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Abstract

We investigate management turnover among the extreme stock market performers of the UK FT500 using clinical methodology. Consistent with previous research, executive departures and forced departures are higher among poor performers. Our clinical scrutiny reveals that only about 56% of these forced departures are actually cases of monitoring. Monitoring appears to occur far less frequently than previous studies have suggested. We argue that management dismissals might not be the best proxy for judging the effectiveness of monitoring mechanisms. The purpose of monitoring is to realign interests, not to fire the manager. Successful monitoring need not necessarily lead to executive departures.

Keywords: Top Management Turnover, Firm Performance, Forced Departures, Corporate governance, Clinical Research

JEL Classifications: G34, G39, M51

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Management Turnover in Stock Market Winners and Losers:

A Clinical Investigation

A year after the editorial by Jensen et al. (1989), which introduced clinical methodology into the technical toolkit of financial economists, Herzel (1990) questions the fruitfulness of an exclusively statistical approach to corporate governance research. Herzel writes (1990, 593) that "supplemental close examinations of individual cases or small samples would help in understanding what is really going on." This paper follows the principles of the clinical method and explores an important issue in corporate governance: stock price performance and top management turnover. The paper shows that one should not presume that all or most forced departures are instances of management monitoring, and urges greater caution when using the observed frequency of 'forced departures' to draw inferences about the effectiveness of monitoring and governance mechanisms.

Earlier studies on turnover and performance, namely Benston (1985) and Coughlan and Schmidt (1985), observe that the probability of top management turnover is higher among poor stock market performers. The findings are understood to indicate the functioning existence of internal monitoring mechanisms, as boards have the threat of dismissal (alongside compensation) as a tool through which they can realign the managers' incentives with those of the owners (Benston, 1985). Given that boards are the guardians of shareholder wealth and are entrusted with the job of monitoring managers who can act in their own interest rather than the owners' (Fama, 1980; Fama and Jensen, 1983), it is thought that performance and management turnover are related.[1]

The relationship between poor stock price performance and management turnover has been tested in different markets and time periods in the US, the UK, Belgium, Denmark, Australia, Japan, and Germany. It has also been tested in relation to board composition, management ownership, financial distress, and takeover activity.[2]

[1] Indeed, boards are not the only mechanisms through which managers are monitored. Blockholders, creditors, corporate takeovers, and competition between managers are also thought to act as mechanisms reducing potential principal-agent problems (Fama and Jensen, 1983; Shleifer and Vishny, 1989; Gilson, 1989).

[2] For a review of the research on top management turnover see Furtado and Karan (1990). Indeed, top management turnover has been explored in relation to shareholder wealth effects (Reinganum, 1985; Furtado and Rozeff, 1987; Bonnier and Bruner, 1989). Management turnover has also been looked at in the management and organizations literature (Gordon and Becker, 1964; Bluedorn, 1982; Brown, 1982; Harrisson et al., 1988; Brickley and Drunen, 1990; Canella and Lubatkin, 1993). Our paper focuses on stock price performance and management turnover.

The findings reveal that the probability of a management change is higher for poor stock market performers.[3] Stock market losers experience more management changes than stock market winners, and the findings are most relevant to extreme winners and extreme losers.[4]

To support a monitoring interpretation of management turnover findings, Warner et al. (1988) further identified the need to distinguish between *voluntary* and *involuntary* resignations. If performance is poor, management turnover is high, but none of the changes are forced dismissals, there could be no monitoring explanation for the high turnover. Therefore, following Warner et al. (1988), most studies attempt to distinguish between forced and voluntary resignations by exploring 'the stated reasons' for each management change.

The stated reasons are derived from press releases, news items, and articles in the press. Using the 'stated reasons', researchers effectively classify the individual management changes into a variety of groups (e.g. dismissals, policy differences, retirements, death, unspecified reasons), and then treat all the cases in any one group as being either forced or non-forced. For example, Warner et al. (1988) consider forced departures to be those changes which have been given 'poor performance,' 'policy reasons,' 'pursue other interests,' 'take a position outside the firm,' and 'fired' as reasons. Franks et al. (2001), Denis and Denis (1995), Denis et al. (1997), Denis and Kruse (2000) consider any management change which is not due to death, illness, normal succession or retirement (cut off age 62 or 64) as forced. Huson et al. (2001) consider forced departures to be those changes where the top executive is fired, forced from the position, or departs due to unspecified policy differences. For all remaining cases, departures are classified as forced if the articles do not mention death, poor health, or the acceptance of

[3] Benston, 1985; Coughlan and Schmidt, 1985; Warner et al., 1988; Morck, Shleifer, and Vishny, 1988; Weisbach, 1988, 1995; Gilson, 1989; Furtado and Karan, 1990; Martin and McConnell 1991; Murphy and Zimmerman, 1993; Kaplan, 1994a, b; Denis and Denis, 1995; Kang and Shivdasani, 1995; Denis et al, 1997; Mikkelson and Partch, 1997; Renneboog, 2000; Denis and Kruse, 2000; Dahya et al. 1998, 2002; Franks et al., 2001; Suchard et al., 2001; Huson et al., 2001; Conyon and Florou 2002; Lausten, 2002.

[4] After ranking 269 randomly selected firms by their stock returns, Warner et al. (1988), find that the lowest decile of firms have a 12.8% probability of turnover, while the best performing decile has an 8.6% probability of turnover. Coughlan and Schmidt (1985), on the other hand, had found a 21.3% and 3.1% probability of turnover in the lowest and highest 1% of firms respectively. Studies on financially distressed firms have proposed evidence which corroborate these findings (Ang and Chua, 1981; Schwartz and Menon, 1985; Gilson, 1989).

another position within or outside the firm, and if the news articles mention retirement but the retirement is not announced 6 months before.[5]

Identifying forced departures, however, is no easy task (Weisbach, 1988; Warner Watts and Wruck, 1988, Furtado and Karan, 1990; Denis and Denis, 1995, Dahya et al., 2002, and others). The difficulty arises from the fact that companies rarely state the forced nature of management departures (Weisbach, 1988). Interestingly, the earlier studies by Benston (1985) and Coughlan and Schmidt (1985) do not differentiate between forced and non-forced departures. Their propositions are based on all top management changes. Indeed, Weisbach (1988, 1995), and Mikkelson and Partch (1997) dismiss the distinction due to the fact that it is extremely hard to identify the true reasons behind a top management change. Kaplan (1994a, b), Renneboog (2000), Suchard, Singh, and Barr (2001), and Lausten (2002) follow a different line of analysis. Their focus is on comparative systems of corporate governance and the issue of forced departures does not arise.

Although identifying forced departures is not straightforward, if the statistical evidence on top management turnover and poor stock market performance is to be linked to management monitoring, it is imperative that forced departures are identified and the link to monitoring established. This study therefore applies clinical methods to the study of executive departures and the identification of forced departures, and offers a new perspective when interpreting the results. In particular:

(1) Previous researchers effectively classify *individual* management changes into a variety of groups – such as policy differences, retirements over 64 years of age, unspecified reasons, etc. - and then treat each *group* of changes as being either forced or non-forced.[6] We identify the forced or non-forced nature of changes by scrutinising the context and circumstances around each *individual* management change, and provide a detailed report on how and why a change is categorised as forced or non-forced. The

[5] Fee and Hadlock (2002) consider forced departures to be those changes which have been described with words such as 'forced', 'ousted', 'part of a management shake-up', and those which have been explained by policy differences, tensions with superiors, loss of recent job responsibilities, and poor performance. Conyon and Florou (2002) assess each case and classify as forced those changes due to poor performance, policy or personality disagreements and scandals. Moreover, they also treat as 'forced' some of the retirements, and other forced changes that have been given 'personal reasons' and 'to pursue other interests' as an explanation. Finally, like in all previous studies, those changes which have no reported reason are also considered to be forced departures. Dahya et al. (2002) consider a top management change to be forced if the news articles state that the manager was fired, resigned, or that the company was experiencing poor performance. They categorise a management change as forced if the manager is less than 60 years old, does not take a position elsewhere, and no other article cites health, family, or death as the reason for the change.

clinical approach allows us to avoid presuming, a priori, that all the cases in any one group are either forced or non-forced.

(2) Previous studies that try to identify forced departures do not distinguish between the reasons stated by *the company*, by *the departing manager*, and by *the press*.[7] We make this distinction when possible, as it could potentially help us to assess the truthfulness of the 'stated reasons' for each management change. This is especially so in cases where the reasons provided by the different parties do not coincide.

(3) Previous studies identify the reasons for management changes by looking at the news announcements in the immediate window around each management change. Our clinical scrutiny is not limited to the news immediately around each change. We take into account the longer-term context and consider if the management changes might be connected to previous and subsequent management changes and events within the firm.

(4) Last, and most importantly, the dominant interpretation in the extant literature is that all forced departures represent instances of monitoring. We choose to abstain from imposing any such blanket assumption. Our starting point is that forced departures need not *necessarily* indicate instances of monitoring. For example, Salancik and Pfeffer (1980) acknowledge that forced changes can also mean scapegoating.[8] Indeed, Furtado and Karan write, "The only major issue that needs further research is to identify whether turnover is merely 'scapegoating' or whether managers are truly responsible for weak performance" (Furtado and Karan, 1990, p. 62). Although a few authors have questioned the link between forced departures and monitoring, to our knowledge, this is the first study that attempts to empirically assess the extent to which we can assume that all forced departures represent instances of monitoring. Thus, a high probability of a forced management change among poor stock market performers cannot necessarily be interpreted as evidence reflecting the functioning existence of monitoring mechanisms. In order for such an interpretation to be considered, we argue the nature of the forced departures should be probed further. We start off with the proposition that forced departures might have *many possible explanations*, and that monitoring and scapegoating are but two possibilities. If we should find that there are different *types of forced departures* unrelated to poor performance by the departing manager, one would then

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[6] This is of course entirely understandable given that previous researchers apply a statistical approach and deal with large samples.
[7] Conyon and Florou (2002) make such a distinction without however reporting divergences and the details relating to each case.
[8] See also Fee and Hadlock (2002), and Khanna and Poulsen (1995).

face the need to reconsider the monitoring interpretation for the voluminous statistical evidence on management turnover and stock price performance.

We study management turnover activity among extreme long-term stock market losers and winners within the UK FT500. We select the top 15 winners and bottom 15 losers based on their stock market returns over the period October 1988 to September 1992, and track all their senior management changes from October 1988 to September 1993, using hand-collected data and archival material including press coverage and annual reports right up to September 1995. Indeed, our stock market losers and winners experience extreme stock market fortunes, earning average market-adjusted returns of 331.3% and –131.08%, respectively, over a four-year period.

The contributions of our paper are fourfold: first, consistent with the evidence in previous studies on stock price performance and management turnover, we find that stock market losers have more top management changes than stock market winners. Second, we apply a clinical approach to studying top management turnover and identify forced departures by closely scrutinising the context behind each individual management change and distinguishing between the reasons provided by the company, the departing manager, and the press. Third, we critically evaluate the dominant interpretation in the extant literature, that all forced departures among poor performers represent instances of monitoring. To our knowledge, this is the first study that attempts to empirically assess the extent to which we can assume that all forced departures represent instances of monitoring. Our study surprisingly reveals that only just over half the forced departures among poor performers can be understood as instances of monitoring. Finally, although 'monitoring' seems to explain a far lower percentage of executive dismissals than has been assumed in previous research, this does not however necessarily lead us to despondency about the efficacy of monitoring mechanisms. We submit that the proportion of forced departures that are explained by 'monitoring' might not be an ideal proxy for judging the effectiveness of management monitoring. The purpose of monitoring is to control the aberrant activities of managers, and to ensure that management acts in the shareholders' interests. Management monitoring aims *at realigning interests*, not necessarily at *firing* the manager. It starts long before the actual firing event, and need not *necessarily* lead to firing. Thus, monitoring-related forced departures could be seen as actions of last resort, where realignment of interests, through other means, *is no more possible within the firm.* From such a perspective, one could argue that the

proportion of monitoring-related executive dismissals could also be thought of as a proxy for *failed monitoring*.

The paper is structured as follows. Section one identifies the extreme winners and extreme losers; section two looks at the top management changes of the selected firms within the period of study; section three explores these top management changes using clinical methodology and identifies the ones which are forced changes; section four discusses forced departures and their different *types*, and finally, section five discusses and concludes on the relevance of the findings to corporate governance.

1. Selecting extreme winners and extreme losers

We use the FT500 survey (published by the Financial Times) to identify the top 500 UK companies by market capitalisation in October 1992. We then obtain stock return data for the companies in the FT500 from the monthly returns file of the London Share Price Database, where returns are expressed inclusive of dividends. The next step is to rank the FT500 companies based on their 48 month returns before 1st of October 1992, [9] excluding those who have any missing returns in those 48 months. The rank period returns (RPR) are calculated using:

$$\mathbf{RPR_m} = \prod_{t=-48}^{0} r_{it} - \prod_{t=-48}^{0} r_{mt} \qquad (1)$$

where r_{it} is one plus the return on security i in month t, and r_{mt} is one plus the return on the market in month t. We have used the FT-SE All Share index as the market return.[10] Having ranked the firms, we select the top 15 and the bottom 15 as our winner and loser firms, and calculate the returns for the post ranking period, 1992-93. Table-1 presents the portfolios in detail. The next step will be to identify all the top management changes that these firms go through between October 1988 and September 1993.

[Table 1]

[9] Some of the FT 500 companies (1992) were listed under different names in the LSPD. We found 110 such companies and tracked them down through various sources like Reuters, and the Investor's Chronicle. We were able to identify and obtain returns data for all firms included in the FT500.

[10] The ranking methodology used in this study is similar to that used in the stock price reversal literature. (Loughran and Ritter, 1996; Dissanaike 1994).

2. Top management turnover in winners and losers

We identify the top management changes of our winners and losers by tracking the yearly lists of senior executives which appear within the annual reports of the firms in question. UK companies are required by law to file copies of their annual reports and regulatory announcements with Companies House, which is a central depository, accessible to the public. We obtained access to their archival records by purchasing Companies House Microfiches for each of our companies. Our study period identifies the top management changes over the period October 1988 to September 1993.

Following much of the literature, the roles of Chairmen and CEO/Managing Director (MD) are recognised as top management. Thus, we have come to understand top management change to mean a change in the individuals playing the roles of Chairman and/or CEO/MD. This naturally leaves out those changes which are purely title changes. Furthermore, like Warner et al. (1988), when a chairman and a CEO are changed together, we count this as one change. Moreover, when the titles of CEO and Chairman are jointly held by one individual, we count one change if the person leaves both jobs at the same time, and two changes when he leaves them on two different occasions. Our sample does not include new appointments if no incumbent leaves office.[11]

From October 1988 to September 1993, the losers and the winners all together go through 38 top management changes. The year with the highest number of changes is 1991. The distribution of these changes in the two portfolios is given in Figure-1, where we see that the losers have had more top management changes than the winners (25:13).

[Figure 1]

The fact that a particular management change is located within the loser (winner) portfolio does not mean that the change was preceded by negative (positive) returns in the 6 months or 12 months before the change. We also investigate and report, for

[11] We have two such cases: Lonrho and Micro Focus. 1) In February 1993, Dieter Bock is appointed Joint CEO of Lonrho alongside Tiny Rowland. The appointment follows the sale of half of Tiny Rowland's share in the company, and a rights issue half-underwritten by Mr Bock himself. 2) In September 1992, an executive committee is appointed as CEO at Micro Focus, while the existing executive chairman remains at the helm.

information, the market adjusted returns before and after each change, although we do not aim to conduct an event study. Following Warner, Watts, and Wruck (1988), we look at performance 6 months and 12 months before and after each management change.

Looking at all the management changes together, we notice as in Figure-2a, that out of the 38 changes experienced by the losers and the winners, 24 are preceded by negative returns in the 12 months before the change. Out of these 24 changes, 22 are in the loser portfolio. In Figure-2b, we look at the sign of post management change returns

[Figure 2 a and b]

We notice that losers have a higher number of top management changes, and the vast majority of these changes are preceded by negative price performance in the previous 12 months. Winners, on the other hand, have fewer management changes, and the vast majority of them are preceded by positive price performance in the previous 12 months. Moreover, the 25 changes in the loser portfolio are experienced by 12 loser firms, and the 13 changes in the winner portfolio are experienced by 10 winner firms.

Like many of the turnover studies in the US, and the studies by Franks et al. (2001), Dahya et al. (2002), and Conyon and Florou (2002) looking at UK data, we find that the probability of a management change is higher among stock market losers.

3. Identifying forced departures

The purpose here is to identify the forced departures in the total sample of top management changes (38). If a monitoring interpretation of management turnover findings is to hold, following poor price performance, we must also see a high number of *forced* departures. Following previous research, forced departures are identified based on the stated reason for each change. We extract the stated reasons of the 38 top management changes through a close scrutiny of the media coverage using the Reuters Business Briefing Database and Companies House microfiches. The Reuters database includes all major newspapers, magazines, journals, and newswires in Europe, UK, US, and the World. It gives us access to all published material on the firms during the period of study, such as press releases, news announcements, regulatory news, and articles in the press. We scrutinise the press releases and articles not only around the changes themselves, but over the full sample period and right up to September 1995.

We analyse changes on a case by case basis, and provide a detailed report on how and why a change is categorised as forced or non-forced. We take the view that the forced or non-forced nature of each change could be identified only when these changes are scrutinised individually, such that no category of 'stated reason' contains forced departures a priori. The clinical method provides us with the appropriate tools to explore these changes one by one, analysing their context and meaning.

Given that firms rarely give dismissal as a reason (Weisbach, 1988), identifying forced departures involves an assessment of the truthfulness of the stated reasons. As such, it is important to find out who is stating the 'stated reason.' Distinguishing between the stated reason by the departing manager, the stated reason by the company, and the stated reason by the press can provide us with more clues regarding the nature of the change.

Based on the *reasons given by the relevant companies*, the 38 top management changes have a diverse set of explanations (See Figure-3). Overall, there are 14 categories of reasons as given by the companies, many containing only one change.

[Figure 3]

Identifying the forced or non-forced nature of these changes requires a close scrutiny of each case. We discuss them next. While we do not apply a uniform interpretation to all the cases within each of the 14 categories, there is one principle that we apply throughout. When we do not have enough evidence, or the decision can go either way, in order to be conservative we take into account the category that the change would have belonged to had we applied methods used in prior research.

3.1. Retirements

One of the challenges faced by the studies on management turnover is to distinguish between forced and natural retirements. A considerable number of them have used age as a criterion through which such a distinction is possible. A number of studies consider any retirement involving an individual 63 years old or younger as being forced (Warner et al., 1988; Conyon and Florou, 2002; and others). The rationale behind looking at the age of the departing manager comes from the fact that retirements can be concealing forced departures. Indeed, it is acknowledged that management changes explained by 'retirement' and management changes explained by 'no reason' can, in truth, be equally forced.

From the 38 top management changes that our losers and winners go through, 12 are retirements. Indeed, like previous studies, it is the category with the highest number of changes (around 30%). Table-2 depicts all these changes as individual cases, and provides information on a diverse set of factors. The table shows, for each change, the office involved (time held), the company in question, the date, the apparent reason for the departure, pre and post departure returns, succession type, and the fate of the departing manager.

Out of these 12 retirements, 3 are aged 62, 6 are aged 64 or 65, 1 is 67, 1 is 68, and finally 1 is 77. The retirements involving managers of 62 years of age are potentially suspect, following many research studies using the cut-off age of 63 to differentiate between 'forced' and 'natural' retirements. There are 3 such cases (Table-2, Cases– 5,6,7). We notice that amongst those retirements that happen at 62, one case - Guinness Plc which is in the Winner Portfolio - has a retirement at 62 as company policy (Table-2, Case– 6). The two loser firms with retirements at 62 are Mowlem and Taylor Woodrow (Table-2, Cases 5 and 7). In neither case was there any speculation in the press to cast doubt on the genuineness of the retirements, despite the fact that the incumbents were long-serving, well-known figures. In the case of Mowlem, it was the joint MD who had been with the company for 48 years and on the board since 1969, while at Taylor Woodrow it was the chairman/CEO who had been with the company for 40 years and at the helm for 4 of them. All the press comment around these two departures indicates that they should not be regarded as 'forced'.[12]

Turning to retirements over 63, we do encounter a case (Taylor Woodrow) where retirement has been given as a reason by the company, but the press talks about a boardroom row (Table-2, Case-1, Columns D). This, in fact, is the only instance where the genuineness of the retirement is questionable.

[Table 2]

The company states that he is leaving to pursue other interests:

[12] In fact, the Joint MD of Mowlem received very positive encomiums on his retirement from Mowlem, and, in turn, had "nothing but praise for the company and the characters he [had] worked with" (See Contract Journal, 15 June 1989). In the case of Taylor Woodrow, long after the departure of the retiring chairman Sir Frank Gibb, the company placed an advertisement in the Contract Journal, seeking new graduate engineers. After describing the kind of employees they were looking for, they took the very unusual step of adding, "The retired Chairman Sir Frank Gibb was the embodiment of this philosophy, having joined the company as a Graduate Engineer."

> [Peter Drew's] appointment as chairman was announced in October 1989. He has stayed on to see through the proposed management succession. However, he is now in his 65th year and feels the company has in place a strong management team, so that he can relinquish the reigns in order to devote his time to City interests and his other career as a watercolour painter (Reuters News Service, 25 March, 1992).

The press, however, speaks of a boardroom row, as Peter Drew had taken over the leadership of Taywood only 2.4 years ago, had seven months left on his contract and received compensation for loss of office.[13] The press seems unconvinced that Drew's was a natural retirement, with different news articles having quotes such as 'Don't let Peter Drew's age fool you', 'Drew cleared his desk after a unanimous boardroom decision to replace him', 'Drew was asked by his board colleagues to go and spend more time with his paint brushes', the 'knife was put into Peter Drew.' We therefore treat Drew's departure as a forced departure.

Overall, our findings suggest that the age criterion does not really distinguish between true retirements and possibly untrue ones. We observe that all the retirements of 62 and under appear to be genuine and non-forced, whereas our solitary case of a forced departure happens at the age of 64 plus. We emphasise that, in making our categorisations between forced and non-forced retirements, we sought to err on the side of treating retirements at 63 or under as forced, and 64 or more as non-forced. Given that such an age criterion was often used in previous work to distinguish between genuine and forced retirements, we wanted to be conservative and give previous studies the benefit of any doubt.

3.2. No reason stated by company

Amongst the 38 top management changes experienced by the winners and losers, nine are given no reasons by the relevant companies. We observe that in six cases out of nine the press is not silent, and there are interesting facts to learn. Figure-4 shows the reasons given by the press for all of the 9 changes which have no stated reason given by the company.

[Figure 4]

[13] See "Chairman to step down at Taylor Woodrow", *The Independent*, 26 March 1992.

Table-3 describes these changes in detail. We discuss them one by one and identify the ones we consider to be forced departures.

3.2.1. No reason given by the company and the press

The three changes which have no reasons stated by the press (and company) represent quite different contexts. There is the case of Mowlem (Table-3, Case-1), where the Joint Managing Director for six years, Clive Beck, leaves his office. Mowlem is a loser firm, and its 12 month market adjusted return before the change is negative. While it is clear from the press coverage that the company was going through a reorganisation after the group announced heavy losses (a scenario common to most firms in the construction sector during this recession period), there is no explicit press speculation to suggest that this was a forced dismissal or that Clive Beck, the Deputy Chairman, was mainly responsible for the company's fortunes. Interestingly, Beck's brother, Sir Philip Beck, remains as the Executive Chairman, a position he held since 1979. Clive Beck left with two years left on his contract and received a handsome £395,000 for loss of office, plus a continuing consultancy. It is therefore quite possible that Beck's departure was not forced or that it was an entirely amicable one. Nevertheless, in order to be conservative, we will adopt the approach used in previous studies of treating departures with no stated reasons as forced, and treat Beck's departure in the same way.

Another case is Wace group, where the non-executive chairman is replaced (Table-3, Case 2). Wace group has negative returns prior to the change, the departing manager stays on as a non-executive director, an internal succession follows, and neither the press nor the company propose reasons. We classify this change as forced though the evidence is not complete because a change with 'no stated reason' is considered to be forced in almost all previous studies on management turnover.

[Table 3]

We also have the case of Micro Focus Group, a winning firm, with positive returns before and after the change (Table-3, Case-3). The Deputy Chairman/MD leaves the firm and no replacement is appointed as the executive chairman takes responsibility. The change has no stated reason. We consider this change as forced, although not much can be said about its nature.

3.2.2. Strategy change

Two changes have been interpreted by the press as signals of change in group strategy. The first case is the one of Berisford's Chairman Ephraim Margulies (Table-3, Case-4). In December 1989 Margulies is Chairman and Managing Director. He decides to relinquish his MD responsibility but remains as Executive Chairman, and invites the manager of Berisford's main subsidiary, Peter Jacobs, to be CEO.[14] This is thought to represent a move away from Property to Food Manufacturing. Berisford's troubles are not public knowledge yet, and Ephraim Margulies is a well established 'all-powerful' Chairman. We consider this change to be non-forced.

Another change explained by the press as 'strategy' is the departure of the non-executive chairman of Betterware (Table-3, Case 5), a winning firm. Betterware has positive returns before and after the change, and it is in a period of expansion. The firm appoints a new non-executive chairman as its first step to gain European experience.[15] While the departing chairman stays with the firm as a non-executive director, an external replacement is found. This change is considered to be forced.

3.2.3. Policy differences with chairman

Glaxo Holdings goes through two CEO changes which have both been explained by 'policy differences with Chairman' (Table-3, Cases 6 and 7). Sir Paul Girolami is the executive chairman in charge. He has been described as a 'self-styled Supremo.'[16] Glaxo has positive returns before the first change, and negative returns before the second change. On both occasions, Sir Paul Girolami, long lasting executive chairman, dismisses the company CEO. Sir Paul and the company acknowledge these policy differences openly.[17] Both of these changes are considered forced departures.

3.2.4. Shareholder pressure

It is again the case of Berisford. In March 1990 executive chairman Ephraim Margulies is forced to resign by institutional shareholders (Table-3, Case-8). Berisford's results are disappointing, and it has a failing property venture. Moreover, Margulies is

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[14] *Financial Times*, 'Berisford International reports annual results for the year end-September,' 19 December 1989.
[15] See *Financial Times*, 12 December 1990.
[16] *Daily Telegraph*, 'Paul Girolami zaps Super Mario in Glaxo,' 13 March 1993.
[17] *Reuters News Service*, 'Glaxo Chief executive quits in row over future strategy,' 11 March 1993.

linked with an illegal share support operation, and is thus discredited further. Margulies' forced departure follows his natural resignation as CEO in 1989 (Table-3, Case 4).

3.2.5. Alleged Terrorist links

The change due to terrorist links is the sudden resignation of Wace Managing Director John Clegg (Table-3, Case-9). Rumours circulate the market that Wace is being used as a facade to launder IRA money. John Clegg resigns mentioning the interests of Wace Group. He and the company deny any terrorist links. John Clegg's departure is indeed forced, and it is forced by scandalous rumours in the press.

Thus, out of the 9 top management changes which have no stated reason by the relevant company, 8 are considered forced, and 1 is treated as a non-forced change.

3.3 Faulty accounting profits/ rescue operation

As shown in Figure-3, from the 38 top management changes, 4 were due to faulty accounting profits and a subsequent rescue operation. Indeed, all these 4 changes happen in one company, namely, Cray Electronics. Cray is one of our 15 losers. These changes are described chronologically in Table-4.

In August 1989, the Chairman/CEO of Cray Electronics, Bernard Collins, relinquishes his CEO position to a member of the board (Table-4, Case-1). The move is precipitated by the allegations of faulty accounting profits, where Cray had highly inflated them. City institutions, including many institutional shareholders, intervene and launch an independent review with the direct involvement of SG Warburg. By November 1989, Bernard Collins resigns from his non-executive chairmanship and is forced out, following an independent Price Waterhouse report which showed that profits had indeed been inflated (Table-4, Case-2). A month later, in December 1989 Cray goes through an overhaul where a 1 month old non-executive chairman is removed from office and a new management team is put in place (Table-4, Case3).

[Table 4]

The new team is led by Sir Peter Michael, a well known company doctor. After 3.5 years, Sir Peter Michael resigns from Cray Electronics. He has completed his rescue operation and Cray is back on the winning track (Table-4, Case-4).

Apart from Sir Peter Michael's resignation, the first three changes are forced. They are forced by professional standards, and by actively present institutional shareholders and investment banks. It is worthwhile mentioning, however, that the change involving the 1 month old non-executive chairman must be treated differently from the departure of Bernard Collins (first from his executive role, and then from his non-executive chairmanship). This is mainly because the departing manager had very little time in post (see later).

3.4 Backdoor takeover

There are two top management changes which are due to what the market calls a backdoor takeover. Both changes happen at Trafalgar House in the loser portfolio. Table-5 depicts these changes.

Until September 1992 Trafalgar House is run by founder and long lasting chairman Sir Nigel Broakes, and CEO Sir Eric Parker. The company's profits are falling, reaching losses of £30 million in 1992. Meanwhile, Sir Nigel Broackes and Eric Parker are under pressure to appoint new non-executive directors; Trafalgar House's share price is performing badly, and management succession is an issue. Indeed the Sunday Times (20 September 1992) quotes Sir Nigel Broackes denying speculation of a boardroom shake-up.

Meanwhile, by early October 1992, Hong Kong Land Ltd owns 14% of Trafalgar shares. Despite an unsuccessful tender offer, Simon Keswick chairman of Hong Kong Land negotiates two seats on the board. By the 18th of October 1992, Trafalgar House announces that Sir Nigel Broackes is stepping down as chairman and taking the title of Honorary President, and that Sir Eric Parker will give up his CEO job, keeping his deputy Chairman title until he retires in 6 months time (Table-5, Case-1).

Eventually, on the 4th of May 1993, Simon Keswick is appointed to the Trafalgar board, and by 26th of May, he is chairman (Table-5, case-2). Through board infiltration, Hong Kong Land takes over the management of Trafalgar House with only 14% of the shares. Both of these changes are considered forced changes.

[Table 5]

3.5 Pursue other interests

Amongst the 38 top management changes experienced by the winners and losers, two are given 'pursue other interests' as a reason. Table-6 describes these changes in detail. The companies involved are Asda (Loser) and BAA (Winner).

We notice that in both cases the departure of the incumbent and the arrival of the successor do not coincide in time. In Asda's case, where the two positions of Chairman and CEO are separated after the departure of John Hardman (Table-6, case-1), we see its chairman appointed 2 months later, and its CEO almost 10 months later (Archie Norman is appointed after a long search). Meanwhile, in the case of BAA, CEO Jeremy Marshall resigns "abruptly" on the 25th of August 1989 (Table-6, case-2), and his successor Sir John Egan is appointed only in June 1990 (Chairman takes responsibility in the interim period).

Moreover, we notice that in both cases the Press has had something to say, such that Hardman's departure from Asda has been described as due to institutional pressure (See *Financial Times*, 11 June 1991), and Jeremy Marshall's departure from BAA has been explained by a boardroom row and policy differences with the chairman. The press coverage suggests that Marshall felt compelled to leave. [18] We therefore treat both of these changes as forced.

[Table 6]

3.6 All other miscellaneous reasons

The remaining 9 out of the 38 top management changes have been given nine different reasons by the relevant companies. Table-7 describes them further. We notice that six out of these one change/one reason cases belong to the loser portfolio, and they are the ones with *negative* market-adjusted returns in the prior 12 months. Meanwhile, the other 3 belong to the winner portfolio, and have positive returns in the 12 months prior to the change.

[Table 7]

[18] See the *Financial Times*, 'BAA Chief Executive resigns,' 26 August 1989. The Chairman of BAA, aged 68, had earlier "…indicated he would step aside and function only as a part-time non executive chairman as a prelude to retirement. But he continued to work as a full-time executive and clashes were inevitable" (*Daily Mail*, 25 February 1990). "…Mr Marshall had decided that the high profile and active role taken by the chairman left him insufficient scope (*The Independent*, 26 August 1989).

The three changes in the winner portfolio (Table-7, Cases 7, 8, and 9) have 'take other position in firm', 'death', and 'normal succession procedure' as stated reasons. These changes are all not forced. Case-7, for example, involving Scottish Television, is the departure of a Managing Director (after 34 years), who is becoming deputy Chairman to become Chairman in a year's time. Cases 8 and 9, having death and 'normal succession procedure' are naturally considered non-forced. Meanwhile, amongst the 6 changes occurring in loser firms, only 1 is considered to be non-forced. The non-forced case is the one of Berisford (Table-7, Case-6), where a nine month CEO leaves the firm to take a major appointment elsewhere. Given the already battered state of Berisford, and the post-collapse appointment and departure of the CEO, we consider this change to be a non-forced departure. The other five cases, all involving loser firms, are considered forced. We discuss them one by one below.

3.6.1. Too talented: nothing left to run

This case concerns the departure of Peter Jacobs, CEO of Berisford (table-7, Case-1). A CEO since December 1989, Jacobs has previously been Manager of Berisford's most profitable subsidiary - British Sugar. He takes over from Ephraim Margulies in December 1989, who used to be Chairman and CEO for 11 years. Peter Jacobs' appointment had been described as a change in strategy where Berisford aimed at shifting focus from property to food manufacturing. Two years later, with continuous losses on property investments, Berisford is in trouble with high levels of debt. Ephraim Margulies is forced out due to disappointing results and links with an illegal share support operation (John Sclater is appointed chairman). A complete asset sale is declared, and British Sugar is sold for more than £800 million, the funds being used to curb debts of over £1 billion. Following the sale of this subsidiary, Peter Jacobs leaves Berisford, and new chairman John Sclater states that Peter Jacobs is 'too talented', and that after the asset sale 'there is nothing left for him to run.' Meanwhile, the Press argues that Peter Jacobs was expected to leave as he was part of the Old Guard of Mr Ephraim Margulies. Peter Jacobs, talented or not, had to leave Berisford, and that is why we consider this change as forced.

3.6.2. Boardroom coup led by CEO

In early September 1991 British Aerospace reports disappointing results. It announces losses of £100 million compared to £376 million pre-tax profits in the previous year (1990). It also has a failed cash call to raise £432 million intended for debt reduction. By the 26th of September, Prof. Roland Smith, Chairman of British Aerospace, is ousted through a boardroom coup (Table-7, case-2). On the 27th , the Guardian has the following headline: "Boardroom Coup fails to reassure British Aerospace Investors." The Times, on the other hand, reflects on the fact that the "boardroom struggle puts focus on BAe's deep-seated problems" (The Times, 27 September 1991). The main issue of press speculation around Prof. Smith's departure is the issue of scapegoating. Interestingly, 1992 is BAe's worst year with losses of £1.2 billion. Whatever the actual true intentions of the coup, however, Prof. Roland Smith was forced out of his job in a matter of days.

3.6.3. Restructuring

The change with 'restructuring' as an explanation is the removal from office of Andros Stakis, Managing Director of Stakis (Table-7, Case-3). This diversified leisure group was founded by Reo Stakis in 1947 (the father of Andros Stakis). In March 1991 executive chairman Reo Stakis retires at the age of 77 (staying as Life President), and appoints his replacement – Sir Lewis Robertson – a well known company doctor. In June 1991, Stakis announces its half year results, with losses of £45.1m compared to pre-tax profits of £12.9 million the previous year. Following these results, Andros Stakis is the first victim of Sir Lewis Robertson's restructuring (Guardian, 21 June 1991, 15). Sir Lewis acts as chief executive and continues his rescue until David Michels is appointed new CEO in October 1991 (Table-7, Case-3, Column-C).

3.6.4. Steps down in favour of new appointee

WPP non-executive chairman A. Symonds steps down in favour of a new appointee (Table-7, Case-4). The new appointee is the retired president of a company WPP has just acquired. WPP group acquires Ogilvy and Mather in June 1989, and Martin Sorrell (CEO and mastermind of the deal) gives the title of non-executive chairman to the Life President of Ogilvy and Mather, David Ogilvy, an event described by the press as 'almost a tip.' Although A. Symonds stays on as a non-executive director, his

resignation as a non-executive chairman is considered forced. The acquisition deal and WPP chief Martin Sorrell's tactics are thought to have led to his departure.

3.6.5. Facing fraud charges

Lonrho's non-executive chairman is personally facing fraud charges concerning his involvement in a separate business venture which seems to have been a total failure. Given his possible disqualification as a director, he resigns from Lonrho forced by professional and ethical considerations (Table-7, Case-5). While his departure is forced, it is totally unrelated to Lonrho. In other words, the reason for his disqualification has absolutely no connection to his job or performance at Lonrho.

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Putting all the data and analysis together, we now have identified all the forced departures across all the categories of 'stated reasons'. Figure-5 depicts the number of forced departures by category.

[Figure 5]

Out of a total of 38 top management changes, 21 are forced departures. 16 out of the 21 forced departures are in the loser portfolio, and 5 are in the winner portfolio. And 64% of management changes in the loser portfolio are forced departures, while in the winner portfolio only 38% are forced. Looking at the distribution of these forced departures over time, we notice in Figure-6 that the year 1991 is the year with the highest number of forced management changes in the loser portfolio. The contrast between the two portfolios is most striking in 1991 and 1992.

[Figure 6]

Our findings reveal that losers have more top management changes *and* more forced departures. This observation, which has also been proposed by other management turnover studies, has led some to argue that a high management turnover among poor stock market performers is due to the monitoring of managers through internal and external mechanisms. As proposed earlier in this paper, we abstain from offering such a blanket interpretation. Our approach allows for *different types* of forced departures. Indeed,

the diversity of forced departures revealed in this study raises important questions regarding the monitoring interpretation of management turnover findings.

4. Interpreting forced departures

The dominant interpretation in the existing literature is that all forced departures are instances of monitoring. Therefore, once forced departures are identified, previous studies do not proceed to verify that all the forced departures are the result of monitoring. Although a few authors have acknowledged the theoretical prospect that some forced departures might represent instances of scapegoating rather than monitoring,[19] to our knowledge, this is the first study that attempts to empirically assess the extent to which we can assume that all forced departures represent instances of monitoring.

Our starting point is that forced departures need not *necessarily* indicate instances of monitoring. We start off with the proposition that forced departures might have *many possible explanations*, and that monitoring and scapegoating are just two possibilities. Our study reveals that there are indeed different *types of forced departures*. In our sample of 21 forced departures, we identify 6 different types. They are those due to: (1) monitoring; (2) scapegoating; (3) strategy considerations unrelated to the performance of the departing manager; (4) policy and personality disagreements unlikely to be explained by the performance of the departing manager; (5) scandals unrelated to the firm and its performance, and finally (6) other circumstances. We also found two cases which were impossible to explain given the scarcity of available information.

We explain our choice and interpretation of these changes in Table-8, where all forced departures are listed, arranged by type. These categories need further explanation. We classify a forced departure as 'monitoring' when the manager is perceived to have had a negative impact on firm performance or has not been acting in shareholders' interests, and evidence exists that internal or external intervention has brought about the change. A forced departure is classified under 'scapegoating' when the performance of the departing manager is given as reason, but evidence suggests that he or she is hardly the problem. A forced departure is understood to be due to 'other circumstances,' when

[19] For example, Furtado and Karan (1990) argue that a major issue that needs further research is to identify whether turnover is due to 'scapegoating' and whether departing managers are truly responsible for

for example, the time in office is too short and the departing manager has not assumed any responsibilities relevant to the firm's performance, or when s/he has to leave due to very unusual developments within the firm even though his/her individual performance is known to be positive. A forced departure is due to 'a scandal' when the departing manager is forced resign due to rumours or facts questioning his credibility and ethical responsibility for reasons unrelated to his performance in the firm. Finally, the forced departures classified under 'policy disagreements' and 'strategy considerations' only include those that are unlikely to be explained by the performance of the managers.

[Table 8]

Out of the 5 forced departures that happen in winner firms, 3 are due to policy and personality disagreements between Chairman and CEO (Table-8, Cases-7, 8, and 9); one is due to strategy considerations (Case-11), and finally one has no explanation given the scarcity of available information (Case-2). Out of the 16 forced departures happening in loser firms, 9 or around 56% are thought to be monitoring cases[20] (Cases 13-21), one is deemed to be a scapegoating case (Case-12), one is due to strategy considerations (Case-10), two are due to scandals (Cases 5 and 6), two are due to other circumstances (Table-8, Cases 3 and 4), and one cannot be explained due to scarce information.

We notice that all forced departures due to policy disagreements occur in winner firms, while all forced departures due to monitoring occur in loser firms. Forced departures due to other circumstances, scandals, and scapegoating are all in the loser portfolio as well. Table-9 provides the distribution in detail.

[Table 9]

Interestingly, we find that forced departures can be due to a variety of reasons, and monitoring is only one possibility. We also notice that monitoring seems to be a dominant explanation for poor stock market performers, just like 'policy disagreements'

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weak performance. For similar comments, see also Salancik and Pfeffer (1980), Fee and Hadlock (2002), and Khanna and Poulsen (1995).

[20] If we regard the departure at Mowlem (Case 21) as a case of scapegoating rather than monitoring, the percentage of monitoring cases in the loser portfolio would fall to 50%. Alternatively, if we treat this case as a non-forced departure, the proportion of monitoring cases would be 53.3%. In order to be conservative and stack the evidence against our main conclusions, we will regard this management change as a monitoring-related case and use the higher percentage of 56%.

is more common for past good performers. Our study surprisingly reveals that only 56% of the forced departures among poor performers can be understood as instances of monitoring. 'Monitoring' therefore seems to explain a far lower percentage of executive dismissals than has been assumed in previous research. This raises serious questions concerning the interpretation of forced departures as a proxy for management monitoring.

6. Discussion and conclusion

Clinical research typically involves examining a relatively *small number* of events or cases *intensively* (Tufano, 2001). Indeed, case studies allow for a more intensive look at a situation than is possible with large sample statistical tests. On the other hand, one of the standard reservations about case studies is that the results might be atypical and not representative of the general situation. We balance these considerations by using clinical methods to study a sample of 15 winners and 15 losers, covering a total of 38 top management changes.

Our clinical scrutiny revealed that stock market losers have a higher probability of top management changes and a higher probability of forced management changes than winners. [21] Losers have between them 25 top management changes, 16 of which are forced, while winners have 13 top management changes, 5 of which are forced. But, contrary to the dominant interpretation in the existing literature, not all forced departures can be explained by monitoring. Our study surprisingly reveals that there are different *types* of forced departures and that only just over half the forced departures among poor performers can be regarded as instances of monitoring. Thus, 'monitoring' seems to explain a far lower percentage of executive dismissals than has been previously assumed. If we assume that all forced departures are instances of monitoring, we miss the true diversity of forced departures, and could also miss the opportunity to reveal whether monitoring mechanisms are indeed functioning, and to what extent.

Although 'monitoring' seems to occur less frequently than previous studies of executive turnover have suggested, this does not however lead us to be despondent about the efficiency of internal monitoring mechanisms. We submit that the proportion of forced departures that are explained by 'monitoring' might not be an ideal proxy for

[21] The findings corroborate earlier evidence on top management turnover and stock price performance (Coughlan and Schmidt, 1985; Warner et al., 1988; Franks et al., 2001, and many others).

judging the effectiveness of management monitoring. Management monitoring is an issue that is born out of agency problems within a corporation, and encompasses a wide array of possible monitoring mechanisms, of which *dismissal* is just one. As Jensen and Meckling (1976) put it:

> "If both parties to the [agency] relationship are utility maximizers there is good reason to believe that the agent will not always act in the best interests of the principal. The *principal* can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities of the agent. In addition in some situations it will pay the agent to expend resources (bonding costs) to guarantee that he will not take certain actions which could harm the principal or to ensure that the agent will make optimal decisions from the principal's viewpoint." (Jensen and Meckling, 1976, 308)

The purpose of monitoring is to control the aberrant activities of managers, to ensure that management acts in shareholders' interests. Management monitoring aims *at realigning interests*, not at *firing* the manager. It starts long before the actual firing event, and does not necessarily lead to firing. Thus, (monitoring-related) forced departures could be seen as actions of last resort, where realignment of interests, through other means, is no more possible within the firm. From such a perspective, one could paradoxically regard the proportion of (monitoring-related) forced departures as a proxy for *failed monitoring* too! Clearly, a distinction must also be drawn between the *threat of dismissal* and the *observed frequency of dismissal*. The threat of dismissal, or the agent's awareness that poor performance could potentially lead to dismissal, could well be a most effective monitoring mechanism, but this need not necessarily show through in the form of a high number of observed dismissals.

Overall, this paper demonstrates that one should not presume that all or most forced departures are instances of management monitoring, and urges greater caution when using the observed frequency of 'forced departures' to draw inferences about the effectiveness of monitoring and governance mechanisms.

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Table 1
The 15 Winners and 15 Losers; Ranking (4 Years) and Post-Ranking (1 Year) Returns

This table depicts the 15 winners and 15 losers with their market-adjusted returns between October 1988- September 1992, and October 1992 – September 1993. Market Adjusted Returns are calculated using the FTSE All Share Index. The returns data are obtained from the London Share Price Database. Some of the companies have since changed names or merged. Note that 8.6699 is to be interpreted as a return of 866.99% .

Top Winners	88-92	92-93	Bottom Losers	88-92	92-93
Betterware plc	8.6699	0.0980	**British Aerospace plc**	-1.2203	1.7008
Huntleigh Technology plc	8.2955	0.5884	**Stakis plc**	-1.2297	1.2578
Micro Focus Group plc	5.9205	-0.4495	**Premier Oil plc**	-1.2391	-0.0371
Airtours plc	4.7390	0.3161	**Cray Electronics**	-1.2662	0.6677
Domestic & General Group	3.3824	0.5787	**Wace Group plc**	-1.2696	0.5591
Scottish Television plc	3.3649	-0.1898	**Lonrho**	-1.2861	0.4938
Park Food Group plc	2.3732	0.1479	**Clyde Petroleum plc**	-1.2891	0.0985
Rentokil Initial plc	2.3416	-0.0797	**Asda Group plc**	-1.2935	0.3725
Guinness	1.9320	-0.5094	**Taylor Woodrow plc**	-1.2972	0.6075
Glaxo Holdings plc	1.5465	-0.4597	**Mowlem(J) & Co plc**	-1.3173	0.3508
Powerscreen International	1.5411	0.0856	**Trafalgar House plc**	-1.3189	0.4206
Takare	1.5021	-0.1418	**Amstrad plc**	-1.3906	0.2936
Central Independent Telvsn	1.3927	0.1223	**Costain Group plc**	-1.4004	-0.0769
BAA plc	1.3619	-0.1127	**Berisford plc**	-1.4285	0.5539
Kalon Group plc	1.3322	0.3697	**WPP Group plc**	-1.4157	2.2332
Average $R_{W(t)}$	3.3130	0.0242	**Average $R_{L(t)}$**	-1.3108	0.6330

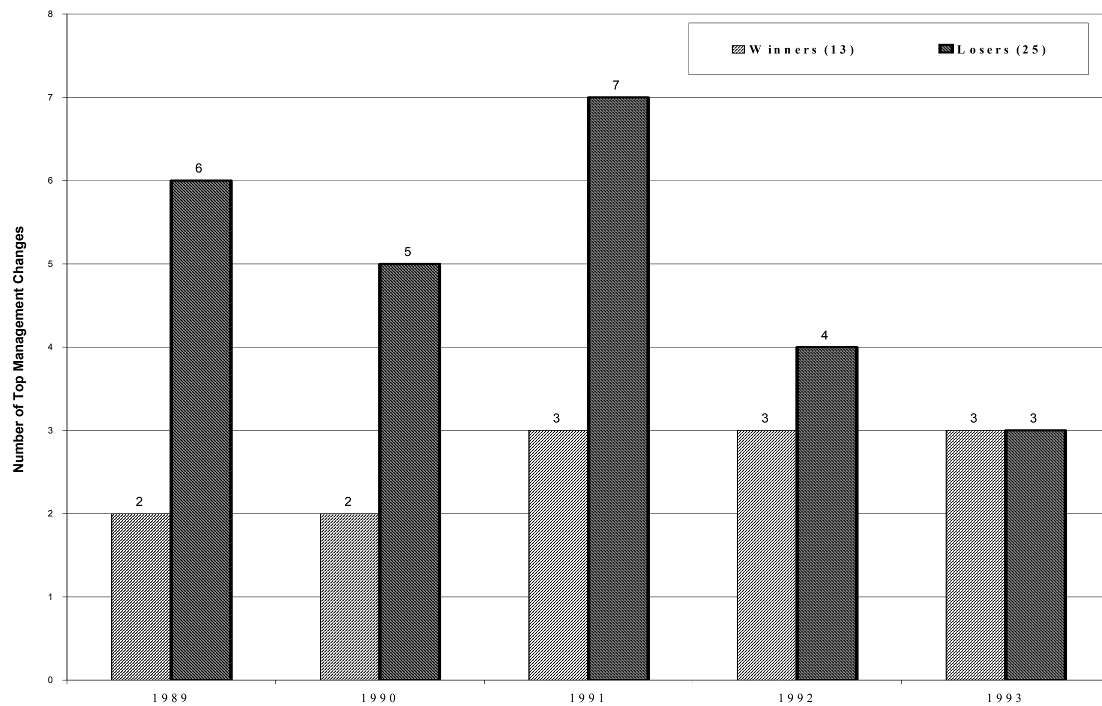
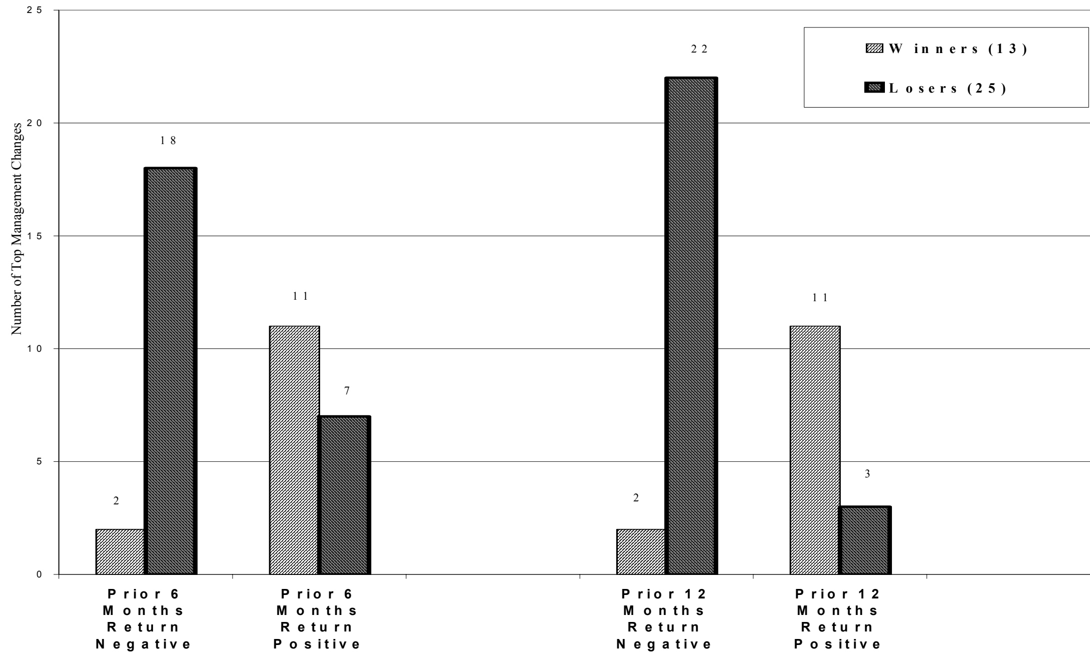


Fig. 1: Top Management Changes in the 15 Winners and 15 Losers, 1988-1993. There were 38 top management changes in total. Note that we observe no top management changes between October and December 1988. A top management change is considered to be a change in the identity of the individuals playing the roles of Chairman and CEO/ Managing Director (MD). The top management changes are identified by tracking the yearly lists of senior executives that appear within the annual reports of the firms in question. The Annual Reports are obtained from the archives of Companies House.

2-a: Prior to management change



2-b: After management change

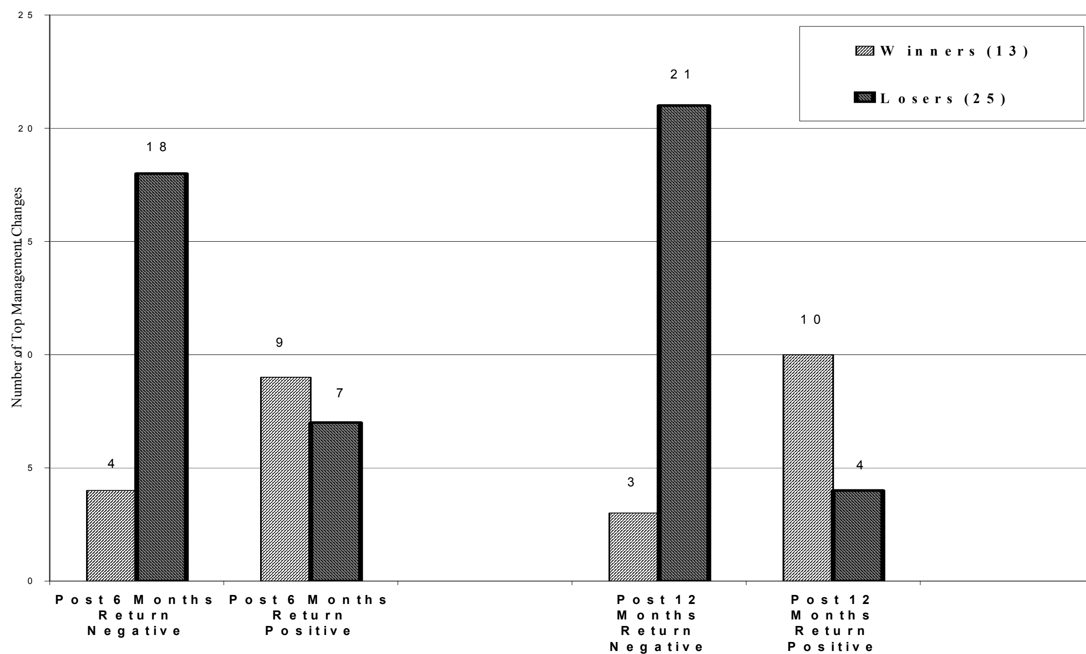


Fig. 2a and 2b: Number of Changes with +/- market-adjusted returns before/after 6 months and 12 months. These figures depict the number of changes which are preceded (6 and 12 months before) and followed (6 and 12 months after) by positive and negative market-adjusted returns. A top management change is considered to be a change in the identity of the individuals playing the roles of Chairman and CEO/ Managing Director (MD). The top management changes are identified by tracking the yearly lists of senior executives that appear within the annual reports of the firms in question. The Annual Reports are obtained from the archives of Companies House. There are in total 38 top management changes in the loser and winner portfolios combined. The market adjusted returns are calculated using the FTSE All Share Index. The returns are extracted from the London Share Price Database.

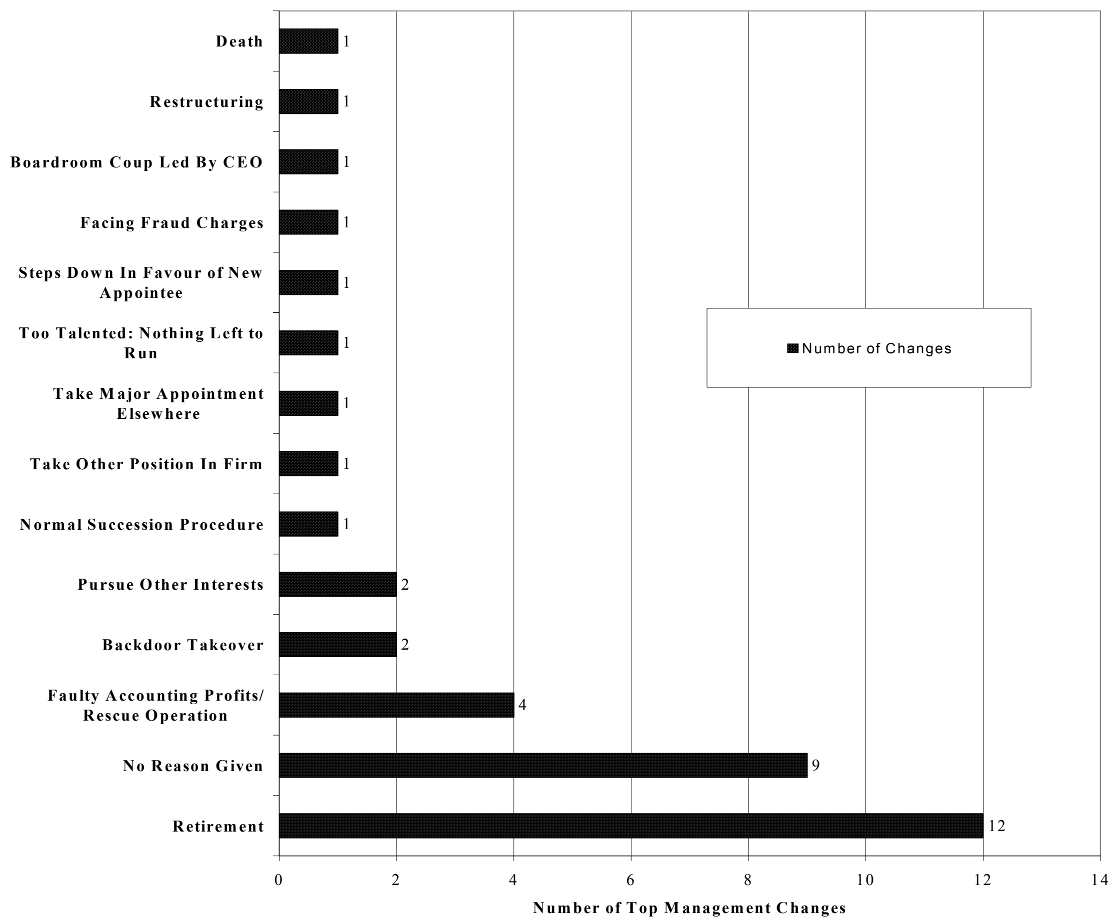


Fig. 3: Breakdown of all top management changes based on reasons stated by the company.
These categories were derived after a close scrutiny of the first public announcements, news items, and press releases in the Financial Times and other media sources taken from Reuters Business Briefing as well as the Annual Reports and regulatory announcements obtained from the archives of Companies House. A top management change is considered to be a change in the identity of the individuals playing the roles of Chairman and CEO/ Managing Director (MD). The top management changes were initially identified by tracking the yearly lists of senior executives that appear within the annual reports of the firms in question. The Annual Reports were obtained from Companies House archives. There were a total of 38 top management changes among the winner and loser stocks.

Table 2

All Top Management Changes Explained as Retirements (12): Further Descriptions

A top management change is a change in the identity of those playing the roles of Chairman and CEO or Managing Director (MD). We note the name of the company experiencing the change and the portfolio it belongs to, Winner or Loser. We mention the office involved, and the time in office of the departing manager. We give the date of the change, and note in parentheses the date of the new replacement appointment (if different from the departure date). We provide the 'stated reason' for the change by also identifying the source when there is more than one 'stated reason', i.e., Company (C), Incumbent (I), or Press(P). We also show the pre-change and post change market adjusted return of the stock (6 months and 12 months). We identify the origin and number of successors. We note whether or not the departing manager stays with the firm, and the role he subsequently plays (e.g. Non-executive director). Finally, in the last column, we state whether or not we perceive the change as a forced departure. This table is compiled by the authors using Companies House Microfiches and Reuters Business Briefing from which Annual Reports, Press Releases, and Press announcements have been extracted. We search these information sources right up to September 1995. The returns data are extracted from the LSPD.

	A	B	C	D	E		F		G	H	I
No.	**Loser or Winner (Company Name)**	**Office Involved (Time In Office)**	**Date of Change (Date of New Appointment)**	**Stated Reason By Company (C), Incumbent (I), Press (P)**	**Prior Mkt Adj Return**		**Post Mkt Adj Return**		**Replaced By Internal, External**	**Manager Stays With Firm (Role)**	**Forced or Non-Forced Departure (Further Details)**
					12MS	**6MS**	**6MS**	**12MS**			
1	**L (Taylor Woodrow)**	Executive Chairman (2.4 years, 26 years with Company)	March 1992	Retirement at 65 (C) Pursue Other Interests (C) Boardroom Row (P)	-0.70699	-0.49604	-0.52386	-0.40509	Internal	No	Forced (Drew had 7 months of his contract left when he retired abruptly at the age of 64 plus. The press state that he was unceremoniously dropped by colleagues.)
2	**L (Costain)**	Non-Executive Chairman (2.7 years)	June 1993	Retirement at 65 (C)	-0.60471	0.204819	-0.47803	-0.37008	External	No	Non-Forced
3	**L (Stakis)**	Executive Chairman (Founder, 1942)	March 1991	Retirement at 77 (C)	-0.4932	-0.32122	-0.2837	-0.58439	External	Yes (President & Non-Executive Director)	Non-Forced
4	**L (Costain)**	Non-Executive Chairman (Non-Executive Director Since 1979)	November 1990	Retirement at 65 (C)	-0.24374	-0.14413	-0.42156	-0.86794	Internal	No	Non-Forced
5	**L (Taylor Woodrow)**	Chairman/ CEO (4 years, 40 years with company)	January 1990	Retirement at 62 (C)	-0.23493	-0.08318	-0.00862	-0.07559	Internal (2)[A]	No	Non-Forced (40 years with company. Press coverage indicates a genuine retirement.)
6	**W (Guinness)**	Executive Chairman (1.8 years)	January 1993	Retirement at 62 Company Policy (C,P)	-0.16271	-0.19526	-0.04994	-0.12513	Internal	No	Non-Forced
7	**L (Mowlem)**	Joint MD (48 years with company; on the Board since 1969)	June 1989	Retirement at 62 (C)	-0.0237	0.10361	-0.18575	-0.19948	Internal	Yes (Non-Executive Director)	Non-Forced (48 years with company; on the Board since 1969. Press coverage indicates a genuine retirement.)

Table 2 Continued

8	**L (BAe)**	CEO (5 years)	January 1990	Retirement at 65 C)	0.128179	-0.19326	0.04887	0.12428	Internal	No	Non-Forced
9	**W (Scottish TV)**	Chairman (10+)	June 1991	Retirement at 68(C)	0.131219	0.09387	0.126014	0.354249	Internal	No	Non-Forced
10	**W (Domestic & General)**	MD (18 years)	June 1993	Retirement at 65 (C)	0.376113	0.517646	-0.03801	0.193486	Internal	Yes (Non-Executive Director)	Non-Forced
11	**W (Park Food)**	Executive Chairman (10+ years)	December 1991	Retirement 65 (C)	0.708632	0.902352	0.67096	1.519333	Internal	No	Non-Forced
12	**W (Kalon)**	Executive Chairman (45 years)	February 1992	Retirement at 67 (C)	1.369951	0.392675	-0.05676	0.302396	External	No	Non-Forced

[A] The departing Chairman and CEO is replaced by two individuals, a Chairman and a separate CEO.

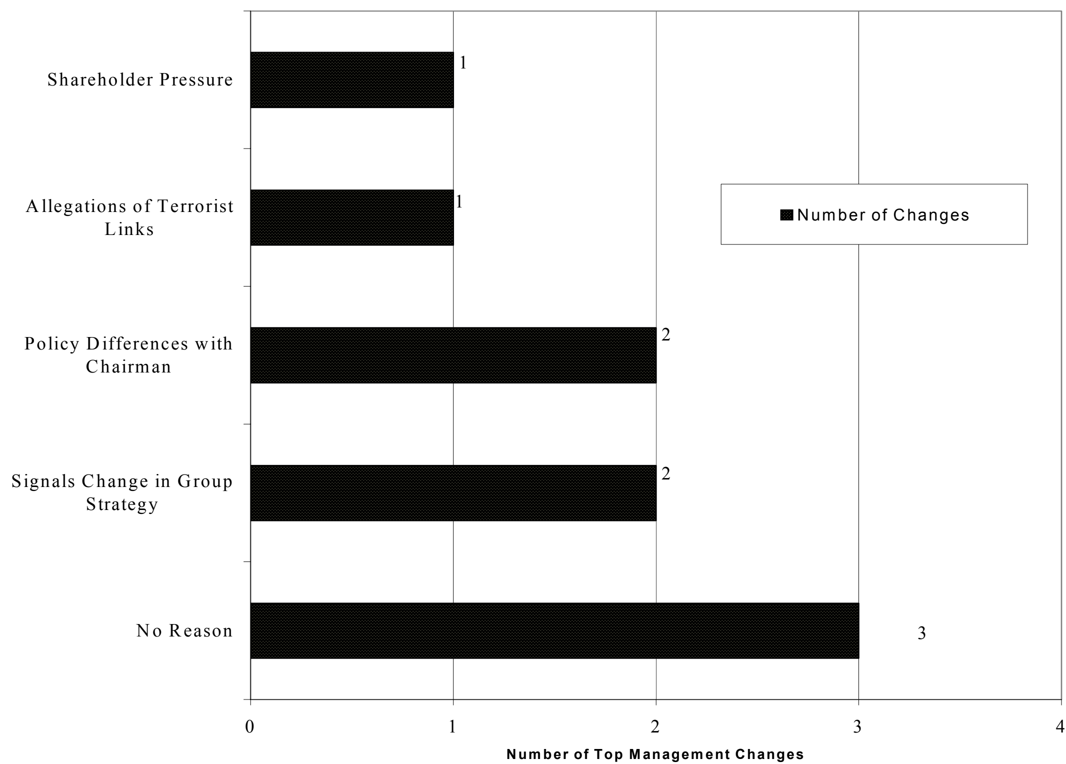


Fig. 4: Press speculation for the nine changes which have no stated reason given by the relevant companies. These categories were derived after a close scrutiny of the first public announcements, news items, and press releases in the Financial Times and other media sources taken from Reuters Business Briefing as well as the Annual Reports and regulatory announcements etc. obtained from the archives of Companies House. A top management change is considered to be a change in the identity of the individuals playing the roles of Chairman and CEO/ Managing Director (MD). The top management changes were initially identified by tracking the yearly lists of senior executives that appear within the annual reports of the firms in question. The Annual Reports were obtained from Companies House archives. There were a total of 38 top management changes among the winner and loser stocks.

Table 3

All Management Changes Which Have No Stated Reason by the Relevant Company (9): Further Descriptions

A top management change is a change in the identity of those playing the roles of Chairman and CEO or Managing Director (MD). We note the name of the company experiencing the change and the portfolio it belongs to, Winner or Loser. We mention the office involved, and the time in office of the departing manager. We give the date of the change, and note in parentheses the date of the new replacement appointment (if different from the departure date). We provide the 'stated reason' for the change by also identifying the source when there is more than one 'stated reason', i.e., Company (C), Incumbent (I), or Press(P). We also show the pre-change and post change market adjusted return of the stock (6 months and 12 months). We identify the origin and number of successors. We note whether or not the departing manager stays with the firm, and the role he subsequently plays (e.g. Non-executive director). Finally, in the last column, we state whether or not we perceive the change as a forced departure. This table is compiled by the authors using Companies House Microfiches and Reuters Business Briefing from which Annual Reports, Press Releases, and Press announcements have been extracted. We search these information sources right up to September 1995. The returns data are extracted from the LSPD.

	A	B	C	D	E		F		G	H	I
No.	**Loser or Winner (L , W) (Company Name)**	**Office Involved (Time In Office)**	**Date of Change (Date of New Appointment)**	**Stated Reason By Company (C), Incumbent (I), Press (P)**	**Prior Mkt Adj Return**		**Post Mkt Adj Return**		**Replaced By Internal, External**	**Manager Stays With Firm (Role)**	**Forced or Non-Forced Departure (Further Details)**
					12ms	**6ms**	**6ms**	**12ms**			
1	**L (Mowlem)**	Joint MD (6 years)	October 1992	No Reason (C,I,P)	-0.72579	-0.58919	0.500906	0.300286	Internal	Yes (Consultant)	Forced (Might also be non-forced or a voluntary departure. He was the brother of the Executive Chairman and the Joint MD for 6 years. He received a handsome £395,000 for loss of office and remained as a Consultant. No explicit press speculation.)
2	**L (Wace Group)**	Non-Executive Chairman (A non-executive director since 1977)	May 1990	No Reason (C,I,P)	-0.11648	0.056058	-0.35493	-0.30535	Internal	Yes (Non-Executive Director)	Forced (Company has been built by MD, who is the central figure in management.)
3	**W (Micro Focus)**	Deputy Chairman/MD	September 1990	No Reason (C,I,P)	1.198553	0.474408	0.511249	1.065541	None	Yes (Consultant)	Forced (Company is growing fast. Positive returns before change. Executive chairman takes charge.)

Table 3 Continued

4	**L** **(Berisford)**	Chairman/MD relinquishes MD job (11 years)	December1989	No Reason (C,I) Signals Change in Group Strategy (P)	-0.34306	-0.11732	-0.24745	-0.75874	Internal	Yes (Executive Chairman)	Non-Forced (All-powerful Executive Chairman relinquishes MD title, but stays at the helm.)
5	**W (Betterware)**	Non-Executive Chairman	December 1990	No Reason (C) Signals Change in Group Strategy (P)	0.836325	0.620497	0.808213	1.808213	External	Yes (Non-Executive Director)	Forced (Company is growing fast. Planning for further expansion in Europe, it appoints more appropriate Chairman)
6	**W (Glaxo Holdings)**	CEO (3 years)	March 1989	No Reason (C,I) Policy differences with Chairman (P)	0.035901	0.169207	0.029228	0.140392	Internal	No	Forced (Sir Paul Girolami, long lasting executive chairman is at the helm. He is a powerful figure described as a 'self-styled supremo.')
7	**W (Glaxo Holdings)**	CEO (4 years)	March 1993	No Reason (C) Policy differences with Chairman (I, P)	-0.31995	-0.36057	-0.0186	-0.09781	Internal	No	Forced (Sir Paul Girolami, long lasting executive chairman is at the helm. He is a powerful figure described as a 'self-styled supremo.')
8	**L** **(Berisford)**	Executive Chairman (11 years)	March 1990	No reason (C) Shareholder Pressure, Forced Out (P) Best Interest of Company (I)	-0.36163	-0.2084	-0.63886	-0.85929	Internal	No	Forced (A failing property venture, disappointing results, and links with an illegal share support operation bring the 11 year authoritarian chairman, Ephraim Margulies, to resign)
9	**L (Wace Group)**	MD resigns (8 years)	January 1992 (November 1992)	No Reason (C) Allegations of Terrorist Links Denied by Company (P) Best Interest of Company (I)	-0.32555	-0.39691	-0.00732	-0.3602	External	No	Forced (John Clegg resigns after rumours of terrorist links circulate the market. He and the company deny such links.)

Table 4

All Top Management Changes Explained by Faulty Accounting Profits/A Rescue Operation (2): Further Descriptions

A top management change is a change in the identity of those playing the roles of Chairman and CEO or Managing Director (MD). We note the name of the company experiencing the change and the portfolio it belongs to, Winner or Loser. We mention the office involved, and the time in office of the departing manager. We give the date of the change, and note in parentheses the date of the new replacement appointment (if different from the departure date). We provide the 'stated reason' for the change by also identifying the source when there is more than one 'stated reason', i.e., Company (C), Incumbent (I), or Press(P). We also show the pre-change and post change market adjusted return of the stock (6 months and 12 months). We identify the origin and number of successors. We note whether or not the departing manager stays with the firm, and the role he subsequently plays (e.g. Non-executive director). Finally, in the last column, we state whether or not we perceive the change as a forced departure. This table is compiled by the authors using Companies House Microfiches and Reuters Business Briefing from which Annual Reports, Press Releases, and Press announcements have been extracted. We search these information sources right up to September 1995. The returns data are extracted from the LSPD.

	A	B	C	D	E		F		G	H	I
NO	**LOSER OR WINNER (L , W) (COMPANY NAME)**	**OFFICE INVOLVED (TIME IN OFFICE)**	**DATE OF CHANGE (DATE OF NEW APPOINTMENT)**	**STATED REASON BY COMPANY (C), INCUMBENT (I), PRESS (P)**	**Prior Mkt Adj Return**		**Post Mkt Adj Return**		**REPLACED BY INTERNAL, EXTERNAL**	**MANAGER STAYS WITH FIRM (ROLE)**	**FORCED OR NON-FORCED DEPARTURE (FURTHER DETAILS)**
					12MS	**6MS**	**6MS**	**12MS**			
1	**L (Cray Electronics)**	Chairman/CEO Relinquishes CEO job	August 1989	Fraudulent Accounting Profits (C,I,P)	-0.75117	-0.49601	-0.31166	-0.2616	Internal	Yes (Non-Executive Chairman)	Forced (Bernard Collins has to resign due to the announcement of faulty accounting profits which are reviewed by an independent outside accounting firm. Institutions are shocked.)
2	**L (Cray Electronics)**	Non-Executive Chairman (3 months)	November 1989	Faulty accounting profits, scandal (C,I,P)	-0.90481	-0.70745	0.107645	-0.29833	Internal	No	Forced (Bernard Collins leaves his new post as non-executive chairman.)
3	**L (Cray Electronics)**	Non-Executive Chairman (1 month)	December 1989	Rescue Operation (C,I,P)	-0.98736	-0.72585	0.08617	-0.00009	External	No	Forced (A new management team is appointed with the direct involvement of SG Warburg.)
4	**L (Cray Electronics)**	Executive Chairman (3.7 years)	July 1993	Rescue Operation Over (C,I,P)	0.84104	0.33786	0.09951	0.133778	Internal	No	Non-Forced (Completed a rescue operation. Left in glory.)

Table 5

All Top Management Changes Explained By A Backdoor Takeover (2): Further Descriptions

A top management change is a change in the identity of those playing the roles of Chairman and CEO or Managing Director (MD). We note the name of the company experiencing the change and the portfolio it belongs to, Winner or Loser. We mention the office involved, and the time in office of the departing manager. We give the date of the change, and note in parentheses the date of the new replacement appointment (if different from the departure date). We provide the 'stated reason' for the change by also identifying the source when there is more than one 'stated reason', i.e., Company (C), Incumbent (I), or Press(P). We also show the pre-change and post change market adjusted return of the stock (6 months and 12 months). We identify the origin and number of successors. We note whether or not the departing manager stays with the firm, and the role he subsequently plays (e.g. Non-executive director). Finally, in the last column, we state whether or not we perceive the change as a forced departure. This table is compiled by the authors using Companies House Microfiches and Reuters Business Briefing from which Annual Reports, Press Releases, and Press announcements have been extracted. We search these information sources right up to September 1995. The returns data are extracted from the LSPD.

	A	B	C	D	E		F		G	H	I
NO	**LOSER OR WINNER (L , W) (COMPANY NAME)**	**OFFICE INVOLVED (TIME IN OFFICE)**	**DATE OF CHANGE (DATE OF NEW APPOINTMENT)**	**STATED REASON BY COMPANY (C), INCUMBENT (I), PRESS (P)**	**Prior Mkt Adj Return**		**Post Mkt Adj Return**		**REPLACED BY INTERNAL, EXTERNAL**	**MANAGER STAYS WITH FIRM (ROLE)**	**FORCED OR NON-FORCED DEPARTURE (FURTHER DETAILS)**
					12MS	**6MS**	**6MS**	**12MS**			
1	**L (Trafalgar House)**	Executive Chairman (Founder, 1956) & CEO (9 years)	October 1992	Backdoor Takeover (C,P)	-0.71082	-0.50163	0.066101	-0.00401	Internal (2)	Yes (Honorary President & Deputy Chairman)	Forced (Hong Kong Land gets hold of 14% of Trafalgar's shares. Asks for board representation, changes Board.
2	**L (Trafalgar House)**	Non-Executive Chairman (7 months)	May 1993	Backdoor Takeover (C,P)	-0.46352	0.066101	-0.22512	-0.25366	External	Yes (Non-Executive Director)	Forced (Following two rights issues HK Land increases its stake and eventually brings its Chairman of choice.)

Table 6

All Top Management Changes Explained By 'Pursue Other Interests' (2): Further Descriptions

A top management change is a change in the identity of those playing the roles of Chairman and CEO or Managing Director (MD). We note the name of the company experiencing the change and the portfolio it belongs to, Winner or Loser. We mention the office involved, and the time in office of the departing manager. We give the date of the change, and note in parentheses the date of the new replacement appointment (if different from the departure date). We provide the 'stated reason' for the change by also identifying the source when there is more than one 'stated reason', i.e., Company (C), Incumbent (I), or Press(P). We also show the pre-change and post change market adjusted return of the stock (6 months and 12 months). We identify the origin and number of successors. We note whether or not the departing manager stays with the firm, and the role he subsequently plays (e.g. Non-executive director). Finally, in the last column, we state whether or not we perceive the change as a forced departure. This table is compiled by the authors using Companies House Microfiches and Reuters Business Briefing from which Annual Reports, Press Releases, and Press announcements have been extracted. We search these information sources right up to September 1995. The returns data are extracted from the LSPD.

	A	B	C	D	E		F		G	H	I
NO	**LOSER OR WINNER (L , W) (COMPANY NAME)**	**OFFICE INVOLVED (TIME IN OFFICE)**	**DATE OF CHANGE (DATE OF NEW APPOINTMENT)**	**STATED REASON BY COMPANY (C), INCUMBENT (I), PRESS (P)**	**Prior Mkt Adj Return**		**Post Mkt Adj Return**		**REPLACED BY INTERNAL, EXTERNAL**	**MANAGER STAYS WITH FIRM (ROLE)**	**CLASSIFIED AS FORCED DEPARTURE BY AUTHORS, YES OR NO, (INTERPRETATION) RATIONALE (*)**
					12MS	**6MS**	**6MS**	**12MS**			
1	**L (Asda Group)**	Chairman /CEO (4.5 years)	June 1991 (Sept. 1991 Chair) (Oct. 1991 CEO)	Pursue Other Interests (C) Institutional Pressure(P)	0.035315	-0.26416	-0.60777	-0.68142	External (2)	No	Forced (John Hardman is criticised by the city. Company is left without a CEO for nine months after his departure)
2	**W (BAA)**	CEO (2.2 years)	August 1989 (June 1990)	Pursue Other Interests (C) Boardroom Row and Policy Differences with Chairman (P)	0.137586	0.106721	0.180588	0.249148	External	No	Forced ('Sudden' resignation. Appears to have felt compelled to leave)

Table 7

All Other Miscellaneous Reasons (9): Further Descriptions

A top management change is a change in the identity of those playing the roles of Chairman and CEO or Managing Director (MD). We note the name of the company experiencing the change and the portfolio it belongs to, Winner or Loser. We mention the office involved, and the time in office of the departing manager. We give the date of the change, and note in parentheses the date of the new replacement appointment (if different from the departure date). We provide the 'stated reason' for the change by also identifying the source when there is more than one 'stated reason', i.e., Company (C), Incumbent (I), or Press(P). We also show the pre-change and post change market adjusted return of the stock (6 months and 12 months). We identify the origin and number of successors. We note whether or not the departing manager stays with the firm, and the role he subsequently plays (e.g. Non-executive director). Finally, in the last column, we state whether or not we perceive the change as a forced departure. This table is compiled by the authors using Companies House Microfiches and Reuters Business Briefing from which Annual Reports, Press Releases, and Press announcements have been extracted. We search these information sources right up to September 1995. The returns data are extracted from the LSPD.

	A	B	C	D	E		F		G	H	I
No	**Loser or Winner (L , W) (Company Name)**	**Office Involved (Time In Office)**	**Date of Change (Date of New Appointment)**	**Stated Reason By Company(C), Incumbent (I), Press (P)**	**Prior Mkt Adj Return**		**Post Mkt Adj Return**		**Replaced By Internal, External**	**Manager Stays With Firm (Role)**	**Forced or Non-Forced Departure (Further Details)**
					12ms	**6ms**	**6ms**	**12ms**			
1	**L (Berisford)**	CEO (1.3 years)	March 1991	Too Talented. Nothing Left to Run after Huge Asset Sale. (C) Old Guard (P)	-0.84009	-0.4733	-0.11357	-0.51726	Internal	No	Forced (Used to run the only profitable subsidiary, sold for more than £800m for debt reduction. Talented or not, Peter Jacobs had to leave as he belonged to the old guard).
2	**L (BAe)**	Executive Chairman (4 years)	October 1991 (May 1992)	Boardroom Coup led by CEO	-0.58858	-0.40596	-0.02899	-0.64356	External	No	Forced (BAe announces losses of £100m in 1991.(£376m pre-tax profits in 1990). Has a failed rights issue. Prof. Roland Smith is ousted by the CEO. Press speculates on scapegoating. Political Environment.)
3	**L (Stakis)**	MD (4 years)	June 1991 (October 1991)	Restructuring (C) Sacked (P)	-0.44584	-0.3233	-0.31561	-0.41636	External	No	Forced (Andros Stakis is forced out by restructurings initiated by Executive Chairman, and Company Doctor, Sir Lewis Robertson. His departure is announced to be part of the restructuring.)
4	**L (WPP)**	Non-Executive Chairman (8 years)	June 1989	Steps down in Favour of New Appointee (C)	-0.21879	0.002511	-0.04914	-0.07705	External	Yes (Non-Executive Director and Vice Chairman)	Forced (Chairmanship is given to the retired Life President of an acquired company, an event described by the press as 'almost a tip')

Table 7 Continued

5	**L (Lonrho)**	Non-Executive Chairman (7 years)	August 1991 (December 1991)	Facing Fraud Charges Possible Disqualification as Director (C,P)	-0.15396	0.087558	-0.04209	-0.60091	Internal	No	Forced (Fraud Charges have nothing to do with Lonrho; they relate to the departing manager's private investments.)
6	**L (Berisford)**	CEO (9 months)	December1991 (January 1992)	Take Major Appointment Elsewhere (C)	-0.08169	-0.36487	0.084204	0.44385	External	No	Non-Forced (Company on Asset Sale. Recruited as Finance Director. Becomes Deputy Chairman of Scottish Power.)
7	**W (Scottish TV)**	MD (34 years)	January 1990	Take Other Position in Company (C,P)	0.045927	0.033668	0.09879	0.189325	Internal	Yes (Deputy Chairman)	Non-Forced (MD for 34 years. He becomes deputy chairman to become Chairman one year later.)
8	**W (Centr. Ind. TV)**	Non-Executive Chairman (9 years)	September 1991	Death	0.102252	0.806942	0.307421	0.525987	Internal	No	Non-Forced (Death)
9	**W (Guinness)**	Chairman/CEO gives up CEO job. (1.8 years)	January 1992	Normal Succession Procedure (C,P)	0.370515	0.010107	0.000954	-0.18879	Internal	Yes (Executive Chairman)	Non-Forced (Normal Succession Procedure)

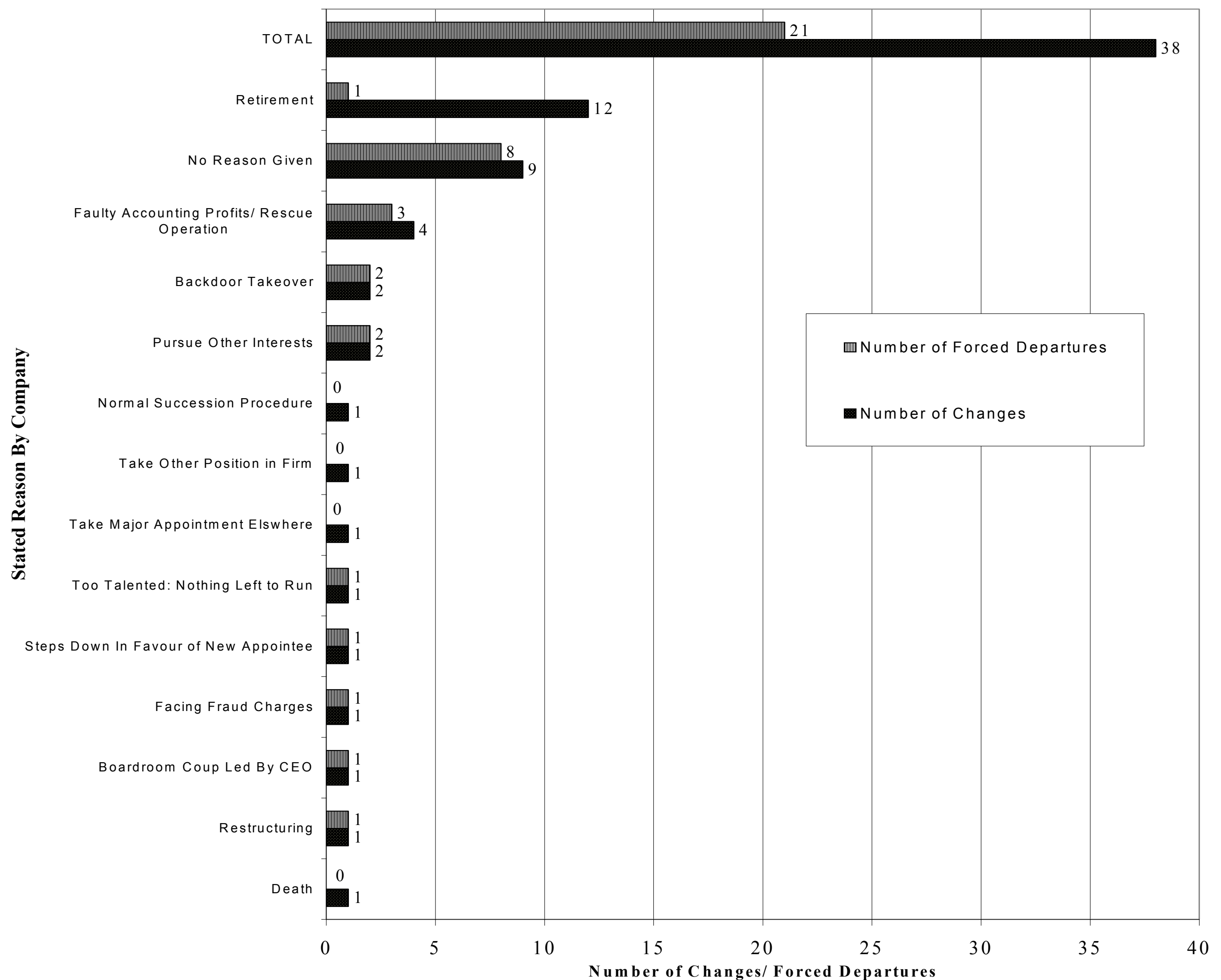


Fig. 5: Forced departures by category of reason (stated by company). The forced changes are identified based on Tables 2 to 7 and the associated discussion. The underlying data were derived after a close scrutiny of the first public announcements, news items, and press releases in the Financial Times and other media sources taken from Reuters Business Briefing as well as the Annual Reports and regulatory announcements etc. obtained from the archives of Companies House. We search these information sources right up to September 1995. A top management change is considered to be a change in the identity of the individuals playing the roles of Chairman and CEO/ Managing Director (MD). The top management changes were initially identified by tracking the yearly lists of senior executives that appear within the annual reports of the firms in question. The Annual Reports were obtained from Companies House archives. There were a total of 38 top management changes among the winner and loser stocks.

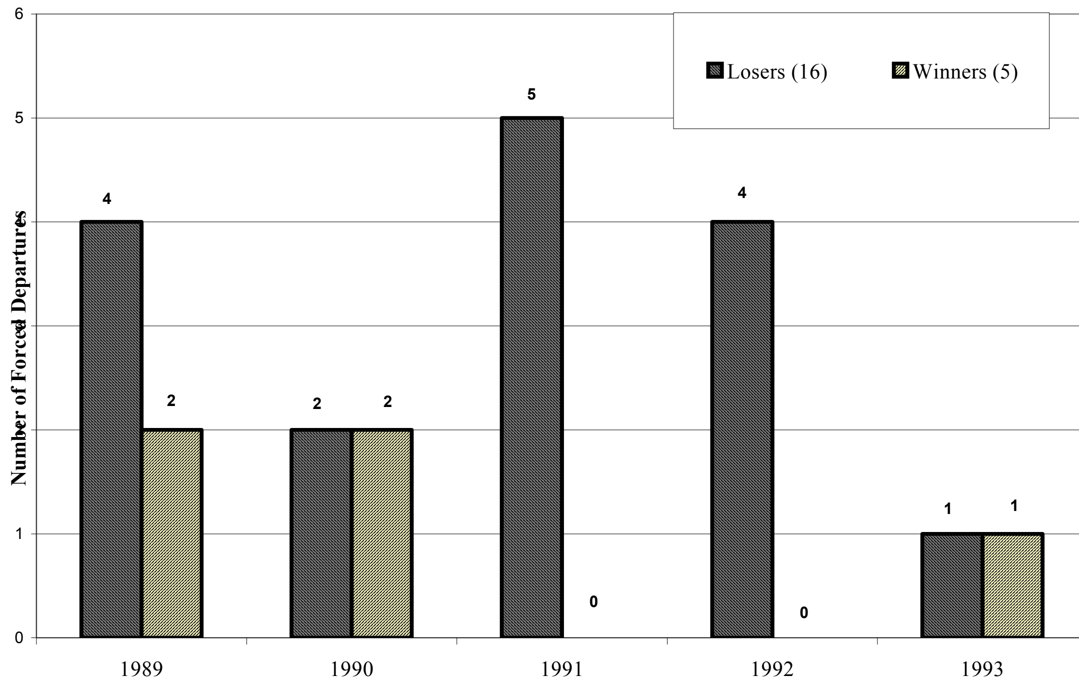


Fig. 6: Forced departures in winners and losers across the study period. The forced changes are identified based on Tables 2 to 7 and the associated discussion. The underlying data were derived after a close scrutiny of the first public announcements, news items, and press releases in the Financial Times and other media sources taken from Reuters Business Briefing as well as the Annual Reports and regulatory announcements etc. obtained from the archives of Companies House. We search these information sources right up to September 1995. A top management change is considered to be a change in the identity of the individuals playing the roles of Chairman and CEO/ Managing Director (MD). The top management changes were initially identified by tracking the yearly lists of senior executives that appear within the annual reports of the firms in question. The Annual Reports were obtained from Companies House archives. There were a total of 38 top management changes among the winner and loser stocks.

Table 8
All forced departures described by type

	Loser or Winner **(Company Name)** (Table No., Case No.) Date of change Position Involved Stated reason by company	Forced/ **Type** (Further Details)
1	**L (Wace Group)** (Table-3, Case 2) May 1990 Non-Executive Chairman No Reason	Forced/ **Cannot Explain** (Almost no information is supplied by Wace or the press about this change. Given the fact that the company has been built by the MD, and the MD is the central figure in management, this change is categorised as forced, but we could not explain its nature.)
2	**W (Micro Focus)** (Table-3, Case 3) September 1990 Deputy Chairman and MD No Reason	Forced/ Cannot Explain (No replacement is sought, and the executive chairman takes charge. Not enough has been said about this change; the company and press are silent. While considered forced, its nature is hard to establish. But, given that the company is cash rich and growing fast, has enjoyed positive market adjusted returns and just revealed significantly better than expected profits to the market, it is most unlikely that the change is monitoring-related.)
3	**L (Cray Electronics)** (Table-4, Case 3) December 1989 Non Executive Chairman Rescue Operation	Forced/ **Other Circumstances** (The departing chairman has been in office for only 1 month, and leaves due to the arrival of the rescue management team. The rescue operation, however, had started earlier with the departure of Chairman/CEO Bernard Collins in August 1989. The departing chairman was not responsible for the accounting scandal that was discovered before he took on the chairmanship. In fact, he had served on the audit committee which was instrumental in eventually re-stating the firm's profits (see *Accountancy*, 1 Jan 1990).
4	**L (Berisford)** (Table-7, Case 1) March 1991 CEO Too Talented.	Forced/ Other Circumstances (Following the earlier forced departure of executive chairman Ephraim Margulies in March 1990, the company is forced into a complete asset sale. Its only profitable subsidiary, British Sugar, has to be sold to cover losses of more than £200m on its New York property portfolio. The property portfolio was more the responsibility of Margulies. CEO Peter Jacobs used to run British Sugar, and thus leaves the firm only after the latter is sold for more than £800m for debt reduction. The new non executive chairman said this of Jacobs on his departure: "Mr Jacobs has made a 'huge contribution' by enabling Berisford to sell British Sugar for a very reasonable price on which the group's survival depended" (*Financial Times*, 27 Feb 1991).
5	**L (Wace Group)** (Table-3, Case 9) January 1992 MD No Reason (C)	Forced/ **Scandals unrelated to the firm** (John Clegg resigns after rumours of terrorist links circulate the market. The price of Wace falls by 64p after his resignation. He and the company deny such links. John Clegg was forced out by a serious blow to his ethical and professional credibility. True or not true, these rumours forced him out of his office.)
6	**L (Lonrho)** (Table-7, Case 5) August 1991 Non-Executive Chairman Facing Fraud Charges	Forced/ Scandals unrelated to the firm (The non-executive chairman of Lonrho is faced with possible disqualification as a director due to his involvement in a failed business venture where issues of fraud have been raised. The fraud charges have nothing to do with any of Lonrho's businesses. Being a private matter, they reflect private breaches of ethical and professional standards.)

7	**W (Glaxo Holdings)** (Table-3, Case 6) March 1989 CEO No Reason	Forced/ **Policy and Personality Disagreements** (Sir Paul Girolami, long lasting executive chairman is at the helm. He is a powerful figure described as a 'self-styled supremo.' Girolami appoints Dr Mario as Chief Executive and offers Mr Bernard Taylor an alternative role that was more involved in the daily running of the business. Mr Taylor sees this as a demotion and leaves. Policy differences are acknowledged. Strategic and policy differences are acknowledged by the company ex post. Glaxo has been performing very well[22] There is little evidence to suggest that this dismissal is monitoring-related.)
8	**W (Glaxo Holdings)** (Table-3, Case 7) March 1993 CEO No Reason	Forced/ Policy and Personality Disagreements (Sir Paul Girolami, long lasting executive chairman is still at the helm. He remains a powerful figure. Strategic and policy differences are acknowledged by the company and by the departing manager. "People who follow the company say that Mario and Sir Paul, once the closest of allies, had grown apart…Curiously, Sir Paul had been through the same cycle with Mario's predecessor, Bernard Taylor. In both cases, the firing of the drug company's chief executive showed the world that Sir Paul…was firmly in control" (*The News & Observer*, 12 April, 1993). "The differences in management style that prompted Mario's departure are thought to stem from his interest in pursuing growth opportunities outside of the immediate business…[while] Girolami is thought to prefer a more sedate pace of change…"(OTC Market Report Update, 1 April 1993). Incidentally, Glaxo is described in the press as being one of the world's most profitable companies in recent years. There is little evidence to suggest that this dismissal is monitoring-related.
9	**W (BAA)** (Table-6, Case 2) August 1989 CEO Pursue Other Interests	Forced/ Policy and Personality Disagreements (This is a Winner firm and the company enjoys positive market adjusted returns in the previous 6 and 12 months. The CE0, Jeremy Marshall, resigns suddenly, and given a record of divergences on policy related issues with the chairman, the change is ascribed to policy disagreements. He apparently felt compelled to leave. The Chairman of BAA, aged 68, had earlier "…indicated he would step aside and function only as a part-time non executive chairman as a prelude to retirement. But he continued to work as a full-time executive and clashes were inevitable" (*Daily Mail*, 25 February 1990). "…Mr Marshall had decided that the high profile and active role taken by the chairman left him insufficient scope (*The Independent*, 26 August 1989). There is little evidence to suggest that this dismissal is monitoring-related.)
10	**L (WPP)** (Table-7, Case 4) June 1989 Non-Executive Chairman Steps down in Favour of New Appointee	Forced/ **Strategy Considerations** (Symonds, the non-executive chairman of WPP is replaced. The chairmanship is given to David Ogilvy, the retired Life President of a recently acquired company, an event described by the press as 'almost a tip'. WPP CEO Martin Sorrell negotiated the acquisition offering the title as a symbolic move. David Ogilvy had only weeks before the takeover reportedly said, "God, the idea of being taken over by that odious little jerk really gives me the creeps" (*Daily Mail*, 17 May 1989). The Sunday Times of 14 May had this to say: "After his initial negative reaction to the WPP takeover bid, David Ogilvy now seems to welcome it, seeing Martin Sorrell as a master operator." The departure of Symonds is not monitoring-related.)
11	**W (Betterware)** (Table-3, Case 5) December 1990 Non-Executive Chairman No Reason	Forced/ Strategy Considerations (Company is growing fast, and planning for further expansion in Europe. Thus a new non-executive chairman is sought with a more appropriate European experience.)

[22] The following quotes in the press are worth noting: "Many had assumed that the person to take over Sir Paul's mantle would be Mr Bernard Taylor….Mr Taylor has impressed outsiders with his calm efficiency" (*Financial Times*, 10 May 1989); "Some surprising top-level defections from Glaxo would seem to corroborate that Girolami can be difficult to work with. One was John Burke who …had been tipped as a possible successor to Girolami" (*Financial Director*, 6 May 1989); "The changes saw the replacement of Mr Bernard Taylor, the highly respected chief executive…"(*Financial Times*, 11 May 1989). Thus, there is little evidence to suggest that Taylor's dismissal was monitoring-related.

12	**L (British Aerospace)** (Table-7, Case 2) October 1991 *Executive Chairman* Boardroom Coup led by CEO	Forced/ **Scapegoating** (BAe announces losses of £100m in 1991.(£376m pre-tax profits in 1990). Prof. Roland Smith is ousted by a boardroom coup led by the CEO. The political climate of BAe is held responsible for this change and the Press speculates about scapegoating. For example, the *Sunday Times* of 6 October 1991 had this to say: "..the board, unwilling to take the blame where it rightfully lay, turned on its chairman, Professor Sir Roland Smith." A year later, BAe announces losses of £1.2 billion explained by the end of the Cold War and declining defense budgets. Thus the boardroom coup seems more like a scapegoating scenario.)
13	**L (Cray Electronics)** (Table-4, Case 1) August 1989 Chairman/CEO Relinquishes CEO Management Scandal: Rescue operation	Forced/ **Monitoring** (Bernard Collins has to resign due to the announcement of faulty accounting profits which are reviewed by an audit committee and an independent outside accounting firm. Institutions are shocked, and intervene to appoint a rescue team.)
14	**L (Cray Electronics)** (Table-4, Case 2) November 1989 Non-Executive Chairman Management Scandal: Rescue Operation	Forced/ Monitoring (Following his resignation from his CEO position in August, Bernard Collins leaves his short lived position as non-executive chairman.)
15	**L (Trafalgar House)** (Table-5, Case 1) October 1992 Executive Chairman Backdoor Takeover	Forced/ Monitoring (Hong Kong Land Ltd gets hold of 14% of Trafalgar's shares. Asks for board representation and changes Board. Given the disappointing results of Trafalgar House and shareholders' demands for change, this change is considered a monitoring case.)
16	**L (Trafalgar House)** (Table-5, Case 2) May 1993 Non-Executive Chairman Backdoor Takeover	Forced/ Monitoring (Following two rights issues Hong Kong Land increases its stake and brings its Chairman of choice. Given the role played by the shareholders of the group, we consider this a monitoring case.)
17	**L (Stakis)** (Table-7, Case 2) June 1991 MD Restructuring	Forced/ Monitoring (Andros Stakis is forced out by restructurings initiated by newly appointed Executive Chairman and Company Doctor, Sir Lewis Robertson, who takes charge at the request and after the retirement at 77 of founder Reo Stakis who is the father of Andros Stakis. This is the only change where the dismissal is announced openly.)
18	**L (Asda Group)** (Table-6, Case 1) June 1991 Chairman/CEO Pursue Other Interests	Forced/Monitoring (CEO/Chairman John Hardman leaves both offices and Asda splits the two responsibilities. While a chairman is quickly found. Asda is left without a CEO for nine months. The post Hardman vacuum and eventual restructuring of Asda reveal that Asda was just better off without a CEO for nine months, rather than with John Hardman. The change is explained by board and shareholder pressure.)
19	**L (Berisford)** (Table-3, Case 8) March 1990 Executive Chairman No reason	Forced/ Monitoring (A failing property venture, disappointing results, and links with an illegal share support operation bring the 11 year authoritarian chairman, Ephraim Margulies, to resign. He is forced out by institutional shareholders after a significant loss of credibility.)
20	**L (Taylor Woodrow)** (Table-2, Case 1) March 1992 Executive Chairman (2.4 years, 26 years with Company)	Forced/ Monitoring Drew had 7 months of his contract left when he left abruptly at the age of 64 plus. The press state that he was unceremoniously dropped by board colleagues. Drew 'resigned' three weeks before the (disappointing) 1991 results were announced.
21	**L (Mowlem)** (Table-3, Case 1) October 1992 Joint MD (6 years)	Forced/ Monitoring or Scapegoating (unless a non-forced voluntary departure) We earlier discussed this case and felt this might be a forced or a voluntary departure. He was the brother of the Executive Chairman, and the Joint MD for 6 years. He received a handsome £395,000 for loss of office and remained as a Consultant. No explicit press speculation about the reasons for his departure.

Table 9
Forced departures across winners and losers

Forced Departures Types	Winners	Losers	Total
Cannot explain	1	1	2
Other Circumstances	0	2	2
Scandals+	0	2	2
Policy/personality disagreements+	3	0	3
Strategy considerations+	1	1	2
Scapegoating	0	1	1
Monitoring*	0	9	9
Total*	**5**	**16**	**21**

+ Note that we only include those cases that are unrelated to the departing manager's performance in the firm.

*If we regard the departure at Mowlem (Table-8, Case 21) as a case of scapegoating rather than monitoring, the number of monitoring cases in the loser portfolio would fall to 8. Alternatively, if we treat this case as a non-forced departure, the total number in the loser portfolio would fall to 15, of which the number of monitoring cases would be 8. To be conservative and stack the evidence against our main conclusions, we treat this management change as a monitoring-related case.

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