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and

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Abstract

We study the role of outside directors in defined benefit pension plan freezes, where the interests of shareholders are in apparent conflict with the interests of firm employees. We examine the effect of independent directors on the likelihood, valuation effects, and long term consequences of plan freezes. We find that a greater percentage of independent directors makes plan freezes more likely and more valuable to shareholders, and mitigates their effect on investment and leverage levels. Our results extend evidence on the monitoring value of independent directors from shareholder-manager to shareholder-employee conflicts, consistent the predictions of agency rather than stakeholder management theories of independent director behavior.

JEL classification: G32; G34

Key words: Independent directors; defined benefit pension plans; plan freezes

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