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The influence of CEO departure type and board characteristics on firm performance

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ABSTRACT

This paper uses panel data from 271 U.S. firms to empirically examine the relationship between the departure of a firm's CEO and that firm's performance. Results of our analysis reveal a significant relationship between CEO departure type and firm performance. Specifically, we found that the departure of entrenched CEOs negatively affects current and future firm performance. Results also demonstrate that board size and the presence of independent administrators moderates the relationship between CEO departure type and firm performance. This suggests that entrenched CEOs can have informal associations with independent administrators.

Keywords: departure type, current and future performance, board independence, entrenchment.

INTRODUCTION

The relationship between chief executive officer (CEO) turnover and firm performance has been examined extensively in the empirical literature (see Puffer and Weintrop, 1991; Parrino, 1997). Jensen and Murphy (1990) suggest that when the likelihood of CEO turnover is high and firm performance is poor, the threat of being fired can incentivize the CEO. Related to this, Coles et al. (2011) show that the sensitivity of CEO turnover to firm performance is widely considered a mechanism for aligning managerial and shareholder interests. Denis and Denis (1995) further explored the causes and effects of CEO turnover, demonstrating that relative to traditional retirement, forced CEO turnovers typically result from poor firm performance, but are often followed by substantial improvement in firm performance. Engel et al. (2003) substantiated the findings of Denis and Denis (1995), showing that CEO turnover usually follows poor firm performance; this relationship was also moderated by the nature of the CEO's departure (voluntary or forced). Finally, Coates and Kraakman (2010) document that CEO turnover is

significantly related to firm performance during the CEO's first four years in office. Taken together, these studies suggest that whereas forced CEO turnover (i.e., firings) tend to be related to poor firm performance, voluntary CEO departures (i.e., retirements) are not. Further, these results demonstrate that relative to retirement, forced CEO departures are associated with more pronounced post-departure improvements in firm performance.

Jensen (1993) suggests that the board of directors is weak with regard to disciplining managers of firms that perform poorly, particularly when the CEO is chairman of the board. Jensen (1993) instead argues that independent directors are much more effective for disciplining CEOs. Denis et al. (1997) show how board composition affects the relationship between firm performance and forced executive turnover. Despite their general weakness with respect to disciplining managers, boards of directors may incite executive turnover when the CEO's managerial power is low. To this end, boards of directors often use firm-level performance measures to evaluate CEOs' efforts. Hermalin and Weisbach (1998) reveal an inverse relationship between the regularity of board meetings and CEO tenure, suggesting that boards are more critical of newer CEOs, but ease their criticism as time passes. Godard and Chatt (2004) assert that the absence of independent directors is a primary source of board ineffectiveness. Moreover, the accumulation of management decisions made by the CEO reduces board independence and its power to effectively monitor that CEO (Goyal and Park, 2002).

Results of empirical work evaluating the relationship between the proportion of outside directors on a board (which has served as a proxy for board independence) and firm performance have been mixed. Bhagat and Black (1999) demonstrate no linkage between the proportion of independent directors on a firm's board and Tobin's Q.[1] In contrast, MacAvoy and Millstein (1999) show that the disclosure of a board member as an independent director is positively associated with stock-exchange returns. Limiting the size of the board of directors is similarly believed to affect firm performance. Furest and Kang (2000), for example, demonstrate that board size is negatively related with firm performance.

Although past research in this domain has done much to illustrate the nature of the relationships between CEO turnover, board composition, and firm performance, our approach differs from this work in a number of ways. While previous research has shown how firm performance affects forced CEO turnover, our primary objective is to explore the opposite—how the nature of a CEO's departure influences firm performance. To accomplish this goal, we consider two scenarios: CEO departure versus no departure. Our second objective is to assess the moderating effect of a number of variables related to firm governance (i.e., board size, proportion of outsiders, duality, CEO tenure, CEO ownership) on the association between CEO departure type and firm performance. We utilize three accounting measures as a proxy for firm performance: discretionary earnings, current performance, and future performance. Consistent with Defond and Park (1997), we define future performance with real data rather than forecast data. Specifically, we pursue our research objectives through the evaluation of data gleaned from a panel of 271 large, publicly traded American firms between 1994 and 2006.

[1] A majority of studies have examined the association between corporate governance and firm performance using Tobin's Q as a proxy for the firm performance.

The remainder of this paper is organized in a series of interrelated sections. Section 2 provides a review of salient literature and proposes our research hypotheses. In Section 3, we describe the research design and data, and report descriptive statistics associated with our sample. We discuss the empirical results of our multivariate analyses in Section 4, and offer some concluding remarks in Section 5.

LITERATURE REVIEW AND HYPOTHESIS

Performance and turnover

Several studies have shown that the CEO turnover is closely linked to firms' financial performance. Hermalin and Weisbach (1998) suggest that the evolution of stock-exchange prices reflects the continuation (or conclusion) of a CEO's tenure. Many empirical studies on American firms show that poor firm performance precedes CEO turnover (e.g., Adams et al., 2012; Warner et al., 1988). Similarly, Jensen and Murphy (1990) provide evidence that the likelihood of CEO turnover is largely contingent on a firm's relative performance. Coates and Kraakman (2010) also show that CEO turnover is significantly related to firm performance, particularly during the CEO's first four years in office. Evans, Nagarajan, and Schloetzer (2010) reveal a positive relationship between prior firm performance and the likelihood of CEO retention on the board.

In contrast to empirical work depicting a positive relationship between CEO turnover and firm performance, Berry et al. (2000) indicate that CEO turnover is not influenced by firm performance for a number of companies. Subramanian et al. (2002) note that CEOs with financial compensation contracts are more likely to be fired following poor performance. The authors further argue that this pressure may have increased during the 1990s. In their examination of 69 forced resignations, Denis and Denis (1995) show that financial markets react to the dismissal of underperforming CEOs with relief. Dherment and Renneboog (2000) similarly demonstrate that whereas voluntary resignations do not result in price reactions in the market, announcements of forced CEO resignations are perceived positively by the market in the form of small but significant positive abnormal returns. In another distinction, declining firm performance generally does not precede voluntary CEO retirement (Denis and Denis, 1995). However, Warner, Watts, and Wruck (1988) provide evidence for significant negative cumulative abnormal returns following forced turnover. This reaction is likely the result of market precaution; forced turnover may serve as an indicator of poor current and future performance that had not anticipated by the market. Etebari, Corrigan, and Land (1987) provide substantiating evidence for the negative relationship between forced CEO turnover and cumulative abnormal returns, showing a CEO's death (except due to an accident) to result in negative cumulative abnormal returns. Taken in concert, these findings suggest that CEOs may be entrenched in their respective positions, and thereby difficult to dismiss, even in response to poor performance.

To examine the influence of CEO departure type on firm performance, we consider two scenarios as a categorical predictor variable: CEO departure versus CEO retention. We predict that nature of a CEO's departure from the firm will significantly affect that firm's current and future performance. Given this, we propose the following hypothesis:

H1: CEO departure types differentially influence the current and future performance of the firm.

Turnover and governance

Husson et al. (2001) demonstrate that relative to the 1970s, the frequency with which CEOs were forced to leave their positions increased during the 1990s, leaving boards of directors more independent. Past research shows that the most important responsibility of boards of directors is to monitor and evaluate CEO performance. In this vein, boards of directors play an important role in selecting, transferring, fixing compensation for, and sometimes vetoing the CEO's recommendations. Given their importance in relation to the CEO and the firm, boards of directors have received substantial empirical attention.

Two conflicting positions characterize the literature with regard to the composition of a board of directors (Jensen, 1993). The first perspective, which we dub "outsider effectiveness," argues that as a result of reputation capital, equity ownership, and less personal involvement with the CEO, independent directors are less likely to be influenced by firm CEOs. By motivating CEOs with lucrative compensation or risk of dismissal, independent administrators can more effectively exert control over firm managers. In line with this perspective, Denis et al. (1997) show a stronger relationship between CEO turnover and firm performance for firms with boards of directors dominated by outsiders. Similarly, Hermalin and Weisbach (1998) demonstrate that boards of directors meet less frequently as the length of a CEO's tenure increases. This can be explained in terms of (a) the CEO's entrenchment over time, or (b) the board's improved perceptions of the CEO's ability. Gedds and Vinod (1998) show that the independent administrators decide for short CEOs tenure. In addition, Farrell et al. (2003) show that the external administrators who dismiss CEOs are often rewarded with additional functions .

We refer to the second perspective related to the composition of the board and firm performance as "CEO hegemony." This view stipulates that when a CEO is capable of exerting significant influence over the board of directors, the number and the proportion of the external administrators on the board are related to the CEO's tenure. Furthermore, Goyal and Park (2002) demonstrate how board structure moderates the relationship between CEO rotation and firm performance. The presence of the duality in a firm reduces the CEO's control of the board, thereby easing the dismissal of poorly performing CEOs. As a result, the likelihood of CEO turnover will be less sensitive to firm performance. Jensen (1993) comes to a similar conclusion. Similarly, Firth, Fung, and Rui (2006) demonstrate that the CEOs who possess more than one function are less likely to be replaced when their contracts end.

Governance and performance

Jensen (1993) suggests that the inclusion of the external directors on boards of directors increases their viability and decreases the probability of collusion to expropriate shareholders' wealth. In this way, external directors act in the best interests of shareholders by protecting the value of the company. For example, Frankel, McVay, and Soliman (2007) suggest that a board of directors' independence is correlated to the quality of the financial information revealed in financial statements. Similarly, MacAvoy and Millstein (1999) show that firms with independent boards of directors are more successful in terms of return on stock-exchange securities. They further demonstrate that the appointment of an external director to the board is associated with an excess of positive stock-exchange returns.

Hermalin and Weishback (1998) show that the probability of CEO turnover is more sensitive to negative firm performance when there are more independent directors on the board. Lawrence and Stapledon (1999) similarly assert that in the absence of independent directors' influence on the CEO, firm performance suffers. In contrast, Bhagat and Black (1999) find a negative correlation between Tobin's Q and the proportion of independent directors on the board. They additionally show a relationship between a board's proportion of independent directors and the value of the company. These results suggest that increasing the number of the independent administrators on the board without a proportional increase in their ownership of the company can negatively affect firm performance. The researchers did not find the same results concerning the influence of the duality on the performance of the firm. In this vein, Worsell, Nemec and Davidson (1997) demonstrate a negative influence of firm duality on performance. In contrast to these results, Baliga, Moyer, and Reo (1996) failed to find any effect of firm duality on performance.

Many researchers have explored the relationship between the size of a board of directors and its functional efficiency (Jensen, 1993; Eisenberg, Sundgren, and Wells, 1998). Eisenberg and his colleagues (1998) also report a negative correlation between board size and firm earnings. In agreement with the work of Eisenberg, Furest et al. (2000) demonstrate that an increase in the size of a board negatively affects firm performance. Faleye (2007) also performed research related to board size and firm financial performance. He shows that abnormal returns on security exchanges decrease with the size of the board. Taken together, the results of empirical research related to board size and firm performance are largely mixed. Despite these inconsistent results, firms tend to prefer large boards of directors because they contain a greater number (and variety of) competencies relative to small boards.

Given the above, we propose the following five hypotheses:

H2a The relationship between CEO departure type and firm performance is accentuated by the size of the board of directors.
H2b The relationship between CEO departure type and firm performance is accentuated by the percentage of independent influences within the board of directors.
H3a The relationship between CEO departure type and firm performance is hampered by the duality of the CEO's function.
H3b The relationship between CEO departure type and firm performance is hampered by the CEO's property (proportion of the company owned by the CEO).
H3c The relationship between CEO departure type and firm performance is hampered by the length of a CEO's tenure.

METHODOLOGY

Model of interest and variables

To test the hypotheses outlined above, we estimate the following regression model:

$$Dep.Variable_{it} = \alpha_0 + \alpha_1 Typ.dep_{it} + \alpha_2 Tenure_{it} + \alpha_3 Dual_{it} + \alpha_4 CEO.prop_{it} + \alpha_5 Board.size_{it} + \alpha_6 Board.indep_{it} + \alpha_7 Size_{it} + \alpha_8 Lev_{it} + \varepsilon_{it} \quad (1)$$

where the dependent variable can signify a lack of discretionary earnings (*No.disc.earning*), current performance (*Current.Perf*), or future performance (*Future.Perf*). Different models test our hypotheses by changing the outcome variable but leaving the predictor variables unchanged.

Table 1: Description of dependent variables

Dependent variable	Symbol	Measure
	Model 1	
No discretionary earning	*No.Disc.Earning*	NE[2]-DA
	Model 2	
Current performance	*Current.Perf*	CNDE[3]- CMNE[4]
	Model 3	
Future performance	*Future.Perf*	FNDE[5]-FMNE[6]

In these models, DA represents the discretionary accruals estimated with the modified Jones (1995) model. DA is signified by the following linear regression:

$$\frac{TA_{it}}{A_{it-1}} = \alpha_1 \left[\frac{1}{A_{it-1}} \right] + \alpha_2 \left[\frac{(\Delta REV_{it} - \Delta AR_{it})}{A_{it-1}} \right] + \alpha_3 \left[\frac{PPE_{it}}{A_{it-1}} \right] + \varepsilon_{it} \quad (2)$$

where for sample firm *i* at time *t.* TA_{it} represents the total accruals; A_{it-1} signifies the total assets at time *t-1*; REV_{it} is the total revenues; AR_{it} is account receivable at the end of the fiscal year; $\Delta REV_{it} - \Delta AR_{it}$ represents changes in cash revenue; PPE_{it} stands for gross property, plants, and equipment at the end of the fiscal year; and ε_{it} is the error term.

The measures and symbols of independent variables used in the three models are summarized in Table 2.

[2] NE : Net earning
[3] Current no discretionary earning
[4] Net current average profit of the sample
[5] Future no discretionary earning
[6] Net future average profit of the sample

Table 2: Description of independents variables

Variables	Symbol	Measure
Types of departure	*Typ.dep*	A dummy variable (1 = no CEO departure, 0 = CEO departure).
Tenure	*Tenure*	Number of years that a CEO has been in office as of the company's end of the fiscal year.
Duality	*Dual*	A dummy variable (1 = CEO and BoD functions combined, 0 = otherwise).
Propriety of CEO	*CEO.prop*	Percentage of property owned by CEO.
Board size	*Board.size*	Number of members on the board.
Board independence	*Board.indep*	Number of outside members on the board of directors.
Firm size	*Size*	Logarithmic transformation of total assets.
Leverage	*Lev*	Debts/Total Assets.

Data

Our sample consists of 271 companies that were listed on the Fortune Global 500 list between 1994 and 2006. This provides a sample size of 2981 observations. As shown in Table 3, our sample is divided into 12 industries based on relative industry performance. We require that at least 20 firms be included in each two-digit SIC industry (see Defond and Park, 1997). We extracted financial and governance data related to the firms in our sample from the EDGARSCAN website.

Table 3: number of companies in each industry

SIC	33	34	35	36	37	38	20	27	28	50	51	73
Companies	20	23	27	25	23	22	23	21	23	22	20	22

Notes: SIC denotes the Standard Industrial Classification: 33= Primary Metal Industries, 34= Fabricated Metal Products, except Machinery And Transportation Equipment, 35= Industrial And Commercial Machinery And Computer Equipment, 36= Electronic And Other Electrical Equipment And Components, Except Computer Equipment, 37= Transportation Equipment, 38= Measuring, Analyzing, And Controlling Instruments; Photographic, Medical And Optical Goods; Watches And Clocks, 20= Food And Kindred Products, 27= Printing, Publishing, And Allied Industries, 28= Chemicals And Allied Products, 50=Wholesale Trade-durable Goods, 51= Wholesale Trade-non-durable Goods, and 73= Business Services.

Descriptive statistics

Table 4 reports the descriptive statistics for our sample.

Table 4: Descriptive statistics of independents variables

	Mean	Std. Dev.	Lower quartile	Median	Upper Quartile
Tenure	9.45	9.041	3	6	12
Dual	0.795	0.402	1	1	1
CEO.prop	0.061	0.116	0	0.01	0.06
Board size	9.10	2.86	7	9	11
Board.indep	6.423	3.292	4	7	9
*Firm size**	8153.702	39060.045	492.5	1460	812000
leverage	0.822	4.473	0.341	0.471	135.860

*Firm size is in millions of dollar.

Because the nature of the CEO's departure from the firm is a critical component in the six hypotheses we proposed, we delineated types of departure for a more nuanced understanding of the phenomena under consideration. Specifically, we identified cases in which a CEO was retained, departed the firm voluntarily, or was forced to depart the firm. Of the 2710 observations in our sample, there were 186 cases in which the CEO left the company he worked for and 2524 cases in which the CEO was retained. The mean and median lengths of a CEO's tenure according to the three types of departure we defined are provided in Table 5.

Table 5: Distribution of CEO tenure following the three types of departure

Departure type		CEO Tenure
Forced departure	Mean	3.81
	Median	3.5
Voluntary departure	Mean	10.11
	Median	8
No departure	Mean	9.46
	Median	6
Total	Mean	9.47
	Median	6

Table 5 reports the dispersion of CEO tenure following the two types of departure. The mean of length of a CEO's tenure in which he/she voluntarily leaves a company is roughly 10 years. CEO's who retain their positions have been at their companies for 9.5 years, on average. Moreover, among 186 cases of departure, 103 (55.3%) involved voluntary departure around retirement age (between 60 and 65). In 25 cases (13.4%), CEOs voluntarily left their respective companies after retirement age (older than 65 years), and 58 CEOs (31.2%) voluntarily left their positions before retirement age (younger than 60). Additionally, the average length of a CEO's tenure prior to their departure is about ten years. This suggests that the CEOs of the firms in our sample enjoyed significant job security and largely left their positions voluntarily at retirement age or later (see Brickley, Coles, and Linck, 1998). Still, our sample demonstrates that there exist CEOs who voluntarily depart their respective firms before retirement age to pursue a different career path.

For those cases in which the CEO did not depart the firm, the CEOs had been in their respective positions for about nine-and-a-half years, on average. Firms in our sample tended to retain their CEOs, as 93% of our sample is characterized by firms in which there was no CEO turnover. This suggests that the CEOs of the firms in our sample enjoyed substantial job security. Of the 2514 cases in which CEOs did not depart their firms, 555 were of retirement age and 231 exceeded retirement age, indicating that these CEOs may be effectively entrenched in their respective firms.

MULTIVARIATE RESULTS

This section presents the results of the three regression models outlined in the previous section.

Model 1

Table 6 reports the results of the first regression analysis, which tests the effect of CEO departure type on firm performance. All independent variables are statistically significant predictors of firm performance, with the exception of the CEOs tenure, dual functions of the CEO and president of the board, and CEO propriety. Because these latter variables do not predict firm performance, we failed to find evidence for H3a, H3b, or H3c.

Table 6: Model 1

$$No.Disc.Earning_{it} = \alpha_0 + \alpha_1 Typ.dep_{it} + \alpha_2 Tenure_{it} + \alpha_3 Dual_{it} + \alpha_4 CEO.prop_{it} + \alpha_5 Board.size_{it} + \alpha_6 Board.indep_{it} + \alpha_7 Size_{it} + \alpha_8 Lev_{it} + \varepsilon_{it}$$

Variables	*No.Disc.Earning*		
	Predicted sign	**Coefficient**	**t-stat**
Typ.dep	-	-2.368	-8.145***
Tenure	-	0,003	0,245
Dual	-	-0,010	-0,048
CEOprop	-	-0,625	-0,883
Board.size	+	0.175	4.028***
Board.indep	+	-0.075	-2.432**
Size	+/-	-0.093	-1.682*
Lev	+/-	0.045	2.098**
Adjusted R^2		0.033	
F-statistic		0.0000	
Number of Obs.		2981	

, **, * Indicates that the estimated coefficients are respectively significant at the 0.01, 0.05 and 0.1 levels, using a two-sided test (p < .01, **p < .05, *p < .10)

Table 6 indicates that the type of CEO departure negatively influences firm's financial performance. Because most observations represent cases in which the CEO did not depart the

company, CEO entrenchment seems to negatively affect firm financial performance. This result is consistent with those found by Furest (2000). As a result of leading their firms to positive financial outcomes, CEOs become more intrinsically attached to their posts and do not depart. This result supports the first hypothesis and the results of Evans, Nagarajan, and Schloetzer (2010).

Moreover, our empirical results demonstrate that the size of boards of directors negatively influences firm performance ($p < .01$), thereby supporting H2a. Contrary to our predictions, however, board independence was shown to be negatively related to firm performance ($p < .05$). As such, we failed to find evidence to support H2b. This result was consistent with those produced by Bhagat and Black (1999) and Furest (2000), and suggests that independent directors can maintain informal relationships with CEOs, particularly if they own little of the company. Because our results suggest that independent members of the board may negatively affect firm performance, they likewise suggest that CEO entrenchment may be institutionalized if it guarantees positive financial gains.

Model 2

In order to test the second model, we use current performance as a measure of the dependent variable. The cconsidered model and estimated results are reported in table 7 below. As in model 1, Table 7 shows that all independent variables are statistically significant with exception of the three variables "*Tenure*", "*Dual*" , and "*CEO.prop*" which do not support hypothesis (H3a), (H3b) and (H3c).

Table 7: Model 2

$$Current.Perf_{it} = \alpha_0 + \alpha_1 Typ.dep_{it} + \alpha_2 Tenure_{it} + \alpha_3 Dual_{it} + \alpha_4 CEO.prop_{it} + \alpha_5 Board.size_{it} + \alpha_6 Board.indep_{it} + \alpha_7 Size_{it} + \alpha_8 Lev_{it} + \varepsilon_{it}$$

Variables	*Current.Perf*		
	Predicted sign	**Coefficient**	**t-stat**
Typ.dep	-	-2.3770	-8.249***
Tenure	-	0,0021	0,202
Dual	-	-0,0025	-0,012
CEO.prop	-	-0.9342	-1.332
Board.size	+	0.1581	3.684***
Board.indep	+	-0.0710	-2.305**
Size	+/-	-0.0823	-1.495
Lev	+/-	0.0452	2.131**
Adjusted R^2		0.034	
F-statistic		0.0000	
Number of Obs.		2981	

***, **, * Indicates that the estimated coefficients are respectively significant at the 0.01, 0.05 and 0.1 levels, using a two-sided test.

As in Model 1, results indicate that CEO departure type is a significant negative predictor of current firm performance . This suggests that when a firm's current financial performance is good, CEOs tend to retain their positions until entrenchment**,** further suggesting that CEO entrenchment has a negative impact on firm performance. This confirms H1.

Also consistent with Model 1, Model 2 shows the size of the board of directors to be positively related to current financial performance ($p < .01$). This suggests that board size positively affects a CEO's retention, which in turn, negatively affects current financial performance. These results provide support for H2a. In contrast, board independence is significantly and negatively associated with current firm performance ($p < .05$). This result implies that board independence negatively influences the impact of a CEO's retention on firm's current financial performance. This result fails to provide evidence to support H2b.

Our results also indicate that the proportion of the firm owned by the CEO is negatively associated with the firm's current performance. Although our findings suggest that CEO entrenchment negatively affects a firm's current financial performance (see Evans, Nagarajan, and Schloetzer, 2010), there was no evidence to support H3b. Similarly, the coefficient associated with firm size was negative but not statistically significant. Finally, the results summarized in Table 7 demonstrate that when a firm enjoys good current financial performance, its level of debt increases.

Model 3

Results of the regression analysis associated with Model 3 are reported Table 8. These results demonstrate that the dual nature of CEO and board president functions, the length of a CEO's tenure, the proportion of the firm owned by the CEO, and firm size are not significantly related to future firm performance. Therefore, similar to Models 1 and 2, there is no evidence to support H3a, H3b, or H3c with regard to future firm performance.

Table 8: Estimation model 3

$$Future.Perf_{it} = \alpha_0 + \alpha_1 Typ.dep_{it} + \alpha_2 Tenure_{it} + \alpha_3 Dual_{it} + \alpha_4 CEOprop_{it} + \alpha_5 Board.size_{it} + \alpha_6 Board.indep_{it} + \alpha_7 Size_{it} + \alpha_8 Lev_{it} + \varepsilon_{it}$$

Variables	*Future. Perf*		
	Predicted sign	**Coefficient**	**t-stat**
Typ.dep	-	-2.4099	-8.546***
Tenure	-	-0 .0026	-0,261
Dual	-	-0,0043	-0,020
CEO.prop	-	-0,6854	-0,999
Board.size	+	0.1409	3.353***
Board.indep	+	-0.0673	-2.231**
Size	+/-	-0,0620	-1,149
Lev	+/-	0.0367	1.771*
Adjusted R^2		0.0342	
F-statistic		0.0000	
Number of Obs.		2981	

***, **, * Indicates that the estimated coefficients are respectively significant at the 0.01, 0.05 and 0.1 levels, using a two-sided test.

As in Models 1 and 2, results of Model 3 show CEO departure type to be a significant and negative predictor of future firm performance. This suggests that when the financial performance of the firm is expected to be good, CEOs tend not to leave their posts. This finding supports H1. Also consistent with Models 1 and 2, the size of the board of directors is positively related to a firm's future financial performance ($p < .01$). Based on this finding, we conclude that board size positively influences the relationship between a CEO's retention and the future financial performance of his/her firm. This result provides support for H2a. In contrast, the independence of the board of directors is negatively and significantly related to future firm performance ($p < .05$), thereby reinforcing that board independence negatively affects the influence of a CEO's retention on future firm performance. This finding similarly contradicts H2b. Moreover, Table 8 shows also that debt level is moderately and positively related to future firm performance ($p < .10$), which denote that when future financial performance is good, the level of debt increases.

CONCLUSION

Our results of the current study suggest that the CEO retention negatively affects the current and future performance of the firm. For the majority of the observations in our sample, we found CEO tenure length to be between nine and ten years, suggesting that CEOs tended not to leave their firms. Thus, we conclude that the CEOs of the firms in our sample are entrenched. Furthermore, we found that board size positively affects the relationship CEO departure type and firm performance. This finding suggests that when the board of directors grows in size, its control becomes less efficient. In contrast, we found the proportion of outsiders on a board of directors to be negatively associated with this relationship.

Similar to the results summarized above, we also found board size to positively affect a company's current and future financial performance. In contrast, board independence was shown to negatively influence current and future firm performance. Empirical results also support the notion that CEO entrenchment has a negative effect on firm performance and that board member independence is most effective when it is operational and informal.

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