FROM THE DIRECTOR'S DESK

Over the past few months, CCRG staff along with graduate students, Mahreen Malik and Vincent Tang, have been painstakingly collecting data on Orange County (OC) boards of directors from proxy statements. The sample consists of 62 OC public companies for which complete data was available. The sample does not include firms that were acquired in the past year.

Throughout the study, we compare our results on OC firms with similar analyses of boards of the TOP 100 firms performed by Shearman & Sterling LLP. For comparison purposes, we also use findings from academic research and surveys of directors conducted by various organizations. Additionally, for some of the tests, we analyze data provided to us by Incentive Labs. This data provider's coverage of directors is extensive and includes over 1,100 companies.

In the interpretation of our results, we would like to state several caveats. Many of the academic findings and survey results reflect "average" associations and might not be applicable to all of the firms in our sample. Relatedly, we acknowledge that when discussing corporate governance "one size does not fit all". That is, governance mechanisms that work for some firms might not be right for other firms. A prime example of such "confusion" is seen in debates on whether a CEO should also be the board chairman. There are a host of similar issues where the association between a certain governance mechanism and performance outcomes is largely unsettled. However, it is also the case that some proxy advisory firms and institutional investors view the governance world in black and white and base their actions on "objective" governance data and metrics.

Notwithstanding the caveats, some findings of our study indicate deficiencies in board structure and board policies in OC companies. One result that stands out is that gender diversity is sorely lacking in OC boards. While gender diversity is a problem for boards across the US, this issue is more acute in OC companies. There is also generally a lack of transparency in a host of policy areas such as mandatory retirement, "busy" directors, hedging of equity, and the pledging of shares. A finding that should interest OC directors is that they appear to be "underpaid" relative to their national counterparts. We compared OC directors' pay with other research and with our own research of directors' pay in over 1,000 companies. We find that OC directors receive smaller amounts as retainers and other forms of compensation. We acknowledge that we only examine the level of directors' pay and do not control for companies' size or performance.

In other news, on September 16th, the Center for Corporate Reporting and Governance (CCRG) will host its 15th Annual SEC "Hot Topics" conference at the Irvine Marriott. Last year's conference sold out with over 525 people in attendance. The CCRG is emerging strongly as the thought leader for corporate financial reporting and governance matters in Orange County. I invite you to visit business.fullerton.edu/centers/ccrg and hope to see you at one of our upcoming events.

Vivek Mande

Director, Center for Corporate Reporting & Governance
Ernst & Young Professor of Accounting

ABOUT CCRG

Part of the Mihaylo College of Business and Economics at California State University, Fullerton and housed within the Department of Accounting, the Center for Corporate Reporting & Governance (CCRG) was created in 2003 to address corporate reporting and governance issues facing companies and their auditors in a changing financial environment. The CCRG is a premier resource for financial reporting and corporate governance matters in Orange County, California. Its annual SEC Financial Reporting Conference in September features leading experts from the SEC, FASB, and PCAOB and attracts over 500 corporate board members and accounting professionals.

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