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

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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 direc-tors 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 RiskMetriks, 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 an-nouncement 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 sig-nificantly. In the window (-1,+1), the average cumulative abnormal return is -2.4%, significant at the 1% level.