

**THE IMPACT OF CEO TURNOVER ON THE SHARE PRICE PERFORMANCE  
OF SOUTH AFRICAN LISTED COMPANIES.**

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## **ABSTRACT**

International research into the impact of CEO turnover on organisational share price performance has yielded inconsistent results. This research aims to study the impact of CEO turnover on the South African environment, and in particular on South African listed companies. The study is conducted looking at both the impact at the date of the announcement of the CEO change, and examines the impact of forced versus voluntary turnover, as well as internal versus external CEO replacement.

There were 74 turnover events between 2001 and 2003, which were included in the study at announcement date. Only 28 of these resulted in the CEO remaining in office for a period of at least three years, and this smaller sample was used to examine the effect of CEO turnover over the three years after appointment. Event study methodology was used in the research.

The research observed a statistically significant negative impact on share prices at the date of announcement of CEO turnover, but this was negated by statistically significant positive returns when looking at the day prior to the announcement. No statistically significant results were observed for internal versus external CEO replacement. Forced CEO turnover had a negative effect on share price performance when compare to voluntary turnover, but this was not statistically significant. No significant results were observed for the three years post the appointment of the new CEO. The conclusion of the research is that the impact of CEO turnover is not significant at announcement date or over time.

## DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University.

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## CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM

### 1.1 Introduction

Some organisations outperform others. Explanations as to why this is the case have been attributed to a number of factors, including the alignment of the firm's strategy to its structures, as well as to the influence of the organisation's leadership (Davidson, Worrell and Cheng, 1990).

The Chief Executive Officer of an organisation is its most senior general manager (Andrews, 1987). In its simplest form, general management is the management of a total enterprise, and may be defined as the conducting of informed, efficient, planned and purposeful activity. Andrews (1987) argues that the Chief Executive Officer must demonstrate competence as organisation leader, as personal leader and as architect of the organisation's purpose.

The Chief Executive Officer (CEO) of an organisation thus plays a critical role in the strategy, design, performance and corporate culture of the organisation (Rhim, Peluchette and Song, 2006), and corporate chiefs have the power to bring about organisational change (Swartz and Menon, 1985).

Andrews (1987) presents four sets of CEO responsibilities:

- Achieving current, planned results.
- Developing an organisation capable of producing both technical achievement and human satisfaction.
- Making a distinctive personal contribution.



- Planning and executing policy decisions that affect future results.

Given the key functions of a company's most senior executive, it can be expected that the replacement of the CEO would be considered to be significantly different from the replacement of personnel at lower levels of the organisational hierarchy (Canella and Shen, 2001). This is supported in Swartz and Menon (1985), who state that a number of investigations have concluded that a change in an organisation's top management is a critical determinant in the organisation's ability to adapt its behaviour. Furtado and Karan (1990) consider a CEO turnover event as a significant event in the life of the corporation which can determine its future direction and subsequent financial performance.

Bonnier and Bruner (1988) introduce the concept of the information effect and the real effect of a change in CEO. The information effect is the effect caused by the announcement of the CEO change, and the real effect is the emerging effect over time as the reality of the change impacts the financial performance of the firm. This research is concerned with assessing both the information effect and the real effects on the share price performance of a South African company experiencing a CEO change.

Furtado and Karan (1990) view the process of senior management change from a strategic viewpoint. It is seen as an attempt to ensure the firm is adapted to a changing environment, and the change in management is an intervention mechanism that addresses the firm's current and future existence. The top

management of an organisation controls the organisation's resources and a change at the top of an organisation is considered to be of great interest to stakeholders.

One of the organisation's most significant stakeholder groups is the Board of Directors. According to Furtado and Karan (1990), the Board of Directors of the firm has the responsibility to protect and maximise shareholder returns. Huson, Parrino and Starks (2001) hold the view that the decision to replace a company's CEO is one of the most critical decisions made by the company's Board of Directors. This is supported by Bonnier and Bruner (1988) who consider the Board's role in the appointment and dismissal of corporate executives as one of the most important, and potentially beneficial, roles of internal corporate control.

Through this process, the Board attempts to attain an optimal match between what the firm needs and managerial behaviour (Furtado and Karan, 1990). Lublin (2007) argues that at a time of growing Board power, increasingly impatient shareholders and shortening CEO tenures, the decision to replace a Chief Executive is a complex one.

New executives may make changes to many aspects of the organisation, including strategy, structures and organisational processes, and these may influence subsequent firm performance (Davidson et al, 1990). The replacement of a top executive is thus a key decision for an organisation.

Given the potential influence of a new executive in an organisation, Rhim et al (2006) argue that a change in this role can be seen as an indication of the firm's future. This decision has long-term implications for the firm's investment, operating and financial decisions (Huson et al, 2001).

Hambrick and Fukutomi (1991) discuss that organisations experience two alternating stages – one where brief spurts of major change, or reorientations, occur, and the other which consists of long periods of incremental changes, or convergence. They assert that reorientations tend to happen at the same time as CEO succession, and convergence tends to occur in the later years of the CEO's tenure.

Changes in key executives are more likely to have a significant effect on stock performance than those lower down the corporate reporting structures (Davidson et al, 1990). Davidson et al (1990) report that CEO leadership accounts for 47% of the variance in performance of stock prices in manufacturing firms studied over a period of 19 years.

This high level of influence of top managers has resulted in a large body of research being conducted in this area (Huson, Malatesta and Parrino, 2004). Research has been conducted with the aim of gaining an understanding of how the managerial labour market functions; why CEOs leave organisations; who replaces them; and whether the departure of a CEO affects his or her future employability. The research has also attempted to understand stock market reactions to top management turnover.

Extensive research has also been conducted on the consequences to firm performance of a change in CEO, and in this area of research, the findings have been inconsistent (Shen and Canella, 2002). Bonnier and Bruner (1988) assert that results of previous study have shown conflicting results leading to questions around the effectiveness of this mechanism of corporate control at the Board of Director's disposal.

In their study of failing firms, Daily and Dalton (1995) assert that top management changes in an organisation are often symptomatic that the organisation is in distress. Studies looking at executive turnover and firm performance yield consistent results in failing firms and demonstrate that there is a negative relationship between top management turnover and the financial results of the organisation prior to the turnover event.

Subsequent to this research, studies conducted on listed United States companies have examined the effect of CEO turnover on financial performance from different aspects, with varying results.

Davidson, Nemec, Worrell and Lin (2002) find that the stock market reacts positively when an outside replacement is found for a CEO, and that this reaction is more significant when the outsider comes from an industry related firm. In contrast, with respect to firm performance subsequent to the announcement of CEO turnover, Rhim et al (2006) find that, for two measures of performance, namely operations and profitability, large publicly held firms

with inside successors performed better than those using successors from outside the firm. The stock market reaction observed by Davidson et al (2002) suggests that the market would have expected the opposite findings to what was found by Rhim et al (2006).

In their study to examine the actual effects of CEO turnover on firm performance, Huson et al (2004) find that, based on accounting measures, firm performance falls in the period before CEO turnover, and improves thereafter. It is also found that the improvement in performance after the CEO is replaced is more significant when the replacement is an outsider. This latter finding is in contrast to the findings of Rhim et al (2006). The two studies are conducted over different periods, with Huson et al (2004) having an 8-year longer time period. The studies also refer to different measures of performance.

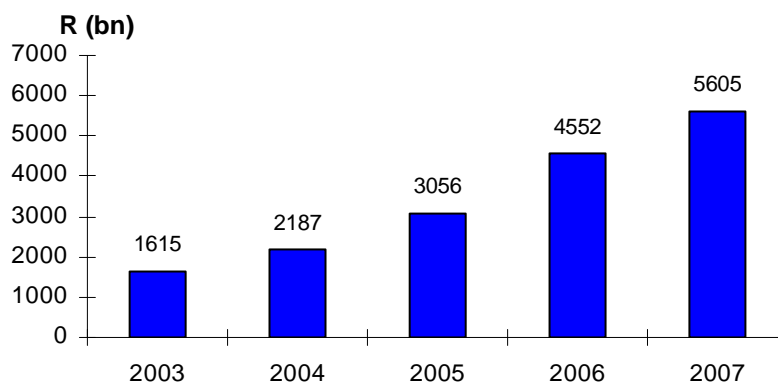
An explanation for these inconsistent research findings is found in Furtado and Karan (1990). It is asserted that managers possess firm-specific human capital or general human capital. When managers with firm-specific human capital leave, and there are few substitutes for the departing manager, corporate value should be affected. Where the manager possesses only general human capital, that is substitutable at relatively little cost, the value of the firm should not be affected by the turnover event. This explanation suggests that CEOs do not exert equal influence on firm outcomes, and brings into question how much impact a CEO has on an organisation, and how this can be measured.

## 1.2 The relevance of this research in the South African business context

Most studies conducted in this field of research have focussed on the United States experience, with little having been done in emerging markets (Kato and Long, 2006). No research has been found to examine the effect of CEO turnover in the South African context.

The total market capitalisation of South African companies listed on the JSE Securities Exchange South Africa (JSE) as at 30 March 2007 reached its highest level of all time of R5 780 billion (JSE, 2007). As demonstrated in Figure 1 below, the market capitalisation of the JSE has grown by 36.49% per annum for the period 31 August 2003 to 31 August 2007.

**Figure 1: JSE Market Capitalisation as at 31 August**



*Source: JSE Market Statistics August 2007*

The CEOs of the companies listed on the Johannesburg Stock Exchange are therefore expected to influence significant shareholder value. Given the total increase in value of this shareholder investment in South African listed companies over the past four years, it is clear that the combined potential influence of the CEOs of JSE listed companies is growing rapidly. The ability of these CEOs to influence firm performance positively holds implications for the financial wealth of shareholders, including institutional investors, such as retirement funds.

### **1.3 Motivation for the research**

In the context of inconsistent international findings, limited research in developing markets and the growing influence of South African CEOs, the aim of this study is to investigate the impact of CEO turnover on South African listed companies.

The study is intended to provide insight both into the level of influence of the South African CEO. If the CEO of a listed company is effective, this influence is expected to be translated into an improvement of the organisation's share price performance.

International studies have examined the effect of CEO turnover on share price performance in, among others, the United States of America, the United Kingdom, Japan, Germany, China and Australia (Suchard, Singh and Barr, 2001; Kato and Long, 2006). These studies have examined stock market reaction to CEO turnover events, as well as subsequent firm performance.

Research has also been conducted into United States listed companies, examining the effect of unanticipated CEO change (Rhim et al, 2006) and inside versus outside CEO succession (Huson et al, 2004; Rhim et al, 2006). The causes of CEO turnover have also been studied extensively (Dalton and Kesner, 1985; Furtado and Karan, 1990; Daily and Dalton, 1995; Rhim et al, 2006), but these studies have been conducted mainly in the United States of America.

#### **1.4 The research objectives and research problem**

The effect of CEO turnover on the share price performance of a South African organisation has not been established. The purpose of this study will be to examine the effect of the CEO turnover event in the South African context.

The extent of this effect will be investigated from four aspects;

- the impact on share price performance at the date of announcement of a CEO change
- the impact on share price performance for the three years subsequent to the change in CEO
- whether the reaction of the stock market to internal versus external successors differs
- whether the stated reason for the CEO change has an impact on the stock market reaction at the date of the announcement.



## 1.5 The scope of the research

The scope of the research is limited to listed companies on the Johannesburg Stock Exchange. The research will examine those listed firms which experienced CEO changes during the period studied.

There are a number of possible impacts of CEO performance to examine. This research will be limited to the development of the following academic theory bases to assess the information effect at announcement date and the real effect over time of the CEO change:

- The CEO turnover event. The causes and effects of the CEO turnover event will be discussed.
- Share price as a measure of firm performance. Evidence is presented as to the appropriateness of the use of share price as a measure of performance for a listed company.
- The stock market reaction at the date of announcement of CEO turnover. Previous studies are investigated, and theory developed around the reaction of the stock market to new information.
- The impact of CEO turnover on share price performance. Firm performance subsequent to a change in CEO is discussed.

- The impact on share performance of an internal versus external CEO replacement and the impact on share performance for different stated reasons of CEO turnover. Results of previous study are discussed, as well as the possible interpretation of these.

These theory bases will form the foundation for the research conducted.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 Introduction**

The departure of a firm's Chief Executive Officer is argued to be a significant event in the history of the firm. This literature review will examine the extent to which the impact of this significant event has been studied, and will examine the results of these previous studies.

Literature regarding the turnover and the causes of such an event will be examined, as well as the effect this event has had on the affected companies share price performance. The review will also cover the information effect on share price performance at the date of announcement, as well as the effect for inside and outside CEO succession, and for different stated reasons for the departure of the outgoing CEO. The real effect of the turnover event over time is also included.

Explanations are presented for the possible reasons for inconsistency in the results of previous study.

### **2.2 The CEO turnover event**

The turnover event of a CEO occurs in varying circumstances and is caused by any of a number of factors. Turnover is possible as a result of dismissal, voluntary exit, death, or retirement due to either age or ill-health (Huson et al (2004), Denis and Denis (1995), Behn, Dawley, Riley & Yang (2006), Rhim et al (2006)).

The experience of the firm prior to the CEO turnover event also varies. Wagner, Pfeffer and O'Reilly (1984) assert that firms with performance that is either exceptionally high or exceptionally poor are more likely to experience turnover of the highest ranked executive.

Previous studies suggest that poor firm performance is positively correlated with the likelihood of CEO turnover (Wagner et al, 1984). Huson et al (2004) find that the likelihood of turnover is higher in poor performing firms. This is supported by Bonnier and Bruner (1988), who find that excess returns are significantly positive at the announcement of a change in senior management in a poorly performing firm. This is consistent with the view that a change in management in a poorly performing firm represents gains to shareholders.

For a Board of Directors, deposing a CEO presents the dilemma that doing so too soon might prevent a potential recovery, and waiting too long may make a poor situation worse (Lublin, 2007).

There is evidence that the likelihood of executive turnover increases in a distressed firm. Daily and Dalton (1995) refer to studies showing that 45% of companies that had filed for bankruptcy had experienced CEO changes in the 5 years prior to filing, compared to 19% of the control group studied. These results are consistent with Furtado and Karan (1990) who find that CEO's are more likely to be removed after poor firm performance or in the case of firms close to bankruptcy.

Khanna and Poulsen (1995), however, compare the stock market's reaction to announcements of managerial turnover in failing firms to that of turnover in firms that are not failing. The results are not found to be significantly different. The market reaction to managerial turnover is found to be significant and negative for both the financially distressed group studied and the control group, adding to the inconsistency of the results of previous studies.

In a study of US companies filing for Chapter 11 bankruptcy, for the period October 1979 and September 1988, it is found that 55% of firms have replaced their CEO 2 years prior to filing, by the time a plan of reorganisation is proposed (Hotchkiss, 1995). 70% of firms had replaced the CEO by the time the reorganisation plan was implemented after filing for bankruptcy

The legislative environment in the United States of America provides for existing management to remain in office after the firm has declared bankruptcy Khanna and Poulsen (1995). This is supported by the courts and suggests that the failure of the firm is outside of the manager's control, and blaming the manager is scapegoating. Much is argued against this view. Furtado and Karan (1990) assert that further research is needed to establish whether turnover in these situations is 'scapegoating' or whether the senior managers are truly responsible for poor performance.

In the study, Hotchkiss (1995) finds that the continued involvement of the pre-bankruptcy management after the event is strongly associated with poor post-

bankruptcy performance. This suggests that a change in management in these firms improved firm performance.

In the firm with poor performance, the CEO is replaced for a number of reasons. Per Denis and Denis (1995), exits in poor performing firms may be voluntary or forced. CEOs of these firms may voluntarily resign as a result of the firm's continuing poor performance, and in forced turnovers, the Boards of Directors replace what are considered to be poor performing CEOs. Huson et al (2004) find that this action taken by the Boards of Directors is consistent with the role of Boards in monitoring and replacing poor performing CEOs. Boards of Directors acting to remove CEOs in firms with poor performance are more likely to do so in firms which have a Board dominated by outside directors (Farrell and Whidbee, 2002).

The study conducted by Farrell and Whidbee (2002) finds that firms which forced CEO turnover are found to have been the subject of 76% more news articles by the financial press in the Wall Street Journal than those with turnover that is not forced.

This suggests that the monitoring of the financial press of poorly performing companies increases the likelihood of CEO turnover. The scrutiny by the financial press increases the pressure on the company's Board of Directors to effect a change in CEO (Farrell and Whidbee, 2002).

Companies in financial difficulty may replace CEOs because of their perceived lack of abilities (Swartz and Menon, 1985). When a firm fails, the managers are considered to be less competent than their counterparts in more successful firms (Khanna and Poulsen, 1995).

According to Swartz and Menon (1985), CEO replacement is also used to send a symbolic message to stakeholders of the organisation. CEOs can perform as scapegoats for the organisation. They are rewarded when the organisation is performing well, and removed from their positions when all is not going well. The change in a CEO may result in both internal and external stakeholders altering their perceptions of the organisation's image and its future outlook.

According to Khanna and Poulsen (1995), the failure of firms will likely be blamed on top managers. This is not solely as a result of the perceived lack of competence of managers, but also as a result of the self-serving actions taken by managers when a firm is experiencing difficulties. These actions have the potential to harm the firm as a whole, or a section of its stakeholders.

Reference is made in Daily and Dalton (1995) to the 'vicious circle' of top management teams where deterioration of this team negatively affects company performance, and this poor company performance then leads to the deterioration of the top management team.

It is commonly reported that there is an association between poor firm performance and CEO turnover. Despite this, there are significant differences in

the experience of this phenomenon. Studies conducted in the United Kingdom, the United States, Japan and Germany show differences in the time lags between poor performance and the removal of the CEO, as well as the sensitivity of CEO turnover to performance (Suchard et al, 2001).

In high performing firms, CEO turnover is experienced for different reasons. According to Wagner et al (1984), levels of high firm performance could signal high quality senior management. In a market competing for rare managerial talent, good firm performance may increase the likelihood that a CEO will be pursued by other potential employers. This may result in higher turnover of CEO's in firms with good performance.

This argument and those relating to poor firm performance and its impact on CEO turnover can be combined into the suggestion that either exceptionally poor or exceptionally good performance will lead to CEO turnover (Wagner et al, 1984). The firing of a CEO is extremely traumatic, and the recruitment of a CEO from another firm brings with it many risks, and so these events may be expected to occur only in cases of strong evidence of either exceptionally good or exceptionally poor performance. This suggests that managers in average performing firms are less likely to experience turnover than those in firms with more extreme performance.

### **2.3 Share price as a measure of firm performance**

The importance of the concept of firm performance is widely recognised (Venkatraman and Ramanujam, 1986). Much has been written on appropriate



terminologies and definitions of performance, and there appears to be no agreement on the different approaches. According to Venkatraman and Ramanujam (1986), authors do, however, concur that it is appropriate to use different measures of organisational performance, given the differences in the nature of the research questions.

Venkatraman and Ramanujam (1986) proceed to define firm performance as a subset of organisational effectiveness. The narrowest measurement of business performance is financial performance which uses financial measures, including sales growth, profitability and return on equity. There is a view that 'market' or 'value-based' measures are more appropriate than accounting-based measures, and are measured by stock market returns.

Previous research into the effect of CEO changes have been conducted using both accounting measures and stock market measures – as reflected in the stock or share price (Rhim (2006), Shen and Canella (2002), Daily and Dalton (1995), Friedman and Singh (1989) and Dalton and Kesner (1985)). Share price is used in the studies conducted by Huson et al (2004), Worrell, Davidson and Glassock (1993) and Davidson, Worrell and Dutia (1993).

Friedman and Singh (1989) argue that stock prices can be misleading as a measure of performance, as they are affected by organisational changes. It is expected that the CEO would be involved, and possibly responsible for significant organisational changes (Rhim et al, 2006). This study is concerned with CEO impact on an organisation's performance, including on its

organisational changes, and thus it is held that the argument by Friedman and Singh (1989) has no applicability to this research. External market factors and market performance outside of the CEO's control are significant (Rhim et al, 2006) and are controlled for in this study.

Much has been written about the basic objective of business. As early as 1776, in his *The Wealth of Nations*, Adam Smith theorised that each individual in a free enterprise system using his resources to effect the greatest profit to himself, will then also produce the greatest good for the public interest (Adam, 1973). Harvard's Ted Lewitt puts forward that the purpose of business is to get and keep customers and similarly, Peter Drucker argues that the only justification for the organisation's existence is the extent to which it can satisfy a particular constituent's needs, with this constituent being customers (Harari, 1992). More recently, King and Rigby (2005) argue that the production of profit is an outcome in a business and not the purpose, and that the purpose of business is to provide ongoing and recognisable value.

Within the purpose of business exists the basic objective of business managers. Andrews (1987) argues that CEOs are persons who are first responsible for the results achieved in the present, even though this may be considered the least pleasant responsibility of this level of general management.

Schellenger, Wood and Tashakori (1989) put forward that the objective of corporate management is to maximise shareholder wealth. They hold that the market concept of shareholder wealth represents an appropriate measure of

financial performance. Studies done using non-market proxy measures to measure financial performance, such as return on assets, return on equity, profit margin, and sales do not measure the true financial performance of the firm. Proxy measures of financial performance are not consistent with finance theory. Theoretically, every significant decision made within the corporate should be measured in terms of its affect on shareholder wealth (Fama, 1970). Shareholder wealth is affected by the market price of the company's stock.

Cochran and Wood (1984) assert that there is no consensus on proper measures of financial performance. They argue that the use of change in share price as the only measure of shareholder returns is flawed, as the dividend income must also be included as a measure of shareholder returns. However, this remains insufficient, and there exists the need to include an additional measure, namely risk.

Risk is defined as the covariance of the expected return of the particular share being examined with that of the overall market (Cochran and Wood, 1984). This measure is commonly referred to as the 'beta' of the share. A stock with a beta above 1 is considered to be an aggressive stock as it is expected to move faster than the market as a whole, either upward or downward (Firer, Ross, Westerfield and Jordan, 2004).

Benefits and limitations of using financial data from secondary sources are presented by Venkatraman and Ramanujam (1986), an extract of which is

detailed in Table 1 below. One of the primary limitations of using accounting measures is that differences in accounting policies limit usefulness of results.

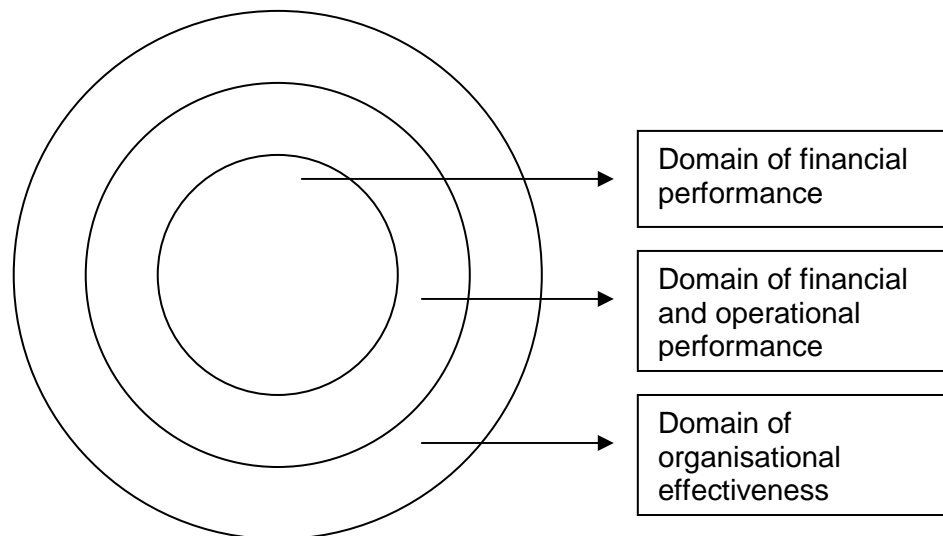
**Table 1: Benefits and Limitations of Alternative Approaches to Measuring Business Performance**

Description	Benefits	Limitations	Key Methodological Considerations When Using This Approach
Financial data from secondary sources	<p>(a) Provides data on financial aspects, which may not be otherwise available.</p> <p>(b) Can be used especially in single/dominant business type sample, and in “within-industry” studies.</p> <p>(c) Possibility of employing stock-market indicators of performance.</p>	<p>(a) Differences in accounting policies may limit its use for comparison purposes (unless stock market indicators are adopted).</p> <p>(b) Cannot be meaningfully used at strategic business unit level due to ‘aggregation’ problems.</p>	<p>(a) Examine the feasibility of using stock-market indicators as well as the measure of return on value added (ROVA) in view of its ‘invariance’ across industrial contexts.</p> <p>(b) Use industry-relative performance when multiple industries are included in the same sample.</p> <p>(c) Assess differences in accounting policies when feasible.</p>

*Source: Venkatraman and Ramanujam (1986)*

A broader definition of organisational performance would include measures of a non-financial nature in the definition. These would include measures such as market share, product quality, new product introduction and measures of technological efficiency in the measure of business performance (Venkatraman and Ramanujam, 1986). The model in Figure 2 below depicts the domains of business performance as presented by Venkatraman and Ramanujam (1986).

**Figure 2: The domain of business performance**



*Source: Venkatraman and Ramanujam (1986)*

In this study, the domain of financial performance is being considered, and within this, share price will be used as a measure of firm performance. Fama (1970) presents the theory that share prices reflect all available market information, and Daily and Dalton (1995) assert that share price reflects the market's perception of the firm's future performance. Worrell et al (1993) argue that the price of a company's stock is the present value of the expected future cash flows of the company, and thus reflects the value of the firm.

#### **2.4 The stock market reaction at the date of announcement of CEO turnover**

Bonnier and Bruner (1988) argue that the conflicting results of previous study on the effect of CEO turnover on firm performance reflect the information effect and the real effect of the announcement of management change. The

information effect would potentially be negative if the announcement of the removal of a senior executive suggests that the organisation was experiencing more difficulty than was thought by the market. A positive real effect is the actual positive effect of a change made in shareholders' interests. The individual magnitudes of these two effects in each circumstance of management change would lead to differing results for each incident of management change.

In support of Bonnier and Bruner's (1988) argument regarding the information effect, Furtado and Karan (1990) consider an important aspect of CEO turnover announcements to be the signal received by the market. CEOs are privy to information not publicly available and a turnover in these ranks may send a message about the firm's current or future status. Furtado and Karan (1990) state that the market may respond positively, negatively or not at all to the signals received.

There are different explanations for the stock market effect on the day of the announcement of the change in a firm's CEO (Suchard et al, 2001). The negative reaction could be as a result of the adverse short-term effect of a new CEO. This adverse effect is caused by the distraction to the core business of the firm, the new CEO's period of adjustment and possible restructuring of the management team (Suchard et al, 2001).

It is also possible that the negative effect of the announcement is as a result of the additional information it provides to the market. If the market had been unaware of the significance of the level of difficulty experienced by the firm, the

announcement of a change in management may signal to the market that the firm is in more trouble than was thought and that the performance of the firm is likely to be worse than expected (Khanna and Poulson, 1985). This additional information will then be reflected in an adjusted share price for the firm (Fama, 1970). A positive market effect could be attributed to the hypothesis that the Board of Directors of the company are perceived by the market as having behaved in such a way to enhance shareholder wealth (Suchard et al, 2001).

## **2.5 The impact of CEO turnover on share price performance over time**

A study of the impact of CEO turnover on the financial performance of an organisation assumes that the CEO has influence over the company's decisions. Finkelstein and Boyd (1998) find that high levels of discretion given to CEO's by the Boards of Directors increases their ability to directly influence firm performance. Central to Finkelstein and Boyd's managerial discretion concept is the idea that strategic leadership, especially as embodied in the role of the CEO is pivotal to the success of the firm. Higher managerial discretion, and the associated increased riskiness of the CEO role, leads to greater potential impact of the CEO on the firm.

A positive impact on firm performance of a change to CEO requires that the Board of Directors has the ability to recognise and attract a superior successor (Denis and Denis, 1995). Studies conducted on the results of these replacements are not consistent (Huson et al, 2004).

CEO turnover affects initial stock price levels, as well as subsequent firm performance. Rhim et al (2006) find that the stock market reacts more favourably in cases where the CEO turnover was not anticipated by the market. It can be argued that anticipated events are already priced in to the current share price of the affected company (Fama, 1970). Friedman and Singh (1989) find that stockholders react positively if prior firm performance is poor, and the succession was initiated by the Board or the CEO, and if the prior firm performance was good, the stock price reaction is negative. An unanticipated death of a CEO results in a reduction in company share price (Behn et al, 2006), as do delays in the announcement of a replacement of a CEO in the case of CEO death. This implies that the market places value on succession planning, as this would reduce uncertainty, and also implies that the role of CEO is perceived to add value. Huson et al (2004) find that prior to the replacement of a CEO, a deterioration in CEO performance was experienced, with improvement subsequent to the replacement of the CEO, implying an increase in managerial quality and operational performance.

Although Suchard et al (2001) find a short-term negative reaction to the announcement of a CEO change, the long-term effect of a change in CEO is perceived to be positive, assuming the CEO is competent and can improve firm performance over time. Where the news of a CEO change results in a negative market reaction, it is where the short-term negative effect is perceived by the market as outweighing the long-term positive effect.



Theory surrounding CEO succession is not clear and predictions of stock price reactions to turnover events are not unambiguous (Huson et al, 2004). It is argued that, if the incoming manager is expected to be superior to the outgoing manager, the stock price may be expected to improve. If, however, the replacement of a CEO is as a result of previous poor management decisions, this could result in a reduction in the stock price, if the market had previously been unaware of the extent of this poor decision making. Stock price reactions at the time of an announcement reflect the expected outcomes of the turnover, but the actual outcomes are only known with time (Huson et al, 2004).

## **2.6 The impact on share performance of an internal versus external CEO replacement**

Much work has been conducted on whether internal or external successors to departing CEOs are more effective (Dalton and Kesner, 1983). An insider appointment can be considered a maintenance strategy, while an external appointment is considered a more fundamental change to the priorities and operations of the organisation. Swartz and Menon (1985) concur that insider succession is believed to signal a maintenance approach to the running of the organisation, where external replacement suggests radical changes may occur within the organisation.

It is found by Rhim et al (2006) that for some measures of performance, CEO turnover yielded positive results when the CEO was replaced by an insider. It was established that for turnovers that were normal retirements or retirements due to ill-health, the successor was more likely to be an internal candidate. The

majority of firms studied stated a preference for an internal replacement. Worrell et al (1993) find, however, that in the case of CEO firings, an outside replacement yielded an immediate positive stock price reaction, with an internal replacement resulting in little reaction. In the case of CEO death, the announcement of an outside replacement results in a reduction in equity value (Behn et al, 2006).

Davidson et al (2002) find that stockholder reaction to an outside replacement is more favourable than an insider, and that this is more significant if the replacement arises from a related industry. This is interpreted as being a factor of a replacement from within the industry being expected to bring about change more quickly. An outsider is expected to have a fresh approach, but may have no knowledge of the firm or industry, and may take time before making required changes. Huson et al (2004) also find a positive stockholder response to outside successors.

Earlier study conducted by Dalton and Kesner (1985) found that prior poor firm performance did not lead to an external successor. Outside successors appeared only in the midrange of firm results. This suggests that in cases of extreme performance, either positive or negative, an internal appointment may be considered to be less risky.

Davidson et al (1990) find insider succession associated with increased firm performance. This is consistent with the argument that insider succession is less disruptive and is less likely to result in poorer firm performance. The later

study conducted by Kahnn and Poulsen (1995), however, found no significant difference in reaction was observed between the announcements made regarding an internal or external replacement.

Per Fee and Hadlock (2004), the probability of turnover of the top 5 executives of an organisation following CEO dismissal is greater than when the CEO does not leave. This is evident more so in firms where the successor CEO is an outsider. This suggests a team nature to management departures.

The results of prior research have been inconsistent when examining the effect of internal versus external CEO replacement, even when the effect of pre-succession firm performance has been controlled for (Dalton and Kesner, 1983). This can be explained as the market interpreting the turnover signals differently (Bonnier and Bruner, 1988).

## **2.7 The impact on share performance for different stated reasons of CEO turnover**

The effect on stock price of CEO turnover varies for different causes of turnover. Denis and Denis (1995) find that in cases of normal retirement, there is no decline in firm performance prior to the announcement of the change, where performance is measured by operating income to total assets. A subsequent increase in performance was observed over the three-year period studied.

Friedman and Singh (1989), find that the stock price reacts negatively to a CEO change as a result of disability. Worrell et al (1993) find that in the case of CEO firings, the market responded positively to an announcement where a permanent replacement was also announced. Announcements of firings without additional information were found to cause no response in the market.

Previous studies have indicated that most CEO successions take place with the successor having been identified well in advance, and the proposed successor is then groomed into the position (Cannella and Shen, 2001). In their later study, Shen and Cannella (2003) find that many CEO's are reluctant to step down, and unplanned poorly handled CEO successions have a negative impact on CEO wealth.

Per Davidson, Nemec and Worrell (2001), part of the succession plan results in a successful CEO being promoted to the Chairman of the Board. The reaction of the market in this case is likely to differ from instances of forced removal.

## **2.8 Conclusion**

Prior research on the affect of managerial succession on firm performance has been mixed, and per Davidson et al (1990) there exist three main contradictory views that have emerged. The first is that managerial succession improves operational performance and hence organisational performance. This is termed the 'common sense' viewpoint. The second view is the 'vicious circle'. Here the replacement of senior management causes tension and disruption, and reduces firm performance. The third viewpoint is that a change in leadership does not

affect firm performance, suggesting that the leader is relatively unimportant. This is termed the 'ritual scapegoating' argument.

The study conducted by Davidson et al (1990) showed that the stock market generally responded favourably to the announcement of executive succession, suggesting the 'common sense' viewpoint.

However, it is argued that if these results were taken on their own, the more turnover events a firm experiences, the greater the stock price return of the corporation would be expected to be.

Methodological differences including different types of organisations, different time periods and different statistical measures all contribute to the lack of consistency in the results of studies investigating the effect of executive succession on firm performance (Davidson et al, 1990). The market views different types of succession announcements differently. (Davidson et al, 1990), and these reactions are reflected in the firm's share price (Fama, 1970).

This study will focus on the South African environment, and will examine the market effects of a change in CEO in this environment. The study will attempt to provide further insight into the discussion around CEO succession, focussing on its affect on the share price listed on the Johannesburg Securities Exchange.

### **CHAPTER 3: RESEARCH HYPOTHESES**

As evidenced in the literature review, there has been significant research done in the areas of financial impact of Chief Executive Officer turnover on firm performance. Previous research has yielded varying results and this inconsistency makes difficult the prediction of the stock market's reaction to a change in CEO.

Little study of this nature has been found on the South African market. This study seeks to address the hypotheses set out below in the South African environment.

The analysis of the share price reaction to change in CEO will be measured using event study methodology. This methodology is explained fully in paragraph 4.6, but a short summary is presented here.

The methodology examines the effect of an event on share prices. This is measured by comparing the actual returns earned on a share for the period chosen compared to the expected returns. The differences between the actual and expected returns are called residuals, (Fama, Fisher, Jensen and Roll, 1969) or abnormal returns (Binder, 1998).

The period chosen to calculate abnormal returns is called an event window, and can be short term, for the days surrounding the event, or a long-run study, for periods of years, as in Dennis and Dennis (1995), which uses both short and long run event studies.

In completing the event study analysis, abnormal returns are accumulated over the period of the event study, and then averaged to form the Cumulative Average Abnormal Returns, which are then tested for significance.

The hypotheses tested in this research are detailed below.

**Hypothesis 1:**

The null hypothesis states that the Cumulative Average Abnormal Returns (CARs) of a South African listed share for a company that experiences a change in CEO is not significantly different from zero at the date the CEO change is announced.

**Hypothesis 2:**

The null hypothesis states that the CARs of a South African listed share for a company that experiences a change in CEO is not significantly from zero for the three years after the date of the CEO change.

**Hypothesis 3:**

The null hypothesis states that the Cumulative Average Abnormal Returns (CARs) of a South African listed share for a company that experiences an internal replacement CEO is not significantly different from the CARs of a share for a company with an external CEO replacement.

**Hypothesis 4:**

The null hypothesis states that the Cumulative Average Abnormal Returns (CARs) of a South African listed share for a company that experiences voluntary CEO turnover not significantly different from the CARs of a share for a company that experiences forced CEO turnover.



## CHAPTER 4: RESEARCH METHODOLOGY

### 4.1 Rationale for the proposed method

This research has been conducted using event study methodology. Since the introduction of this methodology in 1969, it has become the standard method to use in the study of share price reactions to an announcement or event (Binder, 1998). The method is used to determine if the actual share price returns of companies which experienced a change in CEO are significantly different from the expected returns over the period studied.

In practice, event studies have been used under the assumption of the efficient market hypothesis, with regard to information that is publicly available, to measure the effect of an event on shareholder wealth (Fama, 1970). The methodology allows for the determination and statistical analysis of abnormal share price returns arising from the event being analysed (Binder, 1998).

It follows that event studies have been used for two major purposes (Binder 1998):

1. to test the null hypothesis that the market efficiently incorporates information;
2. to test the impact of an event of the wealth of the firm's shareholders.

This research relates to the second purpose for conducting event studies. The research is quantitative and is intended to analyse the presence of a change in

the share price performance of a company, given a change in the company's CEO. It is thus also descriptive in nature (Zikmund, 2003).

Previous studies have analysed firm performance following CEO change using a three-year period of returns (Dalton and Kesner (1983, 1985), Denis and Denis (1995) and Daily and Dalton (1995). In this study share price performance for the three years post a change in CEO has been analysed. Although Denis and Denis (1995) use as the unit of analysis CEO turnover events for a one year period, in this study a three year period is used. This is felt to be more appropriate given the smaller size of the South African market compared to the United States market. The three year period selected is 2001 to 2003. The result is the last possible calendar year of analysis being 2006, that is three years after a turnover event in 2003. This is appropriate to ensure results are current and thus relevant.

#### **4.2 Unit of analysis and population of relevance**

The unit of analysis is the event of CEO turnover during the period 2001 to 2003.

The population of relevance will be all companies listed on the main board of the Johannesburg Securities Exchange during the calendar years 2001 to 2003. The population of relevance has been derived from the JSE information regarding listed companies.

### **4.3 Sampling method and sample size**

The sample analysed is selected from the population of relevance and consists of all turnover events occurring in the population of relevance during the calendar years 2001 to 2003.

Each turnover event specified via SENS was analysed to ensure consistency of treatment, on the following basis:

- Senior management changes where the turnover event was not related to the CEO of the listed or holding company were excluded. Turnover events which affected managers with a CEO title were not automatically included, as the title is also used in some organisations when referring to the most senior executive of a division. Divisional CEOs and other senior management changes which did not affect the most senior executive of the organisation were excluded, even though a SENS announcement was made regarding the change.
- Deputy CEO changes were excluded from the sample.
- Managing Director turnover events were included in the sample only in cases where the role of CEO did not exist, and the Managing Director was the most senior executive of the organisation.
- All stated reasons for turnover have been included in the sample.

- Turnover events with no incumbent CEO were excluded from the analyses of the Hypotheses 1 and 4.
- Turnover events with no subsequent CEO replacement were excluded from the analysis of Hypotheses 2 and 3.

The sample is thus judgemental in nature (Zikmund, 2003).

#### **4.4 Data gathering process**

To address the research problem, secondary data has been gathered from publicly available sources.

In terms of clauses 3.59 to 3.62 of the Johannesburg Securities Exchange listing Requirements, all listed companies are required to announce a change in CEO via the Johannesburg Securities Exchange's messaging service (SENS). This must be done no later than by the end of the business day following the decision or receipt of notice detailing the change ([www.jse.co.za](http://www.jse.co.za), accessed 26 October 2007).

The explanatory data regarding the changes has thus been collected from the JSE company listings, SENS announcements, company financial statements and articles in the financial press. Share price data was collected from Sharenet and BFA-McGregor. Individual data sets were collected as per Table 2 below.

**Table 2: Data collected and sources of data**

Data collected	Source of data
Companies listed on the JSE for the full period from 2001 to 2003	<ul style="list-style-type: none"> <li>▪ JSE database of companies listed on the main board</li> </ul>
CEO turnover events occurring during 2001 to 2003, including: <ul style="list-style-type: none"> <li>▪ Date of turnover announcement</li> <li>▪ Stated reason for turnover event</li> <li>▪ Internal/External successor</li> </ul>	<ul style="list-style-type: none"> <li>▪ SENS announcements</li> <li>▪ Annual reports of companies with turnover events</li> <li>▪ Articles in the financial press at the time of the announcement</li> </ul>
Share price information: <ul style="list-style-type: none"> <li>▪ Closing price on day of, and day before, announcement of turnover event</li> <li>▪ Daily share price data for three years before and after the turnover event</li> <li>▪ Index values for the three years before and after the turnover event</li> </ul>	BFA-McGregor Sharenet

#### 4.5 Data categorisation

The data collected in respect of turnover events has been tabulated to reflect the following main items of information:

- Share code
- Company name
- Date of announcement of departure of CEO
- Effective date of departure
- Stated reason for departure
- Internal or External replacement
- Date of announcement of new CEO

- Date of new CEO commencing employment
- CEO remaining for three years post employment?
- Status of company at the end of three years post employment – the statuses used were
  - unchanged
  - delisted
  - name change
  - merger
- Date of status change

Given the varied nature of the stated reasons for departure, it is necessary to categorise these to assist in ensuring sufficient sample sizes for meaningful analysis. The stated reasons for departure have been divided into four categories; Voluntary – retirement; Voluntary – pursue other opportunity; Voluntary – remain link with the company; Forced removal.

The categorisation has been done on the following basis:

- Voluntary – retirement

All retirements are included under this category, whether by reason of reaching retirement age, or of ill-health.
- Voluntary – pursue opportunity outside the company

Where the announcements reflect a specific new career opportunity that the departing CEO has accepted, it is assumed that the turnover is a

genuine, voluntary turnover. This includes opportunities in other countries, or promotions to larger, listed companies.

- Voluntary – remain linked to the company

Exits where the outgoing CEO is not leaving the company are categorised here. This includes instances where the roles of CEO and Chairman of the Board of Directors have been split, and the CEO is now becoming Chairman of the Board solely. Also included in this category are instances where the outgoing CEO is pursuing other roles within the firm.

- Forced removal

Announcements of CEO turnover are not always explicit when the turnover is forced, and it has been necessary to make assumptions regarding which turnover events were forced. This category therefore includes those instances when forced removal is specified, as well as cases where the CEO departs with immediate effect, or where irreconcilable differences have been cited. CEO departures which occur as a result of the completion of a fixed term contract is also considered a forced removal.

- No current CEO

A separate category was created for cases where there is no incumbent, and therefore no departure, although a new CEO is appointed.

- Unknown

CEO departures where the reason for the departure remained unclear were categorised together.

In all cases, the financial press reports surrounding the departures have been scrutinised to ensure accurate categorisation as far as possible. To enable analysis with larger sample sizes, the 3 Voluntary categories were combined at the analysis stage, so that there was a single Voluntary sample which was compared to the single Forced sample.

The share price data was analysed using the same methodology for each of the research questions. The data analysed was the closing share prices on the dates analysed. Adjustments were made to the data to ensure that the dates before and after the announcement dates, and the event windows studied, related to trading, or working, days, and dates falling on weekend days were adjusted accordingly.

In order for the sample not to be skewed by illiquid shares, a proxy test of liquidity was used. A period of 21 trading days was created around the announcement date. This consisted of the date of the announcement and the 10 trading days before and 10 trading days after the announcement. The announcement date relates to either the announcement of an impending CEO departure, or a new CEO appointment date. The departure announcement date was used in analysing Hypotheses 1 and 4, and the announcement date relating to the new CEO was used to test Hypothesis 3. The 21 period was



therefore different for companies where the announcement dates were not the same.

The liquidity test required that 10 or more trades in the share occurred during the 21 day period. Event announcements that did not have the required number of trades in the 21 day period were excluded from the samples analysed. This resulted in different sample sizes for testing the hypotheses.

In analysing the share price performance of an organisation for the three years post the turnover event, Hypothesis 2, a smaller sample has been derived, taking into account the additional criteria below:

- the successor CEO remained in office for a period of at least three years;
- the event date was the effective date of the new CEO commencing employment.

If company delisted from the JSE during 3 years post the effective date of employment of the new CEO, it was included in the sample so as to avoid 'survivor bias'. In these cases, the end date of the analysis was the date of delisting. The inclusion was done only in cases where the delisting occurred 1 year or later after new CEO joined, on the assumption that prior to a 1-year period, the new CEO would not have had time to make a significant impression on the organisation.

A final categorisation was done to reflect the market's reaction to the announcement when all the information about the departure of the current CEO and the appointment of the new CEO are effected at the same time. There were 45 such events in the data set, and these were categorised as follows:

- VI = Voluntary CEO turnover and Internal replacement
- VE = Voluntary CEO turnover and External replacement
- FI = Forced CEO turnover and Internal replacement
- FE = Forced CEO turnover and External replacement

#### 4.6 Data analysis

Standard event study methodology was used in the analysis of the data, as described below.

Actual daily returns were calculated for each share for each company in the dataset using Formula 1 below.

$$R_{it} = \log [P_{it}/P_{it-1}] \quad (\text{Formula 1})$$

where:

$R_{it}$  = the actual share price return for security  $i$  for day  $t$ ; and

$P_{it}$  = the share price of security  $i$  at the end of day  $t$ .

Expected daily returns were then estimated for each share using the Market Model approach, in order to take both market trends and the company's

systemic risk into account (Firer et al, 2004). To control for market risk and sector specific returns, sector-specific company betas were calculated for companies with turnover events (Firer et al, 2004).

The calculation was performed over a three year period, for the three years ending at the date of turnover announcement. For companies that listed within the relevant three year period, the full listed period prior to the turnover event was used in the calculation of  $\alpha$  and  $\beta$ . The calculation was conducted using Formula 2 below.

$$E(R_{it}) = \alpha_i + \beta_i R_{mt} \quad (\text{Formula 2})$$

where:

$\alpha_i$  = the average return of security i compared to the index;

$\beta_i$  = the sensitivity of security i's return to the index return; and

$R_{mt}$  = the index return for the relevant index for day t

The relevant index for each company was determined taking the company's sector categorisation on the JSE into account. Sector indices for Mining, Banks, Industrials, Financials, Life Insurance and Non-Life Insurance have been measured since 1988, and sufficient data exists to use these indices for the calculations of  $\alpha$  and  $\beta$  in Formula 2.  $\alpha$  and  $\beta$  calculations for companies falling into sectors were done with  $R_{mt}$  being the sector index return for day t.

Where a sector index had not been in existence for a sufficiently long time to perform the calculation in Formula 2, the JSE All Share Index was used, and  $R_{mt}$  therefore represents the return on the entire JSE market for day  $t$ .

Abnormal returns (ARs) were then calculated for each share for each day of the event window. The calculation is represented by Formula 3.

$$AR_{it} = R_{it} - E(R_{it}) \quad (\text{Formula 3})$$

where:

$AR_{it}$  = the abnormal share price return for security  $i$  for day  $t$ ;

$R_{it}$  = the actual share price return for security  $i$  for day  $t$ ; and

$E(R_{it})$  = the expected share price for security  $i$  for day  $t$ .

Different event windows were studied in testing the research Hypotheses. Four event windows were studied to test Hypotheses 1, 3 and 4. these windows were  $[0]$ ,  $[-1,+1]$ ,  $[-3,+3]$ , and  $[-5,+5]$ , where:

- $[0]$  is the event day, or day of announcement;
- $[-1,+1]$  is an event window for the period of a day before the event day to the day after;
- $[-3,+3]$  is an event window for the period from 3 days before the event day to 3 days after;
- $[-5,+5]$  is an event window for the period from 3 days before the event day to 3 days after.

In testing Hypothesis 2, an event window of 3 years was used, from the effective date of commencement of employment of the new CEO.

For each event window, the daily abnormal returns were accumulated for the period of the window, as per Formula 4. The result is the calculation of Cumulative Abnormal Returns (CARs).

$$CAR_{i,K,L} = \sum_{t=K}^L AR_{it} \quad (\text{Formula 4})$$

where:

$CAR_{i,K,L}$  = the cumulative abnormal return for security  $i$  for the period from  $t = K$  to  $t = L$

For each of the event windows, a simple average of the Cumulative Average Returns was calculated to form the Average Cumulative Abnormal Return (ACAR) per event window. This was done for each of the sample sets and is represented in Formula 5.

$$ACAR_{K,L} = 1/n \sum_{i=1}^n CAR_{i,K,L} \quad (\text{Formula 5})$$

Significance testing was then performed on the ACARs. This was done using two-tailed t-tests, with a 5% significance level. When testing Hypotheses 1 and 2, the tests were done to test whether the ACAR per event window was

statistically significant from zero. For Hypotheses 3, the t-tests were done to test whether the ACARs were significantly different for internal or external CEO replacement, and for Hypothesis 4, the tests were conducted to test whether the ACARs for voluntary or forced turnover differ significantly.

#### **4.7 Research Limitations**

The research was conducted using a single measure of financial performance, being performance as reflected in a company's share price. This provided a limited assessment of organisational performance as expressed by Venkatraman and Ramanujam (1985). The results of the study cannot be generalised to accounting or other organisational measures of performance.

The research was concerned only with the financial impact of a change in CEO. It examined only the effect of a single historical event, and did not examine the personal characteristics of a CEO that may bring about a positive or negative change in financial performance. The study can therefore not be used to assess the likely effect of an incoming or outgoing CEO on financial performance, based on the CEO's individual characteristics.

The research was concerned with the impact of an event which had already taken place. It was not an analysis of the factors leading to the CEO change, and cannot be used as a predictor of the likelihood of a change in CEO.

The period of CEO change measured was over a three-year period, and may therefore not be generalised to all CEO changes over time. Only listed

companies were included in the study, making it difficult for the findings to be generalised to non-listed organisations.

The sample size for the long-run event study was relatively small. For long-run event studies, the methodology used to calculate expected returns becomes more important. This research used a single method of calculating such returns. Other methodologies, for example the Fama and French (1992) three-factor model may have yielded different results. Mordant and Muller (2003) also extended this model to allow for the South African environment, allowing for the influence of resource sectors, and a study using this methodology might yield different results for the long-run study

## CHAPTER 5: RESULTS

### 5.1 Description of the sample

During the calendar years 2001 to 2003, there were a total of 17 906 SENS announcements issued the JSE dissemination channel. Of these, 928 contained the words “CEO” or “Chief Executive Officer”, with 74 announcements being related to CEO turnover. Details of these announcements are included in Appendix 1.

The sample therefore consists of 74 CEO turnover events, which have been selected as per the criteria described in paragraph 4.3 above. The 74 turnover events arose from 63 different JSE listed companies.

Of these 74 instances of CEO turnover, 2 related to new CEO appointments where there was no incumbent CEO. A further 2 related to the announcement of new CEOs, but no information could be found relating to the departure of the previous CEO. These 4 turnover events were excluded from the analysis of the share price reaction to a CEO departure announcement and the analysis of reasons for CEO departure.

There were 6 instances where no new CEO was appointed. This occurred in two instances where the company was placed into liquidation, one as a result of a company merger and two as a result of the company delisting from the JSE.



The sample is summarised in Table 3 below.

**Table 3: Summary statistics**

<b>Sample size</b>	<b>74</b>
<b>Number of CEO departures by year</b>	<b>74</b>
2001	27
2002	22
2003	21
No CEO in place	2
Unknown	2
<b>Reasons for CEO departure</b>	<b>74</b>
Voluntary – retirement	11
Voluntary - pursue opportunity outside the company	25
Voluntary - remain linked to the company	18
Forced removal	16
No current CEO	2
Unknown	2
<b>Internal versus External CEO replacement</b>	<b>74</b>
Internal	41
External	28
No new CEO	5
<b>Number of changes during the three year period</b>	
Companies with one CEO change	53
Companies with two CEO changes	9
Companies with three CEO changes	1
<b>Number of new CEOs who retain position for 3 years after appointment</b>	<b>28</b>
<b>Status of companies 3 years after CEO change</b>	
<b>CEO retains position for 3 years</b>	<b>28</b>
Delisted	0
Liquidated	0
Merger	0
Name change	0
Unchanged	28
<b>CEO does not retain position for 3 years</b>	<b>44</b>
Delisted	22
Liquidated	4
Merger	1
Name change	3
Unchanged	14

63 companies experienced a CEO change in the 3 year period, which translates into 19.4% of all JSE listed companies experiencing this change during the years studied.

There were therefore 64 turnover events which announced both a CEO departure and the replacement of the CEO. The announcement of the new CEO was made on the same day as the departure announcement in 54 cases, as shown in Table 4.

**Table 4: Delays between departure announcements and the corresponding replacement announcement**

No. of observations	Average delay (days)	Percentage internal replacement	Percentage external replacement
54	0	67%	33%
10	118.8	20%	80%

The Average Abnormal Returns (AARs) shown in Table 5 were calculated as per paragraph 4.6 above. No significance testing was done on the Average Abnormal Returns, but a discussion of the AARs provides greater insight into the Cumulative Average Abnormal Returns on which hypothesis testing was done.

Table 5 shows the Average Abnormal Returns for each day of the 11-day event window. This window commences 5 days before the announcement date, with the announcement date being reflected as D0 in Table 5. The event window ends on D+5 which is 5 days after the event date, or announcement date. Data

is presented for two event windows, the first where D0 is the announcement date of the impending departure of the incumbent CEO, and the second where D0 is the date of announcement of the details of the new or replacement CEO.

**Table 5: Average Abnormal Returns for the 11-day event window [-5,+5]**

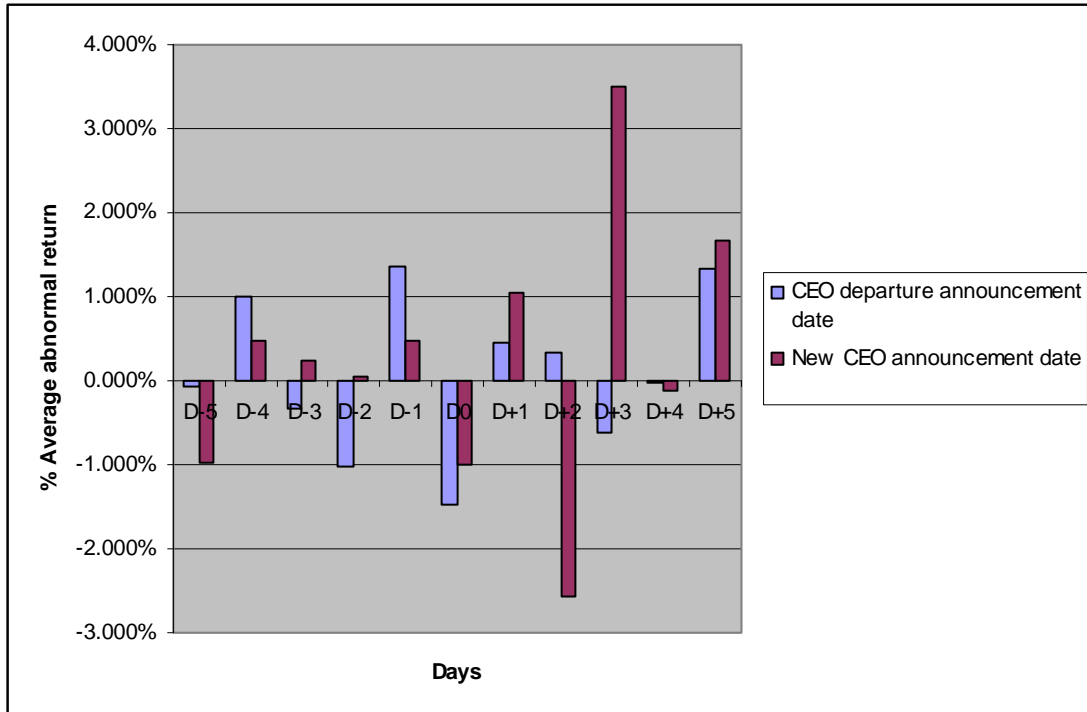
<b>Panel A</b>		<b>AARs at announcement date of CEO departure</b>				
Sample size	57					
	<b>AAR</b>	<b>Median AR</b>	<b>Number of positive ARs</b>	<b>Percentage of positive ARs</b>	<b>t-stat</b>	
D-5	-0.080	-0.288	26	46%	-0.01	
D-4	1.002	-0.083	25	44%	0.88	
D-3	-0.324	0.158	30	53%	-0.53	
D-2	-1.013	-0.112	26	46%	-1.35	
D-1	1.354	0.115	34	60%	2.06**	
D0	-1.471	0.006	29	51%	-1.74*	
D+1	0.459	0.425	35	61%	0.82	
D+2	0.332	0.058	32	56%	0.95	
D+3	-0.609	-0.028	28	49%	-1.08	
D+4	-0.025	-0.125	27	47%	-0.04	
D+5	1.330	0.614	38	67%	1.38	
<b>Panel B</b>		<b>AARs at announcement date of new CEO</b>				
Sample size	57					
	<b>AAR</b>	<b>Median AR</b>	<b>Number of positive ARs</b>	<b>Percentage of positive ARs</b>	<b>t-stat</b>	
D-5	-0.978	-0.288	26	46%	-1.00	
D-4	0.478	-0.083	25	44%	0.50	
D-3	0.234	0.483	34	60%	0.40	
D-2	0.053	-0.093	26	46%	0.15	
D-1	0.465	0.130	33	58%	1.22	
D0	-0.991	0.006	29	51%	-1.21	
D+1	1.037	0.701	38	67%	1.80*	
D+2	-2.579	0.056	31	54%	-0.91	
D+3	3.496	-0.083	28	49%	1.01	
D+4	-0.118	-0.340	26	46%	-0.16	
D+5	1.666	0.837	38	67%	1.86*	

\* Statistically significant at the 10% level

\*\* Statistically significant at the 5% level

Figure 3 is the graphical representation of the data presented in Table 5.

**Figure 3: Average Abnormal Returns for the 11-day event window [-5,+5]**



## 5.2 Hypothesis 1

Hypothesis 1 relates to the impact of CEO turnover at the date of announcement. The sample size used in testing this hypothesis has been derived using the methodology in paragraph 4.5 above. The sample size that results is 57 turnover events and the data relating to Hypothesis 1 are as follows:

**Table 6: Hypothesis 1- Average Cumulative Abnormal Returns**

Event window (days)	ACAR	Median CAR	Standard Deviation CAR	t-stat
Sample size	57			
[0]	-1.471*	0.006	6.378	-1.740
[-1,+1]	0.342	1.121	8.744	0.300
[-3,+3]	-1.272	0.445	13.800	0.498
[-5,+5]	0.955	-1.721	15.070	0.478

\* Statistically significant at the 10% level

### 5.3 Hypothesis 2

Hypothesis 1 relates to the impact of CEO turnover for the three years post the turnover event. The sample size used in testing this hypothesis has been derived using the methodology in paragraph 4.5 above. The sample size that results is 28 turnover events and the data relating to Hypothesis 2 are as follows:

**Table 7: Hypothesis 2- Average Cumulative Abnormal Returns**

Event window (years)	ACAR	Median CAR	Standard Deviation CAR	t-stat
Sample size	28			
[0,3]	95.783	19.914	632.230	0.802

### 5.4 Hypothesis 3

Hypothesis 3 relates to the impact of CEO turnover at the date of announcement of the CEO replacement for internal or external successors. The sample size used in testing this hypothesis has been derived using the

methodology in paragraph 4.5 above. The sample size that results is 57 turnover events. This is coincidentally the same sample size as that for the analysis of Hypotheses 1 and 4, but the announcement events that make up the sample being analysed are not all the same.

The data relating to Hypothesis 3 are as follows:

**Table 8: Hypothesis 3 - Cumulative Average Abnormal Returns**

Event window (days)	Internal Replacement (I) (sample size = 35)			External Replacement (E) (sample size = 22)			t-stat
	ACAR	Median CAR	Standard Deviation CAR	ACAR	Median CAR	Standard Deviation CAR	
[0]	-0.293	-0.043	2.425	-2.101	0.146	9.515	0.874
[-1,+1]	0.513	0.872	5.411	0.508	2.775	12.221	0.002
[-3,+3]	0.224	-0.132	6.367	4.090	6.745	21.433	-0.824
[-5,+5]	0.045	-1.123	10.450	7.089	9.551	15.540	-1.876*

\* Statistically significant at the 10% level

## 5.5 Hypothesis 4

Hypothesis 4 relates to the impact of CEO turnover at the date of announcement of the CEO turnover for different reasons of turnover. The sample size used in testing this hypothesis has been derived using the methodology in paragraph 4.5 above. The sample size that results is 57 turnover events. This is the same sample used in the analysis of Hypotheses 1.

The data relating to Hypothesis 4 are as follows:

**Table 9: Hypothesis 4: Cumulative Average Abnormal Returns**

Event window (days)	Voluntary Turnover (V) (sample size = 45)			Forced Turnover (F) (Sample size = 12)			t-stat
	ACAR	Median CAR	Standard Deviation CAR	ACAR	Median CAR	Standard Deviation CAR	
[0]	-0.548	0.203	3.636	-4.932	-2.109	11.731	1.278
[-1,+1]	1.065	1.121	6.867	-2.367	2.045	13.801	0.834
[-3,+3]	0.516	0.445	10.279	-7.975	0.872	22.018	1.299
[-5,+5]	1.687	-1.721	14.045	-1.791	-1.938	18.885	0.596

## 5.6 Multi-factor analysis

There were 45 turnover events where the date of announcement of the departure of the CEO was the same as the date of announcement of the new CEO appointment. These turnover announcement dates allow for the analysis of the market when all the information related to a turnover event occurs on the same day. The reaction is therefore a combination of the market's response both to the information provided about the outgoing CEO, as well as the reaction to the new CEO information.

Table 10 reflects the results for this sample set, providing greater insight into the market reactions to the four classifications of announcements, as described in 4.5 above.

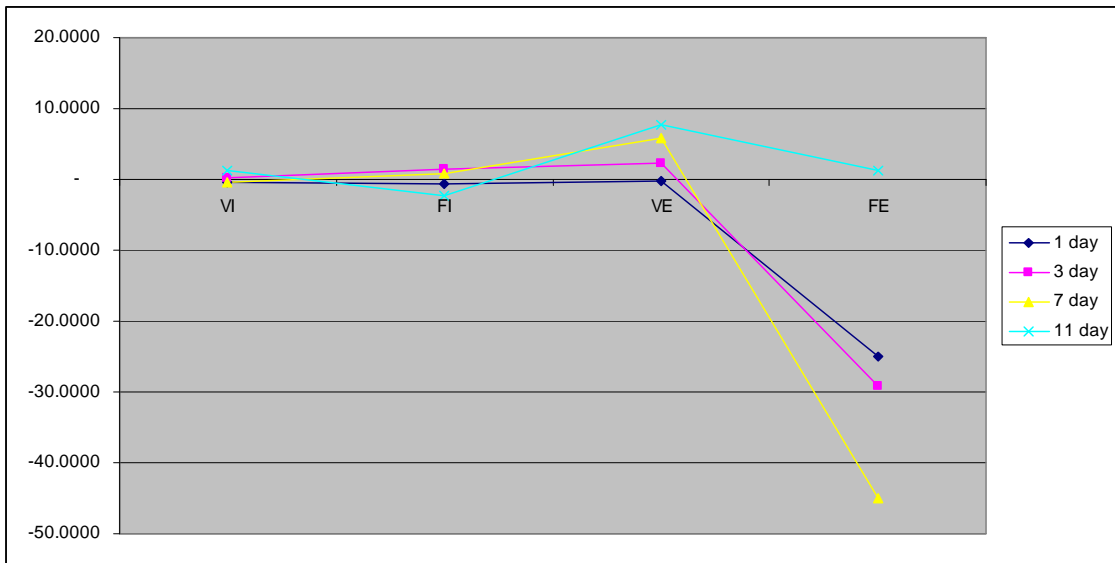
**Table 10: Cumulative Abnormal Returns where Date of announcement of the Departure and the new Appointment occur on the same day**

Event window [0]					
Category	Number of events	CAR	ACAR	Median CAR	Standard Deviation CAR
VI	23	-8.406	-0.365	0.006	2.132
FI	7	-4.196	-0.599	-0.339	3.889
VE	13	-3.200	-0.246	0.223	4.790
FE	2	-49.809	-24.904	-24.904	20.711
Event window [-1;+1]					
Category	Number of events	CAR	ACAR	Median CAR	Standard Deviation CAR
VI	23	6.155	0.268	0.872	5.916
FI	7	10.639	1.520	0.785	5.260
VE	13	29.066	2.236	2.383	7.564
FE	2	-58.362	-29.181	-29.181	11.700
Event window [-3,+3]					
Category	Number of events	CAR	ACAR	Median CAR	Standard Deviation CAR
VI	23	-7.515	-0.327	-0.746	6.848
FI	7	6.171	0.882	2.757	6.578
VE	13	76.486	5.884	6.685	10.979
FE	2	-90.135	-45.068	-45.068	25.208
Event window [-5,+5]					
Category	Number of events	CAR	ACAR	Median CAR	Standard Deviation CAR
VI	23	30.773	1.338	-0.256	12.284
FI	7	-16.019	-2.288	-1.582	4.552
VE	13	100.843	7.757	9.997	17.272
FE	2	2.484	1.242	1.242	29.503

Figure 4 shows the graphical representation of the ACARs shown in Table 10. It is therefore based on the 45 turnover events with full announcements made on the same day. It shows the results for all four events windows.



**Figure 4: Average Cumulative Abnormal Returns for Full Same-Day Announcements**



The sample sizes for each of the four categories are detailed in Table 10.

## CHAPTER 6: DISCUSSION OF RESULTS

### 6.1 Summary of sample

Data surrounding CEO turnover events occurring in the three calendar year period from 2001 to 2003 were gathered from the JSE SENS announcement service. Detailed information about each turnover event was sourced from financial press reports at the time of the events. This included information surrounding the exit of the old CEO even and the appointment of the replacement CEO. This data was then used to establish event date around which share price performance could be measured. Details of share prices around the event dates were sourced through BFA-McGregor and ShareNet.

In total, there were 74 turnover events during the period. Using the data categorisation and analysis processes referred to in paragraphs 4.5 and 4.6 above, the data was converted into smaller judgemental samples. These samples were used to test the research hypotheses. Hypotheses 1 and 4 were tested using a sample of 57 qualifying turnover events, Hypothesis 2 was tested using a sample of 28 turnover events and Hypothesis 3 was analysed using a different sample of 57 turnovers.

The results of the analysis of these judgemental samples have been presented in Chapter 5.

## 6.2 Average Abnormal Returns

Table 5 shows the Average Abnormal Returns (AARs) achieved by the firms with CEO turnover events in the 3 calendar years studied. These AARs represent the average extent to which actual returns over the 11-day event window differed from that expected.

The AARs for the 11-day event window at the announcement date of the departure of the CEO fluctuate between positive and negative for the days studied. 52.6% of all abnormal returns (ARs) over the event window are positive.

A statistically positive AAR of 2.06% is observed on D-1, being the day before the announcement. This is statistically significant at the 5% level.

As seen in Table 5, the AAR observed on D0, or the day of the departure announcement date, is a statistically significant -1.74%. This is significant at the 10% level. Combining the AARs on D-1 and D0 gives a total AAR return for the two days of 0.32%, or a small positive reaction to the announcement of the departure. The AARs observed on days D+1 and D+2 are also positive, 0.82 and 0.95 respectively, but are not statistically significant.

Table 5 also shows the AARs for the 11-day event window around the date of announcement of the new CEO. Figure 3 shows positive AARs are observed for

7 of the 11 days, with an average of 53.3% of all abnormal returns (ARs) over the 11 days being positive.

For the AARs around the announcement of the new CEO, two statistically significant AARs were found at the 10% significance level. The day after the announcement date has a significant positive AAR of 1.80, and D+5 has a significant positive AAR of 1.86%.

A negative AAR of -1.21% is observed on D0, but this is not statistically significant.

In their comparison of ten event studies of the effect on shareholder wealth of CEO turnover, Furtodo and Karan (1989) find that the results of the studies at the date of the turnover were inconclusive. Six of the studies observed positive abnormal returns at the announcement date, three of which were statistically significant. Of the four studies observing negative abnormal returns, one result was at a significant level.

### **6.3 Hypothesis 1**

Here it is hypothesised that the Average Cumulative Abnormal Returns (ACARs) experienced at the departure announcement date for a firm that experiences CEO departure is not significantly different from zero.

This hypothesis has been tested using for event windows; [0], [-1,+1], [-3,+3] and [-5,+5]. Table 6 shows that a negative Average Cumulative Abnormal

Return (ACAR) of -1.471% was observed for the 1-day, [0], event window. This is significant at the 10% level. The market therefore reacts negatively to the announcement of a change in CEO at the announcement date. For this event window, there is sufficient evidence to reject hypothesis 1 at the 10% significance level.

This is in direct contrast with Suchard et al (2001). In their study of Australian firms, they find a positive but insignificant effect on the day of announcement of the CEO change.

Suchard et al (2001) do, however, observe a significant negative response the day after the announcement, suggesting a lagged effect where the information flows to the market after it is disseminated through the stock exchange. Table 6 shows a positive ACAR of 0.342% for the 3-day event window, [-1,+1], suggesting a small positive reaction in total when the market has had a day to adjust to the announcement.

Bonnier and Bruner (1989) find significantly positive excess returns in response to the announcement of CEO change, but consider only firms which had underperformed prior to the change.

In this research, a smaller negative ACAR of -1.272 was observed for the 7-day event window, and a positive ACAR for the 11-day event window of 0.955. In their study, Suchard et al (2001) also found a negative abnormal return for the 7-day event window. These abnormal returns were not statistically significant.

In this study a significant negative reaction was observed on the announcement day, and the null hypothesis is rejected for this event window. This must be interpreted in the light of the longer event windows, however, as it is possible that the negative reaction on the official announcement date is a correction of the significant positive reaction observed the day before the announcement, as shown in Table 5, suggesting a leaking of information before the announcement is officially made.

#### **6.4 Hypothesis 2**

Hypothesis 2 is that the ACARs of the share price of a company experiencing CEO turnover over the three years post the new CEO appointment is not significantly different from zero.

Table 7 shows the ACAR for the period from the effective date of commencement of employment of the new CEO to three years post this date. This translates into the accumulation of 750 daily Average Abnormal Returns per company in the judgmental sample of 28 companies. The ACAR observed is positive, 95.783, but this is not a statistically significant result.

Huson et al (2004) find negative abnormal returns for the 3-years after the turnover event of -0.61%, but this is not statistically significant. Rhim et al (2006) find improvements in various measures of operating performance in the three years post the turnover event, but did not observe a significant improvement in equity measures of performance over the three year period.

There is thus insufficient evidence to reject the hypothesis that the Average Abnormal Returns experienced for the three years post appointment of the new CEO are significantly different from zero. It can therefore not be concluded that the change in CEO resulted in significantly higher returns for the three years after the new CEO takes office.

### **6.5 Hypothesis 3**

Here it is hypothesised that the Average Cumulative Abnormal Returns (ACARs) experienced at the announcement date of the replacement CEO when the CEO is from inside the firm is not significantly different from the ACARs experienced when the replacement CEO is from outside the firm.

Table 8 shows the ACARs for the four event windows studied. For the 11-day event window, the ACAR for the case of external replacement is 7.089% over the window, and the ACAR for internal replacement is 0.045%. This result is statistically significant at the 10% level, and demonstrates that the positive Abnormal Returns experienced over this window for external replacement are significantly higher than those for internal replacement. This can be compared to Bonnier and Bruner (1989) who find positive abnormal returns of 5.4% for external CEO replacement.

For the event windows [0], [-1,+1] and [-3,+3], no significant results are observed. There is therefore not sufficient evidence over these event windows to conclude that the returns experienced for internal versus external CEO

replacement are significantly different. Furtado and Karan (1989) also find no significant relationship between share price performance and the origin of the successor.

Previous studies have also found significant results in the comparison of internal versus external CEO replacement. Rhim et al (2006) find that the market responds more favourably for internal CEO succession than for an external CEO. This is in contrast with Bonnier and Bruner (1989) referred to earlier in this paragraph, as well as with Davidson et al (2002) and Huson et al (2004). For the event window  $[-1,0]$ , Davidson et al (2002) find a positive CAR of 1.5311%, which is significant at the 1% level, and suggests a positive market reaction to outsider succession. These results are line with Huson et al (2004) who find a significantly positive market reaction for external CEO replacement.

In this research, for the 11-day event window, there is sufficient evidence at the 10% significance level to reject the hypothesis that the returns for internal and external replacement are not significantly different. For the shorter 3-day and 7-day event windows, a positive reaction to external replacement compared to internal replacement is observed, although not statistically significant.

In summary, the market reacts more positively to external CEO replacement than to internal replacement, when measured by share price returns, and this reaction is statistically significant over the 11-day event window.



## 6.6 Hypothesis 4

Here it is hypothesised that the Average Cumulative Abnormal Returns (ACARs) experienced at the announcement date of the CEO departure for a firm that experiences CEO departure is not significantly for voluntary or forced reasons of CEO departure.

Table 9 shows the ACARs for the four event windows studied. The ACAR for the date of announcement of voluntary CEO departure, [0], shows a negative ACAR of -0.548. The other three event windows have positive ACARs when the turnover is voluntary. In all cases of forced turnover, the ACARs are negative, suggesting a negative response from the market to the turnover event.

Friedman and Singh (1989) find negative reaction to CEO turnaround in forced turnovers, but no reaction for retirements. Positive reactions were found for voluntary CEO turnover, and these were more significant in cases of poor firm performance prior to the turnover event. Worrell et al (1993) found a negative reaction to forced CEO turnover announcements, but a positive reaction if a replacement CEO was announced at the same time as the departure announcement. Dennis and Dennis (1995) find positive abnormal returns for both forced resignations and normal retirements, although these are not statistically significant. The difference in the observed abnormal return between the two groups is, however, statistically significant.

None of the results in this study are statistically significant. There is therefore insufficient evidence to suggest that there is a difference in share price return at

announcement date when the turnover is voluntary compared to when it is forced.

## 6.7 Multi Factor analysis

Table 10 shows the Cumulative Abnormal Returns for announcements where the details of both the departure of the old CEO and the appointment of the new CEO are announced on the same day.

For all four categories, the market reaction to the event on the announcement day [0] is negative. For the three day event window [-1,+1], the market responded positively to all three categories of announcement , except forced removal with an external replacement. For this VE category, the market reaction on the day of the announcement was negative.

The longer 7-day event window [-3,+3] showed a negative market reaction to the VI and FE categories, and a positive reaction to the FI and VE categories. The 11-day event window, [-5,+5] showed a positive market reaction to all categories except the FI category.

Figure 4 suggests a pattern of information effects emerging in the judgmental sample of 45. The announcement reactions are most negative to the FE announcements, but are also more negative for the FI announcements than the voluntary ones. The most positive reactions occur for VE announcements, with VI being more positive than FI. These results are not statistically significant, however.

## CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

### 7.1 Conclusion

This study found 74 instances of CEO change in the years 2001 to 2003, translating into 19.4% of JSE listed companies experiencing a turnover event in the three years. Bonnier and Bruner (1988) discuss the information effect and real effect of CEO turnovers, and these effects have been tested in this research.

This study has found that the announcement of a CEO change has a significant negative effect on share prices on the day of the announcement. There is a significant positive movement in share prices the day before the announcement, which suggests the market has received the information about the impending turnover event prior to the date of official announcement through SENS. It would appear that the reaction on the day of the announcement is a market correction of the previous day's positive reaction.

The effect of the announcement on share price performance is, however, not significant when considered over the 3-day, 7-day and 11-day event windows. This suggests that the information effect around the announcement date of a CEO change has no permanent impact on the share price performance of the company experiencing the turnover.

The announcement date for the new CEO yields significantly positive share price performance on the day after the announcement [D+1] as well as five days later [D+5]. The study also found that the share price performance is

significantly more positive at announcement date for external CEO replacement compared to internal replacement. The effect on share price performance of external CEO replacement for the 11-day event window was found to be significantly positive. For the 3-day and 5-day event window, the share prices of those companies with external replacement performed better than those for internal replacement, though not significantly. The information effect in this instance is positive.

No significant difference in share price performance was observed for voluntary versus forced turnover. For all event windows studied, however, the ACARs were negative for forced CEO removal, suggesting a negative market response to the firing of a CEO. The market responded positively to voluntary turnover for three of the event windows, with a small negative ACAR for event window [0]. The ACARs observed for voluntary turnover were small in magnitude, however, and not significant.

Forced CEO turnover elicits a negative share price reaction, but voluntary turnover does not have an effect on performance. It is thought that the high number of turnover events experienced by listed companies has potentially given rise to a market which responds only slightly to 'normal' turnover events.

Of the 74 CEO turnovers observed, only 28 resulted in the new CEO retaining the position for a period of at least three years from the date of commencing employment in the new role. The measurement of the real effect of the CEO change was performed on this sample.

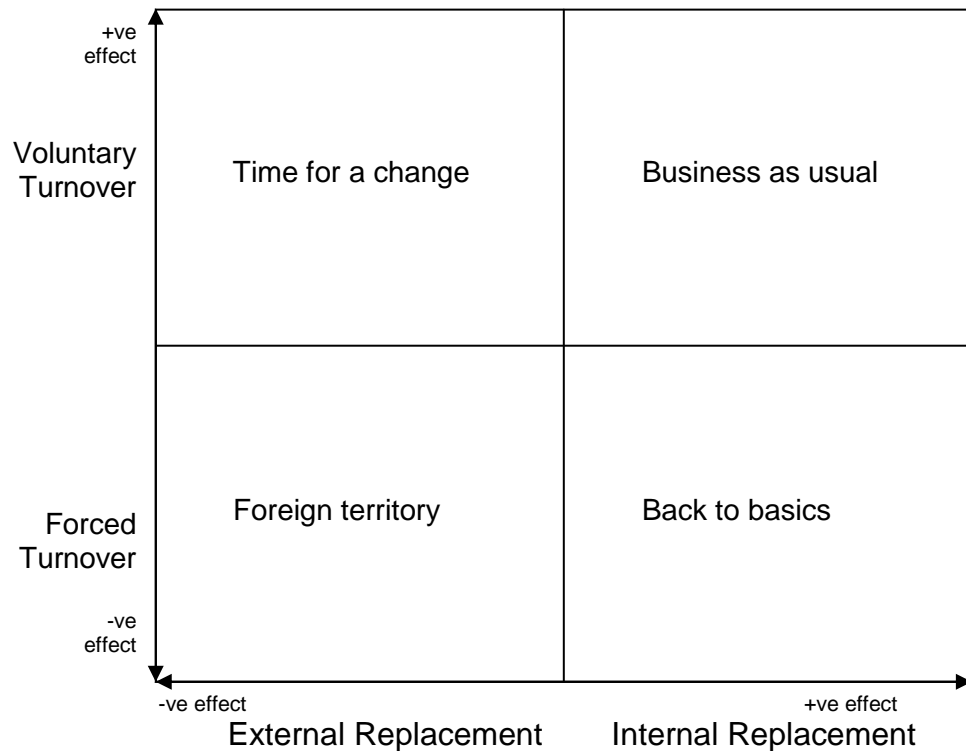
The ACAR observed for this sample over the three years after the new CEO takes office was positive, but not statistically significant. The CEO changes did not destroy value on average, but did not provide a significantly better performance than the market as a whole.

In summary, companies generally experienced a small positive information effect, or reaction, to CEO turnover events. These events then led to a small, but insignificant positive real effect over the three year period, although this was observed on a small sample size.

The information effect of the announcements of CEO changes when both the departure and replacement announcements are made at the same time was measured. The results were different for each event window, but a pattern of ACARs was observed. The sample size in total was 45, so there are concerns about the significance of the results, but an initial model can be constructed to assist in understanding the information effect, and to provide a framework for future research to test, perhaps over longer periods, with larger sample sizes.

The framework is represented by Figure 5.

**Figure 5: Framework for CEO turnover information effect on share price**



The framework presented in Figure 5 provides the possible shareholder interpretation of CEO turnover at the announcement date, that is, the information effect. This effect is more negative for forced removals and for external replacement, and more positive for voluntary turnover and internal replacement.

Replacing a voluntary exit CEO with an internal candidate signals to the market that there is no new information communicated through the turnover event, and that it is 'Business as usual' for the organisation. A voluntary turnover event, followed by an external CEO replacement may signal the organisation is opting to follow a new direction, and has employed the skills to do so, thereby

signalling that it is 'Time for a change'. The information effect here is likely to be positive.

Forced CEO removals cause uneasiness in the market, and the announcement date shows more negative share price performance. Where this turnover event is followed by an internal replacement, the market information received may be that the organisation has made a mistake in the past, but is intending to return back to its core strategy, and is thus going 'Back to basics'.

Forced removals, however, which are followed by an external CEO replacement result in negative information effect. The unplanned removal and the appointment of an unknown external CEO may signal that the organisation is in crisis, at worst, but results in much uncertainty at best. For shareholders, this is 'Foreign territory', and the share price performance is most negative for this type of turnover.

This study contributes to the debate of the impact that CEOs and the turnover of this senior executive in particular, in the South African context. It aids in the facilitation of the conversation around the importance of this office in an organisation.

## **7.2 Recommendations**

This research has found that, although the Chief Executive Officer of the organisation is a key function for the South African listed company, there is far more that drives company performance. Established organisations have many

experienced skills which have the potential to make the organisation a success, potentially independently of the Chief Executive Officer, as seen by the insignificant long term positive impact made by the CEO turnovers, and the small percentage of CEOs who lasted a period of at least three years in office.

Recommendations for Boards of Directors would be to choose the CEO with care, but also not neglect the rest of the organisational executives and management. Organisations are complex structures, and making a single executive appointment, while very important, is not the entire function of the Board in facilitating in the success of the organisation.

If CEO tenures remain relatively short, the impact made by the CEO on the organisation will remain limited, and an excellent CEO may not have time to bring about changes to the organisation which would be beneficial to all stakeholders. Steps should be taken to enhance the likelihood of retaining high quality CEOs for longer periods of time.

### **7.3 Areas for future research**

This research was concerned with the post-turnover experience of a JSE listed company. It has not attempted to research the factors which precede CEO turnover. An interesting area of future study would be to examine pre-turnover characteristics of the firm.

Two possible areas of research within this category would be the pre-turnover financial performance of the firm, as this would be expected to predict CEO



turnover, particularly in cases of poor firm performance. Study could also be conducted into Board composition and a possible association between independent Boards of Directors – or Boards with a majority of external directors – and CEO turnover.

Further research could also be conducted into firm performance for CEOs with different tenures. Out of the 74 turnover events studied in this research, only 28 of the CEOs remained for a three year period, either as a result of the new CEO being replaced or the firm delisting. Study could be conducted to compare the firm performance for companies with single long tenure CEOs to those with multiple short tenure senior executives.

Further study could also be conducted to test the framework provided in Figure 5 in paragraph 7.1 above.

An area of future research particularly relevant to the South African environment is the area of Black Economic Empowerment (BEE). Studies could be conducted into the turnover patterns among CEOs post the introduction of BEE legislation and the information and real effects of the changing demographic of the South African CEO.

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## Appendix 1: Details of turnover events

Share code	Company	Date of announcement of old CEO departing	Effective date of departure	Stated reason for departing	Internal/ External?	Date of announcement of new ceo	Date of new CEO starting	Include in 3 year analysis ?
ADH	ADvTECH Ltd	30/05/2002	01/08/2002	Pursue new opportunities	E	30/05/2002	01/08/2002	y
ADH	ADvTECH Ltd	09/11/2001	09/11/2001	Dismissal	I	09/11/2001	09/11/2001	n
ADH	ADvTECH Ltd	04/05/2001	04/05/2001	Pursue new opportunities	E	29/06/2001	09/07/2001	n
ADR	Adcorp Holdings Ltd	08/05/2001	01/06/2001	Pursue new opportunities	I	08/05/2001	01/06/2001	y
ALY	Alacrity Financial Services Ltd	19/06/2003	01/07/2003	Pursue new opportunities	n/a			n
ALY	Alacrity Financial Services Ltd	11/02/2002	11/02/2002	Pursue personal interests	E	04/03/2002	01/03/2002	n
AMB	AMB Holdings Ltd	08/03/2002	11/03/2002	Stepped down to facilitate BEE	I	08/03/2002	11/03/2002	y
AMS	Anglo Platinum Ltd	29/01/2003	01/07/2003	Split between CEO and Chairman	E	05/05/2003	01/07/2003	y
ARI	African Rainbow Metals Ltd	29/05/2002	01/07/2002	CEO becomes Chairman	I	29/05/2002	01/07/2002	n
ART	Argent Industrial Ltd	12/04/2002	12/04/2002	Promoted to CEO	I	12/04/2002	12/04/2002	y
ATN	Allied Electronics Corporation Ltd	05/02/2001	01/03/2001	CEO becomes Chairman	I	05/02/2001	01/03/2001	y
BDS	Bridgestone Firestone Maxiprest Ltd	04/11/2002	04/11/2002	Split of roles	I	04/11/2002	04/11/2002	n
BIL	BHP Billiton Plc	05/01/2003	05/01/2003	Dismissal	I	05/01/2003	05/01/2003	n
BIL	BHP Billiton Plc	02/05/2002	01/07/2002	Retirement	I	02/05/2002	01/07/2002	n
BJM	Barnard Jacobs Mellett Holdings Ltd	29/05/2003	31/05/2003	Focus on other area within group	I	29/05/2003	31/05/2003	y
CCT	Connection Group Holdings Ltd	01/10/2003	01/10/2003	Pursue new opportunities	I	01/10/2003	01/10/2003	y
CCT	Connection Group Holdings Ltd	23/10/2002	01/11/2002	Pursue new opportunities	I	23/10/2002	01/11/2002	n
CMA	Command Holdings Ltd	25/04/2002	24/04/2002	Resigned with immediate effect	I	25/04/2002	24/04/2002	y
CPX	Comparex Holdings Ltd	29/08/2002	29/08/2002	Proposed MBO pending	I	29/08/2002	29/08/2002	y
CRX	Crux Technologies Ltd	18/01/2002	11/01/2002	Resigned with immediate effect	I	18/01/2002	11/01/2002	n
DNA	DNA Supply Chain Investments Ltd	02/11/2001	01/11/2001	CEO becomes Chairman	I	02/11/2001	01/11/2001	y
DRD	DRDGOLD Ltd	19/12/2003	19/12/2003	Split between CEO and Chairman	I	19/12/2003	19/12/2003	y
ELX	Elexir Technology Holdings Ltd			No current CEO	I	28/03/2001		n
ENV	EnviroServ Holdings Ltd	07/02/2001	07/02/2001	CEO becomes Chairman	I	07/02/2001	07/02/2001	y
FRO	Fronrange Ltd (ex Ixchange)	17/06/2003	17/06/2003	Pursue new opportunities	E	17/06/2003	17/06/2003	n
FRO	Fronrange Ltd (ex Ixchange)	16/11/2001	01/12/2001	CEO becomes Chairman	E	16/11/2001	01/12/2001	n
GFI	Gold Fields Ltd	04/03/2002	01/07/2002	Retirement	I	04/03/2002	01/07/2002	y
GLB	Gilboa Properties Ltd	20/08/2002	31/08/2002	Resigned	E	06/08/2003	01/09/2002	y
GLT	Global Technology Ltd	23/06/2003	23/06/2003	Dismissal	E	23/06/2003	23/06/2003	n
HWN	Howden Africa Holdings Ltd	19/03/2003	12/06/2003	Retirement	I	19/03/2003	12/06/2003	n

Share code	Company	Date of announcement of old CEO departing	Effective date of departure	Stated reason for departing	Internal/ External?	Date of announcement of new ceo	Date of new CEO starting	Include in 3 year analysis ?
IFA	IFANet Ltd	18/07/2001	18/07/2001	Stepped down with immediate effect	E	23/04/2002	did not happen	n
IMP	Impala Platinum Holdings Ltd	05/06/2001	15/07/2001	Retirement	E	05/06/2001	16/07/2001	y
IOT	IOTA Financial Services Ltd	31/08/2001	31/08/2001	Resigned with immediate effect	I	31/08/2001	31/08/2001	n
ISA	Y3K Group	18/07/2002	17/07/2002	Pursue new opportunities	I	18/07/2002	17/07/2002	n
IST	1st Group Ltd	15/03/2001	19/03/2001	Pursue new opportunities	E	15/03/2001	19/03/2001	y
ITE	Italtile Ltd	08/06/2001	01/07/2001	Resigned with immediate effect	I	08/06/2001	01/07/2001	y
ITV	Intervid Ltd	24/04/2003	24/04/2003	Irreconcilable differences - terminated employment	E	02/05/2003	02/05/2003	n
ITV	Intervid Ltd	30/01/2002	30/01/2002	Retirement	I	30/01/2002	30/01/2002	n
JCM	Johnnic Communications Ltd			No current CEO	I	17/03/2003	17/03/2003	y
JDG	Profurn	26/03/2002	26/03/2002	Resigned with immediate effect	n/a			n
LGL	Liberty Group Ltd	11/03/2003	31/05/2003	Retirement	E	11/03/2003	31/05/2003	y
LYS	Lyons Financial Solutions Holdings Ltd	14/07/2003	14/07/2003	Suspended as CEO - continue as director	I	14/07/2003	14/07/2003	n
LYS	Lyons Financial Solutions Holdings Ltd	03/09/2002	02/09/2002	Pursue new opportunities	I	03/09/2002	02/09/2002	n
MES	Messina Ltd			Unknown	I	24/05/2001	22/05/2001	y
MGX	MGX Holdings Ltd	27/11/2002	27/11/2002	Departure due to ill health	E	27/11/2002	27/11/2002	n
MNX	Monex Ltd	19/09/2001	19/09/2001	Pursue new opportunities	I	19/09/2001	19/09/2001	n
MNY	Moneyweb Holdings Ltd	31/10/2002	01/01/2003	Split between CEO and Chairman	E	31/10/2002	01/01/2003	n
MTN	Johnnic Holdings Limited - MTN	07/08/2001	31/01/2002	Resigned to return to USA	I	07/08/2001	31/01/2002	n
MTN	MTN Group Ltd	09/05/2002	01/07/2002	End of contract	I	09/05/2002	01/07/2002	y
MTR	Metropolis Transactive Holdings	15/06/2001	30/06/2001	Completion of contract	E	15/06/2001	30/06/2001	n
MVG	Rebhold Ltd	prior to 01/01/2001		Unknown	E	28/02/2001	01/03/2001	y
NAI	New Africa Investments Ltd	01/06/2001	31/07/2001	Accept appointment at judiciary	E	18/07/2001	01/08/2001	n
NIB	Nedcor Investment Bank Holdings Ltd	16/03/2001	30/06/2001	Resigned with immediate effect	I	16/03/2001	30/06/2001	n
ORE	Alpina Investments Ltd	05/09/2003	05/09/2003	Remains on Board	E	05/09/2003	05/09/2003	y
PDM	Paradigm Capital Holdings Ltd	15/01/2001	15/02/2001	Dismissal	n/a			n
PRM	Prima Property Trust	29/05/2003	29/05/2003	Resigned with immediate effect	I	29/05/2003	29/05/2003	n
PTH	Planit Technology Holdings	03/04/2001	03/04/2001	Interim CEO resigns - completed turnaround	I	03/04/2001	03/04/2001	n
RAD	Real Africa Durolink Ltd	20/07/2001	20/07/2001	Stepped down after sale to PSG Investment Bank	E	20/07/2001	20/07/2001	n

Share code	Company	Date of announcement of old CEO departing	Effective date of departure	Stated reason for departing	Internal/ External?	Date of announcement of new ceo	Date of new CEO starting	Include in 3 year analysis?
RBW	Rainbow Chicken Ltd	09/12/2002	31/01/2003	Pursue new opportunities	E	09/12/2002	01/02/2003	y
SAP	Sappi Forest Products - Sappi Ltd	23/05/2003	31/12/2003	Retirement	I	22/10/2003	01/01/2004	n
SAP	Sappi Ltd	10/02/2003	01/04/2003	Retirement	E	10/02/2003	01/04/2003	y
SLM	Sanlam Ltd	06/12/2002	06/12/2002	Pursue own interests	I	28/03/2003	31/03/2003	y
SNT	Santam Ltd	28/03/2003	31/03/2003	Pursue new opportunities	E	02/06/2003	14/07/2003	y
SNT	Santam Ltd	07/05/2001	01/05/2001	New appointment in Group	I	01/05/2001	01/08/2001	n
SPG	Super Group Ltd	20/11/2003	20/11/2003	Split between CEO and Chairman	I	20/11/2003	20/11/2003	y
STK	Siltek Ltd	29/11/2001	28/11/2001	Resigned with immediate effect	n/a			n
TFS	Thebe Financial Services Ltd	09/02/2001	31/03/2001	Retirement	n/a			n
TOT	Top Info Technology Holdings Ltd	19/01/2001	19/01/2001	Resigned to return to USA	I	19/01/2001	19/01/2001	n
TRE	Trencor Ltd	23/12/2003	23/12/2003	Split between CEO and Chairman	I	23/12/2003	23/12/2003	y
TRT	Tourism Investment Corporation Ltd	01/07/2003	28/08/2003	CEO becomes Chairman	E	01/07/2003	28/07/2003	y
TSX	Trans Hex Group Ltd	17/12/2003	01/01/2004	Career opportunity in another country	E	05/07/2004	01/07/2004	y
UHS	Unihold Ltd	07/09/2001	07/09/2001	Focus on other area withn group	E	07/09/2001	07/09/2001	n
UNF	Unifer Holdings Ltd	11/06/2001	11/06/2001	Dismissal	E	11/06/2001	11/06/2001	n
WNE	Winecorp Ltd	05/10/2001	31/10/2001	Career opportunity in another country	E	05/10/2001	31/10/2001	n