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The Role of the Chief Legal Officer in Corporate Governance

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Abstract

The CLO shapes and enforces corporate governance, but is faced with a dual-role paradox that requires her to act as both monitor of corporate governance and executive of the firm. We study the role of the CLO under environments that are most likely to impact governance and pressure the firm to either emphasize or marginalize the CLO's role as monitor or facilitator. Using the financial shock of a securities class action lawsuit on large corporations, we measure changes in CLO value through the metrics of total and relative compensation of the CLO and other C-suite members. After controlling for relevant variables such as growth and total assets, we find that when firms have more insiders on their board of directors, the CLO's compensation declines when the preceding year's Tobin's Q is high. CLO compensation increases under conditions of high opacity, but that compensation partially erodes in high Tobin's Q environments. We also find that a lawsuit increases CFO and CEO turnover but not the CLO's. Our results have implications for corporate governance, the dual and potentially conflicting role of CLO as gatekeeper and monitor, executive compensation, and agency costs.

Keywords: Corporate governance, internal governance, executive compensation, securities class actions

JEL Classification: G30, K20, K22, M12

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