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# SHORT-TERM AND LONG-TERM IMPACT OF SARBANES-OXLEY ACT ON DIRECTOR COMMITMENT AND COMPOSITION OF CORPORATE BOARD COMMITTEES

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**Abstract**

This study analyzes the short-term and long-term effects on director commitment and composition of board committees following the passage of the Sarbanes Oxley Act of 2002. The first issue we address in the paper is "director commitment", i.e., whether corporate directors were more or less committed in terms of time and effort to their "directorship" assignment after the passage of the Sarbanes-Oxley Act. The second issue that will be examined in this study is the composition of board committees (namely, Audit, Compensation, Executive, Governance, and Nominating Committees) before and after Sarbanes-Oxley. The research intends to answer some of the following questions: Has Sarbanes-Oxley changed the boards' structure? Have firms focused more on certain functions of the Board relative to the others after the Act was passed? Using over 124,000 observations in our sample period (covering both pre and post Sarbanes Oxley Act of 2002) from Board Analyst Database, we analyze the trend in each of these variables over time. We run statistical tests to compare the trends in each variable before the Act was passed to the period after it was passed.

**Keywords :** Director Commitment, Corporate Board Composition; Sarbanes Oxley Act

**JEL Classification :** D73; G30, G34, K22

## Introduction

In this paper we look at possible effects of the Sarbanes-Oxley (SOX) Act (2002) on director commitment and composition of board committees during the period 2001-2006. We observe factors that could provide information on director commitment in terms of time and effort applied towards their directorial assignments. Also, we attempt to track possible changes in composition of different board committees following the passage of SOX (2002). Changes in composition of specific board committees could be studied in the light of recommendations of the SOX Act. Specifically, we examine SOX's immediate impact (i.e., after 2002) on director commitment and board composition as well as possible reversals in its impact over time (i.e., after 2005) after the passage of the SOX. If the initial impacts were mostly positive, but over time some of the desired director commitment characteristics and board composition structures got reversed, we could then conclude that, in some respects, the desired impacts of passing such an Act were short-lived. The analysis could shed some light on whether directors were more or "less" committed (in terms of time and effort) to their **"directorship"** assignments after the

The authors own full responsibility for the contents of the paper.

passage of the Sarbanes Oxley Act of 2002. Also, we could examine whether Sarbanes-Oxley Act had any significant effect on changing the composition of different boards, whereby firms focused more on certain functions of the Board relative to the others after the Act was passed.

**Prelude**

According to William Allen[1] effective monitoring required time and resources, and holding multiple positions by directors was contrary to achieving the required commitment. Also, the Council of Institutional Investors (1998) concluded that directors with full-time jobs should not serve on more than two other boards. Lipton and Lorsch[2] obtained feedback from directors that multiple directorships resulted in insufficient time to discharge their professional responsibilities. Harris and Shimizu[3] investigates the impact of overboarded directors upon key strategic decisions such as corporate acquisitions. Based on their examination of acquisition outcomes, they found that such directors are important sources of knowledge and enhance acquisition performance. Elyasiani and Zhang[4] found Bank Holding Company performance (ROE, Tobin's Q, etc.) was positively related to "busyness" of directors holding multiple positions. Also, BHC risk (credit, default, market, and company specific) was reduced with "busyness" of directors. According to their observations, performance characteristics strengthened during 2007-09 Financial Crisis period. Also, they found "Busy" directors were not more likely to fail 75 per cent attendance standard at board meetings (especially for BHC board meetings compared to non-financials board meetings). Ferris, *et al.,*[5] find that firm performance has a positive effect on the number of appointments held by directors. They found no evidence of multiple director positions "Busyness Hypothesis" having a shirking effect on their individual directorial duties on board committees.

Adams and Ferreira[6] find that female directors have better attendance records than male directors, and therefore have a significant effect on participating in board inputs. They also concluded that male directors had fewer attendance problems the more gender-diverse the board is. Fich and Shivdasani[7] find that firms with busy boards, those in which a majority of outside directors hold three or more directorships, are associated with weak corporate governance. These firms exhibit lower market-to-book ratios, weaker profitability, and lower sensitivity of CEO turnover to firm performance. Departures of busy outside directors generate positive abnormal returns (ARs). Akhigbe and Martin[8] estimate the valuation effects of Sarbanes Oxley Act for firms in the financial services industry and find that, except for securities firms, these firms significantly benefited from its adoption. As hypothesized, these positive effects may be attributed to expected improvement in the transparency of the relatively opaque financial services firms. They find that the cross-sectional variation in the valuation effects can be explained by disclosure and governance characteristics and observe that the effects were less favorable for firms with less involved or less committed CEOs. In our paper, we track the "director commitment" in light of cited literature above, both before the passage of SOX (2002) and compare them with the proxy variables for director commitment in the period after SOX was enacted.

Klein[9] demonstrates a linkage between firm performance and board composition by examining the committee structure of boards and the directors' roles within these committees. The paper showed significant ties between firm performance and how boards are structured. Jiraporn, *et.al.,*[10] examines whether holding multiple outside board seats compromises a director's ability to effectively perform monitoring duties. They report that individuals who hold more outside directorships serve on fewer board committees. Their findings support for both the busyness and the reputation hypotheses. In addition, they find that holding more outside board seats decreases the likelihood of membership on compensation and audit committees. Laux and Laux[11] generates predictions relating the board committee structure to the pay-performance sensitivity of CEO compensation, the quality of

board oversight, and the level of earnings management. The board of directors needs to implement decisions on a wide variety of subject matter. These decisions are often delegated to specialized sub-committees within the board. The different objectives of each sub-committee can result in conflicts of interests leading to decisions that are sub-optimal. Liao and Hsu[12] find that common membership in audit and compensation committees could actually undermine corporate governance and results in poorer earnings quality and puts effectiveness of both committees at risk.

Zheng and Cullinan[13] shed some light on the association between board structure and corporate governance effectiveness. Given the limited number of board members available, the organization must consider how to allocate an individual director among different committees. This study suggests that the overlapping of the compensation committee and the audit committee may be beneficial to the design of compensation schemes because of the knowledge spillover between the two committees. Chandar, Chang, and Zheng[14] results also suggest that there is knowledge spillover from the compensation committee to the audit committee, as reflected in higher financial reporting quality. We interpret this to suggest that some overlapping of the committee memberships may be beneficial to audit committee monitoring effectiveness. Sun and Cahan[15] conclude that shareholders and directors should be concerned about the composition of compensation committees as compensation committee quality varies depending on compensation committee size, and the quality of the committee shows a positive association between CEO cash compensation and accounting performance of the company.

Sun *et.al.,* examine whether the relationship between future firm performance and chief executive officer (CEO) stock option grants is affected by the quality of the compensation committee. Compensation committee quality is measured using six factors including both committee size and the proportion of directors who are active CEOs in other companies. Xie *et.al.,*[16] examine the role of the board of directors, the audit committee, and the executive committee in preventing earnings management. Marrakchi *et.al.,*[17] provide evidence that effective boards and audit committees constrain earnings management activities. These findings have implications for regulators, such as the Securities and Exchange Commission (SEC), as they attempt to supervise firms. Ghosh *et.al.,*[18] conclude that board size and audit committee size, activity, and tenure are associated with earnings management. Kanagaretnam *et.al.,*[19] findings are consistent with the hypothesis that firms with higher levels of corporate governance have lower information asymmetry around quarterly earnings announcements. Volker[20] predicts that in countries in which governance is weak (strong), taking steps to improve governance increases (decreases) the magnitude of manipulation, and thereby reduces (increases) the information content of accounting information. Following the guidelines of the Sarbanes Oxley Act, increased focus on governance committees based on committee size would decrease manipulation and improve information quality of accounting information.

In the light of the literature on the significance of composition of board committees on governance issues, our paper tracks the composition of the different board committees, namely the audit, compensation, executive, governance, and nominating committees before and after the passage of the Sarbanes-Oxley Act.

**Methodology Used**

Our data are obtained from the Board Analyst database. Due to data availability, our sample period is from 2001 through 2006. In total, we have 124,366 observations in our sample. We look at two independent issues in this study: The first one is "Director Commitment". After Sarbanes-Oxley Act of 2002, are directors more or less committed (in terms of time and effort) to their "directorship" assignment? Here, we look at three variables:

- "is the director an active CEO of any company?"

- "the total number of corporate boards on which the director serves", and
- "has the director failed the attendance standards?". We use these three variables as proxies of director commitment.

The second issue that we examine in this study is the size of each board committee (i.e., Audit, Compensation, Executive, Governance, and Nominating Committees) before and after Sarbanes-Oxley. Has Sarbanes-Oxley changed the boards' structure? Have firms focused more on certain functions of the Board relative to the others after the Act was passed? Here, we use the size of each committee as a proxy for the boards' relative focus on each function. So, our variables here are "is the director serving in the Audit Committee?", "is the director serving in the Compensation Committee?", and so on.

First, we look at the trend in each of these variables over time. Initially, we look at our three "Director Commitment" variables, and later we look at our five "Committee Size" variables. Our main question is this: "Did Sarbanes-Oxley Act have an impact on any of these variables?" After looking at the trend in each variable, we run statistical tests to compare the period just before the Act was passed to the period just after it was passed.

The only continuous variable that we use in this study is "the total number of corporate boards on which the director serves". For that variable, we use the Wilcoxon test in our comparisons between the "before" and the "after" periods. All other variables are categorical; therefore we use the Chi-Square test in order to compare these variables' values "before" and "after" Sarbanes-Oxley Act was passed.

## Empirical Research Findings

**Table 1** shows the percentage of directors who were serving as an active CEO of any company during the 2001-2006 period. **Figure 1** is a graphical representation. In 2002, the percentage of directors who were serving as an active CEO of any company is much lower when compared to 2001 (17.83 per cent versus 95.65 per cent). After this big drop from 2001 to 2002, this percentage goes up for the next two years (25.23 per cent in 2003 and 28.02 per cent in 2004), and then drops back in 2005 and 2006 (to 27.41 per cent and then to 23.69 per cent) We can say that, just after the Sarbanes-Oxley Act was passed, U.S. corporations have had directors whose focus was more on their respective boards rather than any other company. The drop was very big from 2001 to 2002. Later, it looks like the corporations relaxed this requirement a little bit.

**TABLE 1**
**PERCENTAGE OF DIRECTORS WHO WERE ACTIVE CEOS OF ANY COMPANY**

| Year | Active CEO (%) |
|---|---|
| 2001 | 95.65 |
| 2002 | 17.83 |
| 2003 | 25.23 |
| 2004 | 28.02 |
| 2005 | 27.41 |
| 2006 | 23.69 |

**FIGURE 1**
**PERCENTAGE OF DIRECTORS THAT WERE ACTIVE CEOS OVER TIME**

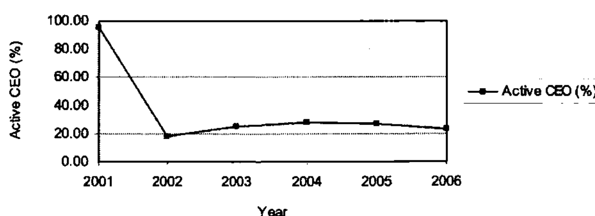


**Table 2** and **Figure 2** show the total number of corporate boards on which a director serves. We can see that, up until 2005, the general trend has been positive with regards to the number of boards served by a director (from an average of 2.01 boards in 2001, we have climbed to 2.60 boards in 2005). This may be possibly due to firms' flocking to the same pool of reputable directors that are available during that period. It looks like firms have been more careful after Sarbanes-Oxley in selecting directors that have both experience and

reputation. As a result, these individuals have served in multiple boards. Interestingly, this trend reversed in 2006 (we have dropped back to 2.20 average boards). This finding implies that the impact of Sarbanes-Oxley has disappeared after 2005.

**TABLE 2**
**TOTAL NUMBER OF CORPORATE BOARDS ON WHICH AN INDIVIDUAL SERVES**

| Year | Number of Boards |
|---|---|
| 2001 | 2.01 |
| 2002 | 2.02 |
| 2003 | 1.90 |
| 2004 | 2.48 |
| 2005 | 2.60 |
| 2006 | 2.20 |

**FIGURE 2**
**MEAN NUMBER OF CORPORATE BOARDS ON WHICH A DIRECTOR CURRENTLY SERVES**

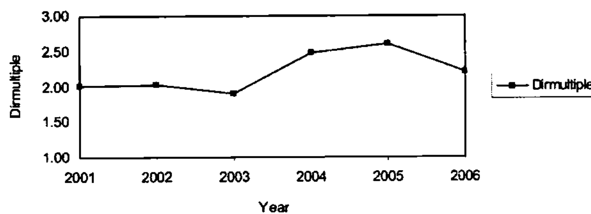


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**Table 3** and **Figure 3** present the percentage of directors who failed the attendance standard in their respective boards. We see a similar trend here: the impact of Sarbanes-Oxley disappears after 2005. The failure rate goes down from 2001 through 2005 (from 1.95 per cent failed to 1.31 per cent failed), and then from 2005 to 2006, it goes back up (to 1.81 per cent). This finding implies that firms have been stricter in enforcing the attendance standards up until 2005. After that, they relaxed this requirement. From the first three tables, we can conclude that Sarbanes-Oxley has had some positive impact on directors' commitment to their respective boards up until 2005. This impact disappears after 2005.

From this point on, we focus on the "size of each board committee". Here, our data start in 2002 and end in 2006. An audit committee is a selected number of members of a company's board of directors whose responsibilities include helping auditors remain independent of management. **Table 4** and **Figure 4** show that the percentage of directors serving in the audit committee goes up from 33.51 per cent in 2002 to 43.96 per cent in 2005. Then, this percentage drops back to 32.13 per cent in 2006, which is even lower than the 2002 number. We can say that while the boards have focused more and more on the auditing function from 2002 to 2005, this increased focus has disappeared (in fact, completely reversed) after 2005. Again, similar to "director commitment", here we are seeing that the impact of Sarbanes-Oxley continues only until 2005.

**TABLE 3**
**PERCENTAGE OF DIRECTORS WHO FAILED ATTENDANCE STANDARDS**

| Year | Failed (%) |
|---|---|
| 2001 | 1.95 |
| 2002 | 2.03 |
| 2003 | 1.74 |
| 2004 | 1.33 |
| 2005 | 1.31 |
| 2006 | 1.81 |

**FIGURE 3**
**PERCENTAGE OF DIRECTORS WHO FAILED THE 75% ATTENDANCE STANDARD**

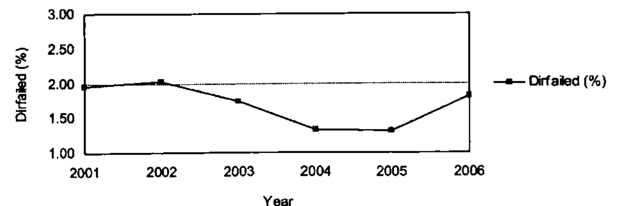


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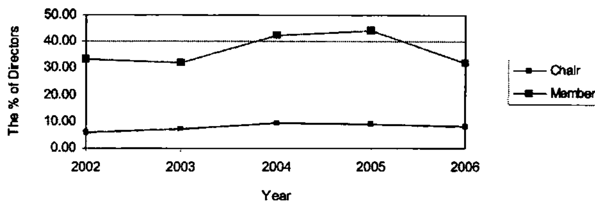
**TABLE 4**
**PERCENTAGE OF DIRECTORS SERVING IN THE AUDIT COMMITTEE**

| Year | Chair | Member |
|---|---|---|
| 2002 | 6.04 | 33.51 |
| 2003 | 7.33 | 32.10 |
| 2004 | 9.60 | 42.46 |
| 2005 | 9.01 | 43.96 |
| 2006 | 8.30 | 32.13 |

**FIGURE 4**
**PERCENTAGE OF DIRECTORS SERVING IN THE AUDIT COMMITTEE OVER TIME**

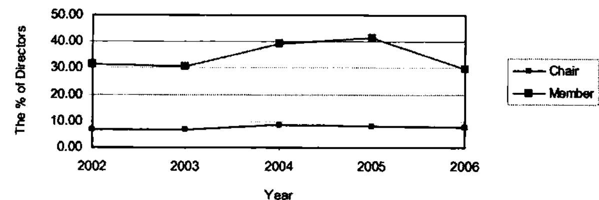



The compensation committee of a board of directors sets the compensation level of senior management. Under the 2002 Sarbanes-Oxley legislation, members of the compensation committee have to be independent directors by the middle of 2004. **Table 5** and **Figure 5** show that the percentage of directors serving in the compensation committee goes up from 31.55 per cent in 2002 to 41.41 per cent in 2005. Then, this percentage drops to 29.71 per cent in 2006, which is even lower than the 2002 number. Again, we are seeing that the impact of Sarbanes-Oxley disappears after 2005. While the average compensation committee gets larger for 4 years, in 2006, it returns back to its 2002 level.

**TABLE 5**
**PERCENTAGE OF DIRECTORS SERVING IN THE COMPENSATION COMMITTEE**

| Year | Chair | Member |
|---|---|---|
| 2002 | 6.69 | 31.55 |
| 2003 | 6.94 | 30.47 |
| 2004 | 8.75 | 39.31 |
| 2005 | 8.23 | 41.41 |
| 2006 | 7.50 | 29.71 |

**FIGURE 5**
**PERCENTAGE OF DIRECTORS SERVING IN THE COMPENSATION COMMITTEE OVER TIME**

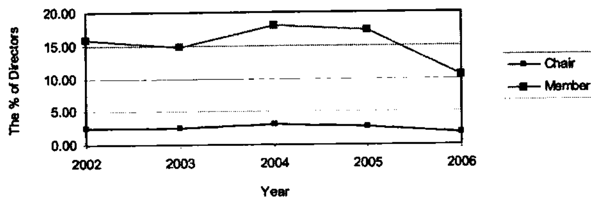



A similar trend can be seen in **Table 6** and **Figure 6** for the percentage of directors serving in the executive committee. The executive committees include membership at the senior-most level of an organization, and provide organizational direction on behalf of the board. The percentage of directors serving the executive committee goes up from 15.79 per cent in 2002 to 18.00 per cent in 2004. Then, this percentage drops to 17.26 per cent and 10.40 per cent, respectively, in 2005 and 2006. Again, the 2006 level of 10.40 per cent is lower than the 2002 level. While the average executive committee gets larger for 3 years, it becomes much smaller in 2005 and 2006.

**TABLE 6**
**PERCENTAGE OF DIRECTORS SERVING IN THE EXECUTIVE COMMITTEE**

| Year | Chair | Member |
|---|---|---|
| 2002 | 2.46 | 15.79 |
| 2003 | 2.48 | 14.83 |
| 2004 | 3.08 | 18.00 |
| 2005 | 2.71 | 17.26 |
| 2006 | 1.88 | 10.40 |

**FIGURE 6**
**PERCENTAGE OF DIRECTORS SERVING IN THE EXECUTIVE COMMITTEE OVER TIME**

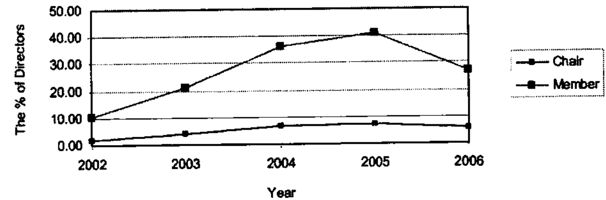



The purpose of the governance committee is to ensure that the board fulfills its legal, ethical, and functional responsibilities through adequate governance policy development, recruitment strategies, training programs, monitoring of board activities, and evaluation of board members' performance. The percentage of directors serving in the governance committee goes up until 2005 and then drops back in 2006 (**Table 7** and **Figure 7**). The percentage of directors serving in the governance committee goes up from 10.38 per cent in 2002 to 40.82 per cent in 2005. Then, this percentage drops to 26.96 per cent in 2006. While the average Governance Committee gets progressively larger for 4 years, it becomes much smaller in 2006.

**TABLE 7**
**PERCENTAGE OF DIRECTORS SERVING IN THE GOVERNANCE COMMITTEE**

| Year | Chair | Member |
|---|---|---|
| 2002 | 1.92 | 10.38 |
| 2003 | 4.20 | 21.39 |
| 2004 | 6.95 | 36.10 |
| 2005 | 7.08 | 40.82 |
| 2006 | 6.04 | 26.96 |

**FIGURE 7**
**PERCENTAGE OF DIRECTORS SERVING IN THE GOVERNANCE COMMITTEE OVER TIME**

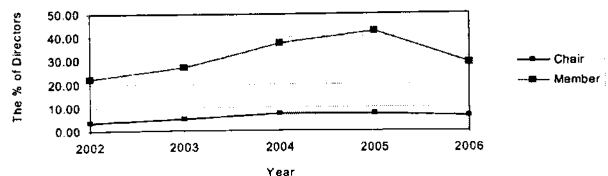



Finally, we look at the percentage of directors serving in the nominating committee (**Table 8** and **Figure 8**). The committee acts under the corporate governance area of an organization and examines the skills and characteristics that are needed in board candidates. This percentage goes up until 2005 and then drops back in 2006. The percentage of directors serving the nominating committee goes up from 22.25 per cent in 2002 to 42.44 per cent in 2005. Then, this percentage drops to 29.05 per cent in 2006. While the average nominating committee gets larger from 2002-2005, it becomes much smaller in 2006.

**TABLE 8**
**PERCENTAGE OF DIRECTORS SERVING IN THE NOMINATING COMMITTEE**

| Year | Chair | Member |
|---|---|---|
| 2002 | 3.64 | 22.25 |
| 2003 | 5.03 | 26.95 |
| 2004 | 7.00 | 37.21 |
| 2005 | 7.01 | 42.44 |
| 2006 | 6.37 | 29.05 |

**FIGURE 8**
**PERCENTAGE OF DIRECTORS SERVING IN THE NOMINATING COMMITTEE OVER TIME**



**Tables 9** and **10** present the results of the nonparametric tests that compare the values of our "director commitment" variables in 2001 to the corresponding values in 2003-2005 period. These tests serve as our official tests to determine whether there has been any statistically significant change in "director commitment" from 2001 to 2003-2005 period. **Table 9** shows that a typical director has served in 2.01 boards in 2001 versus 2.31 boards in 2003-2005 (p-value<0.0001). **Table 10** shows that the percentage of directors serving as an Active CEO is 95.65 per cent in 2001 versus 26.82 per cent in 2003-2005 (p-value<0.0001). **Table 10** also shows that the percentage of directors that failed the attendance standard is 1.94 per cent in 2001 versus 1.47 per cent in 2003-2005 (p-value<0.0001). To summarize, our empirical tests in **Tables 9** and **10** show that "director commitment" improved significantly after Sarbanes-Oxley.

**TABLE 9**
**TOTAL NUMBER OF CORPORATE BOARDS SERVED IN 2001 VERSUS IN 2003-2005 WILCOXON TEST**

| | 2001 | 2003-2005 | p-value |
|---|---|---|---|
| Total Number of Corporate Boards Served | 2.01 | 2.31 | <0.0001 |

**TABLE 10**
**COMPARISON OF DIRECTOR ENGAGEMENT IN 2001 VERSUS IN 2003-2005**

| Chi-Square Test | | | | |
|---|---|---|---|---|
| | 2001 | 2003-2005 | Chi-Square Value | p-value |
| Active CEO (%) | 95.65 | 26.82 | 22311.68 | <0.0001 |
| Director Failed (%) | 1.94 | 1.47 | 16.09 | <0.0001 |

**Table 11** presents the results of the nonparametric tests that compare the size of each board committee before and after Sarbanes-Oxley. We are seeing that the percentage of directors serving in each board committee has grown much larger after Sarbanes-Oxley (i.e., the 2003-2005 values are significantly larger than the 2001 values). The differences are significant at 0.01 per cent level with the exception of Executive Committee where we have a p-value of 0.0105.

**TABLE 11**
**COMPARISON OF COMMITTEE PARTICIPATION IN 2002 VERSUS IN 2003-2005**

| Chi-Square Test | | | | |
|---|---|---|---|---|
| | 2002 | 2003-2005 | Chi-Square Value | p-value |
| Serving in the Audit Committee (%) | 33.51 | 39.22 | 184.45 | <0.0001 |
| Serving in the Compensation Committee (%) | 31.55 | 36.81 | 160.74 | <0.0001 |
| Serving in the Executive Committee (%) | 15.79 | 16.62 | 6.55 | 0.0105 |
| Serving in the Governance Committee (%) | 10.38 | 32.34 | 3240.92 | <0.0001 |
| Serving in the Nominating Committee (%) | 22.25 | 35.21 | 1026.99 | <0.0001 |

**Tables 12** and **13** present the results of the nonparametric tests that compare the values of our "director commitment" variables in 2005 to the corresponding values in 2006. These tests serve as our official tests to determine whether there has been any reversal in "director commitment" from 2005 to 2006. **Table 12** shows that a typical director has served in 2.60 boards in 2005 versus 2.20 boards in 2006 (p-value<0.0001). **Table 13** shows that the percentage of directors serving as an Active CEO is 27.41 per cent in 2005 versus 23.69 per cent in 2006 (p-value<0.0001). **Table 13** also shows that the percentage of directors that failed the attendance standard is 1.31 per cent in 2005 versus 1.81 per cent in 2006 (p-value<0.0001). To summarize, our empirical tests in **Tables 12 and 13** show a complete reversal in each of our "director commitment" variables after 2005. The impact of Sarbanes-Oxley has disappeared after 2005.

**TABLE 12**
**TOTAL NUMBER OF CORPORATE BOARDS SERVED IN 2005 VERSUS IN 2006**

| Wilcoxon Test | | | |
|---|---|---|---|
| | 2005 | 2006 | p-value |
| Total Number of Corporate Boards Served | 2.60 | 2.20 | <0.0001 |

**TABLE 13**
**COMPARISON OF DIRECTOR ENGAGEMENT IN 2005 VERSUS IN 2006**

| Chi-Square Test | | | | |
|---|---|---|---|---|
| | 2005 | 2006 | Chi-Square Value | p-value |
| Active CEO (%) | 27.41 | 23.69 | 90.80 | <0.0001 |
| Director Failed (%) | 1.31 | 1.81 | 18.91 | <0.0001 |

**Table 14** presents the results of the nonparametric tests that compare the size of each board committee in 2005 versus in 2006. We are seeing that the percentage of directors serving in the board committees have dropped after 2005 (i.e., the 2006 values are significantly smaller than the 2005 values). All the differences are significant at 0.01 per cent level. We can say that the impact of Sarbanes-Oxley on the percentage of directors serving on the board committees has dropped significantly after 2005.

**TABLE 14**
**COMPARISON OF COMMITTEE PARTICIPATION IN 2005 VERSUS IN 2006**

| Chi-Square Test | | | | |
|---|---|---|---|---|
| | 2005 | 2006 | Chi-Square Value | p-value |
| Serving in the Audit Committee (%) | 43.96 | 32.13 | 743.65 | <0.0001 |
| Serving in the Compensation Committee (%) | 41.41 | 29.71 | 750.98 | <0.0001 |
| Serving in the Executive Committee (%) | 17.26 | 10.40 | 516.71 | <0.0001 |
| Serving in the Governance Committee (%) | 40.82 | 26.96 | 1085.84 | <0.0001 |
| Serving in the Nominating Committee (%) | 42.44 | 29.05 | 984.08 | <0.0001 |

## Conclusions

Using data obtained from the Board Analyst database from 2001 through 2006, we observed factors that could provide information on director commitment in terms of time and effort applied towards their directorial assignments. In order to study the "busyness hypothesis" for directors, trends on the number of directors who were also active CEOs of companies were obtained during the period before SOX (2002), and the period after SOX. The percentage of directors who were serving as an active CEO of any company dropped dramatically from 2001 to 2002. It appears that following the passage of SOX, the directors were more focused in committing time to their respective boards rather than any other company.

The total number of corporate boards on which the director serves provides us information on commitment of directors in terms of effort and support for the "reputation hypothesis" of directors serving on the boards. The average number of boards served by a director has risen steadily from the pre-SOX period to the post SOX period until 2005. The firms appear to have stacked multiple boards with the same pool of reputable and experienced directors following SOX. The trend however reversed in 2006.

We also looked at directors achieving minimum attendance standards at board meetings in the pre-SOX and post-SOX period. The attendance failure rate goes down from 2001 through 2005, and then from 2005 to 2006 it increases again. The data trends for the above director commitment variables used in our paper indicate that Sarbanes-Oxley has had some positive impact on directors' commitment to their respective boards up until 2005, but the trends reversed after 2005.

We examined in this study the size of each board committee (i.e. Audit, Compensation, Executive, Governance, and Nominating Committees) in terms of the percentage of directors serving in each committee before and after Sarbanes-Oxley. The percentage of directors serving in each board committee has grown after Sarbanes-Oxley (i.e. the 2003-2005 values are significantly larger than the 2001 values). The Audit committee and Compensation committee have very similar upward

trends that could possibly reflect some benefits to common membership overlap between these two committees as recommended by cited literature. We observe the largest increase in director participation in the Governance Committee followed by the Nominations Committee. However, the percentage of directors serving in the board committees have dropped significantly after 2005, indicating the effects of Sarbanes Oxley Act on directorial participation in the committees may have been short-lived.

Our findings indicate that the SOX Act (2002) had some real impact on director commitment variables and the size of board committees. However, this positive impact on director commitment and board composition had mostly reversed after 2005 to pre-SOX (2001) levels. The reversal of board characteristics in 2006 to pre-SOX levels imply that the effects of SOX were temporary and short-lived. Therefore, from a policy implication point of view, our findings suggest that it may be worthwhile for policymakers to increase long-run monitoring of such Acts, to ensure adherence to the corporate accountability guidelines and recommendations of the Act over time.

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