

Do Directors Learn From Forced CEO Turnover Experience?

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Abstract

We study the dynamic relation between experience and monitoring. We find independent directors become more diligent monitors after experiencing a forced CEO turnover event in another firm. Specifically, their subsequent forced CEO turnover decisions are more sensitive to firm performance and are based upon more private information. The results hold when we only use experience acquired from other firms after the director joined the current firm and when we include director and firm fixed effects. Hence, our results are not driven by firm-director matching or innate director traits. We also find that such experience has important director labor market implications.

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Abstract

We study the dynamic relation between experience and monitoring. We find independent directors become more diligent monitors after experiencing a forced CEO turnover event in another firm. Specifically, their subsequent forced CEO turnover decisions are more sensitive to firm performance and are based upon more private information. The results hold when we only use experience acquired from other firms after the director joined the current firm and when we include director and firm fixed effects. Hence, our results are not driven by firm-director matching or innate director traits. We also find that such experience has important director labor market implications.

1.0 Introduction

Directors play an important role in the internal governance of firms. As such, there is a vast literature on the characteristics of directors that are associated with stronger monitoring.¹ However, most of these studies treat director monitoring incentives and skills as static. In reality, a director's monitoring incentives and skills likely change over time as they experience important corporate events. Surprisingly, there is little research on this dynamic nature of director monitoring. In this study, we address this gap in the literature by examining how experiencing a forced CEO turnover event can affect directors' subsequent monitoring.

Firing the CEO is one of the most significant and challenging decisions boards make, which makes it a very meaningful learning experience for the directors involved.² First, managing a forced CEO turnover provides inexperienced directors with valuable knowledge of the complex and uncertain turnover process, which can be valuable in subsequent turnover events. Second, the enormity of this event calls for directors to exert great effort to acquire information about the CEO and to assess her ability, which serves to enhance their monitoring skills. Third, after having fired a CEO, it is costlier for directors to develop a CEO-friendly reputation and, thus, it increases their incentive to strengthen their shareholder-friendly reputation through more diligent monitoring. Hence, we expect that prior CEO turnover experience will result in a significant change in a director's monitoring incentives and skills.

¹ See for example, studies on director independence (Weisbach (1988)), social ties (Hwang and Kim (2009), Fracassi and Tate (2012)), founder directors (Li and Srinivasan (2011)), insiders with outside board seats (Mobbs (2013)), more reputable board seats (Masulis and Mobbs (2014)), co-option (Coles, Daniels and Naveen (2014)), financial expertise (Defond, Hann and Hu (2005)), industry expertise (Dass, Kini, Nanda, Onal and Wang (2014), Wang, Xie and Zhu (2015)).

² Directors who are not on the board of the turnover firm do not have an equal opportunity to learn because CEO turnover decisions are almost always made behind closed-doors, and very often, even the true reason for the CEO turnover is not disclosed to the public.

We begin by identifying forced CEO turnovers in S&P 1500 firms from 1997 to 2010. We focus our attention on the independent directors of each firm, since they have the primary monitoring responsibility, and define an *experienced director* as one who was involved as a director in a prior forced CEO turnover at another firm.³

The first question we examine is whether prior forced CEO turnover experience affects subsequent forced CEO turnover decisions. Following a large corporate governance literature, we focus on the sensitivity of forced CEO turnover to firm performance as a measure of the quality of internal governance.⁴ In theory, forced CEO turnover is motivated by the expected benefit of replacing an underperforming CEO. However, this process is very costly to both shareholders and directors (Taylor (2010)). Directors often incur significant personal utility cost when firing a CEO as they have to exert more effort, endure the uncertainty of the process, overcome emotional hurdles, and put their reputation at risk. The greater information and enhanced skills possessed by directors with prior forced turnover experience and their altered reputation incentives can significantly lower these costs. Thus, experienced directors can be more willing to fire a CEO for poor performance than inexperienced directors, which implies that their CEO dismissals will be more sensitive to firm performance.

Consistent with this, we find firms whose boards have a greater percentage of experienced directors are associated with forced CEO turnovers that are more sensitive to prior stock performance. This effect is both statistically significant and economically meaningful. For an average firm with a board size of 9.4 directors, an increase from zero to one experienced

³ We only consider experience that is acquired from another firm to avoid endogeneity concerns. Specifically, we exclude experience in a director's own directorship because their role in selecting a replacement CEO can affect their decision to subsequently remove this CEO should the CEO later perform poorly.

⁴ See for example Vancil (1987), Weisbach (1988), Yermack (1996), Parrino (1997), Denis, Denis and Sarin (1997), Huson, Parrino and Starks (2001), Dahya, McConnell, and Travlos (2002), Fee and Hadlock (2003), Hermalin and Weisbach, (2003), Huson, Malatesta and Parrino (2004), Lel and Miller (2008), Kaplan and Minton (2012), Mobbs (2013), Coles, Daniel and Naveen (2014), Jenter and Lewellen (2014), and Guo and Masulis (2015).

director is associated with a relative increase in sensitivity of forced CEO turnover to stock performance of 83%, when the stock price drops from the top to the bottom quartile. Hence, directors' turnover experience is associated with more diligent board monitoring. To establish the causal relation, we take several steps to overcome the identification issues inherent in interpreting this association.

One challenge in identifying the causal effect of experience is determining whether experience actually affects a director's behavior, or simply reveals the director's innate characteristics. For instance, directors that experience a CEO turnover may be more diligent directors in the first place, and their experience may simply reveal their pre-existing tendencies. We address this by examining the change in forced CEO turnover sensitivity to firm performance from before to after a director acquires the experience, while controlling for unobserved heterogeneity in innate director characteristics with director fixed effects and a host of time-varying director characteristics.

Another, perhaps more challenging endogeneity concern is the potential dynamic matching between firms and directors. Even if experience does change the director's monitoring, subsequent changes in firm outcomes may not be caused by the director's experience, but could instead be attributed to the firm's endogenous selection of directors that fits its strategic direction (Fee, Hadlock, Pierce (2013)). For example, firms that already intend to fire a CEO may appoint an experienced director to help the firm accomplish its agenda. This selection issue is particularly difficult to overcome in studies of executive experience because in most contexts, the executive has already obtained the relevant experience prior to being appointed.

In this paper, we design a new approach that allows us to overcome the dynamic matching concern. Specifically, we exploit the fact that directors often simultaneously hold

multiple directorships, giving them an opportunity to acquire turnover experience in *other* firms *after* they have already been hired by the firm in question. By focusing on cases where a director gains his first CEO turnover experience at another firm after joining the board, we are able to rule out the dynamic matching concern in favor of a causal interpretation of the effect of experience on director monitoring. Our main findings are robust to this as well as other methodological refinements, suggesting that turnover experience does not merely reflect innate director or firm traits but actually causes directors to become more diligent monitors.

To gain additional support for our hypothesis, we also explore cross-sectional differences in directors' prior CEO turnover experience. While the entire board is ultimately responsible for firing a CEO, directors on the nominating committee have the primary responsibility for evaluating the CEO and are thus "closer" to the event and likely to gain more from a turnover experience.⁵ Similarly, directors who remained on the board for a significant length of time following a forced CEO turnover are likely to have been more involved in the process and thus stood to benefit more from the experience. Conversely, directors who left the board shortly after a CEO departure may have done so because they opposed the turnover or because they were blamed for the ousted CEO's poor performance. In either case, the forced CEO experience was likely less valuable toward making the director a more diligent monitor in subsequent directorships. Following this reasoning, we define an independent director as having a high quality experience if the director was on the nominating committee when he gained the experience or if the director remained on the board for at least two years following the CEO turnover. Consistent with these directors having a more impactful experience, we find evidence of an economically greater sensitivity of forced CEO turnover to firm performance.

⁵ According to the NYSE exchange listing requirement, the nominating committee's purpose and responsibilities are, among other things, to "oversee the evaluation of the board and management". http://nysemanual.nyse.com/lcm/sections/lcm-sections/chp_1_4/default.asp.

Cornelli, Kominek and Ljungqvist (2013) find that the generation of private information about the CEO plays an important role in CEO termination decisions. Thus, working through a forced CEO turnover can potentially enhance a director's ability to acquire private information, which can improve their subsequent monitoring ability. To test this, we rely on the theoretical model of CEO turnover of Hermalin and Weisbach (1998), which predicts that when the board uses more private information in its CEO turnover decision, the stock price reaction to the turnover news should be lower.⁶ We find that forced CEO turnover announcements made by boards with a greater percentage of experienced directors exhibit significantly lower announcement returns, mainly in firms with poor public information and thus greater scope for discovery of private information, such as in small firms or in firms with high analyst earnings forecast dispersion. This evidence suggests that directors with forced turnover experience become more skilled at acquiring important, private information about the CEO.

Finally, we consider the director labor market implications for directors who gain forced CEO turnover experience. We find that firms with more powerful CEOs are less likely to appoint experienced directors to their boards, consistent with prior literature on the CEO influence on director appointments (Shivdasani and Yermack (1999) and Coles, Daniels and Naveen (2014)). Relatedly, we find that experienced directors are less likely to gain additional directorships relative to inexperienced directors.

Given the previous finding, a natural question to ask is whether directors are better off not firing a CEO? We examine this question by comparing the future labor market outcomes of directors following their first experience to a matched control sample of directors who arguably should have fired their CEO (due to poor firm performance), but chose not to. We find that both

⁶ If the board fires a CEO based on private information, the firing reveals bad news that is previously unknown to shareholders. As shareholders receive the bad news, they will revise downward their valuation of the firm.

sets of directors experience a reduction in future directorships. However, the reduction in future directorships is smaller for directors that chose to fire their CEO, suggesting that removing an underperforming CEO is a better career choice than not acting at all.

Our results contribute to the literature on board of directors in several ways. First, we add to the literature on director characteristics associated with board monitoring. It is well established that independent directors conduct more intensive monitoring (e.g. Weisbach (1988), Dahya, McConnell, and Travlos (2002) and Guo and Masulis (2015)) and that there is significant heterogeneity in their monitoring incentives. For example, independent directors with social ties to the CEO or who are appointed by the current CEO are weaker monitors (Hwang and Kim (2009), Fracassi and Tate (2012) and Coles, Daniels and Naveen (2014)), while independent directors in their relatively more prestigious directorships are more diligent monitors (Masulis and Mobbs (2014)). Besides incentives, other papers find that directors with certain expertise are also stronger monitors. Dass, Kini, Nanda, Onal and Wang (2014) and Wang, Xie and Zhu (2015) show the importance of industry expertise, while Defond, Hann and Hu (2005) provide evidence on financial expertise. Our findings reveal that prior CEO turnover experience is indicative of both greater incentive and expertise to monitor the CEO. We also provide important evidence that this link is not due to innate characteristics of directors or firm-director matching, but is actually caused by the turnover experience.⁷ This is important because existing studies mainly focus on cross-sectional relations between director characteristics and monitoring. Our findings reveal new evidence on how director monitoring incentives and skills change over time, in particular, after an important corporate event.

⁷ In a contemporaneous study, Cai and Nguyen (2015) use forced experience as a proxy for director tolerance, an innate director trait, to study how director tolerance affects board monitoring and firm policy. In contrast, we directly examine how forced CEO turnover experience actually alters director decision making.

Relatedly, our finding that forced CEO turnover experience captures the differential ability of directors to acquire private information about the CEO is an important contribution to our understanding of director monitoring. We are unaware of any other study that documents such a proxy. The ability to acquire private information is not only important for forced CEO turnover decisions but for other board decisions as well (Hermalin and Weisbach (1998)). For example, a board more capable of acquiring private information about the CEO's ability may have less of a need to use incentive-based CEO compensation. Furthermore, recent studies have argued that learning about CEO ability is an important board function distinct from advising and monitoring (Hermalin and Weisbach (2014) and Denis, Denis and Walker (2015)).

Our paper extends a growing corporate finance literature on past experience and firm decisions. Most existing papers study experiences of corporate executives (Malmendier, Tate and Yan (2011), Dittmar and Duchin (2015), Bernile, Bhagwat and Rau (2015)).⁸ We extend this to corporate directors. One econometric challenge in this line of research is overcoming the dynamic matching concern that the relation between experience and firm decisions is driven by firm-individual matching rather than experience causing firm decisions. There is not a clean way to address this concern in studies of executive experience, as recognized by Dittmar and Duchin (2015) and Bernile et al. (2015), because an individual can only be an executive at one firm at a time. In contrast, we are able to develop a new identification strategy that clearly rules out any concern for firm-director matching by exploiting the fact that many directors serve on multiple boards simultaneously.

We also introduce a new perspective to the strand of literature which focuses on director expertise, or experience, and labor market outcomes. Fahlenbrach, Minton, and Pan (2011) find

⁸ Our study is also more broadly related to the stream of finance papers on past experience and individual investor decision making, e.g. Korniotis and Kumar (2011), Kaustia and Knupfer (2008), Chiang, Hirshleifer, Qian and Sherman (2011) and Malmendier and Nagel (2011).

that successful former CEOs are likely to be reappointed to the board when the firm can benefit from their advice. Harford and Schonlau (2013) find that CEOs with acquisition experience are rewarded with more directorships. Dass et al. (2014) find that firms are more likely to appoint directors with experience in related industries when the information gap vis-à-vis the related industries is large. All these papers suggest that director labor market rewards experiences that can contribute to the advising function of the board. Unlike these papers, we focus on a type of experience that is associated with more diligent monitoring of the CEO and, as such, may not be liked by the CEO. Our evidence suggests that although forced CEO turnover experience can strengthen director monitoring, which shareholders may desire, experienced directors' labor market outcomes can be constrained by powerful CEOs who oppose stronger monitoring.

The remainder of the paper proceeds as follows. A discussion of the related literature and the hypothesis development is in Section 2. Section 3 discusses the sample and descriptive statistics. Section 4 reports results from our primary analysis. Section 5 concludes.

2. Related literature and hypothesis development

A central element of economic theory is that agents alter their subsequent actions as they acquire new information (Arrow (1962)). When directors work through a CEO turnover, they gain tremendous information about this important decision of the board that can alter how they subsequently monitor CEOs and manage future forced CEO turnover events. Furthermore, because forced turnover decisions are made behind closed-doors with few details disclosed publicly, directors involved have unique access to this information set that is not available to other directors without such experience.

Recent studies suggest directors apply knowledge learned elsewhere to their current directorships. Bouwman (2011) finds that directors influence the firm where they are hired by altering its governance practices to be more like those of their previous directorships. Dass et al. (2014) and Wang et al. (2015) find that directors apply industry expertise acquired in other firms to the directorships where they currently serve. Relatedly, Giannetti, Liao and Yu (2015) find that directors with foreign experience in developed countries transmit management and corporate governance practices to firms in emerging markets where they serve as directors. Thus, there is a wealth of evidence that prior director experience has important corporate governance implications.

Because CEO turnover is such a critical event in the life of a firm and, thus, one of the most important roles of the board, how it is managed is an indicator of the quality of internal governance. Thus, the overall hypothesis of this study is that experience is the best teacher, and, as such, turnover experience makes a director more diligent and skilled at monitoring the CEO.

2.1 Implications of Experience for Subsequent Forced CEO Turnover Decisions

Forced CEO turnovers are costly to both firms and directors. Besides the real cost of the turnover process to the firm, directors incur significant utility costs because they have to exert enormous effort to evaluate the CEO, overcome any ties to the CEO and resolve much uncertainty. These costs can make even independent directors reluctant to remove poorly performing CEOs. However, prior CEO turnover experience has the potential to significantly reduce these costs.

First, experienced directors have more information and less uncertainty about the turnover process. This leads to their greater resolve, swiftness and confidence in opposing a

future poor performing CEO and makes them less prone to make mistakes and allows them to manage the process more efficiently.

A second benefit of experiencing a forced CEO turnover is that it changes a director's reputational incentives to monitor the CEO. Levit and Malenko (2016) note that directors essentially develop one of two conflicting reputational types: they can be either shareholder friendly (i.e., a strong monitor) or CEO-friendly. Directors that have fired CEOs in the past will be less able to market themselves as CEO-friendly directors in the director labor market. This decreases their personal utility cost associated with firing underperforming CEOs and increases their incentive to develop their shareholder-friendly reputation through diligent monitoring.

A third benefit of prior CEO turnover experience is that working through the event can provide the director with valuable opportunities to practice and hone very important monitoring skills, in particular, the skill to assess the CEO's ability (Cornelli, Kominek and Ljungqvist (2013)). According to the CEO turnover model of Hermalin and Weisbach (1998), the right to fire the CEO gives the board a valuable option, and thus, if a board becomes more capable of quickly learning about the ability of CEOs, it will be less tolerant of poor performance under the incumbent CEO. Thus, the greater information possessed by experienced directors, their stronger monitoring incentives and their greater ability to acquire private information all serve to reduce the cost of firing a poor performing CEO, which makes the forced turnover of the incumbent CEO more sensitive to firm performance. Our primary hypothesis follows.

H1: Boards with greater representation by directors with prior experience with a forced CEO departure will be associated with greater turnover sensitivity to firm stock performance.

2.2 Acquisition of Private Information and Stock Market Reaction to Turnover News

With access to the boards' confidential evaluations of their CEOs in a sample of private firms in 19 transition economies financed by private equity funds, Cornelli, Kominek and Ljungqvist (2013) find that boards heavily use private information that is not accessible to shareholders when making forced CEO turnover decisions. Thus, experience with a CEO turnover can serve to enhance a director's ability to acquire private information in subsequent turnover events. To test whether experienced directors use more private information in their forced CEO turnover decisions, we rely on a prediction of the Hermalin and Weisbach (1998) model about stock price reactions to CEO turnover announcements. According to the model, the stock-price reaction to CEO turnover should be negative if the CEO is fired based primarily on the private information acquired by the board, because the firing simultaneously reveals to the market bad news about the firm. However, the reaction should be positive if the firing is based on public information because the market already knows about any bad information about the firm and will welcome a change in leadership.

In practice, CEO turnover decisions are likely to be made with both public and private information. The amount of private information being used in a CEO turnover decision is likely to depend on both the ability and willingness of the board to acquire private information and the quality of public information. When more public information about a firm and its CEO is available, the scope for the board to gather valuable private information is lower, and CEO turnover decisions will be made primarily based on public information. In contrast, when more information about the firm and CEO is private and therefore unknown by the market, such as in small firms or in firms with large analyst forecast dispersion, boards that can better acquire

private information are likely to use more private information in their firing decisions. The above prediction of the Hermalin and Weisbach (1998) model gives rise to our next hypothesis.

H2: When there is sufficient scope for discovering valuable private information, turnovers initiated by boards with greater representation by experienced directors will be based upon a greater degree of private information, and thus be associated with lower turnover announcement returns.

2.3 Director experience and labor market outcomes

In general, stronger monitoring skills should improve the director's reputation as a decision and control expert, making them more desirable candidates to monitor management on behalf of shareholders. Thus, to the extent that shareholders can influence the selection of directors, past turnover experience should improve a director's labor market prospects.

Conversely, CEOs do not like intense monitoring and therefore likely oppose the appointment of experienced directors. Shivdasani and Yermack (1999) and Coles, Daniels and Naveen (2014) find that CEOs can be very influential in the appointment of directors for their firm's board, and prefer directors who are less independent, since they are likely less stringent monitors. An experienced director who is more skilled and diligent can be less attractive to a CEO as a director candidate. These factors lead to an alternative expectation of the impact of turnover experience on director labor market prospects. Because the interests of shareholders and CEOs can diverge, it is ultimately an empirical question as to how turnover experience will impact the labor market prospects of directors.

3. Sample and Descriptive Statistics

Our primary data are from the RiskMetrics 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, we identify whether the independent director has prior forced CEO

turnover experience. First, we create the CEO turnover database by capturing changes in the identity of the CEO from the prior year within the ExecuComp database. Next, within the sample of CEO turnovers, we identify the subset that is forced by searching press releases using Factiva. A CEO turnover is forced when the press release directly mentions that the CEO departure was forced, or the CEO was under 60 years old and the news did not mention another job acceptance, poor health or death as the cause of the CEO departure, or the CEO was said to be retiring but the retirement was not announced at least 6 months prior to the departure press release (Parrino (1997), Huson, Malatesta and Parrino (2004), Hazarika, Karpoff and Nahata (2012), and Jenter and Kanaan (2015)). We consider the remaining CEO turnovers as voluntary. Then we identify the set of directors on the board at the time of each turnover event. Once a director is associated with a turnover event, we consider that director as an experienced director in subsequent director-years of the sample in all other firms where they serve as an independent director. Thus, during the director's first turnover event we do not consider them experienced, nor do we consider them to be experienced in the subsequent years in the firm where they first gained their experience. We exclude any director-CEO-turnover events in the past where the director was the CEO or an employee of the firm at the time of the turnover.⁹

Table 1 reports the independent director characteristics measured at the directorship level (i.e., director-firm-year) for the full sample, as well as for the sub-samples by whether a director has prior forced CEO turnover experience. There are 140,021 independent director-firm-years within the sample and of these, 7% are for directors having prior experience with at least one

⁹ Because our data do not permit us to follow a director's entire career, we likely under-identify "experienced" directors, as some directors may have experience with turnover before 1996 (the beginning of our sample) or in other smaller or private firms not covered by RiskMetrics. This should add noise to our measure, making it more difficult to find evidence of an association between experience and subsequent director actions. However, we believe this approach measures the relatively more recent experiences in large publicly traded firms, which is likely the most powerful experience a director can have.

forced CEO turnover. Relative to inexperienced directors, experienced directors are older, are less likely to be CEOs at other firms, and sit on more boards, which could both be due to and contribute toward their greater experience.¹⁰ Being on multiple boards increases the likelihood the director will experience a CEO turnover event and, if CEO turnover experience is valuable, it could further increase the demand for their services (Fama and Jensen (1983) and Farrell and Whidbee (2000)). In our sample, 3% of the independent directors gained forced CEO turnover experience while serving on the nominating committee. In addition, 4% of independent directors remained for at least two years on the board where they gained their first experience.

Table 2 reports firm level descriptive statistics. The board of the average firm is comprised of 4.53% experienced independent directors. CEO turnover occurs in about 12% of the sample firm-years. Of these, about 25% are forced, representing over 2% of all firm-years. The mean (median) board consists of 9.42 (9.00) directors with 69.55% (72.73%) being independent.

4. Results

4.1 Forced CEO Turnover-Performance Sensitivity

This section examines the relation between the percentage of experienced independent directors on the board and forced CEO turnover sensitivity to performance. In Table 3, we report results from linear probability models.¹¹ The dependent variable is an indicator for forced CEO turnover and the key independent variables are firm performance and the interaction between firm performance and the percentage of experienced independent directors, all of which are

¹⁰ These differences are statistically significant at the 1% level (unreported).

¹¹ We rely on linear probability models because our main variable of interest is an interaction effect. In linear models, the interaction effect equals to the coefficient estimate on the interaction term. However, in nonlinear models, such as the logit or probit model, it has to be calculated separately. That said, our results are similar when we use conditional logit models.

measured in the year prior to the CEO turnover announcement. Firm performance is measured as the firm's annual stock return. All models incorporate industry and year fixed effects and robust standard errors clustered by firm.

In all models in Table 3, the coefficient on firm stock return is negative and statistically significant, consistent with findings in prior CEO turnover studies that CEOs are more likely to be forced out when firm performance is poor. In model 1, we use our base measure of CEO turnover experience, the percentage of independent directors who have had at least one prior experience with a forced CEO turnover event in another firm, denoted by *% Experience*. The coefficient estimate on this variable is significantly positive. However, we are primarily interested in how experience affects the sensitivity of forced CEO turnover to performance. The coefficient estimate for the interaction between *% Experience* and firm stock performance is negative and statistically significant at less than 1% level, meaning that boards with a greater fraction of experienced independent directors are associated with greater sensitivity of forced CEO turnover to firm stock performance. This coefficient estimate also implies a significant economic effect. For example, when holding all control variables at their mean, the estimated likelihood of a forced CEO turnover when firm stock performance drops from the top to the bottom quartile of the sample increases by 26.1% (2.2% to 2.8%) when a board does not have any experienced directors. However, when the board has at least one experienced director the same drop in stock performance is associated with an increase in the likelihood of forced CEO turnover of 47.6% (2.2% to 3.3%).¹² This is consistent with independent directors benefitting from their prior turnover experiences in ways that leads to improved monitoring intensity. Thus,

¹² These effects are calculated based on an average board size of 9.4 members. Also, the 75th percentile of stock returns is 34.9% and the 25th percentile is -15.1%.

the challenging nature of forcefully removing a CEO can have a great impact on a director's future monitoring, which is reflected in their subsequent forced CEO turnover decisions.

Next, we further examine cross-sectional variations in the nature of the prior experience.

In model 2, we restrict experienced directors to those whose experience occurred while serving on the nominating committee. We find firms with greater representation on the board by experienced directors with nominating committee experience are significantly more likely to experience a forced CEO turnover. The coefficient estimate is stronger, both economically and statistically than our base measure of experience in model 1. Meanwhile, the coefficient on the interaction term between firm stock performance and the percentage of independent directors with prior nominating committee turnover experience is negative and statistically significant at the 1% level and the coefficient estimate is more than twice that of the interaction term in model 1. These findings underscore the importance of the nominating committee in monitoring and firing of the firm's CEO, consistent with evidence in Guo and Masulis (2015). Further, these results provide additional support for our primary hypothesis because the results are stronger when a director's experience is more likely to impart greater decision-relevant information.

In model 3, we restrict directors with prior turnover experience to those who remained on their board for at least two years after the CEO turnover. We find results similar to those with nominating committee experience. Greater representation by experienced directors who remained on their board for at least two years following their initial experience is associated with a significantly greater sensitivity of forced CEO turnover to firm stock performance. Thus, the quality of the initial forced turnover experience for the director appears to significantly affect the degree to which their monitoring ability improves in subsequent directorships.

The results in models 2 and 3 reveal that the higher the quality the prior turnover experience is, the greater is the change in a director's subsequent monitoring. To have a single measure for these high quality experiences, in model 4, we construct a new measure called high quality experience by combining the two experience measures in model 2 and 3. A director is considered to have high quality experience if the director either served on the nominating committee or remained on the board where the director gained the initial experience for at least two years after the CEO turnover. Thus, we are capturing directors who were directly more involved (nominating committee) or who were less likely to be CEO supporters (remained 2 years) in their first forced CEO turnover experience in our sample. As shown in model 4, the coefficient estimate on the interaction of firm stock performance and this new measure of experience remain negative and statistically significant at the 1% level. For brevity, in the remaining analysis we will report cross-sectional differences in direct experience using only this measure of high quality experience.

4.2 Alternative Explanations and Robustness Tests

Although results in Table 3 suggest that greater representation by experienced directors on the board leads to a greater likelihood of forced CEO turnover as well as greater forced CEO turnover sensitivity to firm performance, the interpretation of these results as causal relations is subject to several endogeneity concerns. First, it is possible that these two results are due to unobserved heterogeneity in firm characteristics that are correlated with the percentage of experienced directors on the board and at the same time make these firms more prone to CEO turnover. In Table 4, we incorporate firm fixed effects to account for this possible endogeneity. Indeed, in all models of Table 4 the coefficient estimate for the experience variable itself

becomes statistically insignificant. This is consistent with firms that are more prone to CEO turnovers hiring more experienced directors and thus, when we control for firm fixed effects, we find no evidence that having more experienced directors significantly affects the likelihood of a forced CEO turnover. However, our primary interest is in how greater representation by experienced directors on the board is associated with the board's responsiveness to stock performance when making forced CEO turnover decisions. In models 1 and 2, we continue to find support for our primary hypothesis that turnover sensitivity to firm performance is significantly greater when the board consists of more experienced directors using our base and high quality experience measures, respectively.

Second, the results may be completely driven by dynamic firm-director matching. Specifically, a board that wants to remove a poorly performing CEO may seek to hire a director with turnover experience to help facilitate the transition. To rule out this explanation, in models 3 and 4 we only consider those cases where experienced directors gained their initial turnover experience in another firm, *after* having joined the current board. We exclude firms with experienced directors who gained their initial experience prior to joining the board in question from the analysis, as they would confound the baseline comparison group, which are firms without any experienced directors. In model 3, we include all turnover experience a director acquired in another firm after having joined the current board. As before, the coefficient estimate on the interaction term between firm stock performance and the percentage of experienced directors is negative and statistically significant. In model 4, we include only the high quality experience, as defined above, a director acquired in another firm after having joined the current board, and the coefficient estimate for the experience-performance interaction term is also negative and statistically significant. These findings suggest that our main results are not driven

by firm-director matching, either static or dynamic, which lends support to the interpretation that forced CEO turnover experience changes a director's monitoring decisions.

Third, our results can be driven by heterogeneity in directors' innate ability or tendency to monitor CEOs. Experienced directors may just be stronger monitors to begin with, which is why they experience a forced CEO turnover and are associated with greater CEO turnover-performance sensitivity. To address this concern, we estimate director level regressions with director fixed effects in Table 5. In these linear probability models, the dependent variable equals one if there is a forced CEO turnover in a director-firm-year and zero otherwise. The key independent variables are firm stock performance in the year prior to the CEO turnover and its interaction with an indicator for whether the director is experienced or not. The coefficient estimate on the firm stock performance measures how a director responds to poor firm performance when making a CEO turnover decision when he is inexperienced. The coefficient estimate on the interaction term indicates how a director's responsiveness to poor firm performance changes after he becomes experienced. If experience is only capturing directors with innately greater monitoring ability then we should expect no change in subsequent decision making and thus an insignificant coefficient estimate for the interaction term in these models.

In addition to time-invariant differences among directors, a director's monitoring ability or incentive may also change over time with time-varying director characteristics. Hence, we also control for director age, ownership, tenure and the number of directorships they hold in these regressions.

Table 5 reports the results. In models 1 and 2, we include director and year fixed effects. In models 3 and 4, we add firm fixed effects for further robustness. In all models, the coefficient on the experience indicator itself is negative and statistically significant at conventional levels, in

contrast to the positive coefficient estimate for the experience variable in the cross-sectional firm-level regressions in Table 3 and the insignificant coefficient estimate in the firm fixed-effects regressions of Table 4. The difference in the results stems from the fact that the main effect in the within-director regressions of Table 5 essentially compares the incidence of forced turnovers per year for a director when he is inexperienced to when he is experienced. The unconditional probability that a director experiences a forced turnover is quite small (less than 3% per year), and the average director tenure is about 8 years. However, the first experience, by definition, happens when the director is inexperienced. Thus, even though experienced directors have a greater than average incidence of forced CEO turnover, their post experience incidence rate is much lower than their pre-experience rate almost by construction, given that the pre-experience period is defined to include at least one turnover.

However, as before, we are primarily interested in the incremental change of forced CEO turnover sensitivity to firm stock performance once a director gains experience. We find that the coefficient estimates of the interaction between firm stock return and our two indicators for experience are negative and statistically significant at the 1% level in all four columns.

In models 5 and 6, we address concerns for both firm-director matching and director heterogeneity at the same time by examining only the experience gained after having joined their current board while controlling for director, firm, and year fixed effects. In model 5, our base measure is associated with greater forced CEO turnover sensitivity to firm stock performance but it is not statistically significant (p -value=.13). However, in model 6, when we employ our high quality experience measure, we continue to find evidence that directors with prior turnover experience are associated with a significantly greater forced CEO turnover sensitivity to firm stock performance (p -value=.04).

Looking at control variables, we find that if the director has been on the board longer, turnover is less likely. However, turnover is more likely when the director has greater ownership or holds more directorships. When the CEO of the firm has greater ownership or also holds the position of chairman of the board, CEO turnover is less likely to occur. Finally, CEO turnover is more likely in firms with smaller boards, in larger firms and in firms with lower values of Tobin's Q.

In summary, the evidence thus far reveals that individual directors indeed appear to learn from prior turnover experience, which influences their decisions in subsequent turnover events. Specifically, they respond more quickly to changes in the firm's stock performance, which is consistent with more diligent monitoring.

4.3 Stock Market Reaction to Turnover Announcements

In this section, we directly test whether experienced directors are more capable of acquiring private information about the CEO than inexperienced directors. Based on the Hermalin and Weisbach (1998) model, we predict that a firm's cumulative abnormal stock return (CAR) surrounding a forced CEO turnover announcement should be lower in firms with a greater proportion of experienced directors on the board. This should mainly hold in firms with poor public information and thus there is more scope for experienced directors to discover private information.

Following Huson, Malatesta and Parrino (2004), we measure CARs over the two-day event window (-1,0) relative to the turnover announcement. The CARs are calculated from a market model where the market return is the daily CRSP value-weighted index return. The market model parameters are estimated using daily returns over the 255 days that end 46 days

before the turnover announcement. We proxy for the scope of private information acquisition with firm size and dispersion in analysts' earnings forecasts, where we postulate that the scope for discovering private information is greater in smaller firms and in firm-years with greater analyst earnings forecast dispersion (Lang and Lundholm (1996)). Firm size is measured by the firm's market capitalization at the fiscal year end prior to the CEO turnover announcement. Dispersion in analyst forecasts is measured as the standard deviation of earnings forecast across analysts prior to each quarter end, normalized by the firm's total book assets and averaged over the four quarters in the year prior to the CEO turnover announcement, similar to Duchin, Matsusaka and Ozbas (2010).

We then estimate OLS regressions of the CEO turnover announcement period CAR on the percentage of experienced directors on the board. This is done within the full sample of forced CEO turnovers and the subsamples partitioned by the median value of our proxy for public information availability. We predict a negative coefficient on the experience variable, especially in the subsamples of firms with poor public information. In all regressions, we control for other determinants of the announcement period CARs. They include firm size measured by the natural logarithm of sales, Tobin's Q measured as the market value of equity plus the book value of debt divided by total assets, prior year stock performance, CEO tenure and stock volatility. Larger firms may have more public information available. The turnover decisions thus use more public information and the CARs should be higher. Firms with higher Tobin's Q may have more growth opportunities and thus more information asymmetry with the market. Turnover news may reveal more negative news and thus be associated with lower CARs. However, CEOs may be more important in growth firms than value firms and thus the market may react more positively to turnover news in growth firms. Prior stock performance is included

to control for market anticipation of the CEO turnover. When prior year stock performance is higher, the forced CEO turnover is likely to be less anticipated by the market and thus the market is more likely to be negatively surprised by the news. CEO tenure can also affect the CARs. On the one hand, CEOs with longer tenure may be known to have high ability so their firing may be a negative surprise to the market and thus be associated with lower CARs. On the other hand, CEOs with longer tenure may be entrenched, so the market may react more positively to their firing. All independent variables are measured in the year prior to the CEO turnover announcement. In all regressions, we include year fixed effects to capture any time trend.

In Panel A of Table 6 we report regression results using our base measures of experience. Model 1 is estimated using the full sample. The coefficient estimate for our primary experience variable is negative, but not significant at conventional levels. In models 2 and 3, we split our sample based on our first proxy for the scope of private information acquisition, firm size. Model 2 is estimated using small firms defined as those with below sample median market capitalization and thus poorer public information. Here the coefficient estimate on the experience measure is negative and statistically significant at the 1% level. Conversely, in the subsample of large firms (i.e. firms with above sample median market capitalization) in model 3, we find a positive coefficient estimate on our experience variable, though it is not significant at conventional levels. The positive coefficient is consistent with a positive market reaction when the turnover is made mostly based on public information.

In models 4 and 5, we split our sample based on our second proxy for the scope of private information acquisition, dispersion in analysts' earnings forecasts. In model 4, we use the subsample of firms with high dispersion (above median dispersion in analyst forecasts) and thus poorer public information. In this subsample, we find the experience coefficient is negative and

significant at the 1% level. However, in model 5, we find a positive but insignificant coefficient estimate on our experience variable in the low dispersion subsample. These results indicate that, in firms with a greater degree of information asymmetry, turnover announcement period CARs are significantly lower for firms with a greater percentage of experienced directors on the board. The results are similar when we use our high quality experience measure (Nominating or Remained 2 years) in models 6 through 10. Finally, we find similar results in Panel B where we employ our more restrictive “since-joining” measures of board experience.¹³

In sum, this evidence reveals that when there is greater scope for private information acquisition, experienced directors are better equipped to make turnover decisions based on private information, supporting the notion that turnover experience improves director monitoring ability and board diligence.

4.4 Labor Market Consequences

While forced CEO turnover experience may be beneficial for shareholders, the directors themselves may face a penalty in the director labor market. Not only are directors associated with a turnover event more likely to lose the directorship in the turnover firm (Farrell and Whidbee (2000)), but their greater monitoring ability may deter other CEOs from nominating them to their board. We consider this possibility by examining the likelihood of a director gaining or losing a directorship in a given year based on whether or not the director has prior forced CEO turnover experience. We estimate director level linear probability models and

¹³ In unreported results, we find that our results continue to hold when we split our sample by the number of analysts and analyst forecast error. In particular, CEO turnover announcement stock returns are significantly lower for experienced boards than inexperienced boards but only in the subsample of firms with below sample median analyst following and above sample median analyst forecast error.

incorporate director and year fixed effects. Thus, we are examining how changes in experience are associated with within-director variation in labor market opportunities.

Table 7 Panel A presents results using our base experience measure. The dependent variable in models 1 and 2 equals one if in the subsequent year the director gains at least one additional directorship and zero otherwise. In model 1, the coefficient estimate for the experienced director indicator is negative and significant at the less than 1% level. This suggests that having prior experience with a forced CEO departure significantly reduces a director's likelihood of gaining an additional directorship. We find similar results in model 2, using our measure of high quality experience. This evidence is consistent with directors facing negative consequences in the director labor market for having experienced a forced CEO turnover. In models 3 and 4 the dependent variable is one if the director loses a current directorship in the subsequent year, and zero otherwise. The experience variables are insignificant in both models. We find similar results in Panel B using experience gained in another firm after having joined the current board. The asymmetry in results between the directorships lost and directorships added could reflect that CEOs (who likely are averse to experienced directors) may have more power to deter new experienced director appointments than to remove incumbent experienced directors.

In Table 8, we examine the firm's decision to appoint experienced independent directors to its board as a function of its CEO's influence. Since CEOs do not like to be monitored, we expect firms with more influential CEOs to be less likely to appoint experienced directors if these directors are indeed stronger monitors. The unit of observation is a firm-year and the dependent variable in all models equals one if the board appoints an experienced director using either our base measure or our measure of high quality experience. In models 1 and 2, we measure CEO influence with CEO tenure. In both models, we find strong evidence that firms

with a longer tenured CEO are significantly less likely to appoint an experienced independent director, using either our base experience measure (model 1) or our high quality experience measure (model 2). In models 3 and 4, we measure CEO influence by whether or not the CEO is also the board chair. We find a negative and significant coefficient estimate for CEO Chair Duality in both models. Thus, the evidence indicates that influential CEOs are not supportive of appointing directors with CEO turnover experience to their board, suggesting that powerful CEOs can adversely affect the labor market outcomes for directors who are known to be stronger monitors.

Given the negative consequences for their own career, why would a director fire a poorly performing CEO? Though the evidence indicates that directors may not like the labor market consequences associated with a forced CEO turnover experience, it is quite possible that the decision to fire a poorly performing CEO is better for the director's career than the alternative of retaining the CEO and allowing the poor performance to continue.

To examine this possibility further, we create a matched control sample of inexperienced directors, where we match directors who fire their CEO, and thus become experienced, with directors from similarly poor performing firms but who choose to not fire their CEOs, and remain inexperienced. The treatment group is the sample of directors who experience their first forced turnover. The control group is a set of inexperienced independent directors in the same year and industry that do not fire their CEO. From this sample, we match each treatment director with a control director who has the closest propensity score to the treatment director, where the propensity score is estimated from the CEO turnover model in Table 5 with industry and year fixed effects.¹⁴ Thus, we match directors who choose to fire their CEO with directors who, based

¹⁴ We omit director fixed effects in our propensity score estimation because we are interested in matching between directors, rather than within directors.

on multiple firm and director characteristics, have the closest likelihood of firing their CEO but choose not to. This matched sample allows us to estimate the difference in the realized labor market outcomes of experienced directors relative to their potential labor market outcome had they chosen not to fire their CEO.

The univariate difference-in-differences results are reported in Table 9. Prior to the first turnover experience, the treatment directors hold more directorships than the matched control directors on average. After the experience of the treatment directors, both the treatment and control directors see a reduction in total directorships.¹⁵ This is not surprising since both sets of directors are associated with poor performing firms. The difference is that the experienced directors act by firing the poor performing CEO, whereas the inexperienced directors do not. Consequently, we see that the reduction in directorships for the experienced directors is significantly less than the reduction in directorships for the inexperienced directors who chose not to fire their CEO (i.e., the difference-in-differences is significantly positive). In other words, though both groups of directors suffer negative labor market consequences, the directors who choose to fire their CEO fare better than those who do not.¹⁶ Thus, it is poor performance, and not the firing decision, that ultimately punishes directors in the labor market, suggesting that a director of a poorly performing firm may be better off if he fires the CEO than if he chooses not to “rock the boat” and allow the poor performance to persist.

5. Conclusion

¹⁵ This result, together with the results in Table 7, reveal that while directors experiencing a forced CEO turnover may hold fewer directorships than *they* held prior to the forced CEO turnover, once they become experienced they are no more or less likely to lose a directorship in any given year *relative to all other inexperienced directors*.

¹⁶ In unreported results, we find similar results when we exclude the directorship in which the CEO turnover occurs from the number of directorships for each director.

The existing literature on boards of directors mainly focuses on cross-sectional differences in monitoring incentives and skills across different types of directors. We know little about how their incentives and skills evolve over time. In this paper, we fill in this gap in the literature by examining changes in director monitoring after independent directors gain forced CEO turnover experience in other firms.

As an extremely significant event in the life of a firm, a forced CEO turnover event is a valuable learning experience for the directors involved. The skills and information gained from managing a forced CEO turnover event makes experienced directors distinctly different from the inexperienced ones and can serve to transform their decision making. In addition, experienced directors are no longer known as CEO-friendly, and thus have a stronger incentive to develop a more shareholder-friendly reputation through more diligent monitoring. Consistent with this, we find that greater representation on the board by experienced directors is associated with a greater sensitivity of forced CEO turnover to firm stock performance. These results are robust to a variety of endogeneity tests and they are stronger when the quality of the experience is higher for the director. In addition, we find experience with a forced CEO turnover enhances a director's ability to acquire private information about the CEO and results in more private information being used in subsequent forced CEO turnover decisions, especially in firms with poor public information.

However, despite the evidence that experienced directors are stronger and more skillful monitors, their labor market outcomes can be hampered by influential CEOs. Specifically, we find evidence that powerful CEOs do not support the nominations of experienced directors to their boards. This highlights an important policy consideration, because it implies that valuable monitoring skills can go unrewarded in the director labor market due to the undue influence of

certain CEOs. Despite these labor market concerns, we find that firing a poor performing CEO is a better career choice (for the director) than retaining a poor performing CEO, since directors tend to lose more when they are associated with poor firm performance but don't fire the CEO.

In summary, our findings provide important new insights into the dynamic nature of director monitoring. Past forced CEO turnover experience has a powerful influence on independent director monitoring which ultimately strengthens the monitoring ability of boards with experienced directors. Our evidence that experienced directors appear to be more capable of acquiring private information about the CEO is worth further investigation given the importance of this ability for board monitoring and assessment of CEO ability. Hence, prior forced CEO turnover experience is an important director characteristic shareholders need to be aware of and is worthy of further consideration by researchers, policy makers and practitioners, alike, in future research on corporate boards.

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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. Experience equals one if the director has prior experience with a forced CEO turnover in the sample in another directorship. Experience (Nominating) equals one if the director served on the nominating committee during their first experience with forced CEO turnover. Experience (Remained 2 years) equals one if the director remained in the directorship where their experience was gained for at least two years following the forced CEO turnover event. The after joining variables further restrict the primary experience variables by only considering a director experienced in a directorship if the experienced occurred after the director joined the directorship.

<i>Director Characteristics</i>	Independent directors			Independent directors who have PRIOR Experience			Independent directors who DO NOT Have PRIOR Experience		
	N	Mean	Median	N	Mean	Median	N	Mean	Median
CEO	140020	0.14	0.00	9566	0.10	0.00	130454	0.14	0.00
Chief Financial Officer	140020	0.01	0.00	9566	0.00	0.00	130454	0.01	0.00
Ln(Age)	140017	4.12	4.14	9566	4.17	4.17	130451	4.12	4.13
Ownership	138760	0.00	0.00	9544	0.00	0.00	129216	0.00	0.00
Number of Directorships	140021	1.66	1.00	9566	2.53	2.00	130455	1.60	1.00
Board Tenure	139762	7.75	6.00	9565	8.73	7.00	130197	7.68	6.00
CEO Turnover	140021	0.12	0.00	9566	0.13	0.00	130455	0.12	0.00
Forced CEO Turnover	140021	0.02	0.00	9566	0.03	0.00	130455	0.02	0.00
<i>Director Experience</i>									
Experience	140021	0.07	0.00	9566	1.00	1.00	130455	0.00	0.00
Experience (Nominating)	140021	0.03	0.00	9566	0.51	1.00	130455	0.00	0.00
Experience (Remained 2 years)	140021	0.04	0.00	9566	0.54	1.00	130455	0.00	0.00
Experience (Nominating OR Remained 2 years)	140021	0.05	0.00	9566	0.67	1.00	130455	0.00	0.00
Experience After Joining	140021	0.04	0.00	9566	0.62	1.00	130455	0.00	0.00
Experience After Joining (Nominating)	140021	0.02	0.00	9566	0.33	0.00	130455	0.00	0.00
Experience After Joining (Remained 2 years)	140021	0.02	0.00	9566	0.34	0.00	130455	0.00	0.00
Experience After Joining (Nominating OR Remained 2 years)	140021	0.03	0.00	9566	0.43	0.00	130455	0.00	0.00

Table 2. Firm Descriptive Statistics

This table reports firm level descriptive statistics for the sample firms. The sample period is from years 1997 to 2010. % Experience equals the percentage of independent experienced directors on the board. % Experience (Nominating) equals the percentage of independent experienced directors on the board who served on the nominating committee during their first experience with forced CEO turnover. % Experience (Remained 2 years) equals the percentage of independent experienced directors who remained in the directorship where their experience was gained for at least two years following the forced CEO turnover event. The after joining variables further restrict the primary experience variables by only considering a director experienced in a directorship if the experienced occurred after the director joined the directorship

<i>Firm Characteristics</i>	N	Mean	Median
% Experience	21251	4.53	0.00
% Experience (Nominating)	21251	2.28	0.00
% Experience (Remained 2 yrs)	21251	2.43	0.00
% Experience (Nom. or Remained 2 yrs)	21251	3.02	0.00
% Experience After Joining	21251	2.81	0.00
% Experience After Joining (Nominating)	21251	1.45	0.00
% Experience After Joining (Remained 2 yrs)	21251	1.54	0.00
% Experience After Joining (Nom. or Remained 2 yrs)	21251	1.93	0.00
CEO Turnover	21251	0.12	0.00
Forced CEO Turnover	21250	0.02	0.00
Assets (\$1,000,000)	21215	14477	1825
Sales (\$1,000,000)	21205	5505	1303
Market Capitalization (\$1,000,000)	21209	7730	1653
Tobin's Q	21171	2.01	1.48
Percent Independent Directors	21214	69.55	72.73
Board Size	21251	9.42	9.00
Busy Board	21251	0.08	0.00
CEO Tenure	20234	7.94	6.00
CEO Chair Duality	21048	0.62	1.00
CEO Ownership	20876	0.03	0.01

Table 3. Experienced Directors and Forced CEO Turnover

This table reports results of firm level regression analysis of forced CEO departures using linear probability models. % Experience equals the percentage of directors on the board who are independent and have experienced a forced CEO turnover in another firm. All models incorporate industry and year fixed effects and robust standard errors (White (1980)) clustered by firm. The corresponding *p*-values are reported beneath each coefficient estimate. ***, **, and * denote significance at the 1, 5 and 10 percent levels, respectively.

<i>Dependent variable - Forced CEO Departure (1/0)</i>	Model 1	Model 2	Model 3	Model 4
% Experience	0.032* (0.07)			
% Experience (Nominating)		0.099*** (0.00)		
% Experience (Remained 2 yrs)			0.080*** (0.01)	
% Experience (Nom. or Remained 2 yrs)				0.072*** (0.01)
Stock Return	-0.011*** (0.00)	-0.012*** (0.00)	-0.012*** (0.00)	-0.011*** (0.00)
% Experience X Stock Return	-0.086*** (0.00)			
% Experience (Nominating) X Stock Return		-0.209*** (0.00)		
% Experience (Remained 2 yrs) X Stock Return			-0.128*** (0.00)	
% Experience (Nom. or Remained 2 yrs) X Stock Return				-0.138*** (0.00)
CEO Ownership	-0.083*** (0.00)	-0.082*** (0.00)	-0.083*** (0.00)	-0.083*** (0.00)
Ln(CEO Tenure)	-0.003** (0.02)	-0.003** (0.03)	-0.003** (0.02)	-0.003** (0.02)
CEO Chair Duality	-0.020*** (0.00)	-0.020*** (0.00)	-0.020*** (0.00)	-0.020*** (0.00)
Board Size	-0.002*** (0.00)	-0.002*** (0.00)	-0.002*** (0.00)	-0.002*** (0.00)
Busy Board	0.001 (0.86)	-0.001 (0.89)	-0.000 (0.92)	-0.000 (0.94)
Ln(Sales)	0.003** (0.01)	0.002** (0.03)	0.002** (0.02)	0.002** (0.02)
Tobin's Q	-0.003*** (0.00)	-0.003*** (0.00)	-0.003*** (0.00)	-0.003*** (0.00)
Observations	19,354	19,354	19,354	19,354
Fixed Effects	Ind./Yr.	Ind./Yr.	Ind./Yr.	Ind./Yr.
Adjusted R-squared	0.019	0.020	0.020	0.020

Table 4. Endogeneity Test for Firm-Director Matching using Firm Fixed Effects and Experience Gained After Joining the Current Board

This table reports results of firm level regression analysis of forced CEO departures using linear probability models. % Experience equals the percentage of directors on the board who are independent and have experienced a forced CEO turnover in another firm. % Experience After Joining equals the percentage of directors on the board who are independent and have experienced a forced CEO turnover in another firm after joining this board. Firms with experienced directors who gained their experience prior to joining their firm are excluded from the analysis in models 3 and 4. All models incorporate firm and year fixed effects and robust standard errors (White (1980)) clustered by firm. The corresponding *p*-values are reported beneath each coefficient estimate. ***, **, and * denote significance at the 1, 5 and 10 percent levels, respectively.

<i>Dependent variable - Forced CEO Departure (1/0)</i>	Model 1	Model 2	Model 3	Model 4
% Experience	-0.019 (0.44)			
% Experience (Nom. or Remained 2 yrs)		0.017 (0.61)		
% Experience After Joining			-0.038 (0.23)	
% Experience After Joining (Nom. or Remained 2 yrs)				0.028 (0.50)
Stock Return	-0.009*** (0.00)	-0.009*** (0.00)	-0.010*** (0.00)	-0.009*** (0.00)
% Experience X Stock Return	-0.082*** (0.00)			
% Experience (Nom. or Remained 2 yrs) X Stock Return		-0.128*** (0.00)		
% Experience After Joining X Stock Return			-0.046* (0.08)	
% Experience After Joining (Nom. or Remained 2 yrs) X Stock Return				-0.118*** (0.00)
CEO Ownership	-0.104*** (0.00)	-0.105*** (0.00)	-0.118*** (0.00)	-0.119*** (0.00)
Ln(CEO Tenure)	0.014*** (0.00)	0.014*** (0.00)	0.013*** (0.00)	0.013*** (0.00)
CEO Chair Duality	-0.027*** (0.00)	-0.027*** (0.00)	-0.023*** (0.00)	-0.023*** (0.00)
Board Size	-0.004*** (0.00)	-0.004*** (0.00)	-0.003*** (0.00)	-0.003*** (0.00)
Ln(Sales)	0.004 (0.26)	0.004 (0.27)	0.007** (0.04)	0.007** (0.04)
Tobin's Q	-0.004*** (0.00)	-0.004*** (0.00)	-0.003*** (0.00)	-0.003*** (0.00)
Busy Board	0.007 (0.35)	0.006 (0.37)	0.008 (0.26)	0.008 (0.25)
Observations	19,354	19,354	17,497	17,497
Fixed Effect	Firm/Yr.	Firm/Yr.	Firm/Yr.	Firm/Yr.
Adjusted R-squared	0.049	0.049	0.062	0.063

Table 5. Endogeneity Test for Innate Director Differences using Director Fixed Effects

This table reports results of director level analysis of forced CEO departure at the firms of the independent directors in the sample using linear probability models. The unit of observation is a directorship (director-firm-year). The dependent variable is one if the firm experienced a forced CEO departure in that year. Experience equals one if the independent director has prior experience with a forced turnover in another firm. Experience (Nom. or Remained 2 yrs.) is equal to one for directors with prior experience with a forced CEO turnover while they were on the nominating committee or they remained in the firm for 2 years after the event. Models 1 and 2 include director and year fixed effects. Models 3 through 6 include firm, director, and year fixed effects. All models incorporate robust standard errors clustered by firm. The corresponding *p*-values are reported beneath each coefficient estimate. ***, **, and * denote significance at the 1, 5 and 10 percent levels, respectively.

<i>Dependent variable - Forced CEO Departure (1/0)</i>	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Experience	-0.088*** (0.00)		-0.030*** (0.00)			
Experience (Nom. or Remained 2 yrs)		-0.061*** (0.00)		-0.017*** (0.00)		
Experience After Joining					-0.029*** (0.00)	
Experience After Joining (Nom. or Remained 2 yrs)						-0.015*** (0.00)
Stock Return	-0.012*** (0.00)	-0.013*** (0.00)	-0.012*** (0.00)	-0.012*** (0.00)	-0.012*** (0.00)	-0.012*** (0.00)
Experience X Stock Return	-0.017*** (0.00)		-0.014*** (0.00)			
Experience (Nom. or Remained 2 yrs) X Stock Return		-0.023*** (0.00)		-0.019*** (0.00)		
Experience After Joining X Stock Return					-0.006 (0.13)	
Experience After Joining (Nom. or Remained 2 yrs) X Stock Return						-0.014** (0.04)
Ln(Age)	0.060*** (0.00)	0.044** (0.02)	0.026 (0.11)	0.023 (0.16)	0.022 (0.19)	0.021 (0.21)
Ownership	0.170** (0.05)	0.174** (0.05)	0.161* (0.10)	0.161* (0.10)	0.139 (0.16)	0.140 (0.16)
Number of Directorships	0.001 (0.30)	0.003*** (0.00)	0.001 (0.42)	0.001 (0.15)	0.001 (0.35)	0.002 (0.12)
Ln(Board Tenure)	-0.007*** (0.00)	-0.006*** (0.00)	-0.007*** (0.00)	-0.007*** (0.00)	-0.008*** (0.00)	-0.008*** (0.00)
CEO Ownership	-0.001*** (0.00)	-0.001*** (0.00)	-0.001*** (0.01)	-0.001*** (0.01)	-0.001*** (0.01)	-0.001*** (0.01)
Ln(CEO Tenure)	0.012*** (0.00)	0.012*** (0.00)	0.019*** (0.00)	0.019*** (0.00)	0.019*** (0.00)	0.019*** (0.00)
CEO Chair Duality	-0.024*** (0.00)	-0.025*** (0.00)	-0.024*** (0.00)	-0.024*** (0.00)	-0.023*** (0.00)	-0.024*** (0.00)
Board Size	-0.003*** (0.00)	-0.003*** (0.00)	-0.004*** (0.00)	-0.004*** (0.00)	-0.004*** (0.00)	-0.004*** (0.00)
Ln(Sales)	0.004*** (0.00)	0.004*** (0.00)	0.002 (0.58)	0.002 (0.56)	0.003 (0.46)	0.003 (0.45)
Tobin's Q	-0.004*** (0.00)	-0.004*** (0.00)	-0.005*** (0.00)	-0.005*** (0.00)	-0.004*** (0.00)	-0.004*** (0.00)
Observations	129,460	129,460	129,460	129,460	126,034	126,034
Fixed Effect	Director/ Year	Director/ Year	Firm/ Director/ Year	Firm/ Director/ Year	Firm/ Director/ Year	Firm/ Director/ Year
Adjusted R-squared	0.043	0.036	0.079	0.078	0.081	0.080

Table 6. Experienced Directors and CEO Turnover Announcement Period CARs

This table reports OLS regressions of CEO turnover announcement period abnormal stock returns over the two-day event window (-1,0) on the percentage of directors with prior CEO turnover experiences on the board prior to the CEO turnover announcement. The sample period is for fiscal years 1997 to 2010. Model 1 (Model 6) is estimated using all forced CEO turnovers in our sample with valid data. Model 2 (Model 3) and Model 7 (Model 8) are estimated using the subsample of forced CEO turnovers in small (large) firms, defined as firms with book value of total assets below (above) the sample median. Model 4 (Model 5) and Model 9 (Model 10) are estimated using the subsample of forced CEO turnovers where the analyst earnings forecast dispersion is above (below) the sample median. Models 6-10 use our tighter measure of experience gained while on the nominating committee OR remaining two years. The dependent variable CAR (-1,0) is cumulative abnormal stock returns from the day before to the day of the forced CEO turnover announcement, calculated using the residuals from a market model where the market index is the CRSP value-weighted index. Panel B repeats the analysis using our after-joining measures of experience. All models include year fixed effects and incorporate robust standard errors clustered by firm. The corresponding p-values are reported beneath each coefficient estimate. ***, **, and * denote significance at the 1, 5 and 10 percent levels, respectively.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
<i>Panel A: All Experience</i>	All Experiences					Nominating OR Remained 2 years				
	All	Small	Large	High Dispersion	Low Dispersion	All	Small	Large	High Dispersion	Low Dispersion
% Experience	-0.093 (0.15)	-0.351*** (0.00)	0.088 (0.14)	-0.336*** (0.00)	0.009 (0.95)					
% Experience (Nom. or Remained 2 yrs)						-0.072 (0.26)	-0.293** (0.01)	0.095 (0.10)	-0.349*** (0.00)	0.010 (0.95)
Stock Return Volatility	0.112 (0.34)	0.261 (0.21)	0.087 (0.45)	0.522* (0.09)	-0.041 (0.83)	0.116 (0.32)	0.249 (0.24)	0.075 (0.50)	0.529* (0.09)	-0.042 (0.82)
Ln(CEO Tenure)	-0.004 (0.63)	-0.016 (0.35)	0.008 (0.16)	-0.013 (0.65)	0.000 (0.96)	-0.004 (0.63)	-0.016 (0.36)	0.009 (0.16)	-0.013 (0.64)	0.000 (0.96)
Ln(Sales)	0.004 (0.26)	0.004 (0.77)	-0.004 (0.23)	0.013 (0.46)	0.003 (0.55)	0.004 (0.29)	0.003 (0.83)	-0.005 (0.21)	0.013 (0.46)	0.003 (0.56)
Stock Return	-0.025 (0.12)	-0.021 (0.30)	-0.029 (0.33)	-0.009 (0.64)	-0.039 (0.29)	-0.025 (0.12)	-0.020 (0.31)	-0.029 (0.34)	-0.009 (0.63)	-0.039 (0.29)
Tobin's Q	0.001 (0.87)	-0.004 (0.52)	-0.001 (0.77)	-0.003 (0.65)	0.014** (0.03)	0.001 (0.89)	-0.005 (0.48)	-0.001 (0.74)	-0.003 (0.63)	0.014** (0.03)
Observations	488	245	243	151	152	488	245	243	151	152
Fixed Effects	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year
R-squared	0.051	0.112	0.091	0.114	0.183	0.049	0.102	0.092	0.115	0.183

Table 6. (Continued)

<i>Panel B: After Joining Experience</i>	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
	All Experiences					Nominating OR Remained 2 years				
	All	Small	Large	High Dispersion	Low Dispersion	All	Small	Large	High Dispersion	Low Dispersion
% Experience After Joining	-0.074 (0.34)	-0.239** (0.02)	0.096 (0.39)	-0.346*** (0.01)	0.157 (0.42)					
% Experience After Joining (Nom. or Remained 2 yrs)						-0.070 (0.37)	-0.223** (0.03)	0.095 (0.38)	-0.346*** (0.01)	0.183 (0.36)
Stock Return Volatility	0.166 (0.23)	0.409 (0.11)	0.039 (0.77)	0.620 (0.11)	0.167 (0.46)	0.165 (0.23)	0.406 (0.12)	0.037 (0.78)	0.620 (0.11)	0.174 (0.45)
Ln(CEO Tenure)	-0.006 (0.59)	-0.020 (0.31)	0.009 (0.16)	-0.017 (0.59)	-0.003 (0.77)	-0.006 (0.59)	-0.020 (0.31)	0.009 (0.16)	-0.017 (0.59)	-0.003 (0.77)
Ln(Sales)	0.004 (0.29)	0.008 (0.53)	-0.004 (0.39)	0.015 (0.43)	0.006 (0.43)	0.004 (0.30)	0.008 (0.55)	-0.004 (0.39)	0.015 (0.43)	0.005 (0.45)
Stock Return	-0.019 (0.23)	-0.009 (0.59)	-0.035 (0.36)	-0.009 (0.64)	-0.030 (0.51)	-0.019 (0.23)	-0.009 (0.59)	-0.035 (0.36)	-0.009 (0.64)	-0.029 (0.52)
Tobin's Q	-0.001 (0.78)	-0.007 (0.37)	-0.001 (0.85)	-0.004 (0.57)	0.012** (0.05)	-0.001 (0.78)	-0.007 (0.37)	-0.001 (0.85)	-0.004 (0.57)	0.012* (0.05)
Observations	417	222	195	141	129	417	222	195	141	129
Fixed Effects	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year
R-squared	0.053	0.114	0.113	0.124	0.171	0.053	0.113	0.113	0.124	0.173

Table 7. Directorships Gained and Lost

This table reports results of director level linear probability model regressions on measures of the changes in the number of directorships held by independent directors in the sample. The sample period is for fiscal years 1997 to 2010. Panel A uses our primary experience measure and Panel B restricts the analysis to after joining experience. The dependent variable in models 1 and 2 is an indicator variable that equals one if the director adds a new directorship in the next year and zero otherwise. In models 3 and 4, the dependent variable is an indicator variable that equals one if the director loses the directorship in the next year and zero otherwise. All models incorporate director and year fixed effects and robust standard errors clustered by firm. The corresponding *p*-values are reported beneath each coefficient estimate. ***, **, and * denote significance at the 1, 5 and 10 percent levels, respectively.

Panel A: Experience

	Model 1	Model 2	Model 3	Model 4
<i>Dependent variable:</i>	Directorship to be Added	Directorship to be Added	Directorship Lost	Directorship Lost
Experience	-0.081*** (0.00)		-0.006 (0.26)	
Experience (Nom. or Remained 2 yrs)		-0.055*** (0.00)		-0.000 (0.99)
Holds 3 or more directorships	-0.095*** (0.00)	-0.093*** (0.00)	0.015*** (0.00)	0.015*** (0.00)
Ln(Age)	0.182*** (0.00)	0.166*** (0.00)	0.127** (0.03)	0.125** (0.03)
Ownership	0.044 (0.73)	0.052 (0.69)	-0.334** (0.02)	-0.333** (0.02)
Ln(Board Tenure)	0.019*** (0.00)	0.020*** (0.00)	0.031*** (0.00)	0.031*** (0.00)
CEO Ownership	-0.009 (0.71)	-0.017 (0.47)	-0.050* (0.05)	-0.051* (0.05)
Ln(CEO Tenure)	0.001 (0.46)	0.000 (0.89)	-0.005*** (0.00)	-0.005*** (0.00)
CEO Chair Duality	0.002 (0.41)	0.001 (0.54)	-0.001 (0.76)	-0.001 (0.75)
Board Size	0.001** (0.03)	0.001** (0.04)	0.004*** (0.00)	0.004*** (0.00)
Ln(Sales)	-0.003** (0.01)	-0.003** (0.01)	-0.002 (0.23)	-0.002 (0.23)
Tobin's Q	-0.001 (0.30)	-0.001 (0.25)	-0.004*** (0.00)	-0.004*** (0.00)
Stock Return	0.000 (0.91)	-0.000 (0.99)	-0.007*** (0.00)	-0.007*** (0.00)
Observations	114,611	114,611	112,459	112,459
Fixed Effect	Director/Year	Director/Year	Director/Year	Director/Year
Adjusted R-squared	0.177	0.176	0.163	0.163

Table 7. (continued)

Panel B: Experience After Joining

	Model 1	Model 2	Model 3	Model 4
<i>Dependent variable:</i>	Directorship to be Added	Directorship to be Added	Directorship Lost	Directorship Lost
Experience After Joining	-0.080*** (0.00)		0.004 (0.50)	
Experience After Joining (Nom. or Remained 2 yrs)		-0.067*** (0.00)		0.003 (0.70)
Holds 3 or more directorships	-0.097*** (0.00)	-0.095*** (0.00)	0.013*** (0.00)	0.013*** (0.00)
Ln(Age)	0.177*** (0.00)	0.174*** (0.00)	0.140** (0.02)	0.140** (0.02)
Ownership	0.049 (0.72)	0.054 (0.69)	-0.390** (0.01)	-0.391*** (0.01)
Ln(Board Tenure)	0.020*** (0.00)	0.020*** (0.00)	0.031*** (0.00)	0.031*** (0.00)
CEO Ownership	-0.024 (0.30)	-0.029 (0.21)	-0.057** (0.03)	-0.057** (0.03)
Ln(CEO Tenure)	0.001 (0.54)	0.000 (0.79)	-0.005*** (0.00)	-0.005*** (0.00)
CEO Chair Duality	0.002 (0.33)	0.002 (0.42)	-0.000 (0.92)	-0.000 (0.92)
Board Size	0.001** (0.04)	0.001** (0.05)	0.004*** (0.00)	0.004*** (0.00)
Ln(Sales)	-0.003** (0.01)	-0.003** (0.01)	-0.001 (0.39)	-0.001 (0.39)
Tobin's Q	-0.001 (0.36)	-0.001 (0.33)	-0.004*** (0.00)	-0.004*** (0.00)
Stock Return	0.000 (0.81)	0.000 (0.88)	-0.007*** (0.00)	-0.007*** (0.00)
Observations	111,186	111,186	109,486	109,486
Fixed Effect	Director/ Year	Director/ Year	Director/ Year	Director/ Year
Adjusted R-squared	0.183	0.183	0.166	0.166

Table 8. New Directorship Appointments

This table reports results of firm level regressions of new independent director appointments in the sample. The sample period is for fiscal years 1997 to 2010. The unit of observation is a firm-year. The dependent variable equals one if the firm appoints at least one experienced director during the year and zero otherwise. Experience is measured as prior experience with a forced CEO turnover in an earlier year and in another directorship. All models incorporate industry and year fixed effects and robust standard errors clustered by firm. The corresponding *p*-values are reported beneath each coefficient estimate. ***, **, and * denote significance at the 1, 5 and 10 percent levels, respectively.

	Model 1	Model 2	Model 3	Model 4
<i>Dependent variable:</i>	Experience	Experience (Nominating OR Remained 2 years)	Experience	Experience (Nominating OR Remained 2 years)
Ln(CEO Tenure)	-0.007*** (0.00)	-0.007*** (0.00)		
CEO Chair Duality			-0.006** (0.04)	-0.005* (0.07)
Board Size	0.003*** (0.00)	0.003*** (0.00)	0.003*** (0.00)	0.002*** (0.00)
Percent Independent Directors	0.046*** (0.00)	0.037*** (0.00)	0.046*** (0.00)	0.037*** (0.00)
Ln(Sales)	0.007*** (0.00)	0.006*** (0.00)	0.008*** (0.00)	0.006*** (0.00)
Outside Director Ownership	-0.021 (0.15)	-0.034*** (0.00)	-0.019* (0.08)	-0.029*** (0.00)
Busy Board	0.024*** (0.00)	0.024*** (0.00)	0.025*** (0.00)	0.025*** (0.00)
Observations	20,050	20,050	20,832	20,832
Fixed Effect	Industry/Year	Industry/Year	Industry/Year	Industry/Year
Adjusted R-squared	0.026	0.025	0.026	0.024

Table 9. Matched Sample: Difference-in-Differences Analysis of Director Labor Market Outcomes

This table reports results of difference-in-differences analysis comparing directors with forced CEO turnover experience to a matched sample of independent directors without such experience. The matching is based on the directors' propensity score derived from estimating the forced CEO turnover model from Table 5, excluding all of the experience variables. The treatment directors are identified to be independent directors in the year they experience their first forced CEO turnover event. The matched control directors are independent directors who are not experienced but have the closest propensity score to the treatment directors and are in the same industry and year as the treatment directors. The corresponding *p*-values are reported beneath each coefficient estimate. ***, **, and * denote significance at the 1, 5 and 10 percent levels, respectively.

	Number of Directorships		Diff	<i>p</i> -value
	Pre-Experience	Post-Experience		
Treatment Experienced Director	2.21	2.07	0.14***	(0.00)
Matched Inexperienced Director	2.00	1.73	0.26***	(0.00)
Diff	-0.21***	-0.34***	0.12***	
<i>p</i> -value	(0.00)	(0.00)	(0.00)	