Master Thesis Proposal

Economic consequences of CEO sudden death

MSc in Accounting & Financial Management

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FA.2 Economic consequences of CEO sudden death
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Same format as other headlines!

Introduction

CEOs play the most influential role in organizations-to transform people and institutions to succeed. Insert citation This can be regarding financial, decisions or accounting for the company's resources. As team leaders, they remain as organizational Insert citation transformational leaders. Some of the significant roles of a CEO in a corporate set up are communicating the company's importance of a transformation. A manager does this by modeling and shaping relevant employee behavior, which then translates to building strong teams that move the organization in question ahead (Benedsten, 2010). With this in mind ~~view,~~ it means that a CEO cannot afford to miss in action. What does that sentence mean? Therefore, in every organizational undertaking, he/she is part of the processes and programs hence their duty in ensuring organizational success.

Insert citation

Besides this, ~~first in command~~ play an integral role in ensuring that those organizations and teams that they lead achieve a sense of impact. Although every individual has a role to play in the ~~managerial building~~, CEO's role is more distinct and elaborate because they have to lead from the front. If for instance, a ~~boss~~ is used to making promises without executing the said promises, others may soon follow thus dampening the spirit of the organization. ~~Ahead~~ of the company should, therefore, be primarily a ~~servant leader~~.

Insert citation

However, there are times when a business leader may not be present in an organization for a couple of reasons. In short-term events, an organization can still function without one. In the long run, however, it becomes difficult as operational duties may not be executed. The sudden death of a boss is one of the most tragic company exits of a leader. Even though this position is viewed from both sides of negative or positive elements the positive factors associated with a CEO presence cannot be underestimated. There are some activities that an organization CEO has to perform and without their presence means that specially curved roles cannot be achieved both in the short term and in the long run. Without a boss, a company can plunge into economic crises such as a drop in earnings as well as affected stock prices.

Add to the Wall Street Journal article by including citations from scientific articles!

In 2005, the wall street journal in a bid to understand the actual role of people in such kind of position published an article, "The American CEO." The article described that the manager is the link that exists between the inside and outside regarding technology, customers, and the market. Therefore, while the core referring to the organization possesses only the costs, most often the results of CEO presence or absence thereof are seen on the outside. The boss usually has the will, knowledge, skill, and capability to understand the inside and the external of the organization. But then, other team members are in most instances focused in one direction within the company. This makes the role of a CEO unique in that a serving leader may almost seem irreplaceable. It is from this view that the definitive roles of a CEO are necessary.

What is capability theory. Introduce new theories to the reader. Moreover, how does that theory help you to develop your hypothesis?

Capability theory of the firm helps to put into focus the absence of a manager and its implications for the economic performance of an enterprise. Through this theory, a framework of dynamic capabilities can be obtained in which there exists a relationship between business and its leadership. The structure advances two perspectives. The first is that it is essential for an individual to achieve a sense of well-being. Secondly, the freedom to achieve this kind of well-being is regarding an individual's capabilities spelling what one can do in reality. This thesis will focus on the second perspective as it seeks to thoroughly explain that an executive position is critical. Insert citation

Research Question State earlier - and make sure to give some detail on what you mean by economic performance, e.g. stock prices and earnings management.

How does the sudden death of a CEO affect a firm's economic performance?

Problem Statement

~~*Ideal situation*~~

The firm can operate with or without a CEO for short or more extended periods of time. However, firms have been known to quickly initiate processes of replacing their management heads immediately there is a vacancy resulting for instance from executive death. Insert citation

~~*Realistic Situation*~~

In cases where companies are always ready to replace their CEOs because of sudden exit, transitions are often met with a sense of firm destabilization. However, a firm will always fill the vacancy of a CEO as it so desires. Insert citation

~~*Actual problem*~~

Between the ideal and real situations that a company finds itself in the turbulent economic environment is a disparity. This exists regarding readiness for a firm to find a new CEO and what it loses in case of executive exit due to sudden death. Therefore, the problem for this research is that there exists an economic implication in earnings management of the firm in case of a CEO's sudden death.

You need theory to link sudden death to earnings management! What is the mechanism that affects earnings management in case of a sudden death?

Research Methodology

I do not understand that paragraph! Please, rephrase.

~~This study will take a quantitative form as intended to focus on archival track to obtain data. It makes a non-experimental correlational analysis design as it plans to comparatively analyze data (Hamer, Keppel & Zedeck, 1990). This is because the research aims to examine the relationship just as they exist and in any case, does not intend to measure any causal relationship. Therefore, this research will systematically analyze available data in the field of corporate management to will consequently select a sample from the target population to understand the research problem.~~

Scientific Contribution

Contribution section does not include citations! Hence, does not meet the requirements!

Several arguments have been raised empirically on the importance of an executive in an organization. Furthermore, implications of CEO exit for example in the form of sudden death have also been explored. Notably, in the field of exploration, impact of CEO sudden death on earnings management have been done. However, this was done from an employee essence of view and not from a firm's stands point and hence the need to further conduct empirical research. Furthermore, most research was done quantitatively to understand the behavior of organizations and their reactions to sudden executive exit. This means that there exists a gap regarding how a boss's sudden death will directly affect earnings management capability of an organization. Therefore, in conducting the investigation Insert citation it will be helpful in filling this existing gap as well as add to the vast pool of accounting field research.

Format as "new chapter" headline and combine it with the hypotheses development, i.e. call it "Literature review and hypothesis development"

Literature Review

~~The field of financial accounting has received more attention in the recent past basing on the increasing number of researchers that have been done. Scholars in the area like never before have been interested in studying corporate management and how CEOs contribute to the bigger picture. Therefore, the analyses of relevant researches that have been done in the field are beneficial in developing the hypothesis for this paper as well as provide~~

a conceptual framework for this research. The theories are generated from two areas of economic consequences to the firm following the unforeseen death of a manager.

Sudden CEO Death Negatively Affects Stock Prices Performance

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Executives in any other organization influence performance and most often than not, they are not ready for such unforeseen circumstances. First sudden death of a boss affects stock prices negatively. According to Zhang (2015), there are two categories in which to classify senior management. Therefore it helps to understand who a CEO is and how important are they in corporate governance. In this respect, there are high ranking positions, and this is where the CEOs and CFO fall. Zhang (2015) argues that the most common method to analyze whether a head of organization death affects capital prices is to test the stock market two days before and consequently three days after.

While CEO's sudden death indicates instant downward trend evidence by a fall of the company rankings in the stock market, some study, however, has suggested the opposite. Research by Dao, Huang, Chen & Huang, (2014) indicated that there was an increase in stocks weeks after an organization lost its executive. However, this has mainly been due to a reactionary move of the markets in anticipation of the new CEO to be appointed. There is a tendency to anticipate that a current CEO would bring in new ideas and steer the company ahead. However, such anticipation is mostly dependent on whether the executive replacement will emanate from inside or outside of the organization. This is because, with the notion of preparation of unforeseen circumstances, some employees within the company may have been trained to assume relevant positions where possible.

However, even in the light of this slight increase in stock prices after an executive's departure, this finding was not consistent throughout the research, and it requires further scientific study to establish ground. Other researchers such as that of Withisuphakorn & Jiraporn, (2015) and by Kalyta, (2012) were consistent with that of Zhang (2015) which indicated a downward trend of stock prices after executive’s death. Apple Company is one such example in the event of the unexpected death of Steve Jobs (founder and CEO) in 2010. Stock prices reacted negatively dropping by a whole 1.5% (Zhang, 2015). Thus, it is hypothesized that sudden

You get to your hypothesis by referencing research that already showed that effect! Where is your contribution? What is different in your setting? Or to you want to replicate prior findings which is also fine?

death of a CEO leads to a downward trajectory in stock prices.

Therefore, H 1 is provided as **H_1**: CEO sudden death negatively affects stock prices

What is the theortical reason why sudden death affects earnings management?

Sudden CEO Death Negatively Affects Earnings Management

Income management is an essential concept in all organization. Research conducted in the field of accounting to determine earnings management after another CEO has taken over has been done (Larcker & Tayan, 2012: Kalyta, 2012). In most research, earnings management was determined by CEO turnover. An executive's sudden death results typically in a turnover because a different person has to take hold of the available vacancy. According to a study done by Saira et al., (2011), research findings indicated that new CEOs who took over after the sudden death of the incumbent or as a result of any other exit cause were unable to efficiently manage revenues within the first year of taking control. The reason for this tendency is that because new CEO's are unfamiliar yet with the organization, they tend to analyze accounting from a bigger picture to understand the company trends thus affecting company earnings (Larcker & Tayan, 2012). Incomes management, therefore, indicated a negative direction thus leading to the second hypothesis of this research that

H_2: Sudden CEO death negatively affects earnings management.

Conceptual Framework Write about your conceptual framework and do not explain what a conceptual frame is supposed to do.

~~An abstract framework is often a researcher's model of illustrating variables which in turn specify the problem and give direction to the study. A conceptual framework for this particular research will be adopted from the capability theory of the firm. The method advances the relationship that exists between dynamic capacities and firm leadership (He, Mahoney & Wang, 2009). In this respect capabilities proposition such as the economic organization of a business can be drawn. Therefore, two varying units are identified in this research about a firm's leadership: the death of a CEO would be the IV whereas earnings management would be the dependent variable. Therefore from these variables, a simple conceptual framework can be obtained.~~

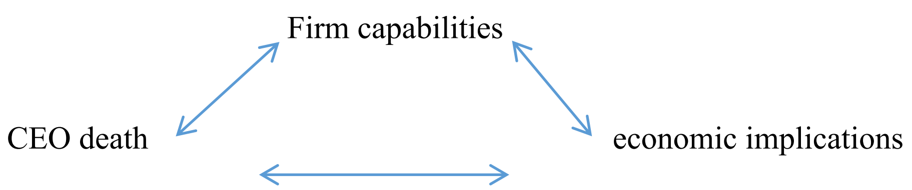

Figure 1: a conceptual framework for economic consequences of CEO death

The Hypothesis to Be Tested

~~The alternative proposition is typically stated, but null hypothesis is subject to investigation. Therefore, the hypothesis in this research will test by way of significance tests. The null hypothesis for this research is Ho: there is a definite correlation between CEO death and economic consequence (stock prices and earnings management).~~

Research design and data

I do not understand the highlighted part.

This study takes a more deductive approach to infer data from the already existing survey to understand the current phenomenon. Primary data point collected will also be shaped by the statistical analysis to test the hypothesis. As Allwood (2012) highlights, it is essential to link the experimentation method with the context of the study. Therefore, the thesis is advanced to explain and understand the economic consequences of a CEO death on the firm performance evidenced by stock prices and company earnings (Lambertides, 2009: Zhang, 2015). Therefore, quantitative research will be appropriate for this study as it enables generalizability of research findings to other firms (Harrisons, 2013)

Furthermore, this probe design is necessary as it enables the researcher to select larger samples to be used in research thus enhancing the reliability of data (Spamann, 2009: Savela, 2018). The research design identified is also essential in the testing of the hypothesis.

Data Collection

There is a vast amount of research that has been done on sudden deaths of CEO. Mainly, these studies have been done in light of either management or finance and often with a stance in executive turnovers in the United States. Therefore, the setting of data collection would be the US. Execucomp will be used as a significant method to gather data that will be used to track the CEOs through their names and firms they work. The technique will also capture the different executives' details such as age and tenure in respective organizations (Boritz & No, 2013). The data collected would be then merged with Compustat, a database that contains information about the CEOs of S&P500 companies (Boritz & No, 2013). The database has been helpful in the past researches done by other scholars.

Statistical Tests

Measures of association or bivariate analysis will be used to measure or test the hypothesis. Because the study intends to find the strength of the relationship between CEO death and firm performance, the correlational analysis will be appropriate because it monitors co-variation between the independent and dependent variables (Hamer, Keppel & Zedeck, 1990). Therefore, correlation coefficient which is a statistical measure of co-variation or that shows an association connecting two variables will be used.

The correlation coefficient (r) is established on a range of +1 and -1 (Hamer, Keppel & Zedeck, 1990). This will, therefore, be useful in indicating the magnitude of the linear relationship as well as the direction of the co-variation. Therefore in hypothesis testing;

If r=0 then it means that there is no correlation between CEO death and firm performance

However, if (r) is leaning strongly towards +1 for example.

r= 0.98

Then it means that there is a definite and close correlation between CEO death and firm performance. However, if the figures obtained from the calculated coefficients indicate a stronger tendency towards -1, there is a strong negative correlation between CEO death and firm performance. When this stage is done, a simple bivariate linear regression can then be applied to the variables to test relationships that occur linearly in a continuous dependent and independent variable.

Therefore CEO death will be expressed as Y value while firm performance will take X value. The most straightforward linear regression will be:

$Y=\alpha + \beta X$

Where α refers to alpha and β relates to Beta

The beta which is a standardized regression coefficient will be crucial in indicating the strength of the relationship between X and Y. To conclude however that this regression model is significant in investigating the relationship between the two representations in the study, an F test must be conducted. If the p-value of the F test is found to be below the significance level of 0.05, the model is deemed significant (Hamer, Keppel & Zedeck, 1990). Thus, the CEO death (independent variable) will have explained the variation in the dependent variable.

Include the regression equation. Mention all variables that you use and state the predicted sign(s) of direction, i.e. how to you expect them to influence the outcome.

References

Check references (and format) and cite the paper if published correctly.

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Think of structuring your introduction in the following way:

Start with the research question: Does CEO sudden death affect stock prices/earnings management?

Motivate the research (question): Why important to investigate? Anecdotal + Theoretical motivation -> do not forget to cite the papers that you mention

Present closest (most important) related literature and theoretical framework: Literature on CEO sudden death/turnover that investigates stock market reactions and earnings management. Use literature from accounting and finance, and cite the papers. What is the (economic) mechanism behind your research question/ hypothesis. Briefly state your hypotheses.

Briefly explain the research design and sneak peaks the results: How do you test your hypotheses/research question? - OLS?, What data do you use?, Why is sudden death a good setting from an empirical point of view? How does it help to reduce endogeneity concerns? Add sneak peak of results at a later stage…

Contribution of the paper!!!!!!!
- State how you add to previous literature (and cite that literature) and explain exactly how you do it!

Should be around pages…