Easy Clean-ups or Forbearing Improvements: The Effect of CEO Tenure on the Performance of the Successor

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Work in progress

This version: October 1st, 2018

ABSTRACT

Prior studies suggest nonlinear relationships between employee performance and tenure, even for CEOs. While the common perception is that a very long tenure can be harmful for firm performance, the evidence on this is scarce, and mainly based on evidence from stock price reactions to CEO changes, which are mixed-information events. We contribute to the literature by conditioning the post-CEO-turnover firm performance on the tenure of the predecessor. We find strong evidence suggesting that when a successor takes over after a long-tenured CEO, Tobin’s Q, ROA, and stock returns (BHARs) are significantly lower, restructuring costs are higher, and firm recovery slower. For firms with weaker corporate governance, and where the predecessor has a lower merit score, the post-turnover effects are significantly stronger.

KEYWORDS: CEO tenure; restructuring costs; shareholder value;
JEL Classification: G3, G34, G14, J24, M52

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