

# “Board leadership and REIT CEO turnover”

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<b>ARTICLE INFO</b>	Magdy Noguera (2009). Board leadership and REIT CEO turnover. <i>Investment Management and Financial Innovations</i> , 6(4-1)
<b>RELEASED ON</b>	Wednesday, 10 February 2010
<b>JOURNAL</b>	"Investment Management and Financial Innovations"
<b>FOUNDER</b>	LLC “Consulting Publishing Company “Business Perspectives”



NUMBER OF REFERENCES

0



NUMBER OF FIGURES

0



NUMBER OF TABLES

0

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## Board leadership and REIT CEO turnover

### Abstract

This study presents an analysis on how the board leadership affects the sensitivity of CEO turnover to REIT performance and also explores other determinants of REIT CEO turnover. The results show that the sensitivity of the REIT performance-CEO turnover relation is lower when the CEO chairs the board. In addition, the analysis shows an average CEO turnover for REITs of 6.23%; which is significantly lower than the 16.5% experienced by non-REITs in the same period. These findings suggest that the lack of independent leadership in the board facilitates REIT CEO entrenchment. Finally, this study also shows that the passage of the Sarbanes Oxley Act (SOX), the percentage of outside directors in the board, and other firm and CEO characteristics such as firm size, CEO age, and tenure do not seem to affect REIT CEO turnover.

**Keywords:** Real Estate Investment Trusts, CEO turnover, management changes, board structure.

**JEL Classification:** G30, G34, J63, L85.

### Introduction

As a major corporate event, CEO turnover interests investors, academics, and practitioners. Along with CEO compensation, forced CEO turnover typically generates substantial negative press coverage, especially in the case of large firms (Core et al., 2008). In the academic setting, researchers have explored CEO turnover as a measure of board effectiveness ever since Jensen (1993) posited the idea that internal control mechanisms are weak for disciplining poor managers<sup>1</sup>.

In this paper, I focus on CEO turnover within Real Estate Investment Trusts (REITs). While research is extensive on REIT corporate governance issues such as institutional investors' ownership and monitoring, board of directors structure, CEO pay, etc., little is known about REIT CEO turnover. It is possible that the determinants of REIT CEO turnover could be different than those for non-REITs since REITs are highly regulated firms. That is, in order to maintain their federal tax-exempt status, REITs must meet several conditions. First, they must distribute 90 percent of taxable income as dividends. Second, qualified REITs must have at least 100 shareholders while adhering to the five or fewer rule, a prohibition against five or fewer shareholders owning 50 percent or more of the shares. Third, they must have at least 75 percent of their assets invested in real estate oriented investments, cash, and/or govern-

ment securities. Finally, they must generate at least 75 percent of their income from rent, mortgages, and the sale of property.

Arguably, these regulations may affect REIT corporate governance mechanisms. On one hand, they can diminish agency conflicts. REIT managers restrictions on investment options and high dividend payouts reduce discretionary cash flows available to managers and deter empire building by self-interested managers (Jensen, 1986). High dividend payments also force REITs to raise money in the capital markets, triggering discipline and monitoring of REITs by capital market participants. On the other hand, regulations can exacerbate agency conflicts. For example, the disperse ownership for REITs resulting from the five or fewer rules diminishes the effectiveness of monitoring by the market for corporate control, entrenches managers, and makes board and other monitoring mechanisms more critical (Campbell et al., 2001).

To assess the effectiveness of REIT board of directors in its function of removing inefficient CEOs, I study how the board leadership affects the sensitivity of REIT CEO turnover to firm performance. The lack of independence may make difficult for boards to remove poorly performing REIT CEOs. The results could shed light on REIT corporate governance issues. In addition, I add to the REIT literature by exploring REIT CEO turnover as a function of other factors besides REIT profitability, such as, REIT size, board features, and characteristics of the CEO.

The results of logistic models on a panel data for the period 1999-2005 indicate that the power of the CEO over the board tempers his turnover, making it less sensitive to poor performance. These findings are consistent with the hypothesis that the relation between REIT performance and CEO turnover is affected by board leadership. The frequency of REIT CEO turnover also shows that the average REIT CEO turnover is 6.23% for the period 1999-2005, with higher turnover rates during the latter

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The author thanks participants at the 2009 American Real Estate Society for helpful comments and suggestions.

<sup>1</sup> Anecdotal evidence of Jensen's claim is available. For example, on April 29<sup>th</sup>, 2009, America and the entire World witnessed how Bank of America's angry shareholders, rather than the board of directors, stripped CEO Ken Lewis of his chairman's title over his decision to buy Merrill Lynch & Co which had cost the bank billion in losses. Shareholders also pressed, unsuccessfully, for Lewis' complete removal at the time. This is just one highly publicized case where the board of directors has failed to act on behalf of the firm's shareholders.

This event also provides evidence that shareholders believe that the separation of the CEO and the Chairman of the board positions is a good corporate governance practice.

years. The turnover rate for REITs is significantly lower than that for non-REITs over the same time period. Overall, the dissociation between poor performance and CEO turnover when the CEO chairs the board as well as the presence of low CEO turnover rate suggest REIT CEO entrenchment.

In addition, I find that profitability is negatively related to CEO turnover when it is measured by stock returns. Also, whether the CEO is older than 60 increases the likelihood of turnover. These results are consistent with previous studies. However, the percentage of outside directors sitting on the board, CEO age, CEO tenure, REIT size, or the increasing liabilities for CEOs after the passage of Sarbanes Oxley Act (SOX) are found not to be significantly related to the likelihood of CEO turnover. Overall, the results suggest that board leadership by the CEO may weaken REIT corporate governance and that profitability is the factor that mainly affects REIT CEO turnover.

This paper is organized as follows. Section 1 discusses the related literature and the testable hypotheses. Section 2 describes the data, sampling procedure and variables employed. Section 3 explains the methodology. In section 4, the descriptive statistics and the frequency of REIT CEO turnover are discussed. In section 5, the results for the logistic regression models are presented. The final section concludes the paper.

## 1. Background in CEO turnover

The existing literature on CEO turnover in the case of non-REITs is abundant<sup>1</sup>. In the case of REITs, there are two studies focused on a limited form to management changes. McIntosh et al. (1994) study fifty-five REITs during the 1969-1990 period and find an inverse relationship between the probability of a management change and REITs recent stock price performance. They attribute these findings to internal monitoring of management activities by the board of directors, other top managers, or large blockholders. However, the authors do not provide an analysis to support this conclusion. Sirmans et al. (2006) extend McIntosh et al. (1994) work by using a sample of 158 REITs for the period 1994-2003, which includes the 1996-1999 REIT boom period. They also find a negative relationship between management changes and performance, one year prior to

the change in management. Therefore, I hypothesize that

*H1: There is a negative relation between CEO turnover and REIT performance.*

Besides exploring the REIT performance-CEO turnover relation, this paper examines how the board leadership affects the sensitivity of CEO turnover to firm performance. Certainly, the sensitivity between performance and turnover has been found to vary with CEO tenure and board leadership for non-REITs. Farrell and Allgood (2000) find that the performance-turnover relation varies over a CEO tenure and depends on whether the CEO is a founder, an inside hire, or an outside hire. Founder CEOs are found to be entrenched early in their career but are held accountable for performance later. Outside hires seem to be entrenched during their intermediate years of tenure, and inside hires are not found to become more entrenched over their tenure. Thus, the negative relation between performance and CEO turnover is not consistent across the years. Goyal and Park (2002) find that the sensitivity of CEO turnover to firm performance decreases significantly when the CEO chairs the board. Both of these findings cast doubts on the effectiveness of non-REITs boards of directors in monitoring CEOs and may suggest that CEO entrenchment exists. It is possible that REIT CEOs may not be held accountable for poor performance either. In order to test this claim, this paper examines the effect of board leadership on the relation between REIT performance and turnover. That is,

*H2: If the CEO chairs the board, the sensitivity of CEO turnover to REIT performance decreases.*

In addition, this study examines other determinants of REIT CEO turnover. Fazel and Louie (1990) find that CEO turnover is influenced more by internal governance structure than by firm profit or sales performance. Specifically, they find that there is an inverse relation between CEO turnover and CEO chairmanship. Moreover, they find that when a CEO is the chair of the board and the number of outside directors is reduced, CEO exit is less likely. Weisbach (1988) also finds that the percentage of outsiders on the boards increases the probability of turnover for a CEO after a threshold level of outsiders of around sixty percent. Therefore, I anticipate that:

*H3: There is a negative relation between CEO leading the board and REIT CEO turnover.*

*H4: There is a positive relation between the percentage of outside directors in the board and REIT CEO turnover.*

To complete the analysis and to be consistent with the non-REIT literature on the determinants of REIT

<sup>1</sup> For non-REITs, the overall conclusions are that CEO turnover is inversely related to performance, but its economic significance is small as the likelihood of CEO turnover increases very little for the worst performance. It is also known that the sensitivity of turnover to performance varies systematically across firms but is highest among smaller firms. In addition, the age of CEO has been found important to explain CEO turnover as well, especially in the case of large firms. For additional conclusions, see Brickley, 2003.

CEO turnover topic, additional CEO and REIT characteristics such as firm size, CEO age, and CEO tenure<sup>1</sup> are also included as control variables in the analysis.

## 2. Sample selection and variables description

**2.1. Sample selection.** Initially, a sample was identified based on a list of exchange-traded REITs reported in the SNL Financial REIT Database (SNL). The number of exchange traded REITs for the year 1999 is 185. Of these observations, 152 are equity REITs, 11 are hybrid REITs, and 22 are Real Estate Operating Companies (REOCs). Next, hybrid REITs and REOCs are excluded for two reasons. First, they have different operational and financial characteristics compared to those of equity REITs<sup>2</sup>. Second, no more than six CEO turnovers from four unique hybrid or REOCs occur in the entire sample period. Given such small sample, any results would be hardly conclusive.

The lack of accounting, market, or proxy data limits the dataset to approximately one hundred REITs per year. Hence, the final sample includes all equity REITs with enough financial and governance data for the entire period 1999-2005. The changes in CEOs are identified from the proxy statements and double checked using the Lexis-Nexis Academic and the ProQuest databases. Originally fifty four equity CEO turnovers are identified, four of them are excluded because they are interim CEOs and seven others are also excluded due to the lack of either financial or board data. The final sample includes forty-three REIT equity CEO turnovers for the 7-year period.

**2.2. Variables description.** *2.2.1. Turnover levels.* Typically, the turnover literature distinguishes between internal turnover and external turnover. Internal turnover refers to replacement of CEOs by the board of directors whereas external turnover occurs due to bankruptcy or merger events. In this paper, no distinctions are made between the types of turnovers since determining the exact nature of a CEO

succession (forced, voluntary, natural retirement, etc.) was not possible<sup>3</sup>.

In this study, the dependent variable, *CEOTURN-OVER* is a dummy variable that equals one if there is CEO turnover, zero otherwise.

*2.2.2. Firm performance.* Consistent with prior literature that posits that market returns are the principal measure of firm performance, but accounting returns are the relevant measure to assess managerial ability (Allgood and Farrell, 2000; Hadlock et al., 2002; Huson et al., 2004) and to ensure the robustness of the results, this study employs two performance measures. First, market-adjusted stock returns (*RETURN*) are estimated as the daily REIT return minus the daily NAREIT accumulated over the one year previous to the CEO turnover. Second, return on assets (ROA) for the year previous to the CEO turnover is used, as given by the SNL financial database, calculated as net income as a percentage of average assets. Also, since the sample period of 1999-2005 includes a bear market (2000-2003) when 21 REIT CEO turnovers occur and a bull stock market (1999 and 2004-2005) when 22 CEO turnovers occur, I separate the bull market and bear market to test the sensitivity of CEO turnover and performance under these two different market trends. *Bull* is a dummy variable that equals one for years 1999, 2004, and 2005, zero otherwise.

*2.2.3. CEO and REIT characteristics.* As to the explanatory variables, *CEOCHAIR* is an indicator variable that equals one if the CEO chairs the board, zero otherwise. *RETURN\*CEOCHAIR* and *ROA\*CEOCHAIR* are interaction variables between the measures of performance and CEO chairmanship to examine the effect of CEO leadership on REIT performance. A positive coefficient will be interpreted as empirical evidence of lower sensitivity of CEO turnover to poor firm performance. *OUTSIDERS* is the percentage of outside directors out of the total number of directors in the board. *CEOAGE* is included in the analysis and since older CEOs are more likely to retire, *CLOSETORET*, a dummy variable that equals one for a CEO that is 60 years of age or older and zero otherwise, is included as well to control for such scenario. *TA* is the natural

<sup>1</sup> The age of the CEO has been consistently found to be positively related to CEO turnover (Core et al., 2008; Goyal and Park, 2002; Hadlock et al., 2002; Huson et al., 2001; Kaplan and Minton, 2006). In contrast, the empirical support for the relation between firm size and CEO turnover is not as consistent. Fazel and Louie (1990) and Hadlock et al. (2002) do not find evidence of a relation between firm size and CEO turnover. Core et al. (2008) do. CEO tenure is a typical measure of entrenchment; however, Hadlock et al. (2002) provide evidence of a positive relation between CEO tenure and CEO turnover for utility firms.

<sup>2</sup> While hybrid REITs hold both portfolios of mortgages and real properties, equity REITs hold real properties only. REOCs are real estate investment companies that face fewer restrictions than any type of REITs. REOCs do not have to pay specific dividends, have no rules on ownership concentration, the company can invest in any assets of its choosing, and income may be derived from any investment (Delcours, 2005).

<sup>3</sup> After reviewing all the public information available, namely, proxy statements and annual reports accessed through the EDGAR (SEC) and newspaper announcements in the LexisNexis Academic and/or the ProQuest databases, I could identify as causes for the REIT CEO turnovers the following: retirement (9), resignation (8), and forced out by the board (1). The causes for the remaining 25 turnovers are unknown. This is because proxy statements and annual reports do not contain information about the CEO changes and in most cases, LexisNexis Academic retrieved Wall Street Journal announcements, which did not show any details. Given that I could not distinguish in my sample between internal and external CEO turnovers, I could not compare these different types of turnovers.

log of total assets and is included to control for REIT size. Finally, *CEOTENURE* measures the length in years of the CEO employment.

### 3. Methods

To examine the determinants of REIT CEO turnover, the following random effect logistic model<sup>1</sup> is tested on the panel database:

$$\begin{aligned} \text{CEO turnover} = & \alpha + \beta_1 \text{CEOCHAIR} + \beta_2 \text{ROA} + \\ & \beta_3 \text{ROA} * \text{CEOCHAIR} + \beta_4 \text{RETURN} + \beta_5 \text{RETURN} * \text{CE} \\ & \text{OCHAIR} + \beta_6 \text{OUTSIDERS} + \beta_7 \text{CLOSETORET} + \\ & \beta_8 \text{CEOAGE} + \beta_9 \text{CEOTENURE} + \beta_{10} \text{TA} + \beta_{10} \text{BULL} \\ & + \beta_{10} \text{SOX} + \varepsilon. \end{aligned}$$

A random effect regression model was chosen since some of the independent variables, specifically those for the board of directors, such as CEO chairmanship and percentage of outsiders, may be constant across the periods for a given firm. Hence, a regular logit analysis may yield unreliable results.

### 4. REIT CEO turnover frequency and sample descriptive statistics

A central objective of my study is to describe REIT CEO turnover. Table 1 presents the level of REIT CEO turnover by year and Table 2 shows the descriptive statistics for the whole sample and for subsamples, that is, for REITs that experienced turnover and REITs that did not.

Table 1. CEO turnover

Total turnover			
Number of			
Year	REITs	Number	Percentage, %
1999	92	6	6.52
2000	98	2	2.04
2001	100	6	6.00
2002	102	6	5.88
2003	103	8	7.77
2004	105	9	8.57
2005	88	6	6.82
Total	688	43	6.23

Note: This table presents an annual listing of equity REIT CEO turnover for the sample period 1999-2005.

There are a total of forty-three REIT CEO changes for the 1999-2005 period. The average CEO turnover over the entire sample period is 6.23%, which is less than half of the 16.45% total turnover level for the period 1998-2005 reported by Kaplan and Minton (2006). Hence, REIT CEOs are being replaced at a lower rate than their non-REIT peers. This is inconsistent with Hadlock et al.'s (2002) findings on the also regulated utility industry. They

reveal that utility CEO turnover is sensitive to stock performance but they find no evidence that utility CEOs stay in office longer than their unregulated counterparts, even though they are less likely to be overtly forced from office or replaced by an executive from outside the firm.

In addition, a careful analysis of the frequency of CEO turnover reveals that the sample shows a higher turnover in 2003-2005 than the period 1999-2001. To assess whether the increasing liabilities for CEO after the Sarbanes-Oxley Act (SOX) affect the decision of CEO turnover, I include in the model a dummy variable, *SOX*, that equals 1 for years 2003, 2004, and 2005 (the Post-SOX period), zero otherwise.

Besides REIT CEO entrenchment, other factors could explain the lower turnover found for REITs in this study. First, it could be that the unadjusted strong positive performance in the period of study misled boards at the time of assessing CEOs performance<sup>2</sup>. Second, it could be the nature of the labor market for REIT CEOs. Possibly, REIT CEOs require specialized knowledge and the pool of skilled candidates is small, making forced turnover too much trouble for REITs since the search of a new CEO can prove to be difficult and time-consuming. However, this is a conjecture since the nature of REITs CEO labor market has not yet been studied. Besides, the current evidence in the managerial literature points out that a short supply of CEOs is not a unique problem faced by the REIT industry. Cremers and Grinstein (2008) find that CEO talent tends to be highly fragmented as talent pools are quite industry-specific and often even firm-specific. They find evidence that more than 85 percent of the new CEOs come from the lower ranks within the same corporation or from other corporations in the same industry.

Table 2 provides descriptive statistics for the sample. Panel A shows the descriptive statistics for the full sample. We can see that the average REIT board has outside members that represent close to 68 percent of the total board members and that CEOs chair approximately 57 percent of the boards. In addition, the typical REIT in the sample has assets of over 1.25 million, has generated ROA of around 3.65 percent and an average market adjusted stock return of -1.29 percent. As for the personal characteristics of CEOs, most are around 55 years old, have been with the firm about eight years, and around thirty percent are over 60 years old.

<sup>1</sup> The results, presented in Table 4, are robust to the choice of model. That is, panel OLS, probit, and logistic models all yield comparable results.

<sup>2</sup> Unadjusted stock returns average for the sample period is 16.14%.

Table 2. Descriptive statistics

Panel A: Full sample						
Variable	N	Mean	Median	Standard deviation	Minimum	Maximum
CEOTURNOVER	688	0.062	0.00	0.242	0.000	1.000
ROA (%)	688	3.671	3.605	3.092	-14.860	35.280
RETURN (%)	688	-1.290	-1.451	17.499	-62.855	68.817
CEOCHAIR	688	0.573	1.000	0.495	0.000	1.000
OUTSIDERS (%)	688	68.433	66.667	11.733	30.000	93.333
CLOSETORET	688	0.298	0.000	0.458	0.000	1.000
CEOAGE	688	54.695	54.000	9.020	36.000	81.00
CEOTENURE	688	7.776	6.000	6.763	0.000	40.000
TA	688	14.041	14.177	1.291	9.569	17.066
Panel B: REITs that experienced CEO turnover						
Variable	N	Mean	Median	Standard deviation	Minimum	Maximum
ROA (%)	48	3.306	3.470	2.383	-3.740	8.730
RETURN (%)	48	-5.155	-5.939	19.557	-45.587	58.517
CEOCHAIR	48	0.605	1.000	0.495	0.000	1.000
OUTSIDERS (%)	48	69.231	66.667	12.801	44.444	93.333
CLOSETORET	48	0.442**	0.000	0.502	0.000	1.000
CEOAGE	48	57.698**	58.0000	8.927	39.000	76.00
CEOTENURE	48	8.907	7.000	8.225	0.000	40.000
TA	48	14.184	14.482	1.643	9.586	17.066
Panel C: REITs that did not experience CEO turnover						
Variable	N	Mean	Median	Standard deviation	Minimum	Maximum
ROA (%)	645	3.695	3.610	3.133	-14.860	35.280
RETURN (%)	645	-1.032	-1.053	17.339	-62.855	68.817
CEOCHAIR	645	0.571	1.000	0.495	0.000	1.000
OUTSIDERS (%)	645	68.380	66.667	11.667	30.000	92.308
CLOSETORET	645	0.288	0.000	0.453	0.000	1.000
CEOAGE	645	54.495	54.000	8.997	36.000	81.00
CEOTENURE	645	7.701	6.000	6.654	1.000	39.000
TA	645	14.032	14.157	1.235	9.569	17.063

Notes: Panel A shows descriptive statistics for the full sample during the period of 1999-2005. Panel B shows the descriptive statistics for REITs that experienced CEO turnover. Panel C shows the descriptive statistics for REITs that did not experience CEO turnover. *CEOTURNOVER* is the dependent variable equal to one if there is CEO turnover, zero otherwise. *ROA* is net income as a percentage of average assets and *RETURN* is the 1-year market adjusted cumulative stock return, using daily stock and market return data. *CEOCHAIR* is an indicator variable that equals one if the CEO leads the board of directors, zero otherwise. *OUTSIDERS* is the percentage of outside directors sitting in the board. *CLOSETORET* is a dummy that equals one if the CEO is at least 60 years old, zero otherwise. *CEOAGE* is the departing CEO age, *CEOTENURE* is the length of the CEO employment and *TA* is the natural log of total assets. Statistical significance for difference in means tests is displayed by the use of one (10%), two (5%), or three (1%) asterisks.

From Panels B and C, it appears that REITs that experience CEO turnover have older CEOs on average. The REIT CEOs who left their companies averaged 58 years old and were closer to retirement. In comparison, the average CEO in REITs that did not experience CEO turnover is around 54 years old and not as close to retirement. These results are consistent with the literature. Interestingly, no other variable is

found to be statistically significant between the subsamples. Not even the performance measures, which are typically negatively related to CEO turnover, come out statistically insignificant. The high variance on the stock returns could explain this finding.

Table 3 presents Pearson correlations coefficients between the variables included in the multivariate analysis.

Table 3. Pearson correlations coefficients

Variables	1	2	3	4	5	6	7	8	9
1. CEOTURNOVER	1.000								
2. ROA	-0.031	1.000							
3. RETURN	-0.057	0.173***	1.000						
4. CEOCHAIR	0.017	0.039	0.015	1.000					

Table 3 (cont.). Pearson correlations coefficients

Variables	1	2	3	4	5	6	7	8	9
5. OUTSIDERS	0.018	-0.021	0.021	-0.038	1.000				
6. CLOSETORET	0.081**	0.080**	0.039	0.300***	-0.084**	1.000			
7. CEOAGE	0.086**	0.069*	0.033	0.335***	-0.081**	0.804***	1.000		
8. CEOTENURE	0.043	0.079**	0.055	0.157***	-0.029	0.331***	0.421***	1.000	
9. TA	0.029	-0.014	0.020	-0.080**	0.072*	-0.136***	-0.148***	-0.097**	1.000

Note: This table provides Pearson correlation coefficients between REIT CEO turnover and economic and board structure variables. *CEOTURNOVER* is equal to one if there is CEO turnover, zero otherwise. *ROA* is net income as a percentage of average assets and *RETURN* is the 1-year market adjusted cumulative stock return, using daily stock and market return data. *CEOCHAIR* is an indicator variable that equals one if the CEO leads the board of directors, zero otherwise. *OUTSIDERS* is the percentage of outside directors sitting in the board. *CLOSETORET* is a dummy that equals one if the CEO is at least 60 years old, zero otherwise. *CEOAGE* is the departing CEO age, *CEOTENURE* is the length of the CEO employment and *TA* is the log of total assets. The numbers across the top are the same numbering as variable list in the first column.

As expected, the two measures of firm performance are positively correlated, but the coefficient is low (0.173). Except for the correlation coefficient between CEO age and whether or not the CEO is at least 60 years old and the correlation between CEO age and CEO tenure, all other coefficients are small in magnitude (with absolute correlation coefficients of less than 0.35) suggesting that multi-collinearity is not a problem for the analysis.

### 5. Board leadership and CEO turnover sensitivity

To test the hypotheses, I estimate several random effects logistic models. The results are presented in Table 4. Model A includes both market adjusted stock returns and ROA and model B includes market adjusted stock returns only. Model C does not include board of director's measures. Model D does not include any performance measures.

Table 4. Random-effects logistic regressions of CEO turnover for REITs

Variables	Model A	Model B	Model C	Model D
CEOCHAIR	0.072 (0.88)	0.156 (0.63)		-0.053 (0.85)
ROA	-0.052 (0.54)			
ROA*CEOCHAIR	0.027 (0.82)			
RETURN	-0.031 (0.02)**	-0.033 (0.02)**	-0.030 (0.01)**	
RETURN*CEOCHAIR	0.032 (0.07)*	0.033 (0.05)*	0.030 (0.04)**	
OUTSIDERS		-0.006 (0.61)	-0.006 (0.60)	-0.005 (0.62)
CLOSETORET	0.767 (0.04)**	0.767 (0.03)**	0.809 (0.02)**	0.698 (0.04)**
CEOAGE	-0.021 (0.26)	-0.022 (0.23)	-0.022 (0.17)	-0.017 (0.33)
CEOTENURE	0.013 (0.47)	0.011 (0.51)	0.011 (0.53)	0.009 (0.60)
TA	-0.070 (0.36)	-0.079 (0.24)	-0.096 (0.09)*	-0.080 (0.22)
BULL	-0.013 (0.96)	-0.037 (0.88)	-0.046 (0.86)	0.108 (0.66)
SOX	0.388 (0.22)	0.428 (0.17)	0.402 (0.18)	0.276 (0.33)
Log likelihood ratio	-155.54	-155.97	-156.31	-161.03
Observations	688	688	688	688

Note: This table presents the results of random-effects logistic regressions on REIT CEO turnover for the period of 1999-2005. Model A includes both stock returns and return on assets as measurements of performance. Model B includes stock returns only. Model C excludes the board related variables. Model D excludes measures of performance. The dependent variable, *CEOTURN-OVER*, equals one if there is CEO turnover, zero otherwise. *CEOCHAIR* is an indicator variable that equals one if the CEO leads the board of directors, zero otherwise. *ROA* is net income as a percentage of average assets and *ROA\*CEOCHAIR* is an interaction variable between *ROA* and *CEOCHAIR*. *RETURN* is the 1-year market adjusted cumulative stock return, using daily stock and market return data and *RETURN\*CEOCHAIR* is an interaction variable between *RETURN* and *CEOCHAIR*. *OUTSIDERS* is the percentage of outside directors sitting in the board. *CLOSETORET* is a dummy that equals one if the CEO is at least 60 years old, zero otherwise. *CEOAGE* is the departing CEO age, *CEOTENURE* is the length of the CEO employment and *TA* is the log of total assets. *BULL* is a dummy variable that equals one if the year is 1999, 2004, or 2005 (bull years); and zero otherwise. *SOX* is a dummy variable that equals one for years 2003, 2004, and 2005 (the Post Sox period), zero otherwise. All the independent variables are measured as of the prior year to the turnover event. Statistical significance is displayed by the use of one (10%), two (5%), or three (1%) asterisks. P-values are in parentheses.

The results shown in Table 4 provide empirical support for hypotheses one and two. That is, as in most of the literature, the results show that REIT CEO turnover is inversely related to performance as measured by stock returns. More significant yet, consistent with Goyal and Park (2002) study, the

positive coefficient for the interaction term stock performance-CEO chairman dummy suggests that the sensitivity of CEO turnover to performance is less for REITs with combined CEO-chairman positions than for firms with separate positions. These results imply that REIT CEOs tend to entrench due to

poor governance practices. Finally, the results show that CEOs in the retirement year range (60 years or older) are more likely to leave the firm.

In contrast with the case of non-REITs, other firm and CEO characteristics such as firm size, CEO age, and tenure do not seem to affect REIT CEO turnover. Additionally, I find that the CEO chairmanship variable itself and the percentage of outside directors do not affect REIT CEO turnover<sup>1</sup>. This is inconsistent with the results by Weisbach (1988) and FizeL and Louie (1990) for the case of non-REITs. Overall, with the exception of the negative relation between turnover and performance and the sensitivity of CEO turnover to performance when the CEO chairs the board, the determinants of REIT CEO turnover are quite different than those for non-REITs. In sum, CEO turnover seems to be more influenced by performance than by the internal governance structure for the case of REITs. Such difference could be explained by the smaller size of the REITs compared to non-REITs, the strict nature of the regulatory requirements for firms that elect REIT status, and differences between REITs and non-REITs in corporate governance practices.

Finally, as shown in Table 4, I find that CEO turnover occurs in the presence of both bull and bear stock markets, as indicated by the lack of statistical significance by the included in the model. Based on this result, it appears that the CEO turnover is driven

by firm specific rather than market related reasons. Also, as evidenced by the lack of statistical significance of the SOX variable, the enactment of SOX seems not to affect the decision of CEO turnover.

### Concluding remarks

Researchers argue that an entrenched CEO may not be held accountable for poor firm performance. This study examines REIT CEO turnover for the period 1999-2005, and consistent with such assertion, the results show that the sensitivity of turnover to performance depends on whether or not the CEO leads the board. Specifically, CEO turnover decreases when the CEO chairs the board. In addition, it is found that REIT CEO turnovers are significantly less likely than non-REIT CEO turnovers. Furthermore, the likelihood of CEO turnover is unrelated to the percentage of outside directors sitting in the board, whether or not the CEO chairs the board, the size of the firm, the enactment of SOX and CEO characteristics, such as age and tenure. The full thrust of the findings must be interpreted from the perspective of the regulatory environment of REITs. Overall, these results are consistent with the idea that REIT CEOs are motivated to entrench due to the lack of inter-industry experience as posited by Ghosh and Sirmans (2006) and also with the idea that restrictions on REIT ownership encourage CEO entrenchment.

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<sup>1</sup> The lack of statistical significance for the CEO chairman variable requires careful interpretation. Such lack of statistical significance could be due to the small number of CEO turnovers for REITs and not the real importance of the CEO also acting as chairman. A larger sample could help to clarify the results; however, given the reduced number of REITs compared to non-REITs, the lack of available data before year 1999, and the low frequency of REIT CEO turnover, such sample is simply not available.

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