STATE CONTROL, LAWSUIT AND CEO TURNOVER

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Abstract: This paper investigates the relationship between lawsuit and the CEO turnover in Chinese listed companies. Evidence is showing that lawsuit has a positive effect on CEO turnover. Further researches find that firms controlled by the government are more likely to protect the CEO to retain when the firms involve in lawsuit than the firms that controlled by the private sectors or people.

1. INTRODUCTION

With the issue of Sarbanes-Oxley, internal control of company has becoming an important management tool. Company bankruptcy, accounting information distortion, illegal operation and so on could attribute to invalid of internal control to some extent. Therefore it is a vital work to strengthen the management and construct the system of internal control.

Every company will encounter risk during the operation, especially in the situation of higher degree of uncertainty. For example, the present economic crisis increases the uncertainty of the development of the company. Besides the risk of economic circumstances, company will also have unique risk related to their own characteristics.

Actually the final aim of internal control is risk reduction. Risk prevention is a major part of enterprises management and it is also the motivation of establishing internal control mechanisms. Highly efficient internal control system is a long-term mechanism of risk prevention.

There are many different kinds of risk during the company operation, includes financial risk, investment risk, market risk, innovation risk, decision risk, operational risk and so on. Among these risks, litigation risk is vital to the existence and development of a company. Once a company involves in the litigation, the litigation costs are huge. What's worse, serious litigation may destroy a company.

Companies' involving in litigation is an accumulating process. That is to say, litigation risk reflects the efficiency of the company's internal controls. If the internal control is high efficient, there is little leak about management and operation, thus the probability of involving in lawsuits will be reduced.

CEO of a company has talent and effort in charge of the operation of the company. But if he doesn't have enough talent and effort, the firm is more likely to meet some kinds of mess situations and the probability of involving in lawsuits will be high. Therefore, once a company really suffers the lawsuits, CEO is more likely to be fired.

In China, Government controlled firms are important integral part of our market economy. Unique ownership structure of Chinese state-owned enterprises makes them different from non-state-owned companies. CEO evaluation is quite different from non-state-owned enterprises.

A growing body of research demonstrates that risk has a negative effect on CEO Turnover (e.g. Bushman, Dai and Wang, 2008; Engle, Hayes and Wang, 2003; Coughlan and Schmidt, 1985; Warner, Watts and Wruck, 1988; Barro and Barro, 1990; Kaplan, 1994a, b; Brickley and Van Horn, 2002). Some people think accounting information appears to receive greater weight in CEO turnover decisions when accounting-based measures are more precise and more sensitive. Market-based performance measures receive less weight in turnover decisions when accounting-based measures are more sensitive or market returns are more variable (Engle, Hayes and Wang, 2003). The boards learn about CEO talent from firm performance depends on the volatility of performance. If volatility is caused by factors related to unobservable CEO talent(idiosyncratic risk), firm performance will be diagnostic about such talent, allowing boards to discover and replace low talent CEOs. If volatility is driven by factors unrelated to CEO talent, then the board will

hard to infer CEO talent (Bushman, Dai and Wang, 2008). Using performance measures that are relatively more precise and more sensitive to the agent's effort can help mitigate agency costs (Holmstrom and Milgrom, 1991).

Other people think boards' choice over annual compensation grants substitute toward market-based and accounting-based measures when such measures are better indicators of managerial performance (Lambert and Larcker, 1987; Bushman et al., 1996). The structure of incentives provided to firms' boards of directs and the extents of ownership concentration vary in systematic ways with properties of managerial performance measures (Bushman, 2004). Earnings are a significant predictor of CEO turnover (Weisbach, 1988; Murphy and Zimmerman, 1993). Share price reflect the market's expectations regarding the CEO's continued employment (1998). "Noise" or "risk" defined as computing the historical variance of accounting-based and market-based measures of performance (Lambert and Larcker, 1987; Bushman et al., 1996). Industry-adjusted earnings factor more strongly into turnover decisions for firms in less concentrated industries (Defond and Park, 1999). Systematic aspects of performance should be filtered out and so not have an effort on CEO turnover (Holmostrom, 1982; Gibbons and Murphy, 1990). CEO turnover is sensitive to both firm-specific and systematic components of realized performance (Jenter and Kanaan, 2006; Kaplan and Minton, 2006). Firm's idiosyncratic return and the systematic portion of returns as separate performance measures in empirical estimation of CEO turnover.(Jenter and Kanaan, 2006). Our focus is on volatility of performance, not realized performance. All we require is that existence of significant systematic volatility makes it more difficult for the board to cleanly distinguish effects of CEO talent from luck.(Bushman, 2008). The sensitivity of turnover to performance increases with fraction of outsiders on the board (Weisbach, 1988). The sensitivity of turnover to performance increases with industry homogeneity in product market (Parrino, 1997). The sensitivity of turnover to performance increases with product market competition (Defond and Park, 1999). CEO turnover varies with business cycle (Eisfeldt and Rampini, 2007). Kim (1996) uses a duration model to examine the extent to which firms learn about CEO ability over time. Farrell and Whidbee (2003) examine how performance expectations affect CEO turnover.

One key institutional factor that impacts firm behaviors is the role of Government in business (Shleifer and Vishny, 1994; Fisman, 2001). The accounting literature has paid little attention to the topic. Non-Realized firm performance is a direct source of information about unobservable talent levels of incumbent CEO. This is the purpose of our paper.

Former researches have document that there is negative relationship between Return, ROA and CEO turnover. The principle will be easily to see the performance to judge the talent of the CEO. Further research finds that performance risk is another important reason that influences the CEO turnover, and they had positive relationship. Bushman (2004, 2008) uses performance volatility representing the risk of the performance. Busman's risk can only grasp the information directly related to the performance, but this variable has no ability to find the other kinds of risks or internal control problems. For example, MengNiu Group is one of the largest milk produces in China. The firm's performance is quite well in recent years, and the trend just from the stock market return and from the revenue sheet is healthy enough. However, the company faces the huge crises recently, the reason is the company cheats the consumers and just be found recently. These kinds of risk can't be found in the Bushman and Engel's risk variable.

Company's risk is not just the volatility of the performance. The ROA volatility and the return volatility can only capture part of the firms' risks and internal problems. Especially in China, the ROA has been managed for some purposes, and the stock market is not efficient enough, there existences lots of manipulations in Chinese stock market and Chinese stock has the phenomena of going up and down at the same time . Therefore, it is hard for the principle to find the risk just from the performance and from the volatility of the performance.

In this paper, we document a new method to represent a company's potential risk and internal problems. In our theory, if the CEO doesn't have enough talent or effort, the firm is more likely to meet some kind of mess situations. If the mess situation can represent on the realized performance and the performance volatility, then the CEO is more likely to be fired for the bad information. However, the mess situation can not be represented on the realized performance and the performance volatility, because the CEO has the intuition to hide the bad situation of the company from the investors. At this moment if the principle gets the information of this kind of situation, then the CEO is more likely to be fired.

In our paper, we measure this kind of risk using the lawsuit cases. If a listed firm is accused by the banks, other companies, government departments, individuals or consumers, that is to say, the company has met mess situation. Why we chose accused firms as our variable, there remains three reasons: (1) When a company meet mess situation, the company can negotiate with the counterpart, if the negotiation failed, there exit two kinds of possibilities, one is the company really has no ability, then the company has bad healthy in the situation. The other is the company do not want to, though it has the ability, then the company will meet lawsuit which can take risk to the company. All of which will cost much for the company. (2) The corporate governance is another reason of lawsuit. (3) A higher risk companies are more likely to meet mess situation.

Our first contribution is we find a variable to measure the risks and internal control problems of the company that can't be reflected just in the performance volatility. Former researches only use the performance volatility to denote the risks which can not grape most of the risks that the firm have.

Second contribution: This paper attempts to fill a void in the accounting by taking advantage of the institutional setting in China, where the government has significant involvement in business. Using a comprehensive data on the decision of retaining or dismiss an incumbent CEO, this paper studies how government ownership and its role in economy distort Chinese listing firms' incentive to hire high talent CEO.

This paper is organized as follows. In section 2, we analyze the different cutoff point between lawsuit companies and non-lawsuit

companies, and develop our two assumptions. In section 3, we describe our data and sample selection procedures. In section 4, we present our analysis and results. Section 5 is our conclusion.

2. ASSUMPTIONS

We first assume that the principle and the CEO have common knowledge about the distribution over CEO talent, but neither knows the actual level of CEO talent. CEOs are ex-ante identical, with all market participants holding the same prior beliefs over talent.

The defect of a firm's internal control increases the risk of the firm. With the accumulation of the risk, a slight blow from the outside will hit hard the firm. What's worse, sometime it may be a deathblow. Litigation is a kind of outside blow. CEO of accused firm may not have enough talent of effort, so once the company involves in the litigation, the probability of CEO turnover will be higher than the company that doesn't suffer law suits. We propose our first proposition:

H1: Accused firm has a positive effect on CEO turnover.

There are many index applied in performance evaluation system of CEO. For example, the accounting index, market index and so on. Besides, the evaluation usually depends on the strategic corporate goals, the different growth stages, etc. Actually performance evaluation of CEO in government controlled firms is different from other firms. In non-government controlled firms company performance is the main factor for assessments of CEO. But in government controlled firms there are other evaluation methods except company performance because of the unique ownership structure. Besides, the appointment of CEO in government controlled firms involves more participation of government. We propose another proposition:

H2: Government controlled firms' CEOs are more likely to retain when the companies meet lawsuit, however non-government controlled firms' CEO are less likely to retain when the companies meet lawsuit.

3. SAMPLE SELECTION AND DESCRIPTIVE STATISTICS

3.1 Data

Our sample is all non-financial A-share companies during 2000-2007 whose financial data are available from CSMAR. We get the CEO turnover data from Sinofin database. For each firm i and year t, we identify all cases where the executive listed as firm i

CEO at the end of year t, but is not listed as CEO at the end of year t+1. We then collect CEO age data. We next merge these data with stock returns data from CSMAR. Finally we get 7311 observations. For further looking for the reason of CEO turnover type, we divide the turnover into forced turnover group and non-forced turnover group. Each group has the same control sample. Financially, we get another two samples with observations 6977 and 5237.

3.2 Definitions and Measurement of Variables

Turnover: Dummy variable. 1 denotes CEO turnover happen in the company; 0 denotes CEO turnover not happen in the company. In China, it is hard to distinguish the chairman of the board and the general manager, we use both of them to be our CEO' substitute variable. If none of them happens turnover, we denotes CEO turnover variable 0; if one of them or both of them happen turnover, we denotes CEO turnover variable 1.

FORCED: According to Engel, Hayes and Wang (2003), we categorize turnovers classified as "poor performance", "policy difference", "Control change", "Fired", "Pursue other interests", "Governance", "personal legal", "No reason", as forced.

TURN: The remaining is the non-forced sample.

Return: Buy and hold returns, calculated as $\left(\prod_{t=1,m=5}^{12}(1+R_{itm})-\prod_{t=1,m=5}^{12}(1+M_{tm})\right)$, where Ret is the monthly stock return with cash dividend reinvestment beginning from May 1 of year t to April 30 of year t+1, M is the monthly market return. And then Industry adjusted.

Suit: Lawsuit, 1 represent the firm has been in some suits as defendant, 0 represent the firm has not been involved in some suits as defendant. We get the data from Sinofen database.

Nature: Government controlled listed firms, where a government institution is the ultimate owner of the controlling shareholder. A controlling shareholder refers to a shareholder who owns or controls 30% or more votes or shares, and (or) who can elect half or more of the directors, and (or) who can in effect control the listed company. According to the type of ultimate owner of largest shareholders, 1 represent ultimate owner is government, 0 represent ultimate owner is non-government.

ROA: Lagged return on assets, industry-adjusted earnings deflated by book value of total assets.

Lnsize: Log of total Assets.

Age: CEO age.

LY: Firm age since the firm was listed on the stock market.
Ind: Industry dummies, according to the CSMAR, after deleting the finance industry, we get 22 industry dummies.
Year: Year dummies.

We present all variable definitions in table 1.

Table 1 Definition of Variables

Variables	Definition
Turnover	Dummy variable. 1 denotes CEO turnover happen in the company; 0 denotes CEO turnover not happen in the company. In China, it is hard to distinguish the chairman of the board and the general manager, we use the both of them to be our CEO' substitute variable. If none of them happens turnover, we denotes CEO turnover variable 0; if one of them or both of them happen turnover, we denotes CEO turnover variable 1.
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TURN	Following FORCED, the remaining is the non-forced sample.
Return	Buy and hold returns, calculated as $\left(\prod_{t+1}^{t+5}(1+R_{itm}) - \prod_{t+1}^{t+5}(1+M_{tm})\right)$ Where Ret is the monthly stock return with cash dividend reinvestment beginning from May 1 of year t to April 30 of year t+1, M is the monthly market return. And then Industry adjusted.
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3.3 Descriptive Statistics

We present summary statistics in table 2 for the turnover sample, the routing turnover sample and the forced turnover sample. The mean of turnover is 0.338 for Chinese listed companies. The mean of suit is 0.064, that is to say about 6% firms have been accused for some reasons for Chinese listed firms.

The mean of nature is 0.763, saying most of the listed companies are owned by the government; therefore it is important to research the ultimate ownership question. The mean of Buy-and-hold return during 2000-2006 is -0.323, showing that on average the investors in the market are loss. This ratio can also been explained by the Chinese market during 2000-2006. The average ROA of the companies is 0.020. The range of LY is from 0 to 16, showing the emerging stock market characters. Form the last line, we find the youngest CEO is 27 years old and the eldest CEO is 68 years old. Different ages have different experience, which may affect the CEO turnover.

Table2 Summary Statistics

	N	Min	Max	Mean	Median	Std Dev

Turnover	7311	0.000	1.000	0.338	0.000	0.473
Suit	7311	0.000	1.000	0.064	0.000	0.244
Nature	7311	0.000	1.000	0.763	0.000	0.426
Return	7311	-1.251	1.700	-0.323	-0.021	0.504
ROA	7311	-0.899	0.514	0.020	0.032	0.082
Lnsize	7311	17.537	27.111	21.142	21.256	0.949
LY	7311	0.000	16.000	5.463	6.000	3.236
Age	7311	27.000	68.000	47.336	46.000	5.888

Note: N is the observations.

We present correlation coefficients in table 3 and find the initial results.

Table 3 Correlation Coefficients

Variable	$Turnover_t$	$Suit_{t-1}$	$Nature_{t-1}$	$Return_{t-1}$	ROA_{t-1}	$Lnsize_{t-1}$	LY_{t-1}	Age_{t-1}
$Turnover_t$		0.066***	-0.017	-0.074***	-0.140***	-0.084***	0.030*	0.007
		(<.0001)	-0.1546	(<.0001)	(<.0001)	(<.0001)	-0.0114	-0.5675
$Suit_{t-1}$	0.066***		-0.072***	-0.053***	-0.136***	-0.145***	0.133***	-0.070***
	(<.0001)		(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)
$Nature_{t-1}$	-0.017	-0.072***		0.054***	0.036***	0.172***	-0.051***	0.237***
	-0.1546	(<.0001)		(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)
$Return_{t-1}$	-0.071***	-0.047***	0.025*		0.244***	0.124***	0.019	0.068***
	(<.0001)	(<.0001)	-0.0331		(<.0001)	(<.0001)	-0.0961	(<.0001)
ROA_{t-1}	-0.141***	-0.169***	0.081***	0.171***		0.148***	-0.238***	0.110***
	(<.0001)	(<.0001)	(<.0001)	(<.0001)		(<.0001)	(<.0001)	(<.0001)
$Lnsize_{t-1}$	-0.074***	-0.147***	0.182***	0.129***	0.206***		0.092***	0.244***
	(<.0001)	(<.0001)	(<.0001)	<.0001)	(<.0001)		(<.0001)	(<.0001)
LY_{t-1}	0.028***	0.132***	-0.049***	0.099***	-0.147***	0.064***		-0.025*
	-0.0187	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)		-0.0323
Age_{t-1}	0.009	-0.070***	0.232***	0.052***	0.097***	0.252***	-0.02	
	-0.4551	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)	-0.0912	

Notes: Left is the Spearman Correlation Coefficients and right is the Pearson Correlation Coefficients. ***, **, * represent statistically significant at the 1%, 5%, and 10% levels.

4. MODEL AND ANALYSIS

Our first empirical analysis focuses on how lawsuit affects CEO turnover, and the empirical models are as follows:

$$Turnover_t = \beta_0 + \beta_1 Suit_{t-1} + \beta_2 Suit_{t-1} * Nature_{t-1} + \beta_3 Nature_{t-1} + \mathrm{Re}turn_{t-1} + Suit_{t-1} * \mathrm{Re}turn_{t-1} + ROA_{t-1} + Suit_{t-1} * ROA_{t-1} + Lnsize_{t-1} + LY_{t-1} + Age_{t-1} + \sum_{t=1}^{22} Ind_t + \sum_{t=1}^{8} Year_t + \varepsilon_t$$

4.1 Impact of Lawsuit on CEO Turnover

Table 4 presents the empirical results from logistic regression. Column (1) shows that both suit and nature are significantly affect the probability of CEO turnover. Firms involved in lawsuits are more likely to happen CEO turnover and government controlled companies are more hardly to happen CEO turnover. This result shows that lawsuit is an important factor in explaining CEO turnover. After we include accounting performance information in to the model in column (3) and (4), the relationship between suit and CEO turnover has not changed significantly, which means that this kind of risk or internal control problem is positive to CEO turnover.

Table 4 State Control, Risk and CEO Turnover

	$TURNOVER_t$			
	(1)	(2)	(3)	(4)

Intercept	1.014** (2.459)	0.983** (2.305)	1.143*** (3.102)	-0.027 (0.002)
$Suit_{t-1}$	0.400*** (15.624)	0.667*** (15.699)	0.735*** (13.997)	0.643*** (10.527)
$Suit_{t-1}$* $Nature_{t-1}$		-0.410*** (3.927)	-0.398*** (3.683)	-0.371*** (3.115)
$Nature_{t-1}$	-0.097** (2.419)	-0.060 (0.826)	-0.054 (0.672)	-0.055 (0.675)
$Return_{t-1}$			-0.420*** (20.136)	-0.218*** (5.190)
$Suit_{t-1}$* $Return_{t-1}$			0.182 (0.688)	0.206 (0.842)
ROA_{t-1}				1.635*** (4.050)
$Suit_{t-1}$* ROA_{t-1}				-3.640*** (81.738)
$Lnsize_{t-1}$	-0.151*** (25.490)	-0.151*** (25.240)	-0.139*** (21.176)	-0.088*** (8.160)
LY_{t-1}	0.032*** (12.776)	0.032*** (12.754)	0.032*** (12.345)	0.020*** (4.893)
Age_{t-1}	0.013*** (7.746)	0.012*** (7.513)	0.013*** (7.800)	0.015*** (9.982)
Ind	Control	Control	Control	Control
Year	Control	Control	Control	Control
N	7311	7311	7311	7311
Pr > ChiSq	<.0001	<.0001	<.0001	<.0001

Notes: ***, **, * represent statistically significant at the 1%, 5%, and 10% levels.

For further research, following Bushman et al (2008) and Engel et al (2003), we divide the CEO turnover sample into two parts: forced turnover and non-forced turnover. We present the results in table 5 and we find each kind of the lawsuits is significant positive relationship with CEO turnover. These results can prove our hypothesis 1, CEO turnover is positive related to the risk or lawsuit.

The forced group and non-forced group have different significant level. Clearly, the non-turnover group are much more significant than the forced the group according to the results. That is also easy to interpretation in Chinese listed firms. In China, if the principle wants to fire the CEO for his poor talent, he is not likely to present the real reasons to the public and will look for other reasons for that. That is why the non-forced turnover group is more significant than the forced turnover group.

The return and ROA are all significantly negatively related to the CEO turnover. These results are equal to the formal researches and also prove that in Chinese listed firms performance is one of the most important factors that influence the CEO turnover.

When we multiple return to suit and ROA to suit so as to examine the combined effect, we find only Suit*ROA is significant positive related to the CEO turnover in the total samples and in the non-forced turnover samples. The meaning of the multiple factor is lawsuit or risk enhances the sensitivity between ROA and CEO turnover.

From the control variable, we can see lnsize is negatively related to CEO turnover, that is to say small companies are more frequently to change CEO than large firms do. LY is positively related to the CEO turnover, which means the longer a company listed on the market, the more likely to change CEO. Listing is good for the company to find out low-talent CEOs. Age is positively related to the CEO turnover, showing that the CEO age is one of the main reasons that correlated with CEO turnover.

4.2 State Control, Lawsuit and CEO Turnover

State control and ultimate control rights questions are important for Chinese listed firms. The agency problems in state controlled firms are quite different from the private controlled firms. In table 5 column(2), we can see the Suit*Nature variable is negatively related to the CEO turnover, which means in state controlled firms, CEO are more likely to retain than the private firms when the firms meet lawsuit. After we controlled return and ROA in the model, the result is remaining the same with column (2). In the further research in table 5, when we divide the turnover samples into two parts, each part gets the same result that Suit*Nature is negatively related to the CEO turnover. The result is quite robustness and it prove our hypothesis 2

Table 5 State Control, Risk and CEO Turnover

	$TURNOVER_t$							
	Dep.Var.=TURN				Dep.Var.=FORCED			
	-1	-2	-3	-4	-5	-6	-7	-8
Intercept	0.724	0.676	0.821	-0.29	0.54	0.502	0.688	-0.302
	-1.193	-1.04	-1.523	-0.184	-0.492	-0.424	-0.792	-0.147
$Suit_{t-1}$	0.394***	0.673***	0.723***	0.632***	0.199***	0.515***	0.397**	0.313
	-14.043	-14.596	-12.532	-9.38	(2.297)	(5.380)	-2.255	-1.373
$Suit_{t-1}$*$Nature_{t-1}$		-0.425***	-0.412***	-0.386***		-0.474***	-0.433**	-0.409**
		-3.885	-3.635	(3.102)		(3.065)	-2.528	-2.181
$Nature_{t-1}$	-0.111***	-0.074	-0.067	-0.066	-0.007	0.029	0.03	0.014
	-2.977	-1.198	-0.993	-0.947	-0.01	-0.137	-0.149	-0.033
$Return_{t-1}$			-0.425***	-0.220***			-0.432***	-0.267***
			-19.597	-5.026			-15.309	-5.655
$Suit_{t-1}$*$Return_{t-1}$			0.139	0.159			-0.21	-0.159
			-0.382	-0.478			-0.46	-0.254
ROA_{t-1}				-3.736***				-3.284***
				(74.878)				(43.333)
$Suit_{t-1}$*ROA_{t-1}				1.814***				0.551
				-4.5				-0.211
$Lnsize_{t-1}$	-0.141***	-0.139***	-0.126***	-0.077***	-0.136***	-0.135***	-0.122***	-0.077***
	-20.981	-20.593	-16.734	(6.079)	(14.437)	(14.150)	(11.547)	(4.428)
LY_{t-1}	0.032***	0.032***	0.031***	0.020***	0.031***	0.031***	0.030***	0.021***
	-12.364	-12.347	-11.866	-4.579	(8.568)	(8.616)	-8.404	-3.695
Age_{t-1}	0.014***	0.014***	0.014***	0.016***	0.016***	0.016***	0.016***	0.018***
	-9.279	-9.085	-9.412	-11.475	(9.426)	(9.089)	-9.138	-10.558
Ind	Control	Control	Control	Control	Control	Control	Control	Control
Year	Control	Control	Control	Control	Control	Control	Control	Control
N	6977	6977	6977	6977	5237	5237	5237	5237
Pr > ChiSq	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001

Notes: ***, **, * represent statistically significant at the 1%, 5%, and 10% levels.

5. CONCLUSIONS

In this paper, we investigate direct relationship between lawsuit and CEO turnover decision after controlling realized performance. We

find that CEO turnover is negatively related to the lawsuit. After controlling the state controlling, we find that government controlled firms' CEOs are more likely to be retained when the companies meet realized risk or internal control problems, however non-government controlled firms' CEO are more likely to be turnover when the companies meet realized risk or internal control problems. That is to say, government controlled companies protect the poor CEOs, and lead to the worse performance in the future.

In our paper we use "Lawsuit" as the proxy variable of risk and internal control problems, which is new measure of risk and internal control problems different from previous research. Whether a firm involves in the lawsuits actually shows the effectiveness of the firm's internal control. What's more, our paper base on the Chinese specific institution background and investigates the role of government ownership in the CEO turnover.

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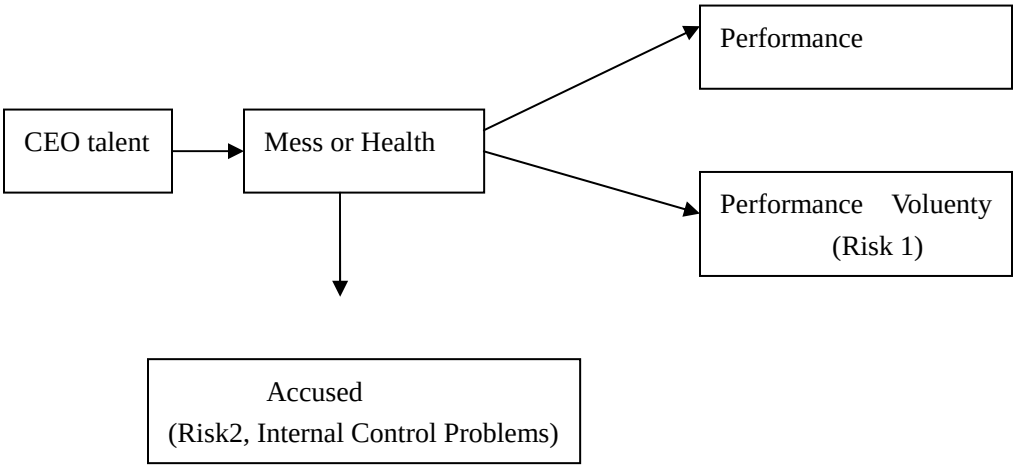
APPENDIX



Note: Former researches pay more attention to the performance and performance volatility to judge CEOs' talent and decide fire or retain them. Our researches pay more attention to the rescued firms, which can reflect a firm' healthy degree and direct risk degree. The principle will use risk2 or internal control problems to decide CEO turnover or non-turnover.