# Research casts new light on CEO succession

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(Phys.org) -- Contrary to prevailing wisdom, keeping the outgoing CEO of a company on as board chair when a new CEO is hired provides very little reward potential and a whole lot of risk, according to research by Timothy Quigley, assistant professor of management.

Quigley and Donald C. Hambrick of Penn State University analyzed recent CEO successions at 181 hi-tech firms and found that retaining the predecessor CEO as board chair decreases the likelihood of large gains in performance, but has no impact on the chances for steep declines.

"Typically, it's argued that retaining the predecessor as chair will limit the risks associated with succession while giving the new CEO a chance to get acclimated to his or her new position," Quigley says. "It turns out this isn't the case."

The research team also found that keeping former CEOs around restricts their successors' discretion, dampens their ability to make changes, and weakens their potential to alter a firm's performance—this even after controlling for the firm's need and its resources for change.

"A predecessor's retention as chair can be thought of as a 'quasi-succession,' delaying many of the typical consequences of CEO turnover," Quigley says. "When a predecessor CEO stays on as board chair, little in the firm changes. Strategies remain in place. There are fewer acquisitions or divestitures, the new CEO is restrained from shuffling the top management team, and performance continues largely in line with what existed at succession. In essence, the company is frozen from making important strategic change.

“Yet isn’t change often the point of switching CEOs?” asks Quigley. “Ironically, though, this restriction isn’t permanent. We found that as soon as the predecessor departs, there is a spike in strategic change and performance begins to deviate soon thereafter.”

## Ignoring a critical reality

The study is published in the July 2012 issue of Strategic Management Journal and is part of a new trend in the world of business research aimed at clarifying the roles and rules of succession in corporate America. Prior research on CEO succession, says Quigley, has ignored the critical reality that many CEOs never fully depart the scene.

The findings suggest that the outcomes of succession can be strongly influenced by the disposition of the predecessor CEO, something prior work hasn’t considered. While boards are encouraged to carefully consider their succession plans—namely, who should take over for the current CEO—comparatively little attention has been given to the appropriate departure route for current CEO.

Quigley’s research focuses on managerial discretion, or how and when CEOs and other top executives affect organizational outcomes, as well as the causes and outcomes of CEO succession and how these have changed over the course of time. In addition to the *Strategic Management Journal*, he has published articles in the Best Paper Proceedings of the Academy of Management Meetings.

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