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Determinants of CEO Turnover in UK Non – Financial Firms: An Empirical Analysis

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Abstract

This paper examines the determinants of CEO Turnover using a sample of UK non-financial firms that announced top management changes during 1993-2000. It is found that poor performance and high financial leverage preceded forced CEO Turnover, and there is no significant evidence that there was poor performance or high financial leverage prior to normal CEO Turnover. It is also found that managerial ownership is significantly negative related to the likelihood of forced CEO Turnover. There is also evidence that the market for corporate control plays a significant role in CEO Turnover.

Keywords: CEO Turnover; Top Management Changes; Poor Performance; High Financial Leverage; Managerial Ownership; Corporate Control.

1. Introduction

Despite considerable research on the cause of top management changes, the factors that potentially lead to CEO Turnover have not been exhaustively investigated. For example, there is scanty evidence that control mechanisms play a big role on disciplining poorly performing managers.

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Reference [1] asserts that the controlling mechanisms are mainly done by the external systems. This finding is in contrast with that of [2] who do not find a relation between turnover rates and levels of external control mechanisms.

Much of the previous literature finds that the likelihood of top management turnover is negatively related to firm performance [3]. This relationship is significant to firms that experienced forced CEO Turnover. The removal of a poorly performing manager is considered as a remedial action intended to make sure that management's behaviour is consistent with shareholder wealth maximization. However, the literature does not offer a complete story whether there is any significant relationship between performance and normal CEO Turnover.

Another strand of literature finds that managerial turnover is more prevalent in financially distressed firms [4]. The act of default or the need to renegotiate debt claims confers significant decision-making power on the firm's creditors, who can possibly further their own interests by choosing new management. [5] suggests that creditors may have greater incentives than shareholders to monitor and change management in exchange for new loans or the restructuring of existing loans.

Prior studies also provide evidence that suggests that poor performance increases the likelihood of a firm becoming the target of a takeover attempt [6]. Indeed, [7] observe that the relation between firm performance and CEO Turnover is weaker during periods when the threat of takeover is low. By contrast, Reference [2] do not find a relation between turnover rates and levels of takeover activity.

In recent years, a lot of literature has examined the role of control mechanisms on disciplining poorly performing managers. The available evidence partly suggests that the external control mechanisms are not as effective as they are supposed to be. The internal control mechanisms are also considered blunt due to: first, managerial entrenchment [8]; second, if a board is dominated by security holders, and looking at the market for risk bearing from the viewpoint of portfolio theory tells us that risk bearers are likely to spread their wealth across many firms and so would not be interested in directly controlling the management of any individual firm [9]; and finally, boards of directors react too late, and take too long to effect major changes [10].

This paper contributes to the body of knowledge that examines the causes of top management changes by re-examining the determinants of CEO Turnover using a sample of UK non-financial firms over the period 1993 – 2000. Specifically, the paper is attempting to answer the following questions: what are the major factors that potentially lead to CEO Turnover? Are control mechanisms effective enough on disciplining poorly performing corporate managers?

Most of the evidence on CEO Turnover is based on studies conducted in the US. The literature on other markets has lagged behind corresponding US studies. For example, while the UK and US corporate environments are characterized by market-based institutions, important institutional¹ differences do exist [11]. First, the ability of external shareholders in the US, particularly institutions, to co-ordinate effective corporate governance action is

¹ Examples of these institutions are: pension funds, insurance companies, banks, and investment companies.

severely constrained by legal and regulatory restrictions, while far fewer restrictions are placed in the UK. Second, the US institutions are deterred from coalition practices. They are required to disclose formation of any shareholding group – formal or informal, owning 5% or more stock. In contrast, UK institutions are not faced with such restrictions – they can form informal coalition, and jointly monitor firms and/or managers. In general, UK institutions are thought to be more active than their US counterparts [12]. Third, the US corporate managements are largely protected from external corporate control mechanisms compared to the UK. Finally, the level of institutional ownership in the UK companies is considerably higher than it is in the US firms. Reference [13] discover that the institutional ownership of US companies is two-thirds the level of that in the UK. Furthermore, the US has the largest percentage of shareholders in the form of households. These institutional differences motivated this paper to examine the determinants CEO Turnover using the UK data.

Our results suggest that poor performance and high financial leverage precede forced CEO Turnover. However, there is insignificant relationship between normal CEO Turnover and poor performance or high financial leverage. There is also strong evidence that forced top management change occurs mostly when the departing CEO holds a small amount of the firm's equity. Furthermore, the results show that the market for corporate control complements internal control systems in disciplining poorly performing managers.

2. Sample Construction

The sample of CEO Turnover is constructed by examining all CEO Turnover announcements drawn from *The Financial Times*, reports from the *UK Regulatory News Service* provided by *FT Extel News Reports*, *McCarthy's News Information Service*, *Lexis-Nexis*, and annual company reports. Initially, 1200 CEO Turnover events were collected from the above sources. However, the final sample satisfied the following three conditions: first, the firm should be a UK non-financial listed company. Second, only one announcement per firm per year was included in the sample. Third, the CEO should be the top officer of a company. These requirements produced a final sample of 705 CEO turnover events by 511 firms during the period 1993-2000. This data includes 394 (or 55.9%) forced CEO turnover and 311 (or 44.1%) normal CEO turnover events. The choice of the time period is limited by the requirement that at least 3 years of data be available before and after the CEO Turnover announcement period. Firms' returns and accounting data were collected from Datastream.

Turnover is labelled 'forced' when it was stated in an announcement that the CEO is leaving because of the following: fired, resigned, policy disagreement, failed acquisition and shake-ups, or when it was stated that the company was experiencing poor performance. On the other hand, the turnover is 'normal' when it was stated that that the CEO is leaving because of retirement, sickness or when taking a position elsewhere.²

Table 1, panel A reports the distribution of a sample of UK non-financial firms that announced CEO Turnover over the period 1993-2000. Panel B reports the ownership characteristics of sample firms. It is apparent from this data that 'forced' CEOs had fewer stakes than 'normal' CEOs.

² It should be noted that some announcements do not provide any reason for the departure of the CEO. In this case, the factors like age should be taken into consideration.

Table 1: Descriptive statistics for CEO Turnover firms

Panel A: Distribution of sample firms by years

| Year | All changes | | Forced changes | | Normal changes | |
|--------------|-------------|--------------|----------------|--------------|----------------|--------------|
| | N | Fraction (%) | N | Fraction (%) | N | Fraction (%) |
| 1993 | 94 | 13.3 | 41 | 10.4 | 53 | 17.0 |
| 1994 | 92 | 13.0 | 36 | 9.1 | 56 | 18.0 |
| 1995 | 104 | 14.8 | 39 | 9.9 | 65 | 20.9 |
| 1996 | 87 | 12.3 | 43 | 10.9 | 44 | 14.1 |
| 1997 | 104 | 14.8 | 59 | 15.0 | 45 | 14.5 |
| 1998 | 73 | 10.4 | 48 | 12.2 | 25 | 8.0 |
| 1999 | 72 | 10.2 | 58 | 14.7 | 14 | 4.5 |
| 2000 | 79 | 11.2 | 70 | 17.8 | 9 | 2.9 |
| Total | 705 | 100.0 | 394 | 100.0 | 311 | 100.0 |

Panel A: Ownership characteristics

| Variable | Whole changes [N = 637] | | Forced CEO [N = 349] | | Normal CEO [N = 288] | |
|------------------------------|----------------------------|--------|-------------------------|--------|-------------------------|--------|
| | Mean | Median | Mean | Median | Mean | Median |
| CEO ownership % | 4.07 | 0.200 | 2.56 | 0.10 | 5.91 | 0.40 |
| Institutional holdings % | 27.6 | 25.85 | 28.16 | 27.3 | 27.04 | 25.60 |
| Other directors' ownership % | 1.09 | 0.40 | 1.03 | 0.40 | 1.16 | 0.60 |

This table reports the descriptive statistics for a sample of 705 UK non-financial firms that announced CEO Turnover during 1993-2000. Panel A reports the distribution of sample firms by years. Panel B reports the ownership characteristics of sample firms. Ownership characteristics are taken from annual reports and corporate registers while other financial information is taken from Datastream. Financial information is reported over the year prior to CEO Turnover.

3. Empirical results

This section reports results on the whole sample, forced and normal CEO Turnover sub-samples. However, the analysis of these results will focus mostly on forced and normal CEO changes. Because of the influence of outliers on most of the results presented in this paper, the analysis will focus on medians [14].

3.1 Company Financial Characteristics Surrounding CEO Turnover

In Table 2 the results on growth rates of unadjusted book assets, sales and the number of employees over the period prior to and after CEO Turnover are reported. The results indicate that the growth rate of these variables between years -3 and 0 was significantly positive for both sets of firms. However, the growth rate declines between years -1 and 0 relative to years -3 and 0; and forced CEO Turnover firms had larger declines for all variables. Furthermore, the results show that over the years following CEO changes, growth rates for all of these variables recover. For example, the growth rate of assets between years 0 and 3 is significantly positive at the 1% level. The results of sales in the same period are positive, but insignificant for both sets of firms.

The number of employee results show that the growth rate of normal CEO Turnover increases significantly over the years following CEO Turnover, and that of forced CEO Turnover decreases significantly, except between the years 0 and 3. Collectively, these results suggest that forced CEO firms tend to grow with a reduced number of employees.

Table 2: Median percentage changes in total assets, sales, and number of employees

| Sample | N | Median percentage changes between years | | | | |
|--|-----|---|----------|----------|----------|---------|
| | | -3 and 0 | -1 and 0 | 0 and 1 | 0 and 2 | 0 and 3 |
| Panel A: Book value of total assets | | | | | | |
| All changes | 685 | 19.65* | 2.200* | 2.750* | 9.100* | 19.15* |
| Forced changes | 377 | 16.75* | -0.750 | 1.000 | 5.700* | 14.85* |
| Routine changes | 308 | 22.55* | 5.250* | 4.550* | 12.50* | 23.60* |
| Panel B: Sales | | | | | | |
| All changes | 691 | 18.60* | 2.950* | 3.150* | 4.500* | 3.250 |
| Forced changes | 382 | 13.65* | -0.250 | 1.000 | -0.050 | 0.550 |
| Routine changes | 309 | 23.70* | 6.150* | 5.550* | 9.550* | 6.100 |
| Panel C: Number of employees | | | | | | |
| All changes | 680 | 8.750* | 0.450 | -1.250** | -0.150 | 1.900 |
| Forced changes | 374 | 9.150* | -0.700 | -3.950* | -4.200** | -3.300 |
| Routine changes | 306 | 8.250* | 1.800** | 1.550** | 4.050** | 7.650* |

The table reports median percentage changes in total assets, sales, and the number of employees for a sample of 705 UK non-financial firms that announced CEO Turnover during the period 1993-2000. The significance of changes is measured using a two-tailed *Wilcoxon signed rank test*. *, **, and *** denote statistical significance at the 1%, 5%, and 10% respectively.

3.2 Operating Performance and Leverage over the Years Prior to CEO Turnover

To assess whether a firm is performing unusually well or poorly, there is a need to specify the performance to be expected in the absence of an event in order to provide a benchmark against which sample firms can be compared. On this, two benchmarks were constructed and used: (i) the median industry, and (ii) control firms for measuring the expected operating performance.

Industry-matching assumes that some of the cross-sectional variation in operating performance can be explained by an industry benchmark. A firm's industry-adjusted performance is computed by subtracting the median performance of the industry comparison group from each firm's performance.

Table 3 reports industry-adjusted changes in ROA and indebtedness over the 3 years prior to CEO Turnover. Return on assets (ROA) is defined as earnings before interest, tax, depreciation and amortization (EBITDA) for the financial year divided the book value of assets. Indebtedness is measured on the basis of the firm's debt-to-assets ratio and the interest coverage ratio. Debt-to-assets is defined as the ratio of the book value of total debt divided by the book value of assets. Interest coverage is measured as the ratio of pre-tax operating income before interest divided by the firm's reported interest charge.

It is found that firms that announced forced CEO Turnover experienced poor performance over three years prior to CEO Turnover. The results are statistically significant at the 1% level. For normal CEO changes, the industry-adjusted change in ROA is insignificant in the whole period of analysis. This finding suggests that poor performance precedes forced CEO Turnover, and is consistent with that of the previous studies [3].

The results of both two metrics used to measure indebtedness show that the forced CEO Turnover sub-sample had a poor financial position over the 3 years prior to CEO Turnover. These results are statistically significant, mostly at the 1% level. This finding, which is consistent with that of [4], suggests that financial leverage also motivates corporate control systems to replace poorly performing managers [8]. The picture is different when the financial leverage for the normal CEO Turnover sub-sample is analysed. None of the two metrics is significant at conventional levels.

Table 3: Operating performance and financial leverage over the years prior to CEO Turnover

Panel A: All Changes

| Window | N | ROA | Debt ratio | Interest coverage |
|----------|-----|-----------------------|----------------------|-------------------|
| Δ-3 TO 0 | 659 | -0.0470* [-0.0275*] | 0.0284* [0.0240*] | -5.08** [-2.42*] |
| Δ-2 TO 0 | 668 | -0.0313*** [-0.0210*] | 0.0191* [0.0165*] | -1.51 [-1.780*] |
| Δ-1 TO 0 | 681 | -0.0195 [-0.0125*] | 0.0075*** [0.0070**] | -0.69 [-0.825*] |

Panel B: Forced changes

| | | | | |
|----------|-----|---------------------|-------------------|-------------------|
| Δ-3 TO 0 | 358 | -0.0985* [-0.0570*] | 0.0407* [0.0380*] | -11.86* [-4.705*] |
| Δ-2 TO 0 | 362 | -0.0775* [-0.0525*] | 0.0295* [0.0305*] | -5.74** [-3.763*] |
| Δ-1 TO 0 | 375 | -0.0551* [-0.0315*] | 0.0104 [0.0115*] | -4.73** [-2.010*] |

Panel C: Normal changes

| Window | N | ROA | Debt ratio | Interest coverage |
|----------|-----|------------------|--------------------|-------------------|
| Δ-3 TO 0 | 302 | 0.0138 [-0.0035] | 0.0168* [0.0100**] | 2.99 [-0.0800] |
| Δ-2 TO 0 | 306 | 0.0238 [0.0030] | 0.0081 [0.0035] | 3.51 [0.0500] |
| Δ-1 TO 0 | 306 | 0.0244 [0.0025] | 0.0044 [0.0030] | 4.22 [0.1500] |

This table reports mean [median] changes in the industry-adjusted ROA, debt ratio, and interest coverage ratio for a sample of 705 UK non-financial firms that announced CEO changes during the period 1993-2000. Panel A reports results for all CEO Turnover. Panel B reports results for the forced sub-sample. Panel C reports results for normal CEO changes. ROA is defined as earnings before interest, tax, depreciation and amortization

(EBITDA), divided by total assets. Debt ratio is the ratio of total debt to total assets. Interest coverage ratio is defined as the ratio of pre-tax profit, plus total interest charges to total interest charges. *, **, and *** denote statistical significance at the 1%, 5%, and 10% respectively. One drawback in using the level of an industry comparison group to measure expected performance (without any pre-event performance matching) is that it ignores the history of the firm relative to the benchmark. To circumvent this problem, a benchmark constructed on the basis of matching firms is used.

3.3 Univariate Analysis of Sample and Control Firms

To measure performance relative to matching firms, a matching firm is constructed on the basis of industry and pre-event performance. More specifically, a firm is selected as a control firm³ if it is from the same industry and with ROA within +/- 10% of the sample firm's performance at the end of the year, prior to any announcement of CEO Turnover. Unlike industry-matching, the control firms help to control for mean reversion in earnings [14].

In Table 4 the sample firms are compared with control firms along a number of different dimensions underlying the top management change decision. In addition to ROA and financial leverage explained earlier, the business focus is measured by the number of different lines of business the firm reports and the sales-based Herfindahl index, H . H is calculated across n business segments as the sum of the squares of each segment i 's sales, S_i , as a proportion of total sales. It takes values between zero and one. The closer H is to one, the more concentrated are the firm's sales within a few of its segments, and hence the more focused its operations.

Since the control firm selection criterion is based upon the same pre-event performance, naturally there is an insignificant difference in ROA between the sample and control firms. On a firm's financial position, the results show that sample firms have more financial leverage than control firms, with the median difference significant at the 1% level. This result is similar across almost all measures of financial leverage used in this paper.

The results also show that sample firms were less focused than control firms. Both sets of firms have more lines of business than control firms, with a median difference of 0.5 lines of business. The results on the Herfindahl indexes also support this finding. Collectively, the information in Table 3 suggests that those firms that changed top management were more diversified, and had more financial leverage than a sample of control firms with similar performance at the financial year prior to CEO Turnover. The table reports the mean [median] for selected financial variables at the financial-end prior to announcements of CEO Turnover for a sample of 705 UK non-financial firms that announced CEO Turnover during the period 1993-2000. Panel A reports results for all CEO Turnover. Panel B reports results for the forced sub-sample. Panel C reports results for normal CEO changes. ROA is defined as earnings before interest, tax, depreciation, and amortization, divided by total assets. Debt ratio is the ratio of total debt to total assets. Interest coverage ratio is defined as the ratio of pre-tax profit, plus total interest charges to total interest charges. The number of segments relates to the number of reported 3-digit SIC lines of business that our sample firms operated in. The Herfindahl index is calculated as the sum of segments' sales squared divided by total sales squared, where sales are defined as the 3-digit SIC level. *, **, and *** denote statistical significance at the 1%, 5%, and 10% respectively.

³ Control firms are firms that are not sample firms.

Table 4: Descriptive statistics for sample versus control firms in the pre-CEO Turnover year

Panel A: All changes

| Variable | Sample firms | Control firms | Differences |
|--------------------|-------------------|-------------------|-------------------|
| Observations | 705 | 705 | 705 |
| ROA | 0.0828* [0.1175*] | 0.0862* [0.1185*] | -0.004 [-0.000] |
| Debt ratio | 0.401** [0.204*] | 0.188* [0.165*] | 0.214 [0.037*] |
| Interest coverage | 13.57* [4.855*] | 98.8* [6.415*] | -86.0** [-1.415*] |
| Number of segments | 2.113* [2.000*] | 1.646* [1.500*] | 0.489* [0.500*] |
| Herfindahl index | 0.720* [0.742*] | 0.761* [0.772*] | -0.043* [-0.033*] |

Panel B: Forced changes

| | | | |
|--------------------|-------------------|-------------------|--------------------|
| Observations | 394 | 394 | 394 |
| ROA | 0.0648* [0.1095*] | 0.0716* [0.1110*] | -0.008 [0.000] |
| Debt ratio | 0.563*** [0.219*] | 0.201* [0.178*] | 0.364 [0.044*] |
| Interest coverage | 14.70* [4.275*] | 110.2 [5.730*] | -97.0 [-1.140**] |
| Number of segments | 2.148* [2.000*] | 1.622* [1.500*] | 0.557* [0.500*] |
| Herfindahl index | 0.714* [0.741*] | 0.747* [0.759*] | -0.033 [-0.029***] |

Panel C: Normal changes

| Variable | Sample firms | Control firms | Differences |
|--------------------|-------------------|-------------------|---------------------|
| Observations | 311 | 311 | 311 |
| ROA | 0.1059* [0.1270*] | 0.1050* [0.1270*] | 0.001 [0.000] |
| Debt ratio | 0.200* [0.187*] | 0.172* [0.152*] | 0.028** [0.031*] |
| Interest coverage | 12.15* [5.655*] | 62.6* [7.230*] | -50.3** [-1.750*] |
| Number of segments | 2.067* [2.000*] | 1.680* [1.500*] | 0.399* [0.500*] |
| Herfindahl index | 0.728* [0.744*] | 0.778* [0.788*] | -0.053** [-0.035**] |

The results presented in Tables 3 and 4 suggest that forced CEO Turnover tend to be associated with a trend of poor performance and high financial leverage going back at least 3 years, rather than just with poor performance in the year immediately preceding forced CEO Turnover. In addition, there is no evidence that normal CEO Turnover is associated with poor performance or high financial leverage. In the next section, whether these factors can jointly explain the CEO Turnover decision is investigated.

3.4 Multivariate Analysis of the Determinants of CEO Turnover

It has been shown that the decision to replace a top manager is influenced mainly by poor operating

performance and the financial condition of a firm. In this section, these factors are examined within a multivariate setting, and logistic regressions are carried out to assess the likelihood of CEO Turnover. To investigate this, the following cross sectional model is used.

$$CEO = \alpha + \beta_1\Delta ROA_{-1,0} + \beta_2DEBT_{-1} + \beta_3ICOV_{-1} + \beta_4TKV_0 + \beta_5DSTRS_0 + \beta_6DR_{-1} + \beta_7ODR_{-1} + \beta_8INST_{-1} + \beta_9SIZE_{-1} + \varepsilon \quad (1)$$

where, the dependent variable is a binary variable that takes on a value of one for sample firms and zero for control firms. $\Delta ROA_{-1,0}$ is change in operating performance from year -1 to year 0 . $DEBT_{-1}$ is debt ratio in year -1 . $ICOV_{-1}$ is interest coverage ratio in year -1 . TKV_0 is a binary variable set equal to one, where the company encountered takeover pressure over the 12 months prior to CEO changes, and zero otherwise. $DSTRS_0$ is a binary variable set equal to one, where the company encountered financial distress over the 12 months prior to CEO Turnover, and zero otherwise. DR_{-1} is the fractional ownership stakes of the departing managers. ODR_{-1} is other directors' ownership - the fractional ownership stakes of the firm's directors. $INST_{-1}$ is institutional holdings - the fraction of the firm's shares held by institutions with a disclosable interest of greater than 3%. $SIZE_{-1}$ is firm size - measured by the natural logarithm of the company's market value of equity. All continuous variables are measured at the financial year-end prior to CEO Turnover. The logistic regression results are reported in Table 5. As would be expected, the decision to displace a top manager is negatively related to previous firm performance. This finding is consistent with much of the previous literature on top management turnover (Huson and his colleagues 2004). However, it is found that the relation between normal CEO Turnover and prior operating performance is insignificantly negative. The table reports results for Logit regressions of the determinants of CEO Turnover for a sample of 705 UK non-financial firms that announced CEO changes during the period 1993-2000. All variables are as defined earlier. *, **, and *** denote statistical significance at the 1%, 5%, and 10% respectively.

Model: $CEO = \alpha + ROA + DEBT + ICOV + TKV + DSTRS + DR + ODR + INST + SIZE + \varepsilon$

Table 5: Cross-sectional determinants of CEO Turnover

| Variable | All changes | Forced changes | Normal changes |
|----------------------------|-------------|----------------|----------------|
| Observations | 1410 | 788 | 622 |
| Constant | -0.9847* | -1.0935* | -0.9569* |
| $\Delta ROA_{-1,0}$ | -1.1743* | -1.5078* | -0.5082 |
| $DEBT_{-1}$ | 0.8208* | 0.9032** | 1.2030 |
| $ICOV_{-1}$ | -0.0033* | -0.0037* | -0.0029** |
| $TKV_{12\text{ months}}$ | 1.1075* | 1.3310* | 0.7707 |
| $DSTRS_{12\text{ months}}$ | 0.9437* | 0.4322 | 1.9104* |
| DR_{-1} | -0.8063 | -3.007** | 0.1756 |
| ODR_{-1} | -0.7430 | -1.335 | -1.295 |
| $INST_{-1}$ | -0.3880 | -0.2629 | -0.5401 |
| $SIZE_{-1}$ | 0.2656* | 0.2782* | 0.2621* |
| Log-likelihood | -665.7* | -348.4* | -309.2* |

It is also found that the likelihood of a forced CEO change is increasing as the level of financial leverage in the firm increases. The coefficients of debt ratio and interest coverage ratio are significant at the 5% level or higher

for the forced sub-sample. This finding is consistent with that of [4], who reveals a high incidence of CEO Turnover following financial distress. In addition, theoretical evidence also shows that creditors often insist on the replacement of managers as a condition for restructuring firms with high financial leverage [15]. For the normal CEO change, however, it is only the coefficient of interest coverage ratio which is statistically different from zero. On market disciplinary variables, it is found that takeover pressure is positively related to the likelihood of forced CEO Turnover. This is consistent with the view that the market for corporate control plays an important role in disciplining poorly performing managers (Fama, 1980). The relation between takeover pressure and normal CEO changes is insignificantly positive. It is interesting to note that financial distress is insignificantly related to the forced CEO change, but is significantly and positively related to the normal CEO change. This finding, together with a significant negative relation between interest coverage ratio and normal CEO Turnover, suggests that financial distress accelerates normal CEO changes. On whether managerial ownership insulates managers from being replaced, it is found that a director's ownership is significantly and negatively related to the likelihood of forced CEO Turnover, and this relationship is statistically significant at the 5% level. However, the coefficient for normal CEO changes is statistically indistinguishable from zero. The coefficient of director's ownership for forced CEO changes remains unchanged even after controlling for two more ownership variables, namely, other directors' ownership and institutional holdings.⁴ The results also remain unchanged for normal CEO change. None of the coefficients of other directors' ownership and institutional holdings is significant for both sets of firms. These results suggest that the ownership structure of a firm plays an important role in determining the effectiveness of internal managerial control mechanisms. This finding, which is consistent with that of [16], suggests that CEO Turnover occurs more frequently in UK firms in which CEOs own fewer stakes in the firm's shares. Overall, the logistic results reinforce the earlier findings that forced CEO Turnover is preceded by poor performance and high financial leverage. In addition, the results show that forced CEO Turnover occurs mostly when the departing CEO holds a small amount of the firm's equity. Furthermore, the results show that the market for corporate control complements internal control systems in disciplining poorly performing managers.

4. Summary and conclusion

The purpose of this paper was to examine the factors that determine CEO turnover. Specifically, the paper investigated the factors that potentially lead to CEO Turnover. The paper also examined whether control mechanisms (both internal and external) are effective enough on disciplining poorly performing corporate managers. The paper has contributed to research that examines the financial performance and corporate governance surrounding CEO Turnover. Using a sample of 705 CEO Turnover announcements for a sample of UK non-financial firms during the 1993-2000 period, evidence is presented of substantial poor performance and high financial leverage prior to forced Turnover. Firms that experienced normal CEO Turnover did not exhibit poor performance or high financial leverage prior to CEO Turnover. There is also strong evidence that forced top management change occurs mostly when the departing CEO holds a small amount of the firm's equity. Furthermore, the results show that the market for corporate control complements internal control systems in disciplining poorly performing managers. The findings of this study are very important to the emerging markets.

⁴ As the results do not change significantly, only one model for each sub-sample is reported.

For example, in Africa there is an endless list of poor performing companies but there is a rare chance that managers will ever be forced out of their offices because of poor performance. Does this suggest that these managers are entrenched and/or internal and external control mechanisms are blunt in Africa? The future research will address this question.

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