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Andrew Marshall, Laura McCann, Patrick McColgan*

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Abstract

We demonstrate that banks play an important monitoring role in CEO succession that is not observed for other types of lenders, particularly public bondholders. There is a stronger relation between cash flow performance and forced CEO turnover for firms issuing bank debt during the year of CEO turnover than for firms not issuing bank debt, and bank debt issuance increases the likelihood of external CEO succession. The stock price reaction to CEO succession is higher when bank monitoring is prevalent. Our results are consistent with theories of relationship banking that propose a valuable monitoring role for well informed, incentivized bank lenders.

JEL Classification: G21, G32, G34

Keywords: Bank debt; CEO succession; Lender monitoring; External succession

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