**Director Liability Protection and the Quality of Outside Directors**

Ronald Masulis  
University of New South Wales, Australia

Sichen Shen  
School of Economics and Management, Wuhan University, China

Hong Zou  
Faculty of Business and Economics, University of Hong Kong, China

**Abstract**

We investigate how state Universal Demand statutes (UD) affect the recruitment and retention of outside directors. UDs require plaintiffs to obtain board support before a derivative suit can commence. This requirement significantly increases the legal hurdle that derivative lawsuits must meet, therefore lowering their frequency and the potential director legal liability. Using a difference-in-differences analysis, we document significant improvements in outside director experience and reputation following UD adoptions. This is stronger for firms facing greater litigation risk or smaller local supplies of director candidates. UD adoptions also make high-quality director candidates from non-UD states firms more willing to join boards at firms incorporated in UD states. We find some limited evidence that UD adoptions help attract outside director candidates with better educational and professional backgrounds, and reduce voluntary departures of high-quality directors.

**Keywords**: Legal liability; board of directors; board quality; litigation; derivative suits

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* The authors can be contacted via email ron.masulis@unsw.edu.au, scshen@whu.edu.cn, and hongzou@hku.hk, respectively. We would like to thank Sumit Agarwal, Vikas Agarwal, Snehal Banerjee, Ling Cen, Yongqiang Chu, Huasheng Gao, Paul Goldsmith-Pinkham, Olivia Gu, Paul Guest, Zhiguo He, Md Miran Hossain, Shiyang Huang, Qinglu Jin, Ambrus Kecskes, Praveen Kumar, Alan Kwan, Morton Lane, Edward Lawrence, Di Li, Jing Li, TC Lin, Vinh Nguyen, Thomas Schmid, Andrew Sinclair, Neal Stoughton, Dragon Tang, Robert Thompson, Fei Xie, Rui Wang, Colin Zeng, and participants at seminars in Fanhai International School of Finance (FISF) of Fudan University, University of Hong Kong, King’s College London, Manchester University Business School, Shanghai University of Finance and Economics, Sungkyunkwan University (Korea), University of Science and Technology of China, University of Sydney, University of Washington, the 2018 EAA Talent Workshop, the 2019 Cardiff-Newcastle-Xiamen Universities Business Conference, the 2019 Financial Management Association (FMA) annual conference, the 2019 SFS Cavalcade Asia-Pacific Conference, the 2019 World Finance Conference (New Delhi), the 2019 China International Conference in Finance, the 2019 China International Conference on Insurance and Risk Management for helpful comments. We thank Diana Knyazeva for kindly sharing the director location code, Noah Stoffman for posting their patent data, and Shijie Yang, Wentao Yao, and Mandeep Singh for capable research assistance. Zou acknowledges the financial support from a competitive General Research Fund (GRF) grant from the Research Grants Council of the Hong Kong Special Administrative Region, China (Project No. HKU 17513816). The work was partially carried out when Ronald Masulis visited the University of Hong Kong as a FBE visiting researcher and he thanks the Faculty of Business and Economics of the University of Hong Kong for its sponsorship.