

Report Type

Mid Term Award Report

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Project Title

Director Incentives in the Labour Market, Corporate Governance, and Firm Performance

Project Start Date

May 01, 2018

Project End Date

May 01, 2021

Project Abstract

This project investigates the impact of director reputational incentives in the labour market on director monitoring, corporate governance, and firm performance. Hand-collecting a sample of retired CEO directors, we study the impact of their CEO retirement announcements on the value of the firms in which they continue to hold outside directorships, and whether post-retirement diminishing incentives in the director labour market wield real impact on the quality and intensity of retired CEO director monitoring and on governance. We aim at providing direct and empirical evidence of the incentives of independent directors on firm governance and performance.

Activities and Achievement

We build our sample of retired CEO directors with outside directorships in the U.S. since 1992 from many data sources such as Execucomp, RiskMetrics, and SEC filing (Form 8-K). We then check the details of each case of retirements on Factiva to ensure that we obtain the exact chronology of the event. We obtain personal details of directors of public firms in the U.S. from BoardEx of Management Diagnostics Limited. Data on firm accounting and stock prices and governance metrics are obtained from CRSP and RiskMetrics, respectively. We have conducted an event study on a pilot sample of CEO director retirement. The random sample includes 327 outside directorships hold by 495 CEOs who retired from their CEO position. In different event windows (-1,+1; 0,+1) following the announcement of the CEO retirement from their CEO position, the stock prices of firms in which retiring CEOs are still holding outside directorships react negatively and significantly. In the window (-1,+1), the average cumulative abnormal return is -2.4%, significant at the 1% level.

Dissemination

We intend to produce a research paper to be submitted to a top finance journal. The paper's results might have impact in the real world and might also attract interest from the practitioners.

Outputs

Director Incentives in the Labour Market, Corporate Governance, and Firm Performance

The paper is still in early stage. It will be posted on SSRN once polished: