

**Jumping Ship:
Undisclosed SEC Investigations and Voluntary CEO Turnover**

Eric R. Holzman
Assistant Professor
Indiana University
erholzma@indiana.edu

Jaesik Kim
Ph.D. Student
Indiana University
jk177@iu.edu

Brian P. Miller
Professor
Indiana University
bpm@iu.edu

Joseph H. Schroeder
Professor
Indiana University
jhschroe@indiana.edu

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Abstract

Prior research finds that the public revelation of misconduct leads to severe career penalties for managers, raising an interesting question about whether managers can avoid career penalties by voluntarily leaving their employer before accusations become public. We exploit the private nature of SEC investigations to examine this question. We find that the likelihood of CEO voluntary turnover is positively related to the presence of an undisclosed SEC investigation, but not to disclosed SEC investigations. Additionally, we find that there is no difference in future rehire rates between those turned-over CEOs whose firms are under an investigation that is not disclosed and peers at non-investigated firms, suggesting that there is no evidence of career penalties for managers at firms with undisclosed investigations. Last, we find that hiring a privately investigated CEO increases the subsequent employer's likelihood of being investigated by the SEC.

Keywords: SEC Investigations, CEO Turnover, CEO Reputation

1. Introduction

Obtaining the rank of CEO is a significant accomplishment for one's career as it comes with access to lucrative compensation packages, publicity, and even status in the upper echelons of society. Given these benefits, it is crucial for managers to protect their reputation from being associated with any type of misconduct. Avoiding involvement with misconduct is not surprising given prior research finds that implicated and non-implicated managers experience severe career consequences after the public revelation of financial misconduct or an ongoing SEC investigation.¹ Consequently, CEOs have the incentive to manage their careers in such a way as to avoid the public revelation of reputation-damaging events to ensure their careers continue to be viable. This study examines whether CEOs can avoid career penalties by voluntarily leaving their employer before accusations of financial misconduct become public.

We focus on SEC formal investigations, which are a key regulatory tool to maintain orderly and efficient capital markets. The SEC staff investigates a target firm to examine the possibility of securities law violations. One of the hallmarks of the agency's investigative process is its secrecy due to the long-standing policy of the SEC to keep investigations confidential to protect the reputation of the registrants and their employees. Consequently, this provides a setting where managers are aware that an assertion of misconduct is possible, whereas the general investing public and other possible employers do not know an investigation is under way unless it is voluntarily disclosed by management. We predict an increase in CEO voluntary turnover when an investigation starts as executives can seek new employment before misconduct allegations become public.

Recent research suggests that each year many firms are subject to private investigations by

¹ Desai et al. (2006) and Karpoff et al. (2008) document turnover after financial misconduct and Solomon and Soltes (2021) and Blackburne and Quinn (2023) provide evidence of turnover after an SEC investigation is disclosed.

the SEC. For example, Blackburne et al. (2021) estimate that during their sample period, in an average year, approximately 11% of public companies are actively under formal investigation by the SEC. Further, their study indicates that 19% of firms publicly disclose an investigation at the onset, and only 45% are eventually disclosed by the conclusion. These statistics suggest that many CEOs face an increased risk of losing their jobs, and risk additional reputational penalties, if news of an ongoing investigation comes to light. To maintain their reputation and career options, CEOs may elect to voluntarily leave their current position and seek new employment before news of an investigation is disclosed by the firm or through public charges filed by the SEC. Evidence consistent with this would help at least partially explain why voluntary CEO turnover rates have been noted to be higher than expected based on known public information at the time of the turnover in recent literature (Kaplan and Minton 2012; Jenter and Lewellen 2021). In other words, managers' private information set may exceed that of the market, leading them to leave voluntarily before this information comes to light.

We begin our analysis by examining the likelihood of subsequent CEO turnover when there is an SEC investigation. It is important to ensure that a comparison has similar characteristics in terms of timing, SEC investigation likelihood, and industry. As such, we construct a matched pair sample of firms that are under SEC investigation (treatment) and firms that are not under SEC investigation (control) that share similar SEC investigation likelihood scores (Holzman et al. 2023), industry membership, and the same calendar year-quarter. Further, the use of a matched sample enables us to compare turnover using the same turnover window as the investigated firm. Using this matched sample, we confirm findings from prior literature that the initiation of a formal SEC investigation is associated with a higher likelihood of CEO turnover for both disclosed and undisclosed SEC investigations. However, it is unclear from these basic

turnover tests whether the CEOs were forced out or left voluntarily.

In contrast to prior literature that has largely focused on forced turnover as a key governance mechanism that disciplines CEOs that have engaged in misconduct, our focus is on voluntary turnover which has largely been ignored. We measure voluntary turnover using the dataset from Peters and Wagner (2014), which uses the definition of forced turnover from Parrino (1997).² Consistent with CEOs that are the subject of an undisclosed investigation trying to avoid potential reputational penalties before news of the investigation comes to light, we find that the likelihood of CEO voluntary turnover is positively related to the presence of an undisclosed SEC investigation but not publicly disclosed SEC investigations. Interestingly, we find these results are largely concentrated in the first six months or so after the initial opening of the investigation. Given that SEC investigations tend to last several years, this evidence suggests that some CEOs promptly and voluntarily exit once an investigation is opened.

Next, we examine whether the SEC investigation impacts CEOs' ability to obtain future employment. Our evidence suggests in cases where the investigation is disclosed, CEOs have a reduced likelihood of finding a job in the future relative to CEOs that did not experience SEC investigations. In sharp contrast, in cases where the investigations are not disclosed we fail to find any difference between the likelihood of CEOs being rehired compared a set of peers at non-investigated firms. We also examine whether being associated with an SEC investigation impacts

² Under this methodology, Forced turnovers are those where the press release indicates that the CEO was fired, forced out, or retired/resigned due to policy differences or board pressure. Turnovers of CEOs below the age of 60 that have not been classified as forced by the press criterion described above are classified as forced if the articles do not report the reason to be death, poor health, or acceptance of another position. Further, the turnover is also treated as forced when the articles report that the CEO is retiring but the company does not announce the retirement date at least six months before departure. Those not classified as forced turnover are deemed to be voluntary turnover.

the quality of future employment opportunities.³ We find that even when another firm rehires the CEO of a firm investigated by the SEC that has been disclosed the quality of that subsequent employment is lower. In contrast to the CEOs associated with disclosed investigations, we find no evidence of lower quality subsequent employment for those CEOs working at firms with an undisclosed SEC investigation. Combined, these results suggest that CEOs who exit their firms before an SEC investigation is publicly disclosed do not suffer career penalties compared to a sample of peers who were not investigated by the SEC.

Further, we examine whether suspicions of misconduct follow employees to their new employer. This could be due to either these managers continuing to cut corners in a way that catches the eye of SEC investigators and/or the SEC continuing to scrutinize these CEOs even though they are in new positions. In particular, although investigated CEOs may be able to avoid career penalties due to secrecy surrounding the investigation process, the SEC is the one party aware of the investigated issues. Interestingly, compared to a sample of rehired CEOs not previously subject to an SEC investigation, we find that hiring a privately investigated CEO in a comparable position (i.e., CEO, Chairman, President) increases the subsequent employer's likelihood of being investigated by the SEC by approximately 8%. Given that regulatory investigations likely impose high costs on firms, these findings should caution future employers to increase their vetting of external executive candidates.

In supplemental analysis, we provide further insights into how the SEC responds to CEO departures during an ongoing investigation. We examine how CEO departures are potentially related to SEC investigation outcomes. Specifically, we investigate whether a relatively quick

³ We examine four quality-related measures: (1) whether the CEO gets rehired to a public or private firm; (2) whether the CEO gets rehired to a comparable position (i.e., CEO, Chairman, President); (3) whether the CEO gets rehired to a firm of bigger size; (4) whether the CEO gets rehired with a higher compensation.

voluntary exit by a CEO is associated with the SEC quickly dropping the investigation. Evidence consistent with this would suggest that the SEC's concerns regarding misconduct were associated with the CEO and were alleviated once they left, assuming that the new CEO would likely clean up past improprieties not associated with their tenure. Consistent with the notion that the SEC drops their investigation after the CEO voluntarily leaves the firm, we find a positive association between the voluntary exit of a CEO and the likelihood of a short SEC investigation.

Last, we attempt to mitigate potential concerns that materiality may impact our primary inferences around the relationship between undisclosed investigations and voluntary CEO turnover. Accordingly, we drop all investigations (and the matched non-investigation pairs) that lead to an enforcement action from the sample. Consistent with our initial results, our findings in these alternative tests indicate that even after dropping the most severe investigations, CEOs subject to undisclosed investigations are more likely to voluntarily leave their office after the initiation of the investigation.

Our study contributes to several streams of research. First, we contribute to the literature that examines the consequences of secrecy in the SEC investigation process. Blackburne et al. (2021) show that corporate insiders exploit the undisclosed nature of investigations for personal gain by selling their shares in the investigated firm before the public becomes aware of misconduct allegations. Our study extends this research by showing that some CEOs also exploit the secret nature of the SEC investigation to leave the firm before disclosure to preserve their future career prospects. Additionally, our findings show that future employers that perhaps unknowingly employ these previously investigated CEOs experience an increased risk of future SEC investigation, which is likely costly to these firms and their shareholders. This hidden risk is important to spotlight given that the proportion of external CEO hires has steadily increased over

the past decades (Frydman 2007; Murphy and Zábajník 2004). Furthermore, these findings are important as SEC investigations are meant to bring about positive outcomes, but the secrecy of the program, may allow suspicious executives to continue in their career path.

Second, we contribute to the literature on the consequences of alleged misconduct for CEO careers (e.g., Blackburne and Quinn 2023; Desai et al. 2006; Karpoff et al. 2008; Solomon and Soltes 2021). While several studies have examined whether managers are *forced* out after misconduct allegations become public, our findings suggest that given the high career penalties faced due to misconduct revelation, CEOs may *voluntarily* choose to leave a firm before the public revelation of alleged misconduct.

Third, prior research has noted that contrasted with forced CEO turnover, voluntary CEO turnover rates are higher than expected based on publicly available information at the time (Kaplan and Minton 2012; Jenter and Lewellen 2021). Our evidence helps at least partially reconcile this puzzle. In particular, given that a significant number of firms are subject to investigation and that over the majority of their lives, these investigations are undisclosed, our evidence helps provide a possible reason why voluntary CEO turnover rates are higher than expected based on publicly available information. More broadly, our evidence suggests that managers private information set may exceed that of the market leading them to leave voluntarily leave before this information comes to light.

2. Background and Research Questions

2.1. Background

The impacts of financial misconduct and financial misrepresentation (e.g., restatements) have been widely examined. When financial reporting issues occur, firms often suffer from reputational damage, increased litigation risk, and regulatory scrutiny (e.g., Palmrose and Scholz, 2004; Skinner, 1994). Consequently, the board takes corrective actions, such as firing the top

management to repair the damage (e.g., Agrawal and Cooper, 2017; Hennes et al. 2008; Karpoff et al. 2008). Hennes et al. (2008) find that after accounting irregularities the turnover rate of 49% (64%) for CEOs (CFOs) of restating firms in the 13 months surrounding the restatements. Land (2010) shows significant associations between the severity of earnings restatement measures and the probability of CEO turnover. Efendi et al. (2013) document forced turnover of 36% among those executives publicly shown to engage in options backdating. This external monitoring mechanism is consistent with managers being disciplined for violating financial reporting standards or securities law (Fama 1980).

Another set of studies documents higher turnover and related labor market penalties that follow the public revelation of misconduct. For example, Desai et al. (2006) show that in addition to 60% of restating firms experiencing a turnover of at least one top manager within 24 months after the restatements examined, the displaced managers suffer poorer subsequent employment prospects. Similarly, Hazarika et al. (2012) find a positive relation between the likelihood of forced CEO turnover and earnings management and provide evidence of negative career consequences for CEOs forced out of their jobs due to earnings management. More recent research documents evidence of contagion in career penalties for those managers of firms where misconduct is publicly revealed but the manager is not directly implicated (Condie et al. 2023).

We note that most research in this area has largely examined firms where the *public* revelation or allegation of misreporting has occurred (e.g., restatements, enforcement actions, etc.). Accordingly, given public, regulator, and prospective employer awareness of the misconduct, these prior findings suggest that career and reputational penalties do occur consistent with theory which predicts ex-post settling up for those alleged to have engaged in misconduct (Fama 1980). However, in our setting, the suspected misconduct investigated by the

SEC is not announced by the SEC prior to the filing of formal charges, which often takes years (e.g., Holzman et al. 2023; Bonsall et al. 2023). Recent research has found that managers take advantage of the secrecy surrounding these investigations to offload shares of firm stock before the public becomes aware of the misconduct allegations (Blackburne et al. 2021). Although managers appear to be able to profit off their private information regarding SEC investigations, it is less clear whether they will be able to escape the reputational penalties often associated with these investigations.

2.2. Research Questions

Prior studies show how managers are forced out of their jobs when financial misconduct is discovered and subsequently suffer from reputational penalties in future job prospects. However, it is important to note that these studies focus on analyzing corrective actions taken after the disclosure of financial misconduct. In other words, relatively little is known about how managers behave before misconduct is revealed to the public. The under-researched question of management behavior ex-ante to the revelation of financial misconduct is important, considering that managers not only possess private information regarding the financial misconduct but are also capable of anticipating the negative consequences that may follow. If managers decide to eschew potential penalties by leaving the firm in advance, exploiting their informational advantage, this may lead to different implications for the functioning of external monitoring mechanisms (i.e., managerial labor market penalties) compared to that of prior studies.

To examine whether managers voluntarily leave the firm in advance to avoid potential penalties, we utilize SEC investigations as the setting. SEC investigations serve as a major deterrent to firms from violating financial reporting standards and securities law. The SEC staff investigates a target firm to examine the possibility of fraud and recommends enforcement

actions if needed. The SEC has a long-standing policy to keep the investigative process confidential to protect the reputation of the registrants and their staff. Also, the registrants are not required to disclose the fact of being investigated. These characteristics of the SEC investigation provide a unique setting where an ongoing investigation is not revealed to the public, and only the corporate insiders are aware of the event unless the firm decides to disclose the investigation. In this setting, managers gain an informational advantage over other stakeholders. Exploiting the informational advantage, managers can decide to voluntarily leave the firm in advance to avoid various penalties that may follow. This leads to our first question of whether voluntary manager turnover is positively associated with undisclosed SEC investigations.

Next, we also study whether the existence of an undisclosed investigation impacts the subsequent employment opportunities of managers who left the firm under investigation. Prior studies document poorer career prospects for managers, following the revelation of financial misconduct (Harizaka et al. 2012; Desai et al. 2006). However, if managers leave the firm in advance of the disclosure of an investigation, it is possible that they can enter the job market with a clean track record due to the confidential nature of the SEC investigation.

Despite managers having incentives to leave prior to the public revelation of the investigation, it is not altogether clear that they will be able to escape before news is leaked to future employers. On the one hand, former employers may be reluctant to provide investigation-related information to subsequent hiring firms as doing so could violate state labor laws or induce litigation. Further, managers and their former employers have incentives to agree not to disclose investigation related information to avoid damaging their respective reputations in the labor market (Gillan et al. 2009). This suggests that these managers may be able to compete with other competitors on equal playing grounds as labor market participants are unaware of ongoing

investigations. On the other hand, it is possible that news about the investigation gets leaked to potential future employers. For instance, prior research on board interlocks finds that corporate investment, tax, and disclosure policies are influenced by private communication through board social networks (e.g., Brown 2011; Cai and Sevilir 2012; Cai et al. 2014). Further, executive search consultants may help uncover news about undisclosed investigations. This tension leads to our second research question of whether managers who decide to leave an investigated firm before the public disclosure of an investigation are able to find future employment opportunities that are similar to other CEOs who did not experience investigations.

Last, we investigate whether hiring a privately investigated CEO increases the subsequent employer's likelihood of being investigated by the SEC. As previously discussed, the SEC increased focus on these newly hired CEOs could stem from managers continuing to act in ways that catch the eye of SEC investigators and/or the SEC continuing to scrutinize these particular CEOs based on their actions at their previous company. Given that the SEC is a constrained regulator and only selectively investigates targets where they believe the likelihood of regulatory noncompliance is high (Holzman et al. 2023), we expect that their concern about the possible misconduct of a CEO may be a relevant factor in the SEC's evaluation of whether to open an investigation at their new employer. However, recent research finds that executives who experienced adverse accounting-related events in the past tend to improve reporting quality in the future (Kubick and Li 2023), suggesting that there may not be a need for further SEC scrutiny. Given this tension, our third question is whether firms that hire CEOs of privately investigated firms are at a higher risk of being subject to an SEC investigation in the future.

3. SEC Investigations and CEO Turnover

Our first research question examines whether CEO turnover is associated with SEC

investigations, where we are primarily interested in the relation between CEO voluntary turnover around undisclosed investigations. As such, we follow definitions used in prior studies to identify CEO voluntary (versus forced) turnover and undisclosed (versus disclosed) investigations. We elaborate on the definitions in the following section as we rely on these measures in several of our empirical tests.

3.1. Key Data Items

3.1.1. SEC Investigations- Disclosed versus Undisclosed

One of the key challenges that historically researchers faced when proxying for investigatory activity by the SEC was that only a subset of investigations, which were investigations that proceeded to enforcement actions or those that were voluntarily disclosed by the firms, were observable. This was due to the SEC's long-standing policy to keep the investigative process confidential to protect the reputation of the those involved. To overcome this challenge, we use the new database of formal SEC investigations that provides the universe of investigations.

Through Freedom of Information Act (FOIA) request, we obtained the same dataset of formal SEC investigations as Blackburne et al. (2021). This data contains detailed information on all formal SEC investigations that have closed between January 1, 2000, and August 2, 2017. The data provides information such as the name of the company or issue investigated, as well as the opening and closing dates of the investigation.

From the universe of SEC investigations, it is important to differentiate disclosed versus undisclosed SEC investigations, as our predictions rely on whether the public or the labor market participants know about SEC investigations. First, we follow the procedure laid out by Blackburne et al. (2021) to identify investigations that the firms have voluntarily disclosed. Specifically, we search firm EDGAR filings, press releases, and media articles for evidence of the investigation. We also cross-reference our data with the Blackburne et al. (2021) data on

disclosed investigations. Further, we identify investigations that were subject to FOIA request denials as disclosed investigations. Coleman et al. (2021) show that FOIA request denials predict a substantial number of ongoing SEC investigations. Among the nine exemptions that permit government agencies to deny FOIA requests, Exemption 7(A) allows federal agencies to deny disclosure of information that could interfere with enforcement proceedings. Based on these Exemption 7(A) FOIA request denials, the authors show that investors can figure out ongoing SEC investigations. To account for this finding, we also identify investigations that become subject to FOIA request denials⁴ as disclosed investigations. After identifying disclosed investigations, we define undisclosed investigations as those that were not voluntarily disclosed or subject to FOIA request denials.

3.1.2. CEO Turnover- Voluntary and Forced

We use the database of forced CEO turnovers (Peters and Wagner, 2014) to define CEO forced and voluntary turnover. Peters and Wagner (2014) employ a procedure consistent with Parrino (1997) to identify forced CEO turnovers. More precisely, CEO departures where the related press reports state that the CEO was fired, forced out, or retired/resigned due to policy differences or board pressure are classified as forced turnovers. Turnovers of CEOs below the age of 60 that have not been classified as forced by the press criterion described above are classified as forced if the articles do not report the reason to be death⁵, poor health, or acceptance of another position or the articles report that the CEO is retiring but the company does not announce the retirement date at least six months before departure. All other turnovers are classified as voluntary.

⁴ We thank Braiden Coleman for kindly sharing this data.

⁵ We note that Parrino's (1997) classification procedure potentially identifies CEO deaths as voluntary turnover. We identify one death and note that the empirical results are qualitatively similar after removing this observation.

3.1.3. CEO Turnover Window

We define CEO turnover in two alternative windows (i.e., 6 months and 12 months) to examine the CEOs' departure decisions after the investigation's initiation. Specifically, we begin the turnover window 2 months prior to the beginning date of the formal investigation to 4 months and 10 months after the beginning date of the investigation. We include 2 months prior to the beginning date of the formal investigation because most are preceded by an informal investigation (matter under inquiry or a “MUI”), which is approximately 60 days in length (Holzman et al. 2023). During the MUI period, the SEC staff often contact the company to request additional information (Holzman et al. 2023), suggesting that CEOs can become aware of an investigation during this MUI period. To account for this fact, we begin our turnover window 2 months prior to the beginning date of the investigation, which is also consistent with Blackburne and Quinn (2023).

3.2. Sample Selection and Descriptive Statistics

3.2.1. Sample Selection- Matching on Investigation Likelihood Score

As previously discussed in our initial tests, we examine CEO turnovers around SEC investigations relative to non-investigated firms. Obviously, this sort of analysis is challenging due to selection bias stemming from the fact that SEC investigations are not randomly assigned (e.g., Holzman et al. 2023; Kedia and Rajgopal 2011). To mitigate this concern, we use a matching method to select a control group (i.e., non-investigated firms) that has a similar likelihood of investigation to the treatment group (i.e., investigated firms). Specifically, we select a sample of non-investigated firms based on the timing, industry, and likelihood of SEC investigation (Holzman et al., 2023). One major advantage of our matching approach is that it allows us to examine the same CEO turnover windows for investigations and the matched non-

investigations.

To estimate the investigation likelihood for our matched sample of firms, we rely on recent a study by Holzman et al. (2023). This study introduced various determinants of an SEC investigation such as the firm's likelihood for regulatory noncompliance, the degree of private sector scrutiny, and the presence of public trigger events in addition to basic firm factors such as size, leverage, and performance. Based on these variables, the authors estimated the likelihood score of becoming subject to SEC investigation in the next quarter. Because the investigations dataset, described in section 3.1.1, includes only closed cases, it is likely to be incomplete in later periods. Accordingly, Holzman et al. (2023) only examine investigations opened on or before December 31, 2013, because the average investigation length (i.e., the number of dates between the opening and closing investigation dates) is approximately 3.5 years. Because we rely on their measure of investigation likelihood for our matching procedure, we limit our analyses to the 2000 to 2013 time frame.

We select investigations that opened between 2000 and 2013 with a valid gvkey match. Further, we deal with overlapping investigations by selecting the earlier of the overlapping investigations. This is to reduce the potential measurement error that could arise where subsequent CEOs that were not responsible for the initiation of the investigation turnover for unrelated reasons. We select the first quarter when the investigation occurred for the investigated firms and identify the investigation likelihood score from the previous quarter as that is the data the SEC would have used to make their decision to investigate. We then find a matched non-investigated firm-quarter in the same industry (i.e., 2-digit SIC code) with the closest investigation likelihood score of that previous quarter.⁶ We require the investigation and the

⁶ We match based on a one-to-one match, without replacement within a caliper range of 3 percent.

matched non-investigation pair to both have non-missing control variables, resulting in 1,261 investigations and matched 1,261 non-investigations as reported in Table 1.⁷

To define CEO turnovers, we construct a comprehensive sample of turnovers from 2000 to 2013, to match the coverage of the investigation dataset, using the ExecuComp dataset and various datasets used in recent studies (Ertimur et al. 2018; Gentry et al. 2021). Further, we also collect turnover dates to determine the turnover window. To do this, we collect and manually verify the CEO departure dates. Specifically, we prioritize using the data points of ExecuComp and Ertimur et al. (2018) in identifying the CEO departure date. If there were missing data points in ExecuComp, we used the dates in Ertimur et al. (2018). If there were missing data points in both ExecuComp and Ertimur et al. (2018), we used the dates in Gentry et al. (2021).⁸ Based on this dataset, we define CEO turnovers in two different windows: (1) six months (*CEO_Turnover_6m*) and (2) 12 months (*CEO_Turnover_12m*) around the beginning date of the investigations and the matched non-investigations.

3.2.2. Descriptive Statistics

Table 2 provides descriptive statistics and univariate tests across investigations and matched non-investigations, where *SEC_INV* is a dummy variable set to one for investigations, and zero for matched non-investigations. We begin by comparing the investigation likelihood score for the investigated and non-investigated firms. We find no statistical difference between the two groups, suggesting that the matching procedure successfully identified the treatment and control groups similarly likely to be investigated by the SEC.

⁷ We use Compustat and CRSP to calculate variables related to firm characteristics. We use BoardEx and ExecuComp to calculate variables related to governance characteristics.

⁸ Further, if there were discrepancies in the CEO departure date between the three datasets that were less than 7 days, we first used the Ertimur et al. (2018) data points, then ExecuComp, and then Gentry et al. (2021). For discrepancies that were more than 7 days, we hand-verified the dates by searching regulatory filings such as 10-K, 8-K, and proxy statements at EDGAR.

In terms of the likelihood of CEO turnover, the univariate results show that investigated firms have a higher likelihood of CEO turnover than the non-investigated firms for both turnover windows (i.e., 6 months and 12 months). Regarding firm characteristics, investigated firms are larger in size, have a lower book-to-market ratio, worse performers, as shown by lower market returns, and have larger return volatility, relative to non-investigated firms. Consequently, controlling for these variables is important in our empirical examination.

3.3. Research Design and Empirical Results

3.3.1. Empirical Results – Combined CEO Turnover

We begin the analysis of our first prediction regarding how SEC investigations affect the likelihood of CEO turnover with the following linear regression model:

$$CEO_Turnover_6m\ (12m) = \beta_0 + \beta_1 SEC_INV + \beta_2 Governance\ controls + \beta_3 Firm\ controls + Industry\ Fixed\ Effects + Year\ Fixed\ Effects + \varepsilon \quad (1),$$

where $CEO_Turnover_6m\ (12m)$ is a dummy variable set to one if CEO turnover happened between two months prior to the beginning of the investigation to four (ten) months after the beginning of the investigation, and zero otherwise.

The primary variable of interest is SEC_INV , a dummy variable set to one for investigated firms, and zero for non-investigated firms. Further, we also define DIS_SEC_INV , which is a dummy variable set to one if the firm voluntarily disclosed an investigation or becomes subject to a FOIA request denial, as described in section 3.1.1., and zero otherwise, and $UNDIS_SEC_INV$, which is a dummy variable set to one if the firm is under investigation but has not voluntarily disclosed an investigation or becomes subject to a FOIA request denial, and zero otherwise⁹.

⁹ In the selected sample, the proportion of disclosed investigation (DIS_SEC_INV) accounts for 36.1% of the investigations, which is quantitatively similar with that of the data presented in Blackburne et al. (2021).

We include controls related to governance characteristics such as board size, board independence, and Chairman/CEO duality that have been documented to influence CEO turnover (Jensen, 1993; Yermack, 1996). Based on differences in firm characteristics shown in Table 2 across the treatment and control groups, we also include variables related to firm size, performance, and volatility of firm operations. Lastly, we include industry and year fixed effects and cluster standard errors by firm. All variables are defined in Appendix A.

We present the results of estimating equation (1) in Table 3. Columns (1) – (4) all document positive associations between SEC investigations and the likelihood of CEO turnover, consistent with prior studies (Blackburne and Quinn, 2023; Solomon and Soltes, 2021). In particular, Columns (1) and (3) show that CEO turnover is statistically higher for firms involved in an SEC investigation for both the 6 and 12 month windows. When we distinguish whether investigations were disclosed or not, Column (2) shows that both disclosed and undisclosed investigations have a positive association with CEO turnover for the six-month window and with statistical significance. Further, the F-test of *DIS_SEC_INV* and *UNDIS_SEC_INV* show no statistical differences between these two independent variables. Interestingly, Column (4) shows a drop in statistical significance for undisclosed investigations, suggesting that many of the CEO turnovers happen within six months from the beginning of the investigations that are not disclosed.

3.3.2. Empirical Results – Forced and Voluntary CEO Turnover

We next present the results of estimating a modified equation (1), where CEO forced or voluntary turnover is the dependent variable in Table 4. Specifically, we define *CEO_For_6m* (*12m*) as a dummy variable set to one if CEO forced turnover happened between two months before the beginning of the investigation and four (ten) months after the beginning of the investigation, and zero otherwise. To measure voluntary turnover, we use all turnover

observations not defined as forced. In particular, we define *CEO_Vol_6m (12m)* as a dummy variable set to one if CEO voluntary (i.e., not forced) turnover happened between two months before the beginning of the investigation and four (ten) months after the beginning of the investigation, and zero otherwise.¹⁰

We begin by observing the impact of all SEC investigations on CEO voluntary turnover. Table 4 Panel A Columns (1) and (3) show no association between SEC investigations and CEO voluntary turnover. However, when we separate between disclosed and undisclosed SEC investigations, we find that voluntary turnover is more likely when the SEC investigation has not been disclosed¹¹. For instance, Columns (2) and (4) show a positive association with statistical significance between undisclosed investigation and CEO voluntary turnover. Interestingly, the positive association attenuates as we extend the turnover window to 12 months. The F-test of the coefficients estimated on disclosed and undisclosed investigations shows that these independent variables are statistically different for the six-month window in Column (2). Combined, these results suggest that CEOs subject to an undisclosed investigation are more likely to leave their employer voluntarily and that this happens relatively quickly.

For completeness, we also show the forced turnover activity around SEC disclosed and undisclosed investigations. Table 4 Panel B, Columns (1) and (3) show that CEO forced turnover and SEC investigations are positively and statistically significant for both turnover windows. Interestingly, Columns (2) and (4) further show that disclosed investigations drive this positive association. The F-test results show that the coefficients on disclosed and undisclosed

¹⁰ Due to the variation in the number of forced and voluntary turnovers in different windows, the number of observations for columns in Table 4 varies.

¹¹ While our matching procedure attempts to rule out the effects of public trigger events such as restatements and lawsuits, as a robustness test, we re-estimate equation (1) after removing undisclosed investigations that were preceded by restatements or lawsuits in the previous quarter and their matched non-investigations from the sample. The results are quantitatively similar.

investigations are statistically different across both turnover windows. This evidence suggests that when an SEC investigation is disclosed the CEO is more likely to be forced out of office.

In sum, the evidence in Table 4 suggests that CEOs are more likely to voluntarily leave when the SEC investigation is undisclosed. In contrast, when the investigation has been disclosed the CEO is more likely to be forced out. We examine the implication of these turnovers for CEOs' future careers depending on whether the investigation was publicly known in the next section.

4. SEC Investigations and CEO Subsequent Employment

Next, we examine how CEO departures during ongoing investigations impact their future career prospects. Prior research suggests that implicated (e.g., Hennes et al. 2008, Desai et al. 2006) and non-implicated (Condie et al. 2023) executives in known misconduct cases experience significant reductions in future career prospects. However, little is known about whether the labor market can discern whether a CEO's turnover is related to the suspicion of misconduct. We try to fill this gap by examining whether CEOs that leave office during undisclosed investigations experience career penalties considering the private nature of the investigation.

4.1. Sample Selection and Descriptive Statistics

4.1.1. Sample Selection

Since our focus in this section is examining the probability of CEOs getting a new job, we use an expanded sample, which consists of all CEO turnovers from 2000 to 2013, to the investigation sample used in the previous tests. This allows us to compare our sample of CEOs that turned over after an SEC investigation to a large set of potential CEOs seeking employment. Our sample selection begins with the full CEO departure sample from 2000 to 2013, consisting of 4,191 observations. We select the treatment group of CEOs that left office during SEC investigations (i.e., the CEO's departure date lies between 2 months prior to the opening and the

closing date of a formal SEC investigation) and the control group of CEOs that turned over but did not experience an SEC investigation. It is worth noting that we remove potential observations where the CEOs either departed before the beginning of the investigations or stayed in office even though they were investigated by the SEC to focus on turnovers that happened during an ongoing investigation. We also removed observations that had missing control variables and singleton observations.¹² This results in 2,325 CEO observations, as summarized in Table 5.

To measure the probability of rehire, we define *CEO_Rehired*, which is a dummy variable set to one if the CEO succeeds in getting a new job regardless of the title in a different firm within 3 years after the CEO left the office.¹³ Specifically, we use ExecuComp and BoardEx to identify whether the CEO appears in the dataset after the CEO departure date in a different firm. If multiple observations were identified for a CEO, we use the observation nearest to the year the CEO left office.

4.1.2. Descriptive Statistics

Table 6 provides descriptive statistics and univariate tests across CEOs that left office during investigations (*TO_DUR_INV=1*) and those that did not experience investigation and left office (*TO_DUR_INV=0*). The univariate results show no difference in the likelihood of finding a new job between the two groups suggesting that there is no evidence of a penalty from the SEC investigation. Regarding CEO characteristics, CEOs that left office during investigations tend to be younger. Further, CEOs who leave during investigations worked in a larger firm but had poorer stock market performance than those who left but did not experience investigations.

4.2. Research Design and Empirical Results

¹² We use ExecuComp to calculate variables related to CEO characteristics. We use Compustat and CRSP to calculate variables related to firm characteristics.

¹³ While we chose 3 years to examine relatively recent subsequent employments, the results are consistent when we change this period to 4 or 5 years for the following empirical tests.

4.2.1. Empirical Results – Likelihood of Rehire

Next, we examine the impact of SEC investigation on the likelihood of CEOs being rehired by estimating the following linear regression model:

$$CEO_rehired = \beta_0 + \beta_1 TO_DUR_INV + \beta_2 CEO\ controls + \beta_3 Firm\ controls + Industry\ Fixed\ Effects + Year\ Fixed\ Effects + \varepsilon \quad (2),$$

where *CEO_rehired* is a dummy variable set to one if the CEO succeeds in getting a new job regardless of the title in a different firm within 3 years, and zero otherwise. The variable of interest is *TO_DUR_INV*, a dummy variable set to one if the CEO left office during an ongoing investigation and zero if the CEO did not experience investigation and left office.

As in our previous analyses, we split *TO_DUR_INV* variable into those CEOs that turned over during disclosed and undisclosed SEC investigations. Further, we include control variables related to CEO characteristics such as age and tenure, following the controls employed in Desai et al. (2006), and firm control variables consistent with equation (1). Lastly, we include industry and year fixed effects, and calculate heteroskedasticity robust standard errors.

We present the results of estimating equation (2) in Table 7. Column (1) shows that, on average, when CEOs leave office during an investigation they are less likely to succeed in getting a new job. However, when we distinguish between disclosed and undisclosed investigations, we find that only the coefficient of *TO_DUR_DIS_INV* is positive and statistically significant, suggesting that CEOs of disclosed investigations have a hard time finding a new position. However, we find no evidence that CEOs involved in undisclosed have a reduced likelihood of finding new employment¹⁴. The F-test result shows a statistically

¹⁴ Similar to above, as a robustness test, we re-estimate equation (2) after removing CEO observations that left office during undisclosed investigations that were preceded by restatements or lawsuits in the previous quarter. The results are quantitatively similar.

significant difference between the *TO_DUR_DIS_INV* and *TO_DUR_UNDIS_INV*, which suggests that CEOs of disclosed investigation face larger future job market penalties relative to CEOs of undisclosed investigations.

4.2.2. Empirical Results- Rehire Quality

We next present the results of estimating a modified equation (2), where rehire quality measures are the dependent variables in Table 8. In particular, we examine four rehire quality related dependent variables: (1) *Rehire Quality_public*; (2) *Rehire Quality_title*; (3) *Rehire Quality_size*; (4) *Rehire Quality_salary*.¹⁵ *Rehire Quality_public* is a nominal variable that is set to two if the rehiring firm is a public firm, one if the rehiring firm is a private firm, and zero if there is no rehire. *Rehire Quality_title* is a nominal variable that is set to two if the CEO succeeded in getting a comparable position (i.e., CEO, Chairman, President), following Desai et al. (2006), one if the CEO succeeded in getting rehired but not in a comparable position, and zero if there is no rehire. *Rehire Quality_size* is a nominal variable that is set to two if the rehiring firm's size is bigger than the former firm, one if the rehiring firm's size is smaller or equal to the former firm, and zero if there is no rehire. *Rehire Quality_salary* is a nominal variable that is set to two if the CEO's compensation at the rehiring firm is bigger than that at the former firm, one if the compensation at the rehiring firm is smaller or equal to that at the former firm, and zero if there is no rehire.

We present the results in Table 8. The results are similar to that of Table 7, where the CEOs that left office during disclosed investigations get penalized in terms of finding a new job with poorer quality, but there is no evidence of similar penalties for CEOs involved in undisclosed

¹⁵ We gather data from ExecuComp and BoardEx to define these variables. We also hand-collect data from regulatory filings such as proxy statements and 10-Ks. However, certain data points related to firm size or compensation for private firms remain missing. As a result, there are differences in the number of observations in the columns in Table 8.

SEC investigations. Specifically, CEOs of previously disclosed investigations are less likely to be rehired in a public firm or a firm of comparable size. Also, these CEOs are less likely to be rehired in a comparable position or with a comparable salary. These results suggest that CEOs who left office during disclosed investigations face reputational penalties that negatively impact the quality of their subsequent employment. In contrast, there is no evidence that CEOs who left office during undisclosed investigations face these negative impacts on the quality of their new job. Interestingly, Column (6) suggests that future career prospects even improve for CEOs who left office during undisclosed investigations in terms of the size of the rehiring firm. Combined, the results suggest that due to the private nature of undisclosed investigations there is no evidence that CEOs that depart during these investigations face significant career penalties.

5. CEO Subsequent Employment and Future Outcomes

In our final main analysis, we examine whether firms that hire CEOs that left office during undisclosed investigations are at risk of a potentially negative outcome in terms of being investigated by the SEC.

5.1. Sample Selection

To provide evidence on this question, we select a sample of CEOs that succeeded in getting a new job after turnover. Our focus is on a comparison of the treatment firms that rehired CEOs that left office during private investigations with the control firms that rehired CEOs that did not experience SEC investigations. As such, for this analysis we remove observations where the firms rehired CEOs that left office during disclosed investigations. We begin by selecting the CEOs that succeeded in getting a new job at a comparable position (i.e., CEO, Chairman, President). We include this restriction to limit our sample to CEOs who are in a position to potentially change the new firms' policies and practices. We require the rehiring firms of these

CEOs to have a valid gvkey, resulting in 246 firms. Lastly, we select the (-4, +4) year window where year 0 is the year the CEO is rehired at a new firm to compare the likelihood of SEC investigation of the post period ([+1, +4] year window) relative to the pre period ([-4, -1] year window) and require non-missing control variables.¹⁶¹⁷

5.2. Research Design and Empirical Results

We examine the likelihood of future SEC investigations by estimating the following difference-in-difference regression model:

$$Begin_INV = \beta_0 + \beta_1 REHIRE_UNDIS_INV + \beta_2 Post + \beta_3 REHIRE_UNDIS_INV * Post + \beta_4 Firm\ controls + Industry\ Fixed\ Effects + Year\ Fixed\ Effects + \varepsilon. \quad (3),$$

where *Begin_INV* is a dummy variable set to one for firm-years when an SEC investigation started, and zero otherwise. *REHIRE_UNDIS_INV* is a dummy variable set to one if the firm rehired a CEO who left office during an undisclosed SEC investigation, and zero if the firm rehired a CEO who left office but did not experience SEC investigations. *Post* is a dummy variable set to one for (+1, +4) years after the CEO got rehired at year 0, and zero otherwise. We include firm control variables, consistent with equation (1). We also include industry and year fixed effects and cluster standard errors by firm.

We present the results of equation (3) in Table 9. The results show that firms that hire CEOs that left office during undisclosed investigations are more likely to experience a new SEC investigation after hiring those CEOs. In Column (2), we also find that these results are robust with the inclusion of firm fixed effects. These results are consistent with our prediction that the potentially tainted CEOs that were able to escape reputational penalties by leaving the office during undisclosed investigations are associated with a negative spillover effect (i.e., a higher

¹⁶ We choose 4 years to provide sufficient time for any changes in firm policy induced by the rehired CEO to materialize. The results are consistent when using 3 or 5 years.

¹⁷ We remove year 0 from the sample as there are variations in the timing of the CEO rehiring within the year.

likelihood of a new SEC investigation to the rehiring firm). In an economic sense, we find that hiring a privately investigated CEO in a comparable position (i.e., CEO, Chairman, President) increases the subsequent employer's likelihood of being investigated by the SEC by approximately 8%. This is a material increase in investigation risk, approximately 73% higher compared to the unconditional likelihood of being investigated of 11% (Blackburne et al., 2021). Given that regulatory investigations likely impose high costs on firms, these findings highlight an important risk related to hiring external executives.

6. Supplemental Analysis and Robustness Check

6.1. Supplemental Analysis- CEO Departure and SEC Investigation Outcomes

Our main analyses focus on the association between CEOs' departure decisions and SEC investigations and how it affects their future career prospects. Another related actor that deserves more attention in this setting is the SEC. We focus our supplementary analysis on how the SEC responds to CEOs' prompt voluntary departure during an investigation.

Specifically, if a CEO's actions are plausibly the cause for the SEC investigation, then once the CEO has elected to quietly leave, the SEC may conclude that the issue is resolved. Additionally, it seems likely the new replacement CEO would clean up past improprieties to the extent the SEC's concerns were justified. SEC investigations are long-tailed events typically taking several years (Bonsall et al. 2023; Holzman et al. 2023). As such, we examine the likelihood that the investigation closes quickly. We focus our examination on the investigated firms (i.e., 1,261 investigations selected in section 3.2.1).¹⁸ To proxy for a quick investigation, we code those investigations that close within one year of opening (*Short_Inv*=1), and test whether there is an association between the CEO voluntarily leaving within six months of the

¹⁸ 103 singleton observations were dropped, resulting in 1,158 observations in Table 10.

opening of the investigation (*Vol_6m*). In addition to testing for an association with *Short_Inv*, we also test for an association with overall investigation length as an alternative dependent measure (*LN_Inv_Length*). We include the firm controls from equation (1) and include fixed effects for the SEC regional office conducting the investigation and industry fixed effects. This leads to the following linear regression:

$$\text{Short_Inv (LN_Inv_Length)} = \beta_0 + \beta_1 \text{For_6m} + \beta_2 \text{Vol_6m} + \beta_3 \text{Firm controls} + \text{SEC Regional Office Fixed Effects} + \text{Industry FE} + \varepsilon \quad (5)$$

Table 10 presents the results of estimating equation (5). Column (1) tabulates the results when *Short_Inv* is the dependent measure. We find a *negative* association between the likelihood of a short SEC investigation and those instances where CEOs were forced out (i.e., *For_6m*) of office.¹⁹ In contrast, we document a strong *positive* association between instances of short investigations and the CEO voluntarily choosing to leave the firm (i.e., *Vol_6m*). Further, when testing for a difference using an F-test, we find that the two independent variables are statistically different. Column (2) tabulates the results when *LN_Inv_Length* is the dependent measure. The inferences are similar in this column, where quick forced CEO exits are associated with longer SEC investigations, and quick voluntary CEO exits are associated with shorter SEC investigations. Overall, we interpret these results as the SEC increasing the scrutiny of their investigation when a CEO is forced out leading to more lengthy investigations, but when the CEOs leave voluntarily the SEC seems to close the investigation relatively quickly.

6.2. Robustness Check- Materiality of Investigation

One potential concern in drawing inferences in our main tests is the possibility that the materiality of the SEC investigation can influence whether the firm decides to disclose the

¹⁹ This is potentially due to the public nature of these firings encouraging the SEC to push for an enforcement action to minimize any cost of appearing negligent (Holzman et al. 2023; Schantl and Wagenhofer 2020).

investigation or not and the likelihood of CEO turnover. In particular, some might contend that potentially all material investigations should be disclosed by firms. To mitigate this concern, we use *ex-post* public charges (e.g., AAERs) resulting from the investigation as a proxy for the materiality of the investigation. We rely on SEC data on which investigations ultimately contributed to an enforcement action.²⁰ Next, we remove investigations that ultimately lead to an enforcement action and the matched non-investigations from the sample. Using this modified sample, we re-estimate equation (1). We tabulate these results in Table 11. Similar to the results reported in Table 4, these results suggest that CEOs subject to undisclosed investigations are more likely to voluntarily leave their office after the initiation of the investigation.

7. Conclusion

Given the regularity and private nature of SEC investigations, it is important to understand how this privacy policy impacts managers' career incentives. Given prior research suggesting that CEOs of firms engaged in misconduct experience job market penalties, we predict that CEOs of privately investigated firms may choose to exit the firm voluntarily before news of the investigation is made public. Consistent with CEOs who are the subject of an undisclosed investigation trying to avoid potential reputational penalties before news of the investigation comes to light, we find that the likelihood of CEO voluntary turnover is positively related to the presence of an undisclosed SEC investigation but not disclosed SEC investigations. Interestingly, we find these results are largely concentrated in the first six months or so after the initial opening of the investigation.

Further, we examine whether the CEOs that exit when under investigation experience penalties in the market for subsequent employment. We fail to find any evidence that CEOs that

²⁰ We thank Terrence Blackburne for kindly sharing this data.

left during a private investigation experience job market penalties. These findings are important because they help to shed light on the efficacy of the SEC's long standing privacy policy in not disclosing on-going investigations (Blackburne et al. 2021). In other words, the SEC conducts investigations privately to protect reputations, but our findings suggest some CEOs are able to use this policy to escape the penalties and be rehired by another potentially unsuspecting firm.

Consistent with these successful ship-jumping managers remaining suspicious from an SEC standpoint, we find that relative to rehired CEOs not subject to an SEC investigation, hiring a privately investigated CEO in a comparable position (i.e., CEO, Chairman, President) significantly increases the subsequent employer's likelihood of being investigated by the SEC. These results suggest that the previously investigated CEO was not completely exonerated by the SEC of potential misconduct. Given that regulatory investigations likely impose high costs on firms, these findings uncover a possible hidden risk to hiring CEOs externally.

Overall, our findings suggest that while CEOs that leave during undisclosed investigations subject their new employer to a higher risk of regulatory investigation, they do not appear to be penalized from a career prospects perspective. These findings provide important information to regulatory agencies that conduct enforcement-related investigations privately.

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Table 1
Sample Selection for the CEO Turnover and SEC Investigations

	N
Total number of closed formal investigations between January 1, 2000 and August 2, 2017	12,859
Less:	
Investigations without a valid gvkey match	(6,890)
Investigations opened after January, 1, 2014	(1,056)
Remove overlapping investigations	(631)
Investigations (t) without investigation probability score (t-1)	(1,849)
Total qualified investigations for matching	2,433
Less:	
Remove investigations with missing control variables	(1,172)
Total number of investigations in the final sample	1,261
Total number of non-investigations in the final sample	1,261
Total number of observations for Table 2	2,522
Less:	
Singleton Observations	(68)
Total Number of Observations for Table 3	2,454

Notes: This table reports the sample selection procedure for investigations and matched non-investigations sample.

Table 2
Descriptive Statistics for CEO Turnover and SEC Investigations

	<i>SEC_INV</i> =1		<i>SEC_INV</i> =0		Diff
	(n=1,261)		(n=1,261)		
	Mean	SD	Mean	SD	
Investigation Likelihood Score	0.012	0.011	0.012	0.010	-0.001
<i>Dependent variables:</i>					
CEO turnover_6m	0.059	0.237	0.035	0.184	-0.025***
CEO turnover_12m	0.094	0.292	0.070	0.255	-0.025**
<i>Governance Controls:</i>					
Board size	8.782	2.622	8.830	2.564	0.048
Board independence (%)	0.837	0.157	0.836	0.158	-0.001
CEO/CHM duality (0,1)	0.153	0.360	0.163	0.370	0.010
<i>Firm Controls:</i>					
LNSALES	6.551	2.322	6.363	2.239	-0.188**
ROA	-0.011	0.243	-0.006	0.214	0.005
BK_TO_MKT	0.549	0.563	0.586	0.543	0.037*
ABN_RET	-0.042	0.467	0.007	0.423	0.050***
RET STD	0.033	0.018	0.030	0.016	-0.002***

*, **, *** indicate statistical significance (two-sided) at the 0.1, 0.05, and 0.01 levels, respectively.

Notes: This table presents descriptive statistics of the sample selected in Table 1. *SEC_INV* is a dummy variable set to one for investigations and zero for matched non-investigations. We use t-tests to examine the differences between the investigations and matched non-investigations. We winsorize all continuous variables at 1%, 99%. We provide detailed description of the variables in Appendix A.

Table 3
CEO Turnover and SEC Investigations

Dependent Variables:	<i>CEO Turnover_6m</i>		<i>CEO Turnover_12m</i>	
<i>SEC:</i>	(1)	(2)	(3)	(4)
<i>SEC_INV</i>	0.023** (2.43)		0.024** (2.02)	
<i>DIS_SEC_INV</i>		0.027* (1.89)		0.035** (1.97)
<i>UNDIS_SEC_INV</i>		0.021** (1.97)		0.018 (1.32)
F-test		0.15		0.78
<i>Governance characteristics:</i>				
<i>Board Size</i>	0.001 (0.43)	0.001 (0.43)	0.004 (1.33)	0.004 (1.33)
<i>Board independence</i>	0.024 (0.84)	0.024 (0.84)	0.031 (0.83)	0.031 (0.82)
<i>CEO/CHM duality</i>	0.009 (0.65)	0.009 (0.65)	0.024 (1.28)	0.024 (1.28)
<i>Firm characteristics:</i>				
<i>LNSALES</i>	0.010*** (3.01)	0.009** (2.93)	0.021*** (5.03)	0.021*** (4.92)
<i>ROA</i>	-0.006 (-0.27)	-0.007 (-0.28)	-0.034 (-1.14)	-0.035 (-1.17)
<i>BK_TO_MKT</i>	-0.010 (-1.36)	-0.010 (-1.36)	-0.003 (-0.25)	-0.003 (-0.26)
<i>ABN_RET</i>	-0.008 (-0.88)	-0.008 (-0.86)	-0.018 (-1.56)	-0.018 (-1.52)
<i>RET_STD</i>	0.352 (1.07)	0.346 (1.05)	0.901** (2.01)	0.882** (1.97)
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	2,454	2,454	2,454	2,454
R Squared	0.013	0.013	0.028	0.028

Notes: This table presents the results comparing the likelihood of CEO turnover between investigated and matched non-investigated firms. The independent variable of interest is *SEC_INV*, which is a dummy variable set to one for investigations and zero for non-investigations. We also disaggregate *SEC_INV* into *DIS_SEC_INV* and *UNDIS_SEC_INV* based on whether the investigation was disclosed or not. We include industry (SIC) and year fixed effects. We winsorize all continuous variables at 1%, 99%. Standard errors are clustered by firm. We report within R-squared. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test). See Appendix A for variable definitions.

Table 4
CEO Forced and Voluntary Turnover and SEC Investigations

Panel A: CEO Voluntary Turnover				
Dependent Variables:	<i>CEO Vol_6m</i>		<i>CEO Vol_12m</i>	
<i>SEC:</i>	(1)	(2)	(3)	(4)
<i>SEC_INV</i>	0.013 (1.57)		0.011 (1.11)	
<i>DIS_SEC_INV</i>		-0.002 (-0.15)		-0.004 (-0.32)
<i>UNDIS_SEC_INV</i>		0.020** (2.14)		0.019* (1.68)
F-test		3.59*		2.40
Controls	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	2,409	2,409	2,378	2,378
R Squared	0.008	0.010	0.017	0.018
Panel B: CEO Forced Turnover				
Dependent Variables:	<i>CEO For_6m</i>		<i>CEO For_12m</i>	
<i>SEC:</i>	(1)	(2)	(3)	(4)
<i>SEC_INV</i>	0.012** (2.15)		0.015** (2.01)	
<i>DIS_SEC_INV</i>		0.030*** (2.72)		0.044*** (3.23)
<i>UNDIS_SEC_INV</i>		0.002 (0.35)		-0.000 (-0.03)
F-test		5.35**		8.17***
Controls	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	2,380	2,380	2,323	2,323
R Squared	0.009	0.014	0.019	0.026

Notes: This table presents the results of comparing the likelihood of forced and voluntary CEO turnover between investigated and non-investigated firms. Panel A (B) shows the results of having voluntary (forced) turnover as the dependent variable. Columns (1) – (4) present results with dependent variables varying based on turnover windows. We include industry (SIC) and year fixed effects. We winsorize all continuous variables at 1%, 99%. Standard errors are clustered by firm. We report within R-squared. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test). See Appendix A for variable definitions.

Table 5
Sample Selection for the CEO's Subsequent Employment and SEC Investigations

Main Sample Selection	N
Full sample of CEO turnovers from 2000 to 2013	4,191
Less:	
CEOs that did not leave office during investigations	(664)
Missing control variables	(1,150)
Singleton Observations	(52)
Total Number of Observations	2,325

Notes: This table reports the sample selection procedures for the CEO-year sample.

Table 6
Descriptive Statistics for CEO Subsequent Employment and SEC Investigations

	<i>TO_DUR_INV</i> =1 (n=440)		<i>TO_DUR_INV</i> =0 (n=1,885)		Diff
	Mean	SD	Mean	SD	
CEO_Rehired	0.543	0.499	0.509	0.500	-0.034
AGE	57.88	7.05	59.09	7.84	1.21***
LN_TENURE	2.088	0.610	2.098	0.579	0.010
LNSALES	7.811	1.794	7.034	1.640	-0.777***
ROA	0.023	0.121	0.021	0.149	-0.002
BK_TO_MKT	0.643	0.619	0.604	0.503	-0.039
ABN_RET	-0.062	0.428	0.032	0.470	0.094***
RET_STD	0.030	0.018	0.031	0.018	0.000

*, **, *** indicate statistical significance (two-sided) at the 0.1, 0.05, and 0.01 levels, respectively.

Notes: This table presents descriptive statistics of the sample selected in Table 5. *TO_DUR_INV* is a dummy variable set to one if the CEO left office during an ongoing investigation, and zero otherwise. *CEO_Rehired* is a dummy variable set to one if the CEO succeeds in getting a new job regardless of the title in a different firm within 3 years after the CEO left office at year 0. We use t-tests to examine the differences between the CEOs that left office during SEC investigations and the CEOs that did not experience SEC investigations. We provide detailed description of the variables in Appendix A.

Table 7
CEO's Subsequent Employment and SEC Investigations

Dependent Variable:	<i>CEO_Rehired</i>	
<i>SEC</i> :	(1)	(2)
<i>TO_DUR_INV</i>	-0.066** (-2.22)	
<i>TO_DUR_DIS_INV</i>		-0.128*** (-3.36)
<i>TO_DUR_UNDIS_INV</i>		0.008 (0.20)
F-test		7.12***
<i>CEO characteristics:</i>		
<i>AGE</i>	-0.012*** (-8.42)	-0.012*** (-8.50)
<i>LN_TENURE</i>	-0.039** (-1.98)	-0.040** (-1.99)
<i>Firm characteristics:</i>		
<i>LNSALES</i>	0.054*** (6.24)	0.056*** (6.42)
<i>ROA</i>	-0.202** (-2.23)	-0.204** (-2.26)
<i>BK_TO_MKT</i>	-0.067*** (-2.90)	-0.067*** (-2.94)
<i>ABN_RET</i>	-0.000 (-0.00)	0.001 (0.05)
<i>RET_STD</i>	-1.416 (-1.53)	-1.424 (-1.54)
Constant	1.033*** (9.27)	1.030*** (9.22)
Industry FE	YES	YES
Year FE	YES	YES
Observations	2,325	2,325
Adjusted R Squared	0.104	0.107

Notes: This table presents the results comparing the likelihood of subsequent employment for CEOs that left office during SEC investigation and those that did not experience investigations. *TO_DUR_INV* is a dummy variable set to one if the CEO left office during an ongoing investigation, and zero otherwise. We also distinguish the SEC investigations into disclosed (*TO_DUR_DIS_INV*) and undisclosed investigations (*TO_DUR_UNDIS_INV*). *CEO_Rehired* is a dummy variable set to one if the CEO succeeds in getting a new job regardless of the title in a different firm within 3 years after the CEO left office at year 0. We include industry (SIC) fixed effects. We also include year fixed effects based on the years that the CEOs left office. We winsorize all continuous variables at 1%, 99%. We use robust standard errors. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test). See Appendix A for variable definitions.

Table 8
CEO's Rehire Quality and SEC Investigations

Dependent Variables:	<i>RQ_Public</i>		<i>RQ_Title</i>		<i>RQ_Size</i>		<i>RQ_Salary</i>	
<i>SEC:</i>	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>TO_DUR_INV</i>	-0.108**		-0.063		-0.027		-0.025	
	(-2.31)		(-1.34)		(-0.51)		(-0.58)	
<i>TO_DUR_DIS_INV</i>		-0.225***		-0.148**		-0.155**		-0.118**
		(-3.94)		(-2.47)		(-2.49)		(-2.35)
<i>TO_DUR_UNDIS_INV</i>		0.033		0.037		0.129*		0.089
		(0.50)		(0.58)		(1.70)		(1.32)
F-test		10.12***		5.22**		9.68***		6.94**
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Observations	2,325	2,325	2,325	2,325	1,800	1,800	1,262	1,262
Adjusted R Squared	0.099	0.103	0.078	0.080	0.103	0.109	0.139	0.144

Notes: This table presents supplemental results to Table 7 by examining the rehire quality of the CEOs related to subsequent employment. We examine four rehire quality measures: (1) whether the CEO gets a new job at a public firm; (2) whether the CEO gets a new job with a comparable position (i.e., CEO, Chairman, President); (3) whether the CEO gets a new job in a firm with comparable size; (4) whether the CEO gets a new job with a comparable salary. We define rehire quality measures as nominal variables. *TO_DUR_INV* is a dummy variable set to one if the CEO left office during an ongoing investigation, and zero otherwise. We also distinguish the SEC investigations into disclosed (*TO_DUR_DIS_INV*) and undisclosed investigations (*TO_DUR_UNDIS_INV*). We include industry (SIC) fixed effects. We also include year fixed effects based on the years that the CEOs left office. We winsorize all continuous variables at 1%, 99%. We use robust standard errors. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test). See Appendix A for variable definitions.

Table 9
CEO Future Outcome

Dependent Variable:	<i>Begin_INV</i>	
<i>SEC</i> :	(1)	(2)
<i>REHIRE_UNDIS_INV</i>	-0.064 (-1.21)	-
<i>POST</i>	-0.031 (-1.09)	-0.099** (-2.01)
<i>POST * REHIRE_UNDIS_INV</i>	0.061* (1.66)	0.079** (2.53)
<i>Firm characteristics:</i>		
<i>LNSALES</i>	0.036*** (3.95)	0.047* (1.67)
<i>ROA</i>	-0.013 (-0.14)	-0.027 (-0.26)
<i>BK_TO_MKT</i>	-0.018 (-0.52)	0.017 (0.46)
<i>ABN_RET</i>	-0.016 (-0.55)	-0.010 (-0.34)
<i>RET_STD</i>	2.195 (1.53)	1.845 (1.22)
Constant	-0.226*** (-2.61)	-0.293 (-1.29)
Firm FE	NO	YES
Industry FE	YES	NO
Year FE	YES	YES
Observations	705	705
Adjusted R Squared	0.008	0.016

Notes: This table presents results for examining whether rehiring firms experience adverse outcomes (i.e., future SEC investigations) for hiring CEOs that left office during undisclosed investigations. The dependent variable, *Begin_INV*, is a dummy variable set to one if the SEC investigation begins at firm-year. *REHIRE_UNDIS_INV* is a dummy variable set to one if the firm rehired a CEO that left office during undisclosed investigation as CEO or Chairman or President for (-4, +4) firm-years, where year 0 is when the CEO was rehired, and zero otherwise. *POST* is a dummy variable set to one for (+1, +4) years where year 0 is when the CEO was rehired. We include industry (SIC) and year fixed effects. We also estimate the regression model with firm fixed effects. In this case, *REHIRE_UNDIS_INV* is subsumed to the firm fixed effects. We winsorize all continuous variables at 1%, 99%. We cluster standard errors by firm. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test). See Appendix A for variable definitions.

Table 10
CEO Turnover and SEC Investigation Outcome

Dependent Variables:	<i>Short_Inv</i>	<i>LN_Inv_Length</i>
<i>CEO Turnover:</i>	(1)	(2)
<i>CEO For_6m</i>	-0.101* (-1.87)	0.330*** (3.45)
<i>CEO Vol_6m</i>	0.118** (2.49)	-0.265** (-2.27)
F-Test	15.53***	14.49**
Firm Controls	YES	YES
SEC Regional Office FE	YES	YES
Industry FE	YES	YES
Observations	1,158	1,158
Adjusted R Squared	0.041	0.163

Notes: This table presents results for examining whether SEC investigation outcomes vary based on CEO turnover decisions. The dependent variables measure SEC investigation outcomes: (1) *Short_Inv* is a dummy variable if an investigation length (the number of days between the beginning and ending date of the investigation) is less or equal to 365 days, and zero otherwise; (2) *LN_Inv_Length* is the natural logarithm of investigation length. The independent variables are (1) *CEO For_6m*, which is a dummy variable set to one if the CEO of the investigated firm is forced out within (-2, +4) months after the beginning of the investigation, and zero otherwise; (2) *CEO Vol_6m*, which is a dummy variable set to one if there was a CEO turnover of the investigated firm within (-2, +4) months after the beginning of the investigation that was not *For_6m*, and zero otherwise. We include firm controls. We also include SEC regional office fixed effects and industry fixed effects. We winsorize all continuous variables at 1%, 99%. We cluster standard errors by SEC regional offices and investigated firms. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test). See Appendix A for variable definitions.

Table 11
Voluntary CEO Turnover and SEC Investigations
(Remove Investigations that led to Enforcement Actions)

Dependent Variables:	<i>CEO Vol_6m</i>		<i>CEO Vol_12m</i>	
<i>SEC:</i>	(1)	(2)	(3)	(4)
<i>SEC_INV</i>	0.012 (1.33)		0.011 (0.97)	
<i>DIS_SEC_INV</i>		-0.056 (-0.49)		-0.010 (-0.65)
<i>UNDIS_SEC_INV</i>		0.019* (1.90)		0.020 (1.60)
F-Test		3.82*		3.10*
Governance & Firm Controls	YES	YES	YES	YES
Industry & Year FE	YES	YES	YES	YES
Observations	2,077	2,077	2,051	2,051
R Squared	0.010	0.012	0.020	0.022

Notes: This table presents the results of the likelihood of voluntary CEO turnover, and investigated firms that were subject to disclosed investigations and undisclosed investigations after removing investigations (and the matched non-investigations) from the sample used in Table 4. Column (1) – (4) present results with dependent variables varying based on turnover window (i.e., 6 and 12 months) and whether the investigation was disclosed or not. We include industry (SIC) and year fixed effects. We winsorize all continuous variables at 1%, 99%. Standard errors are clustered by firm. We report within R-squared. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test). See Appendix A for variable definitions.

Appendix A
Variable Definitions

VARIABLE	DEFINITION	SOURCE
Dependent Variables		
<i>CEO Turnover_6m (12m)</i>	An indicator variable set to one if the CEO turnover happened between 2 months prior to the beginning date of the investigation and 4 (10) months after the beginning of the investigation, and zero otherwise.	ExecuComp Eritmur et al., (2018), Gentry et al., (2021).
<i>CEO Voluntary (Forced) Turnover_6m (12m)</i>	An indicator variable set to one if the Voluntary (Forced) CEO turnover happened between 2 months prior to the beginning date of the investigation and 4, 10 months after the beginning of the investigation, and zero otherwise.	ExecuComp Eritmur et al., (2018), Gentry et al., (2021), Peters and Wagner, (2014)
<i>CEO_Rehired</i>	An indicator variable set to one if the CEO gets rehired (regardless of the title) in another firm within 3 years after the CEO left office at year 0, and zero otherwise	ExecuComp, BoardEx, Regulatory Filings
<i>RQ_Public</i>	A nominal variable is set to two if the CEO gets a new job at a public firm, one if the CEO gets a new job at a private firm, and zero otherwise. We define public firm as firms that have CRSP identifiers.	ExecuComp, BoardEx, Regulatory Filings
<i>RQ_Title</i>	A nominal variable is set to two if the CEO gets a new job with a comparable position, one if the CEO gets a new job but not at a comparable position, and zero otherwise. We define comparable positions as CEO, Chairman, and President, following Desai et al., (2006).	ExecuComp, BoardEx, Regulatory Filings
<i>RQ_Size</i>	A nominal variable is set to two if the CEO gets a new job in a firm with bigger size (i.e., LNSALES) compared to the previous firm, one if the CEO gets a new job in a smaller or equal size firm, and otherwise.	ExecuComp, BoardEx, Regulatory Filings, Compustat
<i>RQ_Salary</i>	A nominal variable is set to two if the CEO gets a new job in a firm with larger compensation compared to the previous firm, one if the CEO gets a new job with a smaller or equal compensation, and zero otherwise.	ExecuComp, BoardEx, Regulatory Filings,

<i>Begin_INV</i>	An indicator variable set to one if an investigation started at firm-year, and zero otherwise	SEC investigation dataset
<i>Short_Inv</i>	An indicator variable set to one if an investigation length (the number of days between the beginning and ending date of the investigation) is less or equal to 365 days, and zero otherwise	SEC investigation dataset
<i>LN_Inv_Length</i>	natural logarithm of investigation length (the number of days between the beginning and ending date of the investigation)	SEC investigation dataset

Independent Variables

<i>SEC_INV</i>	An indicator variable set to one for investigations and zero for non-investigations.	SEC investigation dataset, Holzman et al. (2023)
<i>DIS_SEC_INV</i>	An indicator variable set to one if the investigation was disclosed SEC investigations, and zero otherwise. We define disclosed investigations as investigations that were voluntarily disclosed by the firm or those that become subject to FOIA request denials.	SEC investigation dataset, Blackburne et al. (2021), Coleman et al. (2021)
<i>UNDIS_SEC_INV</i>	An indicator variable set to one if the investigation was undisclosed SEC investigations, and zero otherwise. We define undisclosed investigations as investigations that are not disclosed investigations.	SEC investigation dataset, Blackburne et al. (2021), Coleman et al. (2021)
<i>TO_DUR_INV</i>	An indicator variable set to one if the CEO left office during an ongoing investigation, and zero otherwise. We define that CEOs left office during an ongoing investigation when the CEO left date is between the beginning and closing date of the investigation.	SEC investigation dataset, CEO dataset
<i>TO_DUR_DIS_INV</i>	An indicator variable set to one if the CEO left office during an ongoing investigation that is disclosed, and zero otherwise.	SEC investigation dataset, CEO dataset
<i>TO_DUR_DIS_INV</i>	An indicator variable set to one if the CEO left office during an ongoing investigation	SEC investigation

	that is undisclosed, and zero otherwise.	dataset, CEO dataset
<i>REHIRE_UNDIS_INV</i>	An indicator variable set to one if the firm rehired a CEO that left during an undisclosed investigation in a comparable position for (-4, +4) years, where year 0 is when the CEO was rehired, and zero otherwise.	SEC investigation dataset, CEO dataset
<i>POST</i>	An indicator variable set to one for post-rehire period (+1,+4 years) where year 0 is when the firm rehired the CEO in a comparable position, and zero otherwise.	SEC investigation dataset, CEO dataset
Controls Variables		
<i>Board Size</i>	Number of directors in the board	BoardEx
<i>Board independence</i>	Number of independent directors divided by number of directors in the board	BoardEx
<i>CEO/CHM duality</i>	An indicator variable set to one if the CEO is the Chairman of the firm, and zero otherwise	BoardEx
<i>LNSALES</i>	Natural logarithm of sales	Compustat
<i>ROA</i>	Income before extraordinary items divided by total assets	Compustat
<i>BKT_TO_MKT</i>	Book value of common equity divided by market value of equity	Compustat
<i>AbnRet</i>	Firm's market-adjusted return over the calendar year	CRSP
<i>Ret_STD</i>	Standard deviation of daily returns for the firm over the calendar year	CRSP
<i>AGE</i>	Age of the CEO	ExecuComp Regulatory Filings Media articles
<i>LN Tenure</i>	Natural logarithm of the CEO's tenure	ExecuComp