HOW LONG A TENURE IS LONG ENOUGH: CEOS TENURE AND ITS IMPACT ON FIRM'S PERFORMANCE

Naseem Ahamed*

Abstract

In a typical corporate setting, a CEO is analogous to the captain of a ship with ultimate authority vested in him by the board of directors, which in turn is elected by the owners (shareholders) of the firm (Fama, E. F., & Jensen, M. C. 1983). During the period he heads the firm, it is expected from him to take wise decisions which benefits the firm in long/short term and the stakeholders of the firm become well off. However, the length of the tenure varies to a great degree from firm to firm. This paper attempts to find out the impacts of these different tenures on the performance of the firm *per se*. In addition to that it tries to unearth any possible discernible pattern in the CEO tenure over the time. It also looks if the remuneration generally increases with the number of years spent in a firm or is it attached to performance and tenure is meaningless for remuneration. Do CEOs with long tenure try to tweak with the firm's capex (expenditure policy), existing dividend policy etc. are few of the questions attempted to be addressed in here. A change in the previously mentioned characteristics of the firm, would lead to a radical transformation in the fundamental structure of the same. Hence, the article asks if CEOs turn the firm into a completely different entity from what they took over, when given long tenure.

The study utilizes data from the Compustat/Execucomp database from a period ranging back to 1990 till date. However, it also analyses data before 1990, as it was found that CEOs held their positions for considerably longer tenure before the introduction of SOX in 2002. That analysis gives a first-hand experience of the changes experienced by the firms in the event of CEO change.

The findings indicate, that the CEOs take some time to settle themselves in and subsequently increase their bargaining power with the board. Subsequent to which CEOs, who enjoy longer tenure tweaks with the firm's existing policies and practices.

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**Research Scholar, Dept. of Finance, IBS Hyderabad, 501203, India*

1 Introduction

For most of the jobs, there is a tenure during which an individual is most productive. There is a famous saying in the business world "A company is only as good as its leadership". In the corporate world, a CEO is appointed by the board of directors, who in turn is elected by the owners (shareholders) of the firm (see. Agrawal, A., & Knoeber, C. R. 1996), to render his services as the head of management team to steer the company towards its objective (which in most cases is implicitly assumed to be the shareholders wealth maximization SWM[1]) by increasing the market price of outstanding shares, however a company can be registered for any legal objective[2] like customer satisfaction, profit maximization, generating employment, manufacture good quality products etc. not to mention SWM may be one of them. A CEO gets to utilize the resources (human and inanimate) of the company and has the decision making authority over them by the virtue of power vested to him by the owners of the company. He, in consultation with his executives is expected to make decisions in the best interest of the company, decisions that would send positive signals to the market, existing and potential investors about the future of the company.

There are incidences where CEOs did admitted that quitting was indeed a good idea after a certain time period because they virtually ran out of ideas and it was befitting in the interest of the firm and its stakeholders to appoint someone else as the new CEO rather than continuing with them. CEO tenure,

unlike some public sector executive job does not have a pre-defined age of retirement. A CEO gets appointed and reappointed by the board based on his merits, which is the reason that there are examples of CEO tenures ranging from few months to close to 50 years. There is no gainsaying that, other factors like condition of the economy in general, political stability etc. to mention a few, *inter alia* firm performance may also drive the decision of reappointment of existing CEO or new appointment.

More amount of time does allow a CEO to get used to the dynamics of the company and act accordingly, but it might also accompany complacency to achieve newer targets. Can there be an optimal tenure for the CEOs which *ceteris paribus* would be just right for all stakeholders involved.

1.2 Motivation

The governance and management literature is replete with CEO leadership, background, style etc. but there lies a palpable void in the stream of CEO tenure and allied areas. The shortage of literature coupled by the fact that interesting variations in the tenure are available for the CEOs which ranges from a few days to almost 50 years[3] (Ryan Jr., H.E., Wang, L., Wiggins III, R.A. 2007). These voids warrants for a fresh perspective in this relatively less explored stream of knowledge. This paper would attract the attention of academia as well as representatives from corporate world equally.

2 Literature review and hypotheses formulation

Hermalin and Weisbach (1998), states that the extent of power of negotiation (Bargaining power) between CEOs and boards of directors drives the composition and activities of the boards. In their model, the board of directors analyses the firm's performance and subsequently passes the judgement about the capability of the CEO. Based on that mandate, the board will decide whether to retain the CEO, investigate him further to obtain additional information about his capability, or to replace the CEO (Henderson, A., Miller, D., and Hambrick D. 2006).

With the assumption that the board retains the CEO, the board and the CEO will gradually negotiate to new levels of compensation, board scrutiny, perks, board composition etc. Talented CEOs are valuable to the board, so CEOs who perform and are retained will increase their bargaining power with the board. As a result of the continuous bargaining process, both the level of board monitoring and independence declines. Their model directly implies a negative relation between board-of-director monitoring and CEO tenure.

With the increase in performance of the company, the number of board meetings decline (Ryan et al 2007) as the board perceives the CEO to be well endowed with necessary capabilities. With the increase in tenure of the CEO, the number of board meetings decline, as reappointments increased the level of negotiation (bargaining power) Arthur, N. (2001) of the CEO.

When the CEO enjoys greater entrenchment, Berger et al. (1997) the board loses its tough decision making authority and director compensation exacerbates agency problems in these firms Agrawal, A., & Knoeber, C. (1996) elaborates on the agency conflicts. Managers have incentives to cause their firms to grow beyond the optimal size. Growth increases managerial power by increasing the resources under their control Jensen (1986) and Ryan & Wiggins (2004). (Henderson et al. 2006) argues about the duration after which CEOs become obsolete and could not lead the company in the way he is supposed to do.

The first section of hypotheses is based on the premise that with the increase in the tenure of the CEO, followed by less scrutiny the Capital expenditure of the company would increase as the CEO embarks upon empire building[4] and takes on projects without proper economic justification because this means more managerial power, more resources at hand, more perks, more personal benefit (Hill, C.W., Phan, P. 1991).

1 a. H_0: There is no change in the level of Capital Expenditure (Capex) following increase in CEO's tenure.

H_a: There is no change in the level of Capital Expenditure (Capex) following increase in CEO's tenure.

b. H_0: There is no change in the level of Cash and short term investments following increase in CEO's tenure.

H_a: There is no change in the level of Cash and short term investments following increase in CEO's tenure.

c. H0: There is no change in the level of Property, plant and equipment expenditure following increase in CEO's tenure.
Ha: There is no change in the level of Property, plant and equipment expenditure following increase in CEO's tenure.

d. H0: There is no change in the level of Cash dividend following increase in CEO's tenure.
Ha: There is no change in the level of Cash dividend following increase in CEO's tenure.

The increase in tenure brings more visibility and reputation to the CEO in the market, and he can wield his influence in important matters while in discussion with board.

Remuneration of the CEOs, is decided by the committee set up for this purpose. It analyses the performance and other relevant factors before finalizing the final pay and perquisites to the CEO. The amount of time spent serving the company is also one of the factors that determine the total pay.
The second section of hypotheses is based on the premise that the remuneration of the CEO is proportional to the number of years served because the CEO would influence the remuneration committee with more and more entrenchment. (Bebchuk & Fried 2004) mentions that with increased tenure remuneration would be more stabilized and equity component would decrease.

2 a. H_0: There is no change in the salary of the CEO with the increase in his tenure.
H_a: There is a change in the salary of the CEO with the increase in his tenure.

b. H_0: There is no change in the bonus of the CEO with the increase in his tenure.
H_a: There is a change in the bonus of the CEO with the increase in his tenure.

c. H_0: There is no change in the total compensation of the CEO with the increase in his tenure.
H_a: There is a change in the total compensation of the CEO with the increase in his tenure.

The CEO is expected to enhance the asset possession of the company in the long term as well as its ability to honor its obligations in short term. With that objective in mind, he would take steps and introduce policies that would help increase the current asset/ total asset of the firm.

The third section of hypotheses is based on the premise that with the passage of time and increase in the tenure of the CEO, he would have a better understanding of the business, market and economy as a whole that would enable him to take policy decisions which would result into a stronger company in terms of its asset holding.

3 a. H_0: There is no change in the current asset of the firm with the increase in CEO tenure.
H_a: There is a change in the current asset of the firm with the increase in CEO tenure.

b. H_0: There is no change in the total asset of the firm with the increase in CEO tenure.
H_a: There is a change in the total asset of the firm with the increase in CEO tenure.

c. H_0: There is no change in the current asset/total asset of the firm with the increase in CEO tenure.
H_a: There is a change in the current asset/total asset of the firm with the increase in CEO tenure.

The expansion or downsizing of the company's ownership is a decision which needs to be taken by CEO when the market is ready for it and it is in the interest of the company and its shareholders. A CEO makes these decisions and either sells or purchases common and preferred stock in the market.

The fourth set of hypotheses is based on the premise that CEOs would like to purchase more and more share from the market and downsize the ownership base so that there are less number of beneficiaries to share the profits with. An argument contrary to this would be that the CEOs would like to expand the ownership base to inordinately large scale and scatter the ownership as much as possible to reduce the likelihood of his turnover by a relatively concentrated group of owners.

4 a. H_0: There is no change in the purchase of common and preferred share of the firm with the increase in CEO tenure.
H_a: There is a change in the purchase of common and preferred share the firm with the increase in CEO tenure.

b. H_0: There is no change in the sale of common and preferred share of the firm with the increase in CEO tenure.
H_a: There is a change in the sale of common and preferred share the firm with the increase in CEO tenure.

Finally, the actions and decisions of a CEO boils down to measurable performances which could be objectively analyzed by stakeholders. Return on Asset (ROA) is a measure of firm's financial performance which has been used extensively in the finance literature. This article uses ROA, EPS and pretax income as measures of firm's financial performance with respect to CEOs tenure in the firm.

The fifth section of the hypotheses is based on the premise that with the increase in tenure the performance of a firm would increase under the efficient leadership of the CEO.

5 a. H_0: There is no change in the ROA of the firm with the increase in CEO tenure.
H_a: There is a change in the ROA of the firm with the increase in CEO tenure.

b. H_0: There is no change in the EPS of the firm with the increase in CEO tenure.
H_a: There is a change in the EPS of the firm with the increase in CEO tenure.

c. H_0:There is no change in Pretax income of the firm with the increase in CEO tenure.
H_a: There is a change in Pretax income of the firm with the increase in CEO tenure.

The introduction of SOX in the year 2002 post some high profile corporate scandals brought more authority into the hands of board and tightened the noose for the CEOs. The board can remove CEOs relatively more easily than pre SOX era, which can shorten the tenure of CEOs post SOX.

The sixth section of the hypotheses is based on the premise that with the introduction of tightened regulatory regime and enhanced power in the hands of board with a larger proportion of outside directors on the board, the tenure of CEOs post SOX would be shortened. Agrawal, A., & Knoeber, C. (1998) however talks about the politics which does not let outside the board function efficiently.

6 a. H_0: There is no change in the tenure of CEO pre and post 2002.
H_a: There is a change in the tenure of CEO pre and post 2002.

3 Data and methodology

Data for the study has been extracted from several sources, of them COMPUSTAT's Execucomp database is the major one. Other than Execucomp, data from the annual reports of the company has also been taken and some other from those freely available on internet. The secondary data were collected from Annual reports of the companies, books, Journals, Magazines etc. The data represents the period from 1990-2013. The data from all the sources were collated and then cleaned to make it workable. A total of 12838 firm years were taken as sample for this study.

As far as the methodology utilized is concerned, an array of methodology ranging from simple "t" test for difference in mean to multiple regression analysis. Quantitative analysis has been used for the purpose of empirical analysis. The study mainly focused on the descriptive analysis, Multiple Regression Analysis, Independent sample t- test and Independent sample one–way ANOVA (F-test) as the underlying statistical test.

The Multiple Regression Analysis was used to find out the impact of CEO tenure on the financial health of a firm. The one–way ANOVA (F-test) and independent sample t-test were used to find out if there is a significant difference in firm performance with different CEO tenure.

4 Results

4.1 Hypotheses 1a, 1b, 1c and 1d

4.1.1 Result 1.a

```
. xtreg  capitalexpenditures  tenure1 executiveservedasadirectorduring, robust

Random-effects GLS regression                   Number of obs      =     12588
Group variable: paneldataid                     Number of groups   =      1920

R-sq:  within  = 0.0014                         Obs per group: min =         2
       between = 0.0017                                        avg =       6.6
       overall = 0.0009                                        max =        20

Random effects u_i ~ Gaussian                   Wald chi2(2)       =      1.66
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.4362

                              (Std. Err. adjusted for 1920 clusters in paneldataid)
------------------------------------------------------------------------------
             |               Robust
capitalexp~s |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
     tenure1 |    2.014509   7.483583     0.27   0.788    -12.65304    16.68206
executives~g |    65.46305   54.72835     1.20   0.232    -41.80254    172.7286
       _cons |    384.1298   61.77496     6.22   0.000     263.0531    505.2065
-------------+----------------------------------------------------------------
     sigma_u |  1416.3886
     sigma_e |    548.464
         rho |   .86960696   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

It is quite evident from the above result 1.a. table generated by stata multivariate statistical analysis software, that both the independent variables (tenure of CEO and whether the CEO served as a member of board of directors) are not significant at 95 % confidence interval. However, if something has be taken out of this table it would be that the coefficients have a positive sign which at least indicates that there exists a positive correlation between the regressor and regressand i.e. with the increase in tenure, CAPEX would increase but not to a level where we could be certain of the result. So these results should be taken with a pinch of salt.

This establishes the null hypothesis number 1.a. that there is no discernible effect of the tenure of CEOs on the Capital expenditure of the firm.

The average tenure of CEOs turns out to be 6.6 years, with 2 years being the minimum and 20 years the maximum.

4.1.2 Result 1.b

```
. xtreg  cashandshortterminvestments  tenure1 executiveservedasadirectorduring, robust

Random-effects GLS regression                   Number of obs      =     12588
Group variable: paneldataid                     Number of groups   =      1920

R-sq:  within  = 0.0017                         Obs per group: min =         2
       between = 0.0014                                        avg =       6.6
       overall = 0.0005                                        max =        20

Random effects u_i ~ Gaussian                   Wald chi2(2)       =     16.57
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.0003

                              (Std. Err. adjusted for 1920 clusters in paneldataid)
------------------------------------------------------------------------------
             |               Robust
cashandsho~s |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
     tenure1 |   -70.38513   36.30462    -1.94   0.053    -141.5409    .7706241
executives~g |    283.8592   81.69709     3.47   0.001     123.7359    443.9826
       _cons |    1349.782   330.9781     4.08   0.000     701.0765    1998.487
-------------+----------------------------------------------------------------
     sigma_u |  5273.1544
     sigma_e |  1920.4192
         rho |   .88289863   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

When glanced through result 1.b. table, it displays that both the independent variables turns out to be significant at 95 % confidence interval. The direction of the coefficient tenure is opposite which is indicative of the fact that as the tenure of the CEO increases, he cuts down on short term investments. On the other hand if the CEO served as a member on the board of directors, then the coefficient is positive indicating that the cash and short term investments would get a boost in such a case where the CEO holds dual responsibility.

This refutes the null hypothesis number 1.b. that there is no discernable effect of the tenure of CEOs on the Capital expenditure of the firm.

4.1.3 Result 1.c

```
. xtreg  propertyplantandequipmenttotalne  tenure1  executiveservedasadirectorduring, robust

Random-effects GLS regression                   Number of obs      =     12588
Group variable: paneldataid                     Number of groups   =      1920

R-sq:  within  = 0.0047                         Obs per group: min =         2
       between = 0.0054                                        avg =       6.6
       overall = 0.0012                                        max =        20

Random effects u_i ~ Gaussian                   Wald chi2(2)       =      7.85
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.0198

                          (Std. Err. adjusted for 1920 clusters in paneldataid)
------------------------------------------------------------------------------
             |               Robust
propertypl~e |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
     tenure1 |  -6.126774   46.29771    -0.13   0.895    -96.86862    84.61507
executives~g |   584.7995   210.2149     2.78   0.005     172.7859    996.8131
       _cons |   2450.861   364.1196     6.73   0.000       1737.2    3164.523
-------------+----------------------------------------------------------------
     sigma_u |  8326.4413
     sigma_e |  2480.0404
         rho |  .91851375   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

Result 1.c. exhibits that as far as property plant and equipment expenditure is concerned tenure does not have any significant role to play but if the executive served in the capacity of a board member in addition to that of a CEO then he plans for long run and invest in property plant and equipments a great deal.

The null hypothesis number 1.c. is validated that tenure does not impact property plants and equipments acquisition.

4.1.4 Result 1.d

```
. xtreg  cashdividendscashflow  tenure1 executiveservedasadirectorduring Sex, robust

Random-effects GLS regression                   Number of obs      =     12588
Group variable: paneldataid                     Number of groups   =      1920

R-sq:  within  = 0.0050                         Obs per group: min =         2
       between = 0.0027                                        avg =       6.6
       overall = 0.0000                                        max =        20

Random effects u_i ~ Gaussian                   Wald chi2(3)       =     17.82
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.0005

                          (Std. Err. adjusted for 1920 clusters in paneldataid)
------------------------------------------------------------------------------
             |               Robust
cashdivide~w |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
     tenure1 |  -4.497184    2.80227    -1.60   0.109    -9.989533    .9951653
executives~g |   45.19897   12.11731     3.73   0.000     21.44948    68.94847
         Sex |  -17.21013   74.37644    -0.23   0.817    -162.9853     128.565
       _cons |   178.8322   74.44061     2.40   0.016     32.93132    324.7331
-------------+----------------------------------------------------------------
     sigma_u |  588.87093
     sigma_e |  192.01373
         rho |  .90389574   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

Result 1.d. repeats what is there in result 1.c. that it's not tenure but the executive serving in the capacity of a board member which influences cash outflow in the form of dividends.

The null hypothesis number 1.d. is validated that tenure does not impact cash outflow in the form of dividend.

4.2 Hypotheses 2a, 2b and 2c

4.2.1 Result 2.a

```
. xtreg  salary  tenure1 executiveservedasadirectorduring Sex, robust

Random-effects GLS regression                   Number of obs      =     12588
Group variable: paneldataid                     Number of groups   =      1920

R-sq:  within  = 0.1058                         Obs per group: min =         2
       between = 0.1176                                        avg =       6.6
       overall = 0.0966                                        max =        20

Random effects u_i ~ Gaussian                   Wald chi2(3)       =   1068.55
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.0000

                          (Std. Err. adjusted for 1920 clusters in paneldataid)
------------------------------------------------------------------------------
             |               Robust
      salary |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
     tenure1 |   5.263143   1.803821     2.92   0.004     1.727719    8.798567
executives~g |   269.1469   8.301559    32.42   0.000     252.8761    285.4177
         Sex |   -47.6833   37.83108    -1.26   0.208    -121.8308    26.46425
       _cons |   356.9948    38.0743     9.38   0.000     282.3705     431.619
-------------+----------------------------------------------------------------
     sigma_u |  286.75559
     sigma_e |   203.4473
         rho |  .66517597   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

Going through result 2.a. shows that the salaries of CEOs are positively correlated with both tenure and his board membership. At 95 % confidence interval both the coefficients of the independent variables comes out to be positive and significant. Introduction of another dummy variable (Gender), however does not turn out to be significant.

The null hypothesis number 2.a. that tenure does not impact salary of CEOs gets rejected.

4.2.2 Result 2.b

```
. xtreg  bonus  tenure1 executiveservedasadirectorduring, robust

Random-effects GLS regression                   Number of obs      =     12588
Group variable: paneldataid                     Number of groups   =      1920

R-sq:  within  = 0.0050                         Obs per group: min =         2
       between = 0.0207                                        avg =       6.6
       overall = 0.0112                                        max =        20

Random effects u_i ~ Gaussian                   Wald chi2(2)       =    193.98
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.0000

                          (Std. Err. adjusted for 1920 clusters in paneldataid)
------------------------------------------------------------------------------
             |               Robust
       bonus |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
     tenure1 |   23.84345   7.836319     3.04   0.002     8.484551    39.20236
executives~g |   303.7432    21.8361    13.91   0.000     260.9453    346.5412
       _cons |   118.5949   53.33584     2.22   0.026     14.05858    223.1312
-------------+----------------------------------------------------------------
     sigma_u |  750.45552
     sigma_e |  1233.9873
         rho |   .2699944   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

Result 2.b. is similar to that of result 2.a. but more in intensity. Both the coefficients i.e. tenure and board membership of the CEO are significant at 95 % confidence interval and is larger in terms of magnitude when compared to result 2.a. which suggests that bonuses increase more rapidly as compared to that of salary with increase in tenure.

The null hypothesis number 2.b. that tenure does not impact bonus of CEOs gets rejected.

4.2.3 Result 2.c

```
. xtreg  totalcurrentcompensationsalarybo  tenure1 executiveservedasadirectorduring, robust

Random-effects GLS regression                   Number of obs      =     12588
Group variable: paneldataid                     Number of groups   =      1920

R-sq:  within  = 0.0148                         Obs per group: min =         2
       between = 0.0442                                        avg =       6.6
       overall = 0.0253                                        max =        20

Random effects u_i ~ Gaussian                   Wald chi2(2)       =    537.39
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.0000

                          (Std. Err. adjusted for 1920 clusters in paneldataid)
------------------------------------------------------------------------------
             |               Robust
totalcurre~o |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
     tenure1 |   28.07879   8.406372     3.34   0.001      11.6026    44.55497
executives~g |   583.5644   25.17364    23.18   0.000      534.225    632.9038
       _cons |   428.9538   58.49324     7.33   0.000     314.3092    543.5985
-------------+----------------------------------------------------------------
     sigma_u |  936.06244
     sigma_e |  1284.3543
         rho |  .34690801   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

Result 2.c. has a similar story to tell as that of result 2.a. and 2.b but with further increased magnitude as far as the coefficient of board membership of the company is concerned. Both coefficients turns out to be significant at 95 % confidence interval.

The null hypothesis number 2.c. gets refuted based on result 2.c.

4.3 Hypotheses 3a, 3b and 3c

4.3.1 Result 3.a

```
. xtreg  currentassetsothertotal  tenure1 executiveservedasadirectorduring, robust

Random-effects GLS regression                   Number of obs      =     12588
Group variable: paneldataid                     Number of groups   =      1920

R-sq:  within  = 0.0029                         Obs per group: min =         2
       between = 0.0022                                        avg =       6.6
       overall = 0.0000                                        max =        20

Random effects u_i ~ Gaussian                   Wald chi2(2)       =      7.48
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.0237

                          (Std. Err. adjusted for 1920 clusters in paneldataid)
------------------------------------------------------------------------------
             |               Robust
currentass~l |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
     tenure1 |  -6.246278   3.726494    -1.68   0.094    -13.55007    1.057517
executives~g |   69.52384   27.65189     2.51   0.012     15.32713    123.7206
       _cons |   273.7953   32.91068     8.32   0.000     209.2916    338.2991
-------------+----------------------------------------------------------------
     sigma_u |  772.76318
     sigma_e |  455.01254
         rho |  .74255585   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

Result 3.a. demonstrates that tenure of an executive (CEO) has insignificant effect on the possession of current assets by a company. This is however true only at 5 % level of significance. The board membership of CEO has a positive coefficient to the tune of 69.52 mn dollars.

Null hypothesis number 3.a. gets accepted that tenure of CEO has no impact on the current asset holding of a company.

4.3.2 Result 3.b

```
. xtreg  assetstotal  tenure1 executiveservedasadirectorduring, robust

Random-effects GLS regression                   Number of obs      =     12588
Group variable: paneldataid                     Number of groups   =      1920

R-sq:  within  = 0.0003                         Obs per group: min =         2
       between = 0.0019                                        avg =       6.6
       overall = 0.0021                                        max =        20

Random effects u_i ~ Gaussian                   Wald chi2(2)       =      4.32
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.1155

                          (Std. Err. adjusted for 1920 clusters in paneldataid)
------------------------------------------------------------------------------
             |               Robust
assetstotal |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
     tenure1 |  -771.5035   391.0161    -1.97   0.048    -1537.881   -5.125991
executives~g |   1058.028   1073.304     0.99   0.324     -1045.61    3161.666
       _cons |   16992.29   3685.465     4.61   0.000     9768.906    24215.66
-------------+----------------------------------------------------------------
     sigma_u |  59732.363
     sigma_e |  16798.903
         rho |   .9267035   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

The perusal of result 3.b. exhibits that tenure has a significant impact on total asset of a company. It goes to show that as the tenure of CEOs increase they take steps to accumulate more total assets for the company. The board membership of CEOs however does not have any bearing with the amount of total assets held by the company.

Null hypothesis number 3.b. gets rejected as tenure does have a positive significant on total asset of company.

4.3.3 Result 3.c

```
. xtreg  currentassettotalassetratio  tenure1  executiveservedasadirectorduring, robust

Random-effects GLS regression                   Number of obs      =     12588
Group variable: paneldataid                     Number of groups   =      1920

R-sq:  within  = 0.0005                         Obs per group: min =         2
       between = 0.0003                                        avg =       6.6
       overall = 0.0003                                        max =        20

Random effects u_i ~ Gaussian                   Wald chi2(2)       =      5.81
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.0547

                          (Std. Err. adjusted for 1920 clusters in paneldataid)
------------------------------------------------------------------------------
             |               Robust
currentass~o |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
     tenure1 |  -.0002539   .0001729    -1.47   0.142    -.0005927    .0000849
executives~g |   .0016998   .0008388     2.03   0.043     .0000558    .0033437
       _cons |    .038309   .0015877    24.13   0.000     .0351973    .0414208
-------------+----------------------------------------------------------------
     sigma_u |  .03076751
     sigma_e |  .02360891
         rho |  .62940619   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

Result 3.c. displays that the ratio of current asset to total asset has no impact from tenure and has marginal positive coefficient if CEO is rendering his services as a member of the board too.

Null hypothesis number 3.c. gets accepted at 95 % confidence interval.

4.4 Hypotheses 4a and 4b

4.4.1 Result 4.a

```
. xtreg  purchaseofcommonandpreferredstoc  tenure1 executiveservedasadirectorduring, robust

Random-effects GLS regression                   Number of obs      =     12588
Group variable: paneldataid                     Number of groups   =      1920

R-sq:  within  = 0.0014                         Obs per group: min =         2
       between = 0.0004                                        avg =       6.6
       overall = 0.0000                                        max =        20

Random effects u_i ~ Gaussian                   Wald chi2(2)       =      6.82
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.0331

                          (Std. Err. adjusted for 1920 clusters in paneldataid)
------------------------------------------------------------------------------
             |               Robust
purchaseof~c |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
     tenure1 |  -6.577632   6.159397    -1.07   0.286    -18.64983    5.494564
executives~g |   64.61588   26.11347     2.47   0.013     13.43441    115.7973
       _cons |   224.1945    59.5267     3.77   0.000     107.5243    340.8646
-------------+----------------------------------------------------------------
     sigma_u |  1046.5631
     sigma_e |  565.56618
         rho |  .77397239   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

Result 4.a. shows that board membership of CEOs does have a positive significant coefficient on the purchasing of common stock decision, whereas tenure does not influence it significantly.

Null hypothesis number 4.a. gets accepted at 95 % confidence interval.

4.4.2 Result 4.b

```
. xtreg  saleofcommonandpreferredstock  tenure1  executiveservedasadirectorduring, robust

Random-effects GLS regression                   Number of obs      =     12588
Group variable: paneldataid                     Number of groups   =      1920

R-sq:  within  = 0.0009                         Obs per group: min =         2
       between = 0.0024                                        avg =       6.6
       overall = 0.0014                                        max =        20

Random effects u_i ~ Gaussian                   Wald chi2(2)       =      4.20
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.1225

                          (Std. Err. adjusted for 1920 clusters in paneldataid)
------------------------------------------------------------------------------
             |               Robust
saleofcomm~k |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
     tenure1 |  -11.3671   5.587309    -2.03   0.042    -22.31803     -.41618
executives~g |   51.27734   36.21302     1.42   0.157    -19.69887    122.2535
       _cons |   141.1543   42.44097     3.33   0.001     57.97157    224.3371
-------------+----------------------------------------------------------------
     sigma_u |  725.39732
     sigma_e |  502.69374
         rho |  .67556777   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

Surprisingly enough unlike purchase of common stocks where executive board membership has an impact and tenure doesn't have any, sale of common share is influenced negatively by tenure of CEO and not by his board membership.

Null hypothesis number 4.b. fails to get accepted at 5 % level of significance.

4.5 Hypotheses 5a, 5b and 5c

4.5.1 Result 5.a

```
. xtreg  netincometotalassets  tenure1  executiveservedasadirectorduring Sex, robust

Random-effects GLS regression                   Number of obs      =     12588
Group variable: paneldataid                     Number of groups   =      1920

R-sq:  within  = 0.0000                         Obs per group: min =         2
       between = 0.0082                                        avg =       6.6
       overall = 0.0030                                        max =        20

Random effects u_i ~ Gaussian                   Wald chi2(3)       =     13.49
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.0037

                          (Std. Err. adjusted for 1920 clusters in paneldataid)
------------------------------------------------------------------------------
netincomet~s |      Coef.   Robust Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
     tenure1 |   .0029564   .0008407     3.52   0.000     .0013086    .0046041
executives~g |  -.0067818   .0056752    -1.19   0.232     -.017905    .0043415
         Sex |  -.0134865   .0101273    -1.33   0.183    -.0333357    .0063628
       _cons |   .0357123   .0102676     3.48   0.001     .0155882    .0558364
-------------+----------------------------------------------------------------
     sigma_u |  .11539953
     sigma_e |  .13927483
         rho |  .40706838   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

Result 5.a. manifests that return on assets (ROA), as measured as a ratio net income to total asset is influenced significantly by CEOs tenure. Although the coefficient is very small, but is significant at 95 % confidence interval.

Null hypothesis number 5.a. gets rejected at 95 % confidence interval.

4.5.2 Result 5.b

```
. xtreg  earningspersharebasicexcludingex  tenure1 executiveservedasadirectorduring Sex, robust

Random-effects GLS regression                   Number of obs      =     12588
Group variable: paneldataid                     Number of groups   =      1920

R-sq:  within  = 0.0002                         Obs per group: min =         2
       between = 0.0049                                        avg =       6.6
       overall = 0.0004                                        max =        20

Random effects u_i ~ Gaussian                   Wald chi2(3)       =      6.91
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.0750

                          (Std. Err. adjusted for 1920 clusters in paneldataid)
------------------------------------------------------------------------------
earningspe~x |      Coef.   Robust Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
     tenure1 |   .0299792   .0120281     2.49   0.013     .0064046    .0535539
executives~g |  -.0925682   .1520815    -0.61   0.543    -.3906424     .205506
         Sex |   .1968824   .2671035     0.74   0.461    -.3266308    .7203956
       _cons |   1.176484    .289049     4.07   0.000     .6099587     1.74301
-------------+----------------------------------------------------------------
     sigma_u |  1.5799736
     sigma_e |   4.384883
         rho |   .1149131   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

Earnings per share is affected significantly at 95 % level of confidence by the tenure of CEOs

Null hypothesis number 5.b. gets rejected at 95 % confidence interval.

4.5.3 Result 5.c

```
. xtreg  pretaxincome  tenure1 executiveservedasadirectorduring  Sex, robust

Random-effects GLS regression                   Number of obs      =     12588
Group variable: paneldataid                     Number of groups   =      1920

R-sq:  within  = 0.0005                         Obs per group: min =         2
       between = 0.0004                                        avg =       6.6
       overall = 0.0000                                        max =        20

Random effects u_i ~ Gaussian                   Wald chi2(3)       =      4.67
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.1976

                          (Std. Err. adjusted for 1920 clusters in paneldataid)
------------------------------------------------------------------------------
             |               Robust
pretaxincome |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
     tenure1 |    20.55014   12.19054     1.69   0.092    -3.342878    44.44315
executives~g |    73.36944   117.7082     0.62   0.533    -157.3345    304.0734
         Sex |   -146.9138   236.2567    -0.62   0.534    -609.9683    316.1407
       _cons |    542.7092   245.0393     2.21   0.027     62.44099    1022.977
-------------+----------------------------------------------------------------
     sigma_u |  2247.7196
     sigma_e |  1998.0955
         rho |   .55859044   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

Pretax income is taken as another measure of financial performance in addition to ROA and EPS. According to result 5.c. none of the independent variables but the constant is significant at 5 % level if significance.

Null hypothesis number 5.c gets rejected at 95 % confidence interval.

4.5.4 Result 6.a

1. t test to check whether the tenure of CEOs have decreased post the introduction of SOX in 2002 assuming equal variances:

$Mean_{tenure\ pre\ 2002} - Mean_{tenure\ post\ 2002}$	**t**	**df**	**P value**	**One tailed**	<.0001
85.67	+ 6.74	444	**P value**	**Two tailed**	<.0001

2. t test to check whether the tenure of CEOs have decreased post the introduction of SOX in 2002 assuming unequal variances:

$Mean_{tenure\ pre\ 2002} - Mean_{tenure\ post\ 2002}$	**t**	**df**	**P value**	**One tailed**	<.0001
85.67	+ 15.63	399.75	**P value**	**Two tailed**	<.0001

Result 6.a. shows that both assumption of equal and unequal variances in the tenure of CEOs pre and post SOX exhibits that the tenure of CEOs post SOX has been reduced by 85 months which is a little more than 7 years.

Null hypothesis number 6.a. gets rejected at 95 % confidence interval.

5 Conclusions

The paper analyses the impact of CEO tenure on six different sections of variables.

First section is Policy decisions made by the CEO which comprises of capital expenditure undertaken by the CEO, Cash and short term investments, Property plant and equipments expenditure and Cash dividend outflow. In this section CEO tenure does not have any impact on Capex decisions whatsoever but his tenure and membership in the board both makes him impact the cash and short term investments. Property plant and equipments expenditure as well as cash dividend outflow is not impacted much by the tenure of CEO as much as it does if he has board membership too. All these policies like investing in cash and short

term investments / investing in property plant and equipments and distributing dividends to the owners are pro shareholders measures and the CEO are taking these decisions when he is a member of the board and not otherwise. This could be a way to increase his visibility and spread a pro shareholder image across the market.

The second section is remuneration which is constituted of salary, bonus and total compensation. As expected all the three components are significantly impacted by CEO tenure as well as his board membership but what is notable here is that the bonus component of remuneration has a larger coefficient when compared to that of salary with increase in tenure which indicates that since salary is more or less well defined, the CEOs might influence the remuneration committee to earmark a larger chunk of bonus as part of total remuneration.

The third section is capacity to honor financial obligations which is composed of current asset, total asset and the ratio of current to total asset. Whereas current asset and ratio of current to total asset are significantly affected by the board membership of the CEO, total asset is impacted significantly by tenure of the CEO and not his board membership. This reflects that CEOs actually keep a long term plan at the back of their mind which is to increase the total assets of the company that results in increased revenue generation.

The fourth section is expansion/contraction of ownership base through sale and repurchase of common and preferred shares. This section has two components namely purchase of common and preferred shares and sale of common & preferred shares. The results obtained have a negative coefficient and is significant at 5 % level of significance which means that sale of common share reduces with each passing year of CEO in the company. Purchasing of shares however does not have any bearing with the tenure.

The fifth section is arguably the most important one as it concerns itself with the financial performance of the company. It comprises of return on assets, earning per share and pretax income. Tenure has significant impact on ROA and EPS both at 95 % confidence interval. The coefficient of tenure for ROA is small but so is the standard error, which makes the result interpretable. The biggest element of surprise in this section is the indifference of tenure on pretax income.

The sixth and final section addressed the claim that after the introduction of SOX the tenure of CEOs has plummeted in an affirmative manner. The t test used for difference of means indicates that there is a reduction of about 85 months in the tenure of CEO after 2002. It indicates that post 2002 following the financial scandals of Enron, World com etc. either board has become more prompt in taking turnover decisions or the investors have become myopic and want objective measurable results early. Either ways the CEOs tenure in a company on average has been trimmed down by about 7 years.

6 Limitations

The results may be limited by the temporal nature of the sample. Future studies dealing with CEO turnover should cover a longer period of CEO' tenure and examine the nature of performance and policy measures undertaken. Such a research design may provide additional insight over the matter at hand in this article regarding CEO tenure and various performance measures.

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Appendices

Tables:

Superscripts:

1. Darrell West, The Purpose of the Corporation in Business and Law School Curricula (Brookings,July18,2011)www.brookings.edu/_media/Files/re/papers/2011/0719_corporation_west/0719_corporations_west.pdf., 17-18.
2. Lynn Stout, The Shareholder Value Myth: How Putting Shareholders First Harms Investors, Corporations, and the Public (San Francisco: Berrett-Koehler Publishers, 2012).
3. Attached list of CEO's with varied tenures.

Short tenured CEOs:

- Alan Fishman of Washington Mutual served from September 8th 2008 to September 26th 2008. He was the CEO for 17 days only before the assets of the company was seized by the federal regulators on September 25th 2008. HE was allowed to go the next day. During his 18 days as CEO, Fishman received $ 19 million in pay. The company's shareholders were rewarded with the share price that fell to pennies in 2009 from $ 45 in 2007.
- Robert B. Willumstad of American International Group (AIG) served as the CEO from June 2008 to September 2008. During his tenure, the share price if AIG plunged by 97%. The collapse of AIG was followed by a global financial meltdown.
- Chris Jaques of Young and Rubicam North America rendered his services as the CEO of the company from September 2006 to January 2007.
- Jack Griffin was the CEO of Time Warner Inc.'s Magazine division from September 2008 till February 2009.
- Frederick 'Fritz' Henderson served as the CEO of General Motors from March 2009 to December 2009, totaling 9 months. He succeeded as the CEO of the company after his predecessor Rick Wagoner stepped down at the request of President Obama after GMs chapter 11 reorganization.
- Edward Whitacre Jr. took his office after GM emerged from bankruptcy from January 2010 to September 2010.
- Durk Jager was the CEO of Procter and Gamble from September 1999 till February 2000.
- Dr. Alan Lewis of Juvenile Diabetes Research Foundation served as the CEO from November 2008 to May 2010.
- Al 'Chainsaw' Dunlap was the CEO of Sunbeam-Oster from June 1996 till June 1998, for a period of almost 23 months.

Long tenured CEOs:

- CEO: Occidental Petroleum Duration: 21 years Ray R. Irani is the current chairman and chief executive officer of Occidental Petroleum. Irani made news in 2007, when it was revealed that his total compensation for the 2006 year topped $450 million. His base salary was $1.3 million. Occidental justified the compensation by pointing to the stock price, which had risen from $9 a share when Irani succeeded Hammer to $48.60 at the end of 2006.
- CEO: Aflac Duration: 21 years Daniel Paul Amos, son of Aflac co-founder Paul Amos, is the chairman and chief executive officer of Aflac Inc. He joined the company as a regional sales director in 1973 and became president of Aflac in 1983, chief operating officer in 1987, chief executive officer in 1990, and chairman in 2001.

- CEO: State Farm Insurance Duration: 26 years Edward B. Rust Jr. is chairman of the board and chief executive officer of State Farm Mutual Automobile Insurance Company.
- CEO: Aramark Duration: 28 years Joseph Neubauer is the chief executive officer Aramark Corporation. Before joining Aramark, he served as vice-president at PepsiCo and Chase Manhattan Bank.
- CEO: Costco Duration: 28 years James D. Sinegal is co-founder and chief executive officer of Costco, an international low-price membership retail chain and the largest U.S. wholesale club.
- CEO: News Corporation Duration: 32 years Keith Rupert Murdoch is Chairman, and CEO of News Corporation. Rupert Murdoch was listed three times in the Time 100 as one among the most influential people in the world.
- CEO: Oracle Corporation Duration: 34 years Larry Ellison is co-founder and chief executive officer of Oracle Corporation. As of 2011 he is the fifth richest person in the world, with a personal wealth of $39.5 billion.
- CEO: Marriott International Duration: 39 years John Willard "Bill" Marriott, Jr. is the Chairman and CEO of Marriott International. Marriott joined the Marriott Corporation in 1956, was elected Executive Vice President and member of the Board of Directors in January 1964 and president of the company in November 1964, Chief Executive Officer in 1972, and Chairman of the Board in 1985.
- CEO: Penske Corporation Duration: 42 years Roger S. Penske is the owner of the automobile racing team Penske Racing, the Penske Corporation, and other automotive related businesses.
- CEO: Warren Buffet: 45+ years in Berkshire Hathaway. Has been ranked amongst the richest people in the world.

4. CEO's are very likely to use their discretion to benefit themselves personally in a variety of ways (Shleifer and Vishny, 1997). For example, they may indulge in empire building (Jensen, 1974; Williamson, 1964). They would not be willing to distribute excess cash even when the firm does not have profitable investment opportunities (Jensen, 1986). They might also entrench themselves firmly in their positions, making it challenging to oust them in the event of poor performance (Shleifer and Vishny, 1989).