



Portuguese stock market reaction to CEO turnover announcements

by
Luís Costa

Dissertation from the Master in Finance

Supervised by:
Professor Júlio Lobão

2013

About the author

Luís Pedro Mota Pereira da Costa, natural from Oporto, Portugal, completed the bachelor degree in Business Administration at the Faculty of Economics of the University of Porto in the year of 2009.

In order to deepen his knowledge in finance and to develop new skills, the author applied for the Master in Finance in the same institution in the year of 2010. This work is the culmination of the two years course program.

Acknowledgements

The conclusion of this dissertation was achieved with the support of a few numbers of people.

Firstly, I would like to gratefully thank to my supervisor, Professor Júlio Lobão, for the precious guidance and availability during the last year.

I would also like to thank to Professor Ana Paula Serra and Professor José Varejão for their contribution in this report.

I thank my family for their support and interest in my work during the entire Master in Finance.

Finally, I would also like to thank you to my colleagues from the Master in Finance, especially those from FEP Finance Club, for the knowledge and experiences we shared during the last two years of my life.

Abstract

A top management change represents a major event in the history of any company. Literature provides ample evidence on the relation between CEO turnovers and stock prices reactions. Overall, the aim of this dissertation is to study the Portuguese stock market reaction to CEOs turnover announcements. Particularly, we aim to comprehend the shareholder evaluation regarding the content of new released information of such announcements. We analyse average cumulative abnormal stock returns over a window of 11 days across CEO turnover announcements in Portuguese listed companies. We constructed a sample of 39 clean turnovers for the years 2002-2012 which was segmented according to CEOs departure type and succession origin. This dissertation contributes to the existing literature by supporting this subject with a new data sample, the Portuguese market. Generally, results suggest that CEO turnover announcements are value decreasing for stockholders, which reverses findings of studies from major markets like the US. Nonetheless, we find that PSI 20 investors view forced departures and internal successions as good news, since these turnovers yield average CARs of 0,552 and 0,803 from days 1 to 5 of our event window.

Keywords: CEO turnover; Corporate Governance; Event studies

JEL codes: G14; G34

Index

1. Introduction.....	1
2. Literature review.....	5
2.1. Introduction.....	5
2.2. Reasons behind a CEO turnover event	6
2.3. Measuring the effect of a CEO turnover event	7
2.4. The stock market reaction at the date of the announcement of CEO turnover.	8
2.5. Stock market reaction for forced versus voluntary CEO departure	10
2.6. Stock market reaction for internal versus external CEO succession	12
2.7. Critical analysis on the literature review.....	14
3. Research Methodology	16
3.1. Introduction.....	16
3.2. Sample.....	16
3.2.1. <i>Data construction</i>	16
3.2.2. <i>Turnover characteristics</i>	17
3.2.3. <i>Descriptive statistics</i>	19
3.3. <i>Test Statistics</i>	19
4. Empirical Results.....	22
4.1. Market reaction – All sample.....	22
4.2. Departure type.....	23
4.3. Succession type	24
4.4. Crossing characteristics.....	25
5. Conclusions and further discussion	28
References.....	1
Web references.....	3
Appendixes	1

Figures Index

Figure 1.....	3
---------------	---

Tables Index

Table 1.....	23
Table 2.....	24
Table 3.....	25
Table 4.....	27

Abbreviation List

CEO	Chief Executive Officer
CMVM	Comissão de Mercado de Valores Mobiliários
BoD	Board of Directors
USD	United States Dollars
IPO	Initial Public Offer
OLS	Ordinary Least Squares
PSI 20	Portuguese Stock Index for the twentieth largest companies
PSI All Share	Portuguese Stock Index for all listed companies
CAR	Cumulative Abnormal Return
ACAR	Average Cumulative Abnormal Return
USA	United States of America
UK	United Kingdom

1. Introduction

The performance of a firm is influenced by several factors, and the nature of those factors could be either internal or external. Focusing on the internal factors, an important part is represented by the strategy designed for the company. Ultimately top executives with leadership roles largely influence the firm's strategy, design, performance and corporate culture (Rhim et al, 2006).

According to Bonnier and Brunner (1988), the title of Chief Executive Officer (CEO) is a proxy of a senior management position of power and influence. For Reinganum (1985), a CEO possesses a disproportionate share of influence and power. These descriptions make possible for CEOs to affect organizational characteristics and promote change (Schwartz and Menon, 1985). Hence, the CEO plays a critical role, acting as the ultimate manager with responsibilities to match the firm's performance needs (Furtado and Karan, 1990).

Given the importance of the CEO function and the influence the position exercises on a company's performance, the replacement of such manager has extreme importance on an organization's life. The existing literature on the importance of a CEO turnover event on the life of a company is extensive: for Furtado and Karan (1990) a management turnover represents a major occurrence for the firm, as it may imply changes in subsequent performance and direction, and for Shen and Canella (2003) the CEO succession implies a leadership transition, which is of central importance for strategic management. New executive managers alter the organization's strategy, structures, and internal processes, which can impact subsequent firm performance (Daily and Dalton, 1995). For Rhim et al (2006), a CEO turnover will influence the power of organizational members and the allocation of organizational resources, thus representing a critical event.

It is commonly established in finance theory that the maximization of the shareholders wealth is, or should be, the ultimate goal for a CEO and Board of Directors (BoD). As per previous paragraphs, it is understandable that to ensure an organization meets its goals, CEOs, acting as executive players, take management and strategic decisions, decisions that are sensitive and will affect a company future cash flows, and, consequently, shareholders wealth. In the context of the previous paragraph, where the importance of a CEO turnover was exhibited, it is crucial to understand that if the Board

of Directors has the power for taking the strategic decision of replacing a CEO, no matter the reason for it, then that decision should be taken under the old maxim of maximization of shareholders wealth. Furtado and Karan (1990) suggest that the Board of Directors is a guardian of the shareholders wealth, which assumes that the BoD acts (appoints, dismisses, reshuffles, etc...) in the interest of shareholders. For Huson, Parrino and Starks (2001), the decision of replacing a CEO is the most important made by a BoD.

The first studies on this subject of management turnover events are dated from the 1980s. Over the last three decades numerous authors studied this theme. These authors analysed stock market reactions for management turnover events with different approaches: BoD characteristics, firm characteristics, turnover characteristics, etc...

An important thing to retain is that the great majority of researches were due for the United States (US) stock market, although we also find a relevant number of studies for the United Kingdom (UK) stock market and some single studies for small European countries and worldwide developing countries. No research has been found for the Portuguese stock market context and that is the main relevance behind this dissertation.

As per previous section, CEOs take management and strategic decisions, decisions that are sensitive and will affect a company future cash flows, and, consequently, shareholders wealth. According to figure 1, the PSI 20 index points evolution over the last decade shows us two different periods: one period (2002-2007) characterized by large increases of value for companies (shareholders) followed by a period (2008-2012) where companies (shareholders) lose value year after year. This research is also relevant to analyse the perception of investors on the influence that CEOs have to increase and/or destroy value for shareholders according to stock market trends.

Figure 1: PSI20 Index point evolution

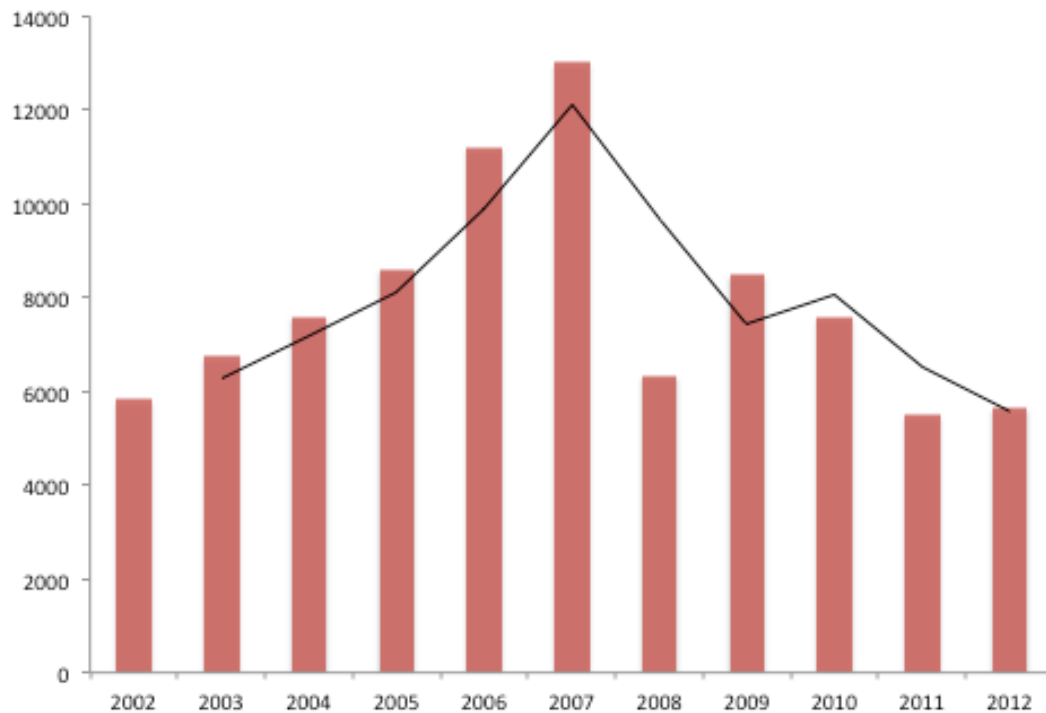


Figure 1

Source: Datastream

The existing literature widely agreed on the importance of a CEO turnover event on the life of a company. The occurrence of such event is expected to have influence on the future value of a company, due to different strategic policies that may arise with the coming of a new executive. In line with current and past literature, we also believe on the importance of a CEO turnover event.

Additionally, we will contribute to the existing literature with a new hand collected data sample, possibly corroborating previous findings on US markets.

The drive of this dissertation is to observe the effect on stock prices of a CEO turnover event in the Portuguese stock market context.

Our research questions are in line with the hypothesis placed on other studies on CEO turnover. Accordingly, this dissertation will investigate the following issues:

- The effect on stock prices of a CEO turnover around the announcement date;
- The effect on stock prices considering the CEO succession specification of internal versus external appointment;

- The effect on stock prices considering the CEO departure specification of forced versus voluntary leaving.

This dissertation is organized in five chapters. Following this introduction, the next chapter reviews the existing literature on CEO turnovers, widely covering the topic, since the reasons behind turnovers, the way to measure the effect turnovers and the stock market reaction to such events, duly segmented in departure type and successor origin.

In chapter 3 we point out our research methodology. We explain how we build our sample, since there was no useful database for this subject, followed by a description on how we proceeded to categorize turnovers according to specific characteristics and some descriptive statistic as well. Last but not least, the most important section in this chapter is the detailed explanation of the test statistics we use to perform this event study.

In chapter 4 we analyse and discuss empirical results of test statistics. We present results for market reaction as a whole, for market reaction according to departure type and to successor origin and for a crossing characteristics analysis.

Finally, in chapter 5 we summary the major results and design conclusions from them.

2. Literature review

2.1. Introduction

The previous chapter briefly approached the importance of a CEO turnover event for the (future) performance of a company. Supported with assertions from a few number of authors whom researched on the theme, we have designed a line of thought, where firstly we presumed that leadership positions exercises enough influence to conduct strategic decisions, followed by considering a Chief Executive Officer as a proxy for senior management (and consequently, a leadership position). Therefore, we have considered a CEO as a critical role within the company, once the turnover of this position is a major event on the life of an organization.

In this chapter we will proceed with the literature review about CEO turnover events, by examining the extent to which this event has been studied and the findings of these previous studies.

We will start by revising the reasons provided by the existing literature for the occurrence of a CEO turnover, where the prior poor performance of the firm represents an important stake. In last resort, it is possible to classify turnover announcements in routine and non-routine procedures (Setiawan, 2008), but as we will see, literature provides us with different and additional reasons.

In subsection 2.3 we review the major strands in literature for measuring the effect of CEO turnovers in the wealth of shareholders. Although some of the studies presented used accounting measures and additionally or not, stock prices, in general the researches on this literature review used capital market data as a proxy for measuring firm performance and shareholders wealth.

In subsection 2.4 we analyse the stock market reaction to announcements of turnover events, where we divided the studies between the ones who find positive market reaction for the occurrence of such events, the authors who find negative market reaction, the authors who find different stock market reactions according to the specification of their studies and the ones who find statistically insignificant reaction.

We further analyse the findings from the existing literature according to the CEO turnover specifications. In subsection 2.5 we review the findings of previous studies considering the manager departure type. Concerning departures, the existing literature focuses on a simpler way to observe it: forced versus voluntary. A forced

departure stands for the leaving of a CEO against his will. In the opposite way, a voluntary departure symbolizes the initiative of a CEO on leaving a firm.

In subsection 2.6 of this chapter we review the findings of the existing literature according to the turnover specification of CEO succession. The great majority of the authors analysed in this chapter studied the market reactions for the appointment of a successor whether the new Chief Executive Officer or top manager was already in the firm or came from other organization. In this section, the literature debates the market reactions to external versus internal appointments.

We will conclude this chapter with a critical analysis on the existing literature review for CEO turnover events.

2.2. Reasons behind a CEO turnover event

In this section we will emphasis in what past literature defined as possible causes for the event of CEO turnover.

Furtado and Rozeff (1987) present four categories of departures for the previous CEO: retirement, resignation, death and dismissal. Warner et al (1988) reports that retirement is the most common reason stated for a CEO departure, but these authors, along with stating that in the majority of cases press releases tell us nothing about the reason behind the turnover, also indicate additional key motives for departure detailed in *Wall Street Journal* (WSJ) articles: assuming position in other firms, control change, poor performance, health and policy differences are the most significant. Weisbach (1988) also used WSJ as source, and suggest normal succession procedures as a motive. Denis and Denis (1995) find that retirement, followed by forced resignation, are the most common stated reasons for CEO turnovers.

Adam and Mansi (2009) and Rim et al (2006) signal that poor prior performance may produce a turnover. Cools and Van Praag (2007) examined whether departure of a CEO was preceded by declines in operating and stock performance, suggesting effective monitoring and control. Studying the Japanese market, Kang and Shivdasani (1996) also find prior performance of the company before a turnover announcement. Dahya, Lonie and Power (1998) suggest that the BoD may feel obligated to remove the CEO in an effort to reverse a declining trend in profits and share price.

Denis and Denis (1995) argue that CEO turnover events may be also related with firm investing and financing policies.

Khanna and Poulsen (1995) focused their analysis on US firms that filed for “Chapter 11” (bankruptcy) and the extent to which managers are to blame when their firms become bankrupt. The authors find that managers from distressed firms tend to take similar actions of managers from wealthy firms, suggesting that managers that are blamed for financial distress are in fact serving as scapegoats.

Kang and Shivdasani (1996) suggest that the normal procedure is for firms to disguise the true reason for appointing a new CEO. Weisbach (1988) suggests that companies do not announce the true reason behind CEO resignations.

Shen and Canella (2003) reinforced the idea that the motive behind CEO turnover is important, but the succession planning is an issue of equal importance, because the new CEO determines the firm’s future strategic direction and performance. For that reason, on a further section this literature review will focus on effects of internal succession and external succession.

Additional, health or legal problems could also be at the origin of a CEO turnover (Rim, Peluchette and Song, 2006).

Almost all the reasons above stated are subsequent to a classification for CEO turnovers of routine or non-routine changes (Setiawan, 2008; Rim et al, 2006; Denis and Denis, 1995; Worrell, Davidson and Glascock, 1993).

2.3. Measuring the effect of a CEO turnover event

Measuring the impact of an event such a turnover announcement highlights the importance of the concept measure firm performance. Furtado and Karan (1990) suggest the change in the management team should therefore be of great interest to the primary stakeholders i.e., the shareholders.

The large majority of previous researches on CEO turnover events measure firm performance through stock prices. Some studies use, along with capital market prices, accounting measures. Weisbach (1988) and Daily and Dalton (1995) are two examples of using both measures set for performance measures.

Beatty and Zajac (1987) enumerate some advantages of using stock prices as firm performance to measure the effect of CEO turnover announcements. According to

these authors, there are two main advantages of using the stock market reactions. One is due to cross-sectional responses that may be considered genuine perceptions from the investors relatively to the future performance of the firm. A second advantage is that it allows daily perceptions. Reinganum (1985) states that using capital market data, the anticipated effect of long-run changes in corporate performance can be measured on a short-term window, by using the event study methodology.

2.4. The stock market reaction at the date of the announcement of CEO turnover.

Warner, Watts and Wruck (1988) hypothesized that the abnormal stock price effect at announcements of such events is, in fact, the sum of two effects: (1) a negative information effect, which reflects the reaction to previous performance, and (2) a positive real effect, which reflects the perception for shareholders interest. Bonnier and Brunner (1988) used a sample of distressed firms in order to minimize the information effect of the abnormal stock returns and instead focus on the real effect. These two studies are dated from the decade when first CEO turnovers researches appeared and still are a reference for subsequent studies, and, within the hypothesis of the two effects, one conviction: if the real effect is nominally higher than the information effect, then the net effect will induce positive abnormal returns.

In the following four paragraphs, the first one review studies that find positive market reaction, the second paragraph review studies that find negative market reaction and the third paragraph review researches of authors that arrive to different conclusions due to turnover specifications and the fourth paragraph review studies that arrive to inconclusive or statistically insignificant results.

Adam and Mansi (2009) research on the effects of corporate governance mechanisms on bondholder's wealth, stockholder's wealth, and changes in firm value. The authors find a CEO turnover beneficial for shareholders but damaging for bondholders, where the authors suggest that a CEO turnover represents a wealth transfer from bondholders to shareholders. Dahya and McConnell (2005) find, on average, an excess stock return around CEO turnover announcements. Thus, the authors extent their study to the presence of outside directors present on the BoD, finding that investors tend to see as good news the increasing number of outside directors in this organ. Dahya, Lonie and Power (1998) studied the turnover effects on large UK firms where

executives own more than 1% of the firm's share and find that share price reaction to an unexpected management change is positive and significant. Furtado and Rozeff (1987) also find highly significant abnormal returns on the average two-days announcement period, as well as Kang and Shivdasani, who provide evidence turnover announcements of top managers in Japan result in statistically significant wealth increases. Setiawan (2008) also finds positive market reaction on the Indonesian context for CEO turnover announcements, suggesting that this event has content for investors, uncovering one negative reaction for particular contextual factor.

Dedman and Lin (2002) examine the CEO departure announcements for UK based firms and find, in general, a negative market reaction. The authors also find that the announcements tend to be released together with other news related with the company, and their suggestion is that it may be to covering the potentially bad news about CEO replacement. When CEO departure announcements occur with a simultaneous release of a replacement announcement, market reaction tends to be null. Beatty and Zajac (1987) finds that there is a strong market reaction to the announcement of CEO changes that tends, on average to yield negatively the market value of large firms on the post-announcement period. Khanna and Poulsen (1995) provide evidence concerning the extent to which managers are to blame in firms that become bankrupt and find that the stock market doesn't respond positively, supporting the idea that financial distress is due to conditions that are not in control for a CEO.

Reinganum (1985) provided evidence on stock market reaction according to the following three variables: the size of the firm, the origin of the successor (internal versus external) and the disposition of the predecessor. The author suggests that it may be incorrect to make simple generalizations about the effects find, once positive or null reactions were due to the combination of the three variables. Shen and Canella (2003) also find different results for stock market reaction consonant the characteristics of the turnover event, suggesting both the reason for the turnover and the succession planning of it are important considerations for investors. Neumann and Voetmann (2005) find positive stock price reaction around the announcement day when the motive is a layoff and negative stock price reaction when the motive is a voluntary exit, but also find that the cumulative abnormal returns weren't statistically significant. Worrell, Davidson and Glascock (1993) provide evidence on stock market reaction to departure and succession

appointments where previous manager was fired and find that the response from investors is influenced by the turnover specifications, especially for the succession appointment.

Cools and Van Praag (2007) find that the average abnormal return on the stock market around the announcement of an executive's departure is insignificant. Warner et al (1988) find no evidence on average abnormal returns for daily performance around the announcement date.

2.5. Stock market reaction for forced versus voluntary CEO departure

In this subsection we review the existing literature on stock market reaction according to a departure specification for CEO turnovers of forced departure, where the CEO is replaced due to a board of directors decision, and voluntary departure, where the CEO leaves the firm by his will.

Furtado and Rozeff (1987) is one of the first studies providing evidence on CEO turnovers. This study focuses on the succession type and provides little evidence on dismissals. The authors name four general categories of a CEO departure – retirement, resignation, death and dismissal – but provide evidence on the impact on stock market only for the category of dismissals, finding it good news for shareholders once when it occurs, it is associated with stock price increases. Worrell, Davidson and Glascock (1993) studied the forced departure of key executives and also find positive market reactions to dismissals. Providing content from the Japanese stock market, Kang and Shivdasani (1996) also find that returns are greater when the CEO turnover is forced, when comparing normal succession turnovers. Adams and Mansi (2008) find that forced CEO turnover events tend to produce positive effects on shareholders wealth.

Prior (poor) firm performance may be a cause for a CEO turnover (Warner, Watts and Wruck, 1988), and Weishback (1988) provide evidence that there is a stronger connection between past performance and the turnover probability for companies with boards dominated by outside directors. The author suggests that the market perceive that an outside-dominated board of directors, seen as a monitoring role, takes better decisions, thus increase value for shareholders when dismissing a CEO who had a bad performance. Denis and Denis (1995) document that forced resignations of top managers are preceded by large and significant declines in operating performance

and followed by large improvements in performance, which the author suggests with the effectiveness of internal monitoring mechanisms.

Neumann and Voetmann (2005) provide evidence from the Danish stock market and also find that poor prior performance increases the probability of management replacements. Also, forced turnovers are value increasing for shareholders. the authors find, by the opposite, that the market tend to yield negatively a voluntary CEO departure.

The existing literature also provides some evidence on the influence of a firm's ownership structure in the stock market reaction to CEO turnovers (Dahya, Lonie and Power, 1998). The authors approach how the extent to which executives own shares in their own firms significantly affects the likelihood that they will be dismissed, finding that the probability of a forced departure was positively correlated with the levels of institutional share ownership in the firm. Although a forced departure of a CEO who has an equity stake in his own firm may be unusual departure, the authors find that the market positively yields that event.

Hillier and McColgan (2005) studied CEO turnovers in family-run companies, finding that market react favourably when the departure of a family-CEO is announced, but only when these top managers are replaced by a non-family successor. The authors also find that following the departure of a family CEO, operating performance tends to increase, which is not the case for non-family managed companies.

Along with the analysis of stock market reaction through price effects and prior performance, Cools and Van Praag (2007) added the analysis of the trading volumes at turnover announcements to their study. Following previous studies, the authors find a positive stock market reaction to forced turnover announcements. The authors suggest that investors value the internal monitoring mechanisms of the supervisory board dismissals decisions of badly performing managers are consistent shareholders wealth maximization.

As mentioned in previous section, Setiawan (2008) combined routine vs. non-routine (which may be defined as a proxy for forced vs. voluntary departure) with internal vs. external appointment. The author finds that the market reacts to all routine (voluntary) CEO turnover announcements, independently of the appointment

characteristic. Regarding non-routine changes (forced), Setiawan (2008) find that the market gives mixed signals.

Unlike above researches mentioned above, Dedman and Lin (2002) find a negative reaction from UK stock markets to announcements of top executive departures, especially when the CEO is dismissed. These findings are contrary to the great majority of previous studies. The authors suggest that the market is anticipating succession problems.

The findings from existing literature reviewed in this subsection clearly suggest that stock market tends to yield positively and more significantly forced turnover departures. Over time, the frequency of forced turnover departures has increased (Huson, Parrino and Starks, 2001).

2.6. Stock market reaction for internal versus external CEO succession

The succession specification of a turnover event regards the origin of the new appointed CEO. The selection of the new top executive may derive from an internal market for executives, within the company, or resort to external labor market for executives, appointing an outside CEO (Furtado and Rozeff, 1987).

Empirically, there is evidence that when it's time to appoint a new CEO, the internal succession is clearly preferred. Lazear and Rosen (1981) say that this is due to a preference for promotion as an incentive system. In fact, in the majority of studies, the percentage of internal succession is way higher than external one.

Reinganum (1985) finds positive performance of stock prices after external succession, but the abnormal returns are more significant on smaller firms than on larger firms, suggesting that leadership influence is constrained in larger firms and that with an external succession the board of directors wants to signal a favourable change. The size of the firm, large or small, may influence investor's perception for the appointment of a successor. Furtado and Rozeff (1987) find that the stock market reaction is positive in both internal and external appointments, but in large firms internal appointments are more appreciated. Their suggestion is that internal appointments may prove the quality and validity of a firm's investment policy in human specific capital.

Worrell, Davidson and Glascock (1993) studied stock market reaction to departures originated by key executives firing. These authors find positive market reactions when a permanent successor is appointed. Within the successor announcement, outside appointments were positively yielded by the market, while internal appointments suggested a wait and see reaction.

Kang and Shivdasani (1996) provide evidence that turnover announcements in the Japanese market are associated with significantly positive abnormal returns. The stock-price effects are also significantly positive when the successor is appointed from outside the firm.

Dahya and McConnel (2005) investigated whether an increase on the number of outside directors on a UK firm board composition would influence the decision of appointing an external CEO. The authors find positive correlation between the number of external directors and the likelihood of appointing an external CEO. Additionally, they find that positive abnormal returns in the surroundings of the turnover announcement, where they suggest that investors appear to view appointments of outside CEOs as good news.

Adams and Mansi (2009) studied the impact for shareholders and bondholders due to CEO turnover events, and the results the author obtained suggest the market reacts positively to both type of appointments, but tends to yield more significantly external appointments. Although focused on stock market reaction only, Shen and Canella (2003) find similar results for succession: An outside CEO appointments tends to be positively yielded by the market and, in the reverser way, an internal CEO appointment implies a negative reaction from investors.

Setiawan (2008) show that the Indonesian market reacts to turnover announcements, dividing the analysis between routine and non-routine turnovers. Regarding routine announcements, the author find that the market reacts positively to internal appointments, and, by the opposite, reacts negatively to external appointments. When it comes to non-routine turnovers, the author finds that both internal and external appointments, the market gives a mixed reaction. The author suggests that theses results confirm Warner, Watts and Wruck (1998), where these authors argued the market tend to perceived mixed signals from a CEO turnover event.

Beatty and Zajac (1987) find the stock market yield negatively both internal and external appointments. Although, the authors conclude that the strategic value that companies attribute to CEO turnovers events in order to enhance shareholders wealth is increasing.

Khanna and Poulsen (1995) provide evidence on the extent on CEO turnover of financially distressed firms. These authors find that (1) managers of bankrupt firms tend to take similar decisions of managers in control firms and (2) that the market does not respond positively to internal or external turnovers on these firms, which supports the idea that actual managers of firms that eventually will file for bankruptcy are serving as scapegoats.

Huson, Parrino and Starks (2001) studied the evolution of internal and external monitoring mechanisms over time and find that the nature of CEO turnover activity has changed over time and the frequencies of outside succession increased.

The findings from existing literature reviewed in this subsection suggest external succession seems to yield higher positive abnormal returns. Although, results from several authors give us mixed signals regarding stock market reaction to outside vs. inside succession. Also, while outside succession is increasing (Huson et al, 2001), in absolute terms internal succession seems to be the board of directors preferred choice.

2.7. Critical analysis on the literature review

The existing literature reviewed in this chapter is, in first place, geographically concentrated. As it is possible to see on appendix A, most of the researches undertaken are on the US stock market. The American indexes are the largest in the world, so they're extremely unique and representative. There were studies in other countries, like the UK or even smaller European markets like Denmark and The Netherlands, but once researches are concentrated in one stock market, then the trends on CEO turnovers specifications for forced departures or external succession may have a geographical bias.

A second critic is that the reviewed studies are some methodological differences – it is not the standard event study methodology that is in cause – on the specification of the analysis. Issues like the size of the company, its financial condition, governance policies, ownership structure, prior performance and turnover probabilities are some of

the approaches used by the revised authors. In the end, as mentioned in the previous paragraph, it was possible to suggest some trends based on the findings of these authors, but once again, a part of these studies have different starting points which could influence final results.

A third critic is that several authors really worked their data samples in order to have observations the cleaner possible. This is an important step for better and trustworthy findings.

A fourth critic is that the mentioned studies use different event windows, which implies that results refer to different time intervals. Nonetheless, the important is to have statistical data to find stock market reaction around the CEO turnover announcements.

In appendix A it is possible to find a summary table of the reviewed literature in this chapter 2.

3. Research Methodology

3.1. Introduction

The event study methodology has as objective analysing the impact of certain and unexpected event in stock prices (McWilliams and Siegel, 1997), by determining whether there is an abnormal stock return associated with that event.

3.2. Sample

3.2.1. Data construction

Since there was not database available that could be useful to proceed with the study of CEO turnovers for the Portuguese stock market, we had no other solution than build one from the scratch. In order to achieve it, all we needed was to find the exact event days along the sample period.

The first step was to decide about the sample period. Since all the relevant information we needed to construct our database is online since 2002 at CMVMs website, we decided for a sample period from 2002 to 2012, eleven years in total.

The second step was to look for CEO turnovers over the sample period. We have researched in corporate governance reports of each listed company on each year of the sample period for changes in the top management position. Through it, we were able to find in which years and companies occurred CEO turnovers, plus the names of the departing CEO's and the newly appointed ones. Please note that for companies with a one-tier corporate governance system, we assumed the executive president position as a proxy for a CEO position. Before the required sample cleaning due to confounding effects, we have found 58 observations for CEO turnovers from 34 companies – there were several companies that didn't suffered changes in top management positions along the sample period.

A third step was to find the day 0 of each observation, which we did in a double way. Following major studies from the USA market, whose authors look for turnover announcements in the Wall Street Journal to define the event day 0, our study uses a similar methodology, by searching in search engine Google for online news from major Portuguese newspapers regarding each CEO turnover we wanted to cover. For 3 observations, we used online news from Spanish newspapers because the company in

question, although listed in the Portuguese stock market, was Spanish. As a precautionary measure, we have complemented the online news research with each observation press release announcement on CMVM's website. In the great majority of cases, we found the same date and hour for the online news and the press release to CMVM. In the few cases that the online news strongly suggests the new CEO several days before the press release date, we used the first ones to define the day 0 of our event window. After the sample was cleared, we had one single case where no online news was found, so we used the press release information. Finally, we define the day 0 of our event window as the day after of the announcement – usually the firm announcement to CMVM and consequently online news are the day before but after the market closing. In the very few cases that the announcement is during the stock market opening hours, and as per Cools and Van Praag (2007), that day is labeled day 0.

After defining the day 0 for each observation of the sample, we have cleaned it of confounding effects. Any observation that was surrounded in its day 0 by result announcements, IPO's, missing information or doubtful procedures was withdrawn from the sample. From the initial 58 observations, we were left with 42 CEO turnover announcements clear from any confounding effect. When we began the statistic tests, we have withdrawn three more observations due to extreme positive and/or negative returns over the event window. Our final sample has 39 observations, which are going to be worked in the next section.

3.2.2. Turnover characteristics

To answer to several research questions of this report, we needed to classify each announcement according to two main characteristics: the departure type and the succession type.

The methodology we used to proceed with CEO turnovers classification is in line with the literature reviewed in chapter 2, which consists in analysing the data or elements available and suggest a characteristic. Since this exercise

The press releases published at CMVM are the official vehicle a listed company uses to report to the market the information content of an announcement. In the great majority of the announcements in our sample, these official documents do not disclose

the motive behind the turnover, they just inform the change occurred. Accessing the news available in the Portuguese online press is an important procedure for a better assessment of each announcement, because newspapers usually provide additional information about an event.

Starting by the departure type classification, we define a voluntary turnover according two simple criteria. The first one regards the post occupation of the departing CEO, where if he/she keeps a non-executive position in the BoD would be defined as a voluntary turnover. The second criteria regards the case where the departing CEO reaches the end of his mandate but decides for not re applying for the job. Information from newspaper was particularly helpful in this case. A few cases of jubilee were also considered as voluntary departures.

It is an easing finding that forced turnovers are the turnovers that weren't voluntary. For a stronger assessment, we defined forced departures when the CEO don't reach the end of his mandate, don't stay at the board with a non-executive role or the news in the press clearly indicates that the departure was forced.

We also had to classify the succession type of the turnovers in internal versus external appointments, where we simply defined an internal succession an appointment of a CEO who was already in the board of directors of the company or in the executive committee. By assessing the yearly corporate governance reports, we could easily proceed with this classification.

The classification we performed may in some cases be subjective, influenced by our judgment, which could mean that in one or another observation the classification may not represent what really happened at the time. But we believe that the categorization of our final sample is a good representation of the reality.

Defining forced departure as per Cools and Van Praag: We define departures as forced whenever Het Financieele Dagblad states a departure to be due to: (i) conflicts with other management board members, for instance on strategic or management issues, (ii) conflicts with the supervisory board causing the supervisory board to initiate the executive's departure, (iii) bad performance or inadequate management, and (iv) a scandal, i.e. externally (often press) initiated "disgraceful" events (e.g. illegitimate insider trading).

3.2.3. Descriptive statistics

We have found 58 CEO turnovers on companies listed in the Portuguese stock market over the sample period 2002-2012. After we have cleaned our sample from confounding effects, we were left with 39 observations to test. As we may observe from the following table, we have classified as forced 17 turnovers, which represents 43,59% of our sample. In the counterpart, we assessed as voluntary 22 turnovers, representing 56,41%. Although we've verified a significant balance between the two options of departure, a higher number of voluntary leavings combined with the criteria we used (staying in the company in a non-executive role is a voluntary departure) may suggest that old CEOs agreed the departure if backed up by other position in the company. Regarding the other category of turnovers, we found 25 internal successions versus 14 external successions. This is, on 64,10% of the turnovers, the company had as policy to appoint an executive that was already in the board, what can be see as a market tendency. It would also suggest as a sign that a company want to give internally, to keep their top executives motivated as showing that an opportunity to became CEO may arise.

PSI Geral – All Share only have price index from the end of 2004. So to estimate the market model for only one observation that I needed data previous do 2004, I used the PSI 20 as a proxy.

3.3. Test Statistics

The test statistics we use in this work follow the standard event study methodology from McWilliams and Siegel (1997), which is based in Patell's work (Patell, 1976). From the literature reviewed in chapter 2, we may find several papers that follow this same methodology to conduct event studies. Furtado and Rozeff (1987), Warner et al (1988), Khanna and Poulsen (1995) and Cools and Van Praag (2007) use this methodology. By using this methodology, we may determine whether there is an "abnormal" stock price effect associated with an unanticipated event, inferring the significance of the event. Our events will be the 39 announcements of our final sample.

Event studies assumptions are market efficiency, unanticipated events and non-existence of confounding effects.

Each event tested has an interval of 11 days, which we call the event window. The event window starts five days (day -5) before the announcement day (day 0) and ends five days after (day +5). The size of this event window is in line with the one from Setiawan (2008), which work a sample size similar to ours.

For each firm in the final sample, we estimated the market model for the 250 trading days before the event window. In order words, we estimated the market model throughout the period -255 to period -6, where day 0 is the first trading day after the announcement, as follow:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}, \quad t = -255, \dots, -6, \quad (1)$$

where,

R_{it} = the rate of return on the share price of firm i on day t

R_{mt} = the rate of return on a market portfolio of stocks on day t

α = the intercept term

β = the systematic risk of stock i

and

ε_{it} = the error term, with $E(\varepsilon_{it}) = 0$

The market portfolio used is the PSI 20 or the PSI All Share, depending in which list firm i is listed.

From the equation above, we will derive estimations of daily abnormal returns (AR) for the i th firm using the following equation:

$$AR_{it} = R_{it} - (a_i - b_i R_{mt}), \quad (2)$$

where a_i and b_i are the ordinary least squares (OLS) parameter estimates obtained from the regression of R_{it} on R_{mt} over an estimation period (T) preceding the event window, in this case -255 to -6 days from the announcement day (day 0).

Following the Patell statistical test (Patell, 1976), we calculate standardize abnormal returns, obtained by dividing the abnormal return by its standard deviation:

$$SAR_{it} = AR_{it}/SD_{it}, \quad (3)$$

with

$$SD_{it} = \{S_i * [1 + 1/T + (R_{mt} - R_m)^2 / \sum_{t=1}^T (R_{mt} - R_m)^2] \} , \quad (4)$$

where S_i is the standard error from the market model as computed for firm i , R_m is the mean return on the market portfolio calculated during the estimation period, and T is the number of days in the estimation period.

The standardized abnormal returns can then be cumulated over a number of days, k (the event window), to derive a measure of the cumulative abnormal return (CAR) for each firm:

$$CAR_i = (1/k^{0.5}) \sum_{t=1}^k SAR_{it} , \quad (5)$$

The average standardized cumulative abnormal returns across n firms (ACAR) over the event window can be computed as:

$$ACAR_t = 1/n * 1/[(T - 2)/(T - 4)]^{0.5} \sum_{i=1}^n CAR_{it} , \quad (6)$$

The test statistic used to assess whether the average cumulative abnormal return is significantly different from zero (its expected value) is:

$$Z = ACAR_t * n^{0.5} , \quad (7)$$

If significant, the cumulative abnormal return is assumed to measure the average effect of the event on the value of the n firms. That is, the significance of the abnormal return allows the researcher to infer that the event had a significant impact on the values of the firms.

4. Empirical Results

In this chapter we will analyze results for the test statistics.

Our results are divided in four subsections. We firstly analyze the market reaction for all turnovers in the final sample, doesn't matter the characteristics of the event. Then we analyze the results according to departure type, succession type and a cross sectional analysis with all mixing of departure and succession type.

For each event study (section) we analyzed the sample that we had, plus the observations i that are listed in the PSI 20 index, and only for the first subsection, the entire final sample, we also divided the events in before Lehman Brothers Bankruptcy and after it, as it may be defined as the major event that initiated the financial crisis of 2008.

In the previous chapter we saw that event time as 11 days. We tested the abnormal returns for the entire event time, and then also for three periods inside the event time. They are the -5 to -1 days, which is useful to see if the market perceived the event before it's announcement, the day 0 of the event and the period $+1$ to $+5$ to test the reaction afterwards.

4.1. Market reaction – All sample

Table 1 reports the results for abnormal stock returns for all the observations in the final sample. Here, segmentation of turnovers is as follows: all sample, only PSI 20 companies and observations that occurred before and after Lehman Brothers bankruptcy. In column number 2 we find the number of observations for each segments and from column 3 to 6 we find the event window duly segmented.

From this table A, the most relevant finding is that for observations that occurred before Lehman Brother's bankruptcy, the market reacts negatively at day 0 with a significance level of 5%. Considering that for the observations of the period post Lehman bankruptcy market reaction is null, the way that investors incorporate new information on CEO turnovers changed from one period to the other.

For all turnovers, and without dividing the sample in two sub-periods, we find a trend reaction for both PSI 20 and PSI All Share companies. Although statistically insignificant (but almost, for a 10% significance level), we find in the days previous to

day 0 (-5 to -1) there's a negative return in the stocks that is accentuated in the day of the announcement. After day 0, days +1 to +5 are associated with positive returns, which indicates a sign that the market tends to recover partially some of the value that was lost.

Table 1

Table A

Average Cumulative Abnormal Returns (ACAR) for all type of turnovers. Between brackets the values of Z.

Turnover Events	Obs.	Event Time (days)			
		-5 to +5	-5 to -1	0	+1 to +5
All turnovers					
All sample	39	-0,072 (-0,448)	-0,08 (-0,047)	-0,248 (-1,551)	0,012 (0,076)
Only PSI 20	21	-0,102 (-0,466)	-0,154 (-0,707)	-0,349 (-1,599)	0,16 (0,731)
Before Lehman	23	-0,058 (-0,276)	-0,037 (-0,178)	-0,418 (-2,007)**	0,139 (0,666)
After Lehman	16	-0,092 (-0,368)	0,221 (0,14)	-0,004 (-0,016)	-0,17 (-0,679)

* significance level of 10%; ** significance level of 5%; *** significance level of 1%

4.2. Departure type

Table 2 shows the average standardized cumulative abnormal returns according to the departure type of the CEOs turnovers of our sample.

From all the results in this departure section, we only find one statistically significant reaction, a positive market reaction for forced turnovers in PSI 20 companies in the post-announcement period (days +1 to +5 of the event window), although with a 10% significance level.

Nonetheless the statistically insignificance of the remaining results, when comparing forced versus voluntary exit of CEOs, we find opposite reactions on the days before and after the announcement. Voluntary departures yield positively before day 0, while the forced one yields negatively. Forced departures are associated with ex-post positive returns (statistically insignificant for PSI All Shares, significant for PSI 20 companies), while the turnovers identified as voluntary are linked with negative market

return after day 0.

Regarding day 0 results, we find the market yielding negative returns for both forced and voluntary turnovers, both statistically insignificant but stronger for forced departures.

Here the behavior between PSI 20 companies and PSI All-Share is similar, which it may suggest that we may extrapolate market reaction trends in this section.

Table 2

Table B

Average Cumulative Abnormal Returns (ACAR) for turnovers according to departure type. Between brackets the values of Z.

Turnover Events	Obs.	Event Time (days)			
		-5 to +5	-5 to -1	0	+1 to +5
Forced					
All sample	17	-0,058 (-0,238)	-0,27 (-0,894)	-0,321 (-1,325)	0,328 (1,352)
Only PSI 20	10	-0,088 (-0,277)	-0,502 (-1,588)	-0,401 (-1,269)	0,552 (1,744)*
Voluntary					
All sample	22	-0,019 (-0,090)	0,229 (1,073)	-0,363 (-0,731)	-0,188 (-0,880)
Only PSI 20	11	0,013 (0,42)	0,23 (0,761)	-0,229 (-0,759)	-0,109 (-0,360)

* significance level of 10%; ** significance level of 5%; *** significance level of 1%

4.3. Succession type

Table 3 reports the results according to the succession type of the CEO turnovers of the sample. It is important to note that the appointments of CEOs in the sample tend to be internal (25 appointments versus 15 external appointments), which means that an external succession is unusual in the market.

It is in this section that we find a higher number of statistically significant results. Starting our analysis by internal turnovers, we find negative cumulative abnormal returns for the period -5 to -1, although statistically insignificant. At day 0, the day of the announcement, we find a negative and statistically significant reaction from the market at a 10% level for PSI 20 companies (negative but insignificant for PSI All Shares companies). Contrasting with the previous finding on day 0's reaction, we find

positive and statistically significant market reaction for internal turnovers for the period comprehended between days +1 and +5. Overall, internal successions tend to create value over the event window, although for the period -5 to +5 the results are statistically insignificant.

Turnovers from all the sample where the new CEO is appointed from outside the firm tend to have positive CAR before the announcement date (day 0): we find for days -5 to -1 a positive cumulative abnormal return of 0,47 ($z = 1.819$), significant at a 10% level. Day 0 yields positively ($z = 0.049$) but the reaction is almost null. Here, the most surprising finding is that after the announcement, from days +1 to +5 of the event window, the market reaction is highly negative. For all the sample of external successions, we find a negative CAR of -0,557, with a corresponding z of -2.157, which is statistically significant at a 5% level. In contradiction with what was observed in previous subsections of this chapter, the sample of PSI 20 companies present the same trend for the turnovers with this external succession characteristic, but with less strength, since no statistically significant results were found.

Table 3

Table C

Average Cumulative Abnormal Returns (ACAR) for turnovers according to succession type. Between brackets the values of Z .

Turnover Events	Obs.	Event Time (days)			
		-5 to +5	-5 to -1	0	+1 to +5
Internal					
All sample	25	0,105 █ (0,526)	-0,044 (-0,220)	-0,315 (-1,576)	0,341 (1,705)*
Only PSI 20	11	0,188 █ (0,624)	-0,301 (-0,997)	-0,499 (-1,656)*	0,803 (2,663)***
External					
All sample	15	-0,055 (-0,213)	0,47 (1,819)*	0,013 █ (0,049)	-0,557 (-2,157)**
Only PSI 20	10	-0,194 (-0,613)	0,08 █ (0,254)	0,149 █ (0,493)	-0,358 (-1,188)

* significance level of 10%; ** significance level of 5%; *** significance level of 1%

4.4. Crossing characteristics

Table 4 summarizes the results for an analysis of a combination of turnover characteristics. In this paper we study two main characteristics of CEO turnovers alone: the departure type and the succession type. Since these two characteristics are present in each observation of our sample, we also study the market reaction mixing forced or voluntary departures with internal or external successions.

Announcements of a forced turnover with an outside successor yields negative cumulative abnormal returns for the whole 11 days of the event window. If we breakdown the analysis, we find that this characteristics combined yield negative CARs, on average, from days -5 to -1, although statistically insignificant. At day 0, the ACARs are statistically significant at a 10% level for PSI 20 companies (ACAR of -0,771), with a negative Z of 1.889. For the period of days subsequent to the announcement, we find positive reactions for both PSI 20 and PSI All Shares companies. For the first group of companies, days +1 to +5 mean positive ACARs, with a statistically significant Z of 2.209 for a 5% level. For PSI All Shares companies we find a similar trend but statistically insignificant. For the combination of forced turnovers with external successions we find no relevant results, although the evolution is alike the previous: negative yields first and then a price correction afterwards.

A voluntary turnover joined with internal succession is the only combination that is perceived as value creation for investors for the entire event window for both PSI 20 and PSI All Shares observations. Nonetheless, for all the tests undertaken for this combination, none were statistically significant. Though the positive reaction for the period, at day 0 investors see these turnovers as bad news, as per ACARs of -0,143 for PSI All Shares and -0,604 for PSI 20 companies.

In contrary with the previous, voluntary turnovers followed by external successions are seen as bad news for stockholders. For turnovers with such characteristics, reaction at day 0 is almost null ($z = -0.120$ for all sample). Even though the days that precede the announcement are associated with positive ACARs, our results demonstrate that it is after the announcement that the market adjusts to the new information released. The statistically significant results for this combination are find in the days +1 to +5, which is in accordance with previous sections. This suggests a clear market trend to react in the following days of the announcements. We find a strong negative market reaction for PSI All Shares companies in this sub period. The average

CARs are -0,758 ($z = -2.145$), which is significant at a 5% level. For PSI 20 companies, the ACAR is -0,771 ($z = -1.887$), which is significant at a 10% level.

Table 4

Table D

Average Cumulative Abnormal Returns (ACAR) for turnovers by combination of characteristics. Between brackets the values of Z.

Turnover Events	Obs.	Event Time (days)			
		-5 to +5	-5 to -1	0	+1 to +5
Forced & Internal					
All sample	11	-0,100 (-0,330)	-0,414 (-1,373)	-0,476 (-1,578)	0,479 (1,589)
Only PSI 20	6	-0,069 (-0,169)	-0,660 (-1,616)	-0,771 (-1,889)*	0,902 (2,209)**
Forced & External					
All sample	6	0,019 (0,047)	-0,005 (-0,012)	-0,038 (-0,092)	0,05 (0,124)
Only PSI 20	4	-0,116 (-0,232)	-0,266 (-0,232)	0,153 (0,306)	0,026 (0,052)
Voluntary & Internal					
All sample	12	0,1 (0,348)	0,268 (0,927)	-0,143 (-0,495)	-0,055 (-0,190)
Only PSI 20	4	0,559 (1,117)	0,398 (0,796)	-0,604 (-1,208)	0,701 (1,401)
Voluntary & External					
All sample	15	-0,374 (-1,058)	0,223 (0,630)	-0,042 (-0,120)	-0,758 (-2,145)**
Only PSI 20	10	-0,385 (-0,943)	0,211 (0,517)	-0,025 (-0,062)	-0,771 (-1,887)*

* significance level of 10%; ** significance level of 5%; *** significance level of 1%

5. Conclusions and further discussion

In theory, board-monitoring control should be value-creating decisions so it is important that we examine the impact of CEO turnover announcements on stockholder wealth.

This study shows that investors see CEO turnover announcements as relevant information, since market reacts to it, but still the empirical results we find are inconclusive and puzzling. In contradiction with theory, we find, generally, that CEO turnovers value decreasing.

At the day of the announcement, nonetheless the type of turnover, the market tends to react negatively. This could be read as an overreaction to new information that investors weren't expecting, especially because in the "day after" the market corrects somehow the behavior at day 0. Since there are few activity in the Portuguese CEOs market, with few turnovers over the analyzed period, this overreaction suggest that investors in the Portuguese market take some days to read correctly the content behind the turnover.

There are some interesting findings in this dissertation when analyzing CEO turnovers by specific characteristics of observations. For instance, we find that investors see internal successions as good news. This finding suggests that investors perceive internal succession as a continuation of the firm's policies so that radical changes in strategy won't take place. Forced turnovers and external appointments are decreasing, which suggests that investors react to such announcements with unpleasant surprise, evaluating the performance to date like it has some hidden (negative) content and not the capacity of a new CEO to generate value for the company.

Overall, these findings are opposite to the great majority of previous literature. Although in chapter 2 we reviewed literature that as results pointing in any direction, literature trends points that forced departures and external successions are yielded positively. In this study of the Portuguese stock market, investors usually react in the same direction, no matter the type of turnover.

Board monitoring, or shareholder control is more valuable for PSI20 companies

As per our acknowledgement this is the first study of stock market reaction to CEO turnovers in the Portuguese context, so there are several topics that would be interesting

to investigate for further discussion. First of all, evaluate the firm's prior performance to CEO turnover announcements would be interesting to test investors reaction for turnovers for companies in different performing stages. Another further discussion would be to attend to market performance by segmenting the observations according to bull and bear and bear market trends. In this study we analyzed general turnover reactions before and after Lehman Brother's bankruptcy, since the date was the inversion point from positive performance (2002-2007) to negative performance of the Portuguese stock market. Anyhow, any further discussion in this topic won't be supported by relevant sample sizes.

Although we didn't find statistically significant wealth gains (or losses) from CEO turnover announcements for the entire event window, we did find a few significant reactions over the period, which reveals that investors pay attention to some of the observations. For a small stock market like the Portuguese (when compared to the USA or the UK), the significant reactions find may also carry others unrevealed characteristics such the market recognition of the company or CEO. Nonetheless, our evidence suggests that the market reacts to CEO turnover announcements, but not in the way that we would expect from theory since it does not bring wealth gains for stockholders.

References

- Adams, J. C., and S. A. Mansi (2009): "CEO turnover and bondholder wealth," *Journal of Banking and Finance*, 33, 522–533.
- Beatty, R. P., and E. J. Zajac (1987): "CEO change and firm performance in large corporations: Succession effects and manager effects," *Strategic Management Journal*, 8(4), 305–317.
- Bonnier, K.A. and Bruner R.F. (1988): "An Analysis of Stock Price Reaction to Management Change in Distressed Firms," *Journal of Accounting and Economics*. Vol. 11 pp 95 – 106.
- Cools, K., and C. M. van Praag (2007): "The value relevance of top executive departures: Evidence from the Netherlands," *Journal of Corporate Finance*, 13, 721–742.
- Dahya, J., A. A. Lonie, and D. M. Power (1998): "Ownership structure, firm performance and top executive change: An analysis of UK firms," *Journal of Business Finance & Accounting*, 25, 1089–1118.
- Dahya, J., and J. J. McConnell (2005): "Outside directors and corporate board decisions," *Journal of Corporate Finance*, 11, 37–60.
- Daily, C.M. & Dalton, D.R. (1995): "CEO and Director Turnover in Failing Firms: An Illusion of Change?" *Strategic Management Journal*. Vol. 16. No. 5, pp393 – 400
- Dedman, E., and S. J. Lin (2002): "Shareholder wealth effects of CEO departures: Evidence from the UK," *Journal of Corporate Finance*, 8, 81–104.
- Denis, D. J., and D. K. Denis (1995): "Performance changes following top management dismissals," *The Journal of Finance*, 50, 1029–1057.

Furtado, E.P.H. and Karan, V. (1990): “Causes, Consequences and Shareholder Wealth Effects of Management Turnover: A Review of the Empirical Evidence,” *Financial Management*. Vol. 19, No. 2, pp 60 – 75.

Furtado, E. P., and M. S. Rozeff (1987): “The wealth effects of company initiated management changes,” *Journal of Financial Economics*, 18, 147–160.

Hillier, D., and P. McColgan (2005): “Firm performance, entrenchment and CEO succession in family-managed firms,” Working Paper.

Huson, M. R., R. Parrino, and L. T. Starks (2001): “Internal monitoring mechanisms and CEO turnover: A long-term perspective,” *Journal of Finance*, 56, 2265–2297.

Kang, J. K., and A. Shivdasani (1996): “Does the Japanese governance system enhance shareholder wealth? Evidence from the stock-price effects of top management turnover,” *The Review of Financial Studies*, 9, 1061–1095.

Khanna, N., and A. B. Poulsen (1995): “Managers of financially distressed firms: Villains or scapegoats?” *The Journal of Finance*, 50, 919–940.

Lazear, E.P. and S. Rosen (1981): “Rank-order tournaments as optimum labor contracts”, *Journal of Political Economy* 89, 841-864.

Neumann, R., and T. Voetmann (2005): “Top executive turnovers: Separating decision and control rights,” *Managerial and Decision Economics*, 26, 25–37.

Reinganum, M. R. (1985): “The effect of executive succession on stockholder wealth,” *Administrative Science Quarterly*, 30, 46–60.

Rhim, J.C., Peluchette, J.V., Song, I. (2006): “Stock Market Reactions and Firm Performance Surrounding CEO Succession: Antecedents of Succession and Successor Origin,” *Mid-American Journal of Business*, Vol 21 Issue 1, pp21 – 30.

Schwartz, K. B., & Menon, K. (1985): “Executive succession in failing firms”. *Academy of Management Journal*, 28: 680-686.

Setiawan, D. (2008): “An analysis of market reaction to CEO turnover announcement: The case in indonesia,” *International Business & Economics Research Journal*, 7, 119–128.

Shen, W., and A. A. Cannella (2003): “Will succession planning increase shareholder wealth? Evidence from investor reactions to relay CEO successions,” *Strategic Management Journal*, 24(2), 191–198.

Warner, J. B., R. L. Watts, and K. H. Wruck (1988): “Stock prices and top management changes,” *Journal of Financial Economics*, 20, 461–492.

Weisbach, M. (1988): “Outside directors and CEO turnover,” *Journal of Financial Economics*, 20, 431–460.

Worrell, D. L., W. N. Davidson, and J. L. Glascock (1993): “Stockholder reactions to departures and appointments of key executives attributable to firings,” *The Academy of Management Journal*, 36, 387–401.

Web references

http://www.tsf.pt/PaginalNicial/Interior.aspx?content_id=831065

http://www.edp.pt/en/Investidores/informacaoprivilegiada/2003/EDPDocuents/030523CE_EN.pdf

http://www.jornaldenegocios.pt/empresas/detalhe/fernando_ulrich_vai_assumir_presidencia_executiva_do_bpi_em_abril_de_2004_act.html

<http://web3.cmvm.pt/sdi2004/emitentes/docs/FR1827.pdf>

http://www.jornaldenegocios.pt/empresas/detalhe/queiroz_pereira_substitui_jorge_armindo_na_presidencia_da_portucel.html

http://www.jornaldenegocios.pt/empresas/detalhe/frederico_moreira_rato_acumula_funcoes_de_presidente_e_administrador_delegado_da_reditus.html

<http://web3.cmvm.pt/sdi2004/emitentes/docs/OCM2756.pdf>

http://www.jornaldenegocios.pt/empresas/detalhe/soares_da_costa_cria_comissao_executiva_liderada_por_fernando_barbosa.html

<http://web3.cmvm.pt/sdi2004/emitentes/docs/ATOS6490.pdf>

http://www.jornaldenegocios.pt/empresas/detalhe/prisa_ja_escolheu_equipa_que_vai_dirigir_a_media_capital.html

<http://web3.cmvm.pt/sdi2004/emitentes/docs/ATOS7511.pdf>

http://www.jornaldenegocios.pt/empresas/detalhe/dias_da_cunha_demite_se_da_presidencia_do_sporting.html

<http://web3.cmvm.pt/sdi2004/emitentes/docs/fsd10016.pdf>

http://www.jornaldenegocios.pt/empresas/detalhe/joao_talone_formaliza_said_a_da_edp.html

http://www.edp.pt/pt/investidores/informacaoprivilegiada/2006/informao_privilegiada_2006/ageral_po.pdf

http://www.jornaldenegocios.pt/empresas/detalhe/armindo_monteiro_assume_presidencia_da_compta.html

<http://web3.cmvm.pt/sdi2004/emitentes/docs/ATOS10083.pdf>

<http://www.publico.pt/economia/noticia/governo-e-bes-escolhem-granadeiro-para-liderar-a-pt-1250661#/0>

http://www.jornaldenegocios.pt/empresas/detalhe/inapa_nomeia_jose_felix_morgado_para_presidente_executivo_da_empresa.html

<http://web3.cmvm.pt/sdi2004/emitentes/docs/ATOS12299.pdf>

<http://publico.pt/economia/noticia/paulo-azevedo-e-o-novo-presidente-executivo-da-sonae-1288864#/0>

<http://web3.cmvm.pt/sdi2004/emitentes/docs/ATOS13009.pdf>

http://economico.sapo.pt/noticias/salavessa-moura-sera-o-ceo-da-cimpor_11512.html

<http://web3.cmvm.pt/sdi2004/emitentes/docs/ATOS24071.pdf>

http://www.elconfidencial.com/mercados/archivo/2007/07/18/47_maria_lucia_aguirre_sustituye_dopico_consejero.html

<http://web3.cmvm.pt/sdi2004/emitentes/docs/FR14305.pdf>

<http://www.publico.pt/economia/noticia/paulo-teixeira-pinto-devera-ser-substituido-no-bcp-por-filipe-pinhal-1303731#/0>

<http://web3.cmvvm.pt/sdi2004/emitentes/docs/FR14779.pdf>

http://www.dn.pt/inicio/interior.aspx?content_id=984729

<http://web3.cmvvm.pt/sdi2004/emitentes/docs/ATOS15007.pdf>

<http://publico.pt/economia/noticia/rodrigo-costa-nomeado-presidente-da-pt-multimedia-1305415#/0>

<http://web3.cmvvm.pt/sdi2004/emitentes/docs/ATOS14995.pdf>

http://economico.sapo.pt/edicion/diarioeconomico/edicion_impresa/destaque/pt/desarrollo/1071644.html

<http://web3.cmvvm.pt/sdi2004/emitentes/docs/FR16431.pdf>

<http://www.publico.pt/politica/noticia/jorge-coelho-assume-no-fim-destes-mes-o-futuro-da-motaengil-1324648>

<http://web3.cmvvm.pt/sdi2004/emitentes/docs/FR17959.pdf>

http://dinheirodigital.sapo.pt/news.asp?id_news=101451

<http://web3.cmvvm.pt/sdi2004/emitentes/docs/FR19421.pdf>

<http://www.eleconomista.es/empresas-finanzas/noticias/743852/09/08/Banco-Popular-nombrara-manana-a-Roberto-Higuera-consejero-delegado-en-sustitucion-de-Lucia.html>

<http://web3.cmvvm.pt/sdi2004/emitentes/docs/FR20167.pdf>

http://www.jn.pt/PaginalInicial/Interior.aspx?content_id=1255840

http://noticias.lainformacion.com/mano-de-obra/jubilacion/popular-roberto-higuera-deja-su-cargo-de-consejero-delegado-por-jubilacion_T3cZnjPYAR0sEmOrFhRPy6/

<http://web3.cmvvm.pt/sdi2004/emitentes/docs/FR24414.pdf>

http://www.jornaldenegocios.pt/empresas/detalhe/carlos_martins_quotpassag_uot_lideranccedila_executiva_da_martifer_ao_irmatildeo.html

<http://web3.cmvvm.pt/sdi2004/emitentes/docs/FR25656.pdf>

http://www.dn.pt/inicio/economia/interior.aspx?content_id=1425716

<http://web3.cmvvm.pt/sdi2004/emitentes/docs/ATOS26148.pdf>

<http://expresso.sapo.pt/o-regresso-das-hostilidades=f551401>

<http://web3.cmvvm.pt/sdi2004/emitentes/docs/FR26227.pdf>

http://www.jornaldenegocios.pt/empresas/detalhe/vista_alegre_atlantis_nome_ia_comissatildeo_executiva.html

<http://web3.cmvm.pt/sdi2004/emitentes/docs/ATOS26571.pdf>
<http://www.publico.pt/economia/noticia/salvador-caetano-deixa-presidencia-da-toyota-caetano-portugal-1421177>
<http://web3.cmvm.pt/sdi2004/emitentes/docs/ATOS26795.pdf>
http://economico.sapo.pt/noticias/francisco-lacerda-devera-ser-novo-presidente-da-cimpor_84452.html
<http://web3.cmvm.pt/sdi2004/emitentes/docs/ATOS28263.pdf>
http://economico.sapo.pt/noticias/pedro-soares-dos-santos-substitui-palha-da-silva-como-ceo_86365.html
<http://web3.cmvm.pt/sdi2004/emitentes/docs/FR27830.pdf>
<http://web3.cmvm.pt/sdi2004/emitentes/docs/ATOS28439.pdf>
http://economico.sapo.pt/noticias/joaquim-filipe-marques-dos-santos-e-o-novo-presidente-do-banif_91145.html
<http://web3.cmvm.pt/sdi2004/emitentes/docs/FR28906.pdf>
http://www.jornaldenegocios.pt/empresas/detalhe/mira_godinho_seraacute_o_proacuteximo_presidente_da_glintt.html
<http://web3.cmvm.pt/sdi2004/emitentes/docs/FR31264.pdf>
<http://expresso.sapo.pt/godinho-lobes-sou-o-presidente-de-todos-os-socios=f640329>
<http://web3.cmvm.pt/sdi2004/emitentes/docs/FR32589.pdf>
http://www.jornaldenegocios.pt/empresas/detalhe/antoacutenio_castro_henriques_eacute_o_novo_ceo_da_soares_da_costa.html
<http://web3.cmvm.pt/sdi2004/emitentes/docs/FR34956.pdf>
http://www.jornaldenegocios.pt/empresas/detalhe/bianchi_de_aguiar_demite_se_de_ceo_da_sonae_induacutestria_act.html
<http://web3.cmvm.pt/sdi2004/emitentes/docs/FR34967.pdf>
http://economico.sapo.pt/noticias/nuno-amado-sera-o-novo-presidente-do-bcp_136840.html
<http://web3.cmvm.pt/sdi2004/emitentes/docs/FR37708.pdf>
http://economico.sapo.pt/noticias/banif-confirma-jorge-tome-como-ceo_138498.html
<http://web3.cmvm.pt/sdi2004/emitentes/docs/FR37556.pdf>
http://www.jornaldenegocios.pt/empresas/detalhe/belmiro_de_azevedo_volta_agraves_origens_como_ceo_da_sonae_induacutestria.html

<http://web3.cvm.pt/sdi2004/emitentes/docs/FR38513.pdf>

Appendixes

Appendix A: Literature review on CEO turnovers

Author	Market	Years	Job	Sucession		Departure	
				EXT	INT	FOR	VOL
Adams and Mansi (2009)	USA	1973-2000	CEO	2,42%	0,15%	2,43%	0,27%
Beatty and Zajac (1987)	USA	1979-1980	CEO	0,10%	0%		
Cools and Van Praag (2007)	NL	1991-1999	TOP			0,23%	
Dahya and McConnel (2005)	UK	1989-1999	CEO	0,79%	0,20%		
Dahya, Lonie and Power (1998)	UK	1989-1992	TOP			0,12%	-0,02%
Dedman and Lin (2002)	UK	1990-1995	CEO			-3,40%	-0,53%
Denis and Denis (1995)	USA	1985-1988	TOP			1,50%	0,16%
Furtado and Rozeff (1987)	USA	1975-1982	TOP	0,72%	1,05%	1,03%	
Hillier and McColgan (2005)	UK	1992-1998	CEO			11,82%	0,92%
Kang and Shivdasani (1996)	JP	1985-1990	TOP	0,95%	0,56%	1,02%	0,40%
Khanna and Poulsen (1995)	USA	1980-1990	TOP	-0,26%	0%		
Neumann and Voetmann (2005)	USA	1994-1998	CEO			1,10%	-1,00%
Reinganum (1985)	USA	1978-1979	TOP	1,17%	-0,13%		
Setiawan (2008)	ID	1992-2003	CEO	0,90%	-2,30%	-1,20%	0%
Shen and Canella (2003)	USA	1988-1997	CEO	1,95%			
Warner, Watts and Wruck (1998)	USA	1963-1978	TOP	0,34%		0,14%	
Weisbach (1988)	USA	1977-1980	CEO	0,50%	0,20%		
Worrel, Davidson and Glascock (1993)	USA	1963-1987	TOP	-1,17%	0,83%	0,38%	

Appendix B: Observations collected until 30/12/2012

C	Company	Stock inc	Old CEO	New CEO	Y	Mon	Sucess	Departu
1	EDP	PSI 20	Francisco Fuente Sanchez	João Talone	2003	Maio	External	Voluntary
2	BPI	PSI 20	Artur S. Silva	Fernando Ulrich	2003	Dezembro	Internal	Voluntary
3	PORTUCEL	PSI 20	Jorge Armindo	José Honório	2004	Junho	External	Forced
4	REDITUS	PSI GERAL	José Rato	Frederico Rato	2004	May	Internal	Forced
5	SOARES DA COSTA	PSI GERAL	Laurindo Costa	Fernando Barbosa	2005	Julho	Internal	Voluntary
6	MEDIA CAPITAL	PSI GERAL	Miguel Pais do Amaral	Manuel Polanco	2005	Novembro	External	Voluntary
7	SPORTING SAD	PSI GERAL	António Dias da Cunha	Filipe Soares Franco	2005	Outubro	Internal	Forced
8	EDP	PSI 20	João Talone	António Mexia	2006	Janeiro	External	Forced
9	COMPTA	PSI GERAL	Vitor Assunção	Armindo Monteiro	2006	Março	External	Forced
10	PT	PSI 20	Miguel Horta e Costa	Henrique Granadeiro	2006	Abril	Internal	Forced
12	INAPA	PSI GERAL	Vasco Pessanha	José Félix Morgado	2007	Março	Internal	Forced
13	SONAE COM	PSI 20	Paulo Azevedo	Ângelo Paupério	2007	Março	External	Voluntary
14	CIMPOR	PSI 20	Pedro Teixeira Duarte	Jorge Salavessa Moura	2009	Maio	Internal	Forced
15	Banco Popular	PSI GERAL	Francisco Dopico	José Maria Aguirre	2007	Julho	Internal	Voluntary
16	BCP	PSI 20	Paulo T. Pinto	Filipe Pinhal	2007	Agosto	Internal	Forced
17	PT	PSI 20	Henrique Granadeiro	Zeinal Bava	2007	Setembro	Internal	Voluntary
18	PT MULTIMEDIA	PSI 20	Zeinal Bava	Rodrigo Costa	2007	Setembro	External	Voluntary
19	BCP	PSI 20	Filipe Pinhal	Carlos S. Ferreira	2008	Janeiro	External	Forced
20	MOTA ENGIL	PSI 20	António Mota	Jorge Coelho	2008	Abril	External	Voluntary
21	GLINTT	PSI GERAL	Pedro Rebelo Pinto	Fernando Costa Freire	2008	Julho	Internal	Voluntary
22	Banco Popular	PSI GERAL	José Maria Aguirre	Roberto Higuera	2008	Setembro	Internal	Forced
24	SPORTING SAD	PSI GERAL	Filipe Soares Franco	José Eduardo Bettencourt	2009	Junho	Internal	Voluntary
25	Banco Popular	PSI GERAL	Roberto Higuera	Ángel Ron	2009	Junho	Internal	Voluntary
26	MARTIFER	PSI GERAL	Carlos Martins	Jorge Martins	2009	Outubro	Internal	Voluntary
27	REN	PSI 20	José Penedos	Rui Cartaxo	2009	Novembro	Internal	Forced
28	CIMPOR	PSI 20	Jorge Salavessa Moura	Ricardo Bayão Horta	2009	Dezembro	Internal	Forced
29	VAA	PSI GERAL	Álvaro Tavares	Luis Paiva	2010	Janeiro	External	Voluntary
30	TOYOTA CAETANO	PSI GERAL	Salvador Caetano	José Ramos	2010	Fevereiro	Internal	Voluntary
31	CIMPOR	PSI 20	Ricardo Bayão Horta	Francisco Lacerda	2010	Março	External	Forced
32	JM	PSI 20	Luis P. Da Silva	Pedro S. Dos Santos	2010	Abril	Internal	Voluntary
33	SAG	PSI GERAL	Esmeralda Dourado	João Pereira Coutinho	2010	Maio	Internal	Voluntary
34	BANIF	PSI 20	Horácio Roque	Joaquim M. Dos Santos	2010	Junho	Internal	Forced
35	GLINTT	PSI GERAL	Fernando Costa Freire	Manuel Godinho	2010	Dezembro	Internal	Forced
36	SPORTING SAD	PSI GERAL	José Eduardo Bettencourt	Luis Godinho Lopes	2011	Março	External	Forced
38	SOARES DA COSTA	PSI GERAL	Pedro Gonçalves	António Henriques	2011	Julho	Internal	Voluntary
39	SONAE IND	PSI 20	Carlos B. De Aguiar	Rui Correia	2011	Julho	Internal	Voluntary
40	BCP	PSI 20	Carlos S. Ferreira	Nuno Amado	2012	Janeiro	External	Voluntary
41	BANIF	PSI 20	Joaquim M. Dos Santos	Jorge Tomé	2012	Fevereiro	External	Voluntary
42	SONAE IND	PSI 20	Rui Correia	Belmiro de Azevedo	2012	Março	Internal	Voluntary