

Executive Turnover Following Option Backdating Allegations



Jap Efendi; Rebecca Files; Bo Ouyang; Edward P. Swanson

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ABSTRACT:

We find that the likelihood of forced turnover in the CEO and CFO positions is significantly higher for firms in the aftermath of option backdating than in propensity-score matched control firms. Forced turnover occurs in about 36 percent of the accused firms. The forced turnover rates for CEOs and CFOs are similar and several times higher than normal. The displaced managers are further punished by the managerial labor market, as they are much less likely than control firm managers to be rehired at comparable positions. We also find that backdating firms restructure CEO compensation to rely less on stock options. Finally, we learn the higher turnover extends to the General Counsel. While boards are often viewed as unresponsive to criticisms involving executive compensation, they did respond quite decisively to option backdating allegations and the accompanying adverse publicity.

Data Availability: *All data used in this study are publicly available from the sources indicated.*

Keywords: [compensation](#), [option backdating](#), [executive turnover](#), [corporate governance](#), [managerial labor market](#)

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