CEO turnover, leadership vacuum, and stock market reactions

Speaker:
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Content:
CEO departures without a named successor create a leadership vacuum giving rise to operational disruption and strategic uncertainty, as well as a turnaround benefit from early exit of a poorly performing CEO. In contrast, CEO departures accompanied by a successor appointment indicate a planned, smooth leadership transition. This paper investigates how market reactions to CEO departure announcements without successor appointment reflect the costs and benefits of a leadership vacuum. After controlling for a positive self-selection effect capturing the turnaround benefits that may motivate board selection of a leadership vacuum, we find a significant mean difference between stock market reactions to CEO departure announcements with and without successor appointment, suggesting that a leadership vacuum causes incrementally significant switching costs relative to those caused by a smooth leadership transition. This finding implies that effective succession planning can prevent a costly leadership vacuum by ensuring the availability of a qualified successor at CEO departure.

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All Interested are Welcome