NBER WORKING PAPER SERIES

EXECUTIVE LAWYERS: GATEKEEPERS OR STRATEGIC OFFICERS?

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Working Paper 22597
http://www.nber.org/papers/w22597

NATIONAL BUREAU OF ECONOMIC RESEARCH
1050 Massachusetts Avenue
Cambridge, MA 02138
September 2016

We thank Andres Almazan, Shashwat Alok, Jennifer Arlen, Paul Calluzzo, Qiang Cheng, Carola Frydman, Todd Gormley, E. Han Kim, Byungjin Kwak, Ross Levine, Kai Li, Nan Li, Yinghua Li, Ulrike Malmendier, Steve Salterio, Scott Schaefer, and seminar participants at Auburn University, Harvard University, Queen's University, Simon Fraser University, Stanford/Berkeley joint seminar, Tsinghua University (PBC School), University of Alberta, University of Amsterdam, University of Minnesota, Yale University, Econometric Society Meetings at the AEA Meetings, Canadian Law and Economics Association annual meetings, Conference on Empirical Legal Studies (CELS), NBER Law and Economics meetings, Northern Finance Association annual meetings (NFA), Singapore Management University Accounting Symposium, Washington University Corporate Finance Conference, Financial Intermediation Research Society (FIRS) Conference, Western Finance Association (WFA) Conference, China International Conference in Finance (CICF) as well as our team of dedicated research assistants, including Any Ung, Lindsay Carter, Elise Craig, Jun Lee, Erin Shin, Ahrun Thiyagarajah, and Peter Willett. We thank Blair Morrison, Chief Compliance Officer and Deputy General Counsel of BMO Financial Group for useful conversations. Wang and Wu thank Queen's School of Business Research Program for their generous funding support The views expressed herein are those of the authors and do not necessarily reflect the views of the National Bureau of Economic Research.

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NBER Working Paper No. 22597
September 2016
JEL No. G32,G34,J33,K22,M52

ABSTRACT

Lawyers now serve as executives in 44% of corporations. Although endowed with gatekeeping responsibilities, executive lawyers face increasing pressure to use time on strategic efforts. In a lawyer fixed effects model, we quantify that lawyers are half as important as CEOs in explaining variances in compliance, monitoring, and business development. In a difference-in-differences model, we find that hiring lawyers into executive positions associates with 50% reduction in compliance breaches and 32% reduction in monitoring breaches. We then ask whether firms' optimal contracting of lawyers into strategic activities implies less lawyer gatekeeping effort. Using a design comparing executive lawyers hired from law firms to lawyers poached from corporations, we find that lawyers hired with high compensation delta (indicative of the importance of strategic goals in compensation contracts) do less monitoring, preventing 25% fewer breaches than are typically mitigated by having an executive gatekeeper. Reassuringly, lawyers do not compromise compliance.

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"*Lawyers are what today we call crucial gatekeepers, responsible for safeguarding shareholders' interests.*"
– Former SEC Chairman Christopher Cox[1]

"*I have been there at the beginning of an idea, I have helped implement the idea, and on those occasions where an idea has turned out poorly, I was there to help clean up the mess, too.*"
– Peter Bragdon, SVP, General Counsel, and Secretary of Columbia Sportswear Company[2]

I. Introduction

The general counsel (or chief legal officer) is arguably the most important internal governance actor in the firm. This top internal lawyer now sits among the top five (in pay rank) executives in over 44% of U.S. public corporations. Conditional on being in the inner suite, executive lawyers earn 35% as much compensation as CEOs. What makes these executive lawyers unique in firm leadership is their dual role as strategic officers and gatekeeping agents. Our goals are to quantify the importance of executive lawyers on these dimensions and then to explore whether the call to add strategic input into business development affects executive lawyers' gatekeeping effectiveness.

The legal literature describes the strategic and gatekeeping roles of executive lawyers (Demott, 2005; Duggin, 2007; Heineman, 2012; Sorkin, 2012). This literature makes a distinction between two aspects of gatekeeping: SEC financial compliance (specifically, gatekeeping tasks that require a lawyer to sign off) and monitoring. For our purposes, this is a helpful distinction for a number of reasons. First, our agenda builds on an important accounting literature documenting the SEC financial compliance (hereafter, compliance) role of lawyers. Jagolinzer, Larcker, and Taylor (2011), Krishnan, Wen, and Zhao (2011), Kwak, To, and Suk

1 Address to the Corporate Counsel Institute, March, 8, 2007
[2] See Dubey and Kripalani (2013) – page 42.

(2012), Choudhary, Schloetzer, and Sturgess (2013), Hopkins, Maydew, and Venkatachalam (2015), and Goh, Lee and Ng (2015) collectively study the effect of the lawyer on the likelihood of compliance breaches to accounting and insider trading regulations. Second, the signing-off function sets apart compliance because the lawyers faces personal exposure to liability, which surely affects behavior. In the surveys of Deloitte (2011) and KPMG (2012), roughly two-thirds of general counsels cite maintaining compliance as their greatest concern. Monitoring covers a large breadth of activities that lawyers guard for potential breach of law or contract, including antitrust, disclosure, affiliated transactions, and contract infringements.[3] Although these potential legal exposures are important, the general counsel has much more flexibility in choosing how to use her time to monitor and mitigate risks across this broader set of legal exposures. By contrast, compliance is a mandatory function. Third, monitoring warrants a stand-alone examination, given the increasing importance of internal governance for the firm, following hostile takeovers of the 1980s, the Sarbanes-Oxley Act (SOX) in the early 2000s, the Dodd-Frank legislation subsequent to the financial crisis starting in 2008, and most recently, shareholder activism.

In their third role, that of strategic officers, executive lawyers offer their legal expertise as an input into business development and strategic risk management (Sorkin, 2012). As motivation, imagine being a CEO or director of a company such as Tesla, Google or Ford. Surely one would want legal expertise in the strategic team to consider consumer liability as these firms consider capital expenditure and R&D investments in the self-driving car market. Russell Reynolds Associates (2013) analyzed their database of 3,000 assessments of corporate executives and found that "*contrary to conventional wisdom, the legal executives go well beyond spotting legal issues to helping the business actually take risks and find creative solutions.*"

[3] We build off the important work of Kwak et al. (2012), who provide evidence for monitoring by executive lawyers by including the appointment of a new general counsel as a factor in predicting litigation risk.

With these roles in mind, we conduct two sets of empirical analyses. First, we gauge the importance of executive lawyers in these multiple tasks, providing empirical support for the legal literature on the role of corporate lawyers (e.g., Nelson and Nielsen, 2000; Coffee, 2003; DeMott, 2005; Heineman, 2012; Sorkin, 2012). We begin with the individual fixed effects model of Bertrand and Schoar (2003), which uses movement of executives across firms to estimate how much variation in outcomes of firms is due to individual managers. The premise of this methodology, originally applied to CEOs, is that if individual lawyers explain some of the variations of an outcome over and above firm fixed effects, then one can infer that individual differences across lawyers are relevant to the firm's success, and thus the position of general counsel is important to the firm.

To implement the individual fixed effects method, we measure compliance failures with Accounting and Auditing Enforcement Releases (AAERs) and SEC allegations of insider trading. We measure monitoring failures with securities fraud, securities lawsuits purged of AAERs, and general lawsuits, and we measure business development with capital expenditure intensity, R&D, business segments, and filing of patents. Across U.S. public corporations, we find that lawyer fixed effects increase adjusted r-squared by 0.045 for compliance, 0.072 for monitoring, and 0.018 for business development, over and above firm and year fixed effects and after controlling for the firm-specific time trend. This average r-squared increment explained by lawyers is about half as large as the r-squared increment explained by CEO fixed effects, and thus very material.

The individual fixed effects methodology has a limitation in generalizability in that identification comes from the selection of individuals that move. Thus, we implement a second methodology, running propensity-score-matched, difference-in-differences tests around the

hiring of an executive lawyer into the firm. We find that firms hiring executive lawyers exhibit a 50% reduction of compliance failures and a 32% reduction of monitoring failures relative to their propensity score matched firms that do not hire executive lawyers. We argue that the bias on these results is likely to be conservative since, all else equal on observables, firms expecting future governance strains are likely to select into hiring gatekeepers.

The two designs complement each other in mitigating other bias concerns. On one hand, the lawyer fixed effects analysis may err on estimating only within the set of executive lawyers who move from one corporation to another, but it is free from the biases related to the decision to hire. On the other hand, the propensity score matched difference-in-differences analysis may err on not being able to control for all unobservables in the decision to hire, but this analysis is free from the selection bias by including all potential outside hires (not just movers among public corporations). We argue that taken together, consistency in the estimates across methods suggests robust evidence of the importance of lawyers in gatekeeping and business development.

Our second agenda is to ask whether executive lawyers trade off some of this gatekeeping when they have incentive contracts designed to reward business development effort. We are not saying that effort toward business development is suboptimal from a firm's perspective, but rather that the title of general counsel may become window dressing for society looking for full gatekeeping assurances. The theoretic intuition behind our multi-task story is the following setup. Imagine an executive lawyer is paid with salary and equity incentives, has limited time, and faces the possibility of a career-ending governance breach. A governance breach also has dire consequences to firm value, but otherwise, gatekeeping creates no firm value. Motivated by the accounting compliance literature, we assume that the probability of a governance breach grows convexly large as gatekeeping time decreases, but is relatively insensitive to gatekeeping

time once the lawyer is already a somewhat diligent gatekeeper. By contrast, when executive lawyers spend time in business development, the effort always generates firm value. Thus, equity incentives will tilt executive lawyers toward business development in most settings. Firms heterogeneously choose optimal amounts of equity incentives to achieve their optimal mixture of gatekeeping time and business development time. This intuition aligns with our understanding of firm processes. However, we need not assume this optimal contracting intuition. An alternative interpretation is that a lawyer may be distorted away from optimal gatekeeping with equity incentives that the firm is forced to offer in the labor market for lawyer officers. Either story fits with our empirical design, but we use the optimal contracting terminology.

Our identification exploits a comparison of two sets of corporations hiring executive lawyers. The first set poaches existing corporate lawyers from other companies (treated), and the second set hires executive lawyers from law firms (control). Our key assumption is that equity incentives are *initially* less likely to divert newly-hired law firm lawyers away from gatekeeping, compared to their corporate hired peers. The intuition is that law firm lawyers (i) exhibit loyalty to their professional association (Goode, 1957; Hall, 1968; Wallace, 1995), (ii) must go through a learning curve to understand the business development strategy of the firm, (iii) must change their habit as a lawyer and learn to be more comfortable with risk, a contrast to their training to practice risk-aversion (Dubey and Kripalani, 2013), and (iv) must be willing to step away from their stock of reputational capital.

We use this assumption in collapsed, double and triple differenced designs that allow us to assert a plausible casual identification of the effects of equity incentives on gatekeeping. Both the treated and the control are firms hiring executive lawyers; we therefore avoid the endogeneity of whether or not an executive lawyer is hired. The source of hiring, however, is endogenous.

We use propensity score matching within year-industry buckets to level treated and control firms on observable predictors of past and future needs for compliance, monitoring and business development

A residual identification concern is that the level of equity incentives is correlated with our outcomes in a way systematic to hiring source. Contract theory predicts that firms may vary in the level and sensitivity of optimal incentives for a host of reasons. The choice of corporate versus law firm hires may be spuriously correlated with the optimal contracting of incentives due to the nature of the firm. Thus, we further implement a triple differencing, differencing around CEO equity incentives. Any residual effect identified should result through the mechanism of the lawyer. The interpretation could either be that firms use equity incentives to allocate executive lawyers' time among tasks (an optimal contracting equilibrium) or that equity incentives distort lawyers' allocation of time among tasks. We do not distinguish between these interpretations.

We find that higher equity incentives imply materially lower monitoring performance. Corporations providing executive lawyers with one standard deviation higher equity incentives have 1.3 percentage points higher likelihood of securities fraud. We interpret the magnitude relative to the benefit of having an executive lawyer gatekeeper: when firms strongly contract executive lawyers to be strategic officers, lawyers do less monitoring, preventing 25% fewer breaches than are typically mitigated by having an executive gatekeeper.

On the flip side of the tradeoff of executive lawyers' time, we find some, but weak, evidence that equity incentives induce executive lawyers to exert more effort on business development such as capital expenditure, R&D spending, and the filing of a patent. We interpret this evidence with caution. We find no support for equity incentives affecting compliance,

consistent with the literature we cite herein on the dire consequences of compliance infractions for corporate lawyers.

Our study contributes to the new internal governance literature of Acharya, Myers, and Rajan, (2011), Kim and Lu (2012), and Khanna, Kim and Lu (2015). Arguably, the largest internal governance actor or gatekeeper is the general counsel; this important facet of internal governance warrants a big-picture study that looks at its overall effectiveness as well as its interaction with equity incentives. A recent legal literature (Duggin, 2006; Rostain, 2008; Demott, 2012) outlines the compliance and monitoring roles of general counsel. We build on the legal description of lawyer's jobs in corporations and test whether the actions of general counsels are effective. We contribute to a small but growing body of empirical studies on in-house lawyers (Jagolinzer, et al, 2011; Kwak, et al., 2012; Hopkins, et al, 2015; Goh, et al., 2015), which focus on the compliance role of the lawyers, by adding evidence on the monitoring role and strategic development role with a focus on the trade-off between the two.[4]

Our study also adds executive lawyers to the literature on the importance of characteristics of individuals inside the executive suite (e.g., Bertrand and Schoar, 2003; Malmendier and Tate, 2009; Custodio and Metzer, 2014). We show that individual lawyers matter. Concurrently, Krishnan and Masulis (2013) and Karsten, Malmendier and Sautner (2014) take up this question for external lawyers, asking whether lawyer quality affects acquisition outcomes.

II. The Roles of Executive Lawyers

II.a. Compliance officer

[4] Our study is also related to Litov, Sepe, and Whitehead (2014), who study the governance effect of lawyers in the board of directors.

Maintaining compliance in financial filings on a daily basis is the compulsory role of executive lawyers (Lipson, Engel, and Crespo, 2012). Compliance breaches are the greatest legal risk in the view of most executive lawyers; the top cited concerns include SEC fraud investigations, insider trading, and financial misrepresentation (Deloitte, 2011; KPMG, 2012). This is not surprising given the steep reputation costs to infractions of compliance. Desai, Hogan, and Wilkins (2006) find that 60 percent of earnings restating firms experience a turnover of at least one top manager within 24 months of the restatement compared to 35 percent among matched firms. Karpoff, Lee, and Martin (2008) track individuals that the SEC and DOJ identify as responsible parties for enforcement actions concerning financial misrepresentation. They find that 93% of these individuals lose their jobs by the end of the regulatory enforcement period. Most are explicitly fired. Moreover, if managers are alleged to be responsible directly for the misconduct, they not only lose their jobs and bear substantial financial losses but also can face criminal charges and even jail sentences. On the flip side, recent papers in the accounting literature (Jagolinzer, et al., 2011; Kwak, et al., 2012) find that lawyer prestige associates with more favorable compliance outcomes in insider trading and corporate earnings disclosure, suggesting, importantly, that compliance reputation is an upward career ladder for corporate lawyers.

II.b. Internal governance monitor

Beyond compliance, Demott (2005) describes general counsels' day-to-day duties as involving and bearing responsibility for *all* legal exposure affecting the corporation including such matters as customs and trade issues, and intellectual property infractions (Dubey and Kripalani, 2013). General counsels are often responsible for determining the appropriate level of

legal risks to be undertaken by their companies (Rostain, 2008), and have an ongoing role to assess and control legal risks and assist corporations in a proactive manner to detect actions that could lead to corporate liability (Lipson et al. 2012). An executive lawyer views herself as "a guardian of the corporation's integrity and reputation" (Heineman 2007), perhaps because historically the SEC has laid governance breach liability on the position of the general counsel. The SOX Section 307 formalized these monitoring responsibilities by adopting rules whereby corporate lawyers are not just liable for compliance breaches, but are exposed as the office responsible for reporting evidence of material violation of securities laws or breaches of fiduciary duty "up-the-ladder" inside the firm.[5] In addition, SOX endowed the SEC with the necessary power to discipline corporate lawyers who are deemed to lack integrity or who have engaged in unethical or improper professional conduct.

II.c. Strategic officer

> *"A General Counsel needs to be a business person first and a lawyer second—not a lawyer that understands the business, but a business person that happens to be a lawyer"*
> - Marla Persky, General Counsel, Boehringher Ingelheim Corporation[6]

A lessor understood role of an executive lawyer is as a strategic officer, adding planning and risk management input into expansion, innovation, and business development. The role of the executive lawyer has changed dramatically in a world with increasing importance of intangible assets and the information economy. Bagley (2008) points out that firms characterize their executive lawyers more as entrepreneurs than policing lawyers. Executive lawyers are engaged in business development through the work done by the legal department's intellectual

[5] See http://www.sec.gov/rules/final/33-8185.htm.
[6] See Dubey and Kripalani (2013).

property teams (Dubey and Kripalani, 2013), from the earliest phases of business development (Demott, 2005) and throughout the planning and implementation process of investment (Horner, 2007). This view is echoed in practitioner surveys; executive lawyers that receive the best performance ratings are 11% more willing to take risks than the average executive lawyers, and they are as likely to take risks as any other executive (Russell Reynolds Associates, 2013).

III. Data[7]

III.a. Executive lawyers and compensation

To identify the general counsel as a corporate officer, sometimes called chief legal officer, we look for individuals holding the requisite titles by manually reading executive titles from 10-K filings (items 4b and 10) or proxy statements for all firm years in ExecuComp, which covers firms in the S&P large, mid and small cap indices. Over our sample period 1995-2012, this includes 32,372 firm-year observations for more than 3,000 unique firms. We look for three key words: "Counsel," "Legal," and "Law" or abbreviations or variants. Then we read each signatory on the filings, as each company should have a lawyer that carries the responsibility of the legal signatory to the SEC. If such person is not listed as one of the executive officers, and the name signing the legal certification does not have a general counsel or chief legal officer designation, it is likely that the lawyer is not an important corporate officer in the firm. We further look to ExecuComp titles for the same legal recognition, just in case the legal counsel also holds another title which she uses to sign the SEC documents.[8] In our sample, 70 percent of firms on average have a general counsel as a corporate officer, relatively stable over time.[9]

[7] Appendix Table 1 summarizes all of the variables listed in this section.
[8] ExecuComp often records multiple titles. One issue with Execucomp is in its use of abbreviations of an executive title. For example, the title of a general counsel could be spelled as "gen cou," "gncns," "gen cns," etc. We add all

In the main tests, we impose an additional attribute to designate general counsel in the inner executive office as executive lawyer (ExecLawyer). We apply a monetary proxy for the importance of the general counsel in the firm; individuals must be among the top paid officers in a company in ExecuComp. We force stringency that this proxy is not transitory in requiring that the officer remain in the top paid executives for three years.

Our empirical design for examining optimal contracting of equity incentives relies on the employment history of these ExecLawyers. We look up the full career path of work experience from law school graduation to prior to becoming ExecLawyer of a firm by hand collecting ExecLawyer's bios from corporate filings and online sources such as LinkedIn and law firm websites. We are able to identify the last work experience before becoming ExecLawyer for 2,446 of the total 2,630 ExecLawyers in our sample.

We use compensation data from ExecuComp for the ExecLawyer and CEO. We use TDC1 – total compensation – from ExecuComp to measure executives' total pay.[10] We follow Core and Guay (1999) to estimate the sensitivity of the value of the ExecLawyer's accumulated equity-based compensation (including both stocks and options) to a one-percent change in the stock price, which is referred to as "delta".[11]

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versions of these words we can find. Further, the initial search of the three key words resulted in many executives who are not general counsels (e.g. "Special Counsel", "Former Counsel"). We verify whether the executive officer identified is in fact a general counsel of the firm through further reading their full executive titles.

[9] Our fixed effects analysis is based on this complete set of generate counsels as corporate officers, and thereby identifying lawyer fixed effects using all movers within our sample.

[10] TDC1 is comprised of salary, bonus, other annual cash compensation, restricted stock award, LTIP, value of option grants, and all other compensation for pre-2006 reporting format and it is comprised of salary, bonus, non-equity incentive plan compensation, grant-date fair value of option wards, grant-date fair value of stock awards, deferred compensation earnings, and other compensation for post-2006 reporting format.

[11] In order to calculate delta, we require information on the number of shares and both the number and value of unexercised options held by the ExecLawyer. We find that ExecuComp often does not report the actual share ownership for non-CEO executives. In such cases, we assume the delta of stock holdings to be zero. Nevertheless, for robustness purpose, we perform additional multivariate tests by using the sub-sample after dropping delta that carries missing/zero values.

III.b. Compliance failures

We measure the failures of compliance in two dimensions, both requiring the signature of the general counsel on forms – Accounting and Auditing Enforcement Releases (*AAERs*) and insider trading. AAERs are issued at the conclusion of an SEC investigation against a company, an auditor, or an officer for alleged accounting and/or auditing misconduct. We obtain AAERs data from the Center for Financial Reporting and Management Center at Berkeley Haas. We code the variable AAER to capture when the alleged accounting misconduct was taking place (known ex post) rather than when the enforcement action is launched. We exclude AAERs that are not related to misstatement (e.g., for reasons such as bribery and disclosure). Because it takes approximately a year and a half for frauds to emerge (Dyck, Morse, and Zingales, 2010) and another span of a year or two for the SEC to complete an investigation, we truncate analysis to 2009 when studying AAERs given that our sample ends in 2012.

Similarly, we measure insider trading using alleged cases. We manually collect alleged insider trading cases from SEC litigation releases and match them with our sample firms.[12] Thus the two compliance failure measures are both violation based, capturing the actual failure rather than the likelihood of compliance breaches as seen in prior studies on corporate lawyers (e.g. earnings management measures, insider trading profit measures, etc.).

[12] The SEC litigation releases are publicly available on the SEC website: https://www.sec.gov/litigation/litreleases.shtml. These releases are summaries issued by the SEC that describe civil lawsuits brought by the Commission in federal court. We read litigation releases to uncover investigations involving insider trading as the reason for the suits. If a corporate executive is alleged to have traded his/her own company's stock based on insider information or have tipped such information for others to trade, then we code that firm year to be an insider trading year. A drawback is that the releases often do not record the exact dates when insider trading took place. We remove these cases.

III.c. Monitoring failures

We measure monitoring failures with general litigation and lawsuits. First, we use the class period (the period in which an alleged fraud was taking place) of securities class action lawsuits. Securities fraud involves more general misconduct than financial misrepresentation, with over 40% of securities fraud not related to misrepresentations in reporting but instead related to other infractions such as omissions in communication, self-dealing or other illegal activities which hurt shareholders (Dyck, Morse and Zingales, 2010; 2014).[13] Data for these lawsuits come from the Stanford Law School Securities Class Action Clearinghouse. We cleanse the securities class actions database of dismissed and unresolved cases.[14] Second, for robustness we purge the securities fraud measure of those firm-years when an AAER infringement is occurring. The third lawsuit measure covers breaches of any law, including but not restricted to securities law. We collect general lawsuits data from Audit Analytics and purge suits that lead to AAERs and those with zero settlement.[15] Examples of general lawsuits include suits arising from trademark or patent disputes, product liability, personal injury, labor disputes, commercial contracts, etc.

[13] See Karpoff, Koester, Lee, and Martin (2013) for a comparison of fraud data.

[14] To construct a securities fraud variable, we collect the class action lawsuits filed during 1995-2012 from the Stanford Law School Securities Class Action Clearing House and merge them to Compustat. The Stanford Law School Securities Class Action Clearing house database has been employed by a number of prior studies (e.g., Lowry and Shu, 2002; Field, Lowry, and Shu, 2005; Dyck, Morse, and Zingales, 2010; and Hanley and Hoberg, 2012). These securities frauds are alleged rather than proven, in that few cases ever get resolved in trail, but rather settle out of court, because D&O insurance does not cover the executives with court convictions. There are altogether 1,187 lawsuits filed against public firms during this period, with 582 cases that were dismissed by the court and 78 that we remove for being unresolved.

[15] There are altogether 6,929 lawsuits with 5,056 suits with zero settlement during our sample period.

III.d. Business development measures and other company outcomes

In choosing measures of business development, we focus on organic growth because corporations almost always hire external transaction lawyers for one-time events such as M&A or spinoffs (Krishnan and Masulis, 2013). The idea of our business development variables is not that lawyer is sitting with the scientists and engineers doing the innovation, but that the lawyer is asked to do an assessment of liability exposure (e.g., for consumer liability exposure in self-driving cars or patent liability in technology market strategies) prior to an R&D or capital expenditure campaign. Our measures of business development thus will be somewhat noisy, but should capture on average these mechanisms, especially if contracts are optimally designed to induce lawyer effort into these realms.

The first measure is the ratio of capital expenditure to fixed assets at the beginning of the fiscal year, capturing investment intensity in tangible assets (Eisdorfer, 2008). The second measure is R&D expenses scaled by assets as a measure of investment intensity in intangible assets. The third measure is the number of business segments, capturing expansion in the line of business. All of these measures are from Compustat data. A final measure is whether the firm is filing patents or not, in the pre-2006 NBER patent database.[16]

Our analysis also considers three typical measures of corporate governance, not related to lawyer activity, to consider the mechanism of our results. We use institutional ownership from Thomson Reuters Ownership Database (13Fs) to measure the strength of external shareholder monitoring. To strengthen the board, the shareholders may bring in more independent board

[16] We were kindly provided the merged NBER patent data with Compustat by Jin Wang. Admittedly, patents are a bit problematic as a measure of business development. First is the problem of the [heterogeneous] time lag between innovation and the filing of a patent. Second is the huge skew in patent data, which is observed even beyond taking logarithms; we focus on the dichotomous variable "whether the firm is filing a patent" to avoid this concern. Third and probably most substantially, is the finding by Moser (2013) and others that firms prefer secrecy over patenting for innovation. Patenting in her historical accounts is more about diffusion.

members. We gather these data from Riskmetrics. We also obtain the G-index of Gompers, Ishii and Metrick (2003) from Riskmetrics to measure shareholder rights. A higher value of G-index indicates weaker shareholder monitoring.

IV. The Importance of Lawyers

IV.a. Importance of lawyers: Statistics

Table 1 profiles General Counsel and ExecLawyers based on the ExecuComp sample of 32,372 firm-year observations and tabulated by fiscal years. The second and third columns respectively report the percentage of firms having a General Counsel as a corporate officer and having an ExecLawyer, identified in the annual SEC filings and in ExecuComp. In both series, we document a secular trend upwards. In the year 1995, 66% of the S&P 1,500 index firms had General Counsel as a corporate officer while 33% of the firm had an ExecLawyer; the percentage increases to 81% and 44%, respectively by the year 2012. Our numbers on ExecLawyer are a few percent lower than those reported in Kwak, et al. (2012), who document this pattern with the addition of legal affairs officers and some other variations such as legal or political officers. Conditional on having an ExecLawyer, the remaining statistics in Table 1 report that ExecLawyer compensation has increased from $631 thousand to $1.85 million while the CEO compensation has increased from $2.41 million to $6.4 million in constant 2012 dollars from 1995 to 2012. Executive lawyers' pay as a fraction of CEO pay remains about 37% in our sample period. For every 1% increase in shareholder value, ExecLawyers make another $55,000 in equity income on average, a much smaller fraction (6%) of wealth performance sensitivity

compared to the CEOs' delta.[17] About one third of the ExecLawyer deltas are zero, a point we re-visit empirically.

IV.a. Importance of lawyers: Methodology

To measure to what extent differences among individual general counsels matter, we use a lawyer fixed effect model, following Bertrand and Schoar (2003), Malmendier and Tate (2009) and Custodio and Metgzer (2014). Bertrand and Schoar use the movement of executives across firms to gauge how much variation in the performance metrics of relevant firms is due to individual managers. A recent accounting literature applies this methodology to document significant top mangers' individual effects on firms' voluntary disclosures, tax avoidance, and a wide range of financial reporting choices (Bamber, Jiang and Wang, 2010; Jiang, Petroni, and Wang, 2010; Dyreng, Hanlon and Maydew, 2010; Ge, Matsumoto and Zhang, 2011).

We use this methodology to accomplish two goals. First, individual lawyer fixed effects analysis allows us to test for importance of lawyers across the multi-task dimensions of compliance, monitoring and business development. Second, the analysis allows for a relative quantification metric – comparing the importance of individual lawyers across firms relative to the importance of CEOs.

In our implementation, we use all general counsels, not simply those we classify as being in the top executive offices by salary, because, not being constrained to have compensation data, we can more cleanly identify true moves of lawyers across firms. We limit the sample to lawyers who move among firms. Our estimating equations are a sequence as follows, with y_{ijt} being some

[17] Our estimates of CEO delta are very close to those in Core and Guay (1999) and Chava and Purnanandam (2010). In fact, Chava and Purnanandam (2010) show CFO's delta has a mean of $71 thousand in their sample, which is slightly higher than our delta estimates for executive lawyers.

compliance, monitoring or business development outcome for individual manager *i* in firm *j* at time *t*:

(*i*) $y_{ijt} = Firm\ fixed\ effects + Firm\ fixed\ effects \times Year$

(*ii*) $y_{ijt} = Firm\ fixed\ effects + Firm\ fixed\ effects \times Year + Lawyer\ fixed\ effects$

(*iii*) $y_{ijt} = Firm\ fixed\ effects + Firm\ fixed\ effects \times Year + Lawyer\ fixed\ effects + CEO\ fixed\ effects$

The main inference from this method comes from calculating the increase in adjusted r-squared moving from equation (i) to (ii). Because a lawyer fixed effect may be spuriously correlated with CEO effects, which the literature finds to be robustly important, we follow Ge et al. (2011) in including equation (iii) to test whether the economic and statistical significance of lawyer effects holds in the presence of CEO effects. Also, particular for our analysis of lawyers, firm-level trends in outcomes may be spuriously correlated with the role of lawyers, the importance of which has been growing over time in firms. Thus, we include firm-level linear trends which are captured by the interactions of firm fixed effects and year in the estimation. One should take caution in interpreting the magnitude of CEO fixed effects in equation (iii) because we restrict the sample to general counsel movers but not CEO movers. We provide a better magnitude comparison in Appendix Table 2, which reports the CEO fixed effects estimation using a CEO mover sample.

IV.b. Importance of lawyers: Results

Table 2 reports the lawyer fixed effects results, mimicking the layout of Bertrand and Schoar (2003). The table reads down by rows, with the first row under each variable reporting the adjusted r-squared for a model with just firm fixed effects and a linear trend. For the compliance measures, these adjusted r-squareds for AAERs and insider trading are 0.785 and 0.342 respectively. The addition of a lawyer fixed effect (the second row) increases the r-squared

to 0.82 and 0.397, representing an average improvement of 0.045 (4.5 percentage of variation explained in increment). The F-tests for the joint significance of the lawyer fixed effects have p-values of <0.01. These results are robust to the addition of CEO fixed effect (the third row).

In terms of monitoring, the lawyer fixed effects improve r-squared by rather consistent increments of 0.079, 0.072 and 0.066 (7.9, 7.2 and 6.6 percentage of the variation) in the three litigation variables.

The lawyer fixed effects explain smallest increments in the business development variables. The r-squareds increase by 0.008 (capital expenditures), 0 (R&D), 0.046 (business segments), and 0.019 (filing a patent). Together, including the zero effect for R&D, these increments on average represent a smaller 1.8 percentage change over the r-squared without the lawyer fixed effects.[18] As noted in the data section, these business development variables are noisy measures of the effort of lawyers in strategic planning and strategic risk management, and thus we find the lower importance of lawyers here to be intuitive.

To put these magnitudes into perspective, we compare the increments in r-squared explained by lawyers to that explained by CEOs in a CEO mover analysis presented in Appendix Table 2. We are cautious in interpreting specific line items because, for example, individual CEO fixed effects also have moderate contribution to r-squared for business development, making the lawyer fixed effects look very strong in business development as a comparison. Instead, taking a simple average of r-squared increments across all variables reported, we find that lawyer fixed effects explain 51% as much variation as CEO fixed effects. We interpret it as suggesting that lawyers are 51% as relevant in these domains as CEOs.

[18] Neither lawyer nor CEO heterogeneity has power in explaining corporate innovation as measured by R&D, which is consistent with the findings of Cho, Halford, Hsu and Ng (2016).

IV.c. Importance of lawyers: Hiring methodology

Interpreting the lawyer fixed effects results with generalizable causality language could be problematic if lawyers that move among firms are mobile because of the individual's capability in compliance, monitoring, or business development. Thus, we implement a second approach that identifies off the decision of hiring executive lawyers. We ask whether firms that hire an ExecLawyer experience changes in compliance, monitoring, and business development that are different compared to those not hiring, using a propensity score matched difference-in-differences approach. This approach has endogeneity issues of its own: even after propensity matching firms on observables, unobservables such as the future need for an executive lawyer may determine the hiring decision. The sign of the bias should be conservative for compliance and monitoring: if a firm has a future need for governance, it is likely that the firm is entering a phase of increased pressure on their governance, thereby biasing downward any positive effect of hiring an ExecLawyer on such outcomes.[19] Thus, even though this approach cannot be ascertained to be free of selection, it imposes an opposite selection compared to the previous methodology – looking at all hires compared to none (here) versus looking among heterogeneities within the hires and fires (the lawyer fixed effects method). Thus, if the two methods produce similar results, the inference is quite suggestive of lawyers being important on these dimensions.

For our tests, we define the treated firms to be those that hired executive lawyers who stayed for at least three years and had no executive lawyers in the prior two years, and control firms to be those that had no executive lawyers from two years prior to two years after. For each

19 We cannot make this conservative claim for business development, and in fact our instincts are that the bias would likely be anticonservative. However, we include the results only for parallel reporting of results and transparency.

treated firm, we first find the set of matched firm using the year of hiring and one-digit SIC industry and then draw three nearest neighboring firms using the hiring propensity. The hiring propensity is estimated by running a logit model with dependent variable taking the value of one for executive lawyer hiring firms and zero for non-hiring firms. The independent variables (lagged one year prior to the hiring year) include measures of gatekeeping failures—AAER fraud, SEC insider trading, securities fraud—as well as the natural logarithm of market capitalization, market-adjusted returns, leverage, ROA, firm age, capex, R&D, business segments, time trend, time trend squared, and one-digit SIC industry fixed effects.

Appendix Table 3 reports the comparison between executive lawyer hiring and non-hiring firms in compliance and monitoring failures, business development, and other independent variables used in the propensity estimation model. Prior to the matching procedure, the firms differ in potentially important dimensions. Firms that hire ExecLawyer tend to have greater incidence of compliance failures, are smaller in market capitalization, have higher leverage and more business segments but lower market-to-book, ROA, and R&D expenses. These differences confirm the need to use a matched sample. Appendix Table 4 model (1) reports the fitting of the propensity estimation model. The "post-match" columns in Appendix Table 3 show that after propensity matching, the treated firms and control firms are no longer statistically different in any of these measures in the year prior to hiring.

IV.d. Importance of lawyers: Hiring results

Table 3 (Panel A) reports the results of the collapsed difference-in-differences tests with hiring year and one-digit SIC industry fixed effects. This is the most stringent specification for this methodology following Bertrand, Duflo, and Mullainathan (2004). The dependent variable is

the change in outcome (compliance, monitoring or business development) from the pre-hiring to post-hiring period. Each firm has one observation, and estimation weights balance the matching. For example, in this collapsed specification the AAERs dependent variable would be the occurrence of any AAER (the max over a 0-1 variable) in the two years following the hire, excluding the hiring year, minus the occurrence of any AAER in the two years prior to the hire. Our sample comprises 536 firms hiring ExecLawyers and 792 matched non-hiring firms. Odd numbered columns are the raw difference-in-differences, and even columns include the hire year and industry fixed effects.

We find that the two compliance failure measures are strongly significant (both economically and statistically) in the direction of the executive lawyer being a mechanism in improving compliance.[20] The incidence of AAERs in hiring firms is 0.029 to 0.033 lower (in columns 2 and 3 respectively) compared to control firms over the two-year period after the hiring of ExecLawyer. Using the pre-hiring mean (from Appendix Table 3) as benchmark, these numbers imply a 44.4 to 50.5 percentage lower annual prevalence of these compliance breaches. Likewise, firms hiring an ExecLawyer experience a 46.9 to 60.3 percentage reduction in insider trading breaches. Averaging the improvements over all the compliance columns in panel A of Table 3, we conclude that hiring an ExecLawyer reduces compliance breaches by 50%.

Likewise, in Panel B, hiring firms exhibit fewer securities fraud incidents and general lawsuits. Just focusing on the percentage change rows relative to the pre-hire mean, we find that hiring an ExecLawyer reduces securities fraud and general lawsuits by 32% on average. The results for the securities fraud purged of AAERs are in the same direction, yet with less power.

[20] Our findings are consistent with Kwak, et al. (2012)'s and Jagolinzer, et al. (2011)'s studies which find compliance improvements with the presence of super lawyers in the firm.

We do not find any effect of hiring an executive lawyer on business development except for some weak evidence on business segments and on patent filings, working in opposite directions. We interpret any results with caution here because we cannot sign the selection bias of these tests. In the case of the gatekeeping results, we believe the bias is conservative in that firms in need of gatekeeping in the future (and thus hiring) would be ones expecting an increase in governance breaches.

To speak to the selection concern that the lawyer may not be the mechanism of governance improvement, we explore whether the hiring of ExecLawyers reflects an overall strategy implemented by boards or CEOs to improve governance on many dimensions. We look to other governance actions taken by the board or shareholders at the same time as hiring an executive lawyer. Panel D reports the results; we find no effects timed to the executive lawyer hiring.

For consistency to our Table 3 results, we also implement collapsed difference-in-differences estimation for the external hiring of General Counsel (rather than top five paid ExecLawyers). The dependent variable is the change in outcome variables from pre-hiring to post-hiring of General Counsel. The results (in both statistical significance and economic magnitudes) are consistent with those presented in Table 3. We omit reporting these results for brevity.

As a final robustness check to our results, we explore, following Desai and Dharmapala (2006), whether the difference-in-differences results vary in subsamples with different governance strength. Subsamples are formed using three independent corporate governance measures. Appendix Table 5 reports collapsed difference-in-differences results in the same specification as Table 3, but splitting the sample by institutional ownership (in columns (1) and

(2)), board independence (in columns (3) and (4)), and the G-index (in columns (5) and (6)). The split by institutional ownership and board independence is based on the sample median while the split by G-index is based on whether the value is above nine in the year of ExecLawyer hiring. The prediction following Desai and Dharmapala (2006) is that governance improvements should happen where they are needed the most. Firms that have higher institutional ownership, higher board independence, and lower G-index are supposedly better governed firms.

Our results in Appendix Table 5 show that poorly governed hiring firms experience larger improvement in AAER and general lawsuit mitigation than well governed firms, compared to the matched sample. The same pattern, although without precision in the stringent collapsed specification, is apparent in general lawsuits. The results on SEC alleged insider trading, however seem mixed, perhaps due to incentives to do insider trading as related to these endogenous splits. Although we cannot claim a strong causal interpretation to the story of poorly governed firms improving the most because of endogeneity of the split, together the total set of difference-in-differences hiring results do paint a picture of the importance of lawyers for gatekeeping.

V. Gatekeepers versus Window Dressing

V.a. Gatekeepers versus window dressing: Methodology

Our main agenda is to explore whether executive lawyers are induced to trade off gatekeeping when they have incentive contracts designed to reward business development efforts. Our identification novelty is a comparison across two sets of firms, both hiring executive lawyers. One set hires from law firms; the other, from other corporations. Our main identifying assumption is that executive lawyers hired from law firms are *initially* less likely to reduce their

gatekeeping effort as a reaction to equity incentives than are executive lawyers poached from other corporations. We first motivate this assumption based on the source of hiring and then lay out how we can use the source of hiring for a plausibly causal identification.

Executives that are hired from law firms have built both their human capital and their reputational capital in lawyering not corporate strategic decision-making. These lawyers have rarely worked outside law firms. By training and by practice, gatekeeping comes more naturally than risk-taking, reinforced by the conservative biases of law practice and by the reality that the newly-hired law firm lawyer has all of her reputation at stake in the event of a gatekeeping failure. Once inside the firm, the sociology literature on professionalism guides our thinking about the transformation of lawyers with professional identities. Goode (1957) defines a professional community (e.g., doctors, lawyers, professors, etc.) as occupations where all members are bounded by a sense of identity and common values. Hall (1968) documents that professionals working inside an organization may identify less with the organization compared to other employees, because of conflicts between administrative imperatives and professional norms. Consistent with our assumption most directly, Wallace (1995) finds that lawyers working in corporations are significantly less committed to the legal profession than those working in law firms.

Putting these ideas together, law firm lawyers (i) exhibit loyalty to their professional association, (ii) must go through a learning curve to understand the business development strategy of the firm, (iii) must change their trained risk-aversion habit as a lawyer and learn to be more comfortable with risk, and (iv) must be willing to step away from their stock of reputational capital. All of these factors imply that law firm-hired lawyers should be less likely

on average than corporate-hired lawyers to respond to equity incentives in such a way as trading off gatekeeping for strategic input.

Our comparison of the effect of equity incentives on law firm hired-lawyers versus corporate hired-lawyers does not presume that corporations exogenously choose the source of hiring. Our design in this section begins by levelling firms on the ex ante propensity to select one hiring source over the other and then absorbs any ex post outcome differences induced by the hiring source by interacting the post indictor with the hiring source. Below we lay out these details, and the exogeneity assumption that we need.

Our estimating equation for our main test on equity incentives is as follows:

$$\begin{aligned} y_{it} &= \alpha_1 Post_{it} + \alpha_2 CorporateHire_i + \alpha_3 Post_{it} CorporateHire_i + \mu_{year} + \mu_{industry} + \mu_{hireyear} \\ &+ \alpha_4 ExecLawyerDelta_{i,hireyear} + \alpha_5 CorporateHire_i ExecLawyerDelta_{i,hireyear} \\ &+ \alpha_6 Post_{it} ExecLawyerDelta_{i,hireyear} + \alpha_7 Post_{it} CorporateHire_i ExecLawyerDelta_{i,hireyear} + \varepsilon_{it} \end{aligned} \quad (1)$$

y_{it} is the outcome measure of compliance, monitoring, or business development. $Post_{it}$ is an indicator being equal to zero for the two years before a hire and one for the two years following the hire, excluding the hire year. (Our results hold extending the ex post duration to three years.) The sample is firms that hire an ExecLawyer externally from either another company (treatment group: *CorporateHire*=1) or a law firm (control group: *CorporateHire*=0). $ExecLawyerDelta_{i,hireyear}$ is the compensation delta of the ExecLawyer *i*, defined only at the hiring year to avoid confounding effect of performance. The delta primarily captures sign-on incentive contracting. Although $ExecLawyerDelta_{i,hireyear}$ is in a future time point for the *Post = 0* observations, its interaction with *CorporateHire* allows us to difference out a selection effect. (Our results hold if we remove this level effect.) Our variable of interest is α_7, the coefficient on

the difference-in-differences term interacted with the compensation delta $Post_{it}CorporateHire_{i}ExecLawyerDelta_{i,hireyear}$.

Before we estimate equation (1), we need to propensity-score match firms to deal with ex ante selection of hiring from a corporation versus a law firm. The idea is that for every law firm hire, we find matches in the larger pool of firms that hire from a corporation to form a sample comparable on observables. Appendix Table 4 model (2) reports the results of the logit propensity estimation with the dependent variable taking on the value of one if a firm hires an executive lawyer from a law firm and zero if a firm hires from a corporation. The independent variables are identical to those used to estimate the propensity of executive lawyer hiring decision as in model (1). For each firm that hires an executive lawyer from a law firm, we first find the set of matched firm using the year of hiring and one-digit SIC industry and then find three nearest neighbors in propensity score. Appendix Table 6 compares firm characteristics after matching for the corporate hire firms and the law firm hire firms in the year prior to hiring, finding no statistically significant differences by hiring source.

It could be that the source of hiring is still endogenous to ex post outcomes. However, our inference comes not from a difference-in-differences estimator but from the difference-in-difference estimator interacted with delta. That is, we only interpret $Post_{it}CorporateHire_{i}$ as absorbing any ex post selection in hiring from the corporation. De facto, however, after propensity-score matching and differencing, we find little-to-no evidence for any ex ante or ex post selection by hiring source.

Our identification does rely, however, on one exogeneity condition for interpreting our main variable of interest, α_7: Had the firm hired an ExecLawyer from a corporation, the firm's outcome sensitivity to equity incentives would have evolved similarly as had they hired from a

law firm, once we propensity match, control for both the ex-ante and ex post selection of hiring from a corporation (*CorporateHire, Post, and Post*CorporateHire*), and control for selection on any incentive pay needs of the firm (*ExecLawyerDelta*, *CorporateHire*ExecLawyerDelta*). With so many differencing and interactions, it is perhaps easier to state the opposite – what it would take for our identification to fail. It could be that the firm's selection of hiring sources may reflect some omitted variable correlated with the effectiveness of equity incentives. That is, it is possible that some unobservable factor could drive both the selection of hiring sources and the sensitivity of corporate outcomes to equity incentives. To address this concern, we implement a triple difference form as follows:

$$\begin{aligned} y_{it} &= \alpha_1 Post_{it} + \alpha_2 CorporateHire_i + \alpha_3 Post_{it} CorporateHire_i + \mu_{year} + \mu_{industry} + \mu_{hireyear} \\ &+ \alpha_4 ExecLawyerDelta_{i,hireyear} + \alpha_5 CorporateHire_i ExecLawyerDelta_{i,hireyear} \\ &+ \alpha_6 Post_{it} ExecLawyerDelta_{i,hireyear} + \alpha_7 Post_{it} CorporateHire_i ExecLawyerDelta_{i,hireyear} \\ &+ \alpha_8 Post_{it} CEODelta_{i,hireyear} + \alpha_9 Post_{it} CorporateHire_i CEODelta_{i,hireyear} + \varepsilon_{it} \end{aligned} \quad (2)$$

We introduce $CEODelta_{i,hireyear}$ into the equation, which is the level of equity incentives of the CEO in the hiring year of the ExecLawyer. In essence, we are forcing the comparison to difference around the endogenous use of equity incentives for firms. Contract theory predicts that firms with different contracting environment vary in levels and sensitivities of optimal incentives. Studies on executive compensation (e.g. Core, Holthausen and Larcker (1999), Armstrong, Jagolinzer, and Larcker (2010)) suggest that both innate firm economic characteristics such as size, complexity, growth, and firm corporate governance characteristics affect managerial compensation. $CEODelta_{i,hireyear}$ and its sensitivity to outcomes should capture the unobservable differences in compensation contracting environment between the treatment group and matched firms, if there are any.

To deal with the concerns of serial correlation and over-rejection of the null, we adopt as robustness the collapsed estimation procedure recommended by Bertrand, Duflo, and Mullainathan (2004). We collapse our time series observation around ExecLawyer hiring into pre and post periods and calculate the change in outcome measures of the treatment group and the control group respectively. The form of this estimation equation is given below, where Δ implies the average in the post period minus the average in the pre period:

$$\Delta y_t = \lambda_1 CorporateHire_i + \lambda_2 ExecLawyerDelta_{i,hireyear} + \lambda_3 CorporateHire_i ExecLawyerDelta_{i,hireyear} + \lambda_4 CEODelta_{i,hireyear} + \lambda_5 CorporateHire_i CEODelta_{i,hireyear} + \mu_{industry} + \mu_{hireyear} + \varepsilon_i \quad (3)$$

V.b. Gatekeepers versus window dressing: Compliance results

Table 4 reports the double and triple differencing results as to whether equity incentives impact executive lawyers' effort exerted in compliance. Columns (1) to (3) consider AAER fraud outcomes, and columns (4) to (6), SEC alleged insider trading. In columns (1) and (4), we find no difference in ex post compliance by hiring source. The main variable of interest in Table 4 is *Post*CorporateHire*Log(ExecLawyerDelta)*, where we have added $10,000 to the delta before taking the natural logarithm transformation so that we do not simply identify off the skewness. Columns (3) and (6) add in the further differencing around the equity incentive level of the CEO. We include a series of fixed effects for industry, year and hiring year, and cluster errors at the firm-hire level. Overall, we have 414 firm-hires which result in about four times that number of observations.

We find little evidence that equity incentives divert or enhance compliance efforts, as manifested in either AAER fraud or insider trading. The coefficient of interest is insignificant across all columns. The lack of an effect of incentive pay on compliance outcomes is perhaps to be expected because of steep reputation costs to infractions (Desai, Hogan, and Wilkins, 2006;

Karpoff, Lee, and Martin, 2008).[21] Likewise, CEO deltas play no role in compliance outcomes in this setup.

V.c. Gatekeepers versus window dressing: Monitoring results

Table 5 repeats the exercise of Table 4, but this time for the monitoring aspect of gatekeeping. We measure monitoring effectiveness in three dimensions – securities frauds, securities lawsuits excluding AAER, and general lawsuits. Again, we first start by looking at selection gauged ex post and find no evidence that the hiring source predicts firm monitoring outcomes. The coefficients on *Post*CorporateHire* in columns (1) (securities fraud), (4) (AAER purged securities fraud) and (7) (general lawsuits) are insignificant.

Turning to the main results, the coefficients on *Post*CorporateHire*Log(ExecLawyerDelta)* in columns (2), (3), (5), (6), (8) and (9) are all positive and significant. We defer interpreting any economic magnitude until we show the more stringent collapsed version of these tests.

We implement two more stringent specifications: (i) a specification where we focus on only those lawyers who are hired with positive delta, and (ii) a collapsed specification per Bertrand, Duflo, and Mullanathan (2004). Table 6 limits our sample to firms that hire ExecLawyers with positive compensation delta, eliminating lawyers with no sign-on equity incentives. Even though the number of observations drops by 40%, the coefficient estimates on the variable of interest *Post*CorporateHire*Log(ExecLawyerDelta)* hardly change in our new specification.

[21] In the monitoring results to be presented in the next section, we include robustness tables, limiting to only positive executive lawyer delta firms and implementing a collapsed version as well. For compliance, we find no results in these alternative specifications as well, and thus omit them for space considerations.

Finally, Table 7 presents our most stringent specification, a collapsed version of the difference in differences as in equation (3). The dependent variable is the change of governance measures from the pre-hiring to post-hiring period, thus each firm has one observation. Our variable of interest is *CorporateHire*Log(ExecLawyerDelta)*. As in the prior tables, the coefficient on this variable is positive and significant for securities fraud and AAER purged securities lawsuits. The result is not statistically significant for general lawsuits, although as in the prior two tables, the coefficients across all of these columns are relatively consistent in magnitude. In sum, under our plausibly causal design, across Tables 5 – 7, our evidence suggests that the optimal contracting of lawyers into strategic initiatives diverts lawyers away from monitoring, resulting in an increase in the likelihood of a firm committing monitoring breaches.

What is the economic significance of the results? We focus on a one standard deviation higher value of the *Log(ExecLawyerDelta)* in the cross section at the hiring year, or an equivalent $22,000 larger *ExecLawyerDelta* above the mean value. These same lawyers hired with a $22,000 larger delta at sign-on have an approximately $60,000 larger delta two years after hiring, which is perhaps the more appropriate way to state the comparison. After considering the bulk of zeros from the interaction terms *Post* and *CorporateHire*[22], we calculate, shown at the bottom of Table 7, that a one standard deviation larger *Log(ExecLawyerDelta)* increases the probability of securities lawsuit by 0.013. We refer to this 0.013 as the magnitude of governance reduction due to equity incentives. For comparison purposes, we calculate the magnitude of securities lawsuit prevention associated with the hiring of ExecLawyer, based on Table 3 results, to be 0.017. We refer to this 0.017 as the magnitude of governance improvement brought by a typical ExecLawyer. Both numbers (0.013 and 0.017) are then compared to the pre-hiring mean

[22] Alternatively, a one standard deviation increase in *Post*CorporateHire*Log(ExecLawyerDelta)* is more than two-times larger.

of the governance failure measure (Appendix Table 3) to calculate the percentage of governance improvement associated with the hiring of ExecLawyer and the percentage of governance improvement unwinded by equity incentives.

Our results imply that whereas on average the hiring of a lawyer implies a 31.4% reduction in securities fraud (in column 2 of Table 7), when the lawyer is hired with high equity incentives, she only reduces fraud by 6.6%. Thus, under our interpretation, the lawyer exchanges 24.8% of the fraud prevention for effort in other endeavors when granted high equity incentives.

V.d. Gatekeepers versus window dressing: Business Development results

Table 8 reports the triple-difference specifications testing whether a firm's contracting with equity incentives impacts executive lawyers' effort exerted in business development. As before, we first present a non-interacted specification in columns (1), (4), (7) and (10) to test whether ex post business development outcomes differ by hiring source. We find no evidence for this selection. In columns (2), (5), (8), and (11), we present the triple interaction results for capital expenditure, R&D, business segment and patent filing dependent variables respectively. We omit the double differencing for brevity because the results look very similar to the triple differencing. In columns (3), (6), (9), and (12), we report results for the sample dropping ExecLawyers with zero sign-on equity incentives.

We find evidence consistent with our intuition that equity incentives should be associated with a firm contracting the ExecLawyer for business development. Firms that hire ExecLawyers from other corporations and provide them with a one standard deviation higher sign-on equity incentive packages exhibit 0.017 more capital expenditures-to-fixed assets (a 5 percentage change) in the coming two years, relative to those firms hiring from law firms. The coefficient in

column (3) is similar to that for column (2), but the estimate is noisier with the smaller sample. In columns (5) and (6), we find that likewise, equity incentives for ExecLawyers have implications for R&D going forward, although this is only true for those with non-zero sign-on incentive contracts. Firms that hire ExecLawyers poached from other corporations and give them higher sign-on equity incentive packages exhibit 0.005 more R&D expenditures-to-assets (an almost 8 percentage change per year) in the coming two years, relative to those firms hiring from law firms with positive incentive deltas. Finally, firms providing equity incentives to lawyers have a 0.022-0.058 higher likelihood of filing a patent (a 6-15 percentage change) relative to the control.[23]

VI. Conclusion

Internal governance is an idea that has grown in popularity among executives, as they have increasingly become exposed to regulation and punishment for misconduct. In this paper, we have documented the importance of executive lawyers, arguably the most significant emblem of internal governance, to the firm in their multiple tasks: compliance, monitoring, and business development. Prior literature guides our intuition that individual executives matter (Bertrand and Schoar, 2003; Malmendier and Tate, 2009). Recently, Custodio and Metzger (2014) document that financial expertise matters inside the firm. We introduce legal expertise into the box, documenting that general counsels command meaningfully large governance and business development fixed effects. The work on the importance of external lawyers on M&A

[23] We want to exert caution in interpreting these business development results. The results become less precisely estimated in a collapsed specification, which we omit from the tables for brevity. Compared to the gatekeeping measures, measurement of the mechanism of business development effort by lawyers is much less precise. We do not want to over-claim on our business development tests, but hopefully to encourage more research on this effort.

negotiations and outcomes by Krishnan and Masulis (2013) and Karsten, Malmendier and Sautner (2014) is a nice complement and also serves this motivating purpose.

For our purposes, however, gatekeeping and strategic advisory roles of lawyers in executive offices together imply a tension of time allocation. We offer evidence that executive lawyers are incentivized to compromise internal governance monitoring time when faced with the call to add strategic input; they do not, however, compromise compliance, implying that these executive lawyers on average remain gatekeepers, at least in some dimensions, even though corporations use their intellectual property expertise and other legal expertise in business development planning.

Coffee (2002) might fairly interpret our results that compensation distorts gatekeeping. Surely it is difficult to reconcile the duties of an executive agent (Berle and Means, 1932) with those of a reputation intermediary positioned by owners to prevent managerial wrongdoing (Coffee, 2006). We have taken a view more in line with optimal contracting, because legal expertise seems increasingly valuable in strategic decisions in our information economy. We conclude with the thought that as long as intellectual property continues to be a major part of production, legal expertise will continue to be needed in decision making, and the lines between legal value-creators and legal guardians will remain blurry. Intellectual property is not going away.

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Table 1: General Counsel and Executive Lawyer Characteristics over Time

This table presents General Counsel (GC) and Executive Lawyer (ExecLawyer) characteristics (mean) by fiscal year. Our sample comprises firm years in ExecuComp from 1995 to 2012. Statistics reported in (1)-(3) are for the whole sample while statistics reported in (4)-(9) are for firm years with the presence of ExecLawyer. ExecLawyer is an indicator variable equal to one if a general counsel appears in ExecuComp as one of the top paid executives. ExecLawyer pay is the executive lawyer's total compensation (TDC1 in ExecuComp) in constant 2012 dollars. CEO pay is the CEO's total compensation. ExecLawyer/CEO delta is the sensitivity of the value of the ExecLawyer/CEO's accumulated equity-based compensation (including both stocks and options) to a one-percent change in the stock price, in constant 2012 (million) dollars.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Year	# of firm years	Firms with GC as corporate officer	Firms with Exec-Lawyer	Exec-Lawyer Age	Exec-Lawyer pay	CEO pay	Exec-Lawyer pay / CEO pay	Exec-Lawyer delta	CEO delta
1995	1,727	0.664	0.328	49.3	631	2,410	0.377	0.025	0.516
1996	1,926	0.648	0.320	49.5	864	3,471	0.383	0.034	0.653
1997	1,993	0.656	0.330	49.5	923	4,139	0.387	0.044	0.898
1998	2,030	0.668	0.353	49.7	992	4,324	0.376	0.047	0.933
1999	1,928	0.679	0.377	49.9	1,223	5,346	0.413	0.068	1.351
2000	1,831	0.707	0.398	50.1	1,477	6,750	0.402	0.064	1.247
2001	1,786	0.713	0.411	50.4	1,378	6,138	0.397	0.048	0.995
2002	1,821	0.714	0.426	50.6	1,248	5,260	0.391	0.041	0.821
2003	1,866	0.714	0.429	50.8	1,183	4,643	0.365	0.057	0.947
2004	1,810	0.731	0.408	51.1	1,313	5,628	0.365	0.068	0.789
2005	1,697	0.745	0.357	51.8	1,497	6,031	0.359	0.085	0.921
2006	1,858	0.747	0.377	51.3	1,499	5,807	0.359	0.097	1.279
2007	1,857	0.753	0.395	51.2	1,424	5,408	0.372	0.066	1.017
2008	1,790	0.765	0.410	51.2	1,417	5,445	0.353	0.039	0.509
2009	1,727	0.776	0.412	51.5	1,367	5,031	0.354	0.046	0.507
2010	1,666	0.794	0.466	52.0	1,529	5,880	0.331	0.049	0.603
2011	1,593	0.804	0.466	52.4	1,569	6,356	0.335	0.047	0.705
2012	1,466	0.808	0.440	53.3	1,851	6,398	0.351	0.059	0.852
All	32,372	0.724	0.393	50.9	1,329	5,324	0.368	0.055	0.865

Table 2: General Counsel Fixed Effects Estimates of Compliance, Monitoring and Business Development Using General Counsel Movers

This table presents the general counsel fixed effects. Each row represents a regression for the dependent variable to the left. The sample is limited to firm-year observations covering general counsel movers. The fixed effects included are: firm fixed effects in row 1; firm and general counsel fixed effects in row 2; firm, CEO, and general counsel fixed effects in row 3. A firm specific linear time trend is included in all regressions. Reported in the second and third columns are F-tests for the joint significance of the CEO fixed effects and general counsel fixed effects. For each F-test, we report the value of the F-statistic, the p-value, and the number of constraints.The final two columns report the adjusted R-squared and the incremental adjusted R-squared explained by general counsel. Our sample comprises firm years in ExecuComp from 1995 to 2012. Detailed variable definitions are provided in Appendix Table 1.

	F-tests on fixed effects for				
	General Counsels	CEOs	N	Adjusted R-squared	Incremental R-squared explained by General Counsels
Compliance Failures					
AAER Fraud			2,536	0.785	
	2.50*** (0.0000, 154)		2,536	0.820	0.035
	1.21* (0.0747, 124)	1.53*** (0.0000, 210)	2,536	0.825	
SEC Insider Trading			3,172	0.342	
	1.81*** (0.0000, 190)		3,172	0.397	0.055
	2.17*** (0.0000, 153)	1.59*** (0.0000, 276)	3,172	0.443	
Average increase in Adjusted R-squared					*0.045*
Monitoring Failures					
Securities Fraud			3,172	0.498	
	2.67*** (0.0000, 189)		3,172	0.577	0.079
	2.09*** (0.0000, 149)	2.15*** (0.0000, 279)	3,172	0.636	
Securities Lawsuits Excluding AAER			3,172	0.474	
	2.43*** (0.0000, 189)		3,172	0.546	0.072
	2.15*** (0.0000, 148)	1.98*** (0.0000, 280)	3,172	0.602	
General Lawsuits			3,172	0.696	
	2.43*** (0.0000, 190)		3,172	0.762	0.066
	2.84*** (0.0000, 147)	1.87*** (0.0000, 281)	3,172	0.785	
Average increase in Adjusted R-squared					*0.072*
Business Development					
Capex			3,090	0.731	
	1.29*** (0.0073, 187)		3,090	0.739	0.008
	1.73*** (0.0000, 143)	2.53*** (0.0000, 275)	3,090	0.798	
R&D			3,143	0.449	
	0.05 (1.0000,187)		3,143	0.385	-
	0.12 (1.0000,145)	0.63 (1.0000, 277)	3,143	0.358	
Business segments			3,172	0.827	
	4.23*** (0.0000, 189)		3,172	0.873	0.046
	3.48*** (0.0000, 149)	1.81*** (0.0000, 278)	3,172	0.883	
Patent filing			1,641	0.819	
	1.89*** (0.0000, 84)		1,641	0.838	0.019
	2.02*** (0.0000, 68)	0.57 (0.9997, 107)	1,641	0.825	
Average increase in Adjusted R-squared					*0.018*

Table 3: Collapsed Difference-in-Differences Test for the Importance of ExecLawyers

This table presents the collapsed difference-in-differences tests around the external hiring of ExecLawyer. The dependent variable is the change of compliance, monitoring, business development or other governance measures from pre-hiring to post-hiring period, thus each firm has one observation. The treatment group is firms hiring ExecLawyers, and the control group is non-hirng firms that are matched within the year-industry-size and by the propensity score of hiring an ExecLawyer. Post is set to zero for the two years prior to the hiring of ExecLawyer, and one for the two years subsequent to the hiring. The year of hiring is tossed out. Our sample comprises firm years in ExecuComp from 1995 to 2012. Detailed variable definitions are provided in Appendix Table 1. Standard errors are clustered at the firm level. Superscripts ***, **, * indicate statistical significance level at the 1%, 5%, and 10% level, respectively.

Panel A: Compliance Failures	(1)	(2)	(3)	(4)				
	AAER Fraud	AAER Fraud	SEC Insider Trading	SEC Insider Trading				
ExecLawyer Hiring	-0.029**	-0.033**	-0.018**	-0.014*				
	[0.014]	[0.015]	[0.008]	[0.008]				
Hire Year and SIC one-Digit F.E.	N	Y	N	Y				
Observations	1,089	1,089	1,328	1,328				
R-squared	0.004	0.034	0.004	0.029				
Pre-hire mean	*0.033*	*0.033*	*0.015*	*0.015*				
Scaled annual marginal effect	*-44.4%*	*-50.5%*	*-60.3%*	*-46.9%*				
Panel B: Monitoring Failures	(1)	(2)	(3)	(4)	(5)	(6)		
	Securities Fraud	Securities Fraud	Securities Lawsuits Excluding AAER	Securities Lawsuits Excluding AAER	General Lawsuits	General Lawsuits		
ExecLawyer Hiring	-0.035**	-0.034**	-0.022	-0.02	-0.053***	-0.052***		
	[0.017]	[0.017]	[0.016]	[0.016]	[0.018]	[0.018]		
Hire Year and SIC one-Digit F.E.	N	Y	N	Y	N	Y		
Observations	1,328	1,328	1,328	1,328	1,328	1,328		
R-squared	0.003	0.017	0.002	0.019	0.007	0.032		
Pre-hire mean	*0.054*	*0.054*			*0.078*	*0.078*		
Scaled annual marginal effect	*-32.3%*	*-31.4%*			*-33.8%*	*-33.2%*		
Panel C: Business Development	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Capex	Capex	R&D	R&D	Business Segments	Business Segments	Patent filing	Patent filing
ExecLawyer Hiring	-0.019	-0.008	-0.003	-0.002	0.374**	0.122	-0.030	-0.052*
	[0.022]	[0.023]	[0.005]	[0.005]	[0.159]	[0.139]	[0.030]	[0.030]
Hire Year and SIC one-Digit F.E.	N	Y	N	Y	N	Y		
Observations	1,323	1,323	1,293	1,293	1,328	1,328	778	778
R-squared	0.001	0.066	0.000	0.061	0.004	0.251	0.001	0.09
Panel D: Other Governance	(1)	(2)	(3)	(4)	(5)	(6)		
	Institutional ownership	Institutional ownership	Board Independence	Board Independence	Governance Index	Governance Index		
ExecLawyer Hiring	0.389	0.313	0.072	0.069	0.001	-0.003		
	[0.624]	[0.630]	[0.061]	[0.061]	[0.010]	[0.010]		
Hire Year and SIC one-Digit F.E.	N	Y	N	Y	N	Y		
Observations	1,328	1,328	1,064	1,064	682	682		
R-squared	0.000	0.13	0.000	0.108	0.002	0.134		

Table 4: The Effect of ExecLawyer Equity Incentives on Compliance

This table presents double and triple differencing estimations of the effect of ExecLawyer incentive pay on compliance failures. The treatment group is firms hiring ExecLawyers from other corporations, and the control group is firms that hire ExecLawyers from law firms, matched within the year-industry-size and by the propensity score of hiring from law firms vs. corporations. Post is set to zero for the two years prior to the hiring of ExecLawyer, and one for the two years subsequent to the hiring. The year of hiring is tossed out. Our sample comprises firm years in ExecuComp from 1995 to 2012. Detailed variable definitions are provided in Appendix Table 1. Standard errors are clustered at the firm level. Superscripts ***, **, * indicate statistical significance level at the 1%, 5%, and 10% level, respectively.

	(1) AAER Fraud	(2) AAER Fraud	(3) AAER Fraud	(4) Insider Trading	(5) Insider Trading	(6) Insider Trading
Post	0.019	0.076	0.074	-0.027**	-0.078**	-0.074**
	[0.039]	[0.091]	[0.105]	[0.013]	[0.035]	[0.034]
CorporateHire	-0.018	-0.093	-0.093	-0.025*	-0.066	-0.066
	[0.022]	[0.089]	[0.088]	[0.014]	[0.042]	[0.041]
Post*CorporateHire	0.011	0.053	0.062	0.022*	0.067*	0.070*
	[0.027]	[0.121]	[0.138]	[0.013]	[0.039]	[0.040]
Log(ExecLawyerDelta)		0.014	0.013		-0.023**	-0.023**
		[0.019]	[0.018]		[0.011]	[0.011]
Post*Log(ExecLawyerDelta)		-0.026	-0.026		0.019*	0.020*
		[0.026]	[0.023]		[0.010]	[0.011]
CorporateHire*Log(ExecLawyerDelta)		0.029	0.029		0.014	0.014
		[0.035]	[0.034]		[0.011]	[0.011]
Post*CorporateHire*Log(ExecLawyerDelta)		**-0.017**	**-0.015**		**-0.016**	**-0.015**
		[0.046]	**[0.043]**		**[0.010]**	**[0.010]**
Post*Log(CEODelta)			0.000			-0.001
			[0.008]			[0.001]
Post*CorporateHire*Log(CEODelta)			-0.003			-0.001
			[0.010]			[0.002]
Hire Year F.E.	Y	Y	Y	Y	Y	Y
Calendar Year F.E.	Y	Y	Y	Y	Y	Y
SIC One-Digit F.E.	Y	Y	Y	Y	Y	Y
Observations	1,345	1,345	1,345	1,650	1,650	1,650
R-squared	0.106	0.113	0.113	0.059	0.066	0.067

Table 5: The Effect of ExecLawyer Equity Incentives on Monitoring

This table presents double and triple differencing estimations of the effect of ExecLawyer incentive pay on monitoring failures. The treatment group is firms hiring ExecLawyers from other corporations, and the control group is firms that hire ExecLawyers from law firms, matched within the year-industry-size and by the propensity score of hiring from law firms vs. corporations. Post is set to zero for the two years prior to the hiring of ExecLawyer, and one for the two years subsequent to the hiring. The year of hiring is tossed out. Governance reduction given a standard deviation change in ExecLawyer delta in the hiring year is presented at the bottom of the table. It is then compared to the pre-hiring mean of the governance failure measure (Appendix Table 3) to calculate the percentage of reduction. Our sample comprises firm years in ExecuComp from 1995 to 2012. Detailed variable definitions are provided in Appendix Table 1. Standard errors are clustered at the firm level. Superscripts ***, **, * indicate statistical significance level at the 1%, 5%, and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Securities Fraud	Securities Fraud	Securities Fraud	Securities Lawsuits Excluding AAER	Securities Lawsuits Excluding AAER	Securities Lawsuits Excluding AAER	General Lawsuits	General Lawsuits	General Lawsuits
Post	0.023	0.12	0.035	0.001	0.046	-0.062	0.032	0.102	0.029
	[0.037]	[0.091]	[0.114]	[0.024]	[0.049]	[0.054]	[0.037]	[0.091]	[0.115]
CorporateHire	-0.044**	-0.076	-0.071	-0.016	-0.059	-0.052	-0.046*	-0.02	-0.017
	[0.020]	[0.067]	[0.067]	[0.017]	[0.055]	[0.054]	[0.026]	[0.107]	[0.109]
Post*CorporateHire	0.007	-0.184*	-0.091	-0.015	-0.125*	-0.005	0.002	-0.169*	-0.111
	[0.028]	[0.095]	[0.113]	[0.021]	[0.067]	[0.071]	[0.031]	[0.101]	[0.124]
Log(ExecLawyerDelta)		-0.019	-0.017		-0.024*	-0.022		0.017	0.02
		[0.019]	[0.019]		[0.014]	[0.014]		[0.038]	[0.037]
Post*Log(ExecLawyerDelta)		-0.035	-0.053*		-0.016	-0.038**		-0.025	-0.041
		[0.025]	[0.027]		[0.013]	[0.019]		[0.026]	[0.028]
CorporateHire*Log(ExecLawyerDelta)		0.011	0.009		0.015	0.013		-0.009	-0.01
		[0.021]	[0.021]		[0.016]	[0.016]		[0.038]	[0.039]
Post*Corporate*Log(ExecLawyerDelta)		**0.070****	**0.086****		**0.040***	**0.061****		**0.063***	**0.072****
		[0.031]	**[0.033]**		**[0.022]**	**[0.026]**		**[0.033]**	**[0.036]**
Post*Log(CEODelta)			0.025*			0.032**			0.022
			[0.015]			[0.014]			[0.015]
Post*CorporateHire*Log(CEODelta)			-0.025			-0.032**			-0.015
			[0.016]			[0.014]			[0.020]
Hire Year F.E.	Y	Y	Y	Y	Y	Y	Y	Y	Y
Calendar Year F.E.	Y	Y	Y	Y	Y	Y	Y	Y	Y
SIC One-Digit F.E.	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	1,650	1,650	1,650	1,650	1,650	1,650	1,650	1,650	1,650
R-squared	0.094	0.104	0.111	0.077	0.085	0.101	0.112	0.116	0.120
Pre-hire mean (Appendix Table 3)		*0.054*	*0.054*		*0.037*	*0.037*		*0.078*	*0.078*
Governance reduction given one s.d. increase in Log(ExecLawyerDelta)		*0.013*	*0.016*		*0.008*	*0.012*		*0.012*	*0.014*
Governance reduction as a percentage of the pre-hire mean		*24.6%*	*30.2%*		*20.4%*	*31.1%*		*15.3%*	*17.5%*

Table 6: The Effect of ExecLawyer Equity Incentives on Monitoring - Keeping Only Non-Zero ExecLawyer Delta

This table presents double and triple differencing estimations of the effect of ExecLawyer incentive pay on monitoring failures after removing observations with zero ExecLawyerDelta. The treatment group is firms hiring ExecLawyers from other corporations, and the control group is firms that hire ExecLawyers from law firms, matched within the year-industry-size and by the propensity score of hiring from law firms vs. corporations. Post is set to zero for the two years prior to the hiring of ExecLawyer, and one for the two years subsequent to the hiring. The year of hiring is tossed out. Governance reduction given a standard deviation change in ExecLawyer delta in the hiring year is presented at the bottom of the table. It is then compared to the pre-hiring mean of the governance failure measure (Appendix Table 3) to calculate the percentage of reduction. Our sample comprises firm years in ExecuComp from 1995 to 2012. Detailed variable definitions are provided in Appendix Table 1. Standard errors are clustered at the firm level. Superscripts ***, **, * indicate statistical significance level at the 1%, 5%, and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Securities Fraud	Securities Fraud	Securities Fraud	Securities Lawsuits Excluding AAER	Securities Lawsuits Excluding AAER	Securities Lawsuits Excluding AAER	General Lawsuits	General Lawsuits	General Lawsuits
Post	0.03	0.191	0.196	-0.012	0.054	0.023	0.064	0.219*	0.201
	[0.052]	[0.132]	[0.146]	[0.034]	[0.080]	[0.080]	[0.048]	[0.128]	[0.147]
CorporateHire	-0.025	0.017	0.017	0.004	0.032	0.031	-0.05	0.028	0.027
	[0.025]	[0.088]	[0.088]	[0.017]	[0.065]	[0.065]	[0.037]	[0.164]	[0.164]
Post*CorporateHire	0.023	-0.259*	-0.266*	-0.006	-0.167*	-0.126	0.006	-0.281*	-0.243
	[0.040]	[0.140]	[0.149]	[0.027]	[0.088]	[0.092]	[0.045]	[0.157]	[0.171]
Log(ExecLawyerDelta)		-0.006	-0.006		-0.005	-0.005		0.035	0.034
		[0.019]	[0.018]		[0.013]	[0.013]		[0.049]	[0.047]
Post*Log(ExecLawyerDelta)		-0.051	-0.05		-0.02	-0.03		-0.049	-0.055
		[0.033]	[0.032]		[0.020]	[0.023]		[0.035]	[0.036]
CorporateHire*Log(ExecLawyerDelta)		-0.014	-0.014		-0.009	-0.009		-0.024	-0.024
		[0.023]	[0.023]		[0.017]	[0.017]		[0.050]	[0.050]
Post*CorporateHire*Log(ExecLawyerDelta)		**0.091****	**0.089****		**0.053****	**0.066****		**0.093****	**0.104****
		[0.040]	**[0.040]**		**[0.026]**	**[0.028]**		**[0.044]**	**[0.048]**
Post*Log(CEODelta)			-0.002			0.012			0.006
			[0.014]			[0.012]			[0.019]
Post*CorporateHire*Log(CEODelta)			0.003			-0.015			-0.013
			[0.018]			[0.012]			[0.026]
Hire Year F.E.	Y	Y	Y	Y	Y	Y	Y	Y	Y
Calendar Year F.E.	Y	Y	Y	Y	Y	Y	Y	Y	Y
SIC One-Digit F.E.	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	902	902	902	902	902	902	902	902	902
R-squared	0.169	0.181	0.181	0.170	0.176	0.178	0.167	0.175	0.176
Pre-hire mean (Appendix Table 3)		*0.054*	*0.054*		*0.037*	*0.037*		*0.078*	*0.078*
Governance reduction given one s.d. increase in Log(ExecLawyerDelta)		*0.018*	*0.017*		*0.010*	*0.013*		*0.018*	*0.020*
Governance reduction as a percentage of the pre-hire mean		*32.5%*	*31.8%*		*27.4%*	*34.2%*		*22.9%*	*25.6%*

Table 7: The Effect of ExecLawyer Equity Incentives on Monitoring - Collapsed Estimation

This table presents collapsed double and triple differencing estimations of the effect of ExecLawyer incentive pay on monitoring failures. The treatment group is firms hiring ExecLawyers from other corporations, and the control group is firms that hire ExecLawyers from law firms, matched within the year-industry-size and by the propensity score of hiring from law firms vs. corporations. The dependent variable is the change of monitoring failure measure from pre- to post-hiring period. Governance reduction given a standard deviation change in ExecLawyer delta in the hiring year is presented at the bottom of the table. For comparison purpose, we also calculate the magnitude of governance improvement associated with the hiring of ExecLawyer, based on Table 3 results. Both numbers are then compared to the pre-hiring mean of the governance failure measure (Appendix Table 3) to calculate the percentage of governance improvement associated with the hiring of ExecLawyer and the percentage of governance improvement unwinded by the equity incentive. Our sample comprises firm years in ExecuComp from 1995 to 2012. Detailed variable definitions are provided in Appendix Table 1.Standard errors are clustered at the firm level. Superscripts ***, **, * indicate statistical significance level at the 1%, 5%, and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Securities Fraud	Securities Fraud	Securities Fraud	Securities Lawsuits Excluding AAER	Securities Lawsuits Excluding AAER	Securities Lawsuits Excluding AAER	General Lawsuits	General Lawsuits	General Lawsuits
CorporateHire	-0.017	-0.198	-0.115	-0.028	-0.226**	-0.165	-0.016	-0.199	-0.206
	[0.038]	[0.123]	[0.159]	[0.033]	[0.107]	[0.146]	[0.037]	[0.137]	[0.170]
Log(ExecLawyerDelta)		-0.021	-0.034		-0.024	-0.035		-0.021	-0.026
		[0.023]	[0.026]		[0.021]	[0.025]		[0.029]	[0.029]
CorporateHire*Log(ExecLawyerDelta)		**0.066***	**0.074***		**0.072****	**0.078****		**0.067**	**0.066**
		[0.039]	**[0.042]**		**[0.033]**	**[0.034]**		**[0.044]**	**[0.045]**
Log(CEODelta)			0.024			0.02			0.009
			[0.021]			[0.020]			[0.017]
CorporateHire*Log(CEODelta)			-0.019			-0.014			0.002
			[0.026]			[0.022]			[0.023]
Hire Year F.E.	Y	Y	Y	Y	Y	Y	Y	Y	Y
SIC One-Digit F.E.	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	414	414	414	414	414	414	414	414	414
R-squared	0.065	0.069	0.075	0.099	0.105	0.111	0.092	0.096	0.098
Pre-hiring mean (Appendix Table 3)		*0.054*	*0.054*		*0.037*	*0.037*			
Magnitude of governance improvement (annualized) associated with the hiring of ExecLawyer (Table 3 result)		*-0.017*	*-0.017*						
Governance improvement in percentage terms (as a percentage of the pre-hiring mean) associated with having ExecLawyer (Table 3 result)		*-31.4%*	*-31.4%*						
Magnitude of governance reduction (annualized) given one s.d.larger Log(ExecLawyerDelta)		*0.013*	*0.015*		*0.015*	*0.016*			
Magnitude of governance reduction in percentage terms (as a percentage of the pre-hiring mean)		*24.8%*	*27.8%*		*39.2%*	*42.5%*			

Table 8: The Effect of ExecLawyer Equity Incentives on Business Development

This table presents double and triple differencing estimations of the effect of ExecLawyer incentive pay on business development. Columns (3), (6), (9) and 12 remove observations with zero ExecLawyerDelta. The treatment group is firms hiring ExecLawyers from other corporations, and the control group is firms that hire ExecLawyers from law firms, matched within the year-industry-size and by the propensity score of hiring from law firms vs. corporations. Post is set to zero for the two years prior to the hiring of ExecLawyer, and one for the two years subsequent to the hiring. The year of hiring is tossed out. Improvement in business development given a standard deviation change in ExecLawyer delta in the hiring year is presented at the bottom of the table. It is then compared to the pre-hiring mean of the business development measure (Appendix Table 3) to calculate the percentage of improvement in business development. Our sample comprises firm years in ExecuComp from 1995 to 2012. Detailed variable definitions are provided in Appendix Table 1. Standard errors are clustered at the firm level. Superscripts ***, **, * indicate statistical significance level at the 1%, 5%, and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Sample only non-zero deltas?	No	No	Yes	No	No	Yes	No	No	Yes	No	No	Yes
Dependent variable:	Capex	Capex	Capex	R&D	R&D	R&D	Business segments	Business segments	Business segments	Patent filing	Patent filing	Patent filing
Post	0.055	0.121	0.116	0.023*	0.035	0.083	0.457*	0.176	0.721	0.005	-0.025	0.146
	[0.072]	[0.131]	[0.187]	[0.013]	[0.031]	[0.051]	[0.249]	[0.897]	[1.043]	[0.067]	[0.162]	[0.294]
CorporateHire	0.006	0.05	0.04	-0.002	-0.029	-0.057	-0.368	0.395	-3.15	0.095*	-0.238	-0.24
	[0.040]	[0.144]	[0.221]	[0.011]	[0.042]	[0.049]	[0.447]	[2.242]	[2.972]	[0.052]	[0.188]	[0.366]
Post*CorporateHire	-0.025	-0.232	-0.330*	-0.008	-0.019	-0.078	-0.419	1.671	0.997	-0.015	-0.03	-0.467
	[0.043]	[0.144]	[0.186]	[0.010]	[0.035]	[0.059]	[0.294]	[1.559]	[2.006]	[0.051]	[0.216]	[0.350]
Log(ExecLawyerDelta)		0.005	0.042		-0.004	0.006		0.291	0.086		-0.133***	-0.183***
		[0.041]	[0.049]		[0.008]	[0.007]		[0.465]	[0.647]		[0.044]	[0.065]
Post*Log(ExecLawyerDelta)		-0.026	-0.045		-0.001	-0.018***		-0.153	-0.127		-0.042	-0.029
		[0.043]	[0.052]		[0.005]	[0.006]		[0.257]	[0.305]		[0.039]	[0.051]
CorporateHire*Log(ExecLawyerDelta)		-0.016	-0.012		0.01	0.017		-0.268	0.751		0.126*	0.118
		[0.047]	[0.064]		[0.013]	[0.015]		[0.830]	[0.965]		[0.069]	[0.109]
Post*CorporateHire*Log(ExecLawyerDelta)		**0.092***	**0.086**		**0.008**	**0.026*****		**0.159**	**-0.006**		**0.150****	**0.313*****
		[0.051]	**[0.067]**		**[0.008]**	**[0.009]**		**[0.423]**	**[0.503]**		**[0.061]**	**[0.087]**
Post*Log(CEODelta)		0.002	-0.008		-0.002	0.000		0.111	0.028		0.024	0.002
		[0.009]	[0.011]		[0.004]	[0.005]		[0.190]	[0.216]		[0.018]	[0.034]
Post*CorporateHire*Log(CEODelta)		-0.008	0.01		-0.002	-0.003		-0.464	-0.247		-0.064*	-0.088*
		[0.017]	[0.023]		[0.005]	[0.006]		[0.320]	[0.315]		[0.038]	[0.046]
Hire Year F.E.	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Calendar Year F.E.	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
SIC One-Digit F.E.	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	1,642	1,642	898	1,634	1,634	886	1,650	1,650	902	980	980	388
R-squared	0.161	0.163	0.190	0.255	0.257	0.295	0.335	0.339	0.439	0.462	0.483	0.622
Pre-hiring mean (Appendix Table 3)		*0.352*				*0.064*					*0.379*	*0.379*
Business growth given one s.d. increase in Log(ExecLawyerDelta)		*0.017*				*0.005*					*0.024*	*0.058*
Business growth as a percentage of the pre-hiring mean		*5.0%*				*7.6%*					*6.3%*	*15.2%*

Appendix Table 1: Variable Definition, Data Sources and Descriptive Statistics

This table presents the definition and sources of the variables used in the study and shows the summary statistics of the variables.

Variable name	Variable definition	Sources	N	Mean	Median	Std
ExecLawyer and Compensation						
ExecLawyer	Indicator variable that takes on the value of one if a general counsel appears in ExecuComp as one of the top paid executives.	Execucomp	32,372	0.393	0	0.488
ExecLawyer pay	ExecLawyer total compensation (TDC1 in ExecuComp) in constant 2012 dollars.	Execucomp	11,151	1,329	890	1,666
CEO pay	CEO total compensation (TDC1 in ExecuComp) in constant 2012 dollars.	Execucomp	12,144	5,324	3,100	8,280
ExecLawyer pay / CEO pay	Total compensation of the ExecGC to the total compensation of the CEO.	Execucomp	10,760	0.368	0.299	0.319
ExecLawyer delta	Total wealth to performance sensitivities based on stock holdings and unexercised options in constant 2012 (million) dollars following Core and Guay (1999)	Execucomp	12,361	0.055	0.020	0.201
CEO delta	Total wealth to performance sensitivities based on stock holdings and unexercised options in constant 2012 (million) dollars following Core and Guay (1999)	Execucomp	11,793	0.865	0.201	4.501
Compliance Failures						
AAER Fraud	Indicator that takes on the value of one if the financial statements of a given fiscal year are restated and investigated by the SEC. Accounting and Auditing Enforcement Releases are issued by the SEC during or at the conclusion of an investigation against a company, an auditor, or an officer for alleged accounting and/or auditing misconduct. This variable is set equal to missing for fiscal years after 2009.	Center for Financial Reporting and Management Center at the Haas School of Business	27,444	0.020	0.000	0.140
SEC Insider Trading	Indicator that is one if in a given year a corporate executive traded his/her own company's stock based on insider information or tipped such information for others to trade and later was investigated by the SEC, and zero otherwise.	SEC Litigation Releases on Enforcement Actions on Insider Trading	32,372	0.004	0.000	0.067
Monitoring Failures						
Securities Fraud	Indicator that takes on the value of one for fiscal years coinciding with the class period of any securities class action lawsuit. Dismissed cases are dropped for defining this variable.	Stanford Law School Securities Class Action Clearing House	32,372	0.029	0.000	0.169
Securities Lawsuits Excluding AAER	Indicator that takes on the value of one for fiscal years coinciding with the class period of any securities class action lawsuits excluding those coinciding with AAERs	Stanford Law School Securities Class Action Clearing House	32,372	0.024	0.000	0.152
General Lawsuits	Indicator that takes on the value of one for fiscal years coinciding with the class period of any lawsuits (e.g. breach of any law, including security law, energy law, international law, employment law, etc.) with positive settlement amount.	Audit Analytics	32,372	0.056	0.000	0.231
Business Development						
Capex	The ratio of capital expediture to PP&E at the beginning of the fiscal year	Compustat	31,064	0.305	0.202	0.418
R&D	R&D expenses scaled by assets at the beginning of the fiscal year	Compustat	32,275	0.055	0.014	0.156
Business segments	Number of business segments	Compustat segments	32,372	5.041	3.000	4.567
Patent filing	Indicator that takes on the value of one if at least one patent is filed by a firm in a fiscal year.	NBER Patent Database (1995-2006)	20,224	0.334	0.000	0.472

Variable name	Variable definition	Sources	N	Mean	Median	Std
Firm Characteristics						
Marketcap	Market capitalization in millions of constant 2012 dollars.	Compustat	32,127	8,156	1,683	26,757
Market-adjusted returns	Annual cumulative stock returns minus cumulative market (CRSP value weighted) returns over the fiscal year.	CRSP	31,712	0.080	-0.006	0.682
Market to Book	The ratio of the market value of assets (market value of equity, plus book value of debt and book value of preferred equity, minus deferred taxes) to the book value of assets	Compustat	31,880	1.631	1.139	2.094
Leverage	The ratio of total liabilities to book assets	Compustat	32,284	0.566	0.560	0.287
ROA	The ratio of EBITDA to book assets	Compustat	31,527	0.120	0.123	0.143
Firm age	Number of years since a firm first appears on CRSP (use the median of the sample if missing).	CRSP	31,726	22.687	17.178	18.627
Other Governance Measures						
Institutional ownership	Stocks owned by institutional investors	13F	32,372	0.584	0.663	0.319
Board independence	Percentage of independent directors on board	Riskmetrics	25,023	69.292	71.429	16.914
Governance Index	Gompers, Ishii and Metrick (2003) governance index	Riskmetrics	17,512	9.225	9.000	2.644

Appendix Table 2: CEO Fixed Effects on Compliance, Monitoring and Business Development Using CEO Movers

This table presents CEO fixed effects with CEO movers. Each row represents a regression for the dependent variable to the left. The sample is limited to firm-year observations for CEOs that move. The fixed effects included are: firm fixed effects in row 1; firm and CEO fixed effects in row 2. A firm specific linear time trend is included in all regressions. Reported in the second column are F-tests for the joint significance of the CEO fixed effects. For each F-test, we report the value of the F-statistic, the p-value, and the number of constraints. The final two columns report the adjusted R-squared and the incremental adjusted R-squared explained by CEOs. Our sample comprises firm years in ExecuComp from 1995 to 2012. Detailed variable definitions are provided in Appendix Table 1.

	F-tests on fixed effects for CEOs	N	Adjusted R-squared	Incremental R-squared explained by CEOs
Compliance Failures				
AAER Fraud		2,344	0.524	
	2.07*** (0.0000, 157)	2,344	0.598	0.074
SEC Insider Trading		2,719	0.303	
	1.79*** (0.0000, 200)	2,719	0.383	0.080
Average increase in Adjusted R-squared				0.077
Monitoring Failures				
Securities Fraud		2,719	0.409	
	4.31*** (0.0000, 200)	2,719	0.617	0.208
Securities Lawsuits Excluding AAER		2,719	0.381	
	4.33*** (0.0000, 201)	2,719	0.601	0.220
General Lawsuits		2,719	0.517	
	2.07*** (0.0000, 157)	2,719	0.535	0.018
Average increase in Adjusted R-squared				0.149
Business Development				
Capex		2,579	0.358	
	1.95*** (0.0000, 193)	2,579	0.448	0.090
R&D		2,703	0.334	
	0.90 (0.8312, 199)	2,703	0.322	-
Business segments		2,719	0.809	
	3.05*** (0.0000, 200)	2,719	0.857	0.048
Patent filing		1,771	0.793	
	1.08 (0.3065, 100)	1,771	0.796	0.003
Average increase in Adjusted R-squared				0.035

Appendix Table 3: Summary Statistics for ExecLawyer Hiring Firms vs. No-ExecLawyer Firms

This table presents firm and manager statistics for ExecLawyer hiring firms and firms with no ExecLawyer. For ExecLawyer hiring firms, the statistics are taken in the year before the ExecLawyer is hired. Firms with no ExecLawyer include firm years where there is no ExecLawyer in a five-year window (i.e., from two years prior to two years after). Our sample comprises firm years in ExecuComp from 1995 to 2012. Detailed variable definitions are provided in Appendix Table 1.

	Pre-Match					**Post-Match**				
	ExecLawyer		No ExecLawyer		Difference	ExecLawyer		No ExecLawyer		Difference
# of Obs.	574		9,004			536		1,354		
	Mean	Std	Mean	Std	p-value	Mean	Std	Mean	Std	p-value
AAER Fraud	0.035	0.184	0.020	0.141	0.019	0.033	0.178	0.034	0.174	1.000
SEC Insider Trading	0.014	0.117	0.005	0.074	0.010	0.015	0.121	0.012	0.110	0.470
Securities Fraud	0.057	0.233	0.027	0.162	0.000	0.054	0.226	0.040	0.191	0.204
Securities Lawsuits Excluding AAER	0.040	0.196	0.022	0.147	0.001	0.037	0.190	0.035	0.180	0.848
General Lawsuits	0.075	0.263	0.046	0.209	0.001	0.078	0.269	0.060	0.234	0.103
Capex	0.351	0.506	0.321	0.409	0.101	0.352	0.510	0.340	0.451	0.908
R&D	0.062	0.128	0.082	0.212	0.024	0.064	0.131	0.065	0.140	0.528
Business segments	5.570	4.851	4.970	4.482	0.002	5.519	4.848	5.715	4.967	0.526
Patent filing	0.368	0.483	0.346	0.476	0.373	0.379	0.486	0.363	0.479	0.368
Log(marketcap)	7.592	1.577	7.554	1.680	0.598	7.562	1.549	7.646	1.726	0.589
Market-adjusted returns	0.163	0.687	0.210	0.786	0.166	0.170	0.701	0.178	0.748	0.677
Market to Book	1.679	1.738	1.851	2.391	0.093	1.724	1.772	1.748	2.317	0.777
Leverage	0.553	0.250	0.518	0.246	0.001	0.545	0.248	0.540	0.221	0.637
ROA	0.126	0.113	0.132	0.120	0.261	0.128	0.113	0.133	0.117	0.463
Firm age	21.023	17.341	20.742	16.643	0.696	21.089	17.524	22.085	17.630	0.616

Appendix Table 4: Logit Regression on ExecLawyer Hiring

This table presents the logit regression that predicts the hiring of ExecLawyer. The dependent variable in column (1) takes on the value of one if a firm hires an ExecLawyer but has no ExecLawyer in any of the two prior years, and zero if a firm has no ExecLawyer in the current year as well as any of the prior two years. The dependent variable in column (2) takes on the value of one if a firm hires an ExecLawyer from a law firm, and zero if a firm poaches an ExecLawyer from another corporation. Our sample comprises firm years in ExecuComp from 1995 to 2012. Detailed variable definitions are provided in Appendix Table 1. Standard errors are clustered at the firm level. Superscripts ***, **, * indicate statistical significance level at the 1%, 5%, and 10% level, respectively.

	(1) Dependent = 1 if Hiring ExecLawyer	(2) Dependent = 1 if Hiring ExecLawyer from Law Firm
AAER Fraud	0.320	0.450
	(0.263)	(0.544)
SEC Insider Trading	0.281	-0.072
	(0.427)	(0.858)
Securities Fraud	0.559**	0.676
	(0.231)	(0.485)
Log(marketcap)	0.018	-0.062
	(0.032)	(0.072)
Market-adjusted returns	-0.044	0.295*
	(0.068)	(0.160)
Market to Book	-0.028	-0.045
	(0.032)	(0.072)
Leverage	0.983***	-0.553
	(0.218)	(0.473)
ROA	-0.424	0.226
	(0.393)	(0.980)
Firm age	-0.005	-0.005
	(0.003)	(0.006)
Capex	0.228**	-0.270
	(0.101)	(0.229)
R&D	-0.603	-0.230
	(0.434)	(0.809)
Business segments	0.024**	-0.010
	(0.010)	(0.022)
Trend	-0.256***	0.157
	(0.067)	(0.147)
Trend^2	0.012***	-0.009
	(0.003)	(0.007)
SIC One-Digit F.E.	Y	Y
Observations	9,034	536
Pesudo R-squared	0.025	0.045

Appendix Table 5: The Importance of ExecLawyer - Governance Splits

This table presents the collapsed difference-in-differences tests around the external hiring of Execlawyer using subsamples split by govenance strength. The dependent variable is the change of compliance and monitoring from the pre-hiring to post-hiring period, thus each firm has one observation. The treatment group is firms hiring ExecLawyers, and the control group is non-hirng firms that are matched within the year-industry-size and by the propensity score of hiring an ExecLawyer. Post is set to zero for the two years prior to the hiring of ExecLawyer, and one for the two years subsequent to the hiring. The year of hiring is tossed out. Our sample comprises firm years in ExecuComp from 1995 to 2012. Detailed variable definitions are provided in Appendix Table 1. Standard errors are clustered at the firm level. Superscripts ***, **, * indicate statistical significance level at the 1%, 5%, and 10% level, respectively.

	(1) Institution ownership < median	(2) Institution ownership > median	(3) Board Independence < median	(4) Board Independence > median	(5) Governance Index <=9	(6) Governance Index > 9
	Panel A: AAER Fraud					
ExecLawyer Hiring	**-0.057*** [0.022]**	**-0.009 [0.020]**	**-0.018 [0.021]**	**-0.029 [0.026]**	**-0.014 [0.021]**	**-0.049** [0.020]**
Hire Year and SIC one-Digit F.E.	Y	Y	Y	Y	Y	Y
Observations	551	538	485	424	498	591
R-squared	0.101	0.037	0.05	0.082	0.048	0.054
	Panel B: SEC Insider Trading					
ExecLawyer Hiring	**-0.02 [0.013]**	**-0.006 [0.009]**	**-0.027** [0.014]**	**-0.013 [0.015]**	**-0.042** [0.017]**	**-0.001 [0.009]**
Hire Year and SIC one-Digit F.E.	Y	Y	Y	Y	Y	Y
Observations	670	658	545	569	471	857
R-squared	0.047	0.036	0.054	0.053	0.056	0.03
	Panel C: Securities Fraud					
ExecLawyer Hiring	**-0.033 [0.022]**	**-0.025 [0.025]**	**-0.037 [0.026]**	**-0.018 [0.026]**	**-0.05 [0.033]**	**-0.032 [0.020]**
Hire Year and SIC one-Digit F.E.	Y	Y	Y	Y	Y	Y
Observations	670	658	545	569	471	857
R-squared	0.054	0.052	0.055	0.045	0.048	0.03
	Panel D: Securities Lawsuits Excluding AAER					
ExecLawyer Hiring	**-0.011 [0.022]**	**-0.022 [0.023]**	**-0.016 [0.024]**	**-0.013 [0.025]**	**-0.023 [0.030]**	**-0.024 [0.019]**
Hire Year and SIC one-Digit F.E.	Y	Y	Y	Y	Y	Y
Observations	670	658	545	569	471	857
R-squared	0.042	0.052	0.052	0.053	0.047	0.03
	Panel E: General Lawsuits					
ExecLawyer Hiring	**-0.052** [0.023]**	**-0.041 [0.025]**	**-0.065** [0.027]**	**-0.029 [0.027]**	**-0.076** [0.034]**	**-0.041** [0.021]**
Hire Year and SIC one-Digit F.E.	Y	Y	Y	Y	Y	Y
Observations	670	658	545	569	471	857
R-squared	0.069	0.066	0.082	0.048	0.053	0.04

Appendix Table 6: Summary Statistics for Firms with ExecLawyers Hired from Corporations vs. Those with ExecLawyers Hired from Law Firms

This table presents statistics for two matched groups of firms that hire ExecLawyers from different career sources. The treatment group is firms hiring ExecLawyers from law firms, and the control group is firms that hire ExecLawyers from other corporations. The two groups are matched within the year-industry-size and by the closest propensity score of hiring from a law firm. This table presents firm and manager statistics after matching, taken in the year bofore the the ExecLawyer is hired. Our sample comprises firm years in ExecuComp from 1995 to 2012. Detailed variable definitions are provided in Appendix Table 1.

	Corporate Hire		Law Firm Hire		Difference
Obs. (unmatched)	361		213		
Obs. (matched)	227		189		
	Mean	Std	Mean	Std	p-value
AAER Fraud	0.048	0.181	0.028	0.166	0.387
SEC Insider Trading	0.000	0.000	0.005	0.073	0.318
Securities Fraud	0.056	0.185	0.069	0.254	0.694
Securities Lawsuits Excluding AAER	0.040	0.147	0.058	0.235	0.524
General Lawsuits	0.095	0.271	0.106	0.308	0.771
Capex	0.339	0.470	0.313	0.351	0.607
R&D	0.041	0.056	0.055	0.171	0.325
Business segments	5.648	5.027	5.952	4.948	0.583
Patent filing	0.364	0.496	0.366	0.484	0.980
Log(marketcap)	7.671	1.459	7.610	1.589	0.736
Market-adjusted returns	0.173	0.707	0.176	0.658	0.972
Market to Book	1.478	1.473	1.734	1.857	0.132
Leverage	0.576	0.243	0.549	0.222	0.326
ROA	0.112	0.124	0.116	0.224	0.802
Firm age	24.152	17.083	21.443	17.280	0.175