

Executive Succession And Organizational Change

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Abstract

This study examines the hypotheses that (1) type of executive succession in large corporations is associated with type of succession process, and (2) type of succession process is associated with the large-scale organizational change. Based on the degree of readiness of both predecessor and successor, executive successions are grouped into four types, while succession processes are classified as smooth or complicated. The data base is derived from 20 listed corporations in Taiwan which have experienced both chairman and presidential succession at least once in the ten-year period of analysis. Results show that (1) Favorable succession situations make succession processes smooth, whereas unfavorable succession situations may not let succession processes complicated if the ownership structure is centralized, and (2) smooth succession processes are associated with less large-scale organizational changes. Implications are discussed.

Keywords: type of executive succession, type of succession process, degree of succession readiness, large-scale organizational change.

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1. INTRODUCTION

When researchers are gradually getting consensus in the punctuated equilibrium model of organizational adaptation, effectively managing radical organizational changes have evolved to be the most impressive management gospel in 90's. This model proposes an unsteady pace of organizational evolution, or a quantum theory of organizational changes, while the critical role of

organizational crisis and leadership change in initiating radical or large-scale corporate changes are well acknowledged (Tushman, Newman, and Romanelli, 1986; Baden-Fuller and Stopford, 1994; Hsu, 1998). This study intends to investigate the effect of leadership change on the large-scale organizational change as a first step to explore the possibility of non-crisis-driven large-scale organizational changes.

Although leadership succession is now recognized as an important topic for the understanding of large-scale organizational changes, this research field did not yet achieve wide recognition and enough exploration. It is partly because there are chaotic research streams and mixed results in the executive succession research (Kesner and Sebor, 1994). Our purposes here are therefore to review briefly this critically important topic, propose a typology of executive succession and examine its relevance to the large-scale organization changes.

We begin first by reviewing the executive succession literature, then based on the concept of readiness, suggest an executive succession typology and proceed to empirically test it.

2. EXECUTIVE SUCCESSION

Hambrick and Mason(1984) have stressed that organizations are a reflection of their top managers and the decisions they make. Similarly, Dalton and Kesner(1985) stress that the CEO is the agent who is ultimately responsible and accountable for action on and reaction to an organization's strategy, design, performance and environment. Over time, however, firms require more than one CEO. Consequently, what a firm becomes can be significantly influenced by how and to whom this power and authority are passed. Executive succession may be seen as a signal about the coming of the most pervasive and profound organizational change. No wonder Brady and Helmich(1984) consider that the executive succession is a traumatic event for any organization. It affects not only the members of the organization but the firm's economic performance and political climate(Chaganti and Sambharya, 1987; Kesner and Sebor, 1994).

The works of Carlson(1961) and Grusky(1961) set the agenda for how

researchers approached the executive succession over the succeeding decades. What evolved was a series of studies which can be grouped into five main areas: (1)antecedents and consequences of successor origin, (2)antecedents and consequences of succession frequency, (3)successor characteristics and succession consequences, (4)succession and the board of directors, (5)succession process and planning.

2.1 antecedents and consequences of successor origin

Succession origin is the first major variable in these studies. After studying more than 200 school superintendents, Carlson(1961) concluded that inside successors were compensated less, made fewer changes, and achieved less interorganizational status than outside successors. Helmich and Brown(1972) and Wiersema (1992) also found that outsiders were associated with more post-succession organizational and strategic changes than insiders. At the same time, Reinganum (1985), Lubatkin, Chung, Rogers and Owens(1989), and Warner, Watts and Wruck(1988) all found that outsiders were associated with greater firm profitability than were insiders. But later, Zajac(1990) found positive performance effects for inside succession. The results appear mixed.

On the other hand, using pre-succession performance as an antecedent, Dalton and Kesner(1985) found that average performing firms were more likely to experience outside succession. Nevertheless, Cannella and Lubatkin(1993) found that low-performing firms consistently experienced greater rates of outside succession. The results also appear mixed.

2.2 antecedents and consequences of succession frequency

Rate of succession is another early investigated variable. Grusky(1961) found that larger organizations experienced more frequent successions than smaller firms, probably because larger firms were more bureaucratic in nature and were capable of controlling by rational means the disruptive responses often created by succession in key policy-making positions. But Pfeffer and Salancik(1977) found no relationship between organizational size and the frequency of succession. Their results showed that succession was associated

with an organization's need to respond to its environment and succession frequency was regarded as the consequence of political process within an organization. Although review by Brady and Helmich(1984) concluded that no consensus had been reached about why succession occurred at different rates, researchers had consistent results that succession rates were higher in low performance firms than in high performance firms (Benston, 1985; Coughlin and Schmidt, 1985; Morck, Shleifer, and Vishny, 1988; Warner et al., 1988).

When exploring the consequences of succession, researchers focused predominately on the relationship between succession rate and subsequent performance, and the results were clear - frequent successions were detrimental to firm performance(Eitzen and Yetman (1972); McEachern, 1975; Allen, Panian, and Lotz, 1979). However, Miller(1993) discovered that when CEO turnovers occurred infrequently, the fit between strategy and structure loosened and firm performance was adversely affected.

2.3 successor characteristics and succession consequences

Helmich and Brown(1972) found that pre-succession performance influenced the criteria used to evaluate and choose successor, which suggested that successors with different leadership styles were selected to respond to different conditions. Helmich(1977) also found need fulfillment was associated with leadership style, succession origin, and the degree of post-succession staff turnover. However, Helmich (1975) himself found that two years after taking office, task oriented leaders became more employee centered and employee centered leaders became more task oriented.

The post-succession performance researches developed "three theories of succession" (Kesner and Sebor, 1994). The first theory, referred to as "common sense", suggested that firm performance improved following succession because someone with the expertise and experience to enhance firm performance would be selected. To the contrary, the "vicious cycle" theory suggested that succession was disruptive to organizations and was often a response to poor performance, therefore resulted in downward cycle

and lower firm performance. The last theory, known as “ritual scapegoating”, suggested that succession has had little to do with firm performance while just to give an impression that change is taking place. Reflecting the common sense theory, Miller(1993) found that succession was associated with large-scale organizational changes and breaks in momentum. Friedman and Saul(1991) added that the degree of post-succession change was related to both pre-succession performance and the mandate of the successor to initiate change. Even so, an executive’s success in introducing organizational change was a function of the successor’s ability to manage various stages of the process(Greiner and Bhambri, 1989; Hsu, 1998), and both the degree and type of change were found to be associated with political activity within the firm(Welsh and Dehler, 1988). Kelly(1980) found that successors often worked on organizational infrastructure before tackling strategy.

Reflecting the two other theories, Carroll(1984) found that rates of organizational failure increased following the succession of founders, and Tushman, Virany ,and Romanelli(1985) and Zajac(1990) found that succession was not associated with post-succession performance.

While evidence has clearly suggested that change follows succession, the nature of this change appears to vary depending on successor characteristics and contextual factors.

2.4 succession and board of the directors

While there was general agreement that boards were responsible for determining when CEO succession was appropriate and then choosing suitable successors, the overarching theme of the studies concerning the board’s role was one of limited power and effectiveness. For example, Weisbach(1988) observed that only boards dominated by outsiders removed CEOs when firm performance was unsatisfactory. And Boeker(1992) noted that the relationship between performance and dismissal was moderated by the ownership position of the CEO and the CEO’s influence on the board via his director appointment. At the same time, Furtado and Rozeff(1987), Friedman and Singh(1989), and Weisbach (1988) all found that board

initiated successions produced more positive market reactions. Apparently, board initiated changes at the top were seen as effective oversight and an indicator of improved leadership in the future.

2.5 succession process and planning

Day and Lord(1988) suggested that effects of leadership change lagged the event rather than taking place immediately, Hashemi(1983) reported that the succession process generally lasted one year. Gilmore and McCann(1983) and Gabarro(1986) found that the succession process involved a series of stages, and after a honeymoon period of approximately six months, new executives often moved cautiously, securing their power prior to engaging in significant organizational changes.

After having accepted succession as an inevitable and dramatic event that shapes the future of firms, it seems natural to recognize the importance of planning for this event. Mahler(1980) was among the first to suggest the need to and advantage of improving succession planning. This was particularly important given the results of a large survey by Brady et al.(1982) that fewer than 50% of responding firms engaged in succession planning. Gabarro(1986) pointed out that succession plans must take into account pre-succession career development, the selection process itself, and post-succession transition management. Vancil(1987) described two different types of process - horse race and relay. The first pitted candidates against each other while the latter treated succession more as a grooming and management development process. Kerr and Jackofsky (1989) proposed that both selection and development processes were viable mechanisms for choosing new managers, while Wills(1992) suggested that the most successful systems focused on passing both power and learning to successors. These studies of the succession process all assumed that succession systems were optimal when they produced a seamless continuity in leadership, i.e., a smooth succession process.

3. HYPOTHESES

It's impractical to expect outside executive successors in Taiwan because nearly all large Taiwan's corporations are still under the founding family's control, which is also a typical situation in Asian societies. The role of the board of directors is surely a very weak one. "Directors were often regarded as 'rubber stamps' in most corporate decisions including succession." And founders always put off the succession process as late as possible. Some strong leaders even died on his duty, leaving very cumbersome conditions for their successors. As a rule, how to pass the power to the founder's second generation smoothly and timely, which is considered as a realistic indicator of successful succession, is the most critical issue in the process.

Here, Fiedler's(1967) examination of leadership situation and Hersey and Blanchard's(1977) concept of follower readiness render to be very helpful to analysis the executive succession situation and to predict the smoothness of the succession. To the successor, the leader situation is favorable when he is ready to take in charge and the predecessor is also ready to pass both the power and learning to him. Other situations are certainly less favorable, with both being not ready the least favorable. Accordingly, we have a two by two situation matrix shown as Figure1:

	predecessor	
	ready	not ready
successor		
ready	Type I.	Type II.
not ready	Type III.	Type IV.

Figure1 Executive succession situation

And **Hypothesis 1:** The type of executive succession situation is associated with degree of smoothness of succession process; Specifically, following the central assumption of executive succession process studies, succession situation under Type I will have the most smooth succession process and Type IV will have the least smooth succession process.

However, just as Kesner and Sebor(1994) have noted, it is ironical while business leaders are espousing the need for firms to adapt their strategies and structures to rapidly changing environment, when it comes to leader succession they believe that stability is better, ignoring the leadership change may be part of the organizational adaptation process. What concerns us is whether the organizational adaptation might be hindered by the stability of leader succession. It is therefore important to explore whether the stability of leader succession is associated with less large-scale organizational changes in post-succession period, while complicated succession processes fuel energy for initiating large-scale organizational changes that may be functional to the organizational adaptation in these turbulent days. If so, then the smoothness of succession can no longer be good enough to evaluate the success of successions.

Hypothesis 2: The degree of smoothness of succession process is negatively associated with the occurrence of large-scale organizational change.

4. METHOD

Operational Definitions: Predecessor readiness is defined operationally as (1)the focus organization has no reported crisis when the succession process begins (It means pre-successor performance is satisfactory.), (2) his leadership status was not being challenged, and (3)the succession process begins when he is alive. (It means he is ready to pass the power.) Successor readiness is defined as that (1)he has had at least three years experiences within the industry (Pfeffer and Leblebici, 1973), (2)he had been within the predecessor's executive role constellation when appointed(Helmich and Brown, 1972), and (3) general/commercial publications showed that he was expected to be the successor and been accepted by employees, which all mean he is an insider and ready to take charge. Type of succession situation is defined as Figure 1.

The degree of smoothness of succession process is coded as smooth or complicated. When (1)there are no reported board conflicts or objection opinions on the general/commercial publications, and (2)the vacancy is filled within one month, it is defined as a smooth succession process. The large scale organizational change is operationally defined as dramatically concurrent

changes in personnel, structure, strategy (product mix, market coverage, or business portfolio), and culture(core values), starting within the first succession year while their ripples can be referred to far later(Hsu, 1998).

Samples: All 79 companies in the Taiwan Security Exchange before 1984 and still listing in 1993 have been identified first. Among them, 38 companies have had changed both their chairman and president, which are defined as leadership change companies. However, only 20 companies can we have enough relevant public data, so they are the final samples.

Data: All the relevant public data about the 20 sample companies, indicated by the EBDS (a Chinese news and periodicals abstract data base), are been collected, which amount to 711 pieces of reports and articles. Financial and quantitative data are obtained from the 101 volumes of these companies' prospectuses. Besides, the spokesmen and some executives of five companies are interviewed.

5. RESULTS

Fifteen leadership succession processes are found to be smooth (15/20 or 75%) and five cases complicated (5/20 or 25%). All the five complicated succession processes are in the Type IV situation, while the smooth cases disperse in all situation Types. Among them, five cases are in the Type I, five in the Type II, two in the Type III, and the last three in the Type IV. Refer to Table 1 and Table 2.

Because there are too many empty cells in Table 2, we had better not use chi-square independent test to examine our hypothesis 1. Nevertheless, the result shows that all the Type I succession situation cases are followed by smooth succession processes, and Type IV situation cases are more likely leading to complicated succession processes(5/8 or 63%). Because all Type II and III cases also led to smooth succession processes, Hypothesis 1 may be partially supported¹.

¹ We calculate the chi-square value which is 10.001, and its p value is less than 5%. It

The three exceptions (3/8 or 37%) revealed that although the situation was unfavorable to the successor, successor and his supporters owned the majority of stocks and firmly controlled the organization. It was so that no public objections or conflicts were found in these cases. Therefore, we may assert that ownership structure is an important moderator in the relationship between succession situation and succession process. If ownership structure is centralized, the succession situation will be simplified and succession process goes smoothly. Otherwise, succession situation is associated with succession process, with favorable situation leading to smooth process, unfavorable to complicated.

Fourteen leadership successions (14/20 or 70%) were found not occurring post-succession large-scale organizational changes, while six leadership successions (6/20 or 30%) followed by post-succession large-scale organizational changes. Smooth successions are more likely resulting no large-scale organization changes (12/15 or 80%) as predicted earlier, but complicated successions may or may not leading to large-scale organizational changes. Hypothesis 2 may also be partially supported. See Table 3².

Although the study finds that complicated succession processes may or may not leading to large-scale organizational changes, the result is complementary to Hsu's(1998) finding that large-scale organizational changes are followed by crisis-driven leadership successions. Namely, complicated leadership succession process alone cannot trigger large-scale organization change, because key shareholders may compromise and coalition forms, or the successors may wait, move very cautiously or just stuck in securing their power before engaging in any significant organizational changes. The result also echoes the conclusions of Friedman and Saul(1991), Greiner and Bhambri(1989) and Welsh and Dehler(1988), who advocated that post-succession organizational changes was depending on successor characteristics and contextual factors.

means type of succession situation is related to type of succession process($\alpha = 5\%$).

² The chi-square value is 2.857, and its p value is larger than 5%. It means type of succession process is not related to type of occurrence of large-scale of organizational change($\alpha = 5\%$).

The three smooth but occurring large-scale organizational change cases(3/15 or 20%) indicate that executive successions are surely matter, and the reasons why they engage large-scale organizational changes so soon obviously deserve more explorations.

6. CONCLUSION AND DISCUSSION

This study confirms partially our two hypotheses derived from the typology of executive succession situation and the central assumption of succession process researches. Results show that (1)favorable succession situations indeed lead to smooth succession processes, but unfavorable succession situations may not make succession processes complicated if the ownership structure is stable and centralized, (2)smooth succession processes incline to less large-scale organizational changes as predicted, while complicated succession processes may also be followed by no large-scale organizational changes because the successors might have not secured enough power or have no idea to activate them. Indeed, there are many observations deserved to note.

First, that previous executive succession studies overlooked the succession situation may be the very reason why the results mixed, because the successors usually took actions as they saw what the situations dictated or allowed. Successor origin or any other characteristics alone cannot tell much about the post-succession organizational consequences.

However how to describe and operationalize the succession situation is surely a critical research problem. This study suggests that Hersey and Blanchard's(1977) concept of readiness is a reasonable one to begin with. Based on the predecessor and successor readiness, we construct a sensible typology of executive succession situation, which considers most of the relevant variables, such as pre-succession performance of the organization, ability and willingness of the predecessor, and ability, legitimacy and achievement of the successor. We have shown that it seems to be a right approach to describe and analyze the executive succession situations. Both predecessor readiness and successor readiness is related to smooth succession process.

Third, although smooth succession processes are not followed by large-scale organizational changes as predicted, are they really good for the focus organizations remain unanswered, especially when people acknowledge that leadership changes can be really pivotal to functional organizational changes (Tushman, Newman and Romanelli, 1986; Hsu, 1998). For example, qualitative analysis reveals that the three smooth but occurring post-succession large-scale organizational change cases all have their justifiable reasons to initiate large-scale organizational changes, that is, the environment was changing dramatically and the successors did have new visions to be fulfilled. It is so that large-scale organizational changes followed by executive successions are not as bad as previous researchers assumed or implied, and smooth successions must not be regarded the same as “successful” successions. What needs to be done is to explore further whether steadiness of executive succession is associated with the post-succession organization performance and how to make sure that the organization has had chosen the right successor who can both maintains the identity continuity of the organization and lead the necessary dramatic large-scale organizational changes .

Fourth, what does it mean when the succession process is complicated, but the organization occurs no large-scale change? The two sample cases showed that the successor might stuck in the political struggle(#1432), or had no new dominant logic to be realized and decided better not disturb the organization's operation system (#1603). This result complements our previous conclusions that crisis-driven leadership change is associated with large-scale organizational change and large-scale organizational change is associated with new leader's dominant logic change(Hsu, 1998).

Researches in large-scale organizational changes have their shares in difficulties and measurement problems with strategic change. This study encounters exactly the same formidable tasks in conducting the huge work of data collection, data examination, variables measurement, and few usable samples. To validate the results, researchers should do sensitivity analysis of different operational definitions of research variables and contrive better research

design.

As we have already known, what a firm becomes can be significantly influenced by how and to whom this power and authority are passed. Executive successions certainly warrant more researcher's attention. Organizations need to know how to do the executive succession planning, and people want to know what the executive succession will do to them.

Inspired by some spectacular results of crisis-driven large-scale organizational changes, many large and mature organizations are eager to engage proactive large-scale organizational changes. But as far as we know, the effective measures and know-how, not mention know-why, to effect this kind of change are still obscured. If the succession experiences in Taiwan do have something to remind us, they must be: (1) more endeavor to understand how to choose or develop the right successor, because he will initiate and in charge of the whole change process, and his competence will determine the destiny of the organization, (2) try hard to find how can new top management team effectively formulate or form a realistic new theory of the business, so as to guide the organizational searching or learning process and ensure the success of organizational adaptation.

Table 1 Measurement results

Samples	Predecessor readiness	Successor readiness	Succession situation type	Succession process type	Large-scale organizational change
1. 1103	yes	yes	type I	smooth	no
2. 1201	no	no	type IV	complicated	yes
3. 1206	no	no	type IV	smooth	yes
4. 1305	no	no	type IV	smooth	no
5. 1408	no	no	type IV	complicated	yes
6. 1419	no	yes	type II	smooth	no
7. 1420	no	yes	type II	smooth	no
8. 1422	yes	no	type III	smooth	no
9. 1426	yes	yes	type IV	smooth	yes
10. 1432	no	no	type IV	complicated	no
11. 1504	yes	yes	type I	smooth	no
12. 1601	yes	no	type III	smooth	no
13. 1602	yes	yes	type I	smooth	no

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14. 1603	no	no	type IV	complicated	no
15. 1604	no	no	type IV	complicated	yes
16. 1907	no	yes	type II	smooth	no
17. 2702	no	yes	type II	smooth	yes
18. 2704	no	yes	type II	smooth	no
19. 2805	yes	yes	type I	smooth	no
20. 2903	yes	yes	type I	smooth	no

#company identification number in Taiwan Security Exchange.

Table 2 Succession situation and succession process

	Smooth succession process	Complicated succession process	Total
Type I situation	1103,1504,1602,2805,2903#		5 cases
Type II situation	1419,1420,1907,2702,2704		5 cases
Type III situation	1422,1601		2 cases
Type IV situation	1206,1305,1426	1201,1408,1604,1432,1603	8 cases
Total	15 cases	5 cases	20 cases

#company identification number in Taiwan Security Exchange.

Table 3 Succession process and large-scale organizational change

	Large scale organizational change	No large scale organizational change	Total
smooth succession process	1206,1426,2702	1103,1305,1419,1420,1422,1504,1601,1602,1907,2704,2805,2903	15 cases
complicated succession process	1201,1408,1604	1432,1603	5 cases
Total	6 cases	14 cases	20 cases

#company identification number in Taiwan Security Exchange.

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