

DIRECTOR STOCK OWNERSHIP PLANS, FIRM PERFORMANCE, AND ACQUISITION ACTIVITY OF THE FIRMS

Rashiq Kamal, Ph.D.

University of Nebraska, 2008

Advisor: Kathleen A. Farrell

I study the incentive effects of restricted stock for non-employee directors by using a sample of firms that have adopted director stock ownership plans. These plans require non-employee directors to invest in and hold a specific amount of firms' stock while they serve as members on the firms' boards.

I argue that firms adopt these plans when they perceive potential or actual governance problems as measured by lower prior directors' ownership, and poor prior firm performance. I examine the effects of director ownership plan adoption on firm performance and find that the stock ownership of non-employee directors goes up and operating performance of the firms improve, two years after plan adoption. However, I find that plan adoption does not affect firms' stock performance.

Next I examine the effects of director ownership and director plan adoption on the firms' acquisition activity. I hypothesize that the firms' acquisition activity increases with directors' ownership as the directors' incentives become more aligned with those of the shareholders, and they become less risk-averse. But at higher levels of ownership, the directors become more concerned with the loss of wealth invested in the firm, and hence, the firms' acquisition activity will decrease. The results support my hypothesis and I find that the firms' acquisition activity increases with directors' ownership, at a decreasing rate. My results suggest that adoption of director ownership plans, and the levels of ownership requirements do not affect the firms' acquisition activity.