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REVISITING THE PERFORMANCE CONSEQUENCES OF CEO SUCCESSION: THE IMPACTS OF SUCCESSOR TYPE, POSTSUCCESSION SENIOR EXECUTIVE TURNOVER, AND DEPARTING CEO TENURE

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Highlighting the importance of succession context, this study examines the performance impacts of successor type, postsuccession senior executive turnover, and departing CEO tenure. Following a power circulation theory of control, we distinguished three types of CEO successors: followers, contenders, and outsiders. Our theory and evidence from a sample of 228 CEO successions suggest that successor type interacts with postsuccession senior executive turnover to influence firm return on assets (ROA) and that there is an inverted U-shaped relationship between departing CEO tenure and postsuccession firm ROA.

In the past several decades, research on the performance consequences of CEO succession has been extensive but characterized by inconsistent findings and debates about causes and effects (e.g., Brown, 1982; Carroll, 1984; Friedman & Singh, 1989; Gamson & Scotch, 1964; Grusky, 1963; Have-man, 1993; Lubatkin, Chung, Rogers, & Owers, 1989; Wiersema, 1995; Zajac, 1990). The general observation has been made that it is not the event of CEO succession per se, but the succession context, that affects postsuccession firm performance (Finkelstein & Hambrick, 1996: 193-201). Successor origin, a key successor characteristic that refers to whether a new CEO comes from inside or outside the firm whose chief executive he or she becomes, has been proposed as important. Successor origin both reflects succession context and has significant implications for subsequent firm performance (Brady & Helmich, 1984). However, empirical studies also report inconsistent evidence regarding the performance impacts of insider and outsider succession, even when the influence of presuccession firm performance has been controlled (for a review, see Kesner and Seborá [1994]).

In this study, we strove to capture succession context more completely than previous research has and to enhance understanding of the performance consequences of CEO succession by simul-

taneously examining three important components of succession contexts. First, we focused on key characteristics of CEO successors, but we diverged from previous research in that we did not dichotomize CEO successors into insiders and outsiders. Adopting a power circulation theory of control, which takes intrafirm contention into account (Ocasio, 1994; Ocasio & Kim, 1999), we propose herein that there are two distinct types of insider successors: those appointed following their predecessors' dismissals and those appointed following their predecessors' ordinary retirements. We labeled these two types of inside successors *contenders* and *followers*, respectively. Thus, including outsiders, we examined three types of CEO successors. These three types of successors—contenders, followers, and outsiders—differ importantly with respect their ability to manage change, their firm-specific knowledge, and the risk of adverse selection (selection of an unsuitable successor) they pose. We expected them to have different impacts on firm performance.

Second, we focused on postsuccession executive turnover at the top management team level. According to upper echelons theory, it is not a firm's CEO alone, but its entire management team, that shapes strategic decisions (Dooley & Fryxell, 1999; Hambrick, Cho, & Chen, 1996; Hambrick & Mason, 1984). Senior executive turnover influences top management team composition (Wagner, Pfeffer, & O'Reilly, 1984) and may have a significant impact on strategic decision making and firm performance (Virany, Tushman, & Romanelli, 1992). However,

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its performance impact has not received much investigation in previous research. We propose that senior executive turnover following CEO succession reflects top management team dynamics and that its impact on firm performance will be moderated by successor type.

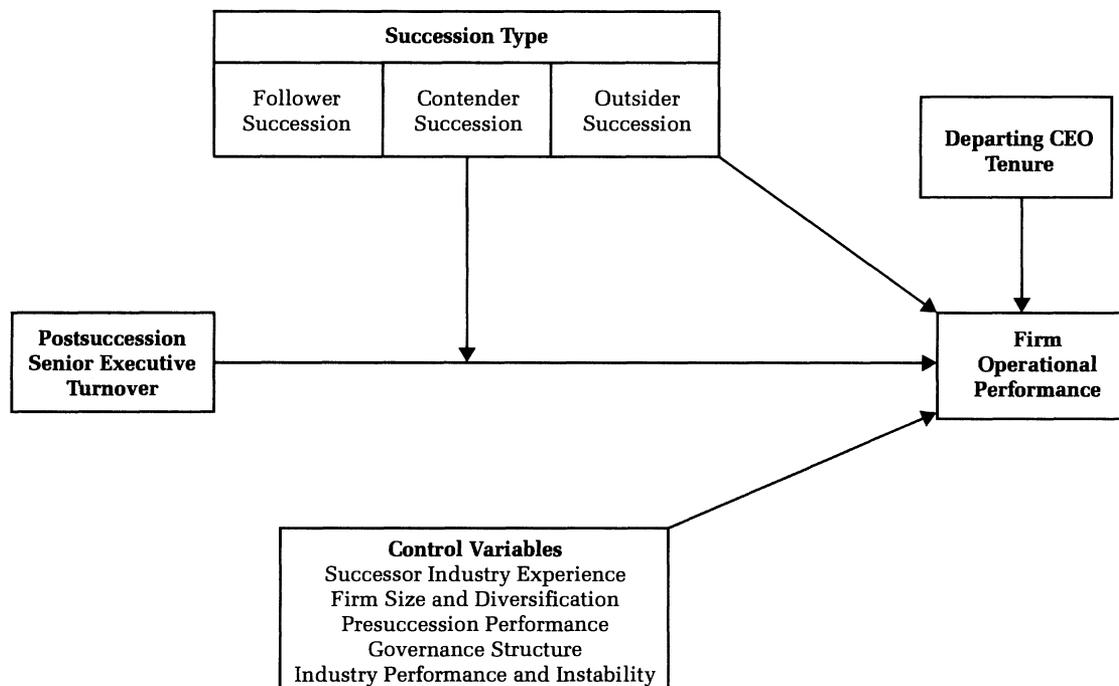
Lastly, we focused on CEO succession frequency at the organizational level by examining the influence of a departing CEO's tenure. Frequent CEO successions may disrupt organizational continuity and hurt firm performance (Grusky, 1963; Kesner & Sebora, 1994). At the same time, long CEO tenure has been found to be directly linked to top management's commitment to the status quo (Hambrick, Geletkanycz, & Fredrickson, 1993) and decreases in the fit between firm strategy, structure, and environmental demands (Miller, 1991). Drawing on the organizational change literature, we propose that departing CEO tenure importantly affects subsequent firm performance through its impact on organizational inertia and the disruption surrounding a succession event.

Previous research has suggested that many factors influence firm performance. The impact of some factors, such as firm size, governance structure, and industry environment, may be particularly significant in the CEO succession context owing to their potential influence over managerial discretion (Finkelstein & Hambrick, 1996). To re-

duce the influence of confounding factors, we included several control variables in our analysis: successor industry experience; firm size, diversification, presuccession performance, and governance structure; and industry performance and instability. Figure 1 illustrates our proposed model of the performance consequences of CEO succession.

Firm performance is a multidimensional phenomenon that has been measured with both accounting- and market-based indicators in previous research (e.g., Daily, Certo, & Dalton, 2000; Finkelstein & Hambrick, 1990; Ocasio, 1994; Zajac, 1990). Accounting measures reflect the current operational performance of a firm, while market measures indicate investors' perceptions of the firm's future performance potential (Daily et al., 2000). Our study focused on firms' operational performance rather than market valuation for the following reasons: First, market valuation is often subject to forces beyond management control; in contrast, operational performance is more under management control (Grossman & Hoskisson, 1998; Hambrick & Finkelstein, 1995). Second, boards of directors often find that accounting measures provide convenient targets for management to reach (Joskow, Rose, & Shepard, 1993) and are more likely to link them (rather than market valuation) to CEO compensation (Hambrick & Finkelstein, 1995; Jensen & Murphy, 1990). Thus, management has

FIGURE 1
A Model of the Performance Consequences of CEO Succession



incentives to focus on operational performance. Finally, in the succession literature, financial event studies have generally used market indicators to examine immediate investor reactions to succession announcements rather than the actual cash flows generated by the firms over the first two or three years of new CEOs' tenures (Finkelstein & Hambrick, 1996: 201). Our study is an attempt to understand the impact of CEO succession on a firm's actual operational performance, not investor reactions or market valuation.

THEORY AND HYPOTHESES

Three Types of CEO Successors

Organization and strategy scholars studying CEO succession often dichotomize CEO successors into insiders and outsiders: insiders are executives promoted from within the firm, and outsiders come to new CEO positions from other organizations (Allen, Panian, & Lotz, 1979; Dalton & Kesner, 1985; Helmich & Brown, 1972; Kesner & Dalton, 1994; Wiersema, 1995; Zajac, 1990). The assumption in most research is that inside successors are appointed under conditions of good company performance and reflect intent to maintain strategic continuity, and outside successors are appointed under conditions of poor company performance and reflect intent to initiate strategic change (Brady & Helmich, 1984). We agree that firms do not typically appoint outside successors unless they face the pressure of initiating strategic change, coupled with an unavailability of competent inside successor candidates (Cannella & Lubatkin, 1993; Fredrickson, Hambrick, & Baumrin, 1988; Ocasio, 1999). However, we propose that the appointment of an inside successor does not necessarily reflect intent to maintain strategic continuity. This proposition is grounded in a power circulation theory of control, and it separates our study from mainstream succession research.

The power circulation theory of control (Jackall, 1988; Ocasio, 1994; Ocasio & Kim, 1999) suggests that incumbent CEOs face a risk of power contests initiated by other senior executives as well as by outsider directors. CEOs are surrounded by senior executives who are typically ambitious individuals with strong needs for power and control. The power of a CEO is thus, from time to time, subject to challenge and contestation from these senior executives (Pfeffer, 1981, 1992). The likelihood of CEO turnover is significantly increased when questions arise about an incumbent's capabilities and viable inside candidates exist (Ocasio, 1994). Research on successor selection has also shown that inside suc-

cessors are often appointed in periods of poor firm performance (Dalton & Kesner, 1985; Friedman & Singh, 1989), even in situations of forced CEO departure (Parrino, 1997). Although this phenomenon has been proposed to reflect managerial entrenchment (Boeker & Goodstein, 1993), we believe that it more likely reflects the outcome of power struggles within top management. According to power circulation theory (Ocasio, 1994; Ocasio & Kim, 1999); an inside succession following a CEO's dismissal reflects a successful internal power contest against the CEO, and the successor is a contending executive who has won the support and approval of the board of directors. In this situation, the inside successor, whom we refer to as a *contender*, is more likely to be charged with a mandate to initiate strategic change, as is the case in an outside succession, rather than a mandate to maintain strategic continuity.

In contrast, if an inside successor is appointed following the predecessor's ordinary retirement rather than dismissal, the successor's mandate is more likely to be to maintain strategic continuity, as proposed in previous research (Brady & Helmich, 1984; Datta & Rajagopalan, 1998; Friedman & Singh, 1989). Because successors who follow a CEO's ordinary retirement are often expected to continue and follow their predecessors' strategies (Hambrick et al., 1993), we refer them as *followers*.

Thus, as noted above, including outsider successors, there are three types of CEO successors: followers, contenders, and outsiders. These three types of CEO successors will have different impacts on postsuccession firm operational performance. We view three sets of factors as the source of performance effects: firm-specific knowledge, change initiatives, and the risk of adverse selection. In our conceptualization, change initiatives have two parts—a board mandate for alterations of firm's strategic profile, and the new leader's propensity for and ability to make such alterations. The risk of adverse selection arises because information asymmetry between the board and successor candidates makes it difficult for the board to accurately assess if the abilities of a potential successor match the needs of the firm. The board may select someone who is poorly suited to the job (Zajac, 1990).

Follower successors. Follower successors are inside executives who are promoted to CEO positions following the ordinary retirements of their predecessors. As insiders, they possess firm-specific knowledge (Brady & Helmich, 1984). Further, because of their frequent exposure to their firms' boards of directors and other senior executives, coupled with their history of performance inside the firms, the risk of adverse selection is relatively

low (Zajac, 1990). However, follower successors have significant limitations in their ability to initiate strategic change because they are often selected and groomed by the outgoing CEOs (Cannella & Shen, 2001). Incumbent CEOs often believe that their successors should be similar to them (Hambrick et al., 1993), and many incumbents do select such successors when they retire (Levinson, 1974; Zajac & Westphal, 1996). Because of their close connections and similarities to their predecessors, follower successors are heavily influenced and socialized by their outgoing CEOs and may share with them the same or similar strategic perspectives (Fondas & Wiersema, 1997). They are also significantly constrained by their within-firm social networks (Shleifer & Summers, 1988). Further, CEO successors promoted after their predecessors' retirements typically have mandates to maintain strategic continuity rather than to initiate change (Friedman & Olk, 1995).

Therefore, although follower successors' firm-specific knowledge and the relatively low risk of adverse selection they pose can help reduce the disruption of CEO succession, their close connection to their predecessors and social networks within the firm, coupled with a likely mandate for continuity rather than change, will impede their initiating significant strategic change and make it difficult for them to significantly influence firm operational performance. Given this, no hypothesis is proposed regarding the performance impact of follower successors.

Contender successors. Contender successors are inside executives who are promoted to CEO positions after the dismissals of their predecessors. Like follower successors, contender successors' work experiences give them firm-specific knowledge (Brady & Helmich, 1984) and their exposure to directors and other senior executives reduces the risk of adverse selection (Zajac, 1990). What distinguishes contender successors from follower successors is their having mandates for change from their boards of directors and the high likelihood that they will be able to initiate and implement important changes.

Unlike follower successors, who are usually selected and groomed by the outgoing CEOs, contender successors are promoted after successfully challenging their predecessors. Because power contestation and CEO dismissal often occur in periods of poor firm performance (Ocasio, 1994; Puffer & Weintrop, 1991), contender successors will be charged to initiate strategic change and improve firm performance. CEO dismissal is a very disruptive event, and boards of directors are very cautious in making dismissal decisions (Alderfer, 1986;

Lorsch & MacIver, 1989). In order to gain support from directors, contenders for succession must convince them that the incumbent CEOs' competencies are not up to the demands of the job and that they (the contenders) have different strategic perspectives and can perform better (Ocasio, 1994). Further, contenders may not only have board support, but also support among senior executives for their power contests against the incumbent CEOs (Vancil, 1987). An established power base and support within top management will greatly facilitate the process of taking charge (Gabarro, 1987). Lastly, contender successors do not have to be concerned about offending their predecessors in initiating changes because their predecessors have been dismissed and have terminated all association with the firms (Vancil, 1987). Contender successors may also be constrained to a certain degree by their within-firm social networks, but demands from the boards for change initiatives will push contenders to overcome such constraints in their actions. The firm-specific knowledge, different strategic perspectives, and supportive directors and executives possessed by contender successors can not only help them reduce harmful disruption associated with CEO dismissal, but also enable them to formulate and implement appropriate strategic changes in a timely manner. Thus, we expected contender successors to have a positive impact on subsequent operational performance.

Hypothesis 1. Contender successors will be positively associated with postsuccession operational performance.

Outsider successors. Outsider successors are most often selected in periods of poor firm performance and when directors cannot locate a competent successor within their firms (Finkelstein & Hambrick, 1996: 182–183). Outsider successors are prized for their fresh perspectives and their ability to initiate strategic change (Helmich & Brown, 1972; Kesner & Dalton, 1994; Wiersema, 1995). Also, the popular business press has advocated outsider succession when corporate transformation is required (e.g., *BusinessWeek*, 1997). However, past research has reported mixed investor reactions to outsider succession, and little is known about its long-term implications (Kesner & Sebor, 1994: 355). Although the objective of outsider succession is improved firm performance, three factors work against this outcome. First, outsider successors lack firm-specific knowledge. Facing mandates to turn performance around, outsider successors are often pressured to take quick action (Friedman & Saul, 1991). However, without a deep understanding of their new firms' internal operations and external

environments, it is difficult for outsider successors to quickly formulate and implement appropriate strategic changes (Gabarro, 1987; Kotter, 1982).

Second, it is more difficult for directors to fully and accurately evaluate the capabilities of outside candidates (compared with inside candidates) because directors usually do not have a deep familiarity with them. This evaluation difficulty leads to a higher risk of adverse selection in that a newly appointed outsider successor may not fit a firm's strategic demands (Zajac, 1990). Finally, outsider successors often face the challenge of finding competent and supportive senior executives within their new firms (Friedman & Saul, 1991). Senior executives have often been selected by outsiders' predecessors and have close connections with them. These executives are often hostile toward outside successors (Boeker & Goodstein, 1993; Gouldner, 1954). Constrained by their experiences and by hostility, these executives may have strong commitments to their firms' past strategies and will resist any significant changes initiated by the outsider successors (Helmich & Brown, 1972; Wiersema, 1995). Although the outsider successors have the support of their boards, the lack of competent and supportive executive teams when they take office puts them at a significant disadvantage. Thus, despite their being appointed to turn around performance, we expected outsider successors to often have negative impacts on operational performance.

Hypothesis 2. Outsider successors will be negatively associated with postsuccession operational performance.

Postsuccession Senior Executive Turnover

According to upper echelons theory, a firm's strategies and performance are shaped by its entire top management team rather than by the CEO alone (Hambrick & Mason, 1984). We expected that personnel changes in a top management team following CEO succession would have a significant impact on firm operational performance. Postsuccession senior executive turnover has been studied primarily as a consequence of CEO succession. Following a "strategic replacement" argument (Gouldner, 1954), most previous studies state that postsuccession senior executive turnover reflects a new CEO's efforts to clear executive deadwood and to facilitate strategic reorientation (Friedman & Saul, 1991; Helmich & Brown, 1972; Kesner & Dalton, 1994; Wiersema, 1995). The underlying logic is that because executives are constrained by their experiences (Hambrick & Mason, 1984), it is neces-

sary for new CEOs to replace executives whose knowledge and skills have become obsolete in order to facilitate desired strategic changes (Keck & Tushman, 1993; Wiersema & Bantel, 1993). According to this strategic replacement argument, postsuccession senior executive turnover will positively contribute to firm performance. However, there is evidence that executive turnover following CEO succession, considered in isolation, has no direct impact on postsuccession operational performance (Virany et al., 1992).

Like successor selection, senior executive turnover in different succession contexts likely has different causes, and thus different impacts on firm operational performance. For example, much of the senior executive turnover after a follower succession may simply consist of ordinary retirements rather than dismissals initiated by the new CEO. In other situations, some executives may leave because of their dissatisfaction with their firms' succession decisions or their desire to pursue better career opportunities. Further, the succession context may even significantly moderate the impact of senior executive turnover attributable to dismissal on firm operational performance. Because successor type reflects important characteristics of the succession context, as pointed out earlier, we discuss below how successor type may influence the nature of executive turnover and moderate the association between postsuccession senior executive turnover and firm operational performance.

Senior executive turnover after a follower succession. In a follower succession, the retired CEO exercises a strong influence over the succession process (Lorsch & MacIver, 1989). As discussed earlier, follower successors are usually committed to the retired CEOs' strategies and are unlikely to initiate significant organizational changes. In this context, most senior executive departures are likely to be ordinary retirements among top management team members and to reflect a well-planned succession process in which a new top management team smoothly succeeds the old one (Vancil, 1987). This kind of senior executive turnover emphasizes continuity of leadership and strategies, and it generally will not have a significant impact on firm performance (Friedman & Singh, 1989). Even if there are cases in which senior executives depart for reasons other than ordinary retirement, the departures are unlikely to affect firm performance. For example, when these executives quit because they are passed over in the CEO succession tournament, their departures are probably expected and prepared for (Vancil, 1987). Further, dismissals of executives by follower successors often reflect the successors' efforts to consolidate their leadership

rather than efforts to initiate strategic change (Friedman & Saul, 1991). No matter which scenario unfolds, senior executive turnover in a follower succession context is unlikely to significantly influence firm operational performance.

Senior executive turnover following a contender succession. In a contender succession, senior executive turnover is likely to be greatly influenced by the new CEO's effort to initiate strategic change. As pointed out earlier, contender successors have garnered support from directors in their power contests with their predecessors, and they are expected to perform better than their dismissed predecessors. Under the pressure of improving firm performance, contender successors will be very prudent in assessing the capabilities of their senior executive teams and restructuring them to suit their new strategies. Those executives whose capabilities and loyalties are suited to the predecessors' strategies will be removed in favor of those more suited to the new leaders' strategies. As insiders, contender successors are familiar with both the existing cadre of senior executives and the firms' competitive environments (Brady & Helmich, 1984). Their valuable firm-specific knowledge can help them reduce the risk of making poor replacement decisions and help them identify and promote executives who are competent to assist them to accomplish the needed strategic change. Thus, senior executive turnover following a contender succession will have a positive impact on operational performance.

Hypothesis 3. Senior executive turnover following a contender succession will be positively associated with postsuccession operational performance.

Senior executive turnover following an outsider succession. Like contenders, outsider successors are also expected to initiate strategic change and turn around firm performance. However, the organizational context of an outsider succession is significantly different from that of a contender succession. An important reason for outsider succession is the judgment by directors that no competent successor candidate is available within their firm (Finkelstein & Hambrick, 1996). Indeed, an outsider succession often signals a loss of control for a firm's entire top management team, rather than for the CEO alone (Boeker & Goodstein, 1993). In this situation, tension within the top management team is likely to be high, because senior executives from the previous regime may feel inferior, fearful, or even hostile toward the outsider successor, who may in turn question the competencies of these senior executives (Gouldner, 1954). Senior execu-

tive turnover following an outsider succession, therefore, is likely to be initiated either by the successor, to restructure the top management team (Helmich & Brown, 1972; Wiersema, 1995), or by the senior executives themselves, out of disappointment with the succession decision and/or the fear of dismissal by the new leader (Friedman & Saul, 1991). In addition, because the context involves poor firm performance and tension with the outsider successor, some executives who are well suited to helping the outsider successor initiate change may elect to jump ship for better career opportunities elsewhere (Cannella, Fraser, & Lee, 1995).

Unlike in a contender succession, in an outsider succession senior executive turnover will be detrimental to firm performance for two reasons. First, it further increases the disruption of the outsider succession. Although disruption in an outsider succession is inevitable and necessary to eliminate the influence of past strategies, a certain degree of stability in executive leadership is beneficial to firm operations because outsider successors need time to accumulate firm-specific knowledge (Gabarro, 1987; Kotter, 1982; Virany et al., 1992). A high rate of senior executive turnover after an outsider succession, especially turnover owing to the executives seeking better career opportunities, will deprive the outsider successor of some managerial talent and a much-needed transition period. Second, unlike contender successors, outsider successors are not familiar with their new firms' internal and external environments, nor do they know their senior executives well. In this situation, executive replacement decisions they make very early in their tenures may not always meet the demands of their competitive environments, and some valuable executive talent may be lost (Gabarro, 1987). Indeed, such personnel changes may arise more from pressure to initiate change and power consolidation than from a careful assessment of strategic contingencies and executive competencies (Gouldner, 1954). Such motivation further undermines the quality of the outsider successor's executive replacement decisions. Given these reasons, senior executive turnover following an outsider succession is expected to have a negative impact on firm operational performance.

Hypothesis 4. Senior executive turnover following an outsider succession will be negatively associated with postsuccession operational performance.

Departing CEO Tenure

The length of a departing CEO's tenure is another important component of the succession context and reflects the frequency of CEO succession at a firm. Departing CEO tenure influences postsuccession operational performance through organizational inertia and the disruption surrounding CEO succession. Hambrick and Fukutomi (1991) proposed that CEOs increase commitment to their strategic paradigms over their tenure in office. There is empirical evidence that top executive tenure is directly linked to top management commitment to the status quo (Hambrick et al., 1993) and strategic persistence (Finkelstein & Hambrick, 1990; Grimm & Smith, 1991). Because strategies determine the direction of capital investment, the means of resource allocation within a firm, and its exchange relations with other firms (Porter, 1980), strategic persistence implies a strong continuity in the patterns of these activities, all of which are sources of organizational inertia (Hannan & Freeman, 1984). Strong inertia arising from a long-tenured CEO can create serious problems for the successor because the strategies and structures developed during the departing CEO's tenure are probably no longer appropriate. For example, Miller (1991) reported a decreased fit between firm strategies, structures, and environmental demands among firms with long-tenured CEOs. For successors who adhere to their predecessors' strategies, negative consequences of the decreased fit are likely to arise. For successors who want to initiate strategic changes, the strong organizational inertia developed during their predecessors' time in office will increase the difficulty of, or may even prevent, accomplishing their goals. Thus, the exit of a long-tenured CEO is likely to have a negative impact on postsuccession operational performance.

However, a very short departing CEO tenure may also be detrimental to postsuccession firm operations. When firms replace their CEOs frequently, the new leaders are often unable to establish reliable and accountable organizational routines because of the disruption associated with each succession event (Vancil, 1987). This lack of reliability and accountability will have a negative impact on both inside and outside stakeholders (Friedman & Saul, 1991; Hannan & Freeman, 1984). Empirical studies have consistently reported that frequent CEO succession negatively affects firm performance (Kesner & Sebora, 1994). Further, short CEO tenure often implies that departing CEOs failed to consolidate their leadership, either because they lacked the needed competencies or because the situations they were facing were extremely diffi-

cult. The failure of these CEOs drains away valuable resources and worsens the situation faced by their successors (Grusky, 1963). Thus, like the exit of a long-tenured CEO, the exit of a short-tenured CEO will also have a negative impact on postsuccession firm performance. Given this pattern, we propose an inverted U-shaped relationship between departing CEO tenure and postsuccession firm operational performance.

Hypothesis 5. There will be an inverted U-shaped relationship between departing CEO tenure and postsuccession operational performance.

METHODS

Sample and Data Collection

The population for this study was large, publicly traded U.S. corporations. We initially selected a random sample of 300 public corporations reporting at least \$200 million in sales for 1988. We then gathered data on CEO succession and senior executive turnover for each year from 1988 through 1994. A primary data source for CEO succession and senior executive turnover was the officer list provided in each firm's 10K reports to shareholders. Additional descriptive data on CEOs and their successors were collected from Dun & Bradstreet's *Reference Book of Corporate Management* and Dow Jones Interactive's database, the Wall Street Journal and News Wires. Data on firm operational performance, size, diversification level, and industry characteristics were collected from COMPUSTAT. Data on governance structure were collected from proxy statements. Our final sample consisted of 228 successions with complete data, including 159 follower successions, 41 contender successions, and 28 outsider successions.

Measures

Dependent variable: Postsuccession operational performance. As pointed out earlier, our study focused on the impact of CEO succession on firm operational performance. Return on assets (ROA) was selected as the dependent variable because it is a well-understood and widely used accounting measure of operational performance in CEO succession research (Zajac, 1990). We calculated each firm's ROA as income before extraordinary items and discontinued operations divided by net assets as reported during each fiscal year. To fully capture the succession effect and to smooth fluctuations in ROA specific to a given year, we calculated *postsuccession firm ROA* as average firm

ROA during the first three years following the year of CEO succession (e.g., Daily et al., 2000; Kesner & Dalton, 1994).

Successor type. As also described above, there are three types of successors—followers, contenders, and outsiders. A major challenge for this study was to separate contenders and followers, as both are insider successors. What differentiates them is the cause of their predecessors' departure: followers are executives promoted after an ordinary retirement, whereas contenders are promoted after a dismissal. It is difficult to identify CEO dismissals because firms seldom fully disclose the true reasons behind CEO resignations (Denis & Denis, 1995; Fredrickson et al., 1988; Warner, Watts, & Wruck, 1988; Weisbach, 1988; Wiersema, 1995). Some previous research has relied upon CEO age to separate dismissals from retirements (e.g., Ocasio, 1994; Puffer & Weintrop, 1991). Researchers often use age 64 as a cutoff in making these decisions: CEOs who left office before the age of 64 are treated as dismissed, and others, as retired. An examination of our sample suggested that solely relying on CEO age to make the decision might be too crude for our study. Many CEOs in our sample relinquished the CEO title at the age of 62 or 63 but kept the title of chairman of the board until the age of 64 or 65. These CEOs can hardly be treated as dismissed because it is unreasonable to keep a dismissed CEO as the chairman of the board, or even as a director (Lorsch & MacIver, 1989). Indeed, the observation described above may actually reflect an ordinary relay CEO succession process (Vancil, 1987).

Given that firms are unlikely to keep dismissed CEOs on their boards, we used both CEO age and continued board membership to separate contenders from followers. Further, we checked annual reports, proxy statements, and the Wall Street Journal and News Wires to exclude from our analysis CEO turnovers due to sudden death (12 cases), health issues (2 cases), and taking a similar position at another firm (9 cases). *Contender successor* was coded 1 when an executive who was currently an officer of a firm was promoted to the CEO position and the departing CEO terminated his/her service as both the CEO and a director of the firm before the age of 64, and it was coded 0 otherwise. *Outsider successor* was coded 1 when an executive who was not an employee of the focal firm was promoted to the CEO position, and coded 0 otherwise. *Follower successors*, the omitted category in our analysis, included all noncontender inside successors.

We also examined news reports to bolster our identification of CEO dismissals described above.

Contender and outsider successors identified through news analysis composed a subset of those identified in our above approach. We analyzed this subset of contenders and outsiders and obtained essentially the same result as those reported in the next section, which are based on coding contenders and outsiders as described above. The alternative results are available from the first author on request.

Senior executive turnover was measured as the proportion of officer turnover during the first two years after CEO succession. We selected a two-year period to fully capture the succession effect on executive turnover (Wagner et al., 1984) and the period normally required for a new CEO to fully take charge in a new job (Gabarro, 1987; Vancil, 1987). We measured turnover among all executives who were listed as officers in a firm's annual report to shareholders one year prior to the year of succession. *Departing CEO tenure* was measured as the number of years an individual had served as the CEO of the firm from which he or she was departing. To test for the inverted U-shaped relationship hypothesized, we also included *departing CEO tenure squared* in the analysis.

Control variables. A number of factors, such as firm size, governance structure, and industry environment, may influence firm performance in the CEO succession context through their impacts on managerial discretion (Finkelstein & Hambrick, 1996). To control for the influence of these and other important factors, we included nine control variables in our analysis. Like firm-specific knowledge, industry experiences of CEO successors may play an important role in firm performance (Datta & Rajagopalan, 1998). To ensure that it is firm-specific knowledge rather than industry experience that makes performance differences among CEO successors, we included a dummy variable, *industry outsider*, as a control in our analysis. *Industry outsider* was coded 1 when a successor had less than two years' industry experience (at the two-digit SIC level) and 0 otherwise.

Presuccession firm ROA was included to control the potential threat of "regression to the mean" (Brown, 1982) and was measured as average firm ROA over the last three years prior to the year of CEO succession. Industry characteristics have been proposed to have significant impacts on managerial discretion (Finkelstein & Hambrick, 1996) and firm performance (Dess, Ireland, & Hitt, 1990). To control for a potential industry effect (Tushman & Rosenkopf, 1996), we included industry ROA and instability in the analysis. *Industry ROA* was calculated as the average industry ROA over the first three years following the year of CEO succession at

a firm's primary two-digit SIC level. *Industry instability* was measured as the variance in the industry's four-firm sales concentration ratio over the first three years following CEO succession. This variable is similar to the one used by Wiersema and Bantel (1993).

Diversification and restructuring have been reported to have a significant impact on firm performance (Hoskisson & Hitt, 1990; Johnson, 1996). Because the firms in our sample varied in their levels of diversification, we included the entropy measure of diversification as a control variable. The entropy measure has two components: related diversification (DR) and unrelated diversification (DU) (Palepu, 1985). The two components were calculated for all firms in our sample. Following Hoskisson and colleagues (Baysinger & Hoskisson, 1989; Hoskisson, Hitt, Johnson, & Moesel, 1993), we calculated *total diversification* by summing a firm's three-year average related and unrelated diversification after succession. *Restructuring* was calculated as decrease in the firm's level of total diversification in the three years prior to succession. We included this measure to control the potential influence of presuccession corporate restructuring on postsuccession firm performance (Johnson, 1996).

Governance structure is an important factor influencing succession decisions (Johnson, Hoskisson, & Hitt, 1993; Weisbach, 1988) and firm survival (Daily & Dalton, 1994). We included two variables to control for the impact of governance structure. *Proportion of independent outside directors* was measured as the proportion of directors who were elected to a board before the successor took office and who were not current or

past officers of the firm (Dalton, Daily, Ellstrand, & Johnson, 1998). *Institutional ownership* was measured as the proportion of a firm's outstanding shares held by institutional investors in the year of succession (Johnson & Greening, 1999; Smith, 1996). Lastly, *firm size* was controlled and was measured as the natural logarithm of the firm's total sales.

Statistical Analysis

We tested our hypotheses using hierarchical multiple regression. In a hierarchical multiple regression analysis, explanatory variables are entered into the regression equation in a prespecified order as a means of determining their individual and joint contributions to explaining the outcome variable (Tabachnick & Fidell, 1989). In our analysis, we first entered into the regression equation the nine control variables. Following the time order of their occurrence, we entered the explanatory variables in the following order: departing CEO tenure first, contender and outsider successors next, senior executive turnover and its interactions with contender and outsider successors last. Although our study emphasizes operational performance, we also ran an analysis with market performance as a dependent variable, measured as a firm's average market-to-book value ratio in the first three years following the succession. The results suggest that succession does not importantly influence a firm's long-term market performance. Because of our emphasis on operational performance, we report this analysis in the Appendix.

TABLE 1
Means, Standard Deviations, and Correlations

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Firm ROA	3.56	5.25													
2. Contender successor	0.18	0.38	-.01												
3. Outsider successor	0.12	0.33	-.18*	-.18*											
4. Senior executive turnover	0.17	0.11	-.18*	.21*	.21*										
5. Departing CEO tenure	10.59	7.29	.11	-.41*	-.14*	-.18*									
6. Industry outsider	0.06	0.24	.01	-.12	.41*	.15*	-.09								
7. Presuccession firm ROA	4.34	4.76	.56*	.01	.02	-.08	.07	.07							
8. Proportion of independent outside directors	0.74	0.15	.10	.02	.12	.14*	.03	.15*	-.04						
9. Institutional ownership	0.49	0.18	.17*	-.07	.15*	-.05	.04	.00	.10	-.04					
10. Industry ROA	3.24	1.35	.07	.13*	-.04	.07	-.15*	.07	-.07	.10	-.21*				
11. Industry instability	0.02	0.01	-.08	-.06	.06	.01	.05	-.06	-.07	.14*	-.07	-.07			
12. Restructuring	0.01	0.21	.05	.11	.01	.06	.04	-.03	.04	-.10	-.02	-.05	-.06		
13. Total diversification	0.51	0.50	-.00	-.08	-.01	.00	.03	.11	.02	-.01	.29*	-.14*	.03	.22*	
14. Logarithm of sales	7.40	1.49	-.08	-.01	-.09	.13	-.09	-.09	-.16*	.04	.35	-.09	-.05	.14*	.28*

* $p < .05$

RESULTS

Table 1 reports the means, standard deviations, and correlation coefficients of variables used in the analysis. The hypothesis tests used OLS hierarchical regression analysis with postsuccession firm ROA as the dependent variable. The results are reported in Table 2. Model 1 reports the results with only the control variables included. Model 2 reports the results with the addition of departing CEO tenure, and model 3 reports the results with the addition of departing CEO tenure squared. Model 4 reports the results with the addition of contender and outsider successor. Models 5, 6, and 7 report the results with the addition of senior executive turnover and its interactions with contender and outsider successor, respectively. The *F*-statistics for models 1 through 7 indicate strong model significance ($p < .001$). In addition, as indicated by multiple squared correlation coefficients (R^2 s), all seven models explain a significant amount of variance in postsuccession firm ROA.

As shown in model 1 of Table 2, the nine control variables account for a significant amount of variance in postsuccession firm ROA ($R^2 = 0.37$, $p < .001$). Presuccession firm ROA ($b = 0.77$, $p < .001$), industry ROA ($b = 0.50$, $p < .05$), the proportion of

independent outside directors ($b = 4.76$, $p < .05$), and institutional ownership ($b = 4.65$, $p < .01$) display significant, positive associations with postsuccession firm ROA.

The "main effect" of contender and outsider successor on postsuccession firm operational performance was tested in model 4. The addition of contender and outsider successor into the regression equation significantly increases model 4's explanatory power over model 3 ($\Delta R^2 = .02$, $p < .001$). Hypothesis 1 predicts a positive association between contender successor and postsuccession firm performance. The coefficient for contender successor is positive, but not significant ($b = 0.04$, n.s.). Thus, Hypothesis 1 is not supported. Hypothesis 2 predicts a negative association between outsider successor and postsuccession operational performance. The coefficient for outsider successor is negative and significant ($b = -2.65$, $p < .01$). Thus, Hypothesis 2 is supported. However, as shown in model 7, the impact of outsider successor on firm ROA is influenced by its interaction with postsuccession senior executive turnover. When the interaction is included (model 7), outsider successor displays a positive main effect ($b = 3.85$, $p < .05$). These results, as discussed later, help clarify

TABLE 2
OLS Regression Models of the Performance Consequences of CEO Succession for Return on Assets^a

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Intercept	-6.35**	-7.06**	-7.40**	-6.63**	-6.54**	-6.14*	-6.57**
Presuccession firm ROA	0.77***	0.76***	0.75***	0.75***	0.74***	0.73***	0.80***
Industry ROA	0.50*	0.54*	0.55*	0.47*	0.49 [†]	0.47*	0.45*
Industry instability	-20.36	-20.99	-24.21	-19.64	-18.67	-18.27	-16.82
Industry outsider	-1.36	-1.18	-1.00	0.45	0.69	0.81	0.87
Proportion of independent outside directors	4.76*	4.58*	4.13*	4.54*	4.93**	4.78*	4.01*
Institutional ownership	4.65**	4.56*	4.23*	3.45*	3.36 [†]	3.30 [†]	2.65
Restructuring	0.98	0.93	0.80	0.89	1.09	1.10	1.02
Total diversification	-0.09	-0.13	-0.21	-0.27	-0.26	-0.30	-0.20
Logarithm of sales	-0.15	-0.12	-0.14	-0.15	-0.06	-0.06	-0.06
Departing CEO tenure		0.05	0.28*	0.28*	0.26 [†]	0.27 [†]	0.25 [†]
Departing CEO tenure squares			-0.01*	-0.01*	-0.01*	-0.01*	-0.01*
Contender successor				0.04	0.46	-0.77	0.09
Outsider successor				-2.65**	-2.20*	-2.09*	3.85*
Senior executive turnover					-6.20*	-7.77*	-1.06
Contender × senior executive turnover						6.45 [†]	
Outsider × senior executive							-29.48***
<i>F</i>	13.93***	12.74***	11.98***	11.03***	10.76***	10.13***	12.81***
R^2	.37	.37	.38	.40	.41	.42	.46
ΔR^2		.00	.01** ^b	.02***	.01*	.01 [†]	.05***

^a Values are unstandardized regression coefficients.

^b As compared with model 1.

[†] $p < .10$

* $p < .05$

** $p < .01$

*** $p < .001$

some of the confusion regarding the performance impact of outsider succession in previous research.

The effect of senior executive turnover on firm ROA, both the main effect and the interaction with successor type, were tested in models 5 through 7. Although no hypothesis was proposed, results in model 5 suggest that senior executive turnover has a negative main effect on postsuccession firm ROA ($\Delta R^2 = .01$, $p < .05$; $b = -6.20$, $p < .05$). Hypothesis 3 predicts that senior executive turnover will interact with contender successor to positively affect firm performance. With the inclusion of the interaction in model 6 the variance explained increases ($\Delta R^2 = .01$, $p < .10$). The coefficient for the interaction is positive ($b = 6.45$, $p < .10$). Thus, Hypothesis 3 receives some support. Hypothesis 4 predicts that senior executive turnover will interact with outsider successor to negatively affect firm performance. With the inclusion of the interaction in model 7, the variance explained again increases ($\Delta R^2 = .05$, $p < .001$). The coefficient for the interaction is negative ($b = -29.48$, $p < .001$). Thus, Hypothesis 4 is strongly supported.

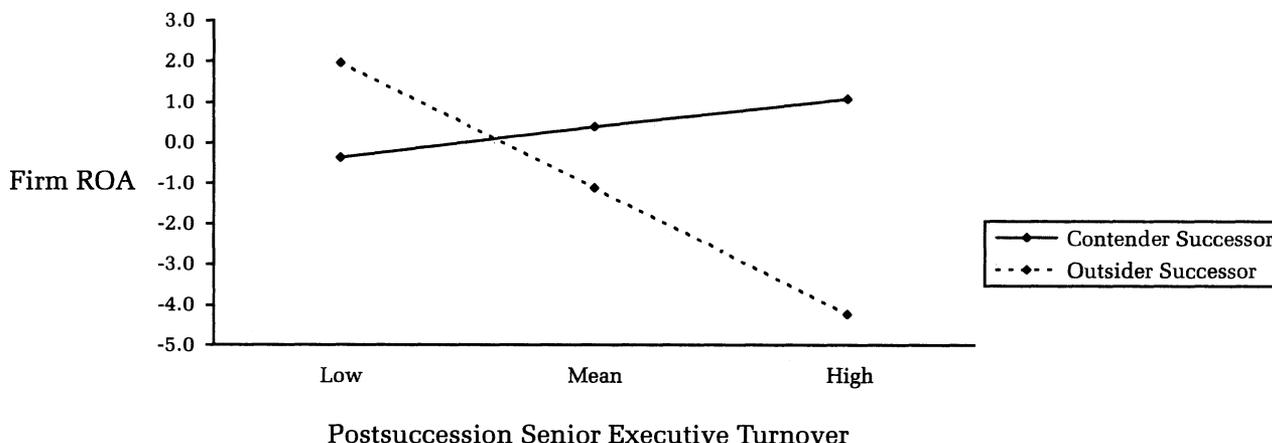
To facilitate interpretation, we plotted the interaction effect of successor type and senior executive turnover on postsuccession firm ROA. Following Aiken and West (1991), we calculated the partial derivative of firm ROA in the regression equation with respect to contender successor as $\partial Y/\partial X_1 = -0.77 + 6.45Z$ and the partial derivative of firm ROA with respect to outsider successor as $\partial Y/\partial X_2 = 3.85 - 29.48Z$, where X_1 is contender successor, X_2 is outsider successor, and Z is the level of postsuccession senior executive turnover. Figure 2 shows the relationships between senior executive turnover and firm ROA following contender and

outsider successions respectively, where the range of senior executive turnover is from one standard deviation below the sample mean (low: $0.17 - 0.11 = 0.06$) to one standard deviation above the sample mean (high: $0.17 + 0.11 = 0.28$). The graph clearly demonstrates that senior executive turnover is positively associated with firm ROA following contender succession but negatively associated with firm ROA following outsider succession. The slopes of the two regression lines further suggest that senior executive turnover has a more significant impact on firm ROA in outsider succession than in contender succession.

An important observation that can be made from our analyses is that the main effect of postsuccession senior executive turnover on firm ROA remains negative and significant in model 6, when its interaction with contender successor is included ($b = -7.77$, $p < .05$), but it becomes insignificant in model 7, when turnover's interaction with outsider successor is controlled ($b = -1.06$, n.s.). Thus, the negative main effect of senior executive turnover on firm ROA may come primarily from senior executive turnover following outsider succession.

Hypothesis 5 predicts an inverted U-shaped relationship between departing CEO tenure and postsuccession firm performance. Models 2 and 3 show results of tests of this hypothesis. In model 2, the addition of departing CEO tenure does not significantly increase the explanatory power ($\Delta R^2 = .00$, n.s.), nor is the coefficient significant ($b = 0.05$, n.s.). However, with the addition of departing CEO tenure squared, model 3 has significantly higher explanatory power than model 1 ($\Delta R^2 = .01$, $p < .01$). Further, the coefficient for departing CEO tenure squared is negative and significant ($b = -0.01$,

FIGURE 2
Interactive Effect of Successor Type and Postsuccession Senior Executive Turnover on Firm ROA



$p < .05$), and the coefficient for departing CEO tenure is positive and significant ($b = 0.28$, $p < .05$). The first-order partial derivative of firm ROA with respect to departing CEO tenure ($\partial Y/\partial X = -0.02X + 0.28$) suggests that in our sample firm, ROA (Y) reaches its inflection point when departing CEO tenure (X) is about 14 years ($X = 0.28/0.02 = 14$; Cohen & Cohen, 1983: 233). Models 4–7 show similar results and suggest that the inverted U-shaped relationship between departing CEO tenure and postsuccession firm ROA holds even after successor type, postsuccession senior executive turnover, and their interactions have been controlled.

DISCUSSION AND CONCLUSION

In this study, we revisited an important and widely studied topic in management research—the performance consequences of CEO succession—with an emphasis on the importance of succession context. Building on theories of strategic leadership and organizational change, we simultaneously examined the performance impacts of three important components of succession context: successor type categorized at the individual level, postsuccession senior executive turnover at the top management team level, and succession frequency (as indicated by departing CEO tenure) at the organizational level. With postsuccession firm ROA used as the dependent variable, our empirical results suggest that all three components have important implications for firms' operational performance. This study leads us to four general conclusions and raises several interesting and important questions for future research.

First, the evidence supports our proposition that to rely solely on firm origin to divide CEO successors into insiders and outsiders is to neglect important differences among insider successors. Following a power circulation theory (Ocasio, 1994; Ocasio & Kim, 1999), we distinguished two types of insider successors, contenders and followers, on the basis of how their predecessors left the positions to which they succeeded. We proposed that contenders and followers differ in their strategic mandates and their ability to initiate strategic change. Although the results did not support our hypothesis regarding a positive main effect of a successor contender (an insider who struggled with the departing CEO), they do support our argument that senior executive turnover following a contender succession has a positive impact on firm performance. Further, the correlations reported in Table 1 show that both contender and outsider successors are positively correlated with postsuccession senior executive turnover, which has been

used as an indicator of strategic change in earlier studies (Friedman & Saul, 1991; Helmich & Brown, 1972). These findings support our proposition that contender successors importantly differ from follower successors, though both are insiders. One of our explanations for our not finding a main effect of contender successors on firm ROA is that contenders, though they differ from followers, are still constrained by their social networks within their firms (Shleifer & Summers, 1988). Unless they can restructure their top management teams, they will not be able to improve firm performance. An alternative explanation follows the power perspective: some contender successions after CEO dismissal may reflect the outcome of power struggles within top management rather than an intention to initiate strategic change (Jackall, 1988; Vancil, 1987). Because of the prestige and material benefits associated with the CEO title, some ambitious senior executives may challenge an incumbent CEO simply to advance their own careers (Lazear, 1989). Because the distinction between contender and follower successors is new and important, more research is needed regarding the antecedents and consequences of these two types of insider successors.

Second, our study clearly demonstrates that focusing on a CEO successor alone without considering other personnel changes within top management cannot fully and accurately capture the performance consequences of CEO succession. Postsuccession senior executive turnover has been primarily studied as an outcome of CEO succession (Friedman & Saul, 1991; Helmich & Brown, 1972). Results of this study suggest that postsuccession senior executive turnover has important implications for firm performance and, more important, that the direction of its impact depends on successor type. We found that senior executive turnover has a positive impact on firm ROA in contender succession, but a negative impact in outsider succession. These findings not only highlight the importance of taking a top-management-team-based approach when studying the performance impact of CEO succession, but also suggest that there are different patterns of top management team dynamics in contender, outsider, and follower successions.

Although we conceptually discussed different types of executive turnover (ordinary retirement, dismissal, and seeking outside opportunities) in our theory development, it is beyond the scope of this study to examine them empirically. A potential direction for future research is to study the pattern of different types of executive turnover in contender, outsider, and follower CEO successions and

their organizational implications. Further, although we controlled for industry ROA and instability in our analysis, it would be interesting to consider whether these and other industry characteristics, such as growth rate (Datta & Rajagopalan, 1998), would moderate the performance consequences of postsuccession senior executive turnover. By focusing on the dynamics of entire top management teams rather than on CEO successors alone, researchers will be able to gain a better understanding of the performance consequences of CEO succession.

An extension of the above proposition would be to examine the patterns and performance consequences of changes in the boards of directors in contender, follower, and outsider successions. CEO succession certainly influences the dynamics within top management teams, and perhaps also the composition and structure of boards (Ward, Bishop, & Sonnenfeld, 1999). Board composition and structure have been found to have an important impact on corporate restructuring and financial performance (Daily & Dalton, 1994; Goodstein & Boeker, 1991; Johnson et al., 1993). In this study, the proportion of independent outside directors displayed a consistent, positive impact on postsuccession firm ROA. Thus, it will be interesting and important to study whether the three types of CEO successions proposed in this study have different impacts on board composition and structure and their subsequent organizational implications. In addition, we need to investigate how board composition and structure influence the occurrence of the three types of successions, since boards play an important role in succession decisions (Johnson et al., 1993; Weisbach, 1988).

Third, our study helps to clarify some of the confusion surrounding the performance impact of outsider succession. Successor origin has been a primary focus in previous studies of the performance consequences of CEO succession, and there is pressure from the business press for firms to adopt outsider succession (e.g., *BusinessWeek*, 1997). Earlier empirical evidence has been inconclusive regarding how outside successors influence firm performance (Kesner & Sebora, 1994). Our results show that the impact of outsider successors on firm ROA is significantly influenced by postsuccession senior executive turnover in that its main effect changes from negative to positive when its negative interaction with senior executive turnover is controlled. This change suggests that the negative impact of outsider succession on firm operational performance stems largely from a high level of postsuccession senior executive turnover. In

other words, outsider successors may be beneficial to firm operations, but a subsequent loss of senior executives may outweigh any gains that come from the outsider successors themselves.

Finally, our study reveals that, in addition to successor type and postsuccession senior executive turnover, the tenure of departing CEOs importantly influences firm operational performance. We proposed that lengthy CEO tenures would be associated with strong organizational inertia, leading to difficulty when the successors wish to initiate strategic change. However, if a departing CEO's tenure is too short, the firm may not have recovered sufficiently from the disruption of the previous succession. This proposition was supported by the inverted U-shaped relationship between departing CEO tenure and postsuccession firm ROA. Although the impact of CEO tenure on firm strategy and performance has been examined in previous research (Hambrick et al., 1993; Miller, 1991; Thomas, Litschert, & Ramaswamy, 1991), our study demonstrates that this impact does not disappear with the end of the CEO's tenure. Instead, it extends at least to the early years of the successor's tenure. CEO tenure has also been found to significantly influence the power dynamics within top management (Boeker, 1992; Ocasio, 1994). As an extension, it would be interesting to examine whether departing CEO tenure influences successor type and postsuccession senior executive turnover.

Limitations

The findings and implications of this study must be considered in light of its limitations. A primary limitation is that our study focused only on firms' operational performance and used three-year average ROA as an indicator. This measure, widely used in succession research, only captures the operational performance consequences of CEO succession in the first three years after its occurrence and tells us nothing about later performance. It is possible that the performance consequences of CEO succession, especially outsider succession, may differ in the later years of these CEOs' tenures. In addition, our findings should not be generalized to firms' performance in financial markets, because ROA and market valuation reflect different aspects of firm performance (Daily et al., 2000; Dalton et al., 1998).

A second limitation is that we used publicly observable managerial characteristics as proxies for unobservable or hard-to-observe variables. Because it is difficult to know the true causes of CEO turnover (Denis & Denis, 1995; Weisbach, 1988), in our measure of contender succession, we used CEO age

and continuing as a board member to infer whether a CEO had or had not been dismissed. Although we obtained information on CEO departures owing to death, illness, or outside appointment (these causes were excluded), our measure is not perfect. For example, a CEO over 63 years old could be fired. In this situation, our measure would wrongly classify an inside successor as a follower rather than a contender. On the other hand, a CEO less than 64 years old could voluntarily retire from a firm without remaining on the board. In this situation, our measure might wrongly classify an insider successor as a contender rather than a follower. Our observations suggest both cases are rare, but such misclassifications would reduce our ability to accurately detect the hypothesized positive performance impact of contender successors. In addition, our theory linked departing CEO tenure to a firm's commitment to maintaining the status quo and organizational inertia. Although strong logical arguments, empirical evidence, and practical concerns justify our treatment, given the limitations of the demographic approach (e.g., Lawrence, 1997; Priem, Lyon, & Dess, 1997), the rigor of our study would have been further bolstered if we could have directly measured these constructs.

Managerial Implications

Findings from this study have two important managerial implications. The first concerns top management team restructuring following contender and outsider successions. Facing tremendous pressure to initiate strategic change, contenders and outsiders may make restructuring top management teams their top priority (Helmich & Brown, 1972; Wiersema, 1995). Our evidence demonstrates that the operational performance impact of this practice differs significantly for contender and outsider successions. Whereas postsuccession senior executive turnover was found to improve firm ROA among companies experiencing contender successions, its impact among those gaining outsider successors was negative, at least as measured for the first three years of the outsider successors' tenure with firm ROA as the outcome measure. As we pointed out earlier, this result is mainly a consequence of the outsider successors' lack of firm-specific knowledge and the tremendous disruption already present in outsider succession. Thus, we advise newly appointed outsider CEOs to be prudent when making executive replacement decisions and to strive for some executive leadership stability in their firms. At the same time, boards may also need to consider giving outside successors more time to smooth the transition.

Second, in accordance with many other studies

(e.g., Vancil, 1987), our study suggests that boards of directors need to carefully manage CEO tenure. Although the 14-year inflection point for the change in the effect of departing CEO tenure on firm ROA may be sample-specific and therefore should be interpreted cautiously, the inverted U-shaped relationship suggests that both overly long and overly short CEO tenures are harmful to post-succession firm operational performance. Given this, directors need to consider how long their candidates should serve when selecting CEO successors. Because most firms have age 65 as a customary CEO retirement age, it may not be desirable to select a successor whose age is near or even above 60. Further, if a CEO is appointed very young, the board may also need to consider replacing this individual before mandatory retirement age, even if she or he is very successful. At the very least, the board should be aware of the organizational inertia that may develop during a CEO's tenure.

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APPENDIX

OLS Regression Models of the Performance Consequences of CEO Succession for Market-to-Book Ratio^a

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Intercept	-32.82	-27.45	-31.16	-32.15	-32.16	-19.00	-33.07
Presuccession firm market-to-book ratio	0.75***	0.75***	0.75***	0.76***	0.76***	0.75***	0.75***
Industry market-to-book ratio	0.65**	0.64**	0.64**	0.61**	0.60**	0.58**	0.60**
Industry instability	-732.88	-716.74	-768.59	-810.83	-820.19	-808.88	-829.16
Industry outsider	29.33	27.41	29.88	14.72	9.86	13.77	6.41
Proportion of independent outside directors	60.13	58.83	64.86	68.08 [†]	76.85 [†]	79.79 [†]	71.05 [†]
Institutional ownership	17.30	16.64	20.75	14.91	12.60	9.93	10.36
Restructuring	8.43	7.66	9.87	10.39	13.74	13.09	13.94
Total diversification	-7.43	-6.92	-8.07	-7.17	-7.00	-8.07	-8.39
Logarithm of sales	7.25	6.93	6.79	6.80	5.59	5.60	6.14
Departing CEO tenure		-0.51	2.66	2.66	2.83	3.17	2.76
Departing CEO tenure squared			-0.12	-0.11	-0.12	-0.13	-0.11
Contender successor				-0.21	-7.57	-51.89	-6.08
Outsider successor				26.72	20.12	24.59	-37.69
Senior executive turnover					110.01 [†]	43.77	79.78
Contender × senior executive						230.55 [†]	
Outsider × senior executive turnover							283.82
F	20.40***	18.33***	16.77***	14.27***	13.56***	12.92***	12.88***
R ²	.47	.47	.48	.48	.49	.49	.49
ΔR ²		.00	.00 ^b	.00	.01 [†]	.01 [†]	.01

^a Values are unstandardized regression coefficients.

^b As compared with model 1.

[†] $p < .10$

** $p < .01$

*** $p < .001$