



**IE UNIVERSIDAD**

**TESIS DOCTORAL / DOCTORAL DISSERTATION**

**NUEVAS PERSPECTIVAS SOBRE SUCESIONES DEL DIRECTOR DEL EJECUTIVO  
Y OTRAS POSICIONES PRINCIPALES DENTRO DE LA FIRMA / NEW  
PERSPECTIVES ON CEO SUCCESSIONS AND OTHER TOP POSITIONS WITHIN  
THE FIRM**

**ROBERT HUGH LANGAN**

**SEGOVIA, 2019**



**IE UNIVERSIDAD**

**TESIS DOCTORAL / DOCTORAL DISSERTATION**

**NUEVAS PERSPECTIVAS SOBRE SUCESIONES DEL DIRECTOR DEL EJECUTIVO  
Y OTRAS POSICIONES PRINCIPALES DENTRO DE LA FIRMA / NEW  
PERSPECTIVES ON CEO SUCCESSIONS AND OTHER TOP POSITIONS WITHIN  
THE FIRM**

**Robert Hugh Langan**

**Doctoral Thesis Advisor: Rocio Bonet, Ph.D.**



## **ABSTRACT**

This dissertation presents three empirical studies aimed at providing a better understanding of CEO successions and some of the top leadership positions within the firm. The first study focuses on family ownership and its influence in CEO succession decisions. It argues and finds support that family firms' CEO succession decisions will be driven by the family's socioemotional wealth (SEW) preservation goals. Consequently, family firms engage in CEO successions differently from non-family firms. The second study focuses on the appointment of an interim-CEO and how it can lead to increased top management team (TMT) turnover. In addition, it focuses on the moderating effect of the Chairman in this context and how combining the positions may lessen TMT turnover. The final study focuses how CEOs can consolidate power by also holding both the President and Chair titles, known as CEO Plurality. It argues and finds support that Plural CEOs are related to greater CEO entrenchment; they are less likely to depart the firm in general and also during times of poor performance. However, powerful executives can prevent or cease CEO Plurality. Hypotheses were tested on a dataset of public, US firms in the Fortune 1,000 between the years 2000 and 2013.

This contributes to management literature in several ways. By considering the role of family ownership in CEO successions this dissertation contributes to extant research on CEO successions in family firms by demonstrating that SEW goals guide succession decisions even when family firms look outside the family for their CEO. By investigating how an interim-CEO appointment may affect TMT turnover it provides further clarity about the consequences of appointing an interim-CEO. Finally, by examining how CEOs with

multiple titles can entrench themselves in the position, this dissertation demonstrates how the consolidation of power is a real concern for firms.

## RESUMEN

Esta disertación presenta tres estudios empíricos destinados a ofrecer una mejor comprensión de las sucesiones de los directores del ejecutivo (DEs) y de algunos de los puestos de liderazgo más importantes dentro de la empresa. El primer estudio se centra en la propiedad familiar y su influencia en las decisiones de sucesión de los DEs. Argumenta y encuentra apoyo en el hecho de que las decisiones de sucesión de los DEs de las empresas familiares serán motivadas por los objetivos de preservación de la riqueza socioemocional de la familia (RSF). En consecuencia, las empresas familiares se dedican a la sucesión de los DEs de forma diferente a las empresas no familiares. El segundo estudio se centra en el nombramiento de un DE interino y en cómo puede llevar a un aumento de la rotación del equipo directivo superior (EDS). Además, se centra en el efecto moderador del Presidente de la junta (PJ) en este contexto y en cómo la combinación de las posiciones puede reducir la rotación de EDS. El estudio final se centra en cómo los DEs pueden consolidar el poder al tener también los títulos de PJ y Presidente, conocidos como DE Pluralidad. Argumenta y encuentra apoyo en el hecho de que los DEs Plurales están relacionados con un mayor atrincheramiento del DE; es menos probable que abandonen la empresa en general y también durante los momentos de bajo rendimiento. Sin embargo, los ejecutivos poderosos pueden prevenir o cesar la pluralidad de DEs. Las hipótesis se probaron en un conjunto de datos de empresas públicas de EE.UU. que figuran en la lista Fortune 1.000 entre los años 2000 y 2013.

Esto contribuye a la literatura de gestión de varias maneras. Al considerar la influencia de la propiedad familiar en las sucesiones de DE, esta disertación contribuye a la investigación existente sobre las sucesiones de DE en empresas familiares al demostrar que los objetivos de RSF guían las decisiones de sucesión, incluso cuando las empresas familiares buscan a su DE fuera de la familia. Al investigar la forma en que un nombramiento provisional del DE puede afectar el movimiento del EDS, ofrece mayor claridad sobre las consecuencias del nombramiento de un DE interino. Finalmente, al examinar cómo los DEs con múltiples títulos pueden atrincherarse en la posición, esta disertación demuestra que la consolidación del poder es una preocupación real para las empresas.

## **ACKNOWLEDGEMENTS**

There are several people I would like to acknowledge. First and foremost, I want to offer the deepest of thanks to my doctoral advisor, Rocio Bonet. It is difficult to put down just how much Rocio helped me throughout my PhD. Early on, Rocio offered guidance and support. She directed me towards what ultimately became the topic of my dissertation and then supported my suggestions of where I wanted to take it. She always made herself available when I needed help with something – no matter how small – and continues to do so, even with a newborn! She is a natural teacher who taught me much of what I know about research today. She also acted as a role model of what a researcher and advisor should be. Her passion, work ethic, and enthusiasm inspired me, especially in the difficult or frustrating times. And, two things that I believe are quite rare for advisors, Rocio was always cheerful, always able to lighten the mood and leave things on a high note, and she always acted in my best interest. I will be eternally grateful to Rocio for her role in my development as a researcher, for always being in my corner, and for being a role model whom I aspire to emulate.

I also want to acknowledge my family, especially my parents, for all of the support they provided me throughout the PhD. They showed a lot of patience. Without them, I certainly would not have been able to do this. I want to acknowledge my fellow PhD students who are too numerous to name. The friendships I developed during the PhD will surely remain for life. We shared many memories and in some ways we were like brothers in arms. They were always there to help when needed and to get out and forget about the PhD for an evening. I also want to thank the PhD department for their support. Laura

Maguire and Kathleen Mathison were always quick to respond to any query and offer any help needed. They also made sure on a daily basis that the PhD office was a cheerful and welcoming place.

I want to acknowledge Cristina Cruz for being a wonderful co-author and always a positive support. I learned much from our meetings, especially in how to develop argumentation. She also put me in touch with Laura Jimenez, to whom I owe a lot for her help with my data collection. I also want to acknowledge Monika Hamori who was a constant support during the PhD, helping me in numerous ways, including providing data, offering career help, and for always offering moral support.

I want to acknowledge my three external committee members: Jaime Ortega, Pablo Ruiz, and Pascual Berrone for the time they took to be at my defence(s), to read the dissertation, and for their contributions to making each chapter of the dissertation stronger.

Lastly, I want to acknowledge Ken Callis. For over 10 years, Ken was my boss. From him I learned many of the qualities that became so helpful during the PhD: work-ethic, grit, maintaining a sense of humour, honesty, and patience.

## TABLE OF CONTENTS

ABSTRACT .....	II
RESUMEN .....	IV
ACKNOWLEDGEMENTS .....	VI
INTRODUCTION .....	1
INTRODUCCIÓN .....	4
CHAPTER 1: WHEN LOOKING BEYOND THE FAMILY: THE ROLE OF SOCIOEMOTIONAL WEALTH IN CEO SUCCESSION DECISIONS .....	7
INTRODUCTION .....	8
THEORETICAL BACKGROUND .....	11
HYPOTHESES DEVELOPMENT .....	14
Insider versus outsider CEOs in family versus non-family firms .....	14
Designation and promotion of an heir apparent in family versus non-family firms .....	21
METHODS .....	26
Sample .....	26
Dependent and Independent Variables .....	27
Controls .....	29
Analyses .....	30
RESULTS .....	30
Supplemental Analyses .....	32
DISCUSSION.....	34
CONCLUSION .....	38
REFERENCES .....	39
TABLES AND FIGURES.....	45
Table 1: Summary statistics and correlations.....	45
Table 2: Probit tests on the probability to appoint an inside CEO and the probability to designate an heir apparent.....	46
Figure 1a: Predictive margins of inside CEO appointment.....	47

Figure 1b: Average marginal effects of family firm preferences for inside CEOs.....	47
CHAPTER 2: SHOULD I STAY OR SHOULD I GO? TOP MANAGEMENT TEAM TURNOVER FOLLOWING INTERIM-CEO SUCCESSIONS .....	49
INTRODUCTION .....	50
THEORY AND HYPOTHESES.....	55
The role of chairman as an attenuating factor.....	60
The interim-CEO's origin as an attenuating factor .....	61
METHODS .....	62
Sample .....	62
Dependent variable .....	64
Independent variables .....	65
Controls .....	65
Analysis .....	67
RESULTS .....	68
Further tests of the theorized mechanisms .....	69
Additional analyses .....	72
Robustness checks .....	73
DISCUSSION.....	74
Implications for practice.....	76
Limitations .....	77
CONCLUSION .....	78
REFERENCES .....	79
TABLES AND FIGURES.....	83
Table 1. Descriptive statistics and correlations .....	83
Table 2. Probit estimates of first-stage use of interim-CEO .....	84
Table 3. OLS models of TMT turnover .....	85
Table 4. Probit and OLS models examining TMT dismissals.....	86
Table 5. OLS models splitting both interim-CEOs and permanent CEOs into insiders and outsiders.....	87
CHAPTER 3: CONSOLIDATING POWER: CEO PLURALITY AND THE ROLE OF THE PRESIDENT POSITION IN CEO ENTRENCHMENT.....	89
INTRODUCTION .....	90
THEORY AND HYPOTHESES.....	93
The role of the president .....	93

CEO plurality .....	94
CEO power and entrenchment.....	96
Executive power and CEO plurality.....	98
<b>METHODS</b> .....	<b>100</b>
Sample .....	100
Dependent variables .....	101
Independent variables.....	101
Controls .....	102
Analysis .....	103
<b>RESULTS</b> .....	<b>104</b>
Additional analyses and robustness checks.....	105
<b>DISCUSSION</b> .....	<b>108</b>
Practical implications.....	110
Limitations .....	110
<b>CONCLUSION</b> .....	<b>111</b>
<b>REFERENCES</b> .....	<b>112</b>
<b>TABLES AND FIGURES</b> .....	<b>115</b>
Table 1. Frequencies of title combinations.....	115
Table 2. Descriptive statistics and correlations .....	116
Table 3. Discrete time event history analysis of CEO departure.....	117
Table 4. Discrete time event history analysis of CEO Plurality .....	118
Table 5. Discrete time event history analysis of CEO departure including other types of CEOs.....	119
Table 6. Discrete time event history analysis of CEO departure including different types of Chairmen .....	120
Figure 1. Predictive margins of CEO departure .....	121
Figure 2. Predictive margins of CEO Plurality .....	121
<b>CONCLUSION</b> .....	<b>123</b>
<b>CONCLUSIÓN</b> .....	<b>125</b>



## INTRODUCTION

This dissertation seeks to provide some new perspectives on CEO successions. While CEO successions have been heavily researched (Berns & Klarner, 2017), there is still much to be learned. This dissertation aims to elucidate some aspects of successions that have been researched to a lesser extent. Overall it has three main focuses. First, it considers how the ownership of a family may play an influencing role in CEO succession decisions. While CEO succession decisions within family firms has received some attention (Calabrò, Minichilli, Amore, & Brogi, 2018; Minichilli, Nordqvist, Corbetta, & Amore, 2014), there has yet to be a study that compares CEO successions in family and non-family firms, in order to understand how family influence plays a role. This chapter investigates the two most common succession decisions: whether to appoint a firm insider or outsider to the CEO position, and whether to designate and ultimately promote an heir apparent to become the next CEO. Given the effects that family socioemotional wealth (SEW) concerns can have on firm decisions (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010; Cruz, Gómez-Mejia, & Becerra, 2010; Gomez Mejia, Cruz, Berrone, & De Castro, 2011; Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007), this chapter investigates how SEW considerations will affect these two important succession decisions. It also considers how performance may play a role.

Second, this dissertation devotes one chapter to focusing on the nature of the succession. While the large majority of CEO succession research has focused on permanent successions, interim-successions have been found to be unique types of

successions that result in different outcomes when compared to permanent ones (Ballinger & Marcel, 2010; Chen, Luo, Tang, & Tong, 2015; Connelly, Ketchen Jr, Gangloff, & Shook, 2016; Gangloff, Connelly, & Shook, 2016; Marcel, Cowen, & Ballinger, 2017). One key outcome of a CEO succession is the turnover of the top management team (TMT). Previous work has found that the nature of the CEO succession has differing implications for subsequent TMT turnover (Friedman & Saul, 1991; Kesner & Dalton, 1994). However, this research has only considered whether the incoming CEO is an insider or outsider. Given that interim-successions are unique and affect firms differently from permanent successions, this dissertation seeks to understand how interim-successions influence subsequent TMT turnover. It also considers whether an insider or Chairman may moderate turnover.

Third, this dissertation devotes one chapter to understanding some of the power dynamics among the CEO and top executives. Previous research has found that powerful CEOs can influence succession decisions toward their own interests (Cannella & Lubatkin, 1993; Cannella & Shen, 2001). While scholars generally agree that a CEO-Chairman holds considerable power to influence firm decisions including succession decisions (Krause, Semadeni, & Cannella, 2014a), little research considers how the added title of President may play a role. What research that does exist on the subject finds that CEO Plurality (when a CEO also holds both the Chairman and President roles) is not perceived well by firm shareholders for fears of potential CEO entrenchment (Davidson III, Nemec, & Worrell, 2001; Worrell, Nemec, & Davidson III, 1997). As such, this chapter investigates how Plural CEOs may be able to become

entrenched in their positions. It further suggests that top executives may oppose too much power consolidation in the hands of the CEO for fears of CEO entrenchment and examines whether they are able to prevent Plurality. By doing so, this chapter enlightens scholars about how CEOs who consolidate power may become entrenched and how the President title plays a role in this.

As a whole, this dissertation contributes to CEO succession research by offering new perspectives on CEO successions. It considers the effects of influential owners, the nature of the succession, and the effects of the Chairman and President titles. By doing so, it furthers development of research on this important topic and opens new avenues for future studies.

## INTRODUCCIÓN

Esta disertación intenta proporcionar algunas nuevas perspectivas sobre las sucesiones de los DEs. Aunque las sucesiones de DEs han sido fuertemente investigadas (Berns & Klarner, 2017), todavía hay mucho que aprender. Esta tesis tiene como objetivo elucidar algunos aspectos de las sucesiones que han sido investigados en menor medida. En general, se centra en tres aspectos principales. Primero, se considera cómo la propiedad de una familia puede influir las decisiones de sucesión del DE. Mientras que las decisiones de sucesión de DEs dentro de las empresas familiares han recibido cierta atención (Calabrò, Minichilli, Amore, & Brogi, 2018; Minichilli, Nordqvist, Corbetta, & Amore, 2014), aún no se ha realizado un estudio que compare las sucesiones de DEs en empresas familiares y no familiares, con el propósito de entender cómo la influencia de la familia juega un papel. Este capítulo investiga las dos decisiones de sucesión más comunes: si se debe nombrar a un miembro interno o externo de la firma para el puesto de DE, y si se debe designar y, en último caso, promover a un heredero aparente para que se convierta en el próximo DE. Dados los efectos que las preocupaciones de la riqueza socioemocional familiar (RSF) pueden tener en las decisiones de las empresas (Berrone, Cruz, Gómez-Mejía, & Larrazakintana, 2010; Cruz, Gómez-Mejía, & Becerra, 2010); Gómez Mejía, Cruz, Berrone y De Castro, 2011; Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson y Moyano-Fuentes, 2007), este capítulo investiga cómo las consideraciones de RSF afectarán estas dos importantes decisiones de sucesión. También considera cómo el rendimiento puede jugar un papel.

Segundo, esta disertación dedica un capítulo a centrarse en la naturaleza de la sucesión. Mientras que la gran mayoría de los estudios de sucesión de DEs se han centrado en las sucesiones permanentes, se ha descubierto que las sucesiones interinas son tipos únicos de sucesión que dan lugar a resultados diferentes en comparación con las permanentes (Ballinger & Marcel, 2010; Chen, Luo, Tang, & Tong, 2015; Connelly, Ketchen Jr, Gangloff, & Shook, 2016; Gangloff, Connelly, & Shook, 2016; Marcel, Cowen, & Ballinger, 2017). Un resultado clave de la sucesión de un DE es la rotación del equipo directivo superior (EDS). En estudios anteriores se ha descubierto que la naturaleza de la sucesión de los directores ejecutivos tiene diferentes implicaciones para la posterior rotación del EDS (Friedman & Saul, 1991; Kesner & Dalton, 1994). Sin embargo, esta investigación sólo ha considerado si el DE entrante es de dentro o de fuera. Como las sucesiones interinas son únicas y afectan a las empresas de forma diferente a las sucesiones permanentes, esta disertación intenta comprender cómo las sucesiones interinas influyen en el subsiguiente volumen de negocios de EDS. También considera si un ejecutivo del EDS o el PJ puede moderar la rotación.

Tercero, esta disertación dedica un capítulo a comprender algunas de las dinámicas de poder entre el DE y los altos ejecutivos. Investigaciones anteriores han encontrado que los directores ejecutivos poderosos pueden influir en las decisiones de sucesión hacia sus propios intereses (Cannella & Lubatkin, 1993; Cannella & Shen, 2001). Mientras que los académicos generalmente están de acuerdo en que un DE-PJ tiene un poder considerable para influir en las decisiones de la empresa, incluyendo las

decisiones de sucesión (Krause, Semadeni y Cannella, 2014), poca investigación considera cómo el título agregado de Presidente puede ser un factor a tener en cuenta. Las investigaciones que existen sobre el tema revelan que la pluralidad de DEs (cuando un DE también ocupa los puestos de PJ y Presidente) no es bien percibida por los inversionistas de una empresa por temor a que el DE se atrinchere (Davidson III, Nemec, & Worrell, 2001; Worrell, Nemec, & Davidson III, 1997). Como tal, este capítulo investiga cómo los DEs Plurales pueden llegar a atrincherarse en sus posiciones. Además, sugiere que los altos ejecutivos pueden oponerse a demasiada consolidación del poder en manos del DE por temor a que el DE se afiance y examina si son capaces de prevenir la pluralidad. Al hacerlo, este capítulo explica cómo los directores ejecutivos que consolidan el poder pueden arraigarse y cómo el título de presidente juega un papel en esto.

En su conjunto, esta disertación contribuye a la investigación de la sucesión de DEs ofreciendo nuevas perspectivas sobre las sucesiones de DEs. Considera los efectos de los propietarios influyentes, la naturaleza de la sucesión y los efectos de los títulos de PJ y Presidente. Al hacerlo, fomenta el desarrollo de la investigación sobre este importante tema y abre nuevas vías para estudios futuros.

## **CHAPTER 1: WHEN LOOKING BEYOND THE FAMILY: THE ROLE OF SOCIOEMOTIONAL WEALTH IN CEO SUCCESSION DECISIONS**

### **ABSTRACT**

This paper extends the literature on CEO successions in family firms by investigating how CEO succession decisions vary between non-family and family firms when family owners decide to hire from outside the family. Building on insights from the CEO succession and family firm literatures, we argue that SEW preservation concerns lead to a higher preference for insider CEOs in family than in non-family firms and to a lower preference to appoint an heir apparent as part of a formal succession planning process. Additionally, we also argue that pre-succession firm performance affects the differences between family and non-family firms in their CEO appointment decisions. We test and find empirical evidence for our arguments using a database comprising CEO appointments between the years 2000 and 2013 in the Fortune 1000 publicly listed firms.

Keywords: CEO successions; family firms; heir apparent; succession planning

## INTRODUCTION

The selection of a new CEO is a key decision for any organization because it has important consequences for the future direction of the firm (Hambrick & Mason, 1984; Karaevli, 2007; Shen & Cannella, 2003; Wang, Holmes Jr, Oh, & Zhu, 2016; Zhang & Rajagopalan, 2004). Over the past decades, scholars have developed many insights into the antecedents and consequences of CEO succession (eg. Ferris, Jayaraman, & Lim, 2015; Pitcher, Chreim, & Kisfalvi, 2000; Shen & Cannella, 2002b; Zajac, 1990; Zhang & Qu, 2016). In addition to the performance consequences of CEO appointment, CEO succession studies have mainly focused on understanding *CEO origin types* (mainly the choice between insiders – candidates from within the organization – and outsiders), as well as the *type of CEO succession*, with an emphasis on the selection and crowning of an heir apparent (Zhang & Rajagopalan, 2004).

The attention to leadership succession has also been central to family business studies (Bennedsen, Nielsen, Pérez-González, & Wolfenzon, 2007; Calabrò et al., 2018; Strike, Berrone, Sapp, & Congiu, 2015) given that ensuring transgenerational sustainability is amongst the most important goals of family firms and a distinctive characteristic of family businesses (eg. Gomez Mejia et al., 2011; Zellweger, Kellermanns, Chrisman, & Chua, 2012). The generalized finding in this literature is that family firms tend to favor the appointment and grooming of successors within the family versus hiring from outside the family labor market (Chang & Shim, 2015; Lee, Lim, & Lim, 2003). Coinciding with the increased emphasis of the socioemotional wealth (SEW) framework (Gómez-Mejía et al., 2007), most recent papers suggest that the decision to

hire within the family is highly driven by the family owners' need to preserve their SEW (Calabrò et al., 2018; Minichilli et al., 2014; Strike et al., 2015), defined as the affective endowment extending from the family's involvement in the firm (Gómez-Mejía et al., 2007).

Interestingly, these two research streams – CEO succession and family firm successions – have run in parallel. Notably lacking in the CEO succession literature is how the preferences and goals of different owners shape CEO succession processes and the characteristics of CEO successors. Given the growing body of literature showing that owners' preferences influence firm strategic decisions, particularly in the case of family businesses (see Gomez-Mejia, Cruz, Berrone, & De Castro, 2011 for a review), scholars are left with an incomplete picture of the CEO succession phenomenon. This lack of attention is particularly problematic given the prevalence of family firms worldwide (Feldman, Amit, & Villalonga, 2016).

The family business succession literature also provides a partial depiction of the family CEO succession process. While progress has been made in providing theoretical reasons to explain the type of CEO successor selected to run the family business, the focus of this literature has been on the decision to hire inside versus outside the family (Calabrò et al., 2018). However, the role played by the socioemotional goals of the family when family owners decide to hire their CEOs outside the family has received remarkably little attention. This lack of attention is potentially problematic, given the increased need of family firms to look outside the family pool of candidates for the CEO post (Block, 2011;

Chirico, 2008; PwC, 2014). Indeed, most of the large family firms worldwide are run by a CEO who is not a family member (Villalonga & Amit, 2006).

In this paper, we investigate how CEO succession decisions vary between family and non-family firms when family owners decide to hire from outside the family. We focus on the two main variables of interest of the CEO succession literature, namely the decision to hire a firm insider vs outsider and the selection and crowning of an heir apparent. Building on insights from the family firm literature (Gómez-Mejía et al., 2007), we contend that SEW preservation concerns lead to a higher preference for insider CEOs in family firms than in non-family firms, and to a lower preference to designate an heir apparent as part of a formal succession planning process. Additionally, since the succession literature has identified firm performance prior to succession as an important condition affecting CEO succession type and processes (Berns & Klarner, 2017), we also examine how firm's performance at the moment of appointment moderates the differences between family and non-family firms in their CEO appointment decisions.

To empirically support our claims, we use a database comprising 505 unique CEO-company combinations, corresponding to 497 observations from executives in the CEO post of a sample of US listed firms, from 2000 to 2013.

This article makes several contributions. First, we contribute to the strategic leadership literature by showing that ownership matters in making decisions about CEO selection. Our evidence suggests that in addition to the sociopolitical concerns frequently mentioned in the CEO succession literature, socioemotional goals also play an important role in CEO succession decisions. Second, we add to the family business literature by

extending research on family firm succession to the case of hiring outside the family. In doing so, we also extend the body of research on the role played by SEW factors in key strategic decisions. In line with previous studies, our findings illustrate that the preservation of SEW goals constrains family firms' decisions in comparison to non-family firms. By looking at arguably the most strategic decision that firms have to make, whom to choose as a CEO, we find that family SEW shapes the CEO pool of candidates as well as the ultimate succession choices.

### **THEORETICAL BACKGROUND**

The bulk of studies examining CEO succession decisions in family firms focuses on the decision of whether to appoint a family or non-family member as a CEO (Calabrò et al., 2018; Chang & Shim, 2015; Lee et al., 2003; Minichilli et al., 2014; Strike et al., 2015). The general agreement in this research is that, regarding hiring and promotion decisions, members of the owning family are treated favorably relative to non-family members (for a review, see Cruz, Firfiray, & Gomez-Mejia, 2011). The SEW approach has gained traction in the past years as an adequate framework to explain the tendency of family owners to hire and promote CEOs within the family (versus outside it) (Calabrò et al., 2018; Firfiray, Cruz, Neacsu, & Gomez-Mejia, 2018). According to the SEW approach, the family enjoys a unique set of "affect related benefits" from the firm (including maintaining family control and influence and the ability to pass ownership of the firm down to future family generations), known as Socioemotional Wealth (SEW) (Berrone et al., 2010; Gómez-Mejía et al., 2007). This extra set of preferences creates an extra level of

complexity for family firms when making strategic decisions, since they have to consider two different types of possible gains – financial and socioemotional – which at times trade off against each other (Gomez-Mejia, Patel, & Zellweger, 2015).

Following this reasoning, CEO succession in family firms has been portrayed as a decision that creates a trade-off between family principals' two major reference points of economic performance and SEW preservation (Calabrò et al., 2018). Hiring and grooming successors from outside the family may imply benefiting from more expertise (Bennedsen et al., 2007) and bringing more objectivity to the decision-making process (Blumentritt, Keyt, & Astrachan, 2007; Huybrechts, Voordeckers, & Lybaert, 2013), which may eventually improve firm performance. Yet, it also entails a threat to family SEW due to potential weakening of family control and influence (Cruz et al., 2011). Moreover, while hiring a CEO from within the family may translate into managerial entrenchment (Firfiray et al., 2018; Gomez-Mejia, Nunez-Nickel, & Gutierrez, 2001), it may also help the family to fulfill its socioemotional desire for transgenerational intentions (Zellweger et al., 2012). A common ground among SEW studies is that family owners are averse to the loss of SEW and will thus trade off economic and non-economic goals to protect SEW even if this may mean foregoing financial gains (Chrisman & Patel, 2012; Gomez-Mejia et al., 2015; Gomez-Mejia, Makri, & Kintana, 2010; Gómez-Mejía et al., 2007). Hence, the tendency of family owners to hire from inside the family versus outside may not always be seen as a competitive disadvantage of family firms in the managerial labor market, but as a rational decision of family owners to protect their SEW. Not surprisingly, a significant number of family firms are led by CEOs who are members of the owning family.

Recently, the SEW approach has been applied to explain not only CEO succession decisions regarding family versus non-family successors, but also to investigate how family owners select their successors from within the family pool of candidates (Calabrò et al., 2018). Findings from Calabro et al.'s (2018) study suggest that when family ownership is high (which they use to proxy for the high importance family owners give to SEW) family owners favor the appointing of the first born child, as doing so maximizes family SEW as this choice minimizes the potential conflict from infighting among family heirs (Calabrò et al., 2018).

The abovementioned discussion suggests that the SEW approach has advanced the family firm succession literature by providing a rationale to analyze succession decisions within family firms (whether it refers to hiring inside vs outside the family or choosing from within the family pool). However, a question that has remained largely unexplored is how the non-economic priorities of family owners play a role when family firms compete against the non-family firms in the managerial labor market, i.e. when they decide to appoint a CEO from the pool of non-family managers. There is plenty of anecdotal evidence showing that, for many family owners who have already decided to look outside the family to fill the CEO post, the trade-off between inside vs outside the family is not the relevant choice to make. A recent survey conducted by PwC in 2014 indicated that 32% of family firms planned to maintain family ownership but pass business leadership to a non-family member (PwC, 2014). The hiring of nonfamily members is often a requirement to grow the firm as the family pool of candidates is limited (Chrisman & Patel, 2012; Tabor, Chrisman, Madison, & Vardaman, 2018). Further, looking outside the

family to fill the CEO post may also be a way to avoid potential conflicts of interest that can arise when hiring family members (Lubatkin, Schulze, Ling, & Dino, 2005). Consistent with that, evidence from the academic literature shows that the tendency to appoint non family CEOs in family firms is growing, especially among listed family controlled firms (Villalonga & Amit, 2006). Understanding how family-firms make their CEO succession decisions when hiring from outside the family market therefore becomes a fundamental question of research.

In this paper we seek to make progress in this direction and compare CEO appointment decisions and CEO succession processes between family and non-family firms. Contrary to the focus of the succession literature based on the SEW approach, inside vs outside the family, we focus on understanding how SEW priorities shape family firms' succession decisions when they decide to look outside the family to fill the CEO post. Hence, following the CEO succession literature, our focus will be in understanding how SEW priorities shape family firms' succession decisions regarding the two most important dimensions considered by the CEO succession literature, inside vs outside the firm and whether to groom and appoint an heir apparent.

## **HYPOTHESES DEVELOPMENT**

### **Insider versus outsider CEOs in family versus non-family firms**

One of the most important decisions regarding CEO succession in an organization is whether to hire an outsider or an insider (Berns & Klarner, 2017; Cragun, Nyberg, & Wright, 2016). The strategic leadership literature suggests that in making such a decision,

firms face important trade-offs. First, outsider CEOs have the potential to bring a larger amount of general skills, new knowledge from the industry or even from other industries, and a fresh perspective about how to do things in the organization (Harris & Helfat, 1997; Karaevli & Zajac, 2013; Zhang & Rajagopalan, 2003). This new knowledge is instrumental in taking the firm into new directions. These are important aspects in light of the increase in firm complexity and environmental turbulence (Bertrand, 2009; Frydman, 2007; Murphy & Zabochnik, 2007). The cost of this outside knowledge is that the outsider CEO will have not gained firm-specific skills (Harris & Helfat, 1997). Firm specific skills refer to the skills, contacts, and knowledge that are only valuable in the focal firm of the CEO (Becker, 1962). These include information about internal processes, the culture of the firm, or the top management team and board of directors. Firms should be willing to hire CEOs with more general managerial capital if the benefits of doing so outweigh the costs of the lost specific managerial human capital.

A related point is that, because outside CEOs are new to the company, they are less committed to the status quo of the organization and less restricted by social norms (Datta & Guthrie, 1994). This, together with the new skills they bring from outside the organization, implies that outsiders are more likely to take the firm into a new direction introducing more strategic change (Cragun et al., 2016; Schepker, Kim, Patel, Thatcher, & Campion, 2017). However, taking the firm into new directions is usually associated with disruption. If keeping stability is important for the firm, firms should prefer insiders versus outsiders.

Furthermore, insider CEOs may pose a lesser problem of adverse selection (Zajac, 1990; Zhang, 2008). Any CEO appointment is characterized by a certain degree of information asymmetry about the quality of the newly appointed CEO (Khurana, 2002). However, the degree of asymmetric information tends to be higher for external hires than for internal ones (Zajac, 1990). The more a board has worked with an incumbent executive, the more they may know about the true quality of that executive. Furthermore, insider CEOs also may know more about the company and about what it takes to succeed in the firm specific environment. Thus, beyond the lack of firm specific knowledge, is another potential cost of bringing new knowledge and skills, as companies face a higher risk of having a poor match.

In the last decades, the relative value of outsiders versus insiders may have increased, as evidenced by the increased prevalence of outsider CEOs (Murphy & Zabochnik, 2007). At the same time, current CEOs seem to show an increase in the variety of their experiences, including being CEOs in other firms (Crossland, Zyung, Hiller, & Hambrick, 2014; Custódio, Ferreira, & Matos, 2013; Custódio & Metzger, 2014; Murphy & Zabochnik, 2007). Paralleling these trends, scholars have also found an increase in the return to an external labor market career in the CEO labor market in terms of pay and the time it takes to get to the top of the corporation (Cappelli & Hamori, 2004; Falato, Li, & Milbourn, 2015; Murphy & Zabochnik, 2007).

Yet, empirical evidence suggests that hiring an external CEO may be more valuable in some organizations than in others. Among the organizational predictors of insider versus outsider succession, existing research has considered variables such as

organizational performance (Datta & Guthrie, 1994; Guthrie Datta, 1997), the size of the firm (Dalton & Kesner, 1983; Guthrie Datta, 1997), the nature of the work that needs to be done (Custódio et al., 2013), and the organizational structure of the firm (Agrawal, Knoeber, & Tsoulouhas, 2006). We propose that the relative value of hiring an outsider versus an insider CEO can also vary depending on the ownership structure of the firm, and specifically, on whether the firm is a family or a non-family firm.

This is because, as mentioned earlier, an important goal for family owners facing a CEO succession is the preservation the family's SEW and not only to secure financial benefits, as is assumed in most studies of CEO successions in the strategic management literature (Minichilli et al., 2014). Consequently, when going to the professional CEO labor market, family owners will weigh the economic benefits of the new hire against the potential loss in utility if employing non-family managers reduces the family SEW. Given that family owners are loss-averse with respect to their SEW (Gómez-Mejía et al., 2007), our claim is that family owners would value characteristics in a professional CEO that will aid in the preservation of their SEW.

Specifically, to preserve SEW, family firms will put great emphasis on the importance that the CEO is aligned with its set of SEW-related norms and values (Blumentritt et al., 2007; Chrisman, Memili, & Misra, 2014; Hall & Nordqvist, 2008). Such an understanding and ability to manage knowledge specific to an owner is a type of firm-specific knowledge that will best be developed by those with tenure within an organization (Finkelstein & Hambrick, 1996).

Researchers have also found that family firms tend to be averse to strategic decisions that may disrupt the firm's current status in ways that may reduce the family's SEW (Chrisman & Patel, 2012; Gomez-Mejia et al., 2010; Gómez-Mejía et al., 2007). Such changes in strategic behaviour may create uncertainties and develop a reliance on other managers which disrupt the flow of information to the family and increase agency costs and fears of managerial opportunism (Jensen & Meckling, 1976). Instead, family owners appear to value the status quo, over which they should have greater knowledge and hence an ability to control, even if it means not maximizing profits (Chrisman & Patel, 2012; Gomez-Mejia et al., 2010; Gómez-Mejía et al., 2007). Given that we know from the CEO succession literature that when firms prefer to maintain the status quo they tend to appoint insiders (for a recent review of empirical findings see Berns & Klarner, 2017), SEW concerns will increase the value of insiders for family owners.

Moreover, the greater information asymmetry and associated adverse selection problems related to hiring outsiders vs insiders may be of greater importance to family firms, since adverse selection may also jeopardize family control (Firfiray et al., 2018). Family owners' limited information about the motives, conduct, and performance contributions of the outsiders reduce their monitoring capabilities over the CEO (Cruz et al., 2010), diluting family influence in the board of directors.

The abovementioned discussion suggests that in deciding about the type of CEO, SEW concerns will shift the unique trade off faced by family owners towards more heavily weighing the potential benefits of promoting insiders vs outsiders. While outsiders may have a positive impact on economic goal achievement, this positive impact must be

weighed against the potential loss in utility if employing outsiders reduces the attainment of family noneconomic goals. Therefore, the employment of outsiders will always give a relative higher value to non-family firms who experience no declines in utility from a loss in SEW. Formally stated:

*Hypothesis 1: Family firms will be more likely to appoint an insider CEO than will non-family firms*

The existing literature on CEO succession has identified firm performance prior to succession as an important condition affecting firms' preferences for outsider over insider CEOs (Berns & Klarner, 2017). In general, this literature has argued that when firms are performing poorly, they tend to face higher pressures to appoint outsiders (Cragun et al., 2016). The fresher perspective, higher level of strategic change, and departure from the status quo that an outsider CEO is likely to bring to the organization compared to an insider are more likely to be welcomed when the firm is underperforming than when the firm is performing well. On the contrary, if the company is performing well, it is more likely that the board appoints a CEO that will continue the legacy of the prior CEO (Shen & Cannella, 2002b). In other words, when the company is performing poorly, the trade-off that non-family firms face between appointing an outsider and an insider is likely to be shifted towards appointing an outsider because the value of bringing an outsider increases relative to the value of choosing an insider. In general, empirical evidence has found support for this point; companies are more likely to appoint outsiders than insiders when they are underperforming (Cragun et al., 2016; Schepker et al., 2017; Shen &

Cannella, 2002b), although there is also support for a more contingency view, that certain socio-political factors play an important role in the relationship between firm performance and the origin of the CEO successor (Cannella & Lubatkin, 1993). We argue that in this case too, the presence of SEW concerns in the case of family firms may play a moderating role in the relationship between firm performance and the selection of an outsider/insider CEO.

One of the characteristics of family owners is the concentration of a large portion of their wealth in a single enterprise (Faccio & Lang, 2002; Shleifer & Vishny, 1997). From a SEW perspective this concentration allows them to control the firm, but also implies that if the firm goes bankrupt, both the source of the family financial wealth and their SEW would be lost (Gomez Mejia et al., 2011). In the extreme, the family loses everything if the firm does not survive. The strong direct link between family owners' well-being and firm survival suggests that when performance declines, family owners not only tend to pay more attention to survival (March & Shapira, 1992), but they will also increase their emphasis on maintaining control because the increasing threat to their firm's survival is also a threat to the family's influence over the firm. If families turn their attention to control even more when performance declines, the relative value of hiring insiders (that may help the family owners to preserve the family SEW) will increase. Put differently, the benefits of hiring an outsider under conditions of declining performance would not be as valuable for family firms as for non-family firms. Consequently, we would expect that the relative higher preference of non-family firms for hiring outsiders will be increased when firm performance is declining. Formally stated:

*Hypothesis 2: As performance drops, the difference in the likelihood of appointing an insider CEO between family and non-family firms increases*

### **Designation and promotion of an heir apparent in family versus non-family firms**

Another important decision that firms face regarding CEO succession is how to succeed the CEO. The existing literature has identified that a common form of succession planning is relay succession, where a candidate is designated well in advance to succeed the current CEO. The incumbent CEO uses this time to work together with the chosen heir apparent and groom the candidate for the CEO job until the actual “passing of the baton” takes place (Cannella & Shen, 2001; Cragun et al., 2016; Vancil, 1987; Zhang, 2008).

There are both benefits and costs associated with designating an heir apparent. On the one hand, the selection of an heir apparent can be beneficial because it signals to the market and different stakeholders the likelihood of a smooth transition of power and elicits the idea that the succession of the CEO will be smooth (Cannella & Lubatkin, 1993; Zajac, 1990). It also signals that the CEO and the board are carrying out their responsibilities of working on leadership succession, and therefore, it shows good corporate governance in the firm (Cannella & Shen, 2001; Marcel et al., 2017). Furthermore, the selection of an heir apparent gives different stakeholders the chance to gain familiarity with the future CEO, which decreases uncertainty at the moment of leadership change and should lead to less disruption (Cannella & Lubatkin, 1993; Cannella & Shen, 2001; Shen & Cannella, 2003; Zajac & Westphal, 1996).

The selection of an heir apparent however does not come without costs for the organization. The most relevant one, perhaps, is that it ties the hands of the board regarding future CEO selection (Cannella & Shen, 2001). Because the designation of an heir apparent is a crucial one and it is usually well publicized, the approval by the board of a designated heir apparent sends a strong signal that the board is committed to promote the heir apparent (Cannella & Shen, 2001). Not doing so would imply breaking the implicit contract between the board and the heir apparent and would also signal stakeholders that the board is not trustworthy (Cannella & Lubatkin, 1993). Consequently, “the designation of an heir apparent initiates a rule-bounded process in which the heir is expected to be promoted to CEO” (Cannella & Shen, 2001: 255). Accordingly, existing evidence suggests that most companies that designate an heir apparent tend to follow the relay succession as planned (Cannella & Shen, 2001). Indeed, Zhang & Rajagopalan (2004) and Hambrick & Cannella (2004) recorded heir apparent promotion at 36% and 68% respectively.

The family firm succession literature has focused on the existence of an heir apparent from the family (Breton-Miller, Miller, & Steier, 2004; Calabrò et al., 2018), with limited evidence on how non-family CEOs are groomed within the organization. In their empirical study of CEO succession in family firms, Minichilli, et al. (2014) found that only 20% of family firms promoted an heir apparent to the CEO position and that this number was lower than horse race successions (several internal candidates) and firm outsider appointments. Following a SEW reasoning, we theorize that concerns for SEW preservation would explain the lower preference of family firms to appoint and designate

an heir apparent compared to non-family firms. Designating a non-family successor in advance would limit the family's ability to influence or change the appointment decision in the future, since as mentioned, it ties the hands of the board regarding future CEO selection (Cannella & Shen, 2001). Family owners may perceive such a designation as a threat to its SEW, since it implies a relinquishing of control in advance. Further, the designation of the new leader may hurt the harmony among family members as well as between family members and the firm's main stakeholders, breaking family cohesion and thus decreasing the family SEW (Gomez-Mejia et al., 2001).

Therefore, although the succession literature suggests that designating an heir apparent is good to build legitimacy for firms, the logic operates differently in the case of family firms. Since designating a successor in advance may jeopardize the family SEW, family firms would be more reluctant to designate an heir apparent compared to non-family firms. Formally stated:

*Hypothesis 3: Family firms will be less likely than non-family firms to designate an heir apparent.*

Consistent with the above arguments, we contend that while SEW preservation motives will reduce the likelihood of family firms of designating an heir apparent, they will also make them more likely to follow through on the relay succession as planned, i.e., to promote the heir apparent in cases when one has been previously designated. This is because breaking the implicit contract (by not promoting the committed successor) is more costly for family firms. Existing research has argued that in family-firms, relational

contracts predominate over a purely financial contractual relationship (Gomez-Mejia et al., 2001). Relational contracts, that are based on trusting relationships and sentiments, define a set of mutual expectations among family and non-family actors (Cruz, Justo, & De Castro, 2012). Breaking trust-based contracts hurts the family's relationship with its employees (Steier, 2001), which is key for SEW preservation (Berrone, Cruz, & Gomez-Mejia, 2012). This is owing to the fact that the family owner's identity is so inextricably tied to the firm that other external stakeholders view the firm as an extension of the owning family itself (Zellweger, Nason, Nordqvist, & Brush, 2013). Thus, family firms would be much more sensitive than non-family firms to the negative reactions from both internal and external stakeholders in breaking the contract with the heir apparent.

Therefore, given that family firms are expected to be less willing to endorse any action that may damage their reputation towards their stakeholders, they will be more likely than non-family firms to promote an heir to the CEO position. Formally stated:

*Hypothesis 4: When having a designated heir apparent, family firms will be more likely than non-family firms to promote the heir apparent.*

The costs of not promoting an heir apparent may change under conditions of poor performance. The continuity of the incumbent CEO strategy should be less valuable if the company is performing poorly. Furthermore, poor firm performance may lead shareholders and outside directors to question the capabilities of the whole top management team, including the designated heir apparent that is being groomed for the new CEO position (Hambrick & Mason, 1984; Zhang & Rajagopalan, 2004). Thus, the

board may feel less pressure to promote an heir apparent under poor performance conditions and indeed may feel pressure to bring someone new into the organization (Cannella & Shen, 2001). In addition, because replacing the CEO with the heir apparent is not likely to bring organizational change (Helmich & Brown, 1972), when performance is poor the board may decide to go for alternative modes of CEO succession such as choosing a contender (Shen & Cannella, 2002b) or an interim CEO until a permanent CEO is found (Ballinger & Marcel, 2010; Mooney, Semadeni, & Kesner, 2017). Thus, the benefits of not promoting an heir apparent should outweigh the costs of doing so when performance deteriorates. Accordingly, the succession literature has found that when performance drops companies are less likely to promote the heir apparent (Cannella & Shen, 2001; Zhang & Rajagopalan, 2004).

This is not the case for family firms. While for non-family firms not promoting an heir apparent when the firm is vulnerable may be a valuable strategy, the mix of family firms' non-financial (SEW) and financial motives create a tension between economic performance and SEW preservation (Gómez-Mejía et al., 2007), reducing the value of such strategy. The high potential SEW costs associated with breaking the implicit contract with the successor are not outweighed by the potential benefits of replacing the appointed CEO with a new candidate. Accordingly, even when performance deteriorates, family firms will be more likely to promote their designated successor than their non-family firm counterparts. Based on that we propose the following:

*Hypothesis 5: As performance drops, the difference in the likelihood of promoting an heir apparent between family and non-family firms increases.*

## METHODS

### Sample

In order to test our hypotheses, we drew an initial sample of the publicly traded firms from the 2010 list of the Fortune 1,000 (F1000) firms. The F1000 list contains the 1,000 largest American firms by revenue and includes most well-known firms in the world.

Using the Execucomp database, we then collected a list of all the individuals who had been a CEO in these firms at any point in time between the years 2000 to 2013.

Because our interest is in understanding how family firms select CEOs who are not part of the firm's owning family, we excluded CEO founders and CEOs who were members of an owning family. In our robustness test section, we provide also a comparison including the CEO family founders and family members. We also removed all banks to avoid distortion in the performance measures (Anderson & Reeb, 2003, 2004; Withers & Fitza, 2017). Finally, we excluded cases where information on our main variables was incomplete or unavailable. This left us with a final sample of 342 firms (56 family firms) and 490 CEO appointments (73 in family firms).

CEOs' career history data were hand-collected and coded from several sources including Biography in Context, corporate websites, press releases, firm proxy statements, and several online databases. We collected information about every job the CEO had prior to his or her appointment to the CEO position, including the name of the employer, industry, job title and function, and start and finish dates. We also collected demographic information (birth date, gender, education degrees, and school affiliations). Whenever available, information about the reason for the previous CEO's departure

before each CEO succession event was also hand collected from these sources. Data on family ownership were hand collected from the firm proxy statements. Firm performance data and firm size were collected from Compustat while information regarding executive ownership was collected from Execucomp. Data regarding information about the boards of directors were collected from BoardEx.

### **Dependent and Independent Variables**

***Insider CEO*** A CEO was considered an insider if he or she had spent more than one year in the focal firm directly before his or her appointment as CEO. This was coded as a dichotomous variable taking the value of 1 if an individual was an insider CEO and 0 if not.

***Heir Apparent*** An heir apparent has been typically operationalized as an individual who is president and/or COO and at least five years younger than the outgoing CEO (Cannella & Shen, 2001; Hambrick & Cannella, 2004; Mooney et al., 2017; Shen & Cannella, 2003). One difficulty in measuring heirs apparent is that firms do not typically announce the designation of an heir apparent as such. Rather, they tend to acknowledge a planned succession only when the planned succession takes place. Thus, the operationalization based on the title and age of the executive has proven useful to scholars, as it provides a way to measure whether firms designate an heir apparent regardless of whether the heir is ultimately promoted to the CEO position. This operationalization has also received some qualitative validation by several authors (Cannella & Shen, 2001; Hambrick & Cannella, 2004). Nevertheless, to further validate

the operationalization of this measure for our study, we manually inspected firm succession announcements in our sample, coding an incoming CEO as an heir apparent if the firm explicitly mentioned that the promotion was part of a succession plan or if the date of announcement was at least two months prior to the date of appointment, as this would suggest that an heir is undergoing a grooming period before taking over as CEO (Vancil, 1987). In the majority of cases in our sample (more than 65%), our manual measure matched with the operationalization of heir apparent in the literature, providing some confidence that this operationalization does capture indeed the existence of an heir apparent. Thus, we followed prior literature and measure *having designated an heir apparent* with a dichotomous variable that took the value of 1 if in the year prior to the CEO appointment there was an executive within the firm who was president and/or CEO and at least five years younger than the CEO, and 0 otherwise. An *heir apparent promotion* was coded as a binary variable taking the number of 1 if the heir apparent was promoted to the CEO position and 0 otherwise.

**Family Firm** Following prior research on public family firms (Anderson & Reeb, 2003, 2004; Villalonga & Amit, 2006), a firm was coded as being a family firm if at least 5% of its voting shares or at least one board position was held by a family member.

**Firm Performance** Performance was measured as the firm's industry adjusted ROA – calculated as the firm's ROA in the year prior to succession minus the industry's average ROA in the same year (Cannella & Shen, 2001; Karaevli, 2007; Ocasio, 1994; Westphal & Zajac, 1995).

## Controls

We employed a number of controls at both the individual and firm level. As the amount of equity owned by executives is related to succession decisions (Boeker & Goodstein, 1993; Cannella & Shen, 2001; Shen & Cannella, 2002b) we controlled for *executive ownership* as well as the *outgoing CEO's ownership* in the year prior to appointment. The proportion of *executive directors* has also been found to affect CEO selection decisions (Boeker, 1992; Cannella & Shen, 2001; Westphal & Zajac, 1995; Zajac & Westphal, 1996) and we therefore controlled for it in the year prior to appointment. We controlled for the *previous CEO's tenure*, because CEOs and boards need time to identify a future successor, and we also controlled for whether there was an *unplanned CEO departure* of the previous CEO as this can affect succession choices (Mooney et al., 2017; Shen & Cannella, 2002b).<sup>1</sup> We also controlled for the *year of appointment* using a continuous variable in order to account for any trends over time. We controlled for the *proportion of institutional investors*, as prior work has found that they play a role in family firm decisions (Berrone et al., 2010; Chang & Shim, 2015; Gomez-Mejia, Larraza-Kintana, & Makri, 2003; Gomez-Mejia et al., 2010; Strike et al., 2015). We controlled for *firm age* (number of years since its inception)<sup>2</sup> and *firm size* as the log of its assets. We also controlled for the firm's *change in performance* as the firm's ROA of the year prior to succession minus its ROA two years prior the succession. Finally, we included 2-digit industry dummy variables to control for industry effects.

---

<sup>1</sup> Unplanned CEO departures include if the CEO was fired, left the company because of health concerns, or resigned unexpectedly. Planned CEO departures include retirements or resignations from the CEO position but remaining in the company.

<sup>2</sup> In cases where two firms merged, the date of inception of the new, merged firm was taken as the firm age.

## Analyses

Given that our dependent variables are binary variables, we tested our hypotheses using probit models. Since in some cases we have several CEO appointments per firm, we clustered standard errors at the firm level. Tests for the hypotheses about inside CEOs and the designation of an heir apparent are carried out on the full sample while the tests for the hypotheses about the promotion of an heir apparent are carried out on the subsample of firms that had designated an heir apparent.

## RESULTS

-----  
Insert Tables 1 and 2 here  
-----

Table 1 presents the descriptive statistics with the means, standard deviations and correlations of the variables. In our sample, 76 percent of the newly appointed CEOs were insiders and we found that in 54 percent of the appointment cases there was a designated heir apparent.<sup>3</sup> In the overall sample, 37 percent of the new CEOs represented promotions of heirs apparent.<sup>4</sup> Table 2 presents the results from the probit model estimations that test our hypotheses. Model 1 shows support for hypothesis 1, that family firms are more likely than non-family firms to prefer an inside CEO ( $\beta=0.673$ ,  $p=0.023$ ). Regarding the role that performance plays as a moderator, Model 2 finds a

---

<sup>3</sup> This number is similar to Mooney, et al. (2017) who, with a similar sample, reported that 47 percent of firms had a designated heir apparent.

<sup>4</sup> This number is the same as Zhang & Rajagopalan (2004) who, with a similar sample but in an earlier period, reported that 36 percent of firms promoted their heir apparent to the CEO position.

negative and significant coefficient between performance and family firm ( $\beta=-0.087$ ,  $p=0.013$ ) and thus provides support for hypothesis 2: that performance negatively moderates the difference in the likelihood of promoting an insider CEO between family and non-family firms. Specifically, as firm performance worsens, the differences between family firm and non-family firm in their likelihood of promoting an insider increases. We probe the interaction further via conditional effects plots. Figure 1a shows the predictive margins of pre-succession performance on the likelihood of promoting an insider versus an outsider separately for both, family and non-family firms. While the probability of promoting an insider clearly declines with firm performance for non-family firms, it does not decline, and it even increases slightly as performance drops for family firms. Figure 1b shows the marginal effect of family versus non-family firms on the probability of promoting an insider for different levels of performance and shows that when industry adjusted ROA is positive, family and non-family firms do not seem to differ in their likelihood of promoting insiders versus outsiders. In other words, the differences we observe in our sample seem to be driven mostly by the different reactions of family and non-family firms to negative pre-succession performance.

-----  
Insert Figures 1a and 1b here  
-----

Models 3 and 4 investigate differences between family and non-family firms regarding relay successions. Model 3 finds support for hypothesis 3, that family firms are less likely than non-family firms to designate an heir apparent ( $\beta=-0.448$ ,  $p=0.047$ ) and Model 4, finds support for hypothesis 4, that, when an heir apparent has been

designated, family firms are more likely than non-family firms to promote the heir to the CEO position ( $\beta=0.799$ ,  $p=0.030$ ). Finally, we fail to find that performance moderates the differences between family and non-family firms in the likelihood of promoting an heir apparent if they have one designated at the moment of CEO succession.

### **Supplemental Analyses**

We performed a series of supplemental analyses. First, while our main interest in this study was to investigate the differences regarding CEO succession between non-family firms and family-firms that search for their CEOs outside the family (i.e., that compete in the professional CEO labor market), we explored whether our results held when including also CEO appointments that were CEO family members. We find that our results also hold when we include the family member CEOs.

Second, we explored further our finding that family firms are less likely than non-family firms to engage in relay succession and investigated whether our results were different depending on whether the newly appointed CEO in the family firm was following a family-CEO versus a non-family-CEO. Our rationale for these analyses was to investigate whether the differences between family and non-family firms are even larger when considering transitions from family members, given that the CEO plays a key role in the succession planning process and is usually the one that identifies the candidate who will be groomed to occupy the future CEO job (Cannella & Shen, 2001; Vancil, 1987; Zajac, 1990). In our data, 38 percent of the non-family member CEO appointments in family firms were preceded by a family-CEO. Interestingly, the results

show that CEOs who are members of the family are significantly less likely to designate an heir apparent than are non-family CEOs in family firms. This result suggests that if anything, family CEOs are even more resistant to plan for succession in advance through designating an heir apparent, perhaps in order to avoid the conflict that it can generate in the family and therefore avoid deterioration of SEW.

We also ran several robustness tests. First, to test the robustness of our results to alternative performance measures, we re-ran our analyses using the raw performance variables. In lieu of using industry adjusted ROA and the firm's one-year change in ROA, we re-ran all analyses using the variables that create these measures: the firm's ROA in the year prior to appointment, the industry average ROA in the year prior to appointment, and the firm's ROA 2 years prior to appointment. For the models involving interactions, we used the firm's ROA in the year prior to appointment in the interaction term. All results remained materially unchanged, with the exception of the model testing the interaction regarding inside CEOs, whose coefficient remained negative but whose significance level dropped slightly to ( $p \sim 0.110$ ). Next, while our measure of an insider CEO considers a CEO to have been an insider if he/she had a firm tenure of at least one year, we also re-ran the tests predicting insider CEO appointment relaxing the minimum threshold to any firm tenure, thus including CEOs with less than one year of firm tenure as well. Results were unchanged. We also re-ran the analyses replacing the dummy variable indicating if a firm was a family firm with the threshold of 5% voting power, with a continuous variable of the percentage of voting stock (Calabrò et al., 2018). Results were largely similar. The significance levels for the

main effects tests of inside CEOs and the designation of an heir apparent dropped slightly to become marginally significant at a 10 percent level while the other results remained unchanged. Finally, because institutional owners may also be able to drive succession decisions (Jung, 2014), we re-ran the analyses including a control for the percentage of firm shares owned by institutional investors. Results remained unchanged.

## **DISCUSSION**

This paper extends prior literature on CEO succession in general, and on family-firm CEO succession in particular, by investigating a remarkably underexplored question: do family-firms and non-family firms differ regarding their CEO succession decisions? To answer this question, we focus on the specific but increasingly prevalent case when family firms hire from outside the family, that is, when they compete for CEOs against non-family firms in the CEO professional labor market. Drawing from the CEO succession literature and from the socioemotional wealth framework developed by the family-firm literature, we argue and find evidence suggesting that, because families need to preserve their socioemotional wealth, there are important differences regarding whom they appoint as a CEO (i.e. insider versus outsider) and how they go about it (i.e., relay succession versus not). We also investigate whether these decisions are affected by pre-succession performance.

Our finding that family firms differ from non-family firms when hiring their successors from the professional CEO labor market contribute to an extensive body of

research in the strategic leadership literature that investigated the contingencies that affect CEO succession decisions (for recent reviews see Berns & Klarner, 2017; Cragun et al., 2016). A large body of this literature focuses on understanding the importance of sociopolitical factors in determining CEO succession choices. Specifically, prior research has identified that executives with considerable influence through their equity or directorship affect succession decisions (Boeker, 1992; Boeker & Goodstein, 1993; Cannella & Shen, 2001; Shen & Cannella, 2002b; Westphal & Zajac, 1995; Zajac & Westphal, 1996; Zhang & Rajagopalan, 2004). Our study underscores another type of sociopolitical force within the firm that leads to certain types of CEO successions over others: the presence of family owners. Thus, our findings suggest that that family owners also use their influence to direct succession decisions toward their preferences.

Relatedly, prior literature has highlighted the important role played by the sociopolitical context in understanding the relationship between performance and CEO succession decisions in the organization (eg. Cannella & Lubatkin, 1993; Zhang & Rajagopalan, 2004). Our findings that, under poor pre-succession performance, family firms increase their preferences for insiders while non-family firms increase their preferences for outsiders, show that family ownership can work as another important factor in decoupling the relationship between performance and the choice of CEO successor.

Our study also contributes to the family business literature by extending research on family firm succession in the case of hiring outside the family. Interestingly, prior research has focused only on the existing trade-offs family owners face when deciding to

hire inside versus outside the family. By looking at how family owners' unique preferences play a role when the family decides to look beyond the family to hire the CEO, we extend the body of research on the role played by SEW factors in key strategic decisions in family firms (eg. Chrisman & Patel, 2012; Gomez-Mejia et al., 2010; Gu, Lu, & Chung, 2016; Kotlar, Signori, De Massis, & Vismara, 2018). In line with previous studies, our findings illustrate that the preservation of SEW goals constrains family firms' decisions compared to non-family firms.

Furthermore, our finding that performance does not reverse the decision of family firms to look more like non-family firms is coherent with the seminal work on SEW by Gomez-Mejia et al (2007). According to these authors, family firms are willing to accept performance hazard risks to protect the family SEW endowment. However, our findings are contrary to more recent evidence showing that negative economic prospects push family firms to behave more like non family firms, by decreasing the importance of family-driven motives regarding strategic choices such as diversification (Gomez-Mejia et al., 2010), R&D investments (Chrisman & Patel, 2012), or international acquisitions (Gomez Mejjia et al., 2011). Following this reasoning Calabro, et al. (2018) hypothesize that performance below aspirations would lead family owners to break the primogeniture rule when choosing the successor within the family. Interestingly, their findings show just the opposite, suggesting that SEW priorities will prevail in selecting the firstborn family successor *especially if* the family firm is under vulnerability. Combined with our findings that performance outcomes do not change family owners' preferences regarding CEO succession type and processes, this may suggest that, compared to other strategic

decisions, the selection of new leaders represents a major threat to the family control dimension of SEW, so that family owners will not be willing to forgo any additional SEW gains even if that means accepting financial losses.

Our study has several limitations. First, because we relied on archival data, we could not measure SEW concerns, but only proxy for it by using the percentage of voting power from the family in the firm. While this concern is shared with prior studies that used the same proxy as us (eg. Calabrò et al., 2018) or by using the ratio of family directors within the board (Minichilli et al., 2014), future studies that could use a more direct measure of SEW could provide further reassurance of our results.

Our empirical study focused on the specific context of big public family and non-family U.S. firms. While this is perhaps the most relevant context for our question of interest given that these are the family firms that are most likely to search for their CEOs outside the family, our results could be different when extending the context to non-public firms. Non-public firms may be even less constrained than the companies in our sample to respond to shareholder concerns, and therefore, we may expect SEW concerns to play an even stronger role when making CEO succession decisions. If that is the case, our choice of companies would represent a conservative setting in which to test our hypotheses.

Finally, one aspect we could not investigate with our data because of the low number of CEO successions that came after a family founder in our sample, was whether the effects would be different in those first transitions from family founder to a non-founder CEO. One may expect that in most of those cases the CEO that is chosen is someone

from the family. Our supplemental analyses on the sample that included also the CEOs who were selected from within the family suggest that in those cases family firms may be even less likely to designate a successor. We may expect to find a similar trend here. A related interesting follow-up study would be to investigate whether the differences between family and non-family firms diminish or are even larger when the family firm is hiring a CEO from outside the family for the very first time. Future research that can look at these first transitions with more observations could further explore these issues.

## **CONCLUSION**

This study investigates how family firms engage in CEO successions when they look outside the family. We argue that families' SEW concerns will drive their preferences. We find that, in comparison to non-family firms, family firms are more likely to appoint an insider and that these differences in preferences increase when performance worsens. We also find that family firms are less likely than non-family firms to designate an heir apparent. However, among firms that have designated an heir apparent, family firms are more likely than non-family firms to ultimately promote the heir to the CEO position. These findings highlight the importance of family SEW in the CEO succession process.

## REFERENCES

- Agrawal, A., Knoeber, C. R., & Tsoulouhas, T. 2006. Are outsiders handicapped in CEO successions? *Journal of Corporate Finance*, 12(3): 619-644.
- Anderson, R. C. & Reeb, D. M. 2003. Founding-family ownership and firm performance: evidence from the S&P 500. *The journal of finance*, 58(3): 1301-1328.
- Anderson, R. C. & Reeb, D. M. 2004. Board composition: Balancing family influence in S&P 500 firms. *Administrative science quarterly*, 49(2): 209-237.
- Ballinger, G. A. & Marcel, J. J. 2010. The use of an interim CEO during succession episodes and firm performance. *Strategic Management Journal*, 31(3): 262-283.
- Becker, G. S. 1962. Investment in human capital: A theoretical analysis. *Journal of political economy*, 70(5, Part 2): 9-49.
- Bennedsen, M., Nielsen, K. M., Pérez-González, F., & Wolfenzon, D. 2007. Inside the family firm: The role of families in succession decisions and performance. *The Quarterly Journal of Economics*, 122(2): 647-691.
- Berns, K. V. & Klarner, P. 2017. A review of the CEO succession literature and a future research program. *Academy of Management Perspectives*, 31(2): 83-108.
- Berrone, P., Cruz, C., Gomez-Mejia, L. R., & Larraza-Kintana, M. 2010. Socioemotional wealth and corporate responses to institutional pressures: Do family-controlled firms pollute less? *Administrative Science Quarterly*, 55(1): 82-113.
- Berrone, P., Cruz, C., & Gomez-Mejia, L. R. 2012. Socioemotional wealth in family firms: Theoretical dimensions, assessment approaches, and agenda for future research. *Family Business Review*, 25(3): 258-279.
- Bertrand, M. 2009. CEOs. *Annu. Rev. Econ.*, 1(1): 121-150.
- Block, J. H. 2011. How to pay nonfamily managers in large family firms: A principal—agent model. *Family Business Review*, 24(1): 9-27.
- Blumentritt, T. P., Keyt, A. D., & Astrachan, J. H. 2007. Creating an environment for successful nonfamily CEOs: An exploratory study of good principals. *Family Business Review*, 20(4): 321-335.
- Boeker, W. 1992. Power and managerial dismissal: Scapegoating at the top. *Administrative Science Quarterly*: 400-421.
- Boeker, W. & Goodstein, J. 1993. Performance and successor choice: The moderating effects of governance and ownership. *Academy of Management Journal*, 36(1): 172-186.
- Breton-Miller, I. L., Miller, D., & Steier, L. P. 2004. Toward an integrative model of effective FOB succession. *Entrepreneurship theory and practice*, 28(4): 305-328.
- Calabrò, A., Minichilli, A., Amore, M. D., & Brogi, M. 2018. The courage to choose! P rimogeniture and leadership succession in family firms. *Strategic Management Journal*.
- Cannella, A. A. & Lubatkin, M. 1993. Succession as a sociopolitical process: Internal impediments to outsider selection. *Academy of Management Journal*, 36(4): 763-793.
- Cannella, A. A. & Shen, W. 2001. So close and yet so far: Promotion versus exit for CEO heirs apparent. *Academy of Management journal*, 44(2): 252-270.

- Cappelli, P. & Hamori, M. 2004. The path to the top: Changes in the attributes and careers of corporate executives, 1980-2001: National Bureau of Economic Research.
- Chang, S. J. & Shim, J. 2015. When does transitioning from family to professional management improve firm performance? *Strategic Management Journal*, 36(9): 1297-1316.
- Chen, G., Luo, S., Tang, Y., & Tong, J. Y. 2015. Passing probation: Earnings management by interim CEOs and its effect on their promotion prospects. *Academy of Management Journal*, 58(5): 1389-1418.
- Chirico, F. 2008. Knowledge accumulation in family firms: Evidence from four case studies. *International Small Business Journal*, 26(4): 433-462.
- Chrisman, J. J. & Patel, P. C. 2012. Variations in R&D investments of family and nonfamily firms: Behavioral agency and myopic loss aversion perspectives. *Academy of Management Journal*, 55(4): 976-997.
- Chrisman, J. J., Memili, E., & Misra, K. 2014. Nonfamily managers, family firms, and the winner's curse: The influence of noneconomic goals and bounded rationality. *Entrepreneurship Theory and Practice*, 38(5): 1103-1127.
- Connelly, B. L., Ketchen Jr, D. J., Gangloff, K. A., & Shook, C. L. 2016. Investor perceptions of CEO successor selection in the wake of integrity and competence failures: A policy capturing study. *Strategic Management Journal*, 37(10): 2135-2151.
- Cragun, O. R., Nyberg, A. J., & Wright, P. M. 2016. CEO succession: what we know and where to go? *Journal of Organizational Effectiveness: People and Performance*, 3(3): 222-264.
- Crossland, C., Zyung, J., Hiller, N. J., & Hambrick, D. C. 2014. CEO career variety: Effects on firm-level strategic and social novelty. *Academy of Management Journal*, 57(3): 652-674.
- Cruz, C., Firfiray, S., & Gomez-Mejia, L. R. 2011. Socioemotional wealth and human resource management (HRM) in family-controlled firms, *Research in personnel and human resources management*: 159-217: Emerald Group Publishing Limited.
- Cruz, C., Justo, R., & De Castro, J. O. 2012. Does family employment enhance MSEs performance?: Integrating socioemotional wealth and family embeddedness perspectives. *Journal of Business Venturing*, 27(1): 62-76.
- Cruz, C. C., Gómez-Mejia, L. R., & Becerra, M. 2010. Perceptions of benevolence and the design of agency contracts: CEO-TMT relationships in family firms. *Academy of Management Journal*, 53(1): 69-89.
- Custódio, C., Ferreira, M. A., & Matos, P. 2013. Generalists versus specialists: Lifetime work experience and chief executive officer pay. *Journal of Financial Economics*, 108(2): 471-492.
- Custódio, C. & Metzger, D. 2014. Financial expert CEOs: CEO's work experience and firm's financial policies. *Journal of Financial Economics*, 114(1): 125-154.
- Dalton, D. R. & Kesner, I. F. 1983. Inside/outside succession and organizational size: The pragmatics of executive replacement. *Academy of Management journal*, 26(4): 736-742.

- Datta, D. K. & Guthrie, J. P. 1994. Executive succession: Organizational antecedents of CEO characteristics. *Strategic Management Journal*, 15(7): 569-577.
- Davidson III, W. N., Nemec, C., & Worrell, D. L. 2001. Succession planning vs. agency theory: A test of Harris and Helfat's interpretation of plurality announcement market returns. *Strategic Management Journal*, 22(2): 179-184.
- Faccio, M. & Lang, L., H.P. 2002. The ultimate ownership of Western European corporations. *Journal of Financial Economics*, 65(3): 365-395.
- Falato, A., Li, D., & Milbourn, T. 2015. Which skills matter in the market for CEOs? Evidence from pay for CEO credentials. *Management Science*, 61(12): 2845-2869.
- Feldman, E. R., Amit, R., & Villalonga, B. 2016. Corporate divestitures and family control. *Strategic Management Journal*, 37(3): 429-446.
- Ferris, S. P., Jayaraman, N., & Lim, J. 2015. Six Decades of CEO Successions: The Importance of Being an Insider. *Journal of Accounting & Finance (2158-3625)*, 15(4).
- Finkelstein, S. & Hambrick, D. 1996. Strategic Leadership: Top Executives and their Effects on Organizations, West Publ. *Co.: Minneapolis*.
- Firfiray, S., Cruz, C., Neacsu, I., & Gomez-Mejia, L. R. 2018. Is nepotism so bad for family firms? A socioemotional wealth approach. *Human Resource Management Review*, 28(1): 83-97.
- Friedman, S. D. & Saul, K. 1991. A leader's wake: Organization member reactions to CEO succession. *Journal of Management*, 17(3): 619-642.
- Frydman, C. 2007. The evolution of the market for corporate executives across the twentieth century. *The Journal of Economic History*, 67(2): 488-492.
- Gangloff, K. A., Connelly, B. L., & Shook, C. L. 2016. Of scapegoats and signals: Investor reactions to CEO succession in the aftermath of wrongdoing. *Journal of Management*, 42(6): 1614-1634.
- Gomez Mejia, L. R., Cruz, C., Berrone, P., & De Castro, J. 2011. The bind that ties: Socioemotional wealth Preservation in family firms. *Academy of Management Annals*, 5(1): 653-707.
- Gomez-Mejia, L. R., Nunez-Nickel, M., & Gutierrez, I. 2001. The role of family ties in agency contracts. *Academy of management Journal*, 44(1): 81-95.
- Gomez-Mejia, L. R., Cruz, C., Berrone, P., & De Castro, J. 2011. The bind that ties: Socioemotional wealth preservation in family firms. *Academy of Management Annals*, 5(1): 653-707.
- Gomez-Mejia, L. R., Patel, P. C., & Zellweger, T. M. 2015. In the horns of the dilemma: Socioemotional wealth, financial wealth, and acquisitions in family firms. *Journal of Management*, 44(4): 1369-1397.
- Gomez-Mejia, L. R., Makri, M., & Kintana, M. L. 2010. Diversification decisions in family-controlled firms. *Journal of management studies*, 47(2): 223-252.
- Gu, Q., Lu, J. W., & Chung, C.-N. 2016. Incentive or disincentive? A socioemotional wealth explanation of new industry entry in family business groups. *Journal of Management*: 0149206316678450.

- Guthrie Datta, J. P., Deepak K. 1997. Contextual influences on executive selection: Firm characteristics and CEO experience. *Journal of Management Studies*, 34(4): 537-560.
- Gómez-Mejía, L. R., Haynes, K. T., Núñez-Nickel, M., Jacobson, K. J., & Moyano-Fuentes, J. 2007. Socioemotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills. *Administrative science quarterly*, 52(1): 106-137.
- Hall, A. & Nordqvist, M. 2008. Professional management in family businesses: Toward an extended understanding. *Family Business Review*, 21(1): 51-69.
- Hambrick, D. C. & Mason, P. A. 1984. Upper echelons: The organization as a reflection of its top managers. *Academy of management review*, 9(2): 193-206.
- Hambrick, D. C. & Cannella, A. A. 2004. CEOs who have COOs: Contingency analysis of an unexplored structural form. *Strategic Management Journal*, 25(10): 959-979.
- Harris, D. & Helfat, C. 1997. Specificity of CEO human capital and compensation. *Strategic Management Journal*, 18(11): 895-920.
- Helmich, D. L. & Brown, W. B. 1972. Successor type and organizational change in the corporate enterprise. *Administrative science quarterly*: 371-381.
- Huybrechts, J., Voordeckers, W., & Lybaert, N. 2013. Entrepreneurial risk taking of private family firms: The influence of a nonfamily CEO and the moderating effect of CEO tenure. *Family Business Review*, 26(2): 161-179.
- Jensen, M. C. & Meckling, W. H. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, 3(4): 305-360.
- Jung, J. 2014. Political contestation at the top: Politics of outsider succession at US corporations. *Organization Studies*, 35(5): 727-764.
- Karaevli, A. 2007. Performance consequences of new CEO 'Outsiderness': Moderating effects of pre-and post-succession contexts. *Strategic Management Journal*, 28(7): 681-706.
- Karaevli, A. & Zajac, E. J. 2013. When do outsider CEOs generate strategic change? The enabling role of corporate stability. *Journal of Management Studies*, 50(7): 1267-1294.
- Kesner, I. F. & Dalton, D. R. 1994. Top management turnover and CEO succession: An investigation of the effects of turnover on performance. *Journal of Management Studies*, 31(5): 701-713.
- Khurana, R. 2002. The curse of the superstar CEO. *Harvard business review*, 80(9): 60-67.
- Kotlar, J., Signori, A., De Massis, A., & Vismara, S. 2018. Financial wealth, socioemotional wealth, and IPO underpricing in family firms: A two-stage gamble model. *Academy of Management Journal*, 61(3): 1073-1099.
- Krause, R., Semadeni, M., & Cannella, A. A. 2014. CEO duality: A review and research agenda. *Journal of Management*, 40(1): 256-286.
- Lee, K. S., Lim, G. H., & Lim, W. S. 2003. Family business succession: Appropriation risk and choice of successor. *Academy of Management Review*, 28(4): 657-666.

- Lubatkin, M. H., Schulze, W. S., Ling, Y., & Dino, R. N. 2005. The effects of parental altruism on the governance of family-managed firms. *Journal of Organizational Behavior: The International Journal of Industrial, Occupational and Organizational Psychology and Behavior*, 26(3): 313-330.
- Marcel, J. J., Cowen, A. P., & Ballinger, G. A. 2017. Are disruptive CEO successions viewed as a governance lapse? Evidence from board turnover. *Journal of Management*, 43(5): 1313-1334.
- March, J. G. & Shapira, Z. 1992. Variable risk preferences and the focus of attention. *Psychological review*, 99(1): 172.
- Minichilli, A., Nordqvist, M., Corbetta, G., & Amore, M. D. 2014. CEO succession mechanisms, organizational context, and performance: A socio-emotional wealth perspective on family-controlled firms. *Journal of Management Studies*, 51(7): 1153-1179.
- Mooney, C. H., Semadeni, M., & Kesner, I. F. 2017. The selection of an interim CEO: boundary conditions and the pursuit of temporary leadership. *Journal of Management*, 43(2): 455-475.
- Murphy, K. J. & Zabojsnik, J. 2007. Managerial capital and the market for CEOs.
- Ocasio, W. 1994. Political dynamics and the circulation of power: CEO succession in US industrial corporations, 1960-1990. *Administrative science quarterly*: 285-312.
- Pitcher, P., Chreim, S., & Kisfalvi, V. 2000. CEO succession research: Methodological bridges over troubled waters. *Strategic Management Journal*, 21(6): 625-648.
- PwC. 2014. Family Business Survey.
- Schepker, D. J., Kim, Y., Patel, P. C., Thatcher, S. M., & Champion, M. C. 2017. CEO succession, strategic change, and post-succession performance: A meta-analysis. *The Leadership Quarterly*, 28(6): 701-720.
- Shen, W. & Cannella, A. A. 2002. Power dynamics within top management and their impacts on CEO dismissal followed by inside succession. *Academy of Management Journal*, 45(6): 1195-1206.
- Shen, W. & Cannella, A. A. 2003. Will succession planning increase shareholder wealth? Evidence from investor reactions to relay CEO successions. *Strategic Management Journal*, 24(2): 191-198.
- Shleifer, A. & Vishny, R. W. 1997. A survey of corporate governance. *The Journal of Finance*, 52(2): 737-783.
- Steier, L. 2001. Family firms, plural forms of governance, and the evolving role of trust. *Family Business Review*, 14(4): 353-367.
- Strike, V. M., Berrone, P., Sapp, S. G., & Congiu, L. 2015. A socioemotional wealth approach to CEO career horizons in family firms. *Journal of Management Studies*, 52(4): 555-583.
- Tabor, W., Chrisman, J. J., Madison, K., & Vardaman, J. M. 2018. Nonfamily members in family firms: A review and future research agenda. *Family Business Review*, 31(1): 54-79.
- Vancil, R. F. 1987. *Passing the baton: Managing the process of CEO succession*: Harvard Business School Pr.

- Villalonga, B. & Amit, R. 2006. How do family ownership, control and management affect firm value? *Journal of financial Economics*, 80(2): 385-417.
- Wang, G., Holmes Jr, R. M., Oh, I. S., & Zhu, W. 2016. Do CEOs matter to firm strategic actions and firm performance? A meta-analytic investigation based on upper echelons theory. *Personnel Psychology*, 69(4): 775-862.
- Westphal, J. D. & Zajac, E. J. 1995. Who shall govern? CEO/board power, demographic similarity, and new director selection. *Administrative science quarterly*: 60-83.
- Withers, M. C. & Fitza, M. A. 2017. Do board chairs matter? The influence of board chairs on firm performance. *Strategic Management Journal*, 38(6): 1343-1355.
- Worrell, D. L., Nemec, C., & Davidson III, W. N. 1997. One hat too many: Key executive plurality and shareholder wealth. *Strategic Management Journal*, 18(6): 499-507.
- Zajac, E. J. 1990. CEO selection, succession, compensation and firm performance: A theoretical integration and empirical analysis. *Strategic Management Journal*, 11(3): 217-230.
- Zajac, E. J. & Westphal, J. D. 1996. Who shall succeed? How CEO/board preferences and power affect the choice of new CEOs. *Academy of Management Journal*, 39(1): 64-90.
- Zellweger, T. M., Kellermanns, F. W., Chrisman, J. J., & Chua, J. H. 2012. Family control and family firm valuation by family CEOs: The importance of intentions for transgenerational control. *Organization Science*, 23(3): 851-868.
- Zellweger, T. M., Nason, R. S., Nordqvist, M., & Brush, C. G. 2013. Why do family firms strive for nonfinancial goals? An organizational identity perspective. *Entrepreneurship Theory and Practice*, 37(2): 229-248.
- Zhang, Y. & Rajagopalan, N. 2003. Explaining new CEO origin: Firm versus industry antecedents. *Academy of Management Journal*, 46(3): 327-338.
- Zhang, Y. & Rajagopalan, N. 2004. When the known devil is better than an unknown god: An empirical study of the antecedents and consequences of relay CEO successions. *Academy of Management Journal*, 47(4): 483-500.
- Zhang, Y. 2008. Information asymmetry and the dismissal of newly appointed CEOs: An empirical investigation. *Strategic Management Journal*, 29(8): 859-872.
- Zhang, Y. & Qu, H. 2016. The impact of CEO succession with gender change on firm performance and successor early departure: Evidence from China's publicly listed companies in 1997–2010. *Academy of Management Journal*, 59(5): 1845-1868.

## TABLES AND FIGURES

Table 1: Summary statistics and correlations

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Inside CEO	0.76	0.43	1														
2. Designation of Heir Apparent	0.54	0.50	0.37	1													
3. Promotion of Heir Apparent	0.37	0.48	0.40	0.70	1												
4. Family Firm	0.15	0.36	0.11	-0.03	0.06	1											
5. % Institutional Investors	0.10	0.08	0.15	0.10	0.11	0.04	1										
6. Prior Exec Ownership (Excl CEO)	0.01	0.01	-0.02	0.01	0.01	0.21	0.09	1									
7. Prior CEO Ownership	0.01	0.03	0.06	0.11	0.09	0.29	-0.02	0.20	1								
8. Prior Exec Board Proportion (Excl CEO)	0.06	0.08	0.12	0.18	0.21	0.20	0.06	0.19	0.20	1							
9. Prev CEO's Tenure	8.69	6.97	0.23	0.28	0.22	0.19	0.13	0.02	0.30	0.20	1						
10. Industry Adjusted ROA	0.09	7.89	0.15	0.15	0.17	-0.03	0.13	-0.02	-0.06	0.00	0.06	1					
11. Change in Performance (1yr)	0.23	8.03	-0.06	0.02	0.04	-0.03	0.03	-0.04	-0.08	-0.05	-0.07	0.39	1				
12. Unplanned Previous CEO Departure	0.23	0.42	-0.24	-0.22	-0.24	-0.01	-0.14	0.06	-0.01	-0.12	-0.24	-0.13	0.02	1			
13. Year Appointed	2007.79	3.47	-0.12	-0.22	-0.18	0.06	-0.05	-0.10	-0.05	-0.43	0.01	-0.08	0.01	-0.05	1		
14. Firm Size	8.70	1.36	0.12	0.01	-0.04	-0.10	-0.16	-0.17	-0.21	-0.12	-0.07	0.03	-0.11	-0.07	0.04	1	
15. Firm Age	74.40	43.41	0.06	0.09	0.07	-0.02	0.03	-0.06	-0.08	-0.02	-0.02	0.07	0.00	-0.05	-0.05	0.13	1

N=490

Values of 0.09 or greater have p-values of 0.05 or less

Table 2: Probit tests on the probability to appoint an inside CEO and the probability to designate an heir apparent

	(1)	(2)	(3)	(4)	(5)
	Inside CEO	Inside CEO	Designation of Heir Apparent	Promotion of Heir Apparent	Promotion of Heir Apparent
Industry Adjusted ROA	0.022 (0.014)	0.035 (0.012)	0.021 (0.015)	0.040 (0.044)	0.039 (0.049)
Prior Exec Ownership (Excl CEO)	-9.696 (0.191)	-9.957 (0.184)	-18.964 (0.011)	-0.941 (0.918)	-0.930 (0.919)
Prior CEO Ownership	2.585 (0.359)	1.171 (0.670)	3.881 (0.154)	2.747 (0.251)	3.060 (0.254)
Prior Exec Board Proportion (Excl CEO)	0.499 (0.685)	0.119 (0.923)	1.246 (0.220)	3.385 (0.029)	3.419 (0.026)
% Institutional Investors	5.776 (0.001)	5.535 (0.001)	0.979 (0.289)	0.097 (0.928)	0.100 (0.926)
Prev CEO's Tenure	0.037 (0.050)	0.037 (0.050)	0.055 (0.000)	-0.003 (0.839)	-0.003 (0.853)
Change in Performance (1yr)	-0.021 (0.041)	-0.023 (0.031)	-0.001 (0.919)	-0.020 (0.336)	-0.020 (0.329)
Unplanned Previous CEO Departure	-0.394 (0.032)	-0.404 (0.029)	-0.551 (0.002)	-0.609 (0.041)	-0.609 (0.041)
Year Appointed	-0.060 (0.016)	-0.063 (0.014)	-0.086 (0.000)	0.001 (0.971)	0.002 (0.951)
Firm Size	0.136 (0.044)	0.138 (0.040)	-0.010 (0.871)	-0.085 (0.280)	-0.085 (0.280)
Firm Age	-0.002 (0.374)	-0.002 (0.394)	0.002 (0.324)	-0.003 (0.185)	-0.003 (0.180)
Family Firm	0.673 (0.023)	0.680 (0.016)	-0.448 (0.047)	0.799 (0.030)	0.783 (0.049)
<i>Family Firm x Industry Adjusted ROA</i>		<i>-0.087</i> (0.013)			<i>0.012</i> (0.875)
Constant	119.370 (0.017)	124.737 (0.014)	172.294 (0.000)	-1.049 (0.988)	-2.853 (0.967)
Industry Dummies	YES	YES	YES	YES	YES
Observations	450	450	464	232	232

Robust p-values in parentheses

Note: The number of observations differs for the three dependent variables because each regression uses the maximum number of observations available for each model.

Figure 1a: Predictive margins of inside CEO appointment

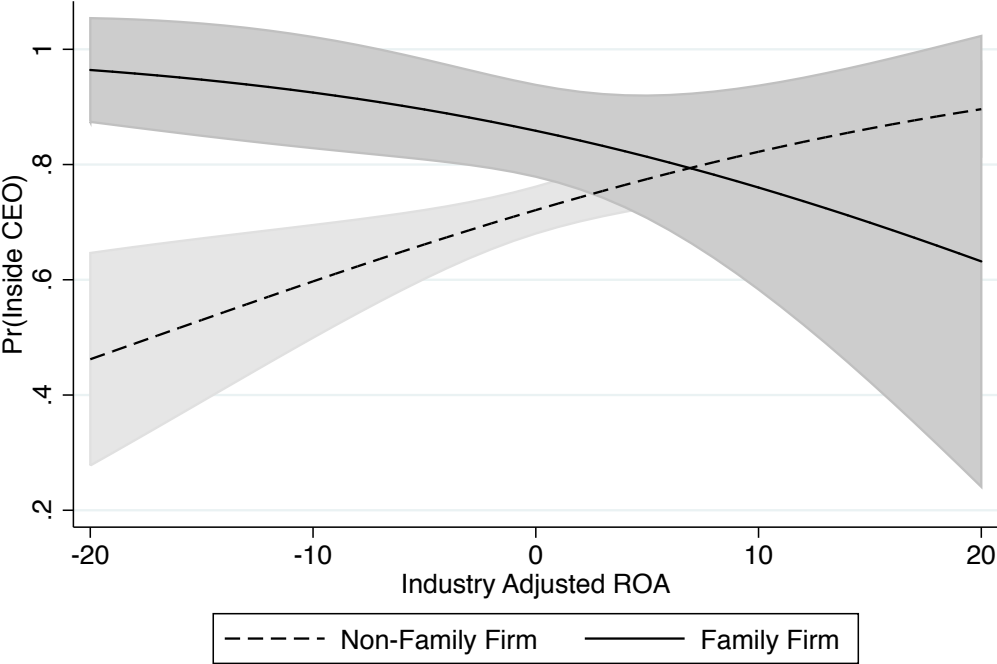
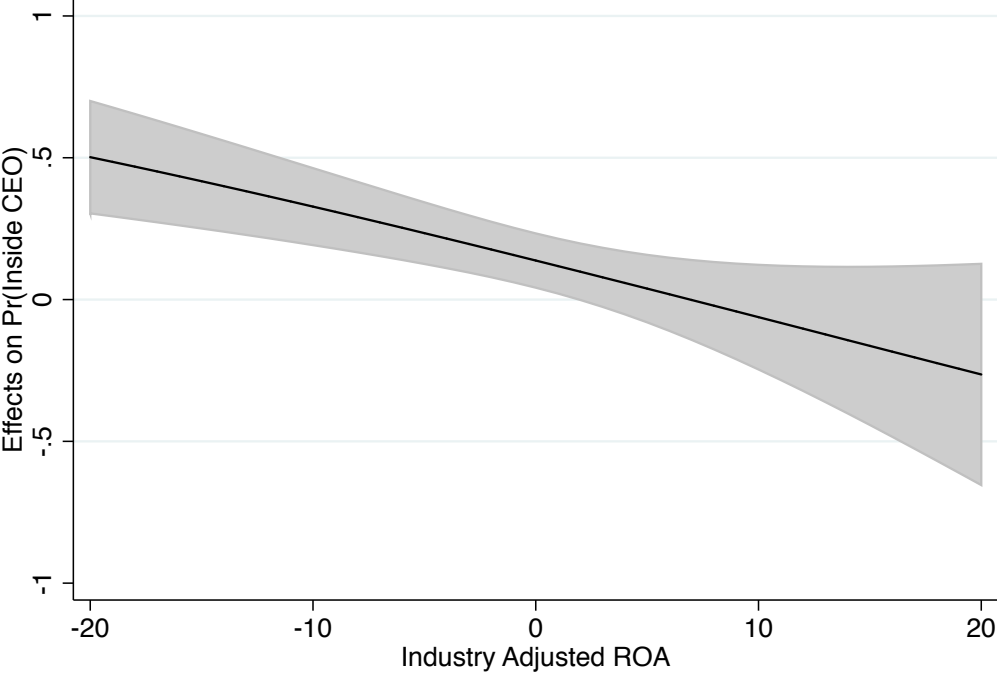


Figure 1b: Average marginal effects of family firm preferences for inside CEOs





## **CHAPTER 2: SHOULD I STAY OR SHOULD I GO? TOP MANAGEMENT TEAM TURNOVER FOLLOWING INTERIM-CEO SUCCESSIONS**

### **ABSTRACT**

Interim-CEO successions are disruptive events that can result in various negative firm outcomes. I examine the effects of interim-successions on top management team turnover. While the executive tournament literature suggests that TMT members will remain to compete for a top position within the firm, the executive turnover literature suggests that executives may depart to protect their reputations against negative stigmas. This paper examines this question and reconciles these two competing predictions. Using data from 525 CEO successions from large, public US firms, I find that TMT turnover is higher following interim-successions than permanent successions. This relationship is weaker if the interim-CEO is also the chairman. However, against my hypotheses, appointing an insider as interim-CEO has no effect. Contributions to extant literature and theory are discussed.

Keywords: Interim-CEOs; CEO succession; executive turnover; CEO-duality; top management team

## INTRODUCTION

Interim-CEOs, defined as CEOs appointed expressly on an interim or temporary basis, are common, and appear in approximately 20% of large, publicly traded firms (Ballinger & Marcel, 2010; Mooney et al., 2017). Firms such as Bristol-Myers Squibb, RadioShack, Blackberry, and Yahoo! have all appointed an interim-CEO while their boards of directors search for a suitable permanent successor (Hymowitz, 2006; Mooney et al., 2017). At the same time, research on interim-CEO successions has begun to enjoy increased attention. Scholars have found that interim-CEO successions have consequences for the firm, often negative. For instance, they have been found to be associated with lower firm performance (Ballinger & Marcel, 2010; Intintoli, Zhang, & Davidson, 2014) negative investor reactions (Connelly et al., 2016; Gangloff et al., 2016), greater likelihood of earnings management by interim-CEOs (Chen et al., 2015), and increased subsequent board turnover (Marcel et al., 2017). To date, however, how interim-CEO successions affect the stability of the top management team (TMT) is still an underexplored question.

Extant research suggests that different types of CEO successions result in differing rates of TMT turnover. The literature has focused on the insider versus outsider dimension, finding that outside CEO succession is generally related to higher subsequent TMT turnover. Scholars have argued that these differences are largely due to the implications that each type of CEO has for the firm's future direction (Friedman & Saul, 1991; Kesner & Dalton, 1994; Shen & Cannella, 2002a). Inside CEOs represent a continuation of the firm's current strategy while outside CEOs are more likely to shift the firm's strategic direction. In the case of new outside CEO appointments, incumbent

executives who are no longer a fit with the new vision of the firm will be forced out or depart voluntarily to search for more suitable opportunities elsewhere (Friedman & Saul, 1991; Kesner & Dalton, 1994). However, while prior research has focused primarily on distinguishing the consequences of insider versus outsider CEO successions on TMT departures, it has thus far overlooked interim-CEO successions.

Interim-CEO successions have unique characteristics that differentiate them from permanent insider and outsider successions, and which may importantly affect TMT turnover. Specifically, interim-successions are expressly temporary, implying that another succession event will occur in the near future. As a consequence, interim-successions result in an extended period of uncertainty about who the permanent successor will be and how long the interim-period will last. Moreover, interim-CEOs themselves have noted that they wield less managerial discretion to set direction or make other important firm decisions so as not to constrain the future permanent successor (Ballinger & Marcel, 2010; Hymowitz, 2006). The result is a disruptive period of uncertainty and strategic stasis that has lasting effects for the firm (Ballinger & Marcel, 2010).

These unique and disruptive features of temporariness, uncertainty, and less managerial discretion suggest two contrasting implications for the turnover of TMT members. On one hand, the anticipation of another CEO succession in the near future, as well as no announcement about who the next successor will be, may trigger an executive tournament whereby incumbent TMT members compete for the CEO post and other desirable positions within the TMT (Friedman & Oik, 1995; Lazear, 1989; Lazear & Rosen, 1981; Messersmith, Guthrie, Ji, & Lee, 2011). In such a case, one should not

expect TMT turnover following an interim-succession, as TMT members would prefer to remain until the completion of the tournament (appointment of a permanent successor). On the other hand, the appointment of an interim-CEO signals to TMT members that a period of disruption and uncertainty will ensue, with no one knowing how long it may last. Strategic stasis, poor performance, negative investor reactions, and managerial opportunism on the part of the interim-CEO may drive TMT members to depart in order to avoid the possibility of developing a stigma from being associated with such negative firm outcomes. Indeed, negative firm outcomes can have deleterious effects on executives' future career prospects as executives' association with a struggling firm can become a stigma on their reputation (Rider & Negro, 2015; Sutton & Callahan, 1987; Ward, Sonnenfeld, & Kimberly, 1995). However, executives who leave a struggling firm before its performance becomes too severe can mitigate any stigma that might hurt their future career prospects (Semadeni, Cannella Jr, Fraser, & Lee, 2008). In this case, TMT turnover may increase following an interim CEO appointment, as TMT members would prefer to leave the firm in order to protect their careers.

In short, how interim-CEO successions affect TMT turnover is a question that warrants investigation. I draw on the CEO succession and executive turnover literatures to reconcile these two conflicting expectations and argue that the disruption and uncertainty associated with an interim-succession will drive executives to depart, thus resulting in a rate of TMT turnover higher than that following a permanent CEO succession. However, I posit that if the interim-CEO is someone who executives believe can mitigate the disruption and uncertainty, TMT members should be more likely to stay

and compete for a position in the firm, as the anticipated negative effects to the firm – and thus their careers – from the interim-succession should be mitigated. Specifically, I argue that TMT members should view an interim-CEO-chairman as having the requisite authority and ability to continue firm operations and avoid strategic stasis, thus lowering their worries of negative firm outcomes and fears to their reputations. I also argue that TMT members should view an interim-CEO who is an incumbent executive (insider) as more familiar with the firm's operations and thus better able to continue firm operations and limit disruption and strategic stasis. Accordingly, I posit that these two types of interim-CEOs should result in an attenuation of TMT turnover. I test my arguments on a sample of 525 CEO successions in public firms in the Fortune 1,000 during the years 2002 to 2013. I find that TMT turnover is higher following interim-successions than permanent successions. This increased rate of TMT turnover is attenuated when the interim-CEO also holds the chairman position. However, whether the interim-CEO is an insider or outsider does not attenuate TMT turnover.

This study contributes to the CEO succession literature as well as to the corporate governance and executive turnover literatures. Firstly, it offers some clarity to whether executives stay or go following an interim-succession, finding empirical support that executives depart to protect their reputations and future career prospects. In doing so, it offers a response to Ballinger & Marcel's (2010) call for research into how interim-CEO successions affect TMTs. Further, while previous papers have noted that interim-successions can have consequences for external stakeholders such as investors (Ballinger & Marcel, 2010; Chen et al., 2015; Gangloff et al., 2016; Marcel et al., 2017),

the findings presented here offer a glimpse into the internal consequences of interim-successions by showing that they can result in considerable TMT turnover. These findings inform research on CEO successions more broadly as well. While extant literature finds that inside CEO successions are related to lower TMT turnover (Friedman & Saul, 1991; Kesner & Dalton, 1994), this paper shows that this is not the case in interim-successions. As such, this paper also contributes by presenting a rather common case of CEO succession that contradicts the expectations and findings from previous literature, suggesting that looking past the insider/outsider distinction is necessary.

Secondly, the finding that the chairman plays a mitigating role contributes to the continued debate in the corporate governance literature regarding the advantages and disadvantages of combining the CEO and chairman positions. This paper offers a response to the call for more fine-grained considerations of the CEO duality construct (Krause, Semadeni, & Cannella Jr, 2014b) by presenting further support that CEO duality plays an important role in mitigating disruption during interim-successions (Ballinger & Marcel, 2010). Lastly, this paper also supports the growing literature on executive turnover to avoid stigmatization. While prior research has found that executives will depart failing firms to avoid damaging their reputations and future career prospects (Jiang, Cannella, Xia, & Semadeni, 2017; Rider & Negro, 2015; Semadeni et al., 2008; Ward et al., 1995), this paper contributes by demonstrating that interim-CEO successions may also prompt the turnover of executives in order to protect their reputations and careers.

## THEORY AND HYPOTHESES

Existing research has found that interim-successions tend to occur when the incumbent CEO departs unexpectedly and the firm is unprepared for a succession. Among the most common reasons for the CEO's departure are the dismissal of the prior CEO without an heir apparent, previously designated, the unexpected death of the CEO, or when the prior CEO engages in malfeasance and departs (either voluntarily or by force) (Chen et al., 2015; Gangloff et al., 2016; Marcel et al., 2017; Mooney et al., 2017).

In the case of an interim-succession, the board of directors announces the appointment of an interim-CEO while a search for a permanent successor is initiated. An interim-CEO is therefore explicitly temporary and is mentioned as such in the firm's press release (Ballinger & Marcel, 2010; Chen et al., 2015; Marcel et al., 2017; Mooney et al., 2017). In this way, interim-successions are fundamentally different from permanent successions. Because they are explicitly temporary, interim-successions result in an extended period of uncertainty for the TMT, board, and investors regarding the current and future leadership of the firm: it is unclear when the permanent appointment will be made and who it will be. Only about one quarter of interim-CEOs are ultimately promoted to the permanent position (Ballinger & Marcel, 2010; Chen et al., 2015) and there is also considerable variation of interim-CEO tenures: approximately half of interim-CEOs remain in the role longer than three quarters and some last well over a year (Ballinger & Marcel, 2010; Chen et al., 2015). The temporary nature and the uncertainty about the length of the interim-period and who the successor will be can result in limited strategic decision-making by the interim-CEO which may

disrupt normal operations and lead to strategic stasis. (Ballinger & Marcel, 2010).

Interim-CEOs themselves have commented on the disruption caused by an interim-succession. In one interim-CEO's words, the disruption caused by the interim-succession caused him to focus simply on "keeping things from flying apart" (Ballinger & Marcel, 2010: 267). Another commented how strategic decision-making had been disrupted: "I didn't want to stack the company with expensive talent or commit millions of dollars in spending just a few weeks before someone permanent was named" (Hymowitz, 2006).

Perhaps not surprisingly, the empirical literature that has focused on the consequences of interim-successions has found that they tend to bring more negative consequences to the firm than permanent successions do. For instance, scholars have found that firms that appoint an interim-CEO experience poorer subsequent operational and market performance than firms that appoint a permanent CEO as early as two quarters after the appointment and continuing up to a year later (Ballinger & Marcel, 2010). Interim-successions are related to negative market reactions (Gangloff et al., 2016) and greater board turnover up to three years following the appointment of an interim-CEO (Marcel et al., 2017). Others have also found that firms with interim-CEOs are more likely to engage in income increasing earnings management (Chen et al., 2015).<sup>5</sup> While such a practice is not illegal, it is frowned upon, as it may mislead investors

---

<sup>5</sup> Earnings management refers to the attempt by top management to influence a firm's reported earnings, using within-GAAP (Generally Accepted Accounting Principles) accounting methods. This can include recognizing one-time items in a specific fiscal year (such as a major capital expenditure), or by deferring or accelerating revenues and expenses to a certain fiscal year.

about the true performance of the firm and therefore have potential negative long-term consequences for them (Graham, Harvey, & Rajgopal, 2005).

The above suggests that an interim-appointment may not bode well for the firm's top executives. TMT members, who have unique knowledge about the inner workings of the firm's upper echelons, should understand just how disruptive the interim-succession will be for them and the firm even before such problems become evident to external observers. For instance, TMT members, who report directly to the CEO, should recognise quickly any lack of decision-making on the part of the interim-CEO that might lead to strategic stasis. If the interim-CEO has put on hold any strategic initiatives, expenditures, or hiring of personnel, the TMT will be aware quite soon. This may serve as a first red flag to them of potential negative outcomes to follow. Given TMT members' deep knowledge of the firm's revenues and expenses, they may also be aware of attempts by the interim-CEO to manage earnings in an attempt to present firm performance in a more positive light than is actually the case. This may also serve as a sign of future problems to come. The lack of leadership on the part of the interim-CEO should also be evident to TMT members. Qualitative evidence from CEOs reveals that TMTs face issues such as toxic rivalries and fragmentation within the TMT and that CEOs take pains to stifle such problems and maintain cohesion (Hambrick, 1995). In the case of an interim-CEO, the absence of strong and authoritative leadership may allow such pernicious internal problems among the TMT to propagate. Unchecked by a leader who can manage the TMT members, these problems may persist and result in poorer team functioning. Indeed, a lack of such leadership by a CEO can lead to poorer team effectiveness and firm

performance (Zhang, Li, Ullrich, & van Dick, 2015). Such rivalries and fragmentation may be exacerbated not only by the lack of leadership but also by the uncertainty about the future that is inherent in the interim period, during which competition and wrangling among TMT members to secure a position within the firm may ensue. In short, TMT members should, through their inside knowledge, be aware of the negative impact an interim-succession may have on the firm quite quickly and even before the negative effects manifest themselves in ways visible to external observers. Indeed, in comparison to permanent successions, firms that undergo an interim-succession experience poorer operational performance before they experience poorer market performance (Ballinger & Marcel, 2010).

This first-hand knowledge of the negative effects of the interim-succession may suggest to TMT members that remaining in the firm to compete for a coveted position may be neither prudent, nor desirable. Executives are often attributed with, and held responsible for, a firm's negative outcomes and failure (Carpenter, Geletkanycz, & Sanders, 2004). Being associated with a failing firm can hurt an executive's future career. The association stigmatizes the executive as being part of the problem and hurts his or her future career prospects (Sutton & Callahan, 1987). An executive from a failed firm is likely to be subsequently employed at a firm of lower status than the failed firm (Rider & Negro, 2015). Moreover, if the labour market believes that an executive has some culpability in a negative firm outcome, he or she is less likely than those who were not considered culpable to regain a position of equal stature elsewhere (Cannella, Fraser, & Lee, 1995; Gibbons & Katz, 1991).

Executives may instead opt to depart the firm to avoid negative effects to their reputations and future career prospects. Indeed, existing research has found that executives are more likely to ‘jump ship’ to another firm when their current firm is in trouble, and those who get out early suffer fewer negative employment consequences than those who remain (Jiang et al., 2017; Semadeni et al., 2008). Anticipating negative consequences, TMT members may choose to depart the firm before negative firm outcomes become evident, and in so doing reduce the chances of being stigmatized as responsible for the firm’s troubles. TMT members may also fear a looming dismissal that might damage their reputation. Executives can be scapegoated for poor firm outcomes (Boeker, 1992; Shen & Cho, 2005) which can have lasting negative effects on their future career prospects (Ward et al., 1995). Departing the firm removes the possibility that the executive can be scapegoated, thus avoiding any negative effects that a dismissal can have on the executive’s career. In all, the above suggests that executives should see little benefit in remaining in the firm to compete in a succession tournament and instead more benefit in departing.

The arguments above refer to voluntary departures. In addition, TMT members may also be dismissed. Given that interim-appointments result in negative perceptions from shareholders, a firm’s board may seek to scapegoat top executives in order to send signals of change or resolution to investors (Connelly et al., 2016; Gangloff et al., 2016; Marcel et al., 2017; Shen & Cho, 2005). The board may also take the opportunity during the interim-appointment to ‘clean house’ in order to allow the eventual subsequent permanent CEO to avoid creating the disruption or bad blood that can develop from

dismissing incumbent TMT members (Friedman & Saul, 1991). Finally, in cases in which interim-successions follow a forced departure for a specific reason, the board may simultaneously dismiss those TMT members who it feels are also culpable. Hence:

*Hypothesis 1: The rate of TMT turnover following a CEO succession will be greater in firms that appoint an interim-CEO than those that appoint a permanent CEO.*

### **The role of chairman as an attenuating factor**

An interim-CEO who is able to reduce the disruption and uncertainty that typically follow an interim-CEO appointment should be able to mitigate the turnover that follows an interim-succession. The chairman of the board may have the ability to do this. A CEO who is also the chairman represents strong leadership which is an important signal to stakeholders that the firm has a clear direction and is operating well (Finkelstein & D'aveni, 1994; Salancik & Meindl, 1984). In the case of an interim-succession, an interim-CEO who is also chairman should represent less disruption to firm operations because there is a decisive leader in place. In general, a CEO-chairman has more consolidated power and is thus better able to achieve his or her aims (Boyd, 1995; Donaldson & Davis, 1991; Harris & Helfat, 1998; He & Wang, 2009). This should be especially beneficial during an interim-succession as it suggests that the interim-CEO-chairman will have the appropriate authority to retain managerial discretion, thus avoiding strategic stasis and the potential negative firm outcomes associated with it. Infighting and fragmentation within the TMT may also be reduced owing to the interim-CEO-chairman's authority to lead and make decisions, thus also reducing TMT members' fears of a deterioration of cohesion

among the TMT. Indeed, when the interim-CEO also holds the chairman position, the negative effects on firm performance are mitigated (Ballinger & Marcel, 2010). This continuity of firm operations should also lead to less uncertainty. With less disruption and uncertainty, the TMT should have fewer reasons to exit the firm. Moreover, scholars have found that interim-CEO-chairmen are far less likely to ultimately succeed to the permanent position, suggesting that owing to their advanced age, they likely do not desire it (Ballinger & Marcel, 2010; Chen et al., 2015). Hence, executives who desire the CEO position may also view the firm's chairman as less likely to want the CEO role on a permanent basis, and they may be therefore more likely to remain in the firm to compete for the job. Hence:

*Hypothesis 2: The positive association between interim-CEO successions and TMT turnover will be weaker when the interim-CEO is also the chairman.*

### **The interim-CEO's origin as an attenuating factor**

Insider firm executives who are appointed to the interim-CEO position may also be better able to ensure less disruption and uncertainty, thus resulting in a lower rate of TMT turnover. In general, an incumbent executive already has prior knowledge about the firm and its operations (Becker, 1962) which results in lower disruption following a succession (Friedman & Saul, 1991). Hence, an insider appointment should be viewed by incumbent executives as a sign of a smooth transition. An insider will also be a part of the existing TMT and therefore be familiar with the potential conflicts that can arise among TMT members and know how to mitigate such problems. The board also has better information

about an insider which lowers uncertainty about the appointee and the chances of adverse selection (Harris & Helfat, 1997) which should calm executives about the future. The appointment of an incumbent executive signals the board's desire to continue its current strategic direction (Helmich, 1974; Helmich & Brown, 1972). As such, an insider appointment may be viewed by TMT members as a signal that the board is not planning on major changes, thus also lowering uncertainty about the future. The appointment of an insider also represents the perpetuation of the firm's dominant power coalition (Ocasio, 1994) which should assuage TMT members' concerns of a looming dismissal or loss of power, and even suggest a promotion for some if the insider-interim-CEO is ultimately promoted permanently. This should entice TMT members to remain in the firm and compete for a coveted position. Indeed, in comparison to an outsider appointment, an insider appointment results in lower TMT turnover (Friedman & Saul, 1991; Kesner & Dalton, 1994; Shen & Cannella, 2002a). Hence:

*Hypothesis 3: The positive association between interim-CEO successions and TMT turnover will be weaker when the interim-CEO is an insider.*

## **METHODS**

### **Sample**

In order to test my hypotheses, I drew an initial sample of firms from the 2010 list of the Fortune 1,000. This list consists of the 1,000 largest American firms by revenue and contains many of the most well-known firms in the world, thus offering a salient sample. Using the Execucomp database, I then collected a list of all CEOs available in the

database who had held the CEO position in any of the firms at any point in time between the years 2002 to 2013. While my focus is on CEOs appointed between the years 2002 and 2013, collecting information about CEOs who had been appointed prior to 2002 allowed me have information about the CEO who preceded the focal CEO for each firm, which was necessary for measures including the reason for the outgoing CEO's departure and his or her tenure as CEO. For this reason, I excluded the few firms for which no information was available about the reason of departure of preceding CEO. I also removed all financial firms and utilities as prior research has noted that they are subject to regulations that may affect executive successions and firm performance (Anderson & Reeb, 2003, 2004; Mackey, 2008; Withers & Fitzg, 2017).<sup>6</sup> Information about the percentage of the firm's shares owned by executives as well as TMT turnover was collected from Execucomp. Information regarding the percentage of a firm's board of directors that were executives was collected from BoardEx. In addition, I collected quarterly firm and industry performance (ROA) from Compustat. Finally, the reasons of CEO departures as well as chair appointments were hand collected and coded from corporate websites, press releases, firm proxy statements. Thus, I limited my sample to firms for which information about these variables was available. This left me with a total of 525 CEO successions (of which 68 were interim-successions) from 328 firms. The frequency of interim-CEO successions is similar to that found in other studies on interim-CEO successions using public firms (Ballinger & Marcel, 2010; Chen et al., 2015; Gangloff et al., 2016; Marcel et al., 2017; Mooney et al., 2017).

---

<sup>6</sup> Tests including financial firms and utilities yield similar results.

## Dependent variable

**Rate of TMT Turnover** This variable was constructed based on the list of firm executives available in Execucomp. The Execucomp database contains a minimum of 5 of the firm's top paid executives which are reported in the firm's annual proxy statement. Following recent prior research on TMT turnover (Barron, Chulkov, & Waddell, 2011; Hambrick, Humphrey, & Gupta, 2015; Messersmith, Lee, Guthrie, & Ji, 2013), I assigned a 1 to each executive who left the firm in a given year and 0 otherwise and then summed them. Specifically, an executive was considered to have left the firm if he or she did not appear in the database the following year.<sup>7</sup> Executive turnover is unlikely to happen immediately following a CEO succession. Executives may begin a search for a position elsewhere and not leave until they have found one, or they may simply need time to decide whether to stay or go. To account for this, turnover of the following year was used in cases in which a CEO was appointed in the last quarter of the year. Given that some firms report more executives on their proxy statements than others, the summed amount of departures was divided by the total number of executives who were reported by the firm that year, thus creating a percentage (Messersmith et al., 2013).<sup>8</sup> For obvious reasons, CEOs were excluded from this calculation. Executives who passed away or retired were excluded.<sup>9</sup> Information regarding deaths or retirements was available from a variable in Execucomp that denotes why an executive left the firm.<sup>10</sup>

---

<sup>7</sup> While the notion that other executives may simply have been reported on the firm's proxy instead (due to obtaining a higher salary than the focal executive, for example) which might thus explain why they do not appear in the database the following year, Barron, et al., (2011) addressed this issue by manually inspecting over 1,600 executive turnover events and determined that the measure is indeed accurate.

<sup>8</sup> The average TMT team size in this study (excluding the CEO) is 5.26. This is similar to Messersmith, et al. (2013) and Carpenter, et al. (2004) whose average TMT sizes (including the CEO) were 6.39 and 6.54 respectively.

<sup>9</sup> Tests including executives who retired yielded similar results.

<sup>10</sup> This variable is called *Reason Left*. The reasons coded are death, retirement, resign, or unknown. However, in most cases, no reason is given.

## Independent variables

***Interim-Succession*** To determine if a CEO succession was an interim-succession, I examined corporate press releases and press accounts. Following prior research on interim-CEOs (Ballinger & Marcel, 2010; Chen et al., 2015; Gangloff et al., 2016; Marcel et al., 2017; Mooney et al., 2017), an individual was coded as an interim-CEO if he or she was explicitly appointed as an *interim-, temporary-, or acting-CEO* by the firm. The final variable is binary, taking the value of 1 if an individual was appointed as interim-CEO and 0 otherwise. The final sample consists of 68 interim-CEOs.

***CEO-Duality*** This is a binary variable taking the value of 1 if the CEO also held the role of chairman at the moment of appointment and 0 otherwise. In 20% of cases of the overall sample, the individual was named CEO and chairman simultaneously. In exactly half the cases of interim-CEO-chairmen, the firm's incumbent chairman was appointed as interim-CEO.

***Insider*** This variable was a dichotomous variable taking the value of 1 if the CEO was an incumbent employee for a least one year prior to the appointment and 0 otherwise.<sup>11</sup>

## Controls

I also controlled for several variables that could affect turnover following CEO successions. The *rate of turnover in the year prior* to the succession was controlled for in order to account for both the natural variance in turnover among different firms as well as

---

<sup>11</sup> I also ran tests moving the threshold to 0 years as well as 2 years and results were materially unchanged.

the possibility that the focal turnover was part of a larger TMT turnover event. Successions often result in TMT turnover (Friedman & Saul, 1991; Shen & Cannella, 2002a; Shen & Cho, 2005). A CEO succession that occurred in the recent past may therefore make TMT turnover following another succession event less likely because some members of the TMT may still be quite new and therefore unlikely to leave. In addition, interim-CEO successions have been found to be related to shorter tenure of the prior CEO (Mooney et al., 2017). As such, the *previous CEO's tenure* was included as a control to account for these potential effects. Extant research has also noted that the amount of ownership in the hands of executives is related to lower levels of executive turnover (Denis, Denis, & Sarin, 1997) and can affect the choice of successor (Boeker & Goodstein, 1993; Shen & Cannella, 2002a). Whether an executive holds a board position has also been found to affect executive turnover decisions (Cannella & Shen, 2001; Ocasio, 1994; Shen & Cannella, 2002a). As such, a variable for *Executive Ownership* as well as *Proportion of Executive Directors*<sup>12</sup> (both excluding the CEO) in the year prior to the succession event were included in the analysis. Prior firm performance was also controlled for. Following prior work on interim-successions (Ballinger & Marcel, 2010; Chen et al., 2015; Intintoli et al., 2014; Marcel et al., 2017), I controlled for any recent change in firm performance by taking the *industry adjusted change in ROA* over the four quarters prior to succession as well as overall *industry adjusted ROA* four quarters prior to succession as pre-succession performance measures. I also controlled for the *year of appointment* using a continuous

---

<sup>12</sup> The percentage of independent directors was also examined but it was very highly negatively correlated with the percentage of executive directors and therefore omitted to avoid issues of multi-collinearity.

variable in order to check for any trends over time.<sup>13</sup> I controlled for *firm age* in years and *firm size* as the log of assets. I also controlled for *prior CEO departure* owing to a *dismissal* using a dummy variable taking the value of 1 if the prior CEO was fired (as reported in the firm's press release) and 0 otherwise (Chen et al., 2015; Mooney et al., 2017). I included 1-digit industry dummy variables to control for any industry effects.<sup>14</sup>

## **Analysis**

Prior studies investigating outcomes related to interim-CEO successions have noted that there may be a sample selection issue that explains the outcome under examination (Chen et al., 2015; Gangloff et al., 2016; Marcel et al., 2017; Mooney et al., 2017). That is, in this context, there may be some reasons for why firms choose to appoint an interim-CEO rather than a permanent CEO that may also affect TMT turnover. If this is the case, the estimated coefficient of interim-CEO succession on turnover could be biased. To correct for this possible source of endogeneity, I followed prior studies on interim-CEOs (Chen et al., 2015; Gangloff et al., 2016; Marcel et al., 2017; Mooney et al., 2017) and employed a two-stage Heckman selection model using the prior CEO's departure due to health reasons as the identification variable in the first stage. The rationale for using this variable is that it should be positively related to interim-CEO appointments (Ballinger & Marcel, 2010; Chen et al., 2015), but it should not be a predictor of TMT turnover as it is exogenous to any firm or TMT performance that might lead to TMT turnover.

---

<sup>13</sup> Analyses with year dummies produce similar results.

<sup>14</sup> Tests using industry dummies at a 2-digit level yield similar results but reduce the number of observations.

All hypotheses test the effects of interim-successions on TMT turnover percentages. Therefore, an ordinary least squares (OLS) model was employed for these second stage tests.<sup>15</sup> Finally, given that my sample window includes cases where a firm underwent multiple successions, I clustered standard errors at the firm level.

-----Insert Table 1 here-----

## RESULTS

Table 2 provides estimates from the first-stage probit model predicting a firm's likelihood to appoint in an interim-CEO. As expected, prior CEO departure due to health was positively related to interim-successions ( $\beta=0.743$ ,  $p=0.001$ ). Similar to past findings, prior firm performance is not a significant predictor of interim-CEO appointment (Chen et al., 2015; Gangloff et al., 2016; Marcel et al., 2017; Mooney et al., 2017). Table 3 presents the tests of all hypotheses. As shown in Model 1, the rate of TMT turnover is higher following interim-successions than permanent successions ( $\beta=0.067$ ,  $p=0.018$ ), thus supporting hypothesis 1. Model 2 also finds support for hypothesis 2, that the rate of TMT turnover is lower when the interim-CEO also holds the chairman position ( $\beta=-0.160$ ,  $p=0.006$ ). However, as evident in Model 3, and in the opposite of the hypothesized direction, insider-interim-CEOs are related to a greater rate of TMT turnover than are permanent CEOs ( $\beta=0.100$ ,  $p=0.087$ ). Thus hypothesis 3 is not supported. I examine these surprising results later.

---

<sup>15</sup> Tobit models were also run for all analyses, censoring the upper limit at 1 and lower limit at 0. All results held. Because OLS results are easy to interpret, I preferred to show the results from the OLS estimations. Tobit estimation results are available upon request.

-----Insert Tables 2 & 3 here-----

### **Further tests of the theorized mechanisms**

I carried out several analyses to further test the mechanism I propose in my arguments. First, to further explore whether an interim-succession triggers a succession tournament among the TMT, I conducted an analysis examining TMT turnover after the interim-CEO had been replaced with a permanent successor. According to the succession tournament arguments, executives should remain in the firm until the result of the tournament becomes apparent (permanent successor is named) at which point they could choose to stay or leave the firm. Following this logic, we should expect that TMT turnover is low following the appointment of the interim-CEO (which the main analyses do not find) and then high following the appointment of the permanent successor who replaces the interim-CEO, as this appointment would indicate the end of the succession tournament at which point some members would leave. As such, I created a new dummy variable taking the value of 1 if a permanent CEO followed an interim-CEO and 0 otherwise. I then re-ran the analysis using this new variable as the main predictor. Results did not reveal a significant difference in the rate of TMT turnover between firms replacing an interim-CEO and those replacing a permanent CEO. A subsequent test comparing the turnover following the appointment of outside CEOs who replaced an interim-CEO versus inside CEOs who replaced a permanent CEO also did not reveal any significant results. This is where we should be most likely to see any difference in turnover, as the turnover following an outside succession has been found to be higher than that following an inside succession

(Friedman & Saul, 1991; Kesner & Dalton, 1994). However, the non-significant result indicates that there is very little turnover following the permanent replacement of an interim-CEO. Combined, these results suggest that TMT members leave following the interim-appointment and not following his/her replacement thus offering further support for the theoretical arguments presented above, that executives tend not remain in the firm until a permanent successor has been named.

One alternative argument for why I observe greater TMT turnover following an interim-succession is because the board has decided to make major changes to the TMT and therefore dismisses executives in greater numbers. Discerning voluntary from involuntary turnover of top executives following a CEO-succession is extremely difficult. It is often unclear why executives leave a firm. Even when pushed out, the firm often reports a resignation by the executive. As such, a direct test was not possible. That said, I did run additional analyses to probe whether the board of directors was dismissing TMT members. Firstly, I examined all succession announcements and coded whether the firm reported any other TMT changes at the same time as the CEO succession announcement. I then ran a probit model predicting whether additional TMT changes were more likely in interim-succession announcements.<sup>16</sup> Results in Model 1 of Table 4 show that a firm was no more likely to report changes to the TMT in an interim-succession announcement than in a permanent succession announcement. This finding suggests that the board is not making sweeping changes at the time of the interim-appointment.

-----Insert Table 4 here-----

---

<sup>16</sup> Most firms that did report a change to the TMT reported only 1 or 2 changes. As such, owing to the low numbers of changes, I ran a probit model. However, an OLS model also produces no significant results.

I also ran tests on a subsample of firms in which the prior CEO's departure was not a dismissal. Theoretically, the greatest likelihood of TMT dismissal would be when the CEO is dismissed and the board desires new talent to take it in a new direction or is removing executives it feels are also responsible for the negative outcome that lead to the CEO dismissal. If the higher rate of TMT turnover that I observe following interim-successions is driven by TMT dismissals, we should expect that removing cases where the prior CEO was dismissed should dampen or eliminate the results. However, as evident in Model 2 of Table 4, TMT turnover following interim-successions was still greater than following permanent successions. Moreover, the coefficient is also slightly higher. In addition to this test, I also ran a test on the subsample of firms that did dismiss their prior CEO. As evident in Model 3 of Table 4, results show no difference in TMT turnover between interim- and permanent successions. This also suggests that the main results presented in this study were not being only driven by firms that dismissed their CEO, thus offering further support to my arguments.

Next, previous research has found that executives with longer executive tenure within a failed firm are even more likely to find subsequent employment at a firm of lesser status than the failed firm, as their association with the failed firm is perceived to be stronger (Rider & Negro, 2015). As such, the theoretical arguments put forward in this paper suggest that they should be likely to depart in greater numbers following an interim-succession than a permanent one, as they likely feel the most vulnerable to be stigmatized by firm disruption and negative firm outcomes. I tested this by splitting the TMT members into high tenure and low tenure based on the average tenure of all TMT

members in the firm in that year. Results revealed that the rate of turnover among TMT members with high tenure was higher following interim-successions than permanent ones.<sup>17</sup> Results also showed no significant difference between interim- and permanent successions in the rate of turnover of TMT members with low tenure. This also offers further support to the theoretical arguments laid out in this paper, that executives will depart in order to protect their career prospects.

### **Additional analyses**

As mentioned earlier, the consensus in the literature is that outside CEO succession is related to higher subsequent TMT turnover than is inside CEO succession (Friedman & Saul, 1991; Kesner & Dalton, 1994; Shen & Cannella, 2002a). This, as well as the fact that the majority of successions in my sample are of insiders, warranted an investigation into whether it would also be the case in the context of interim-successions. I therefore carried out further analyses by splitting the permanent CEOs into insiders and outsiders and comparing interim-successions to each. As such, I created a new set of dummy variables for whether the permanent CEO was a permanent outside CEO or a permanent inside CEO. Results not reported here reveal a significant coefficient ( $\beta=0.115$ ) when turnover following interim-successions was compared to that following permanent inside successions but no significant difference when compared to permanent outside successions. This suggests that an interim-succession is highly disruptive in comparison to a permanent inside succession.

---

<sup>17</sup> I also ran this test splitting tenure at the median. Results were similar.

Next, the results for hypothesis 3, testing turnover following insider-interim successions, revealed that turnover is not mitigated when the interim-CEO is an insider, and that the interaction reveals an increase in turnover at the marginal significance level. This goes in the opposite direction hypothesized. To understand this further, I ran subsequent tests to explore the effects of each type of CEO succession on TMT turnover. In comparing interim- and permanent successions, there are four types to consider: the succession of an inside-interim-CEO, an outside-interim-CEO, an outside-permanent CEO, and an inside-permanent CEO. As such, I created dummy variables for each of the first three cases and used the case of an inside-permanent CEO as the base case. I then included the three dummy variables in the model to examine each of their effects on TMT turnover. The results are presented in Table 5. Interestingly, the coefficient for inside interim-CEO becomes more significant revealing that the appointment of an inside interim-CEO results in greater TMT turnover than the appointment of a permanent inside CEO.<sup>18</sup> This suggests that the TMT react to an inside-interim-succession as they do to either type of outside succession.

-----Insert Table 4 here-----

### **Robustness checks**

The original operationalization of turnover captures the turnover percentage within the same calendar year if the appointment was in the first three quarters and that of the subsequent year if the appointment occurred in the fourth quarter. To ensure that this is

---

<sup>18</sup> Tests of the coefficients reveal that none are significantly different from each other.

not capturing the turnover attributed to the permanent successor who followed an interim, I ran several further tests. First, I re-ran the analyses attributing the turnover percentage to the year of appointment for all four quarters. All results held. I also dropped all successions in quarter 4 and re-ran the analyses. All results held. These, along with the results from the analysis examining turnover following the succession that replaces an interim-CEO with a permanent CEO, provide further confidence in the robustness of the results.

## **DISCUSSION**

This study contributes to the CEO succession, corporate governance, and executive turnover literatures. Firstly, it offers empirical evidence of how executives react to interim-successions and reconciles competing predictions about whether executives will stay or go. Succession tournament arguments would suggest that TMT turnover following an interim-succession would be low (possibly lower than permanent successions) because executives would remain in the firm to compete for desired positions. However, the findings presented here do not support this argument. Instead, I find TMT turnover is higher than in permanent successions, offering support for the argument that executives view interim-successions as potentially damaging to their future careers prospects and that they therefore seek to protect them by departing. While prior studies have focused on failing firms, this study finds that the potential future negative consequences associated with interim-successions may also drive executives to leave. Further, this paper presents support for the notion that interim-successions are highly disruptive. While

prior papers have noted the consequences they can have for external stakeholders (Ballinger & Marcel, 2010; Chen et al., 2015; Gangloff et al., 2016; Marcel et al., 2017), this paper suggests that interim-successions also have internal consequences. Indeed, these findings suggest that TMT turnover following interim-successions is as great as that following permanent outside successions and argues that much of it may in fact be voluntary.

This paper also offers further support for the importance of the role of the chairman during interim-successions. Ballinger & Marcel (2010) found that firms undergoing interim-successions experience lower performance but which can be mitigated if the CEO also holds the role of chairman, this paper finds similar results regarding TMT turnover. As I argue here, the combination should result in less disruption and uncertainty that should prompt TMT members to stay in the firm. This also serves to further reconcile the two competing predictions by suggesting that, if the interim-CEO is someone who can mitigate disruption or uncertainty, TMT members will stay to compete in the executive tournament.

By distinguishing interim- and permanent CEOs, the findings presented here challenge the extant paradigm that insiders are associated with lower TMT turnover. Indeed, the results show that simply appointing an insider as interim-CEO does not allay turnover concerns. This is a surprising finding that requires future research. One possibility for this finding might be explained with agency theory arguments (Jensen & Meckling, 1976). Incumbent executives who are appointed to the interim-CEO position may focus on pursuing their own career interests (i.e. winning the job on a permanent

basis) and less on the stability or retention of other executives that might be in the best interest of the firm. This argument follows prior interim-CEO work by Chen, et al. (2015) who argue that interim-CEOs are concerned with their career interests and strive to win the job on a permanent basis. Following this logic, insider-interim-CEOs might be just as inclined as outsider-interim-CEOs to engage in sabotaging potential competitors so as to ensure that they win the job on a permanent basis (Lazear, 1989). Moreover, other incumbent executives may view the interim-appointment of an insider as an indication that they have lost the tournament for the permanent job and therefore exit the firm (Messersmith et al., 2011).

Finally, distinguishing the type of CEO is also clearly important when considering TMT turnover following CEO successions. The differences in turnover when distinguishing permanent inside and outside CEOs suggest that future research should also distinguish insiders and outsiders of both interim- and permanent CEOs when analysing the differences between them. Simply categorizing CEOs into interim and permanent appears to be insufficient in fully understanding the differences between them.

### **Implications for practice**

This study presents findings that also have important practical implications. It demonstrates that interim-CEO successions have unique effects on TMT turnover. The rate of turnover among the TMT is on average 30 percent, greater than all permanent successions by 7 percent and than inside permanent successions by 12 percent. Who becomes the interim-CEO also plays a key role in moderating the amount of turnover that

a firm will experience. Firms in which the interim-CEO is also the chairman can mitigate the greater rate of TMT turnover following interim-successions. As evident in Figure 1, when the interim-CEO does not hold the chairman position, TMT turnover is on average 35 percent whereas if he/she does, it is 20 percent. What is more, the arguments presented here suggest that TMT turnover is largely voluntary in nature. Indeed, turnover following interim-successions is comparable to turnover following outside successions. As such, the increase that I observe in my data might actually be much greater if compared to only the voluntary turnover following each type of permanent succession. This is something that firms should consider before appointing an interim-CEO.

While it could be argued that the TMT turnover following an interim-succession may not necessarily be negative, the consensus developed in the literature, and bolstered by this paper, is that interim-successions are highly disruptive in a negative way. The negative performance, negative investor reactions, increased board turnover, and increased TMT turnover offer support to the words of Andrew McKenna, former Chairman of MacDonald's, when commenting on the uncertainty associated with an interim-succession: "Interim-CEOs are never the best way. It's like buying something on trial" (Sellers, 2011). Hence, boards of directors should be aware of the repercussions of appointing an interim-CEO.

## **Limitations**

This paper is not without limitations. While turnover is captured yearly, capturing turnover in a more fine-grained manner would allow for a better understanding of when during an

interim-CEO's tenure TMT members leave. In addition, determining how much of the TMT turnover observed was voluntary was not possible. A qualitative study might address this. Finally, the sample for this study was of large, public, US firms. The effects of an interim-succession on turnover in smaller or private firms might be different. As such, the generalizability of the findings of this study should be considered carefully. In all, however, despite its limitations, this paper offers researchers with new contributions and research questions that may move our understanding of interim-successions forward.

## **CONCLUSION**

This study presents important findings regarding interim-CEO successions and TMT turnover. Interim-successions can cause internal disruption that can result in increased turnover among the TMT. Rather than remain in the firm until a permanent successor is appointed, this study argues and finds support that TMT members leave to protect their future career prospects. However, this study argues and finds support that firms may be able to mitigate such turnover by ensuring that the interim-CEO is also the chairman.

## REFERENCES

- Anderson, R. C. & Reeb, D. M. 2003. Founding-family ownership and firm performance: evidence from the S&P 500. *The journal of finance*, 58(3): 1301-1328.
- Anderson, R. C. & Reeb, D. M. 2004. Board composition: Balancing family influence in S&P 500 firms. *Administrative science quarterly*, 49(2): 209-237.
- Ballinger, G. A. & Marcel, J. J. 2010. The use of an interim CEO during succession episodes and firm performance. *Strategic Management Journal*, 31(3): 262-283.
- Barron, J. M., Chulkov, D. V., & Waddell, G. R. 2011. Top management team turnover, CEO succession type, and strategic change. *Journal of Business Research*, 64(8): 904-910.
- Becker, G. S. 1962. Investment in human capital: A theoretical analysis. *Journal of political economy*, 70(5, Part 2): 9-49.
- Boeker, W. 1992. Power and managerial dismissal: Scapegoating at the top. *Administrative Science Quarterly*: 400-421.
- Boeker, W. & Goodstein, J. 1993. Performance and successor choice: The moderating effects of governance and ownership. *Academy of Management Journal*, 36(1): 172-186.
- Boyd, B. K. 1995. CEO duality and firm performance: A contingency model. *Strategic Management Journal*, 16(4): 301-312.
- Cannella, A. A., Fraser, D. R., & Lee, D. S. 1995. Firm failure and managerial labor markets evidence from Texas banking. *Journal of Financial Economics*, 38(2): 185-210.
- Cannella, A. A. & Shen, W. 2001. So close and yet so far: Promotion versus exit for CEO heirs apparent. *Academy of Management journal*, 44(2): 252-270.
- Carpenter, M. A., Geletkanycz, M. A., & Sanders, W. G. 2004. Upper echelons research revisited: Antecedents, elements, and consequences of top management team composition. *Journal of management*, 30(6): 749-778.
- Chen, G., Luo, S., Tang, Y., & Tong, J. Y. 2015. Passing probation: Earnings management by interim CEOs and its effect on their promotion prospects. *Academy of Management Journal*, 58(5): 1389-1418.
- Connelly, B. L., Ketchen Jr, D. J., Gangloff, K. A., & Shook, C. L. 2016. Investor perceptions of CEO successor selection in the wake of integrity and competence failures: A policy capturing study. *Strategic Management Journal*, 37(10): 2135-2151.
- Denis, D. J., Denis, D. K., & Sarin, A. 1997. Ownership structure and top executive turnover. *Journal of financial economics*, 45(2): 193-221.
- Donaldson, L. & Davis, J. H. 1991. Stewardship theory or agency theory: CEO governance and shareholder returns. *Australian Journal of management*, 16(1): 49-64.
- Finkelstein, S. & D'aveni, R. A. 1994. CEO duality as a double-edged sword: How boards of directors balance entrenchment avoidance and unity of command. *Academy of Management journal*, 37(5): 1079-1108.

- Friedman, S. D. & Saul, K. 1991. A leader's wake: Organization member reactions to CEO succession. *Journal of Management*, 17(3): 619-642.
- Friedman, S. D. & Olk, P. 1995. Four ways to choose a CEO: Crown heir, horse race, coup d'etat, and comprehensive search. *Human Resource Management*, 34(1): 141-164.
- Gangloff, K. A., Connelly, B. L., & Shook, C. L. 2016. Of scapegoats and signals: Investor reactions to CEO succession in the aftermath of wrongdoing. *Journal of Management*, 42(6): 1614-1634.
- Gibbons, R. & Katz, L. F. 1991. Layoffs and lemons. *Journal of labor Economics*, 9(4): 351-380.
- Graham, J. R., Harvey, C. R., & Rajgopal, S. 2005. The economic implications of corporate financial reporting. *Journal of accounting and economics*, 40(1-3): 3-73.
- Hambrick, D. C. 1995. Fragmentation and the other problems CEOs have with their top management teams. *California Management Review*, 37(3): 110-127.
- Hambrick, D. C., Humphrey, S. E., & Gupta, A. 2015. Structural interdependence within top management teams: A key moderator of upper echelons predictions. *Strategic Management Journal*, 36(3): 449-461.
- Harris, D. & Helfat, C. 1997. Specificity of CEO human capital and compensation. *Strategic Management Journal*, 18(11): 895-920.
- Harris, D. & Helfat, C. E. 1998. CEO duality, succession, capabilities and agency theory: Commentary and research agenda. *Strategic Management Journal*, 19(9): 901-904.
- He, J. & Wang, H. C. 2009. Innovative knowledge assets and economic performance: The asymmetric roles of incentives and monitoring. *Academy of Management Journal*, 52(5): 919-938.
- Helmich, D. L. & Brown, W. B. 1972. Successor type and organizational change in the corporate enterprise. *Administrative science quarterly*: 371-381.
- Helmich, D. L. 1974. Organizational growth and succession patterns. *Academy of Management Journal*, 17(4): 771-775.
- Hymowitz, C. 2006. A growing number of Interim CEOs Add to Companies' Turmoil, *The Wall Street Journal*.
- Intintoli, V. J., Zhang, A., & Davidson, W. N. 2014. The impact of CEO turnover on firm performance around interim successions. *Journal of Management & Governance*, 18(2): 541-587.
- Jensen, M. C. & Meckling, W. H. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, 3(4): 305-360.
- Jiang, H., Cannella, A., Xia, J., & Semadeni, M. 2017. Choose to fight or choose to flee? A network embeddedness perspective of executive ship jumping in declining firms. *Strategic Management Journal*, 38(10): 2061-2079.
- Kesner, I. F. & Dalton, D. R. 1994. Top management turnover and CEO succession: An investigation of the effects of turnover on performance. *Journal of Management Studies*, 31(5): 701-713.

- Krause, R., Semadeni, M., & Cannella Jr, A. A. 2014. CEO duality: A review and research agenda. *Journal of Management*, 40(1): 256-286.
- Lazear, E. P. & Rosen, S. 1981. Rank-order tournaments as optimum labor contracts. *Journal of political Economy*, 89(5): 841-864.
- Lazear, E. P. 1989. Pay equality and industrial politics. *Journal of political economy*, 97(3): 561-580.
- Mackey, A. 2008. The effect of CEOs on firm performance. *Strategic management journal*, 29(12): 1357-1367.
- Marcel, J. J., Cowen, A. P., & Ballinger, G. A. 2017. Are disruptive CEO successions viewed as a governance lapse? Evidence from board turnover. *Journal of Management*, 43(5): 1313-1334.
- Messersmith, J. G., Guthrie, J. P., Ji, Y.-Y., & Lee, J.-Y. 2011. Executive turnover: The influence of dispersion and other pay system characteristics. *Journal of Applied Psychology*, 96(3): 457.
- Messersmith, J. G., Lee, J.-Y., Guthrie, J. P., & Ji, Y.-Y. 2013. Turnover at the top: Executive team departures and firm performance. *Organization Science*, 25(3): 776-793.
- Mooney, C. H., Semadeni, M., & Kesner, I. F. 2017. The selection of an interim CEO: boundary conditions and the pursuit of temporary leadership. *Journal of Management*, 43(2): 455-475.
- Ocasio, W. 1994. Political dynamics and the circulation of power: CEO succession in US industrial corporations, 1960-1990. *Administrative science quarterly*: 285-312.
- Rider, C. I. & Negro, G. 2015. Organizational failure and intraprofessional status loss. *Organization Science*, 26(3): 633-649.
- Salancik, G. R. & Meindl, J. R. 1984. Corporate attributions as strategic illusions of management control. *Administrative science quarterly*: 238-254.
- Sellers, P. 2011. How MacDonald's got CEO Succession right, *Fortune*.
- Semadeni, M., Cannella Jr, A. A., Fraser, D. R., & Lee, D. S. 2008. Fight or flight: Managing stigma in executive careers. *Strategic Management Journal*, 29(5): 557-567.
- Shen, W. & Cannella, A. A. 2002. Revisiting the performance consequences of CEO succession: The impacts of successor type, postsuccession senior executive turnover, and departing CEO tenure. *Academy of management journal*, 45(4): 717-733.
- Shen, W. & Cho, T. S. 2005. Exploring involuntary executive turnover through a managerial discretion framework. *Academy of Management Review*, 30(4): 843-854.
- Sutton, R. I. & Callahan, A. L. 1987. The stigma of bankruptcy: Spoiled organizational image and its management. *Academy of Management journal*, 30(3): 405-436.
- Ward, A., Sonnenfeld, J. A., & Kimberly, J. R. 1995. In search of a kingdom: Determinants of subsequent career outcomes for chief executives who are fired. *Human Resource Management*, 34(1): 117-139.
- Withers, M. C. & Fitza, M. A. 2017. Do board chairs matter? The influence of board chairs on firm performance. *Strategic Management Journal*, 38(6): 1343-1355.

Zhang, X.-a., Li, N., Ullrich, J., & van Dick, R. 2015. Getting everyone on board: The effect of differentiated transformational leadership by CEOs on top management team effectiveness and leader-rated firm performance. *Journal of Management*, 41(7): 1898-1933.

## TABLES AND FIGURES

Table 1. Descriptive statistics and correlations

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Interim-Succession	0.13	0.34	1														
2. TMT Turnover	0.24	0.20	0.18	1													
3. Prior TMT Turnover	0.16	0.18	0.15	0.15	1												
4. CEO-Duality	0.19	0.39	0.19	-0.01	0.05	1											
5. Inside CEO	0.68	0.47	-0.22	-0.23	-0.29	-0.13	1										
6. Previous CEO's Tenure	8.02	7.31	-0.16	-0.15	-0.15	-0.15	0.24	1									
7. Executive Ownership (Excl CEO)	0.01	0.02	0.03	0.02	0.01	-0.02	0.06	-0.03	1								
8. Executive Board % (Excl CEO)	0.06	0.08	-0.07	-0.08	-0.12	0.03	0.14	0.17	0.30	1							
9. Industry Adjusted Pre-Succession Change in ROA	-0.04	3.85	0.10	-0.01	0.08	0.07	-0.04	0.00	-0.06	0.01	1						
10. Industry Adjusted Pre-Succession ROA	0.56	1.43	0.04	0.02	0.04	0.05	-0.04	-0.03	0.03	-0.06	0.15	1					
11. Year Appointed	2007.80	3.38	0.02	0.24	0.08	-0.13	-0.05	-0.01	-0.04	-0.31	0.02	0.13	1				
12. Firm Age	70.90	42.54	-0.03	-0.08	-0.04	0.07	-0.01	-0.02	-0.09	-0.02	0.07	0.00	-0.08	1			
13. Firm Size	8.58	1.30	-0.06	0.05	-0.01	0.07	0.09	-0.06	-0.09	-0.11	0.00	0.01	0.03	0.10	1		
14. Prior CEO Departure (Health)	0.04	0.20	0.08	0.01	0.07	0.01	0.01	-0.02	-0.05	-0.12	-0.01	-0.04	0.04	-0.02	0.01	1	
15. Prior CEO Departure (Dismissal)	0.14	0.35	0.37	0.19	0.24	0.11	-0.26	-0.25	0.07	-0.07	0.04	-0.01	0.06	-0.08	-0.02	-0.09	1

Note: Correlations with an absolute value above 0.08 are significant (p < .05)

Table 2. Probit estimates of first-stage use of interim-CEO

	(1) Interim-Succession
Prior TMT Turnover	0.417 (0.278)
Previous CEO's Tenure	-0.028 (0.041)
Executive Ownership (Excl CEO)	0.326 (0.910)
Executive Board % (Excl CEO)	-1.187 (0.346)
Industry Adjusted Pre-Succession Change in ROA	0.033 (0.108)
Industry Adjusted Pre-Succession ROA	0.018 (0.772)
Year Appointed	-0.015 (0.504)
Firm Age	0.000 (0.941)
Firm Size	-0.086 (0.079)
Prior CEO Departure (Dismissal)	1.141 (0.000)
Prior CEO Departure (Health)	0.743 (0.001)
Constant	29.098 (0.513)
Industry Dummies	YES
Observations	525

Robust p-values in parentheses

Table 3. OLS models of TMT turnover

	(1)	(2)	(3)
	TMT Turnover	TMT Turnover	TMT Turnover
CEO-Duality	-0.015 (0.519)	0.018 (0.484)	-0.009 (0.704)
Inside CEO	-0.068 (0.002)	-0.076 (0.000)	-0.086 (0.000)
Prior TMT Turnover	0.014 (0.831)	0.004 (0.953)	0.004 (0.953)
Previous CEO's Tenure	-0.001 (0.799)	-0.000 (0.830)	-0.001 (0.759)
Executive Ownership (Excl CEO)	0.099 (0.834)	0.203 (0.687)	0.076 (0.864)
Executive Board % (Excl CEO)	0.129 (0.419)	0.146 (0.348)	0.114 (0.461)
Industry Adjusted Pre-Succession Change in ROA	-0.003 (0.256)	-0.002 (0.377)	-0.003 (0.235)
Industry Adjusted Pre-Succession ROA	-0.001 (0.886)	-0.000 (0.949)	-0.002 (0.796)
Year Appointed	0.013 (0.000)	0.013 (0.000)	0.013 (0.000)
Firm Age	-0.000 (0.624)	-0.000 (0.569)	-0.000 (0.573)
Firm Size	0.018 (0.031)	0.017 (0.034)	0.018 (0.035)
Prior CEO Departure (Dismissal)	-0.022 (0.759)	-0.020 (0.767)	-0.015 (0.828)
Inverse Mills Ratio	-0.060 (0.413)	-0.058 (0.405)	-0.049 (0.490)
Interim-Succession	0.067 (0.018)	0.119 (0.001)	0.023 (0.491)
<i>Interim-Succession x CEO-Duality</i>		-0.160 (0.006)	
<i>Interim-Succession x Inside CEO</i>			0.100 (0.084)
Constant	-25.559 (0.000)	-26.305 (0.000)	-25.164 (0.000)
Industry Dummies	YES	YES	YES
Observations	525	525	525
R-squared	0.167	0.181	0.173

Robust p-values in parentheses

Table 4. Probit and OLS models examining TMT dismissals

	(1)	(2)	(3)
	Probit of any TMT Change as announced in CEO succession announcement	OLS of TMT Turnover on Subsample of cases where previous CEO was not dismissed	OLS of TMT Turnover on Subsample of cases where previous CEO was dismissed
CEO-Duality	-0.057 (0.754)	-0.002 (0.944)	-0.061 (0.317)
Inside CEO	0.470 (0.005)	-0.070 (0.002)	-0.059 (0.303)
Prior TMT Turnover	0.006 (0.990)	0.058 (0.387)	0.785 (0.372)
Previous CEO's Tenure	0.001 (0.952)	-0.002 (0.425)	-0.038 (0.528)
Executive Ownership (Excl CEO)	0.937 (0.728)	-0.224 (0.626)	2.521 (0.014)
Executive Board % (Excl CEO)	0.705 (0.585)	0.097 (0.559)	-1.262 (0.611)
Industry Adjusted Pre-Succession Change in ROA	-0.004 (0.878)	-0.001 (0.684)	0.035 (0.560)
Industry Adjusted Pre-Succession ROA	0.090 (0.028)	0.003 (0.611)	-0.007 (0.835)
Year Appointed	-0.051 (0.033)	0.013 (0.000)	0.005 (0.876)
Firm Age	-0.001 (0.709)	-0.000 (0.652)	-0.000 (0.513)
Firm Size	0.152 (0.047)	0.012 (0.157)	-0.116 (0.509)
Prior CEO Departure (Dismissal)	-0.334 (0.624)		
Inverse Mills Ratio	-0.088 (0.904)	-0.016 (0.820)	2.566 (0.385)
Interim-Succession	0.073 (0.743)	0.074 (0.044)	0.019 (0.689)
Constant	100.394 (0.037)	-25.413 (0.000)	-11.396 (0.857)
Industry Dummies	YES	YES	YES
Observations	525	451	74
R-squared	0.074 <sup>a</sup>	0.150	0.417

Robust p-values in parentheses

<sup>a</sup> pseudo R-squared value

Table 5. OLS models splitting both interim-CEOs and permanent CEOs into insiders and outsiders

	(1) TMT Turnover
CEO-Duality	-0.009 (0.704)
Prior TMT Turnover	0.004 (0.953)
Previous CEO's Tenure	-0.001 (0.759)
Executive Ownership (Excl CEO)	0.076 (0.864)
Executive Board % (Excl CEO)	0.114 (0.461)
Industry Adjusted Pre-Succession Change in ROA	-0.003 (0.235)
Industry Adjusted Pre-Succession ROA	-0.002 (0.796)
Year Appointed	0.013 (0.000)
Firm Age	-0.000 (0.573)
Firm Size	0.018 (0.035)
Prior CEO Departure (Dismissal)	-0.015 (0.828)
Inverse Mills Ratio	-0.049 (0.490)
Inside Interim-Succession	0.123 (0.009)
Outside Interim-Succession	0.109 (0.002)
Permanent Outside-Succession	0.086 (0.000)
Constant	-25.250 (0.000)
Industry Dummies	YES
Observations	525
R-squared	0.173

Robust p-values in parentheses



## **CHAPTER 3: CONSOLIDATING POWER: CEO PLURALITY AND THE ROLE OF THE PRESIDENT POSITION IN CEO ENTRENCHMENT**

### **Abstract**

CEO Power has important implications for CEO successions. This study argues and finds support that CEO Plurality – when the CEO also holds the Chairman and President titles – results in the consolidation of power for the CEO that enables him/her to become entrenched. The evidence also suggests that CEO-Presidents can become entrenched while CEO-Chairs may not. However, firms with powerful executives, as well as firms that have heirs apparent, are negatively related to CEO Plurality, suggesting that executives may oppose CEO Plurality for fears of CEO entrenchment. This study therefore further elucidates the power dynamics among the firm's top executives.

Keywords: CEO plurality; CEO successions; succession planning; heir apparent; CEO duality; CEO power; executive power

## INTRODUCTION

CEO power has been an important topic in the CEO succession literature because of the influence it can have on executive and CEO successions. In general, power allows CEOs to influence succession decisions in their favours. Powerful CEOs can prevent their departures, remaining entrenched in the position longer, even in times of poor performance (Boeker, 1992; Goyal & Park, 2002; Ocasio, 1994). They can mitigate contestations and attempts to usurp their jobs, prevent their apparent promotions, and even scapegoat other executives for poor firm performance. (Boeker, 1992; Cannella & Shen, 2001; Ocasio, 1994). Moreover, powerful CEOs can also influence board selection decisions in their favours (Westphal & Zajac, 1995).

CEO and executive power has generally been considered to be derived from an individual's title, tenure in a position or firm, ownership, directorship, and, specific to the case of the CEO, duality and the number of directors or executives appointed during the CEO's tenure (Boeker, 1992; Boeker & Goodstein, 1993; Cannella & Lubatkin, 1993; Cannella & Shen, 2001; Finkelstein, 1992; Finkelstein & D'aveni, 1994; Goyal & Park, 2002; Krause, Filatotchev, & Bruton, 2016; Krause, Priem, & Love, 2015; Ocasio, 1994; Ocasio & Kim, 1999; Shen & Cannella, 2002a; Westphal & Zajac, 1995; Zajac & Westphal, 1996). Regarding CEO power specifically, perhaps the greatest form is CEO-Duality, as this gives the top executive within the firm the top governance position as well. For this reason, an entire literature examining CEO-Duality has developed. Debate has continued regarding whether it is more beneficial for a firm to combine or separate the CEO and Chair positions with many conflicting results (Krause et al., 2014a). On one

hand, combining the roles allows for unity of command which may allow a CEO to be more effective; on the other, separating the positions can provide for greater board oversight which can avoid potential agency costs (Donaldson & Davis, 1991; Finkelstein & D'aveni, 1994; Jensen & Meckling, 1976), entrenchment being one of them.

While the additional title of Chairman to a CEO has been considered extensively in CEO succession studies, the additional title of President has been largely overlooked. In many firms, the CEO holds both the Chairman and President titles (Davidson III et al., 2001; Worrell et al., 1997). This is known as CEO Plurality. CEO Plurality announcements have been found to be related to negative shareholder reactions with scholars arguing that investors may perceive Plurality to indicate too much consolidated power in the hands of a CEO. They argue that investors may fear that such consolidated power can result in a lack of succession planning (Davidson III et al., 2001; Harris & Helfat, 1998; Worrell et al., 1997). Past this, however, little more is known about CEO Plurality and whether it actually does lead to CEO entrenchment. Furthermore, little is known about whether executives are for or against CEO Plurality or about the role that executive power plays in the achievement or prevention of CEO Plurality. It is by exploring these questions that this study seeks to contribute.

Using a sample of public, US firms listed in the Fortune 1,000, I examine CEO successions between 2002 and 2013 to determine whether CEO Plurality results in CEO entrenchment. I argue that CEOs seek to consolidate power and that holding both the Chair and President titles gives them a greater amount. With this greater power, I hypothesize that Plural CEOs, in comparison to non-Plural CEOs, will be better able to

prevent their departures and that this ability will become more pronounced as performance declines. I then explore whether other powerful executives within the firm are supportive or opposed to CEO Plurality. I argue that, owing to fears that the over-consolidation of power in the hands of the CEO may lead to entrenchment, executives will seek to prevent CEO Plurality and that firms with powerful executives (greater proportion of inside directors) should be able to do so. Finally, and related, I also argue that when an heir apparent has previously been designated, CEO Plurality will be less likely, as both the board and heir should oppose CEO Plurality so as to ensure that the CEO does not prevent the heir's promotion and instead remain entrenched. I find general support my hypotheses. Interestingly, results also reveal a tendency of CEO entrenchment among CEO-Presidents but not among CEO-Chairs.

As a whole, this study offers three contributions to extant literature. Firstly, it contributes to the CEO power literature by examining a common form of CEO power that has been thus far underexplored. While CEO-Duality has been argued to result in agency costs in the form of CEO entrenchment (Goyal & Park, 2002), this paper presents evidence that CEO Plurality also results in CEO entrenchment, and evidence that it can result in even stronger entrenchment than CEO-Duality. In addition, this paper shows that executives oppose CEO Plurality, offering further support for the postulation that there may be a power struggle at play amongst the top executives of a firm (Boeker, 1992; Cannella & Lubatkin, 1993; Cannella & Shen, 2001; Ocasio, 1994; Shen & Cannella, 2002a).

Secondly, by considering whether a CEO-Chair also holds the President title, this paper answers a recent call for more refined considerations of the CEO-Duality construct in order to resolve the conflicting findings regarding the pros and cons of CEO-Duality (Krause et al., 2014a). The results of this study suggest that distinguishing between CEO-Duality and CEO Plurality is an important consideration when determining the effects of CEO-Duality on CEO successions. This is highlighted by the finding that CEO Plurality is significantly more likely to lead to entrenchment than CEO Duality. Finally, this paper also suggests that examining the CEO-President combination is important. As the separation of the CEO and Chair roles becomes increasingly common (Krause et al., 2014a), CEOs may turn to other forms of power consolidation, such as holding the President title. Results here suggest that doing so can result in CEO entrenchment. As such, this paper offers an important warning that the combination of the CEO and President roles may also have serious agency costs and that further research on the combination of these two roles is needed.

## **THEORY AND HYPOTHESES**

### **The role of the president**

After the Chair and CEO titles, the likely next most powerful title in a firm available to an executive is President. Although it is a common position, the academic literature on the role of the President is quite sparse, with the exception of the literature on heirs apparent. The president is the second highest executive title within the firm and for that reason is often considered the heir apparent – the designated future successor of the CEO

(Cannella & Lubatkin, 1993; Cannella & Shen, 2001; Hambrick & Cannella, 2004; Mooney et al., 2017; Shen & Cannella, 2003; Vancil, 1987; Zhang & Rajagopalan, 2004). As heir, the President is groomed to succeed the CEO and is therefore given a considerable amount of power and responsibility to carry out the tasks that are the responsibility of the CEO so as to prepare him/her for the CEO role (Vancil, 1987). This literature also finds that the President generally functions as a COO. The President title is often combined with the COO position and can be considered interchangeable with it (Hambrick & Cannella, 2004).<sup>19</sup> When not held by the COO, the President title is often combined with the CEO position. As evident in Table 1, forty eight percent of all observations in this study's sample are of a CEO-President, and 64% of all observations include a CEO who also holds the President title.<sup>20</sup> In this case, the CEO holds the top two executive titles which gives the CEO a greater amount of executive power and also creates a greater differential between the CEO's structural power and that of the next most senior executive (Finkelstein, 1992).

-----Insert Table 1 here-----

### **CEO plurality**

CEO Plurality is achieved when the CEO also holds both the Chair and President titles. As such, CEO Plurality equips the CEO with the top governance position of the firm as well as the top two executive positions. This creates an even greater power differential for the CEO in comparison to any other director or executive and thus further consolidates

---

<sup>19</sup> The COO is the Chief Operations Officer and considered responsible for all firm operations.

<sup>20</sup> This is the combined number of CEO-Presidents and Plural CEOs.

power in the hands of the CEO (Finkelstein, 1992; Worrell et al., 1997). CEO Plurality is also a common phenomenon. In this study's sample, approximately sixteen percent of observations were of CEO Plurality with twenty three percent of firms having had a Plural CEO at one point between 2002 and 2013. These include well known firms such as Boeing, Chiquita Brands, Goodyear, IBM, and Johnson & Johnson, among others.

Table 1 presents some descriptives regarding CEO Plurality. As evident, sixty six percent of Plural CEOs achieved Plurality after having already been CEO for at least one year. Of those appointments, seventy five percent already held the President title and were awarded the extra title of Chairman to achieve Plurality. Fifteen percent of incumbent CEOs who achieved Plurality were awarded both the President and Chair titles simultaneously.

CEO Plurality has been a topic of debate among researchers as to what implications it has for a firm. Initially, researchers argued and found support that the negative investor reactions to CEO Plurality were owing to perceptions of increased agency costs at having so much consolidated power in the hands of the CEO (Worrell et al., 1997). However, other researchers argued that the negative investor reactions might instead be owing to perceptions of a lack of succession planning, as the addition of the President title to the CEO-Chair combination might signal that the CEO and/or board may not be preparing an heir apparent to eventually succeed the CEO (Harris & Helfat, 1998). This resulted in the original researchers running a second study to investigate this hypothesis and concluding from their results that the succession planning argument offers a superior explanation to the results; when an heir apparent was present, no significant

effect was found (Davidson III et al., 2001). While this resolved the debate for why investors may react negatively to CEO Plurality, it remains unclear whether CEO Plurality actually does result in increased agency costs in the form of CEO entrenchment, and how the power dynamics within the firm may affect the likelihood of CEO Plurality occurring. Moreover, scholars have since argued that powerful CEOs may attempt to prevent the execution of a succession plan and that this may also be a form of CEO entrenchment that has agency costs (Cannella & Shen, 2001; Shen & Cannella, 2003). In any case, the consensus among these studies is that Plurality provides the CEO with considerable power and that this can have negative outcomes.

### **CEO power and entrenchment**

A board holds the CEO accountable for firm outcomes and may decide to replace him/her when it feels that a change is needed (Berns & Klarner, 2017). This is part of the board's prerogative as the firm's management oversight mechanism. The most common reason for a board to replace a CEO is poor firm performance (Berns & Klarner, 2017). CEOs with sufficient power, however, may be able to insulate themselves and circumvent being held accountable for poor firm performance, thus remaining entrenched in the CEO position (Fredrickson, Hambrick, & Baumrin, 1988). For example, CEOs with greater power in relation to their boards are better able to influence subsequent board member selection choices toward their interests (Westphal & Zajac, 1995) which increases their subsequent power and thus their ability to further entrench themselves; in times of poor performance, CEOs during whose tenure a greater number of directors and executives

were appointed (board and executive loyalty) are better able to avoid being replaced (Boeker, 1992). Holding the Chair title also grants a CEO power that enables him/her to remain in the job longer, even when firm performance is poor (Goyal & Park, 2002; Ocasio, 1994). CEOs with sufficient power – measured as a composite of tenure, ownership, and duality – can withstand challenges from outside directors of the firm and remain entrenched (Cannella & Shen, 2001) and CEOs with longer tenure are less likely to be dismissed and replaced by an insider (Shen & Cannella, 2002a). A powerful CEO – measured as one with more loyal boards and greater ownership – can also scapegoat less powerful top executives for poor performance resulting in their dismissal and the CEO's entrenchment (Boeker, 1992).

It thus goes that if a CEO can increase his/her own power he/she should be able to remain entrenched in the position. One effective way to do this should be to hold as many of the top positions within the firm as possible. This is referred to by Finkelstein (1992) as structural power. Holding the Chair title allows the CEO to hold the top governance position within the firm, thus also ensuring that no other director holds the position. Adding the President title further consolidates the CEO's power; he/she now holds the top two executive titles, which also disables any other executive from holding the President title, thus limiting executive power. By holding all three titles, the CEO has now, as best that he/she is able, consolidated power and lowered the chances of successful contestations to his/her power from both the board and executives. This greater power should result in increased CEO entrenchment in general. In addition, this

greater power should be even more effective in preventing a CEO's departure when performance has worsened, which is when CEO departure is more likely to occur.

*Hypothesis 1: CEO Plurality will be negatively related to CEO departure*

*Hypothesis 2: As performance worsens, the negative relationship between CEO Plurality and CEO departure will increase*

### **Executive power and CEO plurality**

While a CEO may seek CEO Plurality as a way to consolidate power and entrench him/herself, other executives within the firm may oppose this as it may not be in their favour for the CEO to have so much power. Some executives may want to usurp the CEO's job and executives with sufficient power can indeed do so (Ocasio, 1994; Pfeffer, 1981; Pfeffer, 1992; Shen & Cannella, 2002a). However, CEOs with sufficient power can mitigate these challenges and remain entrenched (Cannella & Shen, 2001; Ocasio, 1994; Shen & Cannella, 2002a). Executives may also seek to protect themselves against a CEO becoming too powerful for fears that he/she might scapegoat them for poor performance, as powerful CEOs can do (Boeker, 1992). For these reasons, in order to prevent or cease the consolidation of power by the CEO, it is likely that executives will view it as in their best interests to prevent or cease CEO Plurality. Sitting on the board of directors provides executives with an important source of power to do this. A greater proportion of inside directors increases the likelihood of CEO dismissal followed by an inside succession (Shen & Cannella, 2002a), even when firm performance is poor (Boeker & Goodstein, 1993). It also provides executives with the power to prevent being scapegoated for poor

performance by the CEO (Boeker, 1992). In short, executives should be opposed to CEO Plurality, and the more of a presence on the board they have, the better they should be able to prevent or cease it.

*Hypothesis 3: The proportion of inside directors will be negatively related to CEO Plurality*

Firms in which an heir apparent has previously been designated should also be less likely to have a Plural CEO. Designating an heir apparent is a common form of succession planning in which an executive is selected and groomed to be the successor to the CEO (Cannella & Lubatkin, 1993; Cannella & Shen, 2001; Hambrick & Cannella, 2004; Mooney et al., 2017; Shen & Cannella, 2003; Vancil, 1987; Zhang & Rajagopalan, 2004). A firm planning a succession should see little reason to allow a CEO to hold so many titles and instead focus on grooming the heir. Given the expectation by the firm and the heir apparent that the heir will soon take over the CEO role, firms in which an heir apparent has been designated should also be less likely to support or perpetuate the consolidation of power by the CEO for fears that it could lead to entrenchment and because the focus has now shifted toward the heir's grooming and future promotion. From the firm's perspective, the designation of an heir apparent is the creation of a psychological contract between the firm and the heir, and not promoting the heir is a breach of that contract (Cannella & Lubatkin, 1993). Firms that promote their heir apparent to the CEO role enjoy positive operational and market performance (Shen & Cannella, 2003; Zhang & Rajagopalan, 2004). However, firms in which the heir is not

promoted and instead departs experience negative shareholder reactions (Shen & Cannella, 2003). As such and unsurprisingly, most heirs are ultimately appointed to the CEO position (Cannella & Shen, 2001). Boards may fear that a CEO with too much power may be able to prevent the promotion of the heir to the CEO position and suffer for it. Indeed, when an heir apparent has been designated, a powerful CEO is able to prevent the heir's promotion to the CEO position and even increase the likelihood of heir apparent exit (Cannella & Shen, 2001). At the same time, heirs apparent also hold power, which is evident in their ability to prevent an outside succession during times of poor firm performance (Cannella & Lubatkin, 1993). The heir may therefore also wield enough power to help prevent or cease CEO Plurality. Hence, when an heir apparent has been designated, both the board and the heir should be likely to oppose the consolidation of CEO power in order to ensure the ultimate promotion of the heir.

*Hypothesis 4: The presence of an heir apparent will be negatively related to CEO Plurality*

## **METHODS**

### **Sample**

In order to test my hypotheses, I drew an initial sample of firms from the 2010 list of the Fortune 1,000. This list consists of the 1,000 largest American firms by revenue and contains many of the largest and most well-known firms in the world. Using the Execucomp database, I then collected a list of all CEO appointments in these firms at any point between the years 2002 to 2013. CEOs' career history data were hand-collected

and coded from several sources including Biography in Context, corporate websites, press releases, firm proxy statements, and several online databases. I collected information about every job the CEO had prior to and after his/her appointment to the CEO position, including the name of the employer, industry, job title and function, and start and finish dates. Firm performance data and firm size were collected from Compustat while information regarding the executives' ownership was collected from Execucomp. Data regarding information about the boards of directors were collected from BoardEx. Interim-CEO successions were dropped because of their explicitly temporary nature (Ballinger & Marcel, 2010). After excluding cases with missing information, my final sample consisted of 433 CEOs in 274 firms, and a total of 1586 CEO-year observations.

### **Dependent variables**

***CEO Departure*** was measured as a binary variable taking the value of 1 if the CEO departed the firm in the focal year, and 0 otherwise.

***CEO Plurality*** was measured as a binary variable taking the value of 1 if the CEO also held the titles of Chair and President in the focal year, and 0 otherwise (Davidson III et al., 2001; Worrell et al., 1997).

### **Independent variables**

***Proportion of executive directors*** was calculated as the number of firm executives in the year prior to the focal year who sit on the board of directors divided by the total number

of directors in the same year. For obvious reasons, the CEO was excluded for this calculation.

***Change in performance*** was calculated using industry adjusted ROA (Cannella & Shen, 2001; Ocasio, 1994; Westphal & Zajac, 1995). Industry adjusted performance was calculated as the firm's ROA minus the median of the industry's ROA at the 4-digit SIC level. Specifically, change in performance was measured as the change in a firm's industry adjusted performance from t-2 to t-1.

***Presence of heir apparent*** was measured following prior literature. An heir apparent was considered as such if there was an executive within the firm who held the title of President and/or COO and was at least five years younger than the current CEO (Cannella & Shen, 2001; Hambrick & Cannella, 2004; Mooney et al., 2017; Shen & Cannella, 2003). This was a binary variable taking the value of 1 if the firm had an heir apparent designated in the year prior to the focal year, and 0 otherwise.<sup>21</sup>

## **Controls**

I employed a number of controls at both the individual and firm level. As the amount of equity owned by executives is one source of power that can influence succession decisions (Boeker & Goodstein, 1993; Cannella & Shen, 2001; Shen & Cannella, 2002b) I controlled for *executive ownership* as well as the *CEO's ownership* in the year prior to the focal year. I controlled for the current CEO's *age at appointment* and *CEO tenure*, as CEOs can grow obsolete in their roles over time (Ocasio, 1994; Ocasio & Kim, 1999) but

---

<sup>21</sup> 73% of heirs apparent were COOs but not presidents.

also be vulnerable to being removed in the early days of their tenure (Shen & Cannella, 2002a). I controlled for whether the CEO was an *inside CEO* as prior research has noted that inside CEOs may have stronger coalitions that allow them to last longer in the job (Ocasio, 1994; Shen & Cannella, 2002a). I also controlled for whether the firm was a *family firm*, as family firms tend to engage in CEO successions differently (Calabrò et al., 2018; Minichilli et al., 2014). I controlled for *firm age* in years and *firm size* as the log of a firm's assets. I included 2-digit *industry dummy* variables to control for any industry effects. Lastly, in subsequent analyses, I also included variables for whether the non-Plural CEOs were *CEO-Chairs* or *CEO-Presidents* in order to compare how CEO Plurality may be different to these other types.

## **Analysis**

I tested my hypotheses using discrete time event history analysis (Allison, 1984; Yamaguchi, 1991). This is a common form of analysis when examining CEO successions (Cannella & Shen, 2001; Chen et al., 2015; Jung, 2014; Ocasio, 1994; Zajac & Westphal, 1996; Zhang, 2008). This form of analysis estimates logit models of binary outcomes for pooled time series data where the same units are observed at multiple intervals. This enabled me to estimate the likelihood of the CEO departure or CEO Plurality occurring in any of the discrete time periods – in this case, a year. Doing this allowed me to take into account the effect of a CEO's tenure in the estimation and allow for right censoring, as some CEOs still held the position in the last year of sample (2013). Moreover, CEOs do not necessarily hold other titles such as Chair or President throughout all of their tenure.

As such, this analysis allowed me to account for whether a CEO held any other title in each year. This was crucial for testing my hypotheses. To account for the fact that a CEO appears in multiple intervals, I clustered the standard errors at the CEO level.

## RESULTS

Table 2 presents the correlation table and descriptive statistics. CEO departures made up 11 percent of the sample. 67 percent of the CEOs were inside CEOs and in 20 percent of cases, an heir apparent had been designated.

-----Insert Table 2 here-----

Table 3 presents the results of hypotheses 1 and 2, relating to the likelihood of CEO departure. In each model, the comparison group is all other types of CEOs. As evident in model 1, CEO Plurality is negatively related to CEO departure ( $\beta=-0.806$ ,  $p=0.003$ ), thus supporting hypothesis 1. Model 2 shows that the interaction between CEO Plurality and change in performance is positively related to CEO departure ( $\beta=2.866$ ,  $p=0.077$ ). Taken differently, this implies that as the change in performance worsens, CEO Plurality will be negatively related to CEO departure. Figure 1 illustrates the relationship more clearly. Although the p-value is below the traditional threshold of 0.05, it is clear from Figure 1 that CEO Plurality results in a lesser likelihood of CEO departure when there has been a negative change in performance, thus offering support to hypothesis 2.

-----Insert Table 3 & Figure 1 here-----

Table 4 presents results for hypotheses 3 and 4. As evident in Model 1, a greater proportion of executive directors is negatively related to CEO Plurality ( $\beta=-9.594$ ,

p=0.000) thus supporting hypothesis 3. In addition, the presence of an heir apparent is also negatively related to CEO Plurality ( $\beta=-0.644$ ,  $p=0.034$ ), thus supporting hypothesis 4.

-----Insert Table 4 here-----

### **Additional analyses and robustness checks**

To further examine the differences in effects of CEO Plurality in comparison to other types of CEOs, I ran further analyses including dummy variables for CEO-Chairs and CEO-Presidents as well, keeping CEOs with no other title as the base case. Table 5 presents the results. As evident in model 1, CEO Plurality is the strongest predictor of preventing a CEO departure. In addition, a test of coefficients reveals that the CEO Plurality's coefficient is significantly greater than that of the CEO-Chair's ( $p=0.01$ ). Similarly, Model 2 shows that, when interacted with change in performance, CEO Plurality is also the strongest predictor of preventing a CEO departure. A test of coefficients reveals no significant difference between CEO Plurality and the other types of CEOs.

-----Insert Table 5 here-----

While I do find an effect in the interaction between CEO Plurality and change in performance, this effect is significant mostly when the change in performance is negative. This follows my arguments, as well as those from previous literature, that suggest that it is in times of poor performance that CEO departures are more likely to occur, and when CEO power can enable a CEO to remain in the position. This is also when CEO entrenchment can become an agency cost. To investigate this effect further, I ran a

subsample analysis on firms that experienced a negative change in performance. Results are presented in Model 3 of Table 5. A test of coefficients reveals that, among only firms that experienced a negative change in performance, CEO Plurality is significantly less likely than CEO-Duality to result in CEO departure ( $p=0.016$ ). As a whole, these extra analyses offer some evidence that, when considering all types of CEOs, Plural CEOs are better able than CEO-Chairs to prevent their departures.

In addition to the main results, another interesting finding is the strong ability of CEO-Presidents to remain in the CEO job while CEO-Duality appears to make no difference. Indeed, the results in Model 1 of Table 5 suggest that CEO-Presidents can also remain entrenched in the CEO position. While the interaction of CEO-Presidents with a change in performance did not produce a significant effect, results from the subsample analysis in Model 3 of Table 5 reveal that, among firms that had a negative change in performance, CEO-Presidents were significantly less likely to depart the firm than CEOs with no additional title ( $p=0.021$ ). Taken as a whole, these results provide some evidence that holding the President role is an important way for CEOs to remain in the job for longer, even during times of poor performance.

Regarding the likelihood of CEO Plurality being achieved, the arguments presented in this paper suggest that a greater proportion of executives on the board, as well as the presence of an heir apparent, each lower the likelihood of CEO Plurality. It could be that a greater proportion of executives may also be related to the presence of an heir apparent. Executives should prefer that the firm has a succession plan that involves promoting an heir from within the firm as it should lead to less disruption and a

lower chance of executives being dismissed (Friedman & Saul, 1991; Kesner & Dalton, 1994). A greater proportion of executive directors combined with the presence of an heir apparent might therefore lead to a greater amount of power held by the top management team which might allow executives to prevent CEO Plurality to a greater extent. It could also be a sign that some firms aim to disperse power throughout the top management team (TMT) rather than consolidate it in the hands of the CEO. To investigate this, I ran an additional test interacting the proportion of executive directors with heir apparent presence. Results represented in Figure 2 show a significant effect: when no executives sit on the board and no heir apparent is present, the likelihood of CEO Plurality is over 20%. However, with a higher proportion of executives on the board and the presence of an heir apparent, the likelihood of CEO Plurality is less than 10%. This offers further support to my arguments that the dispersion of power amongst the TMT can prevent CEO Plurality.

-----Insert Figure 2 here-----

To test the robustness of the results, I re-ran the main analyses using a raw measure of performance change (change in ROA) while controlling for industry performance change. All results held with the exception of the interaction of CEO Plurality with change in ROA. For this test, the p-value dipped to 0.13. However, a plot of the interaction shows a highly similar effect to that of the main analysis using industry adjusted ROA, with the overlap of the confidence intervals ending slightly before change in performance turns negative and continuing as such throughout all values when change in performance is negative. As such, given that the arguments presented here center

around worsening performance, the findings appear to be consistent. This extra test, combined with the additional analyses mentioned above, demonstrate the robustness of the findings.

## **DISCUSSION**

This paper contributes to the CEO succession and CEO-Duality literatures. When a CEO has achieved Plurality, he/she has more consolidated power that can help him/her to remain entrenched. It also suggests that the firm's board and executives may be aware of this and seek to oppose CEO Plurality. This further elucidates some of the power battles that may occur within the top echelons of a firm.

This study presents arguments and findings that the President title is an important source of power for a CEO. The finding that CEO Plurality is significantly stronger than CEO-Duality in its relationship to CEO departure provides evidence of the importance that the President title plays. In addition to the effect that Plurality has on a CEO's ability to remain entrenched, the results also show that holding only the additional title of President is a predictor of CEO entrenchment while holding only the additional title of Chair seems not to be. This includes during times of poor firm performance. Hence, while studies examining CEO successions appear to ignore whether a CEO is also the President, this study presents findings that imply that accounting for the President title is important.

Relatedly, the findings here also emphasize the importance of distinguishing between CEO-Duality and CEO Plurality in future studies. In most previous work on CEO-Duality, studies include a dummy variable for whether a CEO also holds the Chair title.

However, not distinguishing CEO Plurality from CEO Duality may produce inaccurate results. To illustrate, additional analyses presented in Table 6 reveal stark differences when distinguishing or not between CEO-Duality and CEO Plurality. As evident in Model 1, an analysis on CEO departure including a variable that indicates whether a CEO also holds the Chair title in any form (i.e. CEO Plurality or CEO-Chair only) reveals a marginal negative relationship ( $\beta=-0.348$ ,  $p=0.089$ ). However, the analysis in Model 2, which includes one variable indicating CEO Plurality and another indicating CEO-Chair-only, reveals very different results. In this case, the coefficient for CEO-Chair-only becomes positive and largely insignificant ( $\beta=0.038$ ,  $p=0.879$ ) while the coefficient for CEO Plurality is negative and highly significant ( $\beta=-0.796$ ,  $p=0.005$ ). This demonstrates just how important it is to distinguish between CEO-Duality and CEO Plurality. As such, this paper's findings bolster support for Krause, et. al.'s (2014a) call for finer distinctions of CEO-Duality.

This paper also contributes to the initial debate on CEO Plurality (Davidson III et al., 2001; Harris & Helfat, 1998; Worrell et al., 1997). While the initial debate centered around whether investors perceive from CEO Plurality increased agency costs or lack of succession planning, I find that there do appear to be agency costs associated with CEO Plurality. As such, this paper contributes to the debate by offering findings past investor perceptions, demonstrating what CEO Plurality actually means for the firm. The implication of CEO Plurality appears to be significantly more power for the CEO to influence succession decisions toward his/her interests. In addition, it appears that executives may also realize this and seek to oppose CEO Plurality. These are compelling

findings, as it further elucidates the contest and distribution of power between CEOs, executives, and their boards, something scholars have noted to be of continued importance (Finkelstein, Hambrick, & Cannella, 2009).

### **Practical implications**

From a practical perspective, this paper suggests that boards should be aware of the dangers of allowing CEO Plurality to occur. It can lead to CEO entrenchment which can have costs for the firm. In addition, it also provides some support for the idea of having a non-CEO executive sit on the board of directors. While some boards may view executive directors as not being independent and thus being a lesser form of independent oversight of management, in this case, the executives' interests and the firms' interests should align; neither should want a case where a CEO becomes entrenched, especially when the firm is performing poorly. In addition, it also offers yet another example of the importance of succession planning in the form of designating an heir apparent. Doing so seems to provide another way to avoid the consolidation of power by the CEO that might result in entrenchment. Combined, the recommendation to firms might be to disperse executive power throughout the top management team rather than allow it to be consolidated in the hands of the CEO.

### **Limitations**

This study is not without limitations. For instance, it focuses on large, US public firms. As such it may not necessarily be generalizable to smaller, private firms. This study also

relies on archival data available at the year level. As such, any changes that occur within the same year were not captured. Acquiring data at a more fine-grained level may allow for a better understanding of the processes behind CEO departures. As Berns and Klarner (2017) suggest, process studies on CEO successions are a fruitful line of future research. Doing so when considering CEO Plurality might allow future researchers to achieve a better understanding of the process of CEO departures, something this study could not completely undertake owing to data limitations. Finally, this study did not have a large enough sample size to investigate the differences between preventing the achievement of CEO Plurality and ceasing CEO Plurality. Future research might investigate this further to better understand the effects of executive power on the prevention and cessation of CEO Plurality.

## **CONCLUSION**

This study finds that CEO Plurality is a form of power that can lead to CEO entrenchment. In addition, it finds that firms with powerful executives, as well as those that have designated an heir apparent, are negatively related to CEO Plurality, suggesting that executives may oppose CEO Plurality for fears that it leads to CEO entrenchment. It suggests that the title of President has important implications for CEOs and that firms should be aware of its role in the distribution of power among top executives.

## REFERENCES

- Allison, P. D. 1984. *Event history analysis: Regression for longitudinal event data*: Sage.
- Ballinger, G. A. & Marcel, J. J. 2010. The use of an interim CEO during succession episodes and firm performance. *Strategic Management Journal*, 31(3): 262-283.
- Berns, K. V. & Klarner, P. 2017. A review of the CEO succession literature and a future research program. *Academy of Management Perspectives*, 31(2): 83-108.
- Boeker, W. 1992. Power and managerial dismissal: Scapegoating at the top. *Administrative Science Quarterly*: 400-421.
- Boeker, W. & Goodstein, J. 1993. Performance and successor choice: The moderating effects of governance and ownership. *Academy of Management Journal*, 36(1): 172-186.
- Calabrò, A., Minichilli, A., Amore, M. D., & Brogi, M. 2018. The courage to choose! P rimogeniture and leadership succession in family firms. *Strategic Management Journal*.
- Cannella, A. A. & Lubatkin, M. 1993. Succession as a sociopolitical process: Internal impediments to outsider selection. *Academy of Management Journal*, 36(4): 763-793.
- Cannella, A. A. & Shen, W. 2001. So close and yet so far: Promotion versus exit for CEO heirs apparent. *Academy of Management journal*, 44(2): 252-270.
- Chen, G., Luo, S., Tang, Y., & Tong, J. Y. 2015. Passing probation: Earnings management by interim CEOs and its effect on their promotion prospects. *Academy of Management Journal*, 58(5): 1389-1418.
- Davidson III, W. N., Nemec, C., & Worrell, D. L. 2001. Succession planning vs. agency theory: A test of Harris and Helfat's interpretation of plurality announcement market returns. *Strategic Management Journal*, 22(2): 179-184.
- Donaldson, L. & Davis, J. H. 1991. Stewardship theory or agency theory: CEO governance and shareholder returns. *Australian Journal of management*, 16(1): 49-64.
- Finkelstein, S. 1992. Power in top management teams: Dimensions, measurement, and validation. *Academy of Management journal*, 35(3): 505-538.
- Finkelstein, S. & D'aveni, R. A. 1994. CEO duality as a double-edged sword: How boards of directors balance entrenchment avoidance and unity of command. *Academy of Management journal*, 37(5): 1079-1108.
- Finkelstein, S., Hambrick, D. C., & Cannella, A. A. 2009. *Strategic leadership: Theory and research on executives, top management teams, and boards*: Strategic Management (Oxford U).
- Fredrickson, J. W., Hambrick, D. C., & Baumrin, S. 1988. A model of CEO dismissal. *Academy of Management Review*, 13(2): 255-270.
- Friedman, S. D. & Saul, K. 1991. A leader's wake: Organization member reactions to CEO succession. *Journal of Management*, 17(3): 619-642.
- Goyal, V. K. & Park, C. W. 2002. Board leadership structure and CEO turnover. *Journal of Corporate Finance*, 8(1): 49-66.

- Hambrick, D. C. & Cannella, A. A. 2004. CEOs who have COOs: Contingency analysis of an unexplored structural form. *Strategic Management Journal*, 25(10): 959-979.
- Harris, D. & Helfat, C. E. 1998. CEO duality, succession, capabilities and agency theory: Commentary and research agenda. *Strategic Management Journal*, 19(9): 901-904.
- Jensen, M. C. & Meckling, W. H. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, 3(4): 305-360.
- Jung, J. 2014. Political contestation at the top: Politics of outsider succession at US corporations. *Organization Studies*, 35(5): 727-764.
- Kesner, I. F. & Dalton, D. R. 1994. Top management turnover and CEO succession: An investigation of the effects of turnover on performance. *Journal of Management Studies*, 31(5): 701-713.
- Krause, R., Semadeni, M., & Cannella, A. A. 2014. CEO duality: A review and research agenda. *Journal of Management*, 40(1): 256-286.
- Krause, R., Priem, R., & Love, L. 2015. Who's in charge here? Co-CEOs, power gaps, and firm performance. *Strategic Management Journal*, 36(13): 2099-2110.
- Krause, R., Filatotchev, I., & Bruton, G. D. 2016. When in Rome, look like Caesar? Investigating the link between demand-side cultural power distance and CEO power. *Academy of Management Journal*, 59(4): 1361-1384.
- Minichilli, A., Nordqvist, M., Corbetta, G., & Amore, M. D. 2014. CEO succession mechanisms, organizational context, and performance: A socio-emotional wealth perspective on family-controlled firms. *Journal of Management Studies*, 51(7): 1153-1179.
- Mooney, C. H., Semadeni, M., & Kesner, I. F. 2017. The selection of an interim CEO: boundary conditions and the pursuit of temporary leadership. *Journal of Management*, 43(2): 455-475.
- Ocasio, W. 1994. Political dynamics and the circulation of power: CEO succession in US industrial corporations, 1960-1990. *Administrative science quarterly*: 285-312.
- Ocasio, W. & Kim, H. 1999. The circulation of corporate control: Selection of functional backgrounds of new CEOs in large US manufacturing firms, 1981-1992. *Administrative science quarterly*, 44(3): 532-562.
- Pfeffer, J. 1981. 1981 Power in organizations. Marsh-field, MA: Pitman.
- Pfeffer, J. 1992. *Managing with power: Politics and influence in organizations*: Harvard Business Press.
- Shen, W. & Cannella, A. A. 2002. Power dynamics within top management and their impacts on CEO dismissal followed by inside succession. *Academy of Management Journal*, 45(6): 1195-1206.
- Shen, W. & Cannella, A. A. 2002a. Power dynamics within top management and their impacts on CEO dismissal followed by inside succession. *Academy of Management Journal*, 45(6): 1195-1206.
- Shen, W. & Cannella, A. A. 2003. Will succession planning increase shareholder wealth? Evidence from investor reactions to relay CEO successions. *Strategic Management Journal*, 24(2): 191-198.

- Vancil, R. F. 1987. *Passing the baton: Managing the process of CEO succession*: Harvard Business School Pr.
- Westphal, J. D. & Zajac, E. J. 1995. Who shall govern? CEO/board power, demographic similarity, and new director selection. *Administrative science quarterly*, 60-83.
- Worrell, D. L., Nemec, C., & Davidson III, W. N. 1997. One hat too many: Key executive plurality and shareholder wealth. *Strategic Management Journal*, 18(6): 499-507.
- Yamaguchi, K. 1991. *Event history analysis*: Sage.
- Zajac, E. J. & Westphal, J. D. 1996. Who shall succeed? How CEO/board preferences and power affect the choice of new CEOs. *Academy of Management Journal*, 39(1): 64-90.
- Zhang, Y. & Rajagopalan, N. 2004. When the known devil is better than an unknown god: An empirical study of the antecedents and consequences of relay CEO successions. *Academy of Management Journal*, 47(4): 483-500.
- Zhang, Y. 2008. Information asymmetry and the dismissal of newly appointed CEOs: An empirical investigation. *Strategic Management Journal*, 29(8): 859-872.

## TABLES AND FIGURES

Table 1. Frequencies of title combinations

Table 1. Frequencies of title combinations

<b>Titles</b>	<b>Frequency in total sample</b>	
CEO only		21%
CEO-President		48%
CEO-Chair		15%
CEO-Plurality		16%

<b>Held title prior to CEO appointment</b>	<b>Frequency within title</b>	<b>Frequency in total sample</b>
President only	46%	22%
Chair only	2%	1%
President & Chair	0%	0%

<b>Simultaneously appointed CEO and extra title</b>	<b>Frequency within title</b>	<b>Frequency in total sample</b>
CEO-President	53%	26%
CEO-Chair	68%	10%
CEO-Plurality	34%	6%

<b>Appointed extra title later</b>	<b>Frequency within title</b>	<b>Frequency in total sample</b>
President only	1%	0%
Chair only	30%	4%
Plurality	66%	10%

<b>Appointed Plural later</b>	<b>Frequency within later Plural appointments</b>
CEO-President appointed Plural	75%
CEO-Chair appointed Plural	10%
CEO only appointed Plural	15%

N=1586

Values are rounded

Table 2. Descriptive statistics and correlations

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13
1. CEO Departure	0.11	0.32	1												
2. CEO Plurality	0.16	0.37	-0.04	1											
3. Heir Apparent Designated	0.20	0.40	0.09	-0.09	1										
4. Inside CEO	0.67	0.47	-0.04	-0.08	0.11	1									
5. Firm Age	81.74	44.75	-0.03	0.00	-0.03	0.06	1								
6. Firm Size	8.97	1.34	-0.02	0.04	0.03	0.07	0.06	1							
7. Family Firm	0.14	0.34	0.03	-0.08	0.00	0.08	-0.14	-0.19	1						
8. CEO Tenure	3.02	2.77	0.28	0.08	-0.06	-0.02	0.11	0.11	-0.05	1					
9. Age at Appointment	53.20	5.16	0.08	0.01	0.01	0.02	0.05	0.12	-0.05	-0.10	1				
10. Change in Performance	0.00	0.10	0.01	0.01	0.01	-0.02	0.00	-0.01	0.03	-0.01	-0.01	1			
11. Executive Ownership (Excl CEO)	0.01	0.03	-0.01	-0.06	0.09	0.05	-0.09	-0.07	0.28	-0.02	0.00	-0.01	1		
12. CEO Ownership	0.01	0.03	-0.01	-0.04	0.12	0.05	-0.09	-0.13	0.22	-0.08	0.02	-0.01	0.02	1	
13. % of Executive Directors	0.04	0.07	-0.01	-0.15	0.15	0.10	-0.12	-0.16	0.28	-0.23	0.00	0.02	0.29	0.14	1

Values of 0.05 or higher have p-values of 0.05 or lower  
N=1586

Table 3. Discrete time event history analysis of CEO departure

	(1) CEO Departure	(2) CEO Departure
Change in Performance	0.174 (0.869)	-0.256 (0.809)
Heir Apparent Designated	0.816 (0.000)	0.826 (0.000)
Inside CEO	-0.249 (0.220)	-0.249 (0.219)
Firm Age	-0.005 (0.021)	-0.005 (0.020)
Firm Size	-0.078 (0.354)	-0.077 (0.359)
Family Firm	0.522 (0.128)	0.531 (0.124)
CEO Tenure	0.409 (0.000)	0.410 (0.000)
Age at Appointment	0.092 (0.000)	0.093 (0.000)
Executive Ownership (Excl CEO)	-2.756 (0.227)	-2.778 (0.223)
CEO Ownership	-9.144 (0.099)	-9.295 (0.096)
% of Executive Directors	1.070 (0.507)	1.090 (0.498)
CEO Plurality	-0.806 (0.003)	-0.826 (0.003)
<i>CEO Plurality x Change in Performance</i>		<i>2.866 (0.077)</i>
Constant	-7.266 (0.000)	-7.312 (0.000)
Industry Dummies	YES	YES
Observations	1,586	1,586
Pseudo R2	0.199	0.2

Robust p-values in parentheses

Table 4. Discrete time event history analysis of CEO Plurality

	(1) CEO Plurality
Inside CEO	-0.426 (0.263)
Firm Age	-0.002 (0.608)
Firm Size	0.067 (0.666)
Family Firm	-0.236 (0.751)
CEO Tenure	0.177 (0.001)
Age at Appointment	0.013 (0.693)
Change in Performance	0.215 (0.623)
Executive Ownership (Excl CEO)	-12.394 (0.364)
CEO Ownership	-23.783 (0.196)
% of Executive Directors	-9.594 (0.000)
Heir Apparent Designated	-0.644 (0.035)
Constant	-4.159 (0.108)
Industry Dummies	YES
Observations	1,586
Pseudo R2	0.168

Robust p-values in parentheses

Table 5. Discrete time event history analysis of CEO departure including other types of CEOs

	(1) CEO Departure	(2) CEO Departure	(3) CEO Departure: Subsample of firms with negative change in performance
Change in Performance	0.253 (0.812)	-1.814 (0.202)	-1.195 (0.415)
Heir Apparent Designated	0.765 (0.001)	0.793 (0.001)	0.846 (0.018)
Inside CEO	-0.245 (0.223)	-0.233 (0.246)	-0.080 (0.814)
Firm Age	-0.006 (0.006)	-0.006 (0.006)	-0.004 (0.347)
Firm Size	-0.109 (0.193)	-0.110 (0.188)	-0.051 (0.724)
Family Firm	0.514 (0.118)	0.538 (0.103)	0.875 (0.075)
CEO Tenure	0.405 (0.000)	0.407 (0.000)	0.485 (0.000)
Age at Appointment	0.086 (0.000)	0.086 (0.000)	0.101 (0.005)
Executive Ownership (Excl CEO)	-3.845 (0.154)	-3.911 (0.149)	-1.323 (0.743)
CEO Ownership	-10.445 (0.067)	-10.575 (0.065)	-14.108 (0.097)
% of Executive Directors	0.659 (0.685)	0.712 (0.662)	-4.513 (0.102)
CEO Plurality	-1.262 (0.000)	-1.263 (0.000)	-1.613 (0.001)
CEO-Chair only	-0.428 (0.110)	-0.421 (0.118)	-0.361 (0.410)
CEO-President only	-0.775 (0.001)	-0.761 (0.002)	-0.886 (0.021)
<i>CEO Plurality x Change in Performance</i>		4.316 (0.022)	
<i>CEO-Chair only x Change in Performance</i>		3.226 (0.235)	
<i>CEO-President only x Change in Performance</i>		2.374 (0.164)	
Constant	-5.876 (0.003)	-5.941 (0.002)	-7.120 (0.003)
Industry Dummies	YES	YES	YES
Observations	1,586	1,586	750
Pseudo R2	0.201	0.211	0.277

Robust p-values in parentheses

Table 6. Discrete time event history analysis of CEO departure including different types of Chairmen

	(1) CEO Departure	(2) CEO Departure
Heir Apparent Designated	0.853 (0.000)	0.817 (0.000)
Inside CEO	-0.230 (0.259)	-0.248 (0.226)
Firm Age	-0.005 (0.032)	-0.005 (0.020)
Firm Size	-0.091 (0.278)	-0.078 (0.354)
Family Firm	0.544 (0.106)	0.524 (0.126)
CEO Tenure	0.408 (0.000)	0.408 (0.000)
Age at Appointment	0.094 (0.000)	0.092 (0.000)
Change in Performance	0.171 (0.871)	0.174 (0.870)
Executive Ownership (Excl CEO)	-3.106 (0.181)	-2.738 (0.230)
CEO Ownership	-8.529 (0.116)	-9.218 (0.099)
% of Executive Directors	1.380 (0.393)	1.071 (0.506)
CEO-Chair any	-0.348 (0.089)	
CEO-Chair only		0.038 (0.879)
CEO Plurality		-0.796 (0.005)
Constant	-7.192 (0.001)	-7.264 (0.000)
Industry Dummies	YES	YES
Observations	1,586	1,586
Pseudo R2	0.194	0.199

Robust p-values in parentheses

Figure 1. Predictive margins of CEO departure

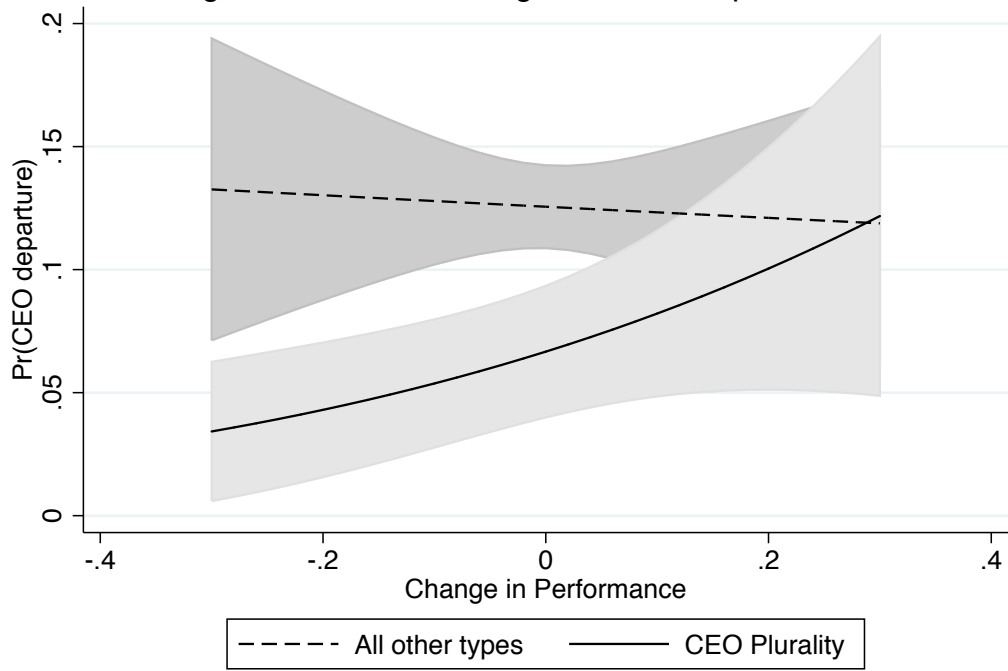
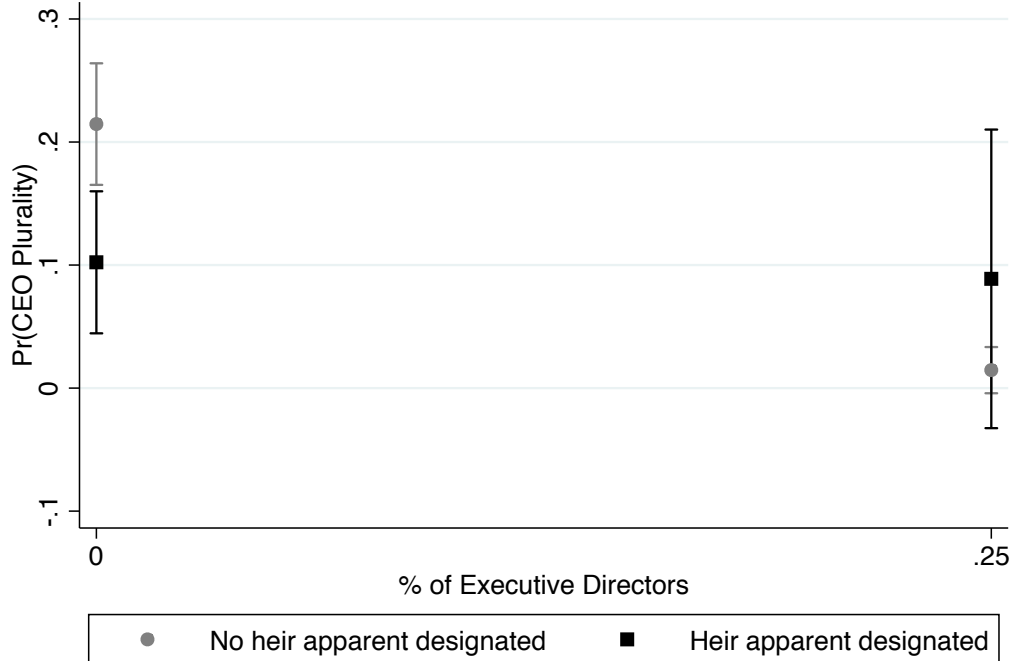


Figure 2. Predictive margins of CEO Plurality





## CONCLUSION

This dissertation offers new perspectives on CEO successions and some of the top positions within a firm. It aims to contribute to a better understanding about these positions. By examining the role of family ownership in CEO successions, the first chapter of this dissertation contributes to extant literature by demonstrating that family owners' SEW play a key role in succession decisions. These decisions include whom to appoint to the CEO position. Interestingly, as performance worsens, family firms prefer to appoint insiders to the CEO position. This finding is in contrast to some extant research that finds that when performance worsens, family firms act more like their non-family counterparts in decision making (Chrisman & Patel, 2012; Gomez-Mejia et al., 2010) and suggests the special importance that firm leadership has for family owners. In addition, this chapter also provides insights about succession planning in the form of designating an heir apparent. The decision to promote an heir apparent has been examined (Cannella & Shen, 2001; Zhang & Rajagopalan, 2004), but the decision to designate an heir has been largely overlooked by extant literature. This chapter does both, finding that family firms are less likely to designate an heir but more likely to promote the heir if they have one. This offers further insights to the succession planning literature as well as family succession planning context and suggests more investigation is needed.

The second chapter contributes to understanding the internal consequences of an interim-CEO succession. By demonstrating that TMT turnover will increase following an interim-succession, this chapter answers the question of whether executives will stay or go when faced with a disruptive, uncertain succession event. This offers a clearer picture

of how interim-successions may affect top employees within the firm. In addition, it finds that the Chairman plays a key role in mitigating this disruption. While prior research notes conflicting findings of whether combining the CEO and Chairman role is beneficial for firms (Krause et al., 2014a), it appears in the case of an interim-CEOs that it results in lower TMT turnover, which may be desirable in many cases.

The third chapter of this dissertation contributes to understanding how allowing the CEO to hold additional titles may have effects on the firm. By focusing on CEO Plurality, this chapter goes past the CEO-Duality construct and considers the role of the President and what holding this title means in relation to CEO departure. By finding that CEO Plurality can result in CEO entrenchment, and that powerful executives appear to oppose CEO Plurality, this paper supports the notion that power contests do ensue at the top of the firm, and that they can result in agency costs to firms. Moreover, it emphasizes the importance of examining the role that the President title plays and opens new avenues for future research considering the role and its effects on firm outcomes.

As a whole, this dissertation offers new opportunities for future research and acts as a stepping stone for future scholarly studies, thus contributing to management research.

## CONCLUSIÓN

Esta disertación ofrece nuevas perspectivas sobre las sucesiones de DEs y algunos de los puestos más importantes dentro de una empresa. Su objetivo es contribuir a una mejor comprensión de estas posiciones. Al examinar la influencia de la propiedad familiar en la sucesión de los DEs, el primer capítulo de esta disertación contribuye a la literatura existente al demostrar que el RSF de los propietarios familiares desempeña una influencia clave en las decisiones de sucesión. Estas decisiones incluyen a quién nombrar para el cargo de DE. Curiosamente, a medida que empeora el rendimiento, las empresas familiares prefieren nombrar a personas de dentro de la empresa para ocupar el puesto de DE. Este resultado contrasta con algunas investigaciones existentes que encuentran que cuando el rendimiento empeora, las empresas familiares se comportan de manera más parecida a sus contrapartes no familiares en la toma de decisiones (Chrisman & Patel, 2012; Gómez-Mejía et al., 2010) y sugiere la importancia especial que el liderazgo de la empresa tiene para los propietarios de familias. Además, este capítulo también ofrece información sobre la planificación de la sucesión en forma de designación de un heredero aparente. La decisión de promover un heredero aparente ha sido examinada (Cannella & Shen, 2001; Zhang & Rajagopalan, 2004), pero la decisión de designar un heredero ha sido ignorada en gran medida por la literatura existente. Este capítulo hace las dos cosas, considera que es menos probable que las empresas familiares designen a un heredero, pero más probable que lo promuevan si lo tienen. Esto ofrece más información sobre la literatura

de planificación de la sucesión, así como sobre el contexto de la planificación de la sucesión familiar, y sugiere que se necesita más investigación.

El segundo capítulo contribuye a comprender las consecuencias internas de una sucesión interina de DEs. Al demostrar que la rotación de EDS aumentará tras una sucesión interina, este capítulo responde a la pregunta de si los ejecutivos se quedarán o se irán cuando se enfrenten a un evento de sucesión incierto y perturbador. Esto ofrece un panorama más claro de cómo las sucesiones interinas pueden afectar a los empleados superiores dentro de la empresa. Además, considera que el PJ desempeña un función clave en la mitigación de esta perturbación. Si bien en investigaciones anteriores se observan conclusiones contradictorias sobre si la combinación de las funciones de DEi y PJ es beneficiosa para las empresas (Krause et al., 2014), en el caso de un DE interino parece que da por resultado un menor volumen de negocios de EDS, lo cual puede ser deseable en muchos casos.

El tercer capítulo de esta disertación contribuye a comprender cómo el hecho de permitir que el DE tenga títulos adicionales puede tener efectos en la empresa. Al centrarse en la Pluralidad del DE, este capítulo va más allá de la construcción de la dualidad de DE y considera el función del Presidente y lo que significa tener este título en relación con la partida del DE. Al encontrar que la pluralidad de DEs puede resultar en el atrincheramiento de los DEs, y que los ejecutivos poderosos parecen oponerse a la pluralidad de los DEs, este artículo apoya la noción de que las competencias de poder se producen en la cima de la empresa, y que pueden resultar en costos de agencia para las empresas. Además, hace énfasis en la importancia de examinar la

influencia del título del Presidente y abre nuevas vías para la investigación futura, teniendo en cuenta el impacto de la función y sus efectos en los resultados de las empresas.

En su conjunto, esta tesis ofrece nuevas oportunidades para la investigación futura y sirve de trampolín para futuros estudios académicos, contribuyendo así a la investigación en gestión.