



Changing of the Guards: Does Succession Planning Matter

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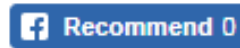
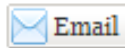
Main Findings

- **Paper examines**
 - » Effects of succession planning on management successions
- **Main results**
 - » Firms with succession plans
 - » Are less likely to have forced turnovers
 - » Have less uncertainty around CEO turnover
 - » Have faster learning about CEO ability
 - » Rely primarily on firm-specific information in CEO dismissals

Anecdotal evidence

Wendy's Chairman and CEO Dies; Founder Thomas to Serve in Interim

December 20, 1999 | From Bloomberg News



DUBLIN, Ohio — Gordon Teter, chairman and chief executive of No. 3 U.S. hamburger chain Wendy's International Inc., died Sunday at his home in a Columbus, Ohio, suburb. He was 56.

Dublin, Ohio-based Wendy's said Teter died of natural causes, though the exact cause will be determined by a medical examiner. He lived in Powell.

A committee has been formed to search for a successor, and founder Dave Thomas, who has been senior chairman, will serve as chairman in the interim. Teter's duties will be divided among Jack Schuessler, president of Wendy's U.S. operations; Chief Financial Officer Frederick R. Reed; and Paul House, president of Wendy's Tim Hortons unit.

After 89 days of “search”, Wendy appoints an internal successor

Anecdotal evidence

James W. Near, 58, Chairman of Wendy's

Reuters JULY 26, 1996

James W. Near, the chairman of the restaurant chain Wendy's International Inc., died on Monday in Atlanta, where he was attending the Olympic Games. He was 58 and lived in Bonita Springs, Fla.

The cause was a heart attack, said officials at the company's headquarters in Dublin, Ohio.

Mr. Near, a native of Columbus, Ohio, where Wendy's is based, spent his entire career in the restaurant business, starting at age 15 as a short-order cook. He worked more than 21 years at Wendy's, first as a franchisee and later as president, chief executive and finally chairman. He turned over the posts of president, chief executive and chief operating officer to Gordon F. Teter in January 1995.

Surprising that Wendy did not learn the lesson ... from 3 years before

Research Question

- Title of the study [*“Changing of the Guards: Does Succession Planning Matter”*] hints at a research question focusing on the impact of succession planning on outcomes
- The empirical analysis uses a sample of firms with CEO turnover, and examines whether these firms have announced a succession plan **prior** to the event
- Does the empirical analysis answer the research question?
 - Two types of turnovers:
 1. Voluntary turnover (retirement, hired by another firm)
 2. Forced turnover (fired, residual cases that are reclassified)
 - Voluntary turnovers are “anticipated”, while forced turnovers are unanticipated
 - Firms tend to announce a plan for voluntary turnovers, but should plan for unanticipated events

Research Question

- Does the empirical evidence answer the research question?
 - Voluntary turnovers are “anticipated”, while forced turnovers are “unanticipated”
 - Firms tend to announce a plan for voluntary turnovers, but should plan for unanticipated events
- Simple examples:
 - Suppose a CEO wants early retirement. If the event is announced 6 months prior to the turnover, the turnover is classified as a voluntary turnover
 - Reverse causality concerns
 - Longer succession planning horizon
 - Suppose the board considers to fire the CEO due to bad performance. If the firm has a succession plan it will be more likely to fire the CEO
 - Expect to see more forced turnovers for firms with a succession plan

Data

- » Sample of CEO successions
 - » 3,280 observations between 1994 and 2010
- » Sample of competitor firms
 - » 20 most comparable firms based on text-based network industry classifications within three-digit industry classifications
 - » Fraction of competitor firms that have adopted a succession plan is used as instrument for firm's decision to implement a succession plan
- » How many firms without a management succession have a succession plan?
- » How do CEO characteristics affect succession planning?

Data

Table 1. Summary statistics of CEO turnover and succession planning

This table reports the number of CEO successions in column (1), the percentage of Compustat firms with CEO successions in column (2), the number and percentage of forced CEO successions in columns (3)-(4), and the number and percentage of planned CEO successions in columns (5)-(6) during 1994-2010. The last two rows report aggregates over 1994-2003 (pre-Sarbanes-Oxley (SOX) period) and 2004-2010 (post-SOX period).

Year	(1) # CEO successions	(2) % Compustat firms with CEO successions	(3) # Forced CEO successions	(4) % Forced CEO successions ((3)/(1))	(5) # Planned CEO successions	(6) % Planned CEO successions ((5)/(1))
1994	118	1.6%	19	16.1%	3	2.5%
1995	183	2.4%	42	23.0%	4	2.2%
1996	168	2.0%	30	17.9%	5	3.0%
1997	187	2.3%	49	26.2%	11	5.9%
1998	222	2.8%	51	23.0%	11	5.0%
1999	217	2.8%	51	23.5%	11	5.1%
2000	253	3.4%	75	29.6%	17	6.7%
2001	263	3.9%	59	22.4%	16	6.1%
2002	179	2.8%	64	35.8%	19	10.6%
2003	166	2.8%	62	37.3%	27	16.3%
2004	172	2.9%	57	33.1%	35	20.3%
2005	200	3.4%	73	36.5%	38	19.0%
2006	189	3.3%	70	37.0%	27	14.3%
2007	190	3.4%	77	40.5%	39	20.5%
2008	245	4.6%	60	24.5%	57	23.3%
2009	191	3.8%	41	21.5%	35	18.3%
2010	137	2.8%	26	19.0%	51	37.2%
Total	3280	2.9%	906	27.6%	406	12.4%
1994-2003 (pre-SOX)	1956	2.7%	502	25.7%	124	6.3%
2004-2010 (post-SOX)	1324	3.4%	404	30.5%	282	21.3%

Endogeneity – IV analysis

- » Authors instrument succession plans using the adoption of succession plans among close competitors
- » Motivation
 - » *“Identification is an important concern in studying the effects of succession planning on CEO turnover due to the likely endogeneity of succession planning to firm attributes”*
- » Almost no discussion of validity of instrument
 - » What is the main endogeneity concern?
 - » Why would firms adopt succession plans, because their competitors do?
 - » How does the instrument alleviate the endogeneity concern?

Endogeneity – IV analysis

- » Endogeneity concerns depend on the dependent variable
 - » Voluntary vs. forced turnovers
 - » Reverse causality
 - » Firms adopt succession plans because they anticipate voluntary turnover due to retirement
 - » Uncertainty & learning about CEO ability
 - » Omitted variable bias
 - » Firms with succession plans have better corporate governance
- » Validity of instrument depends on how well the instrument addresses these concerns

Endogeneity – IV analysis

- » Authors instrument succession plans using the adoption of succession plans among close competitors
- » Why would firms adopt succession plans because competitors do?
 - » Industry norms?
 - » “**Common** CEO labor market among firms rival firms”
 - » CEO characteristics (age, retirement)
 - » Outside succession (voluntary turnover)
 - » Industry performance & CEO turnover (Jenter and Kanaan, 2015)
- » Important to understand why firms might exogenously adopt succession plans

Conclusion

This study examines whether succession planning impacts CEO turnover

- » The authors can say more about which firms are planning for succession
 - » CEO characteristics
 - » Labour market conditions
 - » Planning horizon
- » Exposition of identification strategy should be improved
 - » What are the main endogeneity concerns and how does the instrument address these concerns
- » Looking forward to the next draft ...