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Fresh in the Saddle: The Influence of a New CEO's Vision and Origin, and CEO Succession Type on Market Actors' Reactions

ABSTRACT (150 words)

CEO succession is a critical event in the life of a company. How external stakeholders respond to it, can affect the company's valuation. This study investigates how securities analysts' and investors' reactions to CEO succession are affected by the interplay between the charisma of the new CEO's vision, the new CEO's origin (whether an insider or outsider), and the type of CEO succession (whether routine, dismissal or interim). Drawing on the literature on signaling, we suggest that because a charismatic vision emits a positive signal about the company's future performance, it will affect market actors' reactions by either weakening or strengthening the influence of the signals emitted by other succession context contingencies, namely, CEO origin and succession type. To test our predictions regarding analysts' and investors' reactions, we respectively analyze panel data and conduct an event study. The results support most of our predictions. We discuss the study's contributions and implications.

Keywords: CEO Succession, CEO Origin, Charismatic Vision, Market Performance, Signaling Theory.

Introduction

CEO succession is a momentous corporate event that can influence the well-being of a company (Berns and Klarner, 2017; Giambatista, Rowe, and Riaz, 2005). Researchers have therefore devoted considerable effort to studying the reactions of important market actors to CEO succession (e.g., Shen and Cannella, 2003; Worrell, Davidson, and Glascock, 1993). How these actors respond to CEO succession is important because their reactions reflect the expected future performance of a company (e.g., Wiersema, 2002). One salient message to come from past research is that their reactions seem to depend on the signals transmitted about a firm's performance prospects by the contingencies attending a CEO succession event. Thus, whether the market reactions are positive or negative may hinge on factors, such as, whether CEO succession is an ordinary or a sudden, involuntary event (CEO dismissal), and whether the new CEO is an insider or an outsider (e.g., Chung et al., 1987; Davidson, Worrell, and Dutia, 1993; Hilger, Mankel, and Richter, 2013; Lubatkin et al., 1989; Worrell and Davidson, 1987). In this article, we take forward research on the effect succession context contingencies have on market actors' (i.e., securities analysts and investors) reactions to CEO succession.

The article centers on an important succession context contingency that has received little empirical attention so far (for a partial exception, see Fanelli, Misangyi, and Tosi, 2009), namely, the charisma of the vision articulated by the incoming CEO. A vision is said to be more charismatic when it includes a compelling critique of the status quo, promises an attractive future, and spells out how it will be attained (Conger and Kanungo, 1998; Fanelli et al., 2009). We submit that for a better understanding of market reactions to CEO succession, it is crucial to consider the charisma of a new CEO's vision inasmuch as it can strengthen or weaken the signaling effects of other succession context contingencies (cf. Connelly et al., 2016; Gomulya

and Boeker, 2014). In this respect, our article enriches the literature by examining for the first time how securities analysts as well as investors react to different combinations of new CEO's vision charisma, new CEO's origin (i.e., insider or outsider), and the CEO succession type (i.e., ordinary, dismissal or interim).

Drawing on signaling theory (Bergh et al., 2014; Spence, 2002), the article argues that analysts' and investors' reactions will generally be positive to insider CEO successions that are ordinary (routine), as well as outsider CEO successions that follow the dismissal of the incumbent CEO. However, the uncertainty conveyed about a firm's future performance by either interim or insider CEO successions that follow the dismissal of the incumbent CEO will elicit negative reactions. Importantly, the article furthermore suggests that the charisma of the new CEO's vision will reinforce the positive reactions and offset the negative ones by suggesting to analysts and investors that the incoming CEO has the wherewithal to lead the firm to a more prosperous future. We test these arguments using panel data from U.S. manufacturing firms over a twelve-year period and by conducting an event study. Our overall contention about the significance of the new CEO's vision charisma in different succession contingencies finds support in the data examined.

This study contributes to the CEO succession literature by examining how interacting signals sent by different succession context contingencies influence market actors' reactions to succession events. It particularly adds new, noteworthy findings regarding the moderating effect of a charismatic vision on the signals sent by the CEO origin and succession type contingencies. In doing so, the study underscores that not only do the insider or outsider status of the new CEO and the routine, dismissal or interim character of a succession event matter to analysts and investors (Lubatkin et al., 1989; Shen and Cannella, 2003), but also some qualities of the vision

of the incoming CEO (see also, Fanelli et al., 2009). The results of this study offer a basis for resolving the mixed findings earlier research has reported regarding reactions to insider and outsider CEOs. On a related but different note, as analysts' and investors' attitudes to interim CEO successions are not well understood, another important contribution of the study is to the literature on interim CEOs (e.g., Ballinger and Marcel, 2010). We continue the discussion of contributions and implications in the final section of the article.

Theoretical background

Research shows that market actors are not perfectly rational – contrary to the efficient market hypothesis, their reactions to events and issues are not the outcome of rational-deductive calculations based on the analysis of all available information (Fama, 1970). Rather, empirical evidence indicates that market actors often display bounded rationality when taking decisions (e.g., Schijven and Hitt, 2012; Zajac and Westphal, 2004). Bounded rationality (March and Simon, 1958; Simon, 1955; see also Hambrick and Mason, 1984) means that actors experience limitations in their capacity to gather and process all relevant information. In contexts that are complex and uncertain, they therefore tend to base their decisions on the processing of information conveyed by prominent cues or signals. One specific context rich in complexity and uncertainty is CEO succession. Typically, securities analysts and investors are not in a position to gather and examine all necessary information to assess accurately the future expected performance of a firm undergoing leadership transition. As such, they are thought to base their investment decisions on signals conveyed by the context of leadership change and the new CEO's origin and history (e.g., Gomulya and Boeker, 2014).

Gangloff et al. (2016) found, for example, that in the aftermath of financial wrongdoing, investors reacted negatively to the appointment of temporary interim CEOs but positively to the appointment of permanent outsider CEOs, arguably because the latter conveyed a more favorable signal about firm's future conduct and performance. In a similar vein, Connelly et al. (2016) found that following integrity failures, investor reactions were positive to new CEOs from outside the firm, but negative to new insider CEOs and new interim CEOs. The literature furthermore suggests that the incoming CEO's rhetoric may also have an important signaling effect. Particularly, if the rhetoric contains vocabulary and conveys imagery suggesting that the firm has a bright future, it may elicit positive reactions by reducing uncertainty about the firm's prospects. This follows from Pfeffer's (1981) stance on the importance of symbolic management for bolstering stakeholders' confidence and gaining their support (see also Hambrick, von Werder, and Zajac, 2008). Meindl and Thompson (2005) and Fanelli and Misangyi (2006) suggest similarly that the articulation of a charismatic vision by a new CEO can be expected to emit a signal that market actors interpret positively.

In taking forward research on CEO succession, we draw on signaling theory (e.g., Connelly et al., 2011; Spence, 2002) to assume that market actors will form judgements about the future performance of a firm based on signals from the different aspects of a succession event. Specifically, we assume that signals from three aspects will shape market actors' assessments of a firm's future performance and thus how they react to CEO succession, namely, the CEO succession type (whether routine, dismissal or interim), the new CEO's origin (whether insider or outsider), and the new CEO's vision charisma (see Figure 1). We propose that market actors view these aspects as visible cues about a firm and its leadership, and use them to draw inferences about unobservable attributes or qualities. Indeed, signaling theory fundamentally

focuses on the issue of information asymmetry between two parties (Bergh et al., 2014; Connelly et al., 2011; Spence, 2002; 1973). Information asymmetry can be generated by leadership change and it may concern the unobservable quality of leadership of the firm and the new leader's intent. When multiple signals are congruent, i.e., they all convey either a positive or a negative message, market actors reactions are likely to be amplified (Stern, Dukerich, and Zajac, 2014; see also Mishina, Block, and Mannor, 2012; Skowronski and Carlston, 1989). In contrast, when multiple signals are incongruent (and reflect a contradiction in terms of underlying values), reactions tend to be negative (Vergne, Wernicke, and Brenner, 2018). In our study, the multiple signals we focus on have different time orientations: present or short-term succession signals and a long-term signal from the CEO's vision. This may enable the longer-term signal (and its interpretation) to compensate for present or shorter-term signals, in case of signal incongruence.

Hypotheses

CEO succession type, new CEO origin, and market actors' reactions

Typically a CEO succession can be an ordinary or routine event, reflecting an heir apparent's planned accession to the position following the incumbent's retirement, or an unplanned event triggered by the dismissal of the incumbent (Allen, Panian, and Lotz, 1979; Grusky, 1963). Dismissals can have different causes, including poor firm performance (Denis and Denis, 1995; Wiersema, 2002), fraud (Connelly et al., 2016; Gangloff et al., 2016; Gomulya and Boeker, 2014), and political conflict (Shen and Cannella, 2002). In addition, a board may dismiss a CEO based on negative information about the CEO's ability (Ertugrul and Krishnan, 2011). Regardless of the cause, the performance consequences of CEO dismissal are generally negative (Huson, Parrino and Starks, 2001; see also Wiersema, 2002; Zhang, 2008). Moreover, a

dismissal sends a negative signal to external stakeholders, because of the uncertainty generated about the firm's future in the absence of adequate publicly available information regarding the motivation for it and the absence (or non-use) of succession planning.

Importantly, CEO dismissal is not a stand-alone event – it is accompanied by the selection and naming of a new CEO. In this regard, scholars have long noted the importance of whether CEO succession entails an insider's promotion to the position or the recruitment of an outsider (Helmich, 1975). Empirical results do not, so far, provide a conclusive picture about market reactions to a new CEO's insider-outsider origin. Thus, whereas Chung et al. (1987) and Lubatkin et al. (1989) found positive market reactions to outsider CEOs, Worrell and Davidson (1987) found positive market reactions to insider CEOs. In contrast, Beatty and Zajac (1987) found that markets react negatively to CEO succession regardless of whether CEOs are insiders or outsiders (for a negative effect of outsider CEO successions on operational performance and no significant effect of insider CEO successions on operational performance, see Shen and Cannella, 2002), while other work has reported non-significant effects (Reinganum, 1985).

One explanation for the mixed results may be that past studies have not always distinguished between the signal sent to the market by the CEO succession type and that sent by the new CEO's origin. Moreover, it has been suggested that categorizing CEO successions into those that are routine (ordinary) or dismissal, and which may involve either an insider or an outsider rising to the CEO position, does not in fact capture all cases. In particular, there are also contexts in which interim CEOs temporarily replace incumbent CEOs (Ballinger and Marcel, 2010). In this study, we take into account all relevant combinations. We start below by presenting hypotheses regarding market reactions to routine CEO successions involving the ascent of an insider to the position; dismissal CEO successions entailing either the selection of an

interim CEO or a permanent insider CEO, and dismissal CEO successions entailing the selection of an outsider CEO. We then present arguments predicting how the charisma of the new CEO's vision will moderate the effects of CEO succession type and CEO origin on analysts' and investors' reactions to CEO succession.

Routine CEO succession, with new insider CEO. Such a succession context implies the ordinary retirement of the predecessor and/or the existence of a succession plan (Shen and Cannella, 2003). The new CEO who takes charge is usually expected to maintain the strategy and policy of the predecessor CEO, or to adapt it incrementally without engaging in disruptive change (Brady and Helmich, 1984; Datta and Rajagopalan, 1998; Hambrick, Geletkanycz and Fredrickson, 1993). Thus, a routine succession with a new CEO from within the firm will signal continuity or incremental adaptation, increasing certainty for market actors about what to expect. Research has demonstrated that investors welcome the commitment to (and implementation of) the succession plan (Shen and Cannella, 2003). They tend to perceive routine successions as non-events and do not react to them in any significant fashion (Friedman and Singh, 1989). Because we expect the same non-significant reaction from investors to the event, we focus on analysts' assessment in our research. All else being equal, we expect analysts to value the certainty signaled about the company by routine successions that see an insider taking charge of the company's affairs. Therefore, we predict they will react positively by being optimistic in their performance forecasts of the company and in their recommendations to investors regarding the firm's stock.

Hypothesis 1 (H1): *Routine CEO succession involving a new insider CEO leads to positive analyst reactions.*

Dismissal CEO succession, with either an interim CEO or a permanent insider CEO. An incumbent CEO may have to step down from office unexpectedly, without there being a succession plan in place. For example, the board of directors may lose confidence and dismiss the CEO. If the board is not in a position to announce the appointment of a permanent successor, the board may assign an executive of the company as the interim or temporary CEO. Based on Ballinger and Marcel (2010), choosing an interim CEO tends to be a last-resort option in a crisis (see also Friedman and Saul, 1991), and interim CEOs can have a negative effect on performance. One reason is that interim CEOs are thought to not have much discretion when it comes to long-term decisions. Moreover, conflict and power struggles can become magnified under interim CEOs because they may be seen as lacking long-term hierarchical authority to ensure effective working relationships among senior executives. Thus, we expect dismissal CEO successions involving a new interim CEO to send a bleak signal about the firm's prospects. Accordingly, all else being equal, we expect analysts and investors to react negatively.

On the surface, the situation may be a bit different when CEO dismissal is accompanied by the permanent appointment of an insider as the new CEO. On the one hand, a permanent new CEO is likely to have the trust of the board of directors, reducing the risk of adverse selection (Zajac, 1990; Zhang, 2008). Still, such an individual will have reached the CEO position after the dismissal of the predecessor, which is often a disruptive event (Shen and Cannella, 2002; Zajac, 1990; Zhang and Rajagopalan, 2004). There is also the possibility that unanticipated CEO dismissal will not allow comprehensive search for a suitable successor, leading to poor new CEO selection, which in turn can affect performance adversely (Wiersema, 2002; Zhang, 2008). For these reasons, dismissal CEO succession involving a new insider CEO can also be expected to send a bleak signal to analysts and investors. This is even more probable if there is reason to

believe that the succession event was precipitated by internal strife. Inasmuch as politics and power struggles signal opportunistic dynamics at the corporate helm (Quinn, 1980; Pfeffer, 1981), the succession event is unlikely to be viewed positively (cf. Zajac and Westphal, 2004). If so, all else being equal, we expect analysts and investors to react negatively.

Hypothesis 2a (H2a): *Dismissal CEO succession involving a new interim CEO leads to negative analyst and investor reactions.*

Hypothesis 2b (H2b): *Dismissal CEO succession involving a new insider CEO leads to negative analyst and investor reactions.*

Dismissal CEO succession, with a new outsider CEO. Past research has noted that outsider CEOs can bring in new energy and ideas, which can stimulate strategic change (Helmich and Brown, 1972; Finkelstein et al., 2009; Karaevli and Zajac, 2013; Kesner and Dalton, 1994; Tushman, Newman and Romanelli, 1986). Evidence regarding investors' reactions to outsider CEOs is inconclusive, however (Giambatista et al., 2005; Kesner and Sebora, 1994). One explanation could be that researchers have not always factored in whether an outsider CEO came in after a routine, planned succession or after the dismissal of the incumbent CEO. In the latter case, one would expect the market to be more approving of outsider CEOs. When an outsider CEO succeeds a dismissed incumbent, a positive signal of change is transmitted that may offset the negative cue of dismissal. An outsider is more likely to be viewed as the harbinger of change, the necessity and urgency of which is likely to be greater after CEO dismissal. On account of an outsider's lack of association with the previous leadership and strategy, the market can be more hopeful of a transformation. Studies indeed show that outsider CEOs implement significant changes, including changes in the top management team, organizational structure,

strategy and routines (Finkelstein et al., 2009; Gabarro, 1987; Kotter, 1982; Tushman, Newman and Romanelli, 1986). All in all, then, the market is likely to view an outsider CEO as a signal that meaningful path-breaking change is on its way and, with it, better performance. Thus, we predict that, all else being equal, analysts and investors will react positively to outsider CEOs following the incumbent's dismissal.

Hypothesis 3 (H3): *Dismissal CEO succession involving a new outsider CEO leads to positive analyst and investor reactions.*

The influence of the charisma of a new CEO's vision

Market reactions to CEO succession are also likely to be affected by the charisma of a new CEO's vision, which is said to rest on three key elements, namely, whether the vision includes a compelling critique of the status quo, promises an alluring alternative future, and spells out how it will be achieved (Conger and Kanungo, 1998; Fanelli et al., 2009). The symbolism of a CEO's charismatic vision has been noted to attract positive appraisals from stakeholders (Gardner and Avolio, 1998; Lounsbury and Glynn, 2001). And, the more charismatic a vision, the more positive the signal sent about future performance, which can be expected to reduce uncertainty about the firm's prospects (cf. Waldman et al., 2001; Zott and Huy, 2007). Thus, we submit that when the new CEO's vision has greater charisma, the positive signal sent to the market will counteract the negative signal conveyed by a CEO dismissal involving succession by either an interim or an insider CEO. We also submit that greater charisma of the new CEO's vision will reinforce the positive signal sent by CEO dismissals involving succession by an outsider CEO.

Succession by an interim or an insider CEO after an incumbent's dismissal, as argued before, sends a bleak signal about the firm's prospects to analysts and investors watching a firm. In such situations, the charisma of the new CEO's vision can lessen apprehension about the firm's health by sending the opposite signal of a brighter future (cf. Conger and Kanungo, 1998; Fanelli and Misangyi, 2006), resulting in more optimistic expectations about the firm's performance (see also Fanelli et al., 2009). In our study, we also expect a moderating effect because charismatic vision may convey that the new CEO will be able to quell internal strife by getting other executives to align (see also, Agle et al., 2006; Waldman et al., 2004), thus countering the negative signal sent by an interim/insider succession following CEO dismissal. Furthermore, a charismatic vision is likely to communicate that the new CEO has a strong fit with the job and is in control (cf. Meindl and Thompson, 2005; Fanelli and Misangyi, 2006). Analogously, the positive moderating effect of a new CEO's charismatic vision can be expected to reinforce the positive signal sent when an outsider takes over as CEO after the incumbent's dismissal. In this context, a charismatic vision that challenges the status quo and promises a better future should amplify the signal of positive change emitted by the appointment of an outsider as CEO. In a nutshell, then, we anticipate that the more charismatic the new CEO's vision, the more positively analysts and investors will respond to interim, insider, and outsider CEO successions following an incumbent's dismissal.

Hypothesis 4a (H4a): *The more charismatic the new CEO's vision, the more positive the reactions of analysts and investors to an interim CEO succession.*

Hypothesis 4b (H4b): *The more charismatic the new CEO's vision, the more positive the reactions of analysts and investors to an insider CEO succession following CEO dismissal.*

Hypothesis 5 (H5): *The more charismatic the new CEO's vision, the more positive the reactions of analysts and investors to an outsider CEO succession following CEO dismissal.*

Methods

Sample construction

Our data sample is based on sector 35 of the Standard Industrial Classification (SIC) system, which refers to the industrial and commercial machinery and computer equipment industry. We focused on a single sector because research indicates that the language employed in Letters to Shareholders, which we relied on to operationalize the charisma of new CEOs' vision (see below), can vary across sectors (Abrahamson and Hambrick, 1997; McClelland, Liang, and Barker, 2010). We consulted Compustat to identify firms for the data sample, focusing on a twelve-year period from 1996 to 2007. This period, until just before the big financial crisis of 2008, is especially relevant and interesting for our study because it witnessed rising global competition in stock markets and growing scrutiny of CEOs and CEO succession events by analysts and investors eager to pick up signals of listed firms' performance (e.g., Booz & Co, 2010; Wiersema, 2002). We focused only on firms listed in the U.S., because the standardized reporting asked for by the Securities and Exchange Commission (SEC) meant that the sampled firms' financial data would be comparable. We included in the sample all 107 firms that had existed in the same primary form over the full twelve-year period. The yearly panel data from these firms included 144 CEO succession events, for 95 of which daily stock-price data was available for an event study.

Data and variables

Analysts' and investors' reactions. First, we measured analysts' reactions in terms of the average *analyst forecasted EPS* (earnings per share). Analysts produce forecasts for several performance indicators (e.g., sales, growth, profits). We focused on forecasted EPS because it is the most widely used measure in studies of forecast accuracy (Beaver et al., 2008; Fanelli et al., 2009) especially in the context of U.S. data. Second, we collected from the I/B/E/S and FirstCall databases all *analyst recommendations* issued by the analysts covering the sampled firms. To measure the favorability of analysts' recommendations, we calculated the average recommendation at the end of the year by all analysts. Both I/B/E/S and FirstCall record recommendations using a five-point format (1 = strong buy; 2 = buy; 3 = hold; 4= underperform; 5 = sell). Thus, the favorability of analysts' recommendations ranged from 1 = very favorable to 5 = very unfavorable.

For the event study, as the measure of investors' reactions, we relied on firms' *cumulative abnormal returns (CAR)*, derived from an estimated OLS market model (see Brown and Warner, 1985; McWilliams and Siegel, 1997; Shen and Cannella, 2003). We collected data on each firm's daily returns and the returns of a weighted index (S&P500) from Datastream. Following prior event studies (McWilliams and Siegel, 1997; Shen and Cannella, 2003), we used a 255-day period as the estimation period (–300, –46), and we chose two alternative event windows to calculate CAR: a 5-day window ([-2, +2] and a 3-day window [0, +2], zero being the day of the announcement of a CEO succession event.

CEO succession categories. We identified and coded five CEO succession categories based on the succession type (i.e., routine, dismissal or interim) and the new CEO's origin (i.e., insider or outsider). Of the 144 CEO succession events in the panel, 103 events involved the

appointment of an insider, 23 were dismissal events, and 8 were interim succession events. We identified the events by consulting the Execucomp database for any changes in the names of the listed CEOs. We then cross-checked this information using SEC 10-K filings. To establish whether a succession event was a routine or a dismissal event, we collected data on CEO backgrounds and appointments from the BoardEx database, annual reports, fundinguniverse.com, company homepages and business press. Routine events were those that saw the appointment of a new CEO following the incumbent's unforced replacement, typically due to retirement. Furthermore, outsider CEOs were those who had been hired from outside the focal firm or had held a position in the focal firm for less than two years prior to their CEO appointment (Georgakakis and Ruigrok, 2016; Shen and Cannella, 2002). Interim CEO successions were those that saw the sudden departure of an incumbent, who left office without a designated successor, and the new CEO was an insider executive whose tenure lasted no more than a year (e.g., Ballinger and Marcel, 2010). Whereas this describes an interim succession as typically taking place after dismissal, in our data we identified one case where an interim CEO was appointed after the retirement of the predecessor. For the panel data analysis, we created dichotomous variables corresponding to the different CEO succession events, with the "no CEO succession" category being the reference (omitted) category. For the event study, the dichotomous variable "insider routine succession" served as the reference category (see Friedman and Singh, 1989, for a discussion of such successions being perceived as non-events by investors).

CEO charismatic vision (CCV). To operationalize how charismatic a CEO's vision was, we examined letters to shareholders (LtS) contained in firms' annual reports. While all LtS articulate a CEO's vision for the firm, an LtS after a succession event constitutes the first formal

communication of the new CEO's vision to stakeholders. We carried out a computer-aided thematic text analysis (TTA) of CEO visions described in LtS (e.g., Emrich et al., 2001; Fanelli et al., 2009). TTA uses search dictionaries to establish the frequency of occurrence of specified terms (i.e., words and expressions) that supposedly capture the relevant dimensions or aspects of the construct being operationalized (Krippendorff, 2004; Popping, 2000). Therefore, based on earlier research on charismatic vision (Conger and Kanungo, 1998; Fanelli et al., 2009), we developed three search dictionaries (SDs) of terms related to the three dimensions of charismatic vision: a critique and challenge of the status-quo; the presentation of an attractive future and related goals; and the elucidation of how the future and the related goals will be achieved. Using the QSR NVivo software package, we determined the frequency with which the terms in the SDs appeared in the LtS. This gave us frequency scores for each dimension of charismatic vision. To account for differences in the length of LtS, we used the normalized sum of dimension scores as the overall measure of CCV, with higher (lower) scores indicating a more (less) charismatic vision. Full details of the TTA can be found in the Appendix.

Control variables. To control for *industry dynamism*, we regressed time over industry sales and divided the standard error of the regression slope coefficient by the three-year mean value of sales to obtain annual *industry dynamism* scores (Dess and Beard, 1984). We controlled for prior *firm operational performance* using industry-adjusted firms' ROA (Karaevli and Zajac, 2013). We also controlled for prior *firm stock return*, calculated as the difference in a firm's end-of-the-year and start-of-the-year stock price, plus dividends, divided by firm's start-of-the-year stock price. We furthermore controlled for *firm size* using the log of total sales (Shen and Cannella, 2002), for *insider-dominated board* using the ratio of inside to outside directors, and for *chair/CEO duality*, coded 1 when a CEO also held the position of board chair, and 0

otherwise (Krause, Semadeni, and Cannella, 2014). In addition, we controlled for *senior executive turnover* (Shen and Cannella, 2002), measured as the number of departing and arriving executives in the top management team in a particular year.

We also controlled for *CEO industry outsider* status, coded 1 when the CEO had less than two years of experience in the industry, and 0 otherwise (Shen and Canella, 2002), and for *predecessor disposition*, coded 1 when a predecessor CEO stayed on in the firm in any capacity after the succession event (Fanelli et al., 2009; Vancil, 1987). We also controlled for *insider CEO home-company prior experience*, based on the number of years of tenure in the firm prior to becoming CEO, and for *outsider CEO prior experience* based on the number of years of managerial experience prior to joining the focal firm as (outsider) CEO. Additionally, we controlled for the *number of blockholders*, operationalized as the number of shareholders owning at least 5% of the firm's equity, and for *active blockholders*, based on the percentage of equity held by shareholders considered to have an active role in monitoring the top management and overseeing the firm's strategic direction, i.e., mutual and pension funds, hedge funds, private equity, and venture capital (e.g., Brickley, Lease, and Smith, 1988). We also included *year dichotomous variables* to control for unobserved time effects.

Data analysis

For the panel study, unobserved heterogeneity is a potential problem, because each firm contributes multiple observations that are not independent from each other (Hsiao, 2003). To address this issue, we employed either fixed effects or random effects regression models (xtreg command in Stata) to analyze the data. We conducted the Hausman test to assess whether to use random effects, given their greater efficiency as compared to fixed effects models. In the cases

where the Hausman test holds, we report the random effects models, otherwise we report the fixed effects models. We also conducted supplementary analyses using generalized estimating equations (xtgee command in Stata), relying on robust standard errors for parameter estimates. The results of the random effects (or fixed effects) and supplementary analyses are by and large aligned.

For the event study, to address potential sampling bias because of missing stock-price data, we used the Heckman selection procedure (Heckman, 1979). For the first-stage regression, based on all 144 succession events in the dataset, we predicted whether a given CEO succession event would be included in the event-study sample (the 95 events for which daily stock-price data was available). We included predictor variables in the first-stage regression that were different from those in the second-stage regression, namely, the size of the firm and the firm's media coverage, both at t-1. In the second-stage regression, we included the inverse Mill's ratio, generated using the first-stage residuals, as an additional control for potential sampling bias (see "Sampling bias control" in the models shown in Table 5 and Table 6).

After excluding observations with missing data, the regression results are based on 471 panel observations for the analysis of analyst forecasted EPS (containing 73 events), 479 panel observations for the analysis of analyst recommendations (containing 76 events), and 76 observations-events for the analysis of CAR (of which 49 involved the appointment of an insider, 10 were dismissal events, and 7 were interim succession events).

Results

Table 1 depicts descriptive statistics and correlations for the variables in the panel dataset. Table 2 depicts descriptive statistics and correlations for the variables in the event study.

Table 3 presents the results of analysis of analyst forecasted EPS in Models 1, 2, and 3. Looking at Model 1, there is a positive effect of firm operational performance ($p \leq 0.10$), firm size ($p \leq 0.001$), outsider CEO prior experience ($p \leq 0.10$), and number of blockholders ($p \leq 0.10$), and a negative effect of industry dynamism, chair/CEO duality (both at $p \leq 0.05$), and insider-dominated board ($p \leq 0.10$). Moreover, as expected, CEO dismissal has a negative effect ($p \leq 0.001$) on analyst forecasted EPS. Insider CEO has no significant effect. In Model 2, both interim and insider CEO successions after dismissal have a negative effect ($p \leq 0.001$ and $p \leq 0.10$, respectively), supporting H2a and H2b respectively. In Model 3, the effect of the interaction between interim CEO succession and CCV is positive ($p \leq 0.001$), supporting H4a. The interaction between insider routine CEO succession and CCV is also positive ($p \leq 0.01$).

***** **Insert Tables 1, 2 and 3 about here** *****

Table 4 shows the results for analysts' recommendations in Models 4, 5, and 6. Because of the recording of analysts' recommendations from 1 = very favorable to 5 = very unfavorable, negative coefficients indicate analysts' positive reaction. Looking at Model 4, there is a positive effect of firm operational performance ($p \leq 0.10$) and active blockholders (%) ($p \leq 0.05$) on analysts' recommendations. On the other hand, there is a negative effect of insider CEO home-company prior experience ($p \leq 0.10$) and CEO dismissal ($p \leq 0.01$). In Model 5, the effect of insider routine succession is positive ($p \leq 0.05$), supporting H1. Moreover, the effect of interim CEO succession and the one of insider succession after dismissal are negative (both at $p \leq 0.05$), supporting H2a and H2b. In Model 6, the direct effect of outsider CEO succession after dismissal is positive ($p \leq 0.10$), weakly supporting H3. The effect of the interaction between interim CEO

succession and CCV is positive ($p \leq 0.01$), supporting H4a; and the effect of the interaction of outsider CEO succession after dismissal with CCV is negative ($p \leq 0.10$), contradicting H5.

***** **Insert Table 4 about here** *****

Table 5 presents the event-study results of the Heckman analysis using a [-2, +2] event window. Model 7 indicates that firm stock return impacts CAR positively ($p \leq 0.05$). In addition, as expected, CEO dismissal has a negative effect on CAR ($p \leq 0.05$), as do insider CEO ($p \leq 0.01$) and CCV ($p \leq 0.01$). Model 8 is not significant. In Model 9, the direct effect of interim CEO succession is negative ($p \leq 0.05$), supporting H2a, whereas the effect of the interaction between interim CEO succession and CCV is positive ($p \leq 0.05$), supporting H4a.

Table 6 presents the event-study results of the Heckman analysis using a [0, +2] event window. The results shown in Models 10, 11, and 12 are by and large in line with those shown in Models 7, 8, and 9.

***** **Insert Tables 5 and 6 about here** *****

To conclude this section, overall, H1, H2a, H2b, H3, and H4a find support, but there is no support for H4b and H5. Notably, though, with regard to H5, we found a statistically significant effect in the opposite direction than the one predicted.

Concluding discussion

This article takes forward the study of market actors' reactions to CEO succession. Building on earlier research in this domain and drawing on signaling theory, we suggest that for a better understanding of securities analysts' and investors' reactions to CEO succession, it is

necessary to not only take into account the CEO succession type (whether routine, dismissal or interim) and the new CEO's origin (whether insider or outsider), but also the charisma of the new CEO's vision for the firm. This last is an understudied but vital aspect of reactions to CEO succession events. Incoming CEOs invariably articulate a vision for their firm, which can be relatively more or less charismatic. The charisma of a vision is said to depend on the voicing of a compelling critique of the status quo, a promise of a better future, and suggestions regarding how the future can be attained (e.g., Conger and Kanungo, 1998). If a vision is charismatic, it sends a positive signal to analysts and investors about the future performance of the firm. By doing so, it can modify the signals sent by other succession context contingencies, reinforcing the positive ones and attenuating the negative ones. As such, analysts' and investors' reactions to CEO succession can be expected to be modulated by the new CEO's vision charisma.

To test the article's theoretical predictions, we conducted a panel data study and an event study. The former focused particularly on analysts' reactions to CEO succession, as reflected in the analysts' earnings forecasts for the sampled firms and their stock buy/hold/sell recommendations. The event study focused particularly on investors' reactions, as indicated by the focal firms' cumulative abnormal returns (CAR) following CEO succession events. We found support for most of the predicted effects. The panel study provided evidence that insider routine CEO successions lead to positive analyst recommendations. Further, the panel and event studies complemented one another in showing that, respectively, analysts and investors react negatively to CEO dismissals. We additionally found that investors react negatively also to insider new CEOs (hence, their positive reaction to outside succession). These results are consistent with the findings of some of the earlier work (Chung et al., 1987; Lubatkin et al., 1989), while differing from other reported findings (Davidson, Worrell, and Cheng, 1990;

Reinganum, 1985; Worrell and Davidson, 1987). Furthermore, our results show that analysts react negatively to insider CEO successions after dismissal, complementing prior research that has shown similar results in relation to operational performance (Shen and Cannella, 2002).

Our study's results help reconcile some of the findings of past work, while underlining the need for further reconciliation through more comprehensive modelling that is attentive to the fuller set of signals transmitted by the contingencies of different CEO succession events. Inasmuch as the CEO succession type and the new CEO's origin represent contingencies that send a signal about the present and the immediate future of the focal firm, our work brings to light the importance of also accounting for the signal about the longer-term sent by an incoming CEO's vision. Market actors' reactions to CEO succession reflect, arguably, both a present and a future temporal orientation as they arrive at judgements about a firm's performance prospects. This is consistent with other recent research showing that organizational behaviors and outcomes seem to depend on decision makers' temporal focus (Nadkarni and Chen, 2014). As anticipated, we find vision charisma to assuage analysts' negative reaction to interim CEO successions. But, surprisingly, we find a (weakly) significant effect suggesting that a more charismatic vision increases analysts' negative reaction (in terms of recommendations) to outsider CEO successions after dismissal. There may be potentially two reasons for this. It can be that the analysts regard vision charisma as a deliberate attempt by the new CEO to whitewash the negative reality of the incumbent's dismissal, such that, the more charismatic the vision, the more pessimistic their assessment of a firm's prospects. It is also conceivable that the vision charisma's positive signal may fuel the dismissal's negative signal because of the two's incongruence, as suggested by prior research (Vergne et al., 2018). Clearly, this is an important issue worthy of further investigation.

The study speaks also to a nascent literature that has adopted a signaling lens to examine the consequences of CEO succession for firms' market performance (Connelly et al., 2016; Gangloff et al., 2016; Gomulya and Boeker, 2014). In this context, it enriches the existing stock of knowledge by studying "how different types of signals interact with one another" and what their collective effect is (Connelly et al., 2011, p. 61). Furthermore, with regard to research on CEO succession type and origin (e.g., Cannella and Lubatkin, 1993; Georgakakis and Ruigrok, 2016; Karaevli, 2007; Shen and Cannella, 2003), the study adds to the literature by documenting systematically how the effect of these aspects of succession events on analysts and investors is moderated by the new CEO's vision charisma. Moreover, the study further refines earlier research that had provided mixed findings with regard to the market performance of firms after CEO succession, while complementing more recent research that has focused on the effects of CEO succession on firm's operational, accounting performance (e.g., Georgakakis and Ruigrok, 2016; Karaevli, 2007). A robust understanding of how market performance is affected is important because analysts' and investors' reactions can affect firms' valuation, and hence their future growth and competitive standing.

A further contribution of this study is to the literature on CEO communications to external stakeholders (e.g., Fanelli and Misangyi, 2006; Westphal and Zajac, 1998). While the value of (charismatic) rhetoric for stakeholder management is well established (e.g., Lounsbury and Glynn, 2001; Fanelli et al., 2009; Martens et al., 2007), there is a conspicuous gap in the literature regarding the effect charismatic rhetoric (embodied in the vision communicated by new CEOs) has on stakeholders in different CEO succession settings. By addressing the gap, this study provides rare insight into "situational receptivity to charismatic leadership" (Shamir and Howell, 1999, p. 272). Its results suggest that charismatic rhetoric may be especially impactful in

settings in which we observe leadership disruption (CEO dismissal). For interim CEOs in particular, as analysts' and investors' attitudes are not well understood, the study's results are particularly noteworthy as they seem to indicate that vision charisma may serve as an ex-post uncertainty-reducing palliative for the absence of succession planning, one that is valued by the market (see also, Behn, Riley, and Yang, 2005).

For practitioners, the study offers helpful insights regarding the managing of the process of leadership transitions. It underscores that all changes in leadership emit signals that are consequential for how stakeholders respond to change. Because stakeholders' responses can have far reaching implications for the performance of a company, it is imperative to deftly manage the change of guard by ensuring that the right signals are sent. In this regard, the board of directors (as well as executive search and consulting firms) must be particularly attentive. Although the execution of a carefully planned CEO succession is ideal from the perspective of sending a positive signal, this will not always be possible. In instances where CEO dismissal is a factor, for example, it is particularly important to counteract the negative signal of dismissal with a carefully calibrated positive signal conveyed through suitable rhetoric. The results of our study show that this may be particularly important in interim situations. In this regard, firms could consider having at least one widely respected senior figure present on the board who knows well the company (possibly, a former CEO with a proven track record) and who can thus convincingly convey the right message.

Limitations and future research

The shortcomings of this study offer opportunities for future research. One limitation is that the study's data was from a single industrial sector. It is important, thus, to examine whether

the results of the study also hold in other industrial sectors. Furthermore, because CEOs matter to different degrees in different institutional contexts (Crossland and Hambrick, 2011), future work may also want to examine whether our results extend to other institutional settings. Another limitation of this study was that we focused on the charisma of CEO's vision but not on CEO charisma more broadly. Future research could consider extending our investigation to cover CEO charisma. It could moreover expand our model to consider additional variables that may send signals affecting market reactions, for example, CEO media coverage, reputation, prior experience and personality (e.g., Nadkarni and Herrmann, 2010). We also find that outsider CEOs and insider CEOs who convey a more charismatic vision, both in the context of routine CEO succession, positively affect investor reactions and analyst recommendations, respectively. Although we did not formulate ex ante formal hypotheses for these relations, because we did not have a theory-driven reason to anticipate them, they seem intriguing results that may merit more research, possibly with a more exploratory, qualitative investigation. Moreover, a particularly interesting avenue for future research would be to examine how the family versus non-family context of firms (see e.g., Minichilli et al., 2014) affects market reactions to CEO succession. It is clear from the above that there is much more to be studied in relation to the signaling effects of different contingencies that may attend CEO succession events. We hope that our work will trigger further research that moves the needle forward on our present understanding of market reactions to CEO succession.

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Figure 1. Theoretical model

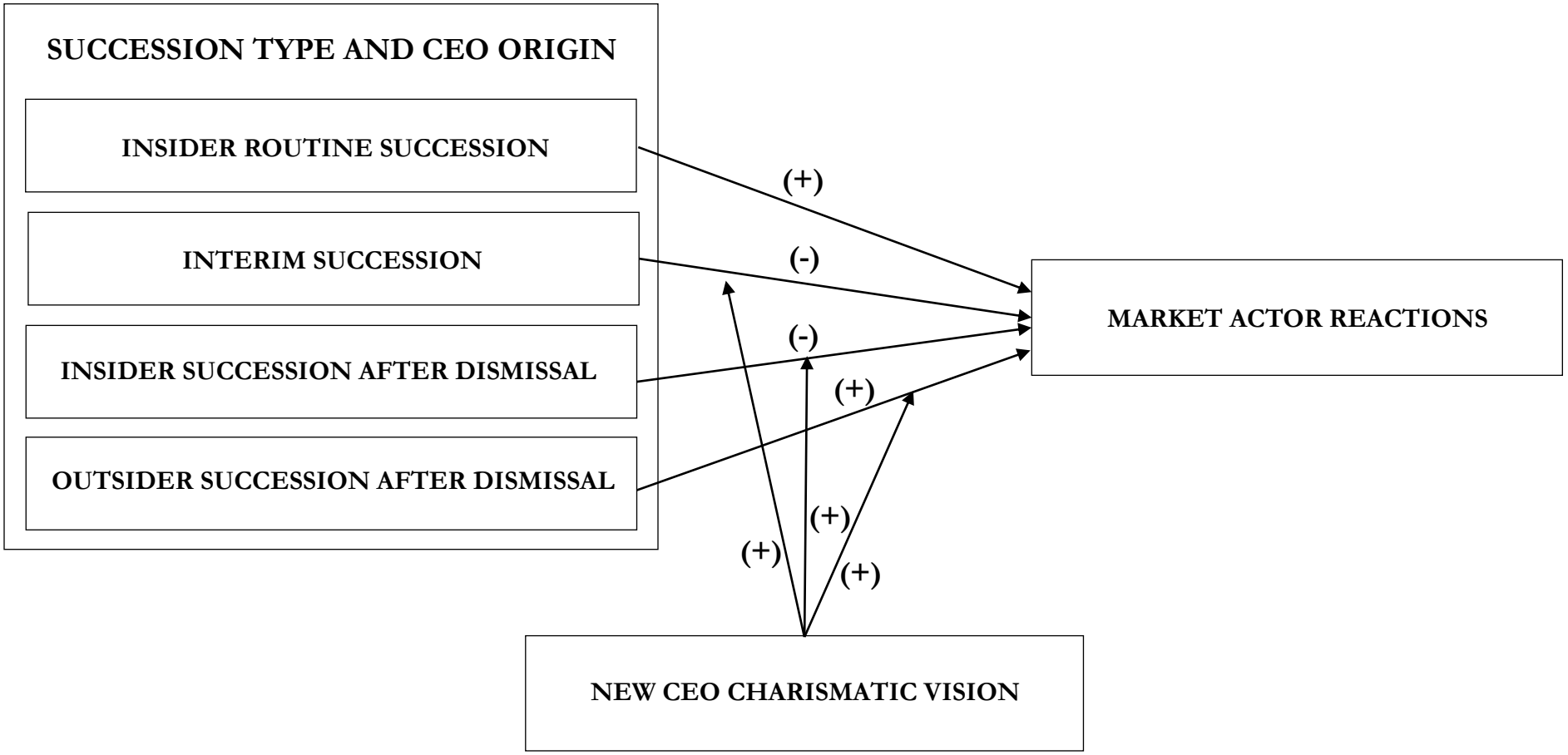

Table 1. Descriptive statistics and correlations (panel dataset)

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12
1. Analyst forecasted EPS	0.745	1.382	1.00											
2. Analyst recommendations	2.210	0.616	-.08**	1.00										
3. Industry dynamism	4.657	3.461	-.20***	-.15***	1.00									
4. Firm operational performance	0.001	0.491	.29***	-.05 †	-.13***	1.00								
5. Firm stock return	0.911	3.129	.13***	.01	-.02	.06*	1.00							
6. Firm size	2.399	0.993	.40***	.10***	-.20***	.40***	.34***	1.00						
7. Insider-dominated board	0.245	0.095	-.16***	.03	.09***	-.02	-.07*	-.19***	1.00					
8. Chair/CEO duality	0.930	0.254	.00	-.02	-.05	-.04	.03	.04	-.04	1.00				
9. Senior executive turnover	-0.035	1.557	.03	.03	-.06*	.02	.04	.08***	-.01	.04	1.00			
10. CEO industry outsider	0.050	0.218	-.07*	-.01	-.01	.02	-.05	-.02	-.01	-.12***	.02	1.00		
11. Predecessor disposition	0.571	0.495	-.02	.00	-.01	-.09*	-.16***	-.13***	.18***	.01	.00	.02	1.00	
12. Insider CEO home-company prior experience	3.886	7.397	.14***	.14***	-.17***	.10***	.11***	.18***	.05*	.12***	.00	-.19***	.14***	1.00
13. Outsider CEO prior experience	2.082	6.610	.05 †	-.01	-.06*	.06**	.05*	.06*	-.01	-.22***	.02	.30***	-.23***	-.16***
14. Number of blockholders	0.400	0.833	.17***	.01	-.11***	.08**	.08**	.17***	-.01	.04	.03	-.05	-.12***	.17***
15. Active blockholders (%)	0.227	0.570	.18***	-.01	-.10***	.07**	.10***	.22***	-.08***	.04	.02	-.06 †	-.18***	.14***
16. Interim CEO succession	0.007	0.081	-.08*	.06 †	.03	-.01	.10**	.03	-.01	-.12***	-.04	.03	-.09*	.06*
17. Insider routine succession	0.036	0.187	.03	.01	-.06	.02	.01	.09***	-.01	.03	.03	.01	.14***	.22***
18. Insider succession after dismissal	0.005	0.072	-.02	.06*	.03	-.01	-.01	-.01	.02	-.06 †	.05	.02	-.11***	.05*
19. Outsider routine succession	0.031	0.173	-.02	-.04	.01	-.03	-.01	-.02	.01	-.12***	.01	.22***	-.01	-.15***
20. Outsider succession after dismissal	0.003	0.057	-.01	-.02	.09**	-.04	.30***	.01	-.03	-.02	-.14	.16***	-.03	-.05 †
21. CEO charismatic vision	4.671	1.233	.16***	-.08*	-.09**	.01	.06 †	.13***	-.13***	.23***	.07*	.01	.01	-.09**

Variable	13	14	15	16	17	18	19	20	21
13. Outsider CEO prior experience	1.00								
14. Number of blockholders	.04 †	1.00							
15. Active blockholders (%)	.08***	.75***	1.00						
16. Interim CEO succession	-.04	.06*	.06*	1.00					
17. Insider routine succession	-.06**	.06**	.05*	-.02	1.00				
18. Insider succession after dismissal	-.02	.02	.02	-.01	-.01	1.00			
19. Outsider routine succession	.33***	.01	.00	-.01	-.05 †	-.02	1.00		
20. Outsider succession after dismissal	.09**	.03	.06*	-.01	-.02	-.01	-.01	1.00	
21. CEO charismatic vision	.02	-.02	-.02	-.05	-.02	-.02	-.01	.00	1.00

† $p \leq .10$; * $p \leq .05$; ** $p \leq .01$; *** $p \leq .001$

Table 2. Descriptive statistics and correlations (event study)

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12
1. CAR [-2, +2]	0.000	9.310	1.00											
2. CAR [0, +2]	0.000	7.888	.88***	1.00										
3. Industry dynamism	4.230	3.334	.15	.14	1.00									
4. Firm operational performance	0.028	0.260	-.34**	-.24*	-.12	1.00								
5. Firm stock return	1.696	5.378	.02	-.02	.06	.07	1.00							
6. Firm size	2.726	0.982	-.25*	-.24*	-.12	.46***	-.42***	1.00						
7. Insider-dominated board	0.245	0.103	.10	-.08	.08	-.21**	-.05	-.31***	1.00					
8. Chair/CEO duality	0.875	0.332	.12	.17	.05	-.05	.06	.16 †	-.03	1.00				
9. Senior executive turnover	0.052	2.247	.03	.04	-.18*	.06	-.07	.15 †	-.03	.02	1.00			
10. CEO industry outsider	0.144	0.352	.02	-.05	.11	-.07	-.11	-.18 †	.04	-.24***	.02	1.00		
11. Predecessor disposition	0.615	0.488	.01	.08	.05	-.03	-.22*	-.10	.21*	.09	.04	.01	1.00	
12. Insider CEO home-company prior experience	8.673	10.330	-.13	-.10	-.09	.18*	.17 †	.29***	-.05	.11	-.04	-.31***	.09	1.00
13. Outsider CEO prior experience	5.503	10.051	.15	.07	.02	-.01	.15	-.08	.05	-.12	-.11	.34***	-.18*	-.47***
14. Number of blockholders	0.625	1.063	-.08	-.07	-.05	.15 †	.17 †	.24**	-.08	-.01	.09	-.02	-.18*	.08
15. Active blockholders (%)	3.036	8.096	-.01	-.07	-.08	.06	.03	.11	-.09	.01	.02	.04	-.21*	-.02
16. Interim CEO succession	0.056	0.230	-.10	-.08	.08	.01	.15	.05	-.01	-.20*	-.09	-.01	-.27***	.11
17. Insider succession after dismissal	0.132	0.339	-.13	-.12	.18*	-.07	.06	-.05	.04	-.20*	.05	-.03	-.47***	.09
18. Outsider routine succession	0.257	0.438	.17	.07	.01	-.01	-.08	-.12	.07	-.19*	.01	.27**	-.08	-.49***
19. Outsider succession after dismissal	0.028	0.164	.10	.05	.24**	-.08	.56***	-.01	-.08	.06	-.31***	.24**	-.09	-.14 †
20. CEO charismatic vision	4.527	1.444	.04	.10	-.09	-.04	.06	.07	-.15	.39***	.01	-.04	-.01	-.10

Variable	13	14	15	16	17	18	19	20
13. Outsider CEO prior experience	1.00							
14. Number of blockholders	-.01	1.00						
15. Active blockholders (%)	.12	.77***	1.00					
16. Interim CEO succession	-.13	.14	.07	1.00				
17. Insider succession after dismissal	-.21**	.10	.06	.53***	1.00			
18. Outsider routine succession	.85***	-.06	.03	-.14	-.23**	1.00		
19. Outsider succession after dismissal	.21*	.06	.18*	-.04	-.06	-.10	1.00	
20. CEO charismatic vision	.03	-.02	-.02	-.09	-.13	.02	.02	1.00

† $p \leq .10$; * $p \leq .05$; ** $p \leq .01$; *** $p \leq .001$

Table 3. Random effects GLS estimation of analyst forecasted EPS (Models 1-3)

Variable	Model 1	Model 2	Model 3
Constant	-0.778 (0.689)	-0.450 (0.640)	-0.048 (0.643)
Control Variables			
Industry dynamism	-0.070 (0.031) *	-0.067 (0.031) *	-0.057 (0.041) †
Firm operational performance	0.255 (0.144) †	0.269 (0.145) †	0.236 (0.142) †
Firm stock return	-0.005 (0.016)	-0.007 (0.018)	-0.001 (0.019)
Firm size	0.748 (0.101) ***	0.775 (0.103) ***	0.784 (0.103) ***
Insider-dominated board	-1.028 (0.620) †	-1.083 (0.626) †	-1.252 (0.624) *
Chair/CEO duality	-0.576 (0.272) *	-0.619 (0.275) *	-0.920 (0.285) ***
Senior executive turnover	-0.020 (0.019)	-0.024 (0.019)	-0.027 (0.019)
CEO industry outsider	-0.015 (0.194)	-0.050 (0.195)	-0.089 (0.200)
Predecessor disposition	0.069 (0.103)	0.094 (0.105)	0.089 (0.105)
Insider CEO home-company prior experience	0.002 (0.007)	0.004 (0.007)	0.005 (0.007)
Outsider CEO prior experience	0.022 (0.012) †	0.005 (0.006)	0.007 (0.012)
Number of blockholders	0.119 (0.064) †	0.125 (0.065) †	0.122 (0.063) †
Active blockholders (%)	-0.131 (0.087)	-0.152 (0.089) †	-0.163 (0.087) †
Explanatory Variables			
CEO dismissal	-0.810 (0.218) ***		
Insider CEO	0.446 (0.289)		
Insider routine succession (**H1**)		-0.061 (0.119)	-1.062 (0.357) **
Interim CEO succession (**H2a**)		-1.169 (0.315) ***	-5.808 (1.307) ***
Insider succession after dismissal (**H2b**)		-0.496 (0.266) †	-1.419 (1.593) *
Outsider routine succession		-0.129 (0.193)	-1.472 (1.509)
Outsider succession after dismissal (**H3**)		-0.224 (0.667)	-0.130 (2.932)
CEO charismatic vision (CCV)	0.030 (0.050)	0.035 (0.050)	-0.012 (0.051)
Insider routine succession x CCV			0.213 (0.070) **
Interim CEO succession x CCV (**H4a**)			1.112 (0.305) ***
Insider succession after dismissal x CCV (**H4b**)			-0.454 (0.368)
Outsider routine succession x CCV			0.265 (0.301)
Outsider succession after dismissal x CCV (**H5**)			-0.033 (0.610)
Wald Chi2	315.33 ***	314.32 ***	350.72 ***
R2	0.41	0.41	0.41

n = 471. All models include year dichotomous variables as control variables.
† $p \leq .10$; $p \leq .05$; ** $p \leq .01$; *** $p \leq .001$

Table 4. Random effects GLS estimation of analysts' recommendations[a] (Models 4-6)

Variable	Model 4 [b]	Model 5	Model 6
Constant	2.322 (0.919) *	2.201 (0.385) ***	2.091 (0.387) ***
Control Variables			
Industry dynamism	-0.031 (0.037)	-0.037 (0.017) *	-0.036 (0.017) *
Firm operational performance	-0.225 (0.121) †	-0.184 (0.097) †	-0.183 (0.096) †
Firm stock return	-0.001 (0.015)	-0.003 (0.011)	-0.014 (0.012)
Firm size	-0.080 (0.227)	0.109 (0.053) *	0.113 (0.053) *
Insider-dominated board	-0.177 (0.677)	0.417 (0.334)	0.452 (0.332)
Chair/CEO duality	0.359 (0.288)	0.020 (0.152)	0.055 (0.156)
Senior executive turnover	0.001 (0.013)	0.005 (0.013)	0.006 (0.013)
CEO industry outsider	-0.008 (0.154)	-0.083 (0.128)	-0.029 (0.132)
Predecessor disposition	-0.009 (0.089)	0.024 (0.065)	0.033 (0.065)
Insider CEO home-company prior experience	0.011 (0.006) †	0.010 (0.004) *	0.010 (0.004) **
Outsider CEO prior experience	0.010 (0.012)	0.003 (0.004)	0.004 (0.004)
Number of blockholders	0.065 (0.050)	0.035 (0.045)	0.035 (0.044)
Active blockholders (%)	-0.132 (0.067) *	-0.095 (0.062)	-0.085 (0.062)
Explanatory Variables			
CEO dismissal	0.470 (0.171) **		
Insider CEO	0.052 (0.275)		
Insider routine succession (**H1**)		-0.170 (0.083) *	-0.047 (0.257)
Interim CEO succession (**H2a**)		0.452 (0.221) *	3.172 (0.934) ***
Insider succession after dismissal (**H2b**)		0.419 (0.188) *	-0.465 (1.138)
Outsider routine succession		-0.167 (0.132)	-1.344 (1.032)
Outsider succession after dismissal (**H3**)		-0.274 (0.431)	-3.411 (1.814) †
CEO charismatic vision (CCV)	-0.020 (0.043)	-0.045 (0.029)	-0.037 (0.030)
Insider routine succession x CCV			-0.028 (0.050)
Interim CEO succession x CCV (**H4a**)			-0.661 (0.221) **
Insider succession after dismissal x CCV (**H4b**)			0.205 (0.262)
Outsider routine succession x CCV			0.239 (0.206)
Outsider succession after dismissal x CCV (**H5**)			0.713 (0.397) †
F	2.13 ***		
Wald Chi2		80.13 ***	96.00 ***
R2	0.06	0.17	0.20

n = 479. All models include year dichotomous variables as control variables.

[a] Higher values indicate recommendation unfavorability (i.e., a negative assessment by analysts), thus, negative coefficients indicate a positive impact on favorability of analyst recommendations.

[b] Fixed effects estimation of Model 4. The Hausman test does not support the reliance on random effects' GLS results.

† $p \leq .10$; $p \leq .05$; ** $p \leq .01$; *** $p \leq .001$

Table 5. Heckman selection estimation of CAR [-2, +2] (Models 7-9)

Variable	Model 7	Model 8	Model 9
Constant	27.400 (13.999) *	10.636 (18.637)	14.882 (13.678)
Control Variables			
Industry dynamism	-0.460 (0.524)	-0.421 (0.728)	-0.769 (0.552)
Firm operational performance	-18.476 (11.811)	-17.116 (16.316)	-22.270 (11.601) †
Firm stock return	0.455 (0.201) *	0.364 (0.347)	0.323 (0.358)
Firm size	-2.142 (2.066)	-2.385 (2.826)	-0.676 (1.996)
Insider-dominated board	-7.635 (10.622)	-7.093 (14.490)	-10.516 (10.135)
Chair/CEO duality	6.044 (4.402)	5.417 (6.138)	8.648 (4.727) †
Senior executive turnover	-0.068 (0.504)	0.043 (0.770)	-0.225 (0.558)
CEO industry outsider	-3.929 (3.628)	-3.878 (4.926)	-2.761 (3.617)
Predecessor disposition	0.661 (2.407)	1.332 (3.272)	0.238 (2.364)
Insider CEO home-company prior experience	0.066 (0.114)	0.070 (0.161)	0.068 (0.123)
Outsider CEO prior experience	-0.334 (0.253)	-0.307 (0.351)	-0.424 (0.248) †
Number of blockholders	-1.819 (1.938)	-1.545 (2.949)	0.527 (2.201)
Active blockholders (%)	0.015 (0.196)	-0.007 (0.262)	-0.224 (0.301)
Explanatory Variables			
CEO dismissal	-8.172 (3.888) *		
Insider CEO	-14.784 (5.351) **		
Interim CEO succession (**H2a**)		-4.718 (6.050)	-65.631 (27.477) *
Insider succession after dismissal (**H2b**)		-5.841 (5.745)	-19.961 (33.181)
Outsider routine succession		14.317 (7.323) *	27.090 (31.293)
Outsider succession after dismissal (**H3**)		10.642 (14.876)	12.944 (64.016)
CEO charismatic vision (CCV)	-5.114 (1.915) **	-4.354 (2.587) †	-6.559 (2.295) **
Interim CEO succession x CCV (**H4a**)			9.445 (4.161) *
Insider succession after dismissal x CCV (**H4b**)			1.769 (5.352)
Outsider routine succession x CCV			-1.417 (4.107)
Outsider succession after dismissal x CCV (**H5**)			0.125 (10.039)
Sampling bias control	-7.686 (10.272)	-10.429 (13.821)	-4.055 (9.419)
Wald Chi2	58.91 ***	30.88	71.47 ***

n = 76. All models include year dichotomous variables as control variables.
† $p \leq .10$; $p \leq .05$; ** $p \leq .01$; *** $p \leq .001$

Table 6. Heckman selection estimation of CAR [0, +2] (Models 10-12)

Variable	Model 10	Model 11	Model 12
Constant	13.660 (10.692)	-0.104 (10.508)	0.887 (10.825)
Control Variables			
Industry dynamism	-0.683 (0.405) †	-0.678 (0.414) †	-1.026 (0.441) *
Firm operational performance	-13.094 (9.256)	-12.150 (9.355)	-16.093 (9.301) †
Firm stock return	0.290 (0.148) *	0.252 (0.197)	0.181 (0.284)
Firm size	-1.290 (1.512)	-1.341 (1.571)	0.094 (1.566)
Insider-dominated board	-7.906 (7.985)	8.151 (8.146)	3.535 (8.016)
Chair/CEO duality	7.312 (3.444) *	7.302 (3.513) *	10.944 (3.771) **
Senior executive turnover	-0.118 (0.396)	-0.003 (0.437)	-0.158 (0.444)
CEO industry outsider	-5.852 (2.799) *	-5.759 (2.804) *	-4.277 (2.889)
Predecessor disposition	1.044 (1.809)	1.614 (1.839)	1.169 (1.872)
Insider CEO home-company prior experience	-0.029 (0.085)	-0.032 (0.090)	-0.020 (0.097)
Outsider CEO prior experience	-0.271 (0.192)	-0.230 (0.197)	-0.373 (0.197) †
Number of blockholders	-0.478 (1.485)	-0.510 (1.671)	-0.048 (1.741)
Active blockholders (%)	-0.080 (0.154)	-0.052 (0.205)	-0.167 (0.237)
Explanatory Variables			
CEO dismissal	-4.477 (2.997)		
Insider CEO	-11.203 (4.083) **		
Interim CEO succession (**H2a**)		-0.867 (3.394)	-43.022 (21.605) *
Insider succession after dismissal (**H2b**)		-2.379 (3.266)	-19.008 (26.711)
Outsider routine succession		10.817 (4.145) **	38.688 (24.657)
Outsider succession after dismissal (**H3**)		7.465 (8.446)	-6.314 (50.395)
CEO charismatic vision (CCV)	-2.930 (1.455) *	-2.160 (1.455)	-3.377 (1.812) †
Interim CEO succession x CCV (**H4a**)			6.676 (3.257) *
Insider succession after dismissal x CCV (**H4b**)			-2.423 (4.313)
Outsider routine succession x CCV			-3.432 (3.229)
Outsider succession after dismissal x CCV (**H5**)			2.719 (7.893)
Sampling bias control	-3.536 (7.438)	-4.931 (7.634)	-1.734 (7.350)
Wald Chi2	56.26 ***	54.47 **	67.11 ***

n = 76. All models include year dichotomous variables as control variables.
† $p \leq .10$; $p \leq .05$; ** $p \leq .01$; *** $p \leq .001$

Appendix. Details of thematic text analysis (TTA) for establishing CEO charismatic vision (CCV)

The use of TTA for measuring charisma is well established (e.g. Emrich et al., 2001; Fanelli et al., 2009). The approach requires the specification of conceptual nodes corresponding to the dimensions of the focal construct. Following earlier research on charismatic vision (Conger and Kanungo, 1998; Fanelli et al., 2009), we specified three conceptual nodes corresponding to the dimensions: critique and challenge of the status quo (CSQ); presentation of an attractive future and related goals (PAF); elucidation of how the future and goals will be achieved (AAF). To operationalize the nodes, TTA requires the construction of search dictionaries (SDs) to search through the focal text, LtS in our case. SDs enable text analysis by listing words and expressions indicative of the nodes. To build comprehensive SDs that would not overlook relevant textual material, we drew upon multiple sources for the search terms: the dictionary used by Abrahamson and Park (1994), the Lasswell Value Dictionary (LVD), and the Harvard IV Dictionary (HIVD). We also obtained terms for the SDs inductively, by scanning a sample of 25 LtS.

For the CSQ node, the SD we developed included 57 terms connected to criticizing and challenging the status quo, because charismatic leaders typically delegitimize the existing state-of-affairs through negative evaluations, emphasize a sense of crisis, and invoke the need for change (Conger and Kanungo, 1998; Gardner and Avolio 1998). The SD terms stem from Abrahamson and Park's (1994) list of negative words, LVD's category of "negative affections" (NegAff), and a set of words obtained from the sampled LtS. Table V shows the source of the most frequently occurring terms in LtS. For the PAF node, we compiled a SD of 63 terms to identify ideological/moral and emotional content suggesting an attractive alternative future

(Conger and Kanungo, 1998; Shamir et al., 1993). It included terms from LVD connected to the category "rectitude" (Rectot) and the category "affection and friendship" (Afftot); terms from HIVD connected to the categories "ought" (Ought) (which captures intent and desire), "overstatement" (Ovrst) (which captures emotional expressiveness), "emotion" (Emot), "arousal" (Arousal), and "feelings" (Feel); and terms derived inductively from LtS that had not already been included. For the AAF node, we developed a SD of 63 terms pertaining to realizing an alternative future and goals by engaging with individuals and the organization as a whole. This corresponds to the view that charismatic leaders involve and empower others in achieving goals (Conger and Kanungo, 1998; Shamir et al., 1993). The SD terms came from LVD's "positive affect" (PosAff) category and the HIVD's "affiliation and supportiveness" (Affil) category. In addition, we inductively identified and included expressions such as "we", "our", and "us" because they suggest an effort to engage various stakeholders.

Before performing a computer-aided count of words in LtS related to one of the three nodes, we first assigned all relevant sentences in LtS to one of the three nodes. This allowed the word counts to be done separately for each node, increasing the internal validity of measurement (Fanelli et al., 2009; Wade, Porac, and Pollock, 1997). The assigning of sentences to nodes was done by one of the authors and two student assistants. The assistants were briefed on the coding rules, and coding disagreements were discussed and resolved until there was full agreement. We also validated the procedure by computing inter-rater agreement scores for a random sample of 25 LtS. Kirppendorff's alpha (Krippendorff, 2004) was 0.81 for the CSQ node, 0.72 for the PAF node, and 0.86 for the AAF node, indicating good inter-rater agreement. We then ran NVivo queries to obtain the frequency with which terms connected to the three nodes were contained in LtS. For the sake of comprehensively counting all pertinent terms, we allowed the queries to

include terms that were similar to the ones specified in the SDs. To avoid bias because some LtS might be longer than others, we normalized the word-count scores by dividing them by the word length of the LtS. We added up the normalized conceptual-node scores to obtain the overall CCV score, with higher (lower) scores indicating a more (less) charismatic vision.

Appendix table. Thematic text analysis (TTA) – most frequently occurring terms

Conceptual Node 1: CSQ			*Conceptual Node 2: PAF*			*Conceptual Node 3: AAF*		
Term	**Hits**	**Source**	**Term**	**Hits**	**Source**	**Term**	**Hits**	**Source**
loss	391	Abrahamson and Park	new	6581	Moral inductive	our	33231	Stakeholder inductive
difficult	384	Abrahamson and Park	strong	2315	Emot, HIVD	we	23588	Stakeholder inductive
gross	361	NegAff, LVD	believe	1648	Ovrst, HlVD	market	8111	Stakeholder inductive
downturn	273	Abrahamson and Park	significant	1526	Rectot, LVD	customers	4361	Stakeholder inductive
problems	143	Abrahamson and Park	record	1142	Emotion inductive	sales	4011	Stakeholder
turn	138	NegAff, LVD	success	1111	Afftot, LVD	us	2856	Stakeholder inductive
weak	132	Abrahamson and Park	major	1074	Arousal, HIVD	share	2696	Affil, HIVD
weakness	105	Abrahamson and Park	leadership	1073	Moral inductive	performance	2307	Stakeholder inductive
tough	93	Abrahamson and Park	challenge	1042	Rectot, LVD	well	2056	PosAff, LVD
severe	90	NegAff, LVD	important	1006	Rectot, LVD	customer	2055	Stakeholder inductive
negatively	69	Abrahamson and Park	successful	963	Moral inductive	value	1876	Stakeholder inductive
concerns	67	Abrahamson and Park	change	944	Emot, HIVD	management	1859	Stakeholder inductive
disappointing	66	Abrahamson and Park	goal	918	Emot, HIVD	employee	1696	Stakeholder inductive
lost	66	Abrahamson and Park	best	837	Ovrst, HIVD	world	1589	Stakeholder inductive
negative	66	Abrahamson and Park	people	740	Ovrst, HlVD	support	1455	Affil, HIVD
crises	59	Abrahamson and Park	commitment	646	Ovrst, HlVD	focus	1396	Stakeholder inductive
depressed	57	Abrahamson and Park	substantial	546	Ovrst, HlVD	investment	1385	Stakeholder inductive
suffer	53	Abrahamson and Park	great	512	Emotion inductive	shareholders	1323	Stakeholder inductive
difficulties	50	Abrahamson and Park	rapid	483	Emotion inductive	president	1319	Stakeholder inductive
fail	50	Abrahamson and Park	should	469	Emotion inductive	officer	1126	Stakeholder inductive
weakened	50	Abrahamson and Park	aggressive	431	Moral inductive	quarter	1125	Affil, HIVD
losses	47	Abrahamson and Park	committed	404	Ovrst, HlVD	provide	1055	Affil, HIVD
problem	47	Abrahamson and Park	primarily	389	Aftot, LVD	board	1025	Stakeholder inductive
poor	45	Abrahamson and Park	clear	383	Ovrst, HlVD	focused	979	Stakeholder inductive
deteriorate	44	Past inductive	ever	375	Ovrst, HlVD	work	897	Stakeholder

adverse	40	Abrahamson and Park	lead	365	Moral inductive	team	874	Affil, HIVD
missed	37	Status-quo inductive	right	359	Ovrst, HlVD	better	815	PosAff, LVD
unable	37	Abrahamson and Park	actions	354	Arousal, HIVD	thank	784	Affil, HIVD
unfavorable	37	Status-quo inductive	established	350	Ought, HIVD	benefit	747	Affil, HIVD
adversely	36	Abrahamson and Park	vision	350	Ovrst, HlVD	unit	741	Stakeholder inductive
delay	34	Abrahamson and Park	excellent	349	Moral inductive	people	740	Stakeholder inductive
delayed	33	Abrahamson and Park	move	346	Moral inductive	organization	720	Stakeholder inductive
delays	33	Abrahamson and Park	confident	322	Ovrst, HlVD	help	719	Affil, HIVD
lack	33	Abrahamson and Park	confidence	320	Ovrst, HlVD	group	718	Stakeholder inductive
concern	32	Abrahamson and Park	unique	281	Ovrst, HlVD	return	695	Affil, HIVD
worst	32	Abrahamson and Park	proud	274	Emotion inductive	competitive	692	Stakeholder inductive
sluggish	30	Abrahamson and Park	must	261	Ovrst, HlVD	forward	661	PosAff, LVD
weaker	30	Abrahamson and Park	always	254	Emotion inductive	ability	659	Stakeholder inductive
shortage	28	Status-quo inductive	exciting	251	Fiectot, LVD	commitment	646	Affil, HIVD
unfortunately	28	Abrahamson and Park	primary	243	Ought, HIVD	working	605	Stakeholder inductive
bad	27	Abrahamson and Park	especially	240	Ovrst, HlVD	part	601	Affil, HIVD
disappointed	27	Abrahamson and Park	home	227	Ovrst, HIVD	potential	594	Stakeholder inductive
disappointment	24	Abrahamson and Park	speed	222	Ovrst, HlVD	environment	583	Stakeholder inductive
lose	17	Abrahamson and Park	care	210	Ovrst, HlVD	meet	558	Affil, HIVD
collapse	15	NegAff, LVD	excited	200	Emotion inductive	marketing	539	Stakeholder inductive
losing	15	Abrahamson and Park	necessary	193	Emotion inductive	corporate	531	Stakeholder inductive
unprofitable	14	Abrahamson and Park	entire	188	Ovrst, HlVD	directors	511	Stakeholder inductive
ill	12	Status-quo inductive	possible	187	Moral inductive	good	500	PosAff, LVD