

# EXECUTIVE IMMIGRATION: An Informational Content Story

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## Abstract

We consider information transfers regarding executive quality after an executive moves to a new firm. We find that the performance of the old firm before the executive's migration and the market reaction (in the new firm) to the emigration are positively associated with the market reaction to the immigration event, particularly in same industry migrations. With respect to an old firm's contiguously subsequent write-down and restructuring events, we conjecture that subsequent restructuring events signal hitherto unrecognized shortcomings of the emigrating executive. We find that, ceteris paribus, the market reaction to new firm's stock at the time of the old firm's announcement of a post-immigration restructuring is significantly negative, but again only when the old firm and the new firm are members of the same industry. Furthermore, contrary to previous studies, we find that old firms' and new firms' stocks exhibit negative reactions to their own restructuring events.

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## **I. INTRODUCTION**

What happens to information regarding management quality when an executive moves? Senior executive turnover transmits strong, but often ambivalent, signals to the labor and capital markets about the executives and the firms they leave and join. It is no surprise, therefore, that such changes have caught the attention of academic scholars. However, while three strands of literature spanning the fields of management, accounting and finance have examined the issue of CEO turnover determinants, frequency and implications, none have followed the path of executives and related quality signals post-move.

Thus, while understanding how market participants assess and price executive quality is clearly of import, little in general is known. In this paper, we explore this issue in detail, focusing on how investors interpret executive quality information along the career migration path.

Specifically, we analyze transfers of information, which we argue reflect executive quality as executives move among jobs. We examine information signals after the executive has left a firm, and focus on bad news reports emerging after an executive has left a firm which could indicate that the manager's new firm is getting less of a benefit than they had initially expected. Our results in fact indicate that while the initial stock price reactions at both the old firm around emigration (exit from the firm) and new firm around immigration (joining the firm) are consistent with positive management quality, negative events occurring in the old firm after emigration revise downwards expectations regarding the new firm. This signaling effect is expected to be strongest within industry, and to vary across the type of event.

The negative events we consider include both restructurings and write-downs at the old firm.<sup>5</sup> We find that restructuring has a material adverse impact on the stock price of a new firm within the same industry. The impact is economically and statistically significant, with a mean drop of two percent in two-day excess returns. Write-downs that are not associated with restructuring, however, are found not to significantly impact prices. We attribute this differential reaction to the implications of restructuring. Restructuring — mostly costs of reorganization and disposal — closely following immigration and triggering cash consequences could imply that the need to restructure had arisen before emigration. If this is the case, either the departing executive had failed to initiate it, or the restructuring could have arisen because of the executive's past mismanagement. Either implication could raise questions about the manager's skill or motivation, i.e., their quality, which we expect to be manifested in a negative stock reaction at their new firm. This would not be true, however, for write-downs unrelated to restructuring, since these do not trigger cash consequences.

Our finding is important in that it reveals how information available up to and including the immigration event does not sufficiently enable accurate and complete evaluation of the executive's quality. In particular, the market incorporates information regarding an executive's quality (skill, motivation, honesty, etc.) based not only on measures of performance at their current firm, but on the old firm's current decisions as well.

We also find that measures of performance (both stock returns and returns on assets) of the executive's old firm are positively associated with the market's reaction to his immigration into the new firm. In addition, we confirm Hayes and Schaefer's 1999 result of negative

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<sup>5</sup> Throughout this paper, we use the term write-down as inclusive of write-offs.

correlation between the return at immigration and the reaction to emigration in our sample.

These findings imply that investors look to the old firm's performance metrics as indicia of the migrating executive's ability to generate earnings in the new firm.

As a byproduct of our testing methodology, we discover another important finding: that of a significant negative reaction to charges (defined as either restructurings or write-downs in our migration sample).<sup>6</sup> This result is of particular interest given the non-negative reactions observed within short windows in our control sample as well as those previously documented in the literature. Strong and Meyer (1987), Bunsis (1997) and Bartov et al. (1998) find no significant non-negative short- window reactions to firms' own charges in different contexts. We conclude that previous results may have been confounded by pooling all firms (migration firms and non-migration firms) together, thereby masking the negative stock reaction of firms that restructure after migrations. That is, the market reaction to restructuring events appears to be nuanced: it depends on whether or not there was a preceding migration.

This paper straddles and contributes to several strands of literature: CEO turnover, write-downs and restructuring, and information transfer. The finance literature has focused largely on CEO pay, and recently on CEO turnover and board behavior (See for example Weisbach (1995, 2010). Borokovich, Parrino and Trapani (1996) find that the market views the appointment of an outsider to the CEO more favorably than the appointment of an insider, consistent with shareholder belief that the new CEOs from outside firms are more likely to alter firm policies in a way that benefits shareholders. Our study contributes to this literature by offering insights into the kind of information the market uses to inform its assessment of the incoming executive's

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<sup>6</sup> In this paper, we differentiate between write downs associated with restructuring and those that are not. We refer to the first as 'restructurings' and to the second as 'write-downs.' Charges refer to either.

impact on his new employer's prospects. We also are able to demonstrate that the market continually seeks information about indicia of the executive's quality by monitoring major decisions taken by the executive's prior employer. A second strand of literature documents the market effects of charge events (Strong and Meyer, 1987; Elliot and Shaw, 1988; Bartov et al., 1998). As mentioned above, we are able to document a totally different finding of negative market effects of charges that are taken by firms after the emigration of an executive. A third strand of the literature examines information transfer effects of a variety of announcements, but do not focus on firms that share an executive with the announcing firm. Our paper offers a new contribution to the literature; namely, information transfer effects differ across firms that are linked through an executive serving both in different periods and firms that do not have such linkages. Finally, given the steady increase in CEO turnover in recent years (which could likely increase the incidence of migration), the results in this paper are particularly timely.<sup>7</sup>

We believe our findings may carry important policy implications, for new firms and the migrating executives that join them. For new firms' boards of directors, our results should prompt closer scrutiny of the business condition of the old firms from which they draw their executives. If they conclude that the old firms' operations need restructuring, they will be able to predict the adverse consequences of belated restructurings in the old firms, and thus inform their executive recruiting. Our findings might also convince executives who are about to migrate

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<sup>7</sup> Khurana (2003) reports that CEO turnover increased in the 1990s relative to the 1970s and 1980s. Murphy and Zabojnik (2004) and Jensen et al. (2004) also report increased turnover in the 1990s. Huson, Parrino and Starks (2001) and Weisbach (2010) indicate that outside CEO hiring has been on the rise in recent years. Kaplan and Minton (2006) find that CEO jobs have become riskier, with the average tenure of a CEO as low as six years for the recent 1998 to 2005 period. These tenures are substantially lower than those documented for earlier periods.

to implement necessary restructurings lest later restructurings by the old firm depress the price of their new firm employer, with negative consequences for their compensation and reputation.

The rest of this paper is organized as follows: Section II describes the data and sample construction, provides background and develops the hypotheses. The impact of migrations is examined in Section 3. Section IV focuses on restructurings and write-downs that occur subsequent to the migrations. Section V concludes.

## **II. Data**

Our initial sample of migrations is from S&P's *EXECCOMP* and is comprised mostly of migrations of CEOs, CFOs, COOs, vice presidents, chairmen, or vice chairmen from old firms to a similarly or better ranked position that became vacant due to natural causes in new firms during 1994-2005.<sup>8</sup> Restricting the sample to such new firm's positions ensures no overlap between old firms and new firms, and that the reaction to immigration is not confounded by news about an emigrating executive. We augment the sample with migrations from the Forbes CEO compensation survey (1994-2005).<sup>9</sup> Observations are discarded if migrations were into affiliates (43 cases); if immigration occurred more than one year after emigration (26 cases); if there were confounding events at the immigration announcement (14 cases); or if *CRSP* announcement common stock returns or EBIT and total assets to calculate two years of ROA before the emigration are unavailable (25 cases). This yields a final sample of 156 migrations (156 old

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<sup>8</sup> By natural causes, we mean previously scheduled succession (with the predecessor remaining in the same firm after the executive's immigration, often as the chairman of the board), creation of a new position, filling of a position that has been unfilled for more than 2 years, and death.

<sup>9</sup> Executives occupying positions at different firms in any two consecutive years were assigned to the initial sample from *EXECCOMP*. To this were added firms from the Forbes survey for whom there is a change in the CEO name. All the media covered by *Factiva* were examined to confirm the fact of migration and its exact announcement date.

firms and 156 new firms). In 15% of the sample of old firms the emigrant's position is filled externally.

Table 1 reports position changes by title. The most common position changes are CEO to CEO (42) and CFO to CFO (70). In the few cases in which migration leads to a lower position, such as from CEO to COO or senior vice president, the new firm tends to be larger than the old firm. The sample for which results are tabulated in this paper includes 27 cases in which the executive sells the old firm and is then hired by another firm (mergers and acquisitions, "M&A"). For these cases, we use the pre-acquisition old firm data and post-immigration charges by the acquiring firms that are related to the acquired firms' assets. Untabulated results of testing a subsample that excludes the M&As are not qualitatively different.<sup>10</sup> The date and content of announcements of charges during at least two years after immigration were extracted from Factiva. Similar to the approach taken in prior studies including Strong and Meyer (1987), Elliot and Shaw (1988), and Bartov et al. (1998), we searched for the keywords "write-off," "write-down," or "restructuring," along with "charge." We also noted the amount of the charge where provided, and whether it was a restructuring or a write-down.<sup>11</sup> We discarded subsequent announcements with minimal, if any, information content, such as those describing charges pursuant to a restructuring plan that was announced before migration. Out of our final sample of 156 migrations, 102 'old firms' and 125 'new firms' announced charges within two years after immigration.

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<sup>10</sup> It is possible that migrations associated with mergers are more likely to lead to restructurings by a new manager than is the case with other migrations. To investigate whether inclusion of merger-associated migrations might have biased our results, we repeat our tests excluding the 27 merger-associated migrations. Results remain unchanged.

<sup>11</sup>Our definition of restructurings excludes goodwill write-offs.

We differentiate between same and different industry migrations by comparing the two-digit SIC code in CompuStat for the ‘old’ and ‘new’ firms.<sup>12</sup> ‘Peer’ firms are defined as those firms that share a two-digit SIC code with any of the firms in the migration sample. The rationale is to include firms with the same lines of business, defined as those that are closely related and require comparable management skills. In the case of multi-segment firms, a migration across business segments that share the same SIC code across business segments is classified as a same-industry migration even when the firms these segments belong to are not members of the same two-digit industry.<sup>13</sup>

### **III. MARKET REACTION TO MIGRATION**

In this Section, we test for the immigration effect. Our expectation is that the abnormal returns of new firms at the time of immigration are positively associated with old firm pre-emigration stock returns and accounting performance measures, but negatively associated with abnormal returns at the old firm measured around the emigration announcement. We begin by examining the market reaction at the new firm (the one the migrating executive joins) to the executive’s immigration. Among the independent variables considered to explain this reaction, we include performance measures at the executive’s old firm as proxies for the executive’s quality. We use both stock performance and accounting metrics to measure pre-emigration

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<sup>12</sup> Alternative specifications of which firms belong to the same industry, including sharing three- and four-digit SIC codes, yield mostly similar results.

<sup>13</sup> For example, we include as same-industry migration an executive who migrated from *Kraft*, owned by *Philip Morris* into *Campbell Soup* even though the latter two firms are not in the same industry. Excluding the same industry specification based on individual segments does not change the results qualitatively. Berger and Ofek, (1995) explain that firms with unrelated segments are classified as those with different SIC codes at the two digit level. See also Servais (1996) and Doukas and Kan (2004) on further justification for using 2 digit SIC codes to relate identify firms with the same lines of business.

performance at the old firm.<sup>14</sup> In using both, we mitigate the relative disadvantages of each in isolation; Stock prices include noise, the effects of liquidity trading, and other factors beyond the executive's control, whereas the accounting measures can be managed, and potentially include bias and noise (albeit less so than stock returns). Both measures are expected to be positively associated with the new firm's abnormal returns upon executive immigration, and to incrementally contribute to our inferences.

However, since the stock and accounting performance measures are not expected to reflect all relevant information about the executive, we also examine a third measure: the market reaction at the old firm upon the executive's departure. While this measure should impound both stock and accounting performance, it should also reflect informed traders' private information about the executive's performance (financial analysts routinely track executives' performance, actions, strategies, and past careers). That said, the measure could be confounded by the information content embedded in the evaluation of the executive's replacement, often announced contemporaneously with the migration. Notwithstanding the noise this may introduce, we do expect the market reaction to emigration to be informative. Hence, we expect a negative association between the reaction to the emigration and the reaction to the immigration. That is, a positive (negative) market reaction to emigration would reflect the *relative* poor (good) quality of the emigrating executive.

Both size- and industry-adjusted returns are used to measure the short-term stock reaction around emigration, immigration, and long-term performance of the old firm's stock prior to emigration. First, size-adjusted returns are computed for the migration and peer firms, as the

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<sup>14</sup> See for example, Lambert and Larcker (1987) for a discussion of the relevance of both measures for evaluating performance.

excess raw returns over the mean returns for the size decile to which the firm belonged at the most recent calendar year end. Second, for each old or new firm, we compute the excess size-adjusted return over the mean size-adjusted returns for its peers; the resulting size- and industry-adjusted return is then cumulated over days (0, 1) around the event to yield our desired metric, ‘CAAR’. Thus, the old firm’s reaction to emigration over days (0, 1),  $CAAR_{Emigration(0,1)}^{OLD}$  is given as the old firm’s size adjusted return over days (0, 1) around emigration minus the average of size adjusted returns over days (0, 1) around emigration of the old firm’s peers.<sup>15</sup> Similarly, the stock performance of the old firm,  $StockPerf^{OLD}$ , is the old firm’s size adjusted return minus the average of the peers’ size adjusted returns, both measured over the two years of the executive’s tenure preceding the emigration date.

We use prior size- and industry-adjusted returns on assets to measure accounting performance at the old firm. We first construct size-decile portfolios for each old firm as of the end of the year immediately preceding emigration. Second, from each such old firm size-decile portfolio, we select a peer group of SIC-code matched firms. Third, for each old firm and size matched peer, the average return on assets,  $ROA$ , over the two fiscal years preceding emigration is used to measure accounting performance. Finally, the excess of the accounting performance measure of each old firm over the mean accounting performance measure of its size-matched peers is identified as the old firm’s accounting performance measure,  $AcctPerf^{OLD}$ . Figure 1 outlines the time line for the various measures surrounding emigration and immigration.

Table 2a provides descriptive statistics on the migrating executive events. These include the  $CAAR$  on days (0,1) at both the new and old firms, surrounding immigration and emigration

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<sup>15</sup> We sensitize the results to alternative windows for measuring  $CAAR$ : days (0, 2), (-1, 1), (-1, 2), (-2, 1), and (-2, 2) relative to the event for all events in the paper. The results are qualitatively the same.

respectively, the accounting and stock performance at the old firm prior to emigration, whether the migration was within or across industries, the age of the migrating executive, size of the old and new firms, measured as market capitalization, and the tenure of the executive at the old firm. The average old (new) firm has \$7.77 (\$6.82) billion capitalization before emigration (immigration).<sup>16</sup> Neither old firms' nor new firms' mean past accounting performance or stock performance is significantly different from zero. Both the mean and median age of the executive upon emigration is 51. The mean tenure at the old firm is 3.9 years. The average *CAAR* at the old firm upon executive departure is -1.30% ( $p$ -value < 0.01), consistent with the market perceiving the executive to be of relatively high quality.<sup>17</sup> The average *CAAR* at the new firm upon immigration of the executive is a positive and statistically significant 2% ( $p$ -value < 0.01). Since by construction, our sample excludes observations in which confounding events were announced, (such as news regarding the new firm's outgoing executive), the significant short-term market reaction to the announcement can be attributed to the incoming executive's arrival. Finally, this effect seems largely driven by same industry migration firms (2.92% versus 1.31% for cross-industry migrations).<sup>18</sup>

The correlation between the market reaction at the old firm upon executive departure and the reaction at the new firm upon the executive's arrival is -30% (Table 2b), consistent with Hayes and Schaeffer's (1999) results. To further ascertain that this correlation is due to the executive's migration, and not to other factors idiosyncratic to the old firm-new firm pair, we

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<sup>16</sup> While on average, the capitalization and total assets of both the old and new firms in our sample are greater than the average of other firms covered in CompuStat, they are not significantly different from the average of those in *EXECCOMP*. (Market capitalization and total assets are measured at the end of the most recent fiscal year before migration calendar year).

<sup>17</sup> All  $p$ -values are based on Patell's (1976)  $z$ -statistics for testing the significance of short windows' stock reactions.

<sup>18</sup> Results are not tabulated. These numbers are statistically and significantly different from one another. The overall pattern of the *CAARs* is unchanged when we use different abnormal return measures, such as Fama and French's (1992) 3-factor models and a market model.

computed the correlations between both the daily raw returns and CAARs of the old and new firms from days -10 to -1 and from days +2 to +10 (relative to the migration date). These correlations are either positive or insignificant, supporting the attribution of the negative correlation in the short window to the executive's immigration.

We further estimate the following model using the Huber-White variance estimators:<sup>19</sup>

$$CAAR_{Immigration(0,1),it}^{NEW} = \alpha + \beta_1 AcctPerf_{it}^{OLD} + \beta_2 StockPerf_{it}^{OLD} + \beta_3 CAAR_{Emigration(0,1),it}^{OLD} + \epsilon_{it}, \quad (1)$$

where  $CAAR_{Immigration(0,1)}^{NEW}$  and  $CAAR_{Emigration(0,1)}^{OLD}$  are the new and old firm's cumulative returns over days (0, 1) relative to immigration and emigration, respectively,  $AcctPerf^{OLD}$  is the old firm's accounting performance two years prior to the emigration's fiscal year, and  $StockPerf^{OLD}$  is the old firm's stock performance two years prior to the emigration date. Subscripts  $i$  and  $t$  refer to firm and year of observation, respectively.

Table 4 shows that the intercept ( $\alpha$ )— the mean effect of immigration — is 2.1% ( $p$ -value = 0.000), consistent with optimism about the ability of the newly hired executive. Both pre-emigration performance measures are positively associated with  $CAAR_{Immigration(0,1)}^{NEW}$ , implying that the abnormal returns increase as the performance in the old firm rises. Further,  $CAAR_{Emigration(0,1)}^{OLD}$  is negatively associated with  $CAAR_{Immigration(0,1)}^{NEW}$  ( $\beta_3 = -0.526$ ,  $p$ -value = 0.002), indicating that the greater the negative reaction to the departure of the executive at the old firm, the larger the positive reaction at the new firm upon his joining.

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<sup>19</sup> In this regression and throughout, we also considered alternate models including quantile, median least square and robust regressions as well as bootstrapping. The results were qualitatively unchanged. Qualitatively similar results were also obtained when including log market capitalization of the firm as an independent variable, when controlling for time effects using ten annual dummies, and when we clustered observations by years.

We expect performance measures to be more relevant for evaluating quality within industry (with similar operations and activities) than across industry. An experienced and knowledgeable executive contributes a valuable intangible asset to a new firm when migrating within the same industry. For example, the accounting and stock performance of a telecommunications firm that loses an executive may be reflective of the manager's skills in telecommunications but may not be as telling as to his ability to successfully manage a cosmetics business. A simple analogy can be drawn from the University setting. A student's grade in a beginning French class would be less predictive of his success in an advanced finance course than it would be of his ability to excel in advanced French. In general, changes in input prices, production technologies, and demand similarly affect performance measures of firms that employ similar production technologies and that compete in similar markets. Outsiders in the same industry already possess familiarity with the production technologies used by the hiring firms. This has been noted in other contexts within the literature. Parrino (1997), for example, finds that the costs of hiring an executive from another firm in the same industry tends to be lower in homogeneous industries because executives have more of the human capital that is important to the executive position. This in turn allows for better monitoring in homogeneous industries, due to more precise measures of executive performance, which better filter industry- and market-related shocks.

Indeed, whereas migrations to firms in different industries do not reveal significant relationships or explanatory power, the results become stronger for our sample when only same-industry migrations are considered (3% mean effect, at the 1% level). Each 1% improvement in the accounting performance measure (stock performance measure) contributes 0.19% (0.04%) to

CAAR at immigration. Finally, the CAAR at immigration is highly sensitive to the CAAR at emigration (a partial negative correlation of 78% for the same industry sample). The significantly negative association between the migration reactions at the old and new firms implies that the reaction to departure informs the market's assessment of the executive's quality incrementally beyond past stock and accounting measures. That is, it seems to embed private information acquired by traders about implications of the executive's departure for the old firm's prospects.<sup>20</sup> Jointly, the hypothesized variables explain variations in immigration adjusted returns reasonably well (adjusted  $R^2 = 31\%$ ), suggesting that industry-specific human capital does seem to matter.<sup>21</sup>

Could the positive reaction to immigration reflect the market's interpreting the executive's choice of the new firm to join as signaling positive private information the executive has about the prospects of the new firm, rather than interpreting the immigration as signaling positive information about the executive's quality? Under this alternative explanation of the results, the

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<sup>20</sup> Following Barber and Lyon (1996), an alternative control sample is constructed by additionally imposing that the 2 years of previous accounting performance for each control firm lies between 80% and 120% of the old or new firm's accounting metrics, yielding a sample of 85 firms. Again, results are qualitatively unchanged. Furthermore, all results in the paper are robust to different choices of accounting performance measures. The results in Table 4 are based on EBIT/average assets — seen as more indicative of the executive's operating performance because they are not influenced by financing and tax factors. We alternatively use net income before extraordinary items (DATA18) and operating income before depreciation (DATA13) yielding similar results except for a somewhat weakened significance for accounting performance (slightly below the 10% level, two-tailed). For robustness, we also conducted all tests using the firms' SIC codes for determination of same industry, ignoring their segments; all models' results are similar, except that the old firms' emigration CAAR in Table 4,  $CAAR_{Emigration(0,1)}^{OLD}$ , is significantly and negatively associated with the new firms' cumulative *Returns* to immigration,  $CAAR_{Immigration(0,1)}^{NEW}$ , in the case of different industries as well. Two additional definitions of what constitutes the same industry yield similar results to those reported: NAICS (North American Industrial Classification System) and Fama and French's industry specification (49 portfolios, available on Professor French's website). We also reviewed the annual reports of old firms and new firms on dates surrounding the migration event to identify potentially disclosed identities of competitors, but too few reports facilitated such identification to allow us to conduct meaningful tests.

<sup>21</sup> We consider whether the same industry effects found here are stronger due to the higher incidence of CEO migrations in same industries (as opposed to other executive rank migrations). A Dummy variable for the executive being CEO does not however load significantly.

reaction to immigration need not be dependent on pre-emigration performance or on the reaction at the old firm to the executive's departure unless it is argued that the executive's choice of the new firm is more informative when the executive is of higher quality. Since we confirm the dependence of the reaction to immigration on pre-emigration performance, the notion that the results are consistent with a favorable assessment of the executive's quality seems to be valid. In fact, it does not seem plausible that migrating executives have information about new firms beyond what sophisticated analysts already know.<sup>22</sup> Furthermore, if the alternative explanation were valid, there would be no reason to expect a post-immigration restructuring by the old firm to have a negative impact on the same-industry new firm (beyond its impact on the old firm's peers) as we found and discuss below.

To summarize, the evidence in Table 4 is consistent with the notion that an intra-industry migration of an executive triggers a positive price reaction that increases with pre-emigration stock and accounting performance, essentially reflecting a favorable assessment of the executive's quality.

#### **IV. MARKET REACTION TO CHARGES**

We now ask whether information generated at the old firm after the executive leaves continues to affect returns at the new firm. We consider the special case of restructurings and write-downs at the old firm. An old firm's post-emigration restructuring may signal that the market's perception of the executive as being of high quality had been premature. Specifically, the question of why the restructuring had not been implemented under the watch of the departed

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<sup>22</sup> In the (total of) five cases in which the executives were board members of new firms before immigration, the executives migrated into new firms in different industries. The average reaction upon immigration was on average, -0.4% for these five new firms.

executive could make investors wonder whether their positive reaction to the executive's joining the new firm (as manifested in positive immigration abnormal returns) had been overly optimistic. In old firms, restructuring can also betray past mismanagement: continuing the operation of losing lines of business. Thus, if restructuring (operating) decisions by old firms foretell improved cash flows, then they should potentially have been made by the executive before his emigration. This discovery of a failure to restructure is expected to lead to a downward assessment of the executive's quality by the market.

This conjecture is reinforced by the implications of past studies. First, note the important distinction between restructurings and write-downs. Restructurings represent discretionary decisions taken by management, generally giving rise to what is referred to as "exit costs."<sup>23</sup> Restructurings involve reorganizations or disposals associated with incremental cash consequences that materially change the scope of business or the manner in which it is conducted.<sup>24</sup> In contrast, write-downs of assets to their fair values (that are not associated with restructuring) reduce income without cash consequences or economic losses or gains. This implies that an old firm's new manager would be unlikely to discontinue a successful operation in order to take a "big bath" (Murphy and Zimmerman (1993)) when he could simply write-down assets with no adverse effects on future cash flows (Weisbach 1995). Thus, restructurings are likely to be related to exiting losing operations. Barron et al. (2007) find that the incidence of discontinued operations increases following CEO departures due to a resignation but not to death

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<sup>23</sup> For exit costs, see FASB, EITF 94 3. Restructurings in this paper are defined as in IAS 37, paragraph 10.

<sup>24</sup> As examples, IAS 37 (paragraph 70) mentions the sale or termination of a line of business, the closure of activities in a particular location, the relocation of activities, and a fundamental reorganization that affects the focus of operations.

or illness.<sup>25</sup> If the motive of an old firm's post-migration manager in taking a "big bath" is to show 'apparent' earnings growth over their tenure, the decision would be independent of the reasons for the prior executive's departure. Alternative theories linking executive turnover and the discontinuation of operations, such as those discussed by Weisbach (1995), include the "matching of managerial skill" (the new manager discards projects that do not match his skills even though they may have matched the departing executive's skills), and the "matching of private interests" (the incoming manager's private interests differ from his predecessor's with respect to the kind of projects he wishes to manage). Barron et al. (2007) find that the incidence of discontinuations depends on the reasons for the executive's departure, thus ruling out these alternative explanations. These explanations, along with the "big bath" theory, are therefore not applicable to restructurings.<sup>26</sup>

The one agency-based explanation Barron et al. (2007) finds to be consistent with their results is the "escalation of commitment" (Kanodia et al. 1989). This explanation suggests that a manager might avoid restructuring to delay the revelation of failure if he has the option to take employment elsewhere before the error is revealed. This notion is consistent with our expectation that restructuring reflects poorly on the ability of the migrating executive to choose lucrative investment opportunities. That is, we expect restructuring to be negatively associated with a new firm's abnormal returns.

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<sup>25</sup> While Barron et al. (2007) examine specifically discontinued operations, their findings are relevant to our study since 68 % of the observations in our restructuring sample involve discontinuations of operations.

<sup>26</sup> Restructuring includes many instances of discontinued operations. Over our sample period (1994-2005), very few discontinued operations were presented "below the line". Including the 4 discontinued operations observations presented below the line in our regressions leaves the results qualitatively unchanged.

However, it is somewhat difficult to form a clear conjecture regarding the direction of the effect of write-downs (as opposed to restructurings) on a new firm's stock price. Any negative implication for the migrating executive's quality could be mitigated if a "big bath" intended to engender improvements in future accounting performance is suspected. In this case, the announcement will be devoid of negative information on the executive's quality. In fact, given the high frequency of restructuring in old firms observed in this paper, we believe the market could anticipate the restructuring announcement with some probability, in which case write-down announcements may be good news with respect to the implications for the executive's quality.<sup>27</sup> This ambiguity prevents us from predicting the signs of the effects of write-downs.

#### Reaction to a Firm's own Charges

We start the analysis by examining the short-term market reaction of old (new) firms to their own announced charges. The extant literature's findings are consistent with a firm's investors drawing positive (or non negative) implications from the firm's restructuring activities. For example, Bunsis (1997) reasons that his documented positive reaction to large losses from the disposal of specific operations implies that the market welcomes the elimination of a drain on future cash flows. Bartov et al. (1998) find an insignificant short-term reaction to operating-decision-associated write-offs conveying offsetting implications: a lower book value, but a plan for improved future cash flows.

In the case of migration firms, however, an offsetting effect may occur, in that a restructuring that occurs shortly after an executive's departure can signal additional problems surrounding the executive's pre-migration performance yet to be discovered by the executive's

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<sup>27</sup> Moreover, the competitive advantage gained by same-industry new firms that take no write-downs could cause a positive reaction.

successor. Thus, potential offsetting effects may introduce ambiguity regarding the (old) firm's future cash flows, and we hesitate to predict the ultimate direction of the effect on abnormal returns.

To investigate whether charges of old firms have a systematically different market impact than similar announcements by non-migration firms, a control sample is formed for old firms (henceforth we refer to this as the charges-control sample). We randomly select 450 firms from the set of the old firms' size-matched peers and search Factiva for the same keywords as before, beginning a year before and ending a year after the old firm's post-emigration charges. For 157 of the 450 firms so identified, we are able to verify that no migrations occurred during the year preceding the charges announcement. This final control sample contains at least one firm that matches every old firm.

Table 3a indicates that for days (0,1) surrounding the announcement, the *CAAR* is -2.20% (-2.50%),  $p$ -value < 0.01. This result is robust to the choice of the model generating abnormal returns.<sup>28</sup> In contrast, when firms in the old firms' charges-control sample announce charges during a similar period (one year before to one year after the event), the stock reaction is an insignificant -1.1%. Table 3b presents Spearman and Pearson correlations among the various charges variables. Notably, the short term reaction of the old firm to its own charges is negatively correlated with the restructuring. Indeed, upon further examining the effect of write-downs and restructurings as distinct from one another, Table 3c documents statistically significant negative reactions to restructurings with a mean *CAAR* of -3.2%,  $p$ -value of 0.013). However, the market reaction to write-downs is not found to be significant (0.2%,  $p$ -value =

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<sup>28</sup> The results are robust to the specification of adjusted returns. Fama and French's 3-factor model (1992) and tests using size- and market-model-adjusted returns yield results that are qualitatively similar to those found throughout the paper.

0.489). Further, these two means are significantly different from each other at the 1% level, and consistent results are found when the median reactions are examined as opposed to the means. Finally, we find that the reaction to restructuring by old firms, -3.2%, differs significantly (at the 1% level) from the insignificant -1.1% reaction to restructuring by firms in the charges-control sample (which is comprised of peer firms that do not experience recent migrations).<sup>29</sup> In other words, the market reaction to restructuring events is nuanced: it depends on whether or not there was a preceding migration.

The significant negative reactions we document for firms that have experienced migrations to their own charges announcements are of particular interest given the contrasting non-negative reactions in our control sample (of peers that did not experience migration) and those previously documented in the literature. Specifically, Strong and Meyer (1987) and Bartov et al. (1998) report insignificant market reaction to charges in short windows; Elliott and Shaw (1988) find that out of five days around the charge, only the return of the single day preceding the charge is significant (a charge median of -0.005) in a non-parametric test. Focusing on our restructuring subsample, the contrast is even starker; compared with our large negative reaction (-3.2%), Bunsis (1997) documents a positive reaction to disposal losses; and Bartov et al. (1998) report insignificant short-term reaction to operating-decision-associated write-offs. Our result

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<sup>29</sup> By contrast, the insignificant reaction to write-downs by old firms (0.2%) does not significantly differ from the insignificant write-downs of the control sample, (-0.9%, p-value = 0.432). We also account for the possibility that charges information had leaked before our first identified announcement date, as well as for the fact that Factiva may not have correctly identified the first date. Clearly, either scenario would have implied observed CAARs which would not have been as negative or significant. Nonetheless, we examine the daily and cumulative returns over the 30 days (-32,-3), and the 10 days (-12, -3), preceding each announcement date (date 0). Untabulated results reveal neither to significantly differ from zero, implying no leakage to an extent that attenuates the surprise contained in the announcement. We also examined the day by day size – and industry – adjusted return during the period (-32, -2). In the case of old firms’ restructuring announcements, only one day (-7) had a significantly negative return (-0.32%) and only one other day (-22) had a significantly positive return (0.59%), All other days were associated with insignificant returns. In the case of *old firms*’ write-downs, all the days had insignificant returns.

indicates that the non-negative reactions previously documented in the extant literature may have been confounded by pooling all firms (migration and non-migration firms) together, thereby masking the negative reaction to restructurings that specifically follow migrations.

Results of multivariate regressions run separately for old firms and the control sample (of peers that did not experience migration) confirm the significant negative impact of restructurings by old firms on their abnormal returns and the absence of such significant impact on the control sample abnormal returns that were found in the univariate tests described above. These results were obtained even with the inclusion of potentially confounding control variables in the regression.<sup>30</sup>

#### Information transfer to the new firms

We now investigate whether post-immigration restructurings by old firms have a negative effect on new firms' abnormal returns. In univariate analysis, Table 3d confirms the information transfer effect: that is, on average, the old firm's restructuring is associated with a significant negative size adjusted return in the new firm of -1.4% (p-value = 0.04, one-tailed test), and a similarly negative and significant CAAR (-1.8%. p-value=0.02).

A pooled regression of size-and industry-adjusted new firm returns of the following general form is estimated:

$$CAAR_{OLD\ charge\ (0,1)\ it}^{NEW} = \beta_1 RST - SAME_{it} + \beta_2 RST - DIFF_{it} + \beta_3 WO - SAME_{it} + \beta_4 WO - DIFF_{it} + \beta_5 Amount_{it}^{OLD} + \beta_6 No-Amount_{it}^{OLD} + \sum_{j=1}^3 \beta_j Control\ variables_j, it + \sigma_{it}$$

(2)

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<sup>30</sup> Control variables include earnings announcements, stock repurchases, dividend declarations, dividend cuts, analysts' rating revisions.

where  $CAAR_{OLD}^{NEW} \text{ charge } (0,1)$  is the new firm's cumulative return over days (0, 1) relative to the old firm's charges announcement,  $RST-SAME$  ( $RST-DIFF$ ) is an indicator that assumes the value 1 if the charge represents a restructuring and old firm and new firm are in the same (different) industry,  $WD-SAME$  ( $WD-DIFF$ ) is an indicator that assumes the value 1 if the charge represents a write-down (not a restructuring) and old firm and new firm are in the same (different) industry,  $Amount^{OLD}$  is the amount of the old firm's charges announcement (deflated by the market value three days preceding the announcement), and  $No-amount^{old}$  is an indicator that assumes the value 1 if no amount is specified in the old firm's announcement and 0 otherwise. Subscripts  $i$  and  $t$  refer to firm and year, respectively. We include as control variables in regression (2) all public announcements made by new firms in the time window (0, 1). Specifically, where earnings were announced during these two days, we include earnings surprise,  $Surprise^{NEW31}$  and indicator variables for earnings announcement ( $EA^{NEW}$ ), write-down announcements ( $Write-down^{NEW}$ ), dividends ( $Dividend^{NEW}$ ), stock repurchases ( $Repurchase^{NEW}$ ), and the tenor of forward-looking information ( $Positive^{NEW}$  and  $Negative^{NEW}$ ).

In Table 5, Column A includes independent variables relating to events occurring at the new firm within the short window (0,1) over which abnormal returns are calculated. This provides a benchmark against which to compare results in which information transfer effects are considered. In Column B, which includes the categorical variables obtained from the old firms' charge announcements, the adjusted  $R^2$  is more than double that in Column A (from 7.02% to 14.67%), mostly due to  $RST-SAME$ . The coefficient on  $RST-SAME$  represents the overall effect

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<sup>31</sup> *Restructuring* and *Amount* refer to data extracted from the old firm's announcement and are therefore designated with the superscript 'OLD'. All other variables described above refer to new firm's data and accordingly are designated with the superscript 'NEW'.

of old firms' restructurings (irrespective of the amount) in same-industry migrations and it is significantly negative (-0.021, p-value = 0.005, one tailed) and economically substantial (translating to \$151.03 million (\$47.82 million) loss in the mean (median) new firm's capitalization).<sup>32</sup> The fact that only the event of restructuring itself and not its (scaled) amount implies that the mere fact of restructuring casts doubt on the quality of the migrating executive, irrespective of the magnitude of the restructuring.<sup>33</sup>

We also examine whether the downward revision of an executive's quality at the new firm upon post-migration restructuring at the old firm occurs primarily when the initial reaction to the immigration was positive. That is, when industry-specific human capital had initially been judged to imply high quality. In fact, since same-industry migrations were those found to exhibit the strongest positive market reactions (in the new firm) to immigration, we would expect the greatest disappointment upon old firm restructuring.

To this end we add a new independent variable,  $CAAR_{Immigration(0,1)}^{NEW}$ , representing the new firm's reaction to immigration (pre-restructuring). Column C of Table 5 indicates that the coefficient on *RST-SAME* (-0.020, p-value = 0.01, one-tailed) is still negative and significant, and the reaction to immigration,  $CAAR_{Immigration(0,1)}^{NEW}$ , is negative and significant at the 10% level (-0.095, p-value=0.07, one tailed). In other words, the higher the positive the reaction to immigration, the more negative is the new firm's reaction to restructuring.

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<sup>32</sup> In fact, same-industry *new firms* whose corresponding old firm's reported restructuring charges had experienced on average a 3.5% positive reaction to the preceding (to old firms' reporting of restructuring) immigration,  $CAAR_{Immigration(0,1)}^{NEW}$ . Thus, the negative 2.1% effect of the later restructuring by old firm on new firm can be seen as a downward revision of the executive's expected contribution to new firm triggered by the implication of restructuring as hypothesized leaving a 'net' positive impact of the executive on new firm of 1.4%. This is reasonably consistent with our story.

<sup>33</sup> We also consider a specification where only those (81) new firms with no confounding events are included in the regression. Similar results are obtained with regards to the coefficients and significance levels.

Recall that the anticipated downward assessment of the executive' quality was predicated on a positive abnormal return upon immigration. Thus, in Column D we focus on those firms for which this reaction had indeed been positive. The coefficient on  $CAAR_{Immigration(0,1)}^{NEW}$  is, as hypothesized, significantly negative (-0.175,  $p$ -value=0.035, one tailed). Note that the statistical significance of this variable is much stronger than that in Column C, corresponding to the larger sample which includes those cases in which negative reactions had been observed upon immigration. Furthermore, the adjusted  $R^2$  in Column D is more than double that found in Column C, at 33.8%.

We consider the possibility that the information transfer effects we document are unrelated to executive quality. For example, restructuring could be signaling dimming industry fortunes, with either negative (if market expectations are dampened for the peers) or positive (if market share of the peer group is expected to increase as a result) effects. To test for this, we compare the reactions in new firms (which imported the migrating executive), and other firms. If we find that restructuring-induced information transfer effects are absent in the non-importing firms, this would bolster our confidence in attributing the effects in migration firms to the executives' quality.

To further verify that the restructuring effect in Table 5 is indeed attributable to the perceived quality of the executive rather than to general intra-industry information transfers, we investigate the information transfer effects of charges announced by non-migration firms that are in the same industry as the old firm (charges-control-sample). Table 6a documents the impact of write-downs and restructurings by non-migration firms on non-migration peers. The table reports means of cumulative size adjusted returns for the charges-control-sample peers

surrounding the announcement of charges by the control sample firms, over days (0, 1). Neither restructuring nor write-downs had a significant effect, demonstrating that restructuring effects were not merely attributable to industry-wide implications, rather embodying at least in part, signals of executive quality.

Then, we estimate the following cross-sectional pooled regression using a combined sample of both peers and non peers of the charges-control-sample:

$$CAAR_{CCS\ Charges(0,1),it} = \beta_1 RST - SAME_{it} + \beta_2 RST - DIFF_{it} + \beta_3 WD - SAME_{it} + \beta_4 WD - DIFF_{it} + \beta_5 Amount_{it} CCS + \beta_9 No - Amount_{it} CCS + \sigma_{it} ,$$

(3) where  $CAAR_{CCS\ Charges(0,1)}$  is peers and non peers of charges-control samples' cumulative return over days (0, 1) relative to the charges-control-sample's charges announcement. The independent variables are similarly defined as in model (2). Since the independent variables are repeated, we cluster the error at the level of the charge event to maintain the assumption of zero-correlation between charge event clusters while allowing for within-group correlation. In order to minimize the potentially confounding effect of jointly announced events by either peers or non peers of charges-control sample, we exclude observations of announced earnings, dividends, or stock repurchases in those firms from one week before to one week after the day of the charge. Table 6b shows that the coefficients for all variables including  $RST - SAME$  are insignificant, confirming that restructuring events occurring in the absence of migration do not create the negative information transfer effects exhibited in Table 5.<sup>34</sup>

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<sup>34</sup> We also estimated (4) utilizing a different sample choice and repeated regressions. For each firm-charge

Another possibility we consider is that the new firm is simply ‘closer’ to the old firm than the old firm’s peers are, in which case the negative effects of restructurings could potentially be attributable to restructuring-related information transfers alone rather than to re assessment of the migrating executives, as we had postulated above. To test for this, we employ two different constructs of ‘closeness’, one in which new firms are considered ‘closer’ to old firms if the latter’s earnings surprises affect new firms more than they do the old firm’s peers, and the other in which closeness is manifested in new firms’ charges affecting the old firms more than its peers. In the first case, where closeness is indicated by a greater sensitivity to earnings announcement exhibited in the new firm than the old firm’s peers, the negative reactions exhibited in Table 5 may simply imply dimmer prospects in the new firm due to the restructuring in the old firm, without being attributable to re-assessment of the executive’s quality. To explore this possibility, we test for a differential effect of old firm’s earnings announcements on the new firms versus other peers of the old firm, with:

$$CAAR_{OLD\ EA(0,1),it} = \alpha + \beta_1 Surprise_{it}^{OLD} + \beta_2 Surprise_{it}^{OLD} \times NEW_{it} + \sigma_{it} \quad (4)$$

where  $CAAR_{OLD\ EA(0,1)}$  is the cumulative return of firms within the size matched peer group and the new firm over days (0, 1) relative to the date of the old firm’s quarterly earnings announcement in the two years preceding immigration;  $NEW$  is 1 if the dependent variable

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observation we randomly identified, with replacement, one pair of firms to be included in regression: one from peers, and another from non peers. Peers (non peers) of charges-control sample are firms that share (do not share) charges-control sample’s two-digit SIC code. Since there are 157 observations in charges-control sample, each regression has 314 observations, for one half of which the dependent variable refers to same-size decile and same-industry firms (belonging to *Peers*), and the other half of which refers to same-size decile and different-industry firms (belonging to non peers). Also, to minimize confounding effects, we excluded any firms that announced earnings, dividends, or stock repurchases from one week before to one week after the day of the charge. This procedure -- followed to avoid too many repetitions of the independent variables -- was repeated 100 times, using different Target Samples. Intra-industry information transfer, if it occurs, would be manifested in significant coefficients on variables interacted with “same-industry”. In all 100 regressions, however, none of the independent variables was significant.

represents a new firm and 0 otherwise; *Surprise* is defined as actual earnings minus the most recent *IBES* consensus forecast of the old firm's earnings, deflated by the price at the time of the *IBES* consensus forecast. If the old and new firms were closer to each other than to others in the size matched peer group, then  $\beta_3$  would be significantly positive. Table 6c reports the estimation result.<sup>35</sup> Clustering of error within the old firm's earnings announcement, we find that  $\beta_3$  is insignificant, implying that the old and new firms are not closer to each other than the other peers.

The second manifestation of closeness considered involves charges effects. Specifically, the two firms would exhibit closeness if the old firm post -migration reacts to the new firm's charges events in the same way that the new firm reacts to the old firm's charge events, and the following regression is run:

$$CAAR_{NEW}^{OLD} \text{Charges}_{(0,1)it} = \beta_1 RST - SAME_{it} + \beta_2 RST - DIFF_{it} + \beta_3 WD - SAME_{it} + \beta_4 WD - DIFF_{it} + \beta_5 Amount_{it}^{NEW} + \beta_6 No-Amount_{it}^{NEW} + \sum_{j=7}^{12} \beta_j \text{Control variables}_{j,it} + \sigma_{it}, \quad (5)$$

Variables are similarly defined as in model (2). Table 6d documents the results. In support of our conjecture, none of the variables is significant, indicating that the variables do not explain variations in the stock reaction of the old firm over the two days around the new firm's charge event. This result persists even when we restrict the sample (Column C) to include only those firms in which there were no confounding contemporaneous events announced by the old firm. We conclude that the old and new firms are no more similar to each other than to their

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<sup>35</sup> In addition, we ran 100 regressions, with each having the new firms and an equal number (to the number of the new firms) of firms selected randomly (with replacement) from size matched peers (firms with same size decile and same industry as old company) as the firms whose *CAARs* were the dependent variable observations. As in the pooled regression, to minimize confounding effects, we excluded any firms in size matched peers that announced earnings, dividends, or stock repurchases from one week before to one week after the day of the charge. In 52 (48) regressions,  $\beta_2$  was negative (positive) but never significant.

peers. Further, the combined evidence from the tests in this Section affirm our conclusion that the negative effects of restructuring documented in Table 5 are most likely attributable to reassessment of the executive's quality.<sup>36</sup>

## V. Conclusion

This study focuses on executives' migration. We examine whether past performance of the old firm, as well as the market reaction to the emigration, are relevant to the market's evaluation of the executive's immigration event. Particularly in the case of same industry executive migrations, the value relevance of these measures is significant. Knowledge and experience endows the executive with sector or industry-specific human capital that is seen to confer benefits on a related firm. Relatedly, the market appears to believe it can use measures of the executive's original firm's performance prior to departure to make predictions about the performance of the firm he joins within the same industry.

We find that restructurings by old firms are negatively associated with same-industry new firms' cumulative returns. Our results suggest that the market actively monitors post-migration events (restructurings) in an executive's old firm in reevaluating the prospects of new firms. This result is consistent with the market reassessing the quality of the immigrating executive upon observing a restructuring by past employer. In the long run, both old and new firms appear to

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<sup>36</sup> Throughout our paper, we differentiate between restructurings and write-downs. Further, we treat the different types of write-downs (such as PP&E, inventory, goodwill) as representing one homogeneous event. It is possible that the different types of write-downs might have distinctively different impacts on the information transfer effect on the new firm's stock (equation (2)). For example, Francis et al. (1996), without focusing on migrations as we do, found that inventory write-downs, when interacted with the amount, are negatively associated with firms' own stock reaction. We include their independent variables (indicator variables for Inventory, Good-will, PP&E, and Miscellaneous write-downs) that are applicable to our sample in equations (2). Untabulated results leave inferences about the effects of restructurings unchanged. Also, none of the disaggregated write-down variables is significantly associated with the new firms' CAAR in (2).

favorably maintain performance relative to peers after a migration.<sup>37</sup> This new contribution to the literature adds significant insights into the process through which investors update their assessment of executive's ability.

Thus, while the literature to date is silent on the relationship between performance and the market reaction to immigration, this paper not only investigates the link in depth, but also introduces explicit measures of the pre emigration performance of the executive as proxies for manager quality.<sup>38</sup>

The market's reactions to firms' own restructuring events that we document in this paper are loosely consistent with a 'hidden cockroach' theory: Restructurings are more likely to belie a string of negative news to come in those cases in which where they closely follow an executive's departure. This is in accord with Kanodia's suggestion that executives tend to sweep their shortcomings under the rug, and attempt to delay the revelation of negative information regarding the firm's future cash flows. Thus, we would expect the probability of negative restructuring signals to be higher following an executive departure. Since the focus in this paper is on the effect of information transfers on the new firm, we do not test this last hypothesis. Currently, ongoing work includes analysis of 'cockroaches' emerging after information regarding the charges.

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<sup>37</sup> Over the year following the emigration (immigration), the old firm (new firm) had CAARs of 5.3% (5.6%) and size- and industry-adjusted ROA of 9.2% (7.5%).

<sup>38</sup> In the literature to date, measures of performance were found to be correlated with indicia of the executive's quality: Boards of Directors condition their turnover and compensation decisions on executives' performance relative to that of their peers (Morck et al. 1989; Gibbons and Murphy 1990); the likelihood that another firm's executive is appointed as CEO decreases in industry-adjusted firm performance (Parrino 1997); superior relative stock price performance increases the demand for an executive's services (Fee and Hadlock 2003).

Two other areas for future research on executive migration come to mind. First, it would be useful to explore the effects of hiring announcements by pre-IPO firms. These firms are highly motivated to signal high potential to the IPO market, and the ability to acquire an executive with an established record is a potent signal. An IPO's success could well depend on the quality of an immigrating executive. Second, in our study, we observed that restructuring of migration firms had a negative impact, but non-migration firms' restructuring did not. This implies that the market sees higher risk or lower cash flows associated with restructuring in migration firms. It would be interesting to investigate whether ex post performance validates the market's singling out of these migrations firms' restructurings.

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**Table 1**  
**Breakdown of Migrations by Position Change**

Sample		Overall	Same industry migration	Different industry migration
Position in old	Position in new	Frequency	Frequency	Frequency
CEO	CEO	42	26	16
	COO	2	0	2
	Senior Vice President	2	0	2
CFO	CFO	70	25	45
	CEO	4	3	1
	COO	1	0	1
	Senior Vice President	2	0	2
COO	CEO	11	8	3
	COO	1	0	1
Senior Vice President	CFO	3	2	1
	CEO	12	5	7
	COO	4	2	2
	Senior Vice President	1	1	0
Chair	CEO	1	0	1
Total		156	72	84

**Table 2a**  
**Short Term Reactions around Migration and Descriptive Statistics**

Variable	Mean	Median	25th Percentile	75th Percentile	Standard Deviation
CAAR <sup>NEW</sup> <sub>Immigration(0,1)</sub>	0.020***	0.010	-0.017	0.038	0.083
CAAR <sup>OLD</sup> <sub>Emigration(0,1)</sub>	-0.013***	-0.009	-0.024	0.014	0.050
AcctPerf <sup>OLD</sup>	0.032	0.039	0.008	0.076	0.098
StockPerf <sup>OLD</sup>	-0.142	-0.217	-0.467	0.106	0.584
Same-Industry	0.462	0	0	1	0.500
Age	51.2	51.0	48.0	54.0	4.9
Size of old	7,773.40	3,183.26	831.85	10,024.14	12,169.49
Size of new	6,822.71	2,141.06	911.52	9,180.35	9,770.16
Tenure in old	3.9	3.0	2.0	5.0	2.3

In the table, the total number of observations (N) is 156, except for Age, where N is 110, and Tenure in old, where N is 155. For variables definitions, see Exhibit 1. \*, \*\*, \*\*\* Denotes a statistically significant two-tailed t-test of the null hypothesis that the mean is different from zero based on a T-test at the 0.10, 0.05, and 0.01 level, respectively.

**Table 2b**  
**Correlations of Migration Variables**

	CAAR <sup>NEW</sup> <sub>Immigration(0,1)</sub>	Same-Industry	CAAR <sup>OLD</sup> <sub>Emigration(0,1)</sub>	AcctPerf <sup>OLD</sup>	StockPerf <sup>OLD</sup>
CAAR <sup>NEW</sup> <sub>Immigration(0,1)</sub>	1	0.156*	-0.108	0.077	0.180*
Same-Industry	0.105	1	0.067	0.103	0.118
CAAR <sup>OLD</sup> <sub>Emigration(0,1)</sub>	-0.304***	0.026	1	0.200*	-0.128\$
AcctPerf <sup>OLD</sup>	0.067	0.148\$	0.145\$	1	0.131\$
StockPerf <sup>OLD</sup>	0.265***	0.105	-0.154*	0.050	1

Lower triangle: Pearson correlation, Upper triangle: Spearman correlation. The number of observations is 156. For variables definition, see Exhibit 1. \*, \*\*, \*\*\* Denotes a statistically significant two-tailed t-test of the null hypothesis that the correlation is not different from zero at the 0.10, 0.05, and 0.01 level, respectively.

**Definition of Variables in Table 2**

CAAR<sup>NEW</sup><sub>Immigration(0,1)</sub> is new firm's cumulative excess size-adjusted return over the mean size-adjusted returns for its peers, measured over days (0,1) relative to immigration

CAAR<sup>OLD</sup><sub>Emigration(0,1)</sub> is old firm's cumulative excess size-adjusted return over the mean size-adjusted returns for its peers, measured over days (0,1) relative to emigration

AcctPerf<sup>OLD</sup> is ROA of old firm minus the mean ROA of the corresponding size-matched peers set, where ROA = Average (EBIT t-1 + EBIT t-2) / Average (Assets t-3, Assets t-2, Assets t-1), t is the year of migration,

StockPerf<sup>OLD</sup> is old firm's cumulative excess size-adjusted return over the mean size-adjusted returns for its peers, measured over the two years of the executive's tenure preceding (emigration date - 2)

Age is the age of the executive at the time of immigration into the new firm.

Size of old (new) is log (Market capitalization three days before emigration (immigration))

Tenure in old is years of employment during which the executive maintained his last position in the old firm.

Same-Industry is an indicator variable that equals 1 when the two-digit primary SIC codes of the old firm and the new firm are the same or the two-digit SIC codes of the applicable segments of the old firm and the new firm are the same, 0 otherwise

**Table 3a**  
**Short Term Reactions around Charges and Descriptive Statistics**

Variable	Mean			Median		
	Old	New	Old's charges-control Sample	Old	New	Old's charges-control Sample
<b>CAAR<sub>charge (0,1)</sub></b>	-0.022**	-0.025***	-0.011	-0.009*	-0.013**	-0.004
<b>Restructuring</b>	0.709	0.648	0.679	1.000	1.000	1.000
<b>Amount</b>	0.028	0.077	0.036	0.007	0.011	0.010
<b>No-amount</b>	0.155	0.123	0.164	0.000	0.000	0.000
<b>Sample Size</b>	102	125	157	102	125	157

\*, \*\*, \*\*\* Denotes a statistically significant two-tailed t-test of the null hypothesis that the mean (median) is not different from zero based on a T-test (Sign test) at the 0.10, 0.05, and 0.01 level, respectively. Charges-control sample is the set of firms, among old firm's size-matched peers, that announced charges beginning a year before and ending a year after the old firms' post-emigration charges.

**Table 3d**  
**Correlations of Charge Variables**

	CAAR <sup>OLD</sup> <sub>OLD charge (0,1)</sub>	CAAR <sup>NEW</sup> <sub>NEW charge (0,1)</sub>	Restructuring <sup>OLD</sup>	Same-Industry	Amount <sup>OLD</sup>	No-amount <sup>OLD</sup>
CAAR <sup>OLD</sup> <sub>OLD charge (0,1)</sub>	1	-0.058	-0.147	-0.001	-0.100	-0.035
CAAR <sup>NEW</sup> <sub>OLD Charges (0,1)</sub>	-0.089	1	0	0.006	0.066	0.003
Restructuring <sup>OLD</sup>	-0.16*	0.031	1	-0.089	-0.055	0.205**
Same-Industry	-0.016	0.033	-0.089	1	0.077	-0.039
Amount <sup>OLD</sup>	-0.284***	0.181*	-0.026	0.22**	1	-0.607
No-amount <sup>OLD</sup>	0.034	0.030	0.205**	-0.039	-0.192**	1

Lower triangle: Pearson correlation, Upper triangle: Spearman correlation. The number of observations is 102. For variables definition, see Exhibit 1. \*, \*\*, \*\*\* Denotes a statistically significant two-tailed t-test of the null hypothesis that the correlation is not different from zero at the 0.10, 0.05, and 0.01 level, respectively.

**Table 3b**  
**Short Term Reactions of Old, New and Old firms' Peer Firms to their own Charge**

CAAR <sub>charge (0,1)</sub> of	Mean			Median		
	Overall	Restructuring	Write-down	Overall	Restructuring	Write-down
<b>Old</b>	-0.022**	-0.032**	0.002	-0.009*	-0.011**	0.000
<b>Charges-control sample</b>	-0.011	-0.011	-0.009	-0.004	-0.004	-0.006\$
<b>New</b>	-0.025***	-0.034***	-0.011	-0.013**	-0.015**	-0.004

Short Term refers to Days (0,1). \*, \*\*, \*\*\* Denotes a statistically significant two-tailed t-test of the null hypothesis that the mean (median) is not different from zero based on a T-test (Sign test) at the 0.10, 0.05, and 0.01 levels, respectively.

**Table 3c**  
**Information Transfer Effect:**  
**Short Term stock reaction of old, new and old firms' peer firms to charges announced by the old firm**

Size-adjusted returns <sub>(0,1)</sub> of	Overall (N=102)	Same industry migration		Different industry migration	
		Restructuring (N=31)	Write-down (N=14)	Restructuring (N=42)	Write-down (N=15)
<b>Old</b>	-0.022**	-0.033**	-0.007	-0.031**	0.005
<b>New</b>	-0.003	-0.014*	0.008	0.005	-0.015
<b>Peers of old</b>	0.000	0.002	-0.001	-0.002	-0.000

	Overall (N=102)	Same industry migration		Different industry migration	
		Restructuring (N=31)	Write-down (N=14)	Restructuring (N=42)	Write-down (N=15)
<b>CAAR<sup>OLD</sup><sub>OLD charge (0,1)</sub></b>	-0.022**	-0.034**	-0.007	-0.029**	0.005
<b>CAAR<sup>NEW</sup><sub>OLD charge (0,1)</sub></b>	-0.004	-0.018**	0.002	0.008	-0.014

The table reports the means of cumulative size adjusted returns for the three firm groups surrounding the announcement of charge by the old firm over days (0, 1). Short term refers to Days (0,1). \*, \*\*, \*\*\* Denotes a statistically significant two-tailed t-test of the null hypothesis that the mean is different from zero based on a T-test at the 0.10, 0.05, and 0.01 level, respectively. Peers of old is a sample of firms that share a two-digit SIC code with migration firms.

**Definition of Variables in Table 3**

CAAR<sub>charge (0,1)</sub> is cumulative excess size-adjusted return over the mean size-adjusted returns for its peers, measured over days (0,1) relative to charge date

CAAR<sup>NEW</sup><sub>OLD charge(0,1)</sub> is new firm's cumulative excess size-adjusted return over the mean size-adjusted returns for its peers, measured over days (0,1) relative to old firm's charge date

CAAR<sup>OLD</sup><sub>OLD charge (0,1)</sub> is old firm's cumulative excess size-adjusted return over the mean size-adjusted returns for its peers, measured over days (0,1) relative to old firm's charge date

Restructuring is an indicator variable that equals 1 if the firm's charge pertains to a restructuring, 0 otherwise

Amount is charge amount/Market capitalization as of two days before the charge, a superscript is added to indicate the announcing firm, old (Table 3d)

No-amount is an indicator variable that equals 1 if the charge announcement does not contain the amount of the charge, 0 otherwise; a superscript is added to indicate the announcing firm, old (Table 3d)

EA is an indicator variable that equals 1 if earnings are contemporaneously with charge date, 0 otherwise,

Surprise is earnings surprise, (Actual EPS from *IBES* minus the mean of analysts' most recent forecasts before the earnings announcement date)/share price three days before the earnings announcement date (same as the charge date)

Repurchase is an indicator variable that equals 1 if stock repurchase is announced contemporaneously with the charge, 0 otherwise

Dividend is an indicator variable that equals 1 if dividend is announced contemporaneously with the charge, 0 otherwise

Positive is an indicator variable that equals 1 if the firm reported positive forward looking information such as increase in future sales growth contemporaneously with the charge, 0 otherwise

**Table 4**  
**Multivariate Results**  
**New Firms' Returns at immigration of executive**

$$CAAR_{Immigration(0,1),it}^{NEW} = \alpha + \beta_1 AcctPerf_{it}^{OLD} + \beta_2 StockPerf_{it}^{OLD} + \beta_3 CAAR_{Emigration(0,1),it}^{OLD} + \epsilon_{it}$$

Sample		Overall (N = 156)	Same Industry migration (N = 72)	Different Industry migration (N = 84)
Variable	Predicted Sign	Coefficient t-statistic		
Constant	$\alpha$ +	0.021***	0.030***	0.011
		3.71	3.75	1.20
AcctPerf <sup>OLD</sup>	$\beta_1$ +	0.110*	0.194*	0.048
		1.83	1.94	0.70
StockPerf <sup>OLD</sup>	$\beta_2$ +	0.030***	0.036***	0.011
		2.97	2.69	0.86
CAAR <sup>OLD</sup> <sub>Emigration(0,1)</sub>	$\beta_3$ -	-0.526***	-0.778***	-0.253
		-3.17	-3.38	-1.59
Adjusted R <sup>2</sup>		0.1757	0.3073	0.013
F-statistic		4.47***	5.31***	1.12

In this table, the number of observations, N, is 156. The sample period is 1994-2005. For variables definition, see Table 2.

\*, \*\*, \*\*\* Denotes a statistically significant two-tailed t-test of the null hypothesis that the coefficient estimate is not different from zero at the 0.10, 0.05, and 0.01 level, respectively. The t-statistics are reported below the coefficients, and based on White's (1980) heteroskedasticity-adjusted variance. Theoretically, one suspects that because CAAR<sup>OLD</sup><sub>Emigration(0,1)</sub> impounds the accounting and stock performance measures, multi-collinearity might be a concern. However, Variance inflation factors or VIFs (and condition numbers; see Belsley et al., 1980) are only slightly over 1 (much less than 20).

**Table 5**  
**Short term stock reaction of new firms to old firms' charges – Multivariate Results**

$$CAAR_{OLD}^{NEW} \text{ charges}_{(0,1)it} = \beta_1 RST - SAME_{it} + \beta_2 RST - DIFF_{it} + \beta_3 WO - SAME_{it} + \beta_4 WO - DIFF_{it} + \beta_5 Amount_{it}^{OLD} + \beta_6 No - amount_{it}^{OLD} + \beta_7 CAAR_{Immigration(0,1),it}^{NEW} + \beta_8 EA_{it}^{NEW} + \beta_9 Surprise_{it}^{NEW} + \beta_{10} Write - off_{it}^{NEW} + \beta_{11} Dividend_{it}^{NEW} + \beta_{12} Repurchase_{it}^{NEW} + \beta_{13} Positive_{it}^{NEW} + \beta_{14} Negative_{it}^{NEW} + \sigma_{it}$$

Sample			Entire Sample (N = 102)			Sample where CAAR <sup>NEW</sup> <sub>Immigration(0,1)</sub> is positive (N = 55)
Variable	Predicted Sign		Coefficient t-statistic			
			A	B	C	D
Constant	$\alpha$	?	-0.001 0.18			
RST-SAME	$\beta_1$	-		- <b>0.021***</b> <b>-2.63</b>	<b>-0.020**</b> <b>-2.46</b>	<b>-0.018**</b> <b>-2.10</b>
RST-DIFF	$\beta_2$	?		0.004 0.56	0.005 0.76	0.008 1.08
WD-SAME	$\beta_3$	?		-0.003 -0.23	-0.003 -0.18	0.018 1.44
WD-DIFF	$\beta_4$	?		-0.009 -0.88	-0.008 -0.79	0.008 0.73
Amount <sup>OLD</sup>	$\beta_5$	?		0.182 1.44	0.173 1.38	0.071 1.24
No-amount <sup>OLD</sup>	$\beta_6$	?		0.000 0.03	0.002 0.17	0.012 0.78
CAAR <sup>NEW</sup> <sub>Immigration(0,1)</sub>	$\beta_7$	-			<b>-0.095</b> <b>-1.51</b>	<b>-0.175*</b> <b>-1.83*</b>
EA <sup>NEW</sup>	$\beta_8$	?	-0.001 -0.13	-0.008 -0.65	-0.007 -0.65	-0.004 -0.37
Surprise <sup>NEW</sup>	$\beta_9$	?	5.46 1.18	6.772 1.38	6.442 1.32	-2.434 0.43
Write-down <sup>NEW</sup>	$\beta_{10}$	?	-0.012 -0.60	0.005 0.23	0.014 0.57	0.020 0.79
Dividend <sup>NEW</sup>	$\beta_{11}$	?	-0.013 -0.34	-0.019 -0.49	-0.022 -0.58	-0.040 -0.90
Repurchase <sup>NEW</sup>	$\beta_{12}$	?	0.039 1.33	0.047** 2.14	0.052** 2.19	0.061* 1.91
Positive <sup>NEW</sup>	$\beta_{13}$	+	0.054** 2.37	0.043** 2.03	0.053*** 3.11	0.075*** 7.25
Negative <sup>NEW</sup>	$\beta_{14}$	-	- 0.064*** -3.39	- 0.059*** -3.08	- 0.058*** -3.02	-0.055** -2.14
Adjusted R <sup>2</sup>			0.0705	0.1467	0.1638	0.3388
F-statistic			4.39	3.37	3.84	158.19

In this table, the number of observations, N, is 102. The sample period is 1994-2005. For variables definition, see Exhibit 1. \*, \*\*, \*\*\* Denotes a statistically significant two-tailed t-test of the null hypothesis that the coefficient estimate is different from zero at the 0.10, 0.05, and 0.01 level, respectively. The t-statistic is based on White's (1980) heteroskedasticity-adjusted variance.

### **Definition of Variables in Table 5**

$CAAR_{charge(0,1)}^{NEW}$  is new firm's cumulative excess size-adjusted return over the mean size-adjusted returns for its peers, measured over days (0,1) relative to old firm's charge date

RST-SAME (RST-DIFF) is an indicator that assumes the value 1 if old firm's charge represents a restructuring and old firm and new firm are in same (different) industries

WD-SAME (WD-DIFF) is an indicator that assumes the value 1 if old firm's charge represents a write-down and old firm and new firm are in same (different) industries

Amount<sup>OLD</sup> is old firm's charge amount/Market capitalization as of two days before the charge

No-amount<sup>OLD</sup> is an indicator variable that equals 1 if the old firm's charge announcement does not contain the amount of the charge, 0 otherwise

$CAAR_{immigration(0,1)}^{NEW}$  is new firm's cumulative excess size-adjusted return over the mean size-adjusted returns for its peers, measured over days (0,1) relative to immigration date

Surprise<sup>NEW</sup> is new firm's earnings surprise, if reported contemporaneously with old firm's charge date, measured as (Actual EPS from IBES minus the mean of analysts' most recent forecasts before the earnings announcement date)/Share price three days before the earnings announcement date

EA<sup>NEW</sup> is an indicator variable that equals 1 if new firms' earnings are reported contemporaneously with old firm's charge date, 0 otherwise

Write-down<sup>NEW</sup> is an indicator variable that equals 1 if new firms' write-off or write-down (such as inventory, PP&E, goodwill) are contemporaneously with old firm's charge date, 0 otherwise

Dividend<sup>NEW</sup> is an indicator variable that equals 1 if new firm's dividend is announced contemporaneously with the old firm's charges, 0 otherwise

Repurchase<sup>NEW</sup> is an indicator variable that equals 1 if new firm's stock repurchase is announced contemporaneously with the old firm's charges, 0 otherwise

Positive<sup>NEW</sup> is an indicator variable that equals 1 if new firm reported positive forward looking information such as increase in future sales growth contemporaneously with the old firm's charge, 0 otherwise

**Table 6a**  
**Short term reaction of the charges-control sample to own charge announcements, and short term reaction of the non charge peer group to these same announcements**

<i>Size-adjusted returns</i> <sub>(0,1)</sub> of	<b>Overall Mean</b>	<b>Restructuring Mean</b>	<b>Write-down Mean</b>
<b>Charges-control sample</b>	-0.011 (N= 157)	-0.010 (N= 107)	-0.012 (N= 50)
<b>Peers of charges-control sample</b>	0.000 (N=38,078)	0.001 (N=22,815)	-0.001 (N=13,692)

\*, \*\*, \*\*\* Denotes a statistically significant two-tailed t-test of the null hypothesis that the mean is not different from zero based on a T-test at the 0.10, 0.05, and 0.01 level, respectively.

**Table 6b**  
**Short term stock reaction of non-charge, non-migration firms to charges taken by old firms' peers charges**

$$CAAR_{CCS\ Charges(0,1),it}^{Target\ sample} = \beta_1 RST - SAME_{it} + \beta_2 RST - DIFF_{it} + \beta_3 WO - SAME_{it} + \beta_4 WO - DIFF_{it} + \beta_5 Amount_{it}^{CCS} + \beta_6 No - amount_{it}^{CCS} + \sigma_{it}$$

<b>Variable</b>		<b>Coefficient</b>	<b>t-statistic</b>
<b>RST-SAME</b>	$\beta_1$	0.012	0.36
<b>RST-DIFF</b>	$\beta_2$	0.003	0.26
<b>WD-SAME</b>	$\beta_3$	0.004	0.95
<b>WD-DIFF</b>	$\beta_4$	-0.003	-0.66
<b>Amount<sup>CCS</sup></b>	$\beta_5$	0.017	1.17
<b>No-amount<sup>CCS</sup></b>	$\beta_6$	0.001	0.97
<b>Adjusted R<sup>2</sup></b>		0.0012	
<b>F-statistic</b>		2.53	

In this table, the number of observations, N, is 177,282. \*, \*\*, \*\*\* Denotes a statistically significant two-tailed t-test of the null hypothesis that the coefficient estimate is not different from zero at the 0.10, 0.05, and 0.01 level, respectively. Indicators for the year of old firm's earnings announcement date are included in the regression (not reported). The t-statistic is based on White's (1980) heteroskedasticity-adjusted variance.

CCS refers to charges-control sample, and target sample refers to combined sample of both peers (who shares the same two-digit SIC code as charges-control sample firm) and non-peers (who do not share).

RST-SAME (RST-DIFF) is an indicator that assumes the value 1 if charges-control sample firm's charge represents a restructuring and the target Sample firm and the charges-control sample firm are in same (different) industry, WD-SAME (WD-DIFF) is an indicator that assumes the value 1 if charges-control sample firm's charge represents a write-down and the target sample firm and the charges-control sample firm are in same (different) industry

Amount<sup>CCS</sup> is charges-control sample firm's charge amount/Market capitalization as of two days before the charge.

No-amount<sup>CCS</sup> is an indicator variable that equals 1 if the charges-control sample firm's charge announcement does not contain the amount of the charge, 0 otherwise

For each charges-control sample's charge announcement, there are different numbers of observations from target sample. Therefore, standard errors are clustered for each charge announcement. Indicators variable for the year are included in the regression, but omitted in the Table.

**Table 6c**  
**Short term stock reaction of new firms and old firms' size matched peers to earnings announcements of old firms**

$$CAAR_{OLD\ EA(0,1),it} = \alpha + \beta_1 Surprise_{it}^{OLD} + \beta_2 Surprise_{it}^{OLD} \times NEW_{it} + \sigma_{it}$$

Variable		Coefficient	t-statistic
Constant	$\alpha$	-0.024	8.75***
Surprise <sup>OLD</sup>	$\beta_2$	-0.007	-0.28
Surprise <sup>OLD</sup> × NEW	$\beta_3$	-0.025	-0.74
Adjusted R <sup>2</sup>		0.0026	
F-statistic		122.00	

In this table, the number of observations, N, is 16,078. \*, \*\*, \*\*\* Denotes a statistically significant two-tailed t-test of the null hypothesis that the coefficient estimate is not different from zero at the 0.10, 0.05, and 0.01 level, respectively. Indicators for the year of old firm's earnings announcement date are included in the regression (not reported). The t-statistic is based on White's (1980) heteroskedasticity-adjusted variance. Given an old firm's earnings announcement, there are different numbers of observations from size-matched peers and new firm. Therefore, standard errors are clustered for each old firm's earnings announcement. Indicator variables for the year are included in the regression, but omitted in the table.

CAAR<sub>OLD charge(0,1)</sub> is cumulative excess size-adjusted return over the mean size-adjusted returns for its peers, measured over days (0,1) relative to old firm's earnings announcement date

Surprise<sup>OLD</sup> is old firm's earnings surprise, (Actual EPS from IBES minus the mean of analysts' most recent forecasts before the earnings announcement date)/Share price three days before the earnings announcement date

NEW is an indicator variable that equals 1 if new firm's corresponding return is measured, 0 otherwise

**Table 6d: Short term stock reaction of old firms to new firm's charges**

$$CAAR_{NEW\ charge\ (0,1)\ it}^{OLD} = \beta_1 RST - SAME_{it} + \beta_2 RST - DIFF_{it} + \beta_3 WO - SAME_{it} + \beta_4 WO - DIFF_{it} + \beta_5 Amount_{it}^{NEW} + \beta_6 No - amount_{it}^{NEW} + \beta_7 EA_{it}^{OLD} + \beta_8 Surprise_{it}^{OLD} + \beta_9 Repurchase_{it}^{OLD} + \beta_{10} Layoff_{it}^{OLD} + \beta_{11} M\&A_{it}^{OLD} + \beta_{12} Positive_{it}^{OLD} + \sigma_{it}$$

Sample		Entire Sample (N = 125)		Sample where old has no confounding events (N=88)
Variable		Coefficient t-statistic		
		A	B	C
Constant	$\alpha$	0.003		
		1.00		
RST-SAME	$\beta_1$		<b>0.001</b>	<b>-0.001</b>
			<b>0.16</b>	<b>-0.18</b>
RST-DIFF	$\beta_2$		0.002	-0.005
			0.30	-0.53
WD-SAME	$\beta_3$		0.006	0.005
			1.00	0.95
WD-DIFF	$\beta_4$		0.006	0.008
			0.92	1.22
Amount <sup>NEW</sup>	$\beta_5$		-0.007	-0.005
			-0.62	-0.34
No – amount <sup>NEW</sup>	$\beta_6$		0.005	0.009
			0.57	0.91
EA <sup>OLD</sup>	$\beta_8$	-0.008	-0.008	
		-0.81	-0.73	
Surprise <sup>OLD</sup>	$\beta_7$	2.69	1.683	
		0.28	0.14	
Repurchase <sup>OLD</sup>	$\beta_9$	0.013	0.012	
		1.33	0.92	
Layoff <sup>OLD</sup>	$\beta_{10}$	0.009**	0.012	
		2.63	1.66	
M&A <sup>OLD</sup>	$\beta_{11}$	0.043**	0.045**	
		12.94	6.65	
Positive <sup>OLD</sup>	$\beta_{12}$	0.009*	0.007	
		2.59	1.15	
Adjusted R <sup>2</sup>		0.0237	-0.0661	-0.0395
F-statistic		3.12	N/A	N/A

In this table, the number of observations, N, is 125 for the full sample, and 76 for old firms with no confounding events. For variables definition, see Exhibit 1. \*, \*\*, \*\*\* Denotes a statistically significant two-tailed t-test of the null hypothesis that the coefficient estimate is different from zero at the 0.10, 0.05, and 0.01 level, respectively. The t-statistic is based on White's (1980) heteroskedasticity-adjusted variance.

**Definition of Variables in Table 6d**

$CAAR_{NEW\ charge(0,1)}^{OLD}$  is old firm's cumulative excess size-adjusted return over the mean size-adjusted returns for its peers, measured over days (0,1) relative to new firm's charge date

RST-SAME (RST-DIFF) is an indicator that assumes the value 1 if new firm's charge represents a restructuring and old firm and new firm are in same (different) industries

WD-SAME (WD-DIFF) is an indicator that assumes the value 1 if new firm's charge represents a write-down and old firm and new firm are in same (different) industries

Amount<sup>NEW</sup> is new firm's charge amount/Market capitalization as of two days before the charges

No-Amount<sup>NEW</sup> is an indicator variable that equals 1 if the new firm's charge announcement does not contain the amount of the charge, 0 otherwise

EA<sup>OLD</sup> is an indicator variable that equals 1 if old firms' earnings are reported contemporaneously with new firm's charge date, 0 otherwise

Surprise<sup>OLD</sup> is old firm's earnings surprise, if reported contemporaneously with new firm's charges date, measured as (Actual EPS from IBES minus the mean of analysts' most recent forecasts before the earnings announcement date)/Share price three days before the earnings announcement date

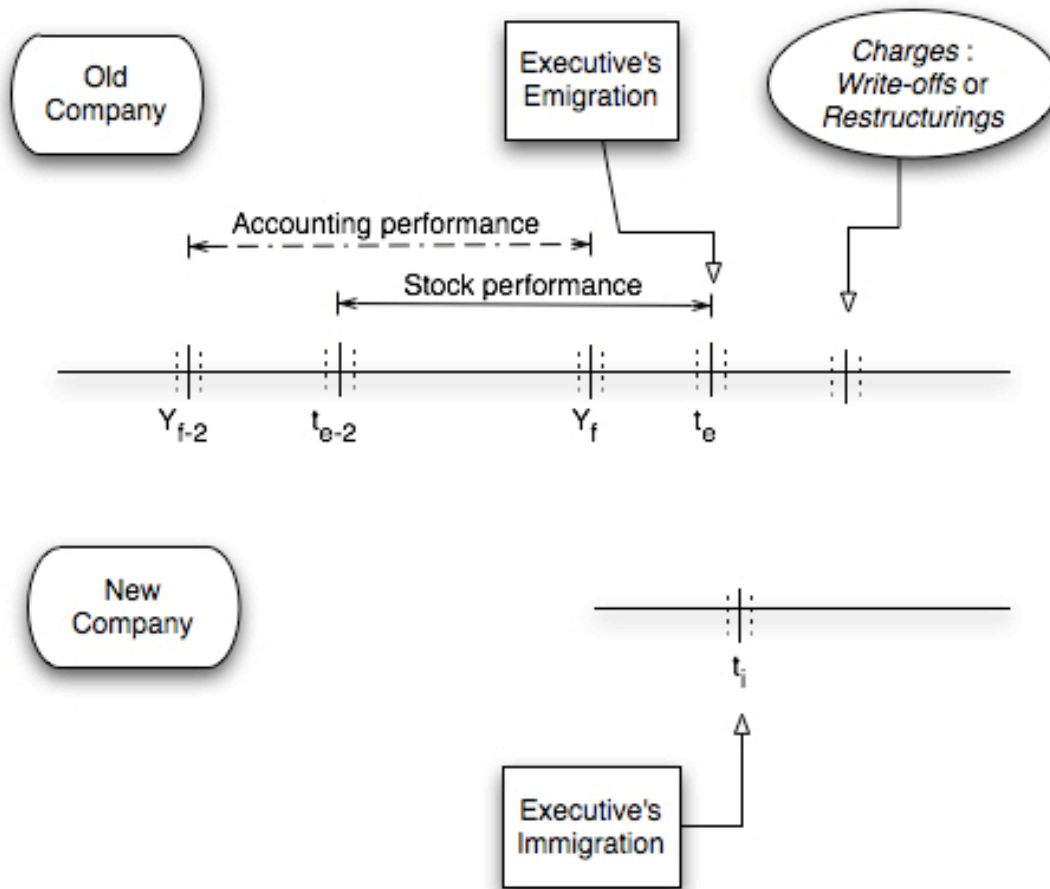
Layoff<sup>OLD</sup> is an indicator variable that equals 1 if an old firm announces a layoff contemporaneously with the new firm's charges, 0 otherwise

M&A<sup>OLD</sup> is an indicator variable that equals 1 if an old firm announces a merger or acquisition contemporaneously with the new firm's charges, 0 otherwise

Repurchase<sup>OLD</sup> is an indicator variable that equals 1 if old firm announces stock repurchase contemporaneously with the new firm's charges, 0 otherwise

Positive<sup>OLD</sup> is an indicator variable that equals 1 if old firm reports positive forward looking information such as increase in future sales growth contemporaneously with the new firm's charge date, 0 otherwise

**Figure 1**  
**Timeline of Executive Migration and Subsequent Charges**



$Y_f$  : Latest fiscal year end before the emigration  
 $t_e$  : Date of emigration  
 $Y_{f-2}$  : 2 years before  $Y_f$   
 $t_{e-2}$  : 2 years before  $t_e$   
 $t_i$  : Date of immigration