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The impact of a CEO's position-specific skills on post-succession performance

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**The impact of a CEO's position-specific skills
on post-succession performance**

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Working Paper Chair of Strategic Management and Organization

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ABSTRACT

In extending CEO succession research, we show that the position-specific skills that a new CEO brings to office lead to higher firm performance during the early tenure of the CEO. Drawing on CEO-strategy fit research, we define position-specific skills as a fit between the experiences of the new CEO and the company's diversification posture at the succession event. Our main contribution lies in advancing succession performance research beyond the traditional insider-outsider debate by introducing a new set of CEO skills. Specifically, we show that position-specific skills have an important impact on post-succession performance.

INTRODUCTION

In our paper we address the question as to why some companies perform better after a CEO succession event than others. This question has been at the core of CEO succession research since its inception and has been addressed in various studies. Several antecedents and moderating variables of post-succession performance have been studied in this context, among them certain skill sets of the new CEO (Finkelstein, Hambrick, and Canella, 2009; Giambatista, Rowe, and Diaz, 2005; Kesner and Sebor, 1994). So far, however, research on the impact of the skills of the new CEO on post-succession performance has almost exclusively focused on firm- or industry-specific skills, particularly on the role of insider versus outsider status of the new CEO. Yet such research has led to inconclusive results (e.g. Davidson, Nemec, Worrell, and Lin, 2002; Helfat and Bailey, 2005; Huson, Malatesta, and Parrino, 2004; Karaevli, 2007; Rhim, Peluchette, and Song, 2006). Based on CEO-strategy fit research, we argue that skills other than firm- or industry-specific skills of a new CEO play a role in explaining superior post-succession performance. We label these ‘other’ skills ‘position-specific skills’ and define them as a fit between the experiences of the CEO and the company’s strategic diversification.

One important stream in CEO succession research argues that the succession event leads to a loss of relevant human capital, i.e. that the departure of the old CEO leaves a gap which the new CEO cannot instantly fill (e.g. Bailey and Helfat, 2003). This induces a learning need for the new CEO that negatively impacts company performance during the early tenure. Only after the CEO has learned the ‘ropes to skip and the ropes to know’ (Boal and Hooijberg, 2000: 520), will the company be able to return to its original performance level and onto a growth trajectory.

Nevertheless, few studies in CEO succession research have addressed the question of how to reduce the learning need of a new CEO. Those studies argue almost exclusively that the learning need is lower if the new CEO possesses better knowledge on the company, for example, by being an insider or through relay succession (e.g. Rowe et al., 2005; Zhang and Rajagopalan, 2004). They disregard, however, the impact of the knowledge and skills of the new CEO that are related to the requirements of his job or position. The relevance of such skills is emphasized by a relatively young and promising research stream – CEO-strategy fit research. CEO-strategy fit research argues that the better the fit between the CEO's experiences and the strategic posture of the company, the higher a company's performance (Beal and Yasai-Ardekani, 2000; Entrialgo, 2002; Govindarajan, 1989; Gupta and Govindarajan, 1984, Guthrie and Datta, 1998; Michel and Hambrick, 1992; Reed and Reed, 1989; Strandholm, Kumara, and Subramanian, 2004; Thomas, Litschert, and Ramaswamy, 1991; Thomas and Ramaswamy, 1996).

In this paper, we build on the CEO-strategy fit research stream and extend it to the CEO succession context. Specifically, we argue that position-specific skills, namely, a fit between the demographic experiences of the new CEO and the strategic posture of the company at the time of the succession event, reduce the learning need of the new CEO. Thus, position-specific skills have a positive impact on firm performance during the early tenure of a new CEO. Moreover, this positive effect will prevail until CEOs with lower position-specific skills have caught up.

Our study contributes to CEO succession research by introducing a new set of skills – position-specific skills – that potentially have a bigger impact on post-succession performance during the early tenure of a CEO than firm- or industry-specific skills. In addition, in accordance with the call for more international research (Crossland and Hambrick, 2007), we

undertake our CEO succession research in a European context, thus extending upper echelons research to a new regional setting.

THEORY

Conceptual as well as empirical research on the relationship between CEO succession and post-succession performance has developed into one of the most important research streams within the executive succession field over the last 40 years (Finkelstein et al., 2009; Giambatista et al., 2005; Kesner and Sebor, 1994). Boal and Hooijberg (2000), building on the research of Hambrick and Fukutomi (1991), have shown that a CEO succession event always constitutes a disruption for a company because important human capital is lost and established routines and processes are disrupted (Bailey and Helfat, 2003; Becker, 1964). For this reason, they expect a negative performance effect during the early tenure of a new CEO, which disappears over time as the new CEO and the organization adapt to each other through a mutual learning process (Crossan et al., 1999; Boal and Hooijberg, 2000).

Several empirical studies support this view and show that firm performance decreases initially after a succession event and takes time to recover (e.g. Carroll, 1984; Haveman, 1993). Gabarro (1987) has observed that this initial learning phase of a newly appointed CEO normally lasts for about two and a half years. He also found, however, that differences existed in the learning needs, and thus the duration of the learning process, of newly appointed CEOs. From this observation the question arises as to how to reduce the time needed for learning and adaptation of a newly appointed CEO, as this reduction presumably leads to a shorter learning process and higher post-succession performance.

Despite the practical relevance of this question, past research on the causes and consequences of the learning needs of newly appointed CEOs is surprisingly lacking with regard to the

number of studies. Moreover, what exists is rather one-dimensional in its approach (Boal and Hooijberg, 2000). Specifically, research in this area has almost exclusively concentrated on the performance effects of firm- or industry-specific skills of a new CEO (e.g. Bailey and Helfat, 2003). In this context, some researchers argue that inside successors possess more relevant firm- and industry-specific skills which reduce their learning need, thus shortening the learning phase and ensuring higher post-succession performance (e.g. Huson et al., 2004). Others stress the role of relay succession. They argue that relay successors start their learning process prior to taking office. Consequently, they are able to build up firm-specific skills thus minimizing the loss of human capital in the succession event itself (e.g. Rowe et al., 2005; Zhang and Rajagopalan, 2004). Empirical studies, however, do not report consistent results concerning the effect of firm- or industry specific skills, i.e. inside or outside succession, on the learning need and, connected to that, on post-succession performance (e.g. Davidson et al., 2002; Helfat and Bailey, 2005; Huson et al., 2004; Karaevli, 2007; Rhim et al., 2006; Rowe et al., 2005; Zhang and Rajagopalan, 2004).

This lack of clear results indicates that skills other than firm- or industry-specific skills may be relevant in explaining why some new CEOs have a lower initial learning need and thus achieve higher post-succession performance. Of particular importance in this context seem to be skills that are related to the requirements of the new CEO's job or position. In the literature on chief executives, it is argued that the main task of a CEO relates to setting the strategic direction of the company (Donaldson and Lorsch, 1983; Goold and Campbell, 1987). Thus, the skills of the CEO in setting and executing the specific strategy of the company are potentially relevant in the succession context.

Such strategy-related skills are emphasized by a young and promising research stream – CEO-strategy fit research. CEO-strategy fit research argues that certain demographic experiences of the CEO lead to a preference for a specific strategic posture. CEOs with a

background in, for example, engineering are assumed to have a predisposition for a more focused diversification strategy whereas CEOs with a background in the social sciences rather prefer a more conglomerate diversification strategy (e.g. Bertrand and Schoar, 2003; Tyler and Steensma, 1998). Several empirical studies from the CEO-strategy fit field have shown that CEOs, over time, attempt to realize their preferred strategic posture. Additionally, these studies come to the conclusion that companies that have aligned their strategic posture to the CEO's preferences and experiences, i.e. have created a fit between the CEO experiences and the strategic posture of the company, show a higher firm performance (Beal and Yasai-Ardekani, 2000; Entrialgo, 2002; Govindarajan, 1989; Gupta and Govindarajan, 1984; Guthrie and Datta, 1998; Hambrick and Mason, 1984; Michel and Hambrick, 1992; Reed and Reed, 1989; Strandholm et al., 2004; Thomas and Ramaswamy, 1996; Thomas et al., 1991).

In this paper, we concentrate on these strategy-related skills of a CEO, which we term 'position-specific skills'. We define position-specific skills as certain personal experiences that make it easier for the new CEO to adapt to the given strategic posture of his company. In large companies, which are the focus of our study, the strategic posture is mainly defined by the type of diversification strategy that the company follows. Thus, position-specific skills describe the experience attributes of the new CEO that fits the diversification posture of the company (Goold and Campbell, 1987; Hill, Hitt, and Hoskisson, 1992).

The central hypothesis which guides the research presented here is that the existence of position-specific skills of a new CEO, i.e. a fit between the new CEO's experience attributes and the diversification posture, leads to reduced learning needs and thus has a positive performance effect during the early tenure of the new CEO. This general hypothesis is specified in the following hypotheses.

HYPOTHESES

Existing research shows that CEOs have an impact on the development of a firm and that CEO succession will usually lead to an initial decline in firm performance. Organizational learning theory postulate that this effect will occur and then disappear. The position of the CEO usually requires certain position-specific skills to manage the strategic posture of the firm. In the succession event, the new CEO will not be able to fully fill the gap that the departing CEO has left because he will most likely have a different set of skills and experiences. It will then take a learning process for the new CEO to acquire the missing position-specific skills. Thus, the better the fit between his skills and experiences and the position-specific requirements of the organization, the smaller the need for learning will be and the better the early post-succession performance.

Van den Ven and Drazin (1985) have distinguished three main concepts of fit that they call selection, interaction and systems approaches. Among these three concepts the interaction and the systems approaches are the most relevant. The interaction approach interprets fit as the interaction effect of two independent variables on a dependent variable, in most cases company performance. This bivariate interpretation of fit is commonly used in empirical research and forms the conceptual basis for the analysis of simple moderating effects (see, for example, Reed and Reed, 1989). The systems approach, in contrast, is a more complex concept of fit. It does not simply consider the interaction effects of two variables, but addresses the combined effect of multiple contingencies. This concept of fit is based on the assumption that a dependent variable – in most cases company performance – is influenced by a number of independent variables simultaneously and that different combinations of these independent variables can lead to the same value of the dependent variable. Therefore, the systems approach postulates that fit is a multivariate construct and that the relative position of

all influencing variables has to be considered when determining the level of fit (Miller, 1991; Van de Ven and Drazin, 1985). In practice, a combination of these two concepts of fit should be applied. Gupta (1988) argues, for example, that while the analysis of fit '[...] should begin with bivariate analyses it should strive to evolve multivariate ones' (Gupta, 1988: 169).

The analysis of position-specific skills of a new CEO in the present study is based on the assumption that different strategic postures of a company require different top management attributes and behavior patterns (Gupta, 1984; Szilagyi and Schweiger, 1984). In the past, a number of different strategy-manager typologies have been developed (Leontiades, 1982; Wissema, van der Pol, and Messer, 1980). Wissema et al. (1980), for example, proposed a typology of six different business-level strategies for each of which they defined an ideal type of top manager. In the present study, a fit between the experience attributes of new CEOs and corporate strategy, i.e. the diversification posture of the respective company, is used to express the position-specific skills of a new CEO. Studies from the upper echelons field have found that four types of experiences of the new CEO are particularly relevant in combination with different types of diversification posture: CEO educational specialization, CEO educational level, CEO functional specialization and CEO industry specialization (e.g. Finkelstein et al., 2009; Michel and Hambrick, 1992; Reed and Reed, 1989; Wiersema and Bantel, 1992). Thus, we use these four variables to define the position-specific skills of a new CEO in this study, as elaborated below.

Educational specialization

Various empirical studies indicate that the type of education that a top manager has completed has a considerable impact on the way in which he thinks, acts and decides, even if this education dates back a large number of years (Byrne, 1984; Hitt and Tyler, 1991; Schein, 1967). In this context, two different types of educational specialization are normally

distinguished – a background in engineering or the natural sciences on the one hand and a background in business, law or other social sciences on the other.

Top managers with an educational background in engineering or the natural sciences have been found to involve themselves more deeply in the operation issues of the company (Graumann, 2004). Additionally, empirical research has shown that they tend to stay closer to their core business (Tyler and Steensma, 1998). Top managers with a background in business, law or other social sciences, in contrast, tend to put greater emphasis on issues of across unit efficiency and are able to deal with more complex organizational structures (Bertrand and Schoar, 2003; Fondas and Wiersema, 1997).

In terms of fit between a new CEO's educational specialization and the diversification posture of the company, this means that new CEOs with a background in engineering or the natural sciences bring more relevant position-specific skills to less diversified companies since in these companies a stronger operative engagement of top managers is necessary to realize synergies on the product or process levels (Barker and Mueller, 2002; Michel and Hambrick, 1992). In highly diversified companies, however, new CEOs with a background in business, law or other social sciences are believed to bring in more relevant position-specific skills. Finally, new CEOs with an education in both areas should be suited for both highly diversified and low diversified firms. However, their full potential is likely to be best applied to companies with a medium diversification. Here, CEOs with only one educational background area will have a natural disadvantage, as they will have to engage in tasks beyond their educational background. This reasoning is reflected in hypothesis 1:

Hypothesis 1: The existence of position-specific skills of a new CEO based on a fit between strategy and educational background has a positive effect on absolute post-succession performance.

Educational level

Empirical studies have shown that the level of education that a top manager has reached has an impact on the cognitive complexity that this manager is able to deal with (Palmer and Barber, 2001; Wiersema and Bantel, 1992).

A study by Thomas et al. (1991), for example, shows that a higher average educational level among a company's top management team leads to a stronger diversification into new product lines – not only because the top management team is able to deal with greater cognitive complexity, but because it is more inclined to concentrate on the 'big picture' instead of paying particular attention to the operation issues of the company. Thus, it is expected that a new CEO who has reached a high educational level will bring in more relevant position-specific skills to highly diversified companies. In less diversified companies, in contrast, decision making is often more centralized so that a stronger involvement of the CEO in the operation issues of the company is more desirable (Chu, 2001; Hill et al., 1992). CEOs with less complex, 'academic' approaches are believed to be more willing to meet these requirements. Therefore, new CEOs with lower educational levels are believed to bring more suitable position-specific skills to these type of companies. CEOs with a medium level of education are able to combine a low level of education with some of the abilities for more complex thinking patterns. In low-diversified firms, however, they might be tempted to over-engineer decision making whilst more operative approaches may be more suitable. Additionally, in highly diversified firms, they still lack the abilities needed for highly complex environments. Thus, they are expected to lead to better firm performance especially in medium-diversified firms. This reasoning is reflected in hypothesis 2:

Hypothesis 2: The existence of position-specific skills of a new CEO based on a fit between strategy and educational level has a positive effect on absolute post-succession performance.

Functional specialization

Functional background contributes to position-specific skills in that managers acquire knowledge and perfect their abilities in part through their work experience (Bailey and Helfat, 2003). Different empirical studies indicate that the functional area in which a top manager has spent most time before being promoted to a management position possesses a considerable impact on his or her thinking, acting and decision-making behavior (Dearborn and Simon, 1958; Waller, Huber, and Glick, 1995). Jensen and Zajac (2004) as well as Palmer and Barber (2001) found that top managers with a functional background in finance or accounting are more strongly associated with diversification and acquisition activities. Thus, such managers are more suitable for highly diversified companies, since these types of activities, namely, portfolio design and portfolio management, reflect the main tasks of top managers in such companies. A background in operations, marketing or sales, in contrast, is believed to be more suitable in the case of companies with vertical integration, in other words, less diversified companies, because these companies require more operative involvement from top management to realize synergies on the product and process levels (Michel and Hambrick, 1992; Strandholm et al., 2004). Thus, the selection of a new CEO with a functional background in operations, marketing or sales is believed to have a positive effect on post-succession performance in less diversified companies. We further assume that CEOs with a functional background in other fields will be best suited to a medium level of diversification because they are not as predetermined to excel in broader businesses like CEOs with a background in finance and accounting, nor are they used to being as near to markets and

products as CEOs with prior work experience in operations, marketing or sales. This reasoning is reflected in hypothesis 3:

Hypothesis 3: The existence of position-specific skills of a new CEO based on a fit between strategy and functional background has a positive effect on absolute post-succession performance.

Industry specialization

Several empirical studies indicate that the level of industry specific knowledge that a new CEO brings to his new position determines how well he is able to deal with the different types of diversification posture of his company (Hitt and Tyler, 1991). In less diversified firms, top managers are usually more involved in strategic and operative matters at the business unit level. Therefore, industry-specific experience of the new CEO is beneficial (Gupta, 1984). In highly diversified firms, which operate in a number of different industry environments, in contrast, the main task of top managers is to design and manage the portfolio of businesses of the company. In this case, top managers with a strong industry specialization run the risk of being more selectively focused on the area of their specialization, which may lead to inappropriate decisions for other areas (Hitt and Tyler, 1991; Starbuck and Milliken, 1988). Therefore, it is expected that new CEOs with experience in only one industry will bring in relevant position-specific skills and contribute to higher post-succession performance in less diversified companies, whereas experience in a number of different industries is more suitable for highly diversified companies which are in the industry in which the CEO has experience. Finally, CEOs with a medium level of experience in different industries should accordingly be more suited to firms with a medium level of diversification. They are, on the one hand, likely to have a deep enough understanding of the few industries that they have seen and, on the other hand, still are able to apply a more abstract approach to portfolio design and

management that is also necessary in medium diversified companies. This reasoning is reflected in hypothesis 4:

Hypothesis 4: The existence of position-specific skills of a new CEO based on a fit between strategy and industry specialization has a positive effect on absolute post-succession performance.

Overall fit

The first four hypotheses follow the interaction approach of fit and reflect a bivariate interaction of two category variables: on the one hand, the level of diversification coded as low, medium, and high; and on the other hand, different types of experience of the new CEO grouped into these three same categories. Van de Ven and Drazin (1985) argue that such a conceptualization of fit incorporates the risk of leaving more complex contingency relations undiscovered. Specifically, it is highly possible that the single fit variables interact among each other and form a complex system of multiple contingencies. A finance specialist, for example, with an educational background in business and experience in multiple industries may bring relevant position-specific skills to a highly diversified company even though he does not have the high educational level that would be desirable for new CEOs of such a company. Therefore, following the systems approach of fit, it seems necessary to include a combined variable into the analysis which takes into account the overall fit between the diversification posture of the company and all four above experience attributes of the new CEO (CEO educational specialization, CEO educational level, CEO functional specialization, CEO industry specialization) (Thomas and Ramaswamy, 1996; Van de Ven and Drazin, 1985). Hypothesis 5 addresses this multidimensional notion of fit:

Hypothesis 5: The existence of general position-specific skills of a new CEO based on an overall CEO-strategy fit has a positive effect on absolute post-succession performance.

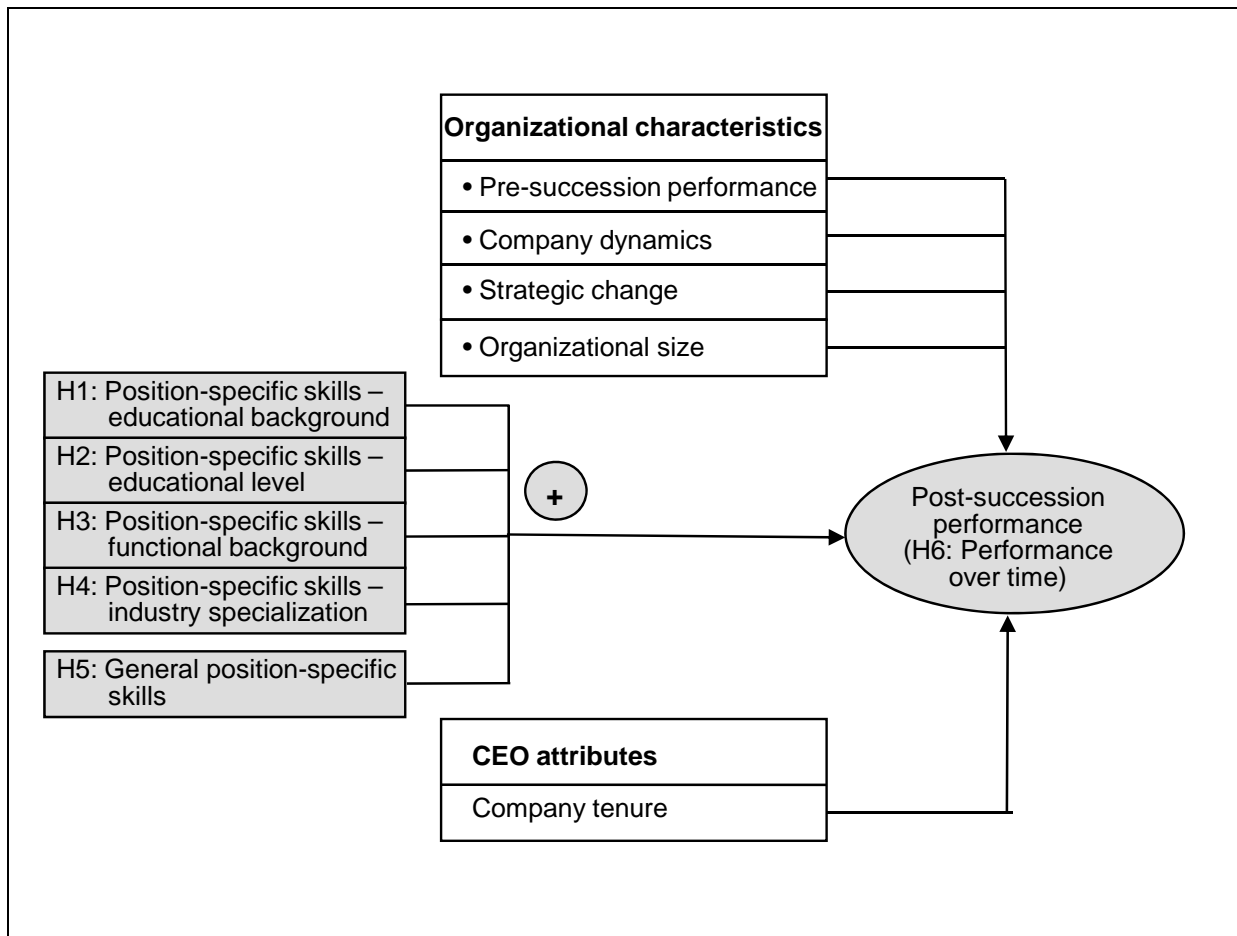
Time effects

As argued above, the existence of position-specific skills reflected in a fit between a new CEO's experience attributes and post-succession performance is believed to reduce the learning need and thus speed up the learning process that a new CEO has to go through after taking charge. Accordingly, the position-specific skills of new CEOs are expected to lead to superior performance compared to CEOs without such skills. This superior performance, however, will not occur immediately, i.e. in the first year, after the succession event, because even CEOs with relevant position-specific skills have to go through a learning process first (Michel and Hambrick, 1992; Zajac, 1990). Additionally, the superior performance will disappear over time as also new CEOs with less suitable position-specific skills will have gone through the learning process and will have caught up. Gabarro (1987) states that in general the learning process takes about two and a half years. This means that in the third year after the succession event no performance effect should be expected anymore. This reasoning is reflected in hypothesis 6:

Hypothesis 6: The positive performance effect of suitable position-specific skills of a new CEO occurs soon but not immediately after the succession event and disappears after about three years.

In addition to the five variables that are used to express the position-specific skills of a new CEO (CEO educational specialization, CEO educational level, CEO functional specialization, CEO industry specialization, overall fit), we use six other variables – company size, pre-succession performance, company dynamics, strategic change and CEO company tenure – as controls because several studies have shown that they impact post-succession performance (Finkelstein et al., 2009). Company size is included as a control variable because of its effect on managerial discretion (Bailey and Helfat 2003; Hambrick and Finkelstein, 1987). For pre-succession performance several studies have reported a positive relationship with post-succession performance (Shen and Cannella, 2002; Zhang and Rajagopalan, 2004). Similar results have been found for company dynamics because a more dynamic development increases the learning requirements after a succession event as well as managerial discretion (Bailey and Helfat, 2003; Zhang and Rajagopalan, 2004). Strategic change is controlled for because of its potentially negative effect on post-succession performance. A larger degree of post-succession strategic change leads to increased requirements for organizational learning in the integrating and institutionalizing phase, thus prolonging the overall learning process after CEO succession (Crossan, Lane, and White, 1999). CEO company tenure is used as a control because it reflects a different set of skills of the new CEO, namely, firm-specific skills, for which some studies have found a positive relationship with post-succession performance (e.g. Helfat and Bailey, 2005). In figure 1 we summarize the hypotheses formulated for the present study.

FIGURE 1. Overview of hypotheses



RESEARCH DESIGN

Sample selection

We empirically tested the relationship between the position-specific skills of the new CEO and post-succession performance using a sample of large German companies. We specifically selected German companies because Crossland and Hambrick (2007) found that CEOs in German companies possess a lower degree of managerial discretion compared with their American counterparts. Consequently, they called for more research on the international transferability of upper echelons research in general and executive succession research in particular, which has been predominantly done for U.S. companies in the past. We thus

believe that by studying CEO succession events in German companies we can contribute to the advancement of this research stream.

For the purpose of sample selection, we compiled a listing of Germany's largest publicly listed companies. We used large companies because diversification normally only occurs in these companies, whereas small and medium-sized companies tend to be active only in one business segment. We chose publicly listed companies because a public listing in most cases ensures sufficient data access. Eighty companies are listed in the main German stock market indices DAX and MDAX. These 80 companies formed the basis for selecting our sample. From this number, to ensure comparability of results, we excluded all companies in the financial services sector as well as those companies which had recently undertaken their IPO. In the 57 companies remaining after this exclusion, we identified 105 CEO succession events between 1990 and 2005. Of these 105 CEOs, we excluded all cases of jointly held CEO positions as well as all cases for which data was incomplete. The remaining 59 CEO succession events in 50 companies formed the basis of our sample for analysis. For data collection we used the databases Munzinger Online, Who is Who and Osiris as well as the annual reports of the companies in the sample.

Definition and measurement of variables

Post-succession performance. We measured post-succession performance using accounting-based performance indicators (Shen and Canella, 2002). We computed return on assets (ROA) for the year of appointment of a new CEO (t_0) as well as for the two following years (t_1 – t_3). While accounting-based performance measures have some disadvantages, return on assets (ROA) is a commonly used measure in management research (Bigley and Wiersema, 2002; Guthrie and Datta, 1998; Michel and Hambrick, 1992) and specifically in succession research

(Helfat and Bailey, 2005; Shen and Canella, 2002; Zajac, 1990). Its main advantage is that the necessary accounting data is publicly available. We used earnings before tax to eliminate effects from varying corporate tax rates in Germany. Additionally, we made adjustments for the general economic situation in each year by subtracting the sample-average ROA from the company-specific ROA in a particular calendar year. We chose a period of three years after the succession event because Gabarro (1987) has observed that the learning phase of a new CEO lasts for about two and a half years. This view is supported by Helfat and Bailey (2003), who state that the consequences of any disruption caused by the succession event should be most noticeable in the first years after succession. Thus, it can be assumed that the initial performance advantage of a new CEO with relevant position-specific skills disappears after about three years. We therefore measured absolute post-succession performance as the average ROA in the three years following the succession event.

Corporate strategy. We defined corporate strategy as the diversification posture of a company. To measure diversification posture, we used the entropy index developed by Jacquemin and Berry (1979). Although this index has weaknesses, it is widely applied in empirical research. Moreover, no alternative measure with as consistently high validity and equally as good data access has been developed so far (Markides, 2002; Robins and Wiersema, 2003). To compute the entropy index, we used the segment sales reported by the companies in their annual reports. This is because segment sales which companies define themselves are believed to better express the companies' strategic orientation than, for example, classification of their businesses according to the European industry standard classification, NACE (Nomenclature statistique des activités économiques dans la Communauté européenne) or the US Standard Industry Classification (SIC) codes, which are often regarded as biased and unable to capture relatedness between businesses (Hoskisson et al., 1993; Ramanujam and Varadarajan, 1989). Furthermore, NACE or SIC codes are not

published consistently for German companies (Fey, 2000). For each company in our sample, we computed the entropy index for the year in which the new CEO took charge (t_0) as well as for the following three years (t_1 – t_3). To determine high, medium and low levels of diversification needed to measure fit, we divided the 59 CEOs in the sample into three groups of almost equal size. The degree of diversification in the year of the succession event (t_0) served as the basis for group distribution.

Position-specific skills. As described above, we measured position-specific skills as a fit between the company's diversification posture and the four defined experience attributes of the new CEO (CEO educational specialization, CEO educational level, CEO functional specialization, CEO industry specialization). For this purpose, we used the interaction and systems approaches of fit. Altogether, we tested five different types of fit. First, building on the interaction approach, we analyzed the performance effects of a fit between the four CEO attributes and diversification posture individually. Then, following the systems approach, we explored the simultaneous fit between all four CEO attributes and diversification posture (Entrialgo, 2002; Thomas and Ramaswamy, 1996; Thomas et al., 1991). In all cases, we measured fit in two steps. First, we coded the four CEO experience attributes into one of three categories. Each categorization was done by three independent coders, with intercoder reliability being 85.5 percent. Then, as the actual measure of fit, we created a dummy variable that took on the value of 1 if the parameter value of the respective demographic attributes conformed to the diversification posture of the company, and zero otherwise. In all cases, we measured fit in the year of the succession event (t_0).

Position-specific skills related to educational specialization. To determine the fit between educational specialization and diversification posture, we identified, as a first step, the dominant types of higher education for all CEOs in the sample and classified them into three

categories: ‘business, law and other social sciences’, ‘natural sciences and engineering’ and a combination of the first two categories. Then, we created a dummy variable that took on the parameter value of 1 if the educational specialization of the CEO matched the diversification posture of the respective company as specified in hypothesis 1, and zero otherwise.

Position-specific skills related to education level. In Germany, most CEOs of large companies hold a university degree equivalent to a master’s degree. Quite a few CEOs even have doctoral degrees. We therefore coded the educational level of the CEOs in the sample into one of three categories: ‘no academic degree’, ‘bachelor or masters degree’ and ‘doctoral degree’. Then, we created a dummy variable that took on the parameter value of 1 if the educational level of the CEO matched the diversification posture of the respective company as specified in hypothesis 2, and zero otherwise.

Position-specific skills related to functional specialization. To determine the fit between functional specialization and diversification posture, we identified, as a first step, the functional area in which the new CEO had spent most time before assuming the management position following the succession event and classified it into one of three categories: ‘finance and accounting’, ‘production, marketing and sales’ and ‘other functional specializations’, such as law, administration, or R&D. Then, we created a dummy variable that took on the parameter value of 1 if the functional specialization of the CEO matched the diversification posture of the respective company as specified in hypothesis 3, and zero otherwise.

Position-specific skills related to industry specialization. We coded the industry specialization of the CEOs in the sample on the basis of the number of changes between industries which the CEOs had undertaken before the succession event of focus. We measured industry changes by classifying all companies which the CEO had gone through during his career into industry segments. The allocation into industry segments followed the

classification of the Deutsche Boerse (2005). Since the CEOs in the sample had had experience in between one and two industries on average, we used these two numbers as cut-off points. Thus, we classified all CEOs into one of three categories: 'single industry specialization', 'specialization in two industries' and 'multiple industry specialization'. Then, we created a dummy variable that took on the parameter value of 1 if the industry specialization of the CEO matched the diversification posture of the respective company as specified in hypothesis 4, and zero otherwise.

General position-specific skills. Different approaches have been suggested in the literature to measure the overall fit among different variables (Miller, 1991; Van de Ven and Drazin, 1985; Venkatraman and Prescott, 1990). In the present study, we follow an approach developed by Thomas and Ramaswamy (1996). They code fit as a dichotomous variable taking on the value of 1 if four of the five variables for which they determine the fit show a match. We adapted this approach for the purposes of the present study. Specifically, we created a dummy variable that took on the value of 1 if three of the four single fit variables revealed a fit, and zero otherwise.

Control variables. We used the following measures to assess the controls.

Company size. To measure company size, we computed the logarithm of the company's revenues in the year of the succession event (t_0). Logarithmic values seemed appropriate to account for the fact that differences in size become less relevant the larger a company is (Michel and Hambrick, 1992; Thomas and Ramaswamy, 1996).

Pre-succession performance. We measured pre-succession performance as the average ROA of the company of the two years preceding the succession event (t_2-t_1).

Company dynamics. We calculated company dynamics as the compounded annual growth rate (CAGR) of company revenue in the year of the succession event (t_0) as well as in the following three years ($t_1 - t_3$).

Strategic change. We measured strategic change as the change in the degree of diversification of the company between the year preceding the succession event (t_{-1}) and the year following the succession event (t_2).

CEO company tenure. We computed CEO company tenure as the number of years that the new CEO had worked for the company before actually taking charge.

RESULTS

Table I reports the means, standard deviations and correlations for all variables used in this study.

TABLE I. Means, standard deviations and correlations

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10
1. Post-succession performance	-0.10	6.41										
2. Position-specific skills - general	0.18	0.39	.36**									
3. Position-specific skills - educational level	0.41	0.50	-.24	.33**								
4. Position-specific skills - industry specialization	0.38	0.49	.51***	.36**	-.14							
5. Position-specific skills - educational background	0.33	0.48	-.11	.17	-.07	-.16						
6. Position-specific skills - functional background	0.39	0.49	.27*	.59***		.14	.02					
7. Company size	15.62	1.51	-.44***	.12	.31*	-.23 [†]	.11	-.02				
8. Pre-succession performance	0.49	6.81	.68***	.17	-.31*	.22 [†]	.06	.23 [†]	-.36**			
9. Company dynamics	0.28	0.57	.19	.10	-.09	.10	.05	.05	-.12	.09		
10. Strategic change	0.00	0.24	-.22	-.19	-.08	-.11	.21 [†]	-.13	-.15	.01	.19	
11. Company tenure of new CEO	13.36	10.47	.02	.11	.20	-.17	.15	.14	.23 [†]	.12	.28*	0.05

[†] p < .10
 * p < .05
 ** p < .01
 *** p < .001

Table II presents the results of ordinary least squares (OLS) regression analyses for the dependent variable ‘post-succession performance’ (Hypotheses 1 – 5).

TABLE II. Results of OLS analyses for post-succession performance

Variable	Model 1 ^a	Model 2	Model 3
Controls			
Company size	-0.32***	-0.34***	-0.33***
Pre-succession performance	0.60***	0.60***	0.56***
Company dynamics	0.14	0.16*	0.16
Strategic change	-0.12	-0.09	-0.09
Company tenure of new CEO	0.06	0.05	0.03
Main effects			
Position-specific skills - general			0.17*
Position-specific skills - educational level		0.20**	
Position-specific skills - industry specialization		0.17*	
Position-specific skills - educational background		-0.06	
Position-specific skills - functional background		0.01	
<i>F</i>	28.49***	20.22***	26.69***
<i>R</i> ²	.72	.79	.76
<i>ΔR</i> ²		.06 ^b	.03 ^b

^aValues are standardized regression coefficients; dependent variable: Post-succession performance
^bRelative to model 1
^t p < .10
* p < .05
** p < .01
*** p < .001

Three models were estimated. Model 1 includes only the control variables. In model 2, the main effects of the single position-specific skills in the areas of educational specialization, educational level, functional background and industry specialization are used. In model 3, the main effect of the variable 'general position-specific skills' replaces the four single position-specific skills. All models are significant ($p < .001$) and explain between 72 and 79 percent of the variance in absolute post-succession performance. Results hardly change across the various model specifications suggesting that our findings can be regarded as quite robust. Additional tests show that the requirements of homoscedasticity and normal distribution were met for all three models and that no collinearity was observed.

Model 2 shows that two of the four hypotheses regarding the influence of single position-specific skills on absolute post-succession performance, namely, hypotheses 2 and 4, are supported. Hypothesis 2 proposes a fit between corporate strategy and the educational level of the new CEO has a positive post-succession performance effect of position-specific skills. This hypothesis is supported by a positive and significant coefficient for the variable 'position-specific skills - educational level'. In support of hypothesis 4, we find a positive and significant relationship between strategy-industry specialization fit and post-succession performance. A significant relationship between position-specific skills based on a fit between strategy and educational specialization or functional background and post-succession performance, however, is not supported. Thus, hypotheses 1 and 3 are rejected. Hypothesis 5 proposes a positive relationship between general position-specific skills and post-succession performance. Model 3 offers support for this hypothesis through a positive and significant coefficient for the variable 'position-specific skills – general'. In addition to the main effects, the influence of the three control variables are as follows. Pre-succession performance and company dynamics have a positive and significant effect on post-succession performance, while company size showed a negative and significant effect on post-succession performance.

To test hypothesis 6, we estimated a final set of six regression models. Hypothesis 6 proposes that the performance effect of position-specific skills of a new CEO changes over time. Specifically, we had assumed that a positive effect results early in the tenure of a new CEO and then disappears. Table III shows the results of OLS regression analyses for the variable 'absolute post-succession performance' in each of the three years after the succession event (t_1 - t_3). Models 4 to 6 include the control variables as well as the main effect of general position-specific skills for the three years in question. Models 7 to 9 present similar results for the control variables and the main effects of the four single position-specific skills in the areas of educational specialization, educational level, functional background and industry specialization. All models are significant ($p < .001$) and explain between 66 and 73 percent of the variance in absolute post-succession performance in the three years following the CEO succession event. Additional tests show that the requirements of homoscedasticity and normal distribution were met for all three models and that no collinearity was observed.

Models 4 to 6 show that the performance effect of the variable general position-specific skills changes over time. In the first year after the succession event no significant effect of this variable on absolute post-succession performance is observed. In the second year, a significant and positive coefficient resulted, and in the third year a tendency towards significance ($p = 0.058$) is found. Further analyses show that this effect fully disappears in subsequent years.

TABLE III. Results of OLS analyses for post-succession performance in individual years

Variable	Model 4 ^a	Model 5 ^b	Model 6 ^c	Model 7 ^a	Model 8 ^b	Model 9 ^c
Controls						
Company size	-0.26**	-0.25**	-0.45***	-0.28**	-0.24*	-0.45***
Pre-succession performance	0.59***	0.52***	0.45***	0.63***	0.57***	0.48***
Company dynamics	0.18*	0.15	0.10	0.18*	0.16 ^t	0.1
Strategic change	-0.09	-0.08	-0.08	-0.10	-0.06	-0.08
Company tenure of new CEO	0.08	-0.01	-0.01	0.10	0.10	0.00
Main effects						
Position-specific skills - general	0.07	0.27**	0.16 ^t			
Position-specific skills - educational level				0.18*	0.24**	0.14
Position-specific skills - industry specialization				0.10	0.26**	0.15 ^t
Position-specific skills - educational background				-0.02	-0.12	-0.03
Position-specific skills - functional background				-0.09	0.08	0.04
<i>F</i>	19.95**	17.01**	19.37**	14.87***	13.96***	13.00***
<i>R</i> ²	.70	.66	.69	.73	.72	.71
^a Values are standardized regression coefficients; dependent variable: Absolute performance <i>t</i> ₁ ^b Values are standardized regression coefficients; dependent variable: Absolute performance <i>t</i> ₂ ^c Values are standardized regression coefficients; dependent variable: Absolute performance <i>t</i> ₃ ^t <i>p</i> < .10 * <i>p</i> < .05 ** <i>p</i> < .01 *** <i>p</i> < .001						

Similar results are observed in models 7 to 9 for two of the four single position-specific skills, namely, position-specific skills based on an educational level-strategy fit and position-specific skills based on an industry specialization-strategy fit. Also for these variables, the positive performance effects disappear completely after the third year of the tenure of the new CEO.

Thus, the results of the present study also support hypothesis 6.

DISCUSSION AND INTERPRETATION

Building on leader life cycle theory (Hambrick & Fukotomi, 1991), we examined the relationship between CEO tenure and performance for German CEOs. For short-tenured and for long-tenured CEOs respectively, we found an inverted curvilinear relationship between the tenure of a CEO and company performance.

In general, our results are in line with earlier research on the leader life cycle (Hambrick & Fukotomi, 1991; Miller & Shamsie, 2001; Giambatista, 2004; Henderson, Miller & Hambrick, 2006). Unlike past research in the field, however, we did not find a uniform leader life cycle. Rather the results of our study draw a more differentiated picture of CEO life cycles. Specifically, we found that CEOs with long and short tenures possess different leader life cycles.

This finding, however, does not completely contradict earlier research in this field. Other studies indicate support for these findings as well. Henderson, Miller and Hambrick (2006), for example, found two different life cycles for CEOs working in dynamic and stable industries respectively. In Giambatista's (2004) life cycle analysis of basketball coaches in the United States, the development of sample means showed a clear performance dip at about medium tenure. Nevertheless, our study is the first one that explicitly differentiated between long- and short-tenured CEOs and found distinct life cycles for both groups. Furthermore, this is the first study that explicitly examined the role of power dynamics on the leader life cycle.

The specific results concerning life cycles of long- and short-tenured CEOs reflect and confirm our hypotheses. For long-tenured CEOs we found evidence that supports the view of institutional theory. In the first years of a CEO's tenure performance rose slowly. After CEOs had established their power base, performance increased resulting from higher legitimacy. In

accordance with the assumption that long-tenured CEOs tend to stick to outdated routines, we found that after a certain time performance decreased again.

Unlike prior research (Katz, 1982; Giambatista, 2004), we found no significant performance dip in year four. In our case a minor performance decline is found in year three of the lifecycle of long-tenured CEOs. From year two to year four, the sample means show a certain performance stagnation. Hambrick and Fukutomi (1991) mention that in executive life cycle stages variations are possible. Indeed, especially the second stage, experimentation of managers, might not implicitly lead to increased performance. After his response to mandate, which is associated with performance increases and growing power, the manager has the possibility of testing different approaches and methods. Our results show that long-tenured CEOs make extensive use of this experimentation stage. This pays off in form of increasing performance after year 6.

Like in the case of long-tenured CEOs, our hypothesis of an independent lifecycle could also be confirmed for short-tenured CEOs. As we assumed, CEOs in highly demanding environments delivered exceptional performance at the beginning of their tenure followed by a strong decline. Nevertheless, in our case the decline, especially from year three to year four, is exceptionally strong. None of the previous studies found such a negative tendency at the end of a CEO tenure (e.g. Henderson, Miller & Hambrick, 2006; Giambatista, 2004; Miller & Shamsie, 2001). Thus, a more differentiated analysis of short tenures seems necessary, particularly since in corporate practice a tendency towards shorter CEO tenures can be observed (Karlsson, Neilson & Webster, 2008).

Finally, we found that in general, a longer CEO tenure leads to higher firm performance. Although in the first two years short-tenured CEOs outperform their longer tenured counterparts, in the long run CEOs, who are given more time to develop their paradigms and

gain legitimacy, have a more positive influence on performance. With regard to the huge losses which we observed at the end of a short-term tenure, companies should aim at keeping their CEOs for a longer time period.

In spite of our innovative findings, our study has a few limitations. We acknowledge, for example, that further organizational as well as CEO characteristics may influence the relationship between CEO tenure and performance. Hence, future researchers should work to imply other promising moderating variables in their model. Moreover, we have addressed the importance of context by incorporating the role of pre-performance for leader life cycles. Beside pre-performance especially industry dynamics determine organizational environment. While this issue is of special interest, e.g. with regard to performance pressure, we regret that we could not address it due to data limitations.

Finally, the core outcome of the investigation was the discovery of long- and short-tenured CEO lifecycles based on arguments from institutional and circulation of power perspective. As both theories address the question of power distribution in firms, the inclusion of more variables which reflect power in companies would have been useful to support our assumptions about power struggles and perpetuation of power.

DISCUSSION AND INTERPRETATION

The performance impact of CEO succession is at the heart of CEO succession research. In spite of this, however, the role of the skills of the new CEO on post-succession performance has not received much research attention. The studies that have addressed this effect have mainly focused on firm- and industry-specific skills of the new CEO (e.g. Guthrie and Datta, 1998; Helfat and Bailey, 2005) and do not offer consistent results (Kesner and Sebor, 1994).

Other types of skills that a new CEO brings to office, however, have not been addressed empirically yet. Thus, to our best knowledge, this is the first study that considers the effect of position-specific skills of a new CEO on post-succession performance.

Building on CEO-strategy fit research (Beal and Yasai-Ardekani, 2000; Entrialgo, 2002; Gupta, 1984; Gupta and Govindarajan, 1984; Thomas and Ramaswamy, 1996; Thomas et al., 1991; Venkatraman, 1989), we argue that the position-specific skills of a new CEO, measured as a fit between the selected experiences of the new CEO and diversification posture, positively influence post-succession performance during his early tenure. Specifically, we have investigated two aspects: (a) the influence of position-specific skills on post-succession performance, and (b) the changes in the performance effect over time. Overall, we found consistent results in these two areas, confirming four of our six hypotheses. These findings indicate that, in general, the integration of CEO-fit research is useful to better understand the performance effects of CEO succession and that position-specific skills of a new CEO deserve further attention.

Influence of position-specific skills on absolute post-succession performance

Our results suggest that the existence of an overall set of general position-specific skills of a new CEO as well as the presence of two single position-specific skills, specifically those based on a fit between educational level and diversification posture as well as between industry specialization and diversification posture, have a positive effect on post-succession performance. However, no significant results were found for the other two single position-specific skills, namely, educational and functional specification.

In general, these findings correspond with those of existing CEO-strategy fit research. Studies by Entrialgo (2002), Thomas and Ramaswamy (1996) and Thomas et al. (1991) come to the same conclusion that a general alignment between CEO experiences and company strategy

has a positive performance effect. Compared to the present study, however, CEO-strategy fit research takes a different starting point. In particular, CEO-strategy fit research uses a longitudinal approach and primarily asks the question whether different types of CEOs – depending on their specific past experiences – seek different strategies for their companies. Only as a second step, is it then hypothesized that an alignment between CEO experiences and company strategy also leads to superior performance. In the present study, in contrast, the focus lies on lower learning requirements of a new CEO with appropriate position-specific skills. Equipped with the right skills, CEOs have less learning needs and adapt faster to the peculiarities required by the diversification posture of the company. Our results indicate that a fit between position-specific skills and diversification posture does have an impact on firm performance over time. Finally, CEO-strategy fit research mostly considers strategy at the business level, whereas the present study focuses on corporate strategy. Thus we extend CEO-fit research not only to the executive succession field but also to the corporate level.

Differences between CEO-strategy fit research and the present study do not only pertain to the starting point, but also to the detail of the findings. Specifically, studies from CEO-strategy fit research stress the role of the functional background of the CEO (e.g. Beal and Yasai-Ardekani, 2000). In the present study, however, no effect of position-specific skills related to functional or educational background was found. Rather, we obtained significant results for position-specific skills related to educational level and industry specialization. While the effect of educational level has already been observed by prior research on CEO-strategy fit (Entrialgo, 2002; Thomas and Ramaswamy, 1996; Thomas et al., 1991), the role of industry specialization has hardly been considered in this context (Michel and Hambrick, 1992).

These differences in the research findings might result from the fact that we focused on corporate- instead of business-level strategy. Corporate-level top managers are generally older

than business-level managers. Thus, they are further away from their first socialization in a certain functional area or study program which renders those experiences less important. On a corporate level, more general skills become important such as the ability to deal with complexity – expressed by educational level – or the breadth and depth of experience – reflected by industry specialization. Differences in research findings might also result from differences in the research approach of the present study compared to that of CEO-strategy fit research in general. In CEO-strategy fit research, the research focus lies on the adaptation of the strategic posture to CEO experiences. In this context, the functional background of the CEO might play a role. In the present study, we have concentrated on the reduced learning needs of the new CEO with more appropriate functional background. In this context, the ability to deal with complexity and the breadth and depth of experience seem to be more important.

Besides significant results for three of the five main effects, we also found significant results for the three control variables ‘pre-succession performance’, ‘company size’ and ‘company dynamics’. These results are in line with the findings of earlier studies (e.g. Shen and Cannella, 2002; Zhang and Rajagopalan, 2004).

We find no indication, however, that the firm-specific skills of the new CEO expressed by company tenure play a role in post-succession performance. This indicates that the position-specific skills of a new CEO are even more important as a predictor of post-succession performance than firm-specific skills on which research has concentrated so far.

Change in the performance effect of position-specific skills over time

In our last hypothesis, hypothesis 6, we addressed the development of the performance effect of position-specific skills over time. Our results indicate that a positive performance effect does not occur immediately after the succession event. In the first year of the tenure of the new CEO, we only observed a significant performance effect for one type of position-specific skills – the one related to educational level. In the second year, however, we obtained significant effects for all relevant position-specific skills. These significant effects disappeared again after the third year. These findings support Gabarro's (1987) observation that the normal learning process of a new CEO takes about two and a half years from the time they take over the position. At the same time the findings show that CEOs with relevant position-specific skills have learning advantages which lead to a time-limited performance advantage compared to CEOs without such skills.

CONCLUSION

Overall, the findings of our study show that CEO-strategy fit research can be transferred to the executive succession field and that CEOs with relevant 'position-specific skills' possess an advantage over their counterparts without such skills. This advantage lies in a decreased need for learning and results in superior post-succession performance during the early tenure of the new CEO.

The present study shows that research on the knowledge and skills of new CEOs needs to go beyond the traditional insider-outsider debate that only considers firm- or industry-specific skills. The concept of position-specific skills presented in this study, namely, combining CEO-strategy fit research with executive succession research, offers a good starting point.

Future research in this field needs to build on and expand this concept. In this context, different conceptualizations of position-specific skills and different variables should be tested, as has already been started in CEO-strategy fit research (e.g. Beal and Yasai-Ardekani, 2000; Thomas and Ramaswamy, 1996).

Additionally, our study shows that findings from top management research mainly derived for U.S. companies are generally transferable to other geographical settings such as Europe or, more specifically, Germany. Nevertheless, our study has also made it clear that – for such a transfer – the definition of variables has to be adapted and that the results may differ in the detail. Thus, it seems desirable to further expand comparative analyses of CEOs and their effects on companies in different countries.

Future research on position-specific skills should also address some of the limitations we see in our study. These limitations are mainly related to the selection of demographic experiences and sample size. A larger, maybe pan-European sample might lead to even better results. Additionally, further demographic variables as, for example, international work experience or experience as a managing director might yield more fine-grained findings.

Besides avenues for further research, our study also offers some implications for corporate practice. Specifically, our results indicate that boards can make a difference in their search for a new CEO if they put more emphasis on the position-specific skills of the candidates in question. New CEOs without such skills might be able to catch up in the long term. Nevertheless, the existence of position-specific skills leads to short-term performance advantages from the outset that should not be neglected. Thus, the results of this study confirm the findings by Zhang (2008) who postulates a more careful search for successor CEOs.

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