Top Director Shake-Up: The Link Between Chairman and CEO Dismissal

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Abstract

Most UK companies separate the roles of CEO and Chairman. The former runs the company, the latter runs the board and the two directors interact to a great extent. Using turnover data on 2180 separate chairmanships of the top 460 UK companies over the 1990-1998 period, I find that the Chairman is six times more likely to be replaced when the CEO is dismissed. Moreover, the Chairman's previous position or the type of chairmanship does not affect the association between Chairman and CEO removal. But, the Chairman is four times more likely to be penalised when he is involved in the appointment of the departing CEO. Evidence on the dismissal events suggests that Chairman replacement enables the appointment of a new CEO and other directors with different human capital, which in turn facilitates changes in future corporate decisions.

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In the UK the vast majority of companies separate the role of CEO from that of board Chairman. For example, Conyon and Murphy (2000) illustrate that in 1997 only 18% of British companies combine the CEO and Chairman positions. Similarly, Dahya et al. (2001) show that the fraction of joint roles in UK listed companies over the 1993-1996 period is 15.4%. Within this dual leadership structure, the CEO runs the company and the Chairman runs the board. But rather than diminishing, the power of the Chairman has increased[1].

Specifically, the CEO does not hold all the power; certain matters (e.g. approving strategy, acquisitions and disposals, dividend and financing policy and the annual report) are reserved to the board and these are the ones where the Chairman can properly come in to play. He can influence the directors' opinion by advising what they should say[2]. Alternatively, he can increase the effectiveness of directors, and especially non-executives, as board members by ensuring that: a) no one individual dominates the board, b) they receive timely, relevant information tailored to their needs and c) they are properly briefed on the issues arising at board meetings. Moreover, it is primarily the Chairman's job to make sure that the members of the board are well chosen and rotated when needs be, new members are properly appointed and for a needful purpose and all directors are regularly appraised. Recent surveys reveal that in the majority of UK companies the Chairman heads the nominating committee for all director appointments. (e.g. PIRC (1999)). Finally, the Chairman has a central role in both selecting and replacing the CEO. In fact, the lower proportion of non-executives with a high profile and good rewards in the UK (compared with other countries such as the US) implies

that hiring, firing and more broadly monitoring the CEO is one of the most important tasks of the Chairman.

In sum, the Chairman has not only a position that is critical to corporate success but also extensive involvement in many issues related to the CEO. The primary motivation for this study is to cast light on the consequences of CEO turnover for the Chairman's career. In other words, is the Chairman removed when the incumbent CEO departs, and in particular when he is forced out? The recent highly publicised ousting of Lord Simpson and Sir Roger Hurn, Marconi's CEO and Chairman respectively, is a real-world illustration of the question. A secondary objective of the study is to identify the circumstances under which the Chairman is more likely to experience adverse consequences when the CEO is ousted. Specifically, is the Chairman more likely to be punished when he is involved in the appointment of the failing CEO? In a similar vein, is the dismissal probability of the Chairman higher if he is the company's previous CEO? Finally, to the extent that an executive Chairman is considered a subordinate to the CEO, is the former more likely to face increased dismissal when the latter is removed?

A central variable employed in the study is departures from the leading executive position (hereafter referred to as the Most Senior Executive, denoted MSE). This is mainly because the title “Chief Executive Officer” has only comparatively recently been used to signal the leading corporate position in UK companies; instead other titles such as Managing Director are also used - especially in earlier periods. Using turnover data on 2180 separate chairmanships (both executive and non-executive) of the top 460 UK companies over the 1990-1998 period, I find that the Chairman is six times more likely to be dismissed when the existing MSE is ousted. In contrast, forced Chairman departure is not related with voluntary MSE turnover. Additionally, I find that the relation between Chairman and MSE dismissal remains unchanged irrespective of the Chairman's background (i.e. previous CEO) and the

type of chairmanship (i.e. executive vs. non-executive). But, the dismissal likelihood of the Chairman is four times higher when he is involved in the selection of the ousted MSE.

From a broader perspective, the study contributes to the corporate governance literature by yielding insight on the concurrent dismissal of the Chairman and CEO. From a narrower perspective, the study complements the recent work of Farrell and Whidbee (2000) and Hayes et al. (2001). These papers show that the likelihood of outside director and non-CEO top executive (e.g. Chief Operating Officer (COO)) departure increases significantly when the CEO leaves the office. However, in both cases the interpretation of the results is limited mainly due to the lack of data on director changes (e.g. neither study records the reason for the departure). In contrast, I am able to draw inferences with more confidence by focusing on Chairman dismissal, classifying MSE departures into forced and non-forced and collecting a substantial amount of detail on the turnover events (e.g. the sequence of the two departures, the destination of the departing director etc.). Specifically, since the Chairman has a significant input in both the decision-making process of the firm and the composition of the board, a positive association between Chairman and MSE dismissal suggests that the replacement of the former enables subsequent board and corporate restructuring[3]. There is an alternative interpretation of this result, however. Given that the Chairman is primarily in charge of MSE monitoring, an association between Chairman and MSE forced departure indicates that the former is penalised for not appropriately "policing" the latter. In other words, MSE firing is symptomatic of ineffective monitoring. Detailed evidence on the dismissal of the top two directors suggests the former explanation is more credible.

The remainder of the paper is organised as follows. The next section presents the research design. Section II describes the sample selection and variable definitions. Section III discusses an important specification issue relevant to interpreting the study's findings, namely

the effect of firm performance. Section IV shows the empirical results whilst the robustness of the findings is considered in Section V. Section VI concludes.

I. Research Design

A. The Chairman and Most Senior Executive Positions

The empirical investigation focuses on top director turnover during the 1990-1998 period. In the UK, the title "Chief Executive Officer" has only comparatively recently been used to denote the Most Senior Executive. Instead, other titles - such as executive Chairman and Managing Director - have been adopted, especially in earlier periods. For that reason, I manually record the names and the type of position (i.e. executive or non-executive) of each company's Chief Executive Officer (CEO), Chairman (Chair), and group Managing Director (MD) using the September Issue of Corporate Register (Companies Section). This is repeated for each year from 1990 to 1998. Information is supplemented from Extel Financial UK Quoted Companies-Annual Cards and company annual accounts provided by LASER D. The Most Senior Executive in each company for each year is taken to be the CEO if such a role exists. When no CEO exists the Most Senior Executive is taken to be either the executive Chairman or the group MD.

Given the above MSE definition and in order to examine the link between Chairman dismissal and MSE turnover, I exclude those firm-years where the Chairman is the company's leading executive (i.e. those observations where the Chairman is an executive director and there is no CEO). Consistent with the argument that the majority of British companies separate the CEO/MD and Chair roles, only 12% of the study's firms combine the two titles. I also exclude these observations to avoid a mechanical positive correlation between Chairman dismissal and MSE turnover (i.e. if the CEO/MD departs so does the Chairman). The final

sample consists of 2180 separate chairmanships from 1990 to 1998, of which 68% are non-executive.

B. Identifying and Classifying Top Director Departures

I track departures by comparing the composition of the top director team across years, i.e. by following the identity of the three top directors (Chair, CEO and MD) over the 1990- 1998 period for each firm. Title changes (e.g. from CEO to MD and vice versa) are not recorded as turnover events. As mentioned, the distinction between forced and voluntary departures provides a more complete interpretation of the findings. Since in most cases companies do not announce the true reason behind their managers' resignations, press releases can be an important source of information (Warner et al. (1988); Weisbach (1988)). Accordingly, I classify turnover events using mainly the Financial Times (FT) Archive. Additional sources used are: a) Extel Announcements and b) company annual accounts. The above three sources are also used to get the turnover announcement dates and the destination of the departing directors.

A turnover is classified as forced if no clear reason is reported or if the relevant FT article mentions poor performance, policy or personality disagreement, scandal, pressure from the board of directors, institutional investors and/or the City. On the other hand, a turnover is classified as non-forced if the relevant FT article refers to normal succession, death/illness, merger/de-merger and promotion as well as to departures from temporary positions (e.g. acting Chairman) or departures following the accomplishment of a particular task (e.g. the turnaround of the company). The vast majority of the turnover literature treats changes due to retirement as routine. However, this term could be a euphemism for a forced departure. Accordingly, I separately examine all retirements. Although the age of the retiring director is of critical importance, additional information is also used. Such information

includes the circumstances of the change, the destination of the retiring director and the time period between the announcement and leave date[4]. Finally, there are 16 Chairman turnover events for which only limited information is provided; I classify 14 of these departures as non-forced. Due to a fairly high possibility of misclassification, I assess the robustness of the results after excluding these observations in Section V[5].

II. Sample, Variable Definitions and Descriptive Statistics

A. Sample Selection

To construct the sample, I identify the largest 300 listed UK companies for each year from 1990 to 1998. Using Datastream companies are ranked by market capitalisation on 1st January each year. I eliminate all investment trusts and the repetitions of those firms that have two classes of shares listing on the London Stock Exchange (LSE). The largest 300 companies, of course, change during 1990-1998. But, companies leave the sample only when they become de-listed because of take-over, bankruptcy etc. In other words, if a firm enters the top 300 list at some point during the 1990-1998 period, it stays in the sample for the entire period as long as it continues to be quoted on the LSE and irrespective of its market value. The selection procedure results in an unbalanced panel of 460 listed UK companies, out of which 292 firms (approximately 63.5% of the total sample) are quoted on the LSE during the entire 1990-1998 period, 98 companies (21.3%) are de-listed at some point after 1990 whilst 70 companies (15.2%) become listed at some point after 1990.

B. Variable definitions

The focus of the study is the relationship between the dismissal likelihood of the Chairman and MSE turnover. Accordingly, I estimate a probit model where the dependent variable equals one (1) if the Chairman is forced in year t and hence is not disclosed in the firm's top

director team in year t+1 and zero (0) otherwise. Similarly, MSE Forced$_t$ (MSE Non-Forced$_t$) equal one (1) if the Most Senior Executive is forced out (voluntarily departs) in year t (i.e. the same year as the Chairman) and hence, is not disclosed in the firm's top director team in year t+1 and zero (0) otherwise[6].

In general, there is a well-documented negative relation between director dismissal and firm performance (see the review by Murphy (1999) for US evidence; UK studies include Dahya et al. (2002) and Conyon and Florou (2002)). In the tests, I employ the return on the company's stock (SHR) calculated as log of (RI_{t+1}/RI_t), where RI stands for Return Index on 1st January[7]. I use lagged instead of current performance measures mainly to avoid potential endogeneity problems; whilst this year's poor stock performance may lead to a director departure, such an event may also affect current performance[8].

Whilst forced Chairman turnover may be associated with the departure of the incumbent MSE the successor's origin can also be an important predictor of the dismissal likelihood. Hayes et al. (2001) show that non-CEO top executive turnover increases by an *additional* 8.5 percentage points when the incumbent CEO is replaced by an outsider. To control for the effect of outside succession I use two dummy variables, OUTSIDE Forced$_t$ (OUTSIDE Non-Forced$_t$) that equal one (1) if the new Most Senior Executive is an outsider and replaces a dismissed (a voluntarily departing) top executive and zero (0) otherwise. Similar to previous studies, I classify MSE successions as outside if the incoming MSE has been with the firm for a year or less at the time of the succession announcement (Parrino (1997); Clayton et al. (2000); Khurana and Nohria (2000); Huson et al. (2001); Hayes et al. (2001)). Detailed information on the career paths of the new MSEs is collected mainly from the Corporate Register and FT articles.

Previous research identifies several additional factors that may influence the likelihood of director dismissal. The most important of these are director age and company

size (Warner et al. (1988); Jensen and Murphy (1990)). Company size (SIZE) is measured as log of market value. All firm-specific variables are obtained from Datastream. The directors' birth dates are collected from three sources: a) Corporate Register, b) the Directory of Directors and c) Companies House.

Finally, to identify those Chairmen that are involved in the appointment of the departing MSE, I collect the directors' appointment dates to the specific position mainly from the Corporate Register. If the Chairman is responsible for hiring and firing the MSE, then the tenure of the former relative to that of the latter can be a reasonable proxy for MSE selection involvement. Accordingly, if the Chairman has been in office for a longer period than the incumbent MSE, then the former is likely to have participated in the nomination of the latter[9].

C. Descriptive Statistics

Table I describes Chairman and Most Senior Executive departures in UK firms. As reported in Panel A, there are 309 Chairman changes, of which 48 (16%) are forced. An analysis of Chairman departures by type of position reveals that executive and non-executive Chairmen are equally likely to leave office (turnover rate is 15% and 14% respectively) whilst the dismissal frequency is higher for the former than the latter (3.4% as opposed to 1.7%).

Panel B summarises the characteristics of MSE departures. The sample includes 221 Most Senior Executive turnover events, 102 (46%) of which are classified as forced and 117 (53%) as non-forced[10]. In addition, 85 MSE turnover events (38% of the total MSE departures) are followed by an outside appointment. This is higher compared with prior US studies that document a 19%-21% of outsiders (Parrino (1997); Clayton et al. (2000); Khurana and Nohria (2000); Huson et al. (2001)). However, the higher frequency of outside selection is not surprising given that the current study focuses on the 1990s a period during which people have become more willing to change jobs or even industries. In contrast,

previous US studies refer to earlier periods (i.e. from late 1960s to early 1990s) during which "going up the company's ladder" was a typical career path. Furthermore, it is reported that 43 of the outsiders (51% of total outside appointments) replace a dismissed Most Senior Executive, a figure comparable to that found in the literature.

Panel C presents the frequency of Chairman dismissal under both types of MSE turnover, i.e. forced and non-forced. The data suggest that Chairman dismissal is more likely in the case of forced than non-forced MSE departure. Specifically, 31% of Chairmen are ousted when the MSE is forced whilst only 4.2% of Chairmen are removed when the MSE voluntarily departs.

[INSERT TABLE I]

Table II reports descriptive statistics of certain variables. Panel A describes firm-specific variables. Company shareholder returns are on average 5.9%. The mean company market value is about £2106m. Panel B summarises director-specific variables. As indicated, Chairmen tend to be older and to stay longer in office than MSEs; the average age is 61 for the former and 52 for the latter whilst the mean tenure is approximately 5 and 3 years respectively. Finally, 23% of the Chairmen were the company's previous Most Senior Executive.

[INSERT TABLE II]

III. Specification Issues

Prior to the main analysis, it is important to address one important specification issue relevant to interpreting the study's findings. That is, the association between director dismissal/outside succession and firm performance. Table III presents probit analyses of the performance effect under three alternative dependent variables: a) Chairman dismissal, b) MSE dismissal and c) outside MSE succession. For a more comprehensive analysis I include two lags of both stock-

based and accounting-based profitability. Accounting returns (EBIT) are defined as the return of accounting earnings before interest and tax on total assets employed in the beginning of the year. To put the study's results in economic perspective I present the marginal effects rather than the coefficient estimates of the probit models. The marginal impact of variable X_1 for the probit model is calculated as: $\partial Dismissal / \partial X_1 = \phi(\bar{x}\beta) * \beta_1$, where $\phi(.)$ is the standard normal density, $\bar{x}$ denotes the mean values of the explanatory variables and β_1 is the coefficient estimate of X_1. All models include industry- and time-specific dummies and provide standard errors that have a stationary covariance matrix. The adjustment is made using the White (1980) method.

Panel A shows that all three dependent variables are inversely and significantly related with firm performance. Specifically, prior year stock returns appear to determine Chairman *and* MSE dismissal *and* outside succession; the marginal effects of SHR_{t-1} are -0.017, -0.047 and -0.029 respectively ($p<0.01$). All other performance metrics are insignificant[11]. Given that Chairman and MSE dismissal are jointly and negatively dependent on firm performance, a positive correlation between them can be because forced MSE departure is a proxy variable for firm performance and not because of the outgoing MSE. In a similar vein, given that Chairman dismissal and outside MSE succession are jointly and negatively dependent on firm performance, a positive correlation between the two variables could be attributed to the endogeneity of the latter.

Consequently, in order to get an unbiased estimate on the MSE turnover and outside succession variables, one should control for the effect of firm performance. Moreover, the challenge here is to define a measure of overall firm performance assumed to influence the likelihood of both Chairman and MSE dismissal as well as of outside succession. Panel B explores further the impact of SHR_{t-1}, which is the only common predictor of Chairman dismissal *and* MSE turnover *and* outside succession, by investigating whether different levels

of SHR_{t-1} have a different effect. In particular, each firm is assigned to a decile based on the prior year shareholder returns over the entire period 1990-1998. Then, the implied probabilities of forced Chairman and MSE dismissal and outside succession are computed using the probit estimates from Panel A, Columns 1, 2 and 3 respectively. Finally, these probabilities are sorted into the performance deciles and averaged within each decile.

The common observation in Panel B is that the likelihood of both types of dismissal (i.e. Chairman and MSE) and outside succession is particularly high when prior year share performance is in the lowest decile. Specifically, it is found that for bad performers, representing returns of negative 68% to stockholders, the predicted Chairman dismissal rate is 5.9% as opposed to mediocre performers (i.e. mean SHR_{t-1} equals 0.087) and good performers (i.e. mean SHR_{t-1} equals 0.649) where the equivalent values of dismissal are 2% and 1.8% respectively. Similarly, MSEs in firms of the worst performers are predicted to be about 6 times as likely to be forced out as top managers in firms of the best performers whilst the likelihood of an outside appointment in the lowest SHR_{t-1} decile is expected to be about 4 times as likely as in the highest SHR_{t-1} decile.

[INSERT TABLE III]

Taken together the findings in Panels A and B suggest that a number of metrics focusing on prior year stock returns, and especially the very low ones, may capture more effectively the impact of firm performance. Accordingly, the following section explores the consequences of MSE turnover for the Chairman's career where the impact of firm performance is controlled by the following three measures: a) prior year shareholder returns (SHR_{t-1}), b) a dummy indicator equal to one (1) if the company is in the lowest decile of prior year stock returns (Lowest SHR_{t-1} Dummy) and zero (0) otherwise, and c) an interaction term between the above two metrics[12].

IV. Results and Interpretations

This section contains the main findings of the study. In Section A, I explore the implications of forced and non-forced MSE departure for Chairman dismissal. Section B casts light on the interpretation of the results by presenting additional details of the turnover events. Finally, Section C focuses on forced MSE departure and examines its link with Chairman dismissal under alternative Chairman characteristics.

A. Chairman Dismissal and MSE Turnover

Table IV presents probit models relating Chairman dismissal to MSE turnover. In Model 1, I employ two dummy variables, MSE Forced$_t$ and MSE Non-Forced$_t$, to investigate the implications of different types of MSE departure. As reported, Chairman dismissal is not associated with voluntary MSE departure; the estimate of MSE Non-Forced$_t$ is insignificant. In contrast, the likelihood of forced Chairman departure increases by 10.8 percentage points when the company's Most Senior Executive is ousted (p=0.000). As the unconditional Chairman dismissal rate is 2.2% (48/2180), the above effect corresponds to almost six times increase in the dismissal probability. These findings combined with the observation that the frequency of Chairman replacement is 31% and 4.2% under forced and non-forced MSE changes respectively (see Panel C, Table I) suggest that a forced MSE departure, as opposed to a natural turnover, is linked with greater uncertainty for a Chairman in terms of his tenure on the board.

In terms of outside succession, the marginal impact of OUTSIDE Forced$_t$ and OUTSIDE Non-Forced$_t$ are positive but insignificant, indicating that outside appointments are not associated with incremental increases in the Chairman dismissal likelihood. Consistent with the discussion in the previous section, prior year stock returns and furthermore being in the lowest decile of last year's stock profitability are significant predictors of Chairman

dismissal; SHR_{t-1} enters with a negative and significant sign (-0.021) whereas the lowest dummy indicator is positive (0.068) and significant at less than the 1% level. Contrary to expectations, the estimate on the interaction term between the above two variables is positive and significant. However, this term serves mainly as a control variable (i.e. its exclusion leads to an over-estimated effect of MSE $Forced_t$). Findings on firm performance remain the same throughout the entire analysis.

Having established a positive association between Chairman dismissal and forced MSE turnover, I then inquire whether Chairmen are replaced in the period surrounding MSE removal or in the following year. In Model 2, I include one dummy variable (MSE $Forced_{t-1}$) equal to one (1) if the MSE dismissal takes place in year t-1 and zero (0) otherwise. Moreover, I exclude two types of observations: a) those Chairmen who are not linked with the replacement of prior year's MSE (i.e. those Chairmen who are not present at both t and t-1 years) and b) those observations in which a second consecutive MSE dismissal takes place; in these cases it is difficult to disentangle the effect of prior year's MSE departure from this year's MSE departure. If Chairman replacement occurs mainly the same year as MSE dismissal and then drops off, the marginal effect of MSE $Forced_{t-1}$ is expected to be close to zero. As illustrated, the estimate of the dummy indicator MSE $Forced_{t-1}$ is 0.027 but statistically insignificant. In contrast, the variable MSE $Forced_t$ remains positive (0.182) and significant at less than the1% level.

[INSERT TABLE IV]

In sum, the results in Table IV document that, in contrast with voluntary MSE departure, MSE dismissal has adverse consequences for the Chairman. That is, Chairmen of firms that oust the MSE experience an increased likelihood of removal. Moreover, Chairman replacement appears to take place in the same period as MSE removal and not at later stages.

The following section provides an interpretation of the findings by further analysing the dismissal of the top two directors.

B. Interpreting the Results: Restructuring or Ineffective Monitoring?

There are two main alternative explanations of a positive correlation between Chairman and MSE dismissal. The first one is the "restructuring" argument. In particular, several scholars show that forced CEO resignations are associated with subsequent performance improvement (Kang and Shivdasani (1995)) or significant strategic changes such as plant-closings, selling of divisions, employee layoffs etc. (Denis and Denis (1995); Weisbach (1995); Clayton et al. (2000)). Hayes et al. (2001) present preliminary evidence confirming that increased likelihood of executive departure, such as COO, is also related with CEO turnover. This result offers some insight into the mechanisms by which corporate restructuring is implemented. It suggests that the introduction of new strategies requires new managers with different viewpoints and abilities. As discussed, the Chairman is significantly involved not only in the decision-making process of the firm but also in the rotation of existing directors and the appointment of new ones (including the CEO). Consequently, increased Chairman dismissal at the time of MSE replacement suggests that the removal of the former enables not only corporate but also *board restructuring.*

The second plausible explanation is the "ineffective monitoring" argument. Specifically, Fama (1980) and Fama and Jensen (1983) argue that forced CEO removal indicates the effectiveness of internal control mechanisms (e.g. board of directors). However, an alternative argument is that CEO dismissal is symptomatic of ineffective monitoring. In the light of the above and given that the Chairman is primarily in charge of CEO monitoring, an ousted under-performing MSE - reflected in poor returns to shareholders - may signal to the market that the Chairman was not successfully "inspecting" the latter's performance.

Consequently, increased Chairman dismissal at the time of MSE replacement suggests that the Chairman is punished by the investors for not performing the necessary checks and balances.

Of course, one cannot discriminate between the two arguments with absolute certainty[13]. However, additional information on the dismissal events may provide clearer evidence. Of critical importance here is the sequence of the two replacements. That is, if the process of the Chairman and MSE removal is simultaneous, then the restructuring argument appears to be more credible. In contrast, if MSE removal is followed by Chairman dismissal, then the ineffective monitoring interpretation is much more plausible. The analysis in the previous section reveals that Chairman replacement occurs in the same year as that of the MSE and not in the subsequent period. Accordingly, Table V presents a number of details on the 15 contemporaneous dismissal events (see Panel C, Table I), including their exact sequence.

[INSERT TABLE V]

Panel A shows that the majority (9 in absolute value, 60%) of the Chairman and MSE removals are announced on the same date. In contrast, in only 27% of the cases the MSE is replaced prior to the Chairman whilst in 20% of the cases the process is reversed. Panel B describes further the 9 simultaneous Chairman and MSE dismissals. As reported, in 5 out of 9 of these turnover events (56%) the Chairman and the MSE are not only ousted from the board but also from the firm. In the remaining 4 cases, the two top directors either continue with the firm as part-time consultants or stay on the board for no longer than one year. Moreover, 6 out of 9 firms (67%) experience additional director departures in the year of Chairman and MSE dismissal[14]. According to Panel C, the number of departing directors ranges from 1 to 4 whilst the majority of them (85%) are executives.

In sum, the results are broadly consistent with the restructuring interpretation. That is, firms tend to dismiss the Chairman, along with the MSE, to facilitate the reshuffle of the board, i.e. the appointment of a new CEO and other directors, primarily executive, with a different human capital. This in turn will enable changes in future corporate decisions, such as the reversals of past errors or the establishment of new policies.

C. Chairman and MSE Dismissal Relative to Chairman Characteristics

In the previous analysis I assumed that the relation between Chairman and MSE dismissal is constant across Chairmen. However, the extent to which the Chairman experiences adverse consequences when the MSE is forced out may vary depending on: a) whether the former is involved in the selection of the latter, b) the Chairman's background and c) the type of chairmanship.

In particular, a Chairman that chooses an MSE who fails to deliver - as this is reflected in poor returns to shareholders - may be more likely to be penalized. Similarly, a Chairman who was the company's previous MSE and hence is responsible for past corporate decisions may also be more likely to be punished by the investors. Finally, in the UK company law there is no distinction between the responsibilities of executive and non-executive directors (DTI (2000)). Additionally, the Cadbury report (1992) and the final report on corporate governance (1998) strongly support the unitary board system, i.e. emphasise that all directors are equally responsible for developing and implementing the company's strategy as well as for governing the company. This, however, does not preclude firms allocating specific duties to their directors. Consequently, to the extent that executive Chairmen can be considered part of the top management team, one would expect to observe a higher correlation between Chairman and MSE forced removal than in the case of non-executive Chairmen whose role could be more clearly defined as that of a monitor.

Table VI presents the incidence and rate of Chairman dismissal, when the MSE is forced out, relative to the above Chairman characteristics. The incidence of dismissal is the number of cases in which I identify a forced Chairman turnover when the MSE is ousted. The rate of dismissal is calculated as the incidence of dismissal divided by the sample size.

[INSERT TABLE VI]

The incidence and rate of Chairman dismissal, at the time of forced MSE departure, increases significantly from the "MSE selection not involved" to the "MSE selection involved" sample; dismissal rates are 6.7% and 27.3% respectively whilst the p-value for their difference is 0.005. Furthermore, the rate of forced departure is higher for those Chairmen who were the firm's previous MSE compared to those who were not (23.1% compared to 10.4%) as well as for executive than non-executive Chairmen (20.6% as opposed to 11.8%). However, in both cases the difference in the rates is not statistically significant according to conventional standards (p-values are 0.200 and 0.239 respectively).

Table VII contains the regression results of the above inquiries. The picture that emerges confirms the descriptive statistics of Table VI. Specifically, in Model 1 I partition the sample into those Chairmen who participate in the appointment of the departing MSE and those who do not. The marginal impact of MSE $Forced_t$ is 0.195 and 0.043 for the former and latter group respectively (p-values<0.10), i.e. four times higher when the Chairman has chosen the dismissed MSE. More importantly, the difference between the two estimates is statistically significant; the p-value of the χ^2-statistic is 0.063. Similarly, in Model 2 I divide the sample into two sets based on the Chairman's background. Again, the estimates of MSE $Forced_t$ are positive and significant in both sub-samples. However, the p-value of the χ^2-statistic for the difference in the effects is 0.144. Finally, in Model 3 I examine the sensitivity of Chairman dismissal to forced MSE departure according to the type of chairmanship. The

estimates of the MSE Forced$_t$ dummy are positive and significant for both executive and non-executive Chairmen but not significantly different from each other (p-value=0.277)[15].

[INSERT TABLE VII]

Overall, the data reveal that the implications of forced MSE departure for the Chairman's career remain unchanged irrespective of the Chairman's background and the type of the chairmanship. In contrast, results support the argument that a Chairman who selects an under-performing MSE is more likely to be removed when the failing MSE is ousted.

V. Sensitivity and Robustness Analysis

This section discusses a number of tests conducted to examine the robustness of the findings. First, given that firm performance is a very important determinant of Chairman dismissal, I examine whether the stock profitability measures employed in the study are the appropriate proxies. In particular, I repeat the analysis in Panel A, Table III by using: a) changes instead of levels in accounting earnings, b) industry-adjusted stock returns and accounting earnings and c) market-adjusted stock returns[16]. Results are the same; accounting performance remains an insignificant predictor whilst incremental decreases in only past year stock returns (both market-adjusted and industry-adjusted) increase the dismissal likelihood of the Chairman and the MSE as well as the likelihood of outside succession.

Moreover, I re-run the models in Table IV by using two lags of stock returns and accounting earnings. This exercise reveals that ignoring to focus on last year's stock returns leads to over-estimated effects. For example, the marginal effect of MSE Forced$_t$ in Model 1 has a larger positive magnitude, i.e. 0.134 as opposed to 0.108. In a similar vein, I examine the robustness of all results when: a) the Lowest SHR$_{t-1}$ Dummy equals one (1) if the firm is in the lowest 5% of stock returns and zero (0) otherwise and b) the Lowest SHR$_{t-1}$ Dummy

equals one (1) if the firm is in the lowest 20% of stock returns and zero (0) otherwise. Inferences remain unchanged.

Secondly, as mentioned in Section I there are 16 Chairman departures that may have been misclassified. I estimate all models after excluding these observations. Again, the findings persist with one exception. The estimates of MSE Forced$_t$ in Model 1, Table VII are positive and significant; however, their difference is not significant at conventional standards (p-value=0.116). Finally, the theory is not rich enough to identify the ideal set of control variables. For this reason, I perform additional estimations by using a number of corporate governance variables predicted to affect the likelihood of Chairman dismissal. These include: a) board size, b) the proportion of outside directors (excluding the Chairman in cases where the latter is non-executive), c) the fraction of equity owned by the Chairman and d) the fraction of equity owned by the rest of the directors (excluding the Chairman and the MSE). All the above variables are manually recorded from the Corporate Register. The link between Chairman and MSE dismissal continues to be positive and significant across firms and in particular for those Chairmen who participate in the nomination of the ousted MSE.

VI. Conclusion

Most British companies separate the roles of CEO and Chairman. The former runs the company, the latter runs the board and the two directors interact to a great extent. Hence, when the CEO is dismissed what happens to the Chairman? Is he also removed from the board or does he stay? The evidence indicates the former: there is a positive association between Chairman and CEO dismissal. Using data on Chairman and Most Senior Executive turnover from a sample of the top 460 UK listed companies over the period 1990-1998, I find that the Chairman is six times more likely to be replaced when the MSE is ousted. Moreover, I find that the adverse consequences of MSE dismissal for the Chairman's career do not vary

according to the latter's previous position or the type of chairmanship. However, the involvement of the Chairman in the selection of the departing MSE can prove to be particularly harmful: Chairman dismissal is four times higher when he chooses the failing MSE. Detailed information on the dismissal events points to the fact that Chairman replacement enables changes in the board composition, including the appointment of a new CEO with a different set of skills. This in turn allows changes in future corporate decisions.

The inextricable links between firm performance and MSE turnover make it particularly difficult to disentangle the effects of poor performance from the effects of the outgoing MSE. Nevertheless, the research design has two main strengths. First, it uses UK data, which provides a unique opportunity to test the link between Chairman and CEO departure. Secondly, it rigorously classifies the turnover events into forced and non-forced as well as employs a number of additional data on the turnover process, which allows a better interpretation of the findings.

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Table I

Chairman and MSE Departures

Top director turnover statistics for a sample of the largest (by market capitalisation) 460 UK firms during the 1990-1998 period. For each firm, the identity of the three top directors (Chair, CEO and MD) are compared from 1990 to 1998 to determine top director turnover. Departures are classified as forced when no reason is reported or when the relevant FT article mentions poor performance, policy/personality disagreement, scandal, pressure from the board of directors, institutional investors and/or the City. The MSE in each company for each year is taken to be the CEO if such a role exists. When no CEO exists the MSE is taken to be either the executive Chairman or the group MD. MSE successions are classified as outside if the new MSE has been with the firm for a year or less at the time of the succession announcement.

Panel A: Chairman Departures

Position	All (N=309)	Forced (N=48)
Executive	103 (15%)	24 (3.4%)
Non-Executive	206 (14%)	24 (1.7%)

NOTES:

1. All and forced executive departures as a % of total executive Chairmen (698).
2. All and forced non-executive departures as a % of total non-executive Chairmen (1482).

Panel B: MSE Departures (N=221)

Characteristic	Total (%)
Forced (% of N)	102 (46%)
Non-Forced (% of N)	117 (53%)
Outside Successions (% of N)	85 (38%)
Outside Successions-Forced (% of outside successions)	43 (51%)

NOTE: There are 2 MSE departures for which no information is found; these observations are excluded from the construction of the forced and non-forced samples.

Panel C: Chairman Dismissals by Type of MSE Turnover (N=48)

MSE Turnover	Total (% of N)
Forced	15 (31)
Non-Forced	2 (4.2%)

NOTE: Out of the total 48 forced Chairman departures there are 31 cases where the MSE does not turn over.

Table II

Summary Statistics of Selected Variables

Descriptive statistics of firm-specific and director-specific variables for a sample of the largest (by market capitalisation) 460 UK firms during the 1990-1998 period. Company shareholder return (SHR) is calculated as the log of (RI_{t+1}/RI_t), where RI stands for Return Index on 1st January. A company's return index shows the growth in the share value and the value of the dividends. The relevant formula is: $RI = RI_t * (P_t + D_t)/P_{t-1}$, where P_t = price on ex-date (i.e. the day dividend payments become certain), P_{t-1} = price on previous day and D_t = dividend payment associated with ex-date t. Market value (MV) is reported in £m. Size is the log of the market value. Chairman (MSE) tenure is the number of years in the position of Chairman (MSE). The MSE in each company for each year is taken to be the CEO if such a role exists. When no CEO exists the MSE is taken to be either the executive Chairman or the group MD.

Panel A: Firm-Specific Variables

Variable	Observations	Mean	Std. Dev.	1st Quartile	Median	3rd Quartile
SHR	2115	0.059	0.405	-1.113	0.100	0.294
MV	2170	2106.50	4462.92	297	714.39	1910.67
SIZE	2170	6.61	1.452	5.69	6.57	7.55

Panel B: Managerial-Specific Variables

Variable	Observations	Mean
CHAIRMAN AGE	2167	61.3
MSE AGE	2092	51.7
CHAIRMAN TENURE	2124	4.9
MSE TENURE	2045	3.3
CHAIRMEN PREVIOUS MSE	1964	0.23

Table III

Top Director Dismissal/Outside Succession and Firm Performance

Marginal effects of probit regressions and implied probabilities of top director dismissal and outside MSE succession for a sample of the largest (by market capitalisation) 460 UK firms during the 1990-1998 period. A Chairman/MSE is defined as departing in year t if he is not disclosed in the firm's top director team in year t+1. Departures are classified as forced when no reason is reported or when the relevant FT article mentions poor performance, policy/personality disagreement, scandal, pressure from the board of directors, institutional investors and/or the City. The MSE in each company for each year is taken to be the CEO if such a role exists. When no CEO exists the MSE is taken to be either the executive Chairman or the group MD. MSE succession are classified as outside if the new MSE has been with the firm for a year or less at the time of the succession announcement. Company shareholder return (SHR) is calculated as the log of (RI_{t+1}/RI_t), where RI stands for Return Index on 1st January. A company's return index shows the growth in the share value and the value of the dividends. The relevant formula is: $RI = RI_t * (P_t + D_t)/P_{t-1}$, where P_t = price on ex-date (i.e. the day dividend payments become certain), P_{t-1} = price on previous day and D_t = dividend payment associated with ex-date t. Accounting returns (EBIT) are earnings before interest and taxes standardised by the book value of total assets. Chairman age in Column 1. Departing MSE age in Columns 2 and 3. The marginal effect of variable X_1 for the probit model is calculated as: $\partial Dismissal / \partial X_1 = \phi(\bar{x}\beta) * \beta_1$, where $\phi(.)$ is the standard normal density, $\bar{x}$ denotes the mean values of the explanatory variables and β_1 is the coefficient estimate of X_1. All probit models include time- and industry-specific dummy variables; p-values in parentheses. Deciles 1 and 10 stand for the worst and best performers respectively. Implied probabilities of Chairman dismissal, MSE dismissal and outside MSE succession are computed using probit estimates from Panel A - Columns 1, 2 and 3 respectively.

Panel A: Marginal Effects of Probit Models Relating Chairman/MSE Dismissal and Outside MSE Succession to Stock-Based and Accounting-Based Performance

Independent Variables	**Dependent Variables**		
	Forced Chair	**Forced MSE**	**Outside MSE**
	(1)	**(2)**	**(3)**
SHR_{t-1}	-0.017	-0.047	-0.029
	(0.015)	(0.000)	(0.011)
SHR_{t-2}	-0.015	-0.003	-0.007
	(0.068)	(0.786)	(0.551)
$EBIT_{t-1}$	0.005	-0.021	0.029
	(0.843)	(0.596)	(0.392)
$EBIT_{t-2}$	-0.030	-0.027	0.001
	(0.281)	(0.461)	(0.977)
AGE	-0.000	0.001	0.002
	(0.056)	(0.014)	(0.000)
SIZE	0.002	-0.005	-0.006
	(0.383)	(0.079)	(0.030)
Observations	1828	1771	1657
Pseudo R^2	0.088	0.091	0.089
Log Lik.	-195.8	-315.2	-252.5

Panel B: Implied Probabilities of Chairman/MSE Dismissal and Outside MSE Succession by Decile of Last Year Annual Shareholder Returns (SHR_{t-1})

Decile	Mean SHR_{t-1}	Forced Chair	Forced MSE	Outside MSE
1	-0.678	0.059	0.127	0.088
2	-0.206	0.031	0.063	0.053
3	-0.078	0.028	0.053	0.042
4	0.009	0.024	0.049	0.040
5	0.087	0.020	0.043	0.037
6	0.158	0.019	0.039	0.035
7	0.230	0.017	0.033	0.028
8	0.304	0.016	0.029	0.026
9	0.399	0.014	0.024	0.024
10	0.649	0.018	0.021	0.022

Table IV

Chairman Dismissal and MSE Turnover

Marginal effects of probit models relating Chairman dismissal to MSE turnover for a sample of the largest (by market capitalisation) 460 UK firms during 1990-1998. Chairman dismissal equals one (1) if the Chairman is forced out in year t and hence is not disclosed in the firm's top director team in year t+1 and zero (0) otherwise. Departures are classified as forced when no reason is reported or when the relevant FT article mentions poor performance, policy/personality disagreement, scandal, pressure from the board of directors, institutional investors and/or the City. The MSE in each company for each year is taken to be the CEO if such a role exists. When no CEO exists the MSE is taken to be either the executive Chairman or the group MD. MSE successions are classified as outside if the new MSE has been with the firm for a year or less at the time of the succession announcement. MSE Forced$_t$ (MSE Non-Forced$_t$) equals one (1) if the MSE is forced out (voluntarily departs) in year t and hence is not disclosed in the firm's top director team in year t+1 and zero (0) otherwise. OUTSIDE Forced$_t$ (OUTSIDE Non-Forced$_t$) equals one (1) if the new MSE is an outsider and replaces a dismissed (voluntarily departing) top executive and zero (0) otherwise. MSE Forced$_{t-1}$ equals one (1) if the MSE dismissal takes place in year t-1 and zero (0) otherwise. Company shareholder return (SHR) is calculated as the log of (RI_{t+1}/RI_t), where RI stands for Return Index on 1st January. A company's return index shows the growth in the share value and the value of the dividends. The relevant formula is: $RI = RI_t * (P_t + D_t)/P_{t-1}$, where P_t = price on ex-date (i.e. the day dividend payments become certain), P_{t-1} = price on previous day and D_t = dividend payment associated with ex-date t. Lowest SHR_{t-1} Dummy equals one (1) if SHR_{t-1} is in the lowest decile and zero (0) otherwise. The marginal effect of variable X_1 for the probit model is calculated as: $\partial Dismissal / \partial X_1 = \phi(\bar{x}\beta) * \beta_1$, where $\phi(.)$ is the standard normal density, $\bar{x}$ denotes the mean values of the explanatory variables and β_1 is the coefficient estimate of X_1. All probit models include time- and industry-specific dummy variables; p-values in parentheses.

Independent Variables	Model 1	Model 2
MSE Forced$_t$	0.108	0.182
	(0.000)	(0.000)
MSE Non-Forced$_t$	-0.001	-
	(0.846)	
OUTSIDE Forced$_t$	0.003	-0.000
	(0.753)	(0.976)
OUTSIDE Non-Forced$_t$	0.007	-
	(0.701)	
MSE Forced$_{t-1}$	-	0.027
		(0.351)
SHR_{t-1}	-0.021	-0.044
	(0.058)	(0.094)
Lowest SHR_{t-1} Dummy	0.068	0.054
	(0.000)	(0.123)
SHR_{t-1}*Lowest SHR_{t-1} Dummy	0.044	0.066
	(0.005)	(0.132)
AGE	-0.000	-0.001
	(0.023)	(0.085)
SIZE	0.001	0.004
	(0.327)	(0.186)
Observations	1936	977
Pseudo R^2	0.205	0.142
Log Lik.	-172.6	-123.6

Table V

Chairman and MSE Dismissals occurring the Same Year

Sequence and other characteristics of Chairman and MSE dismissals occurring the same year for a sample of the largest (by market capitalisation) UK listed companies during the 1990-1998 period. For each firm, the identity of the three top directors (Chair, CEO and MD) are compared from 1990 to 1998 to determine top director turnover. Departures are classified as forced when no reason is reported or when the relevant FT article mentions poor performance, policy/personality disagreement, scandal, pressure from the board of directors, institutional investors and/or the City. The MSE in each company for each year is taken to be the CEO if such a role exists. When no CEO exists the MSE is taken to be either the executive Chairman or the group MD. Other director departures are identified by comparing the composition of the board across years. Other director departure occurs the same year as the dismissal of the Chairman and the MSE.

Panel A: Sequence of Dismissal Events (N=15)

Sequence	**Total (% of N)**
Chairman and MSE dismissal announced on the same day	9 (60%)
MSE dismissal announced prior to Chairman dismissal	4 (27%)
MSE dismissal announced following Chairman dismissal	3 (20%)

Panel B: Further Characteristics of Simultaneous Dismissal Events (N=9)

Characteristic	**Total (% of N)**
Chairmen & MSEs ousted from the board and the firm	5 (56%)
Firms experiencing additional director departures	6 (67%)

Panel C: Other Director Departures (N=13)

Characteristic	**Total**
Minimum number of departing directors	1
Maximum number of departing directors	4
Average number of departing directors	2
Number of executive departing directors (% of N)	11 (85%)

Table VI

Incidence and Rate of Chairman Dismissal at the time of Forced MSE Turnover Relative to Chairman Characteristics

Incidence and rate of Chairman dismissal for a sample of 102 forced MSE departures of the largest (by market capitalisation) UK listed companies during the 1990-1998 period. For each firm, the identity of the three top directors (Chair, CEO and MD) are compared from 1990 to 1998 to determine top director turnover. Departures are classified as forced when no reason is reported or when the relevant FT article mentions poor performance, policy/personality disagreement, scandal, pressure from the board of directors, institutional investors and/or the City. The MSE in each company for each year is taken to be the CEO if such a role exists. When no CEO exists the MSE is taken to be either the executive Chairman or the group MD. The sample is divided into 2 sets based on: a) the Chairman's involvement in the selection of the dismissed MSE, b) the Chairman's background and c) the type of chairmanship. Missing values reduce the sample size in the first and second case. If the Chairman has been in office for a longer period than the incumbent MSE, then the former is regarded to have participated in the nomination of the latter. Within each set the incidence of dismissal is the number of cases in which I identify a forced Chairman turnover. The rate of dismissal is calculated as the incidence of dismissal divided by the size of the set.

Chairman Characteristic	Set	Incidence	Rate	p-value
MSE Selection	Involved (N=33)	9	27.3%	0.005
	Not involved (N=60)	4	6.7%	
Background	Previous MSE (N=13)	3	23.1%	0.200
	Not previous MSE (N=77)	8	10.4%	
Type of Chairmanship	Executive (N=34)	7	20.6%	0.239
	Non-Executive (N=68)	8	11.8%	

Table VII

Chairman Dismissal and Forced MSE Turnover Relative to Chairman Characteristics

Marginal effects of probit models relating Chairman dismissal to forced MSE turnover relative to Chairman characteristics for a sample of the largest (by market capitalisation) 460 UK firms during the 1990-1998 period. Chairman dismissal equals one (1) if the Chairman is forced out in year t and hence is not disclosed in the firm's top director team in year t+1 and zero (0) otherwise. Departures are classified as forced when no reason is reported or when the relevant FT article mentions poor performance, policy/personality disagreement, scandal, pressure from the board of directors, institutional investors and/or the City. The MSE in each company for each year is taken to be the CEO if such a role exists. When no CEO exists the MSE is taken to be either the executive Chairman or the group MD. MSE successions are classified as outside if the new MSE has been with the firm for a year or less at the time of the succession announcement. MSE $Forced_t$ equals one (1) if the MSE is forced out in year t and hence is not disclosed in the firm's top director team in year t+1 and zero (0) otherwise. OUTSIDE $Forced_t$ equals one (1) if the new MSE is an outsider and replaces a dismissed top executive and zero (0) otherwise. Company shareholder return (SHR) is calculated as the log of (RI_{t+1}/RI_t), where RI stands for Return Index on 1st January. A company's return index shows the growth in the share value and the value of the dividends. The relevant formula is: $RI = RI_t * (P_t + D_t)/P_{t-1}$, where P_t = price on ex-date (i.e. the day dividend payments become certain), P_{t-1} = price on previous day and D_t = dividend payment associated with ex-date t. Lowest SHR_{t-1} Dummy equals one (1) if SHR_{t-1} is in the lowest decile and zero (0) otherwise. Model 1 divides the sample into those Chairmen who are involved in the selection of the dismissed MSE and those who are not. If the Chairman has been in office for a longer period than the incumbent MSE, then the former is regarded to have participated in the nomination of the latter. Model 2 divides the sample into those Chairmen who were the company's previous MSE and those who were not. Model 3 divides the sample into executive and non-executive Chairmen. The marginal effect of variable X_1 for the probit model is calculated as: $\partial Turnover / \partial X_1 = \phi(\bar{x}\beta) * \beta_1$, where $\phi(.)$ is the standard normal density, $\bar{x}$ denotes the mean values of the explanatory variables and β_1 is the coefficient estimate of X_1. All probit models include time- and industry-specific dummy variables; p-values in parentheses.

Table VII (continued)

Independent Variables	Model 1	Model 2	Model 3
MSE Forced$_t$-Selection Involvement	0.195	-	-
	(0.000)		
MSE Forced$_t$-No Selection Involvement	0.043	-	
	(0.092)		
MSE Forced$_t$-Previous MSE	-	0.190	-
		(0.002)	
MSE Forced$_t$-No Previous MSE	-	0.055	
		(0.007)	
MSE Forced$_t$-Exec Chair	-	-	0.156
			(0.000)
MSE Forced$_t$-Non Exec Chair	-	-	0.078
			(0.002)
OUTSIDE Forced$_t$	0.013	0.009	0.005
	(0.346)	(0.485)	(0.627)
SHR$_{t-1}$	-0.021	-0.022	-0.021
	(0.075)	(0.064)	(0.059)
Lowest SHR$_{t-1}$ Dummy	0.063	0.052	0.066
	(0.001)	(0.002)	(0.000)
SHR$_{t-1}$*Lowest SHR$_{t-1}$ Dummy	0.043	0.040	0.043
	(0.012)	(0.016)	(0.005)
AGE	-0.000	-0.000	-0.000
	(0.009)	(0.074)	(0.030)
SIZE	0.001	0.001	0.001
	(0.428)	(0.345)	(0.380)
Observations	1836	1800	1936
Pseudo R^2	0.206	0.174	0.207
Log Lik.	-158.8	-158.3	-172.2

Footnotes

[1] Arguments regarding the Chairman's role are most often found in a mix of anecdotal evidence. For example, see "The Chairman Sets the Tone", by Michael Skapinker, Financial Times (February 2001); "Is Better Corporate Governance Working?", speech given by Ian Hay Davison at the ICAEW Trustee's Lecture, October 18, 2001. In addition, the Cadbury Committee, which published the first UK corporate governance report in 1992, highlights the importance of the Chairman's role in securing good corporate governance.

[2] Since only an extremely low proportion of Chairmen and CEOs are female, using "he" reflects more than a convention.

[3]Prior research shows that forced CEO departures are associated with subsequent performance improvement (Kang and Shivdasani (1995)) and corporate changes (Denis and Denis (1995); Weisbach (1995); Clayton et al. (2000)).

[4] For example, C. Stein - Chairman of Hilton group - retired at the age of 65. Given that the mean age of the sample's retiring directors is 63, the above departure should be a non-forced one. However, C. Stein was forced to retire, following the investors' dissatisfaction with the company's performance. In addition his retirement was announced in September 1993, only 3 months before he entirely left the group.

[5] The data used in this study is an extension of the data collected by Conyon and Florou (2002). For more details regarding the turnover classification strategy see the above paper.

[6] Pr (Departure$_{it}$)= Pr (director leaving the team but not the firm$_{it}$) + Pr (director leaving the firm$_{it}$). However, according to the data, 90% and 80% of dismissed Chairmen and departing MSEs respectively are ousted both from the board and the firm.

[7] A company's return index shows the growth in the share value and the value of the dividends. The relevant formula is: $RI = RI_t * (P_t + D_t)/P_{t-1}$, where P_t = price on ex-date (i.e.

the day dividend payments become certain), P_{t-1} = price on previous day and D_t = dividend payment associated with ex-date t.

[8] In Section III I examine the relation between Chairman dismissal/MSE succession and firm performance. In addition to stock returns I also use accounting earnings. However, as will be explained, focusing on a number of stock profitability measures controls better for the performance effect.

[9] A more direct way to test the above is to identify whether sample firms have a nominating committee and whether this committee includes the Chairman. Ideally, one should have information regarding the Chairman's vote. Unfortunately, data are not available on the above. Nevertheless, as already mentioned, the majority of UK companies have a nominating committee, which is headed by the board chair (PIRC (1999)).

[10] There are two MSE departures for which no information is found. I exclude these observations from the construction of the forced and non-forced samples.

[11] The only exception is the second lag of stock returns, which, however, appears negative and significant at the 10% level only under forced Chairman departures.

[12] The endogeneity issue suggests a simultaneous estimation is required. However, such an estimation is complicated by the fact that the dependent variables in all the equations of the system are dichotomous. In fact, under these circumstances one cannot fully recover the equation parameters (Maddala (1983), p.244). Consequently, the use of the above share performance metrics is expected to reduce, but not eliminate, the measurement error of the MSE turnover variables. Similarly, one cannot draw *causal* inferences from this analysis; instead, any link between Chairman dismissal and MSE turnover should be interpreted as a mere *association*.

[13] A third explanation is that a Chairman who replaces the incumbent CEO may experience an increased likelihood of dismissal as the new CEO may seek to replace those directors that are

likely to pose a threat to him (e.g. challenge his decisions). However, given that the Chairman plays an important part in the selection of the incoming CEO, it is unlikely that the former will appoint someone who will subsequently remove him from the board.

[14] Similar to top director departures, I identify other director departures by comparing the composition of the board across years. Main source used is the Corporate Register. Unfortunately, detailed information regarding the departure of other directors (e.g. announcement date, reason for the change etc.) is not available.

[15] An alternative way to test the above is to regress Chairman dismissal on MSE dismissal (including the share performance measures, outside succession, age and size as control variables) for the six sub-samples separately. Results are qualitatively similar. For example, the marginal effect of MSE Forced$_t$ is 0.142 and 0.097 (p-values<0.005) for executive and non-executive Chairmen respectively. However, the main advantage of the models in Table VII is that they allow a direct comparison of the estimates of the MSE Forced$_t$ variable between the relevant sub-samples.

[16] Similar to previous studies (Jensen and Murphy (1990); Huson et al. (2001)) I compute market-adjusted stock returns as the company's stock return minus a value weighted return on the common stock of all London Stock Exchange firms. I define industry-adjusted stock return and accounting earnings as the company's stock return and accounting earnings, respectively, minus the median value of the corresponding measure for all firms in the primary one-digit SIC industry in which the firm is active at the time of the turnover.