directors. Given that audit chair is a position of power and influence, I ask if spillovers are stronger if a shocked director serves as an audit chair at the firm in question.

I construct a variable AUD_CHAIR_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM), which takes the value one if the chair in the audit committee receives a negative reputational shock from elsewhere. These audit chairs are either audit members or chairs at the firm where they are shocked. Then I include an interaction between this variable and AUDIT_MEMBER. As before, I consider a director's likelihood of holding a chair position or membership in the audit committee in the next three years.

Table 8 presents the results. Column 1 shows that audit directors are less likely to hold an audit chair position in the three years following the incidence of a shock on a linkage audit director, and this effect is economically stronger than that documented before. While audit members are 16% more likely than others to hold an audit chair position before an audit chair is shocked, they are only 5.9% more likely to hold an audit chair position once the chair is shocked. This decline of 10.1 percentage points is 37.5% of one standard deviation value of AUDIT_CHAIR(T+3). In

column 2, I consider a stronger shock in which shocked audit chairs also serve as audit chairs at shocked firms. Again, audit directors are less likely than before to attain a chair position and a similar decline in the likelihood of attaining a chair position relative to others before versus after a linkage director is shocked is 11.4 percentage points, which is 42.4% of one standard deviation value of AUDIT_CHAIR(T+3).

I repeat the same exercise in columns 3 and 4, now considering a director's likelihood of reappointment on the audit committee in the next three years. Results corroborate the conclusions of columns 1 and 2. As per column 3, the likelihood of reappointment declines by 4.34 percentage points after an audit chair is shocked. This decline is 10.1% of one standard deviation value of AUDIT_CHAIR(T+3). Results persist if I use a stronger shock in which shocked audit directors also serve as audit chairs at shocked firms. With this stronger shock, the decline in the likelihood is 5.17 percentage points, which is 12% of one standard deviation value of AUDIT_CHAIR(T+3).

D. Alternate Spillover Mechanism

In this subsection, I address an alternate mechanism which posits that the spillovers documented are spillovers in the perception of the character of a director. One could argue that the shock reveals personal character of a director as a fraud or negligent monitor or someone who does not put in effort, and that shocked directors engage in fraudulent behavior in the firm in question as well or continue to be negligent or put in low effort. If other audit members are complicit or resort to inaction for any reason, then these audit members could experience spillover effects.

I first note that the results in subsection IV.A show that the shock is perceived to be revealing of directors' monitoring skills only and not their personal character. Second, the results presented in subsection V.A are inconsistent with this alternate mechanism. Results showed that audit

directors face career consequences only in the audit committee and not in other committees. However, if audit directors face spillovers due to the perception of their character, then there should be career consequences in other committees as well.

I further address this alternate mechanism in this subsection. If spillovers documented are spillovers in the perception of the character of the director, the existence of shocked directors in any committee should lead to spillover effects to other directors in the overlapping committee. To that end, I ask if other committee members, specifically governance, nominating, and compensation committee members experience spillovers if shocked directors (those that serve on the audit committees at shocked firms) serve on the respective committees. I consider three exercises in which a shocked director serves on the governance committee (captured by the indicator variable "GOV_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)"; the compensation committee (captured by the indicator variable "COMP_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)"; or the nominating committee (captured by the indicator variable "NOM_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)." I find that other members linked with the shocked directors in the respective committees do not experience spillovers.

Table 9 presents the results. In columns 1 and 2, I consider spillovers to governance committee members from the presence of shocked directors in the governance committee. Column 1 considers GOV_CHAIR(T+3) as the dependent variable and column 2 considers GOV(T+3). I include the same director control variables as those in the regressions in Tables 5, panel B. The main variable of interest is the interaction between GOV_MEMBER and GOV_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM).

Column 1 shows that a governance member is 16.2% more likely than others to obtain a governance chair position at time t+3 before one of the linkage directors in the governance committee receives a negative reputational shock. However, this likelihood does not change after a linkage director is shocked as shown by the statistically insignificant interaction term. Similarly, as per column 2, a governance member is 55.1% more likely than others to hold a governance position at time t+3 before a linkage director is shocked. However, this likelihood increases after a linkage is shocked. These results show that there are no spillovers emanating from shocked directors to other governance members even though they are linked in the governance committee, inconsistent with the mechanism that posits spillovers in the perception of a director's character. In unreported tables, I consider a stronger shock in which shocked directors serve as audit chairs at shocked firms. There are no spillover results using this stronger shock either.

Columns 3 and 4 repeat a similar exercise now considering spillovers to nominating committee members from the presence of shocked directors in the nominating committee. I replace dependent variables with indicator variables that identify whether a director holds a nominating chair position or membership in the next three years. As results show, while nominating members are more likely to hold a chair position or membership before a linkage director is shocked, there is no change in their likelihood of holding a chair position (column 5) and an increase in their likelihood of getting reappointed on the committee (column 6) after a linkage director is shocked. These results are robust to considering a stronger shock when shocked directors are audit chairs at shocked firms.

In columns 5 and 6, I consider spillovers from shocked directors to compensation committee members. I redefine the dependent and independent variables accordingly. There is no evidence of spillovers from these shocked directors to non-shocked compensation committee

members' likelihood of obtaining a chair position in the compensation committee. Results persist when I consider a stronger shock in which shocked directors serve as audit chairs at shocked firms.

In Section IA.4, I provide additional robustness test to show that the results documented are not due to spillovers in the perception of directors as frauds. If this mechanism were to drive the results, because directors that are connected with firm executives have more incentive to be complicit in fraudulent activities or to resort to inaction, they should experience stronger spillovers. However, I do not find that they do.

E. Robustness Test: Voluntary Departure vs Non-Reappointment

It is possible that after one of the directors receives a negative reputational shock, non-shocked directors do not wish to associate with them out of concerns for their own reputation and voluntarily leave the audit committee. So results could be due to voluntary departures as opposed to reputational spillovers.

In the Internet Appendix, I consider a sample of both shocked and non-shocked directors in non-shocked firms and ask if shocked directors face career consequences in the audit committee. If shocked directors depart the committee, then it is unlikely that non-shocked directors feel the need to voluntarily depart. In Table IA.10, I find that shocked directors have a lower probability of holding an audit chair position and higher probability of leaving the audit committee relative to other directors, making it unlikely that non-shocked directors leave voluntarily.

Furthermore, in the next section, I find that announcements of departures of non-shocked directors from audit committees are followed by positive market reaction if they are linked with a director that receives a shock from elsewhere. If these departures were voluntary and unexpected by shareholders who value directors' expertise in the audit committee, then the market would react

negatively. Therefore, audit committee departures due to reputational spillovers are likely not voluntary.

F. Who drives Committee Departures?

Results have so far shown that reputational spillovers occur from one director to another, and that these spillovers lower an audit director's probability of getting a chair position and getting reappointed on the audit committee in the future. Previous subsection also suggested that committee departures are likely not voluntary. This leads to another question: Who induces director departures from the audit committee? Is it the board or the shareholders? Furthermore, do directors depart from just the committee or from the board altogether?

Given that committee assignments are determined by the board and shareholders cannot vote for committee positions, the only way that shareholders can bring about changes in the committee assignments is by voting directors out of the board. Shareholders can withhold their votes when directors are up for reelection for board positions, however the literature suggests that this mechanism is rarely effective (Fos and Tsoutsoura (2014)). This is because in most US firms, shareholders can only withhold their votes (and not vote out directors) and firms generally have a plurality voting system such that a director can get reelected even with few votes. Shareholders also have the option to bring a proxy contest and nominate an alternate slate of directors. Alternatively, the board can decline a director's reappointment on the board/committee or not nominate them for board/committee positions.

To answer this question, in the Internet Appendix, I study if reputational spillovers affect directors at the board level. Specifically, I ask if reputational spillovers affect an audit director's likelihood of obtaining a board chair position or of getting reappointed on the board in the next

three years. Table IA.11 shows that they do not; audit directors are not less likely to obtain a board chair position and they are not more likely to leave the board. That these directors do not leave the board is not surprising given that even audit directors at shocked firms do not leave the board. This suggests that audit departures are likely brought about by the board. Furthermore, this goes to show that while these directors are viewed as less effective audit monitors, they are still valued for other board duties.

VI. Shareholder/Market Reaction

In this section, I study how shareholders perceive directors that overlap with shocked directors in an audit committee. I do so by studying how the market reacts to announcements of directors departing from audit committees and directors stepping down from audit chair positions as a result of reputational spillovers. If shareholders revise down their beliefs about the monitoring ability of directors that are not shocked but linked with shocked directors, then such announcements should be good news for the market. Consistent with this intuition, I find that excess firm stock returns increase around departure announcement dates. This test also goes to show that reputational spillovers have positive valuation effects on firms.

For this test, I create a sample of departure announcement events for non-shocked directors in non-shocked firms in my main sample and compare how the market reacts to audit departures after an audit director is shocked from elsewhere – that is, after reputational spillovers result in non-shocked audit directors departing from the committee. I track announcements of director departures from committees or boards occurring anytime over the three-year period on or after a linkage director is shocked. I also obtain all announcements of directors stepping down from chair positions in committees or boards. For convenience, going forward, I will refer to both types of

announcements as departure announcements. As before, I remove observations for firms that were themselves shocked in the past and firms that might have had an audit director shocked previously. Then, for each announcement, I obtain stock return data from CRSP and compute Cumulative Abnormal Returns from one day prior to the announcement date to 5 days after ((-1,5) CARS).[19]

I estimate the following model:

$$(3)\quad Y_{i,j,n} = \alpha + \beta_1\, Audit\_Link\_Shocked(Audit\_Mem\_at\_Shocked\_Firm)_{j,n} \times Audit\_Mem\_Departure_{i,j,n} + \beta_2\, Audit\_Link\_Shocked(Audit\_Mem\_at\_Shocked\_Firm)_{j,n} + \beta_3\, Audit\_Mem\_Departure_{i,j,n} + Director\ Controls_{i,n} + Firm\ F.E + Year\ F.E + \varepsilon_{i,j,n}$$

Here, the unit of analysis is an announcement event *n* for director *i* in each firm *j*. $Y_{i,j,n}$ is (-1,5)CARs computed around each announcement event date. AUDIT_MEM_DEPARTURE identifies events of directors departing from the audit committee or stepping down from the audit chair position. As before, AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) takes the value one if a linkage director in the audit committee was shocked within three years time prior to the departure event. The main variable of interest is the interaction term between AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) and AUDIT_MEM_DEPARTURE, which captures the difference in abnormal returns around the announcement date for audit departures relative to other departures, before versus after a linkage audit director is shocked. As before, I

[19] Abnormal return on any given day is the difference between the actual stock return and an expected stock return. I use the four factor model to compute expected stock returns for each day. For announcement dates that fall on a weekend, I assume the announcement date to be the next business day. I use CRSP value weighted market return as a proxy for market return and obtain the three Fama/French factors from Kenneth French's website. Slope and intercept estimates are obtained from four factor regressions over 200 days prior to the (-1,5) event window. Abnormal returns are then cumulated over the event window to compute (-1,5) CARS.

include director control variables and winsorize all variables at 1%. All regressions include firm and year fixed effects and standard errors are clustered by bank.

Table 10 presents the results. Column 1 shows that the variable AUDIT_MEM_DEPARTURE is negative and statistically significant, and the interaction term between AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) and AUDIT_MEM_DEPARTURE is positive and statistically significant. Therefore, departures of non-shocked audit members are generally viewed negatively by the market when shocked directors do not serve on the audit committee of a firm. However, they are received positively if they occur after a linkage director in the audit committee is shocked. For announcements of audit departures when a linkage audit director is not shocked, the market goes down by 0.43%, while for announcements of audit departures after a linkage director is shocked, the market goes up by 2.5%, a difference of 2.93 percentage points.

In column 2, I include an additional interaction term between AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM and OTHER_COMM_MEM_DEPARTURE, where OTHER_COMM_MEM_DEPARTURE identifies announcements of departures of other committee members from their respective committees or from chair positions in the committees. Results show that the market reacts positively to audit member departures, but negatively for departures of other committee members from their committees. After a linkage director in the audit committee is shocked, the announcement returns for audit member departures relative to other departures increase by 2.4 percentage points. On the other hand, similar relative returns for departures of other committee members from their respective committees decline by 4.12 percentage points. This suggests that while the market revises down their beliefs about the monitoring skills of non-shocked audit directors that overlap with shocked directors in the audit committee, they do not

revise down their beliefs about other committee members that do not overlap with shocked directors in the audit committee.

Finally, in column 3, I use a stronger shock in which shocked directors serve as audit chairs at shocked firms. Although the economic significance is not stronger compared to the results in column 1 as one would have expected with a stronger shock, and the statistically significance is also weaker (significant at 10%), the results of positive market reaction to audit member departures persist. Overall, this table provides evidence of positive market reaction to audit member departures due to reputational spillovers, indicating that shareholders also revise down their beliefs about the monitoring quality of directors that are linked with shocked directors.

Although the sample in this section includes departures of only non-shocked directors, departures occur anytime over the three-year period after an audit linkage director is shocked. It is possible that non-shocked directors get shocked during this period. In unreported tables, I show that results are robust to dropping observations for directors that are shocked within this period.

Similarly, it is also possible that shocked directors themselves depart from the committee or the board after receiving a reputational shock, and the positive market reaction to departures of non-shocked directors could be confounded by market reaction to departures of shocked directors which could also be positive. Table IA.12 shows that results are robust to dropping observations for departure announcements (from the board or committee) for which there are corresponding shocked director departures (from the board or committee) during the period between 10 days before and 10 days after the announcement date. In unreported tables, I find that results persist if I drop observations for departure announcements for which there are corresponding shocked director departures within 1 year (before and after) of the announcement date.

VII. Conclusion

In this paper, I show that directors that work closely within a board experience reputational spillovers from one another, providing the first evidence of director-to-director spillovers. Specifically, I show that directors who serve on the same committee experience reputational spillovers. Because directors that serve on the same committee constitute a close knit of people who are likely to be perceived as similar and to influence each other's behavior, if a director is revealed to be an ineffective monitor, it changes the perception of the monitoring quality of other directors in the same committee. Using a negative shock to the reputation of a director who serves on the audit committee of a firm facing securities fraud litigation, I show that in other firms where these directors also serve on the audit committee, non-shocked directors in the committee experience reputational spillovers; these directors are less likely to obtain a chair position in the audit committee and less likely to get reappointed on the committee.

Consistent with reputational shock on the monitoring skills of one director informing the audit monitoring skills of other directors in the same audit committee, I find that only audit members face career consequences, and these consequences are within the audit committee only and not other committees. Moreover, directors that do not already have an established reputation experience stronger spillovers; and spillovers are stronger coming from audit chairs, who are more likely to influence the behavior of other directors, consistent with results being reputational spillovers.

This study is important for three reasons. First, it provides the first evidence of director-to-director spillovers. Second, it suggests the existence of a novel governance mechanism that penalizes directors for associating with poor performers. Third, while the literature has provided

evidence of benefits of having large professional networks for individuals (directors/executives), this paper shows potential costs to individuals if this network includes poor performers.

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Figure 1. Illustration of Spillovers
This figure illustrates the strategy in studying reputational spillovers in a hypothetical firm A that is not shocked. The sample only constitutes non-shocked directors in firm A i.e., directors are not shocked from any of the directorships they may hold. Directors X and Y serve on the audit committee of firm A and are therefore called to be linked with each other. Director X is a non-shocked director, while director Y is shocked as Y serves on the audit committee of firm B, which is going through a securities fraud litigation. I study whether director X faces career consequences as a result of being linked with Y.

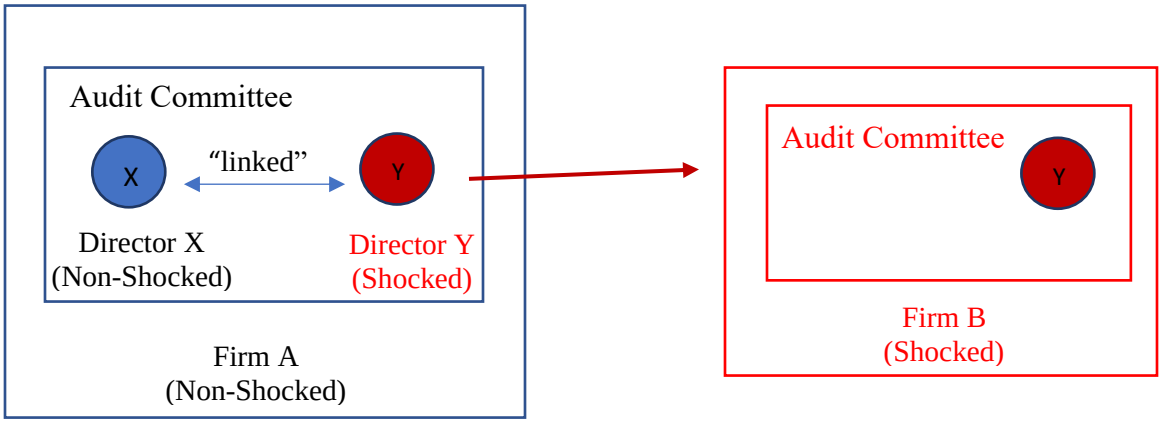

Table 1. Summary Statistics

This table presents summary statistics for the variables used in the regressions of this paper. Unless otherwise noted, the sample consists of non-shocked firms and non-shocked directors from years 2000 through 2021. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee of a shocked firm. A director is non-shocked if none of the directorships held by the director is shocked. The table summarizes variables at firm-director-year, firm-year, and director-year levels as indicated. Data on board directors are from the Boardex database, and data on securities fraud litigations are from the Stanford Class Action Clearinghouse database. Sources of other data are noted in detail in the text. Panel A summarizes director characteristics, Panel B summarizes director-firm variables, and Panel C summarizes firm characteristics. Main dependent variables include AUDIT(T+3) and AUDIT_CHAIR(T+3). AUDIT(T+3) is an indicator variable identifying whether a director serves on the audit committee at time *t+3*. AUDIT_CHAIR(T+3) is an indicator variable identifying whether a director serves as the chair of an audit committee at time *t*+3. AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) identifies firms (non-shocked) where a shocked director serves on the audit committee and this director served as a member or chair in the audit committee of a shocked firm. AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) identifies firms (non-shocked) where a shocked director serves on the audit committee and this director served as an audit chair at a shocked firm.

Panel A: Director Characteristics

Variable	N	Mean	SD
	(Director-Year Variation)		
#DIRSHPS	435864	1.529	0.89
#DIRSHPS(AUDIT)	435864	0.522	0.691
PRIOR_EXEC_EXP	435864	0.272	0.445
#PRIOR_AUDIT	435864	0.6	0.9
#PRIOR_AUDIT_CHAIR	435864	0.191	0.514
MBA	435864	0.278	0.448
NON_EXEC_DIR	435864	0.812	0.39
GENDER	435864	0.906	0.292

Panel B: Director-Firm Variables

Variable	N	Mean	SD
	(Director-Firm-Year Variation)		
AUDIT(T+3)	447563	0.247	0.431
AUDIT_CHAIR(T+3)	447563	0.078	0.269
AUDIT_MEMBER	447563	0.428	0.495
OTHER_COMM_MEMBER	447563	0.346	0.476
AUD_LINK_SHOCKED_AT_OTHER_FIRM	447563	0.013	0.115
TIME_ON_BRD	447563	5.701	4.096

Panel C: Firm Characteristics

Variable	N	Mean	SD
	(Firm-Year Variation)		
#DIRECTORS	54963	8.143	2.605
ROA	53893	-0.092	3.347
LN(TOTAL_ASSETS)	53893	6.333	2.027
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)	54963	0.019	0.137
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM)	54963	0.007	0.084

Table 2. Reputational Shock and Career Consequences

This table presents career consequences of a director's own experience of a negative shock to his/her reputation as a monitor. It presents regressions for the impact of the incidence of a securities fraud litigation at a firm on a director's probability of serving as the chair of the audit committee or of remaining on the audit committee in the future. A firm is shocked if it experiences securities fraud litigation at a given point in time. The sample consists of both shocked and non-shocked firms from years 2000 through 2021. Columns 1 and 2 study a director's probability of serving as the chair of the audit committee at time *t+3*, and columns 3 and 4 study his/her probability of holding membership on the audit committee at time *t+3*. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	AUDIT_CHAIR(T+3)		AUDIT(T+3)	
	(1)	(2)	(3)	(4)
FIRM_SHOCKED	-0.000148	-0.00180	0.00856***	0.00582
	(-0.060)	(-0.558)	(3.097)	(1.479)
AUDIT_MEMBER	0.157***	0.159***	0.565***	0.562***
	(72.177)	(70.199)	(297.520)	(267.744)
FIRM_SHOCKED X AUDIT_MEMBER	-0.0179***	-0.0163**	-0.0524***	-0.0497***
	(-2.899)	(-2.530)	(-6.359)	(-5.783)
OTHER_COMM_MEMBER		0.00302***		-0.00393***
		(2.816)		(-3.073)
FIRM_SHOCKED X OTHER_COMM_MEMBER		0.00246		0.00423
		(0.814)		(1.091)
PRIOR_EXEC_EXP	0.0227***	0.0228***	0.0151***	0.0150***
	(11.931)	(11.969)	(8.283)	(8.203)
#PRIOR_AUDIT	-0.0544***	-0.0544***	-0.0103***	-0.0102***
	(-38.845)	(-38.869)	(-8.647)	(-8.618)
#PRIOR_AUDIT_CHAIR	0.216***	0.216***	0.0371***	0.0371***
	(76.837)	(76.841)	(17.046)	(17.033)
TIME_ON_BOARD	-0.0181***	-0.0182***	-0.0386***	-0.0385***
	(-18.599)	(-18.641)	(-36.773)	(-36.672)
MBA	0.0106***	0.0105***	0.00951***	0.00956***
	(6.107)	(6.081)	(5.686)	(5.719)
NON_EXEC_DIR	0.0143***	0.0129***	0.0108***	0.0125***
	(10.322)	(9.224)	(6.963)	(7.800)
GENDER	-0.00780***	-0.00777***	-0.0112***	-0.0112***
	(-3.208)	(-3.198)	(-4.379)	(-4.389)
CONSTANT	0.0141***	0.0132***	0.0548***	0.0560***
	(4.788)	(4.441)	(17.363)	(17.529)
Firm F.E	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y
Observations	509397	509397	509397	509397
Adjusted R-squared	0.240	0.240	0.491	0.491

Table 3. Reputational Spillovers – Future Audit Chair Position

This table presents evidence of reputational spillovers experienced by non-shocked directors that are linked with shocked directors via audit committees. It presents spillover effects on a director's probability of serving as the chair of an audit committee in the future. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee of a shocked firm. A director is non-shocked if none of the directorships held by the director is shocked. The sample consists of non-shocked firms and non-shocked directors from years 2000 through 2021. AUDIT_CHAIR(T+3) is an indicator variable identifying whether a director serves as the chair of the audit committee at time *t+3*, and AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) identifies firms where a shocked director serves on the audit committee and he/she serves in the audit committee at a shocked firm. Column 1 does not include D_SHOCKED_AUD_LINK_OTHER_FIRM, which identifies whether a director has a shocked linkage director at a different firm, while column 2 includes it. Column 3 tests whether non-audit members experience spillovers. Column 4 redefines a director to be shocked only if he/she serves as a chair in an audit committee at a firm where the shock originates and includes AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM), which identifies firms having such shocked directors on the audit committee. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	AUDIT_CHAIR(T+3)			
	(1)	(2)	(3)	(4)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)	0.00786***	0.00787***	0.00467	
	(3.241)	(3.247)	(1.446)	
AUDIT_MEMBER	0.160***	0.160***	0.161***	0.159***
	(69.874)	(69.894)	(67.777)	(70.004)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) x AUDIT_MEMBER	-0.0332***	-0.0332***	-0.0300***	
	(-5.241)	(-5.242)	(-4.501)	
AUD_LINK_SHOCKED_AT_OTHER_FIRM		-0.00130	-0.00140	-0.00134
		(-0.352)	(-0.377)	(-0.363)
OTHER_COMM_MEMBER			0.00240**	
			(2.122)	
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)) x OTHER_COMM_MEMBER			0.00461	
			(1.530)	
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM)				0.0145***
				(3.833)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) x AUDIT_MEMBER				-0.0675***
				(-7.280)
Director Controls	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y
Observations	447563	447563	447563	447563
Adjusted R-squared	0.245	0.245	0.245	0.245

Table 4. Reputational Spillovers – Future Audit Membership

This table presents evidence of reputational spillovers experienced by non-shocked directors that are linked with shocked directors via audit committees. It presents spillover effects on a director's probability of serving as the chair of an audit committee in the future. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee of a shocked firm. A director is non-shocked if none of the directorships held by the director is shocked. The sample consists of non-shocked firms and non-shocked directors from years 2000 through 2021. AUDIT (t+3) is an indicator variable identifying whether a director holds membership in the audit committee at time *t+3*, and AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) identifies firms where a shocked director serves on the audit committee and he/she serves in the audit committee at a shocked firm. Column 1 does not include D_SHOCKED_AUD_LINK_OTHER_FIRM, which identifies whether a director has a shocked linkage director at a different firm, while column 2 includes it. Column 3 tests whether non-audit members experience spillovers. Column 4 redefines a director to be shocked only if he/she serves as a chair in an audit committee at a firm where the shock originates and includes AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM), which identifies firms having such shocked directors on the audit committee. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	AUDIT(T+3)			
	(1)	(2)	(3)	(4)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)	0.00944***	0.00952***	0.00489	
	(3.291)	(3.317)	(1.205)	
AUDIT_MEMBER	0.565***	0.565***	0.562***	0.565***
	(278.858)	(278.594)	(251.797)	(279.214)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUDIT_MEMBER	-0.0253***	-0.0253***	-0.0209**	
	(-2.805)	(-2.809)	(-2.232)	
AUD_LINK_SHOCKED_AT_OTHER_FIRM		-0.0100**	-0.00987**	-0.0100**
		(-2.221)	(-2.191)	(-2.227)
OTHER_COMM_MEMBER			-0.00387***	
			(-2.833)	
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)) X OTHER_COMM_MEMBER			0.00696*	
			(1.791)	
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM)				0.0140***
				(3.062)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) X AUDIT_MEMBER				-0.0376**
				(-2.466)
Director Controls	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y
Observations	447563	447563	447563	447563
Adjusted R-squared	0.495	0.495	0.495	0.495

Table 5. Placebo Tests

This table presents two placebo tests. Panel A uses a placebo shock. It shows evidence that there are no spillovers emanating from directors that serve on committees other than the audit committee at shocked firms and therefore are not affected by the shock. It studies the impact of spillovers on a director's probability of serving as the chair and of holding membership at governance, nominating, and compensation committees in the future. A firm is shocked if it experiences securities fraud litigation at a given point in time. The sample consists of non-shocked firms and non-shocked directors from years 2000 through 2021. GOV_CHAIR(T+3) is an indicator variable identifying whether a director serves as the chair of the governance committee at time t+3; GOV(T+3) is an indicator variable identifying whether a director serves on the governance committee at time t+3; GOV_LINK_SHOCKED(GOV_MEM_AT_SHOCKED_FIRM) identifies firms where a shocked director serves on the governance committee and shocked directors are defined as those serving as governance members at shocked firms. Other variables are defined similarly. Columns 1 and 2 study career consequences for a director in the governance committee; columns 3 and 4 study career consequences in the nominating committee; columns 5 and 6 study career consequences in the compensation committee. Panel B uses placebo linkages. It shows evidence that audit members do not experience spillovers if shocked directors serve on non-audit committees at firms in question and therefore are not linked with them. AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) identifies firms where a shocked director serves on the audit committee and shocked directors are defined as those serving as audit members at shocked firms. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Placebo Shock

	GOV_CHAIR(T+3)	GOV(T+3)	NOM_CHAIR(T+3)	NOM(T+3)	COMP_CHAIR(T+3)	COMP(T+3)
	(1)	(2)	(3)	(4)	(5)	(6)
GOV_LINK_SHOCKED(GOV_MEM_AT_SHOCKED_FIRM)	0.00141	0.000202				
	(0.638)	(0.081)				
GOV_MEMBER	0.162***	0.552***				
	(72.778)	(245.904)				
GOV_LINK_SHOCKED(GOV_MEM_AT_SHOCKED_FIRM) X GOV_MEMBER	-0.0123	0.0103				
	(-1.556)	(0.980)				
GOV_LINK_SHOCKED_AT_OTHER_FIRM	0.00346	0.0105**				
	(0.861)	(2.165)				
NOM_LINK_SHOCKED(NOM_MEM_AT_SHOCKED_FIRM)			0.000115	-0.000928		
			(0.046)	(-0.310)		
NOM_MEMBER			0.157***	0.538***		
			(71.537)	(241.138)		
NOM_LINK_SHOCKED(NOM_MEM_AT_SHOCKED_FIRM) X NOM_MEMBER			-0.0116	0.00748		
			(-1.291)	(0.612)		
NOM_LINK_SHOCKED_AT_OTHER_FIRM			-0.00250	0.00831		
			(-0.535)	(1.464)		
COMP_LINK_SHOCKED(COMP_MEM_AT_SHOCKED_FIRM)					0.00313	0.00815***
					(1.482)	(3.348)
COMP_MEMBER					0.171***	0.559***
					(80.775)	(272.681)

COMP_LINK_SHOCKED(COMP_MEM_AT_SHOCKED_FIRM) X COMP_MEMBER					-0.0104	-0.0235**
					(-1.377)	(-2.393)
COMP_LINK_SHOCKED _AT_OTHER_FIRM					0.0119***	0.00113
					(2.994)	(0.236)
Director Controls	Y	Y	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y	Y	Y
Observations	447563	447563	447563	447563	447563	447563
Adjusted R-squared	0.198	0.513	0.195	0.508	0.187	0.492

Panel B: Placebo Links

	AUDIT_CHAIR(T+3)			AUDIT(T+3)		
	(1)	(2)	(3)	(4)	(5)	(6)
AUDIT_MEMBER	0.159***	0.159***	0.159***	0.564***	0.564***	0.564***
	(69.903)	(69.842)	(69.919)	(278.981)	(278.620)	(279.040)
GOV_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)	0.00822***			0.00716**		
	(3.183)			(2.461)		
GOV_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUDIT_MEMBER	-0.0106			-0.00286		
	(-1.382)			(-0.286)		
COMP_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)		0.00585**			0.00351	
		(2.452)			(1.249)	
COMP_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUDIT_MEMBER		-0.00936			0.00193	
		(-1.313)			(0.207)	
NOM_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM			0.00709**			0.00434
			(2.553)			(1.386)
NOM_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUDIT_MEMBER			-0.0114			-0.00182
			(-1.403)			(-0.170)
AUD_LINK_SHOCKED_AT_OTHER_FIRM	-0.00132	-0.00131	-0.00132	-0.0100**	-0.0100**	-0.0100**
	(-0.357)	(-0.355)	(-0.357)	(-2.222)	(-2.220)	(-2.220)
Director Controls	Y	Y	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y	Y	Y
Observations	447563	447563	447563	447563	447563	447563
Adjusted R-squared	0.245	0.245	0.245	0.495	0.495	0.495

Table 6. Spillover Mechanism: Consequences in Audit Committee Only

This table presents evidence that reputational spillovers have career consequences for audit members only in the audit committee and not elsewhere. It studies the effect of spillovers on a director's probability of serving as the chair and of holding membership of governance, nominating, and compensation committees in the future. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee of a shocked firm. A director is non-shocked if none of the directorships held by the director is shocked. The sample consists of non-shocked firms and non-shocked directors from years 2000 through 2021. GOV_CHAIR(T+3) is an indicator variable identifying whether a director serves as the chair of the governance committee at time t+3; GOV(T+3) is an indicator variable identifying whether a director serves on the governance committee at time t+3; AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) identifies firms where a shocked director serves on the audit committee. Other variables are defined similarly. Columns 1 and 2 study career consequences for a director in the governance committee; columns 3 and 4 study career consequences in the nominating committee; columns 5 and 6 study career consequences in the compensation committee. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	GOV_CHAIR(T+3)	GOV(T+3)	NOM_CHAIR(T+3)	NOM(T+3)	COMP_CHAIR(T+3)	COMP(T+3)
	(1)	(2)	(3)	(4)	(5)	(6)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)	-0.00687**	-0.00790	-0.00463	-0.00558	0.000217	0.0128**
	(-2.119)	(-1.534)	(-1.523)	(-1.160)	(0.060)	(2.332)
AUDIT_MEMBER	-0.00627***	-0.0136***	-0.00468***	-0.00193	-0.00651***	-0.0143***
	(-4.375)	(-6.022)	(-3.304)	(-0.866)	(-3.867)	(-5.546)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) x AUDIT_MEMBER	0.00143	0.000145	0.00242	0.00636	-0.00571	-0.0345***
	(0.270)	(0.017)	(0.477)	(0.796)	(-0.978)	(-3.885)
AUD_LINK_SHOCKED_AT_OTHER_FIRM	-0.0142***	-0.0644***	-0.0125***	-0.0587***	-0.0144***	-0.0763***
	(-3.524)	(-11.025)	(-3.374)	(-10.632)	(-3.445)	(-12.527)
Director Controls	Y	Y	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y	Y	Y
Observations	447563	447563	447563	447563	447563	447563
Adjusted R-squared	0.137	0.266	0.136	0.275	0.127	0.249

Table 7. Spillover Mechanism: Spillovers to Low Reputation Directors

This table presents evidence that directors that do not already have an established reputation (low reputation) experience stronger reputational spillovers. It studies the impact of spillovers on a director's probability of serving as the chair and of holding membership in the audit committee in the future. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee of a shocked firm. A director is non-shocked if none of the directorships held by the director is shocked. The sample consists of non-shocked firms and non-shocked directors from years 2000 through 2021. AUDIT_CHAIR(T+3) is an indicator variable identifying whether a director serves as the chair of the audit committee at time t+3; AUDIT(T+3) is an indicator variable identifying whether a director serves on the audit committee at time t+3; AUD_MEM_LARGE(SMALL)_DIRSHP identifies audit members that hold on average large (small) directorships; AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) identifies firms where a shocked director serves on the audit committee and he/she serves in the audit committee at a shocked firm. Columns 1 and 2 study the impact on the probability of serving as an audit chair at time *t+3*, while columns 3 and 4 study the impact on the probability of holding audit membership at time *t+3*. Columns 1 and 3 include AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) to study spillovers. Columns 2 and 4 include AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) to study spillovers. This variable redefines a director to be shocked only if he/she serves as a chair in an audit committee at a firm where the shock originates. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	AUDIT_CHAIR(T+3)		AUDIT(T+3)	
	(1)	(2)	(3)	(4)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)	0.00763***		0.0100***	
	(3.151)		(3.490)	
AUD_MEM_LARGE_DIRSHP	0.158***	0.158***	0.576***	0.576***
	(38.024)	(38.315)	(136.054)	(137.066)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) x AUD_MEM_LARGE_DIRSHP	-0.0103		0.00934	
	(-0.912)		(0.582)	
AUD_MEM_SMALL_DIRSHP	0.160***	0.160***	0.562***	0.562***
	(67.824)	(67.897)	(262.294)	(262.750)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) x AUD_MEM_SMALL_DIRSHP	-0.0437***		-0.0443***	
	(-5.852)		(-4.120)	
AUD_LINK_SHOCKED_AT_OTHER_FIRM	-0.00130	-0.00131	-0.0102**	-0.0102**
	(-0.350)	(-0.354)	(-2.255)	(-2.254)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM)		0.0143***		0.0144***
		(3.775)		(3.148)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) x AUD_MEM_LARGE_DIRSHP		-0.0246		0.00400
		(-1.331)		(0.137)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) x AUD_MEM_SMALL_DIRSHP		-0.0836***		-0.0549***
		(-8.072)		(-3.096)
Director Controls	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y
Observations	447563	447563	447563	447563
Adjusted R-squared	0.245	0.245	0.495	0.495

Table 8. Spillover Mechanism: Spillovers from Shocked Audit Chair

This table presents spillover consequences emanating from audit chairs that are shocked from elsewhere. . It studies the impact of spillovers on a director's probability of serving as the chair and of holding membership in the audit committee in the future. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee of a shocked firm. A director is non-shocked if none of the directorships held by the director is shocked. The sample consists of non-shocked firms and non-shocked directors from years 2000 through 2021. AUDIT_CHAIR(t+3) is an indicator variable identifying whether a director serves as the chair of the audit committee at time t+3; AUDIT (t+3) is an indicator variable identifying whether a director serves on the audit committee at time t+3; AUD_CHAIR_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) identifies firms where the audit chair is shocked and he/she serves in the audit committee at a shocked firm; AUD_CHAIR_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) identifies firms where the audit chair is shocked and he/she serves as a chair in an audit committee at a firm where the shock originates. Columns 1 and 2 study the impact on the probability of serving as the audit chair at time *t+3*, while columns 3 and 4 study the impact on the probability of holding audit membership at time *t+3*. Columns 1 and 3 include AUD_CHAIR_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) to study spillovers. Columns 2 and 4 include AUD_CHAIR_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) to study spillovers. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	AUDIT_CHAIR(T+3)		AUDIT(T+3)	
	(1)	(2)	(3)	(4)
AUD_CHAIR_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)	0.0139***		0.0190***	
	(3.686)		(4.042)	
AUDIT_MEMBER	0.160***	0.159***	0.565***	0.564***
	(70.039)	(70.018)	(279.328)	(279.363)
AUD_CHAIR_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUDIT_MEMBER	-0.101***		-0.0434***	
	(-14.954)		(-2.864)	
AUD_LINK_SHOCKED_AT_OTHER_FIRM	-0.00131	-0.00135	-0.0100**	-0.0100**
	(-0.355)	(-0.366)	(-2.221)	(-2.229)
AUD_CHAIR_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM)		0.0177***		0.0219***
		(3.566)		(3.451)
AUD_CHAIR_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) X AUDIT_MEMBER		-0.114***		-0.0517**
		(-14.537)		(-2.483)
Director Controls	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y
Observations	447563	447563	447563	447563
Adjusted R-squared	0.245	0.245	0.495	0.495

Table 9. Alternate Spillover Mechanism: Spillovers in the Perception of the Character of a director

This table considers an alternate spillover mechanism in which shocked directors are perceived to be of poor character and this leads to spillover effects in the perception of the character of linked directors. It studies if there are spillovers from shocked directors to non-shocked directors if they are linked in the governance, nominating, or compensation committees. I study effects on a director's probability of serving as the chair and of holding membership in the governance, nominating, and compensation committees in the future. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee of a shocked firm. A director is non-shocked if none of the directorships held by the director is shocked. The sample consists of non-shocked firms and non-shocked directors from years 2000 through 2021. GOV_CHAIR(T+3) is an indicator variable identifying whether a director serves as the chair of the governance committee at time t+3; GOV(T+3) is an indicator variable identifying whether a director serves on the governance committee at time t+3; GOV_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) identifies firms where a shocked director serves on the governance committee. Other variables are defined similarly. Columns 1 and 2 study career consequences for a director in the governance committee; columns 3 and 4 study career consequences in the nominating committee; columns 5 and 6 study career consequences in the compensation committee. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Gov_Chair(t+3)	Gov(t+3)	Nom_Chair(t+3)	Nom(t+3)	Comp_Chair(t+3)	Comp(t+3)
	(1)	(2)	(3)	(4)	(5)	(6)
Gov_Link_Shocked(Aud_Mem_at_Shocked_Firm)	0.00141	-0.000623				
	(0.631)	(-0.235)				
Gov_Member	0.162***	0.551***				
	(72.736)	(245.494)				
Gov_Link_Shocked(Aud_Mem_at_Shocked_Firm) X Gov_Member	-0.00604	0.0180*				
	(-0.794)	(1.758)				
D_Shocked_Gov_Link_Other_Firm	0.0157***	0.0124**				
	(3.744)	(2.529)				
Nom_Link_Shocked(Aud_Mem_at_Shocked_Firm)			0.000221	-0.00455		
			(0.093)	(-1.550)		
Nom_Member			0.157***	0.537***		
			(71.435)	(240.416)		
Nom_Link_Shocked(Aud_Mem_at_Shocked_Firm) X Nom_Member			-0.00205	0.0227**		
			(-0.255)	(2.095)		
D_Shocked_Nom_Link_Other_Firm			0.00824*	0.00718		
			(1.952)	(1.444)		
Comp_Link_Shocked(Aud_Mem_at_Shocked_Firm)					-0.00201	-0.00513*
					(-0.870)	(-1.947)
Comp_Member					0.171***	0.558***
					(80.694)	(272.478)
Comp_Link_Shocked(Aud_Mem_at_Shocked_Firm) X Comp_Member					0.000860	0.0157

D_SHOCKED_COMP_LINK_OTHER_FIRM					(0.108) 0.00450 (1.044)	(1.547) 0.000988 (0.200)
Director Controls	Y	Y	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y	Y	Y
Observations	447563	447563	447563	447563	447563	447563
Adjusted R-squared	0.198	0.513	0.195	0.508	0.187	0.492

Table 10. Shareholder/Market Reaction

This table presents evidence of positive market reaction to announcements of directors' departures from audit committees and of stepping down from audit chair positions due to reputational spillovers. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee of a shocked firm. A director is non-shocked if none of the directorships held by the director is shocked. The sample consists of announcements of departures from a committee or the board, and announcements of stepping down from chair positions in a committee or the board by non-shocked directors in non-shocked firms from years 2000 through 2021. (-1,5)CARS are Cumulative Abnormal Returns during the (-1,5) event window around the announcement date. AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) identifies firms where a shocked director serves on the audit committee and he/she serves in the audit committee at a shocked firm. AUD_MEM_DEPARTURE identifies announcements of departures from the audit committee or stepping down from audit chair positions; OTHER_COMM_MEM_DEPARTURE is defined similarly for announcements pertaining to non-audit committees. Column 1 tests market reactions to audit departures. Column 2 also includes market reactions to non-audit departures. Column 3 redefines a director to be shocked only if he/she serves as a chair in an audit committee at a firm where the shock originates and includes AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM), which identifies firms having such shocked directors in the audit committee. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(-1,5)CARS		
	(1)	(2)	(3)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)	0.00483	0.00644	
	(0.883)	(1.184)	
AUDIT_MEM_DEPARTURE	-0.00428*	-0.00356	-0.00416*
	(-1.716)	(-1.433)	(-1.671)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUDIT_MEM_DEPARTURE	0.0293***	0.0239**	
	(2.796)	(2.079)	
AUD_LINK_SHOCKED_AT_OTHER_FIRM	-0.00365	-0.00386	-0.00355
	(-0.574)	(-0.605)	(-0.558)
OTHER_COMM_MEM_DEPARTURE		0.00697**	
		(2.230)	
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X OTHER_COMM_MEM_DEPARTURE		-0.0412***	
		(-2.707)	
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM)			0.00267
			(0.293)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) X AUDIT_MEM_DEPARTURE			0.0166*
			(1.678)
Director Controls	Y	Y	Y
Firm F.E	Y	Y	Y
Year F.E	Y	Y	Y
Observations	21836	21836	21836
Adjusted R-squared	0.225	0.226	0.225

Internet Appendix

Reputational Spillovers between Board Directors

Shasta Shakya

This internet appendix presents analyses that are omitted from the main body of the paper for brevity. Section IA.1 studies the effect of the incidence of securities fraud litigation on directors serving committees other than the audit committee. It also studies career costs at the board level for audit directors. Section IA.2 studies reputational spillovers at directorships that are not shocked and that do not have shocked directors in their audit committee. Section IA.3 presents robustness tests of baseline results. Section IA.4 addresses an alternate spillover mechanism. Section IA.5 presents evidence of reputational costs for shocked directors in non-shocked firms, and section IA.6 studies reputational spillovers at the board level. Section IA.7 presents robustness test for market/shareholder reaction to reputational spillovers.

IA.1 Own Reputational Shock and Other Committee Members

Table 2 in the main body of the paper showed that securities fraud litigation is a negative shock to the reputation of a director who serves on the audit committee of the firm going through litigation and is associated with negative career consequences for that director in the committee. Audit directors are less likely to obtain an audit chair position and less likely to remain in the committee in the future. In this subsection, I show that other committee members do not face similar career costs in their respective committees. These results show that since audit members are responsible for the oversight of financial reporting, securities fraud litigation is primarily a reputational shock for audit directors and not directors serving other committees. Furthermore, I show that audit directors do not face career costs at the board level either, suggesting that these directors are still valued for other board duties.

For this study, I repeat the regressions of Table 2 for directors serving on the governance, compensation, and nominating committees. I consider the sample of Table 2 that consists of both shocked and non-shocked firms and study the probabilities of a committee member obtaining a chair position and of retaining membership in the committee three years after the incidence of a securities fraud litigation. As before, I drop observations for all firms that might have been shocked previously and drop directors that might have been shocked elsewhere in order to focus on career consequences of the shock at a given point in time and at the firm in question.

Table IA.1, Panel A considers the governance committee. I consider a model similar to the one in equation 1 but consider career consequences in the governance committee for governance members. Columns 1 and 2 consider their likelihood of obtaining a chair position in the governance committee three years later, and columns 3 and 4 consider consequences on their likelihood of remaining in the governance committee three years later.

Column 1 shows that prior to the incidence of the shock, governance members have higher probability of obtaining a chair position in the governance committee compared to other directors. Specifically, they are 16.2% more likely than other directors to obtain a chair position. This probability does not change after the incidence of the shock, as shown by statistically insignificant interaction between SHOCKED_FIRM and GOV_MEMBER, which identify shocked firms and governance members respectively. This interaction term is also economically insignificant. Column 2 repeats the regression in column 2 of Table 2 by including an additional interaction term between SHOCKED_FIRM and OTHER_COMM_MEMBER where OTHER_COMM_MEMBER identifies directors that serve on committees other than the governance committee. Neither of the interaction terms are statistically significant, implying that neither of the two types of committee members face career costs in the governance committee.

In columns 3 and 4, I conduct similar tests to study if governance members are likely to remain in the governance committee three years after the litigation. Surprisingly, according to column 3, while governance members were 55.3% more likely than other directors to be on the governance committee prior to the incidence of the shock, after the shock, this probability declines by 4.87 percentage points. Column 4 shows that the results are driven by governance members and there is no change in such likelihoods for non-governance members. While the first two columns suggest no career costs for governance members in attaining a chair position due to the incidence of the shock, the last two suggest that they are more likely to depart the committee. Given mixed results, whether governance members face career costs due to the shock is inconclusive.

I conduct similar tests to study if members of the compensation committee (Panel B) and the nominating committee (Panel C) face similar career consequences in their respective committees. Again, results are similar to the ones in Panel A. I do not find evidence of changes in

the likelihood of these committee members obtaining a chair position three years later, however results suggest that they likely depart the committee.

Given inconsistent results for career consequences for non-audit members and strong evidence of career consequences for audit members in shocked firms, I conclude that the securities fraud litigation is primarily a shock on audit members and not other committee members.

Having shown that audit members are primarily affected by the shock and they face career costs within the audit committee, I ask if the shock results in career costs for audit members at the board level. Specifically, in Panel D, I study their likelihood of obtaining a board chair position and retaining their board position over the three years following the incidence of the shock. In column 1, which presents results for a director's probability of obtaining a chair position, the interaction between SHOCKED_FIRM and AUDIT_MEMBER is positive and statistically significant, indicating no costs for the audit directors at the board level. In column 2, I include an additional interaction term between SHOCKED_FIRM and OTHER_COMM_MEMBER where OTHER_COMM_MEMBER identifies directors that serve on committees other than the audit committee. Again, there is no evidence of audit directors facing career costs at the board level.

In columns 3 and 4, I repeat the regressions in columns 1 and 2 but I study a director's probability of retaining their board position. In column 3, the interaction between SHOCKED_FIRM and AUDIT_MEMBER is statistically insignificant, while it is statistically significant but positive in column 4. Therefore, these results indicate that the incidence of a litigation shock does not have career costs for a director at the board level.

Therefore, while audit members face career costs within the audit committee, they are not penalized at the board level. This result is interesting and reveals how the board and shareholders assess audit directors after the firm is shocked. It suggests that the shock is primarily a negative

shock on a director's reputation as an audit monitor and that the director's general monitoring skills outside of the audit committee are still valued.

That audit directors do not leave the board is also consistent with the results in Fich and Shivdasani (2007) who find similar results for audit members in firms facing securities fraud litigations. This result is particularly interesting as it indicates that audit directors are likely not perceived as frauds themselves, who collude with the management in committing the alleged fraud. This is because any revelation of a director as a fraud should lead the board and the shareholders to force him/her out of the board. That the shock does not reveal a director to be a fraud is informative about the type of spillover effect that I document in the paper. An alternate spillover mechanism that I consider later is the hypothesis that shocked directors are frauds who also engage in fraudulent activity at other non-shocked firms and non-shocked audit directors there experience spillovers because they are perceived to be complicit in fraudulent activities with shocked directors. If the shock does not reveal a director to be a fraud, it is unlikely that the alternate hypothesis drives the spillovers that I document in the main body of the paper.

IA.2 Other Directorships

Sections IV.B and IV.C provide evidence of career consequences for non-shocked audit directors in non-shocked firms if they overlap with shocked directors in the audit committees of those firms. This study showed that the directors are less likely to obtain a chair position and retain their membership in the audit committee in the future. A natural question that arises is whether directors continue to face such consequences at other firms that may not have any shocked directors in their audit committees.

To answer this, I work with the same sample of non-shocked firms and non-shocked directors but filter for firms that do not have any shocked directors serving on the audit committee, but audit directors may be linked with shocked directors elsewhere. As before, a director is shocked if he/she serves on the audit committee at a shocked firm and a director is non-shocked if none of the directorships held by the director is shocked. Then I ask if directors face career consequences in the audit committee as a result of being connected with a shocked director at an audit committee elsewhere. I use the following model:

$$Y_{i.j,t} = \alpha + \beta_1 Shocked\_Link\_Other\_Firm(Aud\_Mem\_at\_orig)_{i,t} + Director\ Controls_{i,t} + Firm\ F.E + Year\ F.E + \varepsilon_{i,j,t} \quad (4)$$

In this model, the unit of analysis is for a director in a given firm and year. $Y_{i,j,t}$ is the dependent variable of interest for director *i*, in firm *j*, at time *t*. As before, I consider two dependent variables – AUDIT_CHAIR(T+3), an indicator variable taking the value 1 if the director is an audit chair at time *t+3* and AUDIT(T+3), an indicator variable taking the value 1 if the director serves on the audit committee at time *t+3*. The main variable of interest is AUD_LINK_SHOCKED_AT_OTHER_FIRM(AUD_MEM_AT_SHOCKED_FIRM) which identifies any director on the board who is connected with a shocked director in an audit committee elsewhere.

Table IA.2 presents the results. Column 1 shows that the variable AUD_LINK_SHOCKED_AT_OTHER_FIRM(AUD_MEM_AT_SHOCKED_FIRM) is negative and statistically significant. Therefore, even at firms that are not shocked and do not have any shocked directors, directors that are linked with shocked directors elsewhere continue to face career costs in the audit committee. Economically speaking, these directors are 4.03% (=15% of one standard deviation value of AUDIT_CHAIR(T+3)) less likely than other directors to obtain an audit chair position three years later. In column 2, I consider a stronger shock as before; I use

AUD_LINK_SHOCKED_AT_OTHER_FIRM(AUD_CHAIR_AT_SHOCKED_FIRM) to identify directors that are linked with shocked directors elsewhere and these shocked directors elsewhere served as an audit chair at a shocked firm. This variable is also negative and statistically significant. Economically speaking, these directors are 3.59% (=13.3% of one standard deviation value of AUDIT_CHAIR(T+3)) less likely than others to obtain an audit chair position in the future.

In columns 3 and 4, I repeat the regressions to study how likely a director is to remain as audit member three years later. As per column 3, a director that is linked with a shocked director elsewhere is 17.4% (=40.4% of one standard deviation value of AUDIT(T+3)) less likely than others to keep their audit membership in the future. As per column 4, if the shocked linkage director served as an audit chair at a shocked firm, then directors are 15.9% (=36.9% of one standard deviation value of AUDIT(T+3)) less likely to keep their audit membership in the future.

Therefore, directors linked with shocked directors via an audit committee continue to face career costs at other firms, even though these firms may not be shocked and may not have any shocked directors serving on their audit committee.

IA.3 Robustness Tests

This section presents robustness tests for the baseline regressions of Section IV.

IA.3.1 Common Industry Effects

One important factor that could potentially confound the results of reputational spillovers documented in Tables 3 and 4 is a common industry effect that affects both the firm in question and the firm that is shocked if both belong to the same industry. Specifically, industry effects could be the reason for a litigation at a shocked firm and the same effects could cause issues at the firm

in question, leading to career consequences for the audit director in this firm. For example, the incidence of a securities fraud litigation at a firm could be revealing of auditing practices in a given industry, which affects all firms in that industry. This could then lead to career consequences for audit directors at the firm in question.

In light of the results for placebo linkages in subsection IV.D.2, it is unlikely that common industry effects are the reasons for my results. The results in the subsection show that audit directors do not experience spillovers if shocked directors do not overlap with them on the audit committee and instead serve on other committees. In other words, only directors working closely with shocked directors in an audit committee are subject to reputational spillovers. However, if common industry effects were driving the results, then the committee where shocked directors serve on should not matter as long as they serve on the board; the existence of shocked directors on the board should capture industry wide effects that should affect audit directors.

In this subsection, I provide additional evidence that common industry effects are not driving the results. I drop observations for firms that belong to the same industry (captured by SIC codes) as the firm where the shock originates for any one of the shocked directors on the audit committee. I rerun the regressions of columns 2 and 4 of Tables 3 and 4 dropping these observations. Table IA.3 presents the results and shows that results persist.

Columns 1 and 2 of Table IA.3 consider the impact of spillovers on a director's likelihood of obtaining a chair position in an audit committee. Column 1 shows that the interaction term between AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) with AUDIT_MEMBER continues to remain negative and statistically and economically significant, implying that an audit member is less likely to attain an audit chair position. Column 2 uses the stronger shock where the shocked

director serves as the chair of the audit committee in a shocked firm as captured by AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM). Results persist.

Columns 3 and 4 repeat the regressions considering the audit member's probability of retaining their audit membership. Again results persist. Audit directors are less likely to retain their membership in the committee due to spillover effect. Although the results in the last column are only weakly statistically significant at 10%, overall, the evidence suggests that it is unlikely that common industry effects are driving the results.

IA.3.2 Director Characteristics

In this subsection, I address the possibility that the results are confounded by director characteristics. First, it is possible that the results are due to a director's own performance in the audit committee instead of reputational spillovers. Since firms that are performing well are more likely to have good monitors than those that are not performing well, I proxy for an audit director's performance by the average of Return On Assets (ROA) of directorships where he/she serves in the audit committee, including the firm in question. I define an audit director to be a low (high) performance director if his/her performance is less (more) than the average for the audit directors in the sample. HIGH_ROA_AUD_MEM identifies audit directors that have high performance defined as such, and LOW_ROA_AUD_MEM identifies audit directors that have low performance.

In unreported tables, I proxy for a director's performance as a monitor using governance practices at directorships where he/she serves on the audit committee. Using E-index to capture whether a firm is shareholder friendly or management friendly, where higher values indicate management friendly practices, I define an audit director to be a low (high) performance director if the average E-index for the directorships where he/she serves on the audit committee (including

the firm in question) is more (less) than the average for the audit directors in the sample.[20] I find qualitatively similar results. Given that E-index is only available for fewer number of firms, I present here results for the tests that use firm performance to capture director performance.

In Table IA.4, I include two interaction terms – AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) with HIGH_ROA_AUD_MEM and AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) with LOW_ROA_AUD_MEM. As column 1 shows, the effect of reputational spillovers on a director's probability of attaining an audit chair position is driven by audit directors that are defined to be high performance directors, inconsistent with the hypothesis that director performance drives the results. Column 2 uses the stronger shock where shocked directors serve as audit chairs are shocked firms as captured by AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM). In this column, while both high performance and low performance audit directors experience spillover effects, they are not statistically different from one each other.[21]

Columns 3 and 4 rerun the regressions considering a director's probability of retaining their membership. As the table shows, results are driven by directors defined to be high performance directors in both columns. In unreported tables, I find that these results persist if I redefine high (low) performance directors instead to be those with positive (non-positive) average ROA for all directorships where they serve on the audit committee. I also conduct another test

I further test robustness of results to director performance by asking if a director's own past shock experiences confound the results. While my main sample consists of non-shocked firms and non-shocked directors, it could still include directors that might have been shocked in the past. I

[20] E-index includes six governance provisions – poison pills, golden parachute, supermajority voting, classified boards, limits-to-change bylaws, and limits-to-change charter (Bebchuk, Cohen, and Ferrell (2009)).
[21] In other words, AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) X HIGH_ROA_AUD_MEM is statistically not different from AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) X LOW_ROA_AUD_MEM.

rerun the regressions of columns 2 and 4 of Tables 3 and 4 dropping directors that might have been shocked in the past. Table IA.5 presents the results and shows that results persist.

Second, it is also possible that results are only driven by directors that serve on the audit committee of more than one directorship since they have a greater probability of being exposed to shocked directors. These directors may also be busy due to responsibilities at multiple firms, and the results could reflect the impact that their busyness might be having on their performance. I also note that having multiple directorships does not necessarily imply higher reputation as a firm holding multiple directorships but at small firms do not necessarily have high reputation. In the main body of the paper, I use the average size of all directorships where a director serves on the audit committee to capture a director's reputation. If this average directorship size is below the mean for the sample, I define them to have low reputation. I find that 72.6% of audit directors holding multiple directorships with audit committee appointment have small average directorship size, and 15.8% of audit directors with only one directorship serve on large firms. Therefore, I use the variable for whether a director has an outside directorship to capture his/her busyness and the probability of being exposed to more shocked directors.

To test if results are only driven by directors holding outside directorships, I define AUD_MEM_W_OUTDIRSHP to identify audit members that have more than one directorship where they serve in the audit committee and AUD_MEM_W_NO_OUTDIRSHP to identify audit members that have no outside directorships where they also serve in the audit committee.[22] In Table IA.6, I include two interaction terms – AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) with AUD_MEM_W_OUTDIRSHP and AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) with AUD_MEM_W_NO_OUTDIRSHP. As column 1 shows, both of these types of audit members are

[22] In unreported tables, I find that results are robust to comparing audit directors with outside directorship and those with no outside directorship, irrespective of whether they serve on the audit committee at those directorships.

affected by reputational spillovers, however the declines in their probabilities of attaining chair positions are statistically indistinguishable. Results also show that they are economically not different either. Column 2 uses a stronger shock where the shocked director serves as the chair of the audit committee in a shocked firm. Again, while both types of directors experience spillovers, they are not statistically distinguishable from each other. Columns 3 and 4 rerun the same regressions to study an audit director's probability of retaining membership in the committee. In both columns, results are driven by directors with no other outside directorship where they also serve on the audit committee, inconsistent with the alternate hypothesis being tested here.

IA.3.3 Firm Characteristics

Here, I address potential confounding effects of firm characteristics on spillovers. While all regressions include firm fixed effects, I provide additional robustness tests in this subsection.

First, the results of career costs in audit committee could be due to poor firm performance. To test this, in Table IA.7, columns 1 and 3, I distinguish between firms with positive ROA and those with negative ROA. NEG_ROA_FIRM identifies firms that have negative ROA at time *t.* I then include a triple interaction term between A AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM), AUDIT_MEMBER, and NEG_ROA_FIRM to compare spillovers in firms with positive ROA versus firms with negative ROA. As before, I study a director's probability of attaining an audit chair position (column 1) and his/her probability of retaining audit membership (column 3) three years later. Results show that reputational spillovers are economically smaller in firms with negative ROA, inconsistent with the possibility that poor firm performance could be driving the results.

As per column (1), while audit members at firms with positive ROA observe a 4.49 percentage points lower probability of attaining an audit chair position after one of the audit

members is shocked compared to their probability before the audit member is shocked, audit members at firms with negative ROA only face a decline of 0.39 percentage points. In column (3), results show that audit members at firms with positive ROA observe a 4.13 percentage points lower probability of retaining their audit membership after one of the audit members is shocked compared to their probability before the audit member is shocked. On the other hand, I do not find evidence of spillovers at firms with negative ROA; instead there is a 1.54 percentage point increase in the probability of retaining audit membership after one of the audit members is shocked.

In Table IA.7, columns 2 and 4, I drop observations for the lowest 10 percentile firms by ROA. Results persist. Column 2 presents results for the director's probability of attaining an audit chair position and column 4 presents his/her probability of retaining audit membership three years later. The economic significance of reputational spillovers are also slightly stronger when compared to results in column 2 of Tables 3 and 4.

Next, the results of spillovers documented could also be a phenomenon specific to large firms. If directors at large firms are busier because larger firms are more complex and need greater oversight, results could be reflective of the busyness of the directors due to the size of the firm. Similarly, small firms could have smaller number of directors, thus adding statistical noise to the results. I address these confounding effects from firm size in Table IA.8. Columns 1-3 consider a director's probability of attaining an audit chair position, while columns 4-6 consider a director's probability of retaining audit membership.

In columns 1 and 4, I compare spillovers in large versus small firms, where a firm is defined to be large if its total asset size is above the mean for the sample, and small if its total asset size is below the mean for the sample. I then include a triple interaction term between AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM), AUDIT_MEMBER, and LARGE_FIRM, where

LARGE_FIRM identifies large firms defined as above. This interaction term is statistically insignificant in both columns, indicating that reputational spillovers are statistically indistinguishable in large vs small firms, inconsistent with the hypothesis that spillovers are a phenomenon observed only in large firms.

Columns 2 and 5 show that results are robust to excluding the smallest 10 percentile firms by size, thus addressing concerns of potential statistical noise coming from observations for small firms. Columns 3 and 6 show that results are also robust to excluding the largest 10 percentile firms by size, providing additional robustness to the hypothesis that reputational spillovers are driven by large firms. Moreover, the economic significance of reputational spillovers in these columns are slightly larger when compared to the results in column 2 of Tables 3 and 4.

IA.4 Alternate Spillover Mechanism

In this subsection, I provide additional evidence to address the alternate spillover mechanism, which posits that the spillovers documented are spillovers in the perception of directors as frauds as opposed to spillovers in the perception of the monitoring skills of the director. It is possible that shocked directors are perceived to be frauds, who are potentially engaged in fraudulent behavior at the firm in question as well, and other audit members are either complicit or are resorting to inaction. In this case, due to complicity or inaction, other audit members could experience spillover effects.

If this mechanism is the driver of spillovers, because directors that are connected with firm executives have more incentive to be complicit in fraudulent activities or to resort to inaction, they should experience stronger spillovers. To that end, I break audit members into two groups – those that are professionally connected with executives on the board and those that are not – and compare

spillovers experienced by the two groups. I define an audit member to be professionally connected with an executive if he/she currently serves or has previously served with the executive on the board of another firm.[23] Then I construct an indicator variable, AUD_MEM_EXEC_LINKED, that identifies such directors. I also construct AUD_MEM_EXEC_NOT_LINKED, which identifies audit directors that are not professionally connected with executives on the board. If the alternate spillover mechanism is true, then directors professionally connected with the executives should drive the results.

Table IA.9 presents the results. In column 1, I consider a director's likelihood of obtaining an audit chair position in the next three years. I include an interaction term between AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) and AUD_MEM_EXEC_LINKED and another interaction term between AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) and AUD_MEM_EXEC_NOT_LINKED. While both interaction terms are negative and statistically significant, indicating both groups of directors face stronger spillovers compared to other directors in the base group, these two terms are not statistically different from one another. In other words, directors that are professionally connected with executives on the board are not more likely to receive spillovers compared to directors that are not connected with executives. Therefore, these results are inconsistent with the alternate spillover mechanism.

In column 2, I conduct a similar test but consider a stronger shock in which shocked directors are audit chairs at shocked firms. Again, both interaction terms are negative and statistically significant, but these two terms are not statistically different from one another.

[23] The sample in this paper spans years 2000 through 2021. Therefore, this subsection considers a director's prior connection with executives from 2000 until the year in question. While Boardex started collecting data on board directors beginning 1999, they also updated information on the actual start and end dates of director roles even though these dates may be prior to 1999. In unreported tables, I use data on actual role start dates to find a director's prior connection with an executive since 1990. Results are qualitatively similar if I use a director's connection with executives using data since 1990.

Columns 3 and 4 consider a director's likelihood of getting reappointed in the audit committee in the next three years. Here, I find that spillovers are driven by audit members that are not professionally connected with firm executives on the board, running counter to the implications of the alternate mechanism, which suggests that results should be driven by audit directors that are professionally connected with the executives. As per column 3, when a linkage director in the audit committee is shocked, the likelihood of an audit director's reappointment relative to other directors declines by 2.55 percentage points for an audit member that is not connected with the executives on the board. This decline is 5.9% of one standard deviation value of AUDIT(T+3). If I use a stronger shock in which shocked directors serve as audit chairs at shocked firms, similar relative likelihood declines by 3.77 percentage points, which is 8.7% of one standard deviation value of AUDIT(T+3). However, for an audit director that is professionally connected with executives on the board, the statistically insignificant interaction term suggests that there is no change in their likelihood of reappointment in the audit committee.

IA.5 Shocked Directors in Non-Shocked Firms

In the baseline model, I study career costs for non-shocked directors in non-shocked firms, where an audit director is shocked from elsewhere. In this subsection, I study career costs that shocked directors face in the audit committees of these non-shocked firms. I conduct this test to draw suggestive conclusions on whether departures of non-shocked directors from audit committees are voluntary or non-voluntary. It is possible that non-shocked directors leave audit committees voluntarily if they do not want to stay associated with shocked directors. However, if shocked directors depart from the committee, then it is unlikely that non-shocked directors feel the

need to voluntarily depart. Therefore, in this section, I ask if shocked directors face career costs in the audit committees of non-shocked firms.

In Table IA.10, I consider a sample of both shocked and non-shocked directors in non-shocked firms. I find that shocked directors have a lower probability of obtaining an audit chair position (column 1) and higher probability of leaving the audit committee (column 2). Specifically, a shocked director is 3.65% (=13.6% of one standard deviation value of AUDIT_CHAIR(T+3)) less likely to obtain an audit chair position, and he/she is 14.2% (=32.9% of one standard deviation value of AUDIT(T+3)) more likely to leave the committee. That shocked directors are more likely to leave the audit committee makes it unlikely that non-shocked directors leave voluntarily.

IA.6 Reputational Spillovers and Board Position

In this subsection, I ask if reputational spillovers have career costs for directors at the board level. Specifically, I study an audit director's likelihood of attaining a board chair position and of retaining board membership three years after one of the other audit members is shocked.

I consider model 2 again for this test. In Table IA.11, columns 1 and 2, I consider BOARD_CHAIR(T+3), which takes the value 1 if a director is a board chair at time *t+3*. Again, the main variable of interest is the interaction term between AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) and AUDIT_MEMBER. This interaction term captures the difference in career consequences for an audit member in a firm before and after one of the audit members is shocked. Column 1 shows that the interaction term is statistically and economically insignificant, implying that an audit director's likelihood of attaining a board chair position does not change after one of the other audit members is shocked. In other words, reputational spillovers do not seem to have career costs for a director at the board level. This is

likely because audit directors are still valued for other monitoring duties of the board even though the perception of them as an effective audit monitors has worsened.

In column 2, I use a stronger shock, in which shocked directors serve as audit chairs at shocked firms, to test if a stronger shock would lead to career consequences at the board level. However, results show that the interaction term between AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) and AUDIT_MEMBER continues to be statistically and economically insignificant.

In columns 3 and 4, I consider BOARD(T+3), an indicator variable taking the value 1 if a director still serves on the board at time *t+3*. Consistent with prior results, the interaction term between AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) and AUDIT_MEMBER in column 3 is statistically and economically insignificant, implying that reputational spillovers do not cause directors to leave the firm. This result holds in column 4, where I consider a stronger shock where shocked directors serve as audit chairs in shocked firms.

Therefore, while reputational spillovers lead to career costs in the audit committee, results in this section show that audit members are still valued for other monitoring functions of the board. Furthermore, these results are inconsistent with the alternate spillover mechanism which posits that the shock is revealing of a director as a fraud who potentially engages in fraudulent behavior in the firm in question as well and non-shocked directors are complicit or resort to inaction. If non-shocked directors were viewed as being complicit in fraud or viewed as resorting to inaction, one can expect them to be forced out of the board. That they do not depart the board indicates that this alternate mechanism likely does not drive the results.

IA.7 Market Reaction Robustness Test

Table 10 in the main body of the paper shows that the market views reputational spillovers positively by showing that announcements of departures of non-shocked directors from the audit committee as well as announcements of directors stepping down from audit chair positions are followed by increases in excess stock returns for firms where a director on the audit committee receives a shock (from elsewhere). The sample used for this test consists of announcement events for non-shocked directors in non-shocked firms.

A potential confounding effect in this test could come from the fact that shocked directors could also be leaving the committee or stepping down from chair positions at the same time and that the documented market's positive reaction is instead a positive reaction to departures of shocked directors. To address this, I rerun the regressions of Table 10 dropping observations for departure announcements (from the board or committee) for which there are corresponding announcements of departures of shocked directors themselves (from the board or committee) over the 10-day period before or after the announcement date. Table IA.12 presents the results. I find that the results of Table 10 persist. As mentioned in the main body of the paper, in unreported tables, I find that results persist if I drop observations for announcements for which shocked directors depart one year before or after the announcement date.

Table IA.1. Reputational Shock and Career Consequences

This table presents career consequences of a director's own experience of a negative shock to his/her reputation. Panels A through C present regressions that test the effect of the incidence of a securities fraud litigation at a firm on a director's probability of serving as a chair in a committee or of remaining on the committee in the future. These panels consider the governance, compensation, and nominating committees respectively. Panel D considers career consequences at the board level. A firm is shocked if it experiences securities fraud litigation at a given point in time. The sample consists of both shocked and non-shocked firms from years 2000 through 2021. In panels A-C, columns 1 and 2 study a director's probability of serving as a committee chair at time t+3, and columns 3 and 4 study his/her probability of retaining membership in the committee at time t+3. In panel D, column 1 considers a director's probability of serving as a board chair and column 2 considers the director's probability of retaining board membership. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A	GOV_CHAIR(T+3)		GOV(T+3)	
	(1)	(2)	(3)	(4)
FIRM_SHOCKED	-0.00250	-0.00290	0.00381*	0.00380
	(-1.316)	(-1.189)	(1.781)	(1.256)
GOV_MEMBER	0.162***	0.160***	0.553***	0.547***
	(76.839)	(74.346)	(263.743)	(245.372)
FIRM_SHOCKED X GOV_MEMBER	-0.00626	-0.00588	-0.0487***	-0.0487***
	(-0.899)	(-0.823)	(-5.342)	(-5.229)
OTHER_COMM_MEMBER		-0.00223***		-0.00781***
		(-2.851)		(-7.831)
FIRM_SHOCKED X OTHER_COMM_MEMBER		0.000599		0.000108
		(0.285)		(0.038)
Director Controls	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y
Observations	509397	509397	509397	509397
Adjusted R-squared	0.190	0.190	0.507	0.507

Panel B

	COMP_CHAIR(T+3)		COMP(T+3)	
	(1)	(2)	(3)	(4)
FIRM_SHOCKED	-0.00248	-0.00272	0.00759***	0.00926**
	(-1.071)	(-0.883)	(2.860)	(2.422)
COMP_MEMBER	0.170***	0.169***	0.560***	0.554***
	(84.551)	(80.055)	(290.673)	(262.170)
FIRM_SHOCKED X COMP_MEMBER	-0.00543	-0.00521	-0.0461***	-0.0478***
	(-0.821)	(-0.759)	(-5.427)	(-5.384)
OTHER_COMM_MEMBER		-0.00107		-0.00725***
		(-1.083)		(-6.023)
FIRM_SHOCKED X OTHER_COMM_MEMBER		0.000363		-0.00236
		(0.131)		(-0.638)
Director Controls	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y
Observations	509397	509397	509397	509397
Adjusted R-squared	0.182	0.182	0.488	0.488

Panel C

	NOM_CHAIR(T+3)		NOM(T+3)	
	(1)	(2)	(3)	(4)
FIRM_SHOCKED	-0.00192	-0.00353	0.00796***	0.00673**
	(-1.093)	(-1.452)	(3.840)	(2.152)
NOM_MEMBER	0.157***	0.155***	0.540***	0.534***
	(75.219)	(72.297)	(257.289)	(237.685)
FIRM_SHOCKED X NOM_MEMBER	-0.00173	-0.000173	-0.0604***	-0.0592***
	(-0.238)	(-0.023)	(-6.295)	(-6.042)
OTHER_COMM_MEMBER		-0.00300***		-0.00783***
		(-3.652)		(-7.341)
FIRM_SHOCKED X OTHER_COMM_MEMBER		0.00232		0.00185
		(1.128)		(0.639)
Director Controls	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y
Observations	509397	509397	509397	509397
Adjusted R-squared	0.189	0.189	0.505	0.505

Panel D

	BOARD_CHAIR(T+3)		BOARD(T+3)	
	(1)	(2)	(3)	(4)
FIRM_SHOCKED	-0.0188***	-0.0392***	-0.0481***	-0.0776***
	(-4.456)	(-4.570)	(-7.185)	(-7.025)
AUDIT_MEMBER	-0.0111***	0.00223	0.0519***	0.112***
	(-7.451)	(0.797)	(31.658)	(44.089)
FIRM_SHOCKED X AUDIT_MEMBER	0.0119**	0.0320***	0.00123	0.0308**
	(2.019)	(3.334)	(0.133)	(2.416)
OTHER_COMM_MEMBER		0.0173***		0.0793***
		(5.912)		(32.258)
FIRM_SHOCKED X OTHER_COMM_MEMBER		0.0306***		0.0435***
		(3.081)		(3.305)
Director Controls	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y
Observations	509397	509397	509397	509397
Adjusted R-squared	0.277	0.277	0.164	0.167

Table IA.2. Reputational Spillovers – Other Directorships

This table presents evidence that being linked with a shocked director has career consequences for an audit director at other firms also. It shows reputational spillovers for directors at firms that are themselves not shocked and do not have any shocked directors in the audit committee, but audit directors may be linked with shocked directors elsewhere. It shows impact on a director's probability of serving as the chair of an audit committee and remaining on the committee in the future. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee of a shocked firm. A director is non-shocked if none of the directorships held by the director is shocked. The sample consists of non-shocked firms and non-shocked directors from years 2000 through 2021. These firms do not have any shocked directors serving on the audit committee. AUDIT_CHAIR(T+3) is an indicator variable identifying whether a director serves as a chair of an audit committee at time *t+3*; AUDIT(T+3) is an indicator variable identifying whether a director serves on the audit committee at time *t+3*; SHOCKED_LINK_OTHER_FIRM(AUD_MEM_AT_ORIG) identifies directors that are linked with a shocked director elsewhere via an audit committee and the shocked director there serves in the audit committee at a shocked firm. SHOCKED_LINK_OTHER_FIRM(AUD_CHAIR_AT_ORIG) identifies directors that are linked with a shocked director elsewhere via an audit committee and the shocked director there serves as an audit chair at a firm where the shock originates. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	AUDIT_CHAIR(T+3)		AUDIT(T+3)	
	(1)	(2)	(3)	(4)
AUD_LINK_SHOCKED_AT_OTHER_FIRM (AUD_MEM_AT_SHOCKED_FIRM)	-0.0403***		-0.174***	
	(-4.903)		(-16.893)	
AUD_LINK_SHOCKED_AT_OTHER_FIRM (AUD_CHAIR_AT_SHOCKED_FIRM)		-0.0359***		-0.159***
		(-2.753)		(-9.571)
PRIOR_EXEC_EXP	0.0188***	0.0187***	0.00110	0.000797
	(8.430)	(8.394)	(0.340)	(0.246)
#PRIOR_AUDIT	-0.0132***	-0.0135***	0.154***	0.153***
	(-11.882)	(-12.122)	(62.501)	(62.100)
#PRIOR_AUDIT_CHAIR	0.229***	0.229***	0.0354***	0.0355***
	(67.301)	(67.285)	(8.866)	(8.874)
TIMEONBOARD	-0.0266***	-0.0266***	-0.0695***	-0.0693***
	(-23.646)	(-23.599)	(-40.930)	(-40.756)
MBA	0.0146***	0.0146***	0.0231***	0.0231***
	(7.149)	(7.144)	(7.667)	(7.646)
NON_EXEC_DIR	0.0694***	0.0694***	0.206***	0.206***
	(36.732)	(36.748)	(70.171)	(70.178)
GENDER	-0.00394	-0.00387	0.000562	0.000864
	(-1.365)	(-1.340)	(0.118)	(0.181)
CONSTANT	0.0182***	0.0180***	0.0717***	0.0711***
	(5.242)	(5.201)	(12.705)	(12.585)
Observations	439712	439712	439712	439712
Adjusted R-squared	0.198	0.198	0.261	0.260

Table IA.3. Robustness Test: Common Industry Effects

This table shows robustness of results to dropping observations for which the firms in question belong to the same industry as the firm where the shock originates for one of the shocked directors. It shows the impact on a director's probability of serving as a chair of an audit committee and remaining on the committee in the future. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee of a shocked firm. A director is non-shocked if none of the directorships held by the director is shocked. The sample consists of non-shocked firms and non-shocked directors from years 2000 through 2021. AUDIT_CHAIR(T+3) is an indicator variable identifying whether a director serves as the chair of the audit committee at time *t+3*; AUDIT(T+3) is an indicator variable identifying whether a director serves on the audit committee at time t+3; and AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) identifies firms where a shocked director serves on the audit committee and he/she serves in the audit committee of a shocked firm. Columns 1 and 2 consider AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM). Column 2 and 4 redefine a director to be shocked only if he/she serves as a chair in an audit committee at a firm where the shock originates and includes AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM), which captures the redefined shock. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	AUDIT_CHAIR(T+3)		AUDIT(T+3)	
	(1)	(2)	(3)	(4)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)	0.00829***		0.00910***	
	(3.297)		(3.064)	
AUDIT_MEMBER	0.160***	0.159***	0.565***	0.565***
	(69.872)	(69.957)	(278.483)	(279.040)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUDIT_MEMBER	-0.0360***		-0.0223**	
	(-5.473)		(-2.371)	
AUD_LINK_SHOCKED_AT_OTHER_FIRM	-0.00149	-0.00151	-0.00991**	-0.00992**
	(-0.402)	(-0.406)	(-2.193)	(-2.194)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM)		0.0136***		0.0115**
		(3.407)		(2.425)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) X AUDIT_MEMBER		-0.0656***		-0.0267*
		(-6.744)		(-1.689)
Director Controls	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y
Observations	446907	446907	446907	446907
Adjusted R-squared	0.245	0.245	0.495	0.495

Table IA. 4. Robustness Test: Director Performance

This table shows robustness of results to the alternate explanation that director performance drives the results. It studies the effect of spillovers on a director's probability of serving as a chair of an audit committee and remaining on the committee in the future. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee of a shocked firm. A director is non-shocked if none of the directorships held by the director is shocked. The sample consists of non-shocked firms and non-shocked directors from years 2000 through 2021. AUDIT_CHAIR(T+3) is an indicator variable identifying whether a director serves as the chair of the audit committee at time t+3; AUDIT(t+3) is an indicator variable identifying whether a director serves on the audit committee at time t+3; and AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) identifies firms where a shocked director serves on the audit committee and he/she serves in the audit committee of a shocked firm.; HIGH_ROA_AUD_MEM identifies audit members that have directorships with high average ROA; LOW_ROA_AUD_MEM identifies audit members that have directorships with low average ROA. Columns 1 and 2 study the impact on the probability of serving as the audit committee chair at time *t+3*, while columns 3 and 4 study the impact on the probability of serving as an audit member at time *t+3*. Columns 1 and 3 include AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) to study spillovers. Columns 2 and 4 include AUD_LINK_SHOCKED(SHOCKED_FIRM_AUD_CHAIR) to study spillovers. This variable redefines a director to be shocked only if he/she serves as a chair in an audit committee at a firm where the shock originates. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	AUDIT_CHAIR(T+3)		AUDIT(T+3)	
	(1)	(2)	(3)	(4)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)	0.00765***		0.00828***	
	(3.158)		(2.893)	
HIGH_ROA_AUD_MEM	0.166***	0.165***	0.585***	0.585***
	(68.151)	(68.259)	(273.191)	(273.805)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X HIGH_ROA_AUD_MEM	-0.0410***		-0.0327***	
	(-5.630)		(-3.182)	
LOW_ROA_AUD_MEM	0.135***	0.135***	0.481***	0.482***
	(46.011)	(46.226)	(144.593)	(145.217)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X LOW_ROA_AUD_MEM	-0.00350		0.0138	
	(-0.290)		(0.763)	
AUD_LINK_SHOCKED_AT_OTHER_FIRM	-0.00142	-0.00141	-0.0103**	-0.0103**
	(-0.383)	(-0.382)	(-2.283)	(-2.276)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM)		0.0139***		0.0115**
		(3.662)		(2.542)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) X HIGH_ROA_AUD_MEM		-0.0702***		-0.0294*
		(-6.500)		(-1.673)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) X LOW_ROA_AUD_MEM		-0.0535***		-0.0426
		(-3.045)		(-1.438)
Director Controls	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y
Observations	447563	447563	447563	447563
Adjusted R-squared	0.246	0.246	0.498	0.498

Table IA.5. Robustness Test: Director Past Shock

This table presents evidence of robustness of results to dropping directors that were shocked themselves in the past. It shows the impact of spillovers on a director's probability of serving as a chair of an audit committee and remaining on the committee in the future. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee of a shocked firm. A director is non-shocked if none of the directorships held by the director is shocked. The sample consists of non-shocked firms and non-shocked directors from years 2000 through 2021. AUDIT_CHAIR(T+3) is an indicator variable identifying whether a director serves as the chair of the audit committee at time t+3; AUDIT(T+3) is an indicator variable identifying whether a director serves on the audit committee at time t+3; and AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)identifies firms where a shocked director serves on the audit committee and he/she serves on the audit committee of a shocked firm.. Columns 1 and 2 consider AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM). Column 2 and 4 redefine a director to be shocked only if he/she serves as a chair in an audit committee at a firm where the shock originates and includes AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM), which captures the redefined shock. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	AUDIT_CHAIR(T+3)		AUDIT(T+3)	
	(1)	(2)	(3)	(4)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)	0.00806***		0.0104***	
	(3.351)		(3.649)	
AUDIT_MEMBER	0.159***	0.159***	0.565***	0.564***
	(69.687)	(69.809)	(278.476)	(279.112)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUDIT_MEMBER	-0.0339***		-0.0254***	
	(-5.317)		(-2.781)	
AUD_LINK_SHOCKED_AT_OTHER_FIRM	-0.000519	-0.000548	-0.0107**	-0.0107**
	(-0.140)	(-0.148)	(-2.377)	(-2.382)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM)		0.0147***		0.0155***
		(3.906)		(3.386)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) X AUDIT_MEMBER		-0.0713***		-0.0404***
		(-7.676)		(-2.616)
Director Controls	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y
Observations	444812	444812	444812	444812
Adjusted R-squared	0.246	0.246	0.496	0.496

Table IA.6. Robustness Test: Director Outside Directorship

This table shows robustness of results to an alternate hypothesis that directors with outside directorships drive the results. It shows the impact of spillovers on a director's probability of serving as a chair of an audit committee and remaining on the committee in the future. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee of a shocked firm. A director is non-shocked if none of the directorships held by the director is shocked. The sample consists of non-shocked firms and non-shocked directors from years 2000 through 2021. AUDIT_CHAIR(T+3) is an indicator variable identifying whether a director serves as the chair of an audit committee at time t+3; AUDIT(t+3) is an indicator variable identifying whether a director serves on the audit committee at time t+3; and AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) identifies firms where a shocked director serves on the audit committee and he/she serves on the audit committee of a shocked firm; AUD_MEM_W_OUTDIRSHP identifies audit members that have outside directorships; AUD_MEM_W_NO_OUTDIRSHP identifies audit members that have no outside directorships. Columns 1 and 2 study the impact on the probability of serving as an audit committee chair at time *t+3*, while columns 3 and 4 study the impact on the probability of serving as an audit member at time *t+3*. Columns 1 and 3 include AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) to study spillovers. Columns 2 and 4 include AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM)to study spillovers. This variable redefines a director to be shocked only if he/she serves as a chair in an audit committee at a firm where the shock originates. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	AUDIT_CHAIR(T+3)		AUDIT(T+3)	
	(1)	(2)	(3)	(4)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)	0.00937***		0.0111***	
	(3.887)		(3.887)	
AUD_MEM_W_OUTDIRSHP	0.185***	0.185***	0.593***	0.593***
	(41.461)	(41.594)	(145.142)	(145.698)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUD_MEM_W_OUTDIRSHP	-0.0344**		-0.00280	
	(-2.519)		(-0.172)	
AUD_MEM_W_NO_OUTDIRSHP	0.158***	0.158***	0.563***	0.563***
	(68.661)	(68.807)	(271.037)	(271.804)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUD_MEM_W_NO_OUTDIRSHP	-0.0349***		-0.0366***	
	(-5.040)		(-3.445)	
AUD_LINK_SHOCKED_AT_OTHER_FIRM	-0.00282	-0.00285	-0.0118***	-0.0118***
	(-0.764)	(-0.773)	(-2.623)	(-2.617)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM)		0.0161***		0.0156***
		(4.271)		(3.424)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) X AUD_MEM_W_OUTDIRSHP		-0.0710***		0.00259
		(-3.381)		(0.093)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUD_MEM_W_NO_OUTDIRSHP		-0.0686***		-0.0563***
		(-6.954)		(-3.149)
Director Controls	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y
Observations	447563	447563	447563	447563
Adjusted R-squared	0.246	0.246	0.495	0.495

Table IA.7. Robustness Test: Firm Performance

This table presents evidence that results are robust to confounding effects from firm performance by comparing reputational spillovers in firms with negative ROA to firms with positive ROA (columns 1 and 3) and by dropping observations for the lowest 10 percentile firms by ROA (columns 2 and 4). It shows the impact of spillovers on a director's probability of serving as a chair in an audit committee and of remaining on the committee in the future. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee of a shocked firm. A director is non-shocked if none of the directorships held by the director is shocked. The sample consists of non-shocked firms and non-shocked directors from years 2000 through 2021. AUDIT_CHAIR(T+3) is an indicator variable identifying whether a director serves as the chair of an audit committee at time *t+3;* AUDIT(T+3) is an indicator variable identifying whether a director holds membership in the audit committee at time *t+3*; AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) identifies firms where a shocked director serves on the audit committee and he/she serves on the audit committee at a firm where the shock originates; NEG_ROA_FIRM identifies firms that have negative ROA. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	AUDIT_CHAIR(T+3)		AUDIT(T+3)	
	Positive vs Negative ROA Firms	Drop lowest 10 percentile Firms by ROA	Positive vs Negative ROA Firms	Drop lowest 10 percentile Firms by ROA
	(1)	(2)	(3)	(4)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)	0.00922***	0.00758***	0.0139***	0.00825***
	(3.228)	(2.929)	(4.236)	(2.760)
AUDIT_MEMBER	0.170***	0.163***	0.601***	0.576***
	(66.185)	(67.806)	(268.038)	(274.233)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUDIT_MEMBER	-0.0449***	-0.0382***	-0.0413***	-0.0287***
	(-5.813)	(-5.676)	(-3.807)	(-3.024)
NEG_ROA_FIRM	0.00746***		0.0315***	
	(5.663)		(20.272)	
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X NEG_ROA_FIRM	-0.00460		-0.0207***	
	(-0.865)		(-3.157)	
AUDIT_MEMBER X NEG_ROA_FIRM	-0.0371***		-0.129***	
	(-13.089)		(-40.047)	
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUDIT_MEMBER X NEG_ROA_FIRM	0.0410***		0.0567***	
	(2.982)		(2.841)	
AUD_LINK_SHOCKED_AT_OTHER_FIRM	-0.00158	-0.00201	-0.0111**	-0.0113**
	(-0.423)	(-0.507)	(-2.455)	(-2.383)
Director Controls	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y
Observations	440468	411193	440468	411193
Adjusted R-squared	0.247	0.246	0.501	0.505

Table IA.8. Robustness Test: Firm Size

This table presents evidence that results are robust to firm size effects by comparing reputational spillovers in large vs small firms (columns 1 and 4), dropping observations for the lowest 10 percentile firms by size (columns 2 and 5), and dropping observations for the highest 10 percentile firms by size (columns 3 and 6). It shows the impact of spillovers on a director's probability of serving as a chair in an audit committee and of remaining on the committee in the future. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee of a shocked firm. A director is non-shocked if none of the directorships held by the director is shocked. The sample consists of non-shocked firms and non-shocked directors from years 2000 through 2021. AUDIT_CHAIR(T+3) is an indicator variable identifying whether a director serves as the chair of an audit committee at time *t+3;* AUDIT(T+3) identifies whether a director holds membership in the audit committee at time *t+3*; AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) identifies firms where a shocked director serves on the audit committee and he/she serves on the audit committee at a firm where the shock originates; LARGE_FIRM identifies large firms, defined as those having size above the mean for the sample. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	AUDIT_CHAIR(T+3)			AUDIT(T+3)		
	Large vs Small Firms	Drop lowest 10 percentile Firms by Size	Drop highest 10 percentile Firms by Size	Large vs Small Firms	Drop lowest 10 percentile Firms by Size	Drop highest 10 percentile Firms by Size
	(1)	(2)	(3)	(4)	(5)	(6)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)	0.00849*	0.00745***	0.00824***	0.0111*	0.00926***	0.0102***
	(1.868)	(2.992)	(2.944)	(1.887)	(3.172)	(3.043)
AUDIT_MEMBER	0.156***	0.161***	0.161***	0.535***	0.571***	0.564***
	(55.699)	(67.621)	(67.182)	(198.163)	(272.354)	(260.067)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUDIT_MEMBER	-0.0313***	-0.0357***	-0.0391***	-0.0377**	-0.0289***	-0.0386***
	(-2.839)	(-5.492)	(-5.396)	(-2.329)	(-3.142)	(-3.735)
LARGE_FIRM	-0.00631**			-0.0295***		
	(-2.402)			(-9.190)		
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X LARGE_FIRM	-0.000163			0.000530		
	(-0.031)			(0.080)		
AUDIT_MEMBER X LARGE_FIRM	0.00647*			0.0528***		
	(1.953)			(15.633)		
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUDIT_MEMBER X LARGE_FIRM	-0.00451			0.00537		
	(-0.333)			(0.274)		
AUD_LINK_SHOCKED_AT_OTHER_FIRM	-0.00136	-0.000503	-0.00557	-0.0101**	-0.00867*	-0.0127**
	(-0.364)	(-0.133)	(-1.320)	(-2.233)	(-1.902)	(-2.419)
Director Controls	Y	Y	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y	Y	Y
Observations	440468	415297	382043	440468	415297	382043
Adjusted R-squared	0.246	0.246	0.250	0.497	0.502	0.495

Table IA.9. Alternate Spillover Mechanism: Spillovers to Directors connected with Firm Executives

This table considers an alternate spillover mechanism in which shocked directors are perceived to be frauds, potentially engaging in fraudulent activities at firms in question as well, which further raises concerns of other audit directors' complicity and/or inaction. It studies the impact of spillovers on a director's probability of serving as the chair and of holding membership in the audit committee in the future. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee of a shocked firm. A director is non-shocked if none of the directorships held by the director is shocked. The sample consists of non-shocked firms and non-shocked directors from years 2000 through 2021. AUDIT_CHAIR(T+3) is an indicator variable identifying whether a director serves as the chair of the audit committee at time t+3; AUDIT(T+3) is an indicator variable identifying whether a director serves on the audit committee at time t+3; AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) identifies firms where a shocked director serves on the audit committee and he/she serves in the audit committee at a shocked firm; AUD_MEM_EXEC_LINKED identifies audit members that are professionally linked with executive directors on the board. Columns 1 and 2 study the impact on the probability of serving as an audit chair at time *t+3*, while columns 3 and 4 study the impact on the probability of holding audit membership at time *t+3*. Columns 1 and 3 include AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) to study spillovers. Columns 2 and 4 include AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) to study spillovers. This variable redefines a director to be shocked only if he/she serves as a chair in an audit committee at a firm where the shock originates. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	AUDIT_CHAIR(T+3)		AUDIT(T+3)	
	(1)	(2)	(3)	(4)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)	0.00793***		0.00963***	
	(3.271)		(3.353)	
AUD_MEM_EXEC_LINKED	0.175***	0.174***	0.604***	0.604***
	(16.728)	(16.749)	(60.509)	(60.880)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUD_MEM_EXEC_LINKED	-0.0837**		-0.0196	
	(-2.201)		(-0.417)	
AUD_MEM_EXEC_NOT_LINKED	0.159***	0.159***	0.564***	0.564***
	(69.790)	(69.890)	(277.325)	(277.947)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUD_MEM_EXEC_NOT_LINKED	-0.0314***		-0.0255***	
	(-4.927)		(-2.781)	
AUD_LINK_SHOCKED_AT_OTHER_FIRM	-0.00117	-0.00123	-0.00987**	-0.00989**
	(-0.317)	(-0.332)	(-2.191)	(-2.194)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM)		0.0146***		0.0142***
		(3.859)		(3.090)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) X AUD_MEM_EXEC_LINKED		-0.134**		-0.0389
		(-2.316)		(-0.483)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) X AUD_MEM_EXEC_NOT_LINKED		-0.0651***		-0.0377**
		(-7.006)		(-2.425)
Director Controls	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y
Observations	447563	447563	447563	447563
Adjusted R-squared	0.245	0.245	0.495	0.495

Table IA.10. Career Consequences for Shocked Directors

This table presents career consequences for shocked directors at non-shocked firms. It shows the impact of a director's shock exposure elsewhere on a director's probability of serving as a chair of an audit committee or of remaining on the audit committee at a non-shocked firm. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee at a shocked firm. The sample consists of both shocked and non-shocked directors in non-shocked firms from years 2000 through 2021. Column 1 studies a director's probability of serving as the chair of an audit committee at time *t+3*, and columns 2 studies his/her probability of serving on the audit committee at time *t+3*. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	AUDIT_CHAIR(T+3)	AUDIT(T+3)
	(1)	(2)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)	-0.0365***	-0.142***
	(-4.918)	(-13.688)
PRIOR_EXEC_EXP	0.0193***	0.00366
	(9.189)	(1.164)
#PRIOR_AUDIT	-0.0149***	0.130***
	(-14.246)	(53.812)
#PRIOR_AUDIT_CHAIR	0.216***	0.0406***
	(71.752)	(10.604)
TIME_ON_BOARD	-0.0266***	-0.0690***
	(-25.571)	(-43.252)
MBA	0.0143***	0.0230***
	(7.496)	(7.907)
NON_EXEC_DIR	0.0700***	0.211***
	(39.120)	(73.359)
GENDER	-0.00543**	-0.00292
	(-2.044)	(-0.640)
CONSTANT	0.0193***	0.0736***
	(5.990)	(13.580)
Firm F.E	Y	Y
Year F.E	Y	Y
Observations	507038	507038
Adjusted R-squared	0.190	0.247

Table IA.11. Board Level Results

This table presents results for regressions that test if reputational spillovers have an impact at the board level. It studies the impact of spillovers on a director's probability of serving as a board chair and of remaining on the board in the future. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee of a shocked firm. A director is non-shocked if none of the directorships held by the director is shocked. The sample consists of non-shocked firms and non-shocked directors from years 2000 through 2021. BOARD_CHAIR(t+3) is an indicator variable identifying whether a director serves as a board chair at time *t+3*, and AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)identifies firms where a shocked director serves on the audit committee and he/she serves on the audit committee at a firm where the shock originates. Columns 1 and 2 consider AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM). Column 2 and 4 redefine a director to be shocked if he/she serves as a chair in an audit committee at a firm where the shock originates and includes AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM), which captures the redefined shock. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	BOARD_CHAIR(T+3)		BOARD(T+3)	
	(1)	(2)	(3)	(4)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)	-0.00550		-0.00226	
	(-1.315)		(-0.350)	
AUDIT_MEMBER	-0.0106***	-0.0108***	0.0532***	0.0532***
	(-6.721)	(-6.845)	(30.684)	(30.794)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUDIT_MEMBER	-0.00577		0.00809	
	(-0.976)		(0.877)	
AUD_LINK_SHOCKED_AT_OTHER_FIRM	0.000799	0.000823	0.00587	0.00596
	(0.197)	(0.202)	(1.047)	(1.062)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM)		-0.0154**		-0.0179
		(-2.228)		(-1.642)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) X AUDIT_MEMBER		0.00684		0.0210
		(0.673)		(1.337)
Director Controls	Y	Y	Y	Y
Firm F.E	Y	Y	Y	Y
Year F.E	Y	Y	Y	Y
Observations	447563	447563	447563	447563
Adjusted R-squared	0.285	0.285	0.172	0.172

Table IA.12. Robustness Test: Market Reaction

This table presents evidence of positive market reaction to announcements of departures of non-shocked directors from the audit committee and stepping down from audit chair positions due to reputational spillovers. It presents robustness of results to dropping observations for which there are corresponding departures for shocked directors within 10 days (before or after) of the announcement dates of departures of non-shocked directors. A firm is shocked if it experiences securities fraud litigation at a given point in time. A director is shocked if he/she serves on the audit committee of a shocked firm. A director is non-shocked if none of the directorships held by the director is shocked. The sample consists of announcements of departures from a committee or the board, and announcements of stepping down from chair positions in a committee or the board for non-shocked directors in non-shocked firms from years 2000 through 2021. (-1,5)CARS are Cumulative Abnormal Returns during the (-1,5) event window around the announcement date. AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) identifies firms where a shocked director serves on the audit committee and the director serves on the audit committee at a firm where the shock originates. AUDIT_MEM_DEPARTURE identifies announcements of departures from the audit committee or stepping down from audit chair positions; OTHER_COMM_MEM_DEPARTURE is defined similarly for announcements pertaining to non-audit committees. Column 1 tests market reactions to audit departures. Column 2 adds additional terms to test market reactions to non-audit departures. Column 3 redefines a director to be shocked only if he/she serves as a chair of an audit committee at a firm where the shock originates and includes AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM), which captures the redefined shock. All regressions include firm and year fixed effects. Standard errors are clustered by director, and t-statistics are reported in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(-1,5)CARS		
	(1)	(2)	(3)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM)	0.00549	0.00579	
	(0.933)	(0.984)	
AUDIT_MEM_DEPARTURE	-0.00433*	-0.00367	-0.00422*
	(-1.734)	(-1.476)	(-1.692)
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X AUDIT_MEM_DEPARTURE	0.0299**	0.0291**	
	(2.235)	(2.104)	
AUD_LINK_SHOCKED_AT_OTHER_FIRM	-0.00311	-0.00321	-0.00293
	(-0.463)	(-0.477)	(-0.437)
OTHER_COMM_MEM_DEPARTURE		0.00642**	
		(2.024)	
AUD_LINK_SHOCKED(AUD_MEM_AT_SHOCKED_FIRM) X OTHER_COMM_MEM_DEPARTURE		-0.00780	
		(-0.547)	
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM)			-0.00154
			(-0.153)
AUD_LINK_SHOCKED(AUD_CHAIR_AT_SHOCKED_FIRM) X AUDIT_MEM_DEPARTURE			0.00446*
			(1.662)
Director Controls	Y	Y	Y
Firm F.E	Y	Y	Y
Year F.E	Y	Y	Y
Observations	21532	21532	21532
Adjusted R-squared	0.224	0.224	0.224