

New CEO Social Influence During Transitions

Research that will appear later this year in the *Academy of Management Journal* shows that CEOs are more likely to be dismissed within three years if (a) the predecessor CEO stays on as board chair, particularly for an indeterminate period of time, and (b) if the market reacts strongly negatively within the first two days of the announcement. However, the negative effects of these two events can be mitigated to some extent by the new CEOs actions on early earnings calls.

Key Takeaways:

- Of 440 CEO succession events in the S&P 500 between 2001 and 2012, 59 involved predecessor CEOs who remained as board chair with a specific departure plan; 169 predecessor CEOs remained as board chair with no announced plan, and 212 predecessors departed immediately.
- A CEO dismissal within three years is 2.42 times more likely if the predecessor CEO remains as board chair.
- A new CEO's public praise of the predecessor diminishes the negative effect of the predecessor remaining as board chair.

Using data on 440 CEO successions occurring in S&P 500 companies between 2001 and 2012 (excluding events occurring in financial or utility companies and for events that (a) led to an interim CEO, (b) resulted from a merger or acquisition, or spin-off or (c) in co-CEOs), researchers used the CEO's opening remarks on earnings calls to investigate the role of the CEO's social influence

on remaining with the firm for more than three years. Researchers drew conclusions by comparing the opening remarks on these earnings calls with the likelihood that the CEO would be forced-out within three years. Researchers found that both predecessors remaining on the board without a clear timeline for leaving and initial negative market reactions both substantially increased the likelihood that the new CEO would be dismissed within three years.

The research team also found more complex relationships. When the new CEO publicly praised the former CEO in earnings calls or committed to strategic continuity, the negative effects associated with the prior CEO remaining as the board chair were partially mitigated.

Their analysis statistically controlled for aspects of the firm (like size, cash holding ratio, and ROA), the CEO (like prior experience, whether the CEO was an heir apparent, and whether they were promoted from within), and the board (like ratio of directors appointed during the new CEO's tenure, ratio of independent directors, and institutional ownership).

Source: Yi, X., Zhang, Y.A., Windsor, D. (forthcoming). You are great and I am great (too): Examining new CEOs' social influence behaviors during leadership transition. *Academy of Management Journal*, In Press.