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Md Safiullah
RMIT University

Ghasan A. Baghdadi
La Trobe University

Marc Goergen
IE Business School and ECGI

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Keywords: Corporate default risk; Expected default frequency; CDS spreads; CEO general managerial skills; CEO sudden deaths; Return volatility

JEL Classifications: G33; G34; M12; J24

Md Safiullah
Senior Lecturer
RMIT University
124 La Trobe St
Melbourne VIC 3000, Australia
e-mail: md.safiullah@rmit.edu.au

Ghasan A. Baghdadi
Lecturer
La Trobe University
lenty Rd, Bundoora
Melbourne Victoria 3086, Australia
e-mail: G.Baghdadi@latrobe.edu.au

Marc Goergen*
Professor of Finance
IE Business School, Department of Finance
María de Molina 11
28006 Madrid, Spain
phone: +34 917 875 182
e-mail: marc.goergen@ie.edu

*Corresponding Author

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Md Safiullah
RMIT University, School of Economics, Finance and Marketing, Melbourne, Australia

Ghasan A. Baghdadi
La Trobe Business School, La Trobe University, Melbourne, Australia

Marc Goergen*
IE Business School, IE University, Madrid, Spain
European Corporate Governance Institute, Brussels, Belgium

Abstract

We examine whether the general managerial skills of chief executive officers (CEOs) affect corporate default risk. Employing a large panel of data on US firms, we find that generalist CEOs help reduce default risk. This result is robust to using different fixed effects (i.e., firm, CEO, and industry fixed effects), propensity score matching, and a difference-in-differences analysis to address endogeneity concerns. Furthermore, a channel analysis unveils that generalist CEOs curb corporate default risk by lowering the volatility of the return on assets (ROA) and that of the stock return.

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* Corresponding author: Marc Goergen, email: marc.goergen@ie.edu.

1. Introduction

General managerial skills, which are transferrable across firms and industries in contrast to firm-specific skills, have recently elicited much attention (Betzer et al., 2020; Custódio, Ferreira and Matos, 2013; Frydman, 2019; Murphy and Zabojnik, 2004, 2007; Chen et al., 2021; Evdokimov et al. 2022; Fang et al., 2024; Lu et al., 2024; Wu et al., 2024). The main reason for this attention is the greater competition in the labor market for managers, the increasing complexity of firms, rapid technological advancements, and fiercer product market competition (Cuñat and Guadalupe, 2009; Frydman, 2019; Murphy and Zabojnik, 2007). Hence, it is no surprise that recent literature documents that generalist chief executive officers (CEOs) who possess broad managerial work experience account for a growing share of top management. They also receive significant hiring and pay premia compared to their specialist counterparts, consistent with a high demand for general managerial skills (Custódio et al., 2013; Frydman, 2019).

Notably, empirical evidence suggests that CEOs' general managerial skills influence corporate decisions and financial policies, as well as firm performance and value (Betzer et al., 2020; Chen et al., 2020; Chen et al., 2017; Custódio and Metzger, 2013; Custódio et al., 2019, Li and Patel, 2019; Mishra, 2014). Nevertheless, the literature does not suggest that having generalist CEOs is always advantageous. On the one hand, some studies document that firms with such CEOs exhibit higher credit quality (Chen et al., 2017), generate more innovations (Custódio et al., 2019; Wu et al., 2024), practice conditional accounting conservatism by reporting bad news about the cash flows more quickly than good news (Hrazdil et al., 2024), have higher shareholder value (Betzer et al., 2020), have lower stock price crash risk (Fang et al., 2024), and focus on a broader range of corporate responsibility initiatives (Lu et al., 2024). On the other hand, generalist CEOs have been associated with a higher cost of equity (Mishra, 2014), greater earnings management (Amirkhani et al., 2020), lower credit ratings (Ma et al., 2021), more internal control weaknesses (Xu, 2024), higher executive cronyism as reflected in

greater fixed and equity-based compensation (Evdokimov et al., 2022), and lower financial and social performance (Chen et al., 2020; Li and Patel, 2019). Such conflicting evidence raises the question of whether CEOs' general managerial skills affect corporate default risk. Given that generalist CEOs are valued more than their specialist counterparts, it is vital to understand how generalist CEOs affect corporate default risk.

We conjecture that a CEO's general managerial skills affect a firm's default risk. Recent literature documents that CEOs with more general managerial skills benefit their firms via a broader knowledge base (Karaevli and Hall, 2006), a greater range of skills, and a greater breadth of experience (Mueller et al., 2020), as well as improved information processing (Custódio et al., 2019). Such CEOs also take on more innovative investment projects (Custódio et al., 2019), negotiate better merger and acquisition (M&A) deals (Custódio and Metzger, 2013; Chen et al., 2021), and create more shareholder value. Building on this line of research, we postulate that firms led by CEOs with more general managerial skills make more prudent investments and generate less volatile profits, which, in turn, reduces default risk. However, the variety of skills of such CEOs may equate to inadequate career specialization or lack of depth of experience (Mishra, 2014; Mueller et al., 2020). This may lead to lower levels of understanding or a reduced focus on firm-specific and industry-specific factors, which may ultimately affect the probability of default. Consequently, CEOs with more general managerial skills may also be associated with higher default risks. Hence, the effect of the general managerial skills of CEOs on corporate default risk is a *priori* unclear. This study empirically examines the impact of general managerial skills on default risk.

We employ a large sample of 21,199 firm-year observations for the 1993–2016 period, stemming from 2,087 unique US firms. We follow Custódio et al. (2013) and construct an index of general managerial ability (*GAI*) based on five aspects of a CEO's work experience: past number of (i) positions, (ii) firms, and (iii) industries in which the CEO worked; (iv) whether the CEO held a CEO position at a different company; and (v) whether the CEO worked

for a conglomerate. The index aggregates information on a CEO's general skills, which enables us to classify a CEO as a generalist or a specialist. We use the expected default frequency (*EDF*) of Bharath and Shumway (2008) as our primary proxy for default risk. Our study finds evidence suggesting that CEOs with general managerial ability help decrease corporate default risk.

We also use credit default swap (CDS) spreads and the probability of default estimated via the hazard rate model of Shumway (2001) as alternative measures of corporate default risk. We still find results consistent with the main finding. We also find persistently robust results when controlling for CEO characteristics (i.e., CEO age, tenure, and duality), CEO compensation, and information asymmetry. In addition, the results remain robust when we employ CEO fixed effects instead of firm fixed effects and industry fixed effects.

Nevertheless, it might be the case that, due to omitted variables, the two variables are merely correlated rather than general managerial skills affecting default risk. While we include firm fixed effects in all the specifications, which absorb time-invariant unobservable firm characteristics, omitted variables that are time-varying or not firm-specific may still bias the results by causing the error term in our specification to be correlated with *GAI*. We employ two different approaches to address this concern. First, we use propensity score matching (PSM) to identify firms with generalist CEOs, which cannot be distinguished from firms with specialist CEOs. Second, we conduct a difference-in-differences (DiD) analysis to investigate the change in expected default risk around generalist CEO exogenous turnovers. To that end, our treatment group consists of firms that experienced the sudden death of their CEO and replaced their CEO with a new CEO with a higher *GAI* score. The control group consists of firms without a change in their CEO during the period under consideration. We still find that greater general managerial skills of CEOs are associated with lower corporate default risk.

Our study makes three major contributions to the literature. First, it adds to the growing research on the role of CEOs' general managerial skills in corporate finance (Betzer et al.,

2020; Custódio and Metzger, 2013; Custódio et al., 2019; Hayes and Schaefer, 1999; Marinovic and Povel, 2017; Chen et al., 2021; Wu et al., 2024). While prior research has shown that the general managerial abilities of CEOs are related to greater shareholder value, larger long-term investments in innovative projects, better M&A decision-making, a higher cost of capital, and lower performance, our results suggest that the general managerial skills of CEOs help firms reduce corporate default risk. Our study is related to that of Ma et al. (2021), who examine the association between generalist CEOs and credit ratings. However, unlike their study, we focus on default risk measured by *EDF*, CDS spreads, and the probability of default estimated via a hazard rate model. Default risk and credit ratings differ in the sense that the former is considered a determinant of the latter. Furthermore, a default risk is a general risk attribute of a firm, while credit ratings are used by bondholders to assess the risk of holding a firm's bond securities (Bonsall et al., 2017; Ma et al., 2021). Notably, when including a firm's credit rating in our baseline model, we still find that general managerial skills have explanatory power.

Second, our study advances research on the determinants of corporate default risk (e.g., Ashbaugh-Skaife, Collins, and LaFond, 2006; Burgstahler, Jiambalvo, and Noreen, 1989). Prior research documents that accounting conservatism (Biddle et al., 2020), stock liquidity (Brogaard et al., 2017), corporate board attributes, and overall governance quality reduce default risk (Platt and Platt, 2012). By contrast, board co-option is associated with a higher default risk (Baghdadi et al., 2020). We add to this literature by showing that the general managerial ability of CEOs reduces default risk.

Finally, in addition to examining the direct link between the general managerial skills of CEOs and default risk, we also attempt to identify the economic channels through which generalist CEOs affect default risk. To this end, we use ROA volatility and stock return volatility as plausible channels, as both accounting and market-based measures of return volatility have been found to amplify firm default risk (Merton, 1974; Bharath and Shumway, 2008; Campbell et al., 2008). More specifically, we examine whether the general managerial

skills of CEOs affect corporate default risk by reducing the volatility of the ROA and that of the stock return. We find that CEOs with more general managerial skills are associated with lower ROA volatility and lower stock return volatility, generating insights into how generalist CEOs reduce default risk.

To the best of our knowledge, this is the first paper that relates the human capital of CEOs, based on mobility across positions, firms, and industries, as well as experience as a top executive and in a conglomerate, to default risk. Our study provides new insights into the effect of generalist CEOs on corporate default risk, with important implications for policy and practice. First, the conclusion from this study is to appoint CEOs with more generalist profiles because such CEOs help reduce the likelihood of corporate default. However, we also find that what matters is industry-specific skills. Indeed, when analyzing the effect of each of the five individual components of *GAI* on default risk, we found that experience obtained from working for *different* firms operating in the *same* industry reduced default risk. By contrast, neither the number of industries for which a CEO had worked nor conglomerate experience affected default risk. Second, our study also has implications for reducing agency conflicts among managers, shareholders, and debtholders, as we find a negative association between the general managerial skills of the CEO and default risk, suggesting that firms with such CEOs generate more stable earnings, making the servicing of future financial claims more likely and, hence, lowering agency costs.

Our paper proceeds by presenting the data and descriptive statistics in the second section. We discuss the empirical results in the third section. We address endogeneity issues in the fourth section. In the fifth section, we study the effects of the individual components of the general ability index on default risk, whereas the sixth section focuses on the channel analysis. The seventh section sets forth our conclusion.

2. Data and Descriptive Statistics

2.1 Sample Selection and Variable Definitions

2.1.1 The Sample

In this section, we outline the data sources used in this study. To measure CEOs' general managerial skills, we use the *GAI* of Custódio et al. (2013).[1] We collect data on stock returns, stock return volatility, and stock liquidity from the Center for Research in Security Prices (CRSP). Our accounting data are from Compustat. Institutional ownership data are from the Refinitiv Institutional Holdings database. Executive compensation and financial analyst data are collected from ExecuComp and the Institutional Brokers Estimate System (I/B/E/S) database, respectively. Our sample period covers 1993 to 2016 since *GAI* data are only available for these years. We begin by matching firms with non-missing market-based and accounting data with all the firms with a *GAI* score before matching our sample with the corporate default risk data. Financial firms (SIC codes 6021, 6022, 6029, 6035, 6036) are excluded from the sample following Bharath and Shumway (2008). We end up with a panel of 20,485 firm-year observations for the 1993–2016 period, relating to 2,071 unique firms. Detailed variable definitions are provided in Appendix A.

2.1.2 General Ability Index (GAI)

The *GAI* by Custódio et al. (2013) defines generalist managers as those who possess general managerial skills that are transferable across firms or industries. To construct the index, Custódio et al. (2013) start by matching executives in ExecuComp who are identified as CEOs in any given year with their profiles in the BoardEx database, which provides data on CEOs' prior professional experience, including their past positions, firms, industries, CEO positions, and positions in conglomerates. Subsequently, the *GAI* score for CEO *j* in year *t* is defined as follows:

[1] We thank Cláudia Custódio for sharing with us the recently updated dataset.

$$GAI_{jt} = \beta_0 + 0.268\,X1_{jt} + 0.312\,X2_{jt} + 0.309\,X3_{jt} + 0.218\,X4_{jt} + 0.153\,X5_{jt} \quad (1)$$

where *X*1 to *X*5 are the index components that capture the number of different positions held by CEO *j*; the number of firms for which the CEO worked previously; the number of industries, represented by the four-digit SIC codes, where the CEO worked previously; an indicator variable indicating whether the CEO served as a CEO in the past; and an indicator variable that takes the value of one if the CEO worked at a conglomerate previously and zero otherwise. The index (i.e., *GAI*) is then standardized to have a zero mean and a standard deviation of one. A higher *GAI* value indicates a higher level of general human capital (i.e., a CEO with more general managerial skills), which can be transferrable across firms and industries.[2] Following Custódio et al. (2013), we also use an indicator variable for generalist CEOs, which takes the value of one if the general ability index for the CEO is above the annual 75th percentile and zero otherwise.

2.1.3 Expected Default Frequency (EDF)

We employ the *EDF* measure as our primary dependent variable, which is obtained from the modified version of the Merton (1974) structural distance-to-default model proposed by Bharath and Shumway (2008). More specifically, the *EDF* measure is estimated based on the following equations:

$$DD_{it} = \frac{\ln\left(\frac{Equity_{it} + Debt_{it}}{Debt_{it}}\right) + \left(r_{i,t-1} - 0.5\,\sigma_{Vit}^2\right)T_{it}}{\sigma_{Vit}\sqrt{T_{it}}}, \quad (2)$$

$$\sigma_{Vit} = \frac{Equity_{it}}{Equity_{it} + Debt_{it}} \times \sigma_{Eit} + \frac{Debt_{it}}{Equity_{it} + Debt_{it}} \times (0.05 + 0.25 \times \sigma_{Eit}), \quad (3)$$

and

[2] The weights that are applied to the *GAI* were obtained from extracting common components using principal component analysis from the five inputs used to approximate general human capital (Custódio et al., 2013). Note that the index can take on positive and negative values.

$$EDF_{i,t} = N\left(-DD_{i,t}\right). \quad (4)$$

where $Equity_{it}$ is the market value of equity defined as the product of the number of shares outstanding and the stock price at the end of the year. $Debt_{it}$ is the face value of debt, defined as the sum of short-term debt and one-half of long-term debt, as per Duffie et al. (2007). r_{it-1}, firm *i*'s annual return, is measured by cumulating the monthly stock returns over the previous fiscal year. σ_{Eit} is the annualized standard deviation of the stock returns for firm *i* based on the monthly stock returns over the previous year. σ_{Vit} is an approximation of the volatility of the firm's assets, as per Bharath and Shumway (2008), estimated by applying Equation (3). T_{it} is set to one, as in Duffie et al. (2007). Finally, $N(.)$ is the cumulative standard normal distribution function.

2.1.4 The Control Variables

We follow Bharath and Shumway (2008) and include the direct determinants of corporate default risk in our regressions. These determinants include the natural logarithm of the market value of equity (*Ln Equity*), the natural logarithm of the face value of debt (*Ln Debt*), the inverse of the annualized stock volatility ($1/\sigma_E$),[3] the difference between the stock's annual return and the CRSP value-weighted return (*Excess Return*), and the ratio of net income to total assets (*Income/Assets*). Brogaard et al. (2017) show that stock liquidity is strongly related to corporate default risk, so we also include stock liquidity as a control variable in our regressions. We define stock liquidity (*Ln Amihud*), following Amihud (2002), as the annual average of the ratio of the absolute value of the daily stock return divided by the daily dollar trading volume multiplied by one million. We then take the natural logarithm of the ratio and multiply it by

[3] Stock return volatility is strongly related to the default risk since, if a firm's cash flow (and hence its stock return) is more volatile, the probability of default risk is also higher (Shumway, 2001). Taking the inverse of stock return volatility shifts the focus from how much the stock price fluctuates to how stable or predictable the stock price is. Consistent with previous studies, we should find a negative relation between the inverse of stock return volatility and *EDF* (e.g., Chava and Jarrow, 2004; Bharath and Shumway, 2008).

minus one, such that higher (lower) values of the price impact ratio are associated with higher (lower) liquidity levels. Moreover, corporate governance appears to be an effective mechanism through which stock liquidity decreases the probability of bankruptcy (Brogaard et al., 2017). As such, we measure corporate governance by the degree of institutional shareholder monitoring, which is proxied by the top five institutional holdings (*IO*), following Hartzell and Starks (2003).

We include CEO academic qualifications in our regressions following the literature showing that CEO education affects firm risk and performance (e.g., King et al., 2016; Fedaseyeu et al., 2018). We use *CEO PhD*, an indicator variable that takes the value of one if the CEO has a PhD degree and zero otherwise. We also include *CEO MBA*, an indicator variable that takes the value of one if the CEO has an MBA degree and zero otherwise. Additionally, we include firm-specific variables (i.e., *Firm Size*, *Firm Age*, and *Return on Assets* (*ROA*) *Volatility*) as control variables. *Firm Size* is the natural logarithm of total assets. *Firm Age* is the natural logarithm of one plus firm age, estimated by the number of years a firm is listed on the CRSP. *ROA Volatility* is the earnings volatility defined as the preceding five-year volatility of the *ROA*, calculated as operating income before depreciation divided by lagged total assets. Finally, as corporate behavior has been shown to be influenced by CEO characteristics (Hirshleifer et al., 2012), we also control for CEO age, tenure, and duality. *CEO Age* is the age of the incumbent CEO; *CEO Tenure* is the number of years a CEO has been the firm's CEO; and *CEO Duality* is an indicator variable set to one if the CEO is also the chairman of the board of directors and zero otherwise.

All variables are winsorized at the top and bottom one percentiles to alleviate the potential effects of outliers, except for the expected default frequency, as its values are naturally bounded between zero and one.

2.2 Descriptive Statistics

Table 1 reports the distribution of *GAI* and *EDF* across the 1993–2016 period. Panel A of the table shows the distribution of *GAI* and *EDF* by year. There is a significant increase in *GAI* over the sample period, particularly after 2008, which suggests a greater demand for generalist CEOs following the global financial crisis. *EDF* is approximately uniform, except in 2008 when it peaks at 0.138.

Panel B of Table 1 presents the distribution of *GAI* and *EDF* across the Fama-French 12 industries.[4] We observe significant variations in *GAI* and *EDF* across industries. Specifically, the chemical products (finance) industry has the highest (lowest) average level of generality of CEO human capital with 0.153 (-0.328). For *EDF*, we find that the telecoms industry has the highest default risk at 0.081, followed by the energy products industry at 0.056. The lowest default risk is observed in the chemical products and healthcare industries, standing at 0.016.

[Insert Table 1]

Table 2 presents the descriptive statistics of our full sample. The average firm in our sample has a 0.036 *EDF* value with a standard deviation of 0.141 (Panel A). *GAI* has a mean of –0.17 and a standard deviation of 0.87 (Panel B). The average firm has an approximate market value of equity of seven billion and a face value of debt of roughly two billion (Panel C).

[Insert Table 2]

3. Empirical Results

3.1 Baseline Regression Results

We start our analysis by examining the influence that generalist CEOs may have on corporate default risk. To do so, we estimate the following OLS regression:

[4] Although we exclude financial firms (i.e., firms with SIC codes 6021, 6022, 6029, 6035, 6036) following Bharath and Shumway (2008), the sample still contains other financial firms that do not have the above SIC codes.

$$EDF_{it} = \beta_0 + \beta_1 GAI_{i,t-1} + \sum_{k=2}^{n} \beta_k Control_{ki,t-1} + \phi\, Firm_i + \varphi\, Year_t + \varepsilon_{it} \quad (5)$$

where *i* and *t* refer to the firm and year, respectively. The dependent variable is *EDF*, as per Bharath and Shumway (2008). The independent variables of interest are *GAI* and *GAI 75th Dummy*. The control variables include *Ln Equity*, *Ln Debt*, volatility ($1/\sigma_E$), *Excess Return*, *Income/Assets*, *IO*, *Ln Amihud*, *CEO PhD*, *CEO MBA*, *Firm Size*, *Firm Age*, *ROA Volatility*, CEO *Age*, *CEO Tenure*, and *CEO Duality*. All independent variables are lagged by one year to mitigate potential reverse causality.

We estimate a different regression for each of the two independent variables of interest (i.e., *GAI* and *GAI 75th Dummy*). The results are presented in Table 3. The first two regressions include all control variables, as well as firm and year fixed effects. The last two regressions are identical to the first two, except for the inclusion of CEO and year fixed effects. In all regressions, the standard errors are clustered at the firm level.

[Insert Table 3]

Table 3 shows that *EDF* is negatively affected by both measures of general managerial ability. Specifically, for all four regressions, the coefficient estimate on the general ability measure is negative and significant at the 10% level or better. These findings highlight the effect of generalist CEOs on reducing corporate default risk. Our results are economically meaningful, as a one-standard-deviation increase in *GAI* is associated with a 0.004 reduction in *EDF*. As the mean value for *EDF* is 0.036 (see Table 2), this corresponds with an economically significant reduction in *EDF* of 9.7%. As for the control variables, we find that the market value of equity, the inverse of stock return volatility, the excess return measure, the profitability ratio, and the liquidity measure decrease corporate default risk, in line with recent studies (e.g., Brogaard et al., 2017; Baghdadi et al., 2020). The face value of debt appears to be positively related to expected default risk. Furthermore, institutional ownership does not

appear to have a significant effect on *EDF*. Finally, none of the three CEO characteristics has a significant effect on *EDF*.[5]

Furthermore, to reconcile our findings with Ma et al. (2021), who examine the association between generalist CEOs and credit ratings, we use a two-stage least squares (2SLS) system of equations to obtain the unpredicted values of credit ratings (i.e., *Credit Ratings – Unpredicted*), which are then used as an additional explanatory variable in the main regression. The rationale behind this analysis is to ensure that our findings remain consistent after adding the unpredicted values of credit ratings to our main regression and, more importantly, to establish that general managerial ability still reduces *EDF*. It is worth noting that we are able to replicate Ma et al.'s (2021) results, though only under very specific conditions. Specifically, we find a consistently positive effect of *GAI* on *EDF* when using a more general model that includes firms with no credit ratings or when we utilize a parsimonious model, that is, the sample that includes only firms with credit ratings in which the *GAI Dummy* is used instead of the continuous variable. The results from this analysis can be found in Table B1 in Appendix B.

In the first stage, we regress *Credit Ratings*, a numerical translation of Standard & Poor's (S&P) long-term issuer credit rating, on *GAI* and the firm-level control variables used by Ma et al. (2021) in their main regression table (Column 1 of their Table 1). The control variables include firm size, a loss indicator, interest coverage ratio, ROA, the book-to-market ratio, the standard deviation of ROA, the leverage ratio, the tangibility ratio, the ratio of R&D expenditure plus advertising expense scaled by total assets, Demerjian et al.'s (2012) MA-Score, and abnormal accruals estimated using the cross-sectional Jones model (Jones, 1991),

[5] One could argue, however, that our results simply reflect the CEO's risk appetite or preferences rather than their general managerial skills. To rule out this possibility, in untabulated tests, we include CEO delta and CEO vega in our main model (5). Delta is defined as the dollar change in the CEO's stock and option portfolio for a one-percentage change in the stock price and measures the CEO's incentives to increase the stock price. Vega is the dollar change in the CEO's option holdings for a 0.01 unit change in stock return volatility, which measures the risk-taking incentives generated by the CEO's option holdings (Coles, Daniel, and Naveen, 2006; Core and Guay, 2002). Our results remain qualitatively unchanged, suggesting that the effects of CEO generalists on default risk is not driven by CEOs' risk appetite or preferences.

the standard deviation of daily stock returns over the past year, and a financial transparency measure. We include firm and year-fixed effects in our regressions. We find that *GAI* is positively and statistically associated with *Credit Ratings* at the 1% level.

In the second stage, we use the unpredicted values of credit ratings by including *Credit Ratings – Unpredicted* in our main regression (i.e., Column 1 of Table 3). We re-estimate the main regression by regressing *EDF* on *GAI*, the unpredicted values of the credit rating, and our whole set of control variables from Table 3. We include firm and year fixed effects in our regressions and present the results in Panel B of Table B1 in Appendix B. We find that our main findings are upheld when including the unpredicted values of the credit rating in our regression. Notably, the credit ratings appear negatively related to *EDF*, which further strengthens our overall findings. Economically, a one-standard-deviation increase in *GAI* is associated with a 0.003 reduction in *EDF*. The mean value of 0.036 for *EDF* corresponds with an economically significant reduction in *EDF* of 7.2%. Overall, we document robust evidence that generalist CEOs help reduce corporate default risk.[6]

3.2 Robustness Tests

In this subsection, we provide evidence that the negative effect of generalist CEOs on corporate default risk is robust to the inclusion of additional control variables, the use of different fixed effects, and an alternative measure for corporate default risk. We report the results of these robustness tests in Table 4. For the sake of brevity, we only report the coefficients on the variables of interest. All the regressions include firm and year fixed effects,

[6] To rule out that our results might be affected by selection bias, we estimate Heckman's (1979) two-step selection model and provide the results in Table B2 in Appendix B. Panel A of Table B2 presents the first-step regression results. *GAI Dummy* is positively and significantly associated with *Credit Ratings*. Panel B of Table B2 reports the second-step regression results. The inverse Mills ratio is statistically significant at the 1% level and *EDF* is negatively and significantly associated with both *GAI* and *Credit Ratings*. To sum up, these results suggest that our findings in Table B1 (i.e., the table reconciling our findings with those of Ma et al., 2021) are not affected by self-selection bias.

and the standard errors are clustered at the firm level. Similar to the main regression analysis, we lag the explanatory variables by one year to control for potential reverse causality.

Panel A of Table 4 shows the results after controlling for *CEO Total Pay*. Custódio et al. (2013) find that the general ability index is a focal determinant of managers' compensation. Hence, one could argue that our results might be sensitive to CEO compensation. We follow extant studies (e.g., Yermack, 1997; Bertrand and Mullainathan, 2001) and define CEO total pay as the sum of the salary, bonuses, the value of restricted stock grants, the value of option grants, long-term incentive payouts, and other types of compensation. We re-estimate the first two regressions of Table 3 and find that the coefficient estimates on the general ability index and the general ability dummy are negative and significant at the 5% level, indicating that our finding of a negative effect of *GAI* on default risk is robust to the inclusion of CEO total compensation in the regressions.

[Insert Table 4]

In Panel B of Table 4, we re-estimate our main regressions by controlling for information asymmetry. Extant literature finds that financial analysts serve as effective monitors by reducing information asymmetry, thereby mitigating the conflicts of interest among managers, shareholders, and debtholders (e.g., Brennan and Subrahmanyam, 1995; Yu, 2008). As such, we re-estimate the first two regressions of Table 3 by including the financial analysts' earnings forecast error as an additional control variable. We follow Giannetti and Zhao (2019) and define *Earnings-Forecast Error* as the absolute value of the difference between the median analyst quarterly earnings-per-share forecast and the actual earnings per share, divided by the fiscal year-end share price. Our main result is confirmed. In detail, the coefficient estimates on the *GAI* measures are negative and significant at the 10% level or better, suggesting that CEOs' general managerial skills reduce default risk.

Finally, we use two alternative measures for corporate default risk, namely, the probability of default estimated via a hazard rate model and CDS spreads. First, we follow Shumway

(2001) and estimate a multi-period hazard model by fitting a reduced form logit model with market- and accounting-based determinants, including the firm's profitability, its total liabilities, its market capitalization relative to the total market capitalization of the NYSE/AMEX market, the difference between its annual stock return and the value-weighted NYSE/AMEX index return, and the idiosyncratic standard deviation of its stock returns. The probability of default is then calculated based on Shumway's (2001) multi-period logit model, which maps the values of all inputs onto a probability that is bounded between zero and one.

Second, our analysis uses CDS spreads (*CDS spreads*). Specifically, we follow recent studies and employ the spread on five-year CDSs, as such contracts are highly liquid and, therefore, provide the most reasonable pricing estimate of the default risk (e.g., Ham and Koharki, 2016; Bonsall et al., 2017). Data on CDS spreads are retrieved from the CRI-RMI database, which is widely used in the literature (e.g., Duan and Miao, 2016).[7] Panel C of Table 4 reveals that our results remain qualitatively unchanged when we use these two alternative measures of corporate default risk. That is, in columns (1) and (2), which are based on the hazard model, the coefficient estimates on *GAI* and the *GAI 75th Dummy* are negative and significant at the 5% level. Furthermore, when the CDS spreads are employed in columns (3) and (4), the coefficient estimates on the *GAI* measures are negative and significant at the 10% level or better. Overall, the results presented in Table 3 and Table 4 suggest that a negative and robust relationship exists between generalist CEOs and default risk. These results are consistent with the notion that greater general managerial skills of CEOs reduce the probability of default.

4. Endogeneity

Our findings suggest that CEOs with general managerial skills decrease corporate default risk. While we account for time-invariant unobservable firm-level characteristics by including

[7] The CRI-RMI database, the Credit Research Initiative of the National University of Singapore, is available at http://nuscri.org. The CRI AS (Actuarial Spread) is the annualized premium needed to compensate the counterparty for the default risk, on an actuarial basis, of the reference company. It is equivalent to the physical CDS par spread. It has contract terms ranging from one year to five years.

firm fixed effects in our regressions, one could argue that omitted variables that are *time-variant* or are *not* firm-specific may still bias the results. This would then cause the error term in our specifications to correlate with our main independent variable (i.e., *GAI*). This section addresses potential endogeneity concerns by applying PSM and performing a DiD analysis.

4.1 Propensity Score Matching (PSM)

To address the above endogeneity concerns, in this subsection, we employ PSM to match firms with generalist CEOs (treatment firms) with firms with specialist CEOs (control firms). We define an indicator variable that takes the value of one if the CEO's general ability index is above the annual sample median and zero otherwise. To obtain the propensity scores, we estimate a logit regression that includes all the variables used in the first regression of Table 3. We then use the nearest neighbor with replacement approach to ensure that the treatment and control groups are highly comparable and no significant differences are likely detected between them. Table B3 in Appendix B displays the results of the logit regression. While the logit has explanatory power pre-matching, as evidenced by the pseudo R-squared and eight of the independent variables being highly significant, the post-matched logit does not have any explanatory power. Hence, the matching should be of sufficient quality.

[Insert Table 5]

In Panel A of Table 5, we present the tests for the differences in the means of the firm characteristics between firms with generalist CEOs and firms with specialist CEOs. Our results do not reveal any significant differences between the treated and control firms, except for the expected default risk measure. As such, the matching process successfully eliminates any observable differences between the treatment and control firms. Our results further confirm that the difference in *EDF* stems from differences in the general skills of managers rather than differences in firm characteristics.

We then re-estimate our baseline OLS regressions, namely, the first two regressions from Table 3 in Panel B of Table 5, to show that our results are robust to the matching procedure. All regressions control for firm and year fixed effects, and the standard errors are clustered at the firm level. We find that for both regressions, the coefficient estimates on *GAI* and the *GAI 75th Dummy* are negative and significant at the 10% level or better. This result confirms that CEOs' general managerial skills decrease default risk.

4.2 Difference-in-Differences (DiD) Analysis

To further mitigate endogeneity concerns, we study the change in corporate default risk around the sudden deaths of CEOs. Recent literature[8] documents that the variation in corporate policies, such as financing and investment decisions, around CEO turnover events is mainly driven by such exogenous events. We obtain the data from Gentry et al. (2021). We define CEO turnover as exogenous if the CEO turnover event was caused by the death of the CEO (code 1) or illness (code 2) as per Gentry et al. (2021).

We proceed by investigating the effect of the general ability index on *EDF* around CEO sudden deaths. We create a treatment group that consists of the firms that experienced the sudden death or illness of their CEO, and the CEO was replaced by a new CEO with a higher GAI score.[9] The control group consists of firms without a change in their CEO during the period under consideration. Applying this criterion results in 42 CEO sudden death and illness events. We then match the treatment and control observations using PSM by choosing the nearest neighbor with replacement based on the same control variables as in the first regression of Table 3. Note that we also match the treatment and control firms by year. We report our findings in Table 6.

[8] See e.g., Johnson, Magee, Nagarajan and Newman (1985), Hayes and Schaefer (1999), Fee and Hadlock (2004), Brochet, Faurel, and McVay (2011), Dittmar and Duchin (2016), Yu (2017), Bernile et al. (2017), Ma, Pan, and Stubben (2020), Brochet, Limbach, Schmid, and Scholz-Daneshgari (2021).

[9] The reader should note that there are only six cases wherein the new CEO has a lower *GAI* than that of the deceased CEO.

[Insert Table 6]

Panel A of Table 6 reports the differences in the means of the firm characteristics between the treatment and control firms. The results show that the treatment and control firms are statistically identical prior to the shock. Overall, the univariate comparisons suggest that the matching process removes observable differences between the treatment and control groups. Panel B of Table 6 reports the DiD estimator. We follow extant studies (e.g., Hong and Kacperczyk, 2010; He and Tian, 2013) and calculate the change in *EDF* from the pre-event period (defined as the year preceding the CEO's sudden death) to the post-event period (defined as the year after this event).[10] We then compute the average for this difference for both the treatment and control groups. These averages are reported in columns (1) and (2). The DiD estimator is the difference in the differences for the treatment and the control groups, which is reported in column (3). We cluster the standard errors of the DiD estimator at the event level (i.e., CEO sudden death and illness events) following Hong and Kacperczyk (2010). We find that the decrease in corporate default risk following a CEO's sudden death or illness is associated with an exogenous increase in the general ability index. In detail, the average change in *EDF* for the treatment group stands at –0.110, whereas it is 0.201 for the control group. The DiD estimator for corporate default risk is –0.311 and significant at the 10% level, indicating that the increase in *GAI* around the exogenous CEO turnover events affects *EDF* negatively, in line with our main findings. While we acknowledge that there are limitations to our identification attempts, the consistency of the directional results we obtained suggests that the association is indeed causal.

[10] As stated above, we match the treatment firms and the control firms by year. Hence, for the control firms, we use the change in *EDF* over the same fiscal years.

5. Components of General Ability Index and Effect on Default Risk

As discussed in Section 2.1.2, Custódio et al. (2013) construct the *GAI* based on five aspects of a CEO's work experience: past number of (i) positions, (ii) firms, and (iii) industries in which the CEO worked; (iv) whether the CEO held a CEO position at a different company; and (v) whether the CEO worked for a conglomerate. In this section, we study the effects of each of the five components of the general ability index on corporate default risk. Although the index, as we show, influences *EDF*, one would still expect to observe different effects across its individual components on corporate default risk. For instance, Custódio et al. (2013) find that, among the index components, *Conglomerate Experience* has the least effect on CEO total pay. Similarly, Betzer et al. (2020) show that *Conglomerate Experience*, as well as *CEO Experience*, does not affect a firm's past performance, in contrast to the remaining index components. As such, we study the effects of *GAI*'s individual components on expected default risk. The results are found in Table 7.

[Insert Table 7]

To conduct our analysis, we regress corporate default risk on each of the five individual components of *GAI*. Again, all independent variables are lagged by one year to mitigate potential reverse causality. We also include the firm and year fixed effects in each regression. Table 7 shows that all the components of *GAI*, except for the number of industries and the conglomerate experience indicator variable, affect the probability of default. More specifically, the coefficient estimates for *the Number of Positions* and *CEO Experience* are negative and statistically significant at the 5% level. The coefficient estimate on *the Number of Firms* is negative and statistically significant at the 10% level. To sum up, all the components of the CEO general ability index, except for the conglomerate experience indicator variable and the number of industries, reduce default risk. Similarly, Betzer et al. (2020) do not find that conglomerate experience matters when studying the effects of the various components of *GAI* on shareholder value. Nevertheless, they find that the number of industries does matter. By

contrast, our results suggest that *industry-specific* rather than skills obtained from working across various industries matter. Given our focus on the default risk, our results are intuitive. Indeed, the default risk tends to vary significantly across industries (Aretz and Pope, 2013;[11] see also IFC, 2024), thereby increasing the need for industry-specific skills.

6. Identifying Potential Channels

Throughout the paper, we find that greater general managerial skills of CEOs are negatively related to expected default risk. In this section, we propose potential channels through which generalist CEOs reduce corporate default risk. We consider *Stock Return Volatility* and *ROA Volatility* as such potential channels. These channels are plausible as they have been found to affect the probability of default (e.g., Merton, 1974; Bharath and Shumway, 2008; Campbell et al., 2008). In turn, the CEO's general managerial skills have been shown to affect corporate innovation, the diversification premium, shareholder value, cost savings, and the tax burden (Custódio et al., 2019; Custódio and Metzger, 2013; Koester et al., 2017; Betzer et al., 2020). Together, these effects are likely to result in reduced volatility of both the stock returns and ROA, leading to lower default risk.

Our empirical results are presented in Table 8. We find in Panels A and B of the table that the general ability index decreases the volatility of the stock returns and *ROA Volatility*. Note that *EDF* across all tables and models is positively related to the volatility of the stock returns and profitability. Taken together, our results provide strong evidence that *GAI* reduces stock return volatility and profitability volatility. All in all, this suggests that generalist CEOs help reduce corporate default risk through these channels.

[Insert Table 8]

[11] Aretz and Pope (2013) study the determinants of changes in corporate default risk across 24 countries and 30 industries. They find that the main determinants of these changes are global and industry effects.

7. Conclusion

To the best of our knowledge, this is the first paper to investigate whether CEOs' general managerial skills, which are transferable across firms or industries, help reduce default risk. We argue that the breadth of experience, the broader knowledge base, and the variety of skills CEOs obtain from their extensive levels of career generalism help curb the probability of corporate default. We use *GAI*, as proposed by Custódio et al. (2013), and the *EDF* measure of Bharath and Shumway (2008) to examine the association between generalist CEOs and default risk, drawing on a sample of 20,485 firm-year observations for 2,087 unique US firms during the 1993–2016 period.

We find evidence that CEOs' general managerial skills reduce corporate default risk. This result is robust to alternative specifications involving additional control variables and different measures for corporate default risk. More specifically, we find consistent results when we re-estimate our regressions by adding CEO characteristics (i.e., *CEO Age*, *CEO Tenure*, and *CEO Duality*), CEO education (i.e., PhD, MBA), *CEO Total Pay*, and a measure of information asymmetry, as well as replacing the firm fixed effects by CEO and industry fixed effects and using alternative measures for corporate default risk (the probability of default estimated via the hazard rate model of Shumway (2001) and CDS spreads). We address endogeneity concerns by applying PSM and performing a DiD analysis utilizing CEO sudden death events. Moreover, we show that stock return volatility and ROA volatility are possible channels through which generalist CEOs affect corporate default risk.

Our study demonstrates that the CEO's general managerial skills matter as they reduce the firm's default risk. Consequently, this study generates policy implications by strengthening the business case for appointing generalist CEOs, given their positive effect on firm solvency. However, it is important to qualify our results. Indeed, when studying the effects of the five individual components of the *GAI* index, we find that what matters is general managerial skills that were obtained across different firms, but importantly across firms from the *same* industry

rather than from firms operating in *different* industries. As corporate default risk is heavily dependent on a firm's industry, (Aretz and Pope, 2013), this finding is intuitive.

Our study is subject to potential shortcomings that open up avenues for future research. First, the scope of our study can be expanded by examining the effect of the general managerial skills of the top management team on corporate default risk, as the entire team is part of corporate decision-making. Second, future research may examine whether our results can be replicated in countries other than the USA. Finally, we use the generalist CEO measure devised by Custódio et al. (2013), which focuses on CEOs' breadth of experience and skill variety. Future research may consider expanding this measure by considering the behavioral aspects of CEOs, such as their appetite for risk and CEO overconfidence, which have the potential to affect corporate default risk.

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Table 1. General Ability Index by Year and Industry

Panel A: General Ability Index by Year

Year	*General Ability Index*	*EDF*	*No. of Obs.*
1993	–0.694	0.007	33
1994	–0.542	0.019	402
1995	–0.561	0.021	533
1996	–0.548	0.009	581
1997	–0.506	0.012	617
1998	–0.467	0.029	711
1999	–0.397	0.049	751
2000	–0.352	0.091	828
2001	–0.292	0.041	877
2002	–0.258	0.066	896
2003	–0.222	0.033	906
2004	–0.186	0.008	967
2005	–0.134	0.019	957
2006	–0.105	0.013	956
2007	–0.111	0.015	987
2008	–0.111	0.138	1,173
2009	–0.095	0.055	1,176
2010	–0.072	0.005	1,136
2011	–0.046	0.016	1,109
2012	0.015	0.048	1,077
2013	0.022	0.007	1,045
2014	0.052	0.012	1,004
2015	0.094	0.042	924
2016	0.140	0.044	839

Panel B: General Ability Index Across the Fama-French 12 Industries

Industry	*General Ability Index*	*EDF*	*No. of Obs.*
Consumer Non-durables	–0.209	0.034	1,398
Consumer Durables	–0.170	0.047	609
Manufacturing	–0.014	0.037	3,061
Energy Products	–0.297	0.056	996
Chemical Products	0.153	0.017	839
Business Equipment	–0.148	0.030	4,301
Telecoms	–0.178	0.081	422
Utilities	0.020	0.019	1,078
Shops	–0.272	0.051	2,822
Healthcare	–0.161	0.016	1,810
Finance	–0.328	0.032	519
Other	–0.323	0.041	2,630

This table reports the distribution of the general ability index (*GAI*) and expected default frequency (*EDF*) across the years in Panel A and the Fama-French 12 industries in Panel B. *GAI* defines generalist managers as those who possess general managerial skills that are transferable across firms and industries, as per Custódio et al. (2013). *EDF* is estimated as per Bharath and Shumway (2008). Detailed variable definitions are provided in Appendix A.

Table 2. Descriptive Statistics

	Mean	Std.	P25	Median	P75
Panel A: Dependent Variables					
EDF	0.036	0.141	0.000	0.000	0.000
Panel B: General Ability Index Measures					
GAI	–0.165	0.869	–0.842	–0.357	0.340
GAI 75th Dummy	0.258	0.438	0.000	0.000	1.000
Panel C: Firm- and CEO-level Variables					
Ln Equity	7.468	1.612	6.354	7.333	8.466
Ln Debt	6.121	1.757	4.878	6.066	7.300
$1/\sigma_E$	3.422	1.790	2.126	3.053	4.314
Excess Return	0.072	0.361	–0.130	0.046	0.245
Income/Assets	0.044	0.101	0.021	0.053	0.091
IO	0.279	0.097	0.214	0.275	0.339
Ln Amihud	3.673	2.145	2.318	3.768	5.201
CEO PhD	0.001	0.035	0.000	0.000	0.000
CEO MBA	0.005	0.070	0.000	0.000	0.000
Firm Size	7.364	1.602	6.201	7.245	8.395
Firm Age	3.078	0.721	2.565	3.091	3.738
ROA Volatility	0.859	10.07	0.055	0.101	0.208
CEO Age (Years)	55.54	7.364	51	56	60
CEO Tenure (Years)	5.074	3.881	2	4	7
CEO Duality	0.348	0.476	0.000	0.000	1.000

This table presents descriptive statistics for the variables used in this study. The sample consists of 20,485 firm-year observations during the 1993–2016 period, representing 2,071 unique firms excluding financial firms (i.e., firms with SIC codes 6021, 6022, 6029, 6035, 6036).

Table 3. General Ability Index and Corporate Default Risk

	EDF			
	(1)	(2)	(3)	(4)
GAI	–0.004**		–0.008**	
	(–2.18)		(–1.98)	
GAI 75th Dummy		–0.005*		–0.007*
		(–1.83)		(–1.68)
Ln Equity	–0.008***	–0.008***	–0.008**	–0.008**
	(–2.74)	(–2.74)	(–2.50)	(–2.20)
Ln Debt	0.027***	0.027***	0.025***	0.025***
	(6.49)	(6.45)	(5.46)	(4.58)
$1/\sigma_E$	–0.004***	–0.004***	–0.003***	–0.003***
	(–5.53)	(–5.54)	(–3.29)	(–2.89)
Excess Return	–0.137***	–0.137***	–0.137***	–0.137***
	(–24.73)	(–24.73)	(–23.03)	(–9.44)
Income/Assets	–0.086***	–0.086***	–0.077***	–0.078***
	(–4.89)	(–4.90)	(–4.01)	(–3.08)
IO	0.023	0.023	0.021	0.021
	(1.32)	(1.30)	(1.09)	(1.28)
Ln Amihud	–0.033***	–0.033***	–0.034***	–0.034***
	(–16.60)	(–16.60)	(–15.61)	(–9.86)
CEO PhD	–0.004	–0.003	–0.030*	–0.030*
	(–0.15)	(–0.14)	(–1.90)	(–1.83)
CEO MBA	0.007	0.007	0.009	0.009
	(0.67)	(0.67)	(0.86)	(0.97)
Firm Size	–0.001	–0.001	–0.001	–0.001
	(–0.23)	(–0.21)	(–0.21)	(–0.24)
Firm Age	–0.043***	–0.043***	–0.030***	–0.029***
	(–5.85)	(–5.83)	(–4.16)	(–2.85)
ROA Volatility	0.001**	0.001**	0.001*	0.001
	(2.19)	(2.25)	(1.93)	(1.61)
CEO Age	0.003	0.001	–0.009	–0.014
	(0.20)	(0.09)	(–0.23)	(–0.44)
CEO Tenure	0.001	0.001	0.002	0.002
	(0.39)	(0.42)	(0.79)	(0.67)
CEO Duality	–0.002	–0.002	–0.001	–0.001
	(–0.76)	(–0.82)	(–0.18)	(–0.34)
Year FE	YES	YES	YES	YES
Firm FE	YES	YES	NO	NO
CEO FE	NO	NO	YES	YES
Observations	20,485	20,485	20,485	20,485
Adjusted R^2	0.4348	0.4347	0.4583	0.4581

This table presents the regression results for the relation between the general ability index (*GAI*) and corporate default risk (*EDF*). All regressions control for firm and year fixed effects. Standard errors are corrected for clustering at the firm level, and *t*-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 4. General Ability Index and Corporate Default Risk – Robustness Tests

	EDF	
	(1)	(2)
Panel A: Controlling for CEO Total Pay		
GAI	–0.004**	
	(–2.28)	
GAI 75th Dummy		–0.006**
		(–1.98)
CEO Total Pay	0.004**	0.004**
	(2.11)	(2.05)
Other controls	YES	YES
Firm & Year FE	YES	YES
Observations	20,377	20,377
Adjusted R^2	0.4343	0.4342
Panel B: Controlling for Information Asymmetry		
GAI	–0.004**	
	(–2.37)	
GAI 75th Dummy		–0.005*
		(–1.77)
Earnings-Forecast Error	0.006***	0.006***
	(2.78)	(2.78)
Other controls	YES	YES
Firm & Year FE	YES	YES
Observations	18,973	18,973
Adjusted R^2	0.4137	0.4136

Panel C: Alternative Measures for Default Risk

	Hazard Rate Model		*CDS Spreads*	
	(1)	(2)	(3)	(4)
GAI	–0.005**		–0.017**	
	(–2.19)		(–2.01)	
GAI 75th Dummy		–0.007**		–0.024*
		(–2.10)		(–1.90)
Other controls	YES	YES	YES	YES
Firm & Year FE	YES	YES	YES	YES
Observations	20,475	20,475	13,200	13,200
Adjusted R^2	0.4629	0.4629	0.7506	0.7506

This table presents robustness tests of the baseline results from Table 3. Panel A provides the results controlling for CEO total pay. Panel B reports the results controlling for information asymmetry. Panel C reports the results controlling for CEO fixed effects. Panel D reports the results from using two alternative measures of default risk. Standard errors are corrected for clustering at the firm level, and *t*-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 5. General Ability Index and Corporate Default Risk – Propensity Score Matching Analysis

Panel A: Post-match Differences Test

	Firm-year Obs. With a Generalist CEO (N=2,811)	Firm-year Obs. With a Specialist CEO (N=2,811)	Difference	*t*-statistic
EDF	0.038	0.046	–0.008**	–1.980
Ln Equity	7.350	7.379	–0.029	–0.688
Ln Debt	6.041	6.086	–0.045	–0.972
$1/\sigma_E$	3.137	3.137	0.001	0.017
Excess Return	0.069	0.065	0.004	0.420
Income/Assets	0.043	0.047	–0.003	–1.247
IO	0.284	0.288	–0.004	–1.508
Ln Amihud	3.553	3.606	–0.053	–0.931
CEO PhD	0.002	0.001	0.001	0.447
CEO MBA	0.003	0.004	–0.001	–0.472
Firm Size	7.287	7.323	–0.036	–0.857
Firm Age	2.985	2.983	0.002	0.116
ROA Volatility	0.687	0.720	–0.033	–0.304
CEO Age	4.007	4.006	0.001	0.356
CEO Tenure	1.367	1.348	0.020	0.927
CEO Duality	0.341	0.348	–0.007	–0.533

Table 5 (continued)

Panel B: Post-match OLS Regressions

	Dependent Variable: EDF	
	(1)	(2)
GAI	–0.010**	
	(–2.16)	
GAI 75th Dummy		–0.011*
		(–1.86)
Ln Equity	–0.009	–0.009
	(–1.35)	(–1.50)
Ln Debt	0.036***	0.036***
	(3.82)	(4.64)
$1/\sigma_E$	–0.005***	–0.005***
	(–2.74)	(–3.22)
Excess Return	–0.151***	–0.151***
	(–12.92)	(–16.97)
Income/Assets	–0.085*	–0.084**
	(–1.94)	(–2.38)
IO	0.037	0.037
	(0.85)	(1.01)
Ln Amihud	–0.030***	–0.030***
	(–7.73)	(–8.80)
CEO PhD	0.020	0.019
	(1.06)	(0.95)
CEO MBA	–0.018	–0.018
	(–0.49)	(–0.52)
Firm Size	–0.016	–0.016
	(–1.22)	(–1.51)
Firm Age	–0.037**	–0.037***
	(–2.49)	(–2.85)
ROA Volatility	–0.001	–0.001
	(–0.04)	(–0.05)
CEO Age	–0.013	–0.019
	(–0.40)	(–0.73)
CEO Tenure	0.001	0.002
	(0.34)	(0.60)
CEO Duality	–0.005	–0.005
	(–0.72)	(–0.89)
Firm & Year FE	YES	YES
Observations	5,622	5,622
Adjusted R^2	0.4435	0.4432

This table presents the propensity score matching results for the relation between the general ability index (*GAI*) and corporate default risk (*EDF*). A generalist (specialist) CEO is defined as a CEO with a value for the general ability index that is above (equal to or below) the annual median. Panel A reports the differences in the firm characteristics between the treatment and control firms as well as their corresponding *t*-statistics. Panel B reports the post-match OLS regression results. All regressions control for firm and year fixed effects. Standard errors are corrected for clustering at the firm level, and t-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 6. General Ability Index and Corporate Default Risk – Difference-in-Differences Analysis

Panel A: Post-match Mean Differences

Variable	Treated (N=42)	Control (N=42)	Difference	*t*-statistic
Ln Equity	7.587	7.428	0.159	0.438
Ln Debt	6.323	6.138	0.185	0.462
$1/\sigma_E$	3.420	3.280	0.140	0.391
Excess Return	–0.087	–0.049	–0.037	–0.472
Income/Assets	0.031	0.035	–0.004	–0.195
IO	0.283	0.280	0.003	0.126
Ln Amihud	3.994	3.651	0.342	0.756
CEO PhD	0.002	0.001	0.001	0.633
CEO MBA	0.006	0.005	0.001	0.559
Firm Size	7.573	7.347	0.226	0.620
Firm Age	3.004	3.080	–0.076	–0.523
ROA Volatility	0.364	0.211	0.153	1.048
CEO Age	4.029	4.071	–0.042	–1.408
CEO Tenure	1.046	1.141	–0.095	–0.470
CEO Duality	0.262	0.190	0.071	0.776

Panel B: Difference-in-Differences Estimator

	Mean Treatment Difference (1)	Mean Control Difference (2)	Mean DiD (1–2)
ΔEDF	–0.110	0.201	–0.311*
(standard error)	(0.076)	(0.110)	(0.186)

This table presents the results from the difference-in-differences (DiD) analysis for the general ability index (*GAI*) and corporate default risk (*EDF*) around 42 CEO turnover events due to the sudden death or illness of the incumbent CEO for the 1993–2016 period. The treatment group consists of firms that experienced the sudden death or illness of their CEO, and the CEO was replaced by a new CEO with a higher *GAI* score. The control group consists of firms without a change in their CEO during the period under consideration. The control firms are matched using propensity score matching (nearest neighbor without replacement) using the same control variables as in the first regression of Table 3. We compare the year preceding the CEO sudden death or illness with the year after the same event. Panel A reports the differences in means between the treatment and control firms as well as the corresponding t-statistics. Panel B reports the DiD estimator with the standard errors clustered at the event level, in the spirit of Hong and Kacperczyk (2010). The *t*-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 7. General Ability Index and Corporate Default Risk - Index Components

	EDF				
	(1)	(2)	(3)	(4)	(5)
Number of Positions	–0.001**				
	(–2.26)				
Number of Firms		–0.002*			
		(–1.72)			
Number of Industries			–0.001		
			(–1.31)		
CEO Experience				–0.009**	
				(–2.16)	
Conglomerate Experience					–0.005
					(–0.60)
Ln Equity	–0.008***	–0.008***	–0.008***	–0.008***	–0.008***
	(–2.73)	(–2.96)	(–2.73)	(–2.76)	(–2.73)
Ln Debt	0.027***	0.027***	0.027***	0.027***	0.027***
	(6.49)	(7.70)	(6.48)	(6.49)	(6.46)
$1/\sigma_E$	–0.004***	–0.004***	–0.004***	–0.004***	–0.004***
	(–5.52)	(–6.66)	(–5.53)	(–5.54)	(–5.54)
Excess Return	–0.137***	–0.137***	–0.137***	–0.137***	–0.137***
	(–24.74)	(–34.35)	(–24.72)	(–24.73)	(–24.72)
Income/Assets	–0.086***	–0.086***	–0.086***	–0.086***	–0.086***
	(–4.87)	(–5.33)	(–4.88)	(–4.91)	(–4.87)
IO	0.023	0.023	0.023	0.023	0.023
	(1.31)	(1.52)	(1.30)	(1.33)	(1.31)
Ln Amihud	–0.033***	–0.033***	–0.033***	–0.033***	–0.033***
	(–16.60)	(–18.72)	(–16.59)	(–16.61)	(–16.60)
CEO PhD	–0.004	–0.003	–0.003	–0.003	–0.003
	(–0.16)	(–0.14)	(–0.14)	(–0.15)	(–0.14)
CEO MBA	0.008	0.007	0.007	0.007	0.008
	(0.70)	(0.62)	(0.67)	(0.64)	(0.69)
Firm Size	–0.001	–0.001	–0.001	–0.001	–0.001
	(–0.21)	(–0.28)	(–0.24)	(–0.26)	(–0.24)
Firm Age	–0.043***	–0.043***	–0.043***	–0.044***	–0.044***
	(–5.81)	(–7.47)	(–5.86)	(–5.92)	(–5.89)
ROA Volatility	0.001**	0.001*	0.001**	0.001**	0.001**
	(2.25)	(1.73)	(2.24)	(2.22)	(2.29)
CEO Age	–0.001	0.002	0.002	0.001	–0.001
	(–0.03)	(0.20)	(0.13)	(0.08)	(–0.01)
CEO Tenure	0.001	0.001	0.001	0.001	0.001
	(0.38)	(0.50)	(0.46)	(0.22)	(0.46)
CEO Duality	–0.002	–0.002	–0.002	–0.002	–0.002
	(–0.71)	(–0.95)	(–0.81)	(–0.83)	(–0.91)
Firm & Year FE	YES	YES	YES	YES	YES
Observations	20,485	20,485	20,485	20,485	20,485
Adjusted R^2	0.4348	0.4346	0.4346	0.4348	0.4346

This table presents the regression results on the relation between the components of the general ability index (*GAI*) and corporate default risk (*EDF*). All regressions control for firm and year fixed effects. Standard errors are corrected for clustering at the firm level, and *t*-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 8. General Ability Index and Corporate Default Risk – Possible Channels

Panel A: Stock Return Volatility

	Stock Return Volatility	
	(1)	(2)
GAI	–0.006*	–0.006**
	(–1.96)	(–2.06)
EDF		0.050***
		(3.84)
Ln Equity	0.013***	0.014***
	(3.07)	(3.17)
Ln Debt	0.012*	0.015**
	(1.83)	(2.23)
Excess Return	0.003	–0.001
	(0.87)	(–0.01)
Income/Assets	–0.124***	–0.113***
	(–5.83)	(–4.80)
IO	0.070***	0.079***
	(3.09)	(3.08)
Ln Amihud	–0.023***	–0.024***
	(–9.15)	(–9.22)
CEO PhD	0.010	0.020
	(0.40)	(0.81)
CEO MBA	–0.010	–0.005
	(–0.94)	(–0.38)
Firm Size	–0.024***	–0.023***
	(–2.76)	(–2.58)
Firm Age	–0.119***	–0.121***
	(–8.56)	(–7.52)
CEO Age	–0.043*	–0.048**
	(–1.82)	(–2.07)
CEO Tenure	0.004*	0.005*
	(1.77)	(1.89)
CEO Duality	0.005	0.006
	(1.21)	(1.45)
Firm & Year FE	YES	YES
Observations	18,414	16,493
Adjusted R^2	0.6940	0.6937

Table 8 (continued)

Panel B: ROA Volatility

	ROA Volatility	
	(1)	(2)
GAI	–0.008**	–0.006**
	(–2.08)	(–2.09)
EDF		0.040***
		(2.70)
Ln Equity	0.051***	0.046***
	(7.00)	(10.55)
Ln Debt	–0.009	0.005
	(–0.77)	(0.79)
Excess Return	–0.007***	–0.006***
	(–5.64)	(–4.22)
Income/Assets	–0.433***	–0.386***
	(–8.96)	(–17.91)
IO	–0.078***	–0.082***
	(–2.91)	(–3.20)
Ln Amihud	–0.000	–0.001
	(–0.15)	(–0.43)
CEO PhD	0.129	0.008
	(1.10)	(0.19)
CEO MBA	0.004	0.012
	(0.37)	(0.61)
Firm Size	–0.035**	–0.044***
	(–2.12)	(–5.61)
Firm Age	–0.231***	–0.250***
	(–12.16)	(–20.87)
CEO Age	–0.038*	–0.022
	(–1.83)	(–1.05)
CEO Tenure	0.000	0.000
	(0.02)	(0.02)
CEO Duality	–0.004	–0.002
	(–1.07)	(–0.43)
Firm & Year FE	YES	YES
Observations	15,540	13,935
Adjusted R^2	0.7194	0.7154

This table presents the regression results on possible channels through which the general ability index (*GAI*) affects corporate default risk (*EDF*). Panels A and B provide results on *Stock Return Volatility* and *ROA Volatility*. All regressions control for firm and year fixed effects. Standard errors are corrected for clustering at the firm level, and *t*-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

APPENDIX A

Table A. Variable Definitions

Dependent Variables	
EDF	Expected default frequency, computed as N(-*DD*), where *DD* is distance-to-default calculated following Merton (1974) and Bharath and Shumway (2008), and N(.) is the cumulative standard normal distribution function. See Section 2.1.3 for more information.
Hazard Rate Model	Following Shumway (2001), we estimate a multi-period hazard model by fitting a reduced form logit model with market- and accounting-based determinants, including the firm's profitability, its total liabilities, its market capitalization relative to the total market capitalization of the NYSE/AMEX market, the difference between its annual stock return and the value-weighted NYSE/AMEX index return, and the idiosyncratic standard deviation of its stock returns. The probability of default is defined by mapping the values of all inputs onto a probability that is bounded between zero and one.
CDS Spreads	The credit default swap is the annualized premium needed to compensate the counterparty for the default risk, on an actuarial basis, of the reference company. It is equivalent to the physical CDS par spread and has a five-year contract term. Data on CDS spread are retrieved from the CRI-RMI database, the Credit Research Initiative of the National University of Singapore, which is available at http://nuscri.org.
Independent Variables	
General Ability Index (GAI)	First factor of applying principal component analysis to five proxies of general managerial ability, namely, Past Number of Positions, Number of Firms, Number of Industries, CEO Experience Dummy, and Conglomerate Experience Dummy, as per Custódio et al. (2013). The index is then standardized to have a zero mean and a standard deviation of one. See Section 2.1.2. for more information.
GAI 75th Dummy	An indicator variable that takes the value of one if the general ability index is above the annual 75th percentile and zero otherwise.
GAI Dummy	An indicator variable that takes a value of one if the general ability index is above the annual median and zero otherwise.
Number of Positions	Number of positions a CEO has had based on past work experience in publicly traded firms as per Custódio et al. (2013).
Number of Firms	Number of firms where a CEO has worked based on past work experience in publicly traded firms as per Custódio et al. (2013).
Number of Industries	Number of industries (four-digit SIC) where a CEO has worked based on past work experience in publicly traded firms, as per Custódio et al. (2013).
CEO Experience	Dummy variable that takes a value of one if the CEO held a CEO position at another company based on past work experience in publicly traded firms and zero otherwise, as per Custódio et al. (2013).
Conglomerate Experience	Dummy variable that takes a value of one if the CEO worked at a multi-segment company based on past work experience in publicly traded firms and zero otherwise, as per Custódio et al. (2013).
Ln Equity	The natural logarithm of the market value of equity (in millions of dollars) calculated as the product of the number of shares outstanding (CRSP item shrout /10^3) and the stock price at the end of the fiscal year (CRSP item |prc|).

Table A (continued)

Ln Debt	The natural logarithm of the face value of debt (in millions of dollars) calculated as the sum of short-term debt and one-half of long-term debt. Short-term debt is defined as the larger of debt in current liabilities (Compustat quarterly *DLCQ*) and total current liabilities (Compustat quarterly *LCTQ*). Long-term debt comprises the total long-term debts retrieved from the quarterly file (Compustat quarterly *DLTTQ*). If the relevant data are missing in the Compustat quarterly tape but available in the annual tape, we use the annual debt observation.
Excess Return	The difference between the firm's annual stock return computed by cumulating the monthly returns (CRSP item *ret*) over the previous 12 months and the return on the CRSP value-weighted index (CRSP item *vwretd*) over the same period.
$1/\sigma_E$	The inverse of the annualized stock return volatility estimated from monthly stock returns over the previous fiscal year.
Income/Assets	The ratio of net income (Compustat quarterly *NIQ*) to total assets (Compustat quarterly *ATQ*).
IO	The top five institutional holdings (*IO*) divided by the total number of shares outstanding following Hartzell and Starks (2003).
Ln Amihud	The natural logarithm of the annual Amihud ratio, measured over the firm's fiscal year and multiplied by –1. The annual ratio is defined as the average ratio of the daily absolute return to the trading volume on that day multiplied by one million.
CEO PhD	Ph.D. is defined as an indicator variable that takes the value of one if the CEO has a Ph.D. degree and zero otherwise.
CEO MBA	MBA is defined as an indicator variable that takes the value of one if the CEO has an MBA degree and zero otherwise.
Firm Size	The natural logarithm of total assets (Ln (AT)).
Firm Age	The natural logarithm of one plus firm age, estimated by the number of years a firm was listed on CRSP.
Stock Return Volatility	Stock return volatility estimated as the standard deviation of stock monthly returns over the prior year.
ROA Volatility	Earnings volatility defined as the preceding five-year volatility of ROA calculated as operating income before depreciation (OIBDP) divided by lagged total assets (AT).
CEO Age	The age of the CEO in a given year.
CEO Tenure	The natural logarithm of the number of years since the CEO has been a CEO of the firm.
CEO Duality	An indicator variable that equals one if the CEO is also the chairman of the firm and zero otherwise.
CEO Total Pay	The sum of the salary, bonuses, the value of restricted stock grants, the value of option grants, long-term incentive payouts, and other types of compensation.
Earnings-Forecast Error	The absolute value of the difference between the median analyst quarterly earnings-per-share forecast and the actual earnings per share, divided by the fiscal year-end share price.
Credit Ratings	A numerical translation of the S&P's long-term issuer credit ratings with a range of one to 22, where 22 represents AAA and one represents default. Unrated firms are given the value of zero.

APPENDIX B

Table B1. Credit Ratings, General Ability Index, and Corporate Default Risk – 2SLS Regressions

Panel A: First-stage Regression Explaining Credit Ratings

	Credit Ratings
	(1)
GAI	0.209***
	(2.97)
Size	1.974***
	(33.93)
Loss	–0.425***
	(–5.23)
Cover	–0.001**
	(–2.24)
ROA	0.323
	(1.30)
Bmratio	–0.033
	(–0.65)
ROASTD3	–0.356
	(–1.11)
LEV	2.397***
	(11.42)
CAPINT	0.639*
	(1.66)
INTAN	0.758
	(0.95)
MASCORE	0.502**
	(2.06)
ACCRUAL	–0.112
	(–1.06)
STDRET	–0.020
	(–0.91)
TRANSP	0.055*
	(1.67)
Firm & Year FE	YES
Observations	15,324
Adjusted R^2	0.5774
F-statistics	59.26***

Table B1 (continued)

Panel B: Second-stage Regression Explaining EDF

	EDF
	(1)
GAI	–0.003*
	(–1.94)
Credit Ratings – Unpredicted	–0.131*
	(–1.84)
Ln Equity	–0.027***
	(–7.69)
Ln Debt	0.021***
	(4.85)
$1/\sigma_E$	–0.006***
	(–7.28)
Excess Return	–0.131***
	(–29.11)
Income/Assets	–0.137***
	(–6.84)
IO	0.030*
	(1.76)
Ln Amihud	–0.038***
	(–18.12)
CEO PhD	–0.037*
	(–1.66)
CEO MBA	0.008
	(0.64)
Firm Size	0.021***
	(3.42)
Firm Age	–0.037***
	(–4.87)
ROA Volatility	0.001
	(1.26)
CEO Age	0.009
	(0.65)
CEO Tenure	0.002
	(1.34)
CEO Duality	–0.004
	(–1.51)
Firm & Year FE	YES
Observations	15,324
Adjusted R^2	0.4984

This table presents the 2SLS regression results. The predicted value of credit ratings is estimated from the first-stage regression, where the credit ratings variable is regressed on the firm-level control variables, as per Ma et al. (2021). In the second stage, we re-estimate our main regression (i.e., the first column of Table 3) by including the unpredicted value of credit ratings from the first stage, which is the difference between CR actual and CR predicted. All regressions control for firm and year fixed effects. Standard errors are corrected for clustering at the firm level, and *t*-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table B2. Robustness checks: Heckman two-step selection model

Panel A: First-step Regression

	Credit Ratings
	(1)
GAI Dummy	0.173***
	(4.03)
Size	1.041***
	(62.80)
Loss	0.050
	(1.02)
Cover	–0.001***
	(–3.71)
ROA	0.108
	(0.85)
Bmratio	–0.089***
	(–3.13)
ROASTD3	–0.211
	(–1.47)
LEV	2.081***
	(25.48)
CAPINT	0.008
	(0.12)
INTAN	–0.749***
	(–2.94)
MASCORE	–0.886***
	(–7.39)
ACCRUAL	–0.063
	(–0.72)
STDRET	–0.019
	(–1.31)
TRANSP	0.002
	(0.10)
Year FE	YES
Observations	15,324

Table B2 (continued)

Panel B: Second-step Regression

	EDF
	(1)
GAI	–0.009**
	(–2.36)
Credit Ratings	–0.007***
	(–12.78)
Ln Equity	–0.002
	(–0.82)
Ln Debt	0.043***
	(11.31)
$1/\sigma_E$	–0.009***
	(–9.01)
Excess Return	–0.177***
	(–42.34)
Income/Assets	–0.161***
	(–8.80)
IO	–0.031**
	(–2.09)
Ln Amihud	–0.038***
	(–23.82)
CEO PhD	–0.042
	(–1.13)
CEO MBA	0.004
	(0.24)
Firm Size	–0.006
	(–1.28)
Firm Age	–0.009***
	(–4.01)
ROA Volatility	0.001**
	(2.13)
CEO Age	–0.017
	(–1.47)
CEO Tenure	–0.003
	(–1.51)
CEO Duality	0.001
	(0.07)
Mills Lambda	–0.038***
	(–7.15)
Year FE	YES
Observations	15,324

This table presents the Heckman two-step regression results. Panel A reports the first-step regression results estimated via a Probit regression. Panel B reports the second-step regression results. Both regressions control for year fixed effects. The *t*-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table B3. General Ability Index and Corporate Default Risk – Propensity Score Matching

	Dependent Variable: GAI Dummy	
	Pre-match	Post-match
	(1)	(2)
Ln Equity	0.213***	0.026
	(11.27)	(0.71)
Ln Debt	-0.026	-0.025
	(-1.31)	(-0.68)
$1/\sigma_E$	0.105***	-0.004
	(15.98)	(-0.29)
Excess Return	0.024	0.045
	(0.89)	(0.89)
Income/Assets	-0.801***	-0.220
	(-8.05)	(-1.10)
IO	-0.325***	0.036
	(-4.64)	(0.27)
Ln Amihud	-0.005	-0.022
	(-0.45)	(-1.10)
CEO PhD	-0.008	0.241
	(-0.03)	(0.43)
CEO MBA	0.179	-0.108
	(1.40)	(-0.36)
Firm Size	-0.160***	0.016
	(-6.10)	(0.31)
Firm Age	0.211***	-0.001
	(14.23)	(-0.05)
ROA Volatility	0.004***	-0.001
	(3.50)	(-0.19)
CEO Age	0.085	0.029
	(1.14)	(0.21)
CEO Tenure	-0.081***	0.032
	(-6.30)	(1.32)
CEO Duality	-0.006	-0.029
	(-0.29)	(-0.78)
Industry FE	YES	YES
Observations	20,485	5,622
Pseudo R^2	0.0321	0.0040

This table presents the results for the logit forming the basis for the propensity score matching. This logit explains the likelihood of the firm having a generalist CEO. The dependent variable is an indicator variable taking the value of one if the CEO's general ability index is above the annual sample median and zero otherwise. The first column displays the logit results based on the pre-matched sample, while the second column displays the results for the post-matched sample. Standard errors are corrected for clustering at the firm level, and *t*-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

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