



# Boards of Directors as an Endogenously Determined Institution: A Survey of the Economic Literature

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**Abstract:**

This paper surveys the economic literature on boards of directors. Although a legal requirement for many organizations, boards are also an endogenously determined governance mechanism for addressing agency problems inherent to many organizations. Formal theory on boards of directors has been quite limited to this point. Most empirical work on boards has been aimed at answering one of three questions: 1) How are board characteristics such as composition or size related to profitability? 2) How do board characteristics affect the observable actions of the board? 3) What factors affect the makeup of boards and how they evolve over time? The primary findings from the empirical literature on boards are: Board composition is not related to corporate performance, while board size has a negative relation to corporate performance. Both board composition and size are correlated with the board's decisions regarding CEO replacement, acquisitions, poison pills, and executive compensation. Finally, boards appear to evolve over time as a function of the bargaining power of the CEO relative to the existing directors. Firm performance, CEO turnover, and changes in ownership structure appear to be important factors affecting changes to boards.