

Access, Common Agency, and Board Size*

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Abstract: We study the impact of the size of a firm's board of directors on managerial incentives and firm performance. We present a model where a risk-averse agent (the top management team) performs multiple tasks for a firm that is controlled by multiple principals (the board of directors) who differ in the relative value they place on each task. We show that the agent's incentives, and consequently firm value, are lower than they would be had the board been smaller. Our empirical results are consistent with the model's predictions. We find that the number of social objectives that a firm pursues is positively related to board size. Board size is negatively related to managerial incentives. Further, managerial incentives are positively related to firm performance and board size is negatively related to firm performance. Our results are robust to the inclusion of various board and firm control variables.

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