

When an Executive Departs: An Informational Content Story¹

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Abstract

Accounting signals of an executive's past shortcomings at his former employer can have a significant impact on the stock returns of his current employer, even after the job change occurs. In this paper, we analyze transfers of information, which, we argue, reflect executive *decision-making ability* as executives change jobs. We examine those information signals (restructurings and write-downs) emerging after the executive has left an employer that indicate the executive is of lower ability than investors had expected at the time of the hiring. Our results show that such signals revise downward expectations (manifested by significant negative returns to the current employer's shares, especially for within-industry job changes). We also distinguish between restructurings at employer firms with and without departing executives and find that after an employer experiences the departure of an executive, the market reaction to the firm's own restructuring is negative. This is consistent with the view that a post-job-change restructuring may foretell further adverse revelations.

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I. Introduction

In this paper, we provide evidence that adverse information about executive ability, based on the revelation of past decisions made by an executive at his former employer, may result in a stock price decline at the current employer. Namely, we are able to draw the inference that an executive's past decisions (including the failure to make a decision) at his/her previous employer have implications for his/ her ability to make shareholder-value-increasing decisions at the current employer.

We analyze write-downs and restructurings at an executive's former employer after another employer hires that executive. We argue that both write-downs and restructurings reflect the executive's decision-making ability in terms of either taking or avoiding action in his/her prior job, and that this post-departure information could indicate that the executive's current employer is getting either less of a benefit than initially expected. Our results show that write-downs and restructurings at an executive's former employer can have a negative impact on expectations regarding the prospects of the current employer, thus reducing stock prices. Further, we expect this effect to differ across restructurings and write-downs. Also, because a within-industry job change affords the executive's current employer the benefit of his industry knowledge and expertise (industry-specific human capital), we expect this effect to be strongest within industry.

In a comprehensive sample of job changes of executives to new CEO, CFO, and COO positions during 1994-2011, we find that a restructuring announced by a former employer is associated with a mean drop of 1.2 percent in two-day excess returns at the current employer *within the same industry*. As further discussed below, we distinguish between the effects of

write-downs and restructurings. Write-downs⁵ not associated with a restructuring have no statistically reliable price impact. We attribute this difference in market responses to the features of restructurings, which involve exit, disposal and reorganization costs that change the scope of business. A restructuring shortly after an executive takes a new position elsewhere may suggest that the executive failed to initiate a needed restructuring before departing,⁶ thus creating an adverse signal about the executive's decision-making ability.⁷ Because poor decision-making in past employment would be expected to carry over to the executive's current employer, we expect restructuring by the former employer to be associated with a negative stock price reaction at the current employer, especially within a given industry. In contrast, write-downs unrelated to restructuring do not reflect a managerial decision to incur incremental cash expenditures. In other words, unlike a restructuring (which a rational manager would implement only for a positive NPV project), a write-down that is not triggered by a restructuring would not be informative about future net benefits (or decreased future losses). Thus, it is likely that an observed negative stock price response at the current employer would be due to the market's inference that the departing executive had failed to implement a positive NPV restructuring (actions that eliminate losses) at the former employer. Our findings suggest that assessment of an executive's decision-making ability should consider both performance in the current position and performance in the previous position.

⁵ In this paper, we refer to write-downs associated with restructurings as 'restructurings' and to other write-downs as 'write-downs.' Charges refer to either. We use the term write-downs to include write-offs.

⁶ On average, the former employers in our sample announced restructuring charges 171 days from hiring date and 247 days from departure date. Minimum (maximum) days between the former employer's restructuring announcement date and the current employer's hiring announcement date are 2 (538) days, and minimum (maximum) days between former employer's restructuring announcement date and the departure date are 2 (642) days.

⁷ To establish the stock market's reaction to restructuring at the former employer as a valid measure of the inferred ability of the executive, we conduct robustness tests and show that it is unlikely that the observed restructuring announcement effect is due to its implication for industry-wide conditions rather than to the executive's ability.

In supplementary tests we examine both former employers' and current employers' price reactions to their own restructuring announcements (-0.015, p -value = 0.04, and -0.020, p -value = 0.02, respectively). The negative market reaction at the former employers to their own restructuring announcements (-0.015) contrasts with the short-window reactions (-0.007, not significant at the 0.10 level or better) we observe in a control sample (*Former Employers Restructuring Control Sample*) of size-matched industry peers⁸ with no executive job changes that announced restructuring charges within a year of those in our sample. Strong and Meyer (1987), Bunsis (1997), and Bartov et al. (1998) find no significant short-window reactions to restructuring charges.⁹ Likewise, the negative market reaction at the current employers to their own restructuring announcements (-0.020, p -value = 0.02) contrasts with the short-window reaction (-0.006, not significant at the 0.10 level or better) we observe in the similarly constructed *Current Employers Restructuring Control Sample*. We conclude that previous results may have been confounded by pooling restructurings with and without preceding executive departures, thereby masking the negative stock reaction of employers that restructure after these departures. That is, the market reaction to restructurings depends on whether there was a preceding departure by an executive.

This paper contributes to research on CEO turnover, write-downs and restructuring, and information transfer. Borokhovich et al. (1996) find that the market views the appointment of an outsider to the CEO position more favorably than the appointment of an insider, consistent with the shareholder belief that outsider CEOs are more likely to increase share values. Our study

⁸ Throughout the paper, we use the term "industry peers" to mean firms within the same three-digit SIC code as those of firms within the relevant sample. For example, industry peers of former employers (current employers) contain firms within the same three digit SIC code as those of former employers (current employers). We use the term "sized-matched industry peers" to mean industry peers within the same size (market capitalization) decile. The time at which the market capitalization is measured depends on the specific sample, and is specified when the particular sample is defined.
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⁹ The accounting for restructurings in this research is based on accounting guidance that has been superseded. Thus, we view the evidence from this prior literature as indicative rather than strictly comparable to our findings, which are based on current accounting guidance.

contributes to this literature by offering insights into information used by the market to inform its assessment of an executive's impact on his/her new employer's prospects, including obtaining information by monitoring decisions at the executive's prior employer. Our paper is also related to research on the market effects of charges, including asset write-downs and restructuring charges that may or may not include asset write-downs. (e.g., Strong and Meyer 1987, Elliot and Shaw 1988, Bartov et al. 1998). In contrast to prior research, we find negative market effects of charges announced by firms after the departure of an executive. Finally, our results contribute to the research on information transfers.¹⁰ In some cases, such as Pandit et al. (2011)'s examination of the transfer of relationship-specific information (suppliers – customer), the characteristics of non-announcing firms explain the cross-sectional variation in their market reactions to announcements of the announcing firms. We show that information transfer effects differ between firms that share an executive over different periods and those that do not

The rest of this paper is organized as follows: Section II provides background and motivation. Section III describes the data and sample construction. Descriptive statistics and the market impact of executive job changes are examined in Section IV. Section V focuses on the effects on current employers of restructurings and write-downs that occur at former employer after executive job changes. Section VI discusses robustness tests. Section VII examines price reactions at employers with executive departures to the announcement of their own charges. Section VIII concludes.

¹⁰ Information transfers were established for earnings announcements (Foster 1981; Clinch and Sinclair 1987; Pownall and Waymire 1989; Han and Wild 1990; Freeman and Tse 1992; Ramnath 2002), bank loan-loss reserves (Docking et al. 1997), retailers' monthly sales reports (Olsen and Dietrich 1985), bank failures (Aharony and Swary 1983), bankruptcy filings (Lang and Stulz 1992; Ferris et al. 1997), dividend initiations (Firth 1996), Internet hacker attacks (Ettredge and Richardson 2003), nuclear accidents (Bowen et al. 1983), and restatements (Gleason et al. 2008).

II. Background and Motivation

We distinguish between write-downs and restructurings, based on their immediate cash consequences.¹¹ In the case of restructurings, the cash flow consequences include the costs to exit an activity (“exit plan”), to terminate employees or lease contracts, to relocate employees (“relocation plan”), and of disposal activity.¹² We follow U.S. GAAP and define restructuring cost to include any of these costs. In contrast, we define asset write-downs to include inventory write-downs and impairment of long-lived assets.¹³ These asset write-downs reduce income, but have no cash flow consequences.

Further, write-downs and restructurings differ in that one is mandatory and the other is voluntary. The decision to undertake a restructuring and the decision’s timing are both management/governing board decisions (there is guidance for the accounting effects of such decisions, but the decisions themselves are suitably viewed as strategic and operational). Generally, there is no “decision” to record an asset write-down because both the amount and timing are determined by the application of authoritative guidance in light of economic conditions.

Write-downs reflect accounting impairments in the form of decreased future cash flows; they are not associated with future cash expenditures. Restructurings, on the other hand, involve changes in the nature and/or scope of operations. We assume that economic conditions before the

¹¹ See section 420-10-15-3 of the FASB codification. Section 420-10-20 (Glossary), published on July 1, 2009, defines restructuring as “A program that is planned and controlled by management, and materially changes either the scope of a business undertaken by an entity, or the manner in which that business is conducted, as defined by the International Accounting Standard No. 37 in 2002.”

¹² In IAS 37 (paragraph 10), restructurings involve re-organization or disposals associated with incremental cash consequences that materially change the scope of a business or the manner in which it is conducted. As examples, IAS 37 (paragraph 70) mentions the sale or termination of a line of business, the closure of activities in a particular location, the relocation of activities, eliminating a layer of management, and a fundamental reorganization that affects the focus of operations.

¹³ See Section 330-10-35 of the FASB codification for inventory write-downs, Section 350-20-15-2 for impairment of goodwill, Section 350-30-15-3 for intangibles other than goodwill, and Section 360-10-15-4 for other long-lived assets.

executive's departure should have prompted the restructuring (meaning, no change in economic conditions between shortly before departure and the time of the restructuring announcement). To minimize the possibility this assumption is violated, we limit our sample (as described below) to restructurings announced within 18 months after the executive's departure. Indeed, were the relevant economic conditions that prevailed before departure to change such as to justify restructuring post-departure (but not pre-departure), it is likely we would not observe the results documented in this paper.¹⁴ As long as restructurings are perceived by executives as positive NPV projects, information that an executive did not decide to restructure in a timely manner conveys an adverse signal about the executive's decision-making ability. The result is a negative effect on the current employer; their effect would be absent when assets are written down as required by GAAP.

While the failure to restructure is assumed to occur shortly before departure, the event triggering an asset write-down, – the acquisition of the asset, – is most likely to have occurred much earlier. Since we are unable to identify the timing of the asset acquisition, we cannot justify the assumption of no change in economic conditions, as we could for restructurings. Hence, economic conditions between the initial acquisition of the written-down asset and the ultimate write-down after the executive's departure are more likely to have changed. In this scenario, inferences regarding the executive's ability are potentially confounded by the possibility that the written-down asset had been a positive NPV investment and that subsequent deteriorating economic conditions required the write-down. Consequently, while we expect a negative reaction at the new employer upon a restructuring announcement by the former

¹⁴ Furthermore, in robustness tests we find that the effect we hypothesize is concentrated in the shorter periods elapsing between the departure and the restructuring announcement.

employer, we expect only an attenuated reaction, if any, in the case of a write-down announcement.

Restructurings are often related to exiting operations.¹⁵ We assume the economic underpinnings of restructurings are similar to those of discontinued operations, which have been found to increase following CEO resignations (as opposed to other CEO departures; see Barron et al (2011) 68% of our restructuring sample involves cessation of operations). Alternative theories linking executive turnover and the discontinuation of operations, such as those discussed by Weisbach (1995), include the "matching of managerial skill" (the new executive discards projects that do not match his skills even though they may have matched the departing executive's skills), and the "matching of private interests" (the incoming executive's private interests differ from his predecessor's). The fact that Barron et al. (2011) find the incidence of discontinuations to be associated with resignations but not other departures rules out these alternative explanations for restructurings or discontinuation of operations post job-change. The agency-based explanation Barron et al. (2011) find to be consistent with their results is the "escalation of commitment" (Kanodia et al. 1989), suggesting that an executive might avoid restructuring to prevent the revelation of failure. This is consistent with our conjecture that a post-departure restructuring reflects poorly on the departing executive's ability.

We analyze whether restructuring and write-downs at an executive's former employer (post departure) affects returns at his/her current employer. We interpret a post-departure restructuring as information about the departing executive's decision-making ability (in the sense that he/she failed to implement positive NPV restructuring projects). We posit that market participants

¹⁵ Weisbach (1995) states (p. 182): "...sales of poorly performing acquisitions are just as prevalent following mandatory retirements as following other resignations. Some of the time, CEOs are fired and the acquisitions for which they are responsible are sold. Other times, the board does not fire the executive but waits until he retires at age 65 before selling his acquisitions."

perceived the executive to be of high ability at the time of hiring, and revised this perception downward when the former employer announced a restructuring that likely increased shareholder wealth. We expect this downward assessment to be most pronounced when the current and former employers are in the same industry, because the negative signal conveyed by failure to undertake the restructuring before (rather than after) the executive's departure would be most relevant to a current employer that expects to benefit from the executive's industry-specific experience. In other words, we expect the assessment of the executive's ability to be revised downward only or primarily when the departing executive had been judged to possess considerable industry-relevant ability initially, thus giving rise to positive abnormal returns upon the hiring announcement. In movement between industries, we expect assessments of the departing executive's performance at his former employer to be less pertinent to his performance at the new employer, and restructuring at the former employer is hence not as informative. Therefore, we predict that the market reaction at a current employer to a restructuring announcement by a within-industry former employer will be negative.

III. Sample

Our *Job Change Sample* is from S&P's *EXEC COMP*, and comprises movements of CEOs, CFOs, COOs, vice presidents, chairpersons, or vice chairpersons from former firms to new CEO, CFO, and COO positions during 1994-2011. We augment the sample with data from the Forbes CEO compensation survey.¹⁶ We require that the executive be hired at the current

¹⁶ Executives occupying positions at different firms in any two consecutive years were assigned to the initial sample from *EXEC COMP*. To this, we added firms from the Forbes survey for whom there is a change in the CEO name. All the media covered by *Factiva* were examined to confirm the *job change* and its announcement date.

employer within 12 months of leaving the former employer (losing 102 observations) and that he/she stay in his/her new job for at least 18 months (losing another 27 observations).¹⁷

We also exclude observations for which *CRSP* stock returns are unavailable (40 cases). The remaining sample consists of 365 current and former employers (*Job changes sample*). Table 1 reports position changes by title. The most common position changes are CEO-to-CEO (70 cases) and CFO-to-CFO (204 cases). In the few cases in which the job change is to a lower position, such as from CEO to COO, the current employer is larger, on average, than the former employer.

We extracted all announcements of charges (restructurings or write-downs) over the 18 months after hiring the executive from Factiva. Following Strong and Meyer (1987), Elliot and Shaw (1988), and Bartov et al. (1998), we searched for the keywords “write-off,” “write-down,” or “restructuring,” along with the word “charge.” When provided, we noted whether the charge was a restructuring or a write-down as well as its amount.¹⁸ We also noted whether restructuring announcements (all of which included severance charges) included write-downs. We discarded

¹⁷ On average, 37.5 days (range is 0 to 357 days) elapsed between departure and hiring. For 275 of 365 observations, the departure and hiring dates are the same. Applying the test to these 275 observations results in qualitatively similar (untabulated) results. Applying the test to the remaining 90 observations, which include 52 charge announcements, yields weaker results, perhaps due to the smaller sample size. Also, all else equal, a longer interval between jobs (departure day to hiring day) increases ambiguity about the restructuring at the former employer. Specifically, the larger the elapsed time interval, the higher the likelihood that the restructuring was necessitated by post-departure events, hence undermining an inference that the restructuring revealed a failure to undertake a positive NPV project. Indeed, in untabulated tests we detect no significant market reaction (at the 0.10 level or better) to the current employer in the 63 excluded cases when hiring occurred more than 1 year from the date of departure. For robustness, we break down our sample of 217 former employers that announced charges into subsamples based on the elapsed time between hiring and the former employer’s first date on which a charge is announced, and consider elapsed time periods of 0-6 months (N=135), 6-12 months (N= 69) and 12-18 months (N=13). We find that the hypothesized effect is the strongest in the 0-6 months subsample, consistent with the proposition that the shorter the time interval between departure and the former employer’s charge announcement, the stronger the inference about the executive’s ability.

¹⁸ We analyze write-downs as one homogeneous event. It is possible that different types of write-downs will have different information transfer effects on the current firm’s stock. For example, Francis et al. (1996) found that inventory write-downs, when interacted with the amount, are negatively associated with firms’ own stock reaction. We include their independent variables (indicator variables for inventory, goodwill, PP&E, and miscellaneous write-downs) that are applicable to our sample. Untabulated results leave inferences about the effects of restructurings unchanged. In addition, none of the disaggregated write-down variables is significantly associated with the current employers’ cumulative abnormal returns at the 0.10 level or better.

announcements with minimal information content, such as those describing charges pursuant to a restructuring plan announced before the executive's departure. 217 former employers and 205 current employers announced charges (restructurings or write-downs) within 18 months after hiring. We refer to these as the *Former Employers Charges Sample* and the *Current Employers Charges Sample*, respectively. Table 2 provides a breakdown of the *Job Change Sample* into position change by the migrating executive's title and by whether the job change occurred within the same industry for the 217 former employers who announced charges after the job change. The most common position changes in this subsample are CEO-to-CEO (43) and CFO-to-CFO (123). We expect restructuring at former employers to be most informative when the executive is a CEO, based on the news that the CEO bears most of the responsibility associated with the failure to implement desirable restructurings. We also expect a weaker response to restructuring by the former employer when the departing executive is a CFO or COO.¹⁹

Table 3 breaks down the *Former Employers Charges Sample* into "restructuring without write-downs", "restructuring with write-downs" and "write-downs without restructuring", with each category further broken down into job changes within the same industry²⁰ and those occurring across different industries, and whether the position at the current employer is that of a CEO or non-CEO. Restructurings without write-downs occur more frequently than other types of charges in all categories.

¹⁹ According to CFO Signals (Retrieved from <http://www2.deloitte.com/us/en/pages/finance/articles/cfo-signals-survey-executives-sentiment-rising-concern-2015q2.html>), which surveys CFOs in companies with more than \$1 billion in annual revenues and mostly public companies since 2012 3rd quarter, CFOs view their roles as including: operator, (financial, accounting and control) steward, strategist, and catalyst, with strategist being their major task. This suggests that CFOs likely participate in major corporate and financial decision-making, including restructuring and write-downs.

²⁰ We refer to the term "same industry" to mean firms within the same three-digit SIC codes as those of the former employers. When the number of firms within a given three-digit SIC code is less than 10, we use the two-digit SIC code.

IV. Descriptive statistics and market reaction measures

Table 4 provides descriptive statistics for the *Job Change Sample* and the results of our event studies of executives' departures and hiring announcements. $StockPerf^{Former}$ is the former employer's size-adjusted return minus the average of the industry peers' size-adjusted returns, both measured over the last two years of the departing executive's tenure. To measure accounting performance, for each former employer, we calculate the average return on assets, ROA, over the two fiscal years preceding departure. The accounting performance measure, $AcctPerf^{Former}$, is the excess of each former employer's thus computed ROA over the mean of the corresponding ROA of its size matched industry peers (where the time at which size is determined is the end of the year immediately preceding departure)²¹. Former employers' mean past accounting performance is positively significant (0.034, p -value < 0.01) and former employers' stock return performance is negatively significant (-0.137, p -value < 0.01). We also provide descriptive statistics on the size of the former employer and the executive's age and tenure at the former firm. The average former (current) employer has \$11.96 (\$7.90) billion market capitalization.

Table 4 also reports market reaction measures for the former employer (at the departure announcement) and new employer (at the hiring announcement).²² $CAR_{Departure(0,1)}^{FORMER}$ ($CAR_{Hiring(0,1)}^{CURRENT}$) is the former (current) employer's size-adjusted return over days (0, 1), where day 0 is the announcement date of departure/ hiring, minus the average of size-adjusted returns over days (0, 1) of the firm's peers.²³ Size-adjusted returns for each firm are computed as the

²¹ When the number of firms in a given three-digit SIC code is less than 10, we use a two-digit SIC code. Results using two- and four-digit SIC codes yield mostly similar results.

²² The departure and hiring announcement dates coincide in 72% of our sample.

²³ We also run tests with alternative windows for measuring CAR : days (0, 2), (-1, 1), (-1, 2), (-2, 1), and (-2, 2) relative to the event for all events examined in the paper. The results are qualitatively the same.

excess raw returns over the mean returns for the size-decile to which the firm belongs at the most recent calendar year end. $CAR_{Departure(0,1)}^{FORMER}$ is on average -0.017 (p -value < 0.01, two-tailed test henceforth), while $CAR_{Hiring(0,1)}^{CURRENT}$ is on average 0.012 (p -value = 0.03).²⁴ These results are consistent with the market perceiving the executive's hiring announcement to increase shareholders' value. This is further corroborated by the Pearson correlation of -0.141, between $CAR_{Departure(0,1)}^{FORMER}$ and $CAR_{Hiring(0,1)}^{CURRENT}$ (significantly negative at the 0.01 level, untabulated). The past accounting performance of former employers ($AcctPerf^{Former}$) and the past stock performance of former employers ($Stockperf^{Former}$) are positively correlated with same-industry, but not different-industry job changes. This positive correlation is consistent with our prediction that the price reaction to a restructuring will be negative when the executive is hired within industry; the negative signal inherent in the restructuring announcement would have the greatest impact on a current employer who expected to gain from the industry-specific experience of the executive, as indicated by a positive price reaction to the hiring.

V. Results - Information transfer to the current employers

We examine the share price response of an executive's current employer to a charge announcement made by the former employer. Table 5, Panel A tabulates the charge variables for the *Former Employers Charges Sample* as well as for its subsamples (*Restructuring without Write-Down*, *Restructuring with Write-Down*, and *Write-Down without Restructuring*).

$CAR_{FORMER\ charge(0,1)}^{CURRENT}$ and $CAR_{FORMER\ charge(0,1)}^{FORMER}$ are the current employer's and former employer's cumulative abnormal return over days (0, 1) relative to the former employer's

²⁴ All p -values are based on Patell's (1976) z -statistics for testing the significance of short-window stock price reactions. The positive current employers' CAR at hiring is stronger in same industry job changes (0.022, p -value < 0.01, versus 0.007, p -value = 0.73 for cross-industry job changes. Results are not tabulated. These numbers are significantly different from one another (p -value = 0.04). The overall pattern of the CARs is unchanged when we use different abnormal return measures, such as Fama and French's (1992) 3-factor model and a market model.

charges announcement. Same-Industry is an indicator equal to 1 when the former employer and current employer are in the same industry, 0 otherwise; $Amount^{FORMER}$ is the amount of the former employer's charges announcement (deflated by market value three days preceding the announcement); and $No-amount^{FORMER}$ is an indicator equal to 1 if no amount is specified in the former employer's announcement and 0 otherwise. As reported in Table 5, for the sample combining within- and different-industry job changes, the current employer's stock price reaction to charge announcements by the former employer ($CAR_{FORMER}^{CURRENT\ charge(0,1)}$) ranges from -0.011 (for restructuring with write-down) to -0.002 (for restructuring without write-down and write-down with restructuring). The former-employer's stock price reaction to its own announced charges, $CAR_{FORMER}^{FORMER\ charge(0,1)}$, -0.013, is significantly negative (p -value = 0.03) in the *Restructuring without Write-Down* subsample. The reaction for the (total) *Former Employers Charges Sample* is -0.011, marginally significant (p -value = 0.08); for the *Restructuring with Write-Down Subsample* it is -0.020, not significant at the 0.10 level or better; for the *Write-Down without Restructuring Subsample* it is -0.001, not significant at the 0.10 level or better.

As previously explained, we expect a negative price response (negative information transfer) when the current and former employers are in the same industry and when the former employer announces a restructuring. As reported in Panel B of Table 5, current employers react negatively to same-industry former employers' restructuring (size adjusted return = -0.013, p -value < 0.01), and former employers' reaction to their own announced restructuring charges is -0.022 (p -value = 0.03). By contrast, there is no reliably nonzero price response on the part of industry peers, firms with the same three-digit SIC as former employers.

Since we predict that the negative reaction at the current employer to the former employer's charge announcement occurs only or more strongly in same-industry job changes, we use a multivariate analysis to distinguish between same- and different-industry job changes. We estimate the following pooled regression using the *Former Employers Charges Sample* to explain variation in the cumulative abnormal returns of the current employers.

$$\begin{aligned}
CAR_{FORMER\ charge(0,1)}^{CURRENT} &= \beta_1 WD - DIFF + \beta_2 WD - SAME + \beta_3 RST - DIFF + \beta_4 RST - SAME \\
&+ \beta_5 Amount_{it}^{FORMER} + \beta_6 No - amount_{it}^{FORMER} + \sum_{j=7}^{13} \beta_j Control\ variable_{j,it} \\
&+ \sigma_{it} \quad (1)
\end{aligned}$$

where *RST-SAME* (*RST-DIFF*) is an indicator equal to 1 if the charge represents a restructuring and the former employer and the current employer are in the same (different) industry; *WD-SAME* (*WD-DIFF*) is an indicator equal to 1 if the charge represents a write-down and the former and current employers are in the same (different) industries; *Amount*^{FORMER} and *No-amount*^{FORMER} were defined above. As control variables in regression (1), we include all public announcements made by current employers in the window (0, 1). If current employers' earnings announcements occurred during these two days, we include earnings surprise (*Surprise*^{CURRENT})²⁵ and an indicator variable for the earnings announcement (*EA*^{CURRENT}). Similarly, current employers' write-down announcements (*Write-down*^{CURRENT}), dividends (*Dividend*^{CURRENT}), dividend cuts (*Div Cut*^{CURRENT}), stock repurchases (*Repurchase*^{CURRENT}), and the tenor of forward-looking information²⁶ (*Positive*^{CURRENT} and *Negative*^{CURRENT}) are included as control variables.

²⁵ *Surprise*^{CURRENT} is defined as the current employer's earnings surprise if reported contemporaneously with the former employer's charge, measured as (actual EPS from *IBES* minus the mean of analysts' most current forecasts before the earnings announcement date)/share price three days before the earnings announcement date.

²⁶ We classify the tenor of current employers' disclosures into positive and negative. First, we review the current employer's forward-looking and other information in public releases and other newspaper articles (management's forecast of future earnings

Column A in Table 6 presents results for a specification of equation (1) that includes the former employers' charge announcement variables. The coefficient on *RST-SAME*, which represents the overall effect of former employers' restructurings in same-industry job changes, is significantly negative (-0.012, *p*-value = 0.02). This effect implies a mean (median) current employer market value loss of \$122.90 million (\$48.15 million).²⁷ The fact that only the event of restructuring, and not its (scaled) amount, is significant implies that the existence of a post-departure restructuring casts doubt on the ability of the departing executive. Column B in Table 6 decomposes *RST-SAME* into *RSTWD-SAME* (restructuring announcement with write-down) and *RSTNOWD-SAME* (restructuring announcement without write-down). The coefficient on *RSTWD-SAME* (-0.015, *p*-value = 0.09) is not significantly different at the 0.10 level or better from that on *RSTNOWD-SAME* (-0.011, *p*-value = 0.07). In 42 cases in which the executive is hired by the acquirer of his former employer, we analyze pre-acquisition data, and the acquiring firm's restructurings and asset write-downs related to the acquired firms' assets. To test for the possibility of merger-induced restructuring, we rerun our tests on two samples: first excluding the 42 merger-associated job changes, and then using only the 42 merger-associated job changes sample. The results (not tabulated) for both of these are qualitatively similar to that of the (total) *Former Employers Charges Sample* (N=217).

or future sales growth, information included in external sources such as pending lawsuits, patent approval outcomes, analysts' revision of their earnings forecasts, or recommendations) that are disclosed contemporaneously with the former employer's charge announcement. If positive news is announced (sales or earnings upward revision by management, won lawsuit, approval of patent, analysts' upward revision of the earnings estimate or stock rating), the indicator variable *Positive^{CURRENT}* is coded 1 (0 otherwise). If the opposite (negative news) is announced, the indicator variable *Negative^{CURRENT}* is coded 1 (0 otherwise).

²⁷ Same-industry current employers whose corresponding former employers announced restructuring charges experienced on average a 0.021 positive reaction ($CAR_{Hiring(0,1)}^{CURRENT}$) at the time of the announced hiring of the executive. Thus, the negative 0.012 effect of the (later-announced) restructuring by former employers on current employers can be seen as a downward revision of the executive's expected contribution to the current firm triggered by the implication of restructuring as hypothesized, leaving a 'net' positive impact of the executive's hiring on the current firm of 0.009.

To explore why the information transfer at restructuring is significant only in same-industry job changes, we first analyze whether past performance at the former employer is linked to significant reactions (at the current employer) only within the same industries. Untabulated results show that the reaction to hiring is significantly associated with accounting performance (0.024, p -value=0.08) and stock performance (0.021, p -value < 0.01) at the former employers only in same-industry job changes.²⁸

We infer that similar technology and business models within a given industry make performance at the former employer more relevant for judging the decision-making ability of the executive (and, hence, the current employer's prospects). Decomposing our sample into the 79 CEO job changes (an executive is hired as a CEO) and the 138 non-CEO job changes (an executive is hired as a non-CEO) reveals that the information transfer effect (coefficient on *RST-SAME* = -0.015) is significantly negative (p -value = 0.02) in the CEO job changes subsample. Moves from non-CEO to other non-CEO jobs, except for moves to CFO, have no reliable effects. For both any position to CFO and CFO to CFO subsamples, the coefficient on *RST-SAME* is a marginally significant -0.014 (p -value = 0.08) implying that the market attaches some weight to the perceived ability of an executive assuming the position of CFO, less than that of an incoming CEO.²⁹

²⁸ Specifically, we examine the association between the current employer price reaction at the hiring announcement with both (1) performance at the former employer, and (2) the former employer price reaction to the departure announcement as follows:

$$CAR_{Hiring(0,1)}^{CURRENT} = \alpha + \beta_1 AcctPerf^{FORMER} + \beta_2 StockPerf^{FORMER} + \beta_3 CAR_{Departure(0,1)}^{FORMER} + \sigma$$

The test was run separately on the same-industry-job-change and the different-industry-job-change subsamples. Untabulated result show that β_1 and β_2 are significantly positive ($\beta_1 = 0.024$ and p -value = 0.08 and $\beta_2 = 0.021$ and p -value < 0.01, respectively) and β_3 is significantly negative ($\beta_3 = -0.261$ and p -value = 0.03) in the same-industry-job-change subsample, but not significant at the 0.10 level or better in the different-industry-job-change subsample.

²⁹ This result was obtained after excluding an outlier observation with high leverage. Including the outlier, the coefficient is not significant at the 0.10 level. In addition, the small sample sizes for the CFO to CEO and COO to CEO moves (4 and 16, respectively) prevent meaningful testing. The (untabulated) 32 non (CEO or CFO) to CEO moves yield a marginally significant coefficient on *RST-SAME* (-0.024, p -value = 0.07).

VI. Robustness tests

To analyze the possibility that the information transfer effects we document reflect industry conditions, we evaluate the price response of industry peers to charges announcements made by a *Former Employers Charges Control Sample (FECCS)*, where industry peers in this case contain firms within the same three-digit SIC code as those of the FECCS firms. To construct the FECCS, we randomly select firms from the former employers' size-matched industry peers and search Factiva for the same kind of announcement made by the former employer (e.g., if the former employer announced a “restructuring,” we search for the word “restructuring”), beginning a year before and ending a year after the former employer’s post-departure charges announcement. We identify 217 charges announcements made by these peer firms. Our tests analyze the share price responses of non-announcing FECCS’ industry peers to charge announcements made by FECCS firms. Means of CAR of FECCS industry peers surrounding the FECCS charges announcements over days (0, 1) reveal that neither restructuring nor write-downs had significant effects (results not tabulated).³⁰ We interpret this finding as evidence that restructuring effects do not reflect industry conditions; rather, they embody, at least in part, signals of firm-specific conditions, which, interpret as information about executive ability.

We also estimate the following pooled regression using a combined sample of industry peers and non-industry peers³¹ (the *Target Sample*) of the FECCS.

³⁰ For each of the 217 former employers that announced a restructuring (write-down), we identified an employer that also announced restructuring (write-down) among the size-matched industry peers of the former employers, resulting in an equal sample size (*Former Employers Charges Control Sample*). In other words, the *Former Employers Charges Control Sample* is the set of employers, among former employers’ size-matched industry peers, that announced charges beginning a year before and ending a year after the former employers’ announced charges post-hiring.

³¹ Industry (Non-industry) peers contain firms that share (do not share) share the same three-digit SIC codes as those of firms in FECCS.

$$\begin{aligned}
CAR_{FECCS\ charge(0,1)}^{Target\ Sample} &= \beta_1 WD - DIFF + \beta_2 WD - SAME + \beta_3 RST - DIFF + \beta_4 RST - SAME \\
&+ \beta_5 Amount_{it}^{FECCS} + \beta_6 No - amount_{it}^{FECCS} + \sigma_{it} \quad (2)
\end{aligned}$$

$CAR_{FECCS\ charge(0,1)}^{Target\ Sample}$ is the *Target Sample* cumulative abnormal return over days (0, 1) relative to the FECCS charge announcements. The independent variables are defined as in model (1). We exclude *Target Sample* observations with announced earnings, dividends, or stock repurchases from one week before to one week after the day of the FECCS charge. Untabulated results (for tests in which errors are clustered at the firm level) yield coefficients which are not significant at the 0.10 level or better for any variables, including *RST-SAME*, confirming that restructuring events that do not follow an executive job change do not create negative information transfer effects.

Finally, we consider the sensitivity of our results to how the peer group is defined. It is possible that executives migrate to employers who have more similar business models and practices to their former employers than is the case with respect to the industry peers that we used in the above tests. Thus, it could be argued that our finding, that the restructuring announcement had no effect on the industry peers, is due to these being not as similar to the former employers as the current employers. Hence, to further bolster our inferences, we investigate whether current employers are more similar to their corresponding former employers than the latter's other industry peers.

To proxy for similarity, we consider current employers to be more similar to former employers if the latter's earnings surprise affects current employers more than it affects the former

employers' industry peers, and if current employers' charges affect the former employers more than they affect the current employers' industry peers.

We first compare the effect of the former employer's earnings announcements on the stock price of the current employers with the effect on the stock price of size-matched industry peers of the former employers:

$$\begin{aligned}
 CAR_{Former\ EA(0,1),it} &= \alpha + \beta_1 Surprise_{it}^{Former} + \beta_2 Surprise_{it}^{Former} \times Current_{it} \\
 &+ \beta_3 Surprise_{it}^{Former} \times Current_{it} \times Same - Industry_{it} + \sigma_{it} \quad (3)
 \end{aligned}$$

where $CAR_{Former\ EA(0,1),it}$ is the cumulative abnormal return of firms in a sample comprising the union of the size-matched industry peers of the former employers and the current employers over days (0, 1) relative to the date of the former employer's quarterly earnings announcement in the two years preceding the executive departure; $CURRENT$ is 1 if the dependent variable represents a current employer, and 0 otherwise; $Same-Industry$ is 1 when the primary three digit SIC digit codes of the former and the current employers are the same, 0 otherwise; and $Surprise$ is defined as actual earnings minus the most recent *IBES* consensus forecast of the former employer's earnings deflated by price at the time of the *IBES* consensus forecast. $\beta_2 > 0$ implies the former employer is more similar to a different-industry current employer than to employers in the size-matched industry peer group. A finding that $(\beta_2 + \beta_3) > 0$ implies the former employer is more similar to its corresponding same-industry current employer than to the former employer's size-matched industry peers.

Untabulated results show that both β_2 and β_3 as well as their sum are insignificant at the 0.10 level or better, implying that the former employers are not more similar to the current employers (whether in the same or different industries) than to their size-matched industry

peers. Specifically, when former employers announce earnings (over the 2 years preceding an executive's departure), current employers' stock prices do not react differently from the stock prices of size-matched industry peers.^{32 33}

To test whether the former employer reacts to the current employer's charges the same way the current employer reacts to the former employer's charges, we estimate the model in equation (4) below using *Current Employers Charge Sample*:

$$\begin{aligned}
 CAR_{CURRENT\ charge(0,1)}^{FORMER} &= \beta_1 WD - DIFF + \beta_2 WD - SAME + \beta_3 RST - DIFF + \beta_4 RST - SAME \\
 &+ \beta_5 Amount_{it}^{CURRENT} + \beta_6 No - amount_{it}^{CURRENT} + \sum_{j=7}^{13} \beta_j Control\ variable_{j,it} \\
 &+ \sigma_{it} \quad (4)
 \end{aligned}$$

where $CAR_{CURRENT\ charge(0,1)}^{FORMER}$ is the former employer's cumulative abnormal return over days (0, 1) relative to the current employer's charges announcement.³⁴

Variables are defined as in model (1). The tests are run on both the full sample and a restricted sample that excludes observations for which contemporaneous events were announced at the former employer. None of the main variables, *WD-DIFF*, *WD-SAME*, *RST-DIFF* and *RST-*

³² This result needs not imply that the executive's expertise within a same-industry job change is not readily transferable. Many factors not related to management expertise affect the information transfer of earning announcements.

³³ In addition, we ran 100 model (3) regressions, each including the current employers and an equal number of firms selected randomly (with replacement) from size-matched industry peers of the former employers as the firms whose CARs are the dependent variable observations. We exclude size-matched peers that announced earnings, dividends, or stock repurchases from one week before to one week after the day of the charge. In 54 (46) regressions, β_2 is negative (positive) but never significant at the 0.10 level or better. In 44 (56) regressions, β_3 is negative (positive) and never significant at the 0.10 level or better. Finally, the sum of β_2 and β_3 is negative (positive) in 45 (55) regressions, but never significant at the 0.10 level or better.

³⁴ We include as control variables in regression (4) all public announcements made by former employers in the window (0, 1) relative to the former employer's charge announcement. If former employers' earnings announcements occurred during these two days, we include earnings surprise (*Surprise*^{FORMER}) and indicator variables for earnings announcement (*EA*^{FORMER}). Similarly, former employer's write-down announcements (*Write-down*^{FORMER}), lay-off announcement (*Layoff*^{FORMER}), dividends (*Dividend*^{FORMER}), dividends cut (*Div Cut*^{FORMER}), stock repurchases (*Repurchase*^{FORMER}), and the tenor (see footnote 27) of forward-looking information (*Positive*^{FORMER} and *Negative*^{FORMER}) are included as control variables.

SAME, is significant at the 0.10 level or better (untabulated). We conclude that the former and current employers are no more similar to each other than to their peers, and suggest our inference that the effect of a restructuring announcement at a former employer on the share price of a current employer is due to shareholder inference about the job-changing executive's ability, rather than industry effects.

VII. Reaction to a firm's own charges

We now explore the effect of the own price reaction at former employers and current employers to their own charge announcements. To the extent that restructuring by the former employer (current employer) reflects negatively on the ability of the departing (incoming) executive, the market may expect additional bad news. As a signal that the departing executive did not undertake a positive NPV project, a restructuring may portend more bad revelations to come, because of negative implications for the departing executive's decision-making ability.

'A' restructuring charge that is not preceded by a job change could be associated with a positive, negative or no price response. Opposing forces are at play. On the one hand, to the extent restructuring is a positive NPV project and the decision to restructure is based on public information, we should expect a positive price response. That is, if the restructuring decision is based on information available to both the manager and investors, the reaction to the decision should be positive, because the price just prior to announcement of restructuring would have impounded the conditions that prompted the restructuring. On the other hand, if the restructuring decision is based on information known by managers but not investors, the announcement would reveal both the negative information that prompted the restructuring and positive information signaled by the restructuring. Hence, the reaction could be positive, negative, or zero.

Previous research suggests that investors often draw positive or non-negative inference from restructuring activities. For example, Bunsis (1997) reasons that a positive reaction to discontinued operations implies that the disposal eliminates future losses. Bartov et al. (1998) find an insignificant short-term reaction to operating asset write-offs, conveying implications for both a lower book value and a plan for improved future cash flows. In our setting, a restructuring shortly after an executive's departure can signal additional problems at the former employer, yet to be discovered by the executive's successor.

Table 7 reports the result of our analysis of charges announced by former employers have a different market impact from similar announcements made by firms in the FECCS. Mean *CAR* at the former (current) employer for days (0, 1) surrounding the announcement is -0.011, *p*-value of 0.08 (-0.015, *p*-value of 0.04). This result is robust to the choice of the model generating abnormal returns.³⁵ In contrast, the stock price reaction is an insignificant -0.008 (*p*-value = 0.64) for the FECCS.

We also find significantly negative price reactions to restructurings announced by the former employers (current employers) with a mean *CAR* of -0.015, *p*-value of 0.04 (-0.020, *p*-value of 0.02), and insignificant reactions to write-downs, -0.001, *p*-value of 0.93 (-0.008, *p*-value of 0.27).³⁶ These two means -0.015 and -0.001(-0.020 and -0.008) differ significantly from each other (*p*-value = 0.03 and *p*-value = 0.02 respectively; untabulated tests of medians yield consistent results).

³⁵ Fama and French's 3-factor model (1992) and tests using size- and market-model-adjusted returns yield qualitatively similar results.

³⁶ Untabulated results show that mean *CAR* for the former' (current) employers restructuring-without-write-down, -0.013, (-0.019) does not significantly (at the 0.10 level or better) differ from the reaction to restructuring-with-write-down, -0.020 (-0.022).

While the former employers price reaction to charges (including both restructurings and write-downs), -0.011 is not statistically different at the 0.10 level or better from the FECCS -0.008 price reaction, the reaction to former employers' restructurings, -0.015, differs significantly (p -value = 0.03) from the reaction to restructurings by FECCS firms (coefficient = -0.007, not significant at the 0.10 level or better).³⁷ Similarly, the significantly negative reaction we document for current employers to their own restructuring announcements (-0.020, p -value = 0.02) contrasts with the insignificant price reaction (-0.006, not significant at the 0.10 level or better) to restructuring announcements by firms in the *Current Employers Restructuring Control Sample*. In other words, the market reaction to restructurings (but not write-downs) depends on whether there was a preceding job change.

The negative price reactions observed at former employers (-0.015) and current employers (-0.020) contrast with results in previous research, for example, Strong and Meyer (1987), Bartov et al. (1998), Elliott and Shaw (1988) and Bunsis (1997). Our result indicates that the non-negative reactions previously documented may have been confounded by pooling firms with and without executive departures, thereby masking the negative reactions to restructurings that follow those departures. In addition, of course, the accounting guidance was quite different. If changes in standards affect the content, the meaning, and timing of these charges, this would also affect the results.

³⁷ We also account for the possibility that charges information had leaked before our first identified announcement date, as well as the fact that Factiva may not have correctly identified the first date. Clearly, either scenario would have implied observed *CARs*, which would not have been as negative or significant at the 0.10 level or better. Nonetheless, we examine the daily and cumulative returns over the 30 days (-32,-3) and 10 days (-12, -3) preceding each announcement date (date 0). Untabulated results reveal that neither significantly differ from zero at the 0.10 level or better, implying no leakage to an extent that attenuates the surprise contained in the announcement. We also examined the day-by-day size- and industry-adjusted returns during the period (-32, -2). In the case of former employers' restructuring announcements, only one day (-7) had a significantly negative return (-0.003, p -value = 0.04), and only one other day (-22) had a significantly positive return (0.006, p -value = 0.03). All other days were associated with insignificant returns at the 0.10 level or better. In the case of former employers' write-downs, all the days had insignificant returns at the 0.10 level or better.

Untabulated results of multivariate regressions of *CAR* on indicator variables for restructuring and control variables (earnings announcements, stock repurchases, dividend declarations, dividend cuts, and analysts' rating revisions) confirm the significantly negative price response to restructurings by both former and current employers, and the absence of any impact on FECCS and *Current Employers Charges Control Sample* (CECCS) .^{38 39}

VIII. Conclusion

We find that restructurings announced by firms following the departure of an executive such as the CEO, CFO, or COO are associated with negative short-window returns at the executive's current employer, when the current employer is in the same industry. These results suggest that equity investors use former-employer restructurings to reevaluate the prospects of current employers. This result is consistent with a negative reassessment of the decision-making

³⁸ *Current Employers Charges Control Sample* (CECCS) includes size-matched industry peers of the current employers (where the size and sic code is taken at the beginning of the year during which current employers announced charges) that satisfy the following conditions: 1) No job changes occur within a year from when former employers announce a restructuring, and 2) The firm must have announced the same type of charges (restructurings or write-downs) as those announced by the current employers within a year of the latter's announcements (e.g., if the current employer announced a restructuring, we require that the size-matched industry peers also announced a restructuring). The sample is obtained using random searches of size-matched industry peers of current employers (1075 searches) resulting in each current employer being size-matched with an industry peer that announced the same type of charges. Thus, the *Current Employers Charges Control Sample's* size is identical to that of the *Current Employers Charges Sample* (205).

³⁹ Specifically, we examine the association between the price reaction at charge ($CAR_{Charge(0,1)}$) with the following variables: *Restructuring* (an indicator equal to 1 when charge is restructuring, 0 otherwise), *Amount* (amount of charges/market capitalization as of two days before the charge), *No-amount* (an indicator equal to 1 if no amount is specified in the charge announcement, 0 otherwise), *EA* (an indicator equal to 1 if earnings is announced contemporaneously with charges, 0 otherwise), *Repurchase* (an indicator equal to 1 if stock repurchases is announced contemporaneously with charges, 0 otherwise), *Dividend* (an indicator equal to 1 if dividend is announced contemporaneously with charges, 0 otherwise), *Div Cut* (an indicator equal to 1 if dividend cut is announced contemporaneously with charges, 0 otherwise), *AnalystUP* (an indicator equal to 1 if analysts upgrade earnings target or stock rating contemporaneously with charges, 0 otherwise), *AnalystDOWN* (an indicator equal to 1 if analysts downgrade earnings target or stock rating contemporaneously with charges, 0 otherwise).

$$CAR_{Charge(0,1)} = \alpha + \beta_1 Restructuring + \beta_2 Amount + \beta_3 No - Amount + \beta_4 EA + \beta_5 Repurchase + \beta_6 Dividend + \beta_7 Div cut + \beta_8 AnalystUP + \beta_9 AnalystDown + \sigma$$

The coefficient on the indicator variable for restructuring was significantly negative in both *Former Employers Charges sample* and *Current Employers Charges sample* (-0.019, *p*-value <0.01 and -0.024, *p*-value <0.01 respectively), but not significant at the 0.10 level or better in *Former Employers Charges Control Sample* or *Current Employers Charges Control Sample*.

ability of the departing executive. That is, an executive's ability, as assessed by the capital markets, rests in part on the consequences of his past actions or inactions at his former employer.

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TABLE 1
Executive position changes
Job Change Sample, 1994-2011 (N=365)

Sample		Overall	Same-industry Job Change ¹	Different-industries Job Change ²
Position in former	Position in current	Frequency	Frequency	Frequency
CEO	CEO	70	29	41
	CFO	1	0	1
	COO	4	1	3
CFO	CFO	204	69	135
	CEO	10	4	6
	COO	3	2	1
COO	CEO	24	8	16
	COO	3	1	2
	CFO	2	1	1
Other*	CEO	29	12	17
	CFO	3	0	3
	COO	10	3	7
Chair	CEO	2	0	2
Total		365	130	235

This Table shows the frequency of job changes by title. For example, 70 job changes reflect a move from one CEO position to another and 1 job changes reflects a move from a CEO position to a CFO position.

Job Change Sample contains 365 former and current employers experiencing movements of CEOs, CFOs, COOs, vice presidents, chairpersons, or vice chairpersons to new CEO, CFO, and COO positions during 1994-2011, identified using S&P's EXEC COMP and Forbes CEO compensation survey. We require that the executive be hired at the current employer within 12 months of leaving the former employer (removing 102 observations) and that he/she stay in his/her new job for at least 18 months (losing another 27 observations). We exclude observations for which CRSP stock returns are unavailable (40 cases).

^{1,2} A job change is referred to as a 'same-industry job change' ('different-industry job change') when the three-digit SIC codes of the former employer and the current employer are the same (different). When the number of employers in a given three-digit SIC code is less than 10, we use a two-digit SIC code.

*Other includes senior executive vice presidents (34 observations), executive vice president (5 observations), and treasurer (3 observations).

TABLE 2
Executive position changes followed by charges announcements at the former employers
Former Employers Charges Sample, 1994-2011 (N=217)

Sample		Overall	Same-industry JobChange ¹	Different-industry JobChange ²
Position in former	Position in current	Frequency	Frequency	Frequency
CEO	CEO	43 (22/10/11)	24 (13/6/5)	19 (9/4/6)
	COO	5 (1/2/2)	2 (0/2/0)	3 (1/0/2)
CFO	CFO	123 (66/19/38)	48 (22/6/20)	75 (44/13/18)
	CEO	4 (2/0/2)	2 (1/0/1)	2 (1/0/1)
	COO	2 (0/0/2)	1 (0/0/1)	1 (0/0/1)
COO	CEO	16 (6/5/5)	3 (1/1/1)	13 (5/4/4)
Other	CEO	14 (5/7/2)	10 (4/4/2)	4 (1/3/0)
	CFO	1 (0/1/0)	0 (0/0/0)	1 (0/1/0)
	COO	7 (4/0/3)	2 (1/0/1)	5 (3/0/2)
Chair	CEO	2 (2/0/0)	0 (0/0/0)	2 (2/0/0)
Total		217 (108/44/65)	92 (42/19/31)	125 (66/25/34)

This Table shows the position changes and the type of charges within the *Former Employers Charges Sample*. Among 70 former employers whose CEOs took CEO position elsewhere, 43 announced charges, 11 announced write-downs with no restructurings, 22 announced restructurings with no write-downs, and 10 announced restructurings with write-down announcements. Numbers in parentheses reflect the incidence of restructurings without write-downs, restructurings with write-downs, and write-downs without restructurings, respectively.

Former Employers Charges Sample is the subset of 217 firms in the *Job Change Sample* in which former employers announced charges within 18 months of the executive's hiring at the current employer. Charges include write-downs and restructurings either with or without accompanying write-downs.

^{1,2} A job change is referred to as a 'same-industry job change' ('different-industry job change') when the three-digit SIC codes of the former employer and the current employer are the same (different). When the number of employers in a given three-digit SIC code is less than 10, we use a two-digit SIC code.

TABLE 3
Charges by “Same-industry Job Change” and “Different-industry Job Change” for Former Employers Charges Sample, 1994-2011

	Restructuring with or without write-down	Restructuring without Write-Down	Restructuring with Write-Down	Write-down without Restructuring	Total
Position at the current employer is CEO (N=79)					
Same-industry Job Change ¹	30	19	11	9	39
Different-industry Job Change ²	29	18	11	11	40
Total	59	37	22	20	79
Position at the current employer is not CEO (N = 138)					
Same-industry Job Change ¹	31	23	8	22	53
Different-industry Job Change ²	62	48	14	23	85
Total	93	71	22	45	138

Former Employers Charges Sample is the subset of 217 firms in the *Job Change Sample* in which former employers announced charges within 18 months of the executive’s hiring at the current employer. Charges include write-downs and restructurings either with or without accompanying write-downs.

Restructuring without Write-Down, *Restructuring with Write-Down*, and *Write-Down without Restructuring* are subsamples of the *Former Employers Charges Sample*, in which former employers announced restructurings without write-downs (N=108), restructurings with write-downs (N=44), and write-downs without restructurings (N=65), respectively.

This Table shows charges announced by former employers at two levels: 1) Executive’s job position at the current employer (CEO vs Non-CEO), and 2) Whether the job change is in the same industry or different industries. For example, in 39 cases in which former employers announced charges, the executive’s new position at the current employer is CEO, and the former and current employers are in the same industry. Of these 39 former employers, 19 announced restructurings with no write-downs, 11 announced restructurings with write-downs, and 9 announced write-downs with no restructurings.

^{1,2} A job change is referred to as a ‘same-industry job change’ (‘different-industry job change’) when the three-digit SIC codes of the former employer and the current employer are the same (different). When the number of employers in a given three-digit SIC code is less than 10, we use a two-digit SIC code.

TABLE 4

Short-term stock price reactions around job changes and descriptive statistics

Job Change Sample, 1994-2011 (N=365)

Variable	Mean	Median	25th Percentile	75th Percentile	Standard error
$CAR_{Hiring(0,1)}^{CURRENT}$	0.012***	0.004	-0.017	0.028	0.005
$CAR_{Departure(0,1)}^{FORMER}$	-0.017***	-0.009	-0.027	0.006	0.003
$AcctPerf_{FORMER}$	0.034***	0.022	0.022	0.075	0.005
$StockPerf_{FORMER}$	-0.137***	-0.146	-0.414	0.093	0.003
Same-Industry	0.356	0	0	1	0.003
Age	50.6	51.0	47	54.0	0.287
Size of Former employer (in \$ millions)	11,956.37	2,877.33	914.34	8,788.20	1,372.86
Size of Current employer (in \$ millions)	7,899.57	2,513.07	871.68	7,621.48	1,078.49
Tenure at Former employer (in years)	4.29	4.00	2.00	6.00	0.1288

This Table documents short-term share price reactions around job changes and provides descriptive statistics. The total number of observations (N) is 365 for all variables other than *Age*, for which 277 observations are available. Variable definitions are in Appendix II.

Job Change Sample contains 365 all former and current employers experiencing movements of CEOs, CFOs, COOs, vice presidents, chairpersons, or vice chairpersons to new CEO, CFO, and COO positions during 1994-2011, identified using S&P's EXEC COMP and Forbes CEO compensation survey. We require that the executive be hired at the current employer within 12 months of leaving the former employer (removing 102 observations) and that he/she stay in his/her new job for at least 18 months (losing another 27 observations). We exclude observations for which *CRSP* stock returns are unavailable (40 cases).

*, **, *** denote a statistically significant two-tailed t-test of the null hypothesis that the mean equals zero based on t-tests at the 0.10, 0.05, and 0.01 levels, respectively.

'Short-term' refers to days (0, 1) relative to the executive's departure (hiring) date announced by the former (current) employer.

TABLE 5
Panel A. Former employer charge by type of charge
Former Employers Charges Sample, 1994-2011

	Restructuring without Write- Down (N = 108)	Restructuring with Write- Down (N = 44)	Write-down without Restructuring (N = 65)	Total (N = 217)
Former employer price response CAR_{FORMER}^{FORMER} <small>FORMER charge(0,1)</small>	-0.013**	-0.020	-0.001	-0.011*
Current employer price response $CAR_{FORMER}^{CURRENT}$ <small>FORMER charge(0,1)</small>	-0.002	-0.011	-0.002	-0.004
Same-Industry Amount $FORMER$	0.389	0.432	0.477	0.424
No-amount $FORMER$	0.010	0.021	0.818	0.254
	0.250	0.238	0.030	0.182

**Panel B. Short-term stock reaction of former employer, current employer, and former
employers' industry peers to charges announced by the former employer**

Former Employers Charges Sample, 1994-2011

Size-adjusted return of	Total (N=217)	Same-industry-job-change		Different-industry-job-change	
		Restructuring (N=60)	Write-down (N=31)	Restructuring (N=92)	Write-down (N=34)
Former employer	-0.011*	-0.022**	0.006	-0.011	-0.008
Current employer	-0.004	-0.013***	-0.003	0.001	-0.001
Industry Peers of former employer	0.000	0.000	0.000	0.000	0.000

Panel A of this Table reports the means of charge variables for the 217 cases reported in Table 2. We also report the mean across the three subsamples – *Restructuring without Write-Down*, *Restructuring with Write-Down* and *Write-Down without Restructuring*. Variable definitions are in Appendix II.

Panel B of this Table reports the means of cumulative size-adjusted returns for the former employers, current employers, and industry peers of the former employers surrounding the announcement of charges by the former employer over days (0, 1) relative to the former employer's charge announcement date. Variable definitions are provided in the Appendix II. Industry peers contain firms within the same three-digit SIC codes as those of the former employers.

Former Employers Charges Control Sample includes 217 size-matched industry peers of the former employers that satisfy the following conditions: 1) No executive job changes occur within a year from when former employers announce a restructuring, and 2) The firm must have announced the same type of charges (restructurings or write-downs) as those announced by the former employers within a year of former employers' announcements (e.g., if the former employer announced a restructuring, we require that the size-matched industry peers also announced a

restructuring). The sample is obtained using random searches of size-matched industry peers of former employers (921 searches). Size-matched industry peers of former employers contain firms that share the same three-digit SIC codes as those of the former employers and are within the same size decile (market capitalization) at the beginning of year t (year during which former employers announced charges).

Short-term refers to days (0, 1) relative to the former employer's charge announcement date.

*, **, *** denote a significant two-tailed t-test of the null hypothesis that the mean equals zero based on t-tests at the 0.10, 0.05, and 0.01 levels, respectively.

TABLE 6

Short-term stock price reaction of current employers to former employers' charges

Former Employers Charges Sample, 1994-2011 (N = 217)

$$CAAR_{FORMER\ charge(0,1)it}^{CURRENT} = \beta_1 WD - DIFF + \beta_2 WD - SAME + \beta_3 RST - DIFF + \beta_4 RST - SAME + \beta_5 Amount_{it}^{FORMER} + \beta_6 No - amount_{it}^{FORMER} + \beta_7 EA_{it}^{CURRENT} + \beta_8 Surprise_{it}^{CURRENT} + \beta_9 Write - down_{it}^{CURRENT} + \beta_{10} Dividend_{it}^{CURRENT} + \beta_{11} Div cut_{it}^{CURRENT} + \beta_{12} Repurchase_{it}^{CURRENT} + \beta_{13} Positive_{it}^{CURRENT} + \beta_{14} Negative_{it}^{CURRENT} + \sigma_{it}$$

Variable	Predicted Sign		Coefficient t-statistic	
			A	B
Constant	α	?		
WD-DIFF	β_1	?	0.003 0.54	0.003 0.49
WD-SAME	β_2	?	0.002 0.36	0.002 0.34
RST-DIFF	β_3	?	0.003 0.24	
RST-SAME	β_4	-	-0.012 -2.28**	
RSTWD-DIFF	β_{31}	?		-0.011 -0.34
RSTNOWD-DIFF	β_{32}	?		0.006 1.07
RSTWD-SAME	β_{41}	-		-0.015 -1.70*
RSTNOWD-SAME	β_{42}	-		-0.011 -1.84*
Amount ^{FORMER}	β_5	-	-0.004 -0.38	-0.003 -0.34
No-amount ^{FORMER}	β_6	?	0.002 0.17	0.001 0.12
EA ^{CURRENT}	β_7	?	-0.018 -1.09	-0.016 -0.94
Surprise ^{CURRENT}	β_8	+	12.817 0.88	11.166 0.75
Write-down ^{CURRENT}	β_9	?	-0.036 -0.90	-0.036 -0.88
Dividend ^{CURRENT}	β_{10}	+	0.021 1.35	0.023 1.39
Div Cut ^{CURRENT}	β_{11}	-	0.039 0.86	0.038 0.85
Repurchase ^{CURRENT}	β_{12}	+	0.058 2.04*	0.057 2.07*
Positive ^{CURRENT}	β_{13}	+	0.059 1.75*	0.058 1.70
Negative ^{CURRENT}			-0.095	-0.092

	β_{14}	-	-3.35***	-3.33**
Adjusted R ²			0.1305	0.1388

This Table presents multivariate regressions of short-term stock price reactions at current employers to former employers' charges for the 217 cases reported in Table 2. The sample period is 1994-2011. Variable definitions are in Appendix II.

Former Employers Charges Control Sample includes 217 size-matched industry peers of the former employers that satisfy the following conditions: 1) No executive job changes occur within a year from when former employers announce a restructuring, and 2) The firm must have announced the same type of charges (restructurings or write-downs) as those announced by the former employers within a year of former employers' announcements (e.g., if the former employer announced a restructuring, we require that the size-matched industry peers also announced a restructuring). The sample is obtained using random searches of size-matched industry peers of former employers (921 searches). Size-matched industry peers of former employers contain firms that share the same three-digit SIC codes as those of the former employers and are within the same size decile (market capitalization) at the beginning of year t (year during which former employers announced charges).

'Short-term' refers to days (0, 1) relative to the former employer's charge announcement date.

*, **, *** denote a significant two-tailed t-test of the null hypothesis that the mean equals zero based on t-tests at the 0.10, 0.05, and 0.01 levels, respectively. The t-statistic is based on White's (1980) heteroskedasticity-adjusted variance. In Column B, the sum of β_{41} and β_{42} is significantly negative (p -value = 0.02), and the difference between them is not (p -value = 0.67).

TABLE 7

Short-term price reactions of former employers, current employers and their respective control samples to their respective charge announcements

Sample	Mean of $CAR_{Charge (0,1)}$	Sample	Mean of $CAR_{Restructuring (0,1)}$	Sample	Mean of $CAR_{Write-down (0,1)}$
Former Employers Charges Sample (N = 217)	-0.011*	Former Employers Charges Sample (N = 152)	-0.015**	Former Employers Charges Sample (N=65)	-0.001
Former Employers Charges Control Sample (N =217)	-0.008	Former Employers Restructuring Control Sample (N = 152)	-0.007	Former Employers Write-Down Control Sample (N=65)	-0.011
Current Employers Charges Sample (N = 205)	-0.015**	Current Employers Charges Sample (N = 133)	-0.020**	Current Employers Charges Sample (N = 72)	-0.008
Current Employers Charges Control Sample (N = 205)	-0.005	Current Employers Restructuring Control Sample (N = 133)	-0.006	Current Employers Write-Down Control Sample (N = 72)	-0.004

This Table reports the excess of the means of cumulative size-adjusted returns over the mean size-adjusted returns of industry peers for the three employer groups surrounding the announcement of charges over days (0, 1) relative to the charge announcement date. 217 (205) of 365 former (current) employers announced charges.

Variable definitions are provided in Appendix II.

‘Short-term’ refers to days (0, 1) relative to the former employer’s charge announcement date.

*, **, *** denote a statistically significant two-tailed t-test of the null hypothesis that the mean equals zero based on t-tests at the 0.10, 0.05, and 0.01 levels, respectively.

Former Employers Charges Sample is the subset of 217 firms in the *Job Change Sample* in which former employers announced charges within 18 months the executive was hired at the current employer. Charges include write-downs and restructurings either with or without accompanying write-downs.

Industry peers is defined as firms within the same three-digit SIC code as those of firms within the relevant sample. For example, industry peers of former employers (current employers) contain firms within the same three digit SIC code as those of former employers (current employers). *Former Employers Charges Control Sample* includes 217 size-matched industry peers of the former employers that satisfy the following conditions: 1) No executive job changes occur within a year from when former employers announce a restructuring, and 2) The firm must have announced the same type of charges (restructurings or write-downs) as those announced by the former employers within a year of former employers' announcements (e.g., if the former employer announced a restructuring, we require that the size-matched industry peers also announced a restructuring). The sample is obtained using random searches of size-matched industry peers of former employers (921 searches). Size-matched industry peers of former employers contain firms that share the same three-digit SIC codes as those of the former employers and are within the same size decile (market capitalization) at the beginning of year t (year during which former employers announced charges). *Former Employers Restructuring Control Sample* (N=152) is a subset of the *Former Employers Charges Control Sample*, and includes the former employers' size-matched industry peers that announced restructurings during the period starting one year before and ending one year after the former employers' post-hiring restructuring announcement.

Former Employers Write-Down Control Sample (N=65) is a subset of the *Former Employers Charges Control Sample*, and includes the former employers' size-matched industry peers that announced write-downs during the period starting one year before and ending one year after the former employers' post-hiring write-down announcement.

Current Employers Charges Sample (N=205) is a subset of the *Job Change Sample*; it comprises 205 current employers that announced charges (restructuring or write-down) within 18 months after hiring.

Current Employers Charges Control Sample includes size-matched industry peers of the current employers that satisfy the following conditions: 1) No job changes occur within a year from when former employers announce a restructuring, and 2) The firm must have announced the same type of charges (restructurings or write-downs) as those announced by the current employers within a year of the latter's announcements (e.g., if the current employer announced a restructuring, we require that the size-matched industry peers also announced a restructuring). The sample is obtained using random searches of size-matched industry peers of current employers (1075 searches) resulting in each current employer being size-matched with an industry peer that announced the same type of charges. Thus, the *Current Employers Charges Control Sample's* size is identical to that of the *Current Employers Charges Sample* (205). Size-matched industry peers of current employers contain firms that share the same three-digit SIC codes as those of the current employers and are within the same size decile (market capitalization) at the beginning of year t (year during which current employers announced charges).

Current Employers Restructuring Control Sample is a subset of the *Current Employers Charges Control Sample*, and includes the current employers' size-matched industry peers that announced restructurings during the period starting one year before and ending one year after the current employers' post-hiring restructuring announcement.

Current Employers Write-Down Control Sample is a subset of the *Current Employers Charges Control Sample*, and comprises the current employers' size-matched industry peers that announced write-downs during the period starting one year before and ending one year after the current employers' post-hiring write-down announcement.

Appendix I. Sample descriptions

Job Change Sample contains 365 all former and current employers experiencing movements of CEOs, CFOs, COOs, vice presidents, chairpersons, or vice chairpersons to new CEO, CFO, and COO positions during 1994-2011, identified using S&P's EXEC COMP and Forbes CEO compensation survey. We require that the executive be hired at the current employer within 12 months of leaving the former employer (removing 102 observations) and that he/she stay in his/her new job for at least 18 months (losing another 27 observations). We exclude observations for which CRSP stock returns are unavailable (40 cases).

Former Employers Charges Sample is the subset of 217 firms in the *Job Change Sample* in which former employers announced charges within 18 months of the executive's hiring at the current employer. Charges include write-downs and restructurings either with or without accompanying write-downs.

Restructuring without Write-Down, *Restructuring with Write-Down*, and *Write-Down without Restructuring* are subsamples of the *Former Employers Charges Sample*, in which former employers announced restructurings without write-downs (N=108), restructurings with write-downs (N=44), and write-downs without restructurings (N=65), respectively.

Industry peers are defined as firms within the same three-digit SIC code as those of firms within the relevant sample. For example, industry peers of former employers (current employers) contain firms within the same three digit SIC code as those of former employers (current employers).

Sized-matched industry peers to mean industry peers within the same size (market capitalization) decile. The time at which the market capitalization is measured depends on the specific sample, and is specified when the particular sample is defined. [TAVY?]

Former Employers Charges Control Sample includes 217 size-matched industry peers of the former employers (where the size and sic code is taken at the beginning of the year during which former employers announced charges) that satisfy the following conditions: 1) No executive job changes occur within a year from when former employers announce a restructuring, and 2) The firm must have announced the same type of charges (restructurings or write-downs) as those announced by the former employers within a year of former employers' announcements (e.g., if the former employer announced a restructuring, we require that the size-matched industry peers also announced a restructuring). The sample is obtained using random searches of size-matched industry peers of former employers (921 searches).

Former Employers Restructuring Control Sample (N=152) is a subset of the *Former Employers Charges Control Sample*, and includes the former employers' size-matched industry peers that announced restructurings during the period starting one year before and ending one year after the former employers' post-hiring restructuring announcement.

Former Employers Write-Down Control Sample (N=65) is a subset of the *Former Employers Charges Control Sample*, and includes the former employers' size-matched industry peers that announced write-downs during the period starting one year before and ending one year after the former employers' post-hiring write-down announcement.

Current Employers Charges Sample (N=205) is a subset of the *Job Change Sample*; it comprises 205 current employers that announced charges (restructuring or write-down) within 18 months after hiring.

Current Employers Charges Control Sample includes size-matched industry peers of the current employers (where the size and sic code is taken at the beginning of the year during which current employers announced charges) that satisfy the following conditions: 1) No job changes occur within a year from when former employers announce a restructuring, and 2) The firm must have announced the same type of charges (restructurings or write-downs) as those announced by the current employers within a year of the latter's announcements (e.g., if the current employer announced a restructuring, we require that the size-matched industry peers also announced a restructuring). The sample is obtained using random searches of size-matched industry peers of current employers (1075 searches) resulting in each current employer being size-matched with an industry peer that announced the same type of charges. Thus, the *Current Employers Charges Control Sample's* size is identical to that of the *Current Employers Charges Sample* (205).

Current Employers Restructuring Control Sample is a subset of the *Current Employers Charges Control Sample*, and includes the current employers' size-matched industry peers that announced restructurings during the period starting one year before and ending one year after the current employers' post-hiring restructuring announcement.

Current Employers Write-Down Control Sample is a subset of the *Current Employers Charges Control Sample*, and comprises the current employers' size-matched industry peers that announced write-downs during the period starting one year before and ending one year after the current employers' post-hiring write-down announcement.

Target Sample (N=881,686) is a sample created as the sum of industry peers and non-peers of the *Former Employers Charges Control Sample*. Industry peers (non-peers) contain firms that share (do not share) the same three-digit SIC codes as those of firms in FECCS.

Appendix II. Variable definitions

$AcctPerf^{FORMER}$ is the ROA of the former employer minus the mean ROA of the corresponding size-matched industry peers, where $ROA = \text{Average}(EBIT_{t-1} + EBIT_{t-2}) / \text{Average}(\text{Assets}_{t-3}, \text{Assets}_{t-2}, \text{Assets}_{t-1})$, t is the year of job change. Size-matched industry peers of former employers contain firms that share the same three-digit SIC codes as those of the former employers and are within the same size decile (market capitalization) at the beginning of year t (year during which former employers announced charges).

Age is the age of the executive at the time of hiring at the current employer.

$Amount^{FORMER}$ is the former employer's charge amount/market capitalization as of two days before the charge.

$CAR_{Charge(0,1)}$ is the cumulative size-adjusted return of the firm that announced charges, over the mean size-adjusted returns of its industry peers, measured over days (0, 1) relative to the charge announcement date.

$CAR_{Restructuring(0,1)}$ is the cumulative excess size-adjusted return of the firm that announced a restructuring, over the mean size-adjusted returns of its industry peers, measured over days (0, 1) relative to the restructuring announcement date.

$CAR_{Write-down(0,1)}$ is the cumulative excess size-adjusted return of the firm that announced a write-down, over the mean size-adjusted returns of its industry peers, measured over days (0, 1) relative to the write-down announcement date.

$CAR_{Hiring(0,1)}^{CURRENT}$ is the current employer's cumulative excess size-adjusted return over the mean size-adjusted returns of its industry peers, measured over days (0, 1) relative to hiring.

$CAR_{FORMER\ charge(0,1)}^{CURRENT}$ is the current employer's cumulative excess size-adjusted return over the mean size-adjusted returns of its industry peers, measured over days (0,1) relative to former employer's charge announcement.

$CAR_{FORMER\ charge(0,1)}^{FORMER}$ is the former employer's cumulative excess size-adjusted return over the mean size-adjusted returns of its industry peers, measured over days (0,1) relative to former employer's charge announcement.

$CAAR_{Departure(0,1)}^{FORMER}$ is the former employer's cumulative excess size-adjusted return over the mean size-adjusted returns of its industry peers, measured over days (0,1) relative to the departure announcement.

$Div\ Cut^{CURRENT}$ is an indicator equal to 1 if the current employer announced a dividend cut contemporaneously with the former employer's charges, 0 otherwise.

$Dividend^{CURRENT}$ is an indicator equal to 1 if the current employer's dividend is announced contemporaneously with the former employer's charges, 0 otherwise.

$EA^{CURRENT}$ is an indicator equal to 1 if the current employer's earnings are announced contemporaneously with the former employer's charge date, 0 otherwise.

$Negative^{CURRENT}$ is an indicator equal to 1 if the current employer reported negative forward-looking information (such as decrease in future sales growth) contemporaneously with the former employer's charge, or if an analyst who covers the current employer downgrades the rating of the stock, 0 otherwise.

$No-amount^{FORMER}$ is an indicator equal to 1 if the former employer's charge announcement does not contain the amount of the charge, 0 otherwise.

$Positive^{CURRENT}$ is an indicator equal to 1 if the current employer reported positive forward-looking information (such as an increase in future sales growth or if an analyst who covers the current employer upgrades the rating of the stock) contemporaneously with the former employer's charge, 0 otherwise.

$Repurchase^{CURRENT}$ is an indicator equal to 1 if the current employer's stock repurchase is announced contemporaneously with the former employer's charges, 0 otherwise.

Restructuring is an indicator equal to 1 if former, current or charges control sample employer's charge pertains to a restructuring, 0 otherwise.

$Restructuring^{FORMER}$ is an indicator equal to 1 if the former employer's charge pertains to a restructuring (whether with or without write-downs), 0 otherwise.

$RST-SAME$ ($RST-DIFF$) is an indicator equal to 1 if the former employer's charge is a restructuring and the former employer and the current employer are in the same (different) industry.

$RSTNOWD-SAME$ ($RSTNOWD-DIFF$) is an indicator equal to 1 if the former employer's charge is a restructuring without a write-down and the former and current employers are in the same (different) industry. $RSTNOWD-SAME$ is 1 in 42 observations.

$RSTWD-SAME$ ($RSTWD-DIFF$) is an indicator equal to 1 if the former employer's charge is a restructuring with a write-down and the former and current employers are in the same (different) industry. $RSTWD-SAME$ is 1 in 19 observations.

$Same-Industry$ is an indicator equal to 1 when the three-digit SIC codes of the former employer and the current employer are the same, 0 otherwise. (When the number of employers in a given three-digit SIC code is less than 10, we use a two-digit SIC code.)

$Size$ of former (current) is log of market capitalization three days before the departure (hiring) announcement.

$StockPerf^{FORMER}$ is the former employer's cumulative excess size-adjusted return over the mean size-adjusted returns for its industry peers, measured over the two years of the executive's tenure preceding departure.

$Surprise^{CURRENT}$ is the current employer's earnings surprise, if reported contemporaneously with the former employer's charge, measured as (actual EPS from *IBES* minus the mean of analysts' most current forecasts before the earnings announcement date)/share price three days before the earnings announcement date.

$Tenure$ is number of years the departing executive maintained his final position with the former employer.

$WD-SAME$ ($WD-DIFF$) is an indicator equal to 1 if the former employer's charge is a write-down and the former employer and the current employer are in the same (different) industry.

$Write-Down^{CURRENT}$ is an indicator equal to 1 if the current employer's write-downs are announced contemporaneously with the former employer's charges, 0 otherwise.