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CEO succession, strategic change, and post-succession performance: A meta-analysis☆

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ABSTRACT

The relationship between CEO succession and firm outcomes is often examined through the disruption or adaptation perspectives. These two perspectives, however, have evolved separately. We propose that findings from these separate streams of research can be integrated, and thus a more holistic understanding of CEO succession can be afforded, through focusing on the central factor responsible for their differences—distinct temporal foci of these streams. The disruption perspective suggests CEO succession imposes costs on organizations, which influences short-term performance. The adaptation perspective suggests CEO succession requires time for effects to manifest, which implies a lagged effect on performance. Based on a meta-analysis of 60 samples from 1972 to 2013 representing 13,578 successions, we find CEO succession negatively influences performance in the short-term and has no significant direct influence on long-term performance. Long-term performance effects, instead, are mediated by strategic change and new CEO origin (inside vs. outside the firm). Inside CEOs improve long-term performance and engage in less strategic change, while hiring an outside CEO leads to more strategic change that results in lower long-term performance. Forced or unforced turnover is not related to short- or long-term performance. Board independence influences relationships between forced turnover and firm performance, as well as CEO origin and strategic change.

Introduction

Chief Executive Officers (CEOs) have a significant influence on firm outcomes, an influence that has grown both in substance (Quigley & Hambrick, 2014) and perception (Quigley, Crossland, & Campbell, 2016) in recent years. CEO succession is considered one of the most critical events in a firm's life-cycle and annual CEO turnover grew to 29% in 2012 (Favaro, Karlsson, & Neilson, 2014). Given their quintessential and strategic role, understanding, planning, and managing CEO succession and its outcomes is increasingly important (Finkelstein, Hambrick, & Cannella, 2009).

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The theoretical discourse on CEO succession has primarily focused on disruption costs or adaptation benefits resulting from CEO succession. Disruption theorists (e.g. Ballinger & Marcel, 2010; Grusky, 1963) posit that succession is associated with significant disturbances within the organization (Boeker, 1992), and that the associated performance gains from CEO succession may not offset the disruption costs associated with succession. Conversely, to adaptation theorists (e.g. Wiersema & Bantel, 1993), CEO succession is an opportunity to realign strategy and resources with the external environment (Shen & Cho, 2005). Positive benefits from adaptation accrue over time as new CEOs learn and adapt on the job (Hambrick & Fukutomi, 1991). These streams have developed separately and have resulted in mixed support for effects of CEO succession on performance (Hutzschenreuter, Kleindienst, & Greger, 2012).

We propose that the adaptation and disruption frameworks complement one another, and thus can be integrated to develop a more holistic understanding of CEO succession as a leadership phenomenon. This complementarity arises because they each focus on different (performance-based) temporal horizons; disruption effects may be most significant in the short-term following succession, while adaptation benefits may not be realized until later on following succession. Highlighting the need for integrating these two frameworks, adaptation theorists consider short-term costs of succession often in passing, whereas disruption theorists focus on managing disruption costs, but less so on their potential long-term advantages.[1] An integrated perspective would be valuable. By providing a more inclusive consideration of constructs in terms of their measurement and potential linkages, it may explain mixed results found by scholars adopting one perspective or the other, and guide measurement of constructs in varying spans of CEO tenure in extant studies.[2] This approach allows us to more fully consider possible interdependencies and evaluate alternative theories in such relationships.

To test our integrated framework, which consolidates and attempts to reconcile mixed findings in prior research, we rely on meta-analysis for the following reasons. First, recently, Wegman, Hoffman, Carter, Twenge, and Guenole (2016) highlighted that "cross-temporal meta-analysis affords robust and generalizable inferences relative to single sample comparisons" (pg. 2). Studies on CEO succession often examine the disruption and adaptation perspectives in isolation and/or methodologically consider varying performance windows and contextual measures applicable to these varying time windows (for an exception, see Hughes, Hughes, Mellahi, & Guermat, 2010), resulting in theoretical arguments and study designs using different time frames and measures. Meta-analyzing studies that have accumulated over a longer period of time and from different countries should provide additional temporal and conceptual elucidation.

Second, while we construe disruption and adaptation perspectives as complementary, we test these two perspectives by drawing inferences from meta-analytic SEM (MASEM), an approach that "conduct[s] "horse races" between … frameworks" and includes tests for "intermediate mechanisms in a chain of relationships" (Bergh et al., 2016: page 478). By drawing on 49 US and 11 non-US studies from 1972 to 2013, and proposing mediation mechanisms between CEO succession and performance, we are able to unpack and provide a finer grained understanding of this important phenomenon in strategic leadership. According to Bilgili, Calderon, Allen, and Kedia (2016): pg. 3), "MASEM [allows investigators] to address questions difficult to cover in any single study," and enables both CEO and board dynamics to be coupled with strategic actions and modeled in order to assess their joint effects on firm performance.

Third, meta-analysis allows us to respond to numerous calls made by CEO succession researchers for a more predictive and parsimonious explanation regarding the effects of CEO succession (e.g. Giambatista, Rowe, & Riaz, 2005; Kesner & Sebora, 1994). Research on board member succession has recently begun to move in this direction. For example, using MASEM, Post and Byron (2015) "develop and test a contingency model of female board representation on boards and firm financial performance" that "considers the role of national context" (pg. 1547). In the present meta-analysis, we develop a contingency model that identifies and consolidates additional mediators and moderators associated with the relationship between CEO succession and performance by incorporating studies from different national contexts and time periods.

The paper is structured as follows. First, we discuss past work on CEO succession from the disruption and adaptation perspectives and propose baseline relationships identified in the literature. Second, we develop hypotheses related to succession's influence on performance through strategic change and under the contextual influence of insider vs. outsider succession, forced vs. unforced succession, and governance characteristics (Fig. 1 presents an overview of the model). Third, we outline our methodological process and meta-analytic tests. Finally, we discuss findings, theoretical implications, and paths for future research.

Theoretical development and hypotheses

CEO succession represents a crossroads for organizations, as new leadership is expected to better align organizational resources with the environment and initiate strategic change with expectations to positively affect firm performance (Giambatista et al., 2005). Successor selection is critical, as CEOs have a significant impact on firm strategy and performance outcomes, and the influence of CEOs on firm performance has increased in recent decades (Hambrick & Quigley, 2014; Quigley & Hambrick, 2014).

CEO succession has been studied through the lens of the disruption and adaptation perspectives. Related to the disruption perspective, CEO succession disrupts routines and relationships, increases internal instability, and deteriorates external relationships (Ballinger & Marcel, 2010; Boeker, 1992). Managerial turnover results in the loss of firm-specific human capital and knowledge, a source of firm value (Greiner, Cummings, & Bhambri, 2003). Also the new CEO must learn roles and responsibilities in the

[1] Further suggesting the need for exploration of these two frameworks, we could identify only 12 studies that examined firm performance after succession using at least a three year window. Performance timeframes less than three years may not be enough to observe performance gains from adaptation.

[2] We thank an anonymous reviewer for this suggestion.

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