

Dignity, (Almost) Always Dignity: The Tone of CEO Departure Press Releases

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Abstract

This paper examines press releases that announce the departure of the firm's CEO. Using the Loughran and McDonald (2011) dictionary, we find that the tone of the press release is almost always positive, with the number of positive words exceeding the number of negative words, even when the CEO is forced to leave the firm. For both types of words (positive and negative), fifteen of the twenty most frequently-used words in the press releases for voluntary departures are common to those for forced departures. Press releases for forced departures are *less* positive, however. The rare exceptions – press releases with more negative words than positive words – are more likely when the departure announcement coincides with an announcement involving the departing CEO's involvement in a federal or internal investigation.

I. Introduction

Arguably the most important decisions that a corporate board makes involve succession planning and whether to retain or fire the CEO. When CEOs are forced out, boards rarely make public the details of what ultimately led to the decision. Trying to discern which factors carry weight in the board's decision has been a topic of great interest to academics for twenty years. For example, Parrino (1997) concludes that important factors are: “the availability of a capable successor and the ability of monitors to accurately assess CEO performance” (p. 166). Recent research includes that of Hazarika, Karpoff, and Nahata (2012), who find a relation between forced departures and earnings management and conclude “boards tend to act proactively to discipline managers who manage earnings aggressively, before manipulations lead to costly external consequences” (p. 44). Jenter and Kanaan (2015) provide evidence that some CEOs are likely to be fired due to factors beyond their control, such as poor industry performance.

Recent evidence from board meeting minutes suggests CEOs may be forced out of the firm more often than previously documented. Schwartz-Ziv and Weisbach (2013) examine the board meeting minutes of 11 Israeli firms and find several instances in which “the CEO was clearly coerced to leave by the board, yet there would be no way to know the departure was not voluntary using only publicly available data” (p. 351). Board meeting minutes of U.S. firms are for the most part unavailable to researchers. As a result, Schwartz-Ziv and Weisbach suggest that academic research likely underestimates the percentage of board-initiated CEO departures.

Firms issue a press release when the CEO leaves, regardless of the reason for the departure. In this paper, we examine the words that firms use in the press release. Given the apparent reluctance of boards to disclose who initiated the departure decision, we hypothesize that regardless of whether the CEO leaves voluntarily or is forced out, the press release has a positive tone to allow the CEO to leave with dignity. Our sample consists of the company-issued press releases of 524 CEO departures at U.S.-listed firms from 2009 to 2011. We analyze the

tone of the press releases using the positive and negative word lists provided in the Loughran and McDonald (2011) dictionary.

About 65% of the press releases in our sample include a disclaimer, following the text of the press release, acknowledging that the text contains forward-looking statements. Such disclaimers are Safe Harbor Statements and have become commonplace in press releases in an attempt to reduce company liability should the forecasts stated in the text fail to materialize. McLaren-Hankin (2008) analyzes the lexico-grammatical forms used in all 100 of the press releases made by 15 UK-based biotech firms from 2002 to 2006. She finds that firms use hedging language not only in the text's claims but also in the disclaimer. These findings suggest that a thorough analysis of the press release tone should examine not only the text of the press releases but also any disclaimer.

II. Data Description

The sample consists of 524 CEO departure company-issued press releases of U.S.-listed firms that were published by Business Wire or PR Newswire from September 2009 through December 2011. A list of CEO departures is obtained by using Factiva to manually search all days for all U.S.-listed firms using CEO departure phrases. We search newswires and other company press releases to check for the earliest announcement. Consistent with the academic literature, we exclude from our sample instances when a co-CEO leaves or is appointed; a CEO leaves but duties are split among other executive officers; a firm has no CEO and one is appointed; or the CEO position is eliminated or created as the result of merger, spinoff, restructuring, or bankruptcy.

We follow the literature and read each press release and manually classify CEO departures as forced if the press release from the company states that the CEO was fired or if the announcement or another news articles make it clear that the CEO did not leave voluntarily (e.g., a federal or internal investigation for fraud or misconduct is underway, ongoing, or resolved, or the CEO has been forced out by activist shareholders). The CEO departure is also classified as a forced departure if the press release indicates the CEO is resigning all positions effective immediately and will not remain with the firm in any capacity, unless the CEO does so for personal reasons or to pursue other opportunities.

After manually classifying the departures, we convert each press release to a plain text file and use SAS code to find all positive, negative, and negation words in the Loughran and McDonald (2011) dictionary. The dictionary has 353 positive words and 2,337 negative words. Following Loughran and McDonald (2011), we account for simple negation by classifying positive words as "negated positive" words if any of the six words -- *no*, *not*, *none*, *neither*, *never*, *nobody* -- are the first, second, or third word prior to the positive word. Negated positive words are tallied as negative words rather than positive words.

Summary statistics for the sample are provided in Table 1. Panel A of Table 1 reports word count statistics for the 524 press releases in their entirety (i.e., including the disclaimer if it exists), then for the text excluding any disclaimer, and finally for the disclaimer section for the 339 press releases that have a disclaimer statement. On average, for the press releases in their

entirety, the number of positive words exceeds the number of negative words (the difference has a mean of 8.78 and median of 9.00).

Table 1:

	Press Release (Including Disclaimer)			Press Release (Excluding Disclaimer)			Disclaimer		
	524			524			339		
	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.
Number of Positive Words	16.44	15.00	9.75	14.91	13.00	8.80	2.38	1.00	3.34
Number of Negative Words	7.66	4.00	12.79	2.85	2.00	4.67	7.44	4.00	11.74
Positive Words minus Negative Words	8.78	9.00	12.46	12.06	11.00	8.90	-5.06	-2.00	10.05
Number of Positive Words > 0	99.2%			99.2%			67.0%		
Number of Negative Words > 0	90.3%			78.1%			92.6%		
Number of Positive Words	14.7%			4.0%			74.6%		
Forced Departure (% of Firms)	16.2%								
	Mean	Median	Std. Dev.						
Market Cap. (in Billion \$)	5.01	0.48	17.93						
Book-to-Market	0.800	0.638	0.855						
CEO Power	0.498	0.543	0.569						

The difference in positive and negative words is even higher in the text portion of the press release (mean of 12.06 and median of 11.00). Analyzing the disclaimer statement tells a different story, however, with negative words exceeding positive words by 5.06 words on average. This is probably not surprising given the cautionary nature of disclaimers.

In addition to the word counts, Table 1 reports the percentage of press releases with at least one positive word, percentage with at least one negative word, and percentage with a negative tone, which we define as having more negative words than positive words. When the entire press release (including disclaimer) is analyzed, 99.2% have at least one positive word, 90.3% have at least one negative word, and only 14.7% have a negative tone. The percentage of

press releases with at least one negative word and percentage with a negative tone drop to 78.1% and just 4.0%, respectively, when the disclaimer is excluded from the press release. For the disclaimer statements, the percentage with at least one positive word drops to 67.0% and the percentage with negative tone jumps to 74.6%.

Additional information about the sample is provided in Panel B of Table 1. For 16.2% of the firms, we manually classify the departure as a forced departure. This percentage is lower than the 19.8% documented by Hazarika et al. (2012) for the period 1992 to 2004.

Panel B of Table 1 also reports summary statistics for market capitalization, book-to-market, and CEO power. CEO power is the natural log of the CEO's total compensation divided by the next highest-paid executive's total compensation. These variables will be used as control variables in a regression analysis of press release tone as a function of whether the departure is forced or voluntary.

III. Comparison of Press Releases for Voluntary and Forced Departures

We now compare word choices and tone for voluntary and forced departures. Table 2 reports the results of the comparison for the press release text (excluding the disclaimer) in Panel A and for the disclaimer in Panel B. Panel A reports that press releases for voluntary departures average more positive words and fewer negative words than those for forced departures. That said, forced departures do have more positive words than negative words on average, with a mean of 8.95. Tests of differences of the means for number of positive words, negative words, and number of positive words less negative words are all significant at conventional levels (p -values of 0.037, 0.006, and 0.004, respectively). In un-tabulated results, we find that tests of differences of the medians are also significant at conventional levels.

It is worth noting that the standard deviations for all of the word count measures are relatively large, indicating quite a bit of dispersion across voluntary announcements as well as forced announcements. For example, for the measure of the difference in positive words versus negative words, for voluntary departures, the mean is 12.66 and the standard deviation is 8.81 in comparison to a mean of 8.95 and a standard deviation of 8.76 for forced departures. Although the mean for voluntary departure announcements is significantly lower (p -value of 0.004), the standard deviations suggest substantial overlap of the distributions of voluntary and forced departures. Panel B of Table 2 shows that the word count measures are not significantly different for voluntary and forced departures when we analyze just the disclaimer statements.

Table 2 also reports the results of chi-square tests of the percentage of press releases with at least one positive word, at least one negative word, and negative words outnumbering positive words. Panel A reports that using the text of the press releases, forced departures are significantly more likely to have at least one negative word and significantly more likely to have more negative words than positive words compared with voluntary departures. That said, the percentage of press releases with more negative words than positive words for forced departures is far less than half (just 11.8%). Panel B reports that using the disclaimer, forced departures are significantly more likely to have more negative words than positive words compared with voluntary departures (86.9% versus 71.9%, with a p -value of 0.015).

Table 2:

	Voluntary Departures	Forced Departures	<i>p</i> -Value of Test of Difference	Memo: Investi- gation
	439	85		11
Mean	15.26	13.08	0.037 **	10.91
Standard Deviation	8.80	8.62		8.04
Mean	2.60	4.12	0.006 ***	10.91
Standard Deviation	4.61	4.77		6.74
Mean	12.66	8.95	0.004 ***	0.00
Standard Deviation	8.81	8.76		10.70
	99.1%	100.0%	0.377	100.0%
	76.3%	87.1%	0.028 **	100.0%
	2.5%	11.8%	<0.001 ***	63.6%
	278	61		9
Mean	2.39	2.31	0.865	1.11
Standard Deviation	3.33	3.40		1.69
Mean	7.17	8.67	0.367	5.56
Standard Deviation	12.10	9.90		4.93
Mean	-4.78	-6.36	0.267	-4.44
Standard Deviation	10.44	8.00		5.48
	65.8%	72.1%	0.343	44.4%
	92.1%	95.1%	0.418	100.0%
	71.9%	86.9%	0.015 **	88.9%

Finally, the far-right column of Table 2 reports statistics for a small subset of the 524-press release sample. For 11 of the press releases, the CEO departure coincides with an announcement by the firm of the departing CEO's involvement with a federal or internal

investigation. Although the sample is quite small, it is worth noting that almost two-thirds (63.6%) of these press releases (excluding the disclaimer statement) have more negative words than positive words.

In Table 3, we report the twenty most frequent positive and negative words tallied separately for voluntary and forced departures. For this analysis, we use only the text of the press release, excluding the disclaimer statement, because our earlier analysis shows that the word choice of the press release disclaimer statements is systematically more negative and different from the press release text. Occurrences of negated-positive words are excluded during the tally. Positive words and negative words are reported in Panel A and Panel B, respectively. Words are shown in italics if they appear in the list only for voluntary or forced departures, but not both.

Table 3: Twenty Most Frequent Positive and Negative Words in CEO Departure Press Releases.

Panel A: Twenty Most Frequent Positive Words			
Voluntary Departures		Forced Departures	
Word	% of PRs	Word	% of PRs
LEADERSHIP	77.68%	EFFECTIVE	70.59%
EFFECTIVE	67.43%	LEADERSHIP	70.59%
LEADING	57.86%	LEADING	54.12%
STRONG	50.80%	STRONG	41.18%
SUCCESS	37.13%	SUCCESS	32.94%
GREAT	32.12%	BEST	31.76%
OPPORTUNITY	28.47%	GREAT	31.76%
OPPORTUNITIES	28.02%	OPPORTUNITIES	31.76%
PLEASED	27.56%	CONFIDENT	28.24%
CONFIDENT	27.33%	<i>IMPROVE</i>	27.06%
BEST	27.11%	PLEASED	23.53%
EXCITED	24.83%	OPPORTUNITY	22.35%
SUCCESSFUL	23.92%	SUCCESSFUL	21.18%
<i>SUCCEED</i>	20.50%	INNOVATIVE	18.82%
<i>SMOOTH</i>	17.31%	<i>EXCEPTIONAL</i>	14.12%
INNOVATIVE	15.72%	EXCITED	14.12%
PROFITABILITY	14.81%	PROFITABILITY	14.12%
<i>HONORED</i>	14.58%	<i>ENHANCE</i>	12.94%
<i>SUCCESSFULLY</i>	14.58%	<i>IMPROVED</i>	12.94%
<i>EXCELLENT</i>	13.44%	<i>PROFITABLE</i>	12.94%

Table 3: Twenty Most Frequent Positive and Negative Words in CEO Departure Press Releases.
(continued)

Panel B: Twenty Most Frequent Negative Words			
Voluntary Departures		Forced Departures	
Word	% of PRs	Word	% of PRs
CHALLENGES	12.30%	RESIGNED	40.00%
CHALLENGING	11.39%	RESIGNATION	18.82%
CRITICAL	10.71%	CRITICAL	15.29%
RESIGNED	9.57%	CHALLENGING	12.94%
DIFFICULT	8.88%	LOSS	11.76%
RESTRUCTURING	7.52%	CHALLENGES	10.59%
RESIGNATION	5.69%	DIFFICULT	10.59%
<i>CHALLENGE</i>	4.56%	RESIGN	10.59%
FORCE	4.10%	<i>INVESTIGATION</i>	8.24%
ILL	3.87%	RESIGNS	8.24%
AGAINST	3.64%	RESTRUCTURING	8.24%
LATE	3.64%	FORCE	5.88%
<i>CLOSING</i>	3.42%	AGAINST	4.71%
DOWNTURN	3.19%	<i>TERMINATED</i>	4.71%
LOSS	3.19%	<i>DISCLOSED</i>	3.53%
RESIGNS	2.96%	DOWNTURN	3.53%
RESIGN	2.73%	ILL	3.53%
<i>CRISIS</i>	2.51%	<i>IMPAIRMENT</i>	3.53%
<i>MISS</i>	2.51%	LATE	3.53%
<i>LIE</i>	2.28%	<i>LITIGATION</i>	3.53%

Intriguingly, fifteen of the twenty most frequently-used positive words and fifteen of the twenty most frequently-used negative words that appear in the press releases for voluntary departures are common to those for forced departures. The words *effective* and *leadership* are quite common, used in more than two-thirds of the press releases for both voluntary and forced departures. More than half of the press releases use the word *leading*, regardless of whether the departure is voluntary or forced. Given that there are so many positive and negative words in the Loughran and McDonald (2011) dictionary, the commonality of words that appear in the press releases for voluntary and forced departures is remarkable. The main difference for voluntary and forced departures is in the frequency of the negative words *resigned* and *resignation*, which occur for both types of departures but occur twice as often for forced departures.

The results in Table 2 indicate that the percentage of press releases with number of negative words greater than number of positive words is higher for forced departures than for voluntary departures and highest when the departure coincides with an announcement involving a federal or internal investigation. The univariate analysis in Table 2 also shows that the mean of the number of positive words minus the number of negative words is lower for forced departures than for voluntary departures and lowest when the departure coincides with an announcement involving a federal or internal investigation. Our final analysis of the tone of the press releases is a regression analysis to further examine these relationships while controlling for other firm

variables. Our dependent variable is the number of negative words minus number of positive words. The independent variables include a *forced* dummy variable, which is set to 1 for forced departures, and an *investigation* dummy variable, which is set to 1 if the departure coincides with an announcement involving a federal or internal investigation. Based on the results in Table 2, we expect the dependent variable to be positively related to both variables (i.e., the number of negative words relative to the number of positive words will be higher for forced departures and for departures that coincide with an investigation announcement).

We include control variables for the natural log of market capitalization, the natural log of book-to-market, and CEO power. We include market cap because larger firms may have more resources than smaller firms to invest in writing press releases with a positive tone. Firms with lower book-to-market (“growth” firms) may have greater incentive to project a positive outlook. More powerful CEOs may have greater influence over the final tone of press release.

For some of the press release observations, book-to-market is negative or information for the CEO power variable is unavailable. Therefore, we estimate the model for 3 specifications. In model 1, we include the *forced* and *investigation* dummy variables and market capitalization and estimate the model for all 524 observations. In model 2, we add the book-to-market variable, losing 25 observations. We then estimate model 3, adding the CEO power variable and losing another 17 observations. We estimate the 3 models using the dependent variable determined using the entire press release including the disclaimer. We then re-estimate the 3 models using the dependent variable obtained from the text without the disclaimer.

Results of the regressions are reported in Table 4. In each of the 6 regressions, the constant is negative and significant, consistent with the earlier observation that on average, when the departure is voluntary, the number of negative words is less than the number of positive words in the press release. In all 6 regressions, the estimates for the *forced* and *investigation* dummy variables are positive and significant, consistent with our expectations. The only control variable that is significant at conventional levels is the market cap variable, which is negative, consistent with our expectation that larger firms may have more resources than smaller firms to invest in writing press releases with a positive tone. We conclude that the regressions confirm the earlier univariate results as to the relationship between tone and whether departures are forced or voluntary departures and for departures that coincide with investigations. Including the disclaimer when determining the dependent variable does not change the signs or significance of the estimates.

Our expectation was that growth firms (i.e., firms with a low book-to-market) would have greater incentive to issue more positive press releases, but the regression estimates for the book-to-market coefficient are not different from zero at conventional levels. A possible explanation is that some of the high book-to-market firms in our sample are not value firms but instead are firms that suffered reduced growth prospects and, as a result, severe stock price declines, under the tenure of the departing CEO. These firms would have a smaller market cap than at the beginning of the CEO’s tenure. Thus, the results that we observe in the regression for market cap (tone less positive for smaller firms) and book-to-market (not statistically significant at conventional levels) could reflect the influence of these firms in the sample. In other words, the

results are consistent with a hypothesis that firms issue less positive press releases when the CEO leaves with a legacy of having disappointed the firms' investors.¹

Table 4. Regression Results.						
Dependent Variable Is Number of Negative Words Minus Number of Positive Words.						
	Press Release Including Disclaimer			Press Release Excluding Disclaimer		
	(1)	(2)	(3)	(1)	(2)	(3)
forced	3.7670*** (0.003)	3.5766*** (0.006)	4.0286*** (0.002)	2.0523** (0.031)	2.3297** (0.014)	2.7215*** (0.003)
investigation	9.2530*** (0.010)	9.7061*** (0.007)	9.3566*** (0.010)	10.3242*** (0.001)	10.0926*** (0.002)	9.8508*** (0.002)
ln_mktcap	-0.8167*** (0.001)	-0.6865*** (0.009)	-0.7098** (0.017)	-0.9284*** (0.000)	-0.9183*** (0.000)	-0.9859*** (0.000)
ln_book_to_market		0.5561 (0.352)	0.3983 (0.523)		0.0152 (0.969)	-0.1257 (0.758)
CEO power			-0.7461 (0.565)			-0.6106 (0.426)
constant	-4.3841*** (0.002)	-5.0288*** (0.001)	-4.6248*** (0.003)	-6.6933*** (0.000)	-6.7897*** (0.000)	-6.2367*** (0.000)
Observations	524	499	482	524	499	482
Adjusted R-squared	0.046	0.044	0.048	0.088	0.089	0.104
Robust <i>p</i> -value in parentheses						
*** <i>p</i> < 0.01, ** <i>p</i> < 0.05,						

IV. Conclusions

Our findings are consistent with a hypothesis that departure press releases are intentionally positive in tone to allow the CEO to leave with dignity, regardless of whether the ultimate decision to leave is that of the CEO or the board. A positive tone in the press release not only allows the board to satisfy the CEO's desire to leave with honor but also to cast the firm in a positive light. The exceptions – negative-tone press releases – are almost always issued only when the board's hand is forced: the firm has to announce the departure of the CEO together with a federal or internal investigation.

We document that for departures classified as forced using the manual method commonly used in the academic literature, press releases are *less* positive than those for voluntary departures *on average*. But we also document that there is substantial dispersion in the tone measure (i.e., number of positive words less negative words) even for departures manually classified as *voluntary*. Given the conjecture of Schwartz-Ziv and Weisbach (2013) that

¹ We thank an anonymous reviewer for this suggestion.

academic research underestimates the percentage of forced or coerced CEO departures, a question for future research is whether using the press release tone, specifically the number of positive words less negative words, rather than the traditional manual binomial classification of “forced” or “voluntary” alone, provides additional insights when analyzing which factors carry weight in the board’s decision to fire the CEO.

Finally, our regression results are consistent with a hypothesis that firms issue less positive press releases when the CEO has disappointed the firms’ investors. Future research could examine whether the tone of the press release impacts how the market reacts to the CEO turnover announcement, particularly taking into account how the firm’s stock has performed under the departing CEO’s time at the helm.²

² We thank an anonymous reviewer for this suggestion.

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