

CEO SUCCESSION'S EFFECTS ON PERFORMANCE AND STRATEGY

CEO successions have profound consequences for organizations, including changes in strategy, top executives teams, and organizational structures. Analyzing more than 60 studies from four decades of research on CEO succession representing over 13,000 CEO succession events, recent research in *Leadership Quarterly* sought to better understand the ramifications of CEO succession for both firm performance and strategic behaviors.

Key Takeaways:

- CEO succession is positively related to changes in organizational strategy and negatively related to short-term company performance.
- Inside CEOs initiate fewer strategic changes and exhibit better long-term performance than outside hires.
- Whether a succession was planned or forced did not affect subsequent strategic change or better performance.

The researchers found that CEO succession is positively related to strategic change and negatively related to performance; however, the negative effects of succession on performance primarily occur in the first three years of a new CEO's tenure. The long-term effects of succession on company

performance largely result from strategic change, such that greater strategic change following succession resulted in poorer performance. Furthermore, internal CEOs, who tend to initiate less strategic change upon promotion, have stronger long-term performance, while outside CEOs engage in more change and have poorer long-term performance. Finally, these findings did not change based on whether the succession event was planned or forced.

In summary, the authors suggest that the disruption caused by CEO succession has negative short-term consequences for organizations. In the long-run, inside CEOs are able to perform better due to fewer disruptions in the organization. However, more research is necessary to understand the conditions under which some outside CEOs perform better than others and what the optimal level of strategic change may be following succession given that change is likely necessary to adapt the company to an ever changing environment.

Source: Schepker, D.J., Kim, Y., Patel, P.C., Thatcher, S.M.B., & Campion, M.C. 2017. CEO succession, strategic change, and post-succession performance: A meta-analysis. *Leadership Quarterly*, 28: 701-720.

