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WHEN THE FORMER CEO STAYS ON AS BOARD CHAIR: EFFECTS ON SUCCESSOR DISCRETION, STRATEGIC CHANGE, AND PERFORMANCE

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Prior research on CEO succession has omitted consideration of a critical institutional reality: some exiting CEOs do not fully depart the scene but instead remain as board chairs. We posit that predecessor retention restricts a successor's discretion, thus dampening his or her ability to make strategic changes or deliver performance that deviates from pre-succession levels. In short, a predecessor's continuing presence suppresses a new CEO's influence. Based on analysis of 181 successions in high technology firms, and with extensive controls (for circumstances associated with succession, the firm's need and capacity for change, and for endogeneity), we find substantial support for our hypotheses. In supplementary analyses, we find that retention has a more pronounced effect in preventing a new CEO from making big performance gains than in preventing big drops. Copyright © 2011 John Wiley & Sons, Ltd.

INTRODUCTION

> *'More than half of the incoming CEOs in planned successions are assuming office… [with] their predecessor… [stepping] up to the chairman role. This finding highlights a trend that is growing across most regions, It is particularly noteworthy in North America…'* Booz & Company Inc.'s annual survey of CEO turnover, 2009 (Karlsson and Neilson, 2009: 5)

Scholars have long been interested in comprehending why organizations have difficulty adapting to changes in their environments (Chandler, 1962; Hannan and Freeman, 1984; Starbuck, Greve, and Hedberg, 1978). One explanation is that incumbent managers become wedded to the *status quo* or otherwise have difficulty seeing the need for change (Ghemawat, 1991; Hambrick, Geletkanycz, and Fredrickson, 1993). In turn, managerial succession represents a periodic occasion to realign the organization's strategy and structure with the shifting imperatives of the environment (Miller and Friesen, 1980; Pfeffer and Salancik, 1978; Tushman, Virany, and Romanelli, 1985). Whereas incumbent chief executive officers (CEOs) tend to become 'stale in the saddle' (Miller, 1991) and detached from emergent opportunities and threats, boards occasionally have the chance to counter this tendency by selecting new CEOs who have the apparent skills and mindsets needed to take their organizations in directions called for by their environments.

Missing from all the theoretical and empirical work on CEO succession, however, has been any consideration of a critical institutional reality: in many cases, outgoing CEOs do not fully depart the scene, but instead remain for some period as chair of the board (Brickley, Linck,

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and Coles, 1999; Vancil, 1987). As the Booz & Company survey statistic (above) indicates, this appears to be a growing trend. In our own sample (described below), 39 percent of predecessor CEOs remained as board chair for at least one year, and 26 percent remained for at least three years. In such cases of predecessor continuity, we anticipate that new CEOs will have restricted leeway to make changes and that the effects of succession—as an inertia breaker or realignment mechanism—will be muted. Lingering predecessors can be expected to favor strategies and policies *they* put in place; now in positions of control over their replacements, predecessors who stay on as board chairs—sometimes called 'shadow emperors' (McGeehan, 2003)—may exert implicit or explicit constraint on any contemplated changes.

Hambrick and Finkelstein (1987) introduced the concept of managerial discretion, defined as latitude of action, in an effort to reconcile a long-running debate about the degree to which managers have influence over organizational outcomes (Barnard, 1968; Child, 1972; Hannan and Freeman, 1984; Lieberson and O'Connor, 1972). They argued that executives vary widely in how much discretion they possess; in turn, executives can only affect their organizations in proportion to their degree of discretion. Researchers have examined various determinants of managerial discretion, including national (Crossland and Hambrick, 2007), industry (e.g., Hambrick and Abrahamson, 1995), firm (e.g., Finkelstein and Boyd, 1998), and executive characteristics (e.g., Carpenter and Golden, 1997). But there has been no attention paid to how a predecessor's lingering presence as board chair might affect a new CEO's leeway.

We posit that the retention of the former CEO as board chair restricts a successor's discretion, dampening both the new person's ability to make changes as well as his or her potential to greatly alter the firm's performance—either upward or downward. Complementing these hypotheses, we also argue that these tendencies reverse—changes increase—in the period immediately following a predecessor's ultimate departure as chair. Based on an analysis of 181 CEO successions in high technology industries, we find considerable support for our arguments.

Before proceeding, it is essential to acknowledge that both a predecessor's retention as chair and post-succession strategic change are influenced—at least somewhat—by a common set of factors, notably the degree to which the board believes change is needed (Westphal and Fredrickson, 2001). Predecessor retention will tend to occur if the board welcomes the former CEO's continued influence; conversely, predecessor departure will tend to occur when the board believes there is a need for change or when the predecessor's regime has been somehow repudiated. As such, we include an array of controls to capture pre-succession performance as well as the board's apparent desire for change (and we also control for endogeneity).

This analysis of covariates indicates that the conditions surrounding succession (e.g., performance, hiring of an outside successor, etc.) are indeed associated with the likelihood of predecessor retention, but not overwhelmingly so. In the same vein, Brickley *et al.*, (1999) found a statistically significant association between pre-succession performance and a predecessor's retention on the board, but the relationship was far from complete: the highest performing CEOs (top quartile in pre-succession industry-adjusted stock returns) were only 10 percent more likely to be retained than the lowest performing CEOs (bottom quartile). Anecdotally, one can point to numerous CEOs who exited under very favorable conditions but who did not remain attached to their companies, including Jack Welch at GE, Louis Gerstner at IBM, and Harvey Golub at American Express, and, as we shall describe, our sample includes a number of poorly performing CEOs who stayed on as chair.

Accordingly, retention can occur for an array of reasons that have little to do with the objective need for change: the predecessor's psychological reluctance to leave (Sonnenfeld, 1988), the board's perception that a new CEO lacks seasoning (Vancil, 1987), the board's desire to convey the impression of an orderly transition, the firm's institutionalized practices (Goodstein and Boeker, 1991; Hannan and Freeman, 1984), or because directors have observed the practice elsewhere (Westphal and Fredrickson, 2001). In short, we are alert to the fact that predecessor retention (or departure) can stem from an objective desire for continuity (or change). But our theory—and findings—suggest that it also emanates from other factors, and that it may engender more strategic persistence (or change) than the board intended.

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Our paper makes several contributions. First, we contribute to the literature on CEO succession as an adaptive event (Miller and Friesen, 1980; Tushman *et al*., 1985; Virany, Tushman, and Romanelli, 1992). New attention to the impact of a lingering predecessor may help to resolve puzzles about the effects of succession. For example, some studies have shown that succession is typically followed by considerable organizational change (Miller, 1993; Romanelli and Tushman, 1994), while others have found that succession brings about little change (Helmich and Brown, 1972; Wiersema, 1992). Although a host of contextual factors could influence the degree of post-succession change, the retention of the predecessor CEO as chair, so far largely overlooked by researchers, might be a very prominent factor. Indeed, the continuing presence of the former CEO could be thought of as a 'partial succession'—or even a nonevent.

Second, we contribute to the literature on managerial discretion (Hambrick and Finkelstein, 1987). In an effort to understand whether, and when, managers have influence over organizational outcomes, researchers have examined a wide array of factors that affect discretion, (e.g., Crossland and Hambrick, 2007; Finkelstein and Boyd, 1998). The idea that CEOs might also be constrained by their predecessors' lingering presence has not been considered. Our study, thus, provides rare insight into how socio-political factors can affect discretion, and also highlights—for the first time we believe—how these same managers react once such constraints are removed.

Finally, our study may help to reframe the debate about the merits of separating the board chair and CEO positions (Davidson, Worrell, and Nemec, 1998; Finkelstein and D'Aveni, 1994). Proponents of separation typically envision a board chair who is an objective, dispassionate overseer of the CEO, in a variation of the model used in British companies. Perhaps contributing to the confusing findings about the efficacy of chair/CEO separation in U.S. samples (Daily and Dalton, 1997), as well as to the finding that vigilant owners actually seem to prefer that one person hold both positions (Finkelstein and D'Aveni, 1994), is the reality that the separation of the two posts in American firms often signifies that the chair is the former CEO—hardly a dispassionate supervisor, and, as we argue, possibly a major obstacle to change.

THEORY AND HYPOTHESES

Succession as an inertia breaker

Established organizations are susceptible to inertia (Fredrickson and Iaquinto, 1989; Hannan and Freeman, 1977; Romanelli and Tushman, 1994). Over time—and with accumulation of successes that come over time—organizations develop entrenched cultures (Fondas and Wiersema, 1997), invest in specific assets (including plants and equipment, brands, and technologies) (Tushman and Anderson, 1986), and establish elaborate routines (Nelson and Winter, 1982), all of which restrict their flexibility. Environments, however, are often in flux, calling for more change than organizations are generally capable of making (Hannan and Freeman, 1984; Miller, 1991).

Executive succession provides a periodic opportunity for organizations to break out of their inertial paths (e.g., Pfeffer and Salancik, 1978). For over 50 years, researchers have shown that leader turnover tends—but not uniformly (Boeker, 1997)—to heighten the likelihood of change (Gabarro, 1987; Miller, 1993). Although the implications of such change for performance are mixed, and contingent on an array of conditions (summarized in Finkelstein, Hambrick, and Cannella, 2009; Gordon and Rosen, 1981), there is considerable evidence that succession often amounts to an inflection point in a firm's trajectory.

Leader turnover increases the likelihood of change for two interconnected reasons. First, incumbent executives have difficulty reversing their earlier decisions (Hambrick and Fukutomi, 1991). They become psychologically committed to formulas that have brought them success (Hambrick *et al*., 1993); their expertise and repertoires become entwined with the strategies they put in place (Stevens, Beyer, and Trice, 1978); and they are reluctant to alter their earlier decisions for fear of appearing unsure or capricious (Brockner, 1992). Thus, even in the face of environmental shifts, incumbents make fewer changes as their tenures advance (Henderson, Miller, and Hambrick, 2006; Miller, 1991). As a result, newly appointed CEOs often, but not always, encounter firms that have an accumulation of misalignments with their environments.

Second, new leaders are under some pressure to demonstrate their efficacy and worthiness, and they typically cannot do this by simply maintaining the

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status quo (Ocasio, 1994; Ocasio and Kim, 1999; Pfeffer, 1981, 1992). Boards may give explicit or implicit cues about the types of changes they want from new CEOs (Westphal and Fredrickson, 2001), and boards might even signal that they want few changes; but it will be the rare CEO, we believe, who does not feel some considerable urge to engage in new initiatives upon taking office. Gabarro (1987: 37), for example, argued that a new manager 'is likely to see problems or patterns which his predecessor did not... [t]hus the new manager's exploration and probing is likely to result in at least some change.' Gabarro further argued that new executives have less than one year to demonstrate that they were appropriately selected; obviously, some amount of change is required in order to convey such an impression.

Both of these themes are illustrated by Weisbach's (1995) study of divestitures. He found that the likelihood of divesting a poorly performing acquisition increased immediately following succession. Moreover, there was no difference in the divestment rate between forced successions and planned successions; that is, change happened irrespective of the circumstances of succession. In sum, predecessors often leave firms in need of some change, while successors often commence with a strong urge to enact change. These patterns can be seen even following orderly successions and in times of relatively good performance.

Discretion as a precondition for executive action

As noted earlier, Hambrick and Finkelstein (1987) introduced the concept of managerial discretion as a bridge between two opposing views about how much influence top executives have on their organizations. One view, typified by the logic of population ecology (e.g., Hannan and Freeman, 1977) and new institutional theory (DiMaggio and Powell, 1983), is that organizations are greatly constrained by inertial forces, path dependence, and environmental and normative imperatives; therefore, top executives have little effect on organizational outcomes. The contrary view, arising primarily from strategic management scholars (Andrews, 1971; Child, 1972; Hambrick and Mason, 1984), is that executives have considerable leeway over an array of organizational attributes; therefore, managerial choices matter greatly. Hambrick and Finkelstein (1987) argued that the aptness of these two opposing arguments depends on how much discretion—or latitude of action—managers possess, which varies widely.

Researchers have considered various origins of managerial discretion, each evolving from the premise that discretion exists when there is a relative absence of constraint and when there is considerable means-ends ambiguity (i.e., when there is uncertainty about the appropriateness of alternative actions) (Hambrick and Finkelstein, 1987). At the environmental level, studies have examined how nation-level institutions and industry characteristics shape the degree of influence held by top executives (Crossland and Hambrick, 2007; Hambrick and Abrahamson, 1995). At the organizational level, studies have shown that organizational size, slack, and technology affect CEO discretion (Finkelstein and Boyd, 1998). At the individual level, Carpenter and Golden (1997) found that executives' personalities, specifically their locus of control, shape the degree to which they perceive themselves as having discretion. Despite such far-ranging research on the determinants of executive discretion, there has been little attention paid to the idea that powerful parties might restrict executives from taking certain bold or idiosyncratic actions. Among such powerful parties are predecessor CEOs who remain as board chairs.

In asserting that predecessor retention affects incumbent CEO discretion, we are proposing a line of argument that is distinct from, but complementary to, the many studies that have examined how various agency conditions—including the percentage of independent directors, directors' shareholdings, institutional shareholdings, and investor activism—serve to constrain managerial latitude (summarized in Finkelstein *et al.*, 2009). These prior studies primarily envision that such agency factors will constrain a CEO from engaging in self-serving behaviors that are not in shareholders' best interests (taking excessive pay, empire-building, shirking, etc.). As such, these prior studies have been concerned with a form of discretion that Shen and Cho (2005: 843) referred to as 'latitude of objectives,' or the executive's freedom to pursue personal objectives (such as prestige, perquisites, and job security) rather than shareholders' objectives. In contrast, we argue that retention primarily constrains a new CEO's 'latitude of actions,' or the range of options available for influencing corporate outcomes (Shen and Cho, 2005: 844). Under our perspective, retention primarily serves to restrict

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strategic change, *per se*; such restriction may or may not be in the shareholders' best interest.

Effects of predecessor retention on post-succession strategic change

Research has shown that executives are not enduringly open-minded (Henderson *et al*., 2006; Miller, 1991). Instead, they often believe that past conditions still exist and that their chosen strategies are still appropriate; moreover, CEOs become increasingly committed to their paradigms over their time in office (Hambrick *et al*., 1993). The departing CEO who stays on as chair is, thus, likely to be committed to the prior decisions he or she made.

As the architect or sponsor of many of the firm's existing routines and strategies, a retained predecessor understands how current organizational features map to the earlier conditions they were intended to accommodate. But, having left office, and now removed from relevant stimuli, the predecessor is less likely to see the wisdom in *new* strategies, structures, processes, or people. When informed of the successor's proposals, the predecessor will often react through a lens clouded by historical understanding rather than by current and imminent realities of the environment and the firm. Perhaps wanting to help the new CEO avoid mistakes, the retained predecessor CEO may subtly argue for the wisdom of the *status quo* or may even expressly criticize initiatives proposed by the new CEO. Or a successor may just assume this will happen and refrain from proposing certain initiatives.

In this vein, we anticipate that a predecessor who stays on as chair exerts both explicit and implicit constraint. As official head of the board, the predecessor establishes the board's agenda, assigns committees, and has a major role in setting the CEO's compensation (Lorsch and MacIver, 1989). As such, it is straightforward to envision that a retained predecessor could expressly quash any proposals for change that he or she finds disagreeable.

But retained predecessors exert implicit constraint as well. Harvey Golub, former CEO of American Express noted:

> *'The dynamic of having the old CEO hang around in order to be helpful to the new CEO... can create two problems. The successor may not want to make changes because he doesn't want to hurt the feelings of his predecessor and the person who is being succeeded may feel resentment if something is changed' (Bianco 2000: 88).*

Thus, constraint occurs not only because of overt power but also because of a more subtle unease associated with the undoing of a lingering predecessor's strategies.

Constraint may be further exacerbated because retained predecessors are a skewed group: their presence indicates that they *want* to have a continuing role in their firms. By disposition, these individuals may be reluctant to distance themselves from their companies. In describing the hesitance of some CEOs to leave the scene, Sonnenfeld (1988: 6) wrote, 'Some are content with the impact they have had during their careers. Others seek greater impact and prolonged personal reassurance of their significance.' It is likely that retained predecessors are among the latter group. Because changes initiated by their successors might be seen as eroding their legacies, retained predecessors may be *especially* resistant to new initiatives. In sum, we envision that new CEOs who report formally to their predecessors will enact fewer and smaller strategic changes than will CEOs operating without their predecessors as chairs.

> *Hypothesis 1a: Retention of the predecessor CEO as board chair will be negatively related to post-succession strategic change.*

It is logical to next consider the effect of the predecessor's ultimate departure as chair. Once the predecessor completely departs, the successor CEO will finally have the latitude to enact strategic change. Without the predecessor present to explicitly or implicitly influence decisions, and without any discomfort in the proposal of such changes, much of the constraint described above is now absent. Moreover, the drives inherent in any new CEO—the desire to enact change, to show his or her worth, and to make an imprint on the firm—will remain. But this delayed burst of change will not last indefinitely. Instead, upon the predecessor's complete departure, the new CEO will make significant adjustments, acting on the 'pent-up' need for change, but then will transition into a period of more incremental action (Gabarro, 1987):

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Hypothesis 1b: Departure of the predecessor CEO as board chair will be positively related to strategic change in the period immediately following departure.

We should emphasize that Hypotheses 1a and 1b, while logically congruent, are not tautological. Namely, it could be that retained predecessors suppress change (as argued in 1a), but their eventual departure does not bring about a burst of change (at odds with 1b). This pattern could arise if lingering predecessors indelibly influence the mindsets of new CEOs, and convince them that the *status quo* is, in fact, ideal. Just as long-term employees shape the beliefs of new employees (Fondas and Wiersema, 1997), so too might a retained predecessor sway the thinking of a new CEO, such that the predecessor's constraint persists even after he or she fully departs. Although this scenario is possible, we argue that new CEOs are eager to enact change—due to problems they perceive and/or their desire to make a mark—but are constrained from doing so as long as their predecessors remain as chairs.

Effects of predecessor retention on performance

If a predecessor's retention as chair restricts the new CEO's discretion and dampens change, it can also be expected to affect performance. One might argue that retention is generally harmful, as it limits the adaptive moves that are among the supposed benefits of changing leaders (Miller and Friesen, 1980; Tushman *et al*., 1985). However, retention of the predecessor CEO might have offsetting benefits, reducing the risk of ill-informed or naïve actions by new CEOs.

New CEOs, eager to make their marks, are inclined to take actions soon after arriving in office (Hambrick and Fukutomi, 1991; Vancil, 1987), but they often lack a deep understanding of their firms' resources and capabilities, key internal and external parties, and complex issues (Gabarro, 1987; Miller, 1993). While new CEOs may bring fresh perspectives and an eagerness to enact needed change, they also often lack a textured understanding of their contexts. As such, some early initiatives may be ill-fated (Virany *et al*., 1992).

Accordingly, instead of the supposition that predecessor retention is generally harmful (or beneficial), a more logical expectation is that it brings about performance that largely adheres to pre-succession levels. For example, if a company performed at the fortieth percentile of its industry leading up to succession, and a retained predecessor then restricted the new CEO's ability to make changes, it is unlikely that the firm would then become either a top or bottom performer in its industry. Hambrick and Finkelstein (1987) proposed that restricted discretion brings about stable strategies and, in turn, stable performance that is tied to swings in environmental munificence. Consistent with that argument, studies have shown that strategic continuity (or strategic change) is associated with performance continuity (or performance change) (e.g., Bromiley, 1991; Chatterjee and Hambrick, 2007). Although these studies did not invoke the concept of discretion, they have shown that strategic persistence is associated with performance persistence, while strategic change increases the tendency for performance change. Here, we argue that when a predecessor is retained as chair, change is dampened, which, in turn, reduces the likelihood of large shifts in performance from the baseline level left by the prior CEO.

Hypothesis 2a: Retention of the predecessor CEO as board chair will be negatively related to post-succession performance change (either positive or negative).

If predecessor retention suppresses performance change, then the predecessor's eventual departure from the chair position should bring about increased performance change. With newly enhanced discretion, the successor CEO is now able to break with the past (as argued in Hypothesis 1b), which provides an increased chance of delivering performance that diverges from the pre-succession baseline.

Hypothesis 2b: Departure of the predecessor CEO as board chair will be positively related to performance change (either positive or negative) in the period immediately following departure.

Our logic suggests a mediated model: predecessor retention suppresses change, which, in turn, brings about performance continuity. Although the indicators we examine (described below) are a limited subset of all possible forms of change a new

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CEO might undertake and, thus, only partial mediation might be observed, the following hypotheses complete our logic:

Hypothesis 3a: The negative association between predecessor retention as chair and post-succession performance change is mediated by post-succession strategic change.

Hypothesis 3b: The positive association between a predecessor's departure as chair and subsequent performance change is mediated by post-departure strategic change.

METHODS

Sample and data sources

We drew our sample from the Execucomp database, identifying all CEO successions between 1994 and 2006 in three industries: computer hardware (Standard Industrial Classification code [SIC] 357), software (SIC 737), and electronics (SIC 367). We selected these industries because they are dynamic settings with ample variance in our phenomena of interest. Examining our topic in stable settings might yield different results.

We further constrained our sample in several ways. We examined only companies that had been public for at least three years and had revenues over $100 million at succession, as younger and smaller companies may face distinctive conditions. We excluded interim CEO appointments (as described by press or company accounts), as well as new CEOs who served for less than 12 months. With these screens, our sample included 181 successions. For accuracy, proxy statements, annual reports, and press releases were reviewed to verify exact dates for each of the following for every predecessor: becoming CEO, departing as CEO, and departing the chair position. We used the same sources to obtain data on every successor CEO.

Treating the year of succession as Year 1, we measured post-succession phenomena in Years 1, 2, 3, 4, and 5 or until the new CEO departed, whichever came first. (As discussed below, we accounted for the exact point in the year that succession occurred.) We included the year of succession in our analysis because our indicators of strategic change (described below) are amenable to very prompt managerial action. We limited our panel to five years because half of our sample firms had experienced a subsequent succession event by then, and only a small percentage (15%) of predecessors remained as chairs beyond Year 5. Because changes in strategy take some time to affect performance, we incorporated a one-year lag for observing performance change; thus, our analyses of performance change extended through the sixth year (i.e., Years 2 to 6). With pooling, we had between 612 and 712 post-succession firm years for analysis, with samples varying because of isolated missing data and other reasons we note below.

Independent variables

Our first independent variable, *predecessor retained,* which represents a condition of restricted discretion, was measured as the percentage of a focal year that a predecessor was retained as chair, ranging from zero to 100 percent. Using the percentage of the year retained rather than a binary measure, allowed us to retain granularity in the measure and avoid an arbitrary decision about what portion of the year would be recorded as retention.

For models in which the dependent variables could be computed on a pure elapsed-time basis (described below), we measured predecessor retention for each 12-month period directly following succession. For instance, if the predecessor remained as chair for 18 months, this retention variable would be coded as 100 for Year 1, 50 for Year 2, and 0 for years 3, 4, and 5. For models in which the dependent variables were available only on a fiscal year basis, predecessor retention was calculated using dates tied to the firm's fiscal year. If succession occurred with at least one-quarter of the fiscal year remaining, we coded predecessor retention for Year 1 as the percentage of the year that the predecessor was CEO *or* chair. If succession occurred beyond the third-quarter of a fiscal year, the following year became our first year of analysis. (Variations around this cutoff yielded results similar to those reported.)

Our second independent variable, *first free year*, which we posit as representing a sudden increase in a CEO's discretion, identified the first year immediately following the predecessor's departure from the chair position. This variable was a dummy, coded to one for the first year in which the predecessor was completely gone for at least half

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the year. (Variations around this half-year cutoff yielded results similar to what we report.)

Dependent variables

We conceptualized strategic change broadly, to encompass an array of important domains of choice that have implications for the form and fate of firms. The domains we examined were resource reallocations, acquisitions and divestitures, and top management team (TMT) staffing—again, in each of the five years beginning with the year of succession.

Resource reallocation was measured by examining changes in financial resource allocation patterns. We considered several indicators of strategic outlays that are readily influenced by the CEO, as used in prior research (Westphal, Seidel, and Stewart, 2001). We settled on three items: advertising intensity (advertising/sales), research and development (R&D) intensity (R&D/sales), and selling, general, and administrative (SG&A) intensity (SGA/sales). For each of these items, we measured the absolute change (without regard to sign) from the year prior to succession (Year 0) to the focal year (Year t). These three indicators were standardized across all firm years (dividing by the standard deviation prior to removing the signed direction) and then summed to develop the composite measure of *resource reallocation*. Cronbach's alpha for the three items was 0.79, and the items formed a single factor with loadings of 0.51 or greater.[1]

Second, we examined each firm's acquisitions and divestitures, which represent two major mechanisms for adjusting the strategic focus of the firm. Using data from Securities Data Company (SDC) Platinum, we separately recorded counts of *acquisition* and *divestiture* announcements (following Sanders, 2001) for each of the focal years. We examined these actions separately because predecessor retention might affect them differently. (The SDC database omits information on the size of many deals, so we were unable to develop indicators of acquisition and divestiture magnitudes.)

Third, we examined turnover in the TMT. Following the premise that new CEOs often exert influence by changing the composition of their senior teams, we counted *TMT additions* and *TMT departures* (Wiersema, 1995). Though some researchers have added these two items together (Keck and Tushman, 1993), we examined them separately because retention might affect them differently. Using *Standard & Poor's Register of Corporations Directors and Executives*, we first recorded the names of a firm's senior executives, defined as those with titles of senior vice president and above, in the year prior to succession (Year 0). Then, for each post-succession year, we recorded the number of executives added that year who were not on the TMT prior to succession, and the number of executives who were present pre-succession but who departed in the focal year.

In measuring performance change, we relied on two well-established indicators: return on assets (ROA) and total shareholder returns (TSR). ROA was net income divided by total assets; this was recorded for each fiscal year. TSR was calculated as share price at the end of the year minus share price at the beginning of the year, plus dividends paid, all divided by beginning share price. It was recorded annually on each anniversary of succession. From these, we calculated *ROA change* and *TSR change*[2] as the absolute difference, without regard to sign, in each measure between pre-succession levels and the focal year, net of median performance change in the three-digit industry (using *all* Compustat firms in the industry, excluding the focal firm). Therefore, if a company in the year prior to succession had an ROA of 10 percent while its industry median was 14 percent, and then in a focal post-succession year had ROA of 13 percent while its industry was still at 14 percent, its ROA change would be score of 3.0: $|(10-14) - (13-14)| = 3$.

Control variables

We controlled for general economic conditions and industry tendencies by including dummy variables for *calendar year* and three-digit *SIC code*. As noted above, ROA and TSR change were industry

[1] Our initial analysis included other items that are often in such indices (e.g., debt/equity and plant and equipment newness) (Westphal *et al*., 2001; Zhang & Rajagopalan, 2010). However, in our sample, these items did not load on the same factor as the included items and their inclusion substantially reduced the internal reliability of the index.

[2] By definition, TSR for a given year reflects a change in stock price, making TSR change somewhat different from ROA change. We experimented with an alternative form of performance change using just the absolute value of a firm's industry-adjusted TSR. Because results were unchanged, to maintain consistency across our two performance-related measures, we present TSR performance change in the way described above.

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adjusted by subtracting the median industry value for each year.

We included several firm-level controls. We controlled for resource availability by including a measure of *firm slack* in the prior year (Year t-1), measured as the ratio of current assets divided by current liabilities. To control for inertial forces in larger firms, we included a measure of each firm's *sales* (natural log, Year t-1). Because recent performance will influence change, for models predicting strategic change, we controlled for the firm's industry-adjusted ROA in the year prior to the focal year (Year t-1).

We further controlled for each firm's pre-succession tendencies with regard to each dependent variable. For models estimating resource reallocation, we controlled for *pre-succession resource reallocation* in the year prior to succession. For acquisitions and divestitures, we controlled for their pre-succession levels, calculated as the *mean number of acquisitions* or *divestitures* announced by a firm in the two years prior to succession (which proved to be a stronger control than using only one year). For models that predicted changes in the TMT, we included the number of *pre-succession additions* or *departures* in the year prior to succession. Similarly, for our performance change models, we included a control for *pre-succession performance change,* measured in the year prior to succession.

For models estimating TMT additions and departures, we controlled for *original TMT remaining*, which was the number of original members (who were part of the predecessor's team) still with the firm at the beginning of each focal year. This addresses the reality that larger TMTs will arithmetically have greater turnover, while also accounting for diminished potential for turnover as more of the original executives depart.

We controlled for several factors that might affect a new CEO's ability or need to enact change. To control for the possibility that longer-tenured predecessors may leave a bigger build-up of required change (Miller, 1991), we included *predecessor tenure* (natural log). We also controlled for both *predecessor* and *successor shareholdings* (natural log of percent owned). Newly appointed CEOs have been shown to make changes in waves rather than continuously (Gabarro, 1987). To capture this possibility, we coded dummy variables for each of the *successor's tenure years.* In some cases, the board chair was someone other than the current or former CEO. To control for this, we included a dummy variable, *other chair,* equal to 1 for any focal year in which someone other than the current or former CEO was chair of the board.

The need for change, board mandate, and unobserved heterogeneity

As noted earlier, predecessor retention and post-succession change may be driven by a common set of conditions that accompany the succession event. The succession context will influence the likelihood that the predecessor will stay as chair, as well as the influence of predecessors who do stay, and it further provides impetus for change (or stability) for the new CEO. Thus, to demonstrate persuasive support for our hypotheses, we need to show that predecessor retention suppresses change beyond what might be expected from these other factors, most notably the firm's pre-succession performance and the board's desire for change (vs. continuity) (Gabarro, 1987; Westphal and Fredrickson, 2001). As not all of these factors can be readily measured, our models must also account for unobserved heterogeneity, or endogeneity, in our phenomena.

As such, our basic model can be represented as follows:

$$change_t = \beta_1 perf_{pre} + \beta_2 mandate + \beta_3 unobserved + \beta_4 retention + M$$

where $change_t$ represents some measure of change in Year t following succession, $perf_{pre}$ is a set of indicators representing the objective need for change, *mandate* is a latent unobserved construct capturing the board's desire for change, *unobserved* is a latent unobserved construct capturing other factors influencing retention, *retention* is our focal variable, and M is all other controls and error. While we can reasonably measure pre-succession performance, controlling for the board's desire for change and other unobservable factors requires a more elaborate approach. Thus, we take three broad steps to account for the objective need for change, the board's mandate for change, and other unobserved heterogeneity.

First, we directly control for pre-succession performance by including in our models two forms of pre-succession performance: *pre-succession ROA* and *pre-succession TSR* (both industry-adjusted, in

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Year 0).[3] Second, while we are unable to directly gauge a board's desire for change, certain proxies are available. Forced succession is a clear indicator that the board is unhappy with the direction of the firm and that change is desired. If company press releases or media accounts indicated a predecessor was forced out, we coded a dummy variable, *succession forced,* as 1. Similarly, hiring an outsider as CEO is often associated with the board's desire for change (Lorsch and MacIver, 1989; Vancil, 1987). Thus, we included a dummy variable for *outside successor*, coded to 1 if the new CEO joined the firm less than two years before becoming CEO. Finally, appointing a CEO who served as heir apparent is often associated with the expectation of continuity and minimal change (Vancil, 1987). Therefore, we included a variable representing the time the successor spent as *heir apparent*, (i.e., holding the title of president or chief operating officer [Cannella and Shen, 2001]), up to a maximum of three years.

While the above controls likely account for some portion of the expected amount of change and predecessor retention following succession, we also included a control to correct for unobserved heterogeneity resulting from other factors potentially causing predecessor retention and post-succession change. A common technique for addressing this issue is the use a Heckman two-stage model (Heckman, 1979). In a first-stage model, the outcome of the problematic independent variable (in our case, predecessor retention) is predicted using instruments that themselves are not correlated with the ultimate dependent variables (in our case, strategic change and performance change), and then a calculated term is inserted into a second-stage model. This additional term effectively accounts for unobserved heterogeneity that stems from the omitted construct (in our case, board mandate).

Following Hamilton and Nickerson (2003), we identified several instrumental variables that were predictive of retention but *not* highly correlated with our dependent variables. The resulting instruments were *predecessor founder* (which reflects the power and relative stature of the predecessor), *predecessor over retirement age (65)* (which reflects one's life stage and susceptibility to mandatory retirement bylaws), *and* the percentage of the board made up of *independent directors* (which reflects the board's objectivity toward the predecessor and his/her policies). Probit models were run to predict retention at one, two, three, four, and five years following succession. As required, the instrumental variables were not drivers of post-succession change and, as a result, had low correlations (0.14 or lower in all cases) with each dependent variable. Further, in predicting predecessor retention, all models were highly significant ($p<0.01$), and each of the instrumentals was significant in one or more time periods. Using predicted values, we then calculated the inverse Mills ratio and included this term *(retention selection control)* in each model. As seen below, this term was significant in several second-stage models, suggesting that some bias was present and accounted for by this control (Bascle, 2008).

Model and estimation

With a pooled dataset consisting of up to five years of data for each firm, we tested our hypotheses using generalized estimating equations (GEE), which accommodate the analysis of panel data with repeated, within-subject measures (Liang and Zeger, 1986). GEE models require the specification of a distribution family, link function, and working correlation structure. Because the performance change and resource reallocation variables were always positive and skewed, we used a Poisson distribution and log link function for these models. All other models predicted limited-count variables, for which we specified a negative binomial distribution and negative binomial link function. For models that predicted resource reallocation, acquisitions, divestitures, and performance change, we specified an autoregressive correlation structure that accounts for time-related correlation within each panel. (Because autoregressive models require a minimum of two observations per panel, these models had a maximum of 174 succession events.) TMT additions and departures were not as highly correlated between years; applying the quasi-likelihood under the independence model criterion (QIC) measure (Cui and Qian, 2007; Pan, 2001) that indicates the appropriate structure, we chose an exchangeable correlation structure for these analyses.

[3] Because our measures of performance change incorporate pre-succession performance in their calculation, these models exclude the pre-succession performance control corresponding to the dependent variable being predicted. That is, models predicting ROA change include a control for pre-succession TSR but not ROA, and the opposite for models predicting TSR change.

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All models were estimated with the *xtgee* routine in STATA 11, using robust standard errors, which account for any misspecification in the correlation structure and provide a conservative test of our hypotheses (Hardin and Hilbe, 2003; Henderson *et al*., 2006). Each model was tested for colinearity by calculating the variance inflation factor (VIF). In all cases, our models had VIF values below 2.5 and, thus, were not problematic (Allison, 1999).

RESULTS

Means, standard deviations, and correlations for all variables are presented in Table 1. Table 2 presents simple descriptive data about who held the board chair position over time after succession, in our sample. As can be seen, upon succession the predecessor CEO remained chair in about half of all cases (51%); the successor CEO was immediately named chair in a quarter of all cases; and someone else was chair in the remaining quarter of cases. By the fifth year, half the successors in our sample were gone; of those remaining, 57 percent were chairs, 21 percent still reported to their predecessors, and 22 percent reported to a chair who was someone else.

We now provide further orientation to the simple relationships among succession conditions, retention, and strategic change. After all, one might reasonably ask: are predecessors ever retained under conditions of poor performance? If so, does retention (vs. departure) exert a distinct effect on strategic change, beyond the effects of pre-succession performance? As an illustrative analysis, Table 3 shows some simple statistics for the year after succession (Year 1) for four subsamples. First, we identified those firms that had pre-succession industry-adjusted TSRs in the bottom third of our overall sample, and those that had TSRs in the top third. Then, for each of these groups, we further identified those cases where there was no retention and those cases where the predecessor was retained through the first year (or beyond).

The first statistic we report is the simple count of each condition. Under conditions of poor performance, predecessor departure was much more prevalent than retention (37 vs. 15 cases, respectively); under conditions of strong performance, departure and retention were about equally common (26 vs. 28). Thus, as expected, pre-succession performance and retention were related, but far from totally (as Brickley *et al*., 1999, also found).

Table 3 also shows the mean for each of our strategic change indicators (for Year 1), for each performance-retention subsample. These figures should be taken as only suggestive, because no controls were included. Nonetheless, the pattern is informative: when we look at a given performance condition, cases of predecessor departure were uniformly associated with somewhat more change than were cases of retention (except for acquisitions). Similar tables, using pre-succession ROA and each of our four proxies for the board's desire for change (e.g., forced succession) showed the same patterns, suggesting that a) the incidence of predecessor retention varies with succession conditions, but not in a wholesale manner, and b) predecessor retention exhibits a suppressing effect on change *within each of the succession conditions*.

Effects of predecessor retention on strategic change

Hypothesis 1a predicted that predecessor retention would be negatively related to strategic change, while Hypothesis 1b predicted that strategic change would increase once the predecessor departed. We tested these hypotheses by estimating the effects of our two complementary independent variables—*predecessor retained* and *first free year*— on resource reallocation, acquisitions and divestitures, and TMT additions and departures (Tables 4 to 6). For each dependent variable, the first model includes all controls, the second includes predecessor retention, and the third model includes first free year.

In Model 2 of Table 4, predecessor retention as board chair was negatively related to resource reallocation ($p<0.05$), as hypothesized. In Model 3, first free year was positively related to resource reallocation ($p<0.05$), also as hypothesized.

Table 5 shows the effects of our independent variables on acquisitions and divestitures. While predecessor retention was not significantly related to acquisitions, first free year was negatively related to acquisitions ($p<0.05$), the opposite of our prediction. Predecessor retention was, however, negatively related to divestitures ($p<0.01$); and first free year was positively related to divestitures ($p<.001$), both as hypothesized.

Table 6 indicates that predecessor retention had no effect on TMT additions, while first free year

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Table 1. Means, standard deviations, and correlations

		Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
(1)	Resource reallocation (Year t)	0.59	0.84																		
(2)	Pre-succession resource reallocation	0.92	1.24	0.34																	
(3)	Acquisition count (Year t)	1.58	1.87	0.02	−0.04																
(4)	Divestiture count (Year t)	0.85	1.34	0.03	−0.07	0.45															
(5)	Pre-succession acquisition count	2.32	2.10	−0.05	−0.08	0.59	0.39														
(6)	TMT additions (Year t)	1.77	2.36	−0.03	−0.02	0.12	0.13	0.12													
(7)	Pre-succession TMT additions	1.21	1.89	−0.03	0.07	0.03	0.03	0.14	0.07												
(8)	TMT departures (Year t)	1.11	1.65	−0.06	−0.00	0.00	0.12	0.06	0.53	0.17											
(9)	Pre-succession TMT departures	1.22	1.81	−0.11	−0.01	0.03	0.03	0.06	0.08	0.71	0.10										
(10)	TMT remaining (Year t)	4.47	3.87	−0.07	0.04	0.13	0.19	0.16	0.24	0.27	0.50	0.15									
(11)	ROA change, ind. adj. (Year t+1)	0.14	0.16	0.23	0.27	−0.17	−0.08	−0.20	−0.00	−0.04	0.08	−0.03	0.04								
(12)	Pre-succession ROA change	0.11	0.15	0.19	0.41	−0.19	−0.09	−0.19	−0.04	0.03	0.03	0.00	0.02	0.54							
(13)	TSR change, ind. adj. (Year t+1)	0.65	0.60	0.09	0.10	−0.06	−0.01	−0.11	−0.01	0.01	0.00	0.04	0.03	0.03	0.07						
(14)	Pre-succession TSR change	0.76	0.82	0.02	0.05	−0.09	−0.06	−0.08	−0.03	−0.08	−0.02	−0.02	−0.04	0.05	0.05	0.38					
(15)	Pre-succession ROA	−0.04	0.19	−0.29	−0.27	0.20	0.09	0.22	0.04	0.04	−0.05	0.00	−0.03	−0.60	−0.61	0.04	0.02				
(16)	Pre-succession TSR	0.11	0.46	−0.12	−0.01	0.12	0.06	0.06	0.01	−0.12	−0.02	−0.02	−0.07	−0.16	−0.09	0.17	0.34	0.27			
(17)	ROA, industry adjusted (Year t-1)	−0.03	0.17	−0.20	−0.16	0.28	0.07	0.16	−0.00	0.00	−0.12	0.03	0.00	−0.40	−0.34	−0.01	0.02	0.57	0.23		
(18)	Slack (Year t-1)	2.73	1.61	0.11	0.15	−0.14	−0.16	−0.16	−0.08	−0.14	−0.08	−0.09	−0.10	0.02	0.01	−0.02	0.04	0.02	−0.02	0.07	
(19)	Sales (log, Year t-1)	6.82	1.58	−0.22	−0.22	0.48	0.47	0.47	0.20	0.18	0.12	0.23	0.28	−0.14	−0.15	−0.05	−0.13	0.22	0.14	0.25	−0.40
(20)	Succession forced	0.09	0.28	−0.01	−0.00	0.03	0.09	0.01	0.07	0.13	0.10	0.26	0.11	0.02	−0.04	0.02	−0.03	0.05	−0.06	0.02	−0.11
(21)	Tenure of predecessor CEO (log)	1.79	0.92	0.00	−0.15	0.12	0.01	0.11	0.02	−0.16	−0.03	−0.16	−0.08	−0.13	−0.23	−0.03	0.06	0.08	0.08	0.04	0.02
(22)	Pred. ownership (log, Year t)	0.01	0.04	−0.03	0.01	0.06	−0.01	0.09	−0.03	−0.13	0.01	−0.15	−0.00	−0.02	−0.10	0.02	0.06	0.00	0.22	0.06	0.01
(23)	Predecessor founder	0.24	0.43	0.02	−0.05	−0.04	−0.04	−0.05	0.00	−0.23	−0.04	−0.19	−0.10	−0.03	−0.01	0.11	0.04	0.03	0.11	0.04	0.07
(24)	Predecessor over age 65	0.18	0.38	−0.14	−0.09	0.05	−0.02	0.08	−0.05	0.01	−0.04	0.06	0.02	−0.07	−0.00	0.06	0.06	0.05	0.06	0.07	0.04
(25)	Independent board members (%)	63.41	16.46	−0.06	−0.04	−0.08	0.07	−0.10	0.05	0.14	0.05	0.16	0.03	−0.01	0.07	0.01	0.01	−0.00	−0.12	−0.03	−0.03
(26)	Outside successor	0.37	0.48	0.07	0.18	−0.18	−0.12	−0.11	0.02	0.09	0.05	0.04	−0.02	0.05	0.16	0.07	0.02	−0.10	−0.11	−0.14	0.02
(27)	Successor time as heir	0.62	1.01	−0.18	−0.23	0.17	0.04	0.16	−0.05	−0.10	−0.08	−0.12	0.09	−0.13	−0.22	−0.13	−0.05	0.15	0.09	0.14	−0.12
(28)	Successor ownership (log, Year t)	0.14	0.34	0.09	−0.06	−0.08	−0.04	−0.04	−0.05	−0.02	−0.02	−0.08	−0.04	0.02	−0.07	−0.00	0.03	−0.02	−0.06	−0.06	−0.04
(29)	Other chair	0.27	0.44	−0.03	0.11	−0.09	−0.13	0.02	0.06	0.16	0.08	0.10	−0.01	0.04	0.10	0.01	0.00	−0.06	−0.11	−0.11	0.08
(30)	Retention selection control	−1.05	0.39	−0.04	−0.02	−0.06	−0.03	−0.02	0.10	−0.15	0.21	−0.12	0.24	−0.01	0.02	0.14	0.02	−0.02	0.06	−0.03	0.02
(31)	Predecessor retained (fiscal)	0.35	0.46	−0.16	−0.11	0.02	−0.04	0.01	0.01	−0.19	0.03	−0.18	0.06	−0.09	−0.07	−0.06	0.04	0.12	0.23	0.11	0.08
(32)	Predecessor retained (time elapsed)	0.32	0.46	−0.15	−0.10	0.02	−0.08	0.00	−0.02	−0.19	−0.01	−0.19	0.02	−0.10	−0.07	−0.07	0.05	0.12	0.22	0.11	0.12
(33)	First free year (fiscal)	0.19	0.39	−0.01	0.02	−0.05	0.06	−0.01	0.17	0.03	0.28	0.04	0.22	0.06	0.02	0.09	0.01	−0.04	−0.07	−0.11	−0.04
(34)	First free year (time elapsed)	0.19	0.39	−0.04	0.01	−0.06	0.08	−0.01	0.21	0.04	0.34	0.05	0.29	0.05	0.03	0.10	−0.00	−0.04	−0.05	−0.08	−0.06

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Table 1. (*Continued*)

		(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)	(33)
(20)	Succession forced	0.20														
(21)	Tenure of predecessor CEO (log)	0.04	−0.27													
(22)	Predecessor ownership (log, Year t)	−0.02	−0.09	0.20												
(23)	Predecessor founder	−0.03	−0.11	0.38	0.22											
(24)	Predecessor over age 65	0.07	−0.14	0.22	−0.04	0.21										
(25)	Independent board members (%)	0.11	0.11	−0.10	−0.40	−0.23	−0.07									
(26)	Outside successor	−0.24	0.09	−0.20	−0.18	−0.11	−0.19	0.09								
(27)	Successor time as heir	0.31	−0.13	0.33	0.01	0.16	0.27	−0.02	−0.36							
(28)	Successor ownership (log, Year t)	−0.15	−0.03	−0.03	0.17	0.03	−0.07	−0.12	−0.08	−0.07						
(29)	Other chair	−0.18	−0.04	−0.11	−0.17	−0.19	−0.02	0.08	0.11	−0.09	−0.06					
(30)	Retention selection control	−0.06	−0.08	0.20	0.23	0.57	0.20	−0.39	−0.10	0.11	0.02	−0.12				
(31)	Predecessor retained (fiscal)	0.10	−0.21	0.35	0.38	0.33	0.19	−0.13	−0.25	0.37	−0.03	−0.38	0.43			
(32)	Predecessor retained (time elapsed)	0.07	−0.22	0.35	0.39	0.32	0.20	−0.14	−0.25	0.36	−0.03	−0.40	0.39	0.96		
(33)	First free year (fiscal)	−0.01	0.06	−0.09	−0.11	−0.07	−0.02	0.03	0.05	−0.08	−0.02	0.19	0.22	−0.29	−0.29	
(34)	First free year (time elapsed)	−0.00	0.06	−0.10	−0.11	−0.08	−0.05	0.04	0.05	−0.07	−0.03	0.21	0.27	−0.17	−0.29	0.76

n=726
Correlations >= |0.07| are significant at $p<0.05$

Table 2. Who is chair? Incidence over time since succession

Chair is...	Upon succession	Time since succession				
		1 year	2 years	3 years	4 years	5 years
Predecessor CEO	51%	39%	29%	26%	23%	21%
Successor CEO	25%	34%	43%	48%	54%	57%
Someone else	24%	27%	28%	27%	23%	22%
Successors still in office	181	181	174	149	122	90

Table 3. Amount of strategic change (Year 1 only), by retention condition, for high and low pre-succession TSR

	TSR bottom third		TSR top third	
	Departure	Retention	Departure	Retention
Number of cases	37	15	26	28
Mean resource reallocation	0.49	0.48	0.41	0.36
Mean acquisitions	0.20	0.12	0.15	0.25
Mean divestitures	0.08	0.06	0.13	0.08
Mean TMT additions	0.44	0.28	0.58	0.33
Mean TMT departures	0.37	0.32	0.46	0.30

Departure signifies cases where the predecessor totally left the firm upon the succession event.
Retention signifies cases where the predecessor remained as board chair through the end of Year 1 (or beyond).
Acquisitions and divestitures were standardized within each firm by the natural log of firm sales. TMT additions and departures were standardized by TMT size.

was positively related to TMT additions ($p<0.05$), as hypothesized. Predecessor retention was negatively related to TMT departures ($p<0.05$), and first free year was positively related to departures ($p<0.001$), both as hypothesized.

In summary, predecessor retention as chair was significantly negatively related to resource reallocation, divestitures, and TMT departures, providing considerable support for Hypothesis 1a. First free year was significantly positively related to resource reallocation, divestitures, TMT additions, and TMT departures, providing support for Hypothesis 1b. We did not find evidence that either of our key variables affected acquisitions as predicted (indeed, we found that first free year had an effect opposite of what we predicted), nor did we find that predecessor retention affected TMT additions; these are discussed below.

Effects of predecessor retention on performance change

Hypothesis 2a predicted that predecessor retention as chair would be negatively related to performance change, while Hypothesis 2b predicted that first free year would bring about an increase in performance change. Results are reported in Table 7; Models 1–5 are for ROA, and Models 6–10 are for TSR. As shown in Models 2 and 7, retention was negatively related to both ROA and TSR change ($p<0.05$ and $p<0.01$ respectively). In Model 4, first free year was positively related to ROA change ($p<0.05$). First free year was not, however, related to TSR change (Model 9). These results provide substantial support for Hypothesis 2a and partial support for Hypothesis 2b. As long as the predecessor is chair, company performance tends to remain in line with pre-succession performance; but when the predecessor leaves the chair position, there is an increased tendency toward large changes in accounting performance—big gains or big drops.

Hypothesis 3a predicted that the relationship between retention and post-succession performance change would be mediated by strategic change, which we tested by applying Baron and Kenny's (1986) four criteria. First the independent variables (retention and first free year) must be significantly related to the mediator (various indicators of strategic change); second, the same independent variables must be significantly related to the dependent variable (performance change); third, when all variables are entered into the model, the mediator (strategic change) must be related to the dependent variable (performance change); and

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Table 4. Effects of predecessor retention and first free year on resource reallocation (in Year t)

	(1)	(2)	(3)
	Resource reallocation		
Pre-succession resource reallocation	0.18**	0.18**	0.18**
	(0.06)	(0.06)	(0.06)
Calendar year dummies		Included	
Successor tenure year dummies		Included	
SIC 357 dummy	0.35*	0.37*	0.38*
	(0.17)	(0.17)	(0.17)
SIC 737 dummy	0.81***	0.80***	0.83***
	(0.15)	(0.15)	(0.14)
Slack (Year t-1)	0.02	0.02	0.02
	(0.03)	(0.02)	(0.02)
Sales (log, Year t-1)	−0.02	−0.03	−0.04
	(0.05)	(0.05)	(0.05)
ROA, industry adjusted (Year t-1)	0.26	0.26	0.28
	(0.25)	(0.24)	(0.23)
Tenure of predecessor CEO (log)	0.07	0.09	0.08
	(0.07)	(0.08)	(0.07)
Predecessor ownership (log, Year t)	−3.24+	−1.99	−3.01
	(1.92)	(1.65)	(1.85)
Successor ownership (log, Year t)	0.02	0.01	0.01
	(0.15)	(0.15)	(0.14)
Other chair	0.06	−0.02	−0.00
	(0.14)	(0.13)	(0.13)
Pre-succession ROA	−1.26***	−1.26***	−1.28***
	(0.34)	(0.33)	(0.33)
Pre-succession TSR	−0.19	−0.18	−0.23
	(0.16)	(0.16)	(0.16)
Succession forced	−0.03	−0.07	−0.05
	(0.22)	(0.21)	(0.22)
Outside successor	−0.04	−0.06	−0.05
	(0.17)	(0.17)	(0.17)
Successor time as heir	−0.14+	−0.13+	−0.15*
	(0.08)	(0.08)	(0.08)
Retention selection control	0.12	0.15	0.08
	(0.21)	(0.20)	(0.21)
Predecessor retained (Year t)		−0.28*	
		(0.12)	
First free year (Year t)			0.15*
			(0.07)
Constant	−1.40**	−1.30**	−1.44**
	(0.51)	(0.50)	(0.50)
Observations	696	696	696
Number of successions	174	174	174
Wald chi-square	204.7	219.2	215.0

Semi-robust errors in parentheses
*** p<0.001, ** p<0.01, * p<0.05, + p<0.10

fourth, the independent variables (retention or first free year) should be diminished in magnitude and significance.

The mediation tests are shown in Models 3, 5, 8, and 10 in Table 7. Building on the base models discussed earlier, in Model 3 the array of strategic change variables were introduced with predecessor retention also in the model. The coefficient for predecessor retention declined from -0.34 to -0.33, which suggests that our strategic change variables partially mediated the relationship between retention and ROA performance change. We further

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Table 5. Effects of predecessor retention and first free year on acquisition and divestiture counts (in year t)

	(1)	(2)	(3)	(4)	(5)	(6)
	Acquisitions			Divestitures		
Pre-succession acquisition count	0.08***	0.08***	0.08***			
	(0.01)	(0.01)	(0.01)			
Pre-succession divestiture count				0.01	0.02*	0.02*
				(0.01)	(0.01)	(0.01)
Calendar year dummies			Included			
Successor tenure year dummies			Included			
SIC 357 dummy	−0.10+	−0.09+	−0.10+	−0.07	−0.05	−0.08
	(0.05)	(0.05)	(0.05)	(0.07)	(0.07)	(0.07)
SIC 737 dummy	0.00	−0.00	0.00	0.15*	0.16**	0.16**
	(0.05)	(0.05)	(0.04)	(0.06)	(0.06)	(0.06)
Slack (Year t-1)	0.02	0.02	0.02	0.03	0.06*	0.04*
	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.02)
Sales (log, Year t-1)	0.04***	0.04***	0.05***	0.18***	0.19***	0.17***
	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.02)
ROA, industry adjusted (Year t-1)	0.99***	0.99***	0.95***	−0.12	−0.59+	−0.40
	(0.18)	(0.19)	(0.18)	(0.15)	(0.30)	(0.26)
Tenure of predecessor CEO (log)	−0.01	−0.01	−0.02	−0.05	−0.04	−0.05
	(0.02)	(0.02)	(0.02)	(0.04)	(0.04)	(0.04)
Predecessor ownership (log, Year t)	−0.28	−0.25	−0.36+	0.35	1.00*	0.41
	(0.20)	(0.21)	(0.20)	(0.50)	(0.48)	(0.43)
Successor ownership (log, Year t)	−0.10+	−0.10+	−0.12*	−0.05	−0.08	−0.08
	(0.05)	(0.05)	(0.05)	(0.07)	(0.07)	(0.07)
Other chair	−0.03	−0.03	0.00	−0.05	−0.15*	−0.15*
	(0.03)	(0.03)	(0.03)	(0.06)	(0.07)	(0.07)
Pre-succession ROA	−0.32**	−0.32**	−0.31**	0.08	0.39	0.29
	(0.11)	(0.11)	(0.11)	(0.22)	(0.29)	(0.25)
Pre-succession TSR	0.01	0.01	0.02	−0.10	−0.00	−0.06
	(0.04)	(0.04)	(0.04)	(0.07)	(0.09)	(0.08)
Succession forced	0.04	0.04	0.04	−0.04	−0.12	−0.06
	(0.04)	(0.04)	(0.04)	(0.08)	(0.08)	(0.07)
Outside successor	−0.09*	−0.09*	−0.09*	−0.03	−0.06	−0.06
	(0.04)	(0.04)	(0.04)	(0.06)	(0.07)	(0.06)
Successor time as heir	−0.02+	−0.02	−0.02	−0.03	0.03	−0.02
	(0.01)	(0.01)	(0.01)	(0.02)	(0.03)	(0.03)
Retention selection control	−0.01	−0.00	0.03	0.01	0.15	0.03
	(0.04)	(0.04)	(0.04)	(0.07)	(0.10)	(0.08)
Predecessor retained (Year t)		−0.01			−0.34**	
		(0.03)			(0.12)	
First free year (Year t)			−0.06*			0.27***
			(0.03)			(0.08)
Constant	−1.04***	−1.03***	−1.05***	−1.79***	−1.83***	−2.01***
	(0.12)	(0.12)	(0.12)	(0.20)	(0.21)	(0.21)
Observations	712	712	712	712	712	712
Number of successions	174	174	174	174	174	174
Wald chi-square	601.4	616.8	614.8	520.0	625.3	714.2

Semi-robust errors in parentheses
*** p<0.001, ** p<0.01, * p<0.05, + p<0.10

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Table 6. Effects of predecessor retention and first free year on TMT additions and departures (in Year t)

	(1)	(2)	(3)	(4)	(5)	(6)
	TMT additions			TMT departures		
Pre-succession TMT additions	−0.01	−0.01	−0.01			
	(0.01)	(0.01)	(0.01)			
Pre-succession TMT departures				−0.02*	−0.02*	−0.01
				(0.01)	(0.01)	(0.01)
TMT remaining (Year t)	0.02***	0.02***	0.02***	0.05***	0.05***	0.06***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)
Calendar year dummies			Included			
Successor tenure year dummies			Included			
SIC 357 dummy	0.09*	0.10*	0.10**	0.06	0.08	0.02
	(0.04)	(0.04)	(0.04)	(0.05)	(0.05)	(0.05)
SIC 737 dummy	0.10**	0.10**	0.11**	0.07	0.08	0.03
	(0.04)	(0.04)	(0.04)	(0.05)	(0.05)	(0.05)
Slack (Year t-1)	0.00	0.00	0.00	−0.01	−0.01	−0.01
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Sales (log, Year t-1)	0.06***	0.06***	0.06***	0.04**	0.04**	0.03*
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
ROA, industry adjusted (Year t-1)	−0.19	−0.20	−0.18	−0.64***	−0.65***	−0.76***
	(0.13)	(0.13)	(0.13)	(0.15)	(0.15)	(0.16)
Tenure of predecessor CEO (log)	0.04**	0.05**	0.05**	0.06*	0.08**	0.07**
	(0.02)	(0.02)	(0.02)	(0.03)	(0.03)	(0.03)
Predecessor ownership (log, Year t)	−0.10	−0.02	−0.02	0.68+	0.99*	0.53
	(0.29)	(0.31)	(0.31)	(0.41)	(0.43)	(0.43)
Successor ownership (log, Year t)	−0.08+	−0.08+	−0.08+	0.13***	0.11**	0.04
	(0.05)	(0.05)	(0.05)	(0.03)	(0.04)	(0.04)
Other chair	0.11***	0.09**	0.08**	0.19***	0.14***	0.07
	(0.03)	(0.03)	(0.03)	(0.04)	(0.04)	(0.05)
Pre-succession ROA	0.14	0.14	0.13	0.42**	0.44**	0.52***
	(0.12)	(0.13)	(0.12)	(0.14)	(0.14)	(0.15)
Pre-succession TSR	−0.04	−0.03	−0.03	−0.02	−0.02	0.05
	(0.03)	(0.03)	(0.03)	(0.04)	(0.04)	(0.04)
Succession forced	0.01	−0.00	−0.00	0.08	0.05	−0.01
	(0.04)	(0.04)	(0.04)	(0.06)	(0.06)	(0.07)
Outside successor	0.04	0.04	0.04	0.09*	0.08+	0.07+
	(0.03)	(0.03)	(0.03)	(0.04)	(0.04)	(0.04)
Successor time as heir	−0.07***	−0.07***	−0.07***	−0.11***	−0.11***	−0.12***
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Retention selection control	0.11+	0.12*	0.11+	0.04	0.09	0.00
	(0.06)	(0.06)	(0.06)	(0.07)	(0.08)	(0.09)
Predecessor retained (Year t)		−0.04			−0.12*	
		(0.05)			(0.06)	
First free year (Year t)			0.07*			0.18***
			(0.04)			(0.05)
Constant	−1.01***	−1.00***	−1.07***	−1.48***	−1.44***	−1.65***
	(0.12)	(0.12)	(0.13)	(0.15)	(0.15)	(0.17)
Observations	709	709	709	639	639	639
Number of successions	181	181	181	181	181	181
Wald chi-square	296.5	288.7	297.6	704.8	587.7	728.6

Semi-robust errors in parentheses
*** p<0.001, ** p<0.01, * p<0.05, + p<0.10

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Table 7. Effects of predecessor retention and first free year on industry adjusted performance change (in Year t+1)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	ROA change					TSR change				
Pre-succession ROA change	2.49***	2.66***	2.52***	2.53***	2.39***					
	(0.26)	(0.26)	(0.26)	(0.26)	(0.26)					
Pre-succession TSR change						0.32***	0.33***	0.33***	0.32***	0.32***
						(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Calendar year dummies					Included					
Successor tenure year dummies					Included					
SIC 357 dummy	0.22	0.24	0.24	0.23	0.23	0.05	0.05	0.04	0.05	0.04
	(0.18)	(0.18)	(0.17)	(0.18)	(0.18)	(0.17)	(0.16)	(0.16)	(0.17)	(0.17)
SIC 737 dummy	−0.13	−0.15	−0.19	−0.13	−0.17	0.16	0.13	0.11	0.16	0.13
	(0.16)	(0.16)	(0.16)	(0.16)	(0.17)	(0.14)	(0.14)	(0.14)	(0.14)	(0.14)
Slack (Year t-1)	−0.02	−0.02	−0.02	−0.02	−0.02	−0.02	−0.01	−0.01	−0.02	−0.02
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Sales (log, Year t-1)	−0.08+	−0.07+	−0.05	−0.08+	−0.05	0.02	0.02	0.04	0.02	0.03
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.03)	(0.03)	(0.04)	(0.03)	(0.04)
Tenure of predecessor CEO (log)	−0.06	−0.03	−0.05	−0.06	−0.08	−0.05	−0.02	−0.02	−0.04	−0.04
	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Pred. ownership (log, Year t)	1.02	1.90	1.92	1.22	1.21	0.29	1.29	1.31	0.40	0.46
	(1.49)	(1.46)	(1.43)	(1.45)	(1.42)	(1.16)	(1.09)	(1.07)	(1.15)	(1.14)
Successor ownership (log, Year t)	0.12	0.11	0.08	0.12	0.10	−0.07	−0.09	−0.10	−0.07	−0.08
	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)	(0.14)	(0.14)	(0.14)	(0.14)	(0.14)
Other chair	0.08	−0.03	−0.04	0.04	0.03	−0.01	−0.14	−0.12	−0.03	−0.02
	(0.12)	(0.13)	(0.13)	(0.13)	(0.12)	(0.11)	(0.12)	(0.12)	(0.12)	(0.12)
Pre-succession TSR	−0.29*	−0.25*	−0.21+	−0.28*	−0.24+					
	(0.13)	(0.12)	(0.12)	(0.13)	(0.13)					
Pre-succession ROA						0.05	0.11	0.19	0.06	0.15
						(0.25)	(0.26)	(0.28)	(0.25)	(0.28)
Succession forced	0.05	0.01	−0.04	0.05	0.00	−0.00	−0.07	−0.07	−0.01	−0.01
	(0.19)	(0.19)	(0.18)	(0.19)	(0.18)	(0.22)	(0.21)	(0.20)	(0.22)	(0.21)

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Outside successor	−0.12	−0.12	−0.11	−0.13	−0.11	0.08	0.06	0.05	0.08	0.07
	(0.13)	(0.13)	(0.12)	(0.13)	(0.12)	(0.12)	(0.11)	(0.11)	(0.12)	(0.12)
Successor time as heir	−0.01	0.03	0.05	−0.00	0.01	−0.14*	−0.11+	−0.11+	−0.14*	−0.13*
	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Retention selection control	0.01	0.09	0.11	0.00	0.03	0.43*	0.50**	0.49**	0.43*	0.42*
	(0.19)	(0.19)	(0.19)	(0.19)	(0.19)	(0.18)	(0.18)	(0.17)	(0.18)	(0.17)
Resource reallocation (Year t)			0.09+		0.10*			0.07		0.08
			(0.05)		(0.05)			(0.05)		(0.05)
Acquisition count (Year t)			−0.03		−0.02			−0.01		−0.01
			(0.03)		(0.03)			(0.02)		(0.02)
Divestiture count (Year t)			−0.03		−0.03			−0.01		−0.00
			(0.03)		(0.03)			(0.03)		(0.03)
TMT additions (Year t)			0.01		0.01			−0.01		−0.01
			(0.02)		(0.02)			(0.01)		(0.01)
TMT departures (Year t)			0.03		0.03			−0.01		−0.01
			(0.02)		(0.02)			(0.02)		(0.02)
Predecessor retained (Year t)		−0.34*	−0.33*				−0.34**	−0.33**		
		(0.14)	(0.15)				(0.12)	(0.12)		
First free year (Year t)				0.19*	0.17+				0.08	0.09
				(0.09)	(0.09)				(0.08)	(0.08)
Constant	−1.84***	−1.75***	−1.90***	−1.96***	−2.09***	−0.25	−0.16	−0.24	−0.30	−0.38
	(0.45)	(0.44)	(0.41)	(0.45)	(0.43)	(0.43)	(0.43)	(0.42)	(0.43)	(0.44)
Observations	646	646	646	646	646	612	612	612	612	612
Number of successions	170	170	170	170	170	164	164	164	164	164
Wald chi-square	328.0	354.6	444.3	350.6	431.2	147.7	157.9	185.7	161.9	185.3

Semi-robust errors in parentheses
*** p<0.001, ** p<0.01, * p<0.05, + p<0.10

tested this relationship by performing a Sobel (1982) test for each individual mediating variable.[4] A Sobel test indicated that resource reallocation was a partial mediator (Sobel test $p<0.05$); such tests for each of the other mediators were not significant when predicting ROA performance change. This general pattern was also evident for TSR change. In Model 8, the coefficient for retention declined from -0.34 to -0.33; however, none of the individual Sobel tests were significant.

Hypothesis 3b predicted that the relationship between first free year and post-succession performance change would be mediated by strategic change. Again building from the base models, the strategic change variables were introduced in Model 5, with first free year also in the model. The coefficient for first free year declined from 0.19 to 0.17 and became marginally significant, which suggests that our strategic change variables mediated the relationship between first free year and performance change. A Sobel test was significant for resource reallocation but was not significant for other variables. Because first free year was not significantly related to TSR change, we could not test for mediation between these variables.

Despite examining only a small subset of all possible indicators of strategic change, and using the conservative Sobel test (MacKinnon, Warsi, and Dwyer, 1995), our results provide some evidence of partial mediation, in support of Hypotheses 3a and 3b. It appears that predecessor retention suppresses strategic change, which leads to diminished performance change. Correspondingly, the ultimate departure of the predecessor leads to more strategic change, resulting in bigger changes in performance.

[4] While it is possible to test for mediation by multiple variables simultaneously (e.g. Preacher and Hayes, 2008), such a test requires a uniform sample size, consistent set of independent variables, and uniform estimation techniques across all models used in each step of the mediation test. Because of the differing forms of predecessor retention and first free year variables depending on the timing of measurement, and variations in statistical modeling based on the form of the dependent variable, this type of formal test was not feasible. Because we envision that mediation occurs through our full set of strategic change indicators, as well as others not included, the Sobel test of each separate variable is a more conservative test, as it requires each variable to show a significant result.

DISCUSSION

Executive succession is often viewed as an occasion for strategic realignment (Pfeffer and Salancik, 1978; Wiersema, 1992, 1995). But new CEOs can only take their organizations in new directions to the extent that they have discretion to do so (Hambrick and Finkelstein, 1987). Our study suggests that the continuing presence of the predecessor CEO as board chair restricts a new CEO's discretion. With comprehensive controls—for a firm's capacity for change (slack, size), need for change (pre-succession performance), and typical indicators of a board's desire for change (hiring an outsider, forced succession, and elevation of an heir apparent)—we find that predecessor retention suppresses several types of strategic changes: in resource reallocation, divestitures, and executive replacements. Moreover, as long as the predecessor remains as chair, company performance tends to adhere to pre-succession levels. New CEOs who are restricted in their actions are correspondingly restricted in the degree to which they can alter performance.

Our study helps to highlight the important distinction that Shen and Cho (2005: 844) drew between discretion as 'latitude of action' vs. 'latitude of objectives.' New CEOs who operate in the shadows of their predecessors have restricted leeway in the strategic means at their disposal, which in turn limits the degree to which they can generate distinctive results. These CEOs might be completely intent on delivering profitability and shareholder returns, hence there is no apparent concern regarding their objectives; but they are restricted in their ability to deliver exceptional performance (either positive or negative).

We additionally find that once the predecessor *does* relinquish the chair position, there is an abrupt increase in changes of four types: resource reallocation, divestitures, executive additions, and executive departures. Performance, as measured by ROA, tends to then diverge significantly from pre-succession levels. This pattern suggests that the constraining influence of a retained predecessor is temporary, not permanent. The retained predecessor does not indelibly dissuade the new CEO from considering changes; instead, the new CEO—who is probably eager to enact some changes—puts a host of actions on hold. Once the predecessor fully departs, there is a substantial burst of activity as the result

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of enhanced discretion. As such, a predecessor's retention as chair can be thought of as a 'quasi-succession,' delaying many of the typical consequences of CEO turnover.

Although Hambrick and Finkelstein (1987: 374) emphasized that 'constraint exists whenever an action lies outside the "zone of acceptance" of powerful parties,' most discretion research has focused on relatively diffuse conditions that allow (or restrict) managerial leeway: product differentiability, industry growth, organizational slack, and the manager's personality (e.g., Carpenter and Golden, 1997; Finkelstein and Boyd, 1998; Hambrick and Abrahamson, 1995). Discretion researchers have paid little attention to sources of outright constraint.

Further, apart from studies that have examined managerial responses to deregulation (e.g., Cho and Shen, 2007; Rajagopalan and Finkelstein, 1992), there has been relatively little consideration of how a given executive (or set of executives) responds when *freed* from an identifiable constraint. Our findings suggest that executives react to newfound freedom (i.e., departure of their predecessors from the chair position) with a large burst of change. Thus, our study also illustrates the merits of a dynamic view of managerial discretion.

Although we found considerable support for our hypotheses, it is interesting to consider some of the areas where we did not observe the expected outcomes. Most notably, retention had no effect on acquisition activity. Two explanations may underlie this result. First, new CEOs might generally lack the political foothold to make acquisitions (Hambrick and Fukutomi, 1991). If so, retained predecessors might exert simultaneous offsetting effects—quashing some of the new CEOs' proposed deals, but also endorsing some that would otherwise be resisted by boards. In a similar vein, we also found that predecessor retention had no effect on TMT additions but was related to TMT departures. Together, these findings suggest that retained predecessors may not constrain the new CEO from making *additions* as much as from making *deletions*.

This asymmetrical effect on 'additions to' vs. 'deletions from' the predecessor's legacy is an intriguing finding, suggesting just how delicate the socio-political dynamics between a retained predecessor and successor might be. The new CEO may have considerable leeway to take on new initiatives (e.g., acquire firms and hire top executives), but might be essentially blocked from undoing any of the predecessor's favorite programs (e.g., divesting businesses and dismissing top executives). This would mean that as long as the predecessor is on the scene a new CEO will tend to pursue an asymmetric agenda emphasizing new initiatives without the ability to drop old ones. In short, Golub's quote, mentioned earlier, seems to provide an accurate depiction of CEO-chair dynamics when the predecessor is retained.

The predecessor's power

Given that our models emphasize the interplay between two top-level executives, we considered the possibility that power, rather than the more diffuse construct of discretion, is the force that underlay the phenomena empirically shown in this paper. It is possible that retained predecessors vary widely in how much real influence they have over their successors. For instance, some former CEOs might hold the chair title merely as a symbolic honor, but without much influence. As a way to explore this possibility, we coded all predecessor CEOs on several well-known indicators of executive influence (shareholdings, founder, tenure as CEO, performance prior to succession, and various summative indices of these variables), and we examined the interactions of these measures with retention and departure—with no significant results.[5] It seems, then, that simply being in the chair role provides all the requisite influence needed to limit a successor's discretion, regardless of the chair's earned stature or legitimacy. This is exactly the image evoked by Bowen (2008: 122) in his book on boards:

> *the former CEO's presence makes it difficult to review past decisions and earlier practices openly and candidly. Even with the best will in the world, it is hard for any former CEO to be entirely objective about decisions made on his [or her] watch. Moreover, friends of the former CEO, and others who do not want to hurt feelings or give offense, will inevitably find it*

[5] We also considered the possibility that the effects of retention would diminish over time—namely that after a predecessor was retained for a few years, the successor would find ways to work around the predecessor. Including an interaction of retention and post-succession year was not significant.

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Table 8. Effects of predecessor retention and first free year (both in Year t) on positive vs. negative performance change (in Year t+1)[a]

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	ROA change				TSR change			
	Positive only[b]	Negative only	Positive only	Negative only	Positive only	Negative only	Positive only	Negative only
Predecessor retained (Year t)	−0.38*	−0.13			−0.48**	−0.23+		
	(0.17)	(0.19)			(0.17)	(0.13)		
First free year (Year t)			0.18*	0.13			0.16	0.10
			(0.09)	(0.14)			(0.14)	(0.10)
Constant	0.22	−2.47***	−0.20	−2.54***	−0.42	−0.58	−0.74	−0.75
	(0.84)	(0.70)	(0.83)	(0.70)	(0.72)	(0.49)	(0.78)	(0.49)
Observations	324	342	324	342	334	308	334	308
Number of successions	130	132	130	132	138	138	138	138
Wald chi-square	600.9	170.2	687.5	170.8	361.8	273.7	356.7	322.8

[a] GEE models include all the same control variables as in Table 5.
[b] The splined subsamples were cases in which industry-adjusted performance in Year t+1 was greater than in the final year of the predecessor's tenure (positive only) vs. lower than in that year (negative only). For both subsamples, greater values represent larger performance changes—bigger increases or bigger decreases.

more difficult to raise questions if the architect of past decisions... is sitting across the table.

A new perspective on CEO duality

Beyond our contribution to the managerial discretion literature, our study suggests the need to reframe the long-standing debate about the benefits (and costs) of having someone other than the current CEO serve as chair—or its obverse, often called 'CEO duality' (Finkelstein and D'Aveni, 1994; Harris and Helfat, 1998). As noted earlier, proponents of separation envision an impartial chair—in a variation of the model used in many British firms (Lorsch and MacIver, 1989)—who will oversee the CEO without strong biases about any particular policies or people within the firm. Studies on U.S. firms have shown that the effects of separation (or duality) are mixed (Daily and Dalton, 1992; Dalton *et al*., 1998). However, essentially all such studies fail to acknowledge that, in the United States, separation often signifies that the chair is the former CEO.

In our sample, new CEOs were denied the chair position in the first year 75 percent of the time; in two-thirds of those cases, the chair was the former CEO—hardly a dispassionate overseer and often, as we have argued, an outright obstacle to change. Indeed, it is noteworthy that our control for 'other chair,' or instances in which someone other than the predecessor or successor was chair, did *not* exhibit a constraining effect on change (except a marginal negative effect on divestitures), and it had a strongly *positive* influence on TMT additions and departures. Future research should pointedly consider the exact identity of the board chair.

Helpful or harmful?

In a supplementary analysis, we explored the possibility that predecessor retention had asymmetrical effects on performance—possibly suppressing the magnitude of gains more (or less) than declines. To do so, we replicated our performance regressions, as reported in Table 7, but examined two splined subsamples: a) those cases in which firms experienced performance increases in t+1, and b) those instances of performance decreases in t+1 (both were relative to industry-adjusted performance in the predecessor's final year). The results, shown in an abridged format in Table 8, were highly noteworthy (to save space, the table only shows results for our independent variables; however all the control variables in Table 7 were included).

As shown, predecessor retention was significantly ($p<0.01$) negatively related to magnitudes of ROA increases (Model 1), but was nonsignificant in its negative association to magnitudes of ROA drops (Model 2). The same pattern was evident for TSR (Models 5 and 6). Similarly, first free year (representing the complete departure of

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the predecessor) had a significant ($p<0.05$) positive association with subsequent ROA increases, while it had a nonsignificant positive association with ROA drops (Models 3 and 4). No differential was observed for TSR (Models 7 and 8). Collectively, these results portray a highly consistent picture: the retention of predecessors had a much more pronounced effect in preventing new CEOs from making big performance gains than it did in preventing big declines. Correspondingly, the predecessor's complete departure was followed by larger ROA increases than decreases.

As provocative as these results are, we do not want to overstate them. We had no *a priori* hypotheses about this asymmetric performance pattern. Moreover, the pattern might not occur in more stable industries. Giving a new CEO a free hand in a highly dynamic industry, as we studied, might be relatively beneficial; but giving a new CEO wide leeway in a more stable industry, in which incrementalism is often warranted, might be less beneficial.

More generally, however, our results suggest that predecessor retention tends to suppress change. In allowing predecessors to stay on as chairs—perhaps as an honorific courtesy or because of institutionalized custom—boards need to be vigilant of the possibility that their new CEOs may be explicitly or implicitly thwarted in their attempts to update their firms' profiles. If a board is relatively confident in the new CEO, and if board members want the firm to stay up to date, then they should probably bid the predecessor farewell completely. If board members seek the benefit of the predecessor's wisdom and experience, perhaps the suitable compromise—undertaken by some boards—is to retain the predecessor strictly in a consulting capacity for six months or so.

FUTURE RESEARCH AND SUMMARY

Our examination of predecessor retention as chair suggests several additional lines of inquiry. First, although our study demonstrated that successors are constrained by the continued presence of their predecessors, we did not shed light on how this constraint is enacted. Do retained predecessors explicitly say no a lot, or do successors hold back certain proposals in anticipation that they would be met with resistance? While the research of Westphal and colleagues (Westphal, 1999; Westphal and Khanna, 2003; Westphal and Zajac, 1995) on the dynamics of CEO-board interactions suggests how certain behavioral factors might lead to constraint, field research could provide a much clearer picture of how retained predecessors exert their influence.

Second, it would be interesting to consider how various personality traits would affect a new CEO's behaviors when the predecessor is chair. For instance, Chatterjee and Hambrick (2007) showed that narcissistic CEOs tend to make large bets and generate extreme outcomes. Successors with these traits might care little about the feelings of their predecessors; they may have a dispositional orientation toward dramatic change, regardless of predecessor biases. Similarly, it is possible that retained predecessors who are highly narcissistic might exert particularly great constraint on new CEOs. The interplay of personality traits of both predecessor and successor might provide a greater explanation of executive behaviors in the post-succession setting.

Finally, it might be fruitful to examine how new CEOs enhance their discretion by working around the constraints imposed by their retained predecessors. We have portrayed retained predecessors as generally resistant to changes in the policies they put in place, but the reality might be that they are selectively resistant to some changes but indifferent to others. If so, the challenge for the new CEO who wants to exert influence is to detect just which decision domains lay within the predecessor's zone of acceptance early on, while developing tactics for bypassing the predecessor over time.

In summary, our study provides substantial evidence of the restrictive effects of predecessors retained as board chairs. By additionally showing that successors undertake major changes upon ultimate departure of their predecessors, we present a dynamic view of discretion, providing insights both for researchers and practitioners. Further, our study points to a series of future projects that can further elaborate on the phenomenon of predecessor retention.

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