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FOUNDERS’ PLANS FOR POST-SUCCESSION INVOLVEMENT: HOW FOUNDERS INFLUENCE THE FUTURE DIRECTION OF THEIR COMPANIES THROUGH THEIR SUCCESSION PLANS (SUMMARY)

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SUMMARY

FOUNDERS’ PLANS FOR POST-SUCCESSION INVOLVEMENT: HOW FOUNDERS INFLUENCE THE FUTURE DIRECTION OF THEIR COMPANIES THROUGH THEIR SUCCESSION PLANS

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Principal Topic

Analyzing announcements of CEO successions, researchers have purported that successor characteristics (e.g., insider versus outsider status and age) influence shareholders’ reaction to the announcement (Frandsen & Fredrickson, 2006). In focusing on successor descriptions, however, researchers have not (a) distinguished between founder-CEOs and other CEOs, and (b) considered the effects of a predecessor CEO’s plans to remain involved in the company. Assuming that successors wish to maximize their managerial discretion (Hambrick & Finkelstein, 1987) and that companies and successors engage in a bargaining process (Carey & Ogden, 2000), we hypothesize, only for the outside successions, that the position that a predecessor plans to occupy after succession will relate negatively to the successor’s prestige – especially when the predecessor is a founder. We also hypothesize that shareholders will react to both the predecessor’s post-succession position and the successor’s prestige.

Method

Using a sample of 282 outsider CEO succession announcements, including 206 founder succession announcements, we categorized the predecessor’s post-succession position according to the level of influence that the predecessor would possess (i.e., no involvement with the company, will serve as a consultant to the company, will work as a manager, will serve on the board of directors, will serve as board chair). To operationalize the successor’s prestige, we collected data related to (a) whether the successor had ever been a CEO, (b) the size of the successor’s last company, (c) the performance of the successor’s last company, and (d) whether the successor would serve as a director on the company’s board. Lastly, to operationalize shareholders’ reaction to the announcement, we used event study methods to capture the stock market return that was attributable to the announcement.

Results and Implications

We found that (a) a predecessor’s post-succession position related significantly to a successor’s CEO experience and whether the successor will serve on the company’s board and (b) although an abnormal stock market return was attributable to the succession announcements, neither the predecessor’s post-succession position nor the successor’s prestige were significantly related to the returns. This suggests that the impact of a predecessor’s plan for post-succession involvement relate largely to the type of successor – especially when the predecessor is a founder.

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