CEO Dismissal, Compensation and Topics of Board Meetings: The Case of China


Abstract

Our paper examines the relationship between the frequency of board meetings on particular topics, and CEO dismissal/compensation and performance sensitivities. We utilize a unique dataset of specific topics discussed at board meetings, drawn from the reports of independent directors of listed firms in China over the period of 2003 to 2010. Our results show that turnover-performance sensitivity is weaker when there is a higher frequency of board meetings discussing the nomination of directors and top management. Moreover, the link between CEO compensation and firm performance is enhanced only when directors meet more often to discuss growth strategies for the use of IPO proceeds, investment and acquisitions. The paper provides support for agency theories on the effectiveness of board monitoring. It sheds lights on what makes boards more effective, and how board monitoring of different decisions at board meetings modifies the connection between CEO interests and firm performance.

Item Type: MPRA Paper

Original Title: CEO Dismissal, Compensation and Topics of Board Meetings: The Case of China

Language: English

Keywords: Board Effectiveness, Board Meeting Topics, Agency Costs, CEO Compensation, CEO Dismissal

Subjects: G - Financial Economics > G3 - Corporate Finance and Governance > G30 - General. G - Financial Economics > G3 - Corporate Finance and Governance > G34 - Mergers ; Acquisitions ; Restructuring ; Corporate Governance

Item ID: 70232

Depositing User: Dr Oleksandr Talavera

Date Deposited: 24 Mar 2016 05:47

Last Modified: 24 Mar 2016 06:42

References:


Boards with strong incentives are more likely to be proactive and act on their private information about the CEO than boards with poor incentives. Early dismissal firms experience a short-lived decline in operating performance around the date of CEO dismissal, and their operating performance recovers immediately after the CEO is replaced. On the other hand, the operating performance of late dismissal firms declines significantly prior to dismissal and improves substantially after dismissal. We also find that CEOs that are dismissed early are not more likely to find new CEO positions than CEOs.