CEO Dismissal, Political Risk, and Firm Investment: A Firm-Level Analysis

Joshua Ng, Faculty Supervisor: Professor Abigail Hornstein
Department of Economics, QAC Apprenticeship

Research Questions

1. **How are dismissal and political risk linked?**

- Root causes: Pr(dismissal) = f(risk) and Pr(risk) = f(dismissal)
- Investment as mediating factor: investment = f(risk) and f(risk | dismissal)
- Potential bidirectional relationship between risk and dismissal

2. **How is risk divided between company and CEO?**

- Decompose risk into firm-specific and CEO-specific components
- Examine how risk is transmitted when CEOs move between firms
- Apply the Bertrand & Schoar (2003) managerial fixed effects framework into regressions

Literature Review

1. **CEO Labor Market and Turnover**

- Forced turnovers preceded by operational declines
- 38-55% of dismissals are **performance-induced**
- External successors yield **larger** operational improvements
- Homogenous industries makes it easier to **identify poor performance**

2. **Agency Costs and Managerial Myopia**

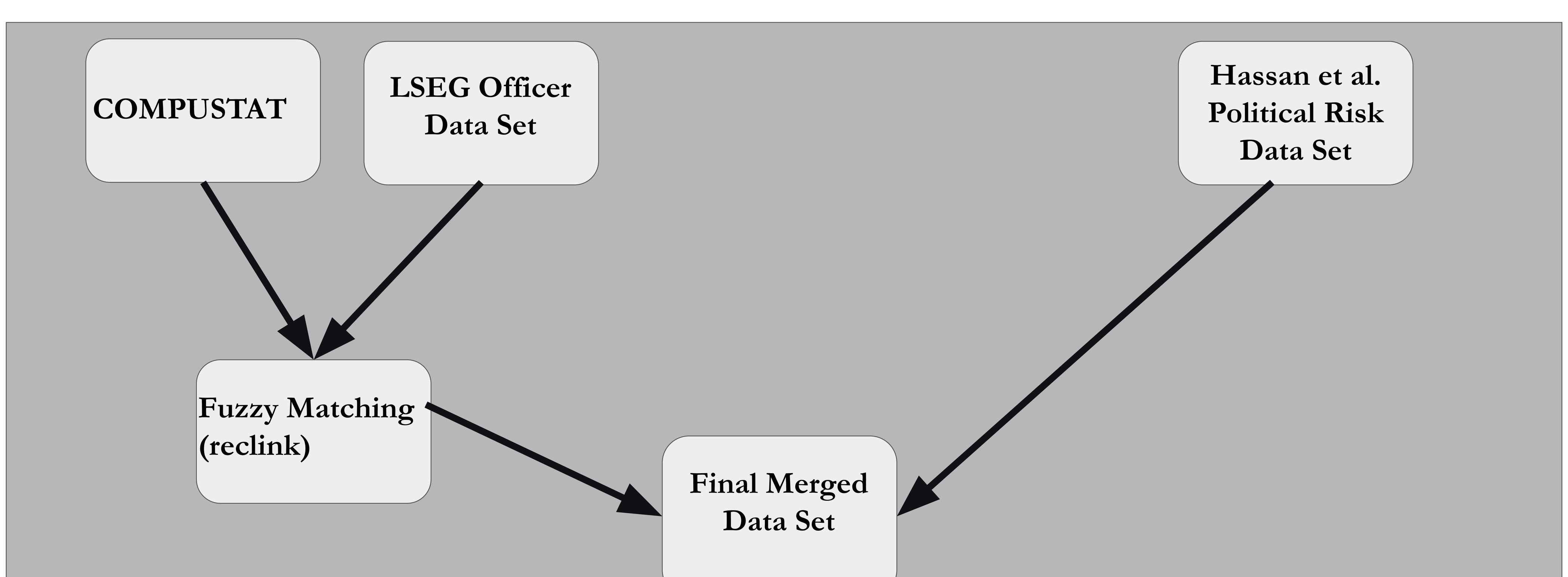
- CEO tenure duration shortens; Short-term pressure creates **"managerial myopia"**
- CEOs avoid long-term projects, while also **over-investing** (Wasting 20% of FCF on negative-NPV projects)

3. **Political Risk & Firm Behavior**

Hassan et al. (2019) study how firms handle risk

- **Passive Responses:** Decreased capital investment, planned expenditure, employment growth
- **Active Responses:** Increased lobbying expenditure, political donations, donation recipients

Data and Methdology



Variables

Variable Name	Description
I_new	New investment
I_maintenace	Maintenance Investment
over_under_investment	Whether a firm is over and under investing
Tobin' Q	Investment Opportunity (valuation)
FCF	Free Cash Flow
Firm Size	Log of Total Assets
Leverage	Short term and long term debt over log of total assets
Cash	Liquidity
Firm Age	Years since the firm opened
CEO Tenure	Years acting as CEO
CEO Age	CEO's age

What's Next

- **Finalize Data Merge:** Merge Hassan et al. data set into the master data set
- **Run Dismissal Regressions:** Estimate Probit/Logit models with firm and year fixed effects
- **Address endogeneity with 2SLS approach**
- **Conduct Robustness Check**

References

CEO Turnover & Dismissal

- Denis & Denis (1995)
- Jenter & Lewellen (2021)
- Parrino (1997)
- Gentry et al. (2021)

Managerial Style & Behavior

- Bertrand & Schoar (2003)
- Antia et al. (2010)

Political Risk & Investment

- Hassan et al. (2019)
- Giambona et al. (2017)
- Richardson (2006)

Methodology

- Peters & Wagner (2014)