

Report Type

Mid Term Award Report

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Project Title

Director Incentives in the Labor 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 re-employment announcements on the value of the firms in which they continue to hold outside directorships, and whether post-employment 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 still have a few pieces of data to gather for various robustness checks.

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).

In the main event window (-1,+1) following the announcement of the CEO retirement from their CEO position, we find that the stock prices of firms in which retiring CEOs are still holding outside directorships react negatively and significantly. The average cumulative abnormal return is -2.4%, significant at the 1% level. This finding confirms our main hypothesis that director incentives impact firm performance.

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 Labor Market, Corporate Governance, and Firm Performance
This project investigates the impact of director reputational incentives in the labor market on director monitoring, corporate governance, and firm performance. Using a hand-collected sample of retired CEO directors, we first study the impact of their CEO retirement announcements on the value of the firms in which they continue to hold outside directorships. We then analyse whether post-employment diminishing incentives in the director labor market wield real impact on the quality and intensity of retired CEO director monitoring and on governance. Finally, we discuss how our methodology addresses endogeneity of director incentives by effectively controlling for director- and firm-fixed effects.

Major Difficulties and Any Other Issues

The project is progressing as planned.

Web Links

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

<http://ssrn.com/author=451382>

Additional Information

Declaration

This award has not yet produced any relevant outputs, but details of any future publications will be submitted to the CERF database as soon as they become available.

Signature - Main Award Holder