Are Busy Boards Detrimental for Creditors?

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Abstract

Creditors are relatively overlooked in corporate governance studies. As such, this study endeavours to fill the gap by exploring how busy directors impact the possibility of their serving firms to be rated as investment-grade issuers. Apart from board busyness, takeover deterrence serves as a key control variable to reflect interest conflicts between shareholders and creditors during M&As. To mitigate endogeneity in anti-takeover governance provisions, static 1990 IPO-cohort-based instrumented Governance Index is adopted. From 1031 public issuers in the US from 1999 to 2007, Logistic estimations results imply that busy boards tend to lower the odds for issuers to be rated as "investment-grade" while takeover deterrence generally increases such odds. As decreasing issuer ratings represent higher credit risks, creditors should be concerned regarding board busyness. This result is robust under various tests. This study complements prior research in the following ways. First, creditors who have been relatively overlooked in corporate governance studies are portrayed in the context of the Busyness Hypothesis, extending this hypothesis to firm control conflicts between shareholders and creditors. Second, I boost measurement accuracy by adopting an instrumented anti-takeover governance provisions index that is more representative of the effectiveness of issuers' takeover deterrence.

Keywords: Board busyness, Anti-takeover governance provisions index, Issuer rating

JEL Codes : G38, G32, G34