

Welcome back? Economic consequences of CEO reappointments

Michael Erkens^a

Ying Gan^b

Hervé Stolowy^c

^aErasmus University Rotterdam, Accounting Research Group, Postbus 1738, 3000 DR Rotterdam, Netherlands; erkens@ese.eur.nl

^bErasmus University Rotterdam, Accounting Research Group, Postbus 1738, 3000 DR Rotterdam, Netherlands; gan@ese.eur.nl

^cHEC Paris, Department of Accounting and Management Control, 1 rue de la Libération, 78351 - Jouy-en-Josas, France; stolowy@hec.fr

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Abstract

We analyze reappointments of former CEOs of U.S. listed firms over the period 1992 – 2013. For a sample of 117 CEO reappointments, we find that shareholders of these firms experience statistically significant negative stock valuation consequences. Our findings are robust to multiple return measurement windows and alternative definitions of abnormal returns. We also document that market reactions depend on certain executive-specific attributes, such as whether she is the founder of the firm or whether she is also appointed as chairman of the board of directors. Finally, we show that firm performance deteriorates after a former CEO is appointed relative to appointing a non-former CEO. Our results provide evidence that the market considers reappointed CEOs as “leaders of last resort” and highlights the importance of CEO succession planning.

Keywords: CEO reappointment, former CEO, CEO succession, capital market reaction, firm profitability

JEL codes: G14, G34

1. Introduction

Chief Executive Officer (CEO) succession planning belongs to one of the main governance duties of the board of directors. The SEC highlights the importance of CEO succession planning in a staff bulletin:

“One of the board’s key functions is to provide for succession planning so that the company is not adversely affected due to a vacancy in leadership. Recent events have underscored the importance of this board function to the governance of the corporation. We now recognize that CEO succession planning raises a significant policy issue regarding the governance of the corporation that transcends the day-to-day business matter of managing the workforce.” (U.S. Securities and Exchange Commission 2009)

However, more than half of firms today are not able to provide for a smooth transition from an outgoing to a new CEO should the need arise. A survey of 140 CEOs and directors of large- and mid-cap U.S. listed firms (Larcker and Miles 2010) reveals that boards spend on average only 2 hours per year on succession planning. Furthermore, half of the respondents admit that their company does not have a formal document describing the specific requirements for the successor CEO. This revelation suggests that many boards do not have a clear picture of their next CEO. Finally, 21.5 percent of the respondents state that succession planning is not an ongoing activity in the company and 8.5 percent admit that planning is done after the present CEO has declared her leaving. Taken together, these results reveal a lack of focus in large listed firms with regard to CEO succession planning (Larcker and Tayan 2010).

Such lack of focus could be detrimental to the future prospects of a company as a CEO is regarded as the key decision maker who contributes significantly to the economic activity of the firm (Bertrand 2009). Furthermore, a CEO represents the firm’s present value and its future orientation from stakeholders’ point of view. Thus, inadequate succession planning may delay important decisions and result in periods of strategic disruption. Extant literature has already shown that a smooth transition from an outgoing to a new CEO leads to better firm performance (Wiersema 2002; Zhang and Rajagopalan 2004).

In this paper, we analyze CEO succession decisions and focus on a particular set of CEO successors: former CEOs who are reappointed as CEO in the same firm¹ (“reappointed CEOs” in the rest of this paper). We concentrate on former CEOs as they represent a special group of successors. Their prior leadership knowledge allows them to lead the firm right away and thus to reduce performance risk after succession. More importantly, they have

¹ Zhang (2011, 391) refer to these CEOs as “returning kings”.

substantially built the firm's strategy. They usually remain a part of the top management team due to their board membership. Thus, a former CEO is likely to influence the firm's direction even after stepping down.

To the best of our knowledge, there is no empirical research on the economic effects of CEO reappointment decisions. There are several reappointment decisions resulting in either an improvement of the firm's future performance or a further decline. One of the most famous examples of a successful reappoint story relates to Apple's founder Steve Jobs'. One year, after he came back as an interim CEO in 1997 the British national daily newspaper The Guardian titled "Two years ago Apple was down [...]. Now he's [Steve Jobs] back at the helm, the iMac is racing out of the shops and the company's fortunes are transformed" (Keegan 1998). Steve Jobs managed to turn Apple into a successful company during his first 10 months as an interim CEO when Apple was close to bankruptcy and had only a four percent share of the PC market and annual losses exceeding \$1 billion. Apple's share price doubled in less than a year in 1998 (Stone 2011). In 2014, Apple is ranked number five in Forbes 2014 Global 2000 list reflecting Steve Jobs' long-term achievements.

A less successful reappointment story relates to Michael Dell's (founder of Dell) reappointment as a CEO in 2007, after he left the company in 2004. Six years after his reappointment, Dell was still struggling with shrinking PC sales (Veverka 2013). In an attempt to save his company, Michael Dell spent \$24.9 billion to take his company private in 2013. Now it seems that Dell is stepping back into the spotlight again. It sold 10.4 million computers worldwide in the third quarter of 2014 (a 9.7 percent increase from the year earlier) and dominated 24 percent of the total market for PCs in the United States (Hardy 2014).

In this study, we aim to answer three questions: First, under which circumstances do firms reappoint a former CEO? Second, does the market view the reappointment decision as a good signal or a bad signal for current and future firm performance? And third, does firm performance increase or decrease after reappointing a "former CEO" compared to firm performance after appointing a "non-former CEO"?

Using hand-collected data for 117 former CEO reappointments and a control sample of non-former CEO appointments in the same firms, we document that firm profitability and firm size are significantly associated with appointing a former CEO instead of a non-former CEO. The less profitable a company is, the more likely it reappoints a former CEO instead of appointing a new CEO. In the same vein, larger firms are more likely to reappoint former CEOs. Our findings are consistent with the notion that exceptionally poor firm performance

requires a strategic change and a quick change in leadership, leading to reappointing a former CEO as the last possible resource. This notion is also consistent with our empirical finding. 32 percent² of reappointed CEOs in our sample have been appointed on an interim basis suggesting that boards made their appointment decision under duress or have only few or no better alternative candidates.

We also document a significantly negative capital market reaction around the announcement of reappointing a former CEO. Cumulative abnormal returns around the announcement calculated as the cumulated differences between the reappointment raw returns and the market-adjusted returns are statistically significant and range from -2.87 percent to -3.28 percent³, depending on event window. These univariate results are robust to alternative benchmarks used to calculate abnormal returns. In a multivariate setting we find similar results with cumulative abnormal returns ranging between -3.1 percent and -3.7 percent⁴, depending on the event window. In essence, the market views the reappointment of a former CEO as a bad signal for current and future firm profitability.

To examine how executive-specific characteristics influence the stock market's reaction on the reappointment decision, we exploit cross-sectional variation in the stock price reaction and document the following findings. The analysis reveals that firms reappointing a former CEO experience negative stock market reaction if the reappointed CEO is a larger shareholder of the firm but not a founder⁵. It also experiences a negative stock market reaction, but to a lesser extent, if the reappointed CEO is a founder but not a larger shareholder of the firm. However, this negative markets' reaction is attenuated if the reappointed CEO is also a founder of the firm. Moreover, having had a long tenure during the first appointment and also being appointed chairman of the board of directors is positively associated with capital markets' reaction.

We also provide direct evidence on the effect of reappointing a former CEO on firm performance. We document in a difference-in-differences setting that firm profitability deteriorates after reappointing a former CEO relative to firm profitability before the appointment and relative to a sample of non-former CEO appointments. This could indicate that, on average, reappointed CEOs are indeed only a second-best solution to a company, failing to impose a necessary strategic change in the company that leads to a recovery of firm profitability.

² See Table 2, Panel B.

³ See Table 4, Panel A.

⁴ See Table 5.

⁵ See Table 6.

24% of our sample firms are global players and are fundamental to the economy as they belong to the Forbes' 2014 Global 2000 firms making it economically important and worth studying their succession decision.⁶

Our research contributes to the literature in a number of ways. First, to the best of our knowledge, we are the first to analyze appointments as CEO of former CEOs (CEO reappointments) and to document economic consequences following the reappointment announcement. Prior literature has so far analyzed the reappointment of former CEOs as directors (Fahlenbrach et al. 2011), the appointment of outside CEOs as directors (Fahlenbrach et al. 2010), the service on corporate boards during the postretirement period of retired CEOs (Brickley et al. 1999), the use of interim CEOs during succession period (Ballinger and Marcel 2010), the retention of CEOs on the board (Evans et al. 2010), the role and impact of founder CEOs (Fahlenbrach 2009), the impact of inside vs. outside succession on organizational change (Helmich and Brown 1972), the performance consequences of CEO succession (Shen and Cannella Jr 2002), but prior literature has not focused on former CEOs as a pool of potential CEO successors⁷.

Second, our empirical evidence extends the literature on firm profitability (Ballinger and Marcel 2010; Masulis et al. 2012; Jermias and Gani 2014) by documenting the CEO's importance for corporate future profitability. Finally, we also add to the existing literature (Zajac and Westphal 1996; Zhang and Wiersema 2009) by showing that the market takes into account specific CEO attributes when judging on her future performance in the firm.

Section 2 reviews the literature and formulates our hypotheses. Section 3 details the research design, sample construction, and sample characteristics. In section 4, we report the empirical findings on the determinants of reappointing a former CEO, on how those reappointments impact market value, and analyze the influence of CEO attributes on market reactions. We also test the impact of reappointing a former CEO on the firm's profitability. Section 5 concludes the paper.

2. Hypotheses development

Several studies analyze CEO succession from different perspectives. Prior literature analyzes the role of internal candidates (inside succession) vs. external candidates (outside succession) (Helmich and Brown 1972). The former is an individual within the managerial span of the

⁶ Forbes' 2014 Global 2000 list includes the world's biggest public companies based on their latest available 12-month financial data (assets, profits and sales) and market value. Market value calculation is as of April 1, 2014 closing prices and includes all common shares outstanding.

⁷ Kesner and Sebor (1994) review over thirty years of succession research.

current CEO, whereas the latter is not. Internal candidates are associated with firm-specific knowledge and symbolize a maintenance strategy. They have received their training within the company and are more familiar with internal operations than outside candidates (Dalton and Kesner 1983; Bertrand 2009).

It generally has been concluded that external candidates are associated with broad managerial skills and the initiation of a strategic change (Helmich and Brown 1972; Dalton and Kesner 1983). Karaevli and Zajac (2012) and Citrin and Ogden (2010) find that, on average, outsider CEOs are neither better nor worse than insider CEOs. Nevertheless, Karaevli and Zajac (2012) show that outsiders can perform better than insiders under specific circumstances. Their results show that new outsider CEOs outperform insiders when the firm is performing poor or industry growth is high. Finally, they find that outsiders perform better than insiders when they replace the firm's senior outsiders team with new executives.

Our paper focuses on inside succession in a specific case: the reappointment of a former CEO. To the best of our knowledge, beside Zhang (2011) who refers to reappointed CEOs in a literature review and research agenda article, there is only one study examining the reappointment of a former CEO. Fahlenbrach et al. (2011) provide evidence on the determinants of the reappointment decision and examine whether firm performance or successor CEO evaluation and turnover are affected by the presence of former CEO directors.

Our paper differs from Fahlenbrach et al. (2011) as we do not study the reappointment of former CEOs as directors but as CEOs. Consequently, we also include reappointed CEOs that did not have a board position after their first tenure. First, we concentrate on shareholders' expectation concerning this specific succession decision by providing detailed analyses of announcement returns. Second, we focus on the individual foot prints of the reappointed CEOs by examining firm performance during their tenure.

2.1 Former CEO reappointment and prior firm performance

In this paper, we analyze a specific case of CEO succession: CEO succession by a former CEO. A former CEO is a special successor. She can be regarded as an internal candidate even after leaving the firm since she belonged to the top executive team. She has firm-specific knowledge and skills from her prior experience as a leader of the firm. Due to her former position as a CEO she has a special connection to the firm. She has significantly shaped the firm's strategy during her appointment and often remains on the firm's board after stepping down as a CEO. Thus, a former CEO may still exert influence through her appointment as a director. Her prior CEO experience provides her with valuable knowledge to guide the firm and may reduce performance risk after succession (Khurana 2001). Her prior experience does

not require her to learn the task that is specific to the CEO position and allows her to manage the firm right away. If exceptionally poor firm performance under the current CEO requires a strategic change and a quick change in leadership, a former CEO may be considered as a valuable leader of last resort (Vancil 1987). We therefore propose our first hypothesis:

Hypothesis 1 (Prior performance): Firms are more likely to reappoint a former CEO if firm performance is poor.

2.2 Former CEO reappointment and stock market reaction

The reappointment of a former CEO is a rare event⁸ and thus likely attracts shareholders' attention. As already described above, reappointing a former CEO has several advantages. First, the former CEO has valuable experience to guide the company. Second, she can impose a quick re-orientation if the firm is performing badly under her successor.

However, reappointing a former CEO may signal poor succession planning. Boards may be poorly prepared for the CEO succession process and thus reappoint a former CEO under duress. In addition to that, boards may find it very difficult to attract talented managers. Extant literature finds that the supply side of managerial talent is relatively scarce (Rajgopal et al. 2006; Gabaix and Landier 2008). Thus, boards are required to plan the succession process very carefully. Nevertheless, more than half of firms today are not able to provide for a smooth transition from an outgoing to a new CEO (see Larcker and Miles 2010; Larcker and Tayan 2010).

Finally, boards may be dominated by founders who may reappoint themselves as CEO suggesting the prevalence of agency problems within the firm. 42 percent⁹ of the identified reappointed former CEOs in our sample are also the founder of the firm. Based on the above arguments, we propose the following hypothesis:

Hypothesis 2 (General stock market reaction): Firms reappointing a former CEO experience a negative stock market reaction.

⁸ As mentioned by Stolowy et al. (2014, 360), it is often with the help of “extreme cases” (Flyvbjerg 2001) that we can better understand some basic mechanisms that are of general relevance but are difficult to discern in “average” cases, where they appear in less visible forms. Cooper and Morgan (2008) emphasize the potential of extreme cases to further our understanding of accounting phenomena and they provide several examples of studies that have pursued such a research strategy.

⁹ See Table 2, Panel B.

We acknowledge that the stock market does not only respond to the firm's succession decision but also to specific CEO attributes. Information asymmetry exists with regard to the CEO's ability and her incentives to seriously manage the firm. In general, managers have superior information, relative to investors, about their skills and motivations. In line with signaling theory (Spence 1973), we expect that the background of the CEO may serve as a market signal of the candidate's qualification for the new CEO position. Prior literature has already shown that top executives' backgrounds influence the market valuation of an IPO firm as investors use this information as a signal of the quality of the firm (Cohen and Dean 2005; Higgins and Gulati 2006; Lester et al. 2006).

Furthermore, upper echelon theory assumes that "organizational outcomes - strategic choices and performance levels - are partially predicted by managerial background characteristics" (Hambrick and Mason 1984). Thus, the very premise is that managers' experiences, beliefs, and characteristics strongly affect their understandings of the situations they face and, in turn, influence their decisions (Hambrick 2007). In line with upper echelon theory, prior studies have found that executives' characteristics and backgrounds can strongly influence corporate strategic choices and performance (Carpenter et al. 2004; Kaplan et al. 2012).

Consistent with signaling theory and upper echelon theory, we expect that firms reappointing a former CEO experience positive stock market reaction if the reappointed CEO is a larger shareholder of the firm but not a founder. However, this positive markets' reaction should be accentuated if the reappointed CEO is also a founder of the firm. Investors may regard her as a leader of second-best solution only but may be convinced that she will seriously lead the firm. A former CEO who has a large equity stake in the company has great interest to manage the firm successfully and to turn the firm around when performance is exceptionally deteriorating. Jensen and Meckling (1976) were the first who argue that higher management ownership increases the alignment of interests between owners and management and, thus, reduces agency costs. According to the convergence-of-interest hypothesis, managers would pay a larger share of the costs emerging from their self-serving behavior (Morck et al. 1988). As a result, they make decisions that are not solely advantageous for them but also for the firm they co-own.

The same line of reasoning applies to former CEOs who are also the founder of the firm. These individuals have created the firm's strategy substantially. They have a special connection to the firm even after they stepped down as the firm's leader since the firm reflects their life's achievement. Thus, they are intrinsically motivated and follow a long-term view

when managing the firm (Fahlenbrach 2009). Finally, a founder CEO has more decision-making power and thus is more likely to guide the firm through periods of bad performance.

The above arguments lead to our next hypothesis:

Hypothesis 3 (CEO attributes): Firms reappointing a former CEO experience positive stock market reaction if the CEO is a large shareholder and/or the founder of the firm.

Next, we examine the reappointment of a former CEO on an interim basis. In general, boards appoint an interim CEO if they are not able to find a permanent successor for the empty position (Ballinger and Marcel 2010). An interim CEO may not have the incentives and power to make decisions to set a strategic direction since she is only employed on a temporary basis. Appointing a temporary CEO may delay important decisions and increase performance risk (Ballinger and Marcel 2010; see also Zhang 2011; Mooney et al. 2013). Based on the above arguments, we would expect a negative stock market reaction if a former CEO is reappointed on an interim basis.

However, a former CEO may have stronger incentives and better abilities to manage the firm due to her former experience within the firm. Thus, we would expect a positive stock market reaction. Taken together, we state a non-directional hypothesis:

Hypothesis 4 (Interim CEO): There is a stock market reaction to firms reappointing a former CEO on an interim basis.

2.3 Former CEO reappointment and future profitability

If the reappointment of a former CEO is a signal of the firm's current and future prospects, then investors can expect changes in firm profitability that arise from reappointing a former CEO instead of a non-former CEO. Given that Hypothesis 2 anticipates a negative stock market reaction, firm profitability should decrease (as investors are assumed to react negatively to the reappointment announcement). We therefore test whether reappointing a former CEO in fact has incremental explanatory power to explain decreases in firm profitability, relative to appointing a non-former CEO. Our last hypothesis therefore is:

Hypothesis 5 (Firm profitability): After appointing a new CEO, firms that reappoint a former CEO experience decreases in firm profitability relative to firms reappointing a non-former CEO.

3. Sample and methodology

3.1 Sample construction

We start our sample construction by identifying 6,714 chief executive officers during the 1992 – 2013 period from ExecuComp. ExecuComp includes the S&P 500, Mid-Cap 400, and Small Cap 600, together comprising the S&P 1500. We then identify 225 potential CEO reappointments based on the entire ExecuComp universe. To check whether the identified CEO turnovers unambiguously relate to a CEO reappointment, we conduct a search on Factiva and Lexis Nexis based on executives' and firms' names. We also use Factiva and Lexis Nexis to eliminate reappointment announcements, which take place on the same day as confounding events (e.g., merger and acquisition announcements). Our final sample consists of 117 CEO reappointments for 114 unique firms. 24% of our sample firms are global players and are fundamental to the economy as they belong to the Forbes' 2014 Global 2000 firms.

The sample size is consistent with similar studies, which have been carried out on specific events such as sudden deaths in the US: e.g., 53 sudden deaths of senior corporate executives (i.e., chairman of the board, chief executive officer, or president) (1971 - 1982) (Johnson et al. 1985); 127 announcements of executive (corporate presidents or chief executive officers) deaths (1967 - 1981) (Worrell et al. 1986); 48 CEOs (1972 – 1982) (Etebari et al. 1987); 85 inside blockholders (1973 – 1989) (Slovin and Sushka 1993); 29 CEOs¹⁰ (1979 – 1994) Hayes and Schaefer (1999); 161 executive (chairman of the board of directors, chief executive officer, or president) deaths (1978 – 2000) (Borokhovich et al. 2006); 195 senior executive (CEO, chairman, and/or president) (1972 - 2008) (Salas 2010); 108 independent directors (1994 – 2007) (Nguyen and Nielsen 2010); 149 top executives (CEOs) (1991 – 2008) (Nguyen and Nielsen Forthcoming).

To calculate announcement returns, we identify the exact dates of firms' earliest announcements based on their press releases. We manually check multiple filings to ensure the first mention of a reappointment. We then review each press release and executives' biographies (obtained from Businessweek, Equilar and Forbes) to collect specific executive and appointment features such as whether the CEO is a founder of the company or whether she also becomes chairman of the board.

Furthermore, for our 117 reappointed former CEOs, we identify all announcement dates other than the previously identified reappointment date in the same firm: this includes the date

¹⁰ + 24 CEOs who left their jobs to take the CEO position elsewhere, and 105 cases where non-CEO managers (typically managers holding the titles President, Chief Operating Officer or Chief Financial Officer) left their jobs for the CEO position elsewhere.

of (1) her first appointment, (2) her first leaving of the company, and, if relevant, (3) her second leaving of the company. We acknowledge that a firm could name its future successor long before its official public announcement. The announcement date for the first appointment and second appointment as a CEO would then be the date on which the firm first announces its plan to appoint/reappoint her as a successor. We collect executives' shareholdings from DEF 14A proxy filings.

Next, we require that firms have available data on the CRSP Daily Master File and Compustat Quarterly databases. This yields a final sample of 117 (111) CEO reappointments for our univariate (multivariate) analyses.

To analyze valuation consequences cross-sectionally, we also evaluate stock market returns of reappointed former CEOs' announcements relative to stock market returns of non-former CEO announcements for the same firm. This allows us to control for time invariant firm characteristics as each firm acts as its own control. We therefore identify non-former CEO appointment dates for each sample firm based on firms' press releases. Our final sample for the univariate (multivariate) analysis that uses each firm as its own benchmark consists of 114 (362) firm-year observations with available data from CRSP and Compustat Quarterly.

Please insert Table 1 about here

3.2 Research design and variables

We have five sets of analysis to study the determinants and economic consequences of CEO reappointments. First, we analyze the determinants for appointing a former CEO instead of a non-former CEO (Analysis 1). Then we move to the consequence of CEO reappointment on stock market. We estimate cumulative abnormal stock returns around the CEO reappointment announcement date and test them in a univariate setting (Analysis 2) and in a multivariate setting (Analysis 3). In analysis 3, we use reappointment and non-reappointment returns. It includes the appointment of another CEO when the first CEO left the firm. To better understand the impact of CEO reappointments on stock market, we analyze the determinants of announcement returns related to the reappointment of former CEOs (Analysis 4). This analysis 4 is only based on reappointment returns. Finally, we analyze the impact of reappointed former CEOs on firm profitability relative to non-former CEOs (Analysis 5). For all analyses, we define our main event date (day 0) as the date of the first public announcement of a CEO (re)appointment. The fiscal quarter in which the event date falls is defined as the main event quarter (quarter 0).

For Analysis 1, we run a logistic regression (Logit) to estimate the likelihood to reappoint a former CEO instead of hiring a non-former CEO. For Analyses 2, 3, and 4, following Amir

and Lev (1996) and Palmrose et al. (2004), we use a market-adjusted model based on an equally weighted index (without dividends) to estimate abnormal returns (see also Jorion et al. 2009). This model subtracts the CRSP market index return from a company's daily return to obtain the market-adjusted abnormal return (AR) for each day and company. The daily abnormal returns are summed to calculate the cumulative abnormal return (CAR) for a given time period. We refer to this measure for abnormal returns as CAR_M to remind that this CAR is related to a market index. To test the robustness of our results to multiple return measurement windows (see Leuz et al. 2008; Brochet et al. 2013), we calculate and report cumulative returns for three different windows around each event date, i.e., the announcement of former CEO reappointments: the standard (0,1) window, and the slightly longer windows (-1,1) and (-1,2) to allow for slower dissemination of information. If, for the sake of simplicity, we only report the results of CARs based on a market-adjusted model, we calculate alternative definitions of abnormal returns to check the robustness of our results. As a second measure, we compute CARs according to a market-model abnormal returns (CAR_{MM}). CARs are defined as the cumulative difference between firm stock returns and predicted firm stock returns around the announcement date based on a one-factor market model using the CRSP market index (firm return – beta × market return) (see Landsman et al. 2012). The third measure uses firm stock returns around the reappointment announcement without benchmarking them to market and/or predicted returns (CAR_R). This measure is a raw return (see Bartov and Mohanram 2004; Armstrong et al. 2010). For the univariate analysis of stock returns (Analysis 2) and the determinant analysis of these returns (Analysis 4), we also calculate and report a fourth measure of CARs. We match former CEO reappointment events with non-former CEO appointment events in the same firm as a control event (see Bartov and Mohanram 2004). This technique employs information from the same pool of firms that – at some point in time – reappoint a former CEO, and – at another point in time – appoint a non-former CEO. This allows us to obtain directly and observationally comparable – if not even identical – matches to each reappointment event. By matching former with non-former appointment events, we econometrically mitigate potential self-selection bias. We therefore identify for each former CEO reappointment announcement the chronologically closest non-former CEO appointment announcement preceding the reappointment announcement. Hence, our fourth measure for CARs is defined as the cumulative difference in firm stock returns between the reappointment (former CEO) and appointment (non-former CEO) events in the same firm. We refer to this measure for abnormal returns as CAR_F to remind that this CAR

is related to the firm.¹¹

For the multivariate analysis of valuation consequences (Analysis 3), we directly compare reappointment (former CEO) announcement returns with appointment (non-former CEO) announcement returns for the same firm. That is, we identify the chronologically two nearest non-former CEO appointment announcements surrounding the reappointment announcement. We then regress all these announcement returns on a dummy variable *Reappointed CEO* and a set of control variables.

In the multivariate analyses of returns (Analyses 3 and 4), we control for market value (*Market value*; natural logarithm of a firm's market capitalization) (Brennan et al. 1998; Brochet et al. 2013), market-to-book ratio (*Market to book*; ([market capitalization of equity + (total assets - book value of equity)]/book value of total assets) (Iskandar-Datta and Yonghong 2013), return on assets (*Return on assets*; firm's earnings before interest and taxes to total assets) (Artmann et al. 2012), and leverage (*Leverage*; firm's total debt to total assets) (Landsman et al. 2012). All firm variables are measured as in the quarter of the respective announcement. We also control for individual CEO attributes. More specifically, we included the following variables: whether the CEO is the founder of the firm or whether she belongs to the founding family (*Founder*), whether she holds more than 10 percent of outstanding shares (*CEO shareholding*), whether she was interim CEO during her second appointment (*Interim CEO*), number of days between the day she left her office and the day she was reappointed (*Absence before app. 2*), number of days during her first tenure (*Tenure during app. 1*), whether she was already chairman/president of the board of directors (of the company) after her first appointment (*Chairman after app. 1*), whether she was chairman/president during her second appointment (*Chairman during app. 2*). We also control for *Industry* (DeFond et al. 2007).

For the multivariate analysis of the consequences of CEO reappointment on profitability, measured by *Return on assets* (Analysis 5), we implement a difference-in-differences design with *Reappointed CEO* being our treatment variable, and *After*, a dummy variable corresponding to the time. We then interact these "treatment" and "time" variables to get the difference in differences. These variables are complemented with a set of control variables which have also been used in prior models (*Size*, *Leverage*, *Market to book* and *Industry*).

All firm variables are measured as in the quarter of the respective announcement. The Appendix details all variables used in the paper.

¹¹ All results are invariant to the method used to calculate CARs yielding similar conclusions.

3.3 Sample description

Table 2, Panel A, reports frequency distribution by year. Table 2 also displays descriptive statistics of the reappointed CEOs' attributes (Panel B) and firm characteristics (Panels C and D). Our data show that we observe (a) reappointment decision(s) in every sample year, albeit with differing frequency. While we are able to identify only seven reappointed CEOs over the time period 1992 – 1996, the announcements peaked in 2000, 2002, and 2009 with 11, 10, and 9 announcements, respectively. These years account for about one fourth of the total observations in our sample. We relate this finding to the two economic and financial crises that unfolded in these years.

Panel B reports certain reappointed CEO attributes. 42 percent of reappointed CEOs are also the founder of the company, or belong to the founding family. Founders typically have superior firm and industry knowledge, are heavily involved in firms' day-to-day activities even if they are not having the CEO position, and are ready on call to step in if needed. Founders' incentives are different from those of usual managers. They typically identify themselves with the company and their wealth is concentrated in the firm. Hence, if no other (external) manager has the appropriate and necessary expertise and knowledge to run a company, founders represent the most easily accessible source for reappointed CEOs. The data also show that 14 percent of all reappointed CEOs have shareholdings exceeding 10 percent of outstanding shares. They are in most cases also founder of the firm, indicating that they are heavily bonded to their company, at least financially.

Regarding the reappointed CEOs' employment history, 83 percent have been with the company before their first appointment as CEO, mostly as chief operating officer, president, and/or vice president. Out of the 117 reappointed CEOs, 34 (27) percent have been president of the company (chairman of the board of directors) before their first CEO appointment.

The average (median; minimum; maximum) time lag between the announcement of becoming the CEO for the first time and taking office is 14.2 (0; 0; 197) days. This contrasts with the average (median; minimum; maximum) time lag between the announcement of the reappointment and taking office, which is much shorter with 4.8 (0; -4; 73) days. The difference in means is statistically significant at the 1 percent level. It is even shorter for becoming a reappointed CEO for the second time, with an average (median; minimum; maximum) of 0.5 (0; 0; 4) days. Hence, reappointed CEOs are hired on a relatively short period of prior notice. According to firms' press releases, the reappointing decision is typically not the result of succession plans, but of unforeseeable circumstances and/or *ad hoc* decisions made by the predecessor or the company's board.

The length of tenure during the first CEO appointment is on average (median; minimum; maximum) 4,171 (3,310; 62; 13,580) days. This represents about 11.6 (9.2; 0.2; 37.7) years. This contrasts to a much shorter average (median; minimum; maximum) tenure of 1,060 (686; 26; 7,483) days during their second appointment, and 962 (842; 164; 1,989) days during their third appointment. The difference in means between the first and second tenure length is statistically significant at 1 percent. Only 5 percent of all CEOs are appointed as interim CEOs during their first appointment. On the other hand, 32 percent of all rehired former CEOs are reappointed as interim CEOs for their second appointment, and 63 percent are interim CEOs for their third appointment.

The majority of managers that became CEO for the first time also became company president (60 percent). Nearly half of them also became chairman of the board during their tenure period (46 percent). When leaving the company after their first tenure period, the large majority of 89 percent of CEOs become/remain chairman of the board of directors. Only five percent also remain/become president of the company. These observations show that leaving CEOs remain powerful players in the company. Press releases indicate that companies aim to guarantee a smooth transition to the new leadership, hence offering them consulting roles and allowing them to oversee the strategic decisions of the new leader. Our findings are similar to the findings of Fahlenbrach et al. (2011). In their sample of 2,087 CEO turnovers at listed companies in the United States during the period from 1994 – 2004, they find that more than 50 percent of former CEOs stay on the board of directors.

Before former CEOs are reappointed, they typically have left the CEO position for an average (median; minimum; maximum) of 1,100 (929; 105; 4,702) days. That is, after about three years the average CEO takes over again. By that time, 79 percent of the reappointed CEOs are also the chairman of the board. This fraction increases to 86 percent during their second tenure. 47 percent of reappointed CEOs also become president of the company during their second tenure. Hence, they retain and concentrate the power over the firm in their hands.

Until the end of 2013, 26 reappointed CEOs are still in office. The remaining 91 CEOs already resigned or retired as CEO from their companies. None of them became president of the company when leaving the company for the second time, but still 71 percent have become/remained chairman of the board of directors.

CEOs that have been appointed for a third time have been out of office for an average of 743 days. All of them have been chairman of the board of directors before their reappointment, and all of them remain chairman of the board. While none of them was president of the company before their third appointment, 63 percent became president during

their third tenure.

Panel C provides statistics on firm characteristics for the fiscal quarter-end immediately preceding the CEO reappointment (i.e., quarter -1). The average amount of total assets (*Size*) is around USD 9 billion, whereas the median total assets amount is much smaller with around USD 1.8 billion, indicating that the distribution is right skewed. Asset size varies between USD 20.49 million and USD 155,566 million, suggesting that both relatively small and very large companies reappoint former CEOs. The same applies for firms' market values (*Market value*). Sample firms' return on assets (*Return on assets*) lies between a negative 20 percent and a positive 13 percent, while the average (median) profitability right before the appointment decision is positive with 1 percent (1 percent). The market to book ratio (*Market to book*), a proxy for firms' growth opportunities and firm value, ranges between 9.7 percent and 135 percent, whereas the average (median) ratio is at 57 percent (55 percent). Finally, firms' leverage ratio (*Leverage*) is between 0 and 95 percent, with an average and median leverage ratio of 22 percent. Untabulated statistics reveal that reappointing firms do not statistically differ from non-reappointing firms along *Market value*, *Market to book*, and *Leverage* immediately before the CEO turnover. They statistically differ, however, in terms of profitability and total assets. Reappointing firms have a much smaller *Return on assets* than non-reappointing firms (0.9 percent vs. 1.6 percent). On the other hand, they are much larger in terms of total assets (*Size*) (USD 1,872 million vs. USD 1,371 million). We will explore this issue further in the next section.

Panel D reports the distribution of firms by industry. The highest frequency of reappointed CEOs occurs in the manufacturing (50.43 percent) and wholesale and retail trade (18.80 percent) industries, followed by the services industry (13.86 percent). These three industries account for more than 55 percent of the sample.

Please insert Table 2 about here

4. Empirical results

4.1 Determinants of reappointing a former CEO

In this section, we briefly analyze why firms decide to reappoint a former CEO in lieu of a non-former CEO (Analysis 1). More specifically, we estimate the following model:

$Reappointed\ CEO_{it} = \alpha_0 + \alpha_1 Return\ on\ assets_D_{it} + \alpha_2 Size_{it} + \alpha_3 Leverage_{it} + \alpha_4 Market\ to\ book_{it} + \sum_k \alpha_{5,k} Industry_{it} + \sum_t \alpha_{6,t} Year_{it} + \varepsilon_i$	(1)
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Where:

- *Reappointed CEO*: dummy variable coded one if a firm reappoints a former CEO, and zero otherwise (reappointment of a non-former CEO).
- *Return on assets_D*: dummy variable coded one if return on assets (earnings before interest and taxes over total assets) is positive, and zero otherwise. It is measured in the quarter immediately preceding the turnover announcement.
- *Size*: Natural logarithm of the total assets at year-end.
- *Leverage*: Total debt/Total assets ratio at year-end.
- *Market to book*: ([market capitalization of equity + (total assets - book value of equity)]/book value of total assets)
- *Industry*: Industry classification based on one-digit SIC codes.

All variables and data sources are presented in the Appendix.

The regression is estimated using industry and year fixed effects with p-values based on clustered standard errors, which are robust to clustering by firm. As a robustness test, we run the model of Equation 1 where *Return_on_assets_D* is replaced by *Return_on_assets* (continuous variable). Table 3 presents the regression results.

Our first variable of interest is profitability (*Return on assets_D*). The coefficient for *Return on assets_D* is negative and significant (coeff. = -0.9078; p-value = 0.001). As expected, profitable firms refrain from appointing a former CEO. In line with Hypothesis 1, firms suffering from poor performance are more likely to reappoint a former CEO. The likelihood increases by about 19 percent if firms' profitability is negative before the appointment is made public (untabulated marginal effects). Hence, former CEOs are expected to be particularly capable of guiding the companies back on a winning track. They have firm-specific knowledge and expertise and were trained within the firm. The negative coefficient also suggests that companies suffering from poor performance do not have a large pool of potential new CEO candidates available suggesting that they have to choose a former CEO as a last solution. Our findings still hold and are qualitatively unchanged if we replace *Return on assets_D* (dummy variable) with *Return on assets* (continuous variable) (see Model (B)).

Furthermore, we obtain a positive (0.1834) and significant (p-value = 0.000) coefficient on *Size* implying that larger and more complex firms are more likely to reappoint a former CEO. Again, firm-specific knowledge and expertise provide reasonable reasons why firms reappoint a former CEO. The other control variables (*Leverage* and *Market to book*) are insignificant. In summary, less profitable and more complex firms are more likely to reappoint a former CEO.

Please insert Table 3 about here

4.2 Stock market consequences to reappointing a former CEO

4.2.1 Univariate analysis: Stock market reaction to reappointment

In this section, we test whether reappointing a former CEO conveys new information to market participants and whether reappointing a former CEO is viewed as a positive or negative signal for firms' future prospects (Hypothesis 2). Table 4 presents univariate test statistics of cumulative abnormal returns for firms that reappoint a former CEO over various event windows, various measures for returns and various sub-groupings. Our main event date (day 0) is defined as the first public announcement on the (re-)appointment of a new CEO.

Panel A of Table 4 indicates a significantly negative stock market reaction to the reappointment of a former CEO. The mean cumulative return (CAR_M) ranges between -2.87 percent for event window (0, 1) and -3.28 percent for event window (-1, 2), indicating that the reappointment elicits a significant unfavorable market reaction. For all results discussed, p-values indicate statistical significance at the 1 percent level. These results are robust to using alternative measures of cumulative abnormal returns (market-model returns and raw returns).

As a further robustness check, we also document in Panel B significant negative abnormal returns by benchmarking reappointed CEOs returns to non-reappointed CEOs returns in the same firm (CAR_F). This technique employs information from the pool of firms that have a non-former CEO appointment, i.e., we compare announcement returns for a former CEO with announcement returns for non-former CEOs in the same firm. This is to obtain directly and observationally comparable matches for reappointed CEO announcements. Panel B reveals that CAR_F is significantly negative, ranging between -2.65 percent for event window (-1, 2) and -3.11 percent for event window (0, 1) with all p-values smaller than 0.018.

In summary, our robust results of reduced market value support the notion that CEO reappointments have a negative impact on market value. They convey negative information about the firms' current and future prospects and poor succession planning. A poorly performing firm, as indicated by our determinant analysis in Table 3, may find it hard to attract external candidates. Instead, it has to rely on a former CEO as a leader of last resort. In addition, empirical evidence based on the reading of press releases indicates that – typically – destabilized firms with disputes between senior management and the board of directors dismiss the current CEO and reappoint a former CEO.

To analyze whether firms with a former CEO experience more negative abnormal returns around the announcement date compared to non-former CEO announcements, we divide our sample into former and non-former CEO announcements. We therefore identified up to four non-former CEO announcement dates for each reappointing firm. The second table in Panel B

of Table 4 reports (abnormal) returns for reappointing announcements. The sample size is slightly larger as we also include former CEOs that are appointed at the same firm for the third time (this is the case for eight CEOs).

As in Panel A, all (abnormal) returns for reappointed CEOs are negative and they are statistically and economically significant. The magnitude and significance is pretty much the same as compared to including only one-time reappointed CEOs. In contrast, the average abnormal return for non-former CEOs is positive, very close to zero, and statistically insignificant different from zero. They range from +0.2 percent for event window (-1, 2) to +0.48 percent for event window (-1, 1) and CAR_M as the proxy for abnormal returns.

This important finding suggests that stock price reaction is significantly different for former and non-former CEOs. Moreover, it indicates that the reappointment decision conveys additional information about the firm to the market, whereas non-former CEO appointments do not. As evidenced, the market regards the additional information negative.

Please insert Table 4 about here

4.2.3 Multivariate analysis: Stock price reaction to reappointments

We now turn to testing our predictions in a multivariate setting by estimating various regressions relating to shareholder wealth changes to the reappointment of a former CEO. We therefore use the following model specification:

$Return_{it} = \beta_0 + \beta_1 Reappointed\ CEO_{it} + \beta_2 Market\ value_{it} + \beta_3 Market\ to\ book_{it} + \beta_4 Return\ on\ assets_{it} + \beta_5 Leverage_{it} + \sum_k \beta_{6,k} Industry_{it} + \varepsilon_i$	(2)
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Where:

- *Return*: Abnormal return on day t , estimated for firm i as $AR_{it} = R_{it} - RM_t$, where RM is the value-weighted market return (CRSP). Cumulative abnormal returns are computed for three different windows (-1,1), (0,1) and (-1,2), where the reappointment is announced on day t . CAR = sum of abnormal returns (AR) over the event window. As robustness tests, we compute CARs as market-model returns and the raw stock return around the reappointment announcement.
- *Market value*: natural logarithm of firm's market capitalization.

Other variables have been defined earlier. All variables and data sources are presented in

the Appendix.

All regressions are estimated using industry-fixed effects to control for industry-specific factors with p-values based on clustered standard errors, which are robust to clustering by firm. We focus on the (-1, 1) event window for our main analysis (Model A). For robustness tests, we repeat the analysis for the event window (0, 1) (Model B), and for the event window (-1, 2) (Model C). We include the following control variables: *Market value*, *Market to book*, *Return on assets* and *Leverage*. The sample comprises of 115 former CEOs and 247 non-former CEOs.

Table 5 presents our results. Our variable of interest, *Reappointed CEO*, is negative and highly statistically significant in all models, ranging from -3.1 percent for Model B to -3.7 percent for Model A. This is consistent with reappointments experiencing significantly lower returns at the announcement than non-reappointments. The magnitude of the effect is comparable to the univariate analyses of Table 4 and corroborates earlier results. This evidence supports Hypothesis 2, which posits that firms with reappointed CEOs experience negative stock market reaction.

Our finding extends the literature on CEO succession by documenting that the reappointment of a former CEO results in negative market consequences and thus, possibly, shareholder disapproval.

Please insert Table 5 about here

4.3 Multivariate analysis: Explanation of stock price reaction at reappointment

In this section, we test Hypothesis 3 by analyzing the impact of executive-specific attributes on market consequences following the announcement of reappointing a former CEO. Furthermore, we also test Hypothesis 4 and examine the stock market's reaction to the appointment of a former CEO as an interim CEO. We estimate the following model:

$ \begin{aligned} \text{Return}_{it} = & \\ & \gamma_0 + \gamma_1 \text{Founder}_i + \gamma_2 \text{CEO shareholding}_i + \gamma_3 \text{Founder} \times \text{CEO shareholding}_i + \\ & \gamma_4 \text{Interim CEO}_{it} + \gamma_5 \text{Absence before app. 2}_i + \gamma_6 \text{Tenure during app. 1}_i + \\ & \gamma_7 \text{Chairman after app. 1}_i + \gamma_8 \text{Chairman during app. 2}_i + \gamma_9 \text{Return on assets}_{it} + \\ & \gamma_{10} \text{Return on assets during app. 1}_{it} + \gamma_{11} \text{Market value}_{it} + \gamma_{12} \text{Market to book}_{it} + \\ & \sum_k \gamma_{13,k} \text{Industry}_{it} + \varepsilon_i \end{aligned} $	(3)
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Where:

- *Return*: Abnormal return on day t , estimated for firm i as $AR_{it} = R_{it} - RM_t$, where RM is the value-weighted market return (CRSP). Cumulative abnormal returns are computed for three different windows (-1,1), (0,1) and (-1,2), where the reappointment is announced on day t . CAR_M = sum of abnormal returns (AR) over the event window (Model A). We also compute *Return* as the difference in firm's raw returns around the reappointment announcement and the same firm's raw returns around the announcement of a non-former CEO (CAR_F , Model B). As untabulated robustness tests, we compute CARs as market-model returns (CAR_{MM}) and the raw stock return around the reappointment announcement (CAR_R).
- *Founder*: dummy variable coded one if the reappointed CEO is also the founder of the firm (which is the case for 46 out of 111 observations), and zero otherwise.
- *CEO shareholding*: dummy variable coded one if the CEO possesses more than 10 percent of outstanding shares (which is the case for 15 out of 111 observations), and zero otherwise.
- *Interim CEO*: dummy variable coded one if the CEO was appointed as interim CEO at the time of her second appointment, and zero otherwise.
- *Absence before app. 2*: Natural logarithm of the number of days between the date when the reappointed CEO quit her first appointment and the date she went back to office for her second appointment
- *Tenure during app. 1*: Natural logarithm of the number of days between becoming CEO for the first time and leaving the CEO position for the first time.
- *Chairman after app. 1*: Dummy variable coded one if the CEO remained/became chairman after her first appointment, and zero otherwise.
- *Chairman during app. 2*: dummy variable coded one in case the reappointed CEO also becomes chairman of the board, and zero otherwise.

- *Return on assets*: return on assets during the quarter immediately preceding the reappointment announcement. This variable proxies for the firm profitability around the announcement.
- *Return on assets during app. 1*: return on assets during the first tenure period. This variable proxies for how well the CEO performed during the first tenure.

Other variables have been defined earlier. All variables and data sources are presented in the Appendix.

All regressions are estimated using industry-fixed effects to control for industry-specific factors with p-values based on clustered standard errors, which are robust to clustering by firm. We focus on the (-1, 1) event window for our main analysis (Models A, B). For robustness tests, we repeat the analysis for the event window (0, 1) (Models C, D), and for the event window (-1, 2) (Models E, F).

In Table 6 we present multivariate analyses of the impact of various CEO characteristics on abnormal returns around the announcement of the reappointment of a former CEO. The variable *Founder* is significant only in the first four models (A-D). The market obviously considers founders to be the last best solution as a succession CEO, albeit the coefficient is only marginally significant at the 10 percent level. This finding contradicts our Hypothesis 3, which posits that market's reaction is more favorable in case the reappointed CEO is also the founder of the company.

We also expect *CEO shareholding* to be positively related to market's reaction. The coefficient is, however, negative and statistically significant at the 1 percent level. This finding also contrasts our Hypothesis 3 and the underlying alignment theory. One reason for the negative association could be that the remaining (minority) shareholders fear the increasing influence of the blockholder manager when she is promoted to company CEO. The interaction term of *Founder* and *CEO shareholdings* is, however, positive and highly significant across all models (except Model D) and consistent with Hypothesis 3. The coefficient balances the negative effect of being a large shareholder if the new CEO is also the founder of the company. The overall effect remains, however, negative. In summary, the analysis reveals that firms reappointing a former CEO experience negative stock market reaction if the reappointed CEO is a larger shareholder of the firm but not a founder. It also experiences negative stock market reaction, but to a lesser extent, if the reappointed CEO is a founder but not a larger shareholder of the firm. However, this negative markets' reaction is attenuated if the reappointed CEO is also a founder of the firm.

The market does not regard the appointment of a former CEO on an interim basis positively, as the coefficient is not statistically significant (with the exception of Model E). Since CEO reappointments are – in general – considered to convey negative news to the market, reappointed CEOs that will be replaced by a permanent successor in the near future do not mitigate the negative news content. The market does not seem to credit the firm for taking its time to search for a permanent CEO.

The length of the tenure period (*Tenure during app. 1*) during the first CEO appointment has a significant positive impact on market's reaction. It is defined as the natural logarithm of days the CEO was in office during her first tenure. Its coefficient is statistically significant at the 5 percent level for Model C and at 10 percent level for Models A, B, and D. The more days the reappointed CEO has been in office during her first appointment, the more firm-specific knowledge and expertise she is expected to have. This finding suggests that the market associates a longer tenure period during the first appointment with stability and steadiness during the second appointment.

The coefficient on *Chairman during app. 2* is statistically significant and positive (at the 5 or 10 percent level). Empirical evidence shows that many reappointed CEOs were chairman of the board before being reappointed as CEO. The positive coefficient implies that the market sees this dual role as an indication for more day-to-day experience and recent insights into the company. Moreover, as many CEO turnovers are due to upheavals between the CEO and the board of directors about the strategic orientation of the company, reappointed CEOs that also become chairman of the board accumulate more power in just one person and, therefore, conflicts between her and the board will likely terminate.

Finally, the coefficient on *Return on assets* is positive and statistically significant across five models. Hence, companies in a stable and profitable situation reappointing a former CEO experience more favorable market reactions.

All other variables are insignificant. There is, for instance, no impact of the length of absence (*Absence before app. 2*), or the profitability during the first tenure period (*Return on assets during app. 1*) on market reactions.

Our findings extend the literature by showing that the announcement returns of appointing a CEO are dependent on CEO-specific attributes. Overall, our findings are in support of the argument that the market carefully distinguishes reappointed CEO announcements based on CEO-specific attributes.

Please insert Table 6 about here

4.4 Difference-in-differences analysis of profitability around the reappointment of CEOs

To test whether the reappointment of a former CEO has an economic impact on firm profitability, we analyze firms' return on assets as proxy for firm profitability for the former and matched non-former CEO firms over the pre- and post-announcement period (Hypothesis 5). When investors are right at discounting firms' value after reappointing a former CEO, we would expect profitability to decline for firms with a former CEO relative to firms with a non-former CEO. We therefore estimate the following model:

$\begin{aligned} \text{Return on assets}_{it} = & \\ & \delta_0 + \delta_1 \text{Reappointed CEO}_i + \delta_2 \text{After}_i + \delta_3 \text{Reappointed CEO} \times \text{After}_i + \\ & \delta_4 \text{Size}_{it} + \delta_5 \text{Leverage}_{it} + \delta_6 \text{Market to book}_{it} + \sum_k \delta_{7,k} \text{Industry}_{it} + \sum_t \delta_{8,t} \text{Year}_{it} + \\ & \varepsilon_i \end{aligned}$	(4)
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Where:

- *After*: Dummy variable coded one in the six quarters after appointing a new CEO/reappointing a former CEO, and 0 in the six quarters before.

Other variables have been defined earlier. All variables and data sources are presented in the Appendix.

The model is estimated using industry- and year-fixed effects with p-values based on clustered standard errors, which are robust to clustering by firm. We include the following control variables: *Size*, *Leverage*, and *Market to book*.

In Table 7 we present the difference-in-differences analysis for the change in firm profitability for six quarters before and after the reappointment of a new CEO. One notable observation is the positive and significant coefficient for the variable *After*. This pattern indicates a time trend towards better profitability for both former and non-former CEO appointments. Moreover, the coefficient on *Reappointed CEO* is only hardly significant (p-value = 0.095), indicating that there is no significant difference in firm profitability between reappointing firms and non-reappointing firms before the reappointment decision. Most importantly, the coefficient on our variable of interest, *Reappointed CEO* × *After* is negative and significant (p-value = 0.016). This interaction term captures the incremental change in return on assets for former CEO appointments compared to non-former CEO appointments after the appointment. The significantly negative coefficient reveals deterioration in firm profitability for firms reappointing a former CEO by approximately 1 percent.

Our findings are consistent with Hypothesis 5 and lend support for investors' negative perception about firms' future prospects after reappointing a former CEO.

Please insert Table 7 about here

5. Discussion and conclusion

Using hand-collected data from 117 reappointments of former CEOs and comparing them to a matched control sample of non-former CEOs in the same firms, we provide empirical evidence that reappointing a former CEO deteriorates firm's market value. More specifically, we find that firms reappointing a former CEO experience economically significant negative stock price reaction, indicating that investors view CEO reappointments as a negative signal for firms' current prospects to attract "new" CEOs and, hence, also about firms' future outlook and development.

Our empirical findings show that firm performance deteriorates during the quarters immediately after the reappointment decision lending support for investors negative reaction around the announcement of the reappointment decision.

We further provide evidence that market's reaction to CEO reappointments is depending on certain executive-specific attributes. Market reaction to the reappointment announcement of a founder CEO who also possesses more than 10 percent of outstanding shares is less negative. Also, being appointed as chairman of the board of directors, and having had a long tenure during the first appointment, mitigates the negative market reaction. Our findings, hence, support the upper echelon theory (Hambrick and Mason 1984; Hambrick 2007), which views the organization as a reflection of its top managers.

In sum, the empirical evidence highlights the economic significance of CEO succession decisions by focusing on a certain subset of CEO successions, namely CEO reappointments. Our results have significant implications to firms who carefully have to plan their succession decision far ahead.

Appendix

Definition of variables

Variable	Description	Data source
Executive-specific variables		
Absence before app. 2	Number of days between leaving the office as CEO after the first appointment and being reappointed as a CEO	Own Computation
Absence before app. 3	Number of days between leaving the office as CEO after the second appointment and being reappointed as a CEO	Own Computation
CEO shareholding	Dummy variable coded one for CEO shareholdings exceeding 10 percent of outstanding shares, and 0 otherwise	DEF14 Filings
Chairman after app. 1	Dummy variable coded one if the CEO remained/became chairman of the board of directors after her first appointment, and 0 otherwise	Own Computation
Chairman after app. 2	Dummy variable coded one if the CEO remained/became chairman of the board of directors after her second appointment, and 0 otherwise	Own Computation
Chairman before app. 1	Dummy variable coded one if the CEO was already chairman of the board of directors before her first appointment, and 0 otherwise	Own Computation
Chairman before app. 2	Dummy variable coded on if the CEO was already chairman of the board of directors before her second appointment, and 0 otherwise	Own Computation
Chairman before app. 3	Dummy variable coded one if the CEO was already chairman of the board of directors before her third appointment, and 0 otherwise	Own Computation
Chairman during app. 1	Dummy variable coded one if the CEO also became chairman of the board of directors with her first appointment, and 0 otherwise	Own Computation
Chairman during app. 2	Dummy variable coded one if the CEO also became chairman of the board of directors with her second appointment, and 0 otherwise	Own Computation
Chairman during app. 3	Dummy variable coded one if the CEO also became chairman of the board of directors with her third appointment, and 0 otherwise	Own Computation
Founder	Dummy variable coded one if the CEO also is the founder of the company or belongs to the founding family, and 0 otherwise	Own Computation
Interim CEO during app. 1	Dummy variable coded one if the CEO was appointed as interim CEO for her first appointment, and 0 otherwise	Own Computation
Interim CEO during app. 2	Dummy variable coded one if the CEO was appointed as interim CEO for her second appointment, and 0 otherwise	Own Computation
Interim CEO during app. 3	Dummy variable coded one if the CEO was appointed as interim CEO for her third appointment, and 0 otherwise	Own Computation
President after app. 1	Dummy variable coded one if the CEO remained/ became president of the company after her first appointment, and 0 otherwise	Own Computation
President after app. 2	Dummy variable coded one if the CEO remained/ became president of the company after her second appointment, and 0 otherwise	Own Computation
President before app. 1	Dummy variable coded one if the CEO was already president of the company before her first appointment, and 0 otherwise	Own Computation
President before app. 2	Dummy variable coded one if the CEO was already president of the company before her second appointment, and 0 otherwise	Own Computation
President before app. 3	Dummy variable coded one if the CEO was already president of the company before her third appointment, and 0 otherwise	Own Computation
President during app. 1	Dummy variable coded one if the CEO also became president of the company with her first appointment, and 0 otherwise	Own Computation
President during app. 2	Dummy variable coded one if the CEO also became president of the company with second first appointment, and 0 otherwise	Own Computation
President during app. 3	Dummy variable coded one if the CEO also became president of the company with her third appointment, and 0 otherwise	Own Computation
Reappointed CEO	Dummy variable coded one if the CEO position was filled with a former CEO, and 0 otherwise	Own Computation
Tenure during app. 1	Number of days between becoming CEO for the first time and leaving the CEO position for the first time	Own Computation
Tenure during app. 2	Number of days between becoming CEO for the second time and leaving the CEO position for the second time	Own Computation

Tenure during app. 3	Number of days between becoming CEO for the third time and leaving the CEO position for the third time	Own Computation
Time lag announc. and app. 1	Number of days between the announcement of (re-) appointing a new CEO and the new CEO taking over the office	Own Computation
Time lag announc. and app. 2	Number of days between the announcement of (re-) appointing a new CEO and the CEO taking over the office	Own Computation
Time lag announc. and app. 3	Number of days between the announcement of (re-) appointing a new CEO and the CEO taking over the office	Own Computation
With company prior to app. 1	Dummy variable coded one if the CEO was already with the company before her first appointment as CEO, and 0 otherwise	Own Computation

Firm-specific variables		Data source
Industry	Industry classification based on one-digit SIC codes	Compustat
Leverage	Firm's total debt to total assets	Compustat
Market to book	Market value of equity plus firm assets minus book value of equity divided by total assets ([market capitalization of equity + (total assets – book value of equity)]/book value of total assets)	Compustat
Market value	Logarithm of firm's market capitalization	Compustat
Return on assets	Firm's operating income to total assets	Compustat
Return on assets_D	Dummy variable coded one Return on Assets is positive, and 0 otherwise	Compustat
Size	Firm's total assets (logarithm of assets)	Compustat

Announcement-specific variables (main analyses)		Data source
CAR_M	Cumulated difference between the firm's raw returns and the contemporaneous stock market returns during the event window of announcing a new CEO	CRSP
CAR_F	Cumulated difference between the firm's raw returns when appointing a former CEO and the raw returns when a non-former CEO was appointed in the same firm during the event window of announcing a new CEO	CRSP
Announcement-specific variables (robustness tests)		Data source
CAR_MM	Cumulated difference between the firm's raw returns and market-model predicted returns using the CRSP market index during the event window of announcing a new CEO	CRSP
CAR_R	Cumulated raw stock returns during the event window of announcing a new CEO	CRSP

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Table 1

Sample selection

Panel A and Panel B detail the sample selection for our univariate analyses. Panel C and Panel D describe the sample selection for our multivariate analyses.

Panel A: Number of identified reappointed CEOs

Number of identified first time reappointed CEOs	117
Number of identified second time reappointed CEOs	8
Final sample for main analysis*	117
* Corresponds to 114 unique firms	

Panel B: Sample composition for analysis 1 and 3 – Determinants of reappointing a CEO and multivariate analysis of stock price reactions

Number of firm-year observations	393
Elimination of observations with missing data	-31
Final sample for analyses 1 and 3*	362
* Corresponds to 112 unique firms	

Panel C: Sample composition for analysis 2 – Stock price reactions around a CEO's first reappointment (CAR_F analysis)

Number of identified reappointed CEOs	117
Elimination of observations with missing stock data	-3
Final sample for univariate analysis*	114
* Corresponds to 111 unique firms	

Panel D: Sample composition for analysis 4 – Determinants of stock price reactions around reappointing a former CEO

Number of identified reappointed CEOs	117
Elimination of observations with missing data	-6
Final sample for multivariate analysis 4*	111
* Corresponds to 110 unique firms	

Table 2**Descriptive statistics of reappointed CEOs and summary statistics**

Panel A presents frequency distributions per year. Panel B presents descriptive statistics of the identified reappointed CEOs. Panel C shows descriptive statistics of the independent variables used in our multivariate analyses. Panel D outlines the industry affiliation of sample firms.

Panel A: Frequency distributions per year

Year	Frequency	Percentage
1992	2	1.71
1994	1	0.85
1995	2	1.71
1996	2	1.71
1997	6	5.13
1998	4	3.42
1999	9	7.69
2000	11	9.40
2001	6	5.13
2002	10	8.55
2003	2	1.71
2004	8	6.84
2005	7	5.98
2006	8	6.84
2007	4	3.42
2008	6	5.13
2009	9	7.69
2010	4	3.42
2011	9	7.69
2012	3	2.56
2013	4	3.42

Panel B: Descriptive statistics of the identified reappointed CEOs

Reappointed CEO attributes (N = 117)	Mean	Std. dev.
Founder	0.42	0.50
CEO shareholding	0.14	0.35
With company prior to app. 1	0.83	0.37
Chairman before app. 1	0.27	0.45
President before app.1	0.34	0.48
Time lag announc. and app. 1 (days)	14.23	38.10
Tenure during app. 1 (days)	4170.68	2865.67
Interim CEO during app. 1	0.05	0.22
Chairman during app. 1	0.46	0.50
President during app. 1	0.60	0.49
Chairman after app. 1	0.89	0.32
President after app. 1	0.05	0.22
Absence before app. 2 (days)	1099.71	866.36
Chairman before app. 2	0.79	0.41
President before app. 2	0.07	0.25
Time lag announc. and app. 2 (days)	4.84	14.23
Tenure during app. 2 (days)	1059.32	1134.31
Interim CEO during app. 2	0.32	0.47
Chairman during app. 2	0.86	0.35
President during app. 2	0.47	0.50

There are 117 reappointed CEOs. 91 have already left the company as active CEO. 26 are still active as CEO.

Reappointed CEO attributes (N = 91)	Mean	Std. Dev.
Chairman after app. 2	0.71	0.45
President after app. 2	0.00	0.00

We observe 8 executives who were reappointed as CEO for the second time.

Reappointed CEO attributes (N = 8)	Mean	Std. Dev.
Absence before app. 3 (days)	742.62	533.87
Chairman before app. 3	1.00	0.00
President before app. 3	0.00	0.00
Time lag announc. and app. 3 (days)	0.50	1.41
Tenure during app. 3 (days)	962.12	653.25
Interim CEO during app. 3	0.63	0.53
Chairman during app. 3	1.00	0.00
President during app. 3	0.63	0.53

Panel C: Descriptive statistics of the independent variables

Independent variables (in millions of USD)	Obs.	Mean	Min	Median	Max
Leverage	110	0.22	0	0.22	0.95
Market to book	117	0.5718	0.0970	0.5516	1.3542
Market value	117	5,763.67	28.72	1,348.39	211,131.77
Return on assets	116	0.0102	-0.2033	0.0102	0.1277
Size	117	8,991.25	20.49	1,775.94	155,566.00

Panel D: Industry affiliation of sample firms

Industry	Frequency	Percentage
Agriculture, forestry, and fishing	1	0.85
Mining and construction	2	1.71
Manufacturing	59	50.43
Transportation, communications, and utilities	5	4.27
Wholesale and retail trade	22	18.80
Finance and insurance	12	10.26
Services	16	13.86
		100.00

Table 3

Analysis 1: Determinants of appointing a former CEO

Table 3 presents results of a logit regression on the determinants of having a former CEO instead of a first-time CEO (Equation 1):

$$\begin{aligned}
 \text{Reappointed CEO}_{it} = & \\
 & \alpha_0 + \alpha_1 \text{Return on assets_D}_{it} + \alpha_2 \text{Size}_{it} + \alpha_3 \text{Leverage}_{it} + \alpha_4 \text{Market to book}_{it} + \\
 & \sum_k \alpha_{5,k} \text{Industry}_{it} + \sum_t \alpha_{6,t} \text{Year}_{it} + \varepsilon_i
 \end{aligned}$$

The dependent variable is a dummy variable coded one if the firm reappoints a former CEO, and zero otherwise. All independent variables are measured in the quarter immediately preceding the announcement of appointing a new CEO. Standard errors are clustered at the firm level.

Model A represents the basic model and Model B is run as a robustness test where *Return on assets_D* is replaced by *Return on assets* (continuous variable).

Values in parentheses show p-values. ***, **, * denote significance at the 1 percent, 5 percent, and 10 percent level.

Please see the Appendix for the definition of variables.

	Model A	Model B
Return on assets_D	-0.9078*** (0.001)	
Return on assets		-5.307** (0.042)
Size	0.1834*** (0.000)	0.150*** (0.001)
Leverage	-0.6634 (0.175)	-0.4608 (0.306)
Market to book	-0.0246 (0.962)	-0.2268 (0.635)
Industry fixed effects	Yes	Yes
Year fixed effects	Yes	Yes
Constant	-0.9239*** (0.004)	-1.3335*** (0.000)
Observations	362	362
R-squared	0.08	0.08

Table 4**Analysis 2: Univariate analysis of stock price reactions**

Panel A presents analyses of the stock price reactions (stock returns) around the announcement day of the former CEOs' first reappointment (n = 117). The event windows are (-1; 1), (0; 1) and (-1; 2). The estimation window is (-150; -30).

Panel B compares stock price reactions for former CEOs and non-former CEOs. Reappointed CEOs include a manager's first and second reappointment as CEO (n = 125). Non-former CEO events include up to four CEO turnover announcements per company for which the new CEO has not been CEO in the same company before (n = 269).

We estimate cumulative abnormal returns around the announcement day as the cumulated differences between the reappointment raw returns and the market-adjusted returns (*CAR_M*) and as the cumulated differences between the reappointment raw returns and the raw returns when a non-former CEO was appointed at the same firm (*CAR_F*). In untabulated results, we calculate CARs as the difference between the reappointment raw returns and market-model returns and as reappointment raw returns.

Panel A: Stock price reactions around a CEO's first reappointment

Event window	CAR_M	
	Mean	p-value
(-1, 1)	-0.0318	0.001
(0, 1)	-0.0287	0.002
(-1, 2)	-0.0328	0.001

Panel B: Stock price reactions around a CEO reappointment vs. a non-former CEO appointment

Event window	CAR_F	
	Mean	p-value
(-1, 1)	-0.0305	0.017
(0, 1)	-0.0311	0.007
(-1, 2)	-0.0265	0.018

Reappointed CEOs			Non-former CEOs		
Event window	CAR_M		Event window	CAR_M	
	Mean	p-value		Mean	p-value
(-1, 1)	-0.0310	0.001	(-1, 1)	0.0048	0.367
(0, 1)	-0.0270	0.002	(0, 1)	0.0047	0.365
(-1, 2)	-0.0319	0.001	(-1, 2)	0.0020	0.714

Table 5**Analysis 3: Multivariate analysis of stock price reactions**

Table 5 shows results of our multivariate analyses on stock price reactions (Equation 2):

$$Return_{it} = \beta_0 + \beta_1 Reappointed\ CEO_{it} + \beta_2 Market\ value_{it} + \beta_3 Market\ to\ book_{it} + \beta_4 Return\ on\ assets_{it} + \beta_5 Leverage_{it} + \sum_k \beta_{6,k} Industry_{it} + \varepsilon_i$$

Return is computed as market-adjusted return (CAR_M). In untabulated results, we estimate equation 2 with CARs calculated as market-model returns and raw returns. We focus on the (-1, 1) event window for our main analysis (Model A). For robustness tests, we repeat the analysis for the event window (0, 1) (Model B), and for the event window (-1, 2) (Model C).

We control for industry effects (1-digit sic codes). We use robust Huber/White standard errors (White 1980, 1981).

Values in parentheses show p-values. ***, **, * denote significance at the 1 percent, 5 percent, and 10 percent level.

Please see the Appendix for the definition of variables.

Dependent variable	Model A Event window (-1, 1) CAR_M	Model B Event window (0, 1) CAR_M	Model C Event window (-1, 2) CAR_M
Reappointed CEO	-0.037*** (0.001)	-0.031*** (0.003)	-0.035*** (0.003)
Market value	-0.005 (0.117)	-0.001 (0.744)	-0.004 (0.214)
Market to book	0.008 (0.811)	-0.006 (0.844)	0.026 (0.417)
Return on assets	0.279** (0.047)	0.170 (0.236)	0.217 (0.124)
Leverage	0.055 (0.189)	0.071* (0.098)	0.040 (0.312)
Industry Fixed Effects	Yes	Yes	Yes
Constant	0.015 (0.590)	-0.008 (0.761)	-0.012 (0.674)
Observations	362	362	362
R-squared	0.08	0.066	0.072

Table 6**Analysis 4: Determinants of stock price reactions around reappointing a former CEO**

Table 6 presents results of analysis 4 on the determinants of stock returns (Equation 3):

$$\begin{aligned}
 \text{Return}_{it} = & \gamma_0 + \gamma_1 \text{Founder}_i + \gamma_2 \text{CEO shareholding}_i + \gamma_3 \text{Founder} \times \text{CEO shareholding}_i + \\
 & \gamma_4 \text{Interim CEO}_{it} + \gamma_5 \text{Absence before app. 2}_i + \gamma_6 \text{Tenure during app. 1}_i + \\
 & \gamma_7 \text{Chairman after app. 1}_i + \gamma_8 \text{Chairman during app. 2}_i + \gamma_9 \text{Return on assets}_{it} + \\
 & \gamma_{10} \text{Return on assets during app. 1}_{it} + \gamma_{11} \text{Market value}_{it} + \gamma_{12} \text{Market to book}_{it} + \\
 & \sum_k \gamma_{13,k} \text{Industry}_{it} + \varepsilon_i
 \end{aligned}$$

We estimate cumulative abnormal returns around the announcement day as the cumulated differences between the reappointment raw returns and the market-adjusted returns (*CAR_M*) and as the cumulated differences between the reappointment raw returns and the raw returns when a non-former CEO was appointed at the same firm (*CAR_F*). We focus on the (-1, 1) event window for our main analysis (Models A-B). For robustness tests, we repeat the analysis for the event window (0, 1) (Models C-D), and for the event window (-1, 2) (Models E-F). In untabulated results, we estimate the equation 3 with CARs calculated as market model returns and raw returns.

We control for industry effects (1-digit sic codes). We use robust Huber/White standard errors (White 1980, 1981).

Values in parentheses show p-values. ***, **, * denote significance at the 1 percent, 5 percent, and 10 percent level. Please see the Appendix for the definition of variables.

Dependent variable	Event window (-1, 1)		Event window (0, 1)		Event window (-1, 2)	
	Model A CAR_M	Model B CAR_F	Model C CAR_M	Model D CAR_F	Model E CAR_M	Model F CAR_F
Founder	-0.047* (0.069)	-0.060* (0.082)	-0.052** (0.033)	-0.056* (0.071)	-0.039 (0.149)	-0.051 (0.125)
CEO shareholding	-0.131*** (0.002)	-0.161*** (0.006)	-0.144*** (0.004)	-0.142*** (0.001)	-0.112*** (0.007)	-0.130*** (0.010)
Founder × CEO shareholding	0.132** (0.010)	0.147** (0.029)	0.131** (0.022)	0.081 (0.155)	0.111** (0.040)	0.115* (0.066)
Interim CEO	0.028 (0.116)	0.025 (0.347)	0.027 (0.128)	0.022 (0.343)	0.033* (0.080)	0.024 (0.365)
Absence before app. 2	0.004 (0.739)	-0.010 (0.543)	0.006 (0.638)	-0.005 (0.739)	0.012 (0.354)	-0.002 (0.880)
Tenure during app. 1	0.018* (0.069)	0.026* (0.097)	0.020** (0.018)	0.027* (0.056)	0.009 (0.346)	0.019 (0.156)
Chairman after app. 1	-0.031 (0.206)	-0.051* (0.095)	-0.015 (0.500)	-0.035 (0.287)	-0.028 (0.345)	-0.046 (0.242)
Chairman during app. 2	0.057** (0.027)	0.078** (0.030)	0.051** (0.049)	0.066* (0.094)	0.058* (0.084)	0.087* (0.065)
Return on assets	0.577** (0.046)	0.846* (0.053)	0.543** (0.026)	0.719* (0.059)	0.334 (0.255)	0.823** (0.028)
Return on assets during app. 1	0.025 (0.927)	-0.147 (0.663)	-0.049 (0.854)	-0.147 (0.663)	0.046 (0.878)	-0.382 (0.324)
Market value	0.002 (0.761)	0.000 (0.986)	-0.001 (0.928)	-0.002 (0.786)	-0.000 (0.946)	-0.003 (0.753)
Market to Book	0.062 (0.188)	0.024 (0.735)	0.061 (0.209)	0.026 (0.678)	0.092** (0.043)	0.070 (0.302)
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-0.273* (0.063)	-0.191 (0.297)	-0.280** (0.047)	-0.213 (0.206)	-0.255* (0.078)	-0.194 (0.267)
Observations	111	111	111	111	111	111
R-squared	0.18	0.16	0.18	0.16	0.14	0.12

Table 7**Analysis 5: Difference-in-differences analysis of profitability around the reappointment of former CEOs**

Table 7 presents results of a difference-in-differences analysis on the consequences of reappointing a former CEO on firm profitability (Equation 4).

$$Return\ on\ assets_{it} = \delta_0 + \delta_1 Reappointed\ CEO_i + \delta_2 After_i + \delta_3 Reappointed\ CEO \times After_i + \delta_4 Size_{it} + \delta_5 Leverage_{it} + \delta_6 Market\ to\ book_{it} + \sum_k \delta_{7,k} Industry_{it} + \sum_t \delta_{8,t} Year_{it} + \varepsilon_i$$

We measure profitability as *Return on assets*. We compare profitability six quarters before and after the CEO appointment across former and non-former CEO appointments. *After* is a dummy variable coded one in the six quarters after appointing a new CEO/reappointing a former CEO, and 0 in the six quarters before. We control for industry effects (1-digit sic codes) and year fixed effects. Standard errors are clustered at the firm level.

Values in parentheses show p-values. ***, **, * denote significance at the 1 percent, 5 percent, and 10 percent level.

Please see the Appendix for the definition of variables.

	Return on assets
Reappointed CEO	0.0054* (0.095)
After	0.0076*** (0.014)
Reappointed CEO × After	-0.0091*** (0.016)
Size	0.0096*** (0.001)
Leverage	0.0362* (0.090)
Market to book	-0.1175*** (0.000)
Industry fixed effects	Yes
Year fixed effects	Yes
Constant	0.0946*** (0.000)
Observations	3,276
R-squared	0.22