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**SHAREHOLDERS REACTION TOWARDS CEO SUCCESSION: EVIDENCE OF  
MALAYSIAN PUBLIC LISTED COMPANIES**

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# **PRICE REACTION TOWARDS CEO SUCCESSION: EVIDENCE OF MALAYSIAN PUBLIC LISTED COMPANIES**

## **Abstract**

*This study observes the impact of CEO succession on stock price of Malaysian Public Limited Companies (PLCs). Standard event study methodology is used to examine the immediate price effects of all Bursa Malaysia listed firms that announced CEO turnover during 2008 to 2010. The finding shows that the market is indifferent on the date of announcement. However, there is a significant positive abnormal returns of 1.5% in 10 days before the announcement date using both the market return and market adjusted return models. Profitability as measured by return on asset, and growth as measured by market to book value, appear to affect significantly firms' price returns.*

## **1.0 INTRODUCTION**

A CEO succession provides a means for assessing the efficacy of leaders in shaping firms' fortune. As noted by Davidson et al. (2006), leadership is an important component of successful corporate governance which can enhance firms' performance. The effect of managerial replacement on firm performance remains a debate in spite of a number of studies and renewed attention to this problem (e.g., Allen, Panian & Lotz, 1979; Brown, 1982; Friedman & Singh, 1989).

Theorists have largely agreed that a CEO is a person who is responsible in setting the organizational strategy, structure, environment and performance. In most organizations, the central concept of the business seems to originate from the CEO. According to Dalton and Kesner (1985), many financial periodicals including Business Week, Forbes, Fortune and the Wall Street Journal provide evidence that practitioners and analysts agree with theorists that CEOs are the individuals responsible and accountable for these actions or reactions. As the

CEOs have significant influence on the organizations, any changes in their position will significantly affect investors' perceptions. This in turn will affect the price and future fluctuation in their companies' stock prices in a short term, and firms' profitability in the long term.

Previous studies show mixed results regarding the impact of CEO successions on firms' stock price. For example, Friedman and Singh (1989) found that stockholders' reactions towards CEO successions were positive when pre-succession performance was poor. In contrast, turnovers that occurred when performance had been good resulted in negative consequences. On the other hand, a study by Davidson et al. (2002) find that the stock market reacts more positively to outside CEO selection announcements and when the CEO comes from the industry that is related to the firm's activities. Meanwhile, a study by Chung et al. (1997) found that the selection of insiders or outsiders by low performing firms does not have any significant influence on firms' post succession performance because investors do not believe that a change in CEO will improve firms' future performance. These inconclusive results may be due to the different views adopted in performing those studies, which are common sense, vicious and ritual-scapegoating as noted by Kesner and Sebor (1994).

## **2.0 OBJECTIVE OF THE STUDY**

Based on the three theories of consequences (i.e. common sense theory, vicious theory and ritual-scapegoating theory) as discussed by Kesner and Sebor (1994), the objective of this study is to examine the immediate impact of CEO succession on shareholders' wealth. Firstly, using event study methodology, this study is interested to examine the effect of CEO succession announcement based on the market model and market adjusted return model. Secondly, this

study intends to assess the factors that affect firms' returns performance on the announcement of CEO succession.

### **3.0 THEORETICAL AND HYPOTHESES DEVELOPMENT**

Organizational theorists have suggested that succession events represent one means of reorganization. Allen, Panian and Lotz (1979) explain that there are at least three theories that can be used to explain the relationship between managerial succession and organizational performance. The first theory, common sense theory, claims that succession improves performance. The common sense theory views CEO succession as one way of how organizations can intentionally align resources to better suit the changing environmental demands and CEO selection decisions represent an important adaptation mechanism (Friedman & Singh, 1989; Goodstein & Boeker, 1991; Cannella & Lubatkin, 1993). Furthermore, common sense theory believes that changing managers who are responsible for poor performance should contribute towards better performance in the future, specifically when firms are involved with CEO forced turnover (Salancik & Pfeffer, 1980; Denis & Denis, 1995). Consistent with adaptive view is the argument that when performance is poor, the board of directors will favour outside candidates (Cannella & Lubatkin, 1993). This is because outside candidates are perceived to be more capable of changing the mission, objectives and strategies of an organization than insiders. Since outsiders are not personally involved in the selection of a firm's ongoing strategies, they are not committed to implement those strategies like insiders. Thus, they will change the strategies in order to suit the firm's new environment. They may introduce new strategies which might be different from firms' ongoing strategies. As a result, proponents of adaptive view believe that

CEO successions should result in increased performance because CEO change represents a beneficial shift in organization-environment fit (Friedman & Singh, 1989).

The second theory, vicious theory, on the other hand asserts that succession disrupts performance. Friedman and Singh (1989) discuss two kinds of disruption caused by CEO successions. Firstly, CEO successions can destroy the fit between an organization and its environment. Secondly, CEO successions can disrupt internal authority relations, breaking the unity of command and disturbing work patterns that may lead to other management changes, as new policies will be introduced in the organization by the new CEO team. These CEO successions are substantial enough to result in harmful misalignments with the firm's environment which leads to performance disruption (Boeker, 1992).

Finally, ritual-scapegoating theory asserts that a CEO succession is insignificant for organizations and will result in no predictable changes in performance or survival rates. Reinganum (1985) argues that changes in leadership have little bearing on the organizational performance as leadership effectiveness could be limited by the social and environmental constraints which can be found in large and complex organizations. For example, CEOs in large corporations may possess unilateral control over few resources. They also have to face a large bureaucracy and need to require the approval of a group of top executives rather than just one individual. Due to the limited resources controlled by CEOs, CEO successions are insignificant and do not improve firm performance. In addition, Boeker (1992) finds that powerful CEOs are less likely to be dismissed during performance downturns. Instead, the CEOs will put the blame of poor performance onto their subordinates who are among their top managers. As a result, their

top managers are subsequently replaced as the scapegoat of powerful CEOs. Since the organization is still managed by the same CEO, there will be no effect on the performance. Furthermore, Pfeffer and Blake (1986) provide other two plausible explanations for findings of no succession effects or only small effects. One possibility is that there are two simultaneous forces of CEO successions. A positive effect is from the replacement of unsuccessful manager and the negative effect results from the disruption caused by the succession. These two effects may negate each other out and left the performance unchanged.

Based on the above-mentioned theories, the next section discusses the development of hypotheses which focused on stock market reaction on the announcement of CEO succession and factors that influence firm performance specifically measured by market reactions towards CEO succession.

### **3.1 Market reactions and CEO succession**

Previous studies on the announcement effect of top executive management departure were mixed. Reinganum (1985) find no significant abnormal returns on the announcement of top management turnover while Denis and Denis (1995) and Furtado and Rozeff (1987) find a significant positive abnormal returns on top executive dismissal announcements. On the other hand, Dedman and Lin (2002) find that the market reacts negatively to the announcement of top management turnover especially in the case of involuntary departure or when the top executive leave to take another job. The mixed results of previous studies showed that CEO successions can have a significant impact on shareholders' wealth.

Clayton, Hartzel and Rosenberg (2003) explain that the wealth effect associated with the announcement of CEO successions can be decomposed into an information effect and real effect. The information effect argues that a change of CEO signals that firm future performance are worse than previously believed, while the real effect explains that the new CEO is expected to improve firm performance. Both information effect and real effect is similar to vicious theory and common sense theory proposed by Allen, Panian and Lotz (1979). Furtado and Karan (1990) in their summary of CEO succession articles, cite 10 articles that estimate the announcement effect of CEO successions. They find mixed results regarding the effect of CEO announcements on share price, indicating that CEO succession announcements may bring good and bad news to shareholders. However, the information effect dominates the positive real effects. In most cases, CEO successions signal a bad news as shareholders react negatively towards CEO turnover and selection of new successors. Following the above argument, the following hypothesis is developed.

*H1: The stock market reacts significantly to CEO succession announcement.*

In addition to the effect of CEO succession announcements on share price, researchers on CEO successions are also interested in knowing other factors that may influence shareholders' reactions towards CEO successions. For example, Brown (1982) discusses two main factors that influence post-succession performances which are poor prior performance and successor origin.

Past perf

ormance will determine the choice of a successor and the choice of a successor will influence the post performance of a company. Furtado and Karan (1990) discuss that the type of turnover will also influence the firm's post-succession performance. They claim that changes in CEO teams

are of a great interest to the primary stockholders. Markets will respond to the changes as the signal of gain or loss in human capital or as a response to the change itself.

### **3.2 Pre-succession Performance**

Pre-succession performance indicates how well organizations have used and utilized their resources. Poor performance provides a motivation for the organizations to make drastic changes in strategy and structure while good performance is a premium on stability and continuity of resources allocation decisions (Freidman & Singh, 1989). Prior studies in the UK, the US, Japan and Germany reported that CEO turnover is associated with poor performance. For example, Goyal and Park (2002) study the sensitivity of CEO turnover to performance using market adjusted stock returns as a performance measure. They find that there is a negative and statistically significant coefficient on excess stock returns. This result suggests that poor firm performance significantly increases the likelihood of CEO turnover. Using analyst earnings forecast and industry relative earnings as performance indicators, both results are similar to the market adjusted return model as both coefficients are negative and significant. A similar study on sensitivity of turnover to performance of Danish firms was conducted by Lausten (2002). He finds that there is an inverse relationship between CEO turnover and performance. He argues that his result is consistent with principal-agent theory where threat of turnover ensures that the CEO's action is in the interest of shareholders.

As firms dismissed their CEOs due to poor performance, the announcement of CEO turnover is viewed as a corrective action made by management. By using stock market reactions as a performance indicator, Friedman and Singh (1989) find that pre-succession performance has a



significant and negative effect on stockholder reactions. Their results suggest that when pre-succession performance is low, stockholders' reaction toward succession is positive and high. Thus, the following hypothesis is developed;

*H2: The stock market reacts significantly to CEO succession announcement of poorly performing firms.*

### **3.3 Successor Origin**

In studies of CEO successions, the origin of the successor is often singled out as a critical variable. Two critical questions need to be answered by a board when making a decision regarding the origin of the successor. The first question is related to the quality of the successor and the second question is how suitable the successor is with the board members' personal interests (Lauterbach et al. 1999).

Different succession effects may be predicted if the individual is promoted to the position from within the organization rather than being selected from outside. Salancik & Pfeffer (1980) explain that the replacement of CEOs from within the organization represents a maintenance strategy. The new CEO from inside will maintain the ongoing strategies as he or she might be the one who is involved in setting those strategies. However, researchers (such as Cannella & Lubatkin, 1993; and Lauterbach et al. 1999) agree that an insider selection is only suitable for well-performing firms and they also suggest that troubled firms often need to hire outside CEOs as they are more likely to be able to change existing strategies and evaluate current problems.

According to Khurana (1998), the outside candidate was appointed only after a comprehensive search and after the candidate proved that he or she is superior to other internal or external

candidates for the post. Furthermore, in poor performing firms, outsiders are more preferable than insiders as boards believe that outsiders are likely to take decisive actions to turn around a bad situation. However, Chung et al. (1987) provide evidence that the selection of insiders or outsiders by low performing firms does not have a significant influence on the stock market. This is in contrast with the belief that an outsider will turn around the poor performing operation or the market view that outsiders are not the person with the right capability. Apparently, investors do not actually believe that a change in leadership will alter the declining profitability of a low performing firm.

Unlike outsiders, insiders are likely to be slow in recognizing the urgency of the current problem and may pursue the old strategies that are no longer effective (Chung et al. 1987). Lauterbach et al. (1999) in their study find that inside selection deteriorates post-succession performance. Based on the average excess return as the performance indicator, they find a difference between pre-succession and post-succession performance. For internal successions, the post-succession performance decreases by 41% in which the pre-succession excess return is 13% while the post-succession excess return is -28%. In contrast, for the outside selection, the post-succession performance increases by 35% in which the pre-succession performance is -39% and the post-succession performance is -4%, respectively. Their result indicates that external successions stop firm deterioration, rehabilitate it and help it embark on a normal course. The above discussion leads to the following hypothesis:

*H3: The stock market reacts significantly towards outside CEO selection announcements.*

### **3.4 Turnover Type**

Furtado and Karan (1990), in their summary of empirical evidence of CEO turnover discuss that only organizations that planned for succession showed profitability in subsequent periods. They argue that different types of turnover will have different impacts on the post-succession performance, normally measured by the stock market reaction. In general, several studies like Friedman and Singh (1989) and Davidson et al. (2006), report insignificant aggregate price effects for their overall sample, but significant positive or negative effects for specific types of CEO change. Previous research classified turnover into two categories -voluntary turnover and forced turnover.

A voluntary turnover is defined as a change due to the age of directors who are between 54-55 years, death or illness or changes in CEO due to merger and takeover (Kang & Shivdasani, 1995; Denis et al. 1997; Maury, 2006). A voluntary turnover is normally planned; thus, it does not convey a significant effect on the firm's abnormal return. Normal retirement is an example of an anticipated change whereby CEOs announce their intentions to step down from their position at some future date. As the change is planned, the successor had already been determined and groomed within the firm. As claimed by Friedman and Singh (1989), customary retirements in general are orderly smooth transitions that involve successors who are well known to the incumbent management. Since the capital market is aware of the anticipated replacements of CEOs, the stock market would not react abnormally to the announcements of the expected CEO succession (Rhim, Peluchette & Song, 2006). Denis and Denis (1995) show that normal retirement is not related with lower performance prior to management change, but do show small performance improvement following successions. A positive stock market reaction following

normal retirement acts as a signal to inside information released by a company which may affect firm's current and future status.

Weisbach (1988) defines a forced turnover as a turnover due to other reasons than normal retirement. Unfortunately, the identification of forced turnover is difficult because press releases often do not describe them as such. Poor performance is the most frequent reason used to determine forced turnover. On the other hand, a forced succession is not likely to occur in high performing firms. If the situation exists, it will signal that some internal political turmoil exists in a company, not the failure of the CEO in performing his duty. Therefore, forced turnover is unwelcomed in high performing firms. Further, as a rational selection process has occurred, an appropriate change in a company's direction is signalled. Thus, a positive stock market reaction is expected for forced turnover. Thus, it is hypothesized that:

*H4: The stock market reacts significantly towards forced CEO turnover announcements.*

#### **4.0 METHODS**

The first part of this study focuses on assessing the price effects of CEO turnover and selection announcements. The CEO turnover date is the last date of duty of the departing CEO while the CEO selection date is the first date of duty of the succeeding CEO. Both of these dates are publicly available online on the Bursa Malaysia's website. All public listed firms that have announced their CEO turnover and selection from the year 2008 to 2010 are included in the sample.

Fama, Fisher, Jensen and Roll (1969), among others, popularized event study methodologies to capture stock prices respond to new information. Fama (1998) emphasized that an underlying assumption in announcement effect studies is that any lag response of prices to a given event is short-lived and therefore has little effect on estimates of unexpected or abnormal returns. Consequently, methods used in announcement returns are not controversial. This study uses market model and market adjusted return model to measure initial market reactions to CEO succession announcements as proposed by MacKinlay (1997).

The Kuala Lumpur Composite Index (KLCI) is used as the market or benchmark index. Daily prices for each firm's succession and turnover dates and the KLCI are gathered beginning from 201 days prior to the announcement date to 30 days after the announcement date.

Daily return for firm *i* on day *t* is computed as follow:

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}}$$

where,

$R_{i,t}$  : return on firm *i* during day *t*

$P_{i,t}$  : price of firm *i* shares at the end of day *t*

$P_{i,t-1}$  : price of firm *i* shares at the end of day *t-1*

Similarly, the daily market return

$$R_{m,t} = \frac{CI_t - CI_{t-1}}{CI_{t-1}}$$

where,

$R_{m,t}$  : Return on Composite Index during day *t*

$CI_t$  : Composite Index level at the end of day *t*

$CI_{t-1}$  : Composite Index level at the end of day *t-1*

Abnormal returns for each day t are computed by comparing daily firms' and market's returns as follows:

$$AR_{i,t} = R_{i,t} - (\hat{\alpha}_i + \hat{\beta}_i R_{m,t})$$

where,

$AR_{i,t}$  is the abnormal return of i firm on day t,

$R_{i,t}$  is return on firm i during the period t,

$R_{m,t}$  is return on Composite Index during the period t

$\hat{\alpha}_i$  and  $\hat{\beta}_i$  are parameters estimated using the estimation period if market model is used and  $\hat{\alpha}_i = 0$  and  $\hat{\beta}_i = 1$  if market adjusted return model is used.

Daily abnormal returns on each event day for all sample firms are cumulated and then divided by the number of observations to give the average abnormal returns (AAR) for the event day t as summarised below:

$$AAR_t = \frac{\sum_{i=1}^n AR_{i,t}}{n_t}$$

where n is the number of firms on day t. The variance of  $AAR_t$  using market model is

$\frac{1}{n^2} \sum_{i=1}^n \sigma_{ei}^2$  where  $\sigma_{ei}^2$  is the variance of the residuals of firm i from market model

estimation while for market adjusted return, the variance is  $\frac{1}{n^2} \sum_{i=1}^n (AR_{it} - AAR_t)^2$ .  $AAR_t$  is

normally distributed and Z-statistics is equal to  $AAR_t$  divided by square root of the variance.

Next, the cumulative average abnormal returns (CAAR) are calculated from an earlier date, t1 to a later date, t2

$$CAAR_{t1, t2} = \sum_{t=t1}^{t2} AAR_t$$

The variance of  $CAAR_{t1,t2}$  for market model is  $\frac{1}{n^2} \sum_{i=1}^n \sigma_{ei}^2(t1, t2)$ , where  $\sigma_{ei}^2(t1, t2) = \sum_{t=t1}^{t2} \sigma_{ei}^2(t)$

. The variance  $CAAR_{t1,t2}$  for market adjusted return is  $\frac{1}{n^2} \sum_{i=1}^n (CAR_{i,t1,t2} - CAAR_{t1,t2})^2$ , where

$CAR_{i,t1,t2}$  is the cumulative abnormal return of firm  $i$  from period  $t1$  to  $t2$ .  $CAAR_{t1,t2}$  is normally distributed and Z-statistics is equal to  $CAAR_{t1,t2}$  divided by square root of the variance. In both immediate price effects tests, announcement of CEO turnover and selection, it is hypothesized that the AAR and CAAR over the announcement dates are equal to zero.

The second part of this study is to examine the factors that influence the price performance of firms on the announcement date of CEO turnover. Simple Ordinary Least Square (OLS) is used to examine the impact of type of CEO turnover, origin of CEO successor, firm's size, profitability, and growth opportunities using the following regression estimates:

$$CAAR = \alpha_t + \beta_1 FV_{i,t} + \beta_2 IO_{i,t} + \beta_3 SIZE_{i,t} + \beta_4 ROA_{i,t} + \beta_5 MTBV_{i,t} + \varepsilon_{i,t}$$

Where,

CAAR = Firms' cumulative average abnormal returns for day -5 to day 0,

FV = Dummy variable for the type of CEO turnover, forced = 1, voluntary = 0,

IO = Dummy variable for the type of CEO succession, where I is outsider executives = 1, and insider = 0,

SIZE = The size of a firm is measured with natural log of total assets,

ROA = Firms' return on assets for the current year,

MTBV = Firms' market to book value for the current year.

Data pertaining to forced or voluntary CEO turnover and inside or outside CEO successor are manually hand collected from the information provided on Bursa Malaysia announcements available on its website. To determine forced or voluntary turnover, a further step was taken by examining the reasons disclosed on the announcement made by the company regarding CEO turnover. Succession theory suggests that there are at least four voluntary scenarios, namely relay succession, normal retirement, early retirement and death or poor health (Friedman & Singh, 1989; Cannella & Lubatkin, 1993). A relay succession is when the apparent heir becomes the CEO and the outgoing CEO becomes the chairperson. Normal retirement is when the CEO retires due to their retirement age. For example, the age of 55 is considered as a retirement age in the UK while in Malaysia, a person should seek annual approval when he reaches the age of 70 years old (Goyal & Park, 2002; Kang, 2002). Early retirement is when the CEO relinquishes his directorship but not his officership and his age should be less than the retirement age. Death or poor health condition of a CEO is also considered as voluntary turnover.

Regarding forced turnover, Dahya et al. (2002) and Huson, Malatesta and Parrino (2004) identify forced turnover by examining the report released by the press including the Financial Times and Wall Street Journal. They labelled turnover as a forced turnover when the news articles state that the executive was “fired” or “resigned” and in both cases the CEO must be less than 55 years old. In addition, if the announcement did not report any reason for the departure as death, poor health, or the acceptance of other position elsewhere or within the firm stated, then the departure is also classified as forced turnover. Further, removal is also considered as forced turnover since CEOs are removed before the expiration of their three years term (Kang, 2002). For the purpose



of this study, classification of forced turnover and voluntary turnover will be based on the reason stated in the change of management announcement made by a company on the Bursa Malaysia's website. The classification used is as suggested by Huson et al. (2004) and Dahya et al. (2002).

Further, the origin of the successor either inside or outside is identified from the annual reports under directors' profile. The background of the successor including his or her previous position before being elected as the new CEO is disclosed in this section. Following Dalton and Kesner's (1985) definition, an inside successor is a manager or employee promoted from within a firm and an outside successor is a newly appointed CEO from outside the firm. The redesignated position from other positions in the company to CEO/MD is considered as inside selection. However, the successor should be at least one year with the same company to be deemed as an insider. All other variables are collected from Datastream database.

## **5.0 DATA AND ANALYSIS**

This section explains the data and analysis concerning a) the results of immediate price performance of CEO succession and b) the factors that affect firm's price performance. Data and descriptive analysis of the sample is presented in section 5.1. Next, section 5.2 describes findings concerning price impacts surrounding announcement of CEO succession using market model (MM) and market adjusted return model (MAR). Further analysis is carried out and explained in Section 5.3. Data and analyses of factors that affect firm's price performance are detailed out in section 5.4.

### 5.1 Data for Announcement Effects

Data concerning CEO succession was retrieved from Bursa Malaysia announcement site. For the year 2008 to 2010, there were a total of 247 announcements of CEO succession. To reduce confounding effects, all announcements were clear from major announcement such as merger, acquisition and earnings announcements. Table 5.1 shows CEO succession announcements by year and Table 5.2 shows the distribution of CEO succession announcements by Bursa Malaysia industry classification for the year 2008 to 2010.

**Table 5.1 Distribution of CEO succession announcements by year**

Year	CEO announcements
2008	94
2009	76
2010	77
Total	247

Table 5.2 shows that most of the CEO succession announcements (62 cases) are from trading and services industries, while 52 cases and 35 cases are announcements made by companies in the industrial product and customer products industries,, respectively. This result implies that CEO succession is more likely to occur in industries that are considered as highly competitive industries (e.g trading and services, industrial product and customer product). Defond and Park (1999) argue that in highly competitive industries that consist of a large number of homogeneous firms, there is a large pool of suitable CEO candidates compared to a low competition industry. This is because CEO candidates of the former face similar working tasks and environment. In addition, Parrino (1997) claims that the cost of human specific capital of outside successor in industries comprised of similar firms (homogeneous) is lower than in heterogeneous industries.

The reason is that the outsider in a homogenous industry better understands the production technologies employed at other industry firms and the product markets in which they compete.

**Table 5.2 Distribution of CEO announcements by Bursa Malaysia industry classification**

	<b>Industry</b>	<b>CEO announcements</b>
1	Construction	15
2	Consumer products	35
3	Finance	11
4	Industrial Products	52
5	IPC	4
6	Plantation	6
7	Properties	30
8	REITS	7
9	Technology	25
10	Trading and Services	62
	<b>Total</b>	<b>247</b>

Most companies announced CEO succession once during the period between the year 2008 to 2010; however, 18 companies (as listed in Table 5.3) announced CEO succession twice during the period under study. Although there is no clear indication of any problem faced by the companies, announcing CEO succession more than once during the 3-year period may signal that the companies are having problems adjusting with the management.

**Table 5.3 Companies that announced CEO turnover twice during 2008 to 2010**

	<b>COMPANY'S NAME</b>
1	Cepatwawasan Group Berhad
2	Digi.com Berhad
3	Encorp Berhad

- 4 FACB Industries Incorporated Berhad
  - 5 Golden Pharos Berhad
  - 6 Guocoland (M) Berhad
  - 7 Hock Sin Leong Group Berhad
  - 8 I-Berhad
  - 9 Key Asic Berhad
  - 10 LKT Industrial Berhad
  - 11 MEDA Inc. Berhad
  - 12 MISC Berhad
  - 13 MMC Corporation Berhad
  - 14 Mutiara Goodyear Development Berhad
  - 15 Satang Holding Berhad
  - 16 SEG International Bhd
  - 17 Warisan TC Holding Berhad
  - 18 Zelan Berhad
- 

## **5.2 Announcement Effects of CEO Succession**

The first part of the study is to assess the immediate price effects of the announcement of CEO succession. This study employs both market model (MM) and market adjusted return model (MAR) as explained in Section 4. This study uses the earlier date between the announcements of CEO turnover or the announcement of CEO successor. Most of the dates are very close to each other, thus choosing the earlier between the two is warranted to capture the earliest reaction of the news. The full report on the abnormal returns and cumulative abnormal returns for both models are presented in Table A1 and Table A2, respectively, in the appendices.

The final sample consists of 247 event dates of CEO succession from all industries that announced CEO succession on Bursa Malaysia website between the years 2008 to 2010. Table

5.4 compares the average abnormal returns (AAR) for day -10 to day +3 surrounding the announcement of CEO succession using Market Model and Market Adjusted Return Model (MAR).

From Table 5.4, it is observed that there is a positive but insignificant abnormal return of about 0.056% on the day of the announcement using MM and MAR. This finding implies that investors do consider the announcements of CEO succession as significant events as market reacts positively to those announcements. Even though, the MM and MAR coefficient is not significant on the announcement dates, the positive sign shows that CEO successions signal good news to investors. Investors believe that the turnover of the former CEO and the selection of new CEO will bring in good image to the company. However, findings of this study also reveal that there are significant positive price drifts in the days prior to the announcement dates starting from day -8, day -5, and day -3 according to MM. This situation explains that the rumours of CEO succession were already spread before the actual date of the announcement of the CEO succession. In other words, shareholders react prior to CEO successions based on information disclosed in the media or financial press. The positive sign of both MM and MAR coefficients indicate that CEO successions are welcomed by investors.

However, regarding post succession performance, Market Adjusted Return Model in Table 5.4 detected a significant negative reaction of 0.06% on day 1 after the announcement of CEO turnover's date. This finding implies that CEO change has disrupted firm post-succession performance which supports the vicious theory of succession. The possible reason for this situation may be due to investors' view that the new successor is not capable enough to improve

firm future performance or may be the new CEO's capability is lower as compared to the former CEO (Friedman and Singh, 1989). Furthermore, Boeker (1992) provides an explanation regarding performance disruption following a CEO succession. He states that a CEO succession can destroy the fit between an organization and its environment, breaking the unity of command and disturbing work patterns, as new policies will be introduced in the organization by the new CEO team. Thus, CEO successions lead to performance disruption after the changes events.

**Table 5.4: AAR for day -10 to day +3 surrounding the announcement of CEO turnover between MM and MAR**

Event day	Market Model (MM)				Market Adjusted Return Model (MAR)			
	AAR	STDEV	Z score	P-value	AAR	STDEV	Z score	P-value
-10	-0.0034	0.0453	-1.1818	0.2384	-0.0030	0.0288	-1.6561	0.0990
-9	0.0000	0.0497	-0.0077	0.9938	0.0044	0.0324	2.1230	0.0348**
-8	0.0050	0.0347	2.2743	0.0238**	0.0017	0.0245	1.0891	0.2772
-7	-0.0021	0.0328	-1.0251	0.3063	-0.0006	0.0226	-0.4185	0.6760
-6	-0.0041	0.0619	-1.0306	0.3038	-0.0016	0.0397	-0.6426	0.5211
-5	0.0067	0.0504	2.0940	0.0373**	0.0021	0.0357	0.9189	0.3590
-4	-0.0031	0.0999	-0.4911	0.6238	-0.0038	0.0901	-0.6732	0.5014
-3	0.0051	0.0434	1.8456	0.0662*	0.0014	0.0228	0.9978	0.3194
-2	-0.0024	0.0640	-0.5810	0.5618	0.0019	0.0327	0.9293	0.3537
-1	0.0091	0.1013	1.4152	0.1583	0.0070	0.0948	1.1699	0.2432
0	0.0056	0.0987	0.8969	0.3706	0.0057	0.0928	0.9770	0.3295
1	-0.0032	0.0376	-1.3272	0.1857	-0.0060	0.0435	-2.1733	0.0307**
2	0.0018	0.0483	0.6015	0.5480	0.0011	0.0208	0.8223	0.4117
3	-0.0044	0.0454	-1.5291	0.1275	-0.0029	0.0325	-1.3923	0.1651

\*\* indicates significant at 5% level, \* indicates significant at 10 % level

Table 5.5 and Table 5.6 present the cumulative average abnormal returns (CAAR) for different window periods using MM and MAR, respectively. There is no significant difference in CAAR surrounding the announcement date, day -1 to day 1 according to either MM or MAR. The CAAR are positively significant on day -10 to day 0, day -3 prior to day 0 and day -5 to day 0. However, market is indifferent on the day of the announcement itself regardless of the model used.

**Table 5.5: CAAR for different windows surrounding CEO announcement dates using Market Model (MM)**

Windows	CAAR	STDEV	t-stat	p-value
CAAR -60,30	0.0034	0.4249	0.1246	0.9010
CAAR -60,10	0.0007	0.3481	0.0314	0.9750
CAAR -30,30	0.0127	0.3204	0.6247	0.5327
CAAR -10,10	0.0158	0.1764	1.4084	0.1603
CAAR -10,0	0.0165	0.1426	1.8153	0.0707*
CAAR -5,5	0.0164	0.1629	1.5821	0.1149
CAAR -5,0	0.0211	0.1427	2.3220	0.0211**
CAAR -3,3	0.0117	0.1740	1.0610	0.2897
CAAR -3,0	0.0175	0.1543	1.7815	0.0761*
CAAR -1,1	0.0116	0.1454	1.2518	0.2118
CAAR -1,0	0.0148	0.1417	1.6368	0.1030

\*\* indicates significant at 5% level, \* indicates significant at 10 % level

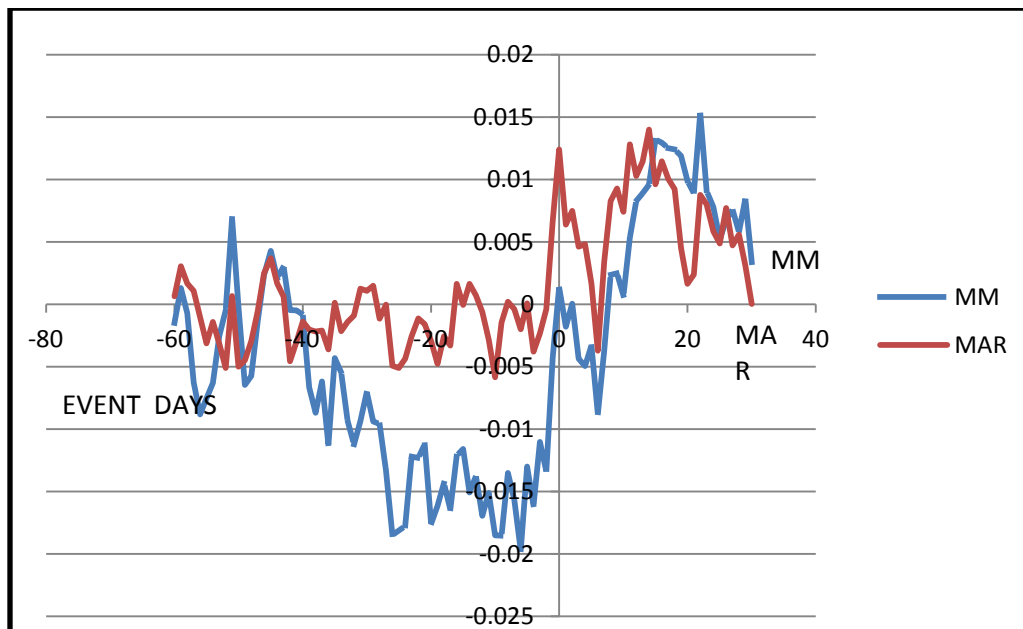
**Table 5.6: CAAR for different windows surrounding CEO announcement dates using Market Adjusted Return Model (MAR)**

Windows	CAAR	STDEV	t-value	p-value
CAAR -60, 30	9.975E-05	0.2354	0.0066	0.9947
CAAR -60, 10	0.0076	0.2163	0.5509	0.5822
CAAR -30, 30	-0.0013	0.1794	-0.1101	0.9124
CAAR -10,10	0.0102	0.1191	1.3422	0.1808
CAAR -10,0	0.0152	0.0918	2.5960	0.0100**
CAAR -5,5	0.0036	0.1276	0.4481	0.6545
CAAR -5,0	0.0144	0.1108	2.0361	0.0428**
CAAR -3,3	0.0084	0.1521	0.8629	0.3889
CAAR -3,0	0.0161	0.1359	1.8638	0.0635*
CAAR -1,1	0.0068	0.1381	0.7697	0.4422
CAAR -1,0	0.0128	0.1330	1.5060	0.1334

\*\* indicates significant at 5% level, \* indicates significant at 10 % level

Figure 5.1 compares the cumulative average abnormal returns from day -60 to +30 using MM and MAR. From the figure, it is clearly observed that the prices started to increase a few days prior to the announcement date then drop sharply on the announcement date itself. From all the results, it can be summarised that market is indifferent on the date of CEO turnover but has progressively experiencing positive abnormal returns between 1.5 to 1.6% beginning from day -10 to day 0 before the announcement dates. Overall, market is quick to adapt to the news as there were no negative or positive abnormal returns experienced from the day of announcements and days afterwards.

**Figure 5.1: Comparison of 91-day CAAR Surrounding CEO Succession Announcement Dates Using Market Adjusted Model (MAR) and Market Model (MM)**



For robustness, finance companies and utilities companies are dropped from the sample as these companies may face different regulatory requirements. The result also shows that there is no



significant different in the abnormal returns and are therefore not presented in the main text. These results are summarised in Appendix A3.

Similar to Reinganum (1985) and Rhim et al. (2006), this study does not find any significant difference in abnormal returns on the announcements of CEO turnover. It appears that market is not surprised on the announcements of CEO departure. There are a couple of reasons as to why the announcements are not a surprise. Firstly, the announcement of top executive departures and successions are made mandatory in Malaysia as prescribed by Bursa Malaysia Listing Requirement para 9 under changes in management structure (Bursa Malaysia, 2007). Secondly, given that many Malaysian firms are tightly owned by family members or block holders as mentioned by Thillainathan, (1999) and Gibson, (2003), the news regarding the departure of the CEO may had been widely spread and anticipated by major shareholders who also serve as directors and therefore it could be argued that market has predicted the events, therefore the changes in prices may have taken place even prior to the official announcement on Bursar Malaysia website. The result in Table 5.4 shows that the changes in prices have been impounded as early as day -9 prior to the official announcement by Bursa Malaysia.

### **5.3 Further Analysis on Announcement Effects of CEO Succession**

The result of the previous announcement returns is then analysed to assess the impact of characteristics of CEO turnover. Specifically, this study then assess the impact of a) prior accounting performance, b) whether it was forced or voluntary turnover and, c) whether the CEO successor is an insider or outsider, on firm return performance. From the 247 announcements, only 101 are left for further analysis. The remaining 136 turnovers do not have information

concerning whether the turnover is forced or voluntary. Table 5.7 presents the descriptive analysis of the sample.

**Table 5.7 Descriptive analysis**

	<b>N</b>	<b>Minimum Statistic</b>	<b>Maximum Statistic</b>	<b>Mean Statistic</b>	<b>Std. Deviation Statistic</b>
CAAR(-5,0)	101	-0.1821	0.3539	0.0122	0.0662
FV	101	0.0000	1.0000	0.4059	0.4935
IO	101	0.0000	1.0000	0.3366	0.4749
LNTA	101	7.0758	17.5304	12.8800	1.9441
ROA	101	-121.3700	162.8300	-0.1152	18.0365
ROA <sub>t-1</sub>	101	-30.28	162.04	3.178515	19.7784
MTBV	101	-4.7700	27.8200	1.3412	3.1822
Valid N (listwise)	101				

Table 5.7 shows the descriptive statistics of all variables used in the study. CAAR day -5 to day 0 is used as the dependent variable as proxy for performance during the announcement of CEO succession. Based on 101 sample firms, the maximum abnormal returns achieved for the announcement period is about 35 % while the minimum abnormal loss for the period is about 18%. On average, firms that announce a CEO succession experience an abnormal returns of +1%. Accounting performance as measured by return on assets (ROA) is typically low with a mean of -11%.

Variable FV in Table 5.7 is a proxy for whether the turnover was forced (F) or voluntary (V) . The variable IO is used to capture whether there is any difference in the announcement date when the CEO turnover is succeeded by inside (I) or outside directors (O). Both of the variables use dummy variable, where it has the value of 1 when it is a forced turnover, and it will take the value of 0 when the turnover is on voluntary basis. Likewise, it will take the value of 1 when the successor is an outsider and it will have the value of 0 when the successor is an insider.

The average size for the company as measured by natural log of total assets is 12.9 and the standard deviation is about 2 for the sample. Market to book value (MTBV) for the current year is used to predict firms' growth opportunities. On average, the sample has a mean of MTBV of 1.34 with a maximum value of 27.8 and a minimum value of -4.8

Table 5.8 shows pair wise correlation among all independent variables for factors affecting announcement returns. The independent variable is the cumulative average abnormal returns (CAAR, day -5, 0) while independent variables are characteristics of the turnover i.e. forced or voluntary (FV), characteristics of the successor CEO i.e. insider or outsider (IO), firms' size (natural log of total assets), firms' prior performance (firm's prior return on assets,  $ROA_{t-1}$ ), current performance (this year return on assets,  $ROA_t$ ) and growth opportunities as measure by market to book value (MTBV). Based on the correlation matrix in Table 5.8 it can be said that the model is safe from multicollinearity problems as each of the variables' coefficients is less than 0.5. Gujarati (2003) considered a correlation coefficient of below 0.5 as low and should not pose problems to the model.

**Table 5.8 Pairwise correlation of variables affecting announcement returns.**

	FV	IO	LNTA	$ROA_{t-1}$	$ROA_t$	MTBV
FV	1.0000					
IO	0.2218	1.0000				
LNTA	-0.0644	-0.1446	1.0000			
$ROA_{t-1}$	-0.1149	-0.0084	0.1544	1.0000		
$ROA_t$	-0.1163	-0.1573	0.4318	0.3055	1.0000	
MTBV	-0.0653	-0.1431	0.1940	0.3339	0.4826	1.0000

Simple ordinary least square (OLS) with robust standard error is used to examine the influence of factors affecting announcement returns. Table 5.9 summarised the results of OLS regression and variance inflation factors for each variables. All the variables has VIF of less than 2 thus are not prone to serious multicollinearity problems.

It is hypothesised that type of turnover i.e. whether forced or voluntary would have an impact on CEO succession announcements. However, the results of this study indicate that type of turnover does not affect the announcement returns. Likewise, this study does not find that type of CEO successor either insider or outsider affect announcement returns although the coefficient of IO is positive. On the contrary Shen and Cannella (2003) find that there is a strong positive investor reaction to outside CEO promotion and a negative investor reaction to inside CEO promotion. The different in results may be due to a couple of reasons including small number of sample analyzed for this study, and concentrated ownership patterns. Concentrated ownership is prevalent in Malaysia and is an important characteristic as it imply easy outflow of information among major shareholders of a firm. Therefore, it is argue that the information regarding CEO turnover or succession are already impounded in the price even before the news is available on Bursa Malaysia website thus no price reactions can be observed on that dates.

The result also indicates that prior firms' performance,  $ROA_{t-1}$ , does not influence announcement returns but current ROA significantly affect the announcement returns. Market believes that the succession is good for future profitability of the firms and reacts significantly positive to CEO succession announcements made by good performing firms. Based on the result, low growth firms have positive impacts on announcement returns. This may means that a change of CEO

bring about good news to low growth firms as it signal that they're going to be a change in strategic policy which would improve growth or firm performance.

**Table 5.9 Regression result on factors affecting announcement returns**

	Coef.	Robust standard error	T stat	P value	VIF
FV	-.01852	.01316	-1.41	0.162	1.07
IO	.01998	.01436	1.39	0.167	1.09
LNTA	-.00206	.00343	-0.60	0.551	1.24
ROA <sub>t-1</sub>	.00007	.00029	0.24	0.808	1.18
ROA <sub>t</sub>	.00116	.00047	2.45	0.016 **	1.59
MTBV	-.00338	.00127	-2.67	0.009***	1.39
CONS	.04389	.05006	0.88	0.383	
R-squared	10.26%				
Mean VIF					1.26

\*, \*\* indicate significance at 5% and 1 % respectively

Table 5.10 presents the impact of prior accounting performance as measured by return on asset one year before the announcement of CEO turnover (**ROA<sub>t-1</sub>**). The sample is divided into two equal categories: poor performer and good performer. On average, the ROA<sub>t-1</sub> for poor performer group is -6.38 while the good performer achieved ROA<sub>t-1</sub> of 12.55 as shown in second and third column of Table 5.11. The last column of the table considers the effect of outlier. Among the good performer is a company that performed extremely high from the rest with the ROA<sub>t-1</sub> of 162 and this company is taken out from the analysis. The results in column 2 and column 3 show that price effects are indeed affected by prior accounting performance, ROA<sub>t-1</sub> regardless whether there was an outlier. On average good performer experienced an abnormal returns of 2.2 % during day -5 to day 0 and the result is significant at 5% whereas the poor performer experience an insignificant abnormal returns of 0.15%.

**Table 5.10 Prior accounting performance and announcement effects of CEO succession**

	<b>POOR -ROA<sub>t-1</sub></b>	<b>GOOD -ROA<sub>t-1</sub></b>	<b>GOOD -ROA<sub>t-1</sub></b>
Mean ROA <sub>t-1</sub>	-6.3794	12.5490	9.5592
N	50	51	50
Average CAAR -5,0	0.0015	0.0226	0.0228
Standard dev	0.0641	0.0672	0.0678
T-stat	0.1668	2.4013	2.3734
P-value	0.8682	0.0201**	0.0216**

\*\* indicates significant at 5% level

Table 5.11 presents univariate test on the difference between the performances of current accounting indicator as measured by return on assets. The sample firms are divided equally between good performer and poor performer. The result indicates that there are marginal positive abnormal returns experienced by good performer firms. This means that current accounting performance affects the returns experienced during the announcement of CEO turnover. While there is no difference in abnormal returns experienced by firms that are experiencing poor performance.

**Table 5.11 Current accounting performance and announcement effects of CEO succession**

	<b>GOOD ROA<sub>t</sub></b>	<b>POOR ROA<sub>t</sub></b>
Average ROA <sub>t</sub>	8.4810	-9.7704
N	51	50
Average CAAR, -5,0	0.0179	0.0063
Standard dev	0.0675	0.0649
T-stat	1.8946	0.6835
P-value	0.0639*	0.4975

\* indicates significant at 10% level

Table 5.12 shows the effect of forced and voluntary CEO turnover. There are 41 announcements that are being classified as forced turnover while 60 others are voluntary turnover. Both average CAAR for days -5 to day 0 to the announcement of forced and voluntary turnover are positive.

The average abnormal return of voluntary turnover is significant and positive which may indicate that the announcement is favourable. The result does not support the hypothesis that the stock market will react significantly to forced CEO succession announcements; however the market reacted significantly positive to voluntary CEO succession announcement thus support the common sense theory implying such a change could contribute towards better performance in the future.

**Table 5.12 Forced and voluntary turnover and the announcement effects**

	<b>FORCED</b>	<b>VOLUNTARY</b>
N	41	60
Average CAAR -5,0	0.0017	0.0193
Standard dev	0.0841	0.0500
T-stat	0.1298	2.9892
P-value	0.8973	0.0041**

\*\* indicates significant at 5% level

Table 5.13 shows the effect of insider and outsider as the CEO successor. Out of 101 CEO turnovers, 34 of them are replaced by insiders whereas 67 others are replaced by outsiders. The average CAAR for days -5 to day 0 to the announcement of forced and voluntary turnover are positive but not significant. The result failed to support the hypothesis that the stock market will react significantly to outsider succession announcements.

**Table 5.13 Outsider and insider successor and the announcement effects**

	<b>OUTSIDER</b>	<b>INSIDER</b>
N	67	34
Average CAAR -5,0	0.0077	0.0209
Standard dev	0.0611	0.0755
T-stat	1.0334	1.6159
P-value	0.3052	0.1156

## 6.0 CONCLUSION

This study examines market reactions on the announcement of CEO succession considering firms' prior performance, origin of successors and turnover type. Using market model and market adjusted model, this study fails to detect any significant market reactions on the day of CEO succession announcements. However, our findings showed that there is a positive reaction 10 days prior to CEO succession announcement which imply that there is a leakage of information prior to formal turnover announcements made by companies. The positive reaction indicates that a CEO succession announcement is favoured by investor. In contrast, this study finds a negative reaction a day after succession, which explains that the new successor is not welcomed by investors. The shareholders may view that the new successor is not capable enough to manage the company as compared to the former CEO.

Further investigation shows that CEO succession announcements made by prior poor performance companies do not have any significant impact on shareholders' reactions. This is because shareholders do not believe that the new CEO can turn around a firm's future performance. At least two or three years are needed by a new successor to bring a company in the right track and gain some profit in the future. This study also finds a positive reaction towards CEO voluntary turnover announcement and no reaction towards forced turnovers. Normally, firms that are involved with voluntary turnover have a succession plan in which the announcement of voluntary turnover is expected by shareholders. The positive reaction indicates that shareholders view that the new successor is well equipped to become a new CEO via internal grooming and training activities. Related to successor origin, this study fails to find a significant shareholders' reaction towards the announcement of either inside or outside



successors. In other words, shareholders do not bother who is going to manage the company. Overall, the finding of this study showed mixed results regarding market reaction on CEO succession announcements. Thus, much remains for future research.

## **7.0 LIMITATION AND FUTURE RESEARCH**

There are several limitations of the study. Firstly there are other factors that may have impacted firms' price performance during the announcement period. For example firms' other financial characteristics such as risk exposure, leverage level, liquidity level and industry factor could also be tested. Secondly, other CEO characteristics may influence market price reactions . CEO level of education, CEO tenure and CEO experience are among characteristics that can be examined in future research. Thirdly, the results of the study should be interpreted with caution as limited observations are used for the analysis of factors affecting CEO turnover announcement returns. A bigger sample would probably yield different results. Finally, it is also worthwhile to investigate and compare long-run price performance of CEO changes with other corporate governance settings such as ownership structures.

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Table A1: AAR and CAAR for all firms using Market Model

Event day	AAR	CAAR	STDEV	T-stat	P-value
-60	-0.00088	-0.00088	0.043294	-0.30933	0.75735
-59	0.002278	0.001395	0.066841	0.516921	0.60571
-58	-0.00245	-0.00105	0.058336	-0.63581	0.52553
-57	-0.00613	-0.00718	0.053208	-1.74644	0.08208*
-56	-0.00243	-0.0096	0.062407	-0.58937	0.55619
-55	0.00172	-0.00788	0.078005	0.334387	0.73839
-54	0.001548	-0.00633	0.0655	0.358462	0.72033
-53	0.004947	-0.00139	0.056631	1.324712	0.18659
-52	0.00205	0.000662	0.059018	0.526749	0.59888
-51	0.007213	0.007874	0.086201	1.268945	0.20575
-50	-0.00858	-0.00071	0.100565	-1.29403	0.19696
-49	-0.00642	-0.00713	0.060751	-1.60234	0.11046
-48	0.001426	-0.0057	0.047642	0.45409	0.65019
-47	0.004462	-0.00124	0.087399	0.774211	0.43960
-46	0.003631	0.002394	0.050241	1.095961	0.27425
-45	0.002851	0.005244	0.052236	0.827642	0.40873
-44	-0.00326	0.001985	0.042995	-1.14965	0.25149
-43	0.001291	0.003276	0.041778	0.468511	0.63987
-42	-0.0039	-0.00062	0.07175	-0.82399	0.41080
-41	0.000278	-0.00034	0.033266	0.126651	0.89933
-40	-0.00054	-0.00088	0.038496	-0.21231	0.83206
-39	-0.00627	-0.00716	0.056608	-1.68079	0.09417
-38	-0.00179	-0.00894	0.047069	-0.57523	0.56570
-37	0.001683	-0.00726	0.048383	0.527527	0.59834
-36	-0.00536	-0.01262	0.046225	-1.7578	0.08012*
-35	0.0069	-0.00572	0.045827	2.28335	0.02333**
-34	-0.00157	-0.00729	0.064249	-0.37021	0.71157
-33	-0.00432	-0.01161	0.055915	-1.17222	0.24232
-32	-0.00185	-0.01346	0.045795	-0.61242	0.54087
-31	0.002663	-0.01079	0.034805	1.160244	0.24716
-30	0.002274	-0.00852	0.063756	0.540916	0.58909
-29	-0.00236	-0.01088	0.039651	-0.90422	0.36683
-28	-0.00068	-0.01156	0.053299	-0.19302	0.84712
-27	-0.00358	-0.01514	0.042318	-1.28185	0.20119
-26	-0.00572	-0.02086	0.054224	-1.60082	0.11080
-25	0.000949	-0.01992	0.041389	0.347572	0.72848
-24	0.00044	-0.01948	0.048269	0.138111	0.89027

-23	0.00616	-0.01332	0.055695	1.677406	0.09483*
-22	0.000284	-0.01303	0.052339	0.08227	0.93450
-21	0.000257	-0.01277	0.036672	0.106082	0.91561
-20	-0.00693	-0.0197	0.063453	-1.65599	0.09909*
-19	0.000947	-0.01876	0.042659	0.336779	0.73659
-18	0.002523	-0.01623	0.044533	0.859336	0.39105
-17	-0.00212	-0.01835	0.05393	-0.59543	0.55214
-16	0.005537	-0.01281	0.047573	1.765237	0.07886*
-15	-0.00014	-0.01295	0.054928	-0.03821	0.96955
-14	-0.00403	-0.01698	0.046561	-1.31256	0.19065
-13	0.001491	-0.01549	0.044063	0.513148	0.60834
-12	-0.00378	-0.01927	0.033867	-1.6907	0.09225*
-11	0.001888	-0.01738	0.04691	0.610286	0.54228
-10	-0.00363	-0.02101	0.046849	-1.17524	0.24112
-9	-0.00051	-0.02151	0.051234	-0.14986	0.88100
-8	0.005186	-0.01633	0.035794	2.19723	0.02901
-7	-0.00233	-0.01865	0.033653	-1.04809	0.29570
-6	-0.00485	-0.0235	0.06341	-1.1597	0.24738
-5	0.006241	-0.01726	0.050197	1.885514	0.06063
-4	-0.00193	-0.0192	0.102389	-0.28641	0.77482
-3	0.005503	-0.01369	0.04484	1.861343	0.06398
-2	-0.00206	-0.01575	0.065724	-0.47559	0.63482
-1	0.009319	-0.00644	0.104655	1.350441	0.17821
0	0.005475	-0.00096	0.101949	0.814407	0.41626
1	-0.00362	-0.00458	0.038805	-1.41626	0.15806
2	0.002479	-0.00211	0.049312	0.762296	0.44667
3	-0.00388	-0.00599	0.04621	-1.27425	0.20387
4	-0.00039	-0.00638	0.038825	-0.15165	0.87960
5	0.001373	-0.005	0.065217	0.319319	0.74978
6	-0.00574	-0.01074	0.121162	-0.71819	0.47337
7	0.006585	-0.00416	0.113389	0.880719	0.37939
8	0.005782	0.001626	0.053809	1.629625	0.10456
9	-0.00079	0.000836	0.040964	-0.29241	0.77024
10	-0.00259	-0.00175	0.044784	-0.87692	0.38145
11	0.005724	0.00397	0.083455	1.040219	0.29934
12	0.002867	0.006838	0.045834	0.948709	0.34377
13	0.001644	0.008482	0.050205	0.496635	0.61992
14	0.000429	0.008911	0.030566	0.212937	0.83157
15	0.003967	0.012878	0.089546	0.671913	0.50232
16	-0.00032	0.012556	0.035719	-0.137	0.89115
17	-0.00022	0.012332	0.050855	-0.06655	0.94700

18	-0.00018	0.012155	0.039588	-0.06794	0.94589
19	-0.00035	0.011806	0.082946	-0.06388	0.94912
20	-0.00231	0.0095	0.079003	-0.44267	0.65842
21	-0.00106	0.008437	0.035053	-0.45998	0.64597
22	0.007326	0.015763	0.093548	1.187718	0.23617
23	-0.00687	0.008892	0.047471	-2.19498	0.02917
24	-0.00095	0.007939	0.038181	-0.37869	0.70527
25	-0.00261	0.005324	0.032478	-1.22106	0.22332
26	0.001612	0.006936	0.036106	0.676977	0.49910
27	0.000741	0.007677	0.055426	0.202731	0.83953
28	-0.00178	0.0059	0.047947	-0.56198	0.57468
29	0.003234	0.009134	0.072427	0.677137	0.49900
30	-0.00512	0.004009	0.046537	-1.66994	0.09630

\*, \*\* significance at 10% and 5% respectively

Table A2: AAR and CAAR for all firms using Market Adjusted Return Model

Event day	AAR	CAAR	STD	T-value	P-value
-60	0.000622	0.000622	0.029106	0.335729	0.7374
-59	0.002424	0.003045	0.03017	1.262503	0.2080
-58	-0.00138	0.001665	0.028082	-0.77247	0.4406
-57	-0.0006	0.001069	0.040989	-0.22839	0.8195
-56	-0.0021	-0.00103	0.040585	-0.81406	0.4164
-55	-0.00212	-0.00315	0.052868	-0.62907	0.5299
-54	0.001733	-0.00142	0.035553	0.766118	0.4443
-53	-0.00175	-0.00317	0.041395	-0.66481	0.5068
-52	-0.00195	-0.00512	0.031053	-0.98923	0.3235
-51	0.005778	0.000656	0.076239	1.191	0.2348
-50	-0.00566	-0.005	0.086933	-1.02343	0.3071
-49	0.000511	-0.00449	0.02712	0.296377	0.7672
-48	0.001531	-0.00296	0.030307	0.794136	0.4279
-47	0.002383	-0.00058	0.075493	0.495994	0.6203
-46	0.003062	0.002482	0.033446	1.438664	0.1515
-45	0.0012	0.003683	0.037774	0.499463	0.6179
-44	-0.00202	0.001659	0.031712	-1.00307	0.3168
-43	-0.00105	0.000606	0.021849	-0.75742	0.4495
-42	-0.00517	-0.00456	0.05603	-1.45014	0.1483
-41	0.001518	-0.00305	0.018252	1.307363	0.1923
-40	0.001656	-0.00139	0.024854	1.047047	0.2961
-39	-0.00065	-0.00204	0.029701	-0.34325	0.7317
-38	-0.00015	-0.00219	0.033381	-0.07134	0.9432
-37	7.31E-05	-0.00212	0.033543	0.034238	0.9727
-36	-0.0015	-0.00361	0.02285	-1.03003	0.3040
-35	0.003745	0.00013	0.035421	1.661501	0.0979
-34	-0.00229	-0.00216	0.044053	-0.81789	0.4142
-33	0.000744	-0.00142	0.048852	0.2395	0.8109
-32	0.000501	-0.00092	0.033024	0.238453	0.8117
-31	0.002165	0.001248	0.021554	1.578881	0.1156
-30	-0.00019	0.001062	0.021304	-0.13706	0.8911
-29	0.000418	0.00148	0.026137	0.25148	0.8017
-28	-0.00265	-0.00117	0.028301	-1.47232	0.1422
-27	0.001129	-4.2E-05	0.030341	0.58471	0.5593
-26	-0.0049	-0.00494	0.044023	-1.74827	0.0817



-25	-0.00018	-0.00512	0.034544	-0.08217	0.9346
-24	0.000741	-0.00438	0.035382	0.329257	0.7422
-23	0.001809	-0.00257	0.028744	0.98933	0.3235
-22	0.001427	-0.00114	0.031392	0.714318	0.4757
-21	-0.00046	-0.0016	0.023789	-0.30529	0.7604
-20	-0.00136	-0.00296	0.04767	-0.44762	0.6548
-19	-0.0018	-0.00477	0.024209	-1.17139	0.2426
-18	0.002206	-0.00256	0.019742	1.755907	0.0803
-17	-0.00075	-0.00331	0.020219	-0.58296	0.5605
-16	0.004941	0.00163	0.030567	2.540499	0.0117**
-15	-0.00168	-4.8E-05	0.037344	-0.70637	0.4806
-14	0.001686	0.001638	0.024525	1.080559	0.2810
-13	-0.00092	0.000722	0.023115	-0.62276	0.5340
-12	-0.00134	-0.00062	0.017542	-1.20436	0.2296
-11	-0.00222	-0.00284	0.023946	-1.4554	0.1468
-10	-0.00302	-0.00586	0.028881	-1.64275	0.1017
-9	0.004394	-0.00146	0.032449	2.127994	0.0343**
-8	0.001672	0.000207	0.02458	1.069073	0.2861
-7	-0.0006	-0.00039	0.022675	-0.41289	0.6800
-6	-0.00163	-0.00202	0.039738	-0.64538	0.5193
-5	0.00209	6.96E-05	0.035806	0.917373	0.3598
-4	-0.00387	-0.0038	0.09024	-0.67362	0.5012
-3	0.00145	-0.00235	0.022869	0.996516	0.3200
-2	0.001955	-0.00039	0.032788	0.936969	0.3497
-1	0.007046	0.006653	0.094964	1.166157	0.2447
0	0.00574	0.012393	0.093025	0.969699	0.3331
1	-0.00602	0.006372	0.04361	-2.16959	0.0310
2	0.0011	0.007473	0.020837	0.829758	0.4075
3	-0.00286	0.004616	0.032556	-1.37897	0.1692
4	0.000202	0.004818	0.023161	0.137052	0.8911
5	-0.00317	0.001651	0.056271	-0.88449	0.3773
6	-0.00537	-0.00372	0.112368	-0.75168	0.4530
7	0.007141	0.003418	0.105514	1.063673	0.2885
8	0.004858	0.008276	0.046016	1.659091	0.0984*
9	0.000993	0.009269	0.022117	0.705791	0.4810
10	-0.00187	0.007399	0.036185	-0.81226	0.4174
11	0.005418	0.012817	0.074431	1.144004	0.2537
12	-0.00253	0.010282	0.043202	-0.92208	0.3574
13	0.001158	0.01144	0.038298	0.475048	0.6352
14	0.002544	0.013984	0.020187	1.980721	0.0487**
15	-0.00439	0.009597	0.042837	-1.60946	0.1088

16	0.00185	0.011447	0.026713	1.088443	0.2775
17	-0.00139	0.010055	0.020739	-1.0549	0.2925
18	-0.00083	0.009229	0.011735	-1.10585	0.2699
19	-0.00472	0.004512	0.071012	-1.04401	0.2975
20	-0.00287	0.001644	0.07118	-0.63329	0.5271
21	0.000743	0.002386	0.01362	0.856835	0.3924
22	0.006369	0.008755	0.084615	1.182899	0.2380
23	-0.00077	0.007986	0.026079	-0.46318	0.6436
24	-0.00215	0.005833	0.041676	-0.81194	0.4176
25	-0.00096	0.004871	0.020802	-0.72722	0.4678
26	0.002849	0.007719	0.024813	1.804254	0.0724*
27	-0.003	0.004718	0.040165	-1.17427	0.2414
28	0.000854	0.005572	0.035082	0.382625	0.7023
29	-0.00247	0.003102	0.06409	-0.60571	0.5453
30	-0.0031	6.4E-06	0.031058	-1.56669	0.1185

\*, \*\* significance at 10% and 5% respectively

Table A3: CAAR using Market Model for all firms

Window period	CAAR	STDEV	T-stat	P-value
CAAR -60,30	0.0034	0.4249	0.1246	0.9010
CAAR -60,10	0.0007	0.3481	0.0314	0.9750
CAAR -30,30	0.0127	0.3204	0.6247	0.5327
CAAR -10,10	0.0158	0.1764	1.4084	0.1603
CAAR -10,0	0.0165	0.1426	1.8153	0.0707*
CAAR -5,5	0.0164	0.1629	1.5821	0.1149
CAAR -5,0	0.0211	0.1427	2.3220	0.0211**
CAAR -3,5	0.0128	0.1806	1.1141	0.2663
CAAR -3,3	0.0117	0.1740	1.0610	0.2897
CAAR -3,0	0.0175	0.1543	1.7815	0.0761*
CAAR -1,1	0.0116	0.1454	1.2518	0.2118
CAAR -1,0	0.0148	0.1417	1.6368	0.1030
CAAR 0,1	0.0025	0.1021	0.3780	0.7057

\*, \*\* significance at 10% and 5% respectively

Table A4: CAAR using Market Model for all non financial firms

	AAR	STDEV	T-stat	P-value
CAAR -60,30	0.004009	0.438028	0.13881	0.889722
CAAR -60,10	-0.00175	0.35805	-0.07428	0.940852
CAAR -30,30	0.014804	0.33031	0.679704	0.497378
CAAR -10,10	0.015624	0.181714	1.304003	0.193542
CAAR -10,0	0.016418	0.14684	1.69563	0.091315*
CAAR -5,5	0.0185	0.16844	1.665695	0.097142*
CAAR -5,0	0.022543	0.14746	2.318489	0.021305**
CAAR -3,5	0.014193	0.186913	1.151599	0.250687
CAAR -3,3	0.013208	0.17993	1.113279	0.266756
CAAR -3,0	0.018236	0.159551	1.733385	0.084373*
CAAR -1,1	0.01117	0.149838	1.13056	0.259423
CAAR -1,0	0.014794	0.14591	1.537648	0.125515
CAAR 0,1	0.001851	0.105527	0.265998	0.79048

\*, \*\* significance at 10% and 5% respectively

Table A4: CAAR using Market Model for all firms excluding financial and utilities firms

	AAR	STDEV	T-stat	P-value
CAAR -60,30	0.005369	0.440916	0.183062	0.854914
CAAR -60,10	0.000129	0.360186	0.005391	0.995703
CAAR -30,30	0.015874	0.33161	0.719624	0.472503
CAAR -10,10	0.015576	0.182753	1.2813	0.201407
CAAR -10,0	0.016488	0.147818	1.676862	0.094958*
CAAR -5,5	0.018928	0.169693	1.676876	0.094955*
CAAR -5,0	0.022942	0.148697	2.319462	0.021267**
CAAR -3,5	0.01442	0.188453	1.150289	0.251246
CAAR -3,3	0.013179	0.181481	1.091707	0.27613
CAAR -3,0	0.018434	0.160936	1.721928	0.086457*
CAAR -1,1	0.011545	0.151121	1.148456	0.252
CAAR -1,0	0.014948	0.147189	1.526769	0.128223
CAAR 0,1	0.002016	0.106449	0.284735	0.776109

\*, \*\* significance at 10% and 5% respectively

Table A4: CAAR using Market Model for all financial and utilities firms

	AAR	STDEV	T-stat	P-value
CAAR -60,30	-0.01817	0.18192	-0.45782	0.652018
CAAR -60,10	0.006783	0.175803	0.1768	0.861444
CAAR -30,30	-0.02101	0.156496	-0.61532	0.54528
CAAR -10,10	0.01835	0.084661	0.993241	0.332458
CAAR -10,0	0.016345	0.066802	1.121231	0.275472
CAAR -5,5	-0.0108	0.040929	-1.20895	0.240782
CAAR -5,0	0.001089	0.035981	0.13864	0.891121
CAAR -3,5	-0.00461	0.035483	-0.59539	0.55826
CAAR -3,3	-0.00367	0.040386	-0.41606	0.681798
CAAR -3,0	0.007276	0.034264	0.973115	0.34212
CAAR -1,1	0.011993	0.056484	0.973035	0.342159
CAAR -1,0	0.012702	0.056971	1.021727	0.319111
CAAR 0,1	0.007201	0.02871	1.149359	0.263968