

THE EXTENT TO WHICH A BOARD OF DIRECTOR'S CELEBRITY STATUS
AFFECTS THE SHAREHOLDER WEALTH MAXIMIZATION

by

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A Dissertation Presented in Partial Fulfillment
of the Requirements for the Degree
Doctor of Business Administration

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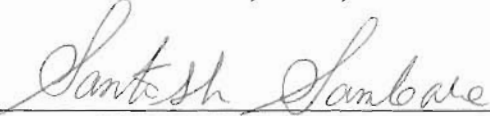
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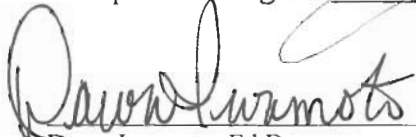
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ABSTRACT

This quantitative study examines the degree to which a board member's celebrity status affects shareholder wealth maximization. The study examines more closely the corporate governance effectiveness from the companies listed on the Standard & Poor's 500 index over a three year period 2004, 2005 and 2006. The analysis reveals three general findings. First, there is no statistically significant relationship between boards of directors with at least one celebrity director and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index. Second, there is a statistically significant relationship between the level of a director's celebrity goodwill for boards of directors with one or more celebrity directors and an increase in shareholders' wealth for boards of directors associated with companies listed on the S&P 500 index. Finally, there is a statistically significant relationship between the number of a celebrity directors on a company's board of directors and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index.

DEDICATION

This work is dedicated to my family for their support throughout the doctoral program: my wife, Annie, and daughter, Hailey, and son, Nathan, who sacrificed quality family time so that I might pursue my educational goal; my mother, Janet Yocam, who gave me the strength to pursue and endure; and my father, Delbert Wayne Yocam, who instilled in me the importance of balance among my life's passions including family, work, and education.

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CHAPTER 1: INTRODUCTION

The purpose of the current research was to examine the impact of celebrity, from the shareholder perspective, of a member of a company's board of directors where the effectiveness of leadership and decision making affects the governance and wealth maximization of a company's shareholders. Chapter 1 presents a discussion of the problem that exists in governance as it is practiced in public companies as well as a discussion of the rationale for the study. The chapter also presents a discussion of the logic supporting the chosen methodology of a quantitative, correlation, descriptive study. The hypotheses associated with the investigation are presented, as well as the theoretical framework of the investigation. A celebrity is a famous person or a person who is widely known both in society and in the business community who commands a degree of public and media attention (Marshall, 2006). A celebrity possesses one or more of the following traits: credibility, goodwill, rights, image, influence, liabilities, and standard of value. Some synonyms of celebrity include hero, luminary, notable, or personage (*Celebrity Synonyms*, 2008). Fame and celebrity status are desirable. Parnaby and Sacco (2004) noted the phenomenon of celebrity and the fame associated with celebrity is desirable by much of the population within the United States.

The emotional responses, which are mostly positive, that define celebrity translate into possible increases in economic opportunities available to a company from the high level of public attention (Rindova, Pollock, & Hayward, 2006). A monetary definition of celebrity is also possible. For example, an investment or intrinsic value can be placed on professional goodwill. A valuation technique can be used to determine the value of

professional goodwill. The value of the holder of celebrity requires not only fame but also fame with an evident monetary value (Rein, Kotler, & Stoller, 2005).

The current exploration of various aspects of the value, influence, and perception of a phenomenon known as celebrity helped to clarify the role that celebrity plays in a board director's life. At stake was potentially the value a board director brings to the table with his or her celebrity with the effect on shareholders' wealth a celebrity director's ability to demonstrate influential leadership effects (or lack thereof) on other board members, insight into how a celebrity director's perception might be considered a universal phenomenon experienced in many if not all boardrooms around the world, and the possibility a celebrity director's perception might be an isolated phenomenon within the capitalistic society of the United States.

Background of the Problem

From 2000 to 2002, increased attention was paid to corporate leadership and governance given the significant failures in the boardroom resulting from companies such as Enron, WorldCom, and Tyco (Lavelle, 2002). In addition, the board director position has become more time consuming due to the amount of due diligence required to comply with the Sarbanes-Oxley Act of 2002. Boards of directors are increasing their use of the business judgment rule (a good faith effort to obtain information) to avoid class-action lawsuits that are becoming commonplace.

A director's position requires impeccable qualifications to meet a high bar associated with the governance position from which a director candidate must be judged. Director qualifications vary among companies. However, a general set of qualifications include demonstrating, at a minimum, (a) notable or significant achievements in business,

education, or public service; (b) the requisite intelligence, education, and experience to make a significant contribution to the board; (c) a range of skills, diverse perspectives, and backgrounds; and (d) the highest ethical standards, a strong sense of professionalism, and intense dedication to serving the interests of the stockholders (Cornelius, 2005).

However, many potential barriers exist for people seeking positions on corporate boards, including potential personal liability and a lack of information on the interviewing and recruiting process for board candidates. In the post-Enron/Tyco/WorldCom world, it is more important than ever to find the right person to fill a board director's position. The liability exposure and scrutiny of all directors has increased given accounting scandals, inflated compensation, and backdated options. In 2006, a board seat required approximately 250 hours a year (Gutner, 2006).

A company's governance considers the following attributes or qualifications when evaluating a person's candidacy for membership on the board: (a) relevant management and leadership experience, (b) a past or current leadership role in a major public company or recognized privately held entity, (c) a past or current leadership role at a prominent educational institution or senior faculty position in an area of study important or relevant to the company, and (d) a past elected or appointed senior government position or current senior managerial or advisory position with a highly visible nonprofit organization. However, a director must not only have skill and a diverse background, but also have aptitude or experience. A director's qualifications should include (a) the ability to understand fully the legal responsibilities of a director and the governance processes of a public company; (b) the personal qualities to be able to make a substantial active contribution to board deliberations; and (c) intelligence and wisdom,

self-assuredness, interpersonal and communication skills, courage, and inquisitiveness. Consideration should be given to financial management, reporting, and control expertise or other experience that would qualify the candidate as a financial expert under established standards and international experience. A director's integrity and professionalism are essential characteristics and include (a) the highest standards of moral and ethical character and personal integrity; (b) an independence, objectivity, and intense dedication to serve as a representative of the stockholders; (c) a personal commitment to the company's principles and values; and (d) impeccable corporate governance credentials (Lavelle, 2002).

Yoder (2007) noted a chief executive officer's (CEO's) reputation accounts for approximately 50% of a company's reputation. A litany of research is available on CEO celebrity, but a sparse amount is available on director celebrity. For example, as the investor class grew in the United States, interest in the world of business became commonplace and the media realized that featuring corporate personalities such as Jack Welch of General Electric or Bill Gates of Microsoft was a recipe for success. O'Brien (2007) noted Jack Welch was a CEO celebrity, recognized in *Forbes* in 1999 as manager of the century for his leadership of General Electric over 20 years. Thus, the superstar CEO was born. However, according to Rein, Kotler, and Stoller (2005) the problem with CEO breed of celebrity arose when some CEOs (such as "Chainsaw" Al Dunlap made the mistake of believing their own publicity. In doing so, CEOs started to look for short-term gains and relied upon their reputation on Wall Street to keep them in business instead of implementing long-term strategies ("Welch, Dunlap and Nasser have now left the building", 2003).

A recurrent crisis has surfaced due to boards of directors' incapacity to deliver in practice on heightened expectations of governance. Since the 1990s, there has been a growing concern regarding the effectiveness of a company's board of directors; that is, there seems to be a gap between directors' efforts and directors' results. The added time and attention board members provide do not necessarily translate into better governance or even governance that adds value to the business. For example, even under improved processes and structures, a director cannot claim to have the capability to conduct meaningful assessments. Similarly, a board director cannot claim to validate assessments made in many circumstances. The amount of legal compliance and the limited time to process all the information generated from a company taxes even the most competent board director.

Corporations, whether for-profit or nonprofit, require a governing board of directors. The ability of a company's board of directors to be effective includes many factors. First, good governance requires leadership. Second, the collective wisdom is shared between directors and management, with an improved sense of managerial judgment. Third, a threat of shareholder litigation in state courts should translate into additional motivation for directors to engage in active governance of the corporation. Fourth, a director's accountability and due diligence in decision making requires the management team to achieve markers relative to these goal and plans established by the board of directors. Finally, a board member needs to realize that serving on a company's board of directors is not only an honor but also a responsibility (Ertugrul & Hedge, 2005).

Statement of the Problem

The general problem is that current research on the relationship between corporate governance and performance failed to consider the impacts associated with the board of director's celebrity as an indicator of shareholder wealth maximization. The board of directors of each corporation within the United States, in concert with corporate executives and acting as an agent on behalf of shareholders, must maintain a focus and commitment to the shareholders. The specific problem is that leaders of public companies listed on Standard & Poor's (S&P) 500 index need to identify directors with celebrity status where the effectiveness of leadership and decision making affects the governance and wealth maximization of the company's shareholders.

The research design supported using a correlation method that allowed the analysis of relationships as well as how the relationships influence patterns of behaviors. To determine the relationship between a director's celebrity and the impact on shareholder wealth for the years 2004, 2005, and 2006, a quantitative, correlation, descriptive study was conducted. The population was all 500 public companies from the S&P 500 listing for the years 2004, 2005, and 2006. The results of the study may serve leaders by identifying directors with celebrity status where the effectiveness of leadership and decision making affects the governance and wealth maximization of a company's shareholders for public companies listed on the S&P 500 index.

Purpose of the Study

The purpose of the study was to examine the relationship between the celebrity status of a board member and shareholder wealth maximization. Clearly defined in U.S. business law, a board is a corporation's ultimate authority (Phan, 2007). A director is an

officer with significant influence in the company's governance decision making and who is charged with impeccable credentials as an agent on behalf of the shareholders.

Shriberg, Shriberg, and Kumari (2005) found that a person's leadership skills associated with a directorship is essential for holding a governance position at a company.

Leadership is the ability to influence, motivate, and enable others to contribute toward the effectiveness of the organizations of which they are members. Leadership and management are both stressful during times of economic downturns yet an opportunity for optimizing operations, and it is not necessary to be in a formal leadership position to exert leadership behavior. Schwarber (2005) found that a director as leader must (a) involve the right people in the decision, at the right time, in the right way; (b) use a process that keeps people engaged and on track; (c) recognize the power of shared decision making; and (d) ask a series of key questions to avoid ineffective decision making.

A question remains whether the perception of a celebrity director is a universal phenomenon or specific to boards within the United States. A definition for celebrity is a famous person or a person who is widely known in society and business who commands a degree of public and media attention (Fishman, Feder, Waltrich, & Fishman, 2003; Schlecht, 2003). *High Visibility* by Rein et al. (2005) is a discussion on the phenomenon of celebrity that indicates celebrity requires not only fame but also fame with an evident monetary value. In the case of a celebrity director and corporate governance practice, the shareholders' wealth potential is at stake. In addition, effective corporate governance requires leadership in addition to influence. Many U.S. companies have long stocked the company's board with a number of influential directors (see Table 1; "Buffett Blames

Boardroom Apathy,” 2003). A company’s leadership expects the celebrity component of a celebrity director to bring perceived value, press, and investor interest (Marshall, 2006).

Table 1

Notable Celebrity Directors

Celebrity	Organization
Nancy Reagan	Revlon Group
Neil Armstrong	USX
Michael Jordan	Oakley Inc.
Beverly Sills	Time Warner
Samuel Skinner	Essential.com
Dr. Eric Schmidt	Apple
Henry Kissinger	Revlon Group, American Express Company, Union Pacific Corporation, R. H. Macy and Company
Sidney Poitier	Walt Disney Company
Colin Powell	America Online
Al Haig	America Online
Martha Stewart	Drugstore.com
Kim Alexis	Drugstore.com
Steven Jobs	Walt Disney Company
Jack F. Kemp	Oracle

The current study involved an examination of the impact of celebrity, from the shareholders’ perspective, of a member of a company’s board of directors where the effectiveness of leadership and decision making affects the governance and wealth

maximization of the company's shareholders. A quantitative, correlation, descriptive study provided the best fit with the desired outcomes for the research, where the purpose of the study was to examine a possible relationship between the celebrity status of a board member and the effect on shareholder wealth maximization. In particular, the current research did not take into consideration the impacts associated with the board of director's celebrity as an indicator of shareholder wealth maximization. The purpose of correlation analysis is to identify the relationship between director celebrity and the impact on shareholder wealth. The principal advantage of this method over the causal-comparative or experimental method was the correlation method permitted the analysis of relationships as well as how the relationships influence patterns of behaviors.

Significance of the Problem

People holding celebrity status can be found in governing bodies such as in corporations, whether for-profit or nonprofit, that require a governing board of directors. Celebrity credibility represents a situation when an individual has been elevated to the level of the celebrity status due to his or her recognition and distinctive qualities. Certain individuals have been elevated to the level of the celebrity status. For example, as a public figure, celebrity status brings goodwill, credibility, and power. Ohanian (1990) noted that celebrity credibility consists of important factors such as attractiveness, expertise, and trustworthiness. Celebrity credibility also brings rights and liabilities.

By examining the impact of the celebrity status of a director in a company's board of directors, a leader for a public company included in the S&P 500 can form a better understanding of how the effectiveness of leadership. Decision making affects the governance and wealth maximization of the company's shareholders. Directors are

leaders working on the behalf of shareholders. Leaders may use the results from the study because the results are applicable to various areas within business including agency theory, corporate governance, leadership, celebrity goodwill valuation, business ethics, and legal compliance.

Nature of the Study

The research method outlined a number of components, including method choice, approach, description of independent and dependent variables, population, geographical location, and significance to the research plan. Cooper and Schindler (2006) noted that decisions concerning the type of study, the means of data collection, measurement, and sampling plans are some of the factors that need consideration when planning a research design. The research design is the blueprint for fulfilling objectives and answering questions, but selecting a design may be complicated by the availability of a large variety of methods, techniques, procedures, protocols, and sampling plans.

The level of involvement and commitment by each board member can characterize the effectiveness of governance (Fich & White, 2004). First, effective governance requires leadership by each board member (Schwarber, 2005). Second, the collective wisdom is shared between directors and management with an improved sense of managerial judgment (Hay & Hodgkinson, 2006). Third, a threat of shareholder litigation in state courts should motivate directors to engage in active governance of the corporation (Arjoon, 2006). Fourth, a director's accountability and due diligence in decision making requires the management team to achieve markers relative to these goals and plans established by the board of directors (Cornelius, 2005). Fifth, a board member's service on a company's board of directors is both a tremendous honor and

responsibility. Morris, Brotheridge, and Urbanski (2005) noted leaders take on a certain widespread notoriety, increased social status, and celebrity status associated with their actions in a leadership role. Finally, a board membership requires a board member's commitment to effective corporate governance.

The research approach is to identify a director's decision making through quantitative analysis with the public companies listed in the S&P 500 index. First, the celebrity status was evaluated for the years 2004, 2005, and 2006, regardless of a board member's tenure at the company. To identify a director with celebrity status, the company's board membership was reviewed through a media search for each director. Within the sample a total of 1,829 board directors are possible candidates holding celebrity status. However, the expected number of board directors to have celebrity status will range from 550 to 615 for the years 2004, 2005, and 2006. The basis of celebrity status was the number of times the director was identified within the media. To identify a director with celebrity status, a key word search will be employed using criteria associated with each director's first and last name, company, and celebrity status for the years 2004, 2005, and 2006. Each director must have a minimum retrieval count of two or more for each year to support celebrity status consideration. The key word search results from publicly available articles for each board director. Second, the valuation of celebrity goodwill was calculated for directors with celebrity status. Third, the shareholders' wealth was calculated for the years 2004, 2005, and 2006. Fourth, the governance for each company was calculated using Tobin's Q, a government index or g-index, or a g-score to determine governance effectiveness for the years 2004, 2005, and 2006. Finally, a regression analysis was conducted relating those boards that have

celebrity directors with boards that do not have celebrity directors to corporate governance effectiveness and to shareholders' wealth for the years 2004, 2005, and 2006. In addition, the data collected were from publicly available sources. The sources included but were not limited to (a) public disclosure of common and preferred stock holdings referenced in 10K, 10Q, and Form 144 Securities and Exchange Commission (SEC) filings; (b) public disclosure of the director's salary; and (c) public disclosure of the value of liquidated shares of common and preferred stock. The use of publicly available data allows other researchers to validate findings in the research study.

Research Questions and Hypotheses

The study involved an evaluation of the relationship between the celebrity status of a board member and the effect on shareholder wealth maximization. The research questions and hypotheses helped to rationalize the effect of a celebrity director as a phenomenon within the United States. The evaluation focused on shareholders' wealth maximization potential, effective governance, and the characteristics of individual board members with celebrity status and without celebrity status from the companies in the S&P 500 listing.

First, for each research question a model was developed to test the hypotheses relating the celebrity status of a board member to the effect on shareholder wealth maximization. Second, the research question and hypotheses specifically addressed a specific set of companies and period of time. Third, for each research question there is an associated set of hypotheses. Finally, for each company listed in the S&P 500 index, the period represents the years 2004, 2005, and 2006.

Research Question 1: Does a director's celebrity status change shareholders' wealth for companies listed in the S&P 500 index during the years 2004, 2005, and 2006?

H1₀: There is no statistically significant relationship between a board of directors with at least one celebrity director present and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index ($p < .05$).

H1₁: There is a statistically significant relationship between a board of directors with at least one celebrity director present and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index ($p < .05$).

Research Question 2: Does an alignment exist between a corporation's shared commitment to the maximization of shareholder wealth and the actions exhibited by an individual board member with a celebrity status for a company listed in the S&P 500 index for the years 2004, 2005, and 2006?

H2₀: There is no statistically significant relationship between the level of a director's celebrity goodwill for boards of directors with one or more celebrity directors and an increase in shareholders' wealth for boards of directors associated with companies listed on the S&P 500 index ($p < .05$).

H2₁: There is a statistically significant relationship between the level of a director's celebrity goodwill for boards of directors with one or more celebrity directors and an increase in shareholders' wealth for boards of directors associated with companies listed on the S&P 500 index ($p < .05$).

Research Question 3: Does the composition of a company's board change for those boards with a celebrity director and the maximization of shareholder wealth for a company listed in the S&P 500 index in 2004, 2005, and 2006?

H3₀: There is no statistically significant relationship between the number of celebrity directors present on a company's board of directors and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index ($p < .05$).

H3₁: There is a statistically significant relationship between the number of celebrity directors present on a company's board of directors and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index ($p < .05$).

Conceptual and Theoretical Framework

To determine the appropriateness of the fundamental theories for how celebrity might or might not play a role in influencing contemporary views of corporate governance and performance, a number of theoretical perspectives were considered. The early part of the 21st century has provided a sounding board for corporate misconduct and has brought increased scrutiny of corporate governance (Lavelle, 2002). As recently as early 2003, the blame of a major corporate failure was placed upon "boardroom atmosphere" ("Buffet Blames Boardroom Apathy," 2003, p. 7). Greater attention has been paid to corporate leadership and governance in the early 21st century as a result of the significant failures in the boardrooms of companies such as Enron, WorldCom, and Tyco. In addition, the rapid growth of the Internet since 1995 has allowed individuals to

gather information about corporate performance as more corporations use the Internet to disseminate financial information.

The board of director position has become more complicated in terms of legal requirements and required time for due diligence as a result of the complying with the Sarbanes-Oxley Act of 2002 as well as increased use of the business judgment rule (good faith effort to obtain information) to avoid class-action lawsuits that are becoming commonplace. In U.S. business law, the board is the corporation's ultimate authority and also represents the welfare of the stockholders. For example, a potential risk is that with most companies existing directors not only advise management but control the slate of director nominations. In this case, the company's shareholders have no input on the nominations and are only allowed to vote for the board of directors' nominated candidates ("Time to Boot Celebrities," 2005).

Definition of Terms

The study included an examination of the impact of celebrity, from the shareholder perspective, of a member of a company's board of directors. A director leadership and decision making affects the governance and wealth maximization of shareholders' wealth. The terms outlined and defined in this section were defined to support a greater understanding of their use within the study.

Book value: Book value represents the monetary amount of an asset (Brealey & Myers, 2007).

Celebrity: A celebrity is a famous person or a person who is widely known both in society and in the business community who commands a degree of public and media attention. The celebrity phenomenon is the basis for a person with celebrity status. A

celebrity possesses one or more traits of the following traits: credibility, goodwill, rights, image, influence, liabilities, and standard of value (Rindova, Pollock, & Hayward, 2006).

Celebrity credibility: Celebrity credibility represents a situation in which an individual has been elevated to the level of a celebrity due to his or her degree of recognition and distinctive qualities (Goldsmith, Lafferty, & Newell, 2000).

Celebrity director: A celebrity director is an officer with significant influence in a company's governance decision making and who possesses one or more of the following traits: credibility, goodwill, rights, image, influence, liabilities, and standard of value (Rein et al., 2005).

Celebrity goodwill: Celebrity goodwill reflects a number of factors including age, health, past earning power, reputation, skill, comparative success, and length of time in business (Rounick & Riggs, 2001).

Celebrity rights: Celebrity rights represent a person with celebrity status and associated rights where specific, identifiable, and tangible assets or items of intellectual property relate to a person's celebrity status (Rosenthal, Donoho, Eskew, & Diamond, 2007).

Celebrity standard of value: Celebrity standard of value represents a measure of celebrity goodwill. Celebrity goodwill can be associated with a celebrity's image and influence can be expressed through a celebrity's endorsement, a celebrity's credibility, or a celebrity's goodwill (Langmeyer & Walker, 1991).

Celebrity status: The celebrity status represents a measure of the celebrity. A person with celebrity status comes reflects a person's notoriety or fame and can be measured through the amount of media coverage. For example, the number of articles in

which the person's first and last name appears at least once over a period constitutes a person's notoriety or fame or celebrity. A person's higher notoriety represents the amount of media prominence for the person with celebrity status where his or her name relates to the articles retrieved through a keyword search. The amount of retrieval provides a basis to measure coverage in publications that include major newspapers, newswires and periodicals. Parnaby and Sacco (2004) suggest that a person holding celebrity status reflects the celebrity phenomenon.

Celebrity valuation: Celebrity valuation represents the valuation techniques used to calculate celebrity goodwill, including income, market, and asset based (Fishman, Feder, Waltrich, & Fishman, 2003; Schlecht, 2003).

Corporate governance: Corporate governance represents an administered set of governance processes, traditions, corporate policies, and regulatory compliance (Lavelle, 2002).

Director: A director is an officer with significant influence in a company's governance decision making who is charged with impeccable credentials as an agent on behalf of the shareholders (Arjoon, 2006).

Fair market value: Fair market value represents the amount paid for a product or service when compared to other comparable products or services by a number of buyers (Brealey & Myers, 2007).

Going concern value: The going concern value represents the value from the financial perspective that can be thought of as simply the cost of doing business (Brealey & Myers, 2007).

Governance: Governance represents both a management and a leadership decision-making process focused on defining expectations, granting power, or verifying performance (Shriberg, Shriberg, & Kumari, 2005).

Intrinsic value: Intrinsic value represents the value of an object, good, or service that is contained in the item itself where the going concern value or the process is the intrinsic value (Brealey & Myers, 2007).

Investment value: Investment value can be represented in terms of a standard of value for celebrity goodwill (Brealey & Myers, 2007).

Liquidation value: The liquidation value represents the amount a buyer would pay for an asset (Jones, 2006).

Shareholder: A shareholder is a person with an ownership claim of a company, where the claim is typically reflected in a company's share of common stock (Brealey & Myers, 2007).

Shareholder wealth maximization: The measurement of shareholder wealth maximization focuses on shareholders' value creation on a company based on stock price performance. Ulys (2007) noted the determination of how much shareholders increase their wealth from one period to the next is based on dividends they receive and the appreciation in the stock price for a company. Shareholder wealth maximization represents a shareholder's motive in gaining the maximum amount of economic value from the appreciation of a company's share of common stock (Brealey & Myers, 2007).

Wealth: Wealth represents the economic value of an accumulation of intangible or tangible resources (Brealey & Myers, 2007).

Wealth maximization: Wealth maximization involves gaining the maximum amount of economic value (Brealey & Myers, 2007).

Assumptions

Two assumptions were made in relation to the study. The assumptions were used to support the regression analysis relating to boards with celebrity directors' versus boards without celebrity directors. In addition, for celebrity directors the analysis included celebrity goodwill valuation, corporate governance effectiveness, and shareholder wealth for the years 2004, 2005, and 2006. First, the identification of a director's celebrity would result from a consistent search from a number of periodicals where the search criteria were the director's first and last name. Second, the data would be available through publicly accessible sources. The sources would include but not be limited to (a) public disclosure of common and preferred stock holdings referenced in 10K, 10Q, and Form 144 SEC filings; (b) public disclosure of the director's salary; and (c) public disclosure of the value of liquidated shares of common and preferred stock.

Limitations

As with any research investigation, an acknowledgment of a number of limitations evident at the beginning of an investigation addresses the scope of the study. The limitations were used to support the regression analysis relating to boards with celebrity directors' versus boards without any celebrity directors' celebrity goodwill valuation, corporate governance effectiveness, and shareholder's wealth for the years 2004, 2005, and 2006.

First, the isolation of the celebrity anomaly (from many of the other potential similarities or dissimilarities in the characteristics of the individual directors) was a

potential limitation of the study. For example, a person's celebrity might represent a single characteristic of a director where many other characteristics are present. Second, the isolation of a single celebrity director's influence among other celebrity directors for a company with more than one celebrity director present was a potential limitation of the study. For example, a possibility existed of there being more than one celebrity director present on a board where each director brings a unique set of skills and attributes that combines to contribute to the overall effectiveness in governance for a particular company.

Third, the effectiveness of governance relevant to companies not found in the S&P 500 list was a potential limitation of the study. For example, different cultures represent different governance approaches for companies incorporated outside of the United States, especially regarding the definition of celebrity status within a particular culture. Fourth, the identification of companies with one or more celebrity directors from the S&P 500 listing might not be sufficient. In contrast, too many companies with celebrity directors may not be representative in the matching sample. Finally, Nowland (2008) noted the adoption of corporate governance best practices by a board of directors' results in an increase in operating performance or market value. For example, a corporate governance best practice established in the United States is separating the positions of chairman and CEO and the creation of both audit and nomination committees.

Individuals on the board who hold celebrity status can demonstrate corporate governance effectiveness. However, the existence of directors who are emerging as celebrities was not part of the study. Directors with emerging celebrity or varying degrees of celebrity status were difficult to quantify. Only directors already holding celebrity status were

considered to determine a change in shareholder wealth for the years 2004, 2005, and 2006

Delimitations

The delimitations of the study served to narrow its focus and scope to fit within the anticipated time frame. The delimitations helped to support the regression analysis relating boards with celebrity directors' and boards without celebrity directors' celebrity goodwill valuation, corporate governance effectiveness, and shareholders' wealth for the years 2004, 2005, and 2006. First, a company in the S&P 500 list and with strong governance but without a celebrity director on the company's board of directors was a delimitation of the study. Second, a celebrity director who sits on the board of directors for a nonprofit company or a privately held company not in the S&P 500 list was a delimitation of the study. Finally, the director's celebrity was a form of goodwill and could be evaluated; however, the aggregate goodwill for a board that consists of more than one director holding celebrity status was not part of the study.

Summary

Chapter 1 presented the problem statement of the study and a discussion on how celebrity plays a role in a board of director's position, the value proposition, the influence attributed, and the perception projected by a celebrity board director. In particular, the current study included an investigation of the relationship between corporate governance and financial performance where the literature did not contain an investigation into the impacts associated with a board of director's celebrity as an indicator of shareholder wealth maximization. The purpose of the study was outlined as contributing to the

knowledge of how directors holding celebrity status can potentially influence shareholder wealth for public companies on the S&P 500 listing.

In addition to an overview of the research methodology, the theoretical framework of the study was presented as agency theory in the context of corporate governance related to a celebrity director's influence and impact on shareholders' wealth. The limitations and delimitations of the study were also presented and discussed as satisfactory and workable restrictions for the study. The intent of the study was to evaluate and assess the impact on shareholder wealth of a celebrity director for public companies on the S&P 500 listing for the years 2004, 2005, and 2006.

Chapter 2 presents a survey of literature that includes a review of literature examining the impact of a celebrity, governance effectiveness, and shareholder wealth maximization. Agency theory is part of the theoretical framework, where a director act as an agent on behalf of the shareholder and as a leader the director is in a position of influence over actions taken by others. The chapter begins by developing the theoretical framework for the literature search and outlines how the literature search was conducted.

CHAPTER 2: REVIEW OF THE LITERATURE

Chapter 2 contains a review of literature that examines the impact of celebrity, from the shareholders' perspective, of a member of a company's board of directors where the effectiveness of leadership and decision making affects the governance and wealth maximization of the company's shareholders. There are a number of significant subjects of research: business ethics, boards of directors, celebrity status, determining value, celebrity valuation, leadership, and effective governance.

The study provides new knowledge in understanding a unique aspect of celebrity, from the shareholder's perspective, of a member of a company's board of directors where the effectiveness of leadership and decision making affects the governance and wealth maximization of the company's shareholders. In particular, the current research includes an investigation of the relationship between corporate governance and financial performance that has failed to consider the impacts associated with the board of director's celebrity as an indicator of shareholder wealth maximization.

A board of directors holds the highest decision authority related to the strategic affairs within a public corporation within the United States. The board of directors of each corporation in the United States, in concert with the corporate executives and acting as an agent on behalf of the shareholders, must maintain a focus and commitment to the shareholder regardless of the impact of celebrity status of the board members.

Documentation

The key searches supporting both the historical and the current literature included business ethics, board of directors, celebrity status, determining value, celebrity valuation, and leadership. Journals and publications referenced included corporate

governance periodicals, ethics journals, and databases of legislation and regulation. The primary areas of literature reviewed were (a) business ethics, (b) board of directors, (c) celebrity status, (d) determining value, (e) celebrity valuation, and (f) leadership. In particular, the search of the current research included the relationship between corporate governance and financial performance that has failed to consider the impacts associated with the board of director's celebrity as an indicator of shareholder wealth maximization.

The approach to finding scholarly research included an evaluation of research papers to identify common patterns and themes such that an overarching comparison existed among the companies and their individual directors. Because potential similarities or dissimilarities in the characteristics of the individual directors were the focus of the study, the research effort commenced with a compilation of data on both individual directors and the associated company. The data collected were from publicly available sources. The sources included but were not limited to (a) public disclosure of common and preferred stock holdings referenced in 10K, 10Q, Form 144 SEC filings; (b) public disclosure of the director's salary; and (c) public disclosure of the value of financial information on the company and directors.

Historical Overview

The literature review served as a brief historical overview of the germinal as well as current literature. The review included an investigation of the historical aspects of the characteristics of individual board members to identify any common patterns to indicate whether the collective balance of a board member's celebrity enhances or has no influence on the shareholder wealth maximization. A component of defining new knowledge is to first review the historical literature. A gap exists in the current literature

(research published since 2003) on the topic of celebrity directors for three reasons. First, the peer-reviewed literature on corporate directors is sparse, yet many sources of data on corporate directors are readily available, especially for directors of public companies. Second, the topic of celebrity directors is a new research area building on existing literature on celebrity CEOs. Third, a significant amount of literature can be found on corporate governance, although recent literature is not readily available.

Although gaps exist in the current literature on the topic of celebrity directorship, a literature review was conducted to ensure a proper review of the literature sources available was performed. The current literature review presents the fundamental theories of how celebrity directorship plays an influential role on contemporary views of corporate governance and performance. In addition, the current literature presents a number of theoretical perspectives as part of the research to provide a solid basis for future research on the topic of celebrity directorship within the domain of corporate governance.

Important Considerations for Board Members

The search of current literature resulted in a number of important board member considerations relevant to the study, including business ethics, board of directors, celebrity status, determining value, celebrity valuation, and leadership. First, business ethics is important not only to the overall effectiveness of corporate governance in place at a company but also to the person who holds the director's position because business ethics reflects the director's judgment and decision-making abilities. Rothschild (2002) noted that corporate failures such as Enron's as well as economic conditions have resulted in increased regulation and legislation. Each member of the board must take his

or her position on the board seriously and apply due diligence during the decision-making process. A lack of ethical judgment in the decision-making process can erode the governance and also possibly lead to poor stewardship on behalf of the stakeholder. The virtue ethics model supports corporate governance with the idea of creating the greatest good for the overall stakeholder collective (Caldwell & Ranjan, 2005). Each board member must demonstrate trustworthiness and virtue as well as act in good faith as an agent on behalf of all company stakeholders.

Second, effective corporate governance and legal compliance are intertwined, and each board member must be familiar with the legal consequence of his or her decision making as part of the company's governance body. Two primary legal aspects of governance that a director must pay attention are the Sarbanes-Oxley Act and business judgment rule. The Sarbanes-Oxley Act of 2002 addresses financial stewardship concerns by shareholders with a company's leadership (Creech, 2006). Like the Sarbanes-Oxley Act, the business judgment rule is useful when members of the board come under scrutiny from upset shareholders. The business judgment rule is a good faith effort to obtain information to avoid class-action lawsuits by shareholders (L. Hall, 2004).

Third, each member of the board must be familiar with the consequences of not acting in the best interest of the shareholders (Dobson, 2005). Agency theory provides the framework for a board member's behavior that aligns with effective corporate governance. In agency theory and corporate governance, self-interested directors appropriate value to themselves. The traditional perspective on corporate governance includes agency and stakeholder theories (Caldwell & Ranjan, 2005). Chowdhury (2003) noted when a leader is considering what constitutes shareholder value; the leader should

also consider that in practice the value proposition might not hold up given the gap between the stakeholder expectation and the realities of fulfilling that expectation (p. 140).

Fourth, the stakeholder theory is as important as agency theory. Each member of the board must be familiar with the consequences of his or her actions given the competing interest of both internal and external stakeholders with interests in the company. Without familiarity of stakeholder theory, the board member is less than prepared to contribute to an effective governance body. Morgan (1994) noted that with stakeholder theory the existence of a complex bargaining process involves multiple interests. The multiple competing interests can be found at each level of management within a company, starting at the top with the board of directors. Williamson and Bercovitz (1997) purported that a stakeholder board may be less efficient at generating total benefits. The stakeholder theory defines different groups of interest represented by stakeholders where stakeholders have competing interests yet the desire for the same end, which is to receive some type of benefit (Friedman & Miles, 2002).

Lastly, stewardship theory is another building block that provides a foundation for an effective governance body. In stewardship theory and corporate governance, directors maximize value for the company where the allocation of the board is by shareholders in agency theory and by managers in stewardship theory (Turnbull, 1997). According to stewardship theory applied to corporate governance, a director is an agent on behalf of the stakeholder. The director's motivation essentially is to do a good job with managing corporate assets as a good steward.

Transaction Cost Economics and Market Discipline

Corporate governance supports decision making by the board of directors in the areas of transaction cost economics and market discipline. Williamson (1996) popularized transaction cost economics and used it to explain economic problems such as uncertainty, limited rationality, and opportunistic behavior. In the case of corporate governance, the use of transaction cost economics offers insight into corporate governance structures.

Hellwig (2006) suggested establishing a market discipline with corporate governance. The market discipline theory explains a situation of director acquiescence or a moral hazard situation where the open market does not provide enough discipline, so costs in monitoring managerial incentives and tracking changes in corporate controls provide a costly alternative. For example, in the case of corporate governance, firms such as KPMG have provided specialist consultants specifically regarding Sarbanes-Oxley compliance and charged significant amounts in fees to consult with management and directors to ensure discipline and accountability with a company's financial reporting.

Governance Composition

Governance reflects the composition of a company's board of directors where each of the members plays a role in the governance decision-making process. Cornelius (2005) noted, "In the broadest sense, corporate governance can be defined as the stewardship responsibility" (p. 12). The board of directors must establish effective corporate governance on behalf of all the stakeholders of a company. The traditional perspective of how a board of directors executes corporate governance originated from both agency and stakeholder theories (Caldwell & Ranjan, 2005).

In the broadest sense, governance can be both a management and a leadership decision-making process focused on defining expectations, granting power, or verifying performance. Specifically, corporate governance represents an administered set of governance processes, traditions, corporate policies, and regulatory compliance. Holstein (2006) noted that corporate governance practices within the United States rank only fourth in the world based on the Governance Metrics International (GMI). The GMI ranks the top three countries, Canada, Great Britain, and Australia, out of a possible 45 countries. A board of directors administers a company's governance. A number of directors collectively represent the board of directors, where each director is an officer of the company charged with the administered set of governance processes, traditions, corporate policies, and regulatory compliance. A director may be either an inside or outside director. An inside director is also an officer of the company, typically part of the company's management team. An outside director is an independent director who is not part of the company's management team. The management team reports to the board of directors. The election to a board of directors is typically for a one or more year term by the shareholders of the company, depending on the company's bylaws.

Kubasek, Brennan, and Browne (2008) supported Creech's (2006) suggestion that the Sarbanes-Oxley Act of 2002 helped to bring ethical transparency to a company's board members in terms of the behavior that can lead to fraudulent activity at the expense of all the stakeholders. Brook and Rao (1994) noted directors are more likely to be sued when they are underperforming, thereby signifying the existence of weak corporate governance. Beiner, Drobetz, Schmid, and Zimmermann (2006) reported there is

evidence of a positive relationship between the quality of corporate governance and a company's value.

Board Member Characteristics and Associated Compensation

A director is an officer with significant influence in a company's governance decision making and is charged with impeccable credentials as an agent on behalf of the shareholder. Bragues (2008) noted corporate leaders must be individuals of good character that produce the best corporate governance results. Transformation influence significantly influences employees' attitudes and behaviors as well as shareholder perception. Arjoon (2006) explained that each member of a company's board of directors collectively possesses the transformational influence that establishes the values-based climate through which ethical values, expectations with ethical conduct, and legal compliance.

An important aspect of the study is board member compensation, because the amount of compensation relates to the likelihood of a person holding celebrity status to join a company's board. A situation associated with agency theory can arise when a celebrity director's self-interest overshadows the interest of the shareholders. The person holding celebrity status is typically a person who has accumulated wealth through ventures prior to joining the board. Any increase in wealth generated during a director's tenure on a board of directors is a concern of the shareholders because the shareholders must not only evaluate the effectiveness of the governance body but also accountability of each of the directors on the board.

A member of the board is typically compensated for his or her time spent on the board of directors. The compensation package varies for a director and typically includes

benefits, stock options, paid travel and meal expenses, and salary. Regardless of whether a director held celebrity status or not, Bebchuk and Fried (2004) found that a director's average compensation was \$152,000 per year for the largest 200 companies and \$116,000 per year for the largest 1,000 companies in 2002 for companies within the United States. The availability of director compensation data is sparse, so over time with greater communication of corporate compensation practices, shareholders may be better able to evaluate the effectiveness and accountability of directors.

Weber (2006) noted equity's increasingly prominent role in executive compensation over the past decade resulted in substantial CEO equity holdings. B. Hall and Murphy (2002) reported that median stock and option holdings of S&P 500 executives grew from \$11 million in 1992 to more than \$31 million in 1999. Growth in equity holdings has been accompanied by a marked increase in sensitivity of executive wealth to stock price. For example, B. Hall and Liebman (1998) found that changes in CEO wealth from stock and option revaluations are over 50 times the wealth increases arising from salary and bonus changes. Dechow and Skinner (2000) observed that the increased sensitivity of managers to stock prices has intensified incentives to manage earnings to maintain and increase stock valuations. Although a substantial body of literature documents an association between capital markets concerns and earnings management, research into the role that equity compensation might play in this relation has only recently begun to emerge.

In contrast to CEO compensation, a director is typically compensated for only his or her time spent on the board. The National Association of Corporate Directors (NACD) provided some insight into board director compensation as of 2007 (see Table 2). In

addition, the referenced figures for total compensation are in line with 2006 research published by compensation consultant Frederic W. Cook & Co. based on public filings from 200 companies (Graziano, 2007).

Table 2

Compensation and Stock Option Payout per Company Revenue

Company revenues	Total compensation	Stock option %
\$50 - \$500 million	\$74,332	26
\$500 million - \$1 billion	\$110,500	26
\$1 billion - \$2.5 billion	\$132,760	29
\$2.5 billion - \$10 billion	\$157,165	21
Over \$10 billion	\$204,975	16

Celebrity Status

The intent of the current research was to quantify the anomaly of celebrity status for a director and shareholder wealth maximization. A necessary starting point for this new field of research is for the reader to understand those components of celebrity, valuation techniques, and celebrity valuation techniques. The components of celebrity include credibility, goodwill, rights, image, influence, liabilities, and standard of value.

Monetary Definition

Rojek (2004) noted that a person perceived to be a celebrity is different from other people through both monetary and status distinctions. A person with a director's title who sits on a board of directors for a company can be considered a celebrity director with both monetary and celebrity status distinctions. A monetary definition of celebrity is possible when a person's earnings capacity increases with his or her celebrity (Turner,

2006). The emotional responses, mostly positive, that define celebrity translate into an increase in the economic opportunities available to a company from the high level of public attention (Rindova et al., 2006). For example, an investment or intrinsic value can be placed on professional goodwill. In this case, the valuation techniques that look at the value of the professional as distinguished from rights associated with the entity operated by the professional. The value of the holder of celebrity requires not only fame but also fame with an evident monetary value (Rein et al., 2005).

Celebrity Credibility

Certain individuals have been elevated to the level of the celebrity status due to their recognition and distinctive qualities. For example, as a public figure the celebrity status brings goodwill, credibility, and power. Ohanian (1990) noted that celebrity credibility consists of important factors such as attractiveness, expertise, and trustworthiness. Likewise, celebrity credibility also brings with it rights and liabilities.

Goldsmith, Lafferty, and Newell (2000) noted the concept of credibility has been and will continue to be of interest to scholars and practitioners in marketing and advertising. In this context, credibility refers to the extent to which the source is perceived as possessing expertise relevant to the communication topic and can be trusted to give an objective opinion on the subject (Belch & Belch, 1994, pp. 189-190; Ohanian, 1990). Expertise is derived from knowledge of the subject, and trustworthiness refers to the honesty and believability of the source (McGinnies & Ward, 1980).

Celebrity Goodwill

Celebrity goodwill reflects a number of factors including age, health, past earning power, reputation, skill, comparative success, and length of time in business. The

underpinnings of celebrity goodwill come from the Internal Revenue Service (IRS), which found that a person's right to publicity may have value for estate purposes. The Sarbanes-Oxley Act, Section 482 of the IRS Code, and Financial Accounting Standards Board 141/142/147 are just a few of the regulations that increasingly impact corporate life and find their genesis either in, or in connection with, intellectual property (Verschoor, 2004). Intellectual property is an intangible asset classified as part of a company's goodwill. However, an intangible asset is not necessarily a piece of intellectual property, and the general category of goodwill is not intellectual property. In most cases, intellectual property and intangible assets are key components of celebrity goodwill.

Celebrity goodwill is usually attached to the individual and is often nontransferable. A celebrity is often compensated differently from the average person. A celebrity does not necessarily need to be alive to continue generating large revenues. The determination of the existence of goodwill includes age, health, past earning power, reputation, skill, comparative success, and length of time in business. The value of celebrity is a tangible asset of one's professional goodwill or enhanced earnings capacity such as royalties, receivables, and residuals due. Rounick and Riggs (2001) suggested a relationship exists between a person's status and celebrity goodwill and excess earning capacity.

Celebrity Rights

A person with celebrity status and associated rights can be identified as tangible assets or items of intellectual property. For example, in a commercial context, the concept of celebrity goodwill has its origins in a person's right to privacy and right of publicity.

The right to privacy typically involves a person's right to be left alone and protects an individual from the unauthorized use of his or her personal information, likeness, name, or persona, whether or not the unauthorized use is for commercial purpose. Some might consider the right of privacy to be protected as a basic human right. In contrast, the right of publicity is typically considered an intellectual property right that can be commercially exploited (Rosenthal et al., 2007).

The celebrity director has a right to privacy with the same privacy entitlements granted to all individuals. The right to privacy has been developed to protect against four main types of invasions: (a) intrusion into solitude, (b) public disclosure of private facts, (c) depiction in a false light, and (d) commercial exploitation of a person's name or likeness, also called appropriation (Nordhaus, 1999). However, the standards are high for a celebrity director to claim an invasion of privacy. Privacy law has been established through common law in each state, with some states having statutory protections. The federal courts have acknowledged an implicit constitutional right to privacy, although the Supreme Court has not explicitly defined this right. The celebrity director has very few enforceable causes of action to protect his or her rights of privacy. A celebrity director should not be entitled to greater protection for his or her privacy interests than other individuals.

For example, valuing publicity rights for a celebrity director can be found through a number of methods including auctions, fair market values, and previous sales of similar rights. The celebrity director's right of publicity, like all intellectual property rights, involves a basket of rights that can be divided, licensed, or transferred in many ways (Rosenthal, Donoho, Eskew, & Diamond, 2007). Attached to celebrity are rights

associated with specific identifiable tangible assets or items of intellectual property related to a person's celebrity status. For example, in a commercial context, the concept of celebrity goodwill has its origins in a person's right to privacy and right of publicity.

Celebrity Standard of Value

Celebrity standard of value represents a measure of celebrity goodwill, which is a unit of measure of the value associated with a celebrity's image and influence that can be expressed through a celebrity's endorsement, a celebrity's credibility, or a celebrity's goodwill. The most common celebrity standards of value used in celebrity goodwill valuation include fair market value, investment value, and intrinsic value. An important component of the valuation is the standard of value employed for the valuation.

The standard of value calculations included fair value, fair market value, investment value, and liquidation value. In addition, the standard of value depends on the valuation purpose since each purpose might have a different value measure associated with it. For example, fair market value is appropriate for business operations.

Celebrity Images, Influences, and Liabilities

A celebrity is an individual who represents symbolic icons popular in a culture and transfers his or her symbolic meaning to the product endorsements and services offered by a person with celebrity goodwill. A person with celebrity goodwill casts images that influence product images when the celebrity is associated with the product through product endorsements (Langmeyer & Walker, 1991). Likewise, a person with celebrity goodwill has been known both to possess the ability and to communicate distinctive bundles of various meanings or images, kinds of images or meanings. However, the root cause for the underlying causal effect of celebrity is unknown.

A liability can be attributed to celebrity status to specific identifiable tangible assets or items of intellectual property. Celebrity liability takes the form of intrusion into personal affairs from publicity. For example, celebrity liability might occur if a celebrity director dines at a restaurant with his or her family and is overheard making comments about leadership problems at the company where he or she holds a board position.

Determining Value of Celebrity Goodwill

The most common celebrity standards of value used in celebrity goodwill valuation include fair market value, investment value, and intrinsic value. Fair market value is a useful valuation concept to determine a standard of value for celebrity goodwill. The fair market value represents the amount paid for a product or service when compared to other comparable products or services by a number of buyers. Alternatively, the investment value represents the amount paid for a product or service with the intention by the buyer that the product or service would appreciate over time. Investment value is another useful valuation concept to determine a standard of value for celebrity goodwill.

Intrinsic theory of value holds that the value of an object, good, or service is intrinsic or contained in the item itself, where the going concern value or the process of producing an item, and the costs involved in that process, are a measure of the item's intrinsic value (Brealey & Myers, 2007). Intrinsic value is a useful valuation concept to determine a standard of value for celebrity goodwill. So the liquidation value of a company's tangible assets and intangible assets (e.g., goodwill) is part of the going concern value (Brealey & Myers). Alternatively, the going concern value from the financial perspective can be simply the cost of doing business. The liquidation value is

the amount a buyer would pay for the asset when the asset is immediately sold (Jones, 2006). The liquidation value is typically less than the fair market value, but not in all cases. The book value is a useful valuation technique in accounting. The monetary amount by which an asset is valued in business records is typically less than the value found within an open market (Brealey & Myers).

Celebrity Valuation

There are different valuation techniques for determining the value of the director's celebrity goodwill primarily found in legal literature and exhibited in legal cases. The three notable valuation techniques found within the literature are income, market, and asset based (Fishman et al., 2003; Schlecht, 2003). First, the income or fair value celebrity valuation technique represents a multiple or percentage of gross earning of the celebrity, where the celebrity value is a by-product of the public persona of the celebrity and thus less marketable than other types of business. Thus, value is a fraction of gross earnings or revenues.

Second, the market celebrity valuation technique represents the two future income streams calculated for the period from the valuation date to the expected end of the celebrity's working life: (a) earnings power created by the degree or license and (b) does not use earnings power created by the degree or license. The value of enhanced earnings is after-tax present value of the difference between the two streams where other calculations take into consideration not reaching the end of the expected working life. The analysis used the fair value technique as the basis for calculating the valuation of the director's celebrity goodwill for the years 2004, 2005, and 2006.

Finally, the asset-based celebrity valuation technique represents the level of earnings over and above a reasonable return on tangible assets. The valuation technique also represents goodwill where the celebrity's historical gross earnings or revenues used as starting point to calculate excess earnings. Like the percentage applied to gross earnings or revenues in the previous method, the rate used to capitalized excess earnings is a function of factors associated with the celebrity's career.

Leadership

A distinguishing factor between leadership and management is that effective leadership precedes effective management (Shriberg et al., 2005). No action by leadership will in turn introduce undesired publicity. The undesirable publicity takes the form of publicity of identifiable flaws that leadership could have prevented. For example, identifiable flaws include skewed organizational mission, shift in organizational culture and environment, lack of attention to incentives, misalignment with organizational structure, miscommunication, poor execution, and gaps with necessary job skills to support a company's product or service offering. "Management can be thought of as the effective execution, delivery, allocation, coordination, and maximization of all of the firm's valuable and scarce resources, including human resources" (Thompson, 2006, para. 18).

In contrast, leadership is the ability to influence, motivate, and enable others to contribute toward the effectiveness of the organizations of which they are members. Thus, a leader does not necessarily to be in a formal leadership position to exert leadership behavior. In terms of corporate governance, each director is in a leadership

position and with the position comes the power to influence the outcomes from decisions that have a direct impact on the effectiveness of the company's governance.

Summary

A literature search outline was presented in this chapter to add structure to guide the study. The literature framework suggested several related topics that were searched to support the problem statement as well as the purpose of the study. The literature review serves as a brief overview of germinal as well as current literature.

In particular, the review of literature included an investigation of the relationship between corporate governance and financial performance without considering the impacts associated with the board of director's celebrity as an indicator of shareholder wealth maximization. In addition, the literature review included an investigation of the historical aspects of the characteristics of individual board members, identifying any common patterns to suggest that the collective balance of a board member's celebrity enhances or impairs shareholder wealth maximization.

Conclusion

The conclusions drawn from the analysis of the reviewed literature present a broad foundation in support of the problem statement. The board of directors of each corporation within the United States, in concert with the corporate executives and acting as an agent on behalf of the shareholder, must maintain a focus and commitment to shareholders regardless of the impact of celebrity status found with any of the board members.

The current study provided new knowledge in understanding a unique aspect of celebrity, from the shareholder perspective, of a member of a company's board of

directors where the effectiveness of leadership and decision making affects the governance and wealth maximization of the company's shareholder. Chapter 3 includes a discussion of the supporting rationale for the use of the quantitative, correlation, descriptive methodology as part of the current investigation. The purpose of correlation analysis is to identify the relationship between director celebrity and impact on shareholder wealth. Chapter 3 also research includes a discussion of design, sampling procedures, and data collection.

CHAPTER 3: METHOD

The design for the study begins with a restatement of the problem and continues with the discussion on each of the elements of the research design. The elements include independent and dependent variables, appropriateness of design, research questions, population, sampling frame, geographic location, sources of information, data collection, data analysis, internal and external validity, and reliability. The choice of the method supports the research design in terms of repeatability for validation of the study's outcome by others (Patton, 2002).

Research Design

A research design outlines a number of components including method choice, approach, description of independent and dependent variables, population, geographical location, and significance to the plan. Cooper and Schindler (2006) noted that decisions concerning the type of study, the means of data collection, measurement, and sampling plans are some of the factors that need consideration when planning a research design. For example, the research design is the blueprint for fulfilling objectives and answering questions but selecting a design may be complicated by the availability of a large variety of methods, techniques, procedures, protocols, and sampling plans.

Method Choice

A quantitative, correlation, descriptive study provided the best fit with the desired outcomes for the research where the purpose of the study was to examine the relationship between celebrity status of a board member and the effect on shareholders' wealth maximization. A director is an officer with significant influence in the company's

governance decision making who is charged with impeccable credentials as an agent on behalf of the shareholder.

The purpose of correlation analysis was to identify the relationship between director celebrity and impact on shareholder wealth. The principle advantage of this method over the causal-comparative or experimental method is that correlation methods permit the analysis of relationships and how relationships influence patterns of behaviors. An experimental design to some extent can do the same.

However, the correlation analysis method permits making an inference about the influence based on the analysis since the investors or shareholders are not directly surveyed using this method. Simon and Francis (2001) noted that the endeavor from which a correlation method is useful stems from the capability of the method to provide evidence of two or more quantifiable variables representing a relationship. In particular, the current research involved an investigation into the relationship between corporate governance and financial performance that has failed to consider the impacts associated with the board of director's celebrity as an indicator of shareholder wealth maximization.

Director Data Sources Available

The approach to finding scholarly research is to direct effort on collections of research papers with the intent for analysis of common patterns and themes to emerge. The analysis enables an overarching comparison that will be made among the companies and their individual directors. Because potential similarities or dissimilarities in the characteristics of the individual directors are the focus of the study, the research effort must commence with the compilation of data on both the individual director and the company where the director resides. The data sourced on individual directors came from

publicly available sources, which have limitations. The sources included but were not limited to (a) public disclosure of common and preferred stock holdings referenced in 10K, 10Q, and Form 144 SEC filings, (b) public disclosure of director salary, and (c) public disclosure of the value of financial information on the company and directors.

Regression Variable Data Sources Available

A number of additional data sources supported the independent variables defined for the study. The sources were CompuStat, Business and Company Resource Center, and Business Source Complete. Alternatively, the independent variables were found within governance scores from both Institutional Shareholder Services and Investor Responsibility Research Center related to a company's governance performance. Ertugrul and Hedge (2005) cited Gompers et al. (2003), Core et al. (1999), and Core et al. (2004) in a study conducted on corporate governance scores and firm performance supports evidence of a significant amount of literature that explains the affects of stock market performance relating to corporate governance.

To ensure a comprehensive review, possible independent variable candidates including governance measures, valuation, dividend payout, stock ownership, stock options, directors celebrity good/bad news, share repurchases, and director celebrity membership to a board were evaluated. All companies associated with S&P 500 listing were included in study, with those company's boards identified with at least one director celebrity compared to those company's boards identified with no celebrity directors associated on the board.

Independent Variables

The independent variables included Tobin's Q, governance index or g-index, and price-to-earnings (P/E) ratio. The identification of the director's celebrity established the company's board with at least one celebrity director as part of the board membership. Only then is the valuation of the director's celebrity goodwill calculated. In the case when two or more celebrity directors have been identified, the celebrity director with the longest tenure at the company will be used. A number of dummy variables provide additional insight into the regression analysis where the dummy variables are numerical variables (e.g., 0 or 1). Dummy variables represent subgroups of the sample within the study. Dummy variables are useful because they enable a single regression equation to represent multiple groups.

The identification of independent variables must support the problem statement. The overarching approach to determining the independent variables is by focusing on the impact to shareholder wealth and by identifying those governance boards with at least one celebrity director representing the same company as the shareholder for the years 2004, 2005, and 2006. A definition for each of the independent variables is necessary to determine the impact, positive or negative, on shareholder wealth. The identification of multiple independent variables occurred during the process of conducting research to support the problem statement. These included Tobin's Q, g-index, price-to-earnings, director's celebrity goodwill valuation, dividend payout, director's stock ownership, director's stock options, share repurchases, director's celebrity reflects majority good/bad news, and celebrity board/no celebrity board (see Table 3).

Table 3
Independent Variable and Dummy Variable Assignments

Variable identification	Abbreviation	Independent variable (B) or dummy variable (D) assignment
Tobin's Q	iTOQ	B1
Governance index or g-index	iGOV	B2
Price-to-earnings ratio	iPER	B3
Directors celebrity goodwill valuation (highest)	iDGV	B4
Dividend payout/no dividend payout	dvDPO	D1
Director's stock ownership/no director's stock ownership	dvDSW	D2
Director's stock options/no director's stock options	dvDSO	D3
Share repurchases/no share repurchases	dvSRP	D4
Director's celebrity reflects majority good/bad news	dvGBN	D5
Celebrity board/no celebrity board	dvCBD	D6

Tobin's Q (iTOQ). Tobin's Q represents the ratio of the market value of assets to the book value of assets. The calculation for Tobin's Q equals the total assets plus market value of equity at the stock price at fiscal year close. The two terms are multiplied by common shares outstanding and subtracting both the total common equity and the

deferred taxes. All of the terms are divided by the total assets. Brown and Caylor (2006) noted Tobin's Q as defined above is a common calculation found in finance, economics, and law literature. Tobin's Q measure provides insight into the company's investment decisions and overall corporate governance where the higher the value, the better the decision making as well as governance.

Governance index (iGOV). The governance index or g-index provides insight into gauging governance effectiveness for a company's board of directors. The g-index represents 24 governance provisions that have been classified into five categories of management power where a higher g index indicates lower shareholder rights and weaker governance. The Investor Responsibility Research Center provides the data on g-index. The g-index is positively related to the strength of a company's governance.

Alternatively, Brown and Caylor (2006) suggested another effective governance indicator called the g-score provided by Institutional Shareholder Services. The 50 g-score factors represent either 1 or 0, depending on whether the company's governance standards are minimally acceptable. The sum of the 51 binary variables derives the g-score; Institutional Shareholder Services defined 23 unique industry groups; 9 factors are in common between g-score and g-index: blank check, bylaws, charter, classified board, cumulative voting, poison pill, special meeting, supermajority, written consent.

Price-to-earnings ratio (iPER). The P/E ratio represents a measure of the market price per share divided by the net income per share over the most recent 12-month period. The P/E provides insight into the company's creation of wealth relative to the market's valuation of a company's share of stock (Brealey & Myers, 2007). The interpretation of the P/E ratio is that a company with higher P/E values has higher growth potential than a

company with a lower P/E value. However, Jones (2006) noted the P/E value is a relative measure and must be compared to the sector and industry, the company, the overall market, and in this case the S&P 500.

Director's celebrity goodwill valuation (iDGV). To determine if a board has at least one director deemed holding celebrity status, the director's celebrity notoriety level must be found. For each director on a board, the celebrity notoriety level represents the number of articles in which the director's first and last name appears at least once for the years 2004, 2005, and 2006 during which the director was a board member. The higher notoriety represents the amount of media prominence for the celebrity director where his or her name was in business-related articles returned by Dow Jones Retrieval Service.

This retrieval measure represents business publications that include major newspapers, newswires and business periodicals. Regardless of whether the higher notoriety represents good news or bad news for a particular director, both are equally weighted to ensure there was no exclusion based on news type. A dummy variable was used to determine the impact of good versus bad news. The sorted retrievals for a particular director were placed into three categories, positive news, negative news, and neutral news, for the years 2004, 2005 and 2006.

Dummy variables. A number of dummy variables provided insight into possible trends and applied to all of the companies within the S&P 500. The dummy variables include dividend payout (dvDPO), celebrity director stock ownership (dvDSW), celebrity director stock options (dvDSO), share repurchases (dvSRP), good/bad news (dvGBN), and determination of a celebrity board (dvCBD). If dividend payout was a 1, then the

company paid a dividend and if the dividend payout was a 0, then the company did not pay a dividend. Celebrity director stock ownership was a 1 if the director owned company stock of the company for which he or she was a part of the board and a 0 if the director did not own stock of the company. Celebrity director stock option was a 1 if stock options were part of the director's compensation package and a 0 if no stock option was part of the compensation package. Share repurchases was a 1 if the company made stock repurchases for the years 2004, 2005, and 2006 and a 0 for no stock repurchases over the same period. Good/bad news was a 1 if the celebrity identification process resulted in more than 50% of the total retrieval result resulted in good news as the basis for the director's celebrity status and a 0 if more than 50% of the total retrieval result resulted in bad news. Celebrity board was a 1 if at least one celebrity director was present on the board for the company and a 0 for no celebrities found on the board for the company.

Once a celebrity was identified, the determination of the celebrity director's goodwill valuation was in order. The celebrity director's goodwill valuation represented the market value based on a multiple or percentage of gross earnings. The celebrity goodwill value is a by-product of the public persona of the celebrity and thus less marketable than other types of business where the value is a fraction of gross earnings or revenues over a period of time. In this case, the gross earnings represented the director's total compensation package as well as any of the director's executed stock options for the years 2004, 2005, and 2006.

Dependent Variables

The dependent variables needed to support the problem statement. The overarching approach to determining the dependent variables focused on the impact to shareholder wealth. A definition for each of the dependent variables was necessary to determine the positive or negative impact with shareholder wealth. Three dependent variables were identified while conducting research to support the problem statement: return on equity (ROE), dividend yield, and stock price variability.

Chowdhury (2003) noted when a leader is considering what constitutes shareholder's value and whether it is achievable in theory, the leader should also consider that in practice the value proposition might not hold up given the gap between the stakeholder expectation and the realities of fulfilling that expectation (p. 140). All three dependent variables help to explain changes with shareholder wealth. Each dependent variable represents a fluctuation in the financial instrument owned by the shareholder.

ROE is an important financial ratio, although ROE is problematic when earnings are not reinvested. The dividend yield is also an important financial ratio, but it is only representative for companies with a dividend payout. The use of the stock price variability provides an explanation of changes with the stock price over time; however, the drawback is determining the period of time most representative for shareholder wealth. Karuna (2006) included ROE as part of a set of independent variables to help describe a correlation between CEO reputation and corporate governance using a quantitative method. Chi (2005) included ROE as part of the set of independent variables to help understand the endogeneity between firm value and shareholder rights.

Return on equity (dROE). ROE is an important financial ratio, especially when comparing companies within the same industry. Brealey and Myers (2007) reported that ROE measures the rate of return for common stock owners, that is, shareholders' equity reflecting both profit efficiency and earnings growth. ROE equals the net income divided by the average stockholders' equity and is expressed as a percentage. The calculation for net income represents a value after preferred stock dividends but before common stock dividends. Average stockholders' equity assumes the exclusion of preferred shares.

Brealey and Myers (2007) noted that the DuPont formula supports the ROE because ROE can be divided into three components multiplied together. The first component is net income divided by sales and represents net margin. The second component is sales divided by total assets and represents asset turnover. The third component is total assets divided by average stockholders' equity and represents financial leverage. Using the DuPont formula to divide ROE into the three components is useful to understand ROE changes over time.

Shaheen and Nishat (2004) considered both ROE and dividend yield to capture the shareholder payout. ROE was found in a number of papers on corporate governance and firm performance. ROE was not the dependent variable in these studies, but ROE was consistently used to help explain elements of corporate governance. Brown and Caylor (2006) included ROE as part of the set of independent variables to help describe a correlation between corporate governance and firm performance using a quantitative method.

Dividend yield (dDY). The dividend yield is another useful financial ratio to explain shareholder wealth and is expressed as a percentage. The calculation of dividend

yield is dividend payments to shareholders divided by the company's market capitalization. The dividend yield calculation can also represent dividend per share divided by price per share. Dividend paid to shareholders is set by a company's management and approved by the board of directors. A high dividend yield reflects an underpriced stock in contrast to a low dividend yield that reflects an overpriced stock (Jones, 2006).

Stock price variability (dSPV). The stock price variability represents the change in value of stock price over a period of time (Brigham & Ehrhardt, 2007). The use of stock price variability is for two types of companies in the study—a company with at least one director identified with celebrity status and another company with no celebrity director.

Appropriateness of Design

The setting for the study provided new knowledge in understanding a unique aspect of celebrity, from the shareholder perspective, of a member of a company's board of directors where the effectiveness of leadership and decision making affects the governance and wealth maximization of the company's shareholders. In particular, the current research involved an investigation of the relationship between corporate governance and financial performance that has failed to consider the impacts associated with the board of director's celebrity as an indicator of shareholder wealth maximization. The board of directors of each corporation within the United States, in concert with the corporate executives and acting as an agent on behalf of the shareholder, must maintain a focus and commitment to the shareholders regardless of the impact of celebrity status found with any of the board members.

The approach was to identify a director's decision making through quantitative, correlation, descriptive research analysis within the companies in the S&P 500 index. Celebrity status was evaluated for the years 2004, 2005, and 2006 regardless of tenure at the company. To identify the director with celebrity status, a media search was conducted for each director.

Restatement of the Problem

The problem is that current research on the relationship between corporate governance and performance failed to consider the impacts associated with the board of director's celebrity as an indicator of shareholder wealth maximization. The board of directors of each corporation within the United States, in concert with the corporate executives and acting as an agent on behalf of the shareholder, must maintain a focus and commitment to the shareholder regardless of the impact of celebrity status found with any of the board members.

The purpose of the study was to examine the relationship between the celebrity status of a board member and the effect on shareholder wealth maximization. Clearly defined in U.S. business law, the board is the corporation's ultimate authority; therefore, one might wonder whether perception of the celebrity director is a universal phenomenon or only isolated to boards within the United States. The research study involved an examination of shareholders' wealth maximization potential, effective governance, and the characteristics of individual board members with celebrity status and without celebrity status from the companies found in the S&P 500 index.

Research Questions and Hypotheses

The nature of the study was a correlation design using a quantitative methodology. Simon and Francis (2001) noted the endeavor from which a correlation method is useful stems from the capability of the method to provide evidence of two or more quantifiable variables representing a relationship. The principle advantage of a correlation method over the causal-comparative or experimental design is that correlation methods permit the analysis of relationships and how these relationships influence patterns of behaviors. In an experimental design, the researcher can manipulate the independent variables to determine cause and relation to an outcome variable. In contrast to a qualitative methodology, a quantitative methodology relies on unambiguous numerical data. Research that uses a quantitative methodology is more oriented toward specific details than research using a qualitative methodology (Purpura, 2003).

The primary purpose of correlation analysis is to identify the relationship between director celebrity and impact on shareholder wealth based on a dataset for the years 2004, 2005, and 2006. Creswell (2003) noted a theory can be tested by narrowing the hypotheses and data collection to support or disprove the hypotheses. To this end and to answer the research questions, a correlation and multiple regression analyses provided useful analytical tools for the study. For each research question, a model was developed to test the hypotheses relating the celebrity status of a board member to the effect on shareholder wealth maximization for a company listed in the S&P 500 index for the years 2004, 2005, and 2006. For each research question, there is an associated set of hypotheses.

Research Question 1: Does a director's celebrity status change shareholders' wealth for companies listed in the S&P 500 index for the years 2004, 2005, and 2006?

H1₀: There is no statistically significant relationship between a board of directors with at least one celebrity director present and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index ($p < .05$).

H1₁: There is a statistically significant relationship between a board of directors with at least one celebrity director present and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index ($p < .05$).

Research Question 2: Does an alignment exist between a corporation's shared commitment to the maximization of shareholder wealth and the actions exhibited by an individual board member with a celebrity status for a company listed in the S&P 500 index for the years 2004, 2005, and 2006?

H2₀: There is no statistically significant relationship between the level of a director's celebrity goodwill for boards of directors with one or more celebrity directors and an increase in shareholders' wealth for boards of directors associated with companies listed on the S&P 500 index ($p < .05$).

H2₁: There is a statistically significant relationship between the level of a director's celebrity goodwill for boards of directors with one or more celebrity directors and an increase in shareholders' wealth for boards of directors associated with companies listed on the S&P 500 index ($p < .05$).

Research Question 3: Does the composition of a company's board change for those boards with a celebrity director and the maximization of shareholder wealth for a company listed in the S&P 500 index in 2004, 2005, and 2006?

H3₀: There is no statistically significant relationship between the number of celebrity directors present on a company's board of directors and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index ($p < .05$).

H3₁: There is a statistically significant relationship between the number of celebrity directors present on a company's board of directors and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index ($p < .05$).

Population

The rationale behind the selection of the population for the quantitative, correlation, descriptive research study was to conduct an empirical investigation. The population was delineated, as well as random sampling procedures utilized for the research. The selected population represented the S&P listing that included the 500 most influential public companies conducting business in the United States. The companies within the S&P 500 are continuously monitored and information is for public consumption. Not only is the financial information made available to the public, but information on each of the directors that sit on a company's board is also made available to the public. The population was all 500 companies ($N = 500$) from the S&P 500 listing for the years 2004, 2005, and 2006.

Sampling Frame

Leedy and Ormrod (2004) noted a researcher typically associates characteristics of the sample with the characteristics of the population based on a random selection from the sample. In the current study, a sample of 360 companies represented a random selection from a population of 500 companies within the S&P 500 listing for the years 2004, 2005, and 2006. Each company in the random sample of 360 ($n = 360$) from the population of 500 companies ($N = 500$) had the same probability of falling in the sample as any other company (Simon & Francis, 2001).

There were 10 independent variables, so between 10 and 12 observations were necessary per independent variable to give a robust result. The 360-company sample was split into samples to match each company with a celebrity director with a company that does not have a celebrity director on the board. Each sample consisted of 180-company samples from the overall 360-company sample.

In addition, a stratified sampling approach was necessary to match companies with celebrity directors and companies without at least one celebrity director identified on the company's board of directors. The stratification allows pairing to support possible matches on size, Standard Industrial Classification (SIC), share price, share price growth, revenue and profit. The SIC system is similar to the North American Industry Classification System (NAIC) system currently in use.

Geographic Location

The environment represents a board of directors for a corporation within the United States and listed on the S&P 500 listing for the years 2004, 2005, and 2006. The board and the corporate executives act as agents on behalf of the shareholders. As an

agent, focus and commitment to the shareholders is paramount. The study involved an examination of the impact of celebrity, from the shareholders' perspective, of a member of a company's board of directors where the effectiveness of leadership and decision making affects the governance and wealth maximization of the company's shareholder.

Data Collection

By examining the impact of celebrity of a member of a company's board of directors, useful insight and implications add to various areas, including agency theory, corporate governance, leadership, celebrity goodwill valuation, business ethics, and legal compliance. In addition, further examination of celebrity impact provides insight into the effectiveness of leadership and decision making and its effect on the governance and wealth maximization of the company's shareholders. Celebrity is from the shareholders' perspective and possibly any analysts following the company from the perspective of financial performance and governance effectiveness. Creswell (2003) noted a theory can be tested by narrowing the hypotheses and data collection to support or disprove the hypotheses. To this end and to answer the research questions, a correlation and multiple regression analyses provided the necessary examination of the relationship among a number of factors found within the study.

Director's Celebrity Goodwill Valuation Factor

To determine if a board has at least one director deemed holding celebrity status, it was necessary to find the director's celebrity notoriety level. For each director on a company, the celebrity notoriety level represented the natural log of the number of articles in which a director's first and last name appeared at least once for the years 2004, 2005, and 2006 during which the director was a board member. Higher notoriety

represented the amount of media prominence for the celebrity director where his or her name was found in business-related articles returned by Dow Jones Retrieval Service. The retrieval measure represented business publications such as major newspapers, newswires, and business periodicals. Regardless of whether the higher notoriety represented good news or bad news for a particular director, both were equally weighted to ensure there was no exclusion based on news type. A plausible scenario was that the result might be a biased toward bad news, which is found more often than good news for a particular celebrity director.

The sorted retrievals for a particular director, that is, the number of articles in which director's name appears at least once, were placed into three categories for the years 2004, 2005, and 2006. With director celebrity status identified, the next step was determining the celebrity director's goodwill valuation that represents the market value based on a multiple or percentage of gross earnings. The celebrity goodwill value is a by-product of the public persona of the celebrity and thus less marketable than other types of business where the value is a fraction of gross earning or revenues over a period of time. Gross earnings represented the director's total compensation package, as well as any of the director's executed stock options for the years 2004, 2005, and 2006.

The celebrity status was evaluated for the years 2004, 2005, and 2006 regardless of tenure at the company. Thus, to identify the director with celebrity status, the company's board membership was reviewed and a media search was conducted for each director. The director's celebrity status came from the number of times the director was identified within the media and where the boards with at least one director identified with

celebrity status were marked. The valuation of celebrity goodwill represented those directors with celebrity status.

Other Relevant Factors

Likewise, the governance for each company represented a number of factors including Tobin's Q, g-index, or g-score to determine governance effectiveness. The shareholders' wealth was determined for the years 2004, 2005, and 2006, when the director was a member of the board. Tobin's Q represents a financial measure of a company's market value to book value. Q-index and g-score represent non-financial measures.

Different valuation techniques for determining the value of the director's celebrity goodwill were primarily found in legal literature and exhibited in legal cases. The three valuation techniques found most frequently within the literature were fair value, tax filing, and academic. First, the fair value technique represented a multiple or percentage of gross earnings of the celebrity where the celebrity value was a by-product of the public persona of the celebrity and thus less marketable than other types of business; thus, value was a fraction of gross earnings or revenues.

Second, the tax-filing technique represented the level of earnings over and above a reasonable return on tangible assets. The earnings over and above tangible assets represent goodwill where the celebrity's historical gross earnings or revenues were used as starting point to calculate excess earnings. Like percentage applied to gross earnings or revenues in the fair value technique the rate used to capitalize excess earnings was a function of factors included as part of the nature and duration of a celebrity's career, past earning power, bankability, and expected life.

Finally, the academic technique represented the two future income streams calculated for a period from the valuation data to the expected end of the celebrity's working life: (a) earnings power created by the degree or license and (b) does not include earnings power created by the degree or license. The value of enhanced earnings was the after-tax present value of the difference between the two streams where other calculations took into consideration not reaching the end of the expected working life. The academic technique is closer to investment value than to fair-market value. The analysis used the fair-value technique as the basis for calculating the valuation of the director's celebrity goodwill for the years 2004, 2005, and 2006.

Regression Preparation

The culminating effort of the study was the regression analysis. The regression analysis supported the problem statement that related boards with celebrity directors' and boards without celebrity directors. In addition, the analysis included the celebrity goodwill valuation, corporate governance effectiveness, and shareholder's wealth for the years 2004, 2005, and 2006.

Data Analysis

Celebrity was from the shareholders' perspective and possibly any data analysts following the company from the perspective of financial performance and governance effectiveness. The data were analyzed using correlation methods and comparing essentially two groups—one with celebrity directors and another without celebrity directors. Creswell (2003) noted a theory can be tested by narrowing the hypotheses and data collection to support or disprove the hypotheses. To this end and to answer the

research questions, a correlation and multiple regression analysis provide the necessary examination of the relationship among a number of factors found within the study.

Regression Formula

The regression formulas specified for this study were as follows:

Formula 1:

$$Y1_{dROE} = \text{intercept} + B1_{iTOQ} + B2_{iGOV} + B3_{iPER} + B4_{iDGV} + D1_{dvDPO} + D2_{dvDSW} + D3_{dvDSO} + D4_{dvSRP} + D5_{dvGBN} + D6_{dvCBD} + \text{error term.}$$

Formula 2:

$$Y2_{dDYD} = \text{intercept} + B1_{iTOQ} + B2_{iGOV} + B3_{iPER} + B4_{iDGV} + D1_{dvDPO} + D2_{dvDSW} + D3_{dvDSO} + D4_{dvSRP} + D5_{dvGBN} + D6_{dvCBD} + \text{error term.}$$

Formula 3:

$$Y3_{dSPV} = \text{intercept} + B1_{iTOQ} + B2_{iGOV} + B3_{iPER} + B4_{iDGV} + D1_{dvDPO} + D2_{dvDSW} + D3_{dvDSO} + D4_{dvSRP} + D5_{dvGBN} + D6_{dvCBD} + \text{error term.}$$

Regression Variable Equations

The equations, descriptions, and limits for all the variables used in each regression formula (see Appendix A). A set of three formulas represent the regression model for each sample—celebrity and noncelebrity. A regression analysis applies to each set of three formulas.

Predetermined Type I Alpha Error Rate

The predetermined type I alpha error rate of 5% ($p < .05$) for the hypothesis testing used in this study. The type I alpha error describes a possible error that can be made in the statistical decision process. Type I alpha error occur when the null hypothesis was rejected yet the null hypothesis was actually true.

Validity and Reliability

Internal Validity

The study involved an investigation of a possible correlation that produced internal validity where an estimate of the measurement used a random sampling technique to produce a sample from the S&P 500 population including those boards of directors deemed celebrity and noncelebrity. Internal validity is linked to the definition of celebrity. For example, some directors may not have anything published about them. An important point is that even if something is published on a director, any potential or current investor may not know anything about it because the investor has not read it. Other variables included in the research were of a financial nature. To mitigate internal validity, directors were selected that had public information available. Directors that did not have public information were not included in the study.

External Validity

The study enabled further investigation and produced external validity where the conclusions from sampling from the S&P 500 population can be generalized to those companies not listed on the S&P 500 given that the industry and size groups are represented within the 360-company sample. However, the generalization might fall short for smaller firms where some industries may not be well represented in the S&P 500 population. To mitigate external validity, each of the firms selected in the S&P 500 was categorized by market capitalization to better identify smaller firms for matching purposes and separated into three categories—small capital, medium capital, and large capital.

Reliability

The experimental process produced a high reliability with the consistent repeatability of the measures results in the conclusions of the study (Cooper & Schindler, 2006). In contrast, the research is an analysis of published data and is reliable, which is unlike data from an experimental design where a researcher might not be able to replicate the experiment.

Summary

The conclusions drawn from the analysis related to the chosen independent variables included identification, relevancy, and preliminary trial. First, the chosen independent variables best supported the problem statement. Second, the chosen independent variables were linked to explaining shareholder wealth, indirectly to corporate governance, and to the amount of director's celebrity goodwill. Finally, with multiple chosen independent variables, a preliminary trial was necessary to determine which independent variables best supported the study.

The conclusions drawn from the analysis related to the chosen dependent variables include identification, relevancy, and preliminary trial. First, the chosen dependent variables, including ROE, dividend yield, and stock price variability, best supported the problem statement. Second, the chosen dependent variables can be linked to explaining shareholder wealth and indirectly to corporate governance. Kubasek, Brennan, and Browne (2008) supported Creech's suggestion (2006) that the Sarbanes-Oxley Act of 2002 helped to bring ethical transparency to a company's board members in terms of the behavior that can lead to fraudulent activity at the expense of all the stakeholders. Beiner et al. (2006) suggested there is evidence of a positive relationship

between a firm's value and the quality of corporate governance. Finally, with three dependent variables, a preliminary trial was necessary to determine if one of the three dependent variables (or all three dependent variables) best supported the study.

CHAPTER 4: RESULTS

The purpose of chapter 4 was to present the research findings of the study. The chapter includes a review of the data collection procedures, a description of the samples, and an explanation of the processing and analysis of the study data. Conclusions and noteworthy findings are presented from the analysis, followed by a chapter summary.

Review of Data Collection Procedures

Data collection consisted of creating a complete sample by randomly selecting 360 companies from a population of 500 companies from the S&P 500 listing for the years 2004, 2005, and 2006. To ensure a complete sample, each company selected was verified as existing on the S&P 500 listing during all 3 years. A company not on the S&P 500 listing during all 3 years was removed from the complete sample and another company was randomly selected.

The board director information was gathered from the publicly available data sources Reuters and Mergent Online. A review was conducted of 4,831 directors and officers for companies found within the complete sample containing 360 companies. All officers were removed to ensure only independent directors remained on the list of 2,587 board directors. To identify a director with celebrity status, a key word search was employed using criteria such as each director's first and last name and associated company for the years 2004, 2005, and 2006. The celebrity status was determined based on the amount of retrieval from the key word searches. The key word search resulted in a minimum retrieval count of two or more for each year in order to support celebrity status consideration. The key word search results from publicly available articles were reviewed for each board director and when one or more directors were identified as holding

celebrity status, the company was deemed a celebrity company and included in the group of celebrity companies until the 180th celebrity company was reached.

Companies with no celebrity directors on the company's board of directors were included in the group of noncelebrity companies until the 180th noncelebrity company was reached. A total of 1,829 of 2,587 independent directors were identified as holding celebrity status. To identify the newsworthiness of each of the companies in the complete sample, a key word search was employed using criteria with key words such as "profit", "expected", and "loss" to represent good, neutral, and bad news respectively for the years 2004, 2005, and 2006. The key word search results were based on publicly available articles found from sources including PR Newswire and Business and Company Resource Center.

The company's financial information was also gathered from publicly available sources including PR Newswire and Business and Company Resource Center for the years 2004, 2005, and 2006. The financial information was then used to calculate the dependent and independent variables for each of the companies within the complete sample. The company's information on corporate governance scoring was provided by Risk Metrics based on data collected from SEC EDGAR filings for the years 2004, 2005, and 2006.

Description of the Samples

The complete sample consisted of 360 companies divided into two groups containing 180 companies representing celebrity companies and noncelebrity companies from the S&P 500 listing for the years 2004, 2005, and 2006. The celebrity company group consisted of 1,829 board directors who were reviewed to determine celebrity

status. The board directors found to have celebrity status ranged from 550 to 615 for the years 2004, 2005, and 2006.

Findings

The analysis involved four steps. The statistical analysis conducted on the research data utilized t statistics to compare the difference of the variable means between the celebrity sample and the noncelebrity sample. A correlation of the coefficients on the regression models was conducted to determine statistical significance. A t statistic is a tool to help with the determination of statistical significance associated with the difference between the means for the dependent and independent variables for the celebrity sample versus the noncelebrity sample. Table 4 contains the statistical comparison of the celebrity and noncelebrity samples. Notable in Table 4 is that all of the t statistics are not significant at the .05 level of confidence.

Although the means were not statistically different at the .05 level of confidence, a comparison of dependent and independent variables for the celebrity and noncelebrity samples resulted in a meaningful difference between the two samples. The results for ROE ($Y1_{dROE}$) and dividend yield ($Y2_{dDYD}$) are substantially different between the celebrity and noncelebrity samples with respect to these two dependent variables. The average values of these variables for the celebrity sample were approximately 20% higher than the corresponding values for the noncelebrity sample. The results indicate that in 2004, 2005, and 2006, the companies within the celebrity sample performed better than the companies in the noncelebrity sample for ROE ($Y1_{dROE}$) and dividend yield ($Y2_{dDYD}$). The differences are relevant from a business perspective. An inference can be drawn such that if an investor has invested in a portfolio with companies having celebrity directors,

he or she would have probably seen better returns on this investment compared to an investment in companies with noncelebrity directors. In addition, both the celebrity and noncelebrity samples appear to have no significant meaningful difference in results for stock price variability ($Y3_{dSPV}$).

Table 4

Celebrity and Noncelebrity Sample Statistic Comparison Summary

Variable	Description	Celebrity	Noncelebrity	Difference	<i>t</i> value
		mean	mean		
Dependent variables					
$Y1_{dROE}$	Return on equity	22.9	19.1	3.8	1.23
$Y2_{dDYD}$	Dividend yield	1.88	1.56	0.32	1.23
$Y3_{dSPV}$	Stock price variability	0.356	0.35	0.006	0.52
Independent variables					
$B1_{iTOQ}$	Market value to book value	4.3	2.19	2.11	1.67
$B2_{iGOV}$	Governance index	52.3	51.4	0.9	0.5
$B3_{iPER}$	Price-to-earnings	25.4	20.2	5.2	1.51
$B4_{iDGV}$	Director goodwill	146,688	146,531	157	0.21
$D1_{dvDPO}$	Dividend payout	0.783	0.828	-0.045	-1.85
$D2_{dvDSW}$	Director stock ownership	0.906	0.889	0.017	0.9
$D3_{dvDSO}$	Director stock option grants	0.904	0.891	0.013	0.7
$D4_{dvSRP}$	Share repurchase	0.504	0.493	0.011	0.36
$D5_{dvGBN}$	Good news/bad news	0.954	0.806	0.148	7.68
$D6_{dvCBD}$	Celebrity board	0	0	0.006	0

The values for most of the independent variables were nearly the same as for these two samples (celebrity and noncelebrity). However, an exception occurred for values associated with both Tobin's Q ($B1_{iTOQ}$) and price-to-earnings ratio ($B3_{iPER}$), where the values are substantially higher for the companies in the celebrity sample than for the companies in the noncelebrity sample. A possible inference from this result is that companies in the celebrity sample have a tendency to perform better and the market seems to be relatively more optimistic about the outlook for these companies when compared to companies in the noncelebrity sample, as the companies in the celebrity sample have a price-per-earnings ratio ($B3_{iPER}$) that is about 20% higher than the price-per-earnings ratio of companies in the noncelebrity sample. Companies in both samples tend to be equally credited with director goodwill for the years 2004, 2005, and 2006. Table 5 shows the difference comparison of the celebrity versus noncelebrity samples.

Research Question 1: Does a director's celebrity status change shareholders' wealth for companies listed in the S&P 500 index during 2004, 2005, and 2006?

$H1_0$: There is no statistically significant relationship between a board of directors with at least one celebrity director present and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index ($p < .05$).

$H1_1$: There is a statistically significant relationship between a board of directors with at least one celebrity director present and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index ($p < .05$).

Table 5

Celebrity and Noncelebrity Sample Difference Comparison Summary

Variable	Description	Celebrity	Noncelebrity	Difference
Dependent variables				
Y1 _{dROE}	Return on equity	22.9	19.1	19.9 %
Y2 _{dDYD}	Dividend yield	1.88	1.56	20.5 %
Y3 _{dSPV}	Stock price variability	-0.356	0.35	1.7%
Independent variables				
B1 _{iTOQ}	Market value to book value	4.3	2.19	96.3%
B2 _{iGOV}	Governance index	52.3	51.4	1.8%
B3 _{iPER}	Price-to-earnings	25.4	20.2	25.7%
B4 _{iDGV}	Director goodwill	146,688	146,531	0.1%
D1 _{dvDPO}	Dividend payout	0.783	0.828	-5.4%
D2 _{dvDSW}	Director stock ownership	0.906	0.889	1.9%
D3 _{dvDSO}	Director stock option grants	0.904	0.891	1.5%
D4 _{dvSRP}	Share repurchase	0.504	0.493	2.2%
D5 _{dvGBN}	Good news/bad news	0.954	0.806	1.9%
D6 _{dvCBD}	Celebrity board	3.176	0	0%

The answer to the first research question was found by reviewing the three dependent variables selected to measure shareholders wealth—ROE (Y1_{dROE}), dividend yield (Y2_{dDYD}), and stock price variability (Y3_{dSPV}). There is no significant statistical difference between the celebrity and the noncelebrity samples for the dependent

variables. The inference based on this finding is with no significant statistical difference, celebrity status does not seem to affect shareholder wealth.

The result of the analysis indicates there is statistical significance and the null hypothesis ($H1_0$) for Research Question 1 can be accepted. There is no statistically significant relationship between boards of directors with at least one celebrity director and a change in shareholder's wealth for boards of directors associated to companies listed on the S&P 500 index.

Research Question 2: Does an alignment exist between a corporation's shared commitment to the maximization of shareholder wealth and the actions exhibited by an individual board member with a celebrity status for a company listed in the S&P 500 index in 2004, 2005, and 2006?

$H2_0$: There is no statistically significant relationship between the level of a director's celebrity goodwill for boards of directors with one or more celebrity directors and an increase in shareholders' wealth for boards of directors associated with companies listed on the S&P 500 index ($p < .05$).

$H2_1$: There is a statistically significant relationship between the level of a director's celebrity goodwill for boards of directors with one or more celebrity directors and an increase in shareholders' wealth for boards of directors associated with companies listed on the S&P 500 index ($p < .05$).

The answer to the second research question was found by reviewing correlations between each dependent and independent variable for both the celebrity and the noncelebrity samples. First, the correlations between ROE ($Y1_{dROE}$), dividend yield ($Y2_{dDYD}$), and stock price variability ($Y3_{dSPV}$) for the celebrity sample were run against

the independent variables. The correlation between ROE and director goodwill was not statistically significant at a .05 level of confidence. The dividend yield was also not significantly correlated with director goodwill at a .05 level of confidence. However, the stock price variability was negatively correlated with director goodwill at a .05 level of confidence. Table 6 shows the correlation between the dependent variable and the independent variable for the celebrity sample. The inference based on this finding is that in companies with celebrity board directors, the goodwill of the board directors tends to reduce the variability in stock price.

Second, the correlations between ROE ($Y1_{dROE}$), dividend yields ($Y2_{dDYD}$), and stock price variability ($Y3_{dSPV}$) for the noncelebrity sample was examined. The resultant correlation between ROE and director goodwill was statistically significant at a .05 level of confidence. Table 7 shows the correlation between the dependent variable and the independent variable for the noncelebrity sample. In addition, within Table 7 the correlations between the dependant and independent variables that are deemed statistical significant are denoted with an asterisk. The inference based on the finding is that in companies with board directors who hold no celebrity status, the goodwill of these board directors tends to increase ROE.

Table 6

Correlations Between the Dependent Variable and the Independent Variable for the Celebrity Sample

		Return on equity	Dividend yield	Stock price variability
Variable	Description	($Y1_{dROE}$)	($Y2_{dDYD}$)	($Y3_{dSPV}$)

B1 _{iTOQ}	Market value to book value	0.175*	0.045	0.04
B2 _{iGOV}	Governance index	0.039	0.045	-0.065
B3 _{iPER}	Price-to-earnings	-0.03	-0.031	0.034
B4 _{iDGV}	Director goodwill	0.011	0.035	-0.150*

* Statistical significance at .05 confidence level.

Table 7

Correlations Between the Dependent Variable and the Independent Variable for the Noncelebrity Sample

Variable	Description	Return on equity (Y1 _{dROE})	Dividend yield (Y2 _{dDYD})	Stock price variability (Y3 _{dSPV})
B1 iTOQ	Market value to book value	0.223*	0.001	-0.037
B2 iGOV	Governance index	0.120*	0.264*	-0.074
B3 iPER	Price-to-earnings	-0.122*	-0.077	-0.04
B4 iDGV	Director goodwill	0.155*	0.059	-0.056

* Statistical significance at .05 confidence level.

The result of the analysis indicates a statistically significant relationship exists between each of the dependent and the independent variables, and the null hypothesis (H₂₀) for Research Question 2 cannot be accepted. There is a statistically significant relationship between the level of a director's celebrity goodwill for boards of directors with one or more celebrity directors and an increase in shareholder's wealth for boards of directors associated with companies listed on the S&P 500 index.

Research Question 3: Does the composition of a company's board change for those boards with a celebrity director and the maximization of shareholder wealth for a company listed in the S&P 500 index in 2004, 2005, and 2006?

H3₀: There is no statistically significant relationship between the number of celebrity directors present on a company's board of directors and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index ($p < .05$).

H3₁: There is a statistically significant relationship between the number of celebrity directors present on a company's board of directors and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index ($p < .05$).

The answer to the third research question was found by reviewing correlations between variables for both the celebrity and the noncelebrity samples. First, the correlations between ROE ($Y1_{dROE}$), dividend yields ($Y2_{dDYD}$), and stock price variability ($Y3_{dSPV}$) for the celebrity sample was examined. The correlation between ROE and dividend yield are not significant at the 0.05 level of confidence. A negative correlation between stock price variability and the number of celebrity directors is significant at a .05 level of confidence. Table 8 shows the variable correlation comparison of coefficients for the celebrity sample. In addition, within Table 8 the correlations between the dependant and independent variables that are deemed statistical significant are denoted with an asterisk. The inference based on this finding is a negative value of correlation suggests that having at least one celebrity director on a company's board helps to reduce stock price variability.

Table 8

*Correlations Between the Dependent Variable and the Independent Variable for
Celebrity Sample*

Variable	Description	Return on equity (Y1 _{dROE})	Dividend yield (Y2 _{dDYD})	Stock price variability (Y3 _{dSPV})
B1 _{iTOQ}	Market value to book value	0.175*	0.045	0.04
B2 _{iGOV}	Governance index	0.039	0.045	-0.065
B3 _{iPER}	Price-to-earnings	-0.03	-0.031	0.034
B4 _{iDGV}	Director goodwill	0.011	0.035	-0.150*
D1 _{dvDPO}	Dividend payout	0.005	0.142*	-0.404*
D2 _{dvDSW}	Director stock ownership	0.006	0.016	-0.054
D3 _{dvDSO}	Director stock option grants	0.004	-0.217*	-0.057
D4 _{dvSRP}	Share repurchase	0.017	-0.048	-0.210*
D5 _{dvGBN}	Good news/bad news	0.009	0.028	-0.066
D6 _{dvCBD}	Celebrity board	0.017	0.031	-0.146

* Statistical significance at .05 confidence level

The result of the analysis indicates there is statistical significance and the null hypothesis (H3₀) for Research Question 3 cannot be accepted. There is a statistically significant relationship between the number of celebrity directors present on a company's board of directors and a change in shareholder's wealth for boards of directors associated to companies listed on the S&P 500 index.

Regression Models

The initial regression models (including the independent variables selected that were based on the correlations) were run and only those independent variables that showed a statistically significant correlation with the dependent variable were included in the final regression models. The initial regression models were evaluated and a reduction of terms within each of the regression models resulted. The reduction of terms was based on a correlation comparison of coefficients as part of the analysis pertaining to the research study and specifically to the celebrity and noncelebrity samples.

Celebrity Sample

The ROE formula as shown represents a regression model where the *R*-square of 0.300 for the model is significant but low with the associated *F*-value ($F= 17.120$; $p=0.0001$). The model indicates that among the tested variables, Tobin's *Q* or market to book value ($B1_{iTOQ}$) tends to have a significant impact on the ROE ($Y1_{dROE}$) for companies with at least one celebrity director on the board. The regression output for Formula 1 is shown in Table 9.

Celebrity Sample Formula 1: $Y1_{dROE} = \text{intercept} + B1_{iTOQ} + \text{error term}$

Table 9

Regression Output for Formula 1 for Celebrity Sample

Parameter	Estimate	Standard error	<i>t</i> statistic	Significance level for test Pr. > <i>t</i>
Intercept	21.1	2.996	7.04	<.0001
$B1_{iTOQ}$	0.423	0.102	4.14	<.0001

The dividend yield formula as shown represents a regression model where the R -square of 0.066 for the model is significant but low with the associated F -value ($F = 19.260$; $p = 0.0001$). The model indicates that among the tested variables, dividend yield ($Y2_{dYD}$) tends to be positively associated with dividend payout ($D1_{dvDPO}$) and negatively affected by stock options grants ($D3_{dvDSO}$) for companies with at least one celebrity director on the board. Table 10 shows the regression output for Formula 2.

Celebrity Sample Formula 2: $Y2_{dYD} = \text{intercept} + D1_{dvDPO} + D3_{dvDSO} + \text{error term}$

Table 10

Regression Output for Formula 2 for Celebrity Sample

Parameter	Estimate	Standard error	t statistic	Significance level for test
				Pr. $> t$
Intercept	4.22	0.931	4.53	<.0001
$D1_{dvDPO}$	2.05	0.603	3.4	<.0007
$D3_{dvDSO}$	-4.36	0.842	-5.18	<.0001

The stock price variability formula as shown represents a regression model where the R -square of 0.205 for the model is significant but low with the associated F -value ($F = 46.060$; $p = 0.0001$). The model indicates that among the tested variables, stock price variability ($Y3_{dSPV}$) is negatively impacted by director goodwill ($B4_{dDGV}$), dividend payout ($D1_{dvDPO}$), and share repurchase ($D4_{dvSRP}$). The number of celebrity directors ($D6_{dvCBD}$) negatively impacted stock price variability for companies with at least one celebrity director on the board. The regression output for Formula 3 is shown in Table 11.

$$\text{Celebrity Sample Formula 3: } Y_{3\text{dSPV}} = \text{intercept} + B_{4\text{iDGV}} + D_{1\text{dvDPO}} + D_{4\text{dvSRP}} + D_{6\text{dvCBD}} \\ + \text{error term}$$

Table 11

Regression Output for Formula 3 for Celebrity Sample

Parameter	Estimate	Standard error	<i>t</i> statistic	Significance level for test
				Pr. > <i>t</i>
Intercept	0.655	0.075	8.76	<.0001
B _{4iDGV}	-0.000001	0.0000005	-1.83	<.0432
D _{1dvDPO}	-0.146	0.015	-9.71	<.0001
D _{4dvSRP}	-0.055	0.013	-4.4	<.0001
D _{6dvCBD}	-0.006	0.003	-2.23	0.026

Noncelebrity Sample

The ROE formula as shown represents a regression model where the *R*-square of 0.122 for the model is significant but low with the associated *F*-value ($F = 14.840$; $p = 0.0001$). The model indicates that among the tested variables, Tobin's *Q* or market to book value ($B_{1\text{iTOQ}}$) tends to have a significant impact on the ROE ($Y_{1\text{dROE}}$) for companies with at least one celebrity director on the board. However, the share repurchase ($D_{4\text{dvSRP}}$) affects ROE to a greater extent than Tobin's *Q* or market to book value had on the ROE for companies within the celebrity sample. Table 12 shows the regression output for Formula 1.

$$\text{Noncelebrity Sample Formula 1: } Y_{1\text{dROE}} = \text{intercept} + B_{1\text{iTOQ}} + B_{2\text{iGOV}} + B_{3\text{iPER}} + \\ B_{4\text{iDGV}} + D_{4\text{dvSRP}} + \text{error term}$$

Table 12

Regression Output for Formula 1 for Noncelebrity Sample

Parameter	Estimate	Standard error	<i>t</i> statistic	Significance level for test
				Pr. > <i>t</i>
Intercept	-19.98	10.788	-1.85	<.0646
B1 _{iTOQ}	1.136	0.196	5.81	<.0001
B2 _{iGOV}	0.089	0.031	2.88	0.0041
B3 _{iPER}	-0.154	0.048	-3.23	0.0013
B4 _{iDGV}	0.00022	0.000072	3.05	0.0024
D4 _{dvSRP}	4.978	1.75	2.84	0.0047

The dividend yield formula as shown represents a regression model where the *R*-square of 0.220 for the model is significant but low with the *F*-value ($F = 75.910$; $p = 0.0001$). The model indicates that among the tested variables, dividend yield ($Y2_{dDYD}$) tends to be positively associated with governance index ($B2_{iGOV}$) and dividend payout ($D1_{dvDPO}$). Table 13 shows the regression output for Formula 2.

Noncelebrity Sample Formula 2: $Y2_{dDYD} = \text{intercept} + B2_{iGOV} + D1_{dvDPO} + \text{error term}$

Table 13

Regression Output for Formula 2 for Noncelebrity Sample

Parameter	Estimate	Standard error	<i>t</i> statistic	Significance level for test
				Pr. > <i>t</i>
Intercept	-0.219	0.1551	-1,41	<.160
B2 _{iGOV}	0.01	0.001	5.55	<.0001

$D1_{dvDPO}$	1.47	0.144	10.19	<.0001
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The stock price variability formula as shown represents a regression model where the R -square of 0.114 for the model is significant but low and the associated F -value ($F = 34.670$; $p = 0.0001$). The model indicates that among the tested variables, stock price variability ($Y3_{dSPV}$) is negatively impacted by dividend payout ($D1_{dvDPO}$) and share repurchase ($D4_{dvSRP}$). Table 14 shows the regression output for Formula 3.

Noncelebrity Sample Formula 3: $Y3_{dSPV} = \text{intercept} + D1_{dvDPO} D4_{dvSRP} + \text{error term}$

Table 14

Regression Output for Formula 3 for Noncelebrity Sample

Parameter	Estimate	Standard error	t Statistic	Significance
				level for test
				Pr. > t
Intercept	0.481	0.017	27.93	<.0001
$D1_{dvDPO}$	-0.133	0.018	-7.26	<.0001
$D4_{dvSRP}$	-0.042	0.013	-3.06	0.0023

Summary

The purpose of chapter 4 was to present the results from a statistical analysis sample that consisted of two groups (celebrity and noncelebrity) and was designed to answer the research questions in the study. The use of descriptive statistics provides clarity when characterizing the population and sample. A discussion of the data collection as well as the results from the quantitative method using regression models to examine

the relationship between the celebrity status of a board member and shareholder wealth maximization.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

The purpose of chapter 5 was to present a summary of the study findings and discuss the conclusions, recommendations, and implications. This chapter presents a summary of the findings relative to the major questions in the study. The conclusions drawn are based on the specific results from the analysis conducted on the data and any conclusions discussed are relative to the limitations described in chapter 1. The recommendations focus on the potential implementation of the results into actual practice and for future research. The chapter concludes with implications of the study related to the significance of the study described in chapter 1.

Research Questions and Hypotheses

The research questions and hypotheses helped to evaluate the relationship between the celebrity status of a board member and the effect on shareholder wealth maximization. A model was developed to test the hypotheses for each research question. The hypotheses use statistical analysis based on financial information for a specific company listed in the S&P 500 index for the years 2004, 2005, and 2006.

Research Question 1 asked the following: Does a director's celebrity status change shareholders' wealth for companies listed in the S&P 500 index during 2004, 2005, and 2006? The result of the analysis indicates there is statistical significance and the null hypothesis (H_{10}) for Research Question 1 can be accepted. There is no statistically significant relationship between a board of directors with at least one celebrity director and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index.

Research Question 2 asked the following: Does an alignment exist between a corporation's shared commitment to the maximization of shareholder wealth and the actions exhibited by an individual board member with a celebrity status for a company listed in the S&P 500 index in 2004, 2005, and 2006? The result of the analysis indicates there is statistical significance and the null hypothesis (H_{20}) for Research Question 2 cannot be accepted. There is a statistically significant relationship between the level of a director's celebrity goodwill for boards of directors with one or more celebrity directors and an increase in shareholders' wealth for boards of directors associated with companies listed on the S&P 500 index.

Research Question 3 asked the following: Does the composition of a company's board change for those boards with a celebrity director and the maximization of shareholder wealth for a company listed in the S&P 500 index in 2004, 2005, and 2006? The result of the analysis indicates there is statistical significance and the null hypothesis (H_{30}) for Research Question 3 cannot be accepted. There is a statistically significant relationship between the number of a celebrity directors on a company's board of directors and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index.

Data Description and Collection Method Analyses

The data were collected from publicly available sources for years 2004, 2005, and 2006. The publicly available data sources included Mergent Online, Reuters, PR Newswire, Business and Company Resource Center, and Risk Metrics (SEC EDGAR filings). A sample of 360 companies was randomly drawn from a population of 500 companies listed on the S&P 500 index. The sample consisted of two groupings—

celebrity and noncelebrity—with 180 companies included in each grouping. The chosen size of each sample was based on the number of independent variables that represented the regression models. In this case, 10 independent variables required a minimum of 18 companies per variable per sample.

A total of 4,831 board members were reviewed as part of the study. The board members were identified as independent or outside directors. Of the 1,829 board members, a range between 550 and 615 represented directors with celebrity status residing on boards from companies listed on the S&P 500 index. A celebrity director was identified through key words association. The association consisted of targeted person considered the celebrity where the director's name and company, and key words were associated to good news or bad news with both the director's name and company for each year. The celebrity board for a particular company was identified through the presence of one or more celebrity directors. To determine the relationship between director celebrity and the impact on shareholder wealth for the years 2004, 2005, and 2006, a quantitative method was used with descriptive regression models and correlation analysis.

Key Findings

The analysis revealed three findings. First, there is no statistically significant relationship between boards of directors with at least one celebrity director and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index. Second, there is a statistically significant relationship between the level of a director's celebrity goodwill for boards of directors with one or more celebrity directors and an increase in shareholders' wealth for boards of directors associated with companies listed on the S&P 500 index. Finally, there is a statistically significant relationship

between the number of a celebrity directors on a company's board of directors and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index.

Literature Agreement

The literature agrees with the findings of the study in terms of the monetary definition of celebrity. The monetary definition supports the inferences made in the research study. As a person's celebrity grows so does the person's earnings capacity (Turner, 2006). The director's compensation increased over the years 2004, 2005 and 2006. Likewise, the findings show that the emotional responses, which were mostly positive, that define celebrity translate into an increase in the economic opportunities available to a company from the high level of public attention (Rindova et al., 2006).

Literature Disagreement

The literature that disagrees with the findings in terms of the requirement to use different valuation techniques for determining the value of a director's celebrity goodwill was primarily legal literature and exhibited in legal cases. The use of director compensation contradicted the use of a valuation found within the literature that was income, market, and asset based (Fishman et al., 2003; Schlecht, 2003). The contradiction was that by using the published director compensation averages for companies with annual sales over and under \$10 billion over the years 2004, 2005, and 2006, the rigor of using the valuation technique did not reflect the values derived from the market in terms of director compensation.

Literature Synthesis

A contrast and comparison of the literature against the findings yield an interesting perspective on celebrity director goodwill and compensation. Companies in both celebrity and noncelebrity samples tended to be equally credited with the goodwill for their directors. Using both published information and future surveys from investors and stock analysts, a director's compensation could be used as a proxy to determine the amount of goodwill or market value of a director's celebrity. Further, reviewing specifically a celebrity director's compensation possibly yields greater insight the amount of goodwill or market value for board director service. So a future study is recommended investigating director's compensation in order to help to isolate the amount of goodwill or market value attributed to a director's celebrity from other factors.

Conclusion

The study opens up a new area of research that examines the impact of celebrity, from the shareholders' perspective, of a member of a company's board of directors where the effectiveness of leadership and decision making affects the governance and wealth maximization of the company's shareholders. However, the findings contribute to only a limited explanation attributed to companies with celebrity directors affecting shareholder wealth. Further investigation in the area of director celebrity and shareholder wealth maximization is strongly recommended to uncover greater insight into the extent to which a board of director's celebrity status affects the shareholder wealth maximization with an expectation of higher correlations.

Implications

The following inferences can be made from the findings. First, for companies with celebrity directors, the goodwill of these directors tends to reduce the stock price variability. Second, celebrity directors help to reduce stock price variability. Third, companies with celebrity directors in the celebrity sample performed better than companies in the noncelebrity sample. Forth, companies with celebrity directors performed better for dividend yield and ROE than the noncelebrity sample. Fifth, the market seems to be relatively more optimistic about the future of companies with celebrity directors compared to companies in the noncelebrity sample. Finally, companies with celebrity directors reflected a price per earnings ratio approximately 20% higher than the companies in the noncelebrity sample.

Future Research

The study opens up a new area of research for scholars because no previous study of this kind could be found. The study raised many questions that necessitate further research. Future research might uncover more insight into the influence of celebrity and governance, especially in terms of surveyed people's perception of directors with celebrity status and a company board with celebrity directors. Surveys given to directors associated with a celebrity board of directors might provide greater insight into the mechanics of governance and influences of celebrity directors. Surveys given to investors might provide greater insight into perceptions of celebrity directors in terms of investment decisions based on direct celebrity presence. Finally, surveys given to stock analysts might provide greater insight into perceptions of celebrity directors, boards with celebrity directors, and the possible impact from sector and industry perspectives.

Lessons Learned

Even though the study opens up a new area of research for scholars because no study of this kind could be found, there are many lessons to be learned in the wake of the study. The refinement of variables or the addition of variables within the regression models might yield greater results in explaining correlation. For example, using an independent variable to represent a relative stock price variability instead of a non relative stock price variability might be preferred to improve the correlation of the coefficient given the time series nature of the data. In terms of types of directors (i.e., members of executive management and independent members of the board), adding an independent variable that reflects both types of directors might provide interesting insight into celebrity influence.

Recommendations

The recommendations are for leaders, practitioners, and scholars. First, a leader should pursue further investigation of the impact of celebrity within organizational groups and among all stakeholders. A leader is a policy maker, board member, consultant, and researcher. A policy maker can be found within the SEC. A policy maker can benefit from the study and use the findings to establish new policies and guidelines. A board member can benefit from the study and use the findings to determine if the board members have celebrity director characteristics through an internal appraisal. A consultant can benefit from the study and use the findings by working with a company's board of directors to analyze the board member composition and determine if celebrity directors might be added to the board that represent a mix of primarily noncelebrity directors. A researcher can benefit from the study and use the findings to conduct

research that involves surveying investors about the perception of celebrity directors and the impact of celebrity on investors' decision to invest in a security and publishing the survey findings in an article.

Second, a practitioner should pursue the development of workshops and coaching materials for boards and investors to help assess the advantages and disadvantages of directors possessing celebrity status. A practitioner can be represented by a board member and a governance consultant. A board member can benefit from the study and use the findings to become aware of how celebrity affects governance and shareholder wealth maximization. A governance consultant is a person who works with a company's board to coach and train directors on effective governance as well as corporate governance best practices. A governance consultant can benefit from the study and use the findings to support efforts by boards to better governance practices as well as how shareholders perceive board function in terms of director celebrity.

Finally, a scholar should pursue additional studies in the field of corporate governance pertaining to celebrity director influence and shareholder wealth maximization. A scholar can build upon the current study and further refine the study through a refinement of the regression model and by conducting surveys to uncover greater insight into the phenomenon of celebrity and governance.

Summary

The current quantitative study included an examination of the impact of celebrity, from the shareholder perspective, of a member of a company's board of directors where the effectiveness of leadership and decision making affects the governance and wealth maximization of the company's shareholders. Chapter 1 presented the problem statement

of the study along with a discussion on how celebrity plays a role in a board of director's position, as well as the value proposition, the influence attributed, and the perception projected by a celebrity board director. In particular, the current research involved an investigation into the relationship between corporate governance and financial performance, where previous research had not provided an investigation into the impacts associated with a board of director's celebrity as an indicator of shareholder wealth maximization. The purpose of the study was outlined as contributing to the knowledge of how directors holding celebrity status can potentially influence shareholder wealth for public companies on the S&P 500 listing.

In chapter 2, a literature search outline was presented to add structure to guide the study. The literature framework suggested several related topics that were searched to support the problem statement as well as the purpose of the study. The literature review served as a brief overview of the germinal as well as current literature. In particular, the current research investigated the relationship between corporate governance and financial performance without considering the impacts associated with the board of director's celebrity as an indicator of shareholder wealth maximization. In addition, the literature review included an investigation into the historical aspects of the characteristics of individual board members, identifying any common patterns that suggested the collective balance of a board member's celebrity enhances or impairs shareholder wealth maximization. The conclusions drawn from the analysis related to the chosen independent variables included identification and relevancy. First, the chosen independent variables best support the problem statement. Second, the chosen independent variables can be linked to explaining shareholder wealth, indirectly to

corporate governance, and the amount of a director's celebrity goodwill. Finally, with multiple chosen independent variables, a preliminary trial is necessary to determine which independent variables best support the study.

Chapter 3 presented the conclusions drawn from the analysis. First, the chosen dependent variables, including ROE, dividend yield, and stock price variability, best support the problem statement. Second, the chosen dependent variables can be linked to explaining shareholder wealth and indirectly to corporate governance. Kubasek et al. (2008) supported Creech's (2006) suggestion that the Sarbanes-Oxley Act of 2002 helped to bring ethical transparency to a company's board members in terms of the behavior that can lead to fraudulent activity at the expense of all the stakeholders. Beiner et al. (2006) suggested there is evidence of a positive relationship between a firm's value and the quality of corporate governance. Finally, with three chosen dependent variables, a preliminary trial was necessary to determine if one of the three dependent variables (or all three dependent variables) best supported the study.

The purpose of chapter 4 was to present the results of the statistical analysis designed to answer the research questions in the study. Descriptive statistics for the population and sample, as well as the instrumentation, were described. The results of the methods used to evaluate the assumptions were also included in chapter 5. First, the average values of independent variables for the celebrity sample were approximately 20% higher than the corresponding values for the noncelebrity sample. The results indicate that in 2004, 2005, and 2006, the companies within the celebrity sample performed better than did the companies in the noncelebrity sample for ROE ($Y1_{dROE}$) and dividend yield ($Y2_{dDYD}$). These differences are relevant from a business perspective.

Second, an inference based on the findings is that the celebrity status does not seem to affect shareholder given that there was no significant statistical difference. Finally, there was a statistically significant relationship between the number of celebrity directors on a company's board of directors and a change in shareholders' wealth for boards of directors associated to companies listed on the S&P 500 index.

Lastly, chapter 5 presented a summary of the study and included a discussion of the conclusions, recommendations, and implications that resulted. The summary of the findings was discussed relative to the major questions addressed in the study. The purpose of the Conclusions section was to project the specific results to the population at large. The conclusions discussed were relative to the limitations described in chapter 1. The discussion of the recommendations was divided into two subsections. The first concerned recommendations for implementation of the results into actual practice. The second section described recommendations for future research.

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APPENDIX A: REGRESSION VARIABLE FORMULA TABLE

Variable	Description	Formula	Lower Limit	Upper Limit
Y1 _{dROE}	Return on Equity	$ROE = (\text{Net Income}) / (\text{Total Equity})$	ROE = 0	ROE > 0
Y2 _{dDYD}	Dividend Yield	$\text{Dividend Yield} = (\text{Dividends per share}) / (\text{Stock Price at Fiscal Year Close})$	Dividend Yield = 0	Dividend Yield > 0
Y3 _{dSPV}	Stock Price Variability	$\text{Stock price variability} = (\text{stock high} - \text{stock low}) / ((\text{stock high} + \text{stock low})/2)$	Stock Price Variability = 0	Stock Price Variability > 0
B1 _{ITQ}	Market Value to Book Value	$\text{Tobin's Q} = ((\text{Total Assets} + \text{Market Value of Equity at stock price fiscal year close}) * (\text{common shares outstanding}) - (\text{Total common Equity} - \text{Deferred Taxes on balance sheet})) / (\text{Total assets})$	Tobin's Q = 0	Tobin's Q > 0
B2 _{IGOV}	Governance Index	The rating reflects 63 different attributes of governance practice in categories: 1) board of directors, 2) audit, 3) antitakeover, and 4) compensation/ownership.	CGQ rating = 0	CGQ rating > 0
B3 _{PER}	Price-to-earnings	$PE \text{ ratio} = (\text{Price per Share}) / (\text{Annual Earnings per Share})$	Price-to-earnings = 0	Price-to-earnings > 0
B4 _{IDGV}	Director Goodwill	2006: Company Sales > \$10B, director compensation = \$162,900; Company Sales < \$10B, director compensation = \$154,161. 2005: Company Sales > \$10B, director compensation = \$155,627; Company Sales < \$10B, director compensation = \$143,807. 2004: Company Sales > \$10B, director compensation = \$146,604; Company Sales < \$10B, director compensation = \$126,325	Director Goodwill = 0	Director Goodwill > 0
D1 _{dvDPO}	Dividend Payout	Company pays dividend to shareholder = 1, Company does not pay a dividend to shareholder = 0	Dividend Payout = 0	Dividend Payout = 1
D2 _{dvDSW}	Director Stock Ownership	Director own common stock = 1, Director does not own common stock = 0	Director Stock Ownership = 0	Director Stock Ownership = 1
D3 _{dvDSO}	Director Stock Option Grants	Director granted common stock options = 1, Director not granted common stock options = 0	Director Stock Option Grant = 0	Director Stock Option Grant = 1
D4 _{dvSRP}	Share Repurchase	Outstanding common stock at year end is less than previous year = 1, Outstanding common stock at year end is greater than or equal to previous year = 0	Share Repurchase = 0	Share Repurchase = 1
D5 _{dvGBN}	Good News/Bad News	Good news associated with company = 1, neutral or negative news associated with company = 0	Neutral or Bad News = 0	Good News = 1
D6 _{dvCBD}	Celebrity Board	Celebrity Board > 0, Not a Celebrity Board = 0	Celebrity Board = 0	Celebrity Board > 0