



# PUNISHING CEOs FOR BAD BEHAVIOR: 2017 PUBLIC PERCEPTION SURVEY

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ROCK CENTER **FOR** CORPORATE GOVERNANCE STANFORD

STANFORD GRADUATE  
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## EXECUTIVE SUMMARY AND KEY FINDINGS

### PUNISHING CEOS FOR BAD BEHAVIOR: 2017 PUBLIC PERCEPTION SURVEY

**Almost half of Americans believe CEOs should be fired (or worse) for unethical behavior.**

**Violations of trust between company and customer are considered most egregious.**

**The public is surprisingly critical of CEOs who engage in “immoral” personal actions.**

“We find that the public is highly critical of—and very willing to fire—CEOs who engage in behaviors that are morally or ethically questionable, even if these actions are not illegal and in some cases even if they cause no obvious harm to shareholders, employees, or the public,” says Professor David F. Larcker, Stanford Graduate School of Business. “This reflects, in part, the public’s lingering distrust of large corporations and CEOs in general.”

“It is not surprising, after years of stories in the press about CEOs getting away with bad behavior and in some cases earning large financial rewards along the way, that many Americans want to see higher levels of accountability,” adds Nick Donatiello, lecturer in corporate governance at Stanford Graduate School of Business. “For corporations and their boards, this signals that the reputational ramifications for CEO misconduct—even personal misconduct—are very high, and require a decisive and public response.”

“The public’s highly negative assessment of immoral behavior is particularly unexpected,” says Brian Tayan, researcher at Stanford Graduate School of Business. “While we might expect that lying to the public about the quality of a company’s

product would be criticized, the public was surprisingly judgmental about CEOs who make questionable personal decisions, such as having an affair with a subordinate. The line between ‘personal’ and ‘corporate’ matters is more blurred than we realized.”

In summer 2016, the Rock Center for Corporate Governance at Stanford University conducted a nationwide survey of 1,554 individuals—representative by gender, race, age, household income, and state residence—to understand how the American public views CEOs who engage in potentially unethical behavior, and the public’s determination of “fair punishment” for these actions.

### KEY FINDINGS INCLUDE THE FOLLOWING:

#### MEMBERS OF THE PUBLIC ARE EXTREMELY CRITICAL OF CEOS WHO ENGAGE IN QUESTIONABLE BEHAVIOR.

When presented with a series of generic scenarios that are based on real situations reported in the press in which CEOs engage in potentially unethical or immoral behavior, many Americans are willing to dole out severe punishment. Forty-five percent believe that CEOs should be fired or worse (including sent to prison) for potentially unethical transgressions involving employees, customers, the board of directors, and shareholders. Fifteen percent believe that CEOs should not be fired but instead should lose compensation (in the form of reduced bonus or salary), 25 percent believe they should be reprimanded by the board, whereas 15 percent believe they should receive no punishment whatsoever.



## THE PUBLIC BELIEVES A VIOLATION OF TRUST BETWEEN A COMPANY AND ITS CUSTOMERS IS THE MOST EGREGIOUS ETHICAL VIOLATION A CEO CAN MAKE.

Members of the public are least forgiving of transgressions that involve a CEO lying or making misleading statements about their companies' products. When presented with these scenarios, almost two-thirds (61 percent) believe that the CEO should be terminated or worse, 30 percent believe that the CEO should lose a bonus or be reprimanded, and only 10 percent say the board should do nothing.

Americans are next most critical of CEOs who engage in offensive language or behavior in the workplace, with just over half (52 percent) believing these executives should be terminated or worse. Forty-eight percent believe a CEO who has an affair with an employee should be terminated, 43 percent believe that a CEO who lies to other stakeholders (such as the board of directors) should be terminated, and 35 percent believe that a CEO who engages in legal but ethically questionable financial actions should be terminated. Americans appear to balance the CEO's role as a spokesperson for the corporation with their free-speech rights, with most saying that CEOs who publicly express controversial viewpoints, should only be reprimanded (26 percent) or received no punishment at all (30 percent).

## BOARDS OF DIRECTORS ARE STRICTER THAN THE PUBLIC IN ADMINISTERING PUNISHMENT.

Despite the public's willingness to mete out tough punishment for ethically questionable behavior, board members appear to be even stricter. A comparison sample involving 38 real-life examples of CEOs who engage in behavior or actions that are highly analogous to the scenarios presented in this study shows a higher rate of termination than the public demands. Over half (58 percent) of these real-life scenarios resulted in the eventual termination of the CEO. In 40 percent of these cases, the board docked the CEO's compensation through the elimination of bonus or forced forfeiture of unvested equity awards. Boards of directors are most severe in punishing CEOs for financial misdealings. In these situations, the CEO was terminated 100 percent of the time.<sup>1</sup>

"There is a perception that boards are complacent with CEO misbehavior, but when we compare the public's assessment with what the board actually did, we see that many boards are very proactive in punishing (either through termination or pay reduction) potentially unethical behavior," observes Professor Larcker.

1. COMPARISON DATA DERIVED FROM: DAVID F. LARCKER AND BRIAN TAYAN, "SCOUNDRELS IN THE C-SUITE: HOW SHOULD THE BOARD RESPOND WHEN A CEO'S BAD BEHAVIOR MAKES THE NEWS?" STANFORD CLOSER LOOK SERIES (MAY 10, 2016).





### AMERICANS ARE SURPRISINGLY CRITICAL OF POTENTIALLY IMMORAL BEHAVIOR.

The two most offensive scenarios, according to the average American, involve CEOs who withhold critical information from the public about the quality and reliability of their companies' products. Three-quarters (75 percent) of respondents assign these scenarios a rating of 10, 9, or 8 on a scale of 1 to 10 in terms of how bad they are (with 10 being "extremely bad" and 1 being "not at all bad").

Following these, Americans are next most critical of CEOs who engage in potentially immoral behavior. A scenario in which the CEO regularly uses abusive language when talking to employees received the third-worst ranking among all 20 scenarios that were presented, followed by a CEO who wears nothing but underwear in the office, a CEO who uses a work computer to look at pornography, and a CEO who has an affair with a subordinate. These scenarios were given a rating of 10, 9, or 8 by over 60 percent of respondents.

The scenarios least offensive to the public involve the CEO of an apparel company who says that the company's products are not made for "plus-sized women," a CEO who donates personal money to support legislation that would prohibit same-sex marriage, and a CEO who uses personal money to purchase expensive gifts for a client. These scenarios were given a rating of 10, 9, or 8 by 36 percent, 34 percent, and 23 percent of respondents, respectively.

"The public's assessment is not easily predictable," says Donatiello. "Activities that receive extensive media coverage—such as a CEO who makes controversial public statements—are not always heavily criticized by the public. However, it appears that Americans are quite critical of questionable moral choices, even when they don't involve the company's products or assets. This is likely an indication that the public views immoral behavior in one area as a potential indicator of personal ethics overall."

### MALE AND FEMALE CEOs ARE HELD TO SIMILAR STANDARDS OVERALL; HOWEVER, SOME DIFFERENCES IN PERCEPTION EXIST.

In general, members of the public are equally critical of CEO misbehavior without regard to the gender of the CEO. There was no statistically significant difference in the average rating of CEO behavior across all 20 scenarios when the hypothetical CEO was presented as a male or a female.

That said, the public did differ in their criticism in a few specific scenarios based on the gender of the CEO. Americans were significantly more critical of a male CEO for giving himself and senior executives large bonuses while asking large concessions of employees. Americans were also more critical of a male CEO who does not tell the board of directors about a previous criminal conviction.

By contrast, Americans were more critical of a female CEO who withholds from the public the news of an accident that results in the death of a customer, and more critical of a female CEO who lies about a degree on her resume.



## Methodology

In the summer of 2016, the Rock Center for Corporate Governance at Stanford University hired SSI to conduct a nationwide survey of 1,554 individuals—representative by gender, race, age, household income, and state residence—to understand how the American public views CEOs who engage in potentially unethical behavior and the public’s determination of “fair punishment” for these actions. Stanford University is solely responsible for the contents of this survey.

Survey participants were presented with a random selection of 6 scenarios out of the total of 20 scenarios. Each scenario was coded in two forms: one with a male CEO and one with a female CEO. Respondents were only shown one version of the scenario, not both, and no indication was given that the gender of the CEO was a measured variable. Scenarios were further tagged by category for analytical purposes, and respondents were not shown these category names. Approximately 463 responses were collected for each scenario, half of which contained the version with a male CEO and half with a female CEO.

## List of Scenarios

**FOLLOWING EACH SCENARIO, RESPONDENTS ARE ASKED TO ANSWER THE FOLLOWING TWO QUESTIONS.**

### How bad is this behavior?

Extremely bad 10 9 8 7 6 5 4 3 2 1 Not at all bad

### What should happen to the CEO of the company?

(select one)

- The CEO should go to prison
- The CEO should be fired
- The CEO should lose bonus/have pay significantly reduced
- The CEO should be reprimanded by the board of directors
- Nothing

## RESPONDENTS WERE GIVEN THE FOLLOWING INSTRUCTION FOR EACH SCENARIO.

Please use your best judgment to assess this behavior fairly.

### Scenario 1a [Affair/relation]

The CEO of an electronics retail store has a sexual relationship with a subordinate who does not report directly to him. The CEO is married.

### Scenario 1b [Affair/relation]

The CEO of an electronics retail store has a sexual relationship with a subordinate who does not report directly to her. The CEO is married.

### Scenario 2a/2b [Controversial views]

On more than one occasion, the CEO of an apparel company makes public comments that he [she] only hires “good looking people” to work in his [her] stores. His [Her] clothes are designed and sold to young people.

### Scenario 3a/3b [Controversial views]

The CEO of a food company makes a public comment that his [her] company’s advertisements “will never show a gay couple.” He [She] says, “If customers don’t like it, they can buy another company’s product.”

### Scenario 4a/4b [Controversial views]

In a public interview, the CEO of an apparel company says that his [her] clothes are not made for plus-sized women: “They just don’t work for some women’s bodies.”

### Scenario 5a/5b [Controversial views]

The CEO of a technology company donates his [her] personal money to support legislation that would prohibit same-sex marriage. When this becomes public some employees who are gay or who support same-sex marriage threaten to quit.

### Scenario 6a/6b [Financial]

The CEO of an airline company funds a special pension plan to retain his [her] top executives. At the same time, the company asks its flight attendants to approve a new contract with reduced benefits in order to avoid a bankruptcy filing.

**Scenario 7a/7b [Financial]**

The CEO of a company brings family and friends with him [her] on a company-owned private jet. The CEO is travelling for business, while his [her] guests are travelling for pleasure. Company policy requires that he [she] reimburse the company for the personal use of the jet, but he [she] makes no payment for this flight because, he [she] argues, there are no additional costs to fly the jet with more people and it is arranging the flight for him [her] anyway.

**Scenario 8a/8b [Financial]**

The CEO of a large bank offers loans to a small number of friends and family members at interest rates that are lower than they would otherwise receive from his [her] bank, based on their credit rating.

**Scenario 9a/9b [Financial]**

The CEO of a company uses his [her] personal money to buy expensive gifts to retain a business relationship with an important client. He [She] does not use his [her] company's money to purchase the gifts.

**Scenario 10a/10b [Financial]**

The CEO of an airline company is negotiating with government officials to expand the local airport to include more gates. The government official asks the CEO if he [she] would add a direct flight to a city that the government official travels to frequently with his wife. The airline adds the flight, even though it is a money-losing route.

**Scenario 11a/11b [Language/behavior]**

It is discovered that the CEO of a bank uses his [her] computer at work to look at pornographic websites.

**Scenario 12a/12b [Language/behavior]**

On more than one occasion, the CEO of an apparel company wears nothing but underwear in his [her] office, including when holding meetings with employees. He [She] explains that his [her] company makes underwear and he [she] is testing it out.

**Scenario 13a/13b [Language/behavior]**

The CEO of a company routinely uses foul and abusive language toward employees. For example, he [she] told one employee to "get off your ass and get the fuck back to work."

**Scenario 14a/14b [Lying - product]**

The CEO of a computer game company writes anonymous positive reviews about his [her] company's products on websites where they are sold.

**Scenario 15a/15b [Lying - product]**

The CEO claims that his [her] company's blood-testing device can run more than 370 tests on a patient with only a few drops of blood. The test is offered in 40 locations for two years before it is discovered that the device's test results are inaccurate. The CEO knew the test results were inaccurate for most of this time.

**Scenario 16a/16b [Lying - product]**

The CEO of a car company promotes a new self-driving feature called "autopilot." The company learns that a driver is killed in an accident in which the autopilot feature was activated but failed to apply the brakes before running into a truck crossing the road in front of it. The CEO does not disclose this information to the public for weeks, during which time he [she] and the company sell stock.

**Scenario 17a/17b [Lying - other]**

The CEO of a company is arrested for drunk driving and required to provide community service. He [She] does not notify the board of directors or his [her] colleagues of this fact.

**Scenario 18a/18b [Lying - other]**

The CEO of a company does not tell the board of directors that many years before joining the company he [she] had been arrested for armed robbery and served jail time. He [She] says: "Nobody asked the question, so I guess I never answered it."

**Scenario 19a/19b [Lying - other]**

The CEO of a technology company says on his [her] resume that he [she] has a college degree in "accounting and computer science." The board of directors discovers that he [she] only has a degree in accounting, and not in computer science.

**Scenario 20a/20b [Lying - other]**

The CEO of a company posts anonymous messages in Internet chatrooms that are positive about his [her] company's stock price and negative about his [her] competitors' stock prices.





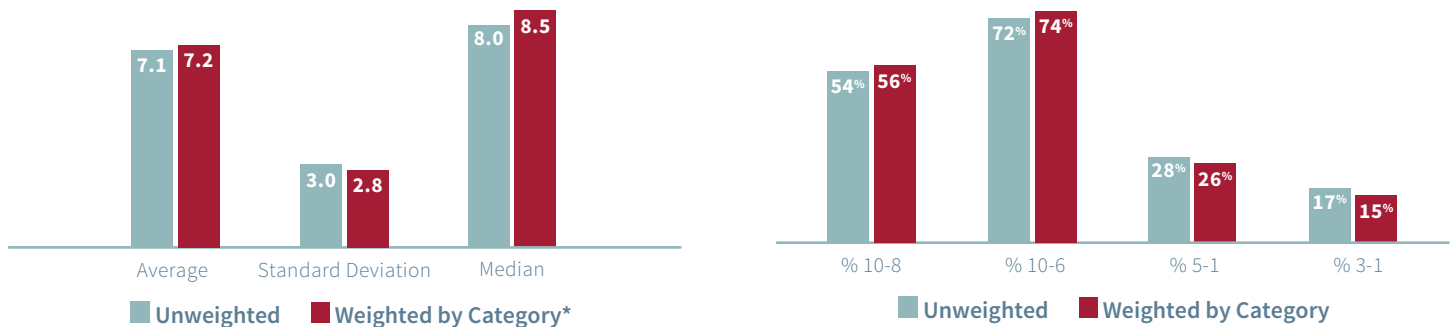
## Review of Findings

### All Scenarios

Respondents are asked the same two questions for each scenario. Below are the aggregated results based on all 20 scenarios.

#### 1. How bad is this behavior?

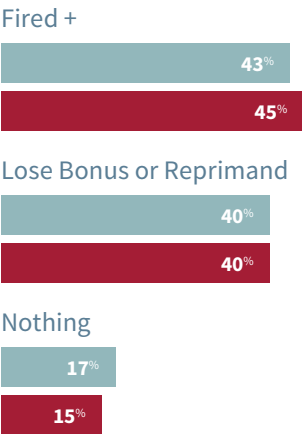
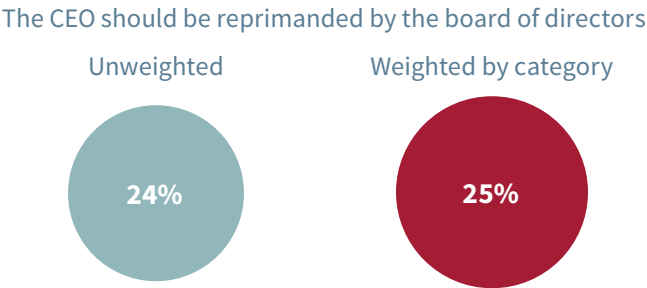
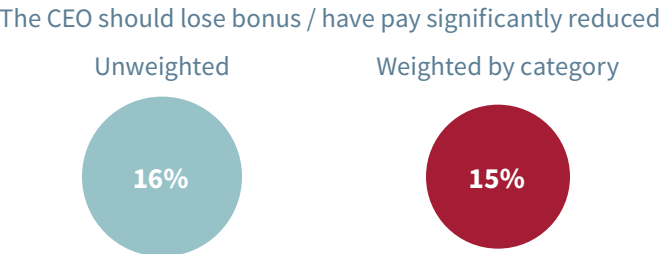
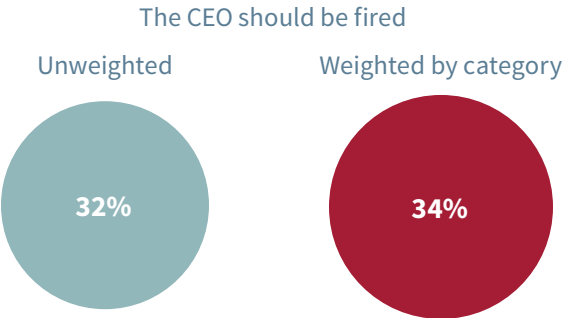
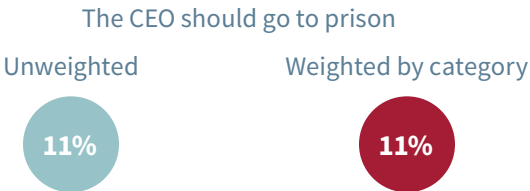
(Scale of 1 to 10 with 10 = “extremely bad” and 1 = “not at all bad”)



\* Unweighted results represent the average across all 20 scenarios. Weighted results aggregate the scenarios by category of behavior and represent the average with each category given equal weighting.



2. What should happen to the CEO of the company?



■ Unweighted   ■ Weighted by Category

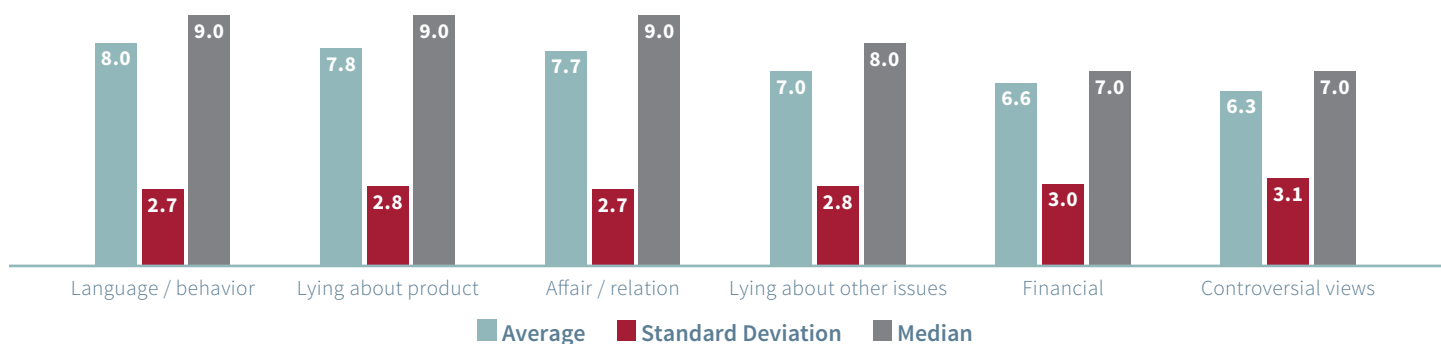


## Scenarios Grouped by Category

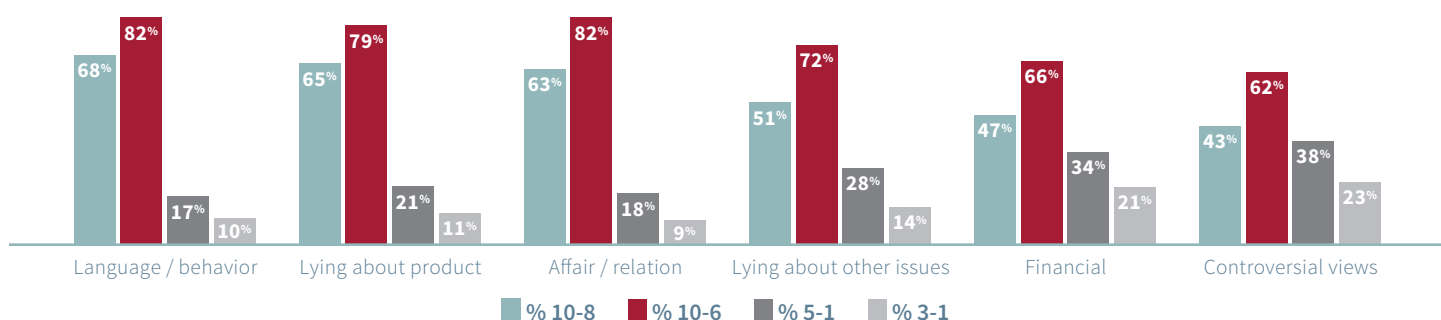
### 1. How bad is this behavior?

(Scale of 1 to 10 with 10 = “extremely bad” and 1 = “not at all bad”)

Ranked: Worst to Least Bad



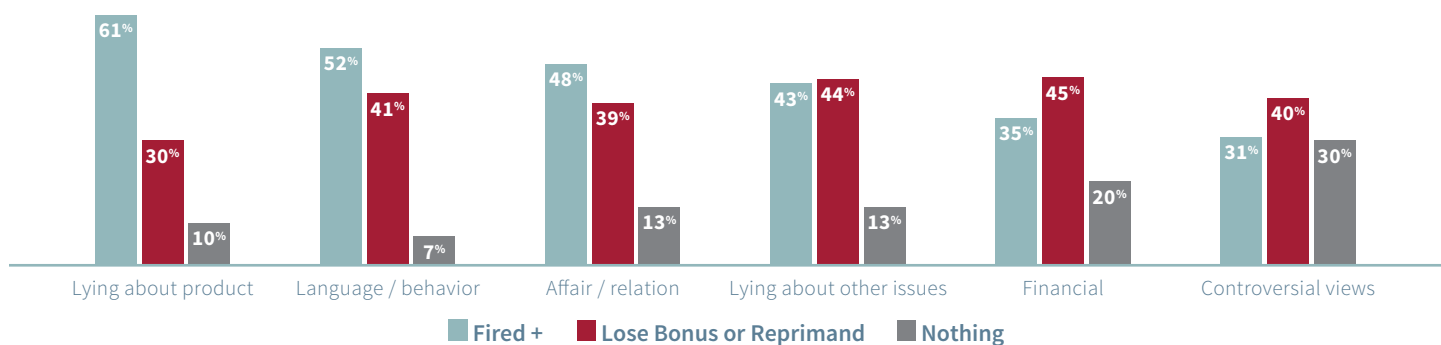
Breakdown



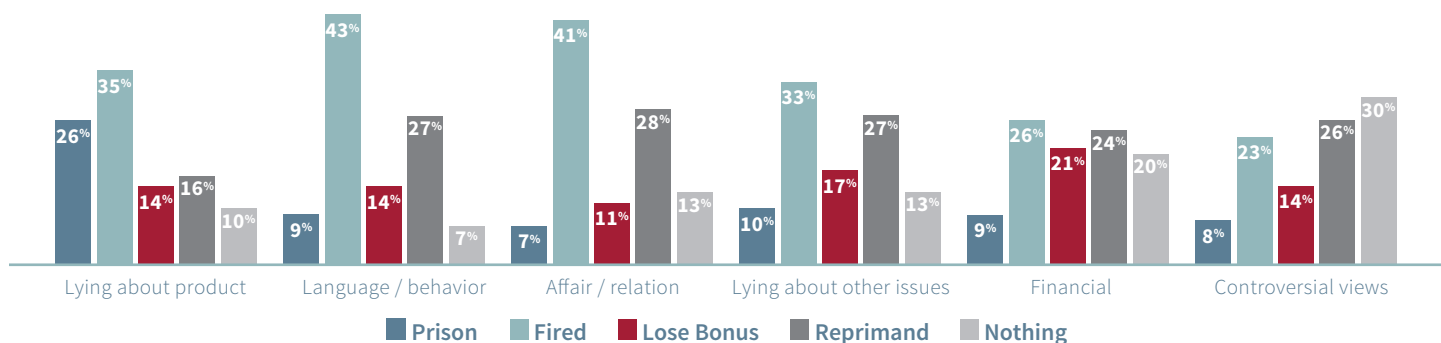
### 2. What should happen to the CEO of the company?

(select one)

Ranked by Punishment



Breakdown





## Scenarios

### 1. How bad is this behavior? (Scale of 1 to 10 with 10 = “extremely bad” and 1 = “not at all bad”)

Ranked: Worst to Least Bad

■ Average ■ Standard Deviation ■ Median

CEO withholds news of customer accident / death



Inaccurate blood testing product



CEO uses abusive language



CEO wears underwear in office



CEO looks at pornography at work



Affair with subordinate



CEO of bank gives lower interest rate loans to friends/family



CEO gets DUI; does not tell board



Executives get bonus while union gives big concessions



CEO lied about degree on resume



CEO doesn't tell board about criminal convictions



Only hires “good-looking people” in stores



Airline CEO adds flight to win over Port Authority



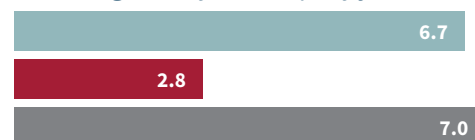
CEO won't show gay people in company's ads



CEO writes anonymous posts on chatroom to promote company's stock



CEO brings family on company jet





■ Average ■ Standard Deviation ■ Median

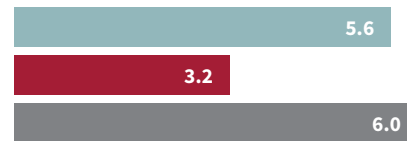
CEO writes anonymous positive reviews about company's products



Clothes aren't made for "plus-sized women"



Donated personal money for legislation to prohibit same-sex marriage



CEO uses personal money to buy expensive gifts for clients



Breakdown	% 10-8	% 10-6	% 5-1	% 3-1
CEO withholds news of customer accident / death	75%	85%	15%	7%
Inaccurate blood testing product	75%	85%	15%	8%
CEO uses abusive language	72%	87%	13%	9%
CEO wears underwear in office	67%	80%	20%	11%
CEO looks at pornography at work	65%	81%	19%	12%
Affair with subordinate	63%	82%	18%	10%
CEO of bank gives lower interest rate loans to friends / family	59%	78%	22%	13%
CEO gets DUI; does not tell board	57%	76%	24%	13%
Executives get bonus while union gives big concessions	58%	77%	23%	14%
CEO lied about degree on resume	53%	74%	26%	12%
CEO doesn't tell board about criminal convictions	51%	72%	28%	15%
Only hires "good-looking people" in stores	51%	70%	30%	17%
Airline CEO adds flight to win over Port Authority	50%	71%	29%	16%
CEO won't show gay people in company's ads	51%	69%	31%	19%
CEO writes anonymous posts on chatroom to promote company's stock	45%	68%	32%	18%
CEO brings family on company jet	44%	69%	31%	17%
CEO writes anonymous positive reviews about company's products	45%	67%	33%	19%
Clothes aren't made for "plus-sized women"	36%	59%	41%	27%
Donated personal money for legislation to prohibit same-sex marriage	34%	52%	48%	31%
CEO uses personal money to buy expensive gifts for clients	23%	37%	63%	45%



## 2. What should happen to the CEO of the company? (select one)

Ranked by Punishment

■ Fired + ■ Lose Bonus or Reprimand ■ Nothing

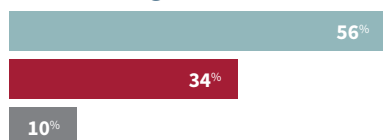
CEO withholds news of customer accident / death



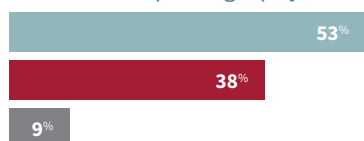
Inaccurate blood testing product



CEO of bank gives lower interest rate loans to friends/family



CEO looks at pornography at work



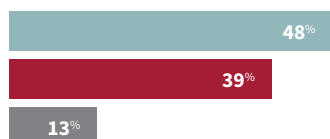
CEO uses abusive language



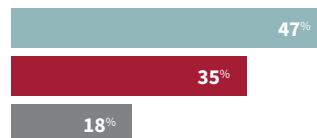
CEO wears underwear in office



Affair with subordinate



CEO doesn't tell board about criminal convictions



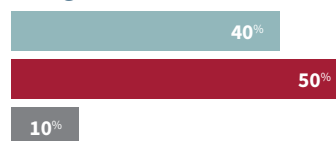
CEO lied about degree on resume



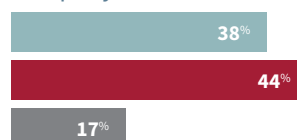
Executives get bonus while union gives big concessions



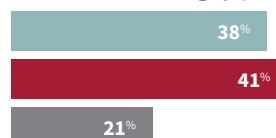
CEO gets DUI; does not tell board



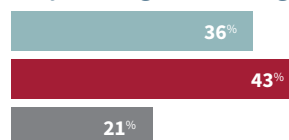
CEO writes anonymous posts on chatroom to promote company's stock



CEO won't show gay people in company's ads

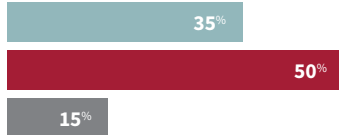


Only hires "good-looking people" in stores

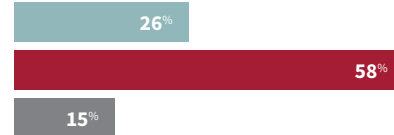


■ **Fired +** ■ **Lose Bonus or Reprimand** ■ **Nothing**

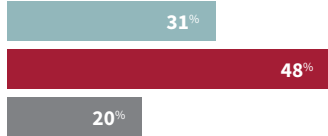
Airline CEO adds flight to win over Port Authority



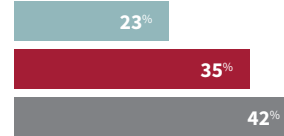
CEO brings family on company jet



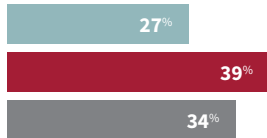
CEO writes anonymous positive reviews about company's products



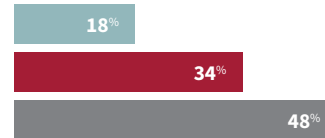
Donated personal money for legislation to prohibit same-sex marriage



Clothes aren't made for "plus-sized women"



CEO uses personal money to buy expensive gifts for clients



Breakdown	Prison	Fired +	Lose Bonus	Reprimand	Nothing
CEO withholds news of customer accident / death	42%	34%	11%	10%	2%
Inaccurate blood testing product	27%	48%	11%	9%	6%
CEO of bank gives lower interest rate loans to friends / family	14%	41%	15%	19%	10%
CEO looks at pornography at work	9%	45%	14%	24%	9%
CEO uses abusive language	7%	46%	15%	28%	4%
CEO wears underwear in office	10%	40%	12%	30%	9%
Affair with subordinate	7%	41%	11%	28%	13%
CEO doesn't tell board about criminal convictions	10%	37%	10%	25%	18%
CEO lied about degree on resume	6%	41%	22%	24%	8%
Executives get bonus while union gives big concessions	11%	30%	31%	16%	11%
CEO gets DUI; does not tell board	11%	29%	19%	31%	10%
CEO writes anonymous posts on chatroom to promote company's stock	13%	26%	16%	28%	17%
CEO won't show gay people in company's ads	8%	29%	14%	27%	21%
Only hires "good-looking people" in stores	6%	29%	16%	27%	21%
Airline CEO adds flight to win over Port Authority	9%	26%	22%	27%	15%
CEO writes anonymous positive reviews about company's products	8%	23%	19%	29%	20%
Clothes aren't made for "plus-sized women"	9%	17%	12%	27%	34%
CEO brings family on company jet	6%	20%	27%	31%	15%
Donated personal money for legislation to prohibit same-sex marriage	6%	16%	12%	23%	42%
CEO uses personal money to buy expensive gifts for clients	7%	12%	10%	24%	48%



## SCENARIOS BY GENDER OF CEO

### 1. How bad is this behavior? (Scale of 1 to 10 with 10 = “extremely bad” and 1 = “not at all bad”)

Ranked by difference: Worse for male CEO to worse for female CEO

■ Male Average ■ Female Average

Executives get bonus while union gives big concessions



Clothes aren't made for “plus-sized women”



CEO writes anonymous posts on chatroom to promote company's stock



CEO looks at pornography at work



CEO of bank gives lower interest rate loans to friends/family



Airline CEO adds flight to win over Port Authority



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CEO writes anonymous positive reviews about company's products



Only hires “good-looking people” in stores



CEO won't show gay people in company's ads



Donated personal money for legislation to prohibit same-sex marriage



CEO withholds news of customer accident / death



CEO uses personal money to buy expensive gifts for clients



CEO lied about degree on resume





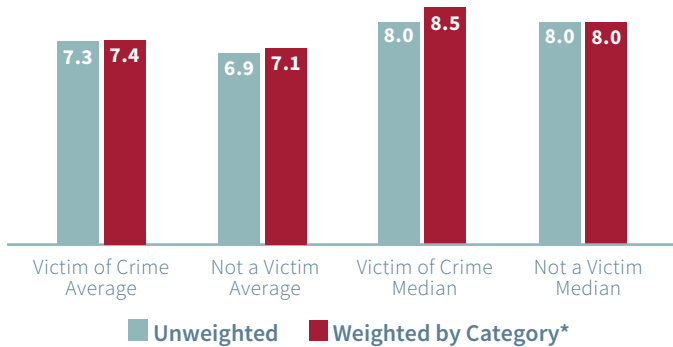
## 2. What should happen to the CEO of the company? (Select one)

Ranked by difference in punishment: Worse for male to worse for female

	Male Fired +	Female Fired +	Difference	Male Lose Bonus or Reprimand	Female Lose Bonus or Reprimand	Difference	Male Nothing	Female Nothing	Difference
CEO brings family on company jet	31%	21%	10%	54%	63%	-9%	15%	16%	-1%
CEO doesn't tell board about criminal convictions	51%	42%	9%	32%	38%	-6%	16%	20%	-4%
Clothes aren't made for "plus-sized women"	30%	24%	6%	40%	38%	2%	30%	38%	-8%
CEO looks at pornography at work	56%	50%	6%	37%	39%	-2%	7%	11%	-4%
CEO writes anonymous posts on chatroom to promote company's stock	41%	36%	5%	42%	47%	-5%	17%	17%	0%
CEO of bank gives lower interest rate loans to friends / family	58%	54%	4%	34%	34%	0%	8%	12%	-4%
Airline CEO adds flight to win over Port Authority	37%	33%	4%	48%	52%	-4%	15%	15%	0%
Inaccurate blood testing product	76%	73%	3%	16%	22%	-6%	7%	5%	2%
CEO gets DUI; does not tell board	42%	38%	4%	49%	50%	-1%	9%	12%	-3%
CEO uses personal money to buy expensive gifts for clients	19%	17%	2%	30%	37%	-7%	51%	45%	6%
Affair with subordinate	49%	48%	1%	35%	43%	-8%	16%	9%	7%
Only hires "good-looking people" in stores	36%	36%	0%	42%	44%	-2%	22%	20%	2%
CEO withholds news of customer accident/death	77%	77%	0%	21%	21%	0%	3%	2%	1%
Executives get bonus while union gives big concessions	41%	41%	0%	49%	46%	3%	10%	12%	-2%
CEO writes anonymous positive reviews about company's products	31%	32%	-1%	45%	52%	-7%	24%	16%	8%
CEO won't show gay people in company's ads	35%	40%	-5%	37%	45%	-8%	28%	15%	13%
CEO lied about degree on resume	44%	49%	-5%	48%	44%	4%	8%	8%	0%
Donated personal money for legislation to prohibit same-sex marriage	19%	27%	-8%	38%	32%	6%	43%	41%	2%
CEO uses abusive language	49%	57%	-8%	46%	40%	6%	6%	3%	3%
CEO wears underwear in office	44%	55%	-11%	46%	37%	9%	9%	8%	1%

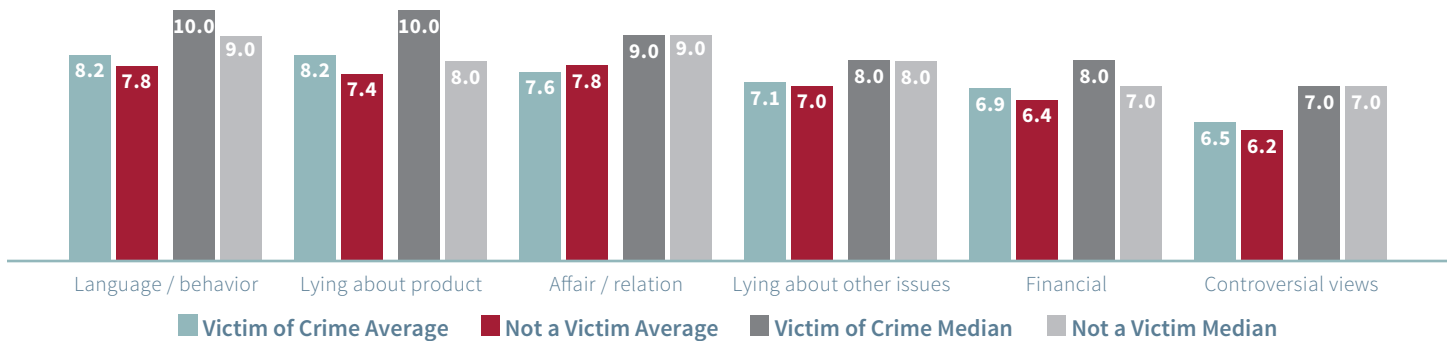
## SCENARIOS AND CATEGORIES BY RESPONDENT VICTIM STATUS

### 1. How bad is this behavior? (Scale of 1 to 10 with 10 = "extremely bad" and 1 = "not at all bad")



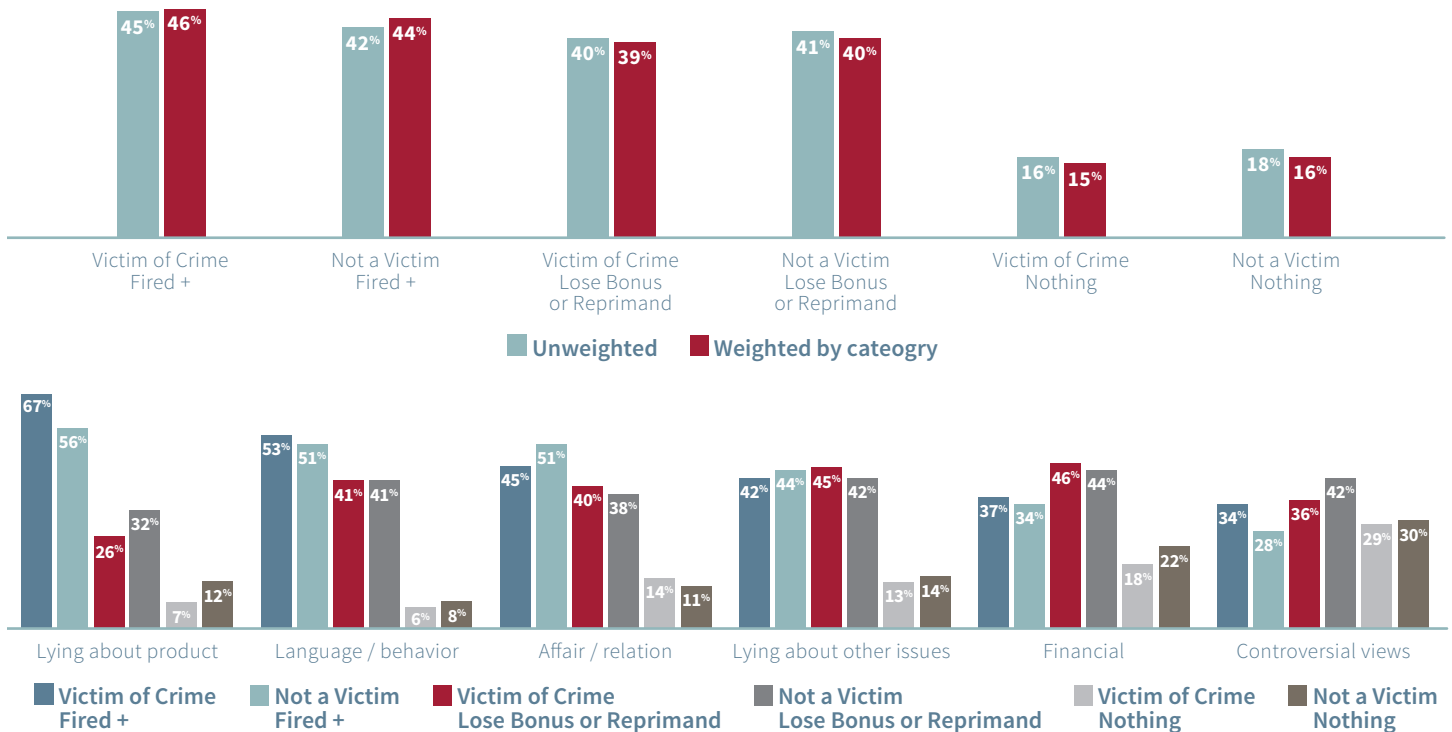
\* Unweighted results represent the average across all 20 scenarios. Weighted results aggregate the scenarios by category of behavior and represent the average with each category given equal weighting.

### Ranked: Worst to Least Bad by Category



### 2. What should happen to the CEO of the company? (select one)

#### Ranked by Punishment

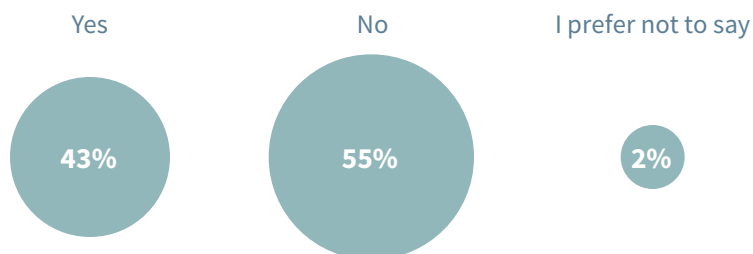




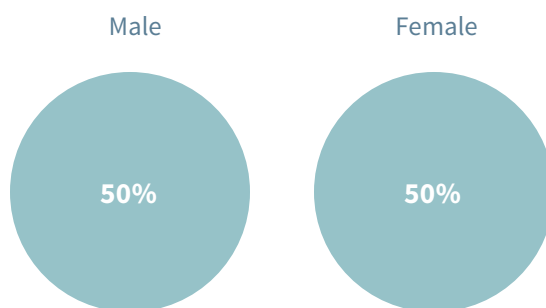


## Demographic Information

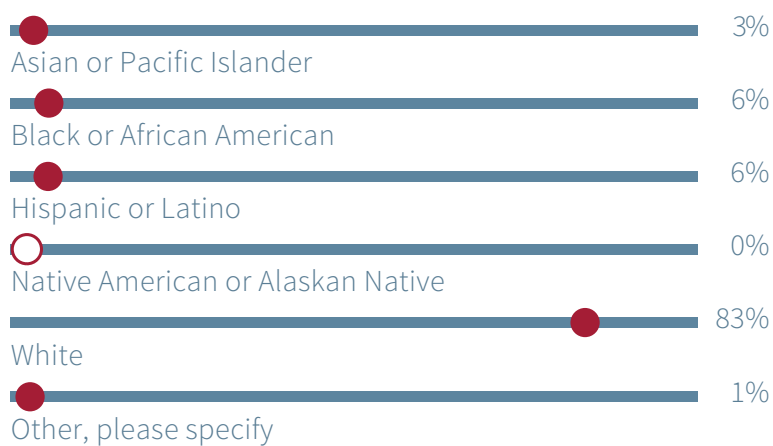
### 1. Have you ever been the victim of theft or property crime?



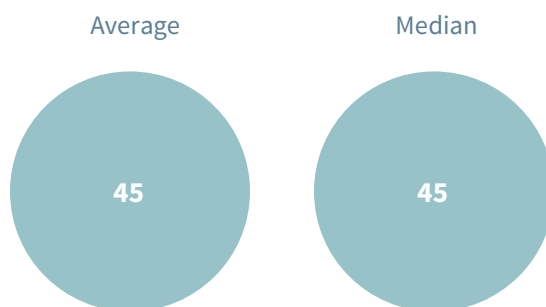
### 2. Gender



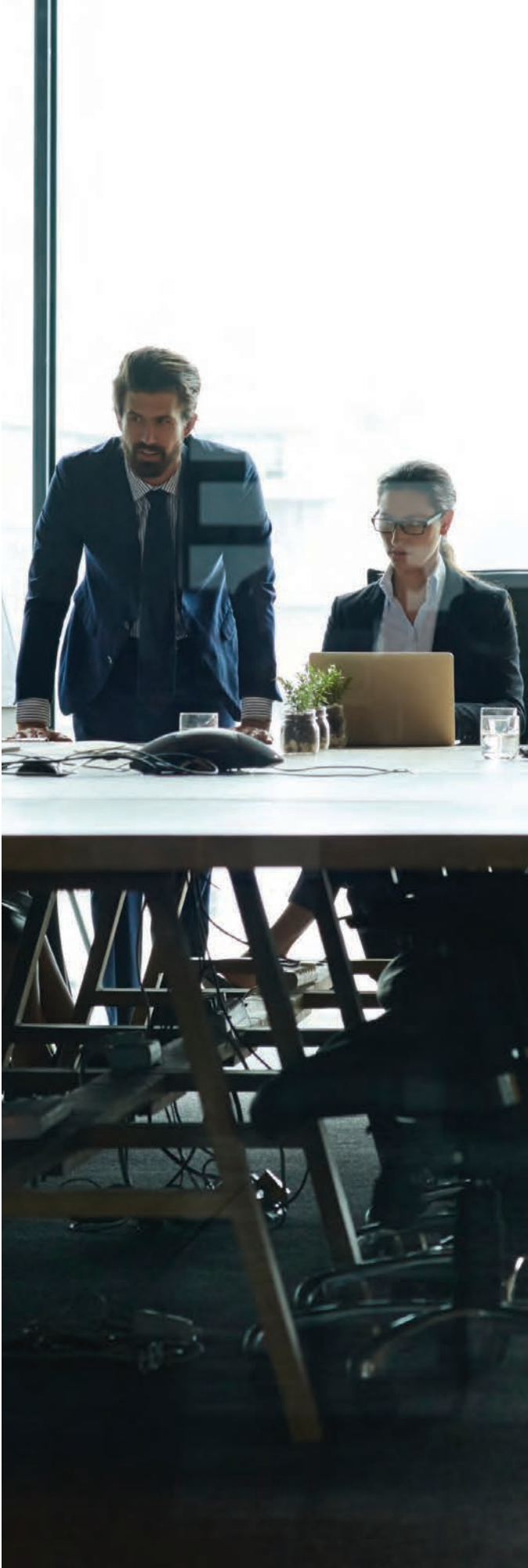
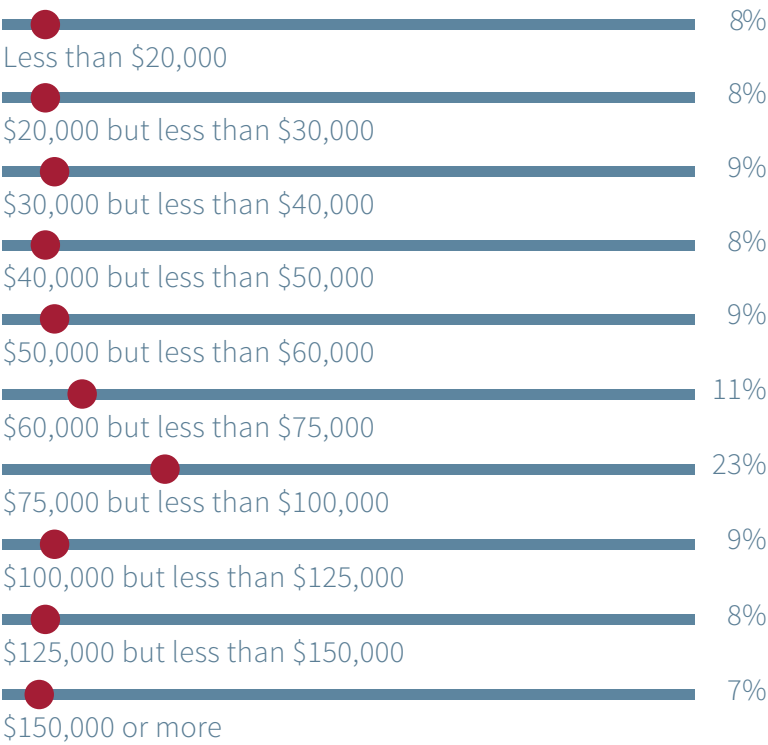
### 3. Ethnicity



### 4. Age



4. Household income



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The Corporate Governance Research Initiative at Stanford Graduate School of Business focuses on research to advance the intellectual understanding of corporate governance, both domestically and abroad. By collaborating with academics and practitioners from the public and private sectors, we seek to generate insights into critical issues and bridge the gap between theory and practice. Our research covers a broad range of topics that include executive compensation, board governance, CEO succession, and proxy voting.  
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