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