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高階經理人撤換對競爭對手公司與上下游產業的影響

The Impact of CEO Turnover On Competitors, Suppliers and Corporate Customers

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本篇論文幾乎是我研二生活的重心，耗時將近一年才終於得以完成。在整個過程中時常接受師長、同學與家人的幫助與鼓勵。首要感謝的人就是我的指導教授陳聖賢老師，老師雖然研究工作繁重，卻總是耐心地提供我研究的方向和建議；感謝張紹基老師與周冠男老師擔任口試委員，給予許多寶貴的意見。至勛學長指導我找尋上下游產業的方法，並樂意解決我的疑問；嘉威學長在我遭遇瓶頸時，總是能適時提供幫助找出可能解決的辦法。此外，我也要尤其感謝政儒，從最初新聞資訊的蒐集一直到 SAS 的執行，時常受到你的幫助；依婷陪我一起研究上下游的找尋；同門的百加與孟樺，謝謝你們的鼓勵。謝謝冠彰在這段期間對我的一切包容，除了常常陪我一起寫論文，有時還必須忍受我因論文而產生的煩躁和壞脾氣，感謝我的家人總是給予最堅定的鼓勵，謝謝所有一直在我身邊關心我、照顧我的家人和朋友，我會永遠懷著這份感激的心情，勇敢面對人生的每一個挑戰！

周靖怡

九十七年七月

ABSTRACT

Prior studies examining the wealth effects of a change in CEO or top management team have produced mixed results. In addition, researchers also have reported inconsistent findings with regard to whether CEO turnover improves or hurts or is irrelevant to organizational performance. In this study, we reexamine the stock price reactions of the announcing firms in the CEO turnover announcement period and further examine the impacts on the industry competitors, suppliers and corporate customers. Our sample consists of 1546 CEO turnover announcements during the period of 1987 to 2004. Following Shahrur (2005), we use the benchmark input-output accounts for the U.S. economy to identify the competitors, suppliers and corporate customers of the announcers. The result reveals that there is not only a positive effect on the share value of the announcers but also on their suppliers and customers in the announcement period.

Keywords: CEO turnover; Supply chain; Competitors; Scapegoat; Disruptive; Rational-adaptive

摘要

過去文獻探討高階經理人撤換對宣告公司財富效果的影響並無一致結論。此外，學者們對於高階經理人撤換後是否會使組織營運改善、或使營運下滑，或對營運表現無影響同樣也仍沒有定論。因此，本研究將再次檢視高階經理人撤換對宣告公司的股價影響，同時進一步探討高階經理人撤換對同產業其它競爭對手公司與其上下游產業的影響。

本研究自美國五大新聞雜誌中，篩選從1987年至2004年共1546個事件樣本，並依據Shahrur (2005)的方法，利用美國經濟分析局所編制的「Use table」來辨別宣告公司的上下游。實證結果顯示，高階經理人員撤換不只對宣告公司有正面的股價影響，也同時對其上下游股價產生正的異常報酬。

關鍵字: 高階經理人撤換、上下游產業、競爭對手公司

Content

Content of Table

1. Introduction

CEO turnover and succession has received substantial attention from both management and organization scholars and financial economics scholars. Three main theoretical perspectives have been advanced to explain managerial succession. The first, the rational-adaptive perspective suggests that top management change is a response to deal with change in external environment (Friedman and Singh, 1989) and is an adaptive device to ensure organizational change and survival (Goodstein and Boeker, 1991; Wiersema and Bantel, 1993). The disruptive perspective, on the other hand, argues that CEO turnover and succession is inevitably a disruptive event that leads to organizational instability, an increase in tensions, and deterioration of morale and productivity (Allen et al. 1979; Grusky 1963, 1964). Still, the scapegoat perspective indicates when there is poor performance due to chance or factors outside control, the removal of the incumbent top manager serves to apportion blame and a new manager (with equal ability) is selected (Gamson and Scotch, 1964; Khanna and Poulsen, 1995). In this paper, we adopt these three perspectives to reexamine the share value reactions in the announcement period for announcers. In addition, we anticipate that CEO turnover announcements can not only influence the announcing firms but also other firms in the industry and even their supply chain. Hence, we link these

viewpoints to examine the extent to which information inferred by investors from CEO turnover announcements affect stock prices of announcer's competitors, suppliers and corporate customers.

Following Shahrur (2005), we use the benchmark input–output accounts for the U.S. economy to identify both firms in industries that supply inputs to the announcer industry (suppliers), and firms in industries that use the output of the announcer industry (corporate customers). Consistent with prior researches, we find the announcement of CEO replacement is associated with a positive stock reaction to the announcing firm (Denis and Denis, 1995; Friedman and Singh, 1989; Huson, 2004). In addition, our empirical results reveal that both the customers and suppliers earn positive abnormal returns in the period of CEO turnover announcement as well.

To further investigate the announcement period abnormal returns to announcers, rivals, customers and suppliers, we partition our sample into two subsamples depending on the reasons of CEO turnover and the origin of the successor. We find significant differences of announcing firms and rival firms by these two classifications. For the subsample of forced CEO turnover and those with inside successors, rival firms earn positive and significant abnormal returns. However, for the subsample of with outside successors, there are adverse stock price effects to the rivals. The results of overall sample show positive and significant abnormal returns to corporate

customers and suppliers at all windows. By further analysis the subsamples, we still cannot find significant differences.

We also conduct a cross-sectional analysis to examine the determinants of abnormal returns to the competitors, suppliers, and corporate customers. The most important finding is that the announcer CAR is significant and positively related to the abnormal returns to competitors, suppliers and corporate customers. Therefore, our empirical results basically indicate that the rational-adaptive perspective dominates the disruptive perspective, and do not support the scapegoat perspective.

There were studies regarding the wealth effects of CEO turnover on announcing firms. However, as far as we know, there is no paper draw the attention to its impact on the intra-industry and even the supply chain. We believe this to be the first paper providing direct large-sample evidence and long sample period to examine how CEO turnover announcements affect the share values of their competitors, suppliers and corporate customers. We find that classifying CEO turnover by types of successor's origin and reasons for incumbent CEO to leave could be one way to provide more insights. Our empirical results also enhance a more comprehensive understanding of impact of the CEO turnover events toward the competitors and the supply chain.

This paper proceeds as follows. In Section 2, we review the literature and develop our hypotheses. Section 3 provides details of the sample and the methodology

used to identify competitors, suppliers and corporate customers. The event study results are reported in Section 4. Section 5 develops our cross-sectional hypotheses and presents the results of our regression analysis. Section 6 concludes the paper.

2. Hypotheses development and related literature

Many studies have established a link between poor performance and an increased rate of CEO turnover (McEachern, 1977; Coughlan and Schmidt, 1985; Beatty and Zajac, 1987; Warner et al., 1988; Weisbach, 1988; Gilson,1989; Puffer and Weintrop,1991; Parrino, 1997). However, researchers have reported inconsistent findings with regard to whether CEO turnover improves, hurts or inconsequencial to organizational performance (Kesner and Sebora 1994). In order to figure out the exactly impact of CEO turnover announcements, we follow the trend in recent research[1] to further examine CEO turnover events on more refined basis, that is to classify overall sample by the reasons for incumbenet CEO to leave and the origin of the successor.

Forced vs. Voluntary Turnover

Studying CEO turnovers from 1985 to 1988, Denis and Denis (1995) find that

[1] Differentiating the nature of CEO turnover (voluntary of forced; e.g., Denis and Denis, 1995; Wiersema, 2002; Huson et al., 2004), the nature of CEO succession (inside or outside succession, relay succession or not; e.g. Allen et al., 1979; Helmich and Brown, 1972; Parrino, 1997; Shen and Cannella, 2002a, b, 2003; Zajac, 1990; Zhange and Rajagopalan, 2004).

industry-adjusted operating income increases significantly in the years following CEO replacement. However, they find significant differences in this effect between samples of forced resignations and normal retirements. The forced resignations are characterized by significant improvements in operating income following turnover whereas the sample of normal retirements exhibits only small post-turnover improvements in operating income. The results are consistent with the notion that the positive abnormal stock returns observed by some researchers around succession events reflect rational anticipation by investors of subsequent firm performance improvements (Friedman and Singh, 1989; Huson et al., 2004). In addition, they find that the forced resignations significantly downsize their operations and are subject to a high rate of corporate control activity. The subsamples of normal retirements, on the other hand, are subject to only a slightly higher than normal incidence of post-turnover corporate control activity. To figure out whether these two types of CEO turnover have different influences on the capital market, we followed the method used by Weisbach (1988), Gilson (1989) and Parrino (1997) to classify CEO turnover as forced and voluntary turnover based on incumbent CEO's reason for leave.

Inside vs.Outside Succession

Traditionally, the executive succession research bifurcates successor-type into insider and outsider categories (Grusky, 1964; Allen et al., 1979; Kesner, 1985;

Boeker and Goodstein, 1993; Cannella and Lubatkin, 1993; Behn et al., 2006). The general consensus is that inside succession is associated with strategic continuity, whereas outside succession creates an opportunity for the firm to take on strategic change (Helmich and Brown, 1972; Huson et al., 2004; Zajac, 1990; Wiersema, 1992). Dalton and Kesner (1985) argue that outsiders will not be appointed unless an incremental improvement relative to inside candidates is expected. Khurana and Nohria (2000) indicate that to improve a company's performance, an outsider should be brought in following a forced departure, because outsiders lack the "baggage" that tends to cripple insiders, thus have more likely to break with the failed policies and strategies of the predecessor. Huson et al. (2004) also find that post turnover performance improvements tend to be in those firms that hire CEOs from outside the firm. Since it may result in different impacts on the share values, we follow previous studies to categorize CEO successions into inside succession and outside succession to see if any different results between the two subsamples.

We use abnormal returns for the CEO turnover announcement period in order to examine the significance of the wealth effects of replacement events on its rivals, suppliers, and corporate customers. In this section, we discuss the implications of the scapegoat, disruptive and rational-adaptive perspectives on announcement period abnormal returns. Note that there are other possible theoretical perspectives to explain

management turnovers. For instance, the inertial perspective acknowledges that managers have the ability to enact strategic change in organizations but rarely to do so (Cannella and Lubatkin, 1993).

In this paper, we test motives that are specific to CEO turnovers and have direct implications for firms in the announcer, supplier and customer industries. Table 1 and Table 2 present a summary of the predictions of the various hypotheses discussed below.

2.1. Rational-adaptive Perspective

Announcing firm

The first viewpoint that governs CEO turnover event is named rational-adaptive perspective. When the organizational enviornment has undergone substantial change, the CEO's skills and expertise no longer fit the firm's chosen strategy, turnover is view as an adaptive device, ensuring organizational change and survival. (Goodstein and Boeker,1991; Wiersema and Bantel,1993; Gabarro, 1987; Vancil, 1987). Campbell (1965) and Weiss (1979) also indicate that because variety increases chances for survival, turnover can be an important source of organizational adaptation. The strategic decision making is viewed as one means of adaption (Chandler, 1962; Child, 1972; Miles and Snow, 1978). On the other hand, Guest (1962) suggests leader

change is expected to be accompanied by the revitalization of productivity.

According to rational-adaptive perspective, directors is more likely to select outside successors when performance is poor, because outsiders may be more successfully at bringing about organizational change (Walsh and Seward, 1990; Helmich and Brown, 1972; Huson et al., 2004; Zajac, 1990; Parrino, 1997). Karaevil (2007) and Carlson (1962) also argues that the CEO's ability to envision and implement a broad range of strategic options and to make fundamental changes in organizational strategy, structure, and processes are advantages of new CEO outsiderness. In addition, there is increase in accounting performance subsequent to CEO turnover, especially with outside successor (Huson et al, 1999). Inside succession, on the other hand, negates much of the potential adaptation value of turnover (Carlson, 1962).

Regarding the classification of the incumbent CEOs reasons for leave, previous studies indicate that the voluntary turnover do not necessarily result in predictable changes in performance following the CEO transition. (Hillier et al. 2006) Still, Denis and Denis (1995) suggest there is small increases in operating income subsequent to voluntary turnovers. Forced turnover followed by increase in operating performance in Huson's (2004) study. Denis and Denis (1995) also find higher percentage cost-cutting or efficiency measures for forced turnover. Hence, we expect there should

be a positive effect on announcer at the CEO announcement period, especially when the successors are from outside the firm or it is a forced turnover.

Competitors

The ability of an organization to anticipate and respond to opportunities or pressures for change, is one of the most important ways in which its competitiveness and viability are ensured (Wiersema and Bantel, 1992). Revitalization of productivity, strategy change and improved performance thus should increase the competence of announcing firm, especially when the successor is an outsider. Hence, rival firms can be negatively impacted if the increasing competence of announcing firm result in more intense industry competition. On the other hand, the increase in possibility to improve peformance of the announcing firm may inspire rival CEOs make more efforts to their firms. Therefore, we expect an unrestricted abnormal returns to rivals for the overall sample, and a negative effect to rivals for those CEO turnover with outside successors.

Customers

When the new CEO come in, he will instantly face the competitive pressure from other firms in the industry. According to Peck and Juttner (2000), competitive pressure encourage organizations to reexamine their value chains, reducing costs and improving quality at every stage, making them ideally suited for the creation and

delivery of customer value. It is expected the new CEO will more eager to take above actions for turnaround. Thus, we antipate there will be positive abnormal returns to the customers.

Suppliers

In addition the increase in competitiveness of the announcing firm, Lang and Stulz (1992) argue that revitalization of productivity will result in lower marginal costs and hence lower prices and higher output, thus induce a demand increase. The demand of inputs by the announcer therefore is expected to increase. However, change in CEO also may followed by strategic reorientation (Goodstein and Boeker, 1991; Lant et al., 1992; Virany et al., 1992; Wiersema and Bantel, 1993) and major change in organizational policies, especially for those turnovers with outside successors (Weisbach 1995; Wiersema, 1992; Helmich and Brown, 1972). In this way, the announcing firms may alter their inventory policy, add or delete a major product line, even enter another product market (Tushman et al., 1985; Virany et al.), which induce uncertainty to their suppliers. We thereby infer the impact on the suppliers is generally positive, however, for the subsample with outsider CEOs, it could lead to unrestricted results.

2.2. Disruptive Perspective

Announcing firm

Previous studies suggest that CEO turnover may upset a delicate balance between the firm and the environment, resulting in the decline of organizational performance (Friedman and Singh, 1989). Allen et al., (1979) and Grusky, (1963, 1964) also indicate that CEO turnover is inevitably a disruptive event that leads to organizational instability, an increase in tensions, and deterioration of morale and productivity. In addition, many important activities, such as construction projects, the purchase of new equipment, and strategic planning were postponed or halted. Cost cutting and downsizing activities were also frequently undertaken (Khauq et al., 2006). Furthermore, it may trigger additional turnover by prompting deterioration in attitudes toward the organization (Staw, 1980). Consiquently, CEO changes are often associated with a reduction in a firm's market value (Beatty and Zajac 1987).

Outside successors lead to more severe disruption to the organization. Weisbach (1995) suggests that outside successors will change the asset structure of the firm through acquisitions and divestitures. In addition, personnel practices, marketing techniques, and general strategic approaches and many sorts of policies are also expect to find change. On the other hand, for non-organizational reasons such as family problems, location, or economic conditions it will produce less of a

demoralization effect than if turnover is perceived to result from the nature of the work, pay, or supervision (Steers and Mowday, 1980). Assume there is rational anticipation by investors, we therefore expect that the overall sample and the subsample of CEO turnovers with outside successors will show adverse stock rection during the period of CEO turnover announcement, however, the the abnormal returns to the announcer will be insignificant for the subsample with inside successors and voluntary turnover.

Competitors

The deterioration of morale and productivity will lead to a reduction in production efficiency of announcing firm. Lang and Stulz (1992) argue that a drop in production efficiency could result in higher marginal costs and hence high prices and lower output, even can lead to a demand decrease. In this way, competitors are able to take advantage of demand shift by selling more products or by raising the prices of products because their products would be substitutes for the now more expensive products of the announcing firm. Therefore, we anticipate there is a positive and significant abnormal returns to competitors in the announcement period. In addition, according to above explaination, we also expect the abnormal returns to the competitors for the subsample with inside and voluntary successors will be insignificant. Because insider may cause less organizational instability, an less

possibility to increase tensions, and deterioration of morale and productivity of announcer.

Customers

Since there may be higher prices and lower output of the products manufactured by the announcer, customers need to bear extra costs or have to switch to other rivals firms. The extra costs of buying the products or the switch costs is inevitably lead to a negative impact on the customers.

Suppliers

A drop in production efficiency of announcer could result in higher marginal costs and hence higher prices and lower output, even may induce a demand decrease of announcer (Lang and Stulz, 1992). Therefore, the announcer's demand of inputs will also reduce. We then infer that there is an adverse stock reaction to the suppliers.

2.3. Scapegoat Perspective

Announcing firm

The scapegoat perspective suggests that the removal of the incumbent top manager serves to apportion blame, even though poor performance may be due to factors outside of their control (Khanna and Poulsen, 1995). The CEO replacement is a way to appease stakeholders and mask more fundamental organizational weaknesses

during performance slides (Brown 1982, Gamson and Scotch 1964, Lieberson and O'Connor 1972). Therefore, the characteristics of the new CEO are of little consequence to the firm (Gamson and Scotch, 1964). Following the scapegoat theory, CEO change has relatively little influence on organizational performance, the stock reaction thus are expected to be minimal and insignificant.

Competitors

Since announcer's managerial change has relatively little influence on organizational performance, policies, stock abnormal returns, etc., the impact on competitors is also expected to be minimal and insignificant.

Customers

Since announcer's managerial change has relatively little influence on organizational performance, policies, stock abnormal returns, etc., the impact on customers is also expected to be minimal and insignificant.

Suppliers

Since announcer's managerial change has relatively little influence on organizational performance, policies, stock abnormal returns, etc., the impact on suppliers is also expected to be minimal and insignificant.

3. Data Sources, CEO turnover samples and Classification

3.1 CEO turnover sample

We use Dow Jones Factiva database to manually collect CEO turnover announcement news from The New York Times, The Wall Street Journal, The Washington Post, Dow Jones Business News and Dow Jones News Service. We define rival firms as that share the same four-digit primary SIC code. Kahle and Walkling (1996) find that one major source of the inaccuracy of Compustat industry classifications is that the Primary SIC Code data item is based on the current primary SIC code of a given firm, and thus does not account for the fact that a large number of firms change their primary SIC code over time. We use Compustat's Historical SIC Code data item, which represents the history of primary SIC codes for any particular firm. Since Compustat reports the historical primary SIC code from 1987 onward, and given our interest in the recent wave of CEO turnovers, we restrict our sample to the period beginning on January 1, 1987 and ending on December 31, 2004. We require that our samples be public domestic firms in United States, have stock returns for the estimation period on the Center for Research in Security Prices (CRSP) tapes, and be covered by Standard & Poor's Compustat database.

The above restrictions result in a sample of 1546 CEO turnover announcements.

Table 3 shows the sample distribution of our sample by year. Consistent with Kaplan and Minton (2006), the table shows a pattern that CEO turnover rate has risen sharply in recent years, especially from 1998 to 2002. In year 2000, the number of CEO turnovers even reached 13.2 percent high.

3.2 Benchmark input–output accounts

The Bureau of Economic Analysis at the U.S. Department of Commerce publishes the benchmark input–output (IO) accounts for the U.S. economy every five years. The accounts are based primarily on data collected from economic censuses conducted by the Bureau of Census. In this study, we follow Shahrur (2005) to rely on the Use table of the benchmark accounts to find our sample of suppliers and corporate customers. For any pair of supplier and customer industries, the Use table reports estimates of the dollar value of the supplier industry's output that is used as input in the production of the customer industry's output.

3.3 Rivals, suppliers, and corporate customers

We construct rivals, suppliers and customers as the method used by Shahrur (2005). This approach has two advantages. First, it allows us to construct a large

number of firms covered by CRSP and Compustat. Relying solely on a firm's actual suppliers or customers considerably restricts the sample size. While industry-level measures capture the characteristics of the firm's potential suppliers and customers, they are expected to be positively correlated with the respective characteristics of the firm's actual suppliers and customers (Raman and Shahrur, 2006). Second, the industry-level method can also reduce the concern about the influence of endogeneity on our results. We thereby define corporate customers as firms that operate in industries that buy the output of the turnover announcer industry. For each pair of customer-turnover announcer industries, we define two variables: Customer Input Coefficient and Turnover Percentage Sold, where Customer Input Coefficient is the dollar amount of the turnover announcer industry's output sold to the customer industry divided by the customer industry's total output, and Turnover Percentage Sold is the percentage of the turnover announcer industry's output sold to the customer industry. The Customer Input Coefficient measures the importance of the turnover industry's output in the production of the customer industry's output, and the Turnover Percentage Sold measures the importance of the customer industry as a buyer of the turnover industry's output.

Since most turnover announcer industries sell their output to a large number of industries, for each turnover announcer industry we examine two important industries

from the list of customer industries with publicly traded firms. The Main Customer industry is the industry with the highest Turnover Percentage Sold. Simply put, among customer industries, this industry buys the highest percentage of the turnover announcer industry's output. The Dependent Customer industry is the customer industry with the highest Customer Input Coefficient. In other words, the Dependent Customer industry is the industry whose production depends on the turnover announcer industry's output more than any other customer industry.

In order to account for the relatively low dependence of some of the identified customer industries on the turnover announcer industry's output, we follow Shahrur (2005) only to consider customer industries with a Customer Input Coefficient greater than 1%.

We define suppliers as firms that operate in industries that supply the inputs used in the production of the turnover announcer industry's output. For each pair of supplier-turnover announcer industries we define two variables. Turnover Input Coefficient is the dollar amount of the supplier industry's output sold to the turnover announcer industry divided by the turnover announcer industry's total output. This variable measures the importance of the supplier industry's output in the production of the turnover announcer industry's output. Supplier Percentage Sold is the percentage of the supplier industry's output sold to the turnover announcer industry. This variable

measures the importance of the turnover announcer industry as a buyer of the supplier industry's output.

As in the case for customers, for each turnover announcer industry we examine two important industries from the list of supplier industries with publicly traded firms. The Main Supplier industry is the supplier industry with the highest Turnover Input Coefficient. That is to say, this industry supplies the main input to the turnover announcer industry. The Dependent Supplier industry is the supplier industry with the highest Supplier Percentage Sold. In other words, this industry's percentage of output sold to the turnover announcer industry is higher than that of any other supplier industry.

Since some of the identified supplier industries do not sell a significant fraction of their output to the turnover announcer industry, we only to include in our analysis supplier industries with a Supplier Percentage Sold greater than 1%.

The Compustat database classifies industries by SIC codes, whereas the Use table is constructed using the IO six-digit coding system. In order to convert four-digit SIC codes to six-digit IO codes, we use the conversion table used by Fan and Lang (2000) and Shahrur (2005). They construct the table by using conversion tables published by the Bureau of Economic Analysis. In order to identify suppliers and corporate customers, we use the 1987, 1992, 1997 and 2002 tables for CEO turnovers

that occur during the periods 1987 to 1989, 1990 to 1994, 1995 to 1999, and 2000 to 2004, respectively.

3.4 Classifying forced and voluntary CEO turnover

Our scheme for classifying turnovers as forced or voluntary is based on that of Gilson (1989), Weisbach (1988), Parrino (1997) and incorporates elements of each. We classify all CEO changes as forced turnovers other than those arising from retirement, normal management succession, death, illness, or those involving the CEO's departure for a prestigious position elsewhere. We initially assume a voluntary retirement for any departing CEO at least 64 years old unless we later uncover information suggesting the departure is performance-related. We consult news in The New York Times, The Wall Street Journal, The Washington Post, Dow Jones Business News and Dow Jones News Service for CEO turnover reasons. In our 1546 sample, voluntary turnovers account for 1109 (71.7%) of the turnovers and 437(28.3%) turnovers are forced. For comparison, Huson et al. (2004) define 20% of their CEO turnovers as forced departures over the sample period 1983–1994. Blackwell et al, (2007) turnover sample contains 26% forced turnovers over the period of 1981 to 1992. Hence, our classification results are basically similar to previous literatures.

3.5 Classifying CEO successors type

CEO successor type is, by nature, binary; a successor can only be either an insider or an outsider. Inside successors were defined as individuals who were previously employed within the firm; outside succession occurred when the newly appointed CEO was not employed by the firm at the time of the succession (Boeker & Goodstein, 1993; Dalton & Kesner, 1985; Helmich, 1974, 1975) All other CEOs are classified as insiders. Overall, our sample consists of 1096(71%) inside successions, and 450(29%) outside successions. Comparing to sample in Bommer and Ellstrand (1996), our sample of outside successions is a little bit higher than theirs, which is 21%. However, as suggested by Wharton management professor Michael Useem, the trend that the number of companies looks to the outside for the new CEO is increasing. Because we use a sample of firms selected from a recent time period, it is likely that the increased proportion of outside successions reflects a trend toward the increased selection of outsiders.

4. Methodology and results

4.1. Measuring abnormal returns

In this study, we use event study methodology to calculate abnormal returns for the announcers and their rival firms, suppliers, and customers. Abnormal return is an indicator to examine whether stock prices surrounding an event are above, below, or equal to the expected market return (Smith, Proffitt, & Stephens, 1992). Defining the announcement day as day zero, the market model parameters are estimated over the 250-day period beginning fifty days prior to the CEO turnover announcement, and require a minimum of 150 daily returns. Prediction errors from the market model are the abnormal stock returns.

We estimate abnormal returns to firm *i* at date t (AR_{it}) as

$$AR_{it} = R_{it} - \alpha_i - \beta_i R_{mt}$$

Where R_{mt} represents the return on the market portfolio for day t, R_{it} is the realized return to firm *i* on day *t*, and α_i and β_i are parameters estimated using a market model. The market portfolio is represented by the CRSP value-weighted index with dividends. Significance tests are based on a standardized test statistic constructed to determine whether the mean abnormal return is significantly different than zero (Dodd and Warner, 1983).

4.2. Abnormal returns to the announcing firms

To check whether our sample has same characteristics to previous studies, we firstly reexamine the impact of CEO announcement on stock value of the announcing firm. The results are reported in Table 4.

In our sample, we find CEO turnover is associated with a increase in a firm's market value as Friedman and Singh (1989); Huson et al. (2004) findings. Although inconsistent with Denis and Denis (1995), our sample shows insignificant abnormal returns for the forced turnover; when we further look into the abnormal returns to forced turnover with outside successors, we find positive and significant stock effects on announcers. The results are consistent with Borokovich, Parrino, and Trapani (1996)'s report, stating that turnover announcement abnormal stock returns are significantly positive for outside successions, and significantly negative for inside successions after forced turnover. When only consider the successors' type, our finding that the stock market reacts more positively to the announcement of outside CEO succession than inside succession is consistent with empirical results in Lubatkin et al., (1986, 1987); Borokovich et al. (1996); Boeker and Goodstein (1993); Canella and Lubakin (1993) and Schwartz and Menon (1985). The results reveal that the rational-adaptive perspective may dominate the disruptive perspective, and do not support the scapegoat perspective.

4.3. Abnormal returns to the rivals, customers, and suppliers

Rival firms

Examining abnormal returns to the rival firms, we find insignificant stock reactions for the overall sample in all of the announcement period windows in Table 5. However, when classified as forced and voluntary CEO turnover, we find the abnormal returns of forced CEO turnovers to rivals are positive and significant at 0.01 percent. The abnormal returns of voluntary CEO turnover are all insignificant. The classification by the origin of successors shows significantly differences as well. For announcing firms with outside successors, rival firms yield negative and significant abnormal returns in the (-1, 0), (-1, 1) and (-2, 2) window. Firms with inside successor, on the other hand, have significant and negative effects to rival firms in the (-1, 0) window. Generally, the results of the abnormal returns tend to support the ration-adaptive perspective, because the increase in industry rivalry and the inspiration to rival firms to be better may have confounding effects on the share price. As explained above, it is expected outside successor will initiate organizational changes more successfully (Helmich and Brown, 1972; Huson et al., 2004; Zajac, 1990), therefore the effect of increase in rivalry is expected to be larger with outside successors. Therefore, the negative effect on rivals firm for which announcers with outsider CEO is quite reasonable.

Customers

The overall sample shows significant and positive abnormal returns to both main and dependent customers. The positive effects to main customers and dependent customers, however, are different for the subsample of voluntary and forced turnover. For main customers, the positive abnormal returns are larger when there are voluntary CEO turnovers. In contrast, the positive stock reactions to dependent customers are large when there are forced CEO turnovers. On the other hand, for the subsample of inside or outside successor of CEO turnover, we cannot tell significant differences between the subsamples. Therefore, the CAR results to customers reveal that the rational-adaptive perspective dominate the disruptive perspective.

Suppliers

The CAR to the suppliers is positive and significantly at 0.01 level for overall sample. In panel B and C, we find for the subsample of voluntary turnover, CAR to main suppliers and dependent suppliers are always larger than that of forced turnover. By further examine the results in the classification of inside and outside successors, we find that the CAR to suppliers for the subsample of CEO turnover with outside successors is apparently smaller and less significant. Consistent with the prediction of rational-adaptive perspective, we find significant and positive effect to suppliers for overall sample and the subsample of CEO turnovers with inside successors. We also

find the positive but insignificant CAR for the subsample of CEO turnovers with outside successors. The insignificant result could be partially explained by the increase in possibility that outside successors initiate strategic changes, thus inducing uncertainty to the suppliers.

5. Cross-sectional analysis

In the previous section, we report evidence suggesting that the CEO turnovers in our sample are more likely to be explained by rational-adaptive perspective than other two perspectives. The main objective of this section is to test for the presence of scapegoat perspective and disruptive perspective in the cross-section by examining the relation between the various abnormal returns and industry structures. In Section 5.1, we develop the cross-sectional hypotheses. Section 5.2 describes the construction of our dependent variables. In Section 5.3, we report and discuss our results.

5.1. Cross-sectional hypotheses

5.1.1. Concentration of the CEO turnover announcer industry

Firms earn zero economic profits in the long run in perfectly competitive markets. Therefore, if the CEO turnover results in deterioration of morale and

productivity thereby a drop in production efficiency, one should expect that the wealth captured by the rival firms would be higher in less-competitive industries. It follows that customers will hurt more from the productive efficiency reduced of announcing firm due to CEO turnovers. Rivals in more concentrated industries will more likely to take advantage by raising the price of products because their products are now the substitutes of more expensive products of announcers (Lang and Stulz, 1992; Bradley, 2007). To suppliers, if the price of products is raised by both announcing firm and rival firms, the demand of the products may decrease. In this way, the demand of inputs will reduce as well. Thus, the disruptive perspective predicts a positive relation between the concentration of the CEO turnover announcer industry and the abnormal returns to the rival firms and a negative relation between the concentration of the CEO turnover announcer industry and their industry suppliers and corporate customers.

Based on the rational-adaptive perspective, there will be the revitalization of productivity, strategic reorientation and improved organizational performance for the announcer (Guest, 1962; Goodstein and Boeker, 1991; Denis and Denis, 1995; Huson, 2004). In more concentrated industries, the competitive pressure is even greater. Therefore, we expect the effect of increase in industry rivalry will be greater than the insipration to rival CEOs to improve their performace in less-competitive industries. Suppliers are expected to benefit more due to the increase of production efficiency

will be more evident in less-competitive industry. Thus, the rational-adaptive perspective predicts a negative(positive) relation between the concentration of the CEO turnover announcer industry and the abnormal returns to the rival firms (suppliers and corporate customers).

5.1.2. Firm size of Announcer

Large firms usually have more impacts to the industry. Based on the disruptive perspective, if the announcer is larger, rivals can benefit more due to more shifts in product demand. The customers and suppliers then are less likely to avoid the increase of costs owing to announcing firm's CEO turnover. On the other hand, according to rational-adaptive perspective, the effect of CEO turnover on the competitors could be larger when the announcing firm is large in size. We expect the effect of increase in industry rivalry will also be greater than the insipration to rival CEOs if the announcing firm is larger in size. As for the suppliers, the larger the announcing firm, the more likely the demand will increase. Tushman and Romanelli (1985) indicate that increase in organizational size can create progressively stronger resistance to fundamental change. Largeness should thus be associated with a low likelihood of major changes in corporate strategy and the suppliers are less uncertain. The disruptive perspective predicts there is a positive (negative) relation between the firm

size of announcer and the abnormal returns to their rivals (suppliers and customers). The rational-adaptive perspective, on the other hand, predicts a negative (positive) relationship between the firm size of announcer and the abnormal returns to their rivals (suppliers).

5.1.3. Forced Turnover Dummy

Based on the disruptive perspective, when the incumbent CEO is forced out, it is hard to tell whether it is more likely to upset the balance in the announcing firm. However, the rational-adaptive perspective suggests CEO turnover usually occurs when there is poor performance in the firm. When the incumbent CEO is forced out due to poor performance, the competency of the announcer may more likely to increase with the coming of a new CEO. It follows that the customers will benefit more. Most forced CEO turnover cases are owing to poor performance, the revitalization of productivity thus tend to make more improvements comparing to voluntary turnover., which is good to the suppliers. On the other hand, the pressure from the announcer with forced replacement will also inspire more rival firms in the industry, which may benefit the suppliers more. Hence, the rational-adaptive perspective predicts there is a positive relation between the forced CEO turnover dummy and the abnormal returns to suppliers and the customers, and the relationship

between the forced CEO turnover dummy and the abnormal returns to the rivals is ambiguous.

5.1.4. Outside Successor Dummy

The disruptive perspective stresses on that CEO succession may upset a delicate balance in the firm. Therefore, the rival firms will benefit more due to the replacement with an outside successor of the announcing firm. It follows that the customers and suppliers will hurt more as well. According to rational-adaptive perspective, outsider is more likely to increase the competency of the announcer. We expect the effect of the increase in rivalry in the industry will be greater than the inspiration to rival firms. In addition, outsider CEOs are usually brought in with the purpose of initiating swift changes (Shen and Cannella, 2002; Zajac, 1990), which leads to more uncertainty to the suppliers. Although the pressure from the announcer with outside successor may also inspire more firms and increase the overall productivity of the industry, we believe the negative effect to suppliers is greater in this case. Therefore, the disruptive perspective predicts a positive (negative) relation between the outside successor dummy and the abnormal returns to the rival firms (suppliers and customers). The rational-adaptive perspective predicts that a negative relation between the outside successor dummy and the abnormal returns to industry rivals and suppliers.

5.1.5. Announcer CAR in the (-2, 2) window

The variable of announcer CAR is the most important variable we want to test in this study, because all the disruptive and rational-adaptive perspectives predictions are based on the assumption of that the announcement of CEO turnover has impact to the industry rivals, customers and suppliers. The disruptive perspective predicts a negative relation between announcer CAR and rival CAR, and a positive relation between the announcer CAR and the supplier and customer CAR. On the other hand, the rational-adaptive perspective predicts that there is an ambiguous relation between announcer CAR and the rival and supplier CAR, and a positive relation between announcer CAR and the customer CAR. The scapegoat perspective, on the other hand, predicts insignificant relation between the announcer CAR and the CAR of their rival, customers and suppliers.

5.2. Measurement of independent variables

The construction of our concentration measures requires detailed data pertaining to the market shares of firms in the CEO turnover announcer, supplier, and customer industries. Following the literature, we use Compustat to obtain market share data (Lang and Stulz, 1992; Song and Walkling, 2000; Shahrur, 2005). We use the sales-based Herfindahl index to measure the concentration of the turnover

announcer industry. We use sales data for the fiscal year preceding the year of the announcement.

Following Farrell and Whidbee (2003), we use the logarithm firm capitalization as a proxy of firm size of announcer[2]. We set the forced turnover dummy equal to one when it is a forced turnover and use same ways to set outside successor dummy equal to one, when the turnover announcement is associated with an outsider new CEO. Finally, we follow Shahrur (2005) to use the (-2, 2) window to measure the abnormal returns to the announcer, their rival firms, suppliers and customers.

5.3. Cross-sectional results

In this section, we report the results on the determinants of CARs to the announcing firm's rivals, suppliers, and corporate customers. As suggested by Shahrur (2005), all dependent variables are trimmed at the 1st and 99th percentiles to mitigate the effect of outliers on our results. The results using Ordinary Least Squares (OLS) estimation do the cross-sectional analysis of the abnormal returns for rivals, customers, and suppliers are reported in Table 6, 7, and 8.

[2] Alternative proxies for firm size are log of sales, log of assets, log of the number of employees.

5.3.1. Regression of abnormal returns to rivals

Our results on the determinants of the CARs to rival firms are reported in Table 6. In Model 1 and 2, the only difference is that we do not include announcer (-2,2) CARs in model 1. By comparing the adjusted R square of Model 1 and 2, we can figure out whether the variable of announcer CAR can partially explain the CAR to rival firms.

In both models, the coefficient on Herfindahl Index is positive but statistically insignificant. The coefficient on firm size of the announcer is negative but insignificant as well. The results of these two variables are inconsistent with the predictions of the disruptive perspective. On the other hand, the Forced turnover dummy shows a positive and significant relation with CAR to rivals. The coefficient on the outside successor dummy is negative and significant at 0.01 level in both models. The results of the two variables are remarkably consistent with the rational-adaptive perspective. The coefficient on announcer CAR is positive and significant, thus do not support the scapegoat perspective and means the rational-adaptive perspective dominate the disruptive perspective. To further examine the adjusted R square of the two models, we do find an increase of adjusted R square in model 2, which supports our assumption that the announcer CAR has impacts on competitors CAR in the announcement of CEO turnover.

5.3.2. Regression of abnormal returns to the customers

The results on the determinants of the CAR to customers are reported in Table 7. The coefficient on Herfindahl index of announcer is positive and significantly for both main customers and dependent customers, which is consistent with the view of disruptive perspective. As to the coefficients of firm size and forced turnover dummy, they are positive and significant only for main customers. Although these two variables only show significance for main customers or dependent customers, they are still inconsistent with the predictions of the disruptive perspective, but support the rational-adaptive perspective instead. The outside successor dummy, on the other hand is negative and significant for dependent customers. This is inconsistent with the rational-adaptive perspective. We believe this might due to the bargaining power of Dependent Customer is comparatively lower than the announcing firm. Thus, the new outside successors may take some actions which hurt the benefits of the Dependent Customer to boost the performance of the announcing firm. In addition to the explanatory variables discussed above, we add Customer Input Coefficient. Recall that this variable captures the dependence of the customer industry on the input bought from the CEO turnover announcer industry. Again, we follow Shahrur (2005) to test whether a higher Customer Input Coefficient is associated with a higher magnitude of abnormal returns to customers. Therefore, in addition to Customer Input

Coefficient, we add Customer Negative CAR Dummy, a dummy variable that equals one if the dependent variable is negative, and we interact this variable with Customer Input Coefficient. Our result of the coefficient on Customer Input Coefficient is positive and significant. Further, the coefficient on the interaction between Customer Input Coefficient and Customer Negative CAR Dummy is significantly negative for both Main customer and Dependent Customer. These results suggest that in the positive (negative) CAR range, an increase in Customer Input Coefficient results in higher (lower) abnormal returns to corporate customers. Finally, the coefficient on announcer CAR are positive and significantly. Hence, it supports our assumption that CEO turnover events have impact on the share value of customer in the announcement period.

5.3.3. Regression of abnormal returns to the suppliers

Table 8 displays results of regressing the CAR to suppliers on the various explanatory variables. We report regression results for CARs to Main Supplier and Dependent Supplier, respectively. The coefficients on Herfindahl index and firm size of announcer are positive and significant, which is inconsistent with disruptive perspective. Consistent with the view of rational-adaptive, the coefficients on forced turnover dummy are positive and significant for both main suppliers and dependent

suppliers. Negative and significant coefficient on outside successor dummy matches the prediction of both perspectives. Recall that Supplier Percentage Sold measures the importance of the CEO turnover announcer industry as a buyer from the supplier industry. As Shahrur (2005) suggests the higher Supplier Percentage Sold should be associated with a higher magnitude of abnormal returns to suppliers. To test this hypothesis, we include Negative Supplier CAR Dummy and interact this variable with Supplier Percentage Sold. Our results support that for CEO turnovers that result in positive (negative) CARs to the suppliers, an increase in the percentage of output sold to the CEO turnover announcer industry results in higher (lower) abnormal returns. The coefficient on the announcer CAR is positive and statistically significant to both Main Supplier and Dependent Supplier. The result is inconsistent with the prediction of scapegoat perspective, however, is remarkably consistent with the rational-adaptive perspective dominate the disruptive perspective.

6. Conclusion

We investigate the effects of a large sample of 1546 CEO turnover events on the intra-industry, upstream and downstream industry over the period of 1987 to 2004. Following Shahrur (2005), we use the benchmark input-output accounts for the U.S.

economy to identify the competitors, suppliers and corporate customers of the announcing firm and further to examine their stock price reactions in the CEO turnover announcement period. The summary of our results are reported in Table 9.

For the rival firms, we are unable to find significant abnormal returns to the overall sample. When further examining the subsample of forced (voluntary) turnover, it presents positive (negative but insignificant) abnormal returns to the rivals. In addition, for the subsample of CEO turnover with outside (inside) successor, there are negative (positive) abnormal returns to their rivals. As suggested by the rational-adaptive perspective, outside successors are more likely to cause the increase of industry rivalry because they tend to more successfully improve the competency of the announcer. Therefore, there is an adverse impact to the rivals. For the customers and suppliers, the evidences of overall sample show more supporting for the rational-adaptive perspective as well. According to the rational-adaptive theory, if the new CEO is an outsider, it is more likely to increase the uncertainty to the suppliers. When we use the subsample of CEO turnover with outside successors, however, we only find a decrease of positive abnormal returns and less significance result to the suppliers. Overall, our sample indicates that the rational-adaptive perspective tends to more effectively explain the impact of CEO turnover announcements on the competitors, suppliers and corporate customers.

By the cross-sectional analysis of abnormal returns, we find that dependent industries (which depend on announcers and rival firms) display similar results to main industries (which announcers and rival firms rely on) in most cases. The results show that the increase in the abnormal returns to the announcing firms is positively and significantly related to the abnormal returns to their competitors, suppliers and customers. We further find that classifying CEO turnover by types of successor's origin and reasons for incumbent CEO to leave can provide more insights to the analysis. The dummy of an outside successor is negatively related to the abnormal returns to the competitors and suppliers as the expectation of the rational-adaptive respective. However, it is not for the customers. For Dependent Customers, it is found significantly and negatively related to their abnormal returns. We believe this might due to the bargaining power of Dependent Customer is comparatively lower than the announcer. Thus, the new outside successors may take some actions which hurt the benefits of the Dependent Customer to boost the operating performance of the announcing firm. In addition, we find the size of announcer and the announcer industry concentration are positively related to the abnormal returns to the suppliers and customers in the announcement period. That means large firms or firms in a less competitive industry have more impacts to other firms and the supply chain when they announce CEO turnover. Clearly, leaders of organizations formulate strategies and

organizations do adapt to environmental contingencies. As a result at least some of the relationship between structure and environment must reflect adaptive behavior (Hannan and Freeman, 1977). However, there is no reason to presume that the impact between the announcers and the intra-industry, the announcers and the customer and supplier industries reflect only or even primarily rational-adaptation. We have to admit the effects of disruption may exist, but possibly too small to be offset. In fact, we can only conclude that the rational-adaptive perspective dominates the disruptive perspective, and do not support the scapegoat perspective.

7. Suggestions for future researches

Our findings suggest there is a fruitful area to further explore the impacts of CEO turnover of one industry on the intra-industry and other related industries. In addition, since there is a negative reaction to the stock returns of the rivals when the new CEO of the announcing firm is an outsider, we surmise rival firms will not passively react to that. In contrast, the relation of them could be dynamical. Therefore, future researches can further explore the influences of CEO turnover of one industry on the dynamic relationships of the intra-industry and even other related industries. To follow Fee and Thomas (2004) analysis the data by announcing firm's key suppliers and customers could be one way to understand the relationship more deeply.

Table 1
Summary of predictions
This table summarizes the predictions of the rational-adaptive, disruptive and scapegoat perspectives regarding the signs of announcement period abnormal returns to the announcing firms and their rivals, customers, and suppliers.

	Rational-adaptive Perspective	Disruptive Perspective	Scapegoat Perspective
Announcers	**Positive** An important source of organizational adaptation, because variety increases chances for survival (Campbell, 1965; Weick, 1979). Accompanied by the revitalization of productivity, strategic reorientation and improved organizational performance (Guest, 1962; Goodstein and Boeker, 1991; Denis and Denis, 1995; Huson, 2004). To establish a competitive advantage in the future environment. (Greiner and Bhambri, 1989)	**Negative** Leading to organizational instability, an increase in tensions, and deterioration of morale and productivity (Allen et al. 1979; Grusky 1963, 1964). Trigger additional turnover by prompting deterioration in attitudes toward the organization (Staw, 1980). Many important activities, such as construction projects, the purchase of new equipment, and strategic planning were postponed or halted. Cost cutting and downsizing activities were also frequently undertaken (Khauq et al., 2006).	**Insignificant** When there is poor performance due to chance or factors outside control, the removal of the incumbent top manager serves to apportion blame and a new manager (with equal ability) is selected (Gamson and Scotch, 1964; Khanna and Poulsen, 1995) To appease stakeholders and mask more fundamental organizational weaknesses during performance slides (Brown 1982, Gamson and Scotch 1964, Lieberson and O'Connor 1972).
Competitors	**Unrestricted** +: Inspire rival CEOs to make more efforts to their firms. -: The industry rivalry will be more intense.	**Positive** A drop in production efficiency result in higher prices and lower output, which may induce a demand decrease to the announcer. Competitors can take advantage of demand shift (Lang and Stulz, 1992).	**Insignificant** Since announcer's managerial change has relatively little influence on organizational performance, policies, stock returns, etc., the impact on competitors is also minimal.
Customers	**Positive** Facing competitive pressure to make organizations ideally suited for the creation and delivery of customer value (Peck and Juttner, 2000).	**Negative** Higher prices and lower output of announcer induce higher costs to customers, or customers need to search for another supplier.	**Insignificant** Since there is relatively little influence on organizational performance, policies, stock returns, etc., the impact on customers is also minimal.
Suppliers	**Positive** The demand of inputs may increase due to announcer's revitalization of productivity (Lang and Stulz, 1992) and the increase in competitiveness of the announcer.	**Negative** Higher prices and lower output may lead to lower demand of products to announcers (Lang and Stulz, 1992), therefore lower demand of inputs to suppliers.	**Insignificant** Since there is relatively little influence on organizational performance, policies, stock returns, etc., the impact on suppliers is also minimal.

Table 2
Summary of predictions by subsamples
This table summarizes the predictions of the rational-adaptive and disruptive perspectives regarding the signs of announcement period abnormal returns of the CEO turnover subsamples on the announcers, the rivals, and their customers and suppliers. Panel A classifies the sample by the reasons of CEO turnover, and panel B classifies the sample by the orgin of the new CEO.

Panel A: Forced Turnover vs. Voluntary Turnover		
	Rational-adaptive perspective	**Disruptive perspective**
Announcer		
Forced turnover	**Positive** Higher percentage cost-cutting or efficiency measures (Denis and Denis, 1995).	**Negative** Higher percentage of employee layoffs or wage cuts (Denis and Denis), which might lead to more deteriation of employee morale.
Voluntary turnover	**Positive/Insignificant** Followed by small increases in operating income (Denis and Denis, 1995). Not necessarily result in predictable changes in performance following the CEO transition. (Hillier et al. 2006)	**Insignificant** For reasons such as family problems, location, or economic conditions it will produce less of a demoralization effect than if turnover is perceived to result from the nature of the work, pay, or supervision (Steers and Mowday, 1980).
Competitors		
Forced turnover	**Unrestricted**	**Positive**
Voluntary turnover	**Unrestricted**	**Insignificant** Less deterioration of morale (Steers and Mowday, 1980)
Customers		
Forced turnover	**Positive**	**Negative**
Voluntary turnover	**Positive**	**Insignificant** Less deterioration of morale (Steers and Mowday, 1980) and thus less impact on productivity efficiency of the announcer.
Suppliers		
Forced turnover	**Positive**	**Negative**
Voluntary turnover	**Positive**	**Insignificant** Less deterioration of morale (Steers and Mowday, 1980) and thus less impact on productivity efficiency of the announcer.

Table 2

Summary of predictions by subsamples

(Continued)

Panel B: Outside Succession vs. Inside Succession		
	Rational-adaptive perspective	**Disruptive perspective**
Announcer		
Outside succession	**Positive** Ability to envision, implement a broad range of strategic options and to make fundamental changes in firm's strategy and structure (Carlson, 1962). Have the skills and capabilities to make good on the change mandate (Khurana and Nohria, 2001). Having experiences outside the firm benefit firm performance (Pfeffer and Salancik, 1978; Tushman and Romanelli, 1985).	**Negative** Outside successors more likely to change the asset structure, personnel practices, marketing techniques, and general strategic approaches and many sorts of policies (Weisbach, 1995).
Inside succession	**Insignificant** Inside succession negates much of the potential adaptation value of turnover (Carlson, 1962).	**Insignificant**
Competitors		
Outside succession	**Negative** Outside successor will initiate organizational changes more successfully (Helmich and Brown, 1972; Huson et al., 2004; Zajac, 1990), therefore the effect of increase in rivalry is expected to be larger.	**Positive**
Inside succession	**Positive** More likely to inspire rival CEOs to make efforts to their firms instead of increasing industry rivalry.	**Insignificant**
Customers		
Outside succession	**Positive**	**Negative**
Inside succession	**Positive**	**Insignificant**
Suppliers		
Outside succession	**Unrestricted** Outsiders are more likely to change policies and strategies after management turnover (Weisbach 1995; Wiersema, 1992; Helmich and Brown, 1972), which increases uncertainty to the suppliers.	**Negative**
Inside succession	**Positive**	**Insignificant**

Table 3

Sample distribution

The sample consists of 1546 CEO turnover announcements during the period 1987 to 2004. It is manually collected by identifying change in the position of Chief Executive Officer (CEO) from news in The New York Times, The Wall Street Journal, The Washington Post, Dow Jones Business News and Dow Jones News Service.

Year of announcement	Number of the CEO turnover announcements	Percent of total
1987	14	0.91
1988	26	1.68
1989	47	3.04
1990	55	3.56
1991	50	3.23
1992	53	3.43
1993	71	4.59
1994	60	3.88
1995	59	3.82
1996	40	2.59
1997	45	2.91
1998	81	5.24
1999	195	12.61
2000	201	13.00
2001	182	11.77
2002	134	8.67
2003	114	7.37
2004	119	7.70
Total	1546	100

Table 4

Announcement period abnormal returns to the announcing firm

Announcement period cumulative abnormal returns (CARs) are associated with a sample of 1546 CEO turnovers of firms with stock returns data over the period 1987 to 2004. Abnormal returns are computed using the standard market model procedure with parameters estimated over the 250-day period beginning fifty days before the CEO turnover announcement. CEO changes are designated forced if the reason given for the change is forced resignation or poor performance. If neither reason is given, a change is classified as forced if the departing CEO leaves the firm and the departing CEO is not between the ages of 64 and 66. A CEO change is classified as a voluntary turnover if the reason given for the change is retirement or normal succession and the departing manager is between the ages of 64 and 66. Inside successors were defined as individuals who were previously employed within the firm; outside succession occurred when the newly appointed CEO was not employed by the firm or was employed but less than one year at the time of the succession.

Panel A:	**Announcement-Period CARs (%)**			
	(-1,0)	**(-1,1)**	**(-2,2)**	**(-5,5)**
Overall samples	0.53**	0.82***	0.68**	1.05**
(N=1546)	(2.33)	(3.05)	(2.13)	(2.39)
Forced Turnover	-0.16	0.13	0.06	0.79
(N=437)	(-0.28)	(0.20)	(0.09)	(0.71)
Voluntary Turnover	0.80***	1.09***	0.92***	1.15***
(N=1109)	(3.73)	(4.12)	(2.72)	(2.70)
Outside Successions	1.81***	2.42***	2.55***	3.61***
(N=450)	(3.71)	(4.15)	(3.82)	(3.51)
Inside Successions	-0.00	0.16	-0.09	-0.01
(N=1096)	(-0.01)	(0.54)	(-0.24)	(-0.02)
Panel B:	**(-1,0)**	**(-1,1)**	**(-2,2)**	**(-5,5)**
Forced + Outsider	3.49*	2.33*	2.38**	2.20**
(N=149)	(1.92)	(1.87)	(1.98)	(2.02)
Forced + Insider	-1.37**	-0.98	-1.02	-1.36
(N=288)	(-2.03)	(-1.24)	(-1.13)	(-1.16)
Voluntary + Outsider	1.63***	2.49***	2.76***	2.97***
(N=301)	(3.29)	(3.89)	(3.53)	(2.87)
Voluntary + Insider	0.49**	0.56**	0.25	0.47
(N=808)	(2.15)	(2.08)	(0.68)	(1.08)

The symbols *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively (t-statistics are in parentheses).

Table 5

Announcement period abnormal returns to rivals, customers and suppliers

This table reports cumulative abnormal returns (CAR) to Rivals, Main Customer, Dependent Customer, Main Supplier, and Dependent Supplier industries. The sample consists of 1546 CEO turnovers during the period 1987 to 2004. Supplier and customer industries are identified using the benchmark input-output accounts for the U.S. economy. For each announcing firm's industry, the Main Customer Industry is the industry that buys the highest percentage of the announcer industry's output. The Dependent Customer Industry is the industry whose production depends on the announcer industry's output more than any other customer industry. The Main Supplier Industry is the industry that supplies the main input to the announcer's industry. The Dependent Supplier Industry is the supplier industry whose percentage of output sold to the announcer's industry is higher than that of any other supplier industry. A customer industry is included in the sample if its total dollar amount spent on the input bought from the announcer's industry represents more than 1% of its total output. A supplier industry is included in the sample if it sells more than 1% of its total output to the announcer's industry. CARs to rivals, suppliers, and customers are estimated by firms in the corresponding industry. Panel A reports CARs for the overall sample. Panel B (Panel C) reports CARs for the subsample of turnovers that is classified as forced (voluntary) turnovers. Panel D (Panel E) reports CARs to the subsample of CEO turnovers with inside (outside) successors.

Panel A: CAR (%) to the overall sample of CEO turnover events

Industry	Rivals		Main Customers Ind.		Dep. Customer Ind.		Main Suppliers Ind.		Dep. Suppliers Ind.	
# of firms	39669		22135		17640		13471		19578	
Window	Mean	T-stat	Mean	T-stat	Mean	T-stat	Mean	T-stat	Mean	T-stat
(-1,0)	0.05	1.17	0.23	3.12***	0.34	3.54***	0.48	3.85***	0.28	3.17***
(-1,1)	-0.33	-0.85	0.23	2.67***	0.37	3.33***	0.52	3.82***	0.31	2.95***
(-2,2)	-0.38	-0.94	0.26	2.39**	0.59	3.35***	0.93	3.74***	0.50	3.01***
(-5,5)	-0.50	-1.13	1.31	8.12***	1.36	4.78***	2.18	5.43***	1.03	4.40***

The symbols *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 5
(Continued)

Panel B: CAR (%) to the subsample of forced CEO turnovers										
Industry	Rivals		Main Customers		Dependent Customers		Main Suppliers		Dependent Suppliers	
# of firms	11237		6515		5606		4251		6438	
Window	Mean	T-stat	Mean	T-stat	Mean	T-stat	Mean	T-stat	Mean	T-stat
(-1,0)	0.25	3.50***	0.10	0.73	0.41	2.34**	0.45	3.00***	0.26	2.42**
(-1,1)	0.29	3.16***	0.09	0.53	0.44	2.16**	0.50	3.12***	0.29	2.26**
(-2,2)	0.73	3.91***	-0.16	-0.74	0.72	2.20**	0.88	2.91***	0.45	2.25**
(-5,5)	0.59	0.84	1.50	4.78***	1.84	4.42***	1.71	3.54***	0.91	3.14***

Panel C: CAR (%) to the subsample of voluntary CEO turnovers										
Industry	Rivals		Main Customers		Dependent Customers		Main Suppliers		Dependent Suppliers	
# of firms	28432		15620		12034		9220		13140	
Window	Mean	T-stat	Mean	T-stat	Mean	T-stat	Mean	T-stat	Mean	T-stat
(-1,0)	0.02	0.45	0.27	3.14***	0.30	2.67***	0.53	2.43**	0.32	2.07**
(-1,1)	-0.44	-0.86	0.28	2.75***	0.34	2.57***	0.56	2.21**	0.34	1.93**
(-2,2)	-0.55	-1.10	0.44	3.38***	0.53	2.54**	1.03	2.37**	0.60	2.02**
(-5,5)	-0.90	-1.19	1.18	6.42***	0.86	3.66***	2.67	4.43***	1.31	3.18***

The symbols *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 5

(Continued)

Panel D: CAR (%) to the subsample of CEO turnover events with inside successors										
Industry	Rivals		Main Customers		Dependent Customers		Main Suppliers		Dependent Suppliers	
# of firms	28761		15782		12391		9185		6146	
Window	Mean	T-stat	Mean	T-stat	Mean	T-stat	Mean	T-stat	Mean	T-stat
(-1,0)	0.21	3.46***	0.21	2.39**	0.32	2.86***	0.66	3.65***	0.45	2.36**
(-1,1)	0.31	4.62***	0.13	1.35	0.29	2.27**	0.57	3.25***	0.42	1.76*
(-2,2)	0.46	3.63***	0.24	1.89*	0.55	2.69***	0.97	3.08***	0.56	2.36**
(-5,5)	0.44	1.37	1.45	7.69***	1.48	4.97***	2.32	4.69***	1.39	4.51***

Panel E: CAR (%) to the subsample of CEO turnover events with outside successors										
Industry	Rivals		Main Customers		Dependent Customers		Main Suppliers		Dependent Suppliers	
# of firms	10908		6353		5249		4286		13432	
Window	Mean	T-stat	Mean	T-stat	Mean	T-stat	Mean	T-stat	Mean	T-stat
(-1,0)	-0.23	-3.35***	0.28	2.00**	0.38	2.09**	0.19	1.29	0.07	1.77*
(-1,1)	-1.70	-1.25	0.44	2.55**	0.55	2.56**	0.44	1.62*	0.17	2.54**
(-2,2)	-1.99	-1.46	0.33	1.47	0.67	1.99**	0.86	1.86*	0.41	1.87*
(-5,5)	-2.26	-1.64	0.94	3.07***	0.63	1.17	1.89	2.54**	0.67	1.52

The symbols *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 6

Least squares regression of cumulative abnormal returns to rival firms

The sample includes 1546 CEO turnover announcements during the period 1987 to 2004. The dependent variable is the cumulative abnormal return to rival firms for the (-2, 2) window. Abnormal returns are estimated using a market model. The dependent variable is trimmed at the 1st and 99th percentile. Rivals are all single-segment firms operating in the same industry as announcing firm. Herfindahl Index is the proxy of industry concentration. The log of market capitalization measured by outstanding shares multiply share price of the day before CEO announcement is our proxy for firm size. Forced turnover dummy is equal to one when the turnover is classified as forced. Outside successor dummy is equal to one when the new CEO is from outside the firm. Announcer CAR is the cumulative abnormal returns to the announcer for the (-2, 2) window.

X	Y=Rival (-2, 2) CAR	
	(1)	(2)
Herfindahl index	0.00035	0.00079
	(0.84)	(0.19)
Firm size of announcer	-0.00017	-0.00003
	(-0.68)	(-0.14)
Forced Turnover Dummy	0.00595***	0.00655***
	(4.81)	(5.20)
Outside Successor Dummy	-0.01039***	-0.01149***
	(-8.49)	(-9.22)
Announcer CAR		0.02153***
		(5.26)
Intercept	0.00469	0.00286
	1.33	0.79
Adjusted R-square	0.0032	0.0051
N	38530	37959

The symbols *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively (t-statistics are in parentheses).

Table 7

Least squares regression of cumulative abnormal returns to customers

The sample includes 1546 CEO turnover announcements during the period 1987 to 2004. The dependent variable is the cumulative abnormal return to customers for the (-2, 2) window. Abnormal returns are estimated using a market model. The dependent variable is trimmed at the 1st and 99th percentile. The Main Customer industry is the industry that buys the highest percentage of the announcer industry's output. The Dependent Customer industry is the industry whose production depends on the announcer industry's output more than any other customer industry. Herfindahl Index is the proxy of announcer industry concentration. The log of market capitalization measured by outstanding shares multiply share price of the day before CEO announcement is our proxy for announcer firm size. Forced turnover dummy is equal to one when the turnover is classified as forced. Outside successor dummy is equal to one when the new CEO is from outside the firm. Customer Input Coefficient is the dollar amount of the announcer industry's output sold to the corporate customer industry divided by the total output of the corporate customer industry. A customer industry is included in the sample if its Customer Input Coefficient is greater than 1%. Customer Negative CAR Dummy is a dummy variable that equals one if the dependent variable is negative. Announcer CAR is the cumulative abnormal returns to the announcer for the (-2, 2) window.

X	Y=Customer (-2, 2) CAR	
	MC	DC
Herfindahl index of announcer	0.41566***	0.12378***
	(32.52)	(10.02)
Firm size of announcer	0.00886***	0.00046
	(12.37)	(0.52)
Forced Turnover Dummy	0.00754**	0.00080
	(2.24)	(1.18)
Outside Successor Dummy	-0.00026	-0.05731***
	(-0.08)	(-3.05)
Customer Input Coefficient	0.05528***	0.79126***
	(3.11)	(27.23)
Customer Negative CAR Dummy	-0.26208***	-0.35846***
	(-54.02)	(-57.45)
Cust. Input Coeff* Cust. -CAR Dummy	-0.14662***	-0.74273***
	(-5.48)	(-15.62)
Announcer CAR	0.02394*	0.16449***
	(1.84)	(13.31)
Intercept	0.03903	0.24123
	(3.80)	(19.45)
Adjusted R-square	0.2818	0.3532
N	21825	17128

The symbols *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively (t-statistics are in parentheses).

Table 8

Least squares regression of cumulative abnormal returns to suppliers

The sample includes 1546 CEO turnover announcements during the period 1987 to 2004. The dependent variable is the cumulative abnormal return to suppliers for the (-2, 2) window. Abnormal returns are estimated using a market model. The dependent variable is trimmed at the 1st and 99th percentile. The Main Supplier industry is the industry that supplies the main input to the announcer industry. The Dependent Supplier industry is the supplier industry whose percentage of output sold to the announcer industry is higher than that of any other supplier industry. Herfindahl Index is the proxy of announcer industry concentration. The log of market capitalization measured by outstanding shares multiply share price of the day before CEO announcement is our proxy for announcer firm size. Forced turnover dummy is equal to one when the turnover is classified as forced. Outside successor dummy is equal to one when the new CEO is from outside the firm. Supplier Percentage Sold is the percentage of the supplier industry's output sold to the announcer's industry. Supplier Negative CAR Dummy is a dummy variable that equals one if the dependent variable is negative. Announcer CAR is the cumulative abnormal returns to the announcer for the (-2, 2) window.

X	Y=Supplier (-2, 2) CAR	
	MS	DS
Herfindahl index of announcer	0.12912***	0.19329***
	(5.77)	(8.64)
Firm size of announcer	0.00445**	0.00147
	(2.19)	(1.63)
Forced Turnover Dummy	0.04118***	0.03540**
	(5.28)	(2.17)
Outside Successor Dummy	-0.06309***	-0.04508***
	(-8.14)	(-10.23)
Supplier Percentage Sold	0.10363***	0.11082***
	(6.74)	(11.65)
Supplier Negative CAR Dummy	-0.72895***	-0.41403***
	(-79.94)	(-82.58)
Supplier Pct. Sold*Sup. –CAR Dummy	-0.11627***	-0.04173***
	(-4.87)	(-3.12)
Announcer CAR	0.26435***	0.15798***
	(12.73)	(12.46)
Intercept	0.71936	0.30343
	(33.10)	(24.68)
Adjusted R-square	0.3472	0.3235
N	12713	18975

The symbols *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively (t-statistics are in parentheses).

Table 9

Summary of results

This table displays a summary of the signs of announcement period abnormal returns to the announcing firms and their rivals, customers, and suppliers. The sample includes 1546 CEO turnovers during the period 1987 to 2004. Customer and supplier industries are identified using the benchmark input-output accounts for the U.S. economy as described in Table 5. Abnormal returns are estimated using a market model. Abnormal returns to rivals, suppliers, and customers are estimated using all firms in the corresponding industry. The classification of forced and voluntary CEO turnover is based on the reason of incumbent CEO for leave. The other classification of outside successor and inside successor is according to the origin the new CEO.

	Predictions			Results				
	Rational-adaptive Perspective	Disruptive Perspective	Scapegoat Perspective	Overall sample	Forced turnover	Voluntary turnover	Outside successor	Inside successor
Announcers	Positive	Negative	Insignificant	Positive	Insignificant	Positive	Positive	Insignificant
Competitors	Unrestricted	Positive	Insignificant	Insignificant	Positive	Insignificant	Negative	Positive
Customers	Positive	Negative	Insignificant	Positive	Positive	Positive	Positive	Positive
Suppliers	Positive	Negative	Insignificant	Positive	Positive	Positive	Positive	Positive

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