Director Experience

Jesse Ellis[†]
Poole College of Management
North Carolina State University

Lixiong Guo[††]
Australian School of Business
University of New South Wales

Shawn Mobbs[†††]
Culverhouse College of Commerce
University of Alabama
Tuscaloosa, AL 35487

Abstract

Do directors learn from their prior CEO turnover experiences? This study examines independent directors who have had prior experience with a forced CEO turnover event. Experienced directors are less likely to be associated with forced CEO turnover in future directorships, but when a forced CEO turnover occurs, it is more sensitive to firm performance. The effect is strongest after the director has at least two prior experiences with forced CEO turnover. We also find evidence that CEOs are less supportive of experienced director appointments to their boards and that they are less likely to be on the nominating committee in future directorships.

† Jesse Ellis is with North Carolina State University. Address: Poole College of Management, North Carolina State University, 4216 Nelson Hall, 2801 Founders Drive, Raleigh, NC 27695. Electronic Mail: jaellis5@ncsu.edu.
†† Lixiong Guo is with the University of New South Wales. Address: School of Banking and Finance, Australian School of Business, University of New South Wales, Sydney, NSW 2052, Australia. Office Phone: +61 2 93855773. Electronic Mail: lixiong.guo@unsw.edu.au.
††† Shawn Mobbs is with the University of Alabama. Address: Culverhouse College of Business, University of Alabama, 200 Alston Hall, 361 Stadium Drive, Tuscaloosa, Alabama, 35487–0224. Office Phone: 205.348.6097. Office Fax: 217.581.6247. Electronic Mail: smobbs@cba.ua.edu.
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CEO turnover is one of the most critical junctures in the life of the firm and, likewise, represents one of the most important roles for the board of directors (Mace (1971), Vancil (1987), Adams, Hermalin and Weisbach (2010)). However, this critical event does not occur very often, which means that many directors are inexperienced when it comes to managing CEO turnover. Thus, when directors do work through a CEO transition, especially following a forced CEO departure, these directors have a valuable opportunity to learn from one of the most important board task for which directors are responsible. This unique experience can set them apart from other directors. Farrell and Whibdee (2000) find evidence that directors associated with a forced CEO turnover event are more likely to lose that directorship. Though, they also find that some directors gain additional directorships following a forced CEO turnover event. Do these directors perform differently in subsequent CEO turnovers after their experience? Although CEO turnover events have been studied quite extensively,[1] there is little research examining whether directors learn from their prior experiences with a CEO turnover and how it changes their actions in future turnover events. The goal of this study is to address this gap in the literature by examining independent directors with prior CEO turnover experience and their influence on subsequent CEO turnover events.

Many directors view monitoring and replacing the CEO as one of their most important roles as a shareholder representative (Adams, Hermalin and Weisbach (2010)) and probably even more so in recent years (Huson, Parrino and Starks (2001), Hermalin (2005) and Guo and Masulis (2012)). Thus, a director with prior experience with a CEO turnover event (henceforth experienced directors) has had an opportunity to strengthen their skills in one of their most important roles. Information gained from prior experiences can reduce a director's uncertainty

[1] See for example Hermalin and Weisbach, (2003), Fee and Hadlock (2003), Dayha, McConnell and Travlos (2002), Huson, Parrino and Starks (2001), Huson, Malatesta and Parrino (2004), Parrino (1997), Denis, Denis and Sarin (1997), Yermack (1996), Weisbach (1988) and Warner, Watts and Wruck (1988).

and increase their confidence when they are involved in a subsequent CEO turnover event, which can lead to different behavior on the board. For example, experienced directors have a greater familiarity with the key metrics that are important in identifying the need for a new CEO and first-hand knowledge of the skills required to manage such a significant event. This knowledge can lead experienced directors to monitor future CEOs more diligently and, when the need arises, to act with more resolve in subsequent turnovers.

While shareholders may benefit from experienced directors, CEOs can be less inclined to support their nomination. CEOs recognize that a director with prior CEO turnover experience may represent a greater threat to their job security. Shivdasani and Yermack (1999) find that CEOs can be quite influential in the nomination of independent directors. Indeed, Coles, Daniels and Naveen (2010) find that directors appointed after the CEO, whose nominations are more likely influenced by the CEO, are less stringent monitors. Thus, while shareholders may value experienced directors; CEO's have incentive and influence to deter their nomination as directors. Studying the decisions of experienced directors can shed light on how these directors respond to the differing demands for their services from shareholders and CEOs.

This study begins by identifying all directors involved in a forced CEO turnover event, from 1997 to 2010 in the S&P 1500 firms. Once a director experiences their first CEO turnover they are considered experienced directors and their board actions are investigated in their subsequent directorship-years throughout the sample.

The first step in the analysis is an examination of director level associations with CEO turnover in all of their directorships in the sample. We find that prior experience with a forced turnover is associated with a significantly lower likelihood of the director being associated with an additional forced CEO turnover. However, experienced directors are also associated with

subsequent forced CEO turnover events that are significantly more sensitive to firm stock performance. This evidence suggests that directors learn from their experiences and adjust their responsiveness to different measures of firm performance. Evidence of a reduced likelihood of forced CEO departures unconditioned on performance can reflect more informed and thoughtful forced departure decisions that are not made in haste. However, once a decision is made they respond more quickly to performance.

We also consider various aspects of the director's prior experiences to understand how directors best learn from their experiences. We consider experienced directors had at least one experience while serving on the nominating committee and whether they remained on the board for at least two years following one of their prior forced departure experiences. The sensitivity results are slightly stronger for those serving on the nominating committee during one of their prior experiences, suggesting that being more directly involved with the CEO termination and nomination process can contribute to greater learning benefits. We also find evidence that the benefits or prior experience is strongest after the director has experienced at least two prior directorships, consistent with greater learning coming from multiple experiences.

The second step in the analysis examines director level measures of board activity to see whether prior CEO turnover experience leads to greater or lesser involvement by these directors. Experienced directors are less likely to be a member of the boards nominating committee relative to inexperienced independent directors.

The third step in the analysis examines the demand for experienced directors by subsequent CEOs. Ideally, one would like to know the role of the director in their prior experience with CEO turnover. Maybe they were supportive of an outgoing CEO or stood by the CEO throughout a forced departure pursued by the other board members. CEOs may actually

prefer this type of prior experience in a potential director. Conversely, if the director took the lead in forcing out a CEO or encouraging a retirement this could lead other CEOs to not prefer this director to be on their board. Unfortunately, detailed insight into boardroom discussions and activities are difficult to attain (see Schwartz-Ziv and Weisbach (2012) and Agrawal and Chen (2012) for notable exceptions). However, the examination of the demand of experienced directors by subsequent CEOs does provide some insight. Experienced directors are indeed less likely to be appointed to boards after the CEO, which is consistent with their unattractiveness to CEOs and further suggests that their experience has made them stronger monitors. It also provides insight into CEO preferences for directors. Coles, Daniels and Naveen (2010) find evidence that directors appointed after the CEO, which as they argue indicates the CEO's preferences in director selection, are less independent. The findings here provide insights as to a type of director they wish to avoid.

The final step of the analysis examines firm level measures of representation by an independent director with prior CEO turnover experience. Firms with an experienced board, identified as one with at least one experienced director, exhibit a significantly greater sensitivity of forced CEO turnover to firm stock performance. Thus, the director level results persist at the firm level, which implies turnover experience is an important director characteristic that firms and shareholders should consider.

By focusing on a specific board task, CEO turnover, the findings are less affected by potential endogeneity concerns (Hermalin and Weisbach (2003)). Moreover, the key independent director characteristic, their prior experience, is less likely to be an endogenous choice made by the firm experiencing the current CEO turnover event. First, the experience is in the past, which is unlikely related to the current CEO turnover even if it occurred within the same firm since the

median CEO tenure is eight years. Second, the prior experiences are in the director's other directorships, which are exogenous to the firm currently experiencing a CEO turnover event. The one likely means of endogeneity influencing the outcome is through the director's reputation when hired as a director. To address this concern, we repeat the primary analysis and only consider experienced directors those who received their first experience since joining their current directorship. The results are robust to this modification, which further suggest endogeneity is not driving the results.

These findings provide answers to the question of whether directors learn from their prior CEO turnover experiences. Doing so extends the findings of Farrell and Whidbee (2000) and reveals how directors with CEO turnover experience perform in subsequent directorships. Directors appear to learn from their prior experiences in a manner that makes them stronger monitors who are more active in their boards. This is related to the recent literature on the propagation of governance through directors. Bouwman (2011) finds that directors can influence governance in firms based on the governance attributes of firms in their other directorships. The findings in this study examine directors' association with a key board action, CEO turnover, an important governance outcome, based on their own prior experience. The finding that directors learn from prior experiences and that this influences their actions in future directorships suggests that governance can propagate through time, in addition to the cross section of firms. Relatedly, the findings contribute the recent literature on director experience (e.g. financial (Defond, Hann and Hu (2005), Agrawal and Chada (2005), Minton, Tailard and Williamson (2010) and Güner, Malmendier and Tate (2008); political Agrawal and Knoeber (2001) and Faccio and Masulis (2006))

The findings also contribute to the literature on directors with multiple directorships (e.g. Ferris, Jagannathan and Pritchard (2003), Perry and Peyer (2005), Fich and Shivdasani (2006), Masulis and Mobbs (2013) and Field, Lowry and Mkrtchyan (2011)). The more directorships held by a director the greater opportunities that director has to gain valuable experience with a CEO turnover event. The findings also further the understanding of how the director labor market values experience. Harford and Schonlau (2012) find that CEOs with acquisition experience, whether good or bad, are rewarded with more directorships, which they argue illustrates the value of such experience in the director labor market. The findings here reveal the experience with CEO turnover is another valuable experience for directors.

From a researcher's perspective, it also provides additional insight to CEO turnover events. Current research on CEO turnover is limited to cross-sectional analysis since the relatively few CEO turnover events limits analyzing changes within-firms (Adams, Hermalin and Weisbach (2003)). However, since directors have opportunities to experience more turnover than a given firm, with-in director analysis is possible and can provide additional insight into director-specific heterogeneity. Specifically, 421 firm-years experienced a forced CEO departure in the sample period, but given the multiple independent directors involved with each turnover this represents 2,503 director-years.

The findings also contribute to the literature on CEO turnover-performance sensitivity. Initial governance work by Weisbach (1988) and Yermack (1996) show that board characteristics, such as the percentage of independent directors and size of the board, are associated with CEO turnover sensitivity to measures of firm performance. Recent studies have furthered this line of research by examining unique director characteristics associated with CEO turnover and performance sensitivity (e.g. Fich and Shivdasani (2006), Perry (2000), Hwang and

Kim (2009) and Masulis and Mobbs (2013)). These recent studies focus on director busyness, pay incentives, connections to the CEO and director reputation. This paper reveals that past experience is another critical director characteristic to consider.

Finally, the findings also provide grounds for future theoretical models of boards. Most current models incorporate some measure of director learning about the ability of the current CEO or a potential replacement (Hermalin and Weisbach (1998), Hermalin (2005), Raheja (2005) and Adams, Hermalin and Weisbach (2010)). The findings here reveal that directors also learn from their own prior experiences, and these prior experiences can change the director's willingness to replace a current CEO by reducing their uncertainty in managing the event.

The remainder of the paper proceeds as follows. A discussion of the related literature and the hypothesis development is in Section I. Section II discusses the sample and descriptive statistics. Section III reports analysis of director level board actions. Section IV reports results from examining firm level CEO turnover events. Section V concludes.

I. Literature Review and Hypothesis Development

A central element to economic theory is that agents learn from their experiences and alter their subsequent actions accordingly. When directors work through a CEO turnover, a relatively rare event in the life of the firm, the directors involved gain tremendous amounts of information about the experience. For example, they learn how to manage the public relations and communication with shareholders throughout the event. They learn what signals are most informative when deciding when to remove the CEO. They see the consequences, both good and bad, of their choices and subsequently update their information set and have opportunities to hone certain skills that many directors do not experience. Even a bad experience creates a

valuable learning opportunity. Harford and Schonlau (2013) find that CEOs benefit from acquisition experience, even those that are value destroying, because they have experience with a significant event, which makes them more valuable than CEOs without acquisition experience. Likewise, directors with CEO turnover experience can have a distinct advantage over inexperienced directors in managing subsequent CEO turnover events.

Directors do apply practices learned in their directorships to other directorships they attain. Dass, Kini, Nanda and Onal (2012) find that directors from industries closely related to that of the firm can provide valuable advice to management stemming from their industry experience. Bouwman (2011) finds that even though firms tend to hire directors associated with firms applying similar governance mechanisms directors do influence the firm where they are hired by altering five governance mechanisms to be more like the ones in the director's other directorships. She find directors can influence, based on their experience with other firms, board size, board composition, CEO-Chairman duality and CEO and director compensation and that firms' governance, along these dimensions, where directors serve converge toward one another. An implication of governance convergence among a director's directorships is that directors learn from their experiences across multiple directorships and using their experiences to alter the governance structure of the firms where they serve.

CEO turnover is a key board action that is related to a firm's governance structure (Vancil (1987), Fee and Hadlock (2003), Hermalin and Weisbach, (2003), Huson, Parrino and Starks (2001), Huson, Malatesta and Parrino (2004), Parrino (1997), Denis, Denis and Sarin (1997), Mobbs (2013), Yermack (1996), Weisbach (1988) and Warner, Watts and Wruck (1988)). Because CEO turnover is such a critical event in the life of the firm and, thus, one of the most important roles of the board, there are numerous studies examining CEO turnover as one

indicator of the successfulness of various governance measures. For example, Weisbach (1988) and Yermack (1996) examine CEO turnover and its sensitivity to firm performance conditioning on board independence and size, respectively. Perry (2000) examines CEO turnover conditioning on director pay. Theoretical research has also examined the board of directors and CEO turnover relation (e.g. Hermalin and Weisbach (1998), Hermalin (2005) and Raheja (2005)).

Given the importance and consequences of a CEO turnover event, if directors carry information about experiences such as board size, composition and pay with them across their directorships, it seems reasonable to expect that directors also carry information regarding their experience with a CEO turnover event with them to subsequent directorships. Thus, the overall hypothesis of this study is that experience is the best teacher and as such directors with prior experience with CEO turnover will be stronger monitors and be more responsive when it comes to CEO turnover.

However, what do they learn and how are they expected to alter their behavior? Fama and Jensen (1983) and Fama (1980) argue that directors want to be viewed as valuable decision and control experts such that they can gain additional directorships in the future. In other words, directors have incentives to be viewed by shareholders as skilled monitors. Having experienced CEO turnover firsthand directors recognize the potential benefits and costs (Farrell and Whibdee (2000)) associated with the event and the importance of actively monitoring the CEO to best make CEO turnover decisions. They likely also see the benefit to acquiring greater information about the CEO's personality and management style through board meetings and involvement on committees. These incentives imply that directors will alter their actions following a learning experience with a CEO turnover to be more active on the board. After experiencing a turnover

event, whether successful or not, since agents can learn from mistakes and build on successes, their subsequent actions in a CEO turnover are likely to be more beneficial to shareholders.

Greater involvement in the board through meeting attendances and committee involvement can reflect more diligent monitor arising from knowledge gained in prior experiences. Likewise, greater involvement can also lead to greater insight into the current CEO's ability (Cornelli, Kominek and Ljungqvist (2012)). Hermalin (2005)'s model of CEO turnover shows that when directors have greater insight into the true ability of management it increases the likelihood of a CEO turnover event. Thus, experienced directors can be more willing to remove a CEO and exercise the option of a replacement. A related outcome from a prior CEO turnover experience is knowledge of potential CEO candidates and a greater network for accessing those candidates. Greater knowledge of and access to a broader pool of candidates can allow directors to respond rapidly in future CEO turnover events (Mobbs (2013)).

Prior research has found evidence that stronger boards are associated with swifter responses to both poor operating performance and firm stock performance (e.g. Weisbach (1988), Fich and Shivdasani (2006), Masulis and Mobbs (2013)). However, Cornelli et al. (2012) find evidence that operating measures of performance are less important in actual CEO turnover decision. One reason for their finding of decreased reliance upon operating performance is that directors recognize that managers can manipulate earnings in their interests. Indeed, prior literature reveals management has incentives to manage earning around significant firm events (e.g. Dechow et al. (1996), Erikkson and Wang (1999), Kasznik (1999)). In addition, Dechow and Sloan (1991) report evidence that CEOs can manage earnings in their final years in office to improve short-term earnings. Murphy and Zimmerman (1993) find that earnings manipulation is more likely around CEO departures in poor performing firms, which suggest greater earnings

management surrounding forced departures. Thus, when a director experiences a CEO turnover event and witnesses the CEO's incentives and ability to manipulate earnings in their favor this may dissuade them from relying as much upon operating performance in subsequent events.

In addition, if directors learn information about managing a CEO turnover event from their prior experiences that is beneficial for shareholders, they are likely to employ those tactics in subsequent CEO turnover experiences to improve their reputation as monitors (Fama and Jensen (1983)). In their ground breaking study on CEO turnover and firm performance Warner, Watts, and Wruck (1988) find that turnover which is more sensitive to firm stock performance is reflective of better governed firms. Therefore, if experienced directors are more likely to make better choices that benefit shareholders, when they experience subsequent CEO turnover events, these events should be more sensitive to firm performance, which is the primary positive learning hypothesis.

H1: Directors with prior experience with a forced CEO departure will subsequently be associated with greater forced CEO turnover sensitivity to firm stock performance.

An alternative perspective is that CEO turnover experience can have negative implications for a director's future directorships. The basis for this perspective is that experienced directors have a reputation for disagreeing with the CEO and ultimately firing the CEO. Thus, they do not have a private reputation for "not rocking the boat" (Adams, Hermalin and Weisbach (2010)), which makes them less attractive to CEOs as possible directors for their firm's board. Shivdasani and Yermack (1999) and Coles, Daniels and Naveen (2010) find that CEOs can be very influential in the appointment of directors for their firm's board. Because CEOs prefer less independent directors, since they are likely less stringent monitors, a negative consequence of for directors with prior experience with a CEO turnover is that CEOs are less likely to support their appointment for directorships. Indeed, Coles et al. find that directors

appointed after the CEO are less independent and thus more inclined to support the CEO. Using this measure of CEO influence in director appointment leads to the negative learning hypothesis.

H2: Independent directors with prior CEO turnover experience are less likely to be appointed to their board after the current CEO.

Since directors know that CEOs do not prefer directors with prior CEO turnover experience, they can have incentive to go out of their way to diminish this negative perception and try to develop a private reputation as one who does not "rock the boat." This perspective acknowledges that directors are still learning from their experiences, but it differs from the positive learning perspective in that the directors are more concerned with how CEOs, rather than shareholders, view them. Thus, the negative learning hypothesis predicts experienced directors will be less involved in monitoring committees and ultimately be associated with CEO turnover that is less sensitive to performance.

Because there are reasonable arguments for both the positive and negative learning hypothesis, it is an empirical issue. Similarly, it is possible that directors can exhibit both positive and negative learning as they balance both pleasing the CEO, who is influential in their retaining their directorship, and shareholders who are critical in their developing a public reputation as a valuable monitor of management. Warther (1998) models this dilemma faced by directors of having incentives to please both the CEO and shareholders. Masulis and Mobbs (2013) find some support for this dual tension in CEO turnover decisions by considering differing reputation incentives. The study here explores whether directors use their knowledge from prior experiences to please future CEOs or future shareholders or some combination.

II. Sample and Descriptive Statistics

The primary data are from the Risk Metrics director database, which contains director information for the largest 1,500 public firms each year. The sample period is from 1997 to 2010. For each director-year, the independent directors with prior forced CEO turnover experience are identified. The CEO turnover database is created by capturing changes in the identified CEO from the prior year within the ExecuComp data base. Within the sample of CEO turnovers, the subset that is due to forced CEO departures is identified by searching press releases using Factiva. Forced turnovers are identified when the press release announcing the turnover includes news directly indicating that the CEO departure was forced, the CEO was under 60 years old and there is no news of another job acceptance, poor health or death are not mentioned as causes, or a CEO retirement is not announced at least 6 months prior to the departure press release (Parrino (1997), Huson, Malatesta and Parrino (2004), Hazarika, Karpoff and Nahata (2009) and Guo and Masulis (2012)). The remaining CEO turnovers are considered voluntary. The set of directors on the board at the time of each turnover event are identified. Once a director is associated with a forced CEO turnover event, that director is treated as a CEO-turnover-experienced director in the subsequent director-years of the sample. Thus, during the director's first turnover event they are not considered experienced. Any director-CEO-turnover events in the past when the director was the CEO at the time of the turnover are excluded.

Because each director is not followed from the beginning of their career, "inexperienced" directors are likely overstated if directors have experience with turnover before 1996 or in other smaller or private firms. This makes finding any evidence of differing director actions due to incremental increases in experience less likely due to the imprecision of the measurement. Although, what is measured by this approach is the relatively more recent experience in large publicly traded firms, which is likely the most powerful experience a director can have.

Table 1 reports the independent director characteristics for the sample, as well as for the sub-samples of those directors with prior CEO turnover experience and those without. There are 142,728 independent director-years within the sample and of these, 6% are experienced directors having prior experience with at least one forced CEO turnover event. Experienced directors are older, are less often CEOs in their home firm, and are more often on the nominating committee. They also sit on more boards than those without prior experience, which could both be due to and contribute to their greater experience. Being on multiple boards increases the likelihood the director will experience a CEO turnover event and if CEO turnover experience is valuable, they also likely face a greater demand for their services following the experience (Fama and Jensen (1983) and Farrell and Whidbee (2000)).

Independent directors with prior turnover experience maybe in greater demand by shareholders, but they are not necessarily valued by CEOs who can be influential in their board appointment. Consistent with this argument and hypothesis H3, there are fewer directors with prior CEO turnover experience appointed after the CEO (i.e. co-opted directors (Coles, Daniel and Naveen (2010)). The average (median) experienced director had 1.39 (1) prior experiences with forced CEO turnover.

Table 2 reports firm level descriptive statistics. There are instances of CEO turnover in about 10% of the sample firm-years. Of these CEO turnover events, about 30% are forced, representing 3% of the entire sample firm-years. Thirty percent of the firm-years have at least one experienced independent director, with an average of 7.09% of experienced independent directors on the board.

III. Director Level Analysis

A. Forced CEO Turnover

This section examines the relation between CEO turnover and its sensitivity to performance for directors in their first CEO turnover event, prior to any experience, and in subsequent events after their experience, to see if the relation changes following their initial experience. If CEO turnover experience does not change a director's subsequent actions, their association with CEO turnover performance sensitivity in their first CEO turnover experience and in subsequent years CEO turnover should not significantly differ. However, if directors learn from CEO turnover events, as predicted by the positive learning hypothesis, then following a forced CEO turnover experience their corresponding association with subsequent forced CEO turnover events should be more sensitivity to performance (H1).

In Table 3 we analyze the association between independent directors and the likelihood of forced CEO departure occurring in one of the firms where they serve as director. The dependent variable is one if a forced CEO departure occurred in the director-firm-year and zero otherwise. In this analysis we want to account for potentially omitted director characteristic that is related to both their presence on the board and a higher propensity to fire the CEO. For example, the may have charismatic and assertive personalities that make them attractive as directors and also provide them with confidence to fire a CEO without hesitation. Because directors experience more CEO turnovers through their multiple directorships than turnovers that occur at any one firm, it creates more within-director variation of CEO turnover events and affords the opportunity to control for director level fixed effects. Director fixed effects will capture unobserved time-invariant director characteristics such as their personality traits that can be associated with their propensity to fire CEOs. We use conditional logit models grouped at the individual director level to control for director level fixed effects. This allows us to focus on

variation within directors to more precisely evaluate their associations with forced CEO turnover pre and post experience. We also include year dummies to control for any time trends in CEO turnover. We use robust standard errors clustered at the individual director level. Lagged annual firm stock performance is our measure of firm performance.

In model 1 we use our primary measure for director experience, an indicator variable that equals one if the director has had at least one prior experience with a forced CEO turnover event. The coefficient estimate on the indicator is negative and significant at the 1% level. This finding is inconsistent with one possible reason boards may hire a director with prior experience. If directors with turnover experience were appointed just so they can help remove poor management we would expect a positive relation with turnover likelihood. Thus, prior experienced directors are not, on average, viewed as "turn-around specialist" who are brought in for a short-term basis to facilitate a CEO transition, particularly the removal of an entrenched CEO. However, we are primarily interested in how experience affects the forced CEO turnover sensitivity to performance.

The coefficient on lagged firm stock returns is negative and significant, consistent with prior research on forced CEO turnover and firm performance. The coefficient estimate for the interaction between the experienced director indicator and lagged firm stock performance is also negative and statistically significant at less than the 1% level. This finding is consistent with independent directors learning from their prior experiences and that learning serving to increase the sensitivity of subsequent forced CEO turnover events to firm stock performance.

Next, we examine the nature of the prior experience. Although the entire board is ultimately responsible for hiring and firing the CEO, directors on the nominating committee have the primary responsibility for evaluating the CEO. Thus, directors on this committee have more

opportunity to learn from a forced CEO turnover event. If this is the case, we expect to find greater evidence of learning by these directors in subsequent directorships. In model 2 we restrict our experience indicator to only those directors who had prior experience with a forced turnover while they were on the nominating in at least one prior experience. We find similar results for both the experienced director indicator and for the interaction with firm stock performance. However, even though we have fewer instances of these more specialized experienced directors, the magnitude of the interaction coefficient is about 10% larger. Thus, the more intense or internalized the learning experience the greater the impact it has on the directors subsequent actions.

Since the handling of a forced CEO departure is evaluated by the directorship market (Farrell and Whibdee (2000)), if directors are viewed to have handled the turnover well they are more likely to stay on their boards, but if they do not handle it well they are likely to lose the directorship after the event. If their acquired learning is more beneficial when the directorship market deems them successful at handling prior experiences then we expect a stronger learning effect. However, if simply the experience itself, rather than the evaluated success of the experience, is of first order importance, as is the case with CEO experience with M&A activity (Harford and Schonlau (2013)), then we do not expect to see a different learning effect. We evaluate this hypothesis in model 3, where we restrict our measure of experienced directors to those who for one of their prior experiences with forced CEO turnover remained on the board of the firm experiencing the turnover for at least two years. The coefficient estimates for the indicator and its interaction with firm stock performance are both negative and significant, as in model 1. In addition, the magnitudes of the coefficient estimates are very similar to those in model 1. Thus, there is no evidence that a successful prior experience, as determined by the

directorship market, alters the value of the learning experience and the subsequent performance in future turnover events.

Finally, in model 4 we use the narrowest definition of the prior experience that restricts it to directors with prior experience in which they remained on the board for at least two years in one of their experience and in which they were on the nominating committee in at least one of their prior experiences. The results are consistent with the earlier models. Greater involvement with the turnover event through being on the nominating committee is important, whereas the directorship market's assessment of their performance is not as crucial to their learning. Forcing out a poor performing CEO can be a very uncertain event. Directors must justify their rational; they must find a replacement and oversee any interim period. These sources of uncertainty can delay the necessary removal of a poor CEO. However, as directors have more experience with this infrequent event their level of uncertainty associated with managing the process is reduced making it more likely they will remove a poor performing CEO sooner rather than later.

Other director characteristics are also associated with the likelihood of CEO turnover. If the director has been on the board a longer time, CEO turnover is less likely. When the CEO of the directorship has greater influence through ownership or through jointly holding the position of chairman of the board, CEO turnover is less likely to occur. Finally, CEO turnover is more likely in smaller boards and in firms with lower values of Tobin's Q.

Another endogeneity concern is that the boards of the firms where the director sits nominated the director after seeing them perform in another directorship where a CEO turnover occurred and they hired this director to facilitate a planned turnover in their firm. This would indicate that the board, not the experienced director, initiated the CEO turnover event. While the negative coefficient estimate on the experienced director indicator is inconsistent with this

possibility, to further rule out this as the source of the director level results we repeat the analysis in panel A by only consider directors as experienced in a directorship if they obtained their experience *after* joining their current directorship. Directors with prior experience prior to joining their board were excluded from being identified as experienced. Thus, only directors in directorships who gained their experience after joining their board are considered as experienced. The prior results continue to hold, and are slightly stronger in model 4. This suggests that boards that are willing to hire experienced directors are not solely driving the results.

In summary, the evidence in Table 3 reveals that individual directors do indeed appear to learn from prior forced CEO turnover experience and that these experiences influence their decisions in subsequent forced CEO turnover events. Specifically, while they are less likely to be involved in a subsequent forced CEO turnover event, when they are they appear to respond more quickly to firm stock price. Both changes in actions are beneficial to shareholders. In other words, shareholders benefit from directors who are not simply quick to remove a questionable CEO, unless performance begins to suffer and then at that point they are able to respond swiftly and decisively.

B. Nominating Committee Membership

This section reports analysis of the board nominating committee membership of the independent directors in the sample, based on their prior experience with CEO turnover. The primary analysis revealed that prior experience on the nominating committee actually strengthens the learning experience of the directors involved with a forced CEO turnover. But how does this prior experience affect their role on subsequent boards? Are they more or less likely to be on the nominating committee in future directorships after having directly experienced and worked through a forced CEO turnover event? It is possible that boards will

reward prior experience by increasing the likelihood they will serve on nominating committees in subsequent directorships. Alternatively, based on the negative learning perspective, CEOs who are influential in committee memberships may prefer to not have experienced directors on the nominating committee, or the board for that matter. In this section we first examine whether experienced directors are more or less likely to be on the board's nominating committee. Examining directors' role on the board by their membership in the nominating committee provides insight as to how prior experience with CEO turnover has shaped the directors' contribution to the board.

The nomination committee is responsible for recommending future directors for the board and thus plays a critical role in shaping the governance of the firm. Because of its critical monitoring role, the Sarbanes-Oxley Act of 2002 required all nominating committees to be completely independent. Since finding additional independent directors is an important aspect of this committee, directors with wider networks and access to greater pools of potential directors can enhance the functionality of this committee. Directors with prior experience with a CEO turnover, likely also engaged in a CEO search process and in doing so can establish a greater network of resources of potential CEOs as well as skilled directors. Perhaps most importantly, directors with prior turnover experience, particularly forced, have demonstrated their independence from the CEO in the past and are likely independent of the current CEO and can therefore better select additional directors who are also truly independent making future board oversight stronger.

Table 4 reports results from analysis of the nominating committee involvement of the independent directors in the sample. The director level conditional logit regressions with director level fixed effects incorporate robust standard errors and cluster by director to account for serial

correlation in each director. The dependent variable is one if the director is a member of the nominating committee and zero otherwise. Other firm and director characteristics associated with the likelihood of a director's involvement are included.

In Table 4 model 1, the coefficient on prior experience is negative and significant. Thus, it appears that the concerns with having greater experience with forced CEO turnover, perhaps mostly by the firm's management, outweigh the benefits from a greater networked established through the CEO search process associated with the prior CEO turnover event. We find stronger results with the director has had experience with a prior forced CEO turnover while serving on the nominating committee in model 2. In model 3, we also find stronger results when the director's prior experience was evaluated more favorably by the directorship market as reflected in their staying on the board where they had the prior experience for at least two years following their experience with forced CEO departure. Finally, the strongest results are in model 4, which employs the tightest restriction on prior experience. Thus, the evidence is consistent with the negative aspect of learning, which is that CEOs are less likely interested in experienced directors and if they are influential in shaping board committees, the evidence is consistent with them not desiring experienced CEOs on the board's nominating committee. We explore this further in the next section by looking at independent director appointments relative to the current CEO's appointment.

The other control variables reveal evidence consistent with the CEO's influence in the nominating committee formation. First, independent directors who are CEOs are more likely to serve on the nominating committee. Second, older more experienced independent directors and those with less ownership are less likely to sit on the nominating committee. Finally, given the

greater demand for independent directors in the post-SOX era independent directors in the sample are more likely to be on the nominating committee.

C. Director Appointment Relative to the CEO

Coles, Daniel and Naveen (2010) find that boards with a greater portion of directors appointed after the current CEO are associated with weaker monitoring. They argue that the appointment of these directors is likely influenced by the CEO and thus these directors are those desired by the CEO, perhaps due to their weaker monitoring skills or incentives due to their connections with the CEO. If prior CEO turnover experience makes a director less desirable for CEOs due to the monitoring reputation then we expect fewer of these directors to be appointed after the current CEO. This hypothesis is examined using condiational logit models employing director level fixed effects where the dependent variable is one if the independent director has a board tenure that is at least one year less than the current CEO and zero otherwise. Each model also controls for other director and firm characteristics that can influence the director's appointment. The results are reported in Table 5 with robust standard errors clustered by director.

We restrict the sample in the analysis to those director-firm-years where the director has just recently been appointed. Specifically, we only consider director-firm-years with board tenure of less than or equal to one year. The coefficient estimate on the experienced director indicator is negative and significant, consistent with the negative learning hypothesis. Thus, to the degree that CEO's have greater influence on director nominations this suggests that CEOs do not prefer experienced directors. One reason is that experienced directors may have gained a reputation as a strong monitor, which can be valuable to shareholders, if not some CEOs. We find similar results, both statistically and economically in models 2 through 4 where we use the more restrictive definitions of prior forced CEO turnover experience. Thus, CEOs do not appear

to differentiate between the nature of the learning experience for the director. They simply do not support having them on their board.

Independent directors who are CEOs are more likely to be appointed after the current CEO joins the board. Older directors and those with more ownership are more likely to have been on the board prior to the current CEO and are thus, less likely influenced by the CEO. Finally, the increased emphasis on board independence following Sarbanes-Oxely and the contemporaneous exchange listing requirements forced firms to add more independent directors making it more likely in the post-SOX era that independent directors have tenure less than the current CEO. The evidence in Table 5 is consistent with prior CEO turnover experience, especially forced experience, being undesirable from the CEO's perspective and provides further evidence extending Coles et al. (2010) by revealing the type of director CEOs do not prefer.

D. Number of Prior Experiences

In this section we examine the learning process more directly by considering the number of prior experiences and how each subsequent experience affects the director's learning. Specifically, we consider directors with only one prior experience, those with two prior experiences and those with three or more. Since forced CEO turnover is such a rare important and complex event, directors should benefit from increased learning opportunities. If this is the case we expect to see noticeable differences in their subsequent performance as the gain additional experiences. To test this aspect of learning we repeat our primary analysis but we decompose our experience director indicator into those director-firm-years when the director had only one prior experience, only two prior experiences and three or more prior experiences. We continue to use conditional logit models employing director level fixed effects with robust standard errors clustered by director. The results are reported in Table 6.

In model 1, the experience indicator is one only for the director-firm-years in which the director had only one prior experience and zero otherwise. Here we observes a particularly large negative coefficient estimate for this indicator measure of prior experience. This is consistent with the primary results, though the economic effect appears to be much larger in the first subsequent forced CEO turnover experience. This can reflect the fewer directorships these directors may hold and thus the lower likelihood of being exposed to another CEO turnover event. Also, it can reflect their reduced willingness to support a forced CEO turnover event in future directorships unless absolutely necessary. This does not support their being viewed as CEO removal specialist by the directorship market.

Surprisingly, the interaction between director-firm-years with only one prior experience and firm stock performance is positive and significant. Thus, their sole prior experience actually reduces subsequent CEO turnover sensitivity to performance. This is not consistent with our primary findings, but it is consistent with the negative learning perspective. After experiencing a difficult event such as a CEO turnover that can have negative outcomes on the director's reputation and requires substantial effort and even involve great emotional turmoil and stress can cause directors to be reluctant to engage in subsequent forced CEO turnover events. Thus, this evidence suggests that one experience can change a director's subsequent behavior, but given our primary findings based on total experience, additional learning must also further contribute to director learning.

In model 2, our measure of director experience is based on directors with two prior experiences with forced CEO departure. Here we continue to find a negative and significant coefficient estimate for the experienced indicator variable. The economic magnitude is much smaller than when examining directors with only one prior experience and it is more in line with

the estimate from our primary analysis. Thus, while directors are still reluctant to engage in subsequent forced CEO turnover events, they are much less so after enduring a second CEO turnover learning experience. Perhaps, more interesting is the coefficient estimate on the interaction between experience and firm stock performance. Here we find a significantly negative coefficient estimate (5% level), consistent with our primary findings. Thus, after two prior experiences not only are directors less reluctant to fire a CEO than after their first experience, but they are much more reliant upon firm stock performance.

Finally, when a director has three or more prior experiences with forced CEO departure they are likely much more familiar with the practice, more comfortable with the processes and more confident in their skills. As such, in model 3, where the key experience variable is for director with three or more prior experiences, we find a significantly positive association with the likelihood of forced CEO departure. One interpretation of this finding is that this is capturing directors who have a reputation for removing poor performing CEOs and are hired for the purpose of initiating management change. Moreover, the coefficient estimate for the interaction between experience and performance is negative and significant, reflecting even greater sensitivity of forced CEO departure to firm stock performance. In model 4, we include all measures of experience in one regression and find similar results.

In summary, the results in Table 6 indicate that the effects of learning are non-linear in the number of prior experiences. They are consistent with directors being reluctant to engage in subsequent turnovers after their first experience but that reluctance diminishes as they increase their knowledge and build their skills through subsequent experiences. Likewise, they also become more reliant upon firm stock performance after experience multiple turnover events. Forced CEO departure is such an important and challenging event in the life of the firm and of

the career of the director that it take time and experience to learning these valuable skills. The evidence in Table 6 suggests that shareholders benefit the most from directors with at least two prior experiences with forced CEO turnover.

IV. Firm Level Analysis: CEO Turnover

The previous results indicate that individual directors can be associated with differing levels of forced CEO turnover threat and its sensitivity to firm performance. Whether or not the director's influence is enough to influence firm level measures of CEO turnover is the focus of this section. Since the average board has six independent directors, having only one director with experience can significantly influence the remaining independent directors. An experienced board is measured with an indicator variable that equals one if the board has at least one independent director with prior experience with a CEO turnover. Table 7 reports results from firm-level analysis of CEO turnover.

Table 7 examines forced CEO turnover in a multivariate setting using probit regressions. The dependent variable is one if a forced CEO turnover occurs during the firm-year and zero otherwise. The standard errors are robust and clustered by firm. Firm Stock performance is the monthly compound returns for the most recent fiscal year. Other control variables known to influence the likelihood of forced CEO departure are also included. An indicator for boards with sixty percent or more independent directors, an indicator for boards in which a majority of the independent directors have three or more additional directorships, firm size measured by the natural logarithm of firm total sales, board size, outside director ownership, ownership by institutions, the current CEO's board tenure, an indicator if the current CEO is also the chairman, the current CEO's ownership, an indicator if the current CEO is near retirement age (i.e. between

60 and 70 years old) and an indicator for the post-SOX era of the sample (e.g. Weisbach (1988), Parrino, Sias and Starks (2003), Fich and Shivdasani (2006), Guo and Masulis (2012), Mobbs (2012)).

Model 1 of Table 7 uses all prior CEO turnover experience to identify experienced directors, and correspondingly experienced boards, and firm stock performance as the key independent variables. First, the presence of an experienced board is negatively, but not statistically, related to a greater threat of forced CEO departure. The coefficient estimate for firm stock performance is negative and significant, indicating that firms with inexperienced boards make forced CEO turnover decisions that are sensitive to firm stock performance. However, the coefficient estimate for the interaction between the presence of an experienced board and firm stock performance is also negative and significant, suggesting that experienced board rely more on firm stock performance when making a forced CEO departure decision making those events more sensitive to stock performance. All of the controls have the expected signs and most are significant.

In summary, Table 7 finds support for the positive learning hypothesis at the firm level. It reveals that prior experience with CEO turnover by at least one director on the board is associated with significantly different relations with forced CEO turnover. They are consistent with directors' learning from prior experience and based on their prior experiences increasing the sensitivity of forced CEO turnover likelihood to firm stock performance.

V. Conclusion

Experience can be the best teacher for directors when it comes to CEO turnovers. As a relatively rare but extremely important and significant event in the life of the firm, CEO turnover

presents a valuable learning experience for the directors involved. Even if the director performs poorly, for example by waiting too long to fire a poor performing CEO, they have the opportunity to learn from this event. This opportunity can make these experienced directors distinctly different from other inexperienced independent directors in the way they manage subsequent CEO turnover events. This study finds evidence that directors do learn from their experiences and these experiences are incorporated into their reputation as directors.

First, CEOs are aware of potential directors' experiences and likewise are less supportive of their appointment to their board. Thus, there is evidence that being associated with a prior CEO turnover event can have negative consequences due to the reduced likelihood of being supported by subsequent CEOs for nomination as a director or to key monitoring committees. However, from the shareholders' perspective there is also evidence that experienced directors are more active and diligent monitors. Consistent with the concern of other CEOs these directors are associated with a greater sensitivity of forced CEO turnover to firm stock performance.

Finally, by examining directors' association with multiple turnovers in different firms through time, the findings reveal evidence of a non-linear director learning effect from turnover experiences. Specifically, shareholders see the greatest benefit from directors with at least two prior experiences with forced CEO turnover.

These findings provide new insight into the way governance propagates through firms and through time as directors learn. It reveals that prior experience with turnover does influence how directors respond. Sufficiently experienced directors are ready and capable of quickly firing the CEO should firm stock performance drop. These findings indicate that director experience is an important consideration when evaluating the potential threat of CEO dismissal and how boards respond to different measures of performance. The evidence also suggests that boards

with experienced directors are perhaps better prepared to manage CEO succession, which has important implications for further research on CEO succession choices and CEO compensation practices.

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Table 1. Director Level Descriptive Statistics

This table reports descriptive statistics for the independent directors of the sample firms. The sample period is from years 1997 to 2010. Directors with prior experience are those who were associated with a forced CEO turnover in a prior sample year in another directorship. The count variable includes experiences within the same directorship.

	Independent directors			Independent directors who have PRIOR Experience			DO NOT Have PRIOR Experience		
Director Characteristics	N	Mean	Median	N	Mean	Median	N	Mean	Median
CEO	142728	0.14	0.0	7947	0.12	0.0	134781	0.14	0.0
Chief Financial Officer	142728	0.01	0.0	7947	0.01	0.0	134781	0.01	0.0
Nominating committee member	142729	0.43	0.0	7947	0.50	1.0	134782	0.43	0.0
Compensation committee member	141932	0.49	0.0	7946	0.49	0.0	133986	0.49	0.0
Audit committee member	141932	0.50	1.0	7946	0.46	0.0	133986	0.51	1.0
Attended <75% of Board Meetings	142728	0.02	0.0	7947	0.02	0.0	134781	0.02	0.0
Age	142725	61.13	62.0	7947	62.99	63.0	134778	61.02	62.0
Ownership	141402	0.20	0.0	7928	0.17	0.0	133474	0.20	0.0
Number of directorships within Risk Metrics	142729	1.66	1.0	7947	2.69	2.0	134782	1.60	1.0
Board Tenure	142458	7.76	6.0	7946	8.16	7.0	134512	7.73	6.0
CEO Board Tenure	142416	10.10	8.0	7946	8.98	7.0	134470	10.17	8.0
Appointed After the CEO	142729	0.65	1.0	7947	0.57	1.0	134782	0.65	1.0
CEO Turnover	142729	0.10	0.0	7947	0.11	0.0	134782	0.10	0.0
Forced CEO Turnover	142729	0.02	0.0	7947	0.03	0.0	134782	0.02	0.0
Director Prior Experience									
Prior Forced Experience	142729	0.06	0.0	7947	1.00	1.0	134782	0.00	0.0
Prior Forced Experience (Nominating Com.)	142729	0.04	0.0	7947	0.65	1.0	134782	0.00	0.0
Prior Forced Experience (Remained 2 years)	142729	0.04	0.0	7947	0.73	1.0	134782	0.00	0.0
Prior Forced Experience (Nom. & remained 2 yrs.)	142729	0.03	0.0	7947	0.50	1.0	134782	0.00	0.0
Prior Forced Experience Count	142729	0.13	0.0	7947	1.39	1.0	134782	0.06	0.0

Table 2. Firm Descriptive Statistics

This table reports descriptive statistics for the sample firms. The sample period is from years 1997 to 2010. Directors with prior experience are those who were associated with a forced CEO turnover in a prior sample year in another directorship. The count variable includes experiences within the same directorship.

	All firms		
Firm Characteristics	N	Mean	Median
Firms with at least one experienced director	22016	0.30	0.0
Percent of experienced independent directors	22016	7.09	0.0
CEO Turnover	22016	0.10	0.0
Forced CEO Turnover	22016	0.03	0.0
Assets ($1,000)	21965	14314	1825
Sales ($1,000)	21955	5502	1315
ROA	21278	0.15	0.1
Tobin's Q	21919	1.99	1.5
Annual Stock Return	21722	0.16	0.1
Percent independent directors	21978	69.42	71.4
Board size	22016	9	9
Busy Board	21978	0	0
Outside director ownership	21874	3.47	0.6
CEO Board Tenure	21964	10.69	8.0
CEO Chair Duality	22016	0.61	1.0
CEO ownership	21849	3.37	1.0
Institutional ownership	22016	58.30	65.8

Table 3. Director Level Forced CEO Turnover Analysis

This table reports results of director level conditional logit analysis on forced CEO departure at the firms of the independent directors of the sample. The sample period is for fiscal years 1997 to 2010. The dependent variable is one if the firm experienced a forced CEO departure. Prior forced experience is based on prior experience with a forced CEO turnover in another directorship in an earlier year. Prior forced experience (Nominating Com.) is restricted to directors with prior experience with a forced CEO turnover while they were on the nominating committee. Prior forced experience (Remained 2 years) is restricted to directors with prior experience with a forced CEO turnover and they remained in the firm for 2 years after the event. Prior forced experience (Nom. & remained 2 yrs.) is restricted to directors with prior experience with a forced CEO turnover who were on the nominating committee and who remained on that board for 2 years after the event. Panel B repeats the analysis but further restricts the prior experience variables in each model to only include those directors with experience gained since joining their current board. All models include director and year fixed effects and incorporate robust standard errors clustered by director. The corresponding *p*-values are reported beneath each coefficient estimate.

Table 3. (continued)

Panel A: Prior Forced Experience	Model 1	Model 2	Model 3	Model 4
Dependent variable: CEO Departure (1/0)	Forced	Forced	Forced	Forced
Prior Forced Experience	-1.641***			
	(<.01)			
Prior Forced Experience (Nominating Com.)		-1.187***		
		(<.01)		
Prior Forced Experience (Remained 2 years)			-1.354***	
			(<.01)	
Prior Forced Experience (Nom. & remained 2 yrs.)				-1.041***
				(<.01)
Stock Return$_{(t-1)}$	-0.909***	-0.928***	-0.916***	-0.921***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
Prior Forced Experience X Stock Return$_{(t-1)}$	-0.684***			
	(<.01)			
Prior Forced Experience (Nom. Com.) X Stock Return$_{(t-1)}$		-0.75**		
		(0.02)		
Prior Forced Experience (Remained 2 yrs.) X Stock Return$_{(t-1)}$			-0.681**	
			(0.02)	
Prior Forced Experience (Nom. & remained 2 yrs.) X Stock Return$_{(t-1)}$				-0.745***
				(<.01)
Age	0.007	-0.006	-0.002	-0.0083
	(0.7)	*(0.74)*	*(0.93)*	*(0.62)*
Ownership	0.022	0.017	0.018	0.015
	(0.31)	*(0.45)*	*(0.4)*	*(0.51)*
Number of Directorships	0.036	0.028	0.066*	0.045
	(0.32)	*(0.42)*	*(0.07)*	*(0.2)*
Ln(Board Tenure+1)	-0.221***	-0.189***	-0.195***	-0.178***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
CEO Ownership	-0.036***	-0.042***	-0.039***	-0.042***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
CEO Chair	-1.024***	-1.028***	-1.026***	-1.029***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
Board Size	-0.096***	-0.095***	-0.097***	-0.095***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
Ln(Market Capitalization)	-0.035	-0.041	-0.044	-0.045
	(0.21)	*(0.15)*	*(0.13)*	*(0.12)*
Q	-0.311***	-0.307***	-0.315***	-0.31***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
Number of Observations	36533	36533	36533	36533
Psuedo-R^2	13.95%	12.31%	12.73%	11.93%

, **, * indicate significance at the 10%, 5%, and 1% levels respectively*

Table 3. (continued)

Panel B: Prior Forced Experience Since Joining the Board	Model 1	Model 2	Model 3	Model 4
Dependent variable: CEO Departure (1/0)	Forced	Forced	Forced	Forced
Prior Forced Experience	-1.379***			
	(<.01)			
Prior Forced Experience (Nominating Com.)		-0.947***		
		(<.01)		
Prior Forced Experience (Remained 2 years)			-1.141***	
			(<.01)	
Prior Forced Experience (Nom. & remained 2 yrs.)				-0.8***
				(<.01)
Stock Return$_{(t-1)}$	-0.916***	-0.929***	-0.924***	-0.931***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
Prior Forced Experience X Stock Return$_{(t-1)}$	-0.65***			
	(<.01)			
Prior Forced Experience (Nom. Com.) X Stock Return$_{(t-1)}$		-0.72**		
		(0.02)		
Prior Forced Experience (Remained 2 yrs.) X Stock Return$_{(t-1)}$			-0.66**	
			(0.02)	
Prior Forced Experience (Nom. & remained 2 yrs.) X Stock Return$_{(t-1)}$				-0.85**
				(0.01)
Age	-0.012	-0.014	-0.013	-0.0143
	(0.49)	*(0.4)*	*(0.44)*	*(0.4)*
Ownership	0.028	0.021	0.028	0.022
	(0.16)	*(0.35)*	*(0.18)*	*(0.33)*
Number of Directorships	0.01	0.02	0.038	0.035
	(0.78)	*(0.57)*	*(0.28)*	*(0.32)*
Ln(Board Tenure+1)	-0.052	-0.111**	-0.087**	-0.124***
	(0.23)	*(0.01)*	*(0.05)*	*(<.01)*
CEO Ownership	-0.039***	-0.044***	-0.042***	-0.044***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
CEO Chair	-1.033***	-1.033***	-1.033***	-1.034***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
Board Size	-0.094***	-0.093***	-0.094***	-0.093***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
Ln(Market Capitalization)	-0.047	-0.048*	-0.051*	-0.049*
	(0.1)	*(0.09)*	*(0.08)*	*(0.09)*
Q	-0.304***	-0.304***	-0.306***	-0.305***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
Number of Observations	36533	36533	36533	36533
Psuedo-R^2	12.75%	11.80%	12.08%	11.58%

, **, * indicate significance at the 10%, 5%, and 1% levels respectively*

Table 4. Independent Director Committee Membership

This table reports results of director level conditional logit analysis of board nominating committee membership of the independent directors in the sample for the years 1997 to 2010. The dependent variable is one if the director is a member of the nominating committee and zero otherwise. Prior forced experience is based on prior experience with a forced CEO turnover in another directorship in an earlier year. All models incorporate director and year fixed effects and robust standard errors clustered by director. The corresponding *p*-values are reported beneath each coefficient estimate.

	Model 1	Model 2	Model 3	Model 4
Dependent variable: ***Committee Membership***	Nom. Comm.	Nom. Comm.	Nom. Comm.	Nom. Comm.
Prior Forced Experience	-0.097*			
	(0.09)			
Prior Forced Experience (Nominating Com.)		-0.286***		
		(<.01)		
Prior Forced Experience (Remained 2 years)			-0.156**	
			(0.02)	
Prior Forced Experience (Nom. & remained 2 yrs.)				-0.321***
				(<.01)
CEO	0.197***	0.198***	0.196***	0.197***
	(<.01)	*(<.01)*	*(<.01)*	*(<.010)*
CFO	-0.396**	-0.396**	-0.396**	-0.396**
	(0.02)	*(0.02)*	*(0.02)*	*(0.02)*
Age	0.012	0.013	0.012	0.013
	(0.33)	*(0.31)*	*(0.33)*	*(0.32)*
Ownership	0.002	0.001	0.002	0.001
	(0.92)	*(0.94)*	*(0.93)*	*(0.95)*
Number of Directorships	0.072***	0.071***	0.073***	0.073***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
Ln(Board Tenure+1)	0.749***	0.747***	0.748***	0.747***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
Appointed after current CEO	0.043	0.043	0.043	0.042
	(0.3)	*(0.3)*	*(0.3)*	*(0.31)*
Board Size	-0.059***	-0.06***	-0.059***	-0.06***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
Ln(Market Capitalization)	-0.05***	-0.049***	-0.05***	-0.049***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
ROA	0.036	0.04	0.036	0.0364
	(0.77)	*(0.74)*	*(0.77)*	*(0.77)*
SOX	1.113***	1.124***	1.113***	1.121***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
Number of Observations	92598	92598	92598	92598
Psuedo-R^2	9.44%	9.48%	9.45%	9.48%

, **, * indicate significance at the 10%, 5%, and 1% levels respectively*

Table 5. Independent Director Appointment Relative to Current CEO Appointment

This table reports results of director level logit analysis of the board tenure of the independent directors in the sample relative to the current CEO. The dependent variable is one if the director has board tenure less than the current CEO by more than one year and zero otherwise. The sample is restricted to directors with board tenure of less than or equal to one year. All models incorporate year fixed effects and robust standard errors (White (1980)) clustered by director. The corresponding *p*-values are reported beneath each coefficient estimate.

	Model 1	Model 2	Model 3	Model 4
Dependent variable:				
Appointed at least one year after the CEO	(1/0)	(1/0)	(1/0)	(1/0)
Prior Forced Experience	-0.659***			
	(<.01)			
Prior Forced Experience (Nominating Com.)		-0.673***		
		(<.01)		
Prior Forced Experience (Remained 2 years)			-0.418**	
			(0.02)	
Prior Forced Experience (Nom. & remained 2 yrs.)				-0.613***
				(<.01)
CEO	0.169**	0.171**	0.1740**	0.174**
	(0.04)	*(0.04)*	*(0.03)*	*(0.030)*
CFO	0.025	0.051	0.054	0.054
	(0.89)	*(0.77)*	*(0.76)*	*(0.76)*
Age	-0.01**	-0.009**	-0.010**	-0.01**
	(0.02)	*(0.04)*	*(0.03)*	*(0.03)*
Ownership	-0.058***	-0.055***	-0.056***	-0.056***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
Number of Directorships	-0.034	-0.024	-0.029	-0.029
	(0.3)	*(0.45)*	*(0.38)*	*(0.37)*
Board Size	0.026*	0.049***	0.049***	0.049***
	(0.08)	*(<.01)*	*(<.01)*	*(<.01)*
Ln(Market Capitalization)	0.042	0.026	0.024	0.024
	(0.11)	*(0.28)*	*(0.33)*	*(0.31)*
ROA	0.672	0.559	0.559	0.555
	(0.12)	*(0.11)*	*(0.11)*	*(0.11)*
SOX	0.516***	0.552***	0.547***	0.5445***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
Number of Observations	17526	17659	17659	17659
Psuedo-R^2	3.29%	1.37%	1.27%	1.30%

, **, * indicate significance at the 10%, 5%, and 1% levels respectively*

Table 6. Director Level CEO Turnover Analysis: Number of Experiences

This table reports results of director level conditional logit analysis on forced CEO departure at the firms of the independent directors of the sample. The sample period is for fiscal years 1997 to 2010. The dependent variable is one if the firm experienced a forced CEO departure. Prior forced experience is based on prior experience with a forced CEO turnover in another directorship in an earlier year. All models include director and year fixed effects and incorporate robust standard errors clustered by director. The corresponding *p*-values are reported beneath each coefficient estimate.

	Model 1	Model 2	Model 3	Model 4
Dependent variable: CEO Departure (1/0)	Forced	Forced	Forced	Forced
One prior Forced Experience	-19.408***			-19.736***
	(<.01)			*(<.01)*
Two prior Forced Experiences		-0.334***		-0.679***
		(<.01)		*(<.01)*
Three plus prior Forced Experiences			0.819***	0.248
			(<.01)	*(0.14)*
Stock Return$_{(t-1)}$	-0.93***	-0.929***	-0.938***	-0.888***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
One prior Forced Experience X Stock Return$_{(t-1)}$	0.387***			0.311***
	(<.01)			*(<.01)*
Two prior Forced Experiences X Stock Return$_{(t-1)}$		-0.682**		-0.7713***
		(0.02)		*(<.01)*
Three plus prior Forced Experiences X Stock Return$_{(t-1)}$			-0.818*	-0.944**
			(0.05)	*(0.03)*
Age	0.002	-0.013	-0.017	0.005
	(0.92)	*(0.44)*	*(0.33)*	*(0.77)*
Ownership	0.029	0.02	0.025	0.032
	(0.15)	*(0.36)*	*(0.27)*	*(0.11)*
Number of Directorships	0.033	0.036	0.041	0.035
	(0.37)	*(0.31)*	*(0.24)*	*(0.34)*
Ln(Board Tenure+1)	-0.242***	-0.158***	-0.157***	-0.251***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
CEO Ownership	-0.036***	-0.044***	-0.045***	-0.036***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
CEO Chair	-1.027***	-1.035***	-1.034***	-1.029***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
Board Size	-0.095***	-0.092***	-0.091***	-0.098***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
Ln(Market Capitalization)	-0.029	-0.05*	-0.051*	-0.024
	(0.31)	*(0.08)*	*(0.07)*	*(0.41)*
Q	-0.317***	-0.306***	-0.304***	-0.317***
	(<.01)	*(<.01)*	*(<.01)*	*(<.01)*
Number of Observations	36533	36533	36533	36533
Psuedo-R^2	16.17%	11.33%	11.39%	16.52%

, **, * indicate significance at the 10%, 5%, and 1% levels respectively*

Table 7. Experienced Boards and CEO Turnover

This table reports analysis of all forced CEO Turnover. An Experienced Board is a board that has at least one independent director has been involved in a forced CEO turnover event prior to the current firm-year observation and in another firm. The sample is from fiscal years 1997 to 2010. The table reports results of probit regression models of forced CEO departure and firm performance. All models include year fixed effects and the standard errors are robust and clustered by firm.

	Model 1
Dependent variable: Forced CEO Turnover	Probit (1/0)
Experienced Board$_{(t-1)}$	-0.002
	(0.97)
Abnormal Stock Return$_{(t-1)}$	-0.423***
	(<.01)
Experienced Board$_{(t-1)}$ X Stock Return$_{(t-1)}$	**-0.347***
	(0.05)
Majority Independent(>60%) $_{(t-1)}$	0.193***
	(<.01)
Busy Board $_{(t-1)}$	-0.097
	(0.31)
Ln(Sales) $_{(t-1)}$	0.071***
	(<.01)
Board Size$_{(t-1)}$	-0.033***
	(<.01)
Outside Director Holdings$_{(t-1)}$	0.002
	(0.59)
Institutional Holdings$_{(t-1)}$	-0.001
	(0.31)
CEO Board Tenure$_{(t-1)}$	-0.021***
	(<.01)
CEO Chair$_{(t-1)}$	-0.283***
	(<.01)
CEO Ownership$_{(t-1)}$	-0.007
	(0.22)
CEO Age (60-70)$_{(t-1)}$	-0.037
	(0.54)
SOX	3.202***
	(<.01)
Number of Observations	18417
Psuedo-R^2	9.21%

, **, * indicate significance at the 10%, 5%, and 1% levels respectively*