

DIRECTORSHIP EFFECTS IN THE EXECUTIVE LABOR MARKET

Research that will appear later this year in the *Academy of Management Journal* shows that non-CEO level executives who sit on external boards do better in the labor market. Sitting on boards is associated with a higher likelihood of becoming a CEO at another firm. It is also associated with being promoted and receiving more money from one's own firm.

Key Takeaways:

- Non-CEO level executives benefit in the labor market by serving on boards.
- Non-CEO level executives who serve on boards are more likely to become CEOs than those who do not sit on boards.
- Non-CEO level executives who serve on boards are more likely to be promoted and to receive higher pay from their current firms.

Using data on all publicly available first-time directors (those directors who had no prior public company board experience) in S&P 1500 companies between 1996 and 2007, researchers found that non-CEOs who served on external boards were 44% more likely than those who did not serve on outside boards to become a CEO within five years.

The research team also found that both inside and outside board appointments for non-CEOs was associated with receiving a promotion in title. Specifically, non-CEOs who are appointed to boards are about twice as likely to receive a promotion in title within five years. Additionally, accounting for promotion in title, non-CEOs who receive inside and outside board appointments also receive higher pay. Their analysis statistically controlled for aspects of the environment (like industry trends), the firm (like size and performance), and the CEO (like position, tenure, pay, age, ownership). The authors suggest that future research is needed to unpack precisely what is driving this improved labor market performance (e.g., certification mechanisms, unique knowledge, social networking, etc.). They also suggest that more work is needed to learn about how executive search firms influence this process, and how the type of board appointment (e.g., the type of company) affects the career path of the person appointed.

Source: Boivie, S. Graffin, S.D., Oliver, A.G., Wither, M.C. (2015). Come aboard! Exploring the effects of directorships in the executive labor market. *Academy of Management Journal*. In Press.

