2015

Corporate Diversification and CEO Turnover Among Financially Distressed Firms

Jana Lynn Cook
Nova Southeastern University, janacook@nova.edu

CORPORATE DIVERSIFICATION AND CEO TURNOVER AMONG FINANCIALLY DISTRESSED FIRMS

By
Jana L. Cook

A DISSERTATION

Submitted to
H. Wayne Huizenga School of Business and Entrepreneurship
Nova Southeastern University

In partial fulfillment of the requirements
for the degree of

DOCTOR OF BUSINESS ADMINSTRATION

2015

A Dissertation
Entitled

CORPORATE DIVERSIFICATION AND CEO TURNOVER AMONG FINANCIALLY DISTRESSED FIRMS

By

Jana L. Cook

We hereby certify that this Dissertation submitted by Jana Cook conforms to acceptable standards, and as such is fully adequate in scope and quality. It is therefore approved as the fulfillment of the Dissertation requirements for the degree of Doctor of Business Administration.

Approved:

3-23-2015
H. Young Baek, Ph.D. — Date
Chairperson

MARCH 12, 2015
Ramdas Chandra, Ph.D. — Date
Committee Member

March 13, 2015
Darshana Palkar, Ph.D. — Date
Committee Member

March 25, 2015
Suri Weisfeld-Spolter, Ph.D. — Date
Chair, Doctoral Program

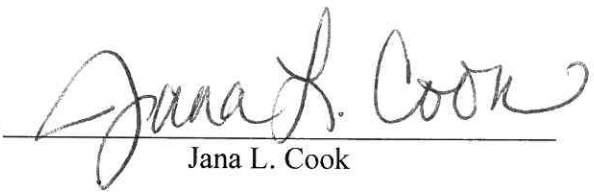
26 MARCH 2015
J. Preston Jones, D.B.A. — Date
Dean, H. Wayne Huizenga School of
Business and Entrepreneurship

Nova Southeastern University

2015

CERTIFICATION STATEMENT

I hereby certify that this paper constitutes my own product, that where the language of others is set forth, quotation marks so indicate, and that appropriate credit is given where I have used the language, ideas, expressions or writings of another.

Signed 
Jana L. Cook

ABSTRACT

CORPORATE DIVERSIFICATION AND CEO TURNOVER
AMONG FINANCIALLY DISTRESSED FIRMS

by

Jana L. Cook

A comprehensive examination of the differences in compensation and turnover between domestic and multinational firms in distress from 2003 – 2008 was completed. An examination of three major theories of turnover is examined within the boundaries of distressed firms and support is found for the Scapegoat Theory as proposed by Huson in 2004. The results found no significant differences between total compensation levels between domestic and international firms. And with turnover rates of 26 percent and 51 percent, these groups have only board size as a significant impacting variable.

ACKNOWLEDGEMENTS

I gratefully acknowledge the help and support of my loving family- Colby, Kynlee, Dad and Mom - for patiently waiting for this long journey to end. I especially want to thank my beloved mother who edited the first three chapters and watched my children as I travelled to class. I am eternally sorry I didn't finish in time for you to see it. And, finally, my endlessly patient husband, Doug – for everything. Your support both financially and emotionally. I dedicate this to you and the Lord who gave me this opportunity and the strength, in spite of seemingly insurmountable obstacles, to finish. I could not have done this without you all.

TABLE OF CONTENTS

LIST OF TABLES

CHAPTER I

INTRODUCTION

Background of the Problem

Risk reduction has been identified as a motive for product and/or geographic diversification of firms for many years. Mergers between two firms have been shown to reduce risk in new firms (Amihud & Lev, 1981). Managers often have large undiversified stakes in their own firms and the reduction of corporate risk can insure increased private returns. This merger, however, is not necessarily beneficial to the shareholders in a perfect capital market. May (1995) found that managers with more wealth in the firm equity will engage in acquisitions with greater diversifying benefits of risk reduction. Shareholders, on the other hand, hold well-diversified portfolios and do not always want the risk diversification at the corporate level.

When managers behave in a way that is not beneficial to the shareholders, an agency conflict exists (Jensen & Meckling, 1976). Agency theory also introduces the idea that managers might diversify in an attempt to create an entrenched position or solidify their indispensable skills (Aggarwal & Samwick, 2003). Aggarwal and Samwick identified two main reasons for diversification: (1) to reduce risk, and (2) to capture private benefits. They found that the private benefit is seen as the stronger of the motives. The benefits identified as making the CEOs more valuable were: the gaining of prestige in managing a large diversified firm, higher pay, and easier to skim from larger firms because of entrenchment.

Many researchers have attempted to link CEO turnover to diversification as one of the private benefits of diversifying. Does diversification cause entrenchment thus leading to a lower chance of CEO turnover? In a recent study, Tsai et al. (2009) asked several key questions that relate to this topic: (1) Do large firms exhibit significantly higher levels of turnover? (2) Is CEO turnover in large diversified firms lower than small, diversified firms? And (3) is turnover in large firms more likely to be less sensitive to poor performance when adopting diversification strategies than turnovers in small firms? The scope of their study is limited to the family owned businesses in Taiwan: Their results showed that if a company was well diversified, there would be a lower chance the CEO would be replaced. Berry et al (2006) found the more complex the firm, in terms of product lines, the less the chance of turnover in top management. Iqbal and French (2007) found managers who owned larger stakes in the firm's stock were less likely to be replaced due to their impact on corporate control.

Rose and Shepard (1997) examined firms between 1985 and 1990 and found that CEOs of diversified firms were paid 13% more in salaries and bonuses than similar sized non-diversified firms. They stated "our findings support an interpretation of diversification premia as rents earned by high-ability CEOs."

While CEOs do receive higher pay for diversification thus making them more difficult to replace, it is not the only reason for diversifying. Furthermore, Duru and Reeb (2002) found that the compensation premium for CEOs was seen mainly in geographic diversification and not industrial diversification. CEO compensation and ability then would make the entrenchment motive more conclusive, since the greater the

ability and experience in managing internationally diversified firms would make the CEO more difficult to replace.

Lehn and Zhao (2006) found that forty-seven percent of CEOs of acquiring firms are replaced within 5 years and that the likelihood of CEO turnover is negatively related to bidder returns. In the earlier mentioned paper by Berry, Bizjak, Lemmon and Naveen (2006), they found preliminary support for the idea that CEO turnover in diversified firms is "completely insensitive" to firm performance. Sanders and Carpenter (2001) argued that CEOs with international experience create value for their firms, thus creating value for themselves. This creation of value for the firm is yet another reason for the possibility of reduced turnover in diversified firms.

Gilson (1989) found that at least 52% of firms in financial distress experience turnover in top management. This paper proposes the hypothesis that CEO turnover in internationally diversified firms suffering from financial distress is lower than in non-diversified firms in financial distress.

Gilson defined the distressed firm as one with an "inability to meet the fixed payment obligations on debt." He limited this further by saying firms are distressed if they defaulted on debt, filed for bankruptcy, or restructured their existing debt (1990). In a later paper, Gilson and Vetsuypens (1993) found that one-third of all CEOs in distressed firms were replaced and those that remained, experienced large salary and bonus reductions. Turnover was defined as a change in top management. Specifically, Gilson defined top management as one holding the position of Chief Executive Officer, President or Chairman of the Board. These positions are most visible and most often held accountable in times of financial distress.

This paper proposes to extend the research on agency theory by looking at one of the private benefits of entering international markets – the reduced incidence of CEO turnover in financially distressed firms. This paper proposes that international firms will see less top management turnover, in financial distress, than their domestic counterparts. This is primarily thought to be due to the value of international experience and the limited pool of viable managerial candidates.

CHAPTER 2

REVIEW OF LITERATURE

Daily, the news is riddled with articles about CEOs and top managers acting in a way that benefits themselves, not the shareholders. Enron, WorldCom, Bear Sterns, Goldman Sachs, Chesapeake Energy and AIG are just a few that have dominated the headlines in the last ten years. But do all managers act in a way that is not beneficial to the shareholders? Jensen (1976) and again with Murphy in 1990, have long promoted the principal-agent problem, or as it is often called, agency theory. This theory states simply that managers can and will act in their own best interest, and that this interest may not be in the best interest of the owners or shareholders. Aggarwal and Samwick (2003) focused on two major reasons why managers diversify their firms: (1) to reduce idiosyncratic risk and (2) to capture private benefits. And as Jensen and Murphy powerfully stated (1990), "If shareholders had complete information regarding CEO's activities and the firm's investment opportunities, they could design a contract specifying and enforcing the managerial action to be taken in each state of the world. Managerial actions and investment opportunities are not, however, perfectly observable by shareholders"(Jensen & Murphy, 1990, p. 226). This problem is quite simply stated but powerful none-the-less. A CEO's actions are seldom completely visible to the owners of the firm – especially for international firms where monitoring is even more difficult.

Historically, research has focused on the behavior of management when it does not align with shareholders best interests. Studies have looked at a variety of behaviors for confirmation of agency theory principles both in domestic and international markets. Denis, Denis and Yost (2002) found that entering an international market reduced excess firm value.

Many other researchers looked at the impact of managerial compensation on subsequent behavior of management. Duru and Reeb (2002) showed that diversification does result in a compensation premium. In a sample of 7,085 firm years, Duru and Reeb gathered observations from 1991 to 1995. Using Compustat Execucomp and Disclosure WorldScope data, the researchers only used firm year observations that included market value of the equity, the book value of equity, earnings before extraordinary items, earnings before interest and taxes, total assets and sales, foreign assets and sales and the number of industry segments. These data requirements gave a sample size of 1,572 U.S. based firms for the years studied. The regression model examined several key factors' impact on CEO pay that had been determined to be influential in previous literature including: current firm, performance, investment opportunity, common stock return, and a size factor. They concluded that the level of and structure of CEO compensation are functions of corporate diversification. Therefore CEOs are paid more to be more geographically diverse, whether it is because of the knowledge or magnitude of operations as the reasoning. Logic would also allow one to assume these same characteristics that result in higher pay would result in fewer incidences of turnover, primarily due to the difficulty of replacing such expertise.

In fact, Jensen (1986) and Stulz (1990) have argued that CEOs will diversify to increase the prestige associated with the control of a multi-national corporation. Does this risk of executive job or compensation loss affect the decisions a manager might make? This "employment risk" is difficult to "diversify away." Several authors found that the reduction of this "employment risk" is a valid motive for the internationalization of the firm (Amihud & Lev, 1981). This paper proposes that the diversification of a distressed firm into a multi-national market is negatively related with the possibility of CEO turnover and reduction in pay. First, an examination of the literature on the distressed firms should be done.

As previously stated, distressed firms are defined as firms that cannot meet their debt obligations. Gilson (1989) defined a distressed firm as one with an "inability to meet the fixed payment obligations on debt." He defined this further by saying firms are distressed if they defaulted on debt, filed for bankruptcy, or restructured their existing debt (1990). The bankruptcy could include either Chapter 11 or Chapter 7 bankruptcy proceedings under the U.S. Bankruptcy Code. In 1990, with a sample size of 685 firm years and 409 firms, Gilson looked at CEO turnover in distressed firms. Gathering data from the Center for Research in Security Prices (CRSP), the researchers cited that the sample of firms that experienced large common stock price declines over the 1979 through 1984 period. Gilson also defined management turnover as "any change in the group of individuals who together hold the titles of CEO, president, and chairman of the board." A simple exchange of titles is not considered turnover. They confirmed the changes in senior positions by mention in the Wall Street Journal or Standard and Poor's *Register of Corporations, Directors, and Executives*. The final sample was reduced to

587 firm years, representing 381 firms. In his pivotal research on CEO turnover, Gilson identified several factors that can affect CEO turnover. Gilson's sample of firms was generally seen to be "small, highly leveraged and unprofitable." Almost two-thirds of those sampled were listed on the AMEX, which are generally smaller firms. Size was determined by book value of the firm's assets. Gilson's research showed a -161.0% to -164.8% return for the sample. The returns were economically and statistically significant. Gilson reported that managerial turnover is seen more often in financially distressed firms. By examining the firms throughout the turnover process, Gilson measured turnover due to financial distress by tracking the fraction of managers who retained a senior management position in their firms throughout the bankruptcy or debt restructuring. For the combined sample of 126 firms facing bankruptcy or restructuring, only 34% of the original managers remain at the end of the four-year period. He also found that more managers keep their positions when the debt is restructured privately. Gilson discussed some of the side effects of the loss of jobs due to financial distress. He listed the loss of income, firm-specific human capital, and power and prestige as some of the losses incurred. Managerial losses are considered greater when the change is forced. In his sample, Gilson found a relative frequency of forced changes to be 0.83 for financially distressed firms and 0.66 for non-financially distressed firms. His results were significant with a p-value of 0.01. Gilson's final results yielded a 52% turnover rate in firms experiencing financial distress. This paper led many other researchers to examine turnover.

Many researchers also examined the behavior of the firm *before* the dismissal of the CEO. Distressed firms were found to exhibit common behavior patterns. Jostarndt

and Sautner (2008) found a decrease in ownership concentration among 267 distressed German firms. They found that private owners give up their dominating role which results in a less effective managerial monitoring system. Monitoring then becomes the job of creditors and other less dominant investors. This study was limited in its scope due to its examination of only German firms. However, Huson et al. (2001) found that in spite of increased or changed internal monitoring, the likelihood of turnover remained fairly constant. This paper was a response to the theory that increased monitoring would reduce irresponsibility and eventually turnover. In a study covering CEO turnover from 1971 to 1994, they examined the nature of CEO turnover. During the time period studied, Huson et al found that "outsider representation on corporate boards, the level of incentive compensation paid to outside directors, and external pressure on directors by institutional directors all increased, whereas the average board size decreased." The researchers examined CEOs who had recently accepted the position. They also examined turnovers, excluding those that were the result of a takeover. Their sample size of 1,316 CEOs was large and covered many firm types and industries to allow for a broad sample. They also calculated the firms' accounting and stock returns for each year the CEO was in office. They also gathered information on the CEO's age, tenure in office and tenure in the firm. Finally, they determined the reason for CEO turnover from the Wall Street Journal. The firms were considered to have increased monitoring, or control activity, if evidence was found of a "proxy fight, a takeover rumor, the adopting of an antitakeover measure, a board shakeup, a change in ownership requiring the filing of a Schedule 13D form with the Securities and Exchange commission or any similar activity." They saw an increase in the hiring of outsiders from 11.3 percent in the 1971 to 1976 period to 21.2

percent in the 1990's. They also found an increase in CEO turnover when stock returns had been negative. They ultimately found significant relationships between the likelihood of forced CEO turnover, outside succession, the board composition and director stock ownership percentage. Huson et al found that the increased monitoring did not change the incidence of CEO turnover, so the results do not show an increase in the rate of forced CEO turnovers even though the mechanisms have changed. Huson, Malatesta and Parrino (2004) in a later study confirmed that accounting measures declined before a CEO turnover and improved after a turnover. So increasing research has been conducted to confirm the relationship between a decline in performance of a corporation and the turnover of its Chief Executive Officer. Weisbach (1995) found a higher correlation between turnover and performance when more outside board members made up the board of directors. This seemed to work as a check mechanism for CEOs and their behavior, often curbing rash decisions before they happened and also by quickly replacing non-performing CEOs when success factors were not met. The outside board members promoted efficiency in the corporation.

Stock price decline is another common characteristic of firms in distress (Gilson, 1989,1993). Gilson's 1993 sample consisted of firms with three year unadjusted cumulative stock returns that were in the bottom five percent of firms listed on the New York (NYSE) and American (AMEX) stock exchanges. With a sample size of 77 publicly traded firms that filed for bankruptcy between 1981 to 1987, Gilson et al found that almost one-third of all CEOs were replaced and those that kept their jobs experienced large pay cuts. The loss of pay, incentives, prestige and future opportunities gave the management a strong incentive to avoid bankruptcy and distress at any cost. This

significant reduction in utility and wealth created a huge incentive to take actions that reduce the chance of bankruptcy and/or restructuring. This desire to prevent termination leads to behaviors that will not necessarily be in the best interest of the firm.

Researchers have also found that CEOs make risk-reducing choices which reduce the firm's value to shareholders and even reduce their own potential gains. One study found that even a 10% increase in termination risk would result in a decline of stock price from 5%-23% for firms in their sample. They also found that changes in the compensation structure did not offset this termination risk behavior (Chakraborty et al, 2010). The increased risk of takeover also increases incentives for managerial behavior changes (Denis & Serrano, 1996). Iqbal and French (2007) found that managers that are more strongly entrenched in the firm were less likely to be replaced in firms that were in financial distress. This mitigation of the replacement of the CEO has been called the manager-entrenchment hypothesis. Iqbal and French defined distress as four or more quarters of negative earnings within an eight period following twelve consecutive profitable quarters. With a sample size of 114 resigning executives and 279 non-resigning or continuing executives, the studied sample was diverse in size and industry classification. One interesting note in the data found that most of the firms with resigning CEOs were larger than the non-resigning firms. Using logistic regression, the researchers found that the ownership level and accumulation of additional shares could be an influential factor in the removal of the CEO.

This hypothesis could be why Loderer and Sheehan (1989) found that managers of bankrupt firms do not necessarily bail out of their stock positions during the period preceding bankruptcy even though their study showed a 90% decline in stock value

during this time. This could be because of trading blackout dates but even so, illustrates that managers' wealth will decline drastically preceding and during bankruptcy. So, if managers of bankrupt or financially distressed firms face wealth declines, loss of future job opportunities and loss of pride and privileges associated with running of a corporation, do they make other value lowering decisions that would protect their own interests at the expense of shareholder value?

Most of the research on turnover focused on the circumstances surrounding the firm. Gilson showed that distressed firms were more likely to dismiss their top management, but other research looked at the behavior prior to distress. Weisbach found poor investment decisions were made prior to turnover (1995). Turnover is often seen in firms that have been acquired in a merger (Krug, 2003). Not only has the behavior been examined prior to turnover, but also after the turnover.

In 2002, Dahya et al, found that when the positions of CEO and Chairman of the Board were not held by the same individual, an even higher incidence of turnover in distressed firms occurred. This practice became so popular that many countries in Europe made it a legal requirement once again illustrating that these positions act as a check mechanism on behavior of the top managerial team. Huson et al, also found that the board composition, including an outsider-dominated board, increased the likelihood of turnover and also helped improve performance after CEO dismissal (2004).

Much research then occurred, focusing on the circumstances, and on the characteristics of the CEO that fostered removal. Age, tenure and skill were all examined, along with behavior prior to dismissal, but more recently the motives of agency came into focus. Most executives' pay includes both salary and stock/options.

This promotion of an investment in the firm was intended to curb behavior that was not in the best interest of the shareholder. But, as previously discussed, recent research found that the wealth factor could cause entrenchment (Iqbal & French, 2007). When managers had a large enough stake in the firm, entrenchment took place. Managers actually reduced the possibility of their own dismissal. The researchers came to the conclusion that managers could use large stakes in a firm to influence the control mechanism of the firm and mitigate the likelihood of removal. Many researchers went on to look at not only the characteristics of the CEO, but also the characteristics of the position itself. In fact, little research has focused on the complexity of the internationally diversified firm and its affect on the choice of CEO and the eventual turnover of the CEO.

Tsai et al (2009), found that in family firms, the more complex the structure, the less likelihood of turnover. In a study that examined family owned firms in Taiwan, Tsai et al linked product diversification with less likelihood of top management turnover. In a study of 424 family owned firms, the researchers divided the family owned firms by their CSIC, or Chinese Standard Industry Classification codes. They then determine a specialization ratio to determine their level of diversification with .95 being completely focused and .70 being diversified. They had a 34.8 percent of firms that were diversified. The market for possible CEOs is not unlimited, and the more complex the job, the smaller the pool of acceptable candidates. This study had two significant weaknesses for overall applicability. It was based solely on firms in Taiwan and on family firms. But since the purpose of this paper was to focus on family firms and the mechanisms of control with the firm, it met its research goals.

Rose and Shepard investigated the relationship between CEO compensation and firm diversification in 1997 and found a significant difference. They explored two possible explanations for this: (1) the more difficult the job, the greater the ability to manage the firm and thus the need for higher pay, and (2) the entrenchment caused by the diversification led to higher pay. They examined salaries and bonuses plus a measure for total compensation which would encompass stock options and perks. CEOs of undiversified firms earned slightly lower average salaries and total compensation than the CEOs of diversified firms. Rose and Shepard measured diversification in a very straightforward manner. They measured the number of unique four-digit SIC code segments reported for each year. Then using a more complex measure, they created a diversity measuring 1 minus the Herfindahl-Hirschman Index. They then went on to measure the firm size to account for the well-researched relationship between size and compensation. Then they continued to study the impact of firm performance, age, tenure and background of the CEO knowing these variables can also impact CEO pay. Their final results supported the explanation that pay premiums were given to CEOs of diversified firms because of the increased complexity and ability needed to guide a multi-segment firm. In other words, higher ability equals higher pay.

Berry et al, also found a relationship between complexity and turnover (2006). In their 2006 paper, they found that the more diversified the product line of the firm, the smaller the likelihood of turnover. In fact, they found " that CEO turnover is completely insensitive to both accounting and stock-price performance in diversified firms. In contrast, CEO turnover in focused firms is sensitive to both accounting and stock price performance." In a large study of 4820 firm year observations for 502 firms in 1990,

they examined turnover by changes in the identity of the CEO. They examined focused firms versus diversified firms and saw that in the diversified firms, the likelihood of turnover was almost completely insensitive to accounting and stock price performance. They defined diversification in two ways: (1) setting an indicator variable to 1 if the firm operates in multiple business segments, and (2) they also used 1 minus the Herfindahl index. They claimed that firms with a zero for this factor were single segment firms and placed lower weight on the smaller segments. Since Herfindahl is a measure of industry concentration, this measure might be less than transparent. They also identified whether the turnover was forced or voluntary by identifying whether the CEO left before the age of 60 and listed any reasons other than death, illness, or acceptance of a position within or outside the firm unrelated to the firm's activities. The research revealed several interesting facts that could be the cause of increased costs of finding CEOs in diversified firms. CEOs of diversified firms tend to be older (by more than a year) and have shorter tenures, higher levels of fixed pay and have named a successor to the CEO position. The final results showed a lower incidence of CEO turnover in diversified firms. Only 11.1 percent of turnovers are forced in diversified firms as compared to 17.8 percent in focused firms. Their research found that due to the complex nature of the diversified firms, the additional costs associated with the replacement of the CEOs of reduced the incidence of turnover. This research leaves much more room for determining the factors of organizational structures and organizational costs of replacing top management.

This research proposes to continue where previous research concluded by examining how international diversification impacts CEO turnover. Naturally, an international firm has the most complex type of organizational structure a business can

have. In theory, the turnover should be the smallest for the most complex form of organization. So the question is, does international diversification limit or reduce CEO turnover in financially distressed firms?

More and more firms are making the choice to enter global markets. A recent quote by a retail analyst, Matt Winn, reflects the issue in most markets, "Most established retail markets have little room to grow within their own countries." With this being said, the only place to go is into other international markets. This holds true with retail and most other sectors of the economy. Whether it is for the increase in market share when domestic market shares stagnate, or because of the lure of cheaper labor, many corporations are making the move into international waters. The study of international diversification has dominated research in the last decade. As our world becomes more and more global, research has attempted to determine the impact of globalization on business. Researchers have studied types of internationalization, impact on sales, increases in agency issues, the complication of information systems, information demand, and the list goes on and on. The purpose of this section is to review the research on globalization and the gaps in the literature that this paper proposes to fill.

The cultural, language and geographic distances between parent company and international segment alone can be extremely difficult to manage. As one may assume, much literature has been devoted to the study of this challenge to the top managerial team. Given the increased level of complexity in managing an international firm, top managers' abilities must be greater to meet the needs of the more complex firm. Sanders and Carpenter in 1998 found that CEOs were compensated differently when they managed a multi-national firm due to its increased complexity. The complexity was

attributed to two factors: (1) the diversity of cultures of the international firm (as portrayed by Hofstede's cultural measures) and, (2) the necessity of creating synergies across product and geographic markets. In studying more than 250 firms with similar size and performance, they discovered many factors about international firms. Degree of internationalization was measured using Sullivan's (1994) composite measure which measures three variables: (1) foreign sales as a ratio of total sales, (2) foreign production as measured by foreign assets as a percentage of total assets, and finally (3) geographic dispersion which measured the number of countries where the firm had subsidiaries in operation. These three measures were summed to form a composite measure of internationalization from 0 to 3. The international firm's manager will have greater decision options than the non-diversified firm. This will require greater managerial discretion and intuition. The researchers found that board size and composition were associated with internationalization. Sanders and Carpenter also found these international managers' contracts were typically longer and more focused on salary-based pay and long-term incentives. The reasoning behind this was the determination that the information processing demands and agency issues of international firms were so complicated that "normal" pay structures could not correctly accommodate the CEO and management teams. This greater degree of complexity of decision-making and information processing is another reason replacing international managers is more challenging than their domestic counterparts.

In a later research Carpenter, Sanders and Gregerson (2001) found that CEOs with international experience actually "create value for their firms and themselves through their control of a "valuable, rare, and inimitable resource." Their results showed

that firms with CEOs with international experience performed better. This makes the pool for CEOs with international experience valuable and smaller than pools for other executives. If it is both costly to replace and difficult to find CEOs with international experience, turnover in these firms with experienced CEOs at the helm should be lower. Citing both the resource-based theory of the firm's growth, competitive advantage and the new dynamic capabilities of the firm, they examined 245 multinational firms and found previous experience did create value for the firm. They also found that the number of CEOs with valuable international experience was limited. In fact, their research showed less than 1 in 5 top managers in international firms had such experience, usually less than one year. They found "the forces of causal ambiguity, social complexity, and competitive labor markets contribute to both the rarity and inimitability of international assignment experience among CEO candidates." If the complexity of the job makes a smaller pool of truly qualified CEO candidates, the mere act of entering an international market reduced the likelihood of CEO turnover, thus digging the entrenchment even deeper.

While the complexity of replacing a CEO is a valid area of study, one must include an examination of other possible explanations for a CEOs departure. Some research focused on mergers and acquisitions. Extensive research has been conducted on the CEOs of the target firms. Studies show that U.S. target firms should expect to lose two-thirds of their executives within five years of acquisition (Walsh, 1988). Departures will be even higher when the acquirer is foreign (Krug and Hegarty, 1997).

The following factors have been attributed to CEO succession in general: age, size of the firm, condition of its founding, sector of activity, variability of profits in its industry,

current and past performance, structure, composition and allegiances of the board of directors, power of the incumbent CEO with respect to the board, personal characteristics of the CEO, and availability of alternative candidates (Pitcher, Chreim, and Kisfalvi, 2000). The difficulty of measuring CEO succession is due to the large number of variables that must be considered when evaluating determinants of succession.

Denis, Denis and Sarin (1997) found that the probability of top executive turnover is negatively related to the ownership of the officers and directors. They also found it was positively related to the presence of an outside shareholder or block holder. The authors also found increased corporate control activity during the months preceding the executive's turnover. This leads to the conclusion that board will have an impact on the survival of the top managers. The board is considered a monitor for the shareholders of the activities of top management. But the board structure can falter or inhibit this process.

Kang and Shivdasani (1995) found top executive turnover was related to performance. Specifically, they found that top executive turnover was related to industry-adjusted return on assets, excess returns, and negative pre-tax earnings. A botched international entrance into a new market can create all of these results. Therefore, executive turnover could be linked to the failure in the entry into a new market. Kang and Shivdasani's work was limited to Japanese firms so more research should be done to fill this gap in the literature.

Kang and Shivdasani worked again on this topic in 1997. They once again studied firms in Japan in hopes of linking restructuring during declines to top executive turnover. They studied 92 firms between 1986 and 1990 (comparing U.S. and Japanese

firms) and found that many downsizing measures, including layoffs of top management, took place after a decline in operating performance. There was a correlation between the downsizing and increases in ownership of the firm by the main bank and other block holders. In fact, block holders increased the probability of executive turnover significantly. The limited size of the sample leaves room for further study on this topic.

Sanders and Carpenter, as previously mentioned, found that internationalization resulted in changes in the roles of CEOs, their compensation and board structure (1998). In fact, they found that along with greater compensation, the roles of CEO and chairman of the board were often separated. All of this suggests that these roles undergo many changes after entering a new international market. Denis, Denis and Sarin (1997) linked changes in board structure to executive turnover.

When an entry into a foreign market fails, the CEO will suffer from potential incentive pay losses. And the failure typically includes a loss of investment, which is usually quite large, and an even larger loss could be forthcoming in future developments. This could in many instances be considered poor performance which has been linked as a key determinant in CEO dismissal (Kesner and Sebora, 1994).

The CEO may not lose his/her job but would see a reduction of pay either by contract or by stock value losses. Extremely little has been studied in this area. A quote by Harold S. Geneen in an article in Fortune magazine in 1984 summed this up perfectly, "When do the directors cut a CEO's salary? When disaster strikes, when the ground heaves, the walls buckle, and the roof caves in, when the wreckage is all around. Then the board, if it survives, sits up and takes action." Since Kerr and Bettis mentioned the problems with CEO compensation in their 1984 paper, this is hardly a new problem. But

the news releases concerning AIG, Bear Sterns, Goldman Sachs and many others should have stimulated more study in this area. But the researcher found little valuable literature which focused on the reduction in pay of CEOs. This is most probably because CEO salaries are seldom reduced, but they may not receive the incentive packages that are associated with success. There is also the problem iterated by Conger and Nadler in their 2004 article, "When CEOs Step Up to Fail." The cost of replacing a CEO is astronomical. Between the severance packages and recruiting of a new CEO, the firm is out millions of dollars. The typical severance package contains a salary worth two or three times the CEO's normal annual salary, plus compensation for life insurance and some include annual payments for the lifetime of the CEO of up to a million dollars annually. This is not an easy or inexpensive task.

The previous research leaves a certain hole in the literature which this research will fill. This paper suggests that CEO turnover in distressed firms which are more multinational will be lower than firms who are operating solely in a domestic market. Gilson (1990, 1993) found that turnover is greater in distressed firms. Berry et al (2006) found that firms that have product diversification are less likely to see CEO turnover due to accounting and stock price performance. This paper proposes to answer this question.

Hypothesis Development

CEOs make decisions daily about the directions their firms will go and truly determine their success. Once a firm enters the international market, this job becomes more complex. As Sanders, Carpenter and Gregerson wrote, CEOs "create value for their firms and themselves through their control of a valuable, rare, and inimitable resource."

If this position is so important, the loss of the CEO can be catastrophic to the firm in morale and future revenues.

Due to its costly nature, CEO turnover has been linked to firms in distress – where the losses are already so high and that the last resort is to start fresh from the top managerial position. Gilson (1990, 1993) found that anywhere from one-third to one-half of the CEOs of financially distressed firms would be forcibly removed. The benefits of replacing the CEO must be greater than the costs of the replacement process. The more complex is the firm, the more difficult will be finding the replacement CEO.

Theories

The literature gives three streams of theories to explain the difficult and lengthy process of replacing a CEO . (1) Scarcity or Ability Matching Theory: The supply of qualified candidates for managing diversified firms is small (Rose and Shepard, 1997; Berry, Bizjak, Lemmon & Naveen 2006). (2) Cost of Replacement or Entrenchment Theory : Replacement costs are higher when the firms are more diversified (Schleifer and Vishny, 1989). These first two theories are often put into categories as the capability versus the entrenchment theories, or the improved management theories. (3) Scapegoat Theory: Performance improves upon replacement of a manager as a scapegoat (Huson et al, 2004). This theory is linked to the idea that managerial quality, or poor performance, is linked to "bad luck" not bad management. "In equilibrium, all managers supply the same effort (or quality) and only those who are unlucky are fired. Boards of directors understand that all managers are alike, but must fire managers of poorly performing firms to induce other managers to provide the desired level of effort (Huson et al., 2004)."

(1) Scarcity Theories: Scarcity explanation has gained support in recent years. Rose and Shepard (1997) studied the pay among 473 CEOs during the years of 1985-1990 and found that premia were definitely paid to CEOs of diversified firms. CEOs of firms with at least two lines of businesses were paid an average of 12% more than those of non-diversified firms. They also examined the pay structure of new and experienced CEOs. If ability matching argument is dominant over the entrenchment argument, one should see higher pay for greater experience. They found, however, that the diversification premia were approximately the same for both new and experienced CEOs with an average of 11 more years of experience. The ability matching argument would cause the premium for new and experienced CEOs to be nearly equal. Rose and Shepard also stated the ability matching argument would show "that the premium earned by an experienced CEO who had diversified the firm will be lower than the premium earned by a CEO hired to manage an already diversified firm." The entrenchment argument should show a higher premia for the diversifying manager. Rose and Shepard did find that diversification actually reduced compensation. The fact that most CEOs were not paid premia for experience lends support to the argument that CEOs are hired according to ability, not the entrenchment created through diversification.

(2) Entrenchment Theories: The second argument focused on agency problems. The idea is that "entrenched senior managers may use their position to increase diversification and their own compensation contrary to shareholder interests."

The entrenchment theory suggests that CEOs enter foreign markets to increase their value to the firm so that the cost of replacing them becomes too large to consider except in the most extreme circumstances. Management ownership can "exacerbate"

agency problems by "reducing the effectiveness of corporate control mechanisms"(Iqbal & French, 2007). CEOs reduce the effectiveness of monitoring through control of large shares of stock to boosting their influence on the board of directors (Dann & DeAngelo, 1988; Weisbach, 1988). Some managers use this to entrench themselves. If the equity held by the CEO is large enough, it becomes increasingly more difficult to replace him/her due to their influence and the cost of buyout. Rose and Shepard (1997) argued that CEO compensation actually declined during diversification somewhat reducing this argument's appeal.

(3) Scapegoat Theories: The final theory addresses the concept that CEOs are only figureheads and CEOs are equivalent therefore easily replaced. Huson et al (2004) give the scapegoat explanation based on the concept that one manager is as good as another and the firm will have the next leader step up to control the firm in the event of the departure of the CEO. The departing CEO will be used as a scapegoat for the previous poor performance of the firm, and gives shareholders a "good news" effect previewing an increase in financial performance. They lend much support to Denis and Denis (1995) who also found increased performance in firms after a CEO turnover announcement. Huson et al (2004) also supported Gilson's previous work that CEO turnover will typically follow declining firm performance and that both financial and managerial performance increase following management turnover.

Although these three explanations have vast amounts of research backing each up, the literature lacks depth in the examination of multinational firms and CEO turnover and the explanations behind the turnovers. If the complexity of the organization only increases as the firm enters international markets (Carpenter et al, 2001; Duru and Reeb,

2002), the replacement of CEOs of international firms must be even more costly. Prior research has even gone so far to say that CEOs with international experience can add value (Carpenter et al, 2001). Many researchers have studied and found that most CEOs are very homogeneous in nature. That even while bringing some impressive backgrounds to their position, they often are white males, have long tenure with the firm, are graduates of prestigious graduate schools, and have backgrounds in finance or law. Regardless of the reasons the CEOs entered the foreign market or where they have come from, they have deepened the unique and valuable resource by entering a foreign market. They have made themselves much more difficult to replace. If the management of a diversified firm is more complex, then locating managers with the skill set to manage in this complex environment would be more difficult. The harder and more lengthy the time to find managers the more costly the search will be.

Research has also found that monitoring CEOs abroad is more difficult (Eisenhardt, 1989; Nilakant and Rao.1994; Zajac and Westphal, 1994, Sanders and Carpenter, 1998). The distance and the complex nature of decision-making in international firms make monitoring each decision tedious and practically impossible. Thus, we will expect turnover in multinational firms, even in distress, to be less than their domestic counterparts. These theories lead to different hypotheses that will be addressed by this paper.

Corporate Multi-nationality and CEO Pay

Management of a MNE is an extremely challenging job. It requires knowledge of more than one culture and economic system. All three CEO turnover arguments address

the compensation of CEOs. The capability theory argues that the new CEO will be compensated the same as the incumbent CEOs in the market. They will have pay the same to entice those with appropriate credentials to take the job. With these greater responsibilities comes a greater capability, thus making it necessary to pay more to the individual who can meet the challenges of such a position. Existing CEOs must have been paid at a higher level than those of domestic firms.

The entrenchment theory predicts that CEO of an MNE can entrench themselves by building the complex multinational operations. He/she will make themselves indispensible to operations because of the advanced needs of the MNE. Over time, the compensation level will rise through the increased scale of the firm. So the CEO will start at a lower level and in time, increase his pay and perks through the support of the board.

The scapegoat theory argues that multi-nationality has no impact on pay whatsoever. Since managerial ability is generic and can be easily replaced, there should be no difference between the new and incumbent CEO's pay level or structure. Since any CEO can take over any job – there is no need to pay more for multi-national experience. Different theories predict different pay levels between multinational enterprises (MNEs) and domestic enterprises (DEs) CEOs, and we state the following hypothesis:

Hypothesis 1: Pay level of the CEOs of MNEs is different from that of similar DE CEOs, cet. par.

Corporate Multi-nationality and CEO Pay Structure

Previous research on the pay of the CEO of multinational firms has found a few key similar components . The compensation of CEOs of international firms is structured more on salary and long-term outcomes (Sanders and Carpenter, 1998; Carpenter et al,2001; Rose and Shepard, 1997;Duru and Reeb, 2002). Rose and Shepard found an increase in compensation of up to 13% for domestically diversified firms with varied product lines. Duru and Reeb (2002) found that geographic diversification provides a compensation premium. They found that diversification could cause compensation contracts to be different with a greater reliance on market based measures of success than accounting based measures. They also found that CEOs of a firm with geographic diversification would be rewarded if the diversification was seen as value-enhancing.

If CEOs of MNEs are compensated more, then the cost of replacing them would be greater. The monitoring of CEO becomes a greater challenge when the firm crosses many countries and time zones. Therefore the structure of the pay level should include a bonding aspect, according to agency theory, attempting to align CEO interests with those of the shareholders through the pay structure.

As with the compensation level argument, all three theories have arguments on the pay for performance issue. Under the ability theory, manager capabilities tend to vary and in order to attract the best CEOs available, the firms have to offer performance-sensitive pay packages. But the entrenchment argument would state that since the CEO of the MNE is entrenched, they will want a stable pay package, less sensitive to performance. If a manager goes so far as to increase multi-nationality to entrench

himself/herself, they will not want to lower their impact but to remain stable regardless of sales performance or distress.

Finally, the scapegoat theory would argue that with no difference in managerial capability, firms have no need of incentive-based compensation in either a multi-national firm or a domestic firm. All pay should be the same since all managers are of equal capability. The pool of qualified candidates is in effect endless and another manager can always be found to fill the role of CEO. Three theories would predict different pay structures of MNEs relative to DEs, and we state the next hypothesis:

Hypothesis 2: CEO pay for performance sensitivity is different between MNEs and DEs, cet. par.

Corporate Multi-nationality and CEO Turnover in Financial Distress

The decision to fire or replace the CEO is one of the most important decisions a company can make. From Gilson's early work in the late 1980's and early 1990s, turnover has been linked to distressed firms. Gilson (1990) found that 52% of firms in distress experience a turnover in top management. In 1993, he went on to look more closely at the turnover problem, and found that one-third of all CEOs were replaced and that of those that remained, salary and bonus reductions were probable. After this initial study, many more researchers attacked the problem. Lehn and Zhao (2006) found that 47% of CEOs of acquired firms are replaced within five years. Berry et al (2006) found that the more complex the firm in terms of product lines, the less chance of turnover in top management. Iqbal and French (2007) furthered research by finding that managers who own larger stakes are less likely to be replaced. Tsai et al found that diversified

firms are less likely to turnover than non-diversified firms, even in distress. Huson et al found that in spite of increased monitoring in firms, turnover rates remain relatively steady. Sanders and Carpenter (1998, 2001) found that CEOs of international firms are paid more due to the complexity of job across global boundaries. All of these previous papers failed to include the international presence of the firm as a contributing factor to turnover.

Multinationality has been seen to impact a corporation in a variety of ways. The increased complexity is seen in the financial division. Contracts must be determined in a variety of currencies. Payment format is different in each country. The intricacies of installment payments or credit vary from country to country. And the forecasting of what exchange rates will do require an entire team of currency experts. Human resources are vastly different. For example, in the United Kingdom employees are not willing to work at all on certain days even in an emergency. And understanding of Human Resource regulations is necessary by country. Some countries do not allow women to hold positions within a company and some require certain daily allowances – including religious and cultural differences. In certain countries, like Italy, lunch is from 3-5 pm and employees typically work until 7-8 pm each night. Lunches are typically no less than 2 hours long. These are just a few of the challenges that face an international organization. And the greater the number of countries the firm operates in, the greater the difficulty of managing such an organization. All of these complexities are seen to at least raise the pay level.

As was shown in the Sanders and Carpenter paper, if multinationality impacts pay, it will impact the entire firm – including turnover. Finding and retaining good

employees – even CEOs becomes a greater challenge. International impact is a missing variable that will be examined in this third hypothesis. One again, the three theories discussed in this paper each lead to certain conclusions that can be applied to international firms.

These three theories once again come up with diverging reasons for the turnover of CEOs in distressed MNEs and DEs. According to the capability theory, the very fact that a firm is in distress is proof that the incumbent CEO is incapable of managing a complex multi-national enterprise. In an effort to recoup losses and turn the organization around, the MNE will replace the existing CEO with a more capable CEO. Due to the complexity of the international firm, the pool of capable candidates to fill the role of CEO shrinks. This very complexity (Sanders & Carpenter, 1998) will lead to difficulty in replacing the CEO. This new, more capable CEO will have to paid for this exceptional capability.

On the entrenchment side of the argument, the CEO has entrenched himself with money, stock and skills that cannot be replaced. The structure of the MNE being so complex, replacement is an act of last resort. And the probability of finding a CEO that can manage the complex organization becomes very small. Since the CEO has more power and influence due to the entrenchment, whether from the purchase of shares in the firm or entering an international market, the likelihood of replacement decreases. Therefore, turnover in the MNE is less likely to occur.

And finally, the scapegoat theory says there will be no difference in the turnover of the multinational enterprise than that of a domestic enterprise. One CEO is as good as another and a replacement can be found easily from within or outside the firm. The CEO

is simply the scapegoat who is fired for blame of the financial distress and the new CEO will take over the role to lead it out of their financial woes. Hence the next hypothesis is proposed:

Hypothesis 3: CEO turnovers at MNEs in financial distress are different from those in DEs in distress, cet. par.

Corporate Multi-nationality and Pay Level of Succeeding CEOs

Once the new CEO takes over, the next question arises. Will the new CEO receive the same perks as the existing, or past, CEOs? The next hypothesis addressed the pay level of CEOs after a turnover has taken place. Here, once again, we see competing arguments. The capability theory argues that the old CEOs are found not capable of managing their firms; hence replaced. The firms should hire a more capable manager. With this new manager's capabilities comes the requirement of higher pay. To find and retain the best, the firm must be willing to pay more. If this skill set is greater than one would see in a domestic firm, then the pay will reflect the greater skill set. Rose and Shepard (1997) found that compensation for new CEO's was roughly similar to existing CEO's. And, in fact, product diversification during the sample period, holding all else constant, "appear to reduce rather than increase compensation". If in a product diversified firm, the compensation does not significantly change, the logical conclusion is that for an internationally diversified firm, similar results might be seen. Berry et al (2006) found that replacement CEOs tend to be older and more educated than their counterparts in focused firms. They also found that after controlling for other pay determinants, that "new CEOs of diversified firms are paid more when hired relative to

new CEOs of focused firms." This lends support to the notion that CEOs are replaced to gain a greater skill level in the position. International firms require even more skills to manage the complexity of multiple countries and cultures. And these greater skills will require greater pay.

The entrenchment arguments are based on the board reaction to the leaving of an entrenched manager. If the firm is well-governed, then after removing the entrenched manager, the board will restructure the CEO compensation structure but the new CEO's pay level will not be greater than the used-to-entrenched but departing CEO's. Since formerly entrenched CEOs hyped up their own pay, the board is likely to set the new CEO's pay level below the previous level. Since monitoring is increasingly difficult in international firms, this becomes a difficult process (Sanders & Carpenter, 2001). The board of a company where the former CEO had entrenched himself will want to limit the ability of the new CEO to do the same. Berry et al. (2006) found limited restructuring in firms where the diversification was a value-adding endeavor. Therefore, the entrenchment argument would suggest limited changed to the CEOs pay level but a greater change in the pay structure.

Finally, the scapegoat theory says all CEOs are indifferent in capabilities, and argues that CEO pay level will not be different between MNEs and DEs. If the poor performance is a result of bad luck and not poor management, then a change to pay level is not necessary. As the argument states, if one set of abilities is the same as the next, there is no need for increased pay. As they stated before, one CEO is as good as another – why would the pay be any different?

Hypothesis 4: The pay level of succeeding CEOs in MNEs will be different from that in similar DEs, cet par.

Corporate Multi-nationality and Pay Structure of Succeeding CEOs

The final hypothesis addresses the pay structure of the new CEO compared to the departing CEO. The capability theory will argue that the failure of the predecessor reflects the complexity of the organization, therefore requires a more incentive-based compensation structure to attract more capable managers. Sanders and Carpenter (1998) argued that with internationalization comes greater complexity. This complexity will cause a greater need for more efficient monitoring and governance arrangement. This greater level of monitoring will require a greater dependence on performance measures as a monitoring device. The entire uncertainty surrounding an international firm will necessitate some other form of compensation because the natural increased necessity of agent discretion as the operation grows into international markets. Berry et al (2006) stated that "taken as a whole, the evidence is most consistent with the notion that the higher CEO replacement costs in diversified firms are driven by the need for higher ability CEOs to manager more complex asset structure in diversified firms." If diversified firms require a greater ability, how much more will the need be for a CEO with abilities to manage an internationally diversified firm?

The entrenchment theory will argue that the board will restructure the compensation structure that does not allow the new CEO the entrenched state of the previous CEO. MNEs have more complex operations than DEs, and cannot be monitored so easily as DEs.. The board will moderate the cash-based compensation structure of the

entrenched previous CEO to industry standards; hence, more incentive-based compensation structure is expected for new CEOs under entrenchment hypothesis. Shleifer and Vishny (1989) suggest that if diversification is a result of entrenchment, then a greater degree of restructuring should take place. With the complexity of monitoring international operations, the board will need to restructure the compensation with the goal of limiting entrenchment while increasing performance incentives, which are in line with goals of shareholders. One would expect a significant change in the structure of the pay level of the new CEO. Huson et al (2001) found that while monitoring mechanisms have changed, the turnover level has not. Therefore, international firms when replacing CEOs will see a change in the monitoring mechanisms, both internal and external. These mechanisms will include pay structure changes that will enhance the performance of the CEO and limit the ability of the CEO to further entrench himself.

And finally, the scapegoat theory will say that no difference will exist between any CEO's pay – no matter the credential, abilities or experience of the new CEO. Nor will the complexity of the organization impact the pay. If the turnover and poor firm performance were due to bad luck, changing the structure or level of the pay will not make any difference. One CEO is as good as another. This leads to hypothesis 5:

Hypothesis 5: Pay structure of succeeding CEOs in MNEs will be different from that in DEs, cet. Par.

This paper will contribute to literature in two ways: (1) it will identify if distressed firms that are internationally diversified have a reduced rate of CEO turnover

than domestic firms and (2) if the replacement CEOs of international firms receive different compensation levels from domestic firms.

CHAPTER III

RESEARCH METHODS

Introduction:

To determine whether international diversification impacts turnover, the hypotheses should be studied under the conditions that would make turnover most likely to occur. Therefore, the methodology will follow past research that has been successful in determining impact factors on turnover. To examine the turnover stages within a firm, this study will begin by identifying firms under financial distress during the years of 2003-2008. This time period was chosen to allow sufficient time of study after the firm enters distress. The turnover often does not happen immediately upon entering a status of financial distress. And many of the firms were listed as distressed for many quarters of the study. A sufficient time is needed to determine if the firm forced a turnover in the executive position. A point of further research would be to study firms during the Great Recession and determine if the recessionary factors increase the instances of CEO turnover but that research will be saved for a future date.

For the purpose of this research, a firm is considered in financial distress if it has reported four or more quarters of negative earnings after taxes within an eight-quarter period following twelve consecutive profitable quarters (Iqbal and French, 2007). Firms

that have declared bankruptcy or are restructuring debt will also be considered to be in distress (Gilson, 1989). These firms will only include non-financial and non-utility corporations.

Following Iqbal and French's (2007) methodology, companies in financial distress will be found using Compustat database for years beginning in January 2004 and completing in December 2008. This time frame will allow four full years to examine if changes in CEO status took place. This will also allow an examination of bankruptcy filings during the years following distress.

Turnovers will be screened using Standard and Poor's Register of Corporations, Directors and Executives (S&P Register) and Lexis Nexis with a follow-up examination of public announcements in the Wall Street Journal. A collection will be drawn of the names of the top executives of the firms in financial distress in the year prior to the first quarterly loss. The positions with the titles of CEO, Chairman, President or some combination of those titles will be examined. Some corporations combine these positions/title while others may have three separate positions. For this reason, there may be more executives than firms examined. Data on the executives will be drawn from the ExecuComp data set and Forbes annual compensation surveys. Data will include name, age, tenure, education, compensation, and founder status. These factors are needed to rule out any reasons for leaving other than distress. These variables also vary with the level the complexity of the organization. As was found in previous research, higher compensation often indicates a higher level of complexity such as in multiple lines of business (Rose and Shepherd, 1997). An increased compensation package could also

show a greater reason for keeping the CEO regardless of the financial distress of the firm (Rose and Shepard, 1997; Iqbal and French, 2007).

Data Description:

CEO Characteristics:

An increased age could signify that the leaving was retirement and not forced. Thus the variable CEOAGE will represent the age of the CEO when hired. The variable of tenure will be represented by CEOTEN and will represent the number of years the CEO has been at his current position. Some research has shown a shorter tenure among product diversified firms (Rose and Shepherd, 1997). Recent research has also shown a link between age and education of product diversified firms. "CEO's of product diversified firms tend to be older and more educated than their counterparts in focused firms" (Berry et al , 2006). Therefore, the researchers will include the variable CEO(EDUC) to control for this possible complexity. Another variable listing if the CEO is the founder of the firm will be included as CEOFOUND. And finally, if the CEO carries the title of both CEO and Chairman of the Board of Directors can also impact pay level. These variables will be studied also.

Compensation Measures: Compensation data will be examined using several measures. The salary data will be gathered from the Execucomp data set. The first is salary, other compensation and bonus (TDC1). This measure is utilized by the Execomp DataSet and is formally defined as follows: TDC1 is a compensation measure calculated

under the 1992 reporting format. It is comprised of the following: Salary, Bonus, Other Annual, Total Value of Restricted Stock Granted, Total Value of Stock Options (using Black and Scholes), Long-Term Incentive Payouts, and All Other Total. This measure will include both current and deferred salary compensation. This component is straightforward across the time period examined. A similar but necessary compensation measure is labeled TDC2 and is also defined by the Execucomp DataSet (still using the 1992 format of reporting) as follows: Salary, Bonus, Other Annual, Restricted Stock Option Grants, Long-term Payouts and All Other plus the adddition of Value of Options Exercised. This second compensation measure will include a more inclusive set of data. Labeled total compensation (TDC2), it will include benefits, long-term and contingent compensation, and net gains from the exercise of any stock options exercised. It will also include stock option rights and stock accrual rights – which are generally called "options." This process follows previous work done in this area by Rose and Shepard (1997). As was found in their research, it is expected to find different measures for real SALARY for the domestic firms than the international firms. The final dependent variable examined was a perk variable. It is defined in Execomp as OtherAnn or Other annual compensation not categorized as salary or bonus. This variable is labeled PERFPAY and is defined by Execucomp as the following:

> 1) Perquisites and other personal benefits
> 2) Above market earnings on restricted stock, options/SARs or deferred compensation paid during the year but deferred by the officer
> 3) Earnings on long-term incentive plan compensation paid during the year but deferred at the election of the officer
> 4) Tax Reimbursements
> 5) The dollar value of differences between the price paid by the officer for company stock and the actual value of the stock under a stock purchase plan that is not generally available to shareholders or employees of the company.

These three variables will be tested for all old and, when occurring, new CEOs.

Firm Characteristics: Research will also be gathered on firm characteristics. Since firm characteristics can impact executive compensation, the research will examine level of product and international diversification, size, board of directors and, as previously mentioned, financial performance. The two measures of diversification will include a product diversification measure. Based on the number of business segments in which the firm operates and dividing them into single and multi-segment designations (MULTISEG). Previous research has linked multi-level segments to higher pay and must be accounted for (Rose and Shepard, 1997; Berry et al, 2006). Table 1, seen below, defines each variable and describes their interpretation.

Size will be measured by both sales and number of employees – SALES and EMP. Since larger firms tend to have higher compensation for CEOs this must be taken into consideration. Logs were not needed when the data was run with the dependent variables.

Board of directors make-up and control mechanisms have also been linked to CEO compensation level and structure. Previous research has linked that board mechanisms that have been set in place to monitor executives behavior are key in both controlling and motivating top management teams (Jenson & Murphy, 1990). Some of these governance methods are seen in CEO compensation. This is often controlled by a compensation committee or consultant (Finkelstein and Hambrick, 1996).

Size of the board has also been linked to the complexity function of a firm. The more levels of internationalization the larger the board size is expected to be (Sanders & Carpenter, 1998). A long-standing, and often cited, set of research in this topic was

published by Zald in 1969. Where he found a direct link between size of the firm and size of the board of directors. Other research has found that firms will often add board members with expertise in the area of the work in which the firm is branching (Pfeffer, 1972). Carpenter et al. (1998) also went on to study the makeup of the board in relation to its degree of internationalization. Carpenter proposed that the proportion of outsiders on the board was negatively associated with the degree of internationalization. So the greater the degree of internationalization, the lower the proportion of outsiders on the board. He proposed that insider board members actually become more important as the degree of internationalization increases.

Anderson (2000) found that corporate governance is sensitive to levels of diversification. They studied focused versus non-focused firms. Anderson also found an increase in the board size went with the increase in product segments. He also found the fraction of outside directors increased with multiple segment firms. And while they found the boards larger, it was not statistically significant. And they could find no relation between the difference in diversified firms and boards and CEO turnover.

Much research has focused on the size and makeup of the board of directors as it relates to its ability to monitor CEOs and top management. Weisbach (1988) found that outside directors are more likely to replace CEOs than inside directors. Typically this reluctance to challenge the poor managerial decisions is due to the cost to the insider of challenging a manager in a higher position.

This paper proposes to examine the size of the board of directors (BODSZ) of the international versus the domestic firms, if time and data restrictions allow. A second

board of directors variable proposed in this study is the number of outsiders on the board (BODOUT), time permitting.

A final firm variable will be the leverage ratio of the firm. Recent research has linked the leverage ratio to compensation. Lin et al (2012) found a positive relationship between stock incentives and the debt ratio of the firm. Using the leverage ratio (LEVRAT), this paper will examine this variable's impact on the compensation of the CEO. A similar study examined the level of debt and CEO pay and found an inverse relationship (Ortiz-Molina, 2007). Since it has already been researched, debt will not be used in this study. The use of leverage ratio will be universally used for all domestic and multinational firms.

Following the methodology of Iqbal and French (2007). Financial performance prior to the period of distress will be examined by one measure: accounting return (EPS). The period before the financial distress should illustrate the normal nature of the firm's financial performance. Since compensation is often linked to performance, this measure could show how the initial compensation package was determined. And if it was based upon performance measures.

The turnover will be determined by two methods. When the executive's name no longer appears in the Execucomp database for two years after the first loss, the assumption can be made that the executive was replaced. A reassignment of title is not considered a job loss or top management change. A second confirmation of job loss will be performed by examining the Lexis/Nexis Academic Universe for news of executive replacements.

The next step will be to gather information on ownership information on the executives being examined. A variable representing what percentage share of ownership is held by the executive in question will be included (MGTOWN). This variable is necessary since the larger the share of company the executive holds, the more influence he would on turnover issues. The percentage owned will be examined for the year before the first quarterly loss (Iqbal and French, 2007).

Diversification Measures: To gather diversification data, the researcher will follow the methodology of previous researchers in international research. International diversification will be measured as with several variables. The first variable is set equal to one if the firm reports operations in at least one foreign segment and zero if the firm operates only in domestic markets (FORSEG). This measure simply looks at the presence in the international market. The next international diversification variable will look at the percentage or ratio of income that come from international markets to company income. This ratio will allow the researcher to determine how deep the international factor goes and will be labeled FORINC. A third measure of international diversification is the measure of foreign assets to total assets (FORAS). Finally, the researcher will gather information on the number of countries the firm has subsidiaries or operations currently operating in (NUMCOUN).

Methodology:

The author will examine firms in distress from the years of 2003-2008 as described in the previous section. Financial distressed will be identified with the method shown in Iqbal and French (2007) who followed the approach of DeAngelo and DeAngelo (1990). A firm in financial distress is identified as having reported four or

more quarters of negative earnings after taxes within an eight-quarter period following twelve consecutive profitable quarters.

The companies were screened using Computstat. With an initial set of 2000 firms, the data set was very large. But upon inspection, many firms fit the distress criteria for more than one quarter. The author ended the sample in 2008. This sample had to start from 3 years prior to 2004 to get the first set of profitable quarters, as was previously shown to work in Iqbal and French (2007).

Initial Description of Methodology Per Hypothesis:

Using multiple regression analysis, the researcher will identify whether internationalization impacts salary (TDC 1, 2) for the top executives. Then the researcher will examine pay for performance (PERFPAY). These two dependent variables have similar reactions to the independent variables and will be used in each analysis.

Each of these hypothesis use the same core independent variables and will be labeled the same for both sets of data and analysis. For each hypothesis the researcher will begin with a test of mean differences using both t and nonparametric tests. The means test will include a means test of the pay of designated multinational firms with those designated at domestic firms. The mean analysis will identify any actual differences in pay between the two groups that might not be explained by the variables included in the regression.

Using the independent variables of CEOAGE, CEOTEN, CEOEDUC, CEOFOUNDER, CEO/CHRM, MGTOWN, FORSEG, FORINC, FORAS, NUMCOUN, SIZE, STKRTN, EPS, MULTISEG, BODSZ, BODOUT and LEVRAT. These variables have been discussed above. Identifying where CEO Salary is impacted by the international presence is just the first step.

CEO Characteristics:

CEO will simply be the age of the CEO at the quarter before distress was identified. CEOTEN will be the number of years the CEO has been in the position of CEO with the same firm. CEOEDUC will be the number of post high school education attained by the CEO. CEOFOUNDER will be 0 for CEOs who were not founders and 1 for CEOs who were founders of the firm. MGTOWN is the percentage of stock owned by the CEO at the time of distress. CEO/CHRM will be 0 for a CEO who does not hold the role of Chairman of the board and 1 for one who does.

Firm Characteristics:

FORSEG will be defined as the number of foreign market segments the firm operates within. MNE/DEis the variable that simply represents whether the firm is considered multinational by Compustat. The first will be the variable set equal to one if the firm reports operations in multiple international segments and a proxy variable set equal to zero if the firm operates only in domestic markets. FORINC is the ratio foreign

income to total firm income. FORAS is a ratio of international, or foreign, assets to company assets (FORAS). SIZE will measure total number of employees of the firm. STKRTN is the percentage return the stock gained/lost prior to the firm entering financial distress. EPS is simply the accounting measure for the firm the year prior to the firm entering financial distress. The MULTISEG is a variable to define how many lines of business the firm operates in per Rose and Shepard (1997). BODSZ and BODOUT will represent the board size and outside proportion and will also serve as a proxy for monitoring effectiveness.

LEVRAT will the leverage ratio measured the year the firm is determined to be in distress. The Debt variable will measure the total level of long term debt the year the firm entered distress status.

Interaction Predictions and Precautions:

Several of these variables will have predicted interaction so the researcher will removed each of the two-way interactions one at a time to determine which variables will be removed. Most of the multinational variables will predictably have interactions. For example, FORAS should have interaction with FORINC and FORSEG because the larger the assets, the larger the income. The researcher also predicts there will be some interaction between CEOFOUNDER and CEOTEN variables. Multicollinearity will most likely be present between all of the foreign regressors so the researcher will test each one individually for strength and impact. These variables will be used for both the first and second hypothesis – before and after CEO replacement.

Also due to the possible lag of response between dependent variables and the firm characteristics. The lag will need to be limited to a time frame close the distress period so a lag no greater than t-1 will be used.

Hypothesis 1: Pay level of the CEOs of MNEs is different from that of similar DE CEOs, cet. par.

The planned regression equation will be defined as follows with the b's representing the slope for variables 1 through 10 and the intercept for 0:

$$TDC1,2 = b0 + b1CEOAGE + b2CEOTEN + b3CEOEDUC + b4CEO/CHRM + b5CEOFOUNDER + b6MGTOWN + b7FORSEG + b8FORINC + b9FORAS + b10NUMCOUN + b11EMP + b12STKRTN + b13EPS + b14MULTISEG + b15LEVRAT + b16BODSZ + b17BODOUT + \varepsilon$$

Hypothesis 2: CEO pay for performance sensitivity is different between MNEs and DEs, cet. par.

$$\textbf{PERFPAY} = b0 + b1CEOAGE + b2CEOTEN + b3CEOEDUC + b4CEO/CHRM + b5CEOFOUNDER + b6MGTOWN + b7FORSEG + b8FORINC + b9FORAS + b10NUMCOUN + b11EMP + b12STKRTN + b13EPS + b14MULTISEG + b15LEVRAT + b16BODSZ + b17BODOUT + \varepsilon$$

Several of these variables will have predicted interaction so the researcher will removed one at a time each of the variables illustrating interaction to determine which

variables will be removed. Most of the multinational variables will predictably have interactions. For example, FORAS should have interaction with FORINC, FORSEG and NUMCOUN because the larger the assets, the larger the income. The researcher also predicts there will be some interaction between CEOFOUNDER and CEOTEN variables.

The researcher will also complete a means test of the pay of designated multinational firms with those designated at domestic firms. This means analysis will identify any actual differences in pay between the two groups that might not be explained by the variables included in the regression.

Hypothesis 3: CEO turnovers at MNEs in financial distress are different from those in DEs in distress, cet. par.

In the next step of the sample collection, the author will identify the changes in top management over the years examined. The dependent variable examined is TURNOVER. This process will be done manually using several sources: Execucomp to see who is still listed up to two years after the distress status was attained. Wall Street Journal Index and Lexis/Nexis Company Database will be used to confirm the changes. When the executive's name does not appear in the S&P Register in any of the years being examined through 2 years after (this is the same method as was used by Iqbal and French (2007), the manager will be classified as replaced and the variable TURNOVER will take the value of 1 and 0 otherwise. A reassignment of title is not considered replacement.

From here, the firms are divided into two segments, domestic and international to examine whether the percentages of replacement between domestic and international are comparable statistically. Examining the percentage of replacements in each group should illustrate simply the impact of international on turnover.

A further test of logistical regression *may* be necessary to determine the exact impact. From this point, the author will examine the executives that replaced executives in office during the financial distress. The logit regression equation is shown below:

Logit(TURNOVER) = b0 + b1CEOAGE + b2CEOTEN + b3CEOEDUC + b4CEO/CHRM + b5CEOFOUNDER + b6MGTOWN+ b7FORSEG + b8FORINC + b9FORAS+ b10NUMCOUN + b11EMP + b12STKRTN + b13EPS + b14MULTISEG + b15LEVRAT + b16BODSZ + b17BODOUT +ε

Hypotheses 4 and 5:

As was done for hypotheses 1 and 2, the author will combine these two similar regressions due to combined use of the same independent variables.

CEO Characteristics:

The same data will be gathered on the Age, Experience, and Education of the replacement managers. Salary information on the new CEOs will also be gathered. A new variable added to this regression analysis is INSIDE. This variable will determine whether the new CEO was hired from within the company or from outside the company. This will lead to the following analysis which mirrors the analysis done in Hypotheses 1 and 2. The variables discussed above will be used: CEOAGE , CEOEDUC, CEO/CHRM, INSIDE.

The previous variables of CEOTEN and CEOFOUND have been removed for the obvious reasons of new CEO status would prevent these from being relevant. CEO will simply be the age of the CEO at the quarter before distress was identified. CEOEDUC will be the number of post high school education attained by the CEO. MGTOWN is the percentage ownership given to the new CEO when hired.

Where the CEO is recruited and hired from can also impact pay level and structure. Whether the CEO was hired from within the firm, or recruited from outside the firm can have a strong impact on pay level. This will be represented by Inside variable where 0 is for hired inside the firm and 1 is hired from outside the firm. And finally, if the CEO carries the title of both CEO and Chairman of the Board of Directors can also impact pay level. This will be represented by the variable CEOCHRM with 0 if the CEO does not carry the title of Chairman of the Board and 1 if he does. These variables will be studied also.

Firm Characteristics:

FORSEG will be set equal to one if the firm reports operations in multiple international segments and a proxy variable set equal to zero if the firm operates only in domestic markets. These are also defined as revenue generating foreign segments. FORINC is the ratio of foreign generated income to total firm income. FORAS is a ratio of international, or foreign, assets to company assets (FORAS). NUMCOUN is the variable that measures the number of different countries the firm operates within. SIZE will measure total number of employees of the firm. STKRTN is the percentage return the stock gained/lost prior to the hiring of the new CEO. EPS is simply the accounting

measure for the firm the year prior to the hiring of the CEO. The MULTISEG is a variable to define how many lines of business the firm operates in per Rose and Shepard (1997). BODSZ and BODOUT will also be used in this test to represent the board size and outside proportion and will also serve as a proxy for monitoring effectiveness.

Several of these variables will have predicted interaction so the researcher will removed one at a time each of the variables illustrating interaction to determine which variables will be removed. Most of the multinational variables will predictably have interactions. For example, FORAS should have interaction with FORINC because the larger the assets, the larger the income.

The researcher will also complete a means test of the salary of designated multinational firms with those designated at domestic firms. This means analysis will identify any actual differences in pay between the two groups that might not be explained by the variables included in the regression.

Hypothesis 4: The pay level of succeeding CEOs in MNEs will be different from that in similar DEs, cet. par.

The regression equation will be defined as follows:

$$TDC1,2 = b0 + b1CEOAGE + + b2CEOEDUC + b3CEOCHRM + b4INSIDE+ b5MGTOWN + b6FORSEG + b7FORINC + b8FORAS+ b9NUMCOUN + b10SIZE +b11STKRTN + b12EPS + b13MULTISEG+ b14LEVRAT + b15BODSZ + b16BODOUT +\varepsilon$$

Hypothesis 5: Pay structure of succeeding CEOs in MNEs will be different from that in DEs, cet. Par.

The regression equation will be defined as follows:

$$PERFPAY(R) = b0 + b1CEOAGE + + b2CEOEDUC + b3CEOCHRM + b4INSIDE + b5MGTOWN + b6FORSEG + b7FORINC + b8FORAS + b9NUMCOUN + b10SIZE + b11STKRTN + b12EPS + b13MULTISEG + b14LEVRAT + \varepsilon$$

Additional Testing:

The researcher will also complete a means test of the salary and pay for performance of designated Multinational firms with those designated at domestic firms. This means analysis will identify any actual differences in pay between the two groups that might not be explained by the variables included in the regression.

Robustness Tests:

Several tests will be performed to determine which variables are the best proxies for size, including testing Total Assets (TOTAS) and the market value of equity (MKTEQ). There are also many variables that have been suggested to determine the level of international integration the firm has undertaken. All of these variables (FORAS,FORSEG, FORINC and NUMCOUN) will be tested to find the correct proxy for the degree of international penetration the firm has achieved.

Robustness Tests for Endogeneity Issues:

Tests for robustness for several variables will be conducted upon the completion of the initial regression. Test will be done to test to see if size is best proxied by sales, employee numbers and market value of the firm.

Further tests may need to be performed to control for correlation among the dependent and independent variables. Upon completion of the initial testing, the researcher will take appropriate steps to test for correlation among all variables and make adjustments as necessary. Several of the variables within the regression equation have serious correlation issues. For example, size should be strongly correlated with Salary, Sales, EPS, and even several of the variables designed to measure foreign integration. Several test will need to be completed to test which variable is the best to use and for which time period it should be used. A lagging of variables has been used in previous work to control for endogeneity (Brick et al, 2006).

Lagged Variables:

There may be a need to test for correlation with some previous variables. Variables such as SALARY may be tied to previous firm size or sales. Since Salaries are often set on previous data. So the Salary data will also be run with lagged firm variables by one year and will be designated with t-1 to differentiate between current firm characteristics and past firm characteristics. The entire regression will be run once with contemporary data for firm characteristics and once for lagged variables to determine which variables are most appropriate to use. The list of variables in the Tables below illustrate which variables will be run both with current and past data.

Below are two tables giving general descriptions of the variables that will be used in the research. Table I lists the variables and their definitions and the Hypotheses with which they will be used. Table II lists the variable names and predicted correlations with the depended and independent variables and where they can be located.

Table 1. Variable descriptions and measures

Variable:	***Measured:***	***Meaning:***	***Hypothesis Used:***
b0	Intercept	General regression intercept	H1-H5
CEOAGE	Age of CEO	Age of the CEO on the date of the financial distress or hire for new CEOs	H1-H5
CEOTEN	Tenure of CEO at present company	The number of years the CEO has been with the company on the date of distress	H1-H3
CEOEDUC	Education Level of the CEO	Number of years of education of the CEO on the date of financial distress and hiring of new CEOs	H1-H5
CEOCHRM	If the CEO holds the positions of both CEO and Chairman of the Board	A measure of 1 will mean the CEO holds both positions and a measure of 0 will mean the CEO only holds the CEO position.	H1-H5
CEO/ FOUNDER	If the CEO is also the founder of the firm	A measure of 1 will mean the CEO is also the founder of the firm and a measure of 0 will mean he was not the founder of the firm.	H1-H3
MGTOWN	Percentage ownership in the firm by the CEO. (CEO Ownership/ Common Outstanding)	The percentage of ownership in the firm by the CEO.	H1-H5
INSIDE	Whether the new CEO was hired from within the firm or outside the firm.	The variable will measure a 0 if from within the firm and a 1 if the new CEO was recruited from outside the firm.	H4-H5
FORSEG	The number of foreign segments the firm operates in.	The total number of foreign market segments the firm operates in.	H1-H5
FORREV	The percentage of income generated by foreign assets.	The ratio of income received from foreign operations to total income. Endogeneity check will also be done for this variable lagged for 1 year, if needed.	H1-H5
FORINC	The dollar level of foreign income.	The total dollar amount earned from foreign revenues from all foreign segments, if needed.	H1-H5
SIZE	The size of the firm as measured by sales.	Firm's sales measured in dollars as of the distress date.	H1-H5

NUMCOUN	The number of countries within which the firm operates.	The total number of different countries within which the firm operates.	H1-H5
MNE	Multinational Status as determined by Compustat	The variable will have a 0 for a domestic only enterprise and a 1 for a multinational firm.	H1-H5
STKRTN, $STKRTN_{t-1}$*	The percentage return on the stock.	The percentage return on the stock for the year the firm entered distress for H1 and H2 or the period during which the new CEO is hired for H4 and H5.	H1-H5
EPS	Earnings Per Share	Earnings Per Share for the year the firm entered distress for H1 and H2 or the period during which the new CEO is hired for H4 and H5. Endogeneity check will also be done for this variable lagged for 1 year, if needed.	H1-H5
MULTISEG	Product Diversity	The number of different product lines the firm operates within.	H1-H5
LEVRAT	Leverage Ratio	The leverage ratio for the firm at the time of entering distress or hiring of the new CEO. This will be calculated using the standard Debt-to-Equity Formula of Total Debt/Total Equity.	H1-H5
BODSZ	Board of Directors Size	Simple numerical value for number of board of director members during the period of distress.	H1-H5*
ε	Error Term	Measure of error	H1-H5

* Time and Data Restrictions permitting.

Table 2: Dependent and Independent Variable Correlation Prediction and Location

Data Set and Description	***Correlation With***	***Predicted Relationship with Dep Var (Excluding Turnover)***	***Predicted Relationship with Turnover***	***Location***
Dependent:				
Compensation	CEO Characteristics	Positive	Negative	Compustat/ Mergent/
PerfPay	NA	NA	NA	Forbes/CRSP/S&P/
Turnover	CEO Characteristics	Positive	Negative	Lexis/ Nexis
Independent:				
CEO Characteristics:				
Age	Age/Tenure /	Positive	Positive	Compustat/ Mergent/
Tenure	Education	Positive	Negative	Forbes/CRSP/S&P/
Education	/Chairman/ Insider	Positive	Neutral	Lexis/ Nexis
Founder		Positive	Negative	
Chairman		Positive	Negative	
Insider		Positive	N/A	
Firms Characteristics:				
Multiseg	Sales/ Emp/ For Seg/ ForInc/ ForRev	Positive	Negative	Compustat/ Mergent/ Forbes/CRSP/S&P
Sales	Employees	Positive	Negative	Compustat/ Mergent/ Forbes/CRSP/S&P
Employees	Sales	Positive	Negative	Compustat/ Mergent/ Forbes/CRSP/S&P
Levage Ratio	Debt	Positive	Negative	Compustat/ Mergent/ Forbes/CRSP/S&P
EPS	Sales, Stk Rtn	Negative	Positive	Compustat/ Mergent/ Forbes/CRSP/S&P
Mangerial Ownership	CEOChrm/ CEO Founder	Positive	Negative	Compustat/ Mergent/ Forbes/CRSP/S&P
Foreign Segments	Other Foreign Variables	Positive	Negative	Compustat/ Mergent/ Forbes/CRSP/S&P
Foreign Income	Other Foreign Variables	Positive	Negative	Compustat/ Mergent/ Forbes/CRSP/S&P
Foreign Revenue	Other Foreign Variables	Positive	Negative	Compustat/ Mergent/ Forbes/CRSP/S&P
Number of Countries	Other Foreign Variables	Positive	Negative	Compustat/ Mergent/ Forbes/CRSP/S&P
Stock Return	Sales/ EPS	Positive	Negative	Mergent/ Forbes/CRSP/S&P

CHAPTER IV

ANALYSIS AND PRESENTATION OF FINDINGS

The scope of the empirical findings of this study was firms in distress from the years of 2003–2008. For the purpose of this research, a firm is considered in financial distress if it has reported four or more quarters of negative earnings after taxes, within an eight-quarter period, following twelve consecutive profitable quarters (Iqbal and French, 2007).

Data

Compustat was used to identify the firms in distress during this time period. From the population of firms identified, only firms actively members of the S&P 1500 were used due to data restrictions on Execucomp. Firms were removed from the sample if they were not longer viable or had been absorbed by another firm. The full population size of distressed firms during the years of 2003-2008, after removing duplicates, was 797. After further limiting the firms to active members of the S&P 1500, the final sample was 94 firms. Forty-nine of these firms were designated MNCs, based on multiple foreign segments. For the purposes of segmentation, if a firm had greater than zero foreign segments, they were determined to be multinational organizations. Table 3 below summarizes the descriptive statistics on the final sample.

Correlations were completed on each dependent and independent variable (See Table 4 below). There were some predicted correlations like with the four international measures. As a result, two of the measures were run separately to determine which international measure produced a greater impact. Foreign Segments was chosen as the measure of international depth. Although, ultimately, the foreign segments variable was only used as a separating variable for defining MNC and domestic groups.

Forty-five of these firms were domestic. Segmentation data was retrieved from Standard and Poors Value-Line Reports and Mergent Online Database. CEO variable data was retrieved from Execucomp Annual Compensation Data. For segmentation purposes, a firm was deemed domestic if the number of foreign segments was below one.

Of the firms that reported a turnover during the time period studied, thirty-seven firms experienced turnover in the CEO position. The new CEO data was also retrieved from the Execucomp Annual Compensation Data Set in 2003-2008. The results yielded a 39.78 percentage turnover rate overall. This is consistent with past research on turnover (Gilson, 1991). When the researcher examined CEO turnover in domestic and multinational firms separately, the results were more enlightening. Domestic firms only turned over at the rate of 26.66% while multinational firms turned over at the rate of 51.02%. This difference will be examined more closely in the test of means differences below.

Test of Means Differences

In order to determine whether the means of the MNCs and domestic firms were different, a test of means was examined. The results were mixed. Several of the dependent variables showed a significant difference.

TDC2 (results below in Table 5) was the second variable examined for a difference. The test of equality of variances was significant at the .050 level of significance with a significance level of 0. The test for equality of means is not significant at the level of .05. Domestic firms' mean was 5431.98 and multinational firms' mean was 3619.05. This does not allow for the rejection of the null hypothesis that the means are equal. Therefore, for the TDC2 compensation measure only, compensation is not different between the two groups. The rest of the remaining t-tests are shown below in Table 5.

The means tests suggest that the hypothesis within the test of means equality, which is assumed within the statistical software, cannot be rejected for TDC2 when applied to incumbent CEOs due to the significance levels of these two means tests. This supports the original hypotheses, that there is a difference between the two groups, and confirms that we cannot say that they are in anyway equal. The repercussions of these results will be discussed in the final analysis.

Table 5 also shows the results of the means tests for PERFPAY of incumbent CEOs of multinational and domestic corporations. The test for equality of variances is not significant by a any level of significance with a result of .490. And the t-test for equality of means is not significant at any reasonable level of alpha with a two-tailed significance level of .641. This does not allow for the rejection of the null hypothesis.

The test fails to reject that the means are equal. Therefore there is no significant difference between the compensation, as measured by PERFPAY, of the incumbent CEOs of domestic and multinational firms.

Table 5 also shows the results of the means tests for all the independent variables. These results were interesting with several that were significant.

Table 6 below shows the descriptive statistics for the new, or replacing CEOs of both domestic and multinational CEOs. With a sample size of 37, this number is small and a further larger sample is needed to draw a better picture of the replacing CEOs of distressed firms. But this sample, consisted of 12 domestic firms and 25 multinational firms.

Table 7, seen below, shows the correlation matrix of the new CEOs variables. The same correlations that were present in the old CEOs variables were also seen in the new CEOs.

Table 8 (below) shows the results of the means tests for TDC2 received by the CEOs of the new, or replacing, CEOs. The test for equality of variances is not significant at a .10 level of significance with a significance level of 0.645. The t-test for equality of means is not significant at any reasonable level of alpha with a two-tailed significance level of .552. This does not allow for the rejection of the null hypothesis. Therefore there is no significant difference between the compensation, as measured by TDC2 of the new CEOs of domestic and multinational firms.

Table 8, seen below, also shows the results of the means tests for PERFPAY, or perks received by the CEOs of the new, or replacing, CEOs. The test for equality of variances is not significant at a .10 level of significance with a significance level of

0.831. The t-test for equality of means is not significant at any reasonable level of alpha with a two-tailed significance level of .779. This does not allow for the rejection of the null hypothesis. Therefore there is no significant difference between the compensation, as measured by PERFPAY, of the new CEOs of domestic and multinational firms.

A further means test was also run on the all of the independent variables. There were several independent variables that showed significant differences. Some of these were not unexpected. Most of the foreign variables were significantly different. Foreign Income, Foreign Revenue and Number of Countries were all significantly different at the .001 level. Since the domestic firms had no revenues from foreign sources, this is not surprising but one significant difference, that was surprising was the leverage ratios. Domestic firms' leverage ratios were more than double the multinational firm's leverage ratio and significant at the .05 level. It would seem that foreign firms in distress are not as leveraged as domestic firms.

To further understand the different variables that impact the levels of compensation of multinational and domestic distressed firms, regressions were run on all independent variables on each of the dependent variables and the results are shown below.

Regression

Before all regressions were run, test of the robustness of the variables were run to determine which independent variables were most appropriate to use and would have the least correlation produced. Correlation tests were run on each of the variables and the most significant correlation was found among the international variables. The final

variable set was determined to include: CEOAGE, CEOTEN, CEOEDUC, CEOFOUNDER, CEO/CHRM, MGTOWN, FORINC, SIZE, STKRTN, EPS, MULTISEG, BODSZ, BODOUT and LEVRAT. Although FORSEG was used as a defining variable for identifying multi-nationality, it was only used as an independent variable in the logistical regression for all firms. Each of the foreign income variables was used independently in each regression to determine whether one had a stronger impact on compensation or turnover. It was used in logistical regression model where each variable was ultimately tested in the model. Where greater than or equal to one was determined to be multinational and less than was identified as domestic. One additional variable was used on some of the regressions to determine the impact of the impact of the percentage of foreign revenues as a part of total revenue. This variable was labeled FORREV and yielded interesting results on the foreign companies in the new CEO analysis. The following tables illustrate the regression models used to identify significant variables impacting CEO pay and turnover. Since the hypotheses are based on the differences between domestic and multinational, the tables are divided by domestic and multinational status.

Incumbent CEOs Regression Analysis

Table 9 below shows Foreign Income's impact on all three groups of incumbent CEOs firms. The results for these groups were interesting. Both the domestic and combined groups yielded a significant model. The domestic model .093 – significant at the .1 level – only yielded one significant variable, management ownership (MGTOWN).

CEOs of domestic distressed firms salaries are highly impacted by their share of managerial ownership. The combined group, which included both domestic and multinational firm's was significant at the .001 level. This model is an excellent predictor of the salaries of CEOs of distressed firms and included three highly significant independent variables: managerial ownership (MGTOWN), size (SIZE) and board size (BODSZ). These three variables were significant at the .018, .009 and .012 levels. Showing that managerial ownership, firm size and board size all significantly impact salary as measured by TDC2 for distressed firms.

The next model to be examined was the same model but the regression was repeated until a significant model was achieved for both domestic and multinational firms. This is shown in Table 10 below. With the regression software allowed to remove variables, a more accurate model is produced. With a significance of .038 (Domestic) and .040 (Multinational), the results show which variables are more impactful to each group. Managerial ownership (.037) and size (.089) remained significant variables for the domestic firms, yet they were not significant for the multinational firms. CEO founder status (.050) and board size (.003) were significant for multinational firms only. The separation of the firms allows insight into which variables impact the different groups more significantly when determining salary.

The next model to be run included the same three groups (Domestic, Multinational and Combined) for the Foreign Revenue variable. This variable shows more clearly how large the percentage of the foreign revenue is of total revenue. In Table 11 below, the results are shown.

Significant models were once again present for domestic and the combined groups. The domestic group was significant at the .093 level and the combined group was significant at the .001 level. These models are excellent predictors of salaries and the impacting firm variables. The same variables were again significant for each group (managerial ownership and size). No matter the foreign variable utilized for impact, the same variables are shown to impact the salaries of CEOs of distressed firms.

The final TDC2 model examined for incumbent CEOs was the model that allowed for all the non-impacting variables to be removed to allow for a significant model of salary determination. In Table 12 below, all three groups are run until a significant model emerges. Similar results are found, with managerial ownership (.037) and size (.087) impacting the domestic firms and board size impacting the multinational firms (.004). An equally interesting note was that the variables that were removed to attain the significant model. Foreign income, multiple segments and leverage ration were removed to attain a better domestic model. And the CEOs age, chairman status, foreign variable, past stock returns and number of segments were removed for the multinational firms. It would seem that number of segments do not impact salary, in this sample, as previous research had indicated (Rose and Shepard, 1990).

Surprisingly very few variables had to be removed to attain a significant model. This process was necessary to see which independent variables do not impact the determination of salaries. This process also shows what variables affected domestic firms versus what impacted multinational firms, which was one of the goals of this paper. The most surprising removal for domestic firms was the absence of leverage ratio and the number of segments. For this sample of distressed domestic firms, these two variables

are best left out of the model. For the multinational model, the removal of both foreign revenue and number of segments was most surprising. This leads to the conclusion that the ratio of foreign revenue to total revenue has little impact on the salary of the CEO. This refutes the idea that the complexity of the position is rewarded with greater pay. Yet board size was significant with both multinational and all CEOs combined. This should lead to more research on the board's involvement in foreign firms. This group ultimately had greater turnover – almost double the domestic group.

The final 4 models were run in the same method but for the Performance Variable. The results are seen below in Tables 13 through 16 below. There were no significant results from any of the models using the foreign variable Foreign Income, but each result will be discussed below.

The lack of results on these four groups of regressions leads to no meaningful conclusions about performance pay received by CEOs of firms in distress – either domestic or multinational. One consistent revelation about the group was that less than 1% of the firms paid out bonuses to the CEOs during the distressed time.

After examining these results, several thoughts come from this lack of results: (1) other variables would be more appropriate in measuring impact on performance pay; or (2) distressed firms do not reward CEOs with performance pay after four successive quarters of negative Earning Per Share. Both of these thoughts should be examined in future research.

Now that the incumbent CEO results have been examined, it is time to look at the replacement CEO results.

Replacement CEO Regression Analysis

With turnover rates of slightly over 50% for the multinational firms, expectations were that these groups of individuals would yield interesting results. With the smaller size of the domestic turnovers, fewer significant results were expected.

The first model with all variables plugged into the model and no exclusions made (one exception for CEOED for the domestic due to the problem of all of the CEOs have a Masters and the regression excluded the variable) yielded no significant models of predictive power.

When attempting to find the significant model, the multinational model yielded the best results. Only when the age of the CEO, the education level of the CEO, number of segments and board size variables were removed was a strong model seen at the .046 level of significance. This is not surprising because all of the CEOs had a masters level of education, except one with a doctorate, thus making this variable almost unnecessary. All three groupings were affected by the previous year's stock return, which was surprising since they were not in office at this point.

Once again, when the model was run with all the variables, the foreign revenue models yielded no significant results. One problem variable was the founder variable. Only one multinational firm had a returning founder replace the incumbent CEO. This skewed the results for this variable throughout the model (Table 19).

When the regression software was allowed to remove independent variables to find a significant model, a few more insights were gained. As seen in Table 20, very few of the same variables affected both groups. Only board size was significant in each model. And the only common variable between the groups included: size, number of segments, leverage ratio and board size. Thus showing that an attempt to put these groups, domestic firms and multinational distressed firms, into one group, is extremely challenging. These groups obviously respond to distress and CEO rewards in very different ways. A better method of future study would be to have two large separate groups and study them with exactly the same variables in periods of firm prosperity and distress. Similar results were seen for the group with the foreign revenue variable (Tables 19-20).

When performance variables (Tables 21- 24) were examined for the new CEOs, one surprising result came through. The first regression run on the models, with foreign income as the foreign identifying variable, yielded a strong result for the domestic and multinational firms at the .009 and .022 levels. (Similar results were seen for the foreign revenue models also.) Yet when all firms were placed together in one model, no significant results were gained. One problem was that none of the domestic firms had any foreign segments or revenues at all. And this variable was kicked out of the regression on domestic models. Nor did domestic CEOs have any significant managerial ownership with levels below .01%. But several variables strongly affected both groups including: Insider/Outsider status of the new CEO, previous stock return, number of segments, leverage ratio and board size all played important roles in the compensation of these newly appointed CEOs and should be examined with a larger sample size. It would

seem that accurate predictor models can be achieved on each group when separated but not when placed together. Once again, this illustrates that the differences between domestic firms and multinational firms might be too great to be measured as a whole.

Logistical Regression on Turnover

With turnover rates of 26.6 % for domestic firms and 51.02 % for multinational firms, further research is needed to see what variables impacted turnover among these groups. Therefore, a logistical regression analysis was completed to determine if multi-nationality impacted the turnover of the CEO in a firm that was in distress. The model was designed with logistical values of 0 for no turnover and 1 for turnover. In the logistical regression the first model used foreign income (measured in dollars) and measured it against each group separately, with all groups placed together and then with the groups separated. The results are seen in Tables 25 and 26 below.

The domestic group and the combined group yielded significant results at the .028 and .019 levels when run with the foreign income independent variable. These models also gave a predictive accuracy of 86.7 and 67.1 percent respectively. While the general models were good predictors of turnover, very few variables individually were good predictors. The CEOs age and number of foreign segments were the only variables that showed any significance individually in predicting turnover.

Foreign Revenue produced similar results. Once again the domestic firms logistical regression was significant at .028 with the combined firms turnover regression significant at the .065 level. These models also had significant predictive power at 66.7 and 59.1 percent respectively. Once again the models were strong predictors of turnover

but few individual variables were strong predictors. The CEOs age was the strongest individual variable. While it has been long known that the age of the CEO is an important factor in turnover, this explains little about why distressed firms focused more on this than the four consecutive quarters of negative earnings per share.

Table 3. Descriptive Statistics
Descriptive Statistics on Incumbent CEOs for both multinational and domestic firms.

Variable	*#obs*	*Min ($000)*	*Median ($000)*	*Max ($000)*	*Mean ($000)*	*Std dev ($000)*
TDC1	94	10.58	1860.20	38237.44	3649.95	5325.92
TDC2	94	249.60	1462.52	48208.51	4486.94	7823.89
PERFPAY (PERKS)	94	.01	46.65	5029.45	783.40	321.07
PERKS PERCENT	94	.00001	.03	.75	.10	.15
CEOAGE	94	36	56	78	55.83	8.60
CEOTEN	94	0	7	41	9.86	9.52
MGTOWN	94	0	224.89	18048.02	1089.87	2779.54
FORSEG	94	0	1	11	1.48	1.99
FORREV (%)	94	0	.0537	.9327	.2220	.2842
FORINC ($)	94	0	15918	388403000	956966	46169161
SIZE (Employees)	94	159	3130.5	387000	10081.88	40810.67
STKRTN (%)	94	-.8677	-.0407	2.8632	.0939	.6734
STKRTN $_{t-1}$	94	-19.88	-.3729	2.86	-.4869	2.079
EPS ($)	94	-18.33	-.725	4.42	-2.68	4.689
MULTISEG	94	1	3	6	2.95	1.21
LEVRAT	94	0	.625	23.65	1.22	2.72
BODSZ	94	5	9	17	9.202	2.47

Table 4: Correlations of Dependent and Independent Variables of Incumbent CEOs.

		CEOAGE	CEOTEN	BA/BS	Master	Doc	CEO/CHRM	CEOFOUNDER	MGTOWN	FORSEG	FORINC	FORINC Perc	NUMCOUN	EMP	STKRTNPrev	STKRTN	EPS	MULTISEG	LEVRAT	BODSZ
CEOAGE	Pearson Correlation	1	.462**	0.158	-0.202	-0.01	0.172	0.133	.272**	0.039	-0.075	0.016	-0.152	-0.085	0.073	-0.118	-0.062	-0.171	0.066	0.17
	Sig. (2-tailed)		0	0.128	0.05	0.923	0.096	0.201	0.008	0.708	0.47	0.881	0.146	0.416	0.484	0.257	0.552	0.1	0.53	0.102
CEOTEN	Pearson Correlation	.462**	1	-0.091	-0.049	0.124	.387**	.677**	.681**	-0.012	-0.072	-0.045	-0.145	-0.119	0.094	-0.185	0.011	-0.043	-0.038	-0.112
	Sig. (2-tailed)	0		0.383	0.639	0.234	0	0	0	0.91	0.488	0.669	0.166	0.253	0.368	0.074	0.916	0.684	0.716	0.282
BA/BS	Pearson Correlation	0.158	-0.091	1	-.633**	-.490**	-0.104	-0.049	0.012	-0.081	-0.156	-0.083	-0.051	0.056	-0.091	0.153	-0.016	-0.052	-0.105	0.07
	Sig. (2-tailed)	0.128	0.383		0	0	0.317	0.639	0.905	0.438	0.133	0.425	0.629	0.594	0.386	0.142	0.878	0.621	0.314	0.501
Master	Pearson Correlation	-0.202	-0.049	-.633**	1	-.306**	0.173	-0.154	-0.1	0.118	.251*	0.161	.215*	0.002	-0.146	0.002	0.188	0.004	-0.035	-.215*
	Sig. (2-tailed)	0.05	0.639	0		0.003	0.095	0.138	0.336	0.257	0.015	0.121	0.038	0.985	0.16	0.981	0.069	0.972	0.741	0.038
Doc	Pearson Correlation	-0.01	0.124	-.490**	-.306**	1	-0.129	0.183	0.106	-0.021	-0.032	-0.034	-0.183	-0.076	0.031	-0.172	-0.193	0.086	0.173	0.153
	Sig. (2-tailed)	0.923	0.234	0	0.003		0.215	0.078	0.308	0.841	0.763	0.745	0.079	0.468	0.766	0.097	0.062	0.412	0.095	0.142
CEO/CHRM	Pearson Correlation	0.172	.387**	-0.104	0.173	-0.129	1	0.2	0.199	0.011	0.011	0.061	0.044	-0.109	0.145	0.035	-0.017	-0.175	0.108	0.096
	Sig. (2-tailed)	0.096	0	0.317	0.095	0.215		0.053	0.054	0.913	0.916	0.556	0.677	0.296	0.163	0.741	0.868	0.092	0.298	0.359
CEOFOUNDER	Pearson Correlation	0.133	.677**	-0.049	-0.154	0.183	0.2	1	.464**	-0.006	-0.023	0.01	0.007	-0.075	0.079	0.005	0.03	0.041	-0.06	-0.188
	Sig. (2-tailed)	0.201	0	0.639	0.138	0.078	0.053		0	0.952	0.828	0.923	0.947	0.473	0.451	0.959	0.776	0.697	0.565	0.07
MGTOWN	Pearson Correlation	.272**	.681**	0.012	-0.1	0.106	0.199	.464**	1	-0.106	-0.038	-0.135	-0.109	0.014	0.022	-0.11	-0.132	0.135	-0.01	0.041
	Sig. (2-tailed)	0.008	0	0.905	0.336	0.308	0.054	0		0.311	0.717	0.195	0.297	0.893	0.836	0.292	0.205	0.195	0.925	0.698
FORSEG	Pearson Correlation	0.039	-0.012	-0.081	0.118	-0.021	0.011	-0.006	-0.106	1	0.118	.788**	.408**	-0.03	-0.007	0.192	.308**	0.054	-.206*	-0.025
	Sig. (2-tailed)	0.708	0.91	0.438	0.257	0.841	0.913	0.952	0.311		0.256	0	0	0.774	0.95	0.064	0.003	0.606	0.046	0.809
FORINC	Pearson Correlation	-0.075	-0.072	-0.156	.251*	-0.032	0.011	-0.023	-0.038	0.118	1	0.174	0.005	-0.018	-.207*	0.004	0.132	-0.08	-0.081	-0.086
	Sig. (2-tailed)	0.47	0.488	0.133	0.015	0.763	0.916	0.828	0.717	0.256		0.094	0.963	0.862	0.046	0.968	0.205	0.442	0.436	0.41
FORINC Perc	Pearson Correlation	0.016	-0.045	-0.083	0.161	-0.034	0.061	0.01	-0.135	.788**	0.174	1	.458**	-0.009	-0.11	.257*	.325**	0.078	-0.202	-0.142
	Sig. (2-tailed)	0.881	0.669	0.425	0.121	0.745	0.556	0.923	0.195	0	0.094		0	0.93	0.293	0.012	0.001	0.455	0.051	0.172
NUMCOUN	Pearson Correlation	-0.152	-0.145	-0.051	.215*	-0.183	0.044	0.007	-0.109	.408**	0.005	.458**	1	.208*	-0.008	.269**	.305**	0.037	-0.105	-0.04
	Sig. (2-tailed)	0.146	0.166	0.629	0.038	0.079	0.677	0.947	0.297	0	0.963	0		0.045	0.937	0.009	0.003	0.723	0.317	0.705
EMP	Pearson Correlation	-0.085	-0.119	0.056	0.002	-0.076	-0.109	-0.075	0.014	-0.03	-0.018	-0.009	.208*	1	0.02	-0.097	0.106	0.15	0.113	.275**
	Sig. (2-tailed)	0.416	0.253	0.594	0.985	0.468	0.296	0.473	0.883	0.774	0.862	0.93	0.045		0.849	0.352	0.31	0.15	0.279	0.007
STKRTNPrev	Pearson Correlation	0.073	0.094	-0.091	-0.146	0.031	0.145	0.079	0.022	-0.007	-.207*	-0.11	-0.008	0.02	1	-0.13	-0.03	-0.031	0.029	0.094
	Sig. (2-tailed)	0.484	0.368	0.386	0.16	0.766	0.163	0.451	0.836	0.95	0.046	0.293	0.937	0.849		0.212	0.774	0.768	0.783	0.369
STKRTN	Pearson Correlation	-0.118	-0.185	0.153	0.002	-0.172	0.035	0.005	-0.11	0.192	0.004	.257*	.269**	-0.097	-0.13	1	.327**	-0.021	-0.197	-0.098
	Sig. (2-tailed)	0.257	0.074	0.142	0.981	0.097	0.741	0.959	0.292	0.064	0.968	0.012	0.009	0.352	0.212		0.001	0.841	0.057	0.346
EPS	Pearson Correlation	-0.062	0.011	-0.016	0.188	-0.193	-0.017	0.03	-0.132	.308**	0.132	.325**	.305**	0.106	-0.03	.327**	1	-.247*	-0.081	-0.131
	Sig. (2-tailed)	0.552	0.916	0.878	0.069	0.062	0.888	0.776	0.205	0.003	0.205	0.001	0.003	0.31	0.774	0.001		0.017	0.435	0.21
MULTISEG	Pearson Correlation	-0.171	-0.043	-0.052	0.004	0.086	-0.175	0.041	0.135	0.054	-0.08	0.078	0.037	0.15	-0.031	-0.021	-.247*	1	-0.031	0.079
	Sig. (2-tailed)	0.1	0.684	0.621	0.972	0.412	0.092	0.697	0.195	0.606	0.442	0.455	0.723	0.15	0.768	0.841	0.017		0.77	0.452
LEVRAT	Pearson Correlation	0.066	-0.038	-0.105	-0.035	0.173	0.108	-0.06	-0.01	-.206*	-0.081	-0.202	-0.105	0.113	0.029	-0.197	-0.081	-0.031	1	.337**
	Sig. (2-tailed)	0.53	0.716	0.314	0.741	0.095	0.298	0.565	0.925	0.046	0.436	0.051	0.317	0.279	0.783	0.057	0.435	0.77		0.001
BODSZ	Pearson Correlation	0.17	-0.112	0.07	-.215*	0.153	0.096	-0.188	0.041	-0.025	-0.086	-0.142	-0.04	.275**	0.094	-0.098	-0.131	0.079	.337**	1
	Sig. (2-tailed)	0.102	0.282	0.501	0.038	0.142	0.359	0.07	0.698	0.809	0.41	0.172	0.705	0.007	0.369	0.346	0.21	0.452	0.001	

Table 5. Tests of Mean Differences of Incumbent CEOs

	Domestic		***MNC***				
	Mean	***Std dev***	***Mean***	***Std dev***	***Diff-erence***	***t-stat***	***Sig.***
TDC2 *(incumbent)*	5431.98	9089.05	3619.05	6424.00	1812.93	1.12	*.271*
PERFPAY *(incumbent)*	.10313	.16633	.08836	.13644	.0148	-.472	*.641*
CEOAGE	57.76	8.051	54.06	8.747	-3.69	2.125	*.036***
CEOTEN	11.53	10.750	8.32	8.045	1.65	-3.217	*.10**
BA/BS	.56	.503	.49	.505	-.632	-.066	*.529*
Master	.22	.420	.37	.487	1.54	.145	*.127*
Doctoral	.22	.420	.14	.354	-.993	-.079	*.323*
CEO/CHRM	.71	.458	.61	.492	1.005	-.099	*.317*
CEO FOUNDER	.27	.447	.22	.422	-.471	-.042	*.639*
MGTOWN	1665.99	3867.18	560.79	814.27	1.955	1105.2	*.054**
FORINC	4842.22	32482.18	18353670	62971607	1.95	18348828	*.054**
FORREV	.01	.037	.42	.266	10.36	.415	*.000****
NUMCOUN	1.6	5.071	15.18	15.052	5.05	12.025	*.000****
EMP	12916.62	57249.16	7478.55	14426.72	-.643	5438.07	*.522*
STKRTN	.0281	.7405	.2054	.5911	1.70	.1376	*.093**
STKRTN $_{t-1}$	-.3469	.3532	-.6154	2.868	-.623	.2685	*.535*
EPS	-4.55	5.33	-.9678	3.2057	3.98	3.58	*.000****
MULTISEG	2.98	1.454	2.94	.944	-.155	-.039	*.877*
LEVRAT	1.9915	3.766	.5209	.5545	2.70	1.471	*.008***
BODSZ	9.44	2.201	8.98	2.696	-.911	.465	*.365*

Table 6. Descriptive Statistics
Descriptive Statistics of Variables New CEOs for both multinational and domestic firms.

Variable	*#obs*	*Min ($000)*	*Median ($000)*	*Max ($000)*	*Mean ($000)*	*Std dev ($000)*
TDC2	37	17.06	1769.60	10307.21	2980.38	2663.84
PERFPAY (PERKS)	37	3.958	33.68	533.15	98.34	140.58
PERKS PERCENT	37	.2	1.9	82.8	8.97	16.46
CEOAGE	37	31	51	62	49.97	7.21
CEOTEN	37	0	0	1	.08	.27
MGTOWN	37	.279	108.41	3755.73	493.03	889.55
FORSEG	37	0	2	7	2.57	2.36
FORREV (%)	37					
FORINC ($)	37	0	276300	16591522	1243817	3195577
SIZE (Employees)	37	409	4193	35472	6174.05	6607.85
STKRTN (%)	37	-67.57	10.74	251.02	21.48	64.15
STKRTN $_{t-1}$	37	-87.5	-6.85	95.74	-9.20	45.06
EPS ($)	37	-13.85	.23	4.21	-.23	3.18
MULTISEG	37	1	3	6	2.84	.986
LEVRAT	37	0	.41	4.15	.771	.872
BODSZ	37	5	10	21	9.81	2.95

Table 7. Correlation

Correlation coefficients and significances for all independent and dependent variables of New CEOs.

		TDC2	PERF%	CEOAGE	CEOTEN	CEOED	CEO/CHRM	CEOFOUNDER	MGTOWN	MGTOWNPER	FORSEG	FORINC	FORREVPER	NUMCOUN	EMP	STKRTN	STKRTNPREV	EPS	MULTISEG	LEVRAT	BODSZ
TDC2	Pearson Correlation	1	-.396**	0.227	-0.159	0.022	-0.183	0.005	0.073	-0.256	0.042	0.002	0.113	0.03	-0.108	-0.204	0.118	-0.282	0.13	0.317	0.266
	Sig. (2-tailed)		0.015	0.177	0.348	0.886	0.279	0.976	0.667	0.127	0.804	0.991	0.506	0.86	0.525	0.225	0.485	0.117	0.445	0.056	0.112
PERF%	Pearson Correlation	-.396**	1	-.407**	0.045	0.163	0.032	0.227	0.124	.365*	0.064	-0.071	0.004	0.012	0.086	0.107	-0.239	0.081	-0.155	-0.052	-0.21
	Sig. (2-tailed)	0.015		0.012	0.791	0.334	0.85	0.177	0.468	0.026	0.706	0.677	0.982	0.946	0.611	0.528	0.121	0.632	0.36	0.761	0.213
CEOAGE	Pearson Correlation	0.227	-.407**	1	-0.013	-0.152	0.03	-0.305	-0.163	-.430**	-0.064	-0.054	-0.195	-0.112	-0.191	-.367*	-0.118	-0.209	0.292	.483**	0.22
	Sig. (2-tailed)	0.177	0.012		0.94	0.369	0.862	0.066	0.335	0.008	0.705	0.752	0.246	0.509	0.258	0.025	0.488	0.215	0.079	0.002	0.19
CEOTEN	Pearson Correlation	-0.159	0.045	-0.013	1	-0.24	0.085	0.275	0.021	0.189	0.225	-0.093	-0.044	-0.078	0.343	0.27	0.186	-0.035	0.006	-0.154	-0.185
	Sig. (2-tailed)	0.348	0.791	0.94		0.152	0.619	0.1	0.902	0.262	0.181	0.584	0.798	0.648	0.343	0.27	0.836	0.971	0.363	0.379	0.274
CEOED	Pearson Correlation	0.022	0.163	-0.152	-0.24	1	-0.233	-0.023	0.163	0.215	0.184	-0.02	0.027	0.088	-0.129	0.204	-0.022	.340*	0.013	0.044	-0.164
	Sig. (2-tailed)	0.886	0.334	0.369	0.152		0.165	0.891	0.335	0.201	0.276	0.906	0.874	0.605	0.448	0.225	0.889	0.039	0.938	0.798	0.332
CEO/CHRM	Pearson Correlation	-0.183	0.032	0.03	0.085	-0.233	1	0.085	0.055	0.183	-0.156	-0.146	-0.071	-0.278	0.011	.379*	-0.154	-0.07	-0.047	0.034	-0.056
	Sig. (2-tailed)	0.279	0.85	0.862	0.619	0.165		0.619	0.747	0.278	0.356	0.389	0.678	0.096	0.95	0.021	0.364	0.682	0.78	0.843	0.742
CEOFOUNDER	Pearson Correlation	0.005	0.227	-0.305	0.275	-0.023	0.085	1	.703**	.405*	-0.072	0.009	-0.005	-0.14	0.094	0.153	0.206	0.19	-0.154	-0.144	-.355*
	Sig. (2-tailed)	0.976	0.177	0.066	0.1	0.891	0.619		0	0.013	0.671	0.956	0.976	0.41	0.58	0.365	0.222	0.26	0.363	0.394	0.031
MGTOWN	Pearson Correlation	0.073	0.124	-0.163	0.021	0.163	0.055	.703**	1	.550**	-0.135	0.024	-0.064	0.065	0.23	0.168	-0.026	0.284	-0.216	-0.087	-0.173
	Sig. (2-tailed)	0.667	0.465	0.335	0.902	0.335	0.747	0		0	0.427	0.89	0.707	0.701	0.171	0.321	0.877	0.078	0.2	0.608	0.306
MGTOWNPER	Pearson Correlation	-0.256	.365*	-.430**	0.189	0.215	0.183	.405*	.550**	1	0.051	-0.082	-0.068	0.012	0.272	.382*	-0.242	0.274	-.409*	-0.147	-0.243
	Sig. (2-tailed)	0.127	0.026	0.008	0.262	0.201	0.278	0.013	0		0.763	0.628	0.688	0.945	0.104	0.02	0.148	0.101	0.012	0.385	0.147
FORSEG	Pearson Correlation	0.042	0.064	-0.064	0.225	0.184	-0.166	-0.072	-0.135	0.051	1	0.24	.760**	.396*	0.079	0.03	0.202	0.277	-0.114	-.385*	0.036
	Sig. (2-tailed)	0.804	0.706	0.705	0.181	0.276	0.356	0.671	0.427	0.763		0.153	0	0.015	0.644	0.86	0.231	0.097	0.5	0.019	0.834
FORINC	Pearson Correlation	0.002	-0.071	-0.054	-0.093	-0.02	-0.146	0.009	0.024	-0.082	0.24	1	.415*	.570**	.558**	-0.14	0.284	0.161	0.14	-0.212	.435**
	Sig. (2-tailed)	0.991	0.677	0.752	0.364	0.906	0.389	0.956	0.89	0.628	0.153		0.011	0	0.104	0.408	0.088	0.34	0.409	0.208	0.007
FORREVPER	Pearson Correlation	0.113	0.004	-0.195	-0.044	0.027	-0.071	-0.005	-0.064	-0.068	.760**	.415*	1	.595**	0.16	-0.134	.431**	0.244	-0.088	-.416**	0.047
	Sig. (2-tailed)	0.506	0.982	0.246	0.798	0.874	0.678	0.976	0.707	0.688	0	0.011		0	0.345	0.428	0.008	0.146	0.606	0.011	0.781
NUMCOUN	Pearson Correlation	0.03	0.012	-0.112	-0.078	0.088	-0.278	-0.14	0.065	0.012	.396*	.570**	.595**	1	.460**	-0.182	.326*	0.247	-0.109	-0.287	0.222
	Sig. (2-tailed)	0.86	0.946	0.509	0.848	0.605	0.096	0.41	0.701	0.945	0.015	0	0		0.004	0.282	0.049	0.141	0.522	0.085	0.187
EMP	Pearson Correlation	-0.108	0.086	-0.191	-0.16	-0.129	0.011	0.094	0.23	0.272	0.079	.568**	0.16	.460**	1	0.097	0.111	0.268	-0.201	-0.108	.456**
	Sig. (2-tailed)	0.525	0.611	0.258	0.343	0.448	0.95	0.58	0.171	0.104	0.644	0	0.345	0.004		0.599	0.514	0.123	0.232	0.526	0.005
STKRTN	Pearson Correlation	-0.204	0.107	-.367*	0.186	0.204	.379*	0.153	0.168	.382*	0.03	-0.14	-0.134	-0.182	0.097	1	-0.323	0.161	-0.163	-0.079	-0.164
	Sig. (2-tailed)	0.225	0.528	0.025	0.27	0.225	0.021	0.365	0.321	0.02	0.86	0.408	0.428	0.282	0.569		0.051	0.342	0.336	0.643	0.332
STKRTNPREV	Pearson Correlation	0.118	-0.259	-0.118	-0.035	-0.022	-0.154	0.206	-0.026	-0.242	0.202	0.284	.431**	.326*	0.111	-0.323	1	0.226	0.241	-.372*	0.101
	Sig. (2-tailed)	0.485	0.121	0.488	0.836	0.899	0.394	0.222	0.877	0.148	0.231	0.088	0.008	0.049	0.514	0.051		0.179	0.15	0.023	0.551
EPS	Pearson Correlation	-0.282	0.081	-0.209	0.006	.340*	-0.07	0.19	0.294	0.274	0.277	0.161	0.244	0.247	0.258	0.161	0.226	1	-0.088	-.389*	-0.323
	Sig. (2-tailed)	0.117	0.632	0.215	0.971	0.039	0.682	0.026	0.078	0.101	0.097	0.34	0.146	0.141	0.123	0.342	0.179		0.606	0.014	0.051
MULTISEG	Pearson Correlation	0.13	-0.155	0.292	-0.118	0.03	-0.216	-0.154	-0.216	-.409*	-0.114	0.14	-0.088	-0.109	-0.201	-0.163	0.241	-0.088	1	0.2	0.228
	Sig. (2-tailed)	0.445	0.36	0.079	0.363	0.938	0.78	0.363	0.2	0.012	0.5	0.409	0.606	0.522	0.232	0.336	0.15	0.606		0.235	0.175
LEVRAT	Pearson Correlation	0.317	-0.052	.483**	-0.149	0.044	0.034	-0.144	-0.087	-0.147	-.385*	-0.212	-.416**	-0.287	-0.108	-0.079	-.372*	-.399*	0.2	1	0.093
	Sig. (2-tailed)	0.056	0.761	0.002	0.379	0.798	0.843	0.394	0.606	0.385	0.019	0.208	0.011	0.085	0.526	0.643	0.023	0.014	0.235		0.585
BODSZ	Pearson Correlation	0.266	-0.21	0.22	-0.185	-0.164	-0.056	-.355*	-0.173	-0.243	0.036	.435**	0.047	0.222	.456**	-0.164	0.101	-0.323	0.228	0.093	1
	Sig. (2-tailed)	0.112	0.213	0.19	0.274	0.332	0.742	0.031	0.306	0.147	0.834	0.007	0.781	0.187	0.005	0.332	0.551	0.051	0.175	0.585	

Table 8. Tests of Mean Differences of New (Succeeding) CEOs

	DC		***MNC***				
	Mean	***Std dev***	***Mean***	***Std dev***	***Diff-erence***	***t-stat***	***Sig.***
TDC2 *(succeeding)*	3387.93	3127.15	2807.95	2490.51	579.98	-.600	*.552*
PERFPAY *(succeeding)*	.07784	.1194	.0948	.1824	.01699	.518	*.779*
CEOAGE	51.91	8.871	49.15	6.404	-2.755	1.065	*.294*
CEOTEN	.00	.000	.12	.326	.115	1.165	*.252*
CEOED	.73	.467	.69	.471	-.035	.671	*.837*
CEO/CHRM	.36	.505	.15	.368	-.210	1.417	*.165*
CEO FOUNDER	.09	.302	.08	.272	-.014	-.139	*.891*
MGTOWN	1.206	3.944	.8065	1.77	.399	.177	*.670*
FORINC	00	00	1.206	3.94	1770046	1.57	*.022***
FORREV	.00	.00	.4438	.2730	.4438	5.34	*.000****
NUMCOUN	1.00	0	16.65	12.868	15.654	4.002	*.000****
EMP	4796.45	5916.40	6756.88	6905.50	1960.43	.821	*.391*
STKRTN	.2922	.7060	.182	.6239	.1102	-.473	*.639*
STKRTN $_{t-1}$	-.2622	.3809	-.0200	.4650	.137	.2421	*.112*
EPS	-.8209	3.331	.0181	30.148	.839	.712	*.486*
MULTISEG	3.09	1.446	2.73	.724	-.360	1.016	*.317*
LEVRAT	1.24	1.15	.5691	.6495	.679	2.29	*.028***
BODSZ	9.55	1.916	9.92	3.22	.378	.351	*.668*

Table 9. Regressions of Total Pay Difference between DC and MNC Before Turnover with Foreign Income as Foreign Identification

	TDC2 before DOM	***TDC2 before MNC***	***TDC2 before Combined***
CEOAGE	-163.990 (.461)	-1.980 (.988)	-10.732 (.920)
CEOTEN	211.559 (.434.)	134.250 (.676)	135.147 (.413)
BS/BA	-	5904.539 (.452)	386.615 (.955)
MS/MA	2610.634 (.453)	6405.099 (.433)	1404.731 (.841)
Doctoral	-1590.826 (.664)	7390.173 (.334)	1620.856 (.819)
CEOCHRM	-3937.596 (.277)	1013.259 (.665)	-888.504 (.632)
CEO/ FOUNDER	-2990.640 (.488)	4739.831 (.292)	-405.445 (.871)
MGTOWN	1.146 (.045)**	-1.433 (.615)	.917 (.018)**
FORINC	-.015 (.727)	-.000016 (.324)	.000000797 (.631)
FORSEG	-	-	-295.085 (.461)
SIZE	.046 (.101)	.090 (.299)	.051 (.009)**
STKRTN	677.784 (.769)	-1408.595 (.463)	100.801 (.936)
STKRTN $_{t-1}$	-2147.598 (.616)	70.557 (.881)	-11.367 (.981)
EPS	-59.587 (.853)	415.760 (.217)	107.295 (.571)
MULTISEG	167.391 (.882)	-254.553 (.847)	281.079 (.673)
LEVRAT	46.238 (.917)	-2542.187 (.195)	-178.597 (.545)
BODSZ	809.417 (.375)	1151.373 (.011)**	911.042 (.012)**
* Significant at the .1 level ** Significant at the .05 level *** Significant at the .001 level			
#obs	45	**49**	94
F	1.763	1.234	2.753
P-value	.093*	.297	.001***
R^2	.477	.382	.381
Adj R^2	.206	.072	.243

Table 10. Regressions of Total Pay Difference between DC and MNC Before Turnover with Foreign Income as Foreign Variable– Final Significant Model

	TDC2 before DOM	*TDC2 before MNC*	*TDC2 before Combined*
CEOAGE	-172.906 (.405)	-	-10.732 (.920)
CEOTEN	210.091 (.421)	-	135.147 (.413)
BS/BA	-	2943.685 (.507)	386.615 (.955)
MS/MA	2709.607 (.415)	3500.647 (.446)	1404.731 (.841)
Doctoral	-1608.353 (.632)	4748.706 (.333)	1620.856 (.819)
CEOCHRM	-4013.232 (.227)	-	-888.504 (.632)
CEO/ FOUNDER	-2829.729 (.483)	4741.007 (.050)**	-405.445 (.871)
MGTOWN	1.150 (.037)**	-	.917 (.018)**
FORINC	-.017 (.681)	.0000153 (.291)	.000000797 (.631)
FORREV	-	-	-295.085 (.461)
SIZE	.045 (.089)*	.068 (.304)	.051 (.009)**
STKRTN	656.029 (.757)	-1018.387 (.508)	100.801 (.936)
STKRTN $_{t-1}$	-2346.848 (.556)	-	-11.367 (.981)
EPS	-74.633 (.787)	455.888 (.124)	107.295 (.571)
MULTISEG	-	-	281.079 (.673)
LEVRAT	-	-2386.558 (.178)	-178.597 (.545)
BODSZ	889.556 (.229)	1156.118 (.003)**	911.042 (.012)**
* Significant at the .1 level ** Significant at the .05 level *** Significant at the .001 level			
#obs	45	49	94
F	2.169	2.196	2.753
P-value	.038**	.040**	.001***
R^2	.476	.366	.381
Adj R^2	.257	.199	.243

Table 11. Regressions of Total Pay Difference between DC and MNC Before Turnover with Foreign Revenue as Foreign Variable

	TDC2 before DOM	***TDC2 before MNC***	***TDC2 before Combined***
CEOAGE	-163.990 (.461)	-23.859 (.881)	-31.367 (.772)
CEOTEN	211.559 (.434)	175.204 (.597)	170.809 (.297)
BS/BA	-	5238.707 (.565)	-430.493 (.950)
MS/MA	2610.634 (.453)	5074.951 (.596)	339.908 (.961)
Doctoral	-1590.826 (.664)	6361.462 (.486)	473.496 (.947)
CEOCHRM	-3937.596 (.277)	641.406 (.806)	-1381.525 (.465)
CEO/ FOUNDER	-2990.640 (.488)	4146.693 (.371)	-746.630 (.764)
MGTOWN	1.146 (.045)**	-1.509 (.631)	.919 (.017)**
FORSEG	-	-	-799.711 (.190)
FORREV (%)	-13167.707 (.727)	825.813 (.886)	4739.258 (.287)
SIZE	.046 (.101)	.087 (.339)	.050 (.012)**
STKRTN	677.784 (.769)	-1301.049 (.511)	64.886 (.959)
STKRTN $_{t-1}$	-2147.598 (.616)	102.607 (.834)	44.785 (.925)
EPS	-59.87 (.853)	392.023 (.257)	72.577 (.701)
MULTISEG	167.391 (.882)	-159.122 (.914)	201.477 (.762)
LEVRAT	46238 (.917)	-2222.651 (.258)	-155.846 (.594)
BODSZ	809.417 (.375)	1181.063 (.015)**	1001.890 (.007)**
* Significant at the .1 level ** Significant at the .05 level *** Significant at the .001 level			
#obs	45	49	94
F	1.763	1.138	2.840
P-value	.093*	.365	.001***
R^2	.477	.363	.388
Adj R^2	.206	.044	.252

Table 12. Regressions of Total Pay Difference between DC and MNC Before Turnover with Foreign Revenue as Foreign Variable – Final Significant Model at .05** Level

	TDC2 before DOM	***TDC2 before MNC***	***TDC2 before Combined***
CEOAGE	-172.906 (.405)	-	-31.367 (.772)
CEOTEN	310.091 (.421)	194.317 (.456)	170.809 (.297)
BS/BA	-	4260.884 (.426)	-430.493 (.950)
MS/MA	2709.607 (.415)	4307.885 (.432)	339.908 (.961)
Doctoral	-1608.353 (.632)	5357.191 (.325)	473.496 (.947)
CEOCHRM	-4013.232 (.227)	-	-1381.525 (.465)
CEO/ FOUNDER	-2829.729 (.483)	4126.063 (.263)	-746.630 (.764)
MGTOWN	1.150 (.037)**	-1.547 (.527)	.919 (.017)**
FORINC	-	-	-
FORREV (%)	-14584.786 (.681)	-	4739.258 (.287)
SIZE	.045 (.089)*	.091 (.215)	.050 (.012)**
STKRTN	656.029 (.757)	-1145.041 (.517)	64.886 (.959)
STKRTN $_{t-1}$	-2346.848 (.556)	-	44.785 (.925)
EPS	-74.633 (.787)	379.683 (.222)	72.577 (.701)
MULTISEG	-	-	201.477 (.762)
LEVRAT	-	-2115.023 (.233)	-155.846 (.594)
BODSZ	889.556 (.229)	1185.023 (.004)**	1001.890 (.007)**
* Significant at the .1 level ** Significant at the .05 level *** Significant at the .001 level			
#obs	45	49	94
F	2.169	2.304	93
P-value	.038**	.035**	2.840
R^2	.476	.347	.001***
Adj R^2	.257	.196	.388

Table 13: Regressions of Performance Pay of Incumbent CEOs Difference between DC and MNC Before Turnover with Foreign Income as Foreign Variable

	PERFPAY before - DOM	***PERFPAY before-MNC***	***PERFPAY – before Combined***
CEOAGE	.005 (.248)	.000 (.968)	.003 (.278)
CEOTEN	.000 (.939)	.011 (.133)	.004 (.308)
BS/BA	-	.163 (.373)	.094 (.543)
MS/MA	-.003 (.964)	.129 (.498)	.067 (.670)
Doctoral	-.074 (.318)	.141 (.428)	.058 (.714)
CEOCHRM	-.091 (.214)	.017 (.756)	-.011 (.783)
CEOFOUNDER	-.101 (.249)	-.148 (.159)	.083 (.141)
MGTOWN	.000000615 (.956)	-.0000397 (.549)	.00000946 (.270)
FORINC	-.0000002 (.778)	.000000000054 (.885)	-.0000000000387 (.917)
FORSEG	-	-	.003 (.760)
SIZE	.00000000670 (.990)	.00000125 (.534)	.00000008717 (.841)
STKRTN	.025 (.596)	.031 (.493)	.035 (.215)
STKRTN $_{t-1}$	-.106 (.226)	.008 (.446)	.008 (.482)
EPS	-.008 (.213)	.002 (.776)	-.008 (.075)*
MULTISEG	-.018 (.430)	-.043 (.172)	-.015 (.312)
LEVRAT	.001 (.948)	.030 (.513)	-.003 (.608)
BODSZ	-.018 (.324)	.008 (.885)	.000 (.974)
* Significant at the .1 level ** Significant at the .05 level *** Significant at the .001 level			
#obs	45	49	94
F	1.095	.690	.854
P-value	.402	.782	.628
R^2	.362	.257	.160
Adj R^2	.031	-.115	-.027

Table 14: Regressions of Performance Pay of Incumbent CEOs Difference between DC and MNC Before Turnover with Foreign Income as Foreign Variable – Significant Model at the .05 Level

	PERFPAY before - DOM	***PERFPAY before- MNC***	***PERFPAY – before Combined***
CEOAGE	.071 (.732)	-	.004 (.024)
CEOTEN	-	.007 (.082)*	-
BS/BA	-	-	-
MS/MA	-	-	-
Doctoral	-.072 (.253)	-	-
CEOCHRM	-.094 (.095)*	-	-
CEOFOUNDER	-.104 (.098)*	-.128 (.082)*	-.067 (.061)*
MGTOWN	-	-	-
FORINC	-	-	-
FORSEG	-	-	-
SIZE	-	-	-
STKRTN	.021 (.554)	-	.032 (.186)
STKRTN $_{t-1}$	-.108 (.148)	-	-
EPS	-.008 (.140)	-	-.005 (.152)
MULTISEG	-.017 (.391)	-.038 (.079)*	
LEVRAT	-		
BODSZ	-.018 (.130		
* Significant at the .1 level ** Significant at the .05 level *** Significant at the .001 level			
#obs	45	49	94
F	2.181	1.867	2.670
P-value	.048**	.149	.037**
R^2	.359	.111	.107
Adj R^2	.195	.051	.067

Table 15: Regressions of Performance Pay of Incumbent CEOs Difference between DC and MNC Before Turnover with Foreign Revenue as Foreign Variable

	PERFPAY before DOM	***PERFPAY before MNC***	***PERFPAY – before Combined***
CEOAGE	.005 (.248)	.000 (.891)	.003 (.290)
CEOTEN	.000 (.939)	.011 (.143)	.004 (.296)
BS/BA	-	.146 (.485)	.093 (.550)
MS/MA	-.003 (.964)	.108 (.523)	.065 (.681)
Doctoral	-.074 (.318)	.121 (.562)	.056 (.681)
CEOCHRM	-.091 (.214)	.012 (.842)	-.012 (.774)
CEOFOUNDER	-.101 (.249)	-.154 (.153)	-.084 (.137)
MGTOWN	.000000615 (.956)	-.0000358 (.619)	-.00000951 (.266)
FORREV	-.214 (.778)	.022 (.867)	.006 (.956)
FORSEG	-	-	.002 (.878)
SIZE	.00000000698 (.990)	.00000116 (.579)	.0000000857 (.844)
STKRTN	.025 (.596)	.030 (.512)	.035 (.211)
STKRTN $_{t-1}$	-.106 (.226)	.008 (.470)	.008 (.469)
EPS	-.008 (.213)	.002 (.765)	-.008 (.074)*
MULTISEG	-.018 (.430)	-.044 (.193)	-.015 (.316)
LEVRAT	.001 (.948)	.031 (.488)	-.003 (.615)
BODSZ	-.018 (.324)	.009 (.412)	.000 (.956)
* Significant at the .1 level ** Significant at the .05 level *** Significant at the .001 level			
#obs	45	49	94
F	1.095	.691	.853
P-value	.402	.782	.629
R^2	.362	.257	.160
Adj R^2	.031	-.115	-.028

Table 16. Regressions of Performance Pay of Incumbent CEOs Difference between DC and MNC Before Turnover with Foreign Revenue as Foreign Variable – Significant Model at the .05 Level

	TDC2 before DOM	***TDC2 before MNC***	***TDC2 before Combined***
CEOAGE	.005 (.122)	-	.004 (.024)**
CEOTEN	-	.008 (.040)**	-
BS/BA	-	-	-
MS/MA	-	-	-
Doctoral	-.072 (.253)	-	-
CEOCHRM	-.094 (.095)*	-	-
CEO/ FOUNDER	-.104 (.098)*	-.147 (.053)*	-.067 (.061)*
MGTOWN	-	-	-
FORINC	-	-	-
FORSEG	-	-	-
SIZE	-	-	-
STKRTN	.021 (.554)	.052 (.138)	.032 (.186)
STKRTN $_{t-1}$	-.108 (.148)	-	-
EPS	-.008 (.140)	-	-.005 (.152)
MULTISEG	-.017 (.391)	-.039 (.062)*	
LEVRAT	-	-	
BODSZ	-.018 (.130)	.010 (.160)	
* Significant at the .1 level ** Significant at the .05 level *** Significant at the .001 level			
#obs	45	49	94
F	2.181	1.946	2.670
P-value	.048**	.106	.037**
R^2	.359	.185	.107
Adj R^2	.195	.090	.067

Table 17. Regressions of Total Pay Difference between DC and MNC After Turnover with Foreign Income as Foreign Identification

	TDC2 after Domestic	***TDC2 after MNC***	***TDC2 after Combined***
CEOAGE	-328.18 (.219)	-30.787 (.784)	8.092 (.938)
CEOED	-	443.07 (.770)	-1064.31 (.640)
CEOCHRM	-2326.52 (.176)	1329.72 (.576)	-455.60 (.762)
CEO/ FOUNDER	-	.328.128 (.919)	-1115.41 (.444)
MGTOWN	-	-169.023 (.609)	489.42 (.885)
FORINC	-	.000 (.487)	.867 (.392)
INSIDER/ OUTSIDER	-1280.52 (.362)	1880.09 (.183)	-
SIZE	-	-.165 (.348)	-.167 (.265)
STKRTN	-3327.79 (.187)	462.84 (.717)	419.90 (.708)
STKRTN $_{t-1}$	-3349.38 (.187)	3287.30 (.081)*	1627.11 (.309)
EPS	-	303.11 (.199)	-17.87 (.945)
MULTISEG	165.98 (.760)	117.662 (.895)	-515.39 (.415)
LEVRAT	1482.097 (.104)	729.27 (.531)	1202.49 (.157)
BODSZ	769.26 (.319)	632.69 (.042)**	371.50 (.217)
* Significant at the .1 level ** Significant at the .05 level *** Significant at the .001 level			
#obs	12	25	37
F	5.029	1.407	.757
P-value	.176	.297	.711
R^2	.953	.679	.377
Adj R^2	.763	.196	-.121

Table 18. Regressions of Total Pay Difference between DC and MNC After Turnover with Foreign Income as Foreign Variable– Final Significant Model

	TDC2 after Domestic	***TDC2 after MNC***	***TDC2 after Combined***
CEOAGE	-375.68 (.090)*	-	-
CEOED	-	-	-
CEOCHRM	-2586.70 (.062)*	713.82 (.619)	-
MGTOWN	-	.939 (.092)*	.758 (.131)
FORINC	-	.000 (.417)	-
INSIDER/ OUTSIDER	-	2049.55 (.052)*	-
SIZE	-	-.183 (.115)	-.160 (.048)**
STKRTN	-3620.54 (.102)	713.25 (.432)	-
STKRTN $_{t-1}$	-3533.64 (.085)*	3395.03 (.013)**	1823.89 (.087)*
EPS	-	295.231 (.104)	-
MULTISEG	-	-	-416.60 (.392)
LEVRAT	1587.69 (.030)**	560.82 (.458)	1219.44 (.027)**
BODSZ	828.65 (.157)	-	412.48 (.022)**
* Significant at the .1 level ** Significant at the .05 level *** Significant at the .001 level			
#obs	12	25	37
F	7.381	2.621	2.413
P-value	.037**	.046**	.05**
R^2	.917	.673	.571
Adj R^2	.793	.416	.326

Table 19. Regressions of Total Pay Difference between DC and MNC After Turnover with Foreign Revenue as Foreign Variable

	TDC2 after Domestic	***TDC2 after MNC***	***TDC2 after Combined***
CEOAGE	-328.18 (.219)	-10.454 (.928)	-.952 (.992)
CEOED	-	-6.76 (.996)	-539.11 (.701)
CEOCHRM	-2326.52 (.176)	-56.53 (.982)	-1254.67 (.372)
CEO/ FOUNDER	-	-159.84 (.960)	769.31 (.812)
MGTOWN	-	-218.39 (.518)	.905 (.352)
INSIDER/ OUTSIDER	-	1929.46 (.175)	338.52 (.773)
FORREV (%)	-1280.52 (.362)	1400.71 (.553)	2405.03 (.192)
SIZE	-	-.246 (.111)	-.164 (.203)
STKRTN	-3327.79 (.187)	1027.63 (.422)	516.53 (.625)
STKRTN $_{t-1}$	-3349.38 (.187)	3400.55 (.071)*	1105.83 (.478)
EPS	-	242.02 (.313)	-37.71 (.879)
MULTISEG	165.98 (.760)	-254.84 (.748)	-375.48 (.527)
LEVRAT	1482.097 (.104)	1003.54 (.379)	1366.51 (.094)*
BODSZ	769.26 (.319)	638.3 (.041)**	375.08 (.191)
* Significant at the .1 level ** Significant at the .05 level *** Significant at the .001 level			
#obs	12	25	37
F	5.029	1.379	.936
P-value	.176	.309	.548
R^2	.953	.674	.428
Adj R^2	.763	.185	-.029

Table 20. Regressions of Total Pay Difference between DC and MNC Before Turnover with Foreign Revenue as Foreign Variable – Final Significant Model at .05** Level

	TDC2 after Domestic	***TDC2 after MNC***	***TDC2 after Combined***
CEOAGE	-375.68 (.090)*	-	-
CEO ED	-2586.70 (.062)*	-	-
CEOCHRM		-	-906.49 (.349)
CEO/ FOUNDER	-	-	-
MGTOWN	-	.903 (.102)	.873 (.082)*
INSIDER/ OUTSIDER	-	1978.74 (.065)*	-
FORREV (%)	-	1383.12 (.418)	2326.02 (.137)
SIZE	-3620.54 (.102)	-.239 (.031)**	-.167 (.037)**
STKRTN	-3533.64 (.085)*	1003.54 (.189)	-
STKRTN $_{t-1}$	-	3350.95 (.018)**	1126.81 (.307)
EPS	-	238.74 (.176)	-
MULTISEG	1587.69 (.030)**	-261.27 (.677)	-312.61 (.514)
LEVRAT	828.65 (.157)	937.52 (.224)	1423.30 (.012)**
BODSZ	-375.68 (.090)*	627.98 (.011)**	104.60 (.023)**
* Significant at the .1 level ** Significant at the .05 level *** Significant at the .001 level			
#obs	12	25	37
F	7.381	2.627	2.298
P-value	.037**	.046**	.049**
R^2	.917	.674	.630
Adj R^2	.793	.417	.396

Table 21: Regressions of Performance Pay of New CEOs Difference between DC and MNC After Turnover with Foreign Income as Foreign Variable

	PERFPAY after - Domestic	***PERFPAY after- MNC***	***PERFPAY – after Combined***
CEOAGE	-.001 (.737)	-.005 (.410)	-.009 (.133)
CEOTEN	-	-	.061 (.640)
CEOED	-	.108 (.180)	.104 (.236)
CEOCHRM	.162 (.003)**	.176 (.163)	.037 (.658)
CEO FOUNDER	-	.654 (.002)**	.264 (.264)
INSIDER/ OUTSIDER	-.083 (.012)**	.151 (.047)*	.071 (.316)
MGTOWN	-	.000 (.018)**	-.00006647 (.255)
FORINC	-	-.00000002 (.082)*	-.00000000614 (.616)
SIZE	-	-.0000353 (.002)**	-.0000095 (.266)
STKRTN	.034 (.162)	-.189 (.013)**	-.097 (.142)
STKRTN $_{t-1}$	.180 (.006)**	-.423 (.013)**	-.186 (.05)**
EPS	-	-.015 (.217)	-.005 (.719)
MULTISEG	-.013 (.077)*	.097 (.054)*	.035 (.339)
LEVRAT	.032 (.018)**	-.105 (.097)*	-.020 (.667)
BODSZ	-.018 (.066)*	-.039 (.047)**	-.008 (.623)
* Significant at the .1 level ** Significant at the .05 level *** Significant at the .001 level			
#obs	12	25	37
F	110.79	3.634	1.093
P-value	.009**	.022**	.419
R^2	.998	.845	.467
Adj R^2	.989	.612	.040

Table 22: Regressions of Performance Pay of New CEOs Difference between DC and MNC After Turnover with Foreign Income as Foreign Variable – Significant Model at the .05 Significant Level

	PERFPAY after - Domestic	***PERFPAY after- MNC***	***PERFPAY – after Combined***
CEOAGE	-.001 (.737)	-.005 (.410)	-.010 (.018)**
CEOED	-	.108 (.180)	.085 (.179)
CEOCHRM	.162 (.003)**	.176 (.163)	.042 (.545)
Insider/Outsider	-.083 (.012)**	.654 (.002)**	.060 (.308)
MGTOWN	-	.151 (.047)*	-.0000655 (.151)
FORINC	-	.000 (.018)**	-
SIZE	-	-.00000002 (.082)*	.00000414 (.315)
STKRTN	.034 (.162)	-.0000353 (.002)**	.083 (.121)
STKRTN $_{t-1}$	.180 (.006)**	-.189 (.013)**	-.181 (.008)**
EPS	-	-.423 (.013)**	-
MULTISEG	-.013 (.077)*	-.015 (.217)	-
LEVRAT	.032 (.018)**	.097 (.054)*	-
BODSZ	-.018 (.066)*	-.105 (.097)*	-
* Significant at the .1 level ** Significant at the .05 level *** Significant at the .001 level			
#obs	12	25	37
F	110.79	3.634	2.242
P-value	.009**	.022**	.05**
R^2	.998	.845	.428
Adj R^2	.989	.612	.237

Table 23: Regressions of Performance Pay of New CEOs Difference between DC and MNC After Turnover with Foreign Revenue as Foreign Variable

	PERFPAY after Domestic	***PERFPAY after MNC***	***PERFPAY – before Combined***
CEOAGE	-.001 (.737)	-.003 (.680)	-.009 (.142)
CEOED	-	.056 (.519)	.090 (.289)
CEOCHRM	.162 (.003)**	.023 (.874)	.032 (.697)
INSIDER /OUTSIDER	-.083 (.012)**	.157 (.062)*	.076 (.288)
MGTOWN	-	.000 (.031)**	-.0000645 (.269)
FORREV	-	.124 (.360)	.050 (.645)
SIZE	-	.0000248 (.011)**	.00000739 (.333)
STKRTN	.034 (.162)	-.124 (.106)	-.087 (.177)
STKRTN $_{t-1}$	.180 (.006)**	-.396 (.002)**	-.192 (.049)**
EPS	-	-.021 (.130)	-.006 (.700)
MULTISEG	-.013 (.077)*	.049 (.288)	.033 (.357)
LEVRAT	.032 (.018)**	-.070 (.287)	-.011 (.821)
BODSZ	-.018 (.066)*	-.038 (.033)**	-.009 (.578)
* Significant at the .1 level ** Significant at the .05 level *** Significant at the .001 level			
#obs	12	25	37
F	110.79	2.749	1.089
P-value	.009**	.056*	.423
R^2	.998	.805	.466
Adj R^2	.989	.512	.038

Table 24. Regressions of Performance Pay of New CEOs Difference between DC and MNC After Turnover with Foreign Revenue as Foreign Variable – Significant Model at the .05 Significance Level

	Performance Pay After - Domestic	***Performance Pay After - MNC***	***Performance Pay After - Combined***
CEOAGE	-.001 (.737)	-.002 (.689)	-.009 (.049)**
CEOED	-	.048 (.481)	.066 (.272)
CEOCHRM	.162 (.003)**	-	-
Insider/Outsider	-.083 (.012)**	.160 (.044)**	.070 (.225)
MGTOWN	-	.000 (.022)**	-.0000759 (.116)
FORREV	-	.134 (.237)	-
SIZE	-	-.0000245 (.006)**	-.00000341 (.414)
STKRTN	.034 (.162)	-.116 (.032)**	-.070 (.136)
STKRTN $_{t-1}$	.180 (.006)**	-.395 (.001)***	-.163 (.022)**
EPS	-	-.022 (.098)*	-
MULTISEG	-.013 (.077)*	.047 (.268)	-
LEVRAT	.032 (.018)**	-.071 (.247)	-
BODSZ	-.018 (.066)*	-.038 (.025)**	-
* Significant at the .1 level ** Significant at the .05 level *** Significant at the .001 level			
#obs	12	25	
F	110.79	3.229	2.265
P-value	.009**	.029**	.049**
R^2	.998	.804	.430
Adj R^2	.989	.555	.240

Table 25. Logistic Regressions of CEO Turnover between DC and MNC with Foreign Income as Foreign Variable.

	TURNOVER (DOM)	***TURNOVER (MNC)***	***TURNOVER (ALL)***
CEOAGE	.119 (.301)	.078 (.104)	.084 (.029)**
CEOTEN	.038 (.760)	-.065 (.571)	-.009 (.880)
BS/BA	.562 (.731)	3.742 (.425)	3.313 (.524)
MASTERS	4.481 (.044)**	4.171 (.386)	4.491 (.391)
DOCTORAL	-	4.737 (.311)	3.527 (.502)
CEOCHRM	-2.291 (.122)	.127 (.891)	-.527 (.420)
CEOFOUNDER	-.185 (.932)	.667 (.748)	.408 (.665)
MGTOWN	.000 (.672)	.000 (.853)	.000 (.593)
FORINC	.000 (.885)	.000 (.426)	.000 (.190)
FORSEG	-	-	.422 (.025)**
SIZE	000 (.636)	-	-
STKRTN	-.500 (.580)	-.478 (.530)	-.066 (.876)
STKRTN $_{t-1}$	-4.782 (.127)	-.098 (.855)	-.122 (.756)
EPS	-.094 (.456)	.194 (.163)	.012 (.855)
MULTISEG	-.370 (.371)	-.340 (.494)	-.247 (.304)
LEVRAT	-.608 (.284)	.204 (.771)	-.187 (.331)
BODSZ	.480 (.216)	.078 (.426)	.125 (.318)
***** Significant at the .1 level*** ****** Significant at the .05 level*** ******* Significant at the .001 level***			
F #obs	45	49	94
Log likelihood stat	29.981	52.665	96.953
P-value	.028**	.668	.019**
R^2	.455	.265	.272
Overall Percentage	86.7	66.7	68.1

Table 26. Logistic Regressions of CEO Turnover between DC and MNC with all variables included with Foreign Revenue as Foreign Variable.

	TURNOVER (DOM)	***TURNOVER (MNC)***	***TURNOVER (ALL)***
CEOAGE	.119 (.301)	.042 (.445)	.079 (.035)**
CEOTEN	.038 (.760)	-.037 (.719)	-.002 (.975)
BS/BA	.562 (.731)	1.604 (.706)	1.818 (.598)
MASTERS	4.481 (.044)**	1.264 (.774)	2.746 (.431)
DOCTORAL	-	2.050 (.631)	1.755 (.618)
CEOCHRM	-2.291 (.122)	-.449 (.625)	-.666 (.294)
CEOFOUNDER	-.185 (.932)	-.842 (.618)	-.060 (.946)
MGTOWN	.000 (.672)	.000 (.734)	.000 (.593)
FORSEG	-	-	.134 (.407)
FORREV	86.851 (1.0)	1.442 (.629)	.476 (.750)
SIZE	-	-	-
STKRTN	-.500 (.580)	-.386 (.581)	.100 (.801)
STKRTN $_{t-1}$	-4.782 (.127)	.213 (.424)	.224 (.333)
EPS	-.094 (.456)	.129 (.262)	-.012 (.844)
MULTISEG	-.370 (.371)	-.549 (.274)	-.247 (.282)
LEVRAT	-.608 (.284)	.660 (.331)	-.161 (.353)
BODSZ	.480 (.216)	.063 (.687)	.122 (.302)
***** Significant at the .1 level*** ****** Significant at the .05 level*** ******* Significant at the .001 level***			
f#obs	45	49	94
Log likelihood stat	29.980	58.842	107.55
P-value	.028**	.883	.065*
R^2	.465	.166	.186
Overall Percentage	66.7	57.8	59.6

CHAPTER V

SUMMARY AND CONCLUSIONS

Albert Einstein once said, "If we knew what it was we were doing, it would not be called research, would it?" Research always leads the researcher and those who read their work to some new insight and knowledge gained, or at least, that is the purpose of research in general. And while this research yielded unexpected results, it has lead to know knowledge and even more questions that need to be addressed in future research.

The research in this paper was focused on two major questions: 1) Do incumbent and new CEOs of multinational and domestic firms receive different compensation levels? And 2) Is the rate of turnover of these two groups different? For the most part, it can be said from the examination done in this research paper, that no significant differences were seen between the two groups, however the turnover rates, as a percentage, among each group were extremely different. Multinational firms turnover nearly twice as often as domestic firms. This discrepancy must be studied further.

Conclusions

The theoretical basis for this research was based on three primary turnover theories as proposed by previous research. The first theory addressed the skill levels or abilities of the CEOs and is the Scarcity or Ability Matching Theory. The second theory was based on agency theory or often called the entrenchment theory. And the third and

final theory is based on the concept of the CEO as a scapegoat for the financial failure of the firm. How each of these theories is supported or rejected by the data mixed discussion. Hypothesis 1 tested whether the compensation of multinational firms was different that those of domestic firms. The results showed that for incumbent CEOs there was no difference when examining TDC2. TDC2 showed a similar difference in the means on the surface with domestic firms earning nearly 2,000,000 more annually than multinational CEOs. Domestic firms were at the mean level of 5431.98 (000s) and multinational firms were at the 3619. 05 (000s) level. With no significant difference between the two when the means tests were run, the support is for the Scapegoat Theory proposed by Huson in 2004. The Capability and Entrenchment theories both contend that pay level of CEOs of MNEs should be higher. They believe this for different reasons. The Capability theory predicts the higher pay because the job is more complex and on the other side. Entrenchment believes it is due to the manager entrenching him/herself. Scapegoat predicts both salaries to be equal. Since multinational CEOs received lower salaries than domestic, it leads one to believe there is another reason for the higher pay in domestic firms. Further study is needed to understand why domestic firms compensation measures are greater, but not significantly different, from multinational firms. PERFPAY was calculated by the following:

1) Perquisites and other personal benefits
2) Above market earnings on restricted stock, options/SARs or deferred compensation paid during the year but deferred by the officer
3) Earnings on long-term incentive plan compensation paid during the year but deferred at the election of the officer
4) Tax Reimbursements
5) The dollar value of differences between the price paid by the officer for company stock and the actual value of the stock under a stock purchase plan that is not generally available to shareholders or employees of the company.

The study results here suggest support for the scapegoat theory which says perks between the two groups should be equal because management capabilities are generic and no entrenchment exists. There is no need to offer incentives for either group because all CEOs are equal. Therefore H2 found no support for differences between the two groups, it therefore lending support to the Scapegoat theory.

Hypothesis 3 focused on the turnover between the two groups and the percentages tell an interesting story. Overall turnover rate was very similar to historical studies done on financial distress with a 39.36 percent (Gilson, 1990). Domestic firms turned over at the rate of 26.6% with multinational firms turning over at nearly double this rate at 51.02 percent. This large discrepancy bears more analysis and will be discussed further in the next section.

Hypothesis 4 and 5 paralleled hypotheses1 and 2 but examined the new CEOs who replaced the CEOs in power after the financial distress period. The CEOs replaced following the distress showed interesting but completely insignificant results. None of the means tests on new CEOs showed any level of significance. Therefore, for all intents and purposes, the new CEOs of domestic firms were compensated similarly to those of multinational CEOs. The null hypothesis of different levels of compensation and performance pay could not be accepted. TDC2 and PERFPAY for succeeding CEOs cannot be said to be unequal. The question then becomes why the gap between the two became so great in later time periods. There is no significant difference between the two groups. TDC2 for domestic CEOs was 3387.93 and for multinational firms was 2807. 95. Once again multinational CEOs are compensated at a lower rate than the domestic CEOs, although performance pay, as a percentage, was greater for CEOs of multinational firms.

This leads one to assume that multinational firms place more importance on long-term incentives than do the domestic firms.

With these varying results, the next step is an examination of what variables impacted compensation the most. The regression lends some insight to this question.

Discussion

The linear multiple regressions gave insight to what impacted each group the most. The first set of regressions was executed on three groups: domestic firms, multinational firms and then all firms combined. Each regression was run with one of the foreign variables: Foreign Income (dollars) and Foreign Revenue (percentage of foreign revenue to total revenue). While the entire model was highly significant at the .001 level, the only significant variables were managerial ownership, size of the firm and board size. Board of directors, size and makeup, have been shown in previous literature to impact compensation levels (Sanders & Carpenter, 1998). This research supports previous work that BODSZ impacts all levels of compensation. Previous research has also linked size and compensation. The surprising conclusion that showed through each one of these regressions was that the level of foreign income seemed to have no significant impact on any firm, but especially the multinational firms. How this factor impacts the CEOs bears further research.

Performance Pay variables were also examined for both foreign variables showing no significant results at all. While disappointing, this is not surprising since most performance pay is tied to stock grants and options. And a review of the firms showed very little option payouts during the distressed period unless the CEO was leaving the

firm and severance packages were distributed. Even at this point, stocks were lower so payout was less.

The final regressions were executed on the succeeding CEOs. The education variable was changed for this group due to limited degrees of the new CEOs. All of these CEOs held Masters degrees thus making this variable difficult to examine. Therefore the CEOED was created where a BA/BS was equal to 0, and an advanced degree was represented by 1. The Compensation of CEOs of domestic firms was not impacted by any of the examined variables. When examined under both foreign variables, multinational CEOs compensation was impacted by the previous stock return, insider/outsider status, leverage ratio and board of director's size. Not surprisingly, foreign income was only an impacting variable for the multinational firms but was not significant at any level of alpha. The only significant variable for both groups combined was the size, previous stock return, leverage ratio and board size. No link was found to the earnings per share in any of the groups which was surprising since much of agency theory literature suggests that compensation is tied to the earnings per share. The lack of results linking compensation to earnings per share lends support to the idea that firms in distress do not perform as firms in good financial shape.

TDC2 and PERFPAY were even less impressive, even when the regression was allowed to run until a significant model was determined. The model was significant at the .037 and .046 levels for domestic and multinational firms. The models of both groups were impacted by different variables. The CEOs age, education, number of segments, current stock return, and board size were significant to domestic firms. Insider/Outsider status, firm size, previous stock return and board size were significant on the

multinational firms' regression. And the only variable that was significant for all companies combined was the size of the board.

Finally, the logistical regression was the most valuable regression for the addition of new knowledge to scholarly review. The logistical regression gave insight into which firm and CEO variables had the greatest impact on turnover. For both the domestic regression and the combined groups, a significant model was present. In the domestic firms, while the overall model was highly significant at the .028 the only variable that was significant was the education level but this is suspect because all the domestic CEOs had only a masters level of education. When the two groups of firms were combined, the only two significant variables were the number of foreign segments and the age of the CEO. One surprising fact seen in the turnovers was that Chairman of the Board had *no* impact. Historically, entrenchment research would suggest that this would reduce the incidence of turnover. And when examining the data, 27 of the 37, or approximately 70% of CEO turnovers, held the position of both CEO and Chairman of the board. Of these, nearly 63% were CEOs of multinational corporations. It seems that those who held both positions were removed more readily than those that did not.

Some of the most interesting results came from the means tests of all independent variables. These results give additional insight into the differences between domestic and multinational firms. It was not surprising that all the international variables were significantly different, but other independent variables were surprising. First, the general age of the CEO was older for domestic firms than multinational firms (57, 54) with a significance level of .036. But what is most surprising was, that while the domestic firms CEOs are older, there was a lower rate of turnover. This lends credence to the idea that

CEO entrenchment is easier in domestic firms than in multinational firms. Secondly, the managerial ownership levels were nearly triple for domestic firms than multinational. With domestic ownership levels at the mean of 1665 and multinational levels at 560, and a significance level of .054, this discrepancy needs further research. The higher the level of managerial ownership seems to produce a much lower probability of turnover. This once again seems in line with the agency theory. The CEOs with more power through ownership of shares, should be less likely to be dismissed, however was not validated in this data set. A third interesting result from the means tests was the significant difference in both stock returns and earnings per share. Domestic firms current stock returns were much lower (.0281) and their earnings per share decreased at a much greater level (-4.55). On the other hand, multinational firms had higher stock returns (.2054) and smaller earnings per share losses (-.968). A fourth and final difference was seen in the leverage ratios. Leverage ratio was quadruple for domestic firms than multinational firms. So overall, the domestic firms performed more poorly, their CEOs were older and owned a larger share of the firm's stock and their firms were more leveraged. And yet, they had half the turnover rates of multinational firms.

Contributions to Literature

Overall, there is much more research to be done before one can accurately predict why senior level managers are dismissed but this paper has given more support to the scapegoat theory on three levels.

1) Multinational firms and domestic firms do receive, essentially, the same pay level, but multinational firms seem to pay less to incumbent CEOs than domestic firms do.
2) The percentage of multinational CEOs that are dismissed is significantly larger than those of domestic firms, at nearly double the rate.
3) Succeeding CEOs salaries are smaller than their preceding CEOs, lending support to the Scapegoat theory. But several factors cannot be explained from the results of this data and will require more research.
4) Performance pay was not seen to have any significant difference between any of the incumbent or replacement groups in either multinational or domestic firms, lending support to the Scapegoat theory.
5) Finally, and most important for future research is the differences between the independent variables between multinational and domestic firm, that are most often tied to entrenchment within the domestic firms.

Limitations

The most significant limitation of this research is the final sample size. The most important single change must be an increase in the sample size to at least 100 of both multinational and domestic turnovers. The increase should be accomplished by increasing the number of years of distressed firms examined to gain more initially distressed firms, thus providing more turnovers to examine. A larger sample of domestic firms will also yield more knowledge on turnover among domestic firms. Due to time

limitations, the number of employees was used a size variable but in future research Market Capitalization, ROA or Sales might prove a better size indicator.

A more detailed breakdown of compensation should also be examined isolating strictly the performance variables. Data on foreign assets was not available in the time frame given, so the research should include a foreign asset variable.

Suggestions for Further Research

There are several key areas for further research that should be followed. First, a focus on the differences between incumbent and succeeding CEOs, with focus on the levels of differences among all types of compensation, including options, is needed for these two groups. Although examining option grants is difficult in distressed firms, due to the limited payouts during distressed periods.

Second, an inclusion of variables that impact multinational firms more than domestic firms might yield insight into the higher turnover in multinational firms. For example a measure of international sales trends globally. Or the addition of a cultural variable to measure differences among various countries and cultures would be valuable, especially the segment from which the greatest percentage of revenues is derived.

A third and very important area is a stronger data set on the impact of board of directors. It has been long stated that board of directors, and their monitoring mechanisms, are extremely important for multinational firms (Huson et al, 2001). And the board of directors in this research was often the only significant variable seen in both groups. A further study of the mechanisms involved in turnover of multinational firms

would be valuable. A stronger measure should also include the composition of the board including at a minimum insider/outsider information but also should include number of international members.

A fourth area that would be an extension of this research would be to add a variable for years of international experience. Much research in recent years has focused on the value that international management experience has on the firm.

A fifth area of future research is a better examination of how distressed firms are fundamentally different than financially healthy firms. Very few of the historic theories apply easily to financially distressed firms. Financially distressed firms seldom behave as do healthy firms. Early research indicated that compensation in multinational firms was hard to measure due to many differences, and further research into these cultural and behavioral differences might add understanding to this complex topic (Harvey, 1993).

Finally an examination of entrenchment levels between the two groups is the most immediate and necessary follow up of this research. The very obvious differences between age, managerial ownership, stock return, earnings per share and leverage ratio between the two groups is an immediate and necessary study.

REFERENCES

Aggarwal, R.K. & Samwick, A.A. (2003). Why do managers diversify their firms? Agency reconsidered. *Journal of Finance, 58*(1), 71-118.

Amihud, Y. & Lev, B. (1981). Risk reduction as a managerial motive for conglomerate mergers. *The Bell Journal of Economics, 12*(2), 605-617.

Anderson, R.C, Bates, T.W. Bizjak, J.M. & Lemmon, M.L. (2000). Corporate governance and firm diversification. *Financial Management, 29*(1), 5-22.

Berry, T.K., Bizjak, J.M., Lemmon, M.L. & Naveen, L. (2006). Organizational complexity and CEO labor markets: Evidence from diversified firms. *Journal of Corporate Finance, 12*, 797-817.

Brick, I.E., Palmon, O., Wald, J.K. (2006). CEO compensation, director compensation, and firm performance: evidence of cronyism. *Journal of Corporate Finance, 12*, 403-423.

Carpenter, M.A., Sanders, W.G. & Gregerson, H.B. (2001) Bundling human capital with organizational context: the impact of international assignment experience on multinational firm performance and CEO pay. *Academy of Management Journal, 44*(3), 493-511.

Chakraborty,A.&Sheikh, S. (2010). Antitakeover amendements and managerial entrenchment: new evidence from investment policy and CEO compensation. *Quarterly Journal of Finance and Accounting, 49*(1), 810103.

Conger, J.A. & Nadler, D.A. (2004). When CEOs step up to fail. *MIT Sloan Management Review, 45*(3), 49-56.

Dann, L.Y., & DeAngelo, H. (1988). Corporate financial policy and corporate control: A study of defensive adjustments in asset and ownership structure. *Journal of Financial Economics, 45*, 1415-1431.

Dahya,J., McConnell, J.J. & Travlos, N.G. (2002) The Cadbury committee, corporate performance, and top management turnover. *The Journal of Finance, 57*,1. 461-484

Denis, D.J. & Denis, D.K. (1995). Firm performance changes following top management dismissal. *Journal of Finance, 50*, 1029-1057.

Denis, D.J., Denis, D.K. & Sarin, A. (1997) Agency problems, equity ownership and corporate diversification, *Journal of Finance*, *52,* 136-160.

Denis, D.J., Denis, D.K. & Yost, K. (2002). Global diversification, and firm value. *Journal of Finance, 57*(5), 1951-1979.

Denis, D.J. & Serrano, J.M. (1996). Active investors and management turnover following unsuccessful control contests. *Journal of Financial Economics, 40*(2), 239-266.

DeFond, M.L & Park, C.W. (1999) The effect of competition on CEO turnover. *Journal of Accounting and Finance, 27*, 35-56.

Duru, A. & Reeb, D.M. (2002). Geographic and industrial corporate diversification: The level and structure of executive compensation. *Journal of Accounting, Auditing and Finance, 17*(1), 1-24.

Eisenhardt, K. (1989). Agency theory: An assessment and review. *Academy of Management Review, 14*, 57-74.

Finkelstein, S. & Hambrick, D. (1996). *Strategic leadership: top executives and their effects on organization.* St. Paul: West.

Furtado, E.P.H. & Karan, V. (1990) Causes, consequences, and shareholder wealth effects of management turnover: a review of the empirical evidence. *Financial Management, 19(*2), 60-75.

Gilson, S.C. (1989). Management turnover and financial distress. *Journal of Financial Economics, 25*(2), 241-262.

Gilson, S.C. & Vetsuypens, M.R. (1993). CEO compensation in financially distressed firms: an empirical analysis. *The Journal of Finance, 48*(2), 425-458.

Harvey, M. (1993). Empirical evidence of recurring international compensation problems. *Journal of International Business, 24*(4), 785-799.

Hill, C.W.L. & Phan, P. (1991). CEO tenure as a determinant of CEO pay. *The Academy of Management Journal, 34*(3), 707-717.

Huson, M.R., Parrino, R., & Starks, L.T. (2001). Internal monitoring mechanisms and CEO turnover: a long – term perspective. *The Journal Finance, 56*(6), 2265-2297.

Huson, M.R., Malatesta, P.H., & Parrino, R. (2004), Managerial succession and firm performance, *Journal of Financial Economics, 74*, 237-275.

Iqbal, Z. & French, D.W. (2007) Executive share ownership, trading behavior, and corporate control: Evidence from top management turnover during financial distress. *Journal of Economics and Business,59*, 298-312.

Jenson, M.C. & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3*, 305-360.

Jenson, M.C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *The American Economic Review. 76*(2), 323-330.

Jenson, M.C. & Murphy, K. (1990). Performance pay and top management incentives. *Journal of Political Economy, 98*, 225-264.

Jostarndt, P. & Sautner, Z. (2008). Financial distress, corporate control, and management turnover. Journal of Banking and Finance, 32(10), 2188-2204

Kang, J.K. & Shivdasani, A. (1995), Firm performance, corporate governance and top executive turnover in Japan. *Journal of Financial Economics, 38*, 29-58.

Kang, J.K. & Shivdasani, A (1997) Corporate restructuring during performance declines in Japan, *Journal of Financial Economics*, *46*, 29-65.

Kerr, J. & Bettis, R.A. (1987). Boards of directors, top management compensation, and shareholder returns. *Academy of Management Journal, 30*(4), 645-664.

Krug, J.A. (2003). Brain drain: why top management bolts after M&As. *Journal of Business Strategy,30*(6), 4-14.

Krug, J.A. & Shill, W. (2008). The big exit: executive churn in the wake of M&As. *Journal of Business Strategy, 29*(4), 15-21.

Lambertides, N. (2009). Sudden CEO vacancy and the long-run consequences. *Managerial Finance, 35*(7), 645-661.

Lausten, M. (2002). CEO turnover, firm performance and corporate governance: Empirical evidence on Danish firms. *International Journal of Industrial Organization, 20*, 391-414.

Lehn, K.M & Zhao, M. (2006). CEO turnover after acquisitions: Are bad bidders fired? *The Journal of Finance, 61*(4), 1759-1811.

Lin, H.C., Chou, T.-K. & Wang, W.G. (2012). Capital structure and executive compensation contract design: a theoretical and empirical analysis. *Journal of Banking and Finance, 36*, 209-224.

Loderer, C. & Sheehan, D. (1989). Corporate bankruptcy and managers' self-serving behavior. *Journal of Finance, 44*, 1059-1075.

May, D. O. (1995). Do managerial motives influence risk-reduction strategies? *Journal of Finance, 50*, 1291-1308.

Nilakant, V., & Rao, H. (1994). Agency theory and uncertainty in organizations: An evaluation. *Organizational Studies, 15*, 649-672.

Ortiz-Molina, H. (2007). The effects of convertible debt and straight debt on CEO pay. *Journal of Accounting and Economics, 43,* 69-93.

Parrino, R. (1997). CEO turnover and outside succession: A cross-sectional analysis. *Journal of Financial Economics, 46*, 165-197.

Pfeffer, J. (1972). Size composition of corporate boards of directors: The organization and its environment. *Administrative Quarterly, 17*, 218-229).

Rose, N.L. & Shepard, A. (1997). Firm diversification and CEO compensation: managerial ability or executive entrenchment? *The Rand Journal of Economics, 28*(3), 489-514.

Sanders, W.G. & Carpenter, M.A. (1998). Internationalization and firm governance: the roles of CEO compensation, top team compensation and board structure. *The Academy of Management Journal, 41*(2), 158-178.

Scheifer, A. & Vishny, R.W. (1989). Management entrenchment: the case of manager-specific investments. *Journal of Financial Economics, 25*, 123-139.

Shen, W. & Cannella, A.A. (2002). Revisiting the performance of CEO succession: the impacts of successor type, postsuccession senior turnover and departing CEO tenure. *Academy of Management, 45*(4), 717-773.

Stulz, R. (1990). Managerial discretion and optimal financing policies. *Journal of Financial Economics, 26*(1), 3-28.

Tsai, W.H., Kuo, Y.C., & Hung, J.H. (2009). Corporate diversification and turnover in family businesses: self-entrenchment or risk reduction? *Small Business Economics, 32*, 57-76.

Van Dalsem, S. (2009). Maturity policies of CEO severance contracts and forced internal turnover. *Managerial Finance, 35*(9), 772-783.

Weisbach, M.S. (1988). Outside directors and CEO turnovers. *Journal of Financial Economics, 20*, 461-492.

Weisbach, M. S. (1995). CEO turnover and the firm's investment decisions. *Journal of Financial Economics, 37*, 159-188.

Zajac, E.J. & Westphal, J.W. (1996). Director reputation, CEO/board power, and the dynamics of board interlocks. *Administrative Quarterly, 75*, 97-111.