

**Who joins a sinking ship and why? Some evidence on
outside directors who join fraudulent firms.**

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Certificate of original authorship

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as a part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

Signature of Student:

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Abstract

Existing literature shows that, following the revelation of fraud, outside directors with a weaker ability to monitor and advise are likely to be removed. This thesis investigates the characteristics of the directors who replace these departing directors. I find that within two years fraudulent firms appoint more experienced and qualified directors than a control sample of non-fraudulent firms. As a result, the proportion of qualified directors on the board of fraudulent firms is on average higher than the proportion of qualified directors on the board of the control firms. I also investigate the incentives for outside directors to join fraudulent firms and find that joining culpable firms in the post-fraud period enhances an outside directors' ability to obtain more future board seats. Outside directors also benefit from higher compensation offered by fraudulent firms in the post-fraud period. Lastly, I explore the stock market's assessment of the director replacement process. The results demonstrate that in the first year after the fraud is revealed the stock market reacts negatively to the appointment of new outside directors; however, in the second year the market reaction becomes positive. All the findings in the thesis are robust to a variety of sensitivity tests