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CHAIRMAN CHARACTERISTICS AND CEO TURNOVER: EVIDENCE FROM UK LISTED FIRMS

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Abstract

The characteristics of chairman has been widely discussed since the introduction of the Cadbury Report. However, most discussions are related to separation chairman and CEO. Therefore, this study examines the influence of the other chairman characteristics, namely age, tenure, function, independence, and involvement in CEO selection, on CEO turnover. The results indicate that function, age and tenure have important role in explaining CEO turnover. The study concludes that certain chairman characteristics will lead to better corporate governance.

Keywords: CEO turnover, Chairman Characteristics, Corporate Governance

Abstrak

Penelitian mengenai karakteristik pimpinan dewan komisaris (*board chairman*) telah banyak dilakukan sejak munculnya *Cadbury Report* di UK. Akan tetapi, penelitian masih hanya berfokus pada pemisahan antara posisi pimpiman dewan komisaris (*board chairman*) dan direktur utama (*chief executive director*). Oleh karena itu, penelitian ini mencoba untuk memeriksa karakteristik pimpinan dewan komisaris yang lain seperti umur, lama jabatan, fungsi, sifat independent dan keterlibatan dalam pemilihan CEO. Hasil empiris menunjukkan bahwa fungsi, umur dan lama jabatan mempengaruhi mempunyai peran penting dalam menjelaskan pergantian CEO. Penelitian ini menyimpulkan beberapa karakteristik pimpinan dewan komisaris dapat menciptakan tata kelola perusahaan yang lebih baik

Kata Kunci: Pergantian Direktur Utama, Karakteristik Komisaris Utama, Tata Kelola Perusahaan

1. Introduction

Government, scholars, and market participants have scrutinized the roles of CEO and chairman since the corporate scandals in the early 1990s and early 2000s in the UK and US respectively. It has been argued that combining the chairman and CEO roles for one individual may create conflict of interests and affect board accountability and oversight. The proposal for change in the board leadership structure, particularly splitting the chairman and CEO roles, is the key recommendation of the Cadbury Report (1992). Given these recommendations there is a clear boundary between CEO and chairman roles. Put simply, the chairman has responsibility for running the board, while CEO is responsible for running the company.

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While the role of chairman is slightly trivial in the US (Kakabadse and Kakabadse, 2007; Brickley et al, 1997; Ferris and Yan, 2007; Dey et al, 2010), it is reported that the chairman has more important roles in the UK (Kakabadse and Kakabadse, 2007; Owen and Kirchmaier, 2008). According to Higgs's report (2003), the chairman is more effective in monitoring the CEO and promoting shareholders' interests. The chairman can make interventions to change the CEO position following company performance declines (Kakabadse and Kakabadse, 2007). This argument is consistent with Florou (2005) and McNulty et al (2011), in which the UK chairman is found to be more responsible in hiring and firing the CEO rather than company performance.

Those previous studies and arguments indicate that the roles of chairman may not be as crucial as the CEO with respect to company performance, but the chairman's roles are closely associated with the CEO performance. In other words, the chairman has power to remove the CEO where it is appropriate. As one of the strategic decisions, the board have responsibility to remove a poorly performing CEO. The chairman, as a head of board, may influence directly or indirectly this decision. This study, therefore, will try to examine the role of chairman from a different angle, which is the role of chairman in disciplining poor performance of the CEO.

Florou (2005) is the first quantitative study that discussed the relationship between chairman characteristics (chairman involvement in CEO selection, type chairmanship, and career path) and CEO turnover in the UK. Florou (2005) reports that the chairman will likely be removed when he/she is involved in the selection of the later removed-CEO, while there is marginally strong evidence that type chairmanship and career path can affect chairman removal. McNulty et al (2011) also discussed qualitatively the effects of chairman characteristics (chairman origin, chairman tittle) on board effectiveness (strategy, control, and resource dependence tasks). McNulty et al (2011) report that non-executive (and outsider chairman) are more influential than executive (and insider chairman) in monitoring and controlling roles. In other words, those studies indicate that chairman characteristics can affect governance effectiveness on board.

Moreover, previous qualitative studies (Owen and Kirchmaier, 2008; Kakabadse and Kakabadse, 2007) also report that several important findings about the development of UK corporate governance in terms of chairman. Firstly, there is a tendency that the chairman will be as an independent party, without affiliation with the company, in the board room. Referring to Finkelstein (1992) model, this type of chairman has prestige power. Secondly, most of UK companies appointed non-executive (part-time) chairman. This infers that the chairman primary role is related to monitoring role rather than the advisory role.

Given those previous empirical studies and arguments, there are two important inferences about the chairman of board. Firstly, there is possibility that that chairman characteristics can influence corporate governance effectiveness. Secondly, the role of chairman is more highly associated with monitoring and controlling roles rather than advising (resource dependence roles), particularly chairman with non-executive role. Kakabadse and Kakabadse (2007) point out that chairman might be more influential than board (non-executive) directors in terms of disciplining poor performance CEO.

Therefore, this study will examine the chairman characteristics on monitoring effectiveness rather than advising effectiveness. This study will be using CEO turnover event as the proxy of monitoring effectiveness. The investigated chairman

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characteristics are chairman function (title), chairman independence, chairman age, chairman tenure, and chairman involvement in CEO selection.

This study will contribute in a number of ways to the recent CEO turnovers and corporate governance literatures. Firstly, this study will extend the study on CEO turnovers with respect to firm performance (Weisbach, 1988; Dahya et al 2001; Huson et al 2001; Hillier et al, 2005; Lau et al, 2009). Previous studies on CEO turnover have discussed the impacts governance characteristics, e.g. board structure, board independence, CEO characteristics, ownership structure, to the likelihood of CEO turnovers. However, none has discussed the relation between chairman characteristics and CEO turnover even though chairman is responsible in hiring and firing the CEOs. This study will try to extend the studies on CEO turnover by adding five chairman characteristics in CEO turnover model.

Secondly, previous studies (Brickley et al, 1997; Dey et al, 2010) indicate scepticism as to the consequences of governance codes and recommendations, which requires splitting CEO and chairman position, on company performance. However, those studies only focus on one type of board leadership structure, whether the company separates CEO and chairman roles, without examining the chairman characteristics that hold (fill) the chairman post. Likewise, Goyal and Park (2002) use the same approach to examine the effect of chairman and CEO separation on CEO turnovers. Yet, the latest figure indicates that most of UK companies have separated chairman and CEO roles (Kakabadse and Kakabadse, 2007; Owen and Kirchmaier, 2008). Given those arguments, this study will try to extend Goyal and Park (2002) by examining empirically the chairman characteristics rather than type of board leadership structure (splitting vs no-splitting CEO and chairman roles).

Thirdly, previous studies (Kakabadse and Kakabadse, 2007; Owen and Kirchmaier, 2008; Kakabadse et al 2010; McNulty et al 2011) use qualitative approaches in examining the role of chairman in terms of advising monitoring roles. The closest study is Florou (2005), in which examines the chairman turnover and CEO turnover relation. However, Florou (2005) only use top 300 companies based on capitalisation. This study will try to extend those previous studies in terms of quantitative aspect (using logit analysis) and bigger sample size.

2. Literature Review

2.1. CEO turnover in the UK

As this study is conducted in the UK, it is necessary to look some of the UK-based studies that discuss CEO turnover. Most of the UK-based studies focus on the governance and ownership aspects. Dahya et al (1998) find that top management for UK firms are easily entrenched. Top executive with low level ownership are less likely to be removed by internal monitoring process during firm performance decline. Dahya et al (2001) report that the relationship between poor performance company and top management turnover after the recommendations becomes stronger than before the recommendations, particularly the recommendations on separation CEO-chairman roles and appointing more independent non-executive directors. Several factor that have important roles in explaining the removal of poor performance CEO in the UK such as: CEO ownership (Dedman, 2003; Hillier and McColgan, 2008), corporate action such as right issue (Franks et al, 2001; Hillier et al 2005), and chairman turnover

Floruo (2005) examines the other party that may involve directly (or indirectly) in CEO turnover event which is the company chairman. As the head of

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board directors, chairman has important role in monitoring CEO. Floruo (2005) found that chairman will likely be removed from his/her position following company performance declines. This removal will be faster when chairman involved in the ousted-CEO selection, previously serve as company CEO, and serve as executive-chairman.

As most companies have already followed the Cadbury recommendations particularly separation CEO-chairman roles, it is necessary to investigate other aspect of governance that can predict CEO turnover for listed UK companies, which is chairman characteristics. Among those previous UK-based empirical studies, Floruo (2005) is the closest one to this study, in which they examine chairman characteristics on CEO turnovers.

2.2. The Role of Chairman

Sir Adrian Cadbury once said "*Although board chairman have no statutory position, the choice of who is to fill post is crucial to board effectiveness"* – time (2002, p.35). Leblanc (2005) added that board effectiveness goes hand-in-hand with strong chairman. The implication of the separation does not only affect the chairman roles, in particular, but also affects firm performance, in general.

The roles of chairman have shifted since the introduction of the Cadbury Report. Gabrielsson et al (2007) explain the chairman roles from two approaches. Firstly, it is called the shareholder supremacy model which is based on agency theory in which their roles are to monitor, control, and evaluate top executives actions and performance so shareholders' best interest can be enhanced and protected. Secondly, it is called team production model, in which the chairman must take active roles in strategic decisions and firm operation. They conclude that the chairman roles have evolved from the shareholder model to team production model.

Overall, the chairman roles can be divided into three categories, which are strategy roles, control (monitor) roles, and resources dependence roles. Strategy roles are related the chairman roles in determining firms strategy, for instance merger and acquisition issue, decisions on entry or exit market, marketing strategy, financing decisions, appointment executive directors, etc. These roles have direct implication on firm performance. Control roles, which are the chairman primary roles, are related to keep top executive actions on the track. For instance, conduct board meeting, establish board committee, assign non-executive director to appropriate board committees, hiring and replace CEO, and selecting non-executive directors. Resources dependence roles are related to the activities, in which the chairman must provide crucial information (material, financial, symbolic) to shareholder and stakeholders. In other words, the chairman should maintain good relationship to (institutional and non-institutional) investors, government, and industry regulator (McNulty et al, 2011).

Kakabadse and Kakabadse (2007) report that the US chairman is likely still involved in running the company, while the UK chairman focuses on board affairs. They also report that the UK chairman companies is more passive than his/her counterpart in the US and Australian company in determining the vision of company. This infers that the UK chairman tends to focus on monitoring and controlling roles rather than advising roles, as expected in the Cadbury Report.

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According to Russell Reynolds Associates, an US consultant, the numbers of S&P 500 companies that separate CEO and chairman roles jump from 21 percent to 44 percent between 2001 and 2012. Similarly, 62 percent of Nasdaq 100 companies follow the trend to separate the roles. Given that figures, most of US practitioners and academics are still questioning the benefits of the separation. In the UK, companies are more receptive than their counterparts in the US in implementing the recommendations for splitting CEO and chairman roles. Almost all (about 90 percent) UK listed company split the roles of CEO and chairman (Kakabadse and Kakabadse, 2007; Owen and Kirchmaier, 2008).

McNulty et al. (2011) investigate quantitatively the power sources of the chairman in the UK. Developing Finkelstein (1992) power type. They examine three chairman characteristics, such as: chair nomenclature (executive and non-executive chairman), chair origin (inside and outside chairman), and chair time (part-time or full-time chairman). In general, they found that executive chairman (full-time chairman) who is from inside the company is more influential in determining company strategy than non-executive chairman (part-time chairman) who is brought from outside the company, whereas non-executive chairman will be more influential in monitoring and control duties.

This study tries to investigate some of chairman characteristics and other demographic factors that may lead to board effectiveness of monitoring and controlling duties on CEO performance. These characteristics are including chairman title (non-executive vs executive), chairman origin (insider vs outsider), chairman age, chairman involvement and chairman tenure.

3. Hypothesis Development

There are five chairman characteristics that will be examined in this study, which are: independence, title, tenure, age and involvement in CEO selection. The hypotheses of each characteristics will be discussed in this section.

3.1. The chairman independence

The independence of chairman will bring positive and negative consequences. The addition of founder to the board of directors will bring extra value through unique and specialized knowledge to the company. Villalonga and Amit (2009) indicate that the involvement of founder either as CEO or chairman will provide valuable skills to the company. Brickley et al (1997) call this process as “passing the baton”, in which the former CEO, who holds a chairman position, can monitor the new CEO particularly in the probation period. Fahlenbrach et al (2011) argues that former CEO has unique and specific knowledge of the business that may be useful in grooming his/her successor.

In the UK, Owen and Kirchmaier (2008) found that former CEO may interfere too much in company operations and it may be difficult to create good relationships with the successor. McNulty et al (2011) found that the benefit of the appointment of a former CEO is likely can be seen in their advising role rather than monitoring role.

This study will use the same terminology with Weisbach (1988) in explaining the incentive for independent directors in removing poor performance CEO. Weisbach (1988) argue that the independent director who works in well-run firms will be deemed as a signal of director's quality. McNulty et al (2011) indicate that it is likely that the independent chairman is elected because of his reputation (prestige power). Given those arguments, the independent chairman also should have the same incentive to perform well in running the board and making effective strategic decisions, particularly disciplining poor performance CEO. According to previous studies and arguments, it is likely that outsider (independent) chairmen are more effective than insider chairman in disciplining poorly performing CEOs.

3.2. The chairman tittle (chairman function)

Even though, in the UK, Cadbury (1992) and Higgs (2003) recommend that the chairman should be as non-executive chairman, the academics studies indicate mixed results on the effectiveness. There are four important findings that are related to the chairman title. Firstly, Kakabadse and Kakabadse, (2007) argue that there is no special characteristics between executive chairman and non-executive chairman apart they indicate full-time chairman and part-time chairman respectively.

Secondly, Florou (2005) and McNulty et al (2011) argue that the executive chairman may be more involved in company day-to-day operations (advising roles), whereas the non-executive chairman in monitoring and control duties. Florou (2005) argue that executive chairmen can be deemed as part of the executive directors team. Whereas, Roberts (2002) report that there is tendency that the inclusion of 'non-executive' title can be implied that the chairman's ultimate responsibility is to monitor the CEO and other executives directors. The inclusion of 'non-executive' in chairman title is to preserve chairman independency.

Thirdly, McNulty et al (2011) argues that the executive chairman is more powerful and influential on the board than the non-executive chairman regardless the origin of chairman. The executive chairman is likely to have either ownership or structural power. This infers that members of family, founder, or former CEO of the firm will likely fill executive chairman. They categorize executive chairman as high or medium power potential. Although McNulty et al (2011) report, on average, the executive chairman is more influential than non-executive chairman, they indicate that the non-executive chairman is more effective to control and monitor the CEO than the executive chairman. They found the creation of a board committee and the involvement on non-executive appointment could lift the non-executive chairman's structural power.

Previous studies and arguments indicate that the executive chairman is more involved in company business decisions, CEO (top executive) is not the only party who has responsibility for company performance. The executive chairman may be also responsible for bad corporate decisions. On the other hand, employing non-executive chairman means that the primary role is to undertake monitoring roles, which one of them is to replace the CEO where is appropriate. Therefore, the study hypothesizes that CEO dismissal is more effective when the company employ (use) non-executive chairman rather than non-executive chairman.

3.3. The chairman tenure

The impact of chairman tenure can be approached from two ways. Firstly, it can be approached via the chairman power. The chairman tenure can be associated with two power sources, which are ownership power (Udueni,

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1999) and expertise power (McNulty, 2011). According to Udueni (1999), it is likely that a director who has been serving on the board for a long period to acquire shares of the firm. The longer chairman served on the board will lead greater ownership power that he has. On the other hand, chairman tenure can be associated with chairman experience. According to McNulty (2011), chairman who has long tenure is likely to have expertise power because he may know specific expertise about the company business and operational. Furthermore, Kakabadse and Kakabdse (2007) indicate that the chairman who has long tenure (12 to 15 years) in the company will be effective doing his/her duties. They found that the longer chairman and other board members work together, they have more understanding in terms of the company strengths and weaknesses.

Secondly, it is possible that the longer chairman serves as on the chairman, it is likely that he may involve on the CEO selection. Florou (2005) find that the likelihood of chairman dismissal is higher when the chairman involves on the selection of poor performance CEO. It infers that the chairman who is involved in CEO selection is less likely to remove a poor performing CEO than a chairman who is not involved because it can jeopardize his job. In other words, the chairman who involves on hiring CEO is not effective on removing poor performance CEO.

In addition to the second view, it is likely that long tenured chairman tend to have comfortable relationship with the directors particularly CEO which lead to ineffectiveness chairmen in disciplining poor performance CEO. It is also possible that the introduction of new chairman also lead to introduction one or two non-executive directors.

The chairman roles are primarily related to advising, resource dependence, and control roles (McNulty et al, 2011). Given these roles, the first view is suitable for the advising and resource dependence roles while the second view is suitable for the control (monitoring) roles. As this study focuses on the chairman monitoring roles, this study will use the second view as the foundation to build the hypothesis of chairman tenure on CEO dismissal. Therefore, this study hypothesizes that the chairman who has short tenure will be effective to remove poor performing CEOs.

3.4. The chairman age

The latest figures indicate that firms tend to hire older chairman than in 1990s. Owen and Kirchmaier (2008) report that about 68 percent of FTSE 350 chairman age are between 61 and 75 years old in 2005, while it is only 38 percent for the same age range in 1995. Bezemer et al (2012) also report that the average chairman age in in Netherland have increased from 63.95 years old in 1997 to 65.60 years old in 2005.

In terms of chairman age, there are two opposite views in developing the hypothesis. On the one hand, Waelchli and Zeller (2013) argue that the consequences of chairman age can be approached from two ways, which are related to their cognitive abilities and motivations. They report that the company performance will decline as the chairman becomes old. They argue that chairman’s cognitive abilities will deteriorate and it cannot be fixed with compensation (incentive) package. In other words, old chairman is less effective than young chairman in undertaking his duties. On the other hand, old chairman may have more experience than young chairman particularly experience on the board

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room. This experience will bring benefits on firing CEOs which is one of the firm strategic decisions.

Given those previous studies and arguments, it is likely that older chairman is less effective in doing his primary role, which is monitoring role. This study hypothesizes that chairman age has negative association with CEO turnover. Nevertheless, it is necessary to examine the relationship between chairman age and CEO turnover is linear.

3.5. The Involvement of Chairman in CEO selection

The last investigated chairman involvement in appointing CEO. As chairman main responsibilities are to hire and dismiss CEO, it is likely chairman is involved in the CEO selection process. The hypothesis argument is built from Florou (2005), in which she finds that there is a possibility that chairman lost his (her) job when the CEO is ousted, particularly when the chairman is involved in recruiting the ousted chairman. This condition infers that chairmen who are involved in the CEO selection may be less likely to remove poorly performing CEOs.

4. Research Methodology

4.1. Sample Selection

This study will observe the CEO turnovers for non-financial companies in the London Stock Exchange during the period 2005 to 2013. As this study tries to examine the chairman characteristics and CEO turnovers, several requirements must be fulfilled in selecting the right observations. Firstly, the firms must have CEO and chairman. Similar to Hillier et al (2005) and Florou (2005), this study considers top officer in the company as the CEO. Since not all companies have CEO positions, the role of CEO is held by managing director (MD). If the managing director does not exist, this study will use one of executive directors that is equivalent to CEO. This can be seen from the job description, responsibility, and salary in the financial report.

Secondly, although most UK listed companies have separated CEO and chairman positions, it is still possible that the firms change from dual CEO roles to separation CEO-chairman roles during certain periods in the observation period. If these issues occur, the firm-years with no CEO/MD/chairman or combined CEO-chairman will be excluded from research observation. Thirdly, as this study wants to investigate the role of chairman in CEO turnovers, CEO turnovers as a result of board restructuring (removal CEO and chairman about at the same time) will be excluded from research observation because chairman has no influence in this type of forced turnovers.

Thirdly, this study excludes financial and real estate firms. Firms with Industry Classification Benchmark (ICB) 8000 will be excluded. This study identifies one major problem when retrieving the ICB code. The database (Bloomberg) only provides the latest ICB codes (no historical codes). As the consequence, there is a possibility some firms that change their industry classification from (or to) financial sector are also excluded from this study.

Table 1 indicates the number of firm-year observations that have dual CEO roles and joint-CEO positions. Even though the Cadbury report recommends separation between CEO and chairman positions, there are few firms that still combine those two positions. As a consequence, firms that combine CEO and chairman positions are excluded from further analysis. Similarly, there are several firms that give CEO position to two individuals. This position is usually joint-CEO. This position is also excluded in further analysis due to its unique governance structure and its difficulty to determine their characteristics. For instance, if a firm has two CEOs, one of whom is from inside the firm and the other from outside the firm, it will be so difficult the decide the origin of CEO in this case.

Table 1.
Sample Selection

Year	Firms	Firms with Combining CEO and chairman	Firms with Joint CEO (MD)	Firms with Executive directors equivalent to CEO	Firms without CEO (MD)	Firms without Chairman
2004	1260	94	9	52	92	30
2005	1469	106	11	51	111	33
2006	1513	97	11	49	110	47
2007	1482	72	9	49	105	34
2008	1352	58	9	43	104	28
2009	1216	51	5	35	100	36
2010	1141	42	3	32	87	25
2011	1100	47	5	27	97	25
2012	1055	45	4	20	99	24
Total	11588	612	66	358	905	282

4.2. Variable definitions

4.2.1. Dependent Variable

The primary dependent variable in this study is CEO turnover. CEO turnover is defined as a change in CEO identity. In this case, CEO turnover = 1 if CEO turnover occurs in firm i and time t, and CEO turnover = 0 if else. Following previous studies (Huson, 2001 et al Huson et al, 2004; Hillier et al, 2005; Lau et al, 2009; Jenter and Kanaan, 2010; Kaplan and Minton, 2012), CEO turnover will be divided into two categories, which are routine turnover and forced turnover. Previous studies (Huson et al, 2001; Hillier et al, 2005; Hillier and McColgan, 2009) classified the CEO turnovers according to the report from Wall Street Journal. The categorized forced turnovers when the CEO is fired, departs due to dispute in policy, or retiring before the age of 60. Furthermore, CEO retirement announcements less than 6 months before the succession is categorized as forced turnover. On the other hand, turnovers as results of death, poor health, and acceptance of other position (within company or elsewhere), personal reason (or business reasons) that unrelated to business activities are categorized as routine (voluntary) turnovers.

In some cases, CEO could be stated as interim, acting, joint, and co-CEO. When interim or acting CEOs are removed from their positions, these events are deemed as no

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turnover events. This means that this study only examines CEO turnover which is on permanent basis. Furthermore, acceptance of a higher position in the company (e.g. chairman) or elsewhere (e.g. as CEO) will be classified as routine turnover.

4.2.2. Financial Measures

This study will use both market and accounting data in measuring firm performance, which are stock returns, return on assets, profit margin and qui-score. The stock returned is obtained from Datastream database. The stock return is measured by 12-month period return of stock a year prior the CEO turnover year. ROA is defined net profit divided by book value of total assets. Profit margin equals to net profit divided by total sales (revenue). Qui score is to measure the firm credit risks which presented in scale between 1 (worst case) and 100 (best case). ROA and Qui score data is provided by FAME database, while profit margin and stock return are from Bloomberg database

4.2.3. Chairman Characteristics

Chairman characteristics are the central aspect in this study. The chairman characteristics will be divided into five variables, which are chairman tenure, chairman age, chairman title, chairman involvement, and chairman independence. Chairman tenure is the number of years spent as chairman, either as non-executive chairman or executive chairman. Both chairman tenure and chairman age are measured by years. In the regression analysis, chairman age and chairman tenure will be measured through continuous and dummy variables. The chairman function is measured by a dummy variable. It equals to 1 if the chairman title is non-executive, and it equal to 0 if else. Chairman involvement will be measured as a dummy variable. It equals to 1 if chairman involves in CEO selection or chairman appointment dates is lower than CEO appointment date, and it equals to 0 if else.

The last part of chairman characteristics is the chairman independence. In general, there are at least possibilities of chairman origins, which are the former CEO (executive director), the owner (substantial shareholder/family member/founder), former non-executive directors and outside (independent). This study defines outside (independent) chairman similar to defining an outsider CEO, which are not working previously (not more than 1 year) with the firm, not having no more than 3% shareholding, and not affiliated with any blockholders. This variable will be measured as dummy variable. It equals to one if the chairman is an independent (outsider) chairman and it equals to zero for else.

4.2.4. Board Characteristic

There are two variables in measuring board characteristics, which are board size and fraction of non-executive directors. Board size is defined as the numbers of board members (directors), which include CEO, chairman, Vice/deputy chairman, executive (financial and operational directors) and non-executive directors. Fraction of non-executive directors is defined the

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numbers of non-executive directors, which includes independent directors and non-executive deputy/vice chairman, divided by board size.

This study also includes the gender diversity measure in the model. Adam and Ferreira (2009) report that gender diversity on the board can influence the likelihood of CEO turnovers. The gender diversity is measured by percentage of women that have non-executive directors rather than percentage of women on the board of directors because the non-executive directors are more closely associated to monitoring roles rather than the executive directors.

4.2.5. CEO Characteristics

This study will also control the CEO tenure and CEO outsider classification which are continuous and category variables respectively. CEO tenure is defined as years being in the CEO position (or position equivalent to CEO position).

In general, there are two ways how to define outsider CEOs. Firstly, it can be classified as outsider CEOs when the new CEOs previously worked with the company less than a year at the time of their appointment as CEO (Huson et al, 2001; Hillier et al, 2005; Florou, 2005). Secondly, Dahya (2005) defined that outsider succession occurs when the successors are not the member board of directors (executive directors). Furthermore, they are not related to controlling and never employed by the company historically. This study will employ the first definition to classify outsider CEO.

This study will classify type of CEO successors into two parts, which are insider CEO and outsider CEO. Insider CEO is defined as (1) he has been in the board at least 12 months, or (2) he is promoted either from outside the board and the other unit business which is in the same parent company, or (3) he is part of the substantial shareholders (more than 3% ownership) or affiliated shareholders or family or (4) he is one of the founders, or (5) he is involved in the recent corporate action such as (M&A, placing, right issue, open offer, etc.). Any CEO that is not part of those categories will be considered as an outsider CEO. CEO outsider = 1 if the CEO is outsider, and CEO outsider = 0 if else.

4.2.6. Control Variables

Besides total asset, this study also adds the total blockholders ownership to the model. Dahya et al (1998) report that ownership concentration can affect CEO turnover. Furthermore, firm age, firm assets, years and industry are also controlled in this study through dummy variables. This study uses Industry Classification Index (ICB) for super-sectors.

4.3. Regression Analysis

Previous studies have indicated that CEO turnover will be likely influenced by several factors, such as: financial performance, CEO characteristics and board characteristics. Therefore, to control for those factors, this study will include them as independent variables in the regression analysis. The general model in this study is formulated as:

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CEO turnover = f(firm performance, chairman characteristics, CEO characteristics, Board characteristics, control variables)

This study will employ logit model to estimate studies (Denis and Kruse, 2000; Hillier et al, 2005; Lau, et al, 2009). The model will be transformed into binominal logistic model as follows:

$$\begin{aligned} turnover_{i,t} = \ln\left[P_{i,t}/(1-P_{i,t})\right] = {}_1 + {}_2\, firm\_performance_{i,t-1} + {}_3 chairman\_characteristics_{i,t-1} \\ + {}_4 CEO\_characteristics_{i,t-1} + {}_5 board\_characteristics_{i,t-1} \\ + {}_6 Control\_variables_{i,t-1} + {}_7\, interaction\_variables_{i,t-1} + + £ \end{aligned}$$

$P_{i,t}$ is the probability of CEO turnover for firm i and year t. For year t, this study will split into two parts, which are year t when turnover occurs and year t without turnover. All the explanatory variables are at lag (t-1). All variables will be measured at the end of year t. Each factor will be measured in the model will be expanded from to five variables in the further analysis. This study also adds year dummies and industry dummies in the model.

5. Empirical Results

5.1. Descriptive Analysis

Table 2 presents the final firm years and the number of CEO turnover incidents for every year during period 2005 to 2013. Some firms could have more than one CEO succession in a calendar year. In this case, only the first CEO succession will be included the analysis in order to avoid overlap. The average rate for all turnovers in this study is 9.75 percent, which is lower than previous UK based studies, such as Hillier et al (2005) and Hillier and McColgan (2009) which report around 12%. This is may be the results of excluding some CEO turnover events in the previous section. As this study employs different way in classifying the forced and routine CEO turnovers, the rate of CEO forced turnovers in this is higher than previous studied (Conyon and Florou, 2002; Hillier et al, 2005). The rate of CEO forced turnovers is 5.87 percent, while previous studies are around 4 percent.

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Table 2.
CEO Turnover Classification between 2005 and 2013

Year	Firm-Year	CEO turnover		Forced turnover	
		Observation	Rate (%)	Observation	Rate (%)
2005	1013	99	9.77	58	5.73
2006	1153	123	10.67	71	6.16
2007	1185	139	11.73	73	6.16
2008	1185	127	10.72	84	7.09
2009	1090	104	9.54	62	5.69
2010	977	83	8.50	55	5.63
2011	930	95	10.22	62	6.67
2012	883	83	9.40	53	6.00
2013	823	46	5.59	24	2.92
TOTAL	9239	899	9.73	542	5.87

Table 3 exhibits the descriptive statistics of CEO characteristics, chairman characteristics, board characteristics, performance measures, and firm characteristics. It is reported that there is a significant number of missing values for some variables, particularly firm performance measures and firm characteristics. Firm profit margin and stock return are the first and second highest in terms of missing observation. This problem occurs mostly due to poor data availability for small listed firms particularly when they are delisted. It is likely that total observations in regression analysis will be lower than 9000 observations.

This study will winsorize ROA, stock return and profit margin at 1% and 99%, while qui-score will remain the same as the score range is between 0 and 100. After the winsorize, the mean of ROA, stock return, and profit margin are still in the negative area but the median values are positive. This infers that there are some firms that experience severely poor performance.

Table 3
Summary descriptive statistics

Variable	N	Mean	Std Dev	Lower Quartile	Median	Upper Quartile
CEO Characteristics						
Outside CEO	9226	0.315	0.465	0.000	0.000	1.000
CEO age	9238	50.492	7.836	45.332	50.248	55.578
CEO tenure	9239	5.075	4.943	1.578	3.586	6.907
Chairman Characteristics						
Chairman age	9239	60.478	7.751	55.800	61.093	65.488
Chairman function	9213	0.755	0.430	1.000	1.000	1.000
Chairman involvement	9239	0.398	0.489	0.000	0.000	1.000

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Chairman independence	9202	0.460	0.498	0.000	0.000	1.000
Chairman tenure	9239	5.065	5.526	1.586	3.504	6.521
Board Characteristics						
Board size	9239	6.794	2.355	5.000	6.000	8.000
% independent director	9239	0.390	0.202	0.250	0.400	0.500
% female non-executive director	9239	0.057	0.127	0.000	0.000	0.000
Firm Performance						
ROA[*]	8831	-0.072	0.351	-0.091	0.031	0.090
Stock Return[†]	8371	-11.339	65.065	-41.699	0.000	27.651
Profit Margin[‡]	8229	-2.014	10.673	-0.083	0.028	0.085
Qui Score	8533	82.955	14.008	77.000	90.000	93.000
Firm Characteristics						
Total asset	8853	1389666.670	9322386.980	11079.000	45742.000	234765.000
Total employees	8700	5920.810	28363.120	57.000	267.000	1827.500
Firm age	9239	23.414	28.529	5.614	11.088	26.222
Blockholders	9041	0.213	0.150	0.114	0.167	0.262

Florou (2005) reports the average chairman age is 61.3, while this study reports the average chairman age is 60.47. Thus, it is likely that most of chairman is about 10 years older than CEO. Table 3 indicates that the mean (median) CEO tenure is slightly higher than the mean (median) of chairman tenure, which are 5.08 years (3.59 years) and 5.07 years (3.50 years). Furthermore, most of the firms still hire insiders to become the chairman, which can be either a former CEOs (executive directors), the owner (substantial shareholder/family member/founder), or former non-executive directors. There is about 46 percent independent chairman in this research. Yet, this figure relatively larger than the outsider CEO, which is only about 32 percent. It is also reported that most of UK listed firms assign their chairman as non-executive chairman rather than executive chairman and most of these chairmen are not involved in CEO selection.

Table 4 shows the coefficients correlation of all variables that will be used in the regression analysis. It shows that there is a strong positive between firm size (asset), firm total employee, and board size. The correlation between firm asset and board size is 0.69, while the correlation between firm total employee and board size is 0.60. This means there is possibility multicolinearity problem when firm asset and board size are used together in the regression model. Thus, this study will use firm total employee, instead of total asset, to proxy firm size.

Fraction of independent director and board size are the proxies of board monitoring power and firm complexity. Fraction of independent director has positive association with chairman function and chairman independence, while it has negative correlation with chairman tenure. The more independent director on board, chairman will likely be as independent non-executive chairman. Moreover, Board size also has

[*, 2, 3] winsorised at 1% and 99%

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positive correlation with chairman age and chairman function. It is likely large board need more experienced chairman and focused on monitoring due to firm complexity. In other words, it is likely the effectiveness of chairman depends on the board characteristics.

Table 4
Correlation Matrix for Explanatory Variables

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
outsider_ceo (1)	1.00																	
ceo_tenure (2)	-0.21	1.00																
board_size (3)	0.04	-0.01	1.00															
prop_ined (4)	0.07	-0.07	0.23	1.00														
women_ned (5)	0.02	0.03	0.23	0.07	1.00													
chair_age (6)	-0.01	0.09	0.08	0.00	-0.03	1.00												
chair_tenure (7)	-0.10	0.27	0.02	-0.11	-0.02	0.24	1.00											
chair_func (8)	0.02	0.05	0.04	0.18	-0.01	0.08	-0.25	1.00										
involve (9)	0.14	-0.38	0.04	0.01	0.02	0.10	0.36	-0.16	1.00									
independent chairman (10)	0.07	-0.06	-0.01	0.32	0.04	0.05	-0.19	0.26	-0.03	1.00								
ROA (11)	-0.05	0.15	0.19	0.05	0.10	0.08	0.12	0.02	0.02	-0.02	1.00							
Stock Return (12)	-0.04	0.10	0.09	0.02	0.04	0.04	0.10	0.01	0.00	-0.02	0.32	1.00						
Profit Margin (13)	0.00	0.03	0.04	-0.02	0.02	0.03	0.02	0.00	-0.01	-0.03	0.13	0.02	1.00					
Qui Score (14)	-0.05	0.17	0.04	-0.03	0.01	0.11	0.17	0.02	0.04	-0.04	0.49	0.22	0.09	1.00				
ln_asset (15)	0.08	0.02	0.69	0.27	0.29	0.11	0.02	0.07	0.04	0.01	0.43	0.17	0.06	0.18	1.00			
ln_employee (16)	0.07	0.03	0.60	0.19	0.28	0.11	0.05	0.07	0.06	0.00	0.39	0.15	0.09	0.20	0.88	1.00		
firm_age (17)	0.07	0.08	0.16	-0.34	0.10	0.16	0.21	-0.01	0.12	-0.07	0.19	0.10	0.04	0.28	0.26	0.33	1.00	
blockholder (18)	-0.02	-0.01	-0.11	-0.05	-0.08	0.01	0.06	-0.10	0.00	-0.03	-0.07	-0.04	-0.01	-0.04	-0.20	-0.19	-0.09	1.00

5.2. Logit Regression Analysis

Table 5 reports the relation between financial measures and the likelihood of CEO forced turnover. Consistently to previous studies (Huson et al, 2001; Hillier et al, 2005; Lau et al, 2009), all the financial measures are negatively associated with CEO forced turnover, which means the likelihood of forced turnover is high when the firm performance is low, and vice versa. The significance of financial performance measure is relatively high in Model 1 to Model 4, but profit margin and qui score tend to lose their significance in Model 5. This implies that ROA and stock return might be the most important measures for removing poor performance CEOs.

Table 5.
CEO Turnover and Financial Performance*

VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5
Outside CEO	0.293***	0.193*	0.301***	0.308***	0.178
	(0.099)	(0.104)	(0.106)	(0.101)	(0.116)
CEO tenure	-0.013	-0.014	-0.022**	-0.014	-0.006
	(0.010)	(0.010)	(0.011)	(0.011)	(0.011)
% independent director	-0.010	-0.046	-0.271	-0.068	-0.026

* Robust standard errors in the parentheses; *** p <0.01, ** p<0.05, * P<0.1

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	(0.269)	(0.283)	(0.287)	(0.275)	(0.304)
Board size	0.042*	0.046*	0.065**	0.044*	0.054*
	(0.025)	(0.026)	(0.026)	(0.025)	(0.028)
% women non-executive director	0.161	0.335	0.359	0.082	0.154
	(0.392)	(0.388)	(0.397)	(0.409)	(0.441)
Ln total emp	-0.045	-0.098***	-0.116***	-0.076***	-0.058
	(0.029)	(0.030)	(0.032)	(0.029)	(0.035)
Firm age	-0.003	-0.003	-0.004**	-0.002	-0.002
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Blockholder	-0.518	-0.487	-0.350	-0.503	-0.438
	(0.346)	(0.374)	(0.366)	(0.354)	(0.412)
ROA	-0.875***				-0.605***
	(0.095)				(0.150)
Stock Return		-0.007***			-0.006***
		(0.001)			(0.001)
Profit Margin			-0.008**		0.002
			(0.003)		(0.005)
Qui Score				-0.017***	-0.007
				(0.003)	(0.004)
Constant	-3.433***	-2.967***	-2.999***	-1.612***	-3.009***
	(0.316)	(0.310)	(0.341)	(0.377)	(0.524)
Observations	8,556	7,945	7,791	8,282	7,149
Ll	-1843	-1687	-1642	-1782	-1410
r2_p	0.0421	0.0519	0.0292	0.0365	0.0615

In terms of CEO characteristics, the coefficient estimation of outsider CEO is statistically positive significant at level 1 percent. This means that likelihood of outsider CEO experience forced turnover is higher than insider CEO. This results are consistent for all models in Table 5. Consistently, CEO tenure tends to have negative influence to the likelihood of force CEO turnover, but it is only statistically significant in Model 3. The coefficient estimations suggest that the CEOs tend to be entrenched when they hold their position for a long period.

Board size has statistically positive effect on forced turnovers for all models. Large board tends to dismiss CEO. Previous UK based study (Dahya et al, 2002; Hillier et al, 2005) failed to show that board size statistically significant affects CEO turnover. However, the estimations of independent directors on the boards fail to indicate that more independent directors will increase the likelihood of forced turnover. The other board characteristic is the fraction of women non-executive director. This variable has positive and stable sign as expected, but they are not statistically significant for all models. These results are consistent with Adams and Ferreira (2009), in which gender diversity on board will have positive effect on CEO turnover.

Firm size, which proxied by firm total employee, tend to have negative consequences on forced turnovers. This result is relatively similar to previous UK based studies (Hillier et al, 2005; Hillier and McColgan, 2009) on CEO turnover. This result infers most UK large firms either perform so well or avoid CEO dismissal due to possibility expensive costs.

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Table 6 shows the impacts of chairman characteristics on forced CEO turnover. Several chairman characteristics have important roles in explaining the likelihood of CEO forced turnovers. Chairman function has negative coefficients in model 1 and model 6, which is the opposite of expected sign. This means that non-executive chairman decreases likelihood forced turnovers. This result is statistically in model 6. For Chairman age, the finding is consistent with Waelchli and Zeller (2013) in which old chairman tend to experience deteriorating cognitive abilities which in the end implicate firm performance.

Similar to chairman age, chairman tenure also shows consistent sign and significance level. Chairman who has held his (her) position for a relatively long period is less likely to remove poor performance CEO. Long-tenured chairman becomes more comfortable relationship with directors particularly CEO which lead to chairman ineffectiveness in disciplining poor performance CEO. Independent chairman is not statistically significant, but chairman involvement is marginally significant 5 percent. But the significance of chairman involvement disappears in model 6. Regardless its significance, independent chairman and chairman involvement consistently have positive and negative consequences on forced turnover likelihood. Overall, chairman function, chairman age, and chairman tenure could be important chairman demographics on forced CEO turnover.

Table 6.
CEO Turnover and Chairman Characteristics*

VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Outside CEO	0.301***	0.310***	0.299***	0.304***	0.329***	0.290***
	(0.098)	(0.098)	(0.099)	(0.098)	(0.098)	(0.099)
CEO tenure	-0.023**	-0.020*	-0.009	-0.024**	-0.033***	-0.006
	(0.010)	(0.010)	(0.011)	(0.010)	(0.011)	(0.013)
% independent directors	-0.065	-0.156	-0.179	-0.224	-0.163	-0.106
	(0.276)	(0.270)	(0.269)	(0.288)	(0.271)	(0.288)
Board size	0.048*	0.053**	0.051**	0.051**	0.051**	0.054**
	(0.025)	(0.025)	(0.025)	(0.025)	(0.025)	(0.025)
% women non-executive director	0.243	0.164	0.208	0.246	0.264	0.081
	(0.377)	(0.382)	(0.388)	(0.381)	(0.381)	(0.388)
Ln total employee	-0.113***	-0.106***	-0.112***	-0.113***	-0.113***	-0.104***
	(0.028)	(0.029)	(0.028)	(0.029)	(0.028)	(0.028)
Firm age	-0.004*	-0.004*	-0.003	-0.005**	-0.004*	-0.002
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Blockholders	-0.479	-0.489	-0.458	-0.465	-0.502	-0.401
	(0.340)	(0.342)	(0.342)	(0.340)	(0.342)	(0.341)
Chairman function	-0.158					-0.267**
	(0.105)					(0.112)
Chairman age		-0.022***				-0.017***
		(0.006)				(0.006)
Chairman tenure			-0.051***			-0.049***
			(0.015)			(0.017)

* Robust standard errors in the parentheses; *** p <0.01, ** p<0.05, * P<0.1

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Chairman independent				0.047		0.075
				(0.099)		(0.102)
Chairman involvement					-0.239**	-0.037
					(0.105)	(0.118)
Constant	-2.640***	-1.500***	-2.582***	-2.736***	-2.604***	-1.453***
	(0.311)	(0.435)	(0.308)	(0.305)	(0.307)	(0.445)
Observations	8,544	8,568	8,568	8,550	8,568	8,526
Ll	-1884	-1883	-1880	-1886	-1887	-1865
r2_p	0.0276	0.0302	0.0317	0.0267	0.0283	0.0355

5.3. Research Discussion

This study has tried to explore the effect of chairman characteristics on CEO turnover for listed UK firms. Those chairman characteristics are chairman function (non-executive and executive), chairman independence, chairman involvement in appointing CEO, chairman age and chair tenure. The regression analyses used different indicators to measures firm performance, which are ROA, stock return, profit margin and qui-score. Table 5 shows that all indicators of firm performance are statistically significant, but ROA and stock return are the most powerful in explaining CEO turnover.

Table 6 shows that most of the estimation signs are as expected except for the estimation of chairman function. This study hypothesized that non-executive chairman will give positive influence on forced turnover, but it goes to opposite way. The coefficient estimation is even more significant in Model 6 when all chairman characteristics are included.

Practitioners and academics have been pointed out other chairman duties and roles besides appointing and firing CEO. From the practitioners' perspective, the UK governance code which released by the Financial Reporting Council (FRC) said that effective board can be reflected by the quality of its chairman. As the UK' independents independent regulator, FRC indicate some essentials chairman roles such as:

- Chairman is the leader of board. He (she) must set out board agenda which may be related to strategic decisions, performance, value creation, and accountability.
- Chairman should create and maintain good relationship between executive team and non-executive team either inside or outside the board room.
- Chairman should ensure that all directors receive accurate, timely, and clear information on firm performance so that board related activities (monitoring, advising, and controlling) can be done properly.
- Chairman should evaluate regularly succession planning and the composition of board. He (she) also should consider properly the structure board committee.
- Chairman should ensure decent communication with company shareholders and stakeholders and ensure that all directors are fully aware who provide the company's capital.

Similarly, most of the arguments from recent academic papers indicates that the chairman roles have evolved. Cossin and Caballerro (2013) argue that roles of

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chairman have shifted from conventional to active chairmanship. The conventional roles of chairman are mainly related to setting up board agenda, board composition, CEO appointment and dismissal. (Bezemer et al 2012) shows that the chairman tend to spend more times on boards, less board interlocks, and become more active on boards and committees for the last few years in Netherlands.

6. Conclusion

This study tried to investigate the chairman characteristics on CEO turnovers. By using listed firms in the UK, this study can analyse more than 1200 CEO turnover event during the period 2005 to 2013, which is larger than previous UK based studies on CEO turnover.

Chairman function, chairman independence, and chairman age are the most important characteristics. Initially, chairman function has unexpected result, in which executive chairman is more influential on CEO turnover decision rather than non-executive chairman. But, after conditioning the board size and board independence, the findings support McNulty et al (2011), in which they report that non-executive chairman more effective in monitoring and controlling roles.

Independent chairman, which might be the heart of corporate governance, is significant on forced CEO turnover. The effect of independent chairman could be subject to board size and fraction of independent director since independent chairman has less power than insider chairman (McNulty et al, 2011). Independent chairman can increase his (her) influence level certain governance mechanism, e.g. through hiring more independent directors, creating board committee.

Old chairman has negative effect on the likelihood of force turnovers. However, poor cognitive abilities that experienced old chairman can be addressed by hiring more director, particularly independent director. This study has not found evidence that chairman tenure and chairman involvement can influence CEO turnover.

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