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Should They Stay or Should They Go? CEO Appointments and Performance in a Transitional Economy*

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Abstract

This study examines the corporate operating performance surrounding CEO appointments from 2001-2013 to firms listed on the Warsaw Stock Exchange. We find that the decision to reappoint or to replace a CEO is preceded by a decline in corporate operating performance. We fail to find, however, improvements or stability in operating performance following either the replacement or reappointment of the incumbent CEO. The likelihood of CEO replacement is greater if the firm does not perform well in the period preceding the appointment. We conclude that there are inefficiencies or inadequacies in the corporate governance system of Polish publicly traded firms.

1. Introduction

The spectacular failures of Enron and WorldCom in which the main perpetrators were senior management members acting against their shareholders, exposed significant failures in the governance processes and practices of these firms. The response to the collapse of these major firms was both rapid and global in nature. Multiple nations implemented regulatory reforms designed to strengthen their internal governance structures and to improve the protections afforded minority shareholders. With these changes, the role of the CEO has become even more central to effective corporate governance (Shen and Cannella, 2002; Huson et al., 2004; Finkelstein et al., 2009; Fahlenbrach et al., 2010; Alda, 2016).

Unfortunately, in a modern corporation with its separation of ownership and

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control functions (Jensen, 1986), it is not possible to completely prevent CEOs from undertaking actions which destroy shareholder value. The literature on corporate agency theory describes a number of governance mechanisms that can reduce information asymmetry, constrain opportunistic behaviour by managers, and align shareholder/manager interests (Jensen and Meckling, 1976; Fama, 1980; and Fama and Jensen, 1983).

Denis and Denis (1995) observe that the appointment of a CEO by a board is one of the strongest mechanisms for corporate governance. They observe that removal of poorly performing CEOs is a critical step towards the maximization of shareholder wealth. They argue that when a firm's governance is effective, the frequency of CEO turnover is higher in poorly performing firms. As a consequence, improvements in operating performance following management changes are achieved. This result is also consistent with work in labor economics by Jovanovic (1979) and McNeil et al. (2004).

As suggested by Denis and Denis (1995), the current finance literature examines the effectiveness of corporate governance by emphasizing CEO removals. Rarely are CEO re-appointment decisions analysed. In this study we contribute to the literature by analysing not only CEO replacements, but also CEO reappointments. Hence, the research goal of this study is to assess the valuation and performance results associated with new CEO appointments as well as reappointments.

We believe that there are several reasons why an analysis of CEO reappointment decisions is important to a fuller understanding of corporate governance practices. A reappointment indicates that the firm is likely to continue its current business strategy and operating procedures. It is a signal of continuity of the organization's practices and the board's satisfaction with the firm's performance. On a related basis, the reappointment will be seen by investors that a significant change in the firm's profitability, earnings, or other performance measures is unlikely. The decision not to hire a new CEO should be justifiable based on the firm's performance to date (Jenter et al., 2016; Rivolta, 2018). A less favourable interpretation of the reappointment decision from the perspective of shareholders, is that it reflects managerial power and entrenchment (Bebchuk and Fried, 2003).

This study is the first comprehensive examination of the relation between CEO appointments and corporate performance in a transitional economy. The immature market and governance systems of transitioning economies remain only superficially researched in the literature. There are three studies that examine only the capital market reaction to CEO appointments in the transitioning economies of central and eastern Europe (Gurgul and Majdosz, 2007; Byrka-Kita et al., 2017; Byrka-Kita et al., 2018a) while Byrka-Kita et al (2018b) provides a very limited description of operating performance surrounding CEO appointments to firms in Poland.

The contribution of this study resides in its more comprehensive analysis of the post-appointment operating performance of a set of Polish public firms. Unlike Byrka-Kita et al (2018b) our analysis examines transition patterns between inside and outside CEO candidates, identifies the determinants of CEO turnover, provides separate operating performance analyses of CEO appointments and reappointments, and assesses the effect of voluntary versus forced turnover on corporate performance. Our novel analysis of CEO reappointments allows us to gain a deeper understanding

of the state of corporate governance in an important transitioning economy. To undertake our empirical analysis, we use various accounting and financial data for companies listed on the Warsaw Stock Exchange (WSE). Our sample of 1,015 Polish CEO appointments allows us to examine the efficiency of the CEO labor market in a transitioning economy.

The managerial labour market in Socialist economies was characterized by limited autonomy, with success measured by an ability to fulfill plans rather than operating a profitable firm (Linz, 1988; Jones and Kato, 1996). Since 1989, these economies have been transitioning to free markets, resulting in firms with new ownership and governance structures. But due to the rapid pace of economic transformation as well as the lack of market-experienced managers, this transition has faced problems. Among those problems is the classic agency conflict between managers and owners. With a focus on CEO appointments in these transitioning economies, our study provides a needed extension to the work of Ballinger and Marcel (2010), Masulis et al. (2012), and Jermias and Gani (2014). These researchers establish the criticality of the CEO to corporate profitability and success in transition economies.

The remainder of our study proceeds as follows. Section 2 presents the development of our research hypotheses. In Section 3 we describe our data and the sample construction process. Section 4 presents our sample characteristics and initial empirical analysis. In Section 5 we discuss our major findings regarding firm performance and CEO appointments. In Section 6 we further test the relation between firm performance and CEO appointments by estimating a logit model for CEO turnover. We provide a set of robustness tests in Section 7. We conclude with a brief summary and discussion of the importance of our findings in Section 8.

2. Hypothesis Development

Denis and Denis (1995) contend that removal of a poorly performing CEO is one of the most effective internal mechanisms to mitigate agency conflict within the firm. Studies such as Coughlan and Schmidt (1985), Denis and Denis (1995), Dedman and Lin (2002), Huson et al. (2004), Hillier et al. (2005) and Fisman et al. (2013) show that CEO turnover is preceded by deteriorating operating performance. Boards of directors monitor the CEO's performance and replace those who fail to meet expectations. Farrell and Whidbee (2003) note that boards tend to focus on deviations from expected results rather than performance per se when deciding on a CEO replacement. Jenter and Kannan (2015) argue that CEO replacement can also occur when poor corporate performance is due to independent phenomena such as industry shocks, technological disruption, or market-wide forces. McNeil et al. (2004) report that subsidiary manager turnover is highly sensitive to performance and more likely following poor performance than that of CEOs. Based on the disciplining nature of a CEO replacement, we hypothesize:

H1a: CEO replacements are preceded by a decline in the firm's operating performance.

The existing corporate governance literature focuses on the CEO's replacement. Studies examine issues such as the relation between performance and

the decision to terminate, the ability of entrenched CEOs to persist regardless of performance, and the valuation effects of voluntary vs forced executive turnover. There are no comprehensive studies which specifically examine the operating and valuation effects of CEO reappointments. The literature emphasizes CEO turnover, not CEO retention and continuity. Erkens et al. (2015) study a slightly different phenomenon - i.e. CEOs, who in the past had already performed this function in a company and the impact of their re-entrusting on the operating outcomes. They find that operating performance deteriorates after a former CEO is appointed relative to appointing a non-former CEO. Byrka-Kita et al (2018b) provide a very limited description of operating performance surrounding CEO appointments to firms in Poland. They report negative and statistically significant abnormal operating performance for the entire sample, including new CEO appointments or reappointments.

To the extent that a board is independent and focuses on shareholder wealth maximization, it will provide a robust monitoring of the CEO. Consequently, reappointment decisions are affected by the firm's performance observed in the period prior to the reappointment decision. Investors react favourably to stable or growing earnings generated by the firm. Thus, CEOs who are unable to generate strong operating results are unlikely to be reappointed. CEOs who produce increasing earnings are seen as most valuable by independent boards. Consequently, we hypothesize:

H1b: CEO reappointments are preceded by a stable or increasing level of operating performance by the firm.

Denis and Denis (1995) argue that if a firm's corporate governance is effective, then its operating performance will improve subsequent to a CEO's replacement. This occurs since new CEOs will be selected on the basis of their ability to enhance shareholder wealth. This implies that a board identifies another CEO whose expected quality exceeds that of the predecessor. They find that a change in CEOs is followed by a significant improvement in the firm's operating performance. Denis and Denis report that as a consequence of forced resignations, firms significantly downsize their operations while increasing their profitability and operating efficiency. Similar evidence is reported by Huson et al. (2004) who show that managerial quality and firm operating performance substantially improve after CEO turnover.

There are also several theories drawn from the management literature that suggest a performance improvement following CEO replacement. The Ability Hypothesis assumes that quality varies across managers and that the goal of boards is to select the most talented executives (Murphy and Zábojník, 2004; Chang et al., 2010; Baik et al., 2011; Pessarossi and Weill, 2013). Hence, operating performance should improve following CEO replacement. The Improved Management Hypothesis assumes that the abilities of CEOs vary. If the firm's performance is substantially poor, another more qualified manager is appointed as a replacement. Consequently, future performance is expected to improve following a change in management (Huson et al., 2004). Finally, according to the Common-Sense Hypothesis, a firm's performance should improve whenever an inefficient CEO is replaced with a more

effective individual (Grusky, 1963; Helmich, 1974; Allen et al., 1979; Daltaon and Kesner, 1985; Kesner and Sebora, 1994). Consequently, we hypothesize:

H2a: A firm's operating performance improves following the replacement of the incumbent CEO.

We note however, that a firm's operating performance could initially decline following the replacement of the incumbent CEO. New CEOs take actions known as a 'big bath' for at least two reasons: (1) to show that the previous CEO was performing poorly, (2) to demonstrate improved operating performance in future years (Healy, 1985; Pourciau, 1993). Because of this possibility, we exclude the appointment year (i.e., year 0) from our empirical analysis.

Assuming that internal corporate governance mechanisms are effective in monitoring management, we contend that CEO reappointments will also be associated with strong corporate performance. Independent and effective supervisory board will only reappoint CEOs who have demonstrated an ability to create shareholder value during their tenure. Thus, they are likely to continue the policies, strategies, and approaches that generated corporate value during their initial appointment. This implies that the operating performance generated during the CEO's initial tenure will continue over the reappointment period. Therefore, we hypothesize:

H2b: A firm's operating performance is stable following the reappointment of its CEO.

3. Sample Construction and Data

3.1 Sample Identification

We identify a comprehensive sample of CEO appointments in non-financial firms traded on the main floor of the Warsaw Stock Exchange (WSE) over the years 2000 through 2015. The sample construction process occurs in several steps. First, we achieve this by searching the newswires of GPWinfoStrefa. As a comprehensive database of corporate public announcements was available with the implementation of the Elektroniczny System Przekazywania Informacji (ESPI) system[1], this search results in an initial sample of 10,000 press releases that relate to CEO appointments over the years 2005 through 2015. Next, from the Polish Financial Supervision Authority and commercial business services we identify other CEO appointments that occur prior to the year 2005. We also add announcements regarding CEO appointments from the Notoria On-Line Service. We then edit this augmented initial sample by eliminating the following appointments: (1) temporary CEO appointments, (2) appointments to a foreign firm, and (3) appointments with incomplete details. Application of these filters produces an intermediate sample of 2,033 CEO appointments over our sample period.

[1] ESPI or the Electronic System for Information is the IT system that allows immediate transfer and publication of corporate announcements in one database. It was implemented in year 2005.

We then apply a final filter involving the availability of financial and accounting data. To undertake our comparative performance analysis, we require financial and accounting data for three years pre and post relative to the year of the CEO's appointment. This requirement further reduces the sample size, resulting in a final sample of 1,015 CEO appointments spanning the period January 2001 to December 2013.

3.2 Data

To undertake our analysis of changes in corporate operating performance surrounding a CEO appointment, we require annual corporate accounting data. We obtain annual accounting data for firms from the Notoria Service database for the period 1997 to 2016. To control for industry effects, we obtain annual industry data from InfoCredit service which provides accounting and financial data for firms operating in the Polish market. Because of limitations regarding the availability of industry data, we are forced to further trim our sample for certain analyses. In our subsequent multivariate analysis, we are limited to a sample of 964 events which consist of 473 CEO replacements and 491 reappointments.

We use two different software programs to undertake our empirical analysis of this data. The first is STATA which is a comprehensive package for data analysis, modelling, and statistical calculation. We also make use of R2, a probabilistic programming system.

4. Sample Characteristics and Initial Empirical Findings

In this section we first provide a description of key univariate sample statistics. We then provide our major multivariate tests regarding the hypotheses developed in Section 2.

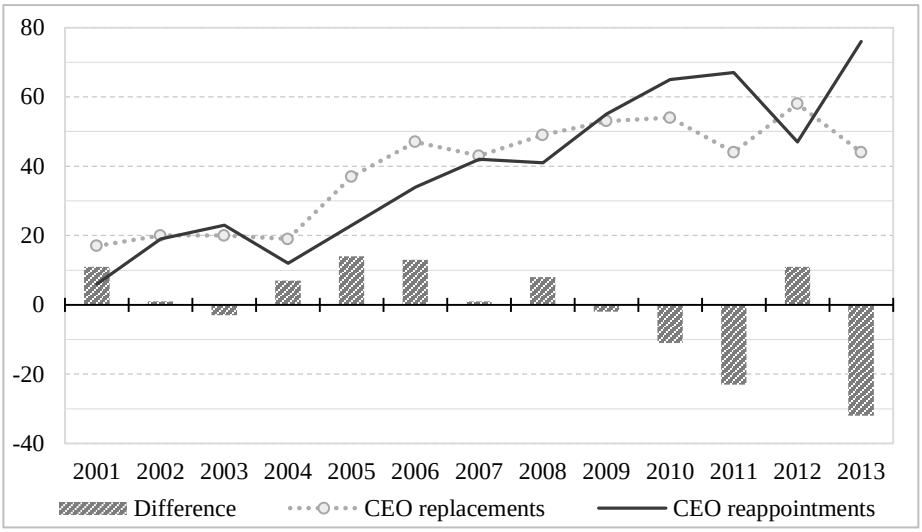
4.1 Year and Industry Distribution of the Sample

Our initial sample consists of 1,015 CEO appointments distributed between 510 reappointments (50.25%) and 505 (49.75%) CEO replacements over the years 2001 to 2013. We observe that the number of CEO appointments (both reappointments and replacements) increases annually. There are 23 appointment events in 2001, but there are almost six times more appointments in 2013. There are two possible reasons for this upward trend in our data. First, the number of firms quoted on the Warsaw Stock Exchange has almost doubled since the start of our sample period. Second, beginning in 2005 corporate public announcements became available in a comprehensive database with the implementation of the ESPI system.

Figure 1 and Panel A of Table 1 shows the distribution of CEO replacements and reappointments over the sample period. We observe that in 2003 and in the post crisis period starting from 2009, the number of CEO reappointments generally exceeds the number of CEO replacements. Beginning in 2009, Polish firms appear to prefer insiders and are more likely to reappoint their CEOs for another term. Until the world financial crisis of 2008, boards of directors more often replaced CEOs and

appointed a new executive.[2] The financial crisis increased uncertainty in the worldwide financial markets as well as in the Polish capital market.[3] We conclude that as the external environment became less predictable, Polish boards decided to stabilize their corporate leadership by increasing reappointments and reducing the number of replacement CEOs.

Figure 1 Annual Distribution of CEO Replacements and Reappointments



Notes: This figure provides a time-series of our sample replacements and reappointments over the sample period 2001 through 2013.

Panel B contains the distribution of the sample across various industries. We assign our sample firms to five different industry sectors. Firms whose industry classification cannot be determined are assigned to the unidentified sector. The Finance sector includes those firms that provide financial services and consulting. Because of their extensive regulation, we exclude banks and insurance companies from our sample. The Building sector includes building construction, manufacturing of building materials, architectural and engineering activities, technical testing and analysis, consulting, and real estate activities. The Industry sector consists of firms in the coal and metal ore mining, food processing, printing and reproduction of recorded media, chemicals, pharmaceuticals, and machinery and equipment. The Services sector includes publishing activities, computer programming, scientific research and development, telecommunications, travel and tour operator activities, executive recruiting and leisure/recreation activities. The Trade sector includes retail

[2] Note that the financial crisis did not affect the Polish economy as much as other countries in the world. The decline in the WIG index was observed from late summer in 2007 and lasted until the beginning of 2009.

[3] Activity in the Polish equity market is captured by the WIG (*Warszawski Indeks Giełdowy*) which is the oldest index of the Warsaw Stock Exchange.

trade activities, wholesale trade, warehousing, and support activities for transportation.

Our results suggest that there are strong industry patterns in our data. Approximately 81% of the sample events are concentrated in three industries: building, industry, and services. The remainder of our sample is in the finance, trade, or unidentified sectors. The distribution across industries between replacements and reappointments is approximately equivalent. There is a slight tendency, however, for the finance, industry, and unidentified sectors to replace their CEOs rather than reappoint.

Table 1 Year and Industry Sample Distribution

	All CEO Appointments		***CEO Replacements***		***CEO Reappointments***	
	N	*Percentage of Total CEO appointments*	*N*	*Percentage of Total CEO appointments*	*N*	*Percentage of Total CEO appointments*
TOTAL Sample	1015	100,00%	505	49,75%	510	50,25%
Panel A: Annual Distribution						
2001	23	2.27%	17	1.67%	6	0.59%
2002	39	3.84%	20	1.97%	19	1.87%
2003	43	4.24%	20	1.97%	23	2.27%
2004	31	3.05%	19	1.87%	12	1.18%
2005	60	5.91%	37	3.65%	23	2.27%
2006	81	7.98%	47	4.63%	34	3.35%
2007	85	8.37%	43	4.24%	42	4.14%
2008	90	8.87%	49	4.83%	41	4.04%
2009	108	10.64%	53	5.22%	55	5.42%
2010	119	11.72%	54	5.32%	65	6.40%
2011	111	10.94%	44	4.33%	67	6.60%
2012	105	10.34%	58	5.71%	47	4.63%
2013	120	11.82%	44	4.33%	76	7.49%
Panel B: Distribution by Industry						
Finance	66	6.50%	39	3.84%	27	2.66%
Building	208	20.49%	92	9.06%	116	11.43%
Industry	421	41.48%	219	21.58%	202	19.90%
Services	196	19.31%	97	9.56%	99	9.75%
Trade	99	9.75%	45	4.43%	54	5.32%
Unidentified	25	2.46%	13	1.28%	12	1.18%

Notes: This table provides a time-series distribution of CEO appointment decisions in Panel A. Panel B contains an industry distribution of CEO appointment decisions.

Table 2 CEO Descriptive Statistics

Panel A: Distribution by CEO characteristic

	All CEO Appointments		***CEO Replacements***		***CEO Reappointments***	
	N	*Percentage of Total CEO appointments*	*N*	*Percentage of Total CEO appointments*	*N*	*Percentage of Total CEO appointments*
CEO gender						
Male	971	95.67%	473	46.60%	498	49.06%
Female	44	4.33%	32	3.15%	12	1.18%
Insider/Outsider CEO						
Outsider	271	26.70%	271	26.70%	n/a	n/a
Insider	744	73.30%	234	23.05%	510	50.25%
Experienced CEO in management						
Inexperience	81	7.98%	81	7.98%	n/a	n/a
Experienced	934	92.02%	424	41.77%	510	50.25%
Experienced CEO in industry						
Inexperience	55	5.42%	54	5.32%	n/a	n/a
Experienced	960	94.58%	451	44.43%	510	50.25%
Educational level						
General	793	78.13%	415	40.89%	378	37.24%
Elite	210	20.69%	90	8.87%	120	11.82%
Unidentified	12	1.18%	0	0.00%	12	1.18%

Panel B: Select descriptive statistic of CEO characteristics

	N	**Min**	**Mean**	**Median**	**Max**
CEO Age					
All CEO appointments	1004	24	46	46	73
CEO replacements	498	24	45	44	73
CEO reappointments	506	26	48	48	71
Tenure					
All CEO appointments	1015	0.00	2.26	2.17	10.51
CEO replacements	505	0.00	1.87	1.46	10.51
CEO re-appointments	510	0.00	2.65	2.95	8.77
Cumulative Tenure					
All CEO appointments	1015	0.00	3.36	2.90	16.01
CEO replacements	505	0.00	1.88	1.46	10.51
CEO re-appointments	510	0.02	4.82	4.13	16.01

Notes: This table provides comparative demographic statistics for our sample CEOs between reappointments and replacements. Panel A provides a distribution by CEO characteristic including gender, insider/outsider status, CEO management experience, CEO industry experience, and educational level. Panel B contains descriptive statistics of subsamples by CEO age, the number of years as a CEO for the current term of office, and the total years as a CEO including all continuous tenures in the firm.

Table 2 contains various demographic characteristics of our sample CEOs. Panel A shows that only 4.3% of the CEOs are female while over 73% are insider candidates. We further observe that 92.2% of the CEOs have prior managerial experience and 94.5% have industry experience, respectively. Our data shows that only 20.7% of the CEOs have an elite education which we define as an MBA or a PhD. In Panel B we report that the mean (median) CEO is 46 (46) years old, with reappointed CEOs slightly older at 48 (48) years. We further observe that reappointed CEOs have a mean (median) tenure in office of 2.65 (2.95) years, while replacement CEOs as expected, have a lower tenure at 1.87 (1.46) years. We find that that replacement CEOs are new to their positions with a mean (median) cumulative tenure of only 1.88 (1.46) years. This contrasts to a mean (median) cumulative experience of 4.82 (4.13) years for reappointed CEOs. This suggests that for most of the replacement CEOs, that this is their first appointment as a CEO.

Table 3 Select Variable Descriptive Statistics

Variable	N	Min	Mean	Median	Max
Management Board Size					
All CEO appointments	1010	1.0	2.8683	3.0	9.0
CEO replacements	504	1.0	2.5933	2.0	8.0
CEO re-appointments	506	1.0	3.1422	3.0	9.0
Diff	-	-	-0.5490***	-1.0***	-
Sales					
All CEO appointments	1002	2.6390	12.0042	11.9512	18.2409
CEO replacements	497	4.1109	11.8696	11.9028	17.9711
CEO reappointments	505	2.6391	12.1366	12.0168	18.2409
Diff	-	-	-0.2669**	-0.1440**	-
Debt					
All CEO appointments	987	0.0047	0.4819	0.4538	2.2180
CEO replacements	483	0.0047	0.5035	0.4752	2.2180
CEO reappointments	504	0.0285	0.4612	0.4423	1.8096
Diff	-	-	0.0422**	0.0329**	-

Notes: This table provides descriptive statistics for three key attributes of our sample firms. Management board size provides a sense of the firm's governance practices, Sales reflects firm size, and Debt indicates risk and the use of leverage in the capital structure. The difference (Diff) between means (medians) between the CEO replacements and reappointments is tested with two-sample t test (U Mann-Whitney). Statistical significance at the one, five, and ten percent levels is indicated by ***, **, and *, respectively.

In Table 3 we provide further descriptive statistics for select variables associated with our initial analysis. The boards of our sample firms are very small, with a mean (median) of only 2.86 (3.0).[4] Although the board sizes are statistically different between firms that replace or reappoint their CEOs, the actual difference is

[4] Poland like many European countries uses a two-tier board system. Each firm has both a management and a supervisory board. The management board is entirely composed of executive directors, and is responsible for setting corporate strategy and overall direction. The supervisory board is entirely composed of non-executive directors, and its main tasks are to appoint and dismiss the members of the management board and to monitor them. Our analysis focuses on the more operational management board.

only notional. Indeed, the small size of these boards might explain the evidence of weak corporate governance we obtain later in this study.

We also compare two important accounting characteristics between our sample firms. We find that sales are significantly different between the two groups of firms. Sales volume is higher for firms that reappoint their CEOs, suggesting that they are larger in size. Further, we discover that reappointing firms use less financial leverage than firms which replace their CEOs. To that extent that financial leverage reflects the firm's underlying risk, we might infer that firms which reappoint their CEOs are less risky.

4.2 Insider and Outsider Status

In Table 4 we conclude the descriptive analysis of our sample by examining the extent to which insider or outsider status influences the appointment decision, specifically the replacement decision. In Table 4 we examine the transition of replacement CEOs between insider and outsider status. We begin by considering the status of the incumbent.[5] We find that insider CEOs are slightly more often replaced by CEOs originating from outside the firm. That is, 55.22% of the successors to insider CEOs come from new organizations. Only 44.8% are insiders. When the incumbent is an outsider, then it is even more likely that the replacement will be an outsider as well. In these cases, 61.2% of the successors are outsiders and only 38.8% are insiders.

Table 4 Transition Matrix Between CEO States

				New CEO			
		Total		*Outsider*		*Insider*	
		N	*Percent of Total*	*N*	*Percent of Total*	*N*	*Percent of Total*
Previous CEO	Insider	230	64.07%	127	55.22%	103	44.78%
	Outsider	129	35.93%	79	61.24%	50	38.76%
	Total	359	100.00%	206	57.38%	153	42.62%
CEO Turnover	Forced	186	36.83%	107	57.53%	79	42.47%
	Voluntary	319	63.17%	164	51.41%	155	48.59%
	Total	505	100.00%	271	53.66%	234	46.34%

Notes: This table presents the decision made regarding insider or outsider status of a replacement CEO conditioned upon the insider or outsider status of the previous incumbent. In the lower row of this panel, we examine the effect of forced/voluntary turnover on the insider/outsider choice of CEO.

We then examine if the nature of the CEO's departure influences the insider or outsider origin of the successor CEO. More specifically, we investigate whether forced or voluntary CEO departures make a difference.[6] We observe that forced departures are associated with a marginally higher percentage of outside replacement

[5] Because of data limitations regarding the insider/outsider status of the previous CEO, this analysis is limited to only 359 observations of our sample of 505 CEO replacements.

[6] To classify CEO departures as forced, we follow the methodology of Parrino (1997). That is, departures are classified as forced if they are publicly identified as due to a firing, resignation, death, or end of term resignation. Retirements prior to age 65 are also classified as forced. All departures not classified as forced are seen as voluntary.

CEOs than voluntary departures. Nearly 58% of the successor CEOs following a forced departure are outsiders compared to 51% for voluntary departures. This increased hiring of outsiders is consistent with the demand for a fresh start and independence that often accompanies the forced removal of a CEO.

5. Firm Performance and CEO Appointments

5.1 Changes in Operating Performance Surrounding CEO Appointments

To assess whether the board's decision about replacing or reappointing the CEO reflects good governance from a shareholder value perspective, we examine corporate operating performance for seven years centred around the year of the CEO appointment. We examine firm operating performance by measuring changes in its operating return on assets (OROA). OROA is defined as the ratio of operating income before depreciation to the book value of total assets. Because OROA is a scaled measure of operating profit, it allows us to control for size differences across firms as well as changes in asset value within firms during our sample period (Denis and Denis, 1995).

In Table 5 we examine changes in the OROA surrounding CEO appointments. We use both the Fahlenbrach et al. (2010) and the Huson et al. (2004) approach to measure our changes.[7] We calculate both a raw and an industry-adjusted measure of OROA, but only report the more complete industry-adjusted results. The results using the unadjusted measures are qualitatively identical and provide no additional insights.

In Panel A we use the Fahlenbrach et al. (2010) approach to measure the change in OROA. We compare the change in mean (median) OROA across the pre-period (i.e., year -3 to year -1) to that calculated over the post-period (i.e., year +1 to year +3). This approach explicitly excludes the year of appointment when calculating the change. It allows us to test our hypotheses regarding performance improvement following a CEO appointment.

We obtain several interesting findings from this analysis. For the entire sample of appointments, the average OROA (i.e., mean and median) declines after the appointment. This result appears to be driven by the significantly large decline observed for CEO reappointments. The average OROA appears not to change for CEO replacements. Although these findings are inconsistent with our second set of hypotheses regarding post-appointment performance, they support arguments present in the literature regarding the effects of managerial entrenchment and power. For instance, it is consistent with Erkens et al. (2015) who find that the reappointment of a CEO reduces the firm's operating performance.

[7] Fahlenbrach *et al.* (2010) measure operating performance before the appointment as the average over event years -2 and -3. They measure performance after the CEO appointment as the average of the performance metric over years +1, +2 and +3. The change in operating performance as a result of CEO appointment is calculated as the simple difference between those two periods. Huson *et al.* (2004) measure the change in operating performance surrounding a CEO appointment using a slightly difference approach. The before appointment operating performance is measured as the change in OROA from year -3 to year -1. The change in operating performance following a CEO appointment is the difference in OROA from year -1 to year +3.

In Panel B we undertake a similar analysis using the Huson et al. (2004) method for estimating the change in operating performance. Because the focus is on the average OROA for the pre and post appointment periods separately, we can test both sets of our hypotheses. During the pre-period (i.e., year -3 to year -1), we observe a significant decline in the average OROA for the entire sample as well as for the replacements and reappointments. The decline is an order of magnitude larger for the replacement group of appointments. This is as hypothesized. The decline in OROA for the reappointments is inconsistent with our hypothesis, but the decline is small in size and only marginally significant.

Our analysis for the post-appointment period offers only a hint of performance improvement. Over the years -1 to +3, OROA actually declines, but not significantly. The replacement CEOs enjoy a nominal increase in OROA, but the reappointed CEOs suffer a significant decline. Because of a lack of statistical significance for the difference between the replacement and reappointment groups, these results are only suggestive of differential post-appointment performance.

We draw several conclusions from these two sets of univariate analysis regarding the change in OROA and CEO appointments. There is mixed evidence regarding the nature of the firm's performance prior to a reappointment. It is not clear whether the firm's operating performance justifies the CEO's reappointment. The findings reported in Table 6 do suggest that firms suffer a declining OROA prior to a CEO replacement. This is as we hypothesize and in consistent with the extensive agency and corporate governance literatures. Our results do not support a claim of improved operating performance following either a replacement or a reappointment, but weakly hint at such a relation.

These results are most interpretable in the context of the scapegoat hypothesis of Khanna and Poulsen (1994). The boards of directors replace top executives even if they are not responsible for the poor performance. In effect, the CEO turnover does not increase managerial quality and the newly appointed CEO does not necessarily enhance firm performance.

These results can also be partially understood in the context of a transitioning economy characterised by incomplete markets, a Socialist legal legacy, and no recent history of private enterprise. The current Polish Code of Commercial Companies was implemented only in 2001. The principles of corporate governance in the form of the Code of Best Practice were implemented on the Warsaw Stock Exchange only in 2002. Market participants and regulators are still learning the dynamics and behaviours of a market economy.[8]

[8] Another potential explanatory factor, especially common in Central and Eastern Europe, is the political connections of persons managing and supervising firms. Jackowicz *et al.* (2014) using a data set covering the 2001–2011 period, find that political connections lower the profitability of non-financial firms in Poland.

Table 5 Changes in Operating Return on Assets (OROA) Surrounding CEO Appointments

	All CEO Appointments		CEO Replacements		CEO Re-appointments		Replacement minus Re-appointment	
	Median	*Mean*	*Median*	*Mean*	*Median*	*Mean*	*Median*	*Mean*
Panel A: Fahlenbrach et al. with industry-adjusted OROA								
Sample	964	964	473	473	491	491		
Pre period [-3,-1]	-0.0581***	-0.0657***	-0.0749***	-0.0887***	-0.0488***	-0.0435***	-0.0261***	-0.0452***
Post period [+1,+3]	-0.0661***	-0.0743***	-0.0780***	-0.0897***	-0.0554***	-0.0593***	-0.0227***	-0.0304***
∆ OROA post to pre	-0.0080**	-0.0086**	-0.0032	-0.0010	-0.0065***	-0.0158***	0.0034	0.0148*
Positive	*446*	*453*	*225*	*231*	*221*	*222*		
Negative	*518*	*511*	*248*	*242*	*270*	*269*		
Panel B: Huson et al. with industry-adjusted OROA								
Sample	964	964	473	473	491	491		
Pre year -3	-0.0547***	-0.0592***	-0.0647***	-0.0756***	-0.0497***	-0.0433***	-0.0150***	-0.0323***
Pre year -1	-0.0628***	-0.0761***	-0.0789***	-0.1054***	-0.0505***	-0.0479***	-0.0284***	-0.0575***
Post year +3	-0.0703***	-0.0817***	-0.0802***	-0.0974***	-0.0604***	-0.0666***	-0.0197***	-0.0308***
∆ OROA -3 to -1	-0.0099***	-0.0170***	-0.0160***	-0.0298***	-0.0073	-0.0046	-0.0088*	-0.0252*
Positive	*439*		*208*		*231*			
Negative	*525*		*265*		*260*			
∆ OROA -1 to +3	-0.0023	-0.0056	0.0018	0.0080	-0.0069*	-0.0187*	0.0086	0.0267
Positive	*475*		*237*		*238*			
Negative	*489*		*236*		*253*			

Notes: This table presents a test of the change in Operating Return on Assets (OROA) between firms that replace their CEOs and those that reappoint the incumbent. In Panel A we use the Fahlenbrach *et al.* (2010) method to compare industry-adjusted OROA. In Panel B we use the Huson *et al.* (2004) approach. The presented statistical significance of results (mean and median) is tested using the Wilcoxon signed-rank test. The difference between means and medians of CEO replacements and CEO reappointments is tested with the U Mann-Whitney two-sample test. Statistical significance at the one, five, and ten percent levels is indicated by ***, **, and *, respectively.

5.2 Operating Performance Surrounding CEO Reappointments

We more thoroughly examine the relation between CEO appointments and operating performance with our multivariate analysis contained in Table 6. More specifically, we test Hypotheses H2a and H2b regarding post-appointment performance with the inclusion of the Reappointment variable. We observe that the coefficients of this variable are significantly negative in models (1) through (3). This implies that the reappointment of the incumbent CEO results in a subsequent deterioration of the firm's operating performance. These results hold for both industry adjusted and unadjusted measures of operating performance. Hence, these findings are inconsistent with hypothesis H2b and suggest that the reappointment of our sample CEOs is not associated with stable operating performance.

In models (4) through (6) we examine a shorter performance horizon. We find no statistically significant effect of Reappointment on changes in operating performance between years t = -1 and t = +3.

Across these same models, however, we observe a statistically significant negative relationship between changes in operating performance before and after the event. The bigger the change in operating performance before the board's decision is made, the smaller is the growth after the CEO's appointment, regardless of its nature.

We could argue that the CEOs' activities do not have much influence on the company's outcomes. The interaction variable (Models 4, 5, & 6; Reappointment x Δ OROA –3 to -1) shows, however, that in the case of CEO replacement the higher is the change in OROA prior to the appointment, the lower is the change in operating performance over the post appointment period. For re-appointments, greater changes in OROA prior to the event before the event are associated with a smaller post-event changes. The scale of this phenomenon is smaller, however, than for CEO replacements.

We also note some interesting relations between our control variables and operating performance. We find that the firm's size as measured by sales exerts a consistently negative and significant effect on the firm's operating performance. We observe, however, that the firm's debt level (Debt) positively influences firm's operating performance. Higher levels of debt results in greater changes in OROA surrounding CEO appointments. The issuance of debt by a firm creates additional pressure on managers since the lenders act as monitors on the firm's activities. This is especially true in the case of loans provided by banks which are highly effective monitors of a firm's creditworthiness. They can challenge managerial decisions that reduce corporate free cash flow or otherwise threaten the firm's financial stability. These results are consistent with Gilson (1990) who contends that lender monitoring can supplement or replace weak internal governance mechanisms.

Table 6 Operating Performance Surrounding CEO Appointments

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
	Unadjusted Δ OROA post to pre	*Unadjusted Δ OROA post to pre*	*Industry-adjusted Δ OROA post to pre*	*Unadjusted Δ OROA –1 to +3*	*Unadjusted Δ OROA –1 to +3*	*Industry-adjusted Δ OROA -1 to +3*
Reappointment	-0.0132*	-0.0146*	-0.0197**	-0.0131	-0.0118	-0.0157
	(0.00758)	(0.00765)	(0.00863)	(0.0123)	(0.0126)	(0.0144)
Δ OROA –3 to -1				-0.591***	-0.598***	-0.591***
				(0.0912)	(0.0872)	(0.0831)
Reappointment x Δ OROA –3 to -1				0.261***	0.284***	0.240***
				(0.0922)	(0.0831)	(0.0876)
Cumulative tenure	0.00142	0.00164	0.00190	0.00191	0.00220	0.00374*
	(0.00194)	(0.00175)	(0.00184)	(0.00235)	(0.00227)	(0.00225)
Sales	-0.00667**	-0.00713**	-0.00674**	-0.00668*	-0.00696**	-0.00606*
	(0.00322)	(0.00329)	(0.00325)	(0.00341)	(0.00348)	(0.00362)
Debt	0.0503***	0.0425***	0.0363***	0.0724***	0.0715***	0.0529***
	(0.0154)	(0.0106)	(0.0112)	(0.0174)	(0.0158)	(0.0162)
CAR [0,+2]	0.104**	0.0929*	0.128**	0.200***	0.199***	0.224***
	(0.0523)	(0.0505)	(0.0531)	(0.0556)	(0.0548)	(0.0724)
Excess return	0.0307***	0.0315***	0.0336***	0.0380**	0.0404**	0.0443**
	(0.0102)	(0.0102)	(0.0106)	(0.0173)	(0.0176)	(0.0179)
Δ Ind OROA post to pre		0.283**				
		(0.140)				
Δ Ind OROA -1 to +3					0.147	
					(0.121)	
Female CEO	0.0149	0.0138	0.0150	0.0405	0.0375	0.0295
	(0.0164)	(0.0170)	(0.0188)	(0.0258)	(0.0267)	(0.0313)
Management experienced	0.00921	0.0103	0.0118	-0.00139	-0.00108	-0.0119
	(0.0152)	(0.0156)	(0.0169)	(0.0187)	(0.0191)	(0.0206)
Industry experienced	-0.00144	-0.00458	-0.00585	-0.00379	-0.00735	-0.00964
	(0.0212)	(0.0209)	(0.0208)	(0.0212)	(0.0208)	(0.0215)
Elite educational level	0.00238	0.00476	0.00933	-0.00574	-0.00738	-0.00785
	(0.0101)	(0.0109)	(0.0115)	(0.0140)	(0.0145)	(0.0164)
CEO Age	5.13e-4	7.06e-4	8.17e-4*	3.93e-5	1.88e-4	3.93e-4
	(0.000506)	(0.000488)	(0.000489)	(0.000569)	(0.000569)	(0.000637)
Intercept	0.0753*	0.0583	0.0221	0.0186	-0.00160	-0.0971
	(0.0421)	(0.0432)	(0.0463)	(0.0695)	(0.0653)	(0.0713)
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
N	941	904	904	941	907	907
F	3.065	3.212	2.210	8.848	8.614	6.288
r2	0.192	0.209	0.216	0.348	0.358	0.318
r2_a	0.114	0.132	0.141	0.284	0.293	0.250

Notes: This table is a multivariate analysis of corporate operating performance surrounding CEO reappointments using four different dependent variables. All models are assessed using the OLS method with year and industry fixed effects. Standard errors are corrected for heteroscedasticity. They are clustered at the firm level and are provided in parentheses. Statistical significance at the one, five and ten percent levels is represented by ***, **, * respectively. Variables are defined in the *Appendix*.

6. The Likelihood of CEO Turnover

As a further test of the relation of corporate operating performance on the CEO appointment decision, we undertake a logit analysis of CEO turnover. In Table 7 we construct a dependent variable that is coded as one if the CEO is replaced and zero otherwise. We observe that the deterioration of a firm's operating performance before the event (Model 2, Δ OROA -3 to -1) significantly increases the likelihood of replacing a CEO. As further confirmation, we find in model (4) that Industry-adjusted Δ OROA -3 to -1 is inversely related to the likelihood of CEO replacement. These findings are consistent with our hypotheses H1a and H1b regarding CEO replacements. That is, CEOs are replaced when operating performance declines. They are more likely to be reappointed when operating performance is strong.

We also obtain interesting results regarding CEO turnover that extend beyond operating performance. In models (1) and (3), we observe that if the previous CEO appointment was a replacement of top executive (Turnover -1), it is less likely that the next appointment will be a replacement. The previous CEO's term of office (Tenure -1) also has a statistically significant effect since the likelihood of appointing a new CEO decreases with the incumbent's term in office.

In models (2) and (4) we find that Cumulative tenure -1 is also statistically significant. The longer the previous CEO is in office, the less likely it is that the CEO is replaced. Consistent with the results in models (1) and (3), we conclude from these findings that a CEO's long tenure in office reduces the likelihood of executive replacement. That is, CEOs can use the power they accumulate through long service to resist attempts at removal. These findings align with the literature on managerial entrenchment and its adverse effect on corporate governance.

Table 7 Logit Regression of CEO Turnover

	Model 1	Model 2	Model 3	Model 4
	Turnover	*Turnover*	*Turnover*	*Turnover*
Turnover -1	-1.873***		-1.792***	
	(0.489)		(0.499)	
Tenure -1	-1.161***		-1.136***	
	(0.188)		(0.190)	
Turnover -1 x Tenure -1	0.859***		0.835***	
	(0.209)		(0.211)	
Reappointed -1		0.263		0.247
		(0.350)		(0.357)
Cumulative tenure -1		-0.298***		-0.297***
		(0.0996)		(0.101)
Reappointed -1 x Cumulative tenure -1		0.0397		0.0337
		(0.118)		(0.120)
Δ OROA –3 to -1	-0.227	-1.881***		
	(0.887)	(0.693)		
Turnover -1 x Δ OROA –3 to -1	-1.682			
	(1.125)			
Reappointed -1 x Δ OROA –3 to -1		1.248		
		(1.166)		
Industry-adjusted Δ OROA -3 to -1			0.890	-1.891***
			(0.919)	(0.628)
Turnover -1 x Industry-adjusted Δ OROA -3 to -1			-2.758**	
			(1.120)	
Reappointed -1 x Industry-adjusted Δ OROA -3 to -1				2.356**
				(1.118)
Excess return	-0.817***	-0.801***	-0.820***	-0.809***
	(0.239)	(0.236)	(0.242)	(0.239)
Previous CEO age	0.0268**	0.0131	0.0272**	0.0132
	(0.0112)	(0.0104)	(0.0114)	(0.0106)
Board size	-0.312***	-0.280***	-0.321***	-0.289***
	(0.0716)	(0.0699)	(0.0717)	(0.0704)
Sales	-0.0660	-0.0376	-0.0514	-0.0261
	(0.0509)	(0.0497)	(0.0527)	(0.0515)
Debt	0.579	0.546*	0.558	0.557*
	(0.375)	(0.326)	(0.385)	(0.329)
Previous female CEO	1.010*	0.992*	0.981*	0.969*
	(0.566)	(0.542)	(0.554)	(0.526)
Previous CEO outsider	0.202	0.240	0.219	0.262
	(0.238)	(0.235)	(0.244)	(0.242)
Intercept	4.359***	2.772*	4.029***	2.560*
	(1.517)	(1.448)	(1.529)	(1.439)
Year fixed effect	Yes	Yes	Yes	Yes
N	668	668	644	644
r2_p	0.214	0.137	0.212	0.139
chi2	100.4	91.75	101.8	92.53
P	2.58e-11	7.39e-10	1.50e-11	5.46e-10

Notes: In this table we provide a logit model estimate of the likelihood of CEO turnover. The dependent variable is a dummy with the value of one if the CEO is replaced and zero otherwise. Standard errors are corrected for heteroscedasticity. They are clustered at the firm level and are provided in parentheses. Statistical significance at the one, five, and ten percent levels is indicated by ***, **, and *, respectively. Variables are defined in the *Appendix*.

7. Robustness Analysis

To assess the robustness of our results, we re-estimate our regression models that examine operating performance surrounding CEO appointments. We accomplish this by incorporating two additional dummy variables as regressors. These variables are: Outsider and Forced Turnover.

We motivate our inclusion of a dummy variable to capture the appointment of a corporate outsider as CEO based on Hambrick and Mason (1984). They argue that if a company wishes to transform itself or to respond to distressed circumstances, then it should appoint outsiders to senior management positions. Various studies provide evidence that investors expect an outsider CEO to create value for shareholder (Davidson et al., 2002; Fahlenbrach et al., 2010). To evaluate the effect of a successor's origins on operating performance, we include as regressors the variable Outsider and an interactive variable between Turnover and Outsider. Table 8 contains our results. We find no statistically significant effect of an outsider CEO on the firm's performance.

In Table 9 we introduce Forced Turnover and an interactive term between Forced Turnover and Δ OROA –3 to -1 as new regressors. Their inclusion is motivated by the disciplining effect of a forced turnover. Forced turnover can be the result of poor performance but can also have a positive effect on subsequent performance as noted by Denis and Denis (1995) and Huson et al. (2004). We find no significant relation between forced turnover and the firm's subsequent operating performance. We conclude that our original findings remain valid even after including controls for the corporate origin of the CEO and the disciplining nature of the CEO's removal.

Table 8 Robustness Test: Outsider as a Regressor

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
	Unadjusted Δ OROA post to pre	Unadjusted Δ OROA post to pre	Industry-adjusted Δ OROA post to pre	Unadjusted Δ OROA –1 to +3	Unadjusted Δ OROA –1 to +3	Industry-adjusted Δ OROA -1 to +3
Turnover	0.0159	0.0199*	0.0267**	0.0160	0.0148	0.0227
	(0.0108)	(0.0103)	(0.0114)	(0.0165)	(0.0169)	(0.0187)
Δ OROA –3 to -1				-0.332***	-0.315***	-0.353***
				(0.0744)	(0.0780)	(0.0930)
Turnover x Δ OROA –3 to -1				-0.260***	-0.284***	-0.239***
				(0.0922)	(0.0832)	(0.0878)
Outsider	0.0524*	0.0493	0.0463	0.0422	0.0405	0.0510
	(0.0313)	(0.0310)	(0.0333)	(0.0423)	(0.0417)	(0.0451)
Turnover * Outsider	-0.0574*	-0.0594*	-0.0602	-0.0475	-0.0462	-0.0646
	(0.0347)	(0.0340)	(0.0370)	(0.0468)	(0.0464)	(0.0506)
Cumulative tenure	0.00145	0.00163	0.00185	0.00193	0.00222	0.00372
	(0.00192)	(0.00175)	(0.00185)	(0.00234)	(0.00227)	(0.00228)
Sales	-0.00666**	-0.00709**	-0.00669**	-0.00666*	-0.00693**	-0.00602*
	(0.00323)	(0.00330)	(0.00327)	(0.00342)	(0.00348)	(0.00362)
Debt	0.0502***	0.0421***	0.0357***	0.0722***	0.0713***	0.0524***
	(0.0156)	(0.0106)	(0.0112)	(0.0174)	(0.0157)	(0.0160)
CAR [0,+2]	0.103**	0.0920*	0.127**	0.199***	0.198***	0.223***
	(0.0524)	(0.0504)	(0.0531)	(0.0558)	(0.0550)	(0.0728)
Excess return	0.0308***	0.0318***	0.0339***	0.0382**	0.0406**	0.0446**
	(0.0103)	(0.0102)	(0.0107)	(0.0174)	(0.0177)	(0.0181)
Δ Ind OROA post to pre		0.285**				
		(0.140)				
Δ Ind OROA -1 to +3					0.148	
					(0.121)	
Female CEO	0.0145	0.0127	0.0133	0.0400	0.0369	0.0278
	(0.0164)	(0.0172)	(0.0191)	(0.0262)	(0.0272)	(0.0320)
Management experienced	0.00859	0.00909	0.0102	-0.00205	-0.00176	-0.0135
	(0.0154)	(0.0158)	(0.0172)	(0.0189)	(0.0193)	(0.0209)
Industry experienced	-0.00356	-0.00880	-0.0116	-0.00603	-0.00969	-0.0153
	(0.0224)	(0.0220)	(0.0221)	(0.0232)	(0.0227)	(0.0229)
Elite educational level	0.00251	0.00479	0.00931	-0.00563	-0.00731	-0.00780
	(0.0102)	(0.0110)	(0.0116)	(0.0140)	(0.0145)	(0.0165)
CEO Age	0.000543	0.000758	0.000884*	0.0000694	0.000220	0.000462
	(0.000513)	(0.000489)	(0.000489)	(0.000581)	(0.000578)	(0.000643)
Intercept	0.0630	0.0463	0.00675	0.00685	-0.0123	-0.109
	(0.0424)	(0.0438)	(0.0477)	(0.0735)	(0.0695)	(0.0761)
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
N	941	904	904	941	907	907
F	2.913	3.084	2.127	8.258	8.103	5.944
r2	0.193	0.210	0.217	0.349	0.358	0.318
r2_a	0.112	0.132	0.140	0.282	0.291	0.249

Notes: This multivariate analysis includes the dummy variable *Outsider* as an additional regressor. All models are assessed using the OLS method with year and industry fixed effects. Standard errors are corrected for heteroscedasticity. They are clustered at the firm level and are provided in parentheses. Statistical significance at the one, five, and ten percent levels is indicated by ***, **, and *, respectively. Variables are defined in the *Appendix*.

Table 9 Robustness Tests Forced Turnover as a Regressor

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
	Unadjusted Δ OROA post to pre	Unadjusted Δ OROA post to pre	Industry-adjusted Δ OROA post to pre	Unadjusted Δ OROA –1 to +3	Unadjusted Δ OROA –1 to +3	Industry-adjusted Δ OROA -1 to +3
Forced turnover	0.00903	-0.000782	-0.00492	0.00970	0.00332	0.00556
	(0.0106)	(0.0110)	(0.0122)	(0.0145)	(0.0145)	(0.0166)
Δ OROA –3 to -1				-0.439***	-0.434***	-0.462***
				(0.0663)	(0.0675)	(0.0734)
Forced turnover x Δ OROA –3 to -1				-0.233	-0.250	-0.175
				(0.184)	(0.168)	(0.129)
Cumulative tenure	0.000608	0.000399	0.000112	0.000640	0.000745	0.00214
	(0.00172)	(0.00164)	(0.00165)	(0.00217)	(0.00208)	(0.00203)
Sales	-0.00670**	-0.00717**	-0.00679**	-0.00706**	-0.00741**	-0.00640*
	(0.00323)	(0.00329)	(0.00325)	(0.00358)	(0.00365)	(0.00376)
Debt	0.0513***	0.0436***	0.0376***	0.0680***	0.0664***	0.0495***
	(0.0153)	(0.0105)	(0.0110)	(0.0157)	(0.0149)	(0.0155)
CAR [0,+2]	0.104*	0.0934*	0.129**	0.226***	0.227***	0.245***
	(0.0529)	(0.0510)	(0.0540)	(0.0629)	(0.0629)	(0.0745)
Excess return	0.0286***	0.0289***	0.0300***	0.0310*	0.0327**	0.0369**
	(0.0103)	(0.0101)	(0.0105)	(0.0162)	(0.0164)	(0.0169)
Δ Ind OROA post to pre		0.278**				
		(0.141)				
Δ Ind OROA -1 to +3					0.142	
					(0.106)	
Female CEO	0.0160	0.0167	0.0194	0.0422	0.0399	0.0322
	(0.0167)	(0.0173)	(0.0195)	(0.0260)	(0.0267)	(0.0313)
Management experienced	0.00591	0.00488	0.00397	-0.0122	-0.0135	-0.0237
	(0.0153)	(0.0157)	(0.0170)	(0.0196)	(0.0204)	(0.0215)
Industry experienced	-0.00311	-0.00785	-0.0108	-0.00320	-0.00733	-0.0117
	(0.0214)	(0.0210)	(0.0209)	(0.0240)	(0.0232)	(0.0230)
Elite educational level	0.00337	0.00524	0.00981	-0.00263	-0.00409	-0.00493
	(0.0100)	(0.0107)	(0.0113)	(0.0138)	(0.0143)	(0.0162)
CEO Age	4.79e-4	6.62e-4	7.57e-4	9.22e-5	2.57e-4	4.43e-4
	(0.000508)	(0.000488)	(0.000488)	(0.000603)	(0.000606)	(0.000653)
Intercept	0.0767*	0.0664	0.0348	0.0223	0.00808	-0.0877
	(0.0428)	(0.0436)	(0.0465)	(0.0685)	(0.0659)	(0.0713)
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
N	941	904	904	941	907	907
F	2.931	2.966	2.042	7.207	6.669	5.374
r2	0.191	0.207	0.213	0.344	0.351	0.311
r2_a	0.113	0.130	0.137	0.278	0.286	0.242

Notes: This multivariate analysis includes the dummy variable Forced Turnover as an additional regressor. All models are assessed using the OLS method with year and industry fixed effects. Standard errors are corrected for heteroscedasticity. They are clustered at the firm level and are provided in parentheses. Statistical significance at the one, five, and ten percent levels is indicated by ***, **, and *, respectively. Variables are defined in the *Appendix*.

8. Discussion and Conclusion

In this study we examine the efficiency of internal governance in public companies traded in a transitioning economy. We find that the decision to reappoint or to replace a CEO is preceded by a decline in the firm's operating performance. This decline is larger in firms where the CEO is replaced. This is consistent with our hypothesis regarding a decrease in corporate operating performance preceding the replacement of a CEO. We fail to find, however, improvements or stability in operating performance following either the replacement or reappointment of the incumbent CEO. Our findings are consistent with managerial entrenchment effects as well as the managerial power theory of Bebchuk and Fried (2003).

We obtain interesting findings regarding the likelihood of CEO turnover. The likelihood of CEO replacement is greater if the firm does not perform well in the period preceding the appointment decision. Although our sample of reappointments is generally preceded by weak financial performance as well, it does not appear sufficient to trigger their removal. Nor are reappointments followed by stable operating performance.

Our study's findings are consistent with inefficiencies or inadequacies in the corporate governance system of Polish publicly traded firms. We conclude that future reforms in both the management and regulation of Polish public traded firms should focus on strengthening internal governance mechanisms and improving the procedures for selecting CEO candidates. More specifically, it might be useful to develop requirements for corporate boards to have a majority of independent directors as well as greater independence within the audit, nomination, and compensation sub-committees. Further, these results suggest that Polish firms need to undertake more formal succession planning for their executives. Included in that planning might be specific requirements regarding training and operational experiences that the CEO candidates should possess.

APPENDIX

TABLE A1 Variable Definitions

Variable	Definition
Board size	The number of persons in the Management Board at the time of the event.
CAR [0,+2]	Cumulative abnormal return in the 3 day window [0, +2] surrounding the CEO appointment.
CEO Age	The age of a CEO in the day of her/his appointment.
Cumulative tenure	The current CEO's cumulative term of office in years including all continuous tenures calculated as the cumulative number of days divided by 365. If the current CEO is newly appointed Cumulative tenure equals Tenure.
Cumulative tenure -1	The previous CEO's cumulative term of office in years including all continuous tenures calculated as the cumulative number of days divided by 365. If the previous CEO was newly appointed Cumulative tenure -1 equals Tenure -1.
Debt	Ratio of total debt to total assets at the end of the event year t=-1.
Excess return	Abnormal returns for shares over WIG return calculated for a six-month period before the event window.
Elite educational level	The dummy variable equals 1 if the CEO has an elite educational level and 0 otherwise. An elite educational background is when the CEO holds at least a PhD degree or is an MBA graduate.
Female CEO	The dummy variable equals 1 if the CEO is female and 0 otherwise.
Forced Turnover	The dummy variable equals 1 if the CEO turnover is forced and 0 otherwise. The CEO turnover is classified as forced if the reason of CEO turnover was dismissal, resignation, retirement, the end of term of office or death.
Industry-adjusted Δ OROA -1 to +3	The dependent variable. A difference between industry-adjusted OROA in the post event year t=+3 and industry-adjusted OROA in the pre-event year t=-1.
Industry-adjusted Δ OROA -3 to -1	A difference between industry-adjusted OROA in the pre-event year t=-1 and industry-adjusted OROA in the pre-event year t=-3.
Industry-adjusted Δ OROA post to pre	The dependent variable. A difference between mean industry-adjusted OROA in the 3 years post event period [+1,+3] and mean industry-adjusted OROA in 3 year pre-event period [-3,-1].
Δ Ind OROA -1 to +3	A difference between mean industry OROA in the post event year t=+3 and mean industry OROA in the pre-event year t=-1.
Δ Ind OROA post to pre	A difference between mean industry OROA in the 3 years post event period [+1,+3] and mean industry OROA in 3 year pre-event period [-3,-1].
Δ OROA –3 to -1	A difference between firm's OROA in the pre event year t=-1 and firm's OROA in the pre-event year t=-3.
Industry experienced	The dummy variable equals 1 if the CEO is industry experienced and 0 otherwise.
Management experienced	The dummy variable equals 1 if the CEO is experienced in management as a CEO or as a board member, and 0 otherwise
Outsider	The dummy variable equals 1 if the CEO is an outsider and 0 otherwise. An outsider CEO did not work in the company, but may have worked in a capital group, i.e., in an associated company
Previous CEO age	The age of previous CEO in the day of her/his appointment.
Previous CEO female	The gender of previous CEO. The dummy variable equals 1 if the CEO is female and 0 otherwise.

Variable	Definition
Previous CEO outsider	The status of previous CEO. The dummy variable equals 1 if the CEO is an outsider and 0 otherwise.
Reappointment	Re-appointment of the existing CEO for another term of office = 1 and otherwise = 0
Reappointment -1	If the previous CEO was reappointed for another term of office = 1 and otherwise = 0
Sales	Natural logarithm of sales from the event year t=-1.
Tenure	The current CEO's term of office in years (The number of days divided by 365)
Tenure -1	The previous CEO's term of office in years (The number of days divided by 365)
Turnover	The dependent variable equals 1 if the CEO is replaced and 0 if the CEO is reappointed.
Turnover -1	Equals 1 if the previous CEO was replaced and 0 otherwise.
Unadjusted ∆ OROA –1 to +3	The dependent variable. A difference between firm's OROA in the post event year t=+3 and firm's OROA in the pre-event year t=-1.
Unadjusted ∆ OROA post to pre	The dependent variable. A difference between mean firm's OROA in the 3 year post event period [+1,+3] and mean firm's OROA in 3 year pre-event period [-3,-1].

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