Easy Clean-ups or Forbearing Improvements: The Effect of CEO Tenure on the Performance of the Successor

Gonul Colak* Iftekhar Hasan Eva Liljeblom

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ABSTRACT

Prior studies suggest nonlinear relationships between employee performance and tenure, even for CEOs. While the common perception is that a very long tenure can be harmful for firm performance, the evidence on this is scarce, and mainly based on evidence from stock price reactions to CEO changes, which are mixed-information events. We contribute to the literature by conditioning the post-CEO-turnover firm performance on the tenure of the predecessor. We find strong evidence suggesting that when a successor takes over after a long-tenured CEO, Tobin's Q, ROA, and stock returns (BHARs) are significantly lower, restructuring costs are higher, and firm recovery slower. For firms with weaker corporate governance, and where the predecessor has a lower merit score, the post-turnover effects are significantly stronger.

KEYWORDS: CEO tenure; restructuring costs; shareholder value;

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* Corresponding author. Authors in alphabetic order:

Gonul Colak: Hanken School of Economics, Department of Finance and Statistics. E-mail: gonul.colak(at)hanken.fi.

Iftekhar Hasan: Fordham University, Department of Finance, and Bank of Finland. E-mail: ihasan(at)fordham.edu.

Eva Liljeblom: Hanken School of Economics, Department of Finance and Statistics, and Lund University, Lund School of Economics and Management. E-mail: eva.liljeblom(at)hanken.fi.