

BLIND PEER REVIEW

Employee disputes and CEO turnover: Evidence from labor lawsuits

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Abstract

In this study, we use a unique hand-collected data set of employee lawsuits to understand the effect of litigation on CEO turnover. We gather 28,258 employee disputes (after initial court hearing) dating between the years 2000 and 2014 to test the relationship between executive turnover following employee allegations. We find increased turnover of CEOs following labor lawsuits. Additional analysis suggests that, following the lawsuits, CEO compensation decreases and becomes more sensitive to cash holding. Our results show that employee lawsuits have an impact on CEO turnover, regardless of the case outcome or motivation. Overall, we document the importance of employee treatment in the workplace. We conclude employee treatment may impact both the tenure and future job prospects of a CEO.

KEYWORDS

CEO tenure, CEO pay, labor litigation, labor law

JEL CLASSIFICATION

G30; K15; K31; K41

1 | INTRODUCTION

This paper examines the pre- and posttrial consequences for corporate executives after being subject to labor-related allegations. We believe that labor litigation (where the cause of action is listed as discrimination, harassment, benefits, wage/tipping policy, layoffs, or union allegations) may impact the tenure of managerial positions as well as firm performance itself. Nearly all businesses are subject to increasing litigation risk. The growth of employee-related litigation has been no exception to increase in litigation risk. In the past 20 years, employee lawsuits have risen approximately 400%.¹ Approximately 89,000 discrimination charges (regarding age, disability, race/color, religion, gender, sexual orientation, etc.) were filed against U.S. firms in 2015.² Furthermore, U.S. companies had an approximately 12% chance of having an employment-related lawsuit in which may result in substantial defense or settlement costs.³ Because of the increasing costs, it is important for firms and

managers to understand the direct and indirect consequences of labor-related legal disputes. In this paper, we study the impact of labor-related disputes on CEO turnover.

Firms encounter several types of lawsuits with charges related to securities allegations, labor mistreatment, environmental, antitrust, intellectual property, and contractual. Many studies examine the effect of securities litigation on managerial talent; Humphery-Jenner, 2012; Romano, 1991; Cheng, Huang, Li, & Lobo, 2010; Correia & Klausner, 2012; Karpoff, Scott Lee, & Martin, 2008; Fich & Shivdasani, 2007. The literature has established that securities lawsuits cause CEOs to face market-based penalties, such as turnover, or reduced compensation packages for corporate wrongdoings, Aharony, Liu, and Yawson (2015). However, there are other types of corporate wrongdoings that may eventually influence corporate governance practices. To study the effect of labor-related litigation, we employ a hand-collected data set of employee lawsuits, complaints, violations, and other inspection to test the relationship between

labor disputes and managerial position. In this paper, we seek to understand the effect of employee lawsuits by asking the following questions: Is there a systematic link between employee lawsuits and CEO turnover? Do firms with a greater number of employee allegations punish their top executives? And what is the impact of facing frequent employee lawsuits on firm performance?

Literature has focused on the impact of securities litigation on CEO performance, turnover, and more. In this study, we investigate the consequences of labor litigation on CEOs. Both labor and securities litigation are subject to direct and indirect costs. Both types of litigation impose large costs on a firm in the form of court fines and fees, legal team labor costs, or potentially large settlement costs. Furthermore, both types of litigation face similar indirect costs as well, such as reputational costs. While there are many similarities between labor and securities litigation, there are also distinct differences. First, firms are subject to labor litigation more frequently than security litigation. Second, reputational costs associated with labor disputes affect shareholders and employees differently than do securities litigations. SEC or security litigation more directly impacts shareholders. Furthermore, the largest reputational costs of labor disputes may be to a firm's labor and knowledge capital. If a CEO or other managerial position loses the confidence of their labor talent, they may consequently lose the confidence of shareholders.

One possible explanation between litigation and managerial turnover may be the cost factor associated with lawsuits. A legal action generates direct costs (i.e., attorney fees and court fees, settlements, and/or judgments) and indirect costs (i.e., CEO turnover, reputational loss) which may eventually affect the firm performance as well as corporate governance practices. Our work is to understand if and how labor-related allegations are affecting CEOs through direct and indirect costs. Our work is to understand if and how CEOs are being disciplined from labor allegations that are filed during the executives' tenure.

The importance of employee disputes on managerial turnover and firm value has not been explicitly investigated at the firm level in previous studies. We fill this gap in the literature by testing (a) if employee lawsuits increase the executive turnover, (b) why the case characteristics can influence CEO turnover, (c) what discipline channels are implemented for CEOs after labor disputes, and (d) is firm performance affected by litigations filed by employees against their parent firms. Our study represents an initial analysis of a new panel data set of employee lawsuits, complaints, violations, inspections, and other allegations. First, we analyze whether employee litigations increase the likelihood of CEO turnover. As mentioned previously, labor litigation has a substantial direct and indirect cost to firms. We hypothesize the pressure from added costs leads to a higher

CEO turnover. Second, we investigate if CEOs suffer from reduced compensation packages following the costly allegations. Third, we examine litigations affect firm performance, which may explain the potential changes in corporate governance.

Our sample consists of 2,923 unique firms and 5,694 distinct CEOs from between 2000 and 2014, and we find strong evidence employee disputes significantly increase the likelihood that the CEO will leave the company. Initially, we find that CEOs experience increased turnover following the employee litigations during their serving time. In other words, work-related allegations yield to managerial turnover in our sample.

The paper proceeds as follows. We provide a summary of existing literature on and research hypotheses in Section 2. In Section 3, we present several sources of hand-collected data used in this study. In Section 4 we discuss our findings, and we further test our findings in Section 5. Finally, in Section 6, we draw the conclusions from our findings.

2 | LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The relationship between executive turnover and lawsuits (securities, environment, intellectual property, antitrust, and contractual) has been documented in prior studies. For example, securities lawsuits are followed by increased managerial and director turnover (Beneish, 1999; Cheng et al., 2010; Ferris, Jandik, Lawless, & Makhija, 2007; Fich & Shivdasani, 2007; Humphery-Jenner, 2012; Karpoff et al., 2008). Fiordelisi and Ricci (2014) find organizational culture can also influence CEO turnover. Security-related litigation has been found to influence CEO turnover (Collins, Reitenga, & Sanchez, 2008; Karpoff et al., 2008; Niehaus & Roth, 1999; Romano, 1991). Correia and Klausner (2012) document an increased likelihood of CEO and CFO turnover following the Securities Exchange Commission proceedings. Most of the previously mentioned studies focus on securities and fraud-related lawsuits; however, our paper is the first large-scale empirical study to examine the labor-related allegations and managerial turnover in public companies.

We believe that nonsecurities litigations, such as those involving labor, workplace, and/or wage-related disputes, can increase the likelihood of CEO turnover. The previous literature shows that litigation creates substantial costs to firms (Coffee, 1986; Haslem, 2005; Romano, 1991). We expect increased firm costs to generate a shareholder loss after the announcement of litigation (Bhagat, Bizjak, & Coles, 1998; Bhattacharya, Galpin, & Haslem, 2007; Feroz, Park, & Pastena, 1991; Gande & Lewis, 2009; Wier, 1983).

We expect that pressures from shareholder loss to also increase the likelihood of inside directors are also more likely to depart following the lawsuits Hermalin and Weisbach (1998).

Other litigation also affects the tenure of CEOs. Aharony et al. (2015) study the effect of environmental, antitrust, intellectual property, and contractual lawsuits. Aharony et al. (2015) find that the response by a firm differs subject to the type of allegation, but contractual lawsuits increase CEO turnover and overall lawsuits may lead reduce CEO pay.

We not only measure the relation between litigation and managerial turnover but also the effect of a dispute on the firm performance itself. As executive officers are more likely to leave a firm following poor performance (Denis, Denis, & Sarin, 1997; Warner, Watts, & Wruck, 1988; Weisbach, 1988), we expect that increased costs and declining firm values after labor-related allegations increase CEO turnover. While environmental, antitrust, intellectual property, and contractual lawsuits also increase the CEO turnover (Aharony et al., 2015), our study is motivated by employee lawsuits.

We believe that employee lawsuits may have an impact on an executive position. We propose that firms with a larger number of employee litigations are more likely to discipline their CEOs for three reasons. First, as indicated, employee lawsuits are legal allegations, which may yield to costly settlements, legal fees, penalties, and reputation losses. In that case, not only the board members but also the public pressure may put CEOs in charge. Second, costly litigation may lead firms to change their operating practices, such as holding more cash (Crane, 2011) or increasing leverage (Malm & Krolkowski, 2017), which eventually increase firm risk. Third, if litigations lower firm performance, in the long run, CEOs may lose their job due to bad performance. Given the potential relationship between litigation and firm governance, our first hypothesis follows:

Hypothesis 1 *All other things equal, a CEO is more likely to leave a company if employees file litigations against the firm over time ($\beta_1 > 0$).*

$$\text{Turnover} = \beta_0 + \beta_1 \text{Ln}(\text{Lawsuit}) + \sum \beta_s \text{Controls} + \text{Error Term} \quad (1)$$

We compute the CEO turnover binary variable in three different ways. The first form of turnover is a binary variable and is measured in different ways. We calculate CEO turnover equal to one if a manager leaves the CEO position in year $t+1$, zero otherwise. Following Agrawal, Jaffe, and Karpoff (1999) and Cheng et al. (2010), we also compute turnover equal to one if a firm changes its CEO during the

time frames $[0,+3]$ and $[-1,+3]$. Equation (1) represents a logistic regression where we regress turnover on cumulative employee lawsuits while controlling for firm-specific variables. Our control variables include total assets, ROA, industry-adjusted stock return over the year based on four digits SIC, standard deviation of the stock returns computed from monthly returns over the year, CEO age (following Baum, Bohn, & Chakraborty, 2009; Defond & Hung, 2004; Desai, Hogan, & Wilkins, 2006; Karpoff et al., 2008; Niehaus & Roth, 1999; Srinivasan, 2005; Yermack, 2004) CEO tenure, Tobin's Q, tangible assets, chairman binary variable, and board size. Our models control for period (year) fixed effects and standard errors are clustered by industry (four digit SIC code, Petersen (2009)).⁴

Hypothesis 2 *All other things equal, a CEO turnover may be influenced by case characteristics ($\beta_1 > 0$).*

$$\text{Turnover} = \beta_0 + \beta_1 \text{Case Characteristics} + \sum \beta_s \text{Controls} + \text{Error Term} \quad (2)$$

We believe that not only the presence of litigation but also the severity of the litigation may lead to managerial turnover. Litigation has two parties, the charging party or the accusing party and the charged party or the target of the allegations contained in the litigations. We first measure the charging party impact on executive turnover. One method we use to examine the effect of litigation is by calculating the total cases opened by unions, as well as total cases opened by employees. We also investigate the motive of a case and its impact on CEO turnover. We seek to identify if the enthusiasm for CEO turnover is linked to case motivation. We also identify the case outcomes to determine whether receiving an initial court hearing have any impact on executive position.

Hypothesis 3 *All other things equal, CEOs experience reduction in bonus and salary compensation following the employee lawsuits ($\beta_1 < 0$).*

$$\text{CEO Pay} = \beta_0 + \beta_1 \text{Lawsuit} + \sum \beta_s \text{Controls} + \text{Error Term} \quad (3)$$

Our hypothesis is designed to measure whether CEOs are subjected to pay-cuts as an alternative discipline mechanism. We calculate CEO pay variable in several ways. First, we calculate $\Delta\% \text{BON_SAL}$, which is the percentage change in CEO bonus and salary between year t and $t-1$. We introduce $\Delta\% \text{BON_SAL}$ to capture the percentage change in CEO salary and bonus compensation over individual years both before and after the lawsuit filing. We also calculate $\text{abs}(\Delta\%$

EXHIBIT 1 Summary statistics

Variables	Mean	SD	Min	Max
Panel A. Litigation characteristic at firm level				
Total Case	0.95	5.88	0.00	235.00
%Lawsuit	0.15	0.35	0.00	1.00
Total Case (Case Opened by Individual)	0.30	2.56	0.00	153.00
Total Case (Case Opened by Union)	0.59	3.82	0.00	157.00
Total Dismissal	0.24	1.75	0.00	77.00
Total Settlement	0.05	0.52	0.00	29.00
Total Withdrawal	0.60	3.92	0.00	154.00
Coercive Actions	0.03	0.58	0.00	66.00
Coercive Statement	0.10	0.83	0.00	46.00
Fair Representation	0.02	0.29	0.00	13.00
Union Issues	0.02	0.20	0.00	9.00
Harassment	0.01	0.14	0.00	7.00
Changes in Working Contract	0.10	0.77	0.00	53.00
Refusal to Furnish Information	0.15	1.45	0.00	110.00
Discipline	0.09	0.95	0.00	72.00
Discharge	0.16	1.28	0.00	64.00
Changes in Working Condition	0.14	1.35	0.00	118.00
Dangerous Assignment	0.18	1.52	0.00	63.00
Bad Faith Bargaining	0.12	0.88	0.00	65.00
Panel B. Control variables				
Log(Asset)	7.67	1.81	-6.91	15.00
ROA	0.03	0.52	-33.00	46.45
StockPerformance	0.08	0.20	-0.56	0.42
Std.Dev.Stock Return	0.13	0.08	0.00	1.08
CEO Age	4.03	0.13	3.33	4.57
Log(Tenure)	1.74	0.88	0.00	4.13
Tobin's Q	1.93	2.30	-0.99	147.35
Tangibility	0.25	0.23	0.00	0.98
Chairman	0.63	0.48	0.00	1.00
Boardsize	1.89	0.19	0.69	2.71
CEO Salary	731.04	405.27	0.00	8,100.00
CEO Cash	1,225.82	1,687.92	0.00	77,926.00
CEO Bonus	494.78	1,552.72	0.00	76,951.00

Exhibit 1 exhibits the summary statistics at firm level. Our sample consists of 2,923 unique firms and 5,694 distinct CEOs from between 2000 and 2014. Panel A represents the litigation characteristics at firm level. Panel B represents the firms level control variables used in the study. Panel C represent case specific outcomes and charging parties grouped by Fama and French 12 industry classification.

Panel C. Lawsuit characteristics at industry level							
Industries	Total case (1) (1) #TotalCase	Case outcome (2)–(5)				Charging party (6)–(7)	
		(2) #Dismissal	(3) #Settle	(4) #Withdrawal	(5) #Completed	(6) #Individual	(7) #Union
Consumer nondurables	2,914	716	204	1,843	238	2,026	721
Consumer durables	1,422	624	58	695	53	423	924
Manufacturing	4,677	1,256	211	3,000	187	2,895	1,509
Oil, gas, and coal extraction	912	224	34	587	30	698	153
Chemicals and allied products	816	200	35	535	44	799	273
Business equipment	1,281	284	59	841	52	828	351

(Continues)

Panel C. Lawsuit characteristics at industry level

Industries	Total case (1)	Case outcome (2)–(5)				Charging party (6)–(7)	
	(1) #TotalCase	(2) #Dismissal	(3) #Settle	(4) #Withdrawal	(5) #Completed	(6) #Individual	(7) #Union
Telephone and television transmission	3,713	851	181	2,531	176	2,713	805
Utilities	967	174	29	665	31	654	228
Wholesale, retail	4,603	1,114	395	2,800	362	2,893	2,450
Healthcare, medical equipment	524	109	44	336	37	338	247
Finance	349	70	31	181	11	165	123
Service, hotels, business, entertainment	6,028	1,619	336	3,727	289	3,300	2,597
Total	28,206	7,241	1,617	17,741	1,510	17,732	10,381

Panel C reports the litigation frequency at industry level based on Fama and French classification. Our final sample consists of 28,206 unique cases with 28,109 case outcomes filed by 28,113 charging parties. In Column (1), we report litigation occurrence across industries. From Columns (2)–(5), we document case outcome. In Columns (6) and (7), we report charging party characteristics. Our results indicate that service industry—including hotels, business, and entertainment—is the leading industry with a greater number of disputes. The second highest industry is the manufacturing industry, wholesale–retail industry, and telephone–television transmission industry, respectively.

Exhibit 2 reports the characteristics of firms with a labor-related lawsuit (treatment group) and firm without a labor-related lawsuit (control group). We identify firms with lawsuits if a company has experience at least one employee level allegation that was brought upon a court during our sample while no lawsuit firms have zero litigation. In Panel A, we compare our sample by univariate analysis of mean score, difference and in Panel B we employ propensity score matching based on similar firm characteristics such as book-to-market, size, industry, and year. In Panel C, we compare firm-level control variables used in several of our models.

BON_SAL) by taking the absolute value of changes in CEO bonus and salary to examine if managers face year-over-year variation in their pay. In addition, we test our hypothesis by interacting the lawsuit binary variable with changes in cash holding as well as profitability to understand the sensitivity of CEO pay to changes in firm performance due to costly employee allegations.

3 | DATA

3.1 | CEO data

We gather CEO data from S&P Capital IQ database based on Standard & Poor's 1,500 companies. Our final data includes 2,923 unique firms and 5,694 distinct CEOs. We also use S&P Capital IQ to gather firm-level control variables. In addition to that, we also employ Center for Research Security Prices (CRSP) database for stock returns.

3.2 | Litigation data

We employ unique hand-collected lawsuit data from *The National Labor Relations Board* (NLRB)—an independent federal agency—protect the rights of private-sector employees, with or without a union, to improve their wages and working conditions. For litigations, the NLRB database includes information called “Disposition of Unfair Labor Practice Charges,” which includes litigations, and decisions.⁵ The NLRB data set contains the case number, case name, date filed, date closed, disposition, parties involved, among other data. We match case name with firms in the

S&P Capital IQ database by name and year between 2000 and 2014.

3.3 | Violations, inspections, and other disputes

We assume that CEO turnover due to employee mistreatment may be driven not only by lawsuits but also other types of violations, penalties, inspections, and complaints by employees. Therefore, we gather a unique hand-collected labor enforcement data sets from the U.S. Department of Labor.⁶ First, we utilize *Occupational Safety and Health Administration* enforcement data to identify the violations at the firm level. Second, we employ *Wage and Hour Compliance Action Data* for wage-related disputes as well as penalties received by firms. Third, we collect *Employee Benefits and Security Enforcement Data* for employee benefit-related allegations.

4 | RESULTS

Exhibit 1 shows the descriptive statistics for our sample at the firm level. As shown in Panel A, over the 14-year span of our sample period, 15% of the firms in our sample have employee litigations while the maximum number of lawsuits is 235 at given year. The number of cases opened by *unions* and the number of cases opened by *employees* exhibit similar characteristics. The most likely case outcome we observe is a *withdrawal*, followed by *dismissal*, and *settlement*, respectively. For the case motivation, *changes in working*

EXHIBIT 2 Univariate test

Variable	Treatment group (matched sample) Lawsuit [1] N:4,318	Control group (matched sample) Non-Lawsuit [2] N: 16,182	Difference [1]–[2]
<u>Panel A. Comparing mean score</u>			
%Turnover	0.11	0.09	0.02***
Δ Turnover[0,+3]	0.39	0.31	0.08***
Δ Turnover[–1,+3]	0.44	0.33	0.11***
CEO Leaves Capital IQ	0.10	0.09	0.01***
CEO Rehired	0.08	0.11	–0.02***
<u>Panel B. Propensity score matching</u>			
	N:4,318	N:4,318	
%Turnover	0.12	0.11	0.01***
Δ Turnover[0,+3]	0.41	0.35	0.06***
Δ Turnover[–1,+3]	0.46	0.38	0.08***
CEO Leaves Capital IQ	0.11	0.10	0.01***
CEO Rehired	0.07	0.10	–0.02***
<u>Panel C. Control characteristics</u>			
	N:4,318	N: 16,182	
Log(Asset)	8.80	7.46	1.34***
ROA	0.03	0.02	0.01*
StockPerformance	0.06	0.07	–0.01***
Std.Dev.Stock Return	0.10	0.13	–0.03***
CEO Age	4.04	4.02	0.020***
Log(Tenure)	1.59	1.75	–0.16***
Tobin's Q	1.66	1.97	–0.31***
Tangibility	0.33	0.23	0.10***
Chairman	0.72	0.61	0.11***
Boardsize	1.92	1.88	0.04***
CEO Salary	986.87	687.25	299.62***
CEO Cash	1,788.63	1,129.48	659.14***
CEO Bonus	801.75	442.22	359.53***

Exhibit 2 reports the univariate analysis between our sample firms. In Column (1), we define lawsuit group if the firm is facing at least one labor-related allegation. In Column (2), non-lawsuit refers to firms with no labor litigation. In Columns (1) and (2), we report the differences in means of given variables and *t*-test results. In Panel A, we compare sample means based on lawsuit filings. In Panel B, we generate match sample based on year, industry, size, and book-to-market and report the difference between treatment and control groups. In Panel C, we compare firms by control variables used in this study. *, **, and *** indicate statistical significance at the 10, 5, and 1% levels, respectively.

conditions, refusal to furnish information and coercive actions are most common litigation reasons among other variables. Panel B of Exhibit 1 reports results regarding the control variables used in the study.

Panel A of Exhibit 2 documents that the average CEO turnover is higher for lawsuit sample. The mean CEO turnover % Turnover is 11% during the period [0,+1] and 39% for [0,+3] and 44% for [–1,+3], respectively. Our results are statistically significant compared to control sample. In the same manner, the lawsuit sample has a higher mean of 10% for CEOs leaving the Capital IQ database. However, the mean score for CEO

rehired is less for the firms with employee litigation (8%). In Panel B, our propensity score matching results confirms univariate analysis where we document greater turnover ratio for the lawsuit firms. In Panel C, we report difference among control variables. Overall, our univariate results from Exhibit 2 shows that firms with employee litigations have higher turnover ratio compared to non-lawsuit firms, and the difference is statistically significant. We hypothesize the additional turnover is due to blowback effects from labor-related litigation.

We first analyze if employee lawsuits increase the executive turnover. In Exhibit 3, we use three different turnover

EXHIBIT 3 Employee litigation and CEO turnover

Dependent variable sample	Turnover (1)	Δ Turnover[0,+3] (2)	Δ Turnover[-1,+3] (3)
<i>Ln(#Lawsuit)</i>	0.077 [0.001]***	0.073 [0.001]***	0.092 [0.001]***
<i>Ln(Assets)</i>	0.010 [0.529]	0.018 [0.356]	0.016 [0.449]
<i>ROA</i>	-0.332 [0.001]***	-0.709 [0.001]***	-0.763 [0.001]***
<i>StockPerf</i>	-0.258 [0.031]**	-0.601 [0.001]***	-0.831 [0.001]***
<i>Std.dev Return</i>	0.730 [0.001]***	0.642 [0.001]***	0.547 [0.019]**
<i>Ln(CEOAge)</i>	3.265 [0.001]***	3.194 [0.001]***	4.105 [0.001]***
<i>Ln(CEOTenure)</i>	0.006 [0.860]	-0.070 [0.059]*	-0.024 [0.552]
<i>Tobin's Q</i>	0.020 [0.167]	0.024 [0.160]	0.031 [0.107]
<i>Tangible</i>	-0.015 [0.875]	0.120 [0.281]	0.098 [0.421]
<i>Chairman</i>	-0.254 [0.001]***	-0.126 [0.011]**	-0.134 [0.023]**
<i>Boardsize</i>	1.707 [0.001]***	1.419 [0.001]***	1.947 [0.001]***
<i>Constant</i>	-18.781 [0.001]***	-16.846 [0.001]***	-21.355 [0.001]***
<i>N</i>	20,500	20,500	20,500
<i>Pseudo R²</i>	3%	3%	3%

Exhibit 3 reports the multivariate regression results between litigation and CEO turnover. In Column (1), our dependent variable is binary variable and equal to one if CEO leaves the company in year $t+1$, zero otherwise. In Column (2), our dependent variable is a binary variable and is equal to one if firm has a different CEO in year $t+3$, zero otherwise. In Column (3), our dependent variable is a binary variable and is equal to one if firm has a different CEO in between years $t-1$ and year $t+3$, zero otherwise. We perform logistic regression by adding period (year) binary variables but omit the coefficients. *, **, and *** indicate statistical significance at the 10, 5, and 1 levels, respectively.

measures and report our findings. In Column (1), turnover refers to managerial turnover for periods $[0,+1]$ and is assigned a value of one if the manager holding CEO position in the company in year 0 is no longer in that position in year +1, otherwise zero. In Column (2), our dependent variable is Δ Turnover during the period $[0,+3]$ and is assigned a value of one for the managers holding CEO position in year 0 but do not hold the position for the year +3, otherwise zero (Agrawal et al., 1999 and Cheng et al., 2010). In Column (3), we extend our dependent variable Δ Turnover to the time frame $[-1,+3]$ following Aharony et al. (2015) who may capture any preemptive responses. CEO retirements are different that forced

terminations. Therefore, we use CEO age as an explanatory variable in turnover analysis (Baum et al., 2009; Defond & Hung, 2004; Desai et al., 2006; Karpoff et al., 2008; Niehaus & Roth, 1999; Srinivasan, 2005; Yermack, 2004) to control for potential CEO departures not due to labor pressures. To examine the impact of labor litigation on CEO turnover we regress turnover on *Ln(#Lawsuit)* which refers to the total number of employee lawsuit in year t .⁷ We control for firm-level control variables as well as period (year) dummies for unobserved temporal factors which may influence CEO turnover.⁸

As reported in Exhibit 3, in Column (1) the estimated coefficient of *Ln(#Lawsuit)* is positive and statistically

significant. Our finding is consistent with Hypothesis 1, we conclude the number of litigations is significantly associated with an increased likelihood of CEO turnover for $[0,+1]$ period. Consistent with prior literature related to CEO turnover, we report negative coefficients for ROA and Stock performance, which indicates that CEOs are more likely to be replaced after poor performance (Bhagat & Bolton, 2008; Denis et al., 1997; Warner et al., 1988; Weisbach, 1988). The sign and significance of $Ln(\#Lawsuit)$ remains constant in Columns (2) and (3) where our dependent variables are $\Delta Turnover [0,+3]$ and $\Delta Turnover[-1,+3]$, respectively. Our results from Exhibit 3 document that increases in employee allegations are positively related to the increased likelihood of CEO departure. Our results are similar to the literature, which reports the positive relation between lawsuits and CEO turnover. While previous literature finds that shareholder lawsuits (Cheng et al., 2010; Correia & Klausner, 2012; Fich & Shivdasani, 2007; Humphery-Jenner, 2012; Karpoff et al., 2008; Romano, 1991) as well as environmental, antitrust, intellectual property, and contractual lawsuits (Aharony et al., 2015) increase the likelihood of CEO turnover, our study differs from prior findings by studying employee-related labor lawsuits.

Next, we analyze the predictive power of charging parties. Employee litigations are filed by individual workers or labor unions. We expect respective parties to have a heterogeneous effect on CEO turnover. For example, compared to individuals, labor unions have more collective bargaining powers that may pressure responsible parties to replace. For robustness, we calculate the total number of litigations by considering cases filed by individuals and union filed cases separately to determine whether any specific charging party drives our results. In Exhibit 4, we replace the variable for the total number of litigations with $Ln(\#Union)$ and $Ln(\#Individual)$, which is the log transformation of the total number of a disputes filed by unions and individuals, respectively.

Our results are presented in Exhibit 4. We employ the same CEO turnover described in the previous section as dependent variables. In Columns (1)–(3), we use the total cases filed by labor unions as the primary explanatory variable. In Columns (4)–(6), our main interest variable is the total cases filed by individual employees. We find that employee litigations increase the likelihood of CEO turnover regardless the charging parties. However, the coefficient magnitudes are slightly larger for the cases that are opened by individual workers. The results are interesting, given the fact that CEO turnover may be more common in firms that are targeted by individually filed cases. Our findings are consistent with earlier expectations where we document a positive relationship between employee dispute and managerial turnover. In summary, results from Exhibit 4 represent

that labor litigations are positively related to CEO turnover. Furthermore, our results are not driven by charging parties.

These findings may reveal the fact that employee lawsuits may generate indirect costs where public companies appear more willing to replace their CEOs following labor litigations. The increased likelihood of CEO turnover may also be due to the public pressure such as loss of reputation. Employee litigation may differ substantially in legal merit and economic magnitude. As firms experience labor lawsuits on a frequent basis, we first examine the case outcome to predict the post-litigation turnover. We then examine the case reasons to understand the potential implications of what types of lawsuits are related to more pronounced managerial turnover.

Our data contains the cases after their initial court hearing. Regardless of a case's motivation or outcome, a lawsuit is likely to generate direct costs (i.e., attorney fees and court fees, settlements, or judgments). Therefore, any litigation in our sample is already associated with some sorts of legal expenses. Given that, we employ the case outcomes of the litigations as a proxy of legal merit (Aharony et al., 2015; Cox, Thomas, & Bai, 2008; Eisenberg & Lanvers, 2009). Our case outcomes as follows; we use log transformation of total dismissals as $Ln(\#Dismiss)$ the total number of settlements at log transformation of $Ln(\#Settle)$, $Ln(\#Withdrawal)$ refers to the total number of withdrawals as a case outcome, and $Ln(\#Complete)$ for the cases ended with any final decision.

Our results are presented in Exhibit 5. We use Turnover as a dependent variable for the periods of $[0,+1]$. To conserve space, we omit the dependent variables of Turnover $[0,+3]$ and Turnover $[-1,+3]$ which remain consistent with our results. Our findings show that labor-related allegations increase the likelihood of CEO turnover regardless the case outcomes. Our results indicate managers are more likely to leave their position following the case decision. However, the specific outcome of a case does not play an important role in the decision to vacate a CEO. Completed cases and settled cases have larger coefficients in magnitude (Columns [2] & [4]), managers remain more likely to leave their position following dismissals by court and withdrawals by charging parties. Our findings may indicate two possible explanations. First, firms that are subject to a labor lawsuit are assessed and initial hearing fee. This fee represents a direct cost to firms. Therefore, higher numbers of litigation may increase CEO turnover because corporations have to defend themselves in courts and that represents a legal and financial burden. Second, despite the case outcome, labor lawsuits are the fastest growing type of litigations in the United States, where public opinion may force CEOs to abandon their seats due to any reputation loss. Therefore, our findings indicate that if a court decision resolves a filed

EXHIBIT 4 Employee litigation and CEO turnover: Charging parties

Dependent variable sample	Turnover (1)	Δ Turnover [0,+3] (2)	Δ Turnover [-1,+3] (3)	Turnover (4)	Δ Turnover [0,+3] (5)	Δ Turnover [-1,+3] (6)
<i>Ln(#Union)</i>	0.089	0.091	0.116			
	[0.001]***	[0.001]***	[0.001]***			
<i>Ln(#Individual)</i>				0.105	0.104	0.130
				[0.001]***	[0.013]**	[0.001]***
<i>Ln(Assets)</i>	0.011	0.018	0.016	0.011	0.019	0.017
	[0.475]	[0.347]	[0.444]	[0.454]	[0.329]	[0.419]
<i>ROA</i>	-0.330	-0.706	-0.759	-0.332	-0.708	-0.762
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>StockPerf</i>	-0.253	-0.597	-0.827	-0.254	-0.598	-0.827
	[0.033]**	[0.001]***	[0.001]***	[0.033]**	[0.001]***	[0.001]***
<i>Std.dev Return</i>	0.730	0.644	0.550	0.717	0.629	0.530
	[0.001]***	[0.001]***	[0.017]**	[0.001]***	[0.001]***	[0.024]**
<i>Ln(CEOAge)</i>	3.266	3.194	4.105	3.266	3.195	4.107
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>Ln(CEOTenure)</i>	0.006	-0.070	-0.025	0.006	-0.070	-0.024
	[0.862]	[0.059]*	[0.549]	[0.857]	[0.062]*	[0.557]
<i>Tobin's Q</i>	0.020	0.023	0.031	0.019	0.023	0.030
	[0.166]	[0.161]	[0.107]	[0.177]	[0.167]	[0.112]
<i>Tangible</i>	-0.014	0.116	0.092	0.005	0.137	0.119
	[0.880]	[0.292]	[0.445]	[0.961]	[0.231]	[0.341]
<i>Chairman</i>	-0.254	-0.126	-0.134	-0.251	-0.123	-0.131
	[0.001]***	[0.011]**	[0.023]**	[0.001]***	[0.013]**	[0.027]**
<i>Boardsize</i>	1.705	1.418	1.946	1.707	1.418	1.946
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>Constant</i>	-18.784	-16.842	-21.349	-18.792	-16.856	-21.367
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>N</i>	20,500	20,500	20,500	20,501	20,501	20,501
<i>Pseudo R²</i>	3%	3%	3%	3%	3%	3%

Exhibit 4 reports the multivariate regression results between charging parties and CEO turnover. In Columns (1) and (4), our dependent variable is binary variable and equal to one if CEO leaves the company in year $t+1$, zero otherwise. In Columns (2) and (5), our dependent variable is a binary variable and is equal to one if firm has a different CEO in year $t+3$, zero otherwise. In Columns (3) and (6), our dependent variable is a binary variable and is equal to one if firm has a different CEO in between years $t-1$ and $t+3$, zero otherwise. We perform logistic regression by adding period (year) binary variables but omit the coefficients. *, **, and *** indicate statistical significance at the 10, 5, and 1% levels, respectively.

employee litigation, the CEO tends to face an increased likelihood of turnover. Our results may reveal the fact that CEOs are penalized following the labor disputes where the companies choose to defend themselves in the court. Overall, Exhibit 5 indicates that legal merit of the litigations may discipline the CEOs.

In our study, we employ our NLRB database to measure the likelihood of CEO turnover given the employee disputes in the workplace. Our litigation data contains information about each case along with the dispute types. We believe some case dispute types appear more frequently than other

dispute types. Some specific litigation types may influence CEO turnover while other cases may not be as critical to change the managerial position. To understand the relationship, we count the number of unique case reasons faced by firms in our sample and examine whether a particular case reason has more severe impact on CEO turnover. We report our findings in Exhibit 6.

Exhibit 6 documents the relationship between CEO turnover and case reasons. We use the log transformation of total case reasons against the firms each year. Our findings show that some case reasons have a significant impact on CEO

EXHIBIT 5 Employee litigation and CEO turnover: Case outcome

Dependent variable sample	Turnover (1)	Turnover (2)	Turnover (3)	Turnover (4)
<i>Ln(#Dismiss)</i>	0.117			
	[0.001]***			
<i>Ln(#Settle)</i>		0.132		
		[0.021]**		
<i>Ln(#Withdrawal)</i>			0.090	
			[0.001]***	
<i>Ln(#Complete)</i>				0.161
				[0.001]***
<i>Ln(Assets)</i>	0.010	0.019	0.010	0.018
	[0.537]	[0.209]	[0.509]	[0.236]
<i>ROA</i>	-0.330	-0.336	-0.330	-0.335
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>StockPerf</i>	-0.253	-0.246	-0.255	-0.246
	[0.033]**	[0.038]**	[0.032]**	[0.038]**
<i>Std.dev Return</i>	0.717	0.701	0.732	0.703
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>Ln(CEOAge)</i>	3.260	3.282	3.269	3.281
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>Ln(CEOTenure)</i>	0.006	0.006	0.006	0.006
	[0.859]	[0.871]	[0.860]	[0.872]
<i>Tobin's Q</i>	0.019	0.020	0.020	0.020
	[0.176]	[0.159]	[0.168]	[0.161]
<i>Tangible</i>	-0.004	0.029	-0.015	0.023
	[0.997]	[0.773]	[0.877]	[0.816]
<i>Chairman</i>	-0.252	-0.247	-0.254	-0.247
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>Boardsize</i>	1.704	1.702	1.707	1.704
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>Constant</i>	-18.748	-18.897	-18.796	-18.886
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>N</i>	20,500	20,500	20,500	20,501
<i>Pseudo R²</i>	3%	3%	3%	3%

Exhibit 5 reports the multivariate regression results between case outcome and CEO turnover. From Columns (1) and (4), our dependent variable is binary variable and equal to one if CEO leaves the company in year $t+1$, zero otherwise. We perform logistic regression by adding period (year) binary variables but omit the coefficients. *, **, and *** indicate statistical significance at the 10, 5, and 1% levels, respectively.

turnover. We report that total coercive actions and total concerted activities as a litigation reasons have an insignificant coefficient. In addition, harassment, discipline, and bad faith bargaining coefficients are significant at 10% levels, respectively. Finally, we find that fair representation, union issues, contracting issues, refusal to furnish information, discharging, change in working conditions, coercive statements, and onerous assignments are significant at 1 and 5% levels. Our results indicate that CEO turnover may not only

be driven by the total number of employee disputes, but also the specific reasons of litigation characteristics.

From Exhibits 2–6, we document the potential impact of litigation on managerial turnover. In the next section, we investigate how litigations affect CEOs' future employment and the change in their wealth. In Exhibit 7, we examine the likelihood of a CEO who leaves is also unable to obtain a future managerial position. From Columns (1) and (3), our dependent variable is binary variable and equal to one if the

EXHIBIT 6 Employee litigation and CEO turnover: Case reasons

Dependent variable sample	Turnover												
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
<i>Ln(FairRep.)</i>	0.177												
	[0.012]**												
<i>Ln(UnionIssue)</i>		0.147											
		[0.024]**											
<i>Ln(CoerciveAction)</i>			-0.371										
			[0.133]										
<i>Ln(Harrasement)</i>		0.240											
		[0.086]*											
<i>Ln(Contracting)</i>			0.098										
			[0.044]**										
<i>Ln(InjorRefusal)</i>				0.105									
				[0.014]**									
<i>Ln(ConcertedAct)</i>					0.096								
					[0.101]								
<i>Ln(Discipline)</i>						0.109							
						[0.055]*							
<i>Ln(Discharge)</i>							0.093						
							[0.027]**						
<i>Ln(ConditionChng)</i>								0.096					
								[0.001]***					
<i>Ln(CoerciveStimnt)</i>									0.103				
									[0.037]**				
<i>Ln(OverousAsgnm)</i>										0.136			
										[0.001]***			
<i>Ln(BadFaith)</i>											0.085		
											[0.082]*		
CONTROLS	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
N	20,500	20,500	20,500	20,501	20,501	20,501	20,500	20,500	20,500	20,501	20,501	20,501	20,501
Pseudo R ²	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%

Exhibit 6 reports the multivariate regression results between case motivation and CEO turnover. From Columns (1) and (13), our dependent variable is binary variable and equal to one if CEO leaves the company in year $t+1$, zero otherwise. We perform logistic regression by adding period (year) binary variables but omit the coefficients. *, **, and *** indicate statistical significance at the 10, 5, and 1% levels, respectively.

EXHIBIT 7 Employee litigation and CEOs' future job prospects

Dependent variable sample	CEO Leaves Capital IQ			CEO Rehired		
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Ln(#Lawsuit)</i>	0.076			-0.070		
	[0.001]***			[0.001]***		
<i>Ln(#Union)</i>		0.084			-0.076	
		[0.001]***			[0.001]***	
<i>Ln(#Individual)</i>			0.107			-0.103
			[0.001]***			[0.001]***
<i>Ln(Assets)</i>	0.004	0.006	0.005	-0.041	-0.043	-0.042
	[0.815]	[0.717]	[0.749]	[0.042]**	[0.029]**	[0.041]**
<i>ROA</i>	-0.323	-0.322	-0.323	0.382	0.381	0.381
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>StockPerf</i>	-0.261	-0.255	-0.257	0.065	0.060	0.063
	[0.033]**	[0.036]**	[0.035]**	[0.579]	[0.608]	[0.590]
<i>Std.dev Return</i>	0.714	0.712	0.701	-0.931	-0.929	-0.920
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>Ln(CEOAge)</i>	3.085	3.087	3.085	-3.458	-3.460	-3.458
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>Ln(CEOTenure)</i>	0.046	0.046	0.046	0.117	0.117	0.117
	[0.146]	[0.146]	[0.148]	[0.015]**	[0.015]**	[0.016]**
<i>Tobin's Q</i>	0.021	0.021	0.021	-0.013	-0.013	-0.013
	[0.104]	[0.102]	[0.112]	[0.493]	[0.490]	[0.509]
<i>Tangible</i>	0.028	0.032	0.046	0.104	0.099	0.089
	[0.749]	[0.709]	[0.597]	[0.366]	[0.385]	[0.447]
<i>Chairman</i>	-0.286	-0.286	-0.284	0.266	0.266	0.264
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>Boardsize</i>	1.639	1.636	1.639	-1.500	-1.498	-1.501
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>Constant</i>	-17.999	-18.011	-18.005	19.021	19.032	19.020
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>N</i>	20,500	20,500	20,500	20,501	20,501	20,501
<i>Pseudo R²</i>	3%	3%	3%	3%	3%	3%

Exhibit 7 reports the multivariate regression results between lawsuit and managers' future job prospect. From Columns (1) and (3), our dependent variable is binary variable and equal to one if CEO leaves the Capital IQ, zero otherwise. From Columns (4)–(6), our dependent variable is a binary variable and is equal to one if CEO is rehired by another firm, zero otherwise. We perform logistic regression by adding period (year) binary variables but omit the coefficients. *, **, and *** indicate statistical significance at the 10, 5, and 1% levels, respectively.

CEO left a company and fell out of the Capital IQ database. From Columns (4)–(6), our dependent variable is equal to one if CEO left a company but rehired as a CEO in another company following the year. We run a logistic regression and report our findings in Exhibit 7.

Exhibit 7 documents the relationship between employee dispute and CEOs future board and managerial position chances. We use a set of three litigation indicators to analyze not only the role of litigation, but also the role of the

charging party in the managers' future job prospect. First, we use the log transformation of the total number of litigation defined as *Ln(#Lawsuit)*. Second, we use the log transformation of the total number of cases filed by unions defined as *Ln(#Union)*. Third, we use the log transformation of the total number of litigation filed by individual employees defined as *Ln(#Individual)*. In Columns (1)–(3), we find that litigation increase the likelihood of CEO being fired and leaving the Capital IQ database completely. In addition, in Columns

EXHIBIT 8 Employee litigation and percentage change in CEO compensation

Dependent variable sample	$\Delta\%$ BON_SAL (1)	abs($\Delta\%$ BON_SAL) (2)
<i>Ln(#Lawsuit)</i>	-0.020 [0.001]***	0.017 [0.022]**
<i>Ln(Assets)</i>	-0.041 [0.001]***	0.022 [0.159]
<i>ROA</i>	0.163 [0.022]**	-0.205 [0.001]***
<i>StockPerf</i>	0.828 [0.388]	-0.576 [0.328]
<i>Std.dev Return</i>	0.143 [0.191]	-0.064 [0.500]
<i>Ln(CEOAge)</i>	0.069 [0.313]	0.046 [0.488]
<i>Ln(CEOTenure)</i>	-0.033 [0.001]***	0.009 [0.365]
<i>Tobin's Q</i>	-0.005 [0.221]	-0.005 [0.380]
<i>Tangible</i>	-0.052 [0.466]	0.134 [0.026]**
<i>Chairman</i>	0.002 [0.918]	0.044 [0.001]***
<i>Boardsize</i>	-0.163 [0.001]***	0.158 [0.001]***
<i>Constant</i>	-0.327 [0.433]	0.172 [0.606]
<i>N</i>	19,052	19,052
<i>R²</i>	5%	5%

Exhibit 8 reports the multivariate regression results between lawsuit and percentage change in CEO bonus and salary compensation. In Column (1), our dependent variable is change in CEO bonus + salary between years t and $t-1$. In Column (2), we calculate the absolute value change in CEO bonus and salary. We perform OLS regression by adding period (year) binary variables but omit the coefficients. *, **, and *** indicate statistical significance at the 10, 5, and 1% levels, respectively.

(4)–(6), we document that litigation lowers the likelihood of CEOs' obtaining another board of executive position. Collectively, the evidence seems to suggest that leaving the company after employee allegations do harm CEO's future job prospects.

In a like manner, we investigate how litigation affects CEO's personal wealth. Coughlan and Schmidt (1985) find firms may punish CEOs by reducing their compensation packages. Our first goal is to examine if the CEO's compensation falls following the larger number of employee level litigations. We follow Humphery-Jenner (2012) and measure

the compensation with two components: a fixed salary and a performance bonus. We exclude stock grants since reducing those grants may lead to a reduction in the alignment of managers' and shareholders' incentives (Mehran, 1995). Therefore, we investigate whether the board penalizes CEOs by reducing their fixed income salary and performance bonus.

Since the reduction in executive compensation is a mechanism to discipline the underperforming managers Coughlan and Schmidt (1985). Pay cuts may serve as a moderate penalty (Burks, 2010) and they may still be present even though managers do not experience turnover. We gather information for annual salary and bonus compensation and calculate the percentage change in CEO compensation defined as $\Delta\%$ BON_SAL in Exhibit 8. In addition to the percentage change in CEO fixed compensation, we also calculate the absolute value of percentage change which may capture the year-to-year variability in CEO pay defined as abs($\Delta\%$ BON_SAL). We regress percentage change in CEO pay on the total number of lawsuits to understand the managerial salary change between years t and $t-1$.

In Column (1) of Exhibit 8, we find a negative coefficient for the total number of lawsuit defined as *Ln(#Lawsuit)*. Our results show that employee litigations are associated with a decrease in CEO bonus and salary compensation. Our results may reveal managers who do not experience turnover may face a reduction in their bonus and salary compensation. In Column (2), our dependent variable is the absolute change in CEO fixed compensation. We find that greater number of employee allegation leads to more volatile CEO pays in our sample. CEOs face greater volatility in compensation flows. Our results are similar to Aharony et al. (2015) and Humphery-Jenner (2012) who documents a negative relationship between CEO fixed income and litigation. In brief, our findings suggest that pay cuts are significant when firms are facing more number of employee allegations. Consistent with earlier turnover findings, we document that boards may internally discipline poor performing CEOs.

Further, we examine the potential explanations of reduction in CEO pay. We first investigate the relationship between employee litigation and firms' cash holdings. The reduction in CEO pay may be due to the increase in cash holding at firm level. Firms with employee disputes may be hoarding cash for future litigations, settlements, and costly court decision (including legal fees). Arena and Julio (2015) document that shareholder lawsuit risk may increase cash holdings in anticipation of future settlements. Motivated by Arena and Julio (2015), we measure the relationship between employee disputes and cash holding in Exhibit 9 using cash holding as a dependent variable.

In Column (1) of Exhibit 9, the dependent variable is cash holding calculated as the book value of cash and short-

EXHIBIT 9 Employee litigation and cash holding

Dependent variable sample	Cash Holding (1)	Net Cash Holding (2)
<i>Ln(#Lawsuit)</i>	0.002 [0.035]**	0.004 [0.044]**
<i>Ln(Assets)</i>	-0.027 [0.001]***	-0.053 [0.001]***
<i>ROA</i>	0.024 [0.001]***	0.055 [0.031]**
<i>StockPerf</i>	0.011 [0.842]	0.056 [0.618]
<i>Std.dev Return</i>	0.064 [0.029]**	0.137 [0.038]**
<i>Ln(CEOAge)</i>	0.002 [0.843]	0.019 [0.475]
<i>Ln(CEOTenure)</i>	-0.003 [0.001]***	-0.007 [0.015]**
<i>Tobin's Q</i>	0.005 [0.001]***	0.011 [0.001]***
<i>Tangible</i>	-0.347 [0.001]***	-0.704 [0.001]***
<i>Chairman</i>	0.008 [0.011]**	0.019 [0.030]**
<i>Boardsize</i>	-0.006 [0.266]	-0.025 [0.062]*
<i>Constant</i>	0.382 [0.001]***	0.660 [0.001]***
<i>N</i>	22,027	22,027
<i>R²</i>	14%	14%
Panel B		
Dependent variable sample	Decline in % <i>BON_SAL</i> (1)	Decline in % <i>BON_SAL</i> (2)
<i>Lawsuit * ΔCash</i>	0.029 [0.029]**	
<i>ΔCash</i>	0.012 [0.029]**	
<i>Lawsuit</i>	0.005 [0.688]	0.350 [0.001]***
<i>Lawsuit * Decline in Profitability</i>		0.348 [0.001]***
<i>Decline in Profitability</i>		0.195 [0.001]***
<i>CONTROLS</i>	YES	YES
<i>N</i>	17,432	18,436
<i>R²</i>	8%	8%

Panel A of Exhibit 9 reports the multivariate regression results between lawsuit and cash holding. In Column (1), our dependent variable is log transformation of cash holding. In Column (2), our dependent variable is log transformation of net cash holding. We perform OLS regression by adding period (year) binary variables but omit the coefficients. Panel B reports the multivariate regression results between lawsuit and decline in CEO pay. In Columns (1) and (2), we measure decline in CEO pay by calculating the changes in CEO bonus and salary where positive values are replaced by zero. We perform OLS regression by adding period (year) binary variables but omit the coefficients. *, **, and *** indicate statistical significance at the 10, 5, and 1% levels, respectively.

term investments divided by book value of total assets. In Column (2), our dependent variable is net cash holding measures and the book value of cash and short-term investments divided by book value of assets less the book value of cash and short-term investments. In Exhibit 9, we find that greater number of employee litigation leads to higher levels of cash holding in our sample. We document that there is a positive relation between employee lawsuit and firm-level cash holding. Our results may indicate that frequently sued firms may hold more cash to cover future claims from litigations (i.e., settlement amount, court fees, and other legal fees). To understand the effect of cash holdings on CEO fixed compensation, we calculate the decline and CEO pay. Our goal is to document whether CEO pay is sensitive to cash holding when firms are facing employee litigations. In Panel B, we calculate the decline in CEO pay. We calculate the percentage change in CEO bonus and salary where positive values are replaced by zero. We run two separate regressions and examine whether the decline in the CEO pay is related to changes in cash holding as well as profitability.

Our results from Panel B of Exhibit 9 document the relationship between CEO pay and litigation subject to changes in firm-level control variables. In the first column, our dependent variable is the decline in CEO bonus and salary measured as the percentage change in CEO pay where the positive values are replaced with zero. We introduce three set of explanatory variables. *Lawsuit* is a binary variable and equal to one if a firm is facing employee litigation, and zero otherwise. $\Delta Cash$ is the changes in cash holding at firm level between years t and $t-1$. We also introduce an interaction term between the presence of a lawsuit and changes in cash holding (*Lawsuit** $\Delta Cash$). The cash component of CEO compensation is related to financial and non-financial measures of firm performance. Therefore, any effect of litigation may influence CEO cash compensation through either (a) direct litigation costs (i.e., legal expenses, settlement amount, court fees) or (b) indirect litigation costs (loss of reputation). Consistent with our expectations, our results show a positive interaction term between litigation, the sensitivity of cash holding, and decline in CEO pay. We find that when firms are facing litigation, the changes in cash holding lower the CEO pay. In other words, when firms are facing employee dispute, the CEO pay becomes more sensitive to cash holding. Our result may explain why the board may choose to penalize CEO by reducing their fixed salary compensation. In Column (2), we introduce a profitability measure to study if the decline in CEO pay is positively related to the decline in profitability (ROA) for the firms with employee allegations. We calculate decline in profitability as the change in profitability between years t and $t-1$ where the positive values are replaced by zero. Our results document a positive relationship where a decline in

EXHIBIT 10 CEO turnover and lawsuit frequency

Panel A. Repeatedly sued firms			
Dependent variable sample	Turnover		
	(1)	(2)	(3)
A. Sued more than 25			
<i>Ln(#Lawsuit)</i>	0.080		
	[0.001]***		
B. Sued more than 50			
<i>Ln(#Lawsuit)</i>		0.801	
		[0.001]***	
A. Sued more than 100			
<i>Ln(#Lawsuit)</i>			0.081
			[0.001]***
CONTROLS	YES	YES	YES
Year fixed	YES	YES	YES
<i>N</i>	20,300	20,458	20,475
Pseudo R^2	3%	3%	3%
Panel B. SCA Lawsuits			
A. SCA excluded			
<i>Ln(#Lawsuit)</i>	0.076		
	[0.001]***		
B. SCA excluded			
	[-1,0]		
<i>Ln(#Lawsuit)</i>		0.078	
		[0.001]***	
C. SCA excluded			
	[0,+1]		
<i>Ln(#Lawsuit)</i>			0.077
			[0.001]***
CONTROLS	YES	YES	YES
<i>N</i>	20,335	20,314	20,475
Pseudo R^2	3%	3%	3%

Exhibit 10 reports the robustness check for multivariate regression results between lawsuit and CEO turnover. In Panel A, we exclude firms that are sued frequently in our sample. In Panel B, we exclude firm if they are subject to securities class action allegations. In Panel A and Panel B, our dependent variable is binary variable and equal to one if CEO leaves the company in year $t+1$, zero otherwise. We perform logistic regression by adding period (year) binary variables but omit the coefficients. *, **, and *** indicate statistical significance at the 10, 5, and 1% levels, respectively.

profitability leads to a decline in CEO bonus and salary pay. In addition, the interaction term of lawsuit binary variable and decline in profitability suggest that facing litigation increases this sensitivity. Our findings recommend that litigation may lead to lower firm performance, which ultimately influences CEO pay. Altogether, our results from Exhibit 10

document that employee lawsuit leads to greater reductions in CEO pay where the managerial compensation is sensitive to changes in cash holdings as well as firm profitability.

5 | ROBUSTNESS

This section contains set of robustness checks to ensure that our results are robust to model specification issues. First, we restructure our sample and eliminate firms that sued an extraordinary amount. Second, we exclude firms that are facing shareholder litigation. Third, we measure the effect of litigation before and after 2010 based on the 2008 Financial Crisis impact. Furthermore, to strengthen our argument, labor allegations affect CEO tenure; we gather a unique hand-collected data set of labor violations, complaints, and penalties.

We recognize the differing effect of complaints to individual firms. Some firms experience employee allegations more frequently compared to other firms. To ensure our results are not driven by extreme outliers alter our test where we exclude (a) firms that are sued more than 25 times, (b) firms that are sued more than 50 times, and (c) firms that are sued more than 100 times. Our results are presented in Panel A of Exhibit 10.

In addition to the frequency of litigation, we also consider securities fraud allegations that are related to CEO turnover (Karpoff et al., 2008; Cheng Cheng et al., 2010; and Correia & Klausner, 2012). If firms are the subject of employee litigation and security allegations in the same year, our results may be driven by another type of litigation. To control for the endogeneity of litigation, we exclude all the firm-year observations of $(t-1)$, (t) , and $(t+1)$ years before and after the securities litigations. We document our findings in Panel B of Exhibit 10.

In Panel A, we find that increase in the number of employee disputes increases the likelihood of CEO departure regardless the frequency of lawsuits. Even after removing firms that are facing 100 or more litigations in a year, we document that litigation leads to managerial departure for our sample. In Panel B of Exhibit 10, our results document that litigation is positively associated with an increase in executive turnover after the surrounding years of shareholder allegations.

Next, we consider a subsample of CEO turnover before and after the 2008 financial crisis where executive turnover increased due to the overall economic climate. We split our sample pre-2008 and after-2008 turnovers to understand whether litigation influence managerial departure for specific time periods. In addition to period selection, we also aim to eliminate “decline in performance” bias by excluding firm-year observations that have negative changes in ROA during the observation periods of CEO.

EXHIBIT 11 Employee level litigation and CEO turnover: Restricted sample

Dependent variable sample	Pre-2008 Turnover (1)	Post-2008 Turnover (2)	Decline in ROA (3)
<i>Ln(#Lawsuit)</i>	0.082 [0.042]**	0.076 [0.001]***	0.148 [0.001]***
<i>Ln(Assets)</i>	0.057 [0.059]*	-0.019 [0.291]	-0.066 [0.103]
<i>ROA</i>	0.801 [0.047]**	-0.443 [0.001]***	-1.321 [0.001]***
<i>StockPerf</i>	3.704 [0.001]***	-1.104 [0.001]***	-0.369 [0.183]
<i>Std.dev Return</i>	0.855 [0.073]*	0.645 [0.021]**	1.077 [0.148]
<i>Ln(CEOAge)</i>	3.162 [0.001]***	3.145 [0.001]***	3.639 [0.001]***
<i>Ln(CEOTenure)</i>	0.015 [0.726]	-0.010 [0.787]	-0.081 [0.221]
<i>Tobin's Q</i>	-0.203 [0.001]***	0.040 [0.001]***	0.019 [0.646]
<i>Tangible</i>	-0.072 [0.699]	-0.042 [0.692]	-0.162 [0.530]
<i>Chairman</i>	-0.647 [0.001]***	-0.021 [0.756]	0.011 [0.924]
<i>Boardsize</i>	-0.270 [0.305]	2.562 [0.001]***	1.911 [0.001]***
<i>Constant</i>	-15.995 [0.001]***	-20.230 [0.001]***	-20.205 [0.001]***
<i>N</i>	20,500	20,500	4,126
<i>R²</i>	3%	3%	3%

Exhibit 11 reports the robustness check for multivariate regression results between lawsuit and CEO turnover. In Panel A, our dependent variable is binary variable and equal to one if CEO leaves the company in year $t+1$ for pre-2008 sample, zero otherwise. Panel B, our dependent variable is binary variable and equal to one if CEO leaves the company in year $t+1$ for post-2008 sample, zero otherwise. In Panel C, we exclude firms if they have negative changes in their ROA between two consequent years. We perform logistic regression by adding period (year) binary variables but omit the coefficients. *, **, and *** indicate statistical significance at the 10, 5, and 1% levels, respectively.

Exhibit 11 exhibits the restricted sample results between litigation and CEO turnover. In Column (1), our dependent variable is an indicator variable that equals one if the managerial departure is before 2008. Our results show that litigation increases the likelihood of managerial turnover. In Column (2), our dependent variable is CEO turnovers after 2008 where we employee litigation is still positively related to managerial turnover. In Column (3), we create a new sample by excluding firm years with declines in operating performance (ROA). Consistent with our previous findings, we document that CEO departures are positively associated with the lawsuits. Our findings confirm that using different samples does not alter the conclusions in the previous section.

In addition to lawsuits, we also use set of labor violations and inspections to understand if employee complaints lead to higher likelihood of CEO turnover. We gather a set of hand-collected workplace violations data from the U.S. Labor Department. In Exhibit 12, we revisit our main regression and measure the likelihood of CEO turnover and other types of labor disputes.

In Column (1), we use the log transformation of the total number of wage-related complaints defined as *Ln(#WageComplaint)* and find that increase in wage complaints increase the likelihood of managerial turnover. In Column (2), we use the log transformation of the total amount of wage-related penalties paid by firms defined as *Ln*

EXHIBIT 12 Employee complaint and CEO turnover: Labor-related complaints

Dependent variable sample	Turnover				
	(1)	(2)	(3)	(4)	(5)
<i>Ln(WageComplaint)</i>	0.125				
	[0.049]**				
<i>Ln(WagePenalty)</i>		0.010			
		[0.078]*			
<i>%(Wage/Lawsuit)</i>			0.053		
			[0.001]***		
<i>Ln(Inspection)</i>				0.069	
				[0.016]**	
<i>Ln(Discrimination)</i>					0.164
					[0.034]**
<i>Ln(Assets)</i>	0.022	0.024	0.025	0.020	0.022
	[0.252]	[0.107]	[0.177]	[0.192]	[0.249]
<i>ROA</i>	-0.339	-0.338	-0.338	-0.340	-0.338
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>StockPerf</i>	-0.248	-0.246	-0.238	-0.228	-0.236
	[0.085]*	[0.037]**	[0.097]*	[0.065]*	[0.102]
<i>Std.dev Return</i>	0.708	0.711	0.709	0.722	0.698
	[0.001]***	[0.001]***	[0.001]***	[0.014]**	[0.001]***
<i>Ln(CEOAge)</i>	3.279	3.281	3.281	3.267	3.280
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>Ln(CEOTenure)</i>	0.008	0.007	0.007	0.007	0.008
	[0.821]	[0.838]	[0.844]	[0.812]	[0.817]
<i>Tobin's Q</i>	0.021	0.021	0.021	0.020	0.020
	[0.043]**	[0.143]	[0.043]**	[0.187]	[0.055]*
<i>Tangible</i>	0.035	0.045	0.048	0.005	0.042
	[0.808]	[0.666]	[0.725]	[0.963]	[0.757]
<i>Chairman</i>	-0.244	-0.246	-0.245	-0.248	-0.247
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>Boardsize</i>	1.705	1.701	1.698	1.685	1.696
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>Constant</i>	-18.919	-18.931	-18.931	-18.820	-18.899
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Year fixed	YES	YES	YES	YES	YES
<i>N</i>	20,500	20,500	20,500	20,500	20,500
<i>R</i> ²	3%	3%	3%	3%	3%

Exhibit 12 reports the multivariate regression results between other employee disputes and CEO turnover. Our dependent variable is binary variable and equal to one if CEO leaves the company in year $t+1$, zero otherwise. We perform logistic regression by adding period (year) binary variables but omit the coefficients. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

(*WagePenalty*\$). We find that larger amount of penalty funds paid by firms increases CEO turnover. In Column (3), we divide the number of wage-related complaints by the overall total number of lawsuits in our sample and calculate

(*%(Wage/Lawsuit)*). Our results show that the ratio of wage/lawsuit for firms increases managerial departure. Finally, we use the total number of occupational safety and health inspection investigation defined as *Ln(#Investigation)*

and show that CEO turnover is positively related to the total number of investigations. Our findings from Exhibit 12 indicate that increased turnover of CEOs follows employee litigations as well as other types of violations.

6 | CONCLUSION

Using a sample of employee lawsuits against the Standard & Poor's 1,500 companies between 2000 and 2014, we document evidence of increased CEO turnover likelihood for the responsible firms following the labor allegations. Employee litigations are followed by increased CEO turnover and a decrease in fixed CEO compensation (salary and bonus) packages. Our results show that firms with a greater number of labor-related allegations may fire the CEOs or expose them to pay-cuts as disciplinary actions.

Our results have corporate implications. We document that CEOs are more likely to depart following labor lawsuits and they may face a lower likelihood of becoming rehired, which may increase the uncertainty risk of their future job prospects. Additional analysis suggests that firms with a greater number of labor lawsuits may hoard cash for future allegations and settlements, which make CEO compensation more sensitive to cash holdings. Our findings show that employee lawsuits have an impact on CEO turnover, regardless of the case outcome or motivation. We then investigate the potential reasons for managerial turnover. We document that employee disputes increase firm-specific risk and lower firm's profitability, which may eventually lead to changes in corporate governance. Our paper highlights the importance of employee treatment at the workplace which may result in (a) direct litigation costs (i.e., legal expenses, settlement amount, court fees) or (b) indirect litigation costs (loss of reputation), which may ultimately affect the corporate governance.

ENDNOTES

- ¹ Bloomberg Law Reports.
- ² U.S Equal Employment Opportunity Commission, <https://www.eeoc.gov/eeoc/statistics/enforcement/charges.cfm>.
- ³ 2015 Hiscox Guide to Employee Lawsuits, <http://www.hiscox.com/shared-documents/The-2015-Hiscox-Guide-to-Employee-Lawsuits-Employee-charge-trends-across-the-United-States.pdf>.
- ⁴ Our results quantitatively remain same when we control for industry and year fixed effects, as well as clustering standard errors at 2-digit and 3-digit SIC code.
- ⁵ For NLRB Litigation-Case data <http://www.nlr.gov/opengov/nlr-data-datagov>.
- ⁶ U.S Department of Labor Enforcement Data: http://ogesdw.dol.gov/views/data_catalogs.php.

⁷ In untabulated results, our results remain same when we use a binary variable for lawsuit.

⁸ We also re-estimate the regressions including industry dummies based on the two-digit, three-digit and four-digit Standard Industries Classification codes. The estimated coefficients and statistical significance of the independent variables remains quantitatively same with those reported in the tables and discussed below.

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APPENDIX A: DEFINITION OF VARIABLES

Variables	Definition
<u>Panel A. Lawsuit variables</u>	
<i>%Turnover</i>	Binary variable and equal to one if CEO leaves the company, zero otherwise.
Δ <i>Turnover</i> [0,+3]	Binary variable and is equal to one CEO turnover occurs in a company during the (0,+3) period.
Δ <i>Turnover</i> [-1,+3]	Binary variable and is equal to one CEO turnover occurs in a company during the (-1,+3) period.
<i>CEO Leaves Capital IQ</i>	Binary variable and is equal to one if CEO falls out of the database
<i>CEO Rehired</i>	Binary variable and is equal to one if CEO is rehired in our database.
<i>Log(Asset)</i>	Log transformation of firms total asset.
<i>ROA</i>	Income before extraordinary items plus depreciation and amortization divided by book value of assets
<i>StockPerformance</i>	Industry-adjusted stock return over the year based on four digits SIC
<i>Std.Dev.Stock Return</i>	Standard deviation of the stock returns computed from monthly returns over the year
<i>CEO Age</i>	CEOs' age
<i>Log(Tenure)</i>	Log transformation of CEO tenure
<i>Tobin's Q</i>	Market value of assets divided by book value of assets
<i>Tangibility</i>	Ratio of fixed assets to book assets [ppent/at]
<i>Chairman</i>	Binary variable and is equal to one if CEO is also chairman
<i>Boardsize</i>	Log transformation of board size
<i>CEO Salary</i>	CEO salary
<i>CEO Cash</i>	CEO cash salary
<i>CEO Bonus</i>	Bonus received by CEOs
<i>Ln(#Union)</i>	Log transformation of union initiated cases
<i>Ln(#Individual)</i>	Log transformation of union individual-employee filed cases
<i>Ln(#Dismiss)</i>	Log transformation of total dismissed cases
<i>Ln(#Settle)</i>	Log transformation of total settled cases
<i>Ln(#Withdrawal)</i>	Log transformation of total withdrawn cases
<i>Ln(#Complete)</i>	Log transformation of total closed cases
<i>Cash Holding</i>	Cash holding calculated as the book value of cash and short-term investments divided by book value of total assets
<i>Net Cash Holding</i>	Book value of cash and short-term investments divided by book value of assets less the book of cash and short-term investments
Δ <i>%BON_SAL</i>	Change in CEOs' bonus and salary between two following years
<i>abs(Δ%BON_SAL)</i>	Absolute value of change in CEOs' bonus and salary between two following years
<i>Decline in %BON_SAL</i>	Change in CEOs' bonus and salary between two following years, positive values are replaced by zero