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Looking in the Rear View Mirror: The Effect of Managers' Professional Experience on Corporate Financial Policy

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Abstract

We track the employment history of over 9,000 managers to study the effects of professional experiences on corporate policies. Our identification strategy exploits exogenous CEO turnovers and employment in other firms, in non-CEO roles and early in their career. Firms run by CEOs who experienced distress issue less debt, save more cash, and invest less than other firms. Past experience affects both managerial appointments and corporate policies, with stronger effects in poorly governed firms. We find similar effects on debt and cash, but not investment, for CFOs. The results suggest that policies vary with managers' experiences and throughout their careers.

JEL classification: G30; G31; G32
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A growing body of evidence suggests that managerial traits affect corporate policies even after controlling for the firm-, industry-, and market-level economic indicators that influence these policies. However, we know relatively little about how managers' decision-making develops throughout their careers. In this paper, we investigate the potential impact of professional, or work-related, experiences of managers on corporate financial and investment policies.

The importance of experience in decision-making is broadly demonstrated in the psychology literature (Nisbett and Ross (1980)). Studies show that experience may lead individuals to make decisions that differ from those based on expected utility theory because they only have access to samples of past outcomes and not the full outcome distributions (e.g., Hertwig, Barron, Weber, and Erev (2004), Hertwig and Erev (2009), and Hertwig (2012)). In Finance, a growing literature examines how individual experiences impact investor behavior (Vissing-Jorgensen (2004), Kaustia and Knupfer (2008), Greenwood and Nagel (2009), Chiang, Hirshleifer, Qian, and Sherman (2011), and Malmendier and Nagel (2011, 2013)).

We build on this literature and explore how professional experiences, which occur in a similar corporate setting and are therefore relevant to the type of decision making required from corporate managers, impact managers' decisions and career paths. Our focus is on past experience with poor corporate outcomes such as bankruptcy, financing difficulties, and adverse shocks. We focus on these outcomes because they are salient events that might exert a significant effect on managers' behavior. Experiencing troubles may alter managers' risk preferences or expectations, and therefore cause managers to implement more conservative financial policies. This hypothesis is consistent with the "hot stove" effect described in Denrell and Marsh (2001), which implies a bias against risky alternatives to avoid actions that have led to poor outcomes in

the past. Indeed, empirical studies show that bankruptcy and distress lead to poor personal outcomes for the CEO (Eckbo and Thornburn (2003) and Eckbo, Thornburn, and Wang (2012)).

To determine the effect of managers' professional experiences on corporate decisions, we use data from ExecuComp and BoardEx to track the employment history of approximately 5,200 CEOs and 4,000 CFOs in 3,546 firms. After excluding managers with relatively short or incomplete employment histories,[1] the average CEO in our sample has 21 years of employment data at 4 different firms. We use these data to determine if a manager was previously employed by a troubled firm. To separate CEO effects from firm effects, we require the professional experience to take place at a different firm than the current firm and that the current firm itself did not experience difficulties.

We construct five measures of poor corporate outcomes. Based on each measure, we define a *Professional experience* indicator that equals one if the manager was employed by a firm that experienced trouble during her tenure. To address the concern that the CEO is chosen based on her experience in running troubled firms, we only consider experience in roles other than the CEO. The first measure is based on bankruptcy filings. In our sample, 0.8% of the CEOs previously worked at a firm that filed for bankruptcy. Since bankruptcy is relatively infrequent and salient enough to impact a manager's career directly, we construct four additional measures. These additional measures are based on adverse shocks to a firm's cash flows and stock returns, credit ratings, and financial constraints. Depending on the measure employed, 8.1 to 12.4% of the CEOs in our sample experienced trouble in at least one year of prior employment. We also create a composite index equal to one if any of these measures equals one.

[1] Specifically, to be included in our sample, the CEO must have at least 10 years of observable and continuous employment data, with no time gaps, before the start of her current employment.

In panel regressions, we find that firms run by a CEO who was previously employed at a troubled firm issue less debt, hold more cash, and invest less. These results hold after controlling for firm and manager characteristics, and after including industry and year fixed effects to control for industry- and market-wide determinants. The effects are statistically significant at conventional levels and are economically meaningful. For the average firm, past experience at a troubled firm is associated with a reduction of 31-58% in debt issuance (issuing 0.8-1.5 percentage points less debt-to-assets), an increase of 7-23% in cash (holding 1.7-5.4 percentage points more cash-to-assets), and a reduction of 5-20% in capital expenditure (investing 0.3-1.2 percentage points less in capital expenditures-to-assets).

These findings suggest that firms run by CEOs who experienced distress in the past have more conservative financial and investment policies. This relation can operate through two possible channels: (1) the manager joins a firm that is already conservative prior to her appointment (the *appointment* channel), and (2) the manager implements more conservative corporate policies after her appointment (the *corporate policy* channel). Alternatively, our findings may reflect the firm's decision to hire a CEO that experienced distress because the firm chooses to implement a more conservative policy than it has previously followed (*selection*). In what follows, we examine the effect of professional experiences via both the corporate policy and appointment channels, while controlling for selection.

To capture the effect of the appointment channel, we investigate the relation between the professional experience of the CEO and the firm's policies prior to the appointment of the CEO. We find that managers who experienced distress become the CEOs of firms that are historically more conservative. This effect, however, is relatively small and accounts for about 11-31% of our estimates of the conservative policies of firms run by managers who experienced distress.

To disentangle the corporate policy channel from the appointment channel, we exploit the change to the professional experience of the CEO around CEO turnovers. This identification strategy allows us to control for unobservable characteristics that could be correlated with a firm's financial and investment policy and the choice of the CEO, to the extent that these characteristics remain unchanged within a short time window around the CEO turnover. We examine all turnovers, a subset that represent natural causes (death or illness), planned retirements, or scheduled succession plans, and a subset of successions by internal candidates. We examine natural causes and scheduled successions to address selection and the concern that some CEO turnovers may be caused by poor performance or financing difficulties, which may impact the firms' need for cash, debt issuances, and investment opportunity set, and confound our empirical inference. We also examine internal CEO successions because these candidates are less likely chosen due to their previous professional experience at other firms since they come from inside the firm.

In firm fixed effects and first differences models that exclude the three years surrounding the turnover, our empirical results indicate that CEOs with professional experience at troubled firms decrease debt issuances-to-assets by 0.8-1.4 percentage points, increase the cash-to-assets ratio by 1.6-1.7 percentage points, and decrease capital expenditures-to-assets by 0.5-0.8 percentage points after they became CEOs. These effects represent a sizable shift in corporate policy and account for 69-89% of the overall impact of professional experiences. The results hold in all the subsets of CEO turnovers and are statistically significant at conventional levels.

As mentioned above, it is important to disentangle the corporate policy channel from a scenario in which firms that wish to implement more conservative policies hire CEOs who experienced distress and may be more likely to implement conservative policies. Our analysis

thus far addresses selection by excluding prior employment as the CEO of other firms and by considering a subset of exogenous and internal CEO turnovers, which are less prone to selection concerns. For robustness, we also focus on experiences early in the manager's career, including her first job and experiences outside the industry, which are less likely to impact her selection for the current position. Using these alternative definitions of experience, we obtain similar results.

Since our analysis thus far focuses on CEOs and not CFOs, our findings allow for two interpretations: (1) CEOs alone determine financing and investment policies, or (2) CFOs also determine these policies, but their decisions are positively correlated with CEO experience. One advantage of our empirical design is that the experience is manager specific and we can therefore construct our measures of professional experience for CFOs and distinguish these alternative explanations. We therefore recreate our measures of experience and find that 0.6 to 12.5% of the CFOs in our sample worked at a troubled firm (in roles other than the CFO). When we investigate the joint impact of CEO and CFO experience on corporate policy, we find that both CEO and CFO experiences affect corporate financing policy, debt issuance and cash savings. However, corporate investment policy is only affected by CEO experience, suggesting that CFOs do not exert significant influence on the firm's investment decision.

Out analysis shows that experiencing distress entails conservative corporate policies. These conservative policies, however, can be suboptimal if CEOs that experienced distress become too risk averse or overestimate the likelihood and implications of distress. Conversely, conservative policies may result from CEO learning or altering the view of the average CEO who underestimates risk, as recently found by Ben-David, Graham, and Harvey (2013). We provide indirect evidence on the optimality of the effects by investigating how our results differ based on a firm's corporate governance, as measured by the E-index (Bebchuk, Cohen, and

Ferrell (2009)) of shareholder rights, the presence of share block holders, and board independence. We find that the effect of professional experience on firms' financial and investment decisions is stronger at poorly governed firms. These findings are consistent with distress leading a manager to enact overly conservative policies when the manager is not monitored by outside investors and the board of directors.

Our paper contributes to the growing literature that studies the effects of managers on corporate policies. While existing evidence suggests that management style affects corporate policies (Bertrand and Schoar (2003)), largely following endogenous CEO turnovers (Fee, Hadlock, and Pierce (2013)), we still know relatively little about the determinants of this style and its evolution throughout a manager's career. Our paper improves our understanding of this process by studying the effect of professional experiences on managers' careers and the financing and investment decisions they make. Our findings complement the recent evidence in Malmendier and Tate (2005) and Malmendier, Tate and Yan (2011), who show that early personal experiences of managers, such as growing up during the Great Depressions and military service affect corporate leverage and investment.

Our paper is also related to the recent debate about firms' investment and financing policies following the recent financial crisis. While some argue that the recent accumulation of cash savings and the low investment ratios are consistent with a Keynesian (1936) precautionary savings motive, others argue that managers are overly conservative. For example, the article "Blame fear, not greed, as firms hoard cash", published in the *Wall Street Journal* on July 1, 2012, argues that: "... Here is one way to explain the record sacks of cash that companies have amassed: Just as courage imperils life, fear protects it. Actually, that line is said to be Leonardo da Vinci's. But if you spend any time with chief financial officers, you'll hear the same

admonition in one form or another…. And, despite what some suggest, it doesn't appear to be guided by greed or complacency. Instead, fear rules the day. Arguably too much so." The evidence in our paper indicates that this behavior may be explained by managerial conservatism resulting from experiencing financing constraints and difficulties during the recent crisis.

The paper proceeds as follows. Section I describes the data. Section II examines the impact of CEOs' professional experience on corporate policies. Section III focuses on robustness tests and extensions. Section IV concludes.

I. Sample and Data

A. Firms

Our initial sample consists of 11,578 industrial firms in the CRSP/Compustat file over 1980-2011. Industrial firms are defined as companies with SIC codes outside the ranges 4900-4949 (utilities) and 6000-6999 (financials). We exclude firms that are not incorporated in the U.S. and those that do not have securities assigned a CRSP security code of 10 or 11. Since we are interested in CEOs' professional experiences, we exclude firms whose CEO is missing from ExecuComp and BoardEx. We find 5,498 firms and 52,017 firm-year observations for which the CEO has non-missing data on previous employment in at least one firm that appears on Compustat.

Next, we exclude from our sample CEOs with relatively short observable employment histories of less than 10 years before the start of their current employment. We also exclude CEOs whose employment history over the prior 10 years before the start of current employment is incomplete (one or more years are missing). We impose these sample screens because the length of the observed employment history and the gaps in the data may be nonrandom, and

potentially correlated with CEO attributes such as tenure or age, and with firm attributes such as size, industry, and IPO cohort. To separate CEO effects from firm effects, we also require that the firms in our sample did not experience difficulties according to any of our measures, described in subsection I.C. After imposing these screens, our final sample includes 3,546 firms and 28,958 firm-year observations.

Table 1 presents summary statistics. We winsorize all variables at the 1st and 99th percentiles to lessen the influence of outliers. The main variables of interest are a firm's: (1) net debt issuance/assets, defined as the ratio of the annual change in debt to book assets; (2) cash/assets, defined as the ratio of cash and short-term investments to book assets; and (3) capital expenditure/assets, defined as the ratio of capital expenditures to book assets. Table 1 shows that net debt issuances have a pooled mean of 2.6%, cash ratios have a pooled mean of 24.0%, and capital expenditures have a pooled mean of 6.0%. The average firm has a log of assets (sales) of 6.0 (5.6). Table 1 also shows that the average firm has a cash flow-to-assets ratio of 2.1%, a market-to-book ratio of 2.3, and a ratio of fixed assets to assets (tangibility) of 26.4%. The average firm has a net debt ratio of -1.2%, indicating it has more cash than debt, and a short- (long-) term debt ratio of 3.8% (19.0%).

B. Managers

Our sample of executives consists of 9,133 individuals. This group includes 5,178 CEOs and 3,955 CFOs who served at our sample firms between 1980 and 2011. To collect employment information on CEOs and CFOs, we use both ExecuComp and BoardEx. For each executive in our sample, we collect all available information on her employment history, including the identity of previous employers, dates of employment, and the role title. We then match the prior

employers to Compustat firms and use Compustat data to construct our measures of professional experience at troubled firms.

Panel A of Table 2 shows summary statistics for our sample of managers. An average CEO is 52.8 years old, has a firm tenure of 7.3 years, and owns 2.7% of the firm's shares. The vast majority (97.8%) of CEOs are male. An average CFO is slightly younger (47.1 years old), has a firm tenure of 6.8 years, and owns 1.5% of the firm's shares. Also, 7.6% of CFOs are female. Further, 33.3% of the CEOs and 46.5% of the CFOs have an MBA degree.

C. Measures of Past Professional Experience

We study how work-related experiences throughout managers' professional lives affect managers' careers and corporate policies. Our focus is on realizations of poor outcomes, that is, experiences of bankruptcy and distress. Our analysis is motivated by the Psychology literature, which shows that individual experiences impact decision-making (Nisbett and Ross (1980)). More specifically, we build on the "hot stove" effect, studied by Marsh (1996), Denrell and Marsh (2001), and Denrell (2007), which implies a bias against risky alternatives to avoid actions that have led to poor outcomes. Our main hypothesis, therefore, suggests that managers that experienced poor outcomes of bankruptcy and distress in the past subsequently work in more conservative firms and implement more conservative corporate policies.

In contrast to prior studies, we focus on professional experiences rather than life experiences such as military service and growing up during the Great Depression. We do so because professional experiences are typically more frequent and recent, and therefore may exert greater influence on decision-making. Further, they occur in a similar corporate setting and thus likely comprise relevant experiences for CEO shaping how the CEO will manage the firm.

Finally, they can occur throughout a CEO's career, thus implying that her decision-making may change and evolve throughout her career.

To measure CEOs' professional experience, we track the employment history of the CEO using data from ExecuComp and BoardEx to determine if the CEO was previously employed at a troubled firm. We restrict our attention to previous employment at other firms to disentangle CEO effects from firm effects. To mitigate the concern of reverse causality, a scenario in which the CEO is selected by the current firm based on her management style, we focus on professional experience in non-CEO roles. To further control for firm effects, our tests exclude firms that experienced difficulties themselves and control for firm-, industry-, and market-level, time-varying determinants of corporate policies.

Our measures of professional experience are based on the full set of information we have available for each manager. For robustness and completeness, we employ five measures of distress. The first measure is based on bankruptcy filings. The bankruptcy data come from the Bankruptcy Research Database of Professor Lynn LoPucki at UCLA Law School, which includes all bankruptcy cases filed under Chapter 7 or Chapter 11 of the bankruptcy code, for firms that had assets worth $100 million or more (in 1980 dollars), and filed an annual report for a year ending not less than three years prior to the filing of the bankruptcy case. Managers who previously worked at a firm that filed for bankruptcy during their employment are defined as having experienced bankruptcy. A potential concern with the bankruptcy-based measure, however, is that bankruptcy filing is salient enough to exert a significant direct effect on a manager's career that is unrelated to its impact on her decision-making. Moreover, as Panel B of Table 2 shows, bankruptcy experience is relatively infrequent and only 0.8% of the CEOs in our sample experienced bankruptcy in the past. We therefore construct four additional measures.

We construct two measures that focus on financial constraints. The first measure is based on a firm's bond ratings. We retrieve data on bond ratings for all industrial firms on Compustat, and sort all firm-year observations into annual deciles based on the bond ratings.[2] Each year, we define firms in the lowest decile as financially constrained and all other firms as unconstrained. Thus, we restrict our attention to severe financial constraints, which are more likely to impact the CEO's decision-making. Related approaches for characterizing financial constraints are used by Kashyap, Lamont, and Stein (1994), Gilchrist and Himmelberg (1995), and Almeida, Campello, and Weisbach (2004). The advantage of this measure is that it gauges the market's assessment of a firm's credit quality. Managers who previously worked at a firm that was categorized as financially constrained during their employment are defined as having past experience at a constrained firm. Panel B of Table 2 shows that 8.1% of the CEOs in our sample experienced difficulties according to this measure.

Our second measure of financial constraints is based on an index of financial constraints developed by Hadlock and Pierce (2010). We choose this index over other indices, including the Kaplan and Zingales (1997) and Whited and Wu (2006) indices, because it does not rely on the firm's leverage and cash holdings, the very policies we study, to measure financing constraints. However, in unreported tests we have also estimated our results using the Kaplan-Zingales and the Whited-Wu indices and obtained similar results.

Hadlock and Pierce (2010) categorize financial constraints based on qualitative information from financial filings and propose a measure of financial constraints that is based on firm size and age. Specifically, they create the following index of financial constraints, which they call the size-age or SA index:

[2] To address missing ratings, we determine if the firm has had a rating at any point during our sample period. If so, we fill in the missing value with the closest rating (past or future); otherwise, we consider that firm unconstrained. Firms with missing ratings are not used to calculate the rating deciles.

$$\text{SA index} = -0.737 \cdot \text{Size} + 0.043 \cdot \text{Size}^2 - 0.040 \cdot Age$$

where size is the log of inflation-adjusted book assets and age is the number of years the firm has been on Compustat with a non-missing stock price. We calculate the SA index for the entire set of industrial firms on Compustat, and sort all firm-year observations into annual deciles based on the SA index. Each year, we define firms in the most constrained decile as financially constrained and all other firms as unconstrained. Once again, managers who previously worked at a firm that was categorized as financially constrained during their employment are defined as having past experience at a constrained firm. Panel B of Table 2 shows that 9.5% of the CEOs experienced financial constraints according to this measure.

Our two remaining measures of experience focus on adverse shocks to a firm's operating cash flows and stock returns, respectively. We define a firm's operating cash flow as earnings before interest, taxes, depreciation, and amortization (EBITDA) divided by total book assets. We sort all industrial firms on Compustat into annual deciles based on the change in annual operating cash flow and categorize firms in the lowest decile each year as experiencing distress. Similarly, we calculate a firm's annual stock return and sort all industrial firms on Compustat into annual deciles based on their stock returns and categorize firms in the lowest decile each year as experiencing distress. We define managers who previously worked at a firm that was in the lowest decile during their employment as having past experience of distress. Panel B of Table 2 shows that 12.4% (12.1%) of the CEOs in our sample experienced distress according to the cash flow-based (stock return-based) measure.

In addition, we also create a composite index which is equal to one if any of the above experience measures is equal to one. Panel B of Table 2 shows that 25.1% of the CEOs in our sample experienced distress according to at least one of the experience measures.

Panel C of Table 2 reports the sample-wide correlations between the measures of professional experience. The estimates show that, as expected, all measures of distress are positively correlated. These measures, however, are only imperfectly correlated, suggesting that they capture different dimensions of distress.

Panel D of Table 2 provides additional details about the employment history and professional experiences of CEOs. We observe 21.4 years of employment, in 3.9 firms, for the average CEO in our sample. Similarly, for CEOs that experienced distress according to any of our measures, we observe 21.0 years of employment in 3.7 firms for these managers. Focusing on the subset of CEOs that experienced distress, the average CEO in this subsample experienced difficulties 1.2 times. On average, the number of years since the first experience of distress is 11.9 years and the number of years since the last experience is 5.2 years. Further, 28.4% of the CEOs experienced difficulties in their first position, reflecting a close to even distribution over the approximately 3.7 firms in the manager's employment history. In the robustness section, we test whether recent, distant, and first-job experiences of distress have a different effect on the firm's policies.

Our main focus is on the professional experience of the CEO, since the ultimate responsibility for the firm's financial and investment strategies rests with the CEO. However, we also study the experience of the CFO, who may assist the CEO with financing decisions. We therefore create each measure of experience for CFOs, described in Panels B and D of Table 2.

II. CEO Professional Experience and Corporate Policies

A. Does Professional Experience Impact Corporate Policy?

Table 3 presents results of panel regressions of debt issuance (Panel A), cash savings (Panel B), and capital expenditures (Panel C) on the professional experience of the CEO and a relevant set

of firm-level determinants of each of these policies. To control for industry-level characteristics and market-wide effects, all regressions include 48 Fama-French industry fixed effects and year fixed effects. We cluster the standard errors at the firm level.

To distinguish the effect of professional experience, we control for other CEO traits that may impact corporate policy. First, we control for CEO age because an older CEO has had more time to be exposed to different firm environments and thus may be more likely to have experienced distress. Further, Bertrand and Schoar (2003) show that CEO age has a significant effect on corporate policies. Second, we control for the gender of the CEO because prior studies show that men are more likely to take risk than females. Barber and Odean (2001) and Weber, Blais, and Betz (2002), for example, show that financial risk-taking differs by gender. More broadly, Byrnes, Miller, and Schafer (1999) and Eckel and Grossman (2008) provide a review of the literature on differential risk taking by gender. Third, we control for CEOs' financial education using an MBA indicator that equals 1 if the CEO has an MBA degree. Financial literacy may lead managers to rely more on external finance in lieu of internal cash savings. Lastly, we control for CEO stock and stock option ownership, which may contractually mitigate the effects of CEO preferences or the influences of past experiences, and may also affect the incentives of the CEO to take risk.

Panel A of Table 3 presents the regression estimates for debt issuance, measured as the change in total debt divided by total assets. Following Rajan and Zingales (1995), our firm-level controls include size (log sales), the market-to-book ratio as a measure of investment opportunities, profitability, and the tangibility of assets (the ratio of fixed to total assets). The results in Panel A indicate a negative relation between debt issuance and CEOs' professional experience of distress, as captured by the variable *Professional experience*. This relation is

consistently negative across all measures of distress, and is statistically significant at conventional levels in all cases except for the measure based on the Hadlock and Pierce (2010) index of financial constraint. The economic magnitudes are substantial and comparable in size across all columns: experiencing distress is associated with a 0.8 to 1.5 percentage point decline in the firm's debt issuance. For a manager overseeing a firm with mean characteristics, this effect is associated with a reduction of 31-58% in debt issuance.

An analysis of the other control variables shows that, consistent with Rajan and Zingales (1995), there is a positive relation between size and debt issuance and a negative relation between profitability and debt issuance. We do not find, however, a significant relation between tangibility and debt issuance. Further, we find a positive relation between the market-to-book ratio and debt issuance, suggesting that firms with more investment opportunities issue more debt. We also find that older CEOs, male CEOs, CEOs with an MBA degree, and CEOs with higher stock option ownership tend to issue more debt. These findings are consistent with greater risk-taking by older and male CEOs. They are also consistent with greater reliance on external finance due to financial literacy following an MBA degree. Finally, these results suggest that risk-taking incentives resulting from a CEO's compensation structure predict debt issuance.

Panel B of Table 3 presents the results for a firm's cash savings policy, measured as cash and short-term assets divided by total assets. The regressions include firm-level proxies for the precautionary savings motive, the predominant motivation to hold cash based on Keynes (1936) and Miller and Orr (1966). The empirical predictions of this theory suggest that firms with lower cash flows, higher cash flow volatility, better investment opportunities, and lower credit ratings will hold more cash. Opler, Pinkowitz, Stulz, and Williamson (1999), Almeida, Campello, and Weisbach (2004), Bates, Kahle, and Stulz (2009), Lins, Servaes, and Tufano

(2010), Campello, Giambona, Graham, and Harvey (2011), and others, all find empirical support for the precautionary savings motive. We also control for the firm's size since prior research (e.g., Opler et al. (1999)) shows there are economies of scale in cash policy.

The empirical results in Panel B show a positive relation between cash savings and CEOs' *Professional experience*. This relation is consistently significant at conventional levels across all measures of distress. The economic magnitudes are nontrivial: professional experience of distress is associated with a 1.7 to 5.4 percentage point increase in the firm's cash savings. For a manager overseeing a firm with mean characteristics, this effect is associated with an extra $4.6 - $14.7 million in cash savings (in 2011 dollars).

As expected, an analysis of the other control variables suggests that firms with higher cash flow volatility, firms with lower cash flows, firms with higher market-to-book ratios (our proxy for investment opportunities), firms with lower bond ratings, and smaller firms, hold more cash. These results are consistent with the precautionary savings motive and with previous research (e.g., Opler, Pinkowitz, Stulz, and Williamson (1999)). We also find that younger CEOs, female CEOs, CEOs without an MBA degree, and CEOs with lower stock option ownership, tend to hold more cash. Under the view that cash is negative debt, these results are uniformly consistent with the findings in Panel A.

Panel C of Table 3 analyzes the effect of a CEO's professional experience on a firm's investment policy, as measured by the ratio of capital expenditures to book assets. The regressions control for firm-level investment opportunities, as measured by the market-to-book ratio, and cash flows. The estimates suggest that capital expenditures are negatively associated with professional experiences of distress. The effects are consistently negative across all measures and are statistically significant in all cases except the cash flow shocks-based measure.

The economic magnitudes are large: professional experience of distress is associated with a 0.3 to 1.2 percentage point decline in the firm's capital expenditures. For a manager overseeing a firm with mean characteristics, this effect is associated with a reduction of 5-20% in capital expenditures. An analysis of the control variables indicates that firms with higher investment opportunities invest more in capital expenditures, while cash flows do not exert a significant effect on investment, consistent with a standard neoclassical model of corporate investment. We find weak evidence that younger CEOs tend to invest more, as do CEOs with fewer stocks and stock options.

Taken together, our evidence shows that a manager's experience at firms that faced distress captures a significant effect beyond the firm-, industry-, and market-level determinants of corporate policy, controlling for a wide range of CEO characteristics that may impact her incentives and preferences. Professional experiences of difficulties earlier in a manager's career, at other firms and in non-CEO roles, are associated with more conservative corporate policies: less debt issuance, more cash savings, and smaller investment in capital expenditures.

B. Channels of Conservatism: Appointment and Corporate Policy

To disentangle the effects of the appointment channel and the corporate policy channel, we investigate the relationship between the CEO's professional experience and corporate policies before and after CEO turnover. To capture the effect of the appointment channel, we examine the relationship between the professional experience of a new CEO and the historical policies of the firm she is about to run. To test this relation, we focus on the year prior to the year immediately preceding the turnover year. We exclude the year that immediately precedes the turnover year to mitigate the potential effects of the upheaval surrounding CEO turnover. However, the results are similar if we use the year immediately preceding the turnover year. In

this regression analysis, the dependent variable is one of the firm's corporate policies: debt issuance (Panel A), cash savings (Panel B), and investment in capital expenditures (Panel C) in the year prior to the year preceding the new CEO's appointment. The key variable of interest is the *Professional experience index*, defined as an indicator equal to 1 if the newly appointed CEO worked at another firm that experienced distress. Other independent variables include the same set of CEO-, firm-, industry-, and market-level determinants of each of the corporate policies used in Table 3, which are not shown to conserve space. As before, the standard errors are clustered at the firm level.

The results in Table 4 indicate that CEOs with professional experience of distress are appointed to firms that historically issue less debt, hold more cash, and invest less in capital expenditures. The signs of the regression coefficients are consistent across all measures of distress, albeit the results are not always statistically significant at conventional levels. The statistical significance is particularly weak in the tests of capital expenditures. Based on the composite index of professional experience in Column 6, the economic magnitude of this channel implies that CEOs with professional experience of distress issue 0.2 percentage points less debt (Panel A), save 1.0 percentage points in cash (Panel B), and invest 0.1 percentage points less in capital expenditure (Panel C).

We interpret these findings as evidence that CEOs who experienced distress join more conservative firms. Our specification in Table 4 was developed under the assumption that appointments of CEOs are based on historical characteristics of firms. It is also possible that appointments of CEOs incorporate forward-looking information about firms. For example, CEOs who experienced difficulties may be appointed to firms that are expected to be more conservative

in the future. In this case, our estimates of the economic magnitude of the appointment channel likely represent a lower bound for the effects of this channel.

To capture the effect of the corporate policy channel incremental to the appointment channel, we focus on CEO turnovers, a setting in which the firm experiences a shock to the experience of its CEO. An important issue in this analysis is that some CEO turnovers may be driven by a change in the firm's investment opportunities, the poor performance of the departing CEO, or other potential determinants of the firm's corporate policy, which may confound our tests. The main concern is that the turnover of the CEO is driven by reverse causality, a scenario in which the CEO is replaced with a new CEO that experienced distress to implement more conservative corporate policies, in which case the effects cannot be attributed to the corporate policy channel.

To mitigate this concern, we use a subset of CEO turnovers that are unlikely to be associated with managerial performance or a change in the firm's conditions. In particular, we focus on the CEO turnovers that meet one of the following terms:

1) The departing CEO dies, departs due to an illness, or is at least 60 years old.
2) The media article or the firm's press release explicitly states that the CEO change is part of the firm's succession plan.

These turnovers occur either unexpectedly or as part of the firm's management succession plan, and hence are unlikely to be caused by underperformance or changes in the firm's conditions that may warrant a change in the firm's corporate policies. To classify CEO turnovers, we follow the approach of Huson, Parrino, and Starks (2001) and read the article in *The Wall Street Journal* and the firm's press release associated with the CEO change for the specific reasons given for the turnover. We also collect information on the CEO's age at the time

of the turnover from BoardEx. We find that 67.3% of CEO turnovers in our sample satisfy these criteria, consistent with the frequency of voluntary CEO turnovers estimated in the literature (e.g., Yermack (2006), Falato, Li, and Milbourn (2013), Jenter and Kanaan (2012)).

Another way to isolate the corporate policy channel is to focus on a subset of internal turnovers, in which the new CEO was already an employee of the firm before she was appointed as CEO. In this setting, the choice of the CEO to work at a conservative firm due to her experience of distress in a different firm (the appointment channel) is likely weaker because she had already worked at the firm prior to her appointment as CEO. Furthermore, this setting also mitigates the concern that the new CEO is selected to implement more conservative policies for the exact same reason - she had already worked in the firm prior to her appointment.

Table 5 reports estimates from the following two regression models for the three sets of CEO turnovers (All CEO turnovers, Succession/Health/Age-Related CEO turnovers, Internal turnovers): (1) Firm fixed effects panel regressions that only include firms whose CEOs turned over during our sample period; and (2) Difference regressions that compare the financial policy two years prior to the turnover of the CEO and two years after the turnover. In both regression models, we exclude the three-year window surrounding the turnover (i.e., we exclude the turnover year and the year that immediately precedes and immediately follows the turnover year) to mitigate the potential effects of the upheaval surrounding CEO turnover. In columns 1-3 of each panel, the key independent variable is the composite index of the professional experience of the newly appointed CEO. In columns 4-6, the key independent variable is the change in the index of professional experience of the CEO resulting from the turnover.[3] As in Table 4, all of the regressions include CEO-, firm-, industry-, and market-level determinants of each of the

[3] The change in the CEO's professional experience equals 1 if the new CEO experienced difficulties and the departing CEO did not, 0 if both CEOs either experienced or did not experience difficulties, and -1 if the new CEO did not experience difficulties whereas the departing CEO did.

corporate policies, which are not presented to conserve space. Similar to the index of professional experience, columns 1-3 include the control variables in levels and columns 4-6 include them in differences from two years before the turnover to two years after the turnover. As before, the standard errors are clustered at the firm level.

The results across all panels of Table 5 show that when a new CEO that experienced distress is appointed as CEO, the firm reduces its debt issuance, increases its cash savings, and cuts its investment in capital expenditures. These results hold across both regression models and for all subsets of CEO turnover, and are statistically significant at conventional levels in all cases except Column 6 of Panel B.

The economic magnitude of the corporate policy channel is similar across samples and models and is nontrivial: based on the sample of all CEO turnovers, a newly appointed CEO that experienced distress reduces debt issuance by 1.4 percentage points, increases cash holdings by 2.4 percentage points, and decreases capital expenditures by 0.8 percentage points. For a manager overseeing a firm with mean characteristics, this effect is associated with a reduction of 54% in debt issuance, an increase of 10% in cash holdings, and a decrease of 13% in investment. In comparison to the appointment channel, the corporate policy channel is approximately seven times as important in debt issuance, about twice as important for cash holdings, and about eight times as important for capital expenditures.[4]

[4] We arrive at these estimates by comparing the 1.4, 2.4, and 0.8 percentage point change in debt issuance, cash holdings, and investment, respectively, reported for the corporate policy channel in Table 5, to the 0.2, 1.1, and 0.1 percentage point change in these policies, respectively, reported for the appointment channel in Table 4.

III. Robustness and Extensions

A. Timing, Industry, and Frequency of Professional Experience

One concern with our findings is that the CEO's professional experience is incorporated into her hiring by the firm's board of directors or shareholders. It is therefore possible that the CEO is hired to implement more conservative corporate policies because of her professional experience at troubled firms. If board members are concerned about the firm's expected financial conditions, they may select a CEO experienced at running a troubled firm. Under this view, our estimates of the impact of the corporate policy channel may capture the forward-looking hiring decision made by the firm, or the endogenous matching between the CEO and the firm (selection), and not a direct effect of the CEO's professional experience (treatment).

We address this concern in a number of ways. First, we control for firm-, industry-, and market-level economic indicators that may explain the firm's corporate policies. Second, we exclude from our sample professional experiences as the CEO of another firm since they might indicate that the CEO is an expert in managing distressed firms and implementing conservative policies. Third, we exclude from our sample firms that experienced distress themselves. Fourth, we estimate the effects in turnover regressions that include firm fixed effects and exclude turnovers that may be driven by the firm's financial condition.

To further address this identification challenge, we repeat our analysis focusing on professional experience from earlier years in the managers' career. Specifically, we recreate our measures of CEO experience using only experience that occurred when the number of years between the experience and the start of the current employment is higher than the median number of years in our sample (7 years). For comparison, we also report the results for the complementary subset of recent experiences that occurred not more than 7 years before the

starting date of the CEO's current employment. These results are reported in columns 1-6 of Table 6, Panel A. As before, the regressions include the same set of control variable and fixed effects, which are not reported.

To further mitigate the concern of reverse causality, we push the experience even further back in time and require that it only occurs during the CEO's first employment in our sample, or 12 years, on average, before the start of the CEO's current employment. This approach is similar to the approach in Schoar and Zuo (2013), who study the effect of the economic conditions when the CEO enters the labor market on her subsequent career. A CEO's first employment is likely more exogenous to economic conditions that may lead to distress since workers typically do not choose when to start their professional career; rather, it is likely determined by cohort and age. Panel B of Table C shows that 28.4% of the CEOs in our sample experienced difficulties in their first job. The results are reported in columns 7-9 of Table 6, Panel A.

The regression estimates in Panel A of Table 6 indicate that more distant experiences, including those during the CEO's first employment, also exert a significant impact on corporate policies. The estimates are statistically significant across all measures and imply large economic magnitudes: based on columns 7-9 of Panel A, a CEO's first job experience corresponds to reduction of 0.5 percentage points in debt issuance, an increase of 3.1 percentage points in cash savings, and a decline of 0.2 percentage points in capital expenditures. Interestingly, managers appear to put more weight on recent experiences. The estimates in columns 1-3 suggest that the effects of recent experiences are stronger than those of distant ones.

In Panel B of Table 6, we disentangle the effect of experiencing financial trouble in the same industry from the effect of out-of- industry experience. We consider industry because it might be correlated with professional experience in various ways. It is possible, for example, that

executives from troubled firms who are most likely to survive to be the CEOs of other firms are ones from inside the industry, in which case our measure of professional experience might proxy for same-industry experience. Conversely, out-of-industry experience of distress might indicate that the CEO is a generalist whose expertise are in managing troubled firms and implementing conservative policies, in which case our measures of experience will proxy for the selection of the CEO by the firm, and therefore pick up a reverse causality effect.

To test these possible confounding effects, we estimate our tests separately for out-of-industry and same-industry experiences. In our sample, 23.0% of the professional experiences occurred outside the CEO's current industry and the remaining 77.0% occurred in the same industry. This variation reflects the likelihood that past employment is in or out of the industry, as 79.8% of past employment occurs within the same industry regardless of financial conditions. In columns 1-3 of Table 6, Panel B, we exclude same-industry experiences and test the effect of out-of-industry experience against no experience. Similarly, in columns 4-6 we exclude out-of-industry experiences and test the effect of same-industry experience. For brevity, we present only the results using the composite index but note that we obtain similar results for all the measures of distress.

We find no differences between the effect of out-of-industry and same-industry experience of distress. Firms run by CEOs with either experience issue less debt, hold more cash, and invest less compared to firms run by CEOs that did not experience difficulties. The effects are highly statistically significant at the 1% level for both types of experience, and the regression coefficients are almost identical (-0.007 vs. -0.008 for debt issuance; 0.036 vs. 0.039 for cash savings; and -0.004 vs. -0.004 for capital expenditures). We therefore conclude that our effects are not driven by industry effects.

Our measures of experience require a manager to have only one exposure to a financial difficulty. However, many managers experience multiple years of distress. In our sample, 18.2% of the managers who experienced distress experienced them more than once. To determine if our tests are robust to alternative thresholds, we reestimate our measures of experience requiring managers to have more than one year of experience. The regressions, which are reported in columns 7-9 of Table 6, Panel B, exclude firm-year observations that correspond to CEOs that only experienced difficulties once. Again, for brevity, we present only the results using the composite index but note that we obtain similar results for all the measures of distress.

Similar to our earlier analysis, we find that firms run by CEOs who experienced difficulties issue less debt, hold more cash, and invest less in capital expenditures. Further, the impact of experience is stronger when the managers have had repeated experiences. The point estimates suggest that repeated experiences are associated with a reduction of 1.1 percentage points in debt issuance (compared to 0.8 percentage points for the full sample), an increase of 4.5 percentage points in cash savings (compared to 3.8 percentage points for the full sample), and a reduction of 0.6 percentage points in capital expenditures (compared to 0.4 percentage points for the full sample). In unreported tests, we find that the differences between these estimates are also statistically significant at the 10 percent level or better. Taken together, these results suggest that repeated experiences increase the effect of experience on future corporate policy. This result is related to recent work by Aktas, de Bodt and Roll (2013), which shows that firms learn through repeated acquisitions and this learning depends on the time between successive transactions.

B. The Professional Experience of CFOs

So far the analysis has focused on the professional experience of the CEO. The results indicate that CEO experience affects corporate policies, and allow for two interpretations: (1) CEOs directly determine corporate policies, or (2) CFOs also determine corporate policies, but their decisions are positively correlated with CEO traits. In this subsection, we distinguish between the two interpretations by directly considering the effect of the professional experience of the CFO. To measure these professional experiences, we use the same methodology as in our main analysis.

To study the professional experience of CFOs, we recreate our measures of professional experience at troubled firms for the 3,955 CFOs in our sample. As Table 2 shows, we find that 0.6% to 12.5% of the CFOs in our sample were previously employed by troubled firms.

In Table 7, we estimate panel regressions of corporate policies on the professional experience of the CFO, controlling for the professional experience of the CEO, a set of firm-, industry-, market-level controls similar to that in Table 3, and the characteristics of the CEO and the CFO. This approach allows us to compare the incremental effects of the professional experiences of both the CEO and the CFO on the firm's policies. We also include the interaction term *CEO experience x CFO experience* to test whether the effects strengthen when both the CEO and the CFO experienced distress. As before, the standard errors are clustered at the firm level.

The empirical results in Table 7 indicate that the firm's financial policies, debt issuance and cash savings, are affected by the professional experiences of both the CEO and the CFO. Both the CEO and CFO effects are highly statistically significant at the 1% level, and the economic magnitudes imply that the effect of the CFO's professional experience is as important

as that of the CEO. In contrast, the firm's investment policy is unaffected by the professional experience of the CFO. The results in column 3 suggest that only the professional experience of the CEO impacts the firm's investment in capital expenditures. Columns 4-6 include the interaction term *CEO experience x CFO experience*, which is statistically insignificant for debt issuance and marginally significant for cash savings and capital expenditures. Similar to the results presented in Table 3 for CEOs, we find that older CFOs, male CFOs, CFOs that hold an MBA degree, and CFOs with more stocks and stock options tend to issue more debt, save less cash, and invest less, though the results for CFO characteristics are generally statistically weaker than those for the CEO.

These findings suggest that the professional experiences of the CEO and the CFO have distinct effects on the firm's financial policies. Our evidence on CFOs' professional experience also complements recent studies that investigate the influence of CFOs on firms' financial policies. Using survey evidence on CFOs, Ben-David, Graham and Harvey (2013) show that CFOs' forecasts about the stock market and their own firm's prospects are "miscalibrated" and, as a result, their firms follow more aggressive corporate policies. While we also find that CFOs affect corporate policies, our results indicate that CFOs that experienced distress in other companies tend to implement less aggressive policies relative to other CFOs. Malmendier and Zheng (2012) show that both CEOs' and CFOs' overconfidence impact corporate decision-making. We complement their work by studying the joint impact of CEOs' and CFOs' professional experience on corporate policies.

C. Professional Experience and Corporate Governance

The evidence thus far may be consistent with both an efficient and an inefficient effect of professional experience on firms' corporate policies. If CEOs that experienced distress in the

past overestimate the likelihood and adverse implications of distress, as implied by the "hot stove" effect described in Denrell and Marsh (2001), they might be more conservative than is optimal in order to hedge against distress. On the other hand, if CEOs, in general, are overconfident and underestimate risk, then the conservatism of CEOs who experienced troubles may push firms' policies closer to their optimum. The view that managers are in general overconfident is consistent with the Hubris hypothesis introduced by Roll (1986) and with recent evidence provided by Ben-David, Graham, and Harvey (2013).

In this section, we distinguish between these hypotheses by studying if and how the effects differ across poorly-governed and well-governed firms. If professional experience fuels over-conservatism, it is likely to have a stronger effect in poorly-governed firms. On the other hand, if professional experience mitigates overconfidence and the miscalibration of risk, it will have a stronger effect in well-governed firms.

To test the effects of corporate governance, we use a number of corporate governance measures to gauge the severity of the firm's agency problems. In particular, we include the *E-Index* (Bebchuk, Cohen, and Ferrell (2009)) of antitakeover provisions, where a higher index level indicates weaker governance. We also consider large shareholder monitoring. We define a blockholder indicator that equals 1 if an institutional investor holds 5% or more of the firm's outstanding shares and 0 otherwise. Finally, we also consider the impact of the board of directors using board independence, where less independent boards represent weaker governance. We measure board independence as the ratio of independent directors to total directors.

Table 8 presents the results of pooled regressions in which the dependent variable is one of the firm's policies (debt issuance, cash savings, and investment). For brevity, we report the results for the composite index of professional experience, but the results persist across the

individual measures of professional experiences. The independent variable of interest is the interaction term between the composite index of professional experience and corporate governance. This term captures whether the association between professional experiences and corporate policy varies with the quality of corporate governance. Other independent variables include the index of professional experience, corporate governance, and the same set of controls as in our main analysis. For ease of interpretation, we standardize all the measures of corporate governance such that higher values correspond to poorer governance. As before, we include year and industry fixed effects, and cluster the standard errors at the firm level. Due to data availability, our sample size decreases when we use the different governance measures.

The coefficient on the interaction term between CEOs' professional experience and corporate governance is negative and statistically significant for debt issuance and capital expenditures, and positive and significant for cash holdings. Since higher values of the governance measures imply worse quality of governance, these findings suggest that professional experience of distress has a stronger effect on corporate policies in poorly-governed firms. The interaction term is consistently significant at the 1% level and the regression coefficients are comparable in size across all columns.

IV. Conclusion

We know relatively little about how managers' professional experience affects corporate policy. In this paper, we examine how prior employment at troubled firms affects managers' financial and investment decisions. Our findings indicate that firms operated by CEOs who experienced distress at another firm behave more conservatively: they issue less debt, save more cash, and spend less on capital expenditures.

Existing evidence focuses on early-life and personal experiences, whereas our paper is the first to study the role of more recent professional experiences throughout the manager's career. This setting might prove an important source of influence on managers' decision-making because of the time proximity of these experiences and their greater degree of relevance to the type of decision-making required from corporate managers.

Our findings provide a possible explanation, rooted in the psychology literature, for the differences in management style across corporate executives who go through different experiences. Moreover, our evidence suggests that management style is not time-invariant and that professional experiences may impact both the CEO's career path and the decisions she makes as CEO.

Our paper also puts forth a possible explanation for why managers' and investors' views diverge. In particular, while shareholders are often unhappy with managerial conservatism, some managers still choose to behave conservatively. This issue has been often discussed in the business press. For example, the article "Cautious Companies Stockpile Cash," published in the *Wall Street Journal* on December 6, 2012, quotes La-Z-Boy Chief Executive Kurt Darrow: "'We want to keep probably a little more cash on hand than maybe some of our shareholders would appreciate, but we want to keep our financial flexibility… At this point, you might just call us a little conservative.'" Our paper suggests that managers' experiences lead them to believe that they are justified in being conservative, despite shareholders' concerns.

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Appendix: Variable Definitions
Note: Compustat data items are given in parentheses

A. Firm-level variables

Blockholder is an indicator equal to 1 if an institutional investor holds 5% or more of the firm's outstanding shares and 0 otherwise

Board independence is the ratio of independent directors to total directors

Cash/assets is cash plus short-term investments (che) divided by total assets (at)

Cash Flow/assets is earnings (ebitda) less interest and taxes (txt+xint), divided by total assets (at)

Capital expenditure/assets is capital expenditure (capx) divided by total assets (at)

E-Index is an alternative antitakeover index to the G-Index, which is based on a subsample of relevant variables shown by Bebchuk, Cohen, and Ferrell (2009) to impact shareholder value

Industry cash flow volatility is the 10-year rolling window median volatility of cash flow/assets across the 48 Fama-French industries

Log(sales) is the natural logarithm of net sales (sale)

Long-term debt/assets is long-term debt (dltt) divided by total assets (at)

Market-to-book is the market value of assets, defined as total assets (at) minus book equity (ceq) plus market value of equity (csho*prcc), divided by total assets (at)

Net debt/assets is total debt (debt in current liabilities (dlc) plus long-term debt (dltt)) minus cash and short-term investments (che), divided by total assets (at)

Net debt issuance/assets is the annual change in total debt (debt in current liabilities (dlc) plus long-term debt (dltt)), divided by total assets (at)

Profitability is net income (ni) divided by total assets (at)

Short-term debt/assets is debt in current liabilities (dlc) divided by total assets (at)

Size is the natural logarithm of the book value of total assets (at).

Tangibility is net property, plant and equipment (ppent) divided by total assets (at)

B. Manager-level variables

Age is the number of years since the manager was born

Female is an indicator equal to 1 if the manager is a woman

MBA degree is an indicator equal to 1 if the manager holds an MBA degree

Professional experience (bankruptcy) is an indicator equal to 1 if the manager worked at a firm that filed for chapter 11.

Professional experience (bond ratings) is an indicator equal to 1 if the manager worked at a firm that belonged to the lowest decile of Compustat firms based on annual credit ratings

Professional experience (Hadlock and Pierce) is an indicator equal to 1 if the manager worked at firm that belonged to the most constrained decile of Compustat firms based on the Hadlock and Pierce (2010) index of financial constraints

Professional experience (cash flow shocks) is an indicator equal to 1 if the manager worked at firm that belonged to the lowest decile of Compustat firms based on annual changes in operating cash flows

Professional experience (stock returns) is an indicator equal to 1 if the manager worked at firm that belonged to the lowest decile of Compustat firms based on annual stock returns

Professional experience (composite index) is the maximum of the five Experience variables: Professional experience (bankruptcy), Professional experience (bond ratings), Professional experience (Hadlock and Pierce), Professional experience (cash flow shocks), Professional experience (stock returns)

Note: In all cases, we exclude past employment as the CEO of other firms

Stock ownership is the ratio of the manager's insider holdings of common stocks to the total shares outstanding

Stock option ownership is the ratio of the manager's holdings of stock options to the total shares outstanding

Tenure is the number of years that the manager has been with the company

Table 1

Firm-level Summary Statistics

This table presents summary statistics for firm-level variables used in the analyses. The sample comprises industrial firms in the Compustat/CRSP file from 1980 to 2011, with non-missing observations on total assets, and available information about the CEO's prior employment for the last 10 years or more (without gaps) prior to joining the firm. *Net debt issuance* is the annual change in debt. *Cash* is cash and short-term investments. *Industry cash flow volatility* is the 10-year rolling window of median volatility of cash flow/assets across the 48 Fama-French industries. *Cash flow/assets* is measured as earnings less interest and taxes, divided by total assets. *Market-to-book* is measured as the book value of total assets minus book value of equity plus market value of equity divided by total assets. *Size* is the natural logarithm of the book value of total assets. *Net debt/assets* is measured as total debt (debt in current liabilities plus long-term debt) minus cash and short-term investments, divided by total assets. *Short-term debt/assets* is measured as debt in current liabilities, divided by total assets. *Long-term debt/assets* is measured as long-term debt, divided by total assets. *Log(sales)* is the natural logarithm of net sales. *Profitability* is net income divided by total assets. *Tangibility* is measured as net property, plant and equipment, divided by total assets.

Variable	Mean	Median	Std. Dev.
Net debt issuance/assets	0.026	0.020	0.182
Cash/assets	0.240	0.127	0.262
Capital expenditure/assets	0.060	0.039	0.067
Industry cash flow volatility	0.094	0.084	0.051
Cash flow/assets	0.021	0.065	0.239
Market-to-book	2.308	1.637	1.962
Size	5.963	5.858	2.058
Net debt/assets	-0.012	0.042	0.441
Short-term debt/assets	0.038	0.009	0.144
Long-term debt/assets	0.190	0.123	0.243
Log(sales)	5.615	5.745	2.412
Profitability	0.013	0.027	0.288
Tangibility	0.264	0.188	0.233

Table 2

Managers

This table presents information about the CEOs and CFOs in our sample. Panel A provides summary statistics about managers' age, gender, tenure, stock ownership, and education. Panel B describes the measures of managers' professional experience at troubled firms. Panel C provides the sample-wide correlations between measures of CEO professional experience. Panel D provides additional details about managers' employment history and professional experiences. *Professional experience (bankruptcy)* is an indicator equal to 1 if the manager worked at a firm that filed for chapter 11. *Professional experience (bond ratings)* is an indicator equal to 1 if the manager worked at a firm that belonged to the lowest decile of Compustat firms based on annual credit ratings. *Professional experience (Hadlock and Pierce)* is an indicator equal to 1 if the manager worked at a firm that belonged to the most constrained decile of Compustat firms based on the Hadlock and Pierce (2010) index of financial constraints. *Professional experience (cash flow shocks)* is an indicator equal to 1 if the manager worked at a firm that belonged to the lowest decile of Compustat firms based on annual changes in operating cash flow. *Professional experience (stock returns)* is an indicator equal to 1 if the manager worked at a firm that belonged to the lowest decile of Compustat firms based on annual stock returns. *Professional experience (composite index)* is the maximum of the five Professional experience variables: *Professional experience (bankruptcy), Professional experience (bond ratings), Professional experience (Hadlock and Pierce), Professional experience (cash flow shocks), Professional experience (stock returns).* In all cases, we exclude past employment as the CEO of other firms. All variable definitions are given in the Appendix.

Panel A: Summary statistics

Variable	Mean	Median	Std. Dev.
CEOs			
Age	52.783	53.000	8.123
Female	0.022	0.000	0.148
Tenure	7.271	5.000	7.065
Stock ownership	0.027	0.009	0.081
MBA degree	0.333	0.000	0.471
CFOs			
Age	47.069	47.000	7.123
Female	0.024	0.000	0.153
Tenure	6.848	5.000	6.907
Stock ownership	0.015	0.000	0.021
MBA degree	0.465	0.000	0.499

Panel B: Frequency of professional experience

Indicator	CEO	CFO
Professional experience (bankruptcy)	0.8%	0.6%
Professional experience (bond ratings)	8.1%	8.2%
Professional experience (Hadlock and Pierce)	9.5%	9.2%
Professional experience (cash flow shocks)	12.4%	11.4%
Professional experience (stock returns)	12.1%	12.5%
Professional experience (composite index)	25.1%	23.3%

Panel C: Correlation between measures of CEO professional experience

	Bankruptcy	Bond ratings	Hadlock and Pierce	Cash flow shocks	Stock returns	Composite index
Bankruptcy	1.000					
Bond ratings	0.191	1.000				
Hadlock and Pierce	0.014	0.053	1.000			
Cash flow shocks	0.066	0.286	0.211	1.000		
Stock returns	0.148	0.225	0.131	0.298	1.000	
Composite index	0.163	0.552	0.294	0.677	0.655	1.000

Panel D: Additional details about employment history and professional experience

Variable	Mean	Median	Std. Dev.
All CEOs			
Employment history: N years	21.356	20.000	5.628
Employment history: N firms	3.873	3.000	3.883
CEOs with composite index = 1			
Employment history: N years	21.028	20.000	5.586
Employment history: N firms	3.691	3.000	3.705
N professional experiences	1.226	1.000	1.683
N years since first experience	11.894	13.000	8.425
N years since last experience	5.249	5.000	6.528
First job experience	0.284	0.000	0.426
All CFOs			
Employment history: N years	17.581	15.000	4.992
Employment history: N firms	2.619	2.000	3.126
CFOs with composite index = 1			
Employment history: N years	17.264	15.000	4.774
Employment history: N firms	2.586	2.000	3.037
N professional experiences	1.188	1.000	1.532
N years since first experience	10.377	11.000	7.669
N years since last experience	5.048	6.000	6.104
First job experience	0.236	0.000	0.410

Table 3

CEOs' Professional Experience and Corporate Policy

This table presents evidence on the relation between the professional experience of the CEO and firm-level financial policies. In panel A, the dependent variable is the ratio of net debt issuance to book assets. In panel B, the dependent variable is the ratio of cash reserves to book assets. In panel C, the dependent variable is the ratio of capital expenditure to book assets. The key variable of interest is *Professional experience*, defined as an indicator equal to 1 if the CEO worked at another firm that experienced difficulties. We use five measure of difficulties based on bankruptcy filings, bond ratings, the Hadlock and Pierce (2010) index of financial constraints, adverse cash flow shocks, and adverse shocks to the firm's annual stock return. We also calculate a composite index of *Professional experience*, defined as the maximum of these five measures. All variable definitions are given in the Appendix. All the regressions include year and 48 Fama-French industries fixed effects. Intercept and fixed effects are not shown. The standard errors (in brackets) are heteroskedasticity consistent and clustered at the firm level. Significance levels are indicated as follows: * = 10%, ** = 5%, *** = 1%.

Panel A: Net debt issuance

Measure of professional experience	Professional experience (bankruptcy)	Professional experience (bond ratings)	Professional experience (Hadlock and Pierce)	Professional experience (cash flow shocks)	Professional experience (stock returns)	Composite index of professional experience
Model	(1)	(2)	(3)	(4)	(5)	(6)
Professional experience	-0.015* [0.008]	-0.009** [0.004]	-0.009 [0.007]	-0.010*** [0.004]	-0.012*** [0.004]	-0.008*** [0.003]
Log(sales)	0.012*** [0.001]	0.011*** [0.001]	0.012*** [0.001]	0.012*** [0.001]	0.012*** [0.001]	0.012*** [0.001]
Market-to-book	0.005*** [0.001]	0.005*** [0.001]	0.005*** [0.001]	0.005*** [0.001]	0.005*** [0.001]	0.005*** [0.001]
Profitability	-0.016** [0.007]	-0.016** [0.007]	-0.017** [0.007]	-0.019*** [0.007]	-0.018** [0.007]	-0.017** [0.007]
Tangibility	-0.001 [0.008]	-0.004 [0.008]	-0.001 [0.008]	-0.001 [0.008]	-0.002 [0.008]	-0.002 [0.008]
CEO age (/100)	0.043*** [0.015]	0.043*** [0.015]	0.044*** [0.015]	0.041*** [0.015]	0.044*** [0.015]	0.041*** [0.015]
Female	-0.011 [0.008]	-0.011 [0.008]	-0.011 [0.008]	-0.012 [0.008]	-0.012 [0.008]	-0.011 [0.008]
MBA degree	0.005** [0.002]	0.005** [0.003]	0.006** [0.003]	0.005* [0.003]	0.005* [0.003]	0.005** [0.003]
Stock ownership	0.009 [0.007]	0.009 [0.007]	0.009 [0.007]	0.009 [0.007]	0.009 [0.007]	0.009 [0.007]
Stock option ownership	0.034*** [0.004]	0.035*** [0.004]	0.035*** [0.004]	0.033*** [0.004]	0.033*** [0.004]	0.033*** [0.004]
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
N Observations	29,226	29,226	29,226	29,226	29,226	29,226
R-Squared	0.036	0.036	0.036	0.037	0.036	0.036

Panel B: Cash holdings

Measure of professional experience	Professional experience (bankruptcy)	Professional experience (bond ratings)	Professional experience (Hadlock and Pierce)	Professional experience (cash flow shocks)	Professional experience (stock returns)	Composite index of professional experience
Model	(1)	(2)	(3)	(4)	(5)	(6)
Professional experience	0.025* [0.014]	0.017** [0.008]	0.051*** [0.018]	0.054*** [0.007]	0.021*** [0.007]	0.038*** [0.006]
Industry cash flow volatility	0.470*** [0.100]	0.462*** [0.101]	0.456*** [0.100]	0.427*** [0.100]	0.441*** [0.101]	0.449*** [0.100]
Cash flow/assets	-0.109*** [0.009]	-0.108*** [0.009]	-0.107*** [0.009]	-0.106*** [0.009]	-0.109*** [0.009]	-0.105*** [0.009]
Market-to-book	0.030*** [0.001]	0.030*** [0.001]	0.030*** [0.001]	0.030*** [0.001]	0.030*** [0.001]	0.030*** [0.001]
Credit ratings	-0.229*** [0.035]	-0.223*** [0.035]	-0.234*** [0.035]	-0.210*** [0.035]	-0.231*** [0.035]	-0.223*** [0.035]
Size	-0.031*** [0.002]	-0.032*** [0.002]	-0.031*** [0.002]	-0.032*** [0.002]	-0.031*** [0.002]	-0.032*** [0.002]
CEO age (/100)	-0.270*** [0.031]	-0.274*** [0.032]	-0.281*** [0.031]	-0.282*** [0.032]	-0.276*** [0.032]	-0.282*** [0.031]
Female	0.008 [0.015]	0.007 [0.015]	0.008 [0.015]	0.009 [0.015]	0.009 [0.015]	0.007 [0.015]
MBA degree	-0.010* [0.005]	-0.010* [0.005]	-0.010* [0.005]	-0.010** [0.005]	-0.009* [0.005]	-0.012** [0.005]
Stock ownership	-0.001 [0.003]	-0.002 [0.003]	-0.002 [0.004]	-0.001 [0.003]	-0.001 [0.002]	-0.001 [0.003]
Stock option ownership	-0.023*** [0.002]	-0.025*** [0.001]	-0.023*** [0.003]	-0.023*** [0.003]	-0.023*** [0.002]	-0.023*** [0.002]
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
N Observations	29,226	29,226	29,226	29,226	29,226	29,226
R-Squared	0.504	0.504	0.503	0.508	0.504	0.507

Panel C: Capital expenditures

Measure of professional experience	Professional experience (bankruptcy)	Professional experience (bond ratings)	Professional experience (Hadlock and Pierce)	Professional experience (cash flow shocks)	Professional experience (stock returns)	Composite index of professional experience
Model	(1)	(2)	(3)	(4)	(5)	(6)
Professional experience	-0.012** [0.005]	-0.004** [0.002]	-0.005* [0.003]	-0.003 [0.002]	-0.006*** [0.002]	-0.004*** [0.001]
Market-to-book	0.002*** [<0.001]	0.002*** [<0.001]	0.002*** [<0.001]	0.002*** [<0.001]	0.002*** [<0.001]	0.002*** [<0.001]
Cash flow/assets	0.002 [0.002]	0.001 [0.002]	0.001 [0.002]	0.001 [0.002]	0.001 [0.002]	0.001 [0.002]
CEO age (/100)	-0.015* [0.008]	-0.014* [0.008]	-0.016* [0.008]	-0.015* [0.008]	-0.014* [0.008]	-0.014 [0.008]
Female	-0.001 [0.004]	-0.001 [0.004]	-0.001 [0.004]	-0.001 [0.004]	-0.001 [0.004]	-0.001 [0.004]
MBA degree	0.001 [0.001]	0.001 [0.001]	0.001 [0.001]	0.001 [0.001]	0.001 [0.001]	0.001 [0.001]
Stock ownership	-0.001* [0.001]	-0.001* [0.001]	-0.001* [0.001]	-0.001* [0.001]	-0.001* [0.001]	-0.001* [0.001]
Stock option ownership	-0.014*** [0.001]	-0.014*** [0.001]	-0.014*** [0.001]	-0.014*** [0.001]	-0.014*** [0.001]	-0.014*** [0.001]
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
N Observations	29,226	29,226	29,226	29,226	29,226	29,226
R-Squared	0.331	0.332	0.330	0.333	0.331	0.331

Table 4

The Appointment Channel

This table presents estimates from regressions explaining firms' financial policies in the year prior to the year that immediately precedes the appointment of a new CEO. In panel A, the dependent variable is the ratio of net debt issuance to book assets. In panel B, the dependent variable is the ratio of cash reserves to book assets. In panel C, the dependent variable is the ratio of capital expenditure to book assets. The key variable of interest is *Professional experience*, defined as an indicator equal to 1 if the newly appointed CEO worked at another firm that experienced difficulties. All variable definitions are given in the Appendix. All the regressions include the same controls as in Table 3, as well as year and 48 Fama-French industry fixed effects, which are not shown. The standard errors (in brackets) are heteroskedasticity consistent and clustered at the firm level. Significance levels are indicated as follows: * = 10%, ** = 5%, *** = 1%.

Panel A: Net debt issuance

Measure of professional experience	Professional experience (bankruptcy)	Professional experience (bond ratings)	Professional experience (Hadlock and Pierce)	Professional experience (cash flow shocks)	Professional experience (stock returns)	Composite index of professional experience
Model	(1)	(2)	(3)	(4)	(5)	(6)
Professional experience index	-0.002 [0.002]	-0.001 [0.004]	-0.001* [<0.001]	-0.002** [0.001]	-0.002 [0.003]	-0.002** [0.001]
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
N Observations	1,429	1,429	1,429	1,429	1,429	1,429
R-Squared	0.088	0.091	0.087	0.089	0.087	0.092

Panel B: Cash holdings

Measure of professional experience	Professional experience (bankruptcy)	Professional experience (bond ratings)	Professional experience (Hadlock and Pierce)	Professional experience (cash flow shocks)	Professional experience (stock returns)	Composite index of professional experience
Model	(1)	(2)	(3)	(4)	(5)	(6)
Professional experience index	0.008 [0.011]	0.006 [0.005]	0.014*** [0.005]	0.013** [0.006]	0.010** [0.005]	0.010** [0.005]
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
N Observations	1,429	1,429	1,429	1,429	1,429	1,429
R-Squared	0.563	0.564	0.563	0.569	0.566	0.569

Panel C: Capital expenditures

Measure of professional experience	Professional experience (bankruptcy)	Professional experience (bond ratings)	Professional experience (Hadlock and Pierce)	Professional experience (cash flow shocks)	Professional experience (stock returns)	Composite index of professional experience
Model	(1)	(2)	(3)	(4)	(5)	(6)
Professional experience index	-0.002**	-0.002	-0.004	-0.003**	-0.002	-0.001*
	[0.001]	[0.004]	[0.016]	[0.001]	[0.004]	[<0.001]
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
N Observations	1,429	1,429	1,429	1,429	1,429	1,429
R-Squared	0.353	0.352	0.351	0.349	0.349	0.354

Table 5

CEO Turnovers

This table presents estimates from fixed effects and first-difference regressions surrounding CEO turnover. Panel A includes all CEO turnovers. Panel B corresponds to turnovers in which the CEO departed as part of a succession plan, due to health reasons (including deaths), or retired at the age of 60 or older. Panel C includes internal turnovers in which the new CEO came from inside the firm. All variable definitions are given in the Appendix. All the regressions include the same controls as in Table 3, as well as year and 48 Fama-French industry fixed effects, which are not shown. The standard errors (in brackets) are heteroskedasticity consistent and clustered at the firm level. Significance levels are indicated as follows: * = 10%, ** = 5%, *** = 1%.

Panel A: All CEO turnovers

Specification	Firm fixed effects			Changes around CEO turnovers		
Dependent variable	Net debt issuance	Cash holdings	Capital expenditure	ΔNet debt issuance	ΔCash holdings	ΔCapital expenditure
Model	(1)	(2)	(3)	(4)	(5)	(6)
Professional experience index	-0.008** [0.004]	0.023** [0.009]	-0.005** [0.002]	-0.014** [0.007]	0.024** [0.010]	-0.008* [0.005]
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
N Observations	12,294	12,294	12,294	1,429	1,429	1,429
R-Squared	0.161	0.828	0.637	0.132	0.052	0.016

Panel B: Succession/Health/Age-Related CEO turnovers

Specification		Firm fixed effects			Changes around CEO turnovers	
Dependent variable	Net debt issuance	Cash holdings	Capital expenditure	Net debt issuance	Cash holdings	Capital expenditure
Model	(1)	(2)	(3)	(4)	(5)	(6)
Professional experience index	-0.009** [0.004]	0.028*** [0.009]	-0.005** [0.002]	-0.016** [0.007]	0.025** [0.012]	-0.006 [0.004]
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
N Observations	8,462	8,462	8,462	976	976	976
R-Squared	0.149	0.811	0.623	0.136	0.048	0.019

Panel C: Internal CEO turnovers

Specification		Firm fixed effects			Changes around CEO turnovers	
Dependent variable	Net debt issuance	Cash holdings	Capital expenditure	Net debt issuance	Cash holdings	Capital expenditure
Model	(1)	(2)	(3)	(4)	(5)	(6)
Professional experience index	-0.008** [0.004]	0.026** [0.012]	-0.004** [0.002]	-0.014** [0.007]	0.025*** [0.006]	-0.009* [0.005]
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
N Observations	10,081	10,081	10,081	1,228	1,228	1,228
R-Squared	0.163	0.828	0.641	0.135	0.053	0.018

Table 6

Robustness and Extensions

This table presents evidence on the relation between the professional experience of the CEO and firm-level financial policies (net debt issuance, cash holdings, and capital expenditures). Panel A extends the analysis in Table 3 to consider the timing of the professional experience. Recent (Distant) experiences occurred more than 6 years (less than 6 years) prior to the start of the CEO's current position. (6 years is the median number of years since a CEO experienced distress.) Panel B considers the industry in which the CEO experienced distress and the number of experiences the CEO encountered through her career. All variable definitions are given in the Appendix. All the regressions include the same set of controls as in Table 3, as well as year and 48 Fama-French industry fixed effects, which are not shown to conserve space. The standard errors (in brackets) are heteroskedasticity consistent and clustered at the firm level. Significance levels are indicated as follows: * = 10%, ** = 5%, *** = 1%.

Panel A: Timing of professional experiences

Specification	Recent professional experience			Distant professional experience			First job professional experience		
Dependent variable	Net debt issuance	Cash holdings	Capital expenditure	Net debt issuance	Cash holdings	Capital expenditure	Net debt issuance	Cash holdings	Capital expenditure
Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Professional experience index	-0.010*** [0.003]	0.044*** [0.009]	-0.005*** [0.001]	-0.006** [0.003]	0.033*** [0.008]	-0.003** [0.001]	-0.005* [0.003]	0.031*** [0.008]	-0.002** [0.001]
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N Observations	24,549	24,549	24,549	26,303	26,303	26,303	23,919	23,919	23,919
R-Squared	0.038	0.510	0.333	0.035	0.506	0.329	0.035	0.506	0.330

Panel B: Industry and number of professional experiences

Specification	Out-of-industry professional experience			Same-industry professional experience			Number of professional experiences > 2		
Dependent variable	Net debt issuance	Cash holdings	Capital expenditure	Net debt issuance	Cash holdings	Capital expenditure	Net debt issuance	Cash holdings	Capital expenditure
Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Professional experience index	-0.007*** [0.003]	0.036*** [0.009]	-0.004*** [0.001]	-0.008*** [0.003]	0.039*** [0.005]	-0.004*** [0.001]	-0.011*** [0.003]	0.045*** [0.007]	-0.006*** [0.001]
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N Observations	23,374	23,374	23,374	27,478	27,478	27,478	23,012	23,012	23,012
R-Squared	0.037	0.506	0.329	0.039	0.507	0.330	0.038	0.511	0.040

Table 7

CFOs' Professional Experience

This table presents evidence on the relation between the professional experience of both the CEO and the CFO and firm-level financial policies (net debt issuance, cash holdings, and capital expenditures). All variable definitions are given in the Appendix. All the regressions include the same set of controls as in Table 3, as well as year and 48 Fama-French industry fixed effects, which are not shown to conserve space. The standard errors (in brackets) are heteroskedasticity consistent and clustered at the firm level. Significance levels are indicated as follows: * = 10%, ** = 5%, *** = 1%.

Dependent variable	Net debt issuance	Cash holdings	Capital expenditure	Net debt issuance	Cash holdings	Capital expenditure
Model	(1)	(2)	(3)	(4)	(5)	(6)
CEO professional experience	-0.006*** [0.002]	0.030*** [0.006]	-0.003** [0.001]	-0.005** [0.002]	0.027*** [0.007]	-0.002** [0.001]
CFO professional experience	-0.011*** [0.003]	0.036*** [0.006]	-0.001 [0.001]	-0.010** [0.004]	0.024*** [0.007]	0.001 [0.002]
CEO x CFO professional experience				-0.003 [0.007]	0.013* [0.007]	-0.005* [0.003]
CEO age	0.027 [0.018]	-0.298*** [0.034]	0.001 [0.009]	0.027 [0.018]	-0.298*** [0.034]	0.001 [0.009]
CEO female	-0.008 [0.009]	0.005 [0.016]	-0.002 [0.004]	-0.008 [0.009]	0.005 [0.016]	-0.002 [0.004]
CEO MBA degree	0.006** [0.003]	-0.008 [0.006]	0.002 [0.001]	0.006** [0.003]	-0.008 [0.006]	0.002 [0.001]
CEO stock ownership	-0.121 [0.200]	0.053 [0.046]	-0.024*** [0.005]	-0.121 [0.201]	0.053 [0.045]	-0.024*** [0.005]
CEO stock option ownership	0.037*** [0.005]	-0.075*** [0.009]	-0.015*** [0.002]	0.037*** [0.005]	-0.074*** [0.009]	-0.015*** [0.002]
CFO age	0.035* [0.021]	-0.089** [0.037]	0.002 [0.009]	0.034* [0.021]	-0.087** [0.037]	0.003 [0.009]
CFO female	-0.006 [0.005]	0.019* [0.010]	-0.001 [0.003]	-0.006 [0.005]	0.019* [0.010]	-0.001 [0.003]
CFO MBA degree	0.001 [0.003]	-0.012** [0.005]	0.001 [0.001]	0.001 [0.003]	-0.012** [0.005]	0.001 [0.001]
CFO stock ownership	-0.174 [0.1670]	-0.138 [0.120]	-0.063* [0.033]	-0.174 [0.167]	-0.137 [0.125]	-0.0627* [0.033]
CFO stock option ownership	0.137 [0.293]	-0.218 [0.674]	-0.301** [0.140]	0.137 [0.295]	-0.208 [0.673]	-0.299** [0.141]
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
N Observations	23,681	23,681	23,681	23,681	23,681	23,681
R-Squared	0.037	0.528	0.369	0.037	0.528	0.369

Table 8

CEOs' Professional Experience and Corporate Governance

This table presents evidence on the relation between corporate governance, the professional experience of the CEO, and firm-level financial policies (net debt issuance, cash holdings, and capital expenditures). The corporate governance measures are standardized such that higher values correspond to poorer corporate governance. The key variable of interest is the interaction term: *Professional experience index* x *Governance.* All variable definitions are given in the Appendix. All the regressions include the same set of controls as in Table 3, as well as year and 48 Fama-French industry fixed effects, which are not shown to conserve space. The standard errors (in brackets) are heteroskedasticity consistent and clustered at the firm level. Significance levels are indicated as follows: * = 10%, ** = 5%, *** = 1%.

Dependent variable	Net debt issuance	Cash holdings	Capital expenditure	Net debt issuance	Cash holdings	Capital expenditure	Net debt issuance	Cash holdings	Capital expenditure
Measure of governance	E-index			Blockholder			Board independence		
Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Professional experience index	-0.005** [0.002]	0.021* [0.012]	-0.003 [0.008]	-0.005 [0.003]	0.022*** [0.006]	-0.003 [0.002]	-0.004** [0.002]	0.018** [0.009]	-0.002* [0.001]
Governance	0.001 [0.001]	-0.005*** [0.001]	0.001 [<0.001]	0.008 [0.009]	-0.001 [0.002]	0.001*** [<0.001]	0.038*** [0.011]	-0.041*** [0.015]	0.007 [0.006]
Professional experience index X Governance	-0.003*** [0.001]	0.005*** [0.001]	-0.002*** [0.001]	-0.004** [0.002]	0.023*** [0.005]	-0.004*** [0.001]	-0.018*** [0.005]	0.049*** [0.015]	-0.014** [0.006]
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N Observations	14,823	14,823	14,823	15,186	15,186	15,186	26,857	26,857	26,857
R-Squared	0.041	0.529	0.339	0.039	0.520	0.347	0.043	0.542	0.344