

Abstract

Is a CEO Turnover Good or Bad News?

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We investigate the information content of CEO turnovers by analyzing abnormal stock returns and the operating performance around the announcement date. The sample consists of 208 CEO turnovers between January 1998 and June 2009 for companies belonging to the Swiss Performance Index. In line with previous studies, outside successions and forced turnovers yield positive and significant abnormal returns. However, a forced turnover does not per se represent a positive signal to shareholders. On the contrary, investors seem to critically assess the quality of the board's firing decision by considering the quality of the departing manager. When an outperforming CEO is dismissed or forced to leave - an event that occurs in as many as 33% of all dismissals in our sample - shareholders appear to disesteem the board's decision. This finding is confirmed in multivariate cross-sectional regressions and is robust to time subperiods and alternative test statistics. Finally, the operating performance significantly increases (decreases) in the years following (preceding) CEO turnovers and reflects on average the short-term stock-price reaction around the announcement date.

Results of the Project Förderverein WWZ D-136 "Was ist der Aktienkursrelevante Informationsgehalt von CEO Wechsel bei Schweizer Unternehmen?"