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DIRECTOR COMPENSATION AND EXECUTIVE DISMISSALS

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ABSTRACT

This paper investigates the relationship between financial incentives to directors and the choice of top management dismissal decisions: Dismissing the CEO, scapegoating (dismissing lower-level executives while the CEO remains), or dismissing none of executives. We find that directors with more financial incentives are more likely to dismiss at least one executive, either the CEO or a lower-level executive, than to dismiss none of executives for poor performance. Directors who have more total compensation are more likely to dismiss the CEO than to scapegoat. Scapegoating is a special event that would impact results of research on the CEO turnover or dismissal. Other findings include that board meeting frequency rather than whether to grant meeting fees appears to affect the choice of top management dismissal decisions, but the proportion of equity compensation to total compensation does not play the same role.

Keywords: *Board of Directors, Director Compensation, CEO Dismissal, Scapegoating, Other Executives; Firm Performance*