Executive succession and firm performance-
the role of position-specific skills

Prof. Dr. Torsten Wulf and Dr. Stephan Stubner

HHL Arbeitspapier Nr. 86
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Abstract

Building on strategy-CEO fit research and organizational learning theory, we explore the relationship between CEO succession – specifically a certain skill set of the new CEO – and post-succession performance. For this purpose, we introduce the concept of position-specific skills of a new CEO and empirically test it using a sample of 59 CEO succession events that occurred between 1990 and 2005 in 50 of the largest publicly listed companies in Germany. Results show that position-specific skills of new CEOs actually have an influence on post-succession performance during the early tenure of a CEO. Thus, we conclude that organizational learning theory and position-specific skills of new CEOs offer a promising basis for executive succession research and that they deserve further attention.
Index

1. Introduction..................................................................................................... 1
2. Theory ............................................................................................................ 3
3. Hypotheses .................................................................................................... 8
4. Research design .......................................................................................... 16
   4.1 Sample selection .................................................................................... 16
   4.2 Definition and measurement of variables............................................. 17
5. Results ......................................................................................................... 21
6. Discussion and Interpretation........................................................................ 28
7. Conclusion.................................................................................................... 31

List of Figures and Tables ................................................................................... I

References......................................................................................................... II

List of HHL Working Papers .............................................................................. IX
1. Introduction

A central belief in large parts of the strategic management literature as well as in corporate practice is that top executives have a strong impact on the development and on the performance of their respective companies (Child, 1972; Hambrick and Mason, 1984). Thus, the departure of a senior manager, particularly the CEO, constitutes an important event in the history of any company and has significant implications for its future development (Finkelstein and Hambrick, 1996).

Because of this practical relevance, executive succession has become an important research area in the strategy field since the 1960s. One research stream, that is particularly relevant, addresses the performance consequences of CEO succession (Kesner and Sebora, 1994; Giambatista et al., 2005). Despite many research efforts that have been devoted to this topic, the relationship between CEO succession and post-succession performance is all but clear. From the outset, succession-performance research has been guided by three conflicting hypotheses – the common sense, the vicious circle and the ritual scapegoating hypotheses (Kesner and Sebora, 1994; Grusky, 1963; Gamson and Scotch, 1964). In empirical research, however, no consistent support for either one of these hypotheses has been found (e.g. Davidson, Worrell and Cheng, 1990; Davidson, Worrell and Dutia, 1993; Alexander and Lee, 1996; Miller, 1993; Friedman and Singh, 1989; Pfeffer and Davis-Blake, 1986).

Several researchers have therefore tried to integrate these conflicting hypotheses. Among the first were Hambrick and Fukutomi (1991) who developed leadership life cycle theory. This theory proposes an inverted curvilinear relationship between the tenure of a CEO and firm performance. Hambrick and Fukutomi (1991) do not, however, specifically consider the short-term effects of CEO succession on firm performance. Boal and Hooijberg (2000) have addressed this deficit and argue that a CEO succession event always constitutes a disruption for a company. They assume that a CEO succession event will initially have a negative effect on company performance.
and that this negative trend will eventually turn into a positive performance effect over time (Boal and Hooijberg, 2000). Organizational learning theory (Crossan, Lane and White, 1999) offers an explanation for this performance decline and its reversal during a CEO’s early tenure. The theory argues that the departure of a CEO leads to a loss of important management experience and skills, and that this loss can only be compensated for over time as the new CEO and the organization go through a learning process (Zhang and Rajagopalan, 2004).

The few empirical studies, that used organizational learning theory in the context of CEO succession (Zhang and Rajagopalan, 2004; Rowe et al., 2005), have mainly concentrated on the timing of the learning process in the context of a succession event. They conclude that the inevitable learning process, that a new CEO and the organization always have to go through, should be started as early as possible – ideally even before the actual succession event takes place, e.g. through relay succession (Zhang and Rajagopalan, 2004). The influence of specific experiences and skills of the new CEO on duration of this learning process, however, has hardly been addressed by researchers in the past. More precisely, only the effect of firm- or industry-specific skills of the new CEO on post-succession performance has been analyzed by those few studies that compared the effect of insider and outsider succession on performance – but without consistent results (e.g. Helfat and Bailey, 2005; Guthrie and Datta, 1998; Kesner and Sebora, 1994).

The impact of another set of skills, which we term ‘position-specific skills’, has not been discussed in the literature on CEO succession so far. We define ‘position-specific skills’ as experiences which help the new CEO to become familiar with the requirements of the new position more quickly. Such skills have been introduced to the leadership field already by several researchers from CEO-strategy fit research area (Entrialgo, 2002; Beal and Yasai-Ardekani, 2000; Thomas and Ramaswamy, 1996; Thomas, Litschert and Ramaswamy, 1991; Gupta, 1984; Gupta and Govindarajan, 1984). They measure ‘position-specific skills’ as a fit between selected characteristics of the CEO and the company’s strategic posture since they argue that the major task of a CEO
relates to setting the strategic direction of the company (Donaldson and Lorsch, 1983; Goold and Campbell, 1987; Gupta, 1984; Gupta, 1988). These studies have shown that – independent of CEO succession – such ‘position-specific skills’ of a CEO have a positive effect on firm performance (Entrialgo, 2002; Beal and Yasai-Ardekani, 2000; Thomas and Ramaswamy, 1996; Thomas, Litschert and Ramaswamy, 1991; Gupta and Govindarajan, 1984). The impact of ‘position-specific skills in the context of succession events, however, has not been addressed so far.

Thus, the aim of this paper is to transfer strategy-CEO fit research to the executive succession field and to explore the effect of position-specific skills of a new CEO on post-succession performance – based on an organizational learning perspective. For this purpose, the concept of position-specific skills of a new CEO is introduced and empirically tested using a sample of 59 CEO succession events that occurred between 1990 and 2005 in 50 of the largest publicly listed companies in Germany. The paper begins with an overview of organizational learning theory in the context of executive succession. Then, based on this theoretical fundament, hypotheses are derived for the relationship between position-specific skills of a new CEO and post-succession performance, followed by a description of the design of the empirical study. Finally, the results of the study are presented, discussed and interpreted. The paper closes with implications for further research and for corporate practice.

2. Theory

Conceptual as well as empirical research on the relationship between CEO succession and post-succession performance has developed into one of the most important research streams within the executive succession field over the last 40 years (Kesner and Sebora, 1994; Giambatista et al., 2005). Initially, three conflicting hypotheses have been brought forward in order to guide research on the performance effects of CEO succession – the common sense, the vicious circle and the ritual scapegoating hypotheses. The common sense hypothesis proposes a positive relationship between CEO succession and
company performance because the successor is assumed to bring new perspectives and expertise and to overcome deficits of the predecessor (Kesner and Sebora, 1994; Peffer, 1983; Allen, Panian and Lotz, 1979). The vicious circle hypothesis, in contrast, posits a negative relationship between CEO succession and performance because the departure of a senior manager is believed to further disrupt a struggling organization (Grusky, 1963). Finally, the ritual scapegoating hypothesis proposes that executive succession is only a symbolic act that has no effect on post-succession performance (Gamson and Scotch, 1964). In empirical research, no consistent support for either one of these hypotheses has been found. Some studies support the common sense hypothesis (e.g. Davidson, Worrell and Cheng, 1990; Davidson, Worrell and Dutia, 1993), while others offer support for the vicious circle hypothesis (e.g. Alexander and Lee, 1996; Miller, 1993). A third group of studies has found no effect of succession on performance, thus supporting the ritual scapegoating hypothesis (e.g. Friedman and Singh, 1989; Pfeffer and Davis-Blake, 1986).

In view of these inconsistent results, more recent succession research has tried to integrate the different hypotheses by bringing in a longitudinal perspective. Of particular importance in this context is a study by Hambrick and Fukutomi (1991) in which they introduced leadership life cycle theory. Hambrick and Fukutomi (1991) proposed an inverted curvilinear relationship between a CEO’s tenure in office and company performance. Overall, they distinguished five phases in a CEO’s tenure in office which they named ‘response to mandate’, ‘experimentation’, ‘selection of an enduring theme’, ‘convergence’, and ‘dysfunction’. Hambrick and Fukutomi (1991) assumed that the first phases of a CEO’s tenure are characterized by performance gains mainly through learning, openness and high task interest. In later stages of a CEO’s tenure, i.e. after approximately six years, however, performance is likely to decrease as the CEO’s commitment to an obsolete paradigm increases and the use of information sources as well as the task interest decreases.

Boal and Hooijberg (2000) extended the concept of Hambrick and Fukutomi (1991) by specifying the relationship between CEO succession and company performance during the early tenure of a new CEO. They argue that a CEO
succession event always constitutes a disruption for a company because important human capital is lost and established routines and processes are at least disrupted to some extent. Thus, they assume a negative performance effect during the early tenure of a new CEO, which vanishes over time as the new CEO learns about ‘the ropes to skip and the ropes to know’ (Boal and Hooijberg, 2000, p. 520).

Organizational learning theory (Crossan, Lane and White, 1999; Rowe et al., 2005) offers an explanation for this initial performance decline and its reversal during the early tenure of a new CEO. It assumes that the departure of an incumbent CEO always leaves a gap that the new CEO cannot instantly fill. Rather, a learning process on the side of the new CEO as well as on the side of the organization is initiated that requires some time and at first leads to a decline in firm performance – an effect that is later reversed as the learning process proceeds. Gabarro (1987) has observed that this initial learning phase of a newly appointed CEO lasts for about two and a half years before learning becomes more incremental. Thus, it can be assumed that an initial performance decline after a CEO succession event is reversed over approximately this time period.

Crossan, Lane and White (1999) have proposed a four-phase learning process that combines individual as well as organizational learning and that has already been applied in the context of CEO succession research (Rowe et al., 2005). According to this process, learning requires ‘intuiting’, ‘interpreting’, ‘integrating’, and ‘institutionalizing’. Intuiting takes place on the individual, i.e. on the new CEO level. It is the ‘preconcious recognition of the pattern and/or possibilities inherent in a personal stream of experience’ (Weick, 1995: 25). Thus, in the intuiting phase a new leader – unconsciously and based on personal experience – develops an idea about the future direction in which he plans to lead the company. As part of the interpreting phase, this idea is explained to oneself as well as others. Main aim of this process step is to further develop the idea and to convince the organization of it. The integrating phase is then directed at developing a common understanding and at coordinating action within the organization, while in the institutionalizing phase the main task is to make sure
that the intended behavior becomes embedded in the organization (Crossan, Lane and White, 1999).

Only few empirical studies have used organizational learning theory in the context of CEO succession research (Zhang and Rajagopalan, 2004; Rowe et al., 2005), and those that do mainly focused on the timing of the learning process during a succession event. Zhang and Rajagopalan (2004) have shown, for example, that relay CEO succession has a positive effect on post-succession performance because relay successors are able to start their learning process prior to taking office. In a similar study, Rowe et al. (2005) have shown that between-season succession events in the position of a coach or general manager of National Hockey League teams has more positive performance effects than within-season succession because the new coaches or general managers are given more time to initiate a learning process before the next championship game begins.

The question, whether the overall duration of the learning process can be reduced because the new CEO possesses certain skills that speed up this process, however, has only partly been addressed in empirical studies. Past research has solely concentrated on the performance effects of firm- or industry-specific skills of a new CEO (Kesner and Sebora, 1994). In this context, inside successors are generally assumed to require a shorter learning phase, thus ensuring better post-succession performance. Empirical studies, however, did not come to consistent results on the performance effects of inside or outside succession (e.g. Helfat and Bailey, 2005; Guthrie and Datta, 1998; Kesner and Sebora, 1994). This lack of clear results gives reason to believe that other than firm- or industry-specific skills are relevant in order to explain why some new CEOs manage to go through their learning process faster and achieve better post-succession performance than others. In this paper, we concentrate on these ‘other’ skills which we term ‘position-specific skills’.

In order to define what ‘position-specific skills’ of a new CEO are, the major tasks in this position have to be identified. In the literature, it is argued that the main task of a CEO relates to setting the strategic direction of the company
Thus, position-specific skills are those skills and experiences that help the new CEO to better deal with the current strategic posture of the company. Such skills and experiences speed up the learning process which the CEO and the organization have to go through. Specifically, they help the new CEO to – in the intuiting phase – more quickly understand the possibilities that the current strategic posture of the company offers, to develop and share – in the interpreting phase – ideas about the future direction of the company, to coordinate – in the integrating phase – the actions of all organizational members in the intended direction, and finally – in the institutionalizing phase – to make sure that these actions become routinized (Rowe et al., 2005). Crossan, Lane and White (1999) argue that especially the (subconscious) perception of the possibilities inherent in the current strategic posture of the company depends very much on the past experience of the new CEO. Thus, successors who due to their past experiences are more familiar with the current strategic posture of the company are likely to come to clear ideas about its future direction more quickly.

Various studies from the area of top management team research support this view. They have shown that position-specific skills of a CEO, measured as a fit between the CEO’s experience and the company’s strategic posture, have a positive effect on firm performance (Entrialgo, 2002; Beal and Yasai-Ardekani, 2000; Thomas and Ramaswamy, 1996; Thomas, Litschert and Ramaswamy, 1991; Gupta and Govindarajan, 1984). Thus, in this paper, the concept of CEO-strategy fit is used to express position-specific skills of a new CEO. The central hypothesis that guides the research presented here is that the existence of position-specific skills of a new CEO, i.e. a fit between characteristics of the new CEO and company strategy, leads to a shorter learning process and has a positive effect on absolute firm performance during the early tenure of the new CEO as well as on the change in performance. This general hypothesis is specified in the following.
3. Hypotheses

The concept of fit is one of the most important constructs in management research. Different conceptualizations of fit have been developed and empirically tested in the past (Venkatraman and Prescott, 1990; Venkatraman, 1989). Van den Ven and Drazin (1985) have distinguished three main concepts of fit which they call selection, interaction and systems approaches. Among these three concepts the interaction and the systems approach are most relevant. The interaction approach interprets fit as the interaction effect of two independent variables on a dependent variable, mostly company performance. This bivariate interpretation of fit is commonly used in empirical research and forms e.g. the conceptual basis for the analysis of simple moderating effects (e.g. Reed and Reed, 1989). The systems approach, in contrast, is a more complex concept of fit. It does not simply consider the interaction effects of two variables, but addresses the combined effect of multiple contingencies. This concept of fit is based on the assumption that a dependent variable – mostly company performance – is influenced by a number of independent variables simultaneously and that different combinations of these independent variables can lead to the same value of the dependent variable. Therefore, the systems approach postulates that fit is a multivariate construct and that the relative position of all influencing variables has to be considered when determining the level of fit (Miller, 1991; Van de Ven and Drazin, 1985). In practice, a combination of these two concepts of fit should be applied. Gupta (1988) argues, for example, that while the analysis of fit ‘[...] should begin with bivariate analyses it should strive to evolve multivariate ones.’ (Gupta, 1988: 169).

The analysis of position-specific skills of a new CEO in the present study is based on the assumption that different strategic postures of a company require different top management attributes and behavior patterns (Gupta, 1984; Szilagyi and Schweiger, 1984). In the past, a number of different strategy-manager typologies have been developed (Leontiades, 1982; Wissema, van der Pol and Messer, 1980). Wissema et al. (1980), for example, proposed a typology of six different business-level strategies for each of which they defined
an ideal type of top manager. In the present study, a fit between the characteristics of new CEOs and corporate strategy, i.e. the diversification posture of the respective company, is used to express position-specific skills of a new CEO. Studies from the upper echelons field have found that four types of experiences of the new CEO are particularly relevant in combination with different types of diversification posture: CEO educational specialization, CEO educational level, CEO functional specialization, and CEO industry specialization (e.g. Michel and Hambrick, 1992; Reed and Reed, 1989; Wiersema and Bantel, 1992). Thus, these four variables are used to define position-specific skills of a new CEO.

Educational specialization: Educational specialization is a first characteristic that contributes to the position-specific skills of a new CEO. Different empirical studies give reason to believe that the type of education that a top manager has completed possesses a considerable impact on the way in which he/she thinks, acts and decides, even if this education dates back a large number of years (Byrne, 1984; Hitt and Tyler, 1991; Schein, 1967). In this context, two different types of educational specialization are normally distinguished – a background in engineering or the natural sciences on the one hand and a background in business, law or other social sciences on the other. Top managers with an educational background in engineering or the natural sciences have been found to involve themselves more deeply in operative matters (Graumann, 2004). Additionally, empirical research has shown that they tend to stay closer to their core business (Tyler and Steensma, 1998). Top managers with a background in business, law or other social sciences, in contrast, tend to put greater emphasis on issues of efficiency and are able to deal with more complex organizational structures (Fondas and Wiersema, 1997; Grimm and Smith, 1991; Schrader, 1995). For the fit between a new CEO’s educational specialization and the diversification posture of the company this means that new CEOs with a background in engineering or the natural sciences bring relevant position-specific skills for less diversified companies since in these companies a stronger operative engagement of top managers is necessary in order to realize synergies on the product or process levels (Michel and Hambrick, 1992). In
highly diversified companies, however, new CEOs with a background in business, law or other social sciences are believed to bring in more relevant position-specific skills. Finally, new CEOs who possess both types of educational backgrounds – either through double degrees or combined educational programs – seem to possess the most adequate position-specific skills for a medium degree of diversification because these top managers combine the two ways of thinking and acting described above. This reasoning is reflected in hypothesis 1:

\textit{Hypothesis 1a: The existence of position-specific skills of a new CEO based on a fit between strategy and educational background has a positive effect on absolute post-succession performance.}

\textit{Hypothesis 1b: The existence of position-specific skills of a new CEO based on a fit between strategy and educational background has a positive effect on the change in performance after the succession event.}

\textit{Educational level:} Educational level is a second characteristic of a new CEO that has the potential to foster position-specific skills, thus shortening the learning process that the new CEO has to go through. Empirical studies have shown that the level of education, that a top manager has reached, possesses an impact on the cognitive complexity that this manager is able to deal with (Wiersema and Bantel, 1992). A study by Thomas et al. (1991), for example, shows that a higher average educational level among a company’s top management team facilitates diversification into new product lines. Thus, it is expected that a new CEO who has reached a high educational level brings in more relevant position-specific skills to highly diversified companies. In less diversified companies, in contrast, too complex and ‘academic’ approaches might even be cumbersome. Therefore, new CEOs with lower educational levels are believed to bring more adequate position-specific skills to these companies, whereas new CEOs with medium educational levels should be most appropriate in companies with a medium level of diversification. This reasoning is reflected in hypothesis 2:
Hypothesis 2a: The existence of position-specific skills of a new CEO based on a fit between strategy and educational level has a positive effect on absolute post-succession performance.

Hypothesis 2b: The existence of position-specific skills of a new CEO based on a fit between strategy and educational level has a positive effect on the change in performance after the succession event.

Functional specialization: Functional background is a third characteristic of a new CEO that contributes to position-specific skills. Different empirical studies indicate that the functional area in which a top manager has spent most time before being promoted to a first management position possesses a considerable impact on thinking, acting and decision-making behavior (Dearborn and Simon, 1958; Waller et al., 1995). Gupta (1984) found, for example, that a top manager with a functional background in finance or accounting is more adequate in highly diversified companies, since such a background reflects the main tasks of top managers in such companies – portfolio design and performance measurement. A background in operations, marketing or sales, in contrast, is believed to be more suitable in the case of vertically integrated, i.e. less diversified, companies because these companies require more operative involvement from top managers in order to realize synergies on the product and process levels. Empirical studies have largely supported this view. Song (1982), for example, found that companies led by CEOs with a background in operations, marketing or sales tend to diversify more through internal development, whereas companies that diversify mainly through acquisitions mostly have CEOs with a background in finance, accounting or law. Michel and Hambrick (1992) as well as Reed and Reed (1989) reported similar results regarding the relationship between the functional backgrounds of top managers and the diversification postures of their companies. Thus, the selection of a new CEO with a functional background in operations, marketing or sales is believed to have a positive effect on post-succession performance in less diversified companies, whereas new CEOs with a background in R&D, law or administration are assumed to contribute to higher
post-succession performance in companies with a medium level of diversification and new CEOs with a background in finance or accounting bring in relevant position-specific skills and foster post-succession performance in highly diversified companies.

Hypothesis 3a: The existence of position-specific skills of a new CEO based on a fit between strategy and functional background has a positive effect on absolute post-succession performance.

Hypothesis 3b: The existence of position-specific skills of a new CEO based on a fit between strategy and functional background has a positive effect on the change in performance after the succession event.

Industry specialization: Industry specialization is a fourth characteristic that influences the position-specific skills of a new CEO. Several empirical studies give reason to believe that the level of industry specific knowledge that a new CEO brings into his new position determines how well he/she is able to deal with different types of diversification posture of his company (Hitt and Tyler, 1991). In less diversified firms top managers are usually more involved in strategic and operative matters at the business unit level. Therefore, industry experience of the new CEO is beneficial (Gupta, 1984). In highly diversified firms, which operate in a number of different industry environments, in contrast, the main task of top managers is to design and manage the portfolio of businesses of the company. In this case, top managers with a strong industry specialization run the risk of a too selective perception which may lead to inadequate decisions e.g. regarding acquisitions (Hitt and Tyler, 1991; Starbuck and Milliken, 1988). Therefore, it is expected that new CEOs with experience in only one industry bring in relevant position-specific skills and contribute to higher post-succession performance in less diversified companies, whereas an experience in a number of different industries is more adequate for highly diversified companies. Finally, experiences in a medium number of industries are positively aligned with a medium level of diversification. This reasoning is also reflected in hypothesis 4.
Hypothesis 4a: The existence of position-specific skills of a new CEO based on a fit between strategy and industry specialization has a positive effect on absolute post-succession performance.

Hypothesis 4b: The existence of position-specific skills of a new CEO based on a fit between strategy and industry specialization has a positive effect on the change in performance after the succession event.

Overall fit: The first four hypotheses follow the interaction approach of fit and reflect a bivariate interaction of two categorical variables – the level of diversification coded as low, medium, and high on the one hand, and different types of experience of the new CEO grouped into three categories on the other. Van de Ven and Drazin (1985) argue that such a conceptualization of fit incorporates the risk of leaving more complex contingency relations undiscovered. Specifically, it is very well possible that the single fit variables interact among each other and form a complex system of multiple contingencies. A finance specialist, for example, with an educational background in business and multiple industry experience may bring the relevant position-specific skills to a highly diversified company, even though he does not have the high educational level that would be desirable for new CEOs of such a company. Therefore, following the systems approach of fit, it seems necessary to include a combined variable into the analysis which takes the overall fit between the four personality characteristics of the new CEO and the diversification posture of their companies into account (Thomas and Ramaswamy, 1996; Van de Ven and Drazin, 1985). Hypothesis 5 addresses this multidimensional notion of fit:

Hypothesis 5a: The existence of general position-specific skills of a new CEO based on an overall CEO-strategy fit has a positive effect on absolute post-succession performance.

Hypothesis 5b: The existence of general position-specific skills of a new CEO based on an overall CEO-strategy fit has a positive effect on the change in performance after the succession event.
Moderating effect of company size: Several studies have shown that the influence of top managers on strategy and performance differs across companies (Finkelstein and Hambrick, 1996). Hambrick and Finkelstein (1987) have introduced the concept of managerial discretion in order to explain these differences. They argue that a chief executive’s latitude of action is dependent on environmental and organizational factors as well as on certain characteristics of the CEO. Among these factors, especially organizational size is assumed to constrain managerial discretion (Finkelstein and Hambrick, 1996). This reasoning is reflected in hypothesis 6:

Hypothesis 6a: The effect of position-specific skills of a new CEO on absolute post-succession performance is influenced by company size.

Hypothesis 6b: The effect of position-specific skills of a new CEO on the change in performance after the succession event is influenced by company size.

Time effects: As argued above, the existence of position-specific skills reflected in a fit between a new CEO’s characteristics and post-succession performance is believed to speed up the learning process that a new CEO has to go through after taking charge. Thus, position-specific skills of new CEOs are expected to lead to superior performance compared to CEOs without such skills. This superior performance, however, will not occur immediately, i.e. in the first year, after the succession event, because even CEOs with relevant position-specific skills have to go through a learning process first (Michel and Hambrick, 1992, Zajac, 1990). Additionally, the superior performance will vanish over time as also new CEOs with less adequate position-specific skills have gone through the learning process. Gabarro (1987) states that in general the learning process takes about two and a half years. This means that in the third year after the succession event no performance effect can be expected anymore. This reasoning is reflected in hypothesis 7:
Hypothesis 7: The positive performance effect of adequate position-specific skills of a new CEO occurs shortly, but not immediately after the succession event and vanishes after about three years.

In addition to the five variables that are used to express the position-specific skills of a new CEO, six other variables – company size, pre-succession performance, company dynamics, strategic change and CEO company tenure – were used as controls because several studies have shown that they impact post-succession performance (Finkelstein and Hambrick, 1996). Company size was included as a control variable because of its effect on managerial discretion (Hambrick and Finkelstein, 1987). For pre-succession performance several studies have reported a positive relationship with post-succession performance (Zhang and Rajagopalan, 2004; Shen and Cannella, 2002). Similar results have been found for company dynamics because a more dynamic development increases the learning requirements after a succession event (Zhang and Rajagopalan, 2004; Bailey and Helfat, 2003). Strategic change was controlled for because of its potentially negative effect on post-succession performance. A larger degree of post-succession strategic change leads to increased requirements for organizational learning in the integrating and institutionalizing phase, thus prolonging the overall learning process after CEO succession (Crossan, Lane and White, 1999). CEO company tenure is used as a control because it reflects a different set of skills of a new CEO – namely firm-specific skills – for which some studies have found a positive relationship with post-succession performance (e.g. Helfat and Bailey, 2005). Figure 1 summarizes the hypotheses formulated for the present study.
4. Research design

4.1 Sample selection

We empirically tested the relationship between position-specific skills of the new CEO and post-succession performance using a sample of large German companies. For the purpose of sample selection, we compiled a listing of Germany’s largest publicly listed companies. We used large companies because diversification normally only occurs in these companies, whereas small and medium-sized companies are in general only active in one business segment. We chose publicly listed companies because a public listing in most cases ensures sufficient data access. 80 companies are listed in the main German stock market indices DAX and MDAX. These 80 companies formed the basis for sample selection. From this number we excluded, in a first step, all companies in the financial services sector as well as those companies which just recently undertook their IPO in order to ensure comparability of results. In the remaining 57 companies we identified 105 CEO succession events between 1990 and 2005. Of these 105 CEOs, 25 remained in office for less than two
years. We excluded them from the analysis because long-term effects of fit could not be analyzed for them. In four cases jointly held CEO positions occurred which could not be considered either. Last but not least, we excluded 17 cases from the sample due to incomplete data. Finally, a sample of 59 CEO succession events in 50 companies resulted and formed the basis for the analysis. For data collection we used the databases Munzinger Online, Who is Who and Osiris as well as annual reports of the companies in the sample.

4.2 Definition and measurement of variables

Absolute post-succession performance. We measured post-succession performance using accounting-based performance indicators. Precisely, we computed return on assets (ROA) for the year of appointment of a new CEO ($t_0$) as well as for the two following years ($t_1$–$t_3$). While accounting-based performance measures have some disadvantages, return on assets (ROA) is a commonly used measure in management research (Bigley and Wiersema, 2002; Guthrie and Datta, 1998; Michel and Hambrick, 1992). Its main advantage is that the necessary accounting data is publicly available and that it is easy to calculate. In order to eliminate effects from varying corporate tax rates in Germany we used earnings before tax. Additionally, we made adjustments for the general economic situation in each year by subtracting the sample-average ROA from the company-specific ROA in each particular calendar year. We chose a period of three years after the succession event because Gabarro (1987) has observed that the learning phase of a new CEO lasts for about two and a half years. He showed that afterwards learning becomes more incremental. Thus, it can be assumed that an initial performance advantage of a new CEO with relevant position-specific skills vanishes after three years. We therefore measured absolute post-succession performance as the average ROA in the three years following the succession event.

Change in performance. We also used accounting-based performance indicators to measure change in performance. For this, we computed performance change as the difference between the average ROA in the three
years following the succession event \((t_{1-3})\) and the average ROA in the two years preceding the succession event \((t_{2-1})\) (Tushman and Rosenkopf, 1996).

**Corporate strategy.** We defined corporate strategy as the diversification posture of a company. In order to measure diversification posture, we used the entropy index developed by Jacquemin and Berry (1979). While this index has its weaknesses, it is still widely applied in empirical research. Additionally, no alternative measure with consistently higher validity and equally good data access has been developed so far (Markides, 2002; Robins and Wiersema, 2003). In order to compute the entropy index, we used segment sales reported by the companies in their annual reports. This procedure seemed to be reasonable since segment sales which companies define themselves are believed to better express their strategic orientation than e.g. a classification of their businesses according to NACE or SIC codes. These are often regarded as biased and unable to capture relatedness between businesses (Hoskisson, Hitt, Johnson and Moesel, 1993; Ramanujam and Varadarajan, 1989). Additionally, NACE or SIC codes are not published consistently for German companies (Fey, 2000). For each company in the sample we computed the entropy index for the year in which a new CEO had taken charge \((t_0)\) as well as for the following three years \((t_{1-3})\). In order to determine high, medium and low levels of diversification which were needed to measure fit, we divided the 59 CEOs in the sample up into three groups of (almost) equal size. The degree of diversification in the year of the succession event \((t_0)\) served as the basis for group distribution.

**Position-specific skills.** As described above, we measured position-specific skills as a fit between four characteristics of the new CEO and the company’s strategic posture. For this purpose, we used the interaction as well as the systems approach of fit. Altogether, we tested five different types of fit. First, building on the interaction approach, we analyzed the performance effects of a fit between the four CEO characteristics and diversification posture individually. Then, following the systems approach, we explored the simultaneous fit between all four CEO attributes and corporate strategy (Entrialgo, 2002; Thomas and Ramaswamy, 1996; Thomas et al., 1991). In all cases, we
measured fit in two steps. First, we coded the four CEO characteristics into one of three categories. Each categorization was done by three independent coders, and intercoder reliability reached 85.5 percent. Then, as the actual measure of fit, we created a dummy variable which took on the value of 1 if the parameter value of the respective personality variable conformed to the diversification posture of the company. In all cases, we measured fit in the year of the succession event (t₀).

*Position-specific skills related to educational specialization:* In order to determine the fit between educational specialization and diversification posture, we identified, in a first step, the dominant type of higher education for all CEOs in the sample and classified it into one of the three categories ‘business, law and other social sciences’, ‘natural sciences and engineering’ as well as a combination of the first two categories. Then, we created a dummy variable which took on the parameter value of 1, if the educational specialization of the CEO matched the diversification posture of the respective company as specified in hypothesis 1.

*Position-specific skills related to education level:* In Germany, most CEOs of large companies hold a university degree equivalent to a master’s degree. Quite a few CEOs have even received doctoral degrees. We therefore coded the educational level of the CEOs in the sample into one of the three categories ‘no academic degree’, ‘bachelor- or master degree’ as well as ‘doctoral degree’. Then, we created a dummy variable which took on the parameter value of 1, if the educational level of the CEO matched the diversification posture of the respective company as specified in hypothesis 2.

*Position-specific skills related to functional specialization:* In order to determine the fit between functional specialization and diversification posture, we identified, in a first step, the functional area in which the new CEO had spent most time before assuming a management position and classified it into one of the three categories ‘finance and accounting’, ‘production, marketing and sales’ as well as ‘other functional specializations’ such as law, administration, or R&D.
Then, we created a dummy variable which took on the parameter value of 1, if the functional specialization of the CEO matched the diversification posture of the respective company as specified in hypothesis 3.

*Position-specific skills related to industry specialization:* We coded industry specialization of the CEOs in the sample on the basis of the number of changes between industries which the CEOs had undertaken before taking charge. We measured industry changes by classifying all companies which the CEO had gone through during his career into industry segments. The allocation to industry segments followed the classification of Deutsche Boerse (2005). Since on average, the CEOs in the sample had experience in between one and two industries, we used these two numbers as cut-off points. Thus, we classified all CEOs into one of the three categories ‘single industry specialization’, ‘specialization in two industries’ and ‘multiple industry specialization’. Then, we created a dummy variable which took on the parameter value of 1, if the industry specialization of the CEO matched the diversification posture of the respective company as specified in hypothesis 4.

*General position-specific skills:* Different approaches have been suggested in the literature in order to measure the overall fit between different variables (Miller, 1991; Van de Ven and Drazin, 1985; Venkatraman and Prescott, 1990). In the present study, we follow an approach that has been developed by Thomas and Ramaswamy (1996). They code fit as a dichotomous variable taking on the value of 1 if four of the five variables for which they determined a fit showed a match. We adapted this approach for the purposes of the present study. Specifically, we created a dummy variable which took on the value of 1 if three of the four single fit variables revealed a fit.

Control variables. We used the following measures to assess the controls.

*Company size:* In order to measure company size we computed the logarithm of the company’s revenues in the year of the succession event ($t_0$). Logarithmic values seemed appropriate to account for the fact that differences in size
become less relevant the larger a company is (Michel and Hambrick, 1992; Thomas and Ramaswamy, 1996).

**Pre-succession performance:** We measured pre-succession performance as the average ROA of the two years preceding the succession event (t_{2–t_{1}}).

**Company dynamics:** We calculated company dynamics as the compounded annual growth rate (CAGR) of company revenues in the year of the succession event (t_0) as well as in the following three years (t_{1} - t_{3}).

**Strategic change:** We measured strategic change as the change in the degree of diversification of the company between the year preceding the succession event (t_{-1}) and the second year following the succession event (t_{2}).

**CEO company tenure:** We computed CEO company tenure as the number of years which the new CEO had worked for the company before actually taking charge.

5. **Results**

*Table 1* reports the means, standard deviations, and correlations for all variables used in this study.
Table 1: Means, standard deviations and correlations

<table>
<thead>
<tr>
<th>Variable</th>
<th>Means</th>
<th>s.d.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
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<tr>
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<tr>
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<td>5. Position-specific skills - industry specialization</td>
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<td>0.20</td>
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<td>-0.17</td>
<td>0.17</td>
<td>-0.07</td>
<td>-0.16</td>
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<tr>
<td>7. Position-specific skills - functional background</td>
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<td>0.49</td>
<td>0.27</td>
<td>-0.11</td>
<td>0.59</td>
<td>0.02</td>
<td>0.14</td>
<td>0.02</td>
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<td>1.51</td>
<td>1.51</td>
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<tr>
<td>9. Pre-succession performance</td>
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<td>6.81</td>
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<td>0.70</td>
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<td>0.23</td>
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<td>0.19</td>
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<tr>
<td>12. Company tenure of new CEO</td>
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<td>10.47</td>
<td>0.02</td>
<td>-0.07</td>
<td>0.11</td>
<td>0.20</td>
<td>-0.17</td>
<td>0.15</td>
<td>0.14</td>
<td>0.23</td>
<td>0.12</td>
<td>0.28</td>
<td>0.05</td>
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</table>

Table 2 presents the results of ordinary least squares (OLS) regression analyses for the dependent variable ‘absolute post-succession performance’ (Hypotheses 1a – 5a). Five models were estimated. Model 1 only includes the control variables. In model 2 the main effects of the single position-specific skills in the areas of educational specialization, educational level, functional background as well as industry specialization are used. Model 3 also includes the interaction terms between the four single position-specific skills and company size. In model 4, the main effect of the variable general position-specific skills replaces the four single position-specific skills. Model 5, finally, also includes the interaction effect of general position-specific skills and company size. To create the interaction terms we mean-centered the respective variables, i.e. position-specific skills and company size. All models are significant (p < .001) and explain between 72 and 81 percent of the variance in absolute post-succession performance. Results hardly change across different model specifications suggesting that our findings can be regarded as quite robust. For all five models additional tests showed that the requirements of homoscedasticity and normal distribution were met and that collinearity could not be observed.
<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Model 2&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Model 3&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Model 4&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Model 5&lt;sup&gt;a&lt;/sup&gt;</th>
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<td><strong>Controls</strong></td>
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<tr>
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<td>-0.32&lt;sup&gt;***&lt;/sup&gt;</td>
<td>-0.34&lt;sup&gt;***&lt;/sup&gt;</td>
<td>-0.33&lt;sup&gt;***&lt;/sup&gt;</td>
<td>-0.33&lt;sup&gt;***&lt;/sup&gt;</td>
<td>-0.36&lt;sup&gt;***&lt;/sup&gt;</td>
</tr>
<tr>
<td>Pre-succession performance</td>
<td>0.60&lt;sup&gt;***&lt;/sup&gt;</td>
<td>0.60&lt;sup&gt;***&lt;/sup&gt;</td>
<td>0.64&lt;sup&gt;***&lt;/sup&gt;</td>
<td>0.56&lt;sup&gt;***&lt;/sup&gt;</td>
<td>0.56&lt;sup&gt;***&lt;/sup&gt;</td>
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<tr>
<td>Company dynamics</td>
<td>0.14&lt;sup&gt;t&lt;/sup&gt;</td>
<td>0.16&lt;sup&gt;*&lt;/sup&gt;</td>
<td>0.17&lt;sup&gt;*&lt;/sup&gt;</td>
<td>0.16&lt;sup&gt;t&lt;/sup&gt;</td>
<td>0.15&lt;sup&gt;**&lt;/sup&gt;</td>
</tr>
<tr>
<td>Strategic change</td>
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<td>-0.09</td>
<td>-0.12&lt;sup&gt;t&lt;/sup&gt;</td>
<td>-0.09</td>
<td>-0.11</td>
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<tr>
<td>Company tenure of new CEO</td>
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</tr>
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<td><strong>Main effects</strong></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Position-specific skills - general</td>
<td>0.17&lt;sup&gt;*&lt;/sup&gt;</td>
<td>0.16&lt;sup&gt;*&lt;/sup&gt;</td>
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<tr>
<td>Position-specific skills - educational level</td>
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<td>0.20&lt;sup&gt;*&lt;/sup&gt;</td>
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<tr>
<td>Position-specific skills - industry specialization</td>
<td>0.17&lt;sup&gt;*&lt;/sup&gt;</td>
<td>0.13&lt;sup&gt;t&lt;/sup&gt;</td>
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<td></td>
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<td>-0.05</td>
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<tr>
<td>Position-specific skills - functional background</td>
<td>0.01</td>
<td>-0.02</td>
<td></td>
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</tr>
<tr>
<td><strong>Interactions</strong></td>
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</tr>
<tr>
<td>Position-specific skills - general x company size</td>
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<td>-0.51&lt;sup&gt;+&lt;/sup&gt;</td>
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<tr>
<td>Position-specific skills - educational level x company size</td>
<td></td>
<td>-0.16&lt;sup&gt;t&lt;/sup&gt;</td>
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<tr>
<td>Position-specific skills - industry specialization x company size</td>
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<tr>
<td>Position-specific skills - educational background x company size</td>
<td></td>
<td>-0.08</td>
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<tr>
<td>Position-specific skills - functional background x company size</td>
<td></td>
<td>-0.02</td>
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<tr>
<td><strong>F</strong></td>
<td>28.49&lt;sup&gt;***&lt;/sup&gt;</td>
<td>20.22&lt;sup&gt;***&lt;/sup&gt;</td>
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<td>25.57&lt;sup&gt;***&lt;/sup&gt;</td>
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<td>R&lt;sup&gt;2&lt;/sup&gt;</td>
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<td>.79</td>
<td>.81</td>
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<td>ΔR&lt;sup&gt;2&lt;/sup&gt;</td>
<td>.06&lt;sup&gt;b&lt;/sup&gt;</td>
<td>.02&lt;sup&gt;c&lt;/sup&gt;</td>
<td>.03&lt;sup&gt;b&lt;/sup&gt;</td>
<td>.02&lt;sup&gt;c&lt;/sup&gt;</td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup>Values are standardized regression coefficients; dependent variable: Absolute post-succession performance  
<sup>b</sup>Relative to model 1  
<sup>c</sup>Relative to preceding model  
<sup>t</sup>p < .10  
<sup>*</sup>p < .05  
<sup>**</sup>p < .01  
<sup>***</sup>p < .001

Table 2: Results of OLS Analyses for Absolute Post-Succession Performance

Model 2 shows that two of the four hypotheses regarding the influence of single position-specific skills on absolute post-succession performance are supported. Hypothesis 2a proposes a positive post-succession performance effect of position-specific skills based on a fit between corporate strategy and
educational level of the new CEO. This hypothesis is supported by a positive and significant coefficient for the variable ‘position-specific skills - educational level’. In support of hypothesis 4a, we found that a positive and significant relationship between a strategy-industry specialization fit and post-succession performance. A significant relationship between position-specific skills based on a fit between strategy and educational specialization or functional background and post-succession performance, however, could not be reported. Thus, hypotheses 1a and 3a have to be declined. Hypothesis 5a proposes a positive relationship between general position-specific skills and post-succession performance. Model 4 offers support for this hypothesis through a positive and significant coefficient for the variable ‘position-specific skills – general’. Finally, hypothesis 6a proposes that the positive effect of position-specific skills on post-succession performance is stronger in smaller companies. This hypothesis is at least partly supported by a negative and significant coefficient on the interaction of general position-specific skills and company size in Model 5. For the single position-specific skills, the analysis of interaction effects did not yield significant results. In addition to the main and interaction effects, the influence of three control variables has to be emphasized. Pre-succession performance and company dynamics have a positive and significant, company size a negative and significant effect on post-succession performance.

Table 3 shows the results of ordinary least squares (OLS) regression analyses for the dependent variable ‘change in performance’ associated with the succession event (Hypotheses 1b – 5b). Again, five models were estimated. Model 6 only includes the control variables. Model 7 adds the main effects of single position-specific skills in the areas of educational specialization, educational level, functional background as well as industry specialization. Model 8 also includes the interaction terms between the four single position-specific skills and company size. In model 9, the main effect of the variable general position-specific skills replaces the four single position-specific skills. Model 10 then also includes the interaction effect of general position-specific skills and company size. All models are significant (p < .001) and explain between 25 and 55 percent of the variance in the change in performance post-
compared to pre-succession. For all three models additional tests showed that the requirements of homoscedasticity and normal distribution were met and that collinearity could not be observed.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 6a</th>
<th>Model 7a</th>
<th>Model 8a</th>
<th>Model 9a</th>
<th>Model 10a</th>
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<td></td>
</tr>
<tr>
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<td>-0.51***</td>
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<td>0.12</td>
<td>0.07</td>
<td>0.08</td>
</tr>
<tr>
<td>Main effects</td>
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<tr>
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<td>Interactions</td>
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<td>Position-specific skills - general x company size</td>
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<td>Position-specific skills - educational level x company size</td>
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<tr>
<td>( F )</td>
<td>3.59**</td>
<td>5.37***</td>
<td>4.18***</td>
<td>4.08**</td>
<td>4.37**</td>
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<tr>
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<td>.50</td>
<td>.55</td>
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<td>( \Delta R^2 )</td>
<td>.140**</td>
<td>.05**</td>
<td>.07**</td>
<td>.06**</td>
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</table>

*aValues are standardized regression coefficients; dependent variable: Change in performance
*bRelative to model 1
**Relative to preceding model
\( p < .10 \)
\( * p < .05 \)
\( ** p < .01 \)
\( *** p < .001 \)

Table 3: Results of OLS Analyses for Change in Performance

Model 7 shows that also for change in performance we found support for two of the four hypotheses regarding the influence of single position-specific skills. Again, this support is related to the influence of position-specific skills in the
areas of educational level and industry specialization. In support of hypothesis 2b, we found that a positive and significant relationship exists between the variable ‘position-specific skills - educational level’ and change in performance. Hypothesis 4b proposes a positive effect of the variable ‘position-specific skills - industry specialization’ on performance change. This hypothesis is supported by a positive and significant coefficient. A significant relationship between position-specific skills based on a fit between strategy and educational specialization or functional background and change in performance, however, could not be reported. Thus, hypotheses 1b and 3b have to be declined. Hypothesis 5b proposes a positive relationship between general position-specific skills and change in performance. Model 9 offers support for this hypothesis through a positive and significant coefficient for the variable ‘position-specific skills – general’. Finally, hypothesis 6a proposes that the positive effect of position-specific skills on post-succession performance is stronger in smaller companies. This hypothesis is partly supported by a negative and significant coefficient on the interaction of general position-specific skills and company size in Model 5. For the single position-specific skills, however, the analysis of interaction effects did not yield significant results. In addition to the main and interaction effects, the influence of three control variables has to be emphasized. Company dynamics has a positive and significant, company size and pre-succession performance have a negative and significant effect on change in performance.

In order to test hypothesis 7, we estimated a final set of six regression models. Hypothesis 7 proposes that the performance effect of position-specific skills of a new CEO changes over time. Specifically, we have assumed that a positive effect results early in the tenure of a new CEO and then vanishes. Table 4 shows the results of ordinary least squares (OLS) regression analyses for the variable ‘absolute post-succession performance’ in the three single years after the succession event (t₁-t₃). Models 11 to 13 include the control variables as well as the main effect of general position-specific skills for the three years in question. Models 14 to 16 present similar results for the control variables and the main effects of the four single position-specific skills in the areas of educational specialization, educational level, functional background as well as
industry specialization. All models are significant ($p < .001$) and explain between 66 and 73 percent of the variance in absolute post-succession performance in the three years following the CEO succession event. For all three models additional tests showed that the requirements of homoscedasticity and normal distribution were met and that collinearity could not be observed.

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<th>Model 11a</th>
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<th>Model 13c</th>
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<td>0.10</td>
<td>0.18*</td>
<td>0.16t</td>
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<td>-0.08</td>
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<td>Position-specific skills - general</td>
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<td>F</td>
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<td>.69</td>
<td>.73</td>
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aValues are standardized regression coefficients; dependent variable: Absolute performance t1
bValues are standardized regression coefficients; dependent variable: Absolute performance t2
cValues are standardized regression coefficients; dependent variable: Absolute performance t3

*p < .10
**p < .05
***p < .001

Table 4: Results of OLS Analyses for Absolute Post-Succession Performance in Single Years

Models 11 to 13 show that the performance effect of the variable general position specific skills changes over time. In the first year after the succession event no significant effect of this variable on absolute post-succession performance can be observed. In the second year, a significant and positive
coefficient resulted, and in the third year a tendency towards significance (p = 0.058) was found. Further analyses showed that this effect fully vanishes in subsequent years. Similar results can be observed in models 14 through 16 for two of the four single position-specific skills, namely position-specific skills based on an educational level-strategy fit and position-specific skills based on an industry specialization-strategy fit. Also for these variables, positive performance effects vanish completely after the third year of the tenure of the new CEO. Thus, the results of the present study also support hypothesis 7.

6. Discussion and Interpretation

An emerging research stream applies organizational learning theory in order to study the performance consequences of CEO succession (Giambatista et al., 2005). Organizational learning theory puts particular emphasis on the knowledge and skills that a new CEO brings to his/her new position. So far, empirical studies have only considered the performance effects of one type of skills of a new CEO, namely firm- or industry-specific skills, by investigating the performance consequences of insider compared to outsider succession (e.g. Helfat and Bailey, 2005; Guthrie and Datta, 1998). Overall, these studies did not find consistent results (Kesner and Sebora, 1994). Other types of skills, that a new CEO brings to the job, have not been addressed empirically yet. Thus, to our best knowledge, this is the first study that considers the effect of position-specific skills of a new CEO on post-succession performance.

Building on CEO-strategy fit research (Entrialgo, 2002; Beal and Yasai-Ardekani, 2000; Thomas and Ramaswamy, 1996; Thomas, Litschert and Ramaswamy, 1991; Gupta, 1984; Gupta and Govindarajan, 1984), we argue that position-specific skills of a new CEO, measured as a fit between corporate strategy and selected experiences of the new CEO, positively influence post-succession performance during his/her early tenure. Specifically, we have investigated three aspects: (a) the influence of position-specific skills on absolute post-succession performance, (b) the influence of position-specific skills on change in performance post- vs. pre-succession, and (c) changes in
the performance effect over time. Overall, we found quite consistent results in these three areas, confirming five of our seven hypotheses. These findings indicate that, in general, a learning perspective is useful to better understand performance effects of CEO succession and that the role of position-specific skills of a new CEO deserves further attention.

(a) Influence of position-specific skills on absolute post-succession performance

Our results suggest that the existence of an overall set of general position-specific skills of a new CEO as well as the presence of two single position-specific skills, specifically those based on a fit between educational level and corporate strategy as well as between industry specialization and corporate strategy, have a positive effect on absolute post-succession performance. For the other two single position-specific skills, however, we did not find significant results.

In general, these results correspond with those of CEO-strategy fit research. Studies by Entrialgo (2002), Thomas and Ramaswamy (1996), and Thomas, Litschert and Ramaswamy (1991) also come to the conclusion that a general alignment between CEO experiences and company strategy has positive performance effects. Compared to the present research, however, CEO-strategy fit research takes a different starting point. Particularly, CEO-strategy fit research uses a longitudinal approach and primarily asks the question if different types of CEOs – depending on their specific past experiences – seek different strategies for their companies. Only as a second step, it is then hypothesized that an alignment between CEO experiences and company strategy also leads to superior performance. In the present study, in contrast, the focus lies on learning advantages of a new CEO with appropriate position-specific skills. Thus, the analysis is more cross-sectional in nature. Additionally, the present study has a clear theoretical fundament – organizational learning theory – that CEO-strategy fit research is generally lacking. Finally, CEO-strategy fit research mostly considers strategy at the business level, whereas the present study focuses on corporate strategy.
Differences between CEO-strategy fit research and the present study do not only pertain to the starting points, but also to the details of the findings. Specifically, studies from CEO-strategy fit research stress the role of functional background of the CEO (e.g. Beal and Yasai-Ardekani, 2000). In the present study, no effect of position-specific skills related to functional or educational background has been found. Rather, we obtained significant results for position-specific skills related to educational level and industry specialization. While an effect of educational level has already been observed by past research on CEO-strategy fit (Entrialgo, 2002; Thomas and Ramaswamy, 1996; Thomas, Litschert and Ramaswamy, 1991), the role of industry specialization has hardly been considered in this context (Michel and Hambrick, 1992).

These differences in the research findings might result from the fact that we focused on corporate- instead of business-level strategy. Corporate-level top managers are generally older than business-level managers. Thus, they are further away from their first socialization in a certain functional area or study program which renders those experiences less important. On a corporate level, more general skills like the ability to deal with complexity – expressed by educational level – or the breadth and depth of experience – reflected by industry specialization – become important. Differences in research findings might also result from differences in the research approach of the present study compared to CEO-strategy fit research in general: In CEO-strategy fit research, the research focus lies on the adaptation of strategy to CEO experiences. In this context, the functional background of the CEO might play a role. In the present study, we have concentrated on learning advantages of new CEOs. For speeding up the learning process, the ability to deal with complexity and the breadth and depth of experience seem to be more important.

Beside significant results for three of the five main effects, we also found a significant result for the interaction between company size and general position-specific skills. This result confirms earlier propositions by Hambrick and Finkelstein (1987) who have concluded that managerial discretion is higher in smaller companies. Also the significant effects that we found for the three control variables ‘pre-succession performance’, ‘company size’, and ‘company
dynamics’ are in line with findings from earlier studies (e.g. Zhang and Rajagopalan, 2004; Shen and Cannella, 2002).

(b) Influence of position-specific skills on change in performance

The variable ‘change in performance’ is seldom used in the context of CEO succession (Tushman and Rosenkopf, 1996). Overall, the results that we found using this dependent variable are similar to those that we observed for absolute post-succession performance, i.e. for three of the five main effects, for the interaction effect of size and general position-specific skills as well as for three control variables, we obtained significant results. Worth mentioning in this context is the negative and significant relationship between pre-succession performance and change in performance. This means that performance changes in the context of CEO succession are larger for companies with low pre-succession performance. This effect has also been found by Tushman and Rosenkopf (1996). Overall, the similarities of the results for ‘absolute pre-succession performance’ and for ‘change in performance’ can be regarded as an indicator of the robustness of our findings.

(c) Change in the performance effect of position-specific skills over time

In our last hypothesis we addressed the development of the performance effect of position-specific skills over time. Our results indicate that a positive performance effect does not occur immediately after the succession event. Rather, in the first year of the tenure of the new CEO, we only observed a significant performance effect for one type of position-specific skills – the one related to educational level. In the second year, however, we obtained significant effects for all relevant position-specific skills. These significant effects vanished again after the third year. These findings support Gabarro’s (1987) observation that the normal learning process of a new CEO takes about two and a half years after taking charge. At the same time the findings show that CEOs with relevant position-specific skills learn faster which leads to a time-limited performance advantage compared to CEOs without such skills.

7. Conclusion
Overall, the results of the present study indicate that organizational learning theory is a highly relevant theoretical perspective in the context of CEO succession. Thus, it seems desirable to further expand the emerging research stream that uses organizational learning theory in order to explain performance consequences of CEO succession and that so far only comprises few empirical studies (e.g. Zhang and Rajagopalan, 2004; Rowe et al., 2005). This means simultaneously that knowledge and skills of new CEOs need further attention.

The present study has also shown that research on knowledge and skills of new CEOs needs to go beyond the traditional insider-outsider debate that only considers firm- or industry-specific skills. The concept of position-specific skills, that has been presented in this study and that combines CEO-strategy fit research with executive succession research, offers a good starting point. Future research in this field needs to build on and expand this concept. In this context, different conceptualizations of position-specific skills and different variables should be tested, as it is already done in CEO-strategy fit research (e.g. Beal and Yasai-Ardekani, 2000; Thomas and Ramaswamy, 1996).

Finally, the present study offers a first starting point for a more fine-grained leader life cycle theory as proposed by Hambrick and Fukutomi (1991). While their concept is certainly appropriate in order to describe performance effects during a CEO’s tenure in general, this study shows that adjustments are needed, particularly during the early tenure of a CEO.

Beside avenues for further research, our study also offers some implications for corporate practice. Specifically, our results indicate that boards can make a difference in their search for a new CEO if they put more emphasis on position-specific skills of the candidates in question. New CEOs without such skills might be able to catch up in the long term. Nevertheless, the existence of position-specific skills from the outset leads to short-term performance advantages which should not be neglected.
List of Figures and Tables

Figure 1: Overview of hypotheses……………………………………………..16

Table 1: Means, standard deviations and correlations.........................22
Table 2: Results of OLS Analyses for Absolute Post-Succession
        Performance...........................................................................23
Table 3: Results of OLS Analyses for Change in Performance.............25
Table 4: Results of OLS Analyses for Absolute Post-Succession
        Performance in Single Years....................................................27
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