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THE USE OF AN INTERIM CEO DURING SUCCESSION EPISODES AND FIRM PERFORMANCE

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Our study investigates an unexplored succession process—interim CEO successions. We define an interim CEO succession as a case where the title of chief executive officer is vacated by the incumbent and the board of directors has not announced a permanent successor, but instead designates a particular individual as 'interim CEO,' or 'acting CEO,' or 'CEO until a permanent successor is named.' Theory predicts that interim CEO successions will lead to the type of disruption that can harm firm performance, even after a permanent successor is appointed. Our data show that interim CEO succession processes are widely employed by publicly-traded U.S. firms, and that they are associated with lower performance during the period in which the interim serves. However, whether the interim CEO also simultaneously serves as chairman moderates the impact of this type of succession on firm performance, as well as on long-term firm survival.

INTRODUCTION

All firms must eventually cope with the potential disruption and instability associated with chief executive officer (CEO) successions (Grusky, 1960). Accordingly, management scholars have investigated the various succession processes that boards of directors use to improve financial performance during and after these events (Giambatista, Rowe, and Riaz, 2005; Gabarro, 1987). These processes differ primarily in the extent to which they are *planned* in advance—ranging from the 'relay succession,' where the outgoing CEO identifies, grooms, and then 'passes-the-baton' of control to a chosen heir apparent, to the more competitive 'horse-race' successions, to a simple *ad hoc* assessment and selection of the best candidate who is available at the time (Friedman and Olk, 1995; Vancil, 1987). Prior research in executive succession points to the conclusion that less disruptive CEO succession processes are associated with better performance outcomes (Greiner, Cummings, and Bhambri, 2003; Wiersema, 2002; Zhang and Rajagopalan, 2004).

Despite the emphasis on the various ways that boards might approach these transitions, a basic and important question remains unanswered: what happens to firms when boards of directors are unable to immediately replace the departing CEO? Recent press reports suggest that many firms are unable to smoothly transition from an outgoing to a new CEO, frequently resorting to an 'interim CEO' who temporarily leads the firm until the board finds a permanent successor for the empty position (Brady, 2006; Hymowitz, 2006). A diverse range of firms, including Wachovia Bank, Citigroup,

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Gateway Computers, Bristol-Myers Squibb, Sharper Image, H&R Block, and Wendy's have all temporarily employed interim CEOs. These press reports are intriguing because they seem to suggest that a substantial number of boards are unable to find a suitable successor before the incumbent CEO leaves the firm. Whether the use of an interim CEO significantly harms firm performance is unclear because research has neither examined how frequently or when boards use interim CEOs, nor how boards implement these arrangements.

Our study addresses these issues by exploring three research questions. First, does the use of an interim CEO harm performance *during* the interim's tenure compared to those firms that immediately replace their CEO? Second, does the use of an interim CEO harm long-term firm survival? Third, does the manner in which a board implements interim succession processes, or the specific contexts in which they do so, affect the outcome of this succession process?

Because so little is formally known about when and how boards use interim CEOs, we grounded the initial portion of this study in an inductive research process. The main benefit of this inductive approach is that it gives us a firmer appreciation for the institutional realities of the phenomena, which helps insure the adequacy of formal hypothesis testing (Hoskisson *et al*., 1999; Seth and Zinkhan, 1991). As a preliminary research question, we first sought to establish just how frequently firms use interim CEOs, and whether this is common enough to be relevant to succession research. Our initial investigations revealed that 89, or 17 percent, of the succession events occurring in a sample of over 2,500 publicly-traded firms between 1996 and 1998 involved hiring an interim CEO for a meaningful period of time (45 days or more).

Given the high frequency of firms using interim successions, we continued our inductive research to build an understanding for when and how boards use this succession process. To do so, we examined media and publicly available documents regarding how these processes evolved at eight of the firms in our sample. We were also able to supplement these public accounts with interviews with the individual who served as interim CEO at three of these firms. Our objective during this inductive stage was to explore the accuracy of our depiction of this succession process, not to suggest any theoretical perspective regarding how that choice might impact subsequent performance. We report the details and conclusions of that investigation in the next section. Once we have established an accurate characterization of this succession process, the study then draws on existing CEO succession and top management team (TMT) research to formally develop a series of hypotheses regarding how interim CEO successions might influence both short-term financial performance and long-term firm survival. We test our hypotheses and draw implications for future research based on an analysis of 533 CEO successions.

BACKGROUND

While researchers have struggled to find a consistent effect of succession on firm performance, it is now commonly accepted that these effects depend on the actions of the successor, as well as on the internal and external context surrounding the event (Kesner and Sebora, 1994; Rowe *et al*., 2005). Accordingly, recent succession research has focused on the role of internal processes in the relationship between CEO successions and performance outcomes. For example, Cannella and Shen (2001) describe the patterns of contention between the outgoing CEO and the heir-apparent that determine whether the heir is promoted to the top job or exits the firm. Ocasio (1999) identifies powerful and institutionalized rules that drive succession choices. Other studies show that similarity biases, as well as the relative power of the CEO in relation to the board of directors, shape the actual selection of successors (Pitcher, Chreim, and Kisfalvi, 2000; Zajac and Westphal, 1996). At a broad level, the emphasis on these microprocesses is consistent with the notion that not all succession episodes follow the same processes and steps, and that these differences matter (Gabarro, 1987; Vancil, 1987).

Still, most prior succession research shares an implicit assumption—that the board desires and achieves an orderly transition between predecessor and successor. Stated simply, prior studies base their explorations on the assumption that one day the predecessor serves as the officially designated CEO, and on the next the successor takes over—regardless of which planning process the board chooses. This is demonstrably not the case in all successions.

We define an *interim CEO succession* as a case where the title of chief executive officer is vacated by the incumbent and the board of directors has not

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announced a permanent successor, but instead designates a particular individual as 'interim CEO,' or 'acting CEO,' or 'CEO until a permanent successor is named.' The interim succession episode begins when the incumbent CEO formally departs the firm, and ends when the board officially agrees to employ an individual as the CEO and vests full power of the position in that individual. As noted earlier, our initial data collection identified 89 succession events that involved the appointment of an interim CEO who held that position longer than 45 days. From that group, we analyzed press accounts detailing the succession processes at Equitable Resources, Exabyte Inc., International Multifoods, M. A. Hanna, Nextel Communications, Novell, Smith Corona, and Trimble Navigation. We also interviewed CEOs at three of these firms—all of whom are men and are not named here for reasons of confidentiality. Two of these individuals also served as chairman during their interim appointment, while one was a member of the TMT prior to his appointment as interim. One was appointed permanent CEO following his term as interim CEO. Three common features stand out across the interim CEO successions that we examined.

Boards appoint interim CEOs under duress

First, it appears that the board's decision to employ an interim CEO is usually made under duress, specifically when the board has few or no better alternatives regarding who to appoint as the next CEO. In the cases that we examined closely, this duress either took the form of an incumbent CEO departing the firm unexpectedly, or the board losing confidence in the current CEO to the point where they acted immediately to dismiss that executive (Fredrickson, Hambrick, and Baumrin, 1988). One of the interim CEOs whom we interviewed reported that the board requested that he take the position temporarily after the current CEO unexpectedly approached the board and resigned, indicating that he was 'worn out' and unable to cope with challenges facing the firm. A second interviewee took the interim position after the CEO, having been informed that the board had commenced a search for his replacement, stepped away from day-to-day operations of the firm.

All three of our informants cited a lack of viable candidates as the reason for them taking temporary leadership of the firm (Kesner and Sebora, 1994). Predictably, one reason for the lack of suitable successors appears to be that predecessor CEOs departed relatively soon after taking the job. At chemical manufacturer M. A. Hanna, Douglas McGregor retired as both CEO and a director after only two years as CEO; the board accepted his resignation and named former CEO Martin Walker interim that same day (Nugent, 1998). Comparative statistics from our full dataset, provided in Table 1, support this depiction of the interim CEO position as a way to cope with early or surprise successions. As seen in Table 1, firms that used an interim CEO succession process were, on average, replacing former CEOs who were significantly younger than their counterparts at other firms in the sample ($p < 0.01$). Interim CEOs were also more likely to follow CEOs who left the firm after shorter tenures ($p < 0.01$). Over half of the CEOs replaced by interim CEOs were on the job less than five years prior to their departure, and in a quarter of those cases the predecessor served less than three years.

Ocasio (1994) suggests that CEO life cycles progress predictably through early periods where CEOs consolidate power by discouraging other rivals in the TMT. Within that context, it is perhaps predictable that surprise successions could limit the board's internal options. Seventy-one percent of the succession processes involving an interim CEO eventually resulted in the hiring of an outsider as permanent CEO. By comparison, only 12 percent of non-interim CEO succession processes resulted in the hiring of an outsider. This is consistent with prior research that suggests that boards are more likely to opt for external successors when there is a lack of qualified internal candidates (Guthrie and Datta, 1997). In a similar vein, theory suggests that organizations rarely vest full authority in a new CEO, often preferring to slowly transition position authority from the chairman of the board to the CEO (Hambrick, 1991). For this reason, it also makes sense that the chairman of the board is the likeliest candidate to fill the interim CEO position when that transition is aborted. In our sample, roughly half (40) of the 89 interim CEOs also simultaneously held the title of chairman of the board.

Lastly, the apparent importance of 'surprise' successions to understanding why boards use interim CEOs also led us to suspect that boards would be more likely to use interims when the incumbent CEO died or resigned unexpectedly

Table 1. Background data on interim CEO cases in sample

Duration of interim succession episode

Category	Count	Percent
Less than 45 days (excluded from all analysis)	7	7.3%
Longer than 1 quarter	89	92.6%
Longer than 2 quarters	84	88.4%
Longer than 3 quarters	56	58.9%
4 or more quarters	31	32.6%

Interim CEO age

Category	Count	Percent
Under 40	7	7.4%
40–44	15	15.8%
44–49	10	10.5%
50–54	20	21.1%
55–59	14	14.7%
60–64	12	12.6%
65 and over	17	17.9%

Interim CEO background

Category	Count	Percent
Insider	59	62.1%
Outsider	36	37.9%
Chairman	40	42.1%
Director	80	84.2%
Non-director	15	15.8%
Multiple individuals	4	4.49%
Previously firm CEO	23	24.2%
Named permanent CEO	26	27.4%

Key mean differences between interim and non-interim using firms

Variable	Interim	Non-interim	Test statistic
Prior CEO age	54.8 years	59.3 years	5.89**
Prior CEO tenure	7.02 years	10.07 years	3.36**
Total assets	$1.98 billion	$6.85 billion	4.38**
Firm age	45.6 years	53.2 years	1.46
Insider at succession	29.2%	88.4%	11.70**
Pre-succession ROA (TTM)	−1.04%	2.38%	1.96+

+ $p < 0.10$; * $p < 0.05$; ** $p < 0.01$

Note: Ninety-five individuals served as interim CEOs across our 89 cases.

due to suspected malfeasance or scandal. Our full sample involved only 11 successions that were prompted by the death of the CEO, and only eight cases that occurred within the context of media accounts of suspected malfeasance. However, as expected, the incidence rate of interim CEO successions to permanent CEO successions was significantly higher in both these circumstances (six out of 11 deaths resulted in employment of an interim CEO, four out of eight cases of malfeasance did). In summary, the nature of these accounts and data suggest that situational constraints compel boards to hire interim CEOs.

Interim CEOs manage within the context of a formal CEO search process

The second common feature of the interim episodes that we investigated in detail was that interim CEOs operated within the context of a search

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and interview process for a permanent successor. Our interviewees reported somewhat different perspectives on how these search processes evolved. While all three of the interim CEOs whom we interviewed reported that their boards engaged an outside consulting firm to help identify external candidates, the two interim CEOs who also held the position of chairman of the board noted that their dual role required that they devote a significant amount of their attention to managing the search process. In contrast, the member of the TMT who was named interim CEO reported that his elevation from chief financial officer to interim CEO (non-chairman) meant that his participation in the search process involved primarily speaking with candidates invited by the board, and that the board appointed him CEO after that process managed to bring in 'no one too dazzling' (personal interview).

The average interim CEO in our full sample of 89 incidents served for 195 days, while the shortest and longest interim episodes lasted 45 days and 932 days, respectively. There were seven additional cases not considered where an interim CEO served for less than 45 days. The specific cases that we examined suggest that the length and eventual resolution of these search processes are at least partly a function of the financial and strategic strength of the firm, particularly its negotiating position compared to the pool of interested candidates and the search firm. Recalling his experience as chairman and interim CEO, one of the executives we interviewed noted that the search process was repeatedly extended because the board was dissatisfied with the quality of candidates presented by the search firm (personal interview). If firms in the position of needing to replace an interim CEO also tend to be in some form of distress, then job candidates may attempt to negotiate higher compensation to offset the potential reputational harm should the firm's difficulties continue (D'Aveni, 1990; Wiesenfeld, Wurthmann, and Hambrick, 2008). As seen in Table 1, firms in our sample with poor performance (in terms of return on assets) in the year prior to a succession event were more likely to use an interim CEO than higher performers ($p < 0.10$), which may reflect the difficulty that these firms have attracting candidates. These poor performing firms were also likely to use interim CEOs for longer periods ($p < 0.01$). Likewise, firms using an interim CEO tend to be significantly smaller, owning roughly one-third the assets of those firms that immediately replaced their CEO ($p < 0.05$). This data is consistent with the idea that these boards must extend their CEO search processes because they have difficulty attracting candidates. In some cases, that trouble can be further exacerbated when firms face strong competition for CEO talent. For example, after employing an interim CEO for six months, Novell succeeded in hiring Eric Schmidt from Sun Microsystems, Inc. Contemporaneous media accounts reported that Joseph Tucci of Wang Laboratories and Raymond Lane of Oracle, both serious contenders for the Novell job, received sizable bonuses and stock option packages from their employers during that time, reportedly as an incentive to pass on the Novell opportunity (Everett, 1997; Oracle Corporation, 1997; Wang Laboratories, 1997).

Finally, the fact that 26 of the 89 interim CEOs in our sample were eventually selected by their board as the permanent CEO raises the possibility that some firms may use the interim position and the related search process as an opportunity to 'try out' potential CEOs. To probe this question further, we examined the subset of interim CEOs who were both insiders *and* non-chairman, individuals who are logically the prime candidates for a 'try-out period' before potentially being named as permanent CEO. Our data show that 33 of the 89 interim CEOs were non-chairman insiders. Roughly half of this subgroup was eventually named permanent CEO at the conclusion of the recruiting process, compared with only 19 percent of the other interim CEOs ($p < 0.01$). Taken as a whole, this data suggests that the length and eventual resolution of the CEO selection process are dependent on the competitiveness of the firm, as well as on the intent of the board when they select a particular individual to serve as interim.

Interim CEOs focus on immediate crises

The final common feature of the episodes we examined is that interim CEOs focus primarily on making and implementing tactical decisions that address immediate threats to the firm's operational performance. In general, these situations share the characteristics of retrenchment and operating turnarounds involving actions designed to decrease costs or change the operating asset structure of the firm (Hofer, 1980; Robbins and Pearce,

1992). At International Multifoods, a poorly executed implementation of the organization's information system created 'crisis levels' in the firm's cash flow (DeSanctis and Price, 2001: 185). That experience was very similar to public accounts of the succession process at M. A. Hanna, where interim CEO Martin Walker made improvements in a customer service process and information systems that had sharply reduced sales (Winter, 1999). Joseph Marengi, interim CEO and internal candidate for the CEO position at Novell, worked to make upgrades to existing software (Aragon, 1996). Though Marengi's choices were crucial to improving the sales of products to stop the loss of market share, Chairman John Young delayed a more extensive strategic repositioning of the firm until a permanent CEO could be hired (Carricaburu, 1997a, 1997b).

The interim CEOs whom we interviewed recalled similar experiences—an overall emphasis and concern with immediate challenges that faced the firm. One of the interim CEOs addressed severe cash flow issues by closing down initiatives of the predecessor CEO, while another emphasized the necessity of systematic cost cuts. These interim CEOs did not undertake long-term strategic changes that might eventually constrain the choices available to the permanent CEO. The interim CEO who was appointed as permanent CEO did eventually reassess the firm's core business line, but only after the board named him as permanent CEO. Another reported that he saw his role as interim not as someone to set a new strategic direction, but rather to fix existing operating problems. He interpreted his job simply as 'keeping things from flying apart.' Though our quantitative data does not speak directly to whether boards systematically or intentionally limit the interim CEO's mandate to implement change, these accounts suggest that the situational factors that characterize the use of interim CEOs effectively focus those executives' attention on short-term, tactical crisis management.

In sum, prior research shows that CEO transitions are a predictable and natural part of the ongoing management of a firm, but they can also be unprecedented periods of disruption that are prompted by various types of crises (Friedman and Saul, 1991). The interviews and our analysis of press documents confirm a picture of interim CEOs as the succession choice of 'last resort,' and that boards seldom if ever use this approach of their own volition. Not surprisingly, boards seem most likely to hire an interim CEO during period of crises, or seemingly when they have difficulty finding a person willing to take the position before the CEO leaves. Though challenging, these crises are not exotic and should not be novel to professional managers or directors. Considering and controlling for the organizational issues that complicate all succession processes, does the board's specific choice to use an interim CEO negatively impact the firm's future? If so, can the board structure these arrangements in ways that minimize or eliminate that risk?

HYPOTHESES

Interim CEOs and firm performance

Though situational factors likely compel the board to employ an interim CEO, discussions of this choice in the popular business press focus primarily on two ways that this arrangement can benefit the eventual selection of a new CEO. Carol Hymowitz (2006), *Wall Street Journal* columnist, noted that interim CEO appointments may be attractive to a board because they allow the board time to assess the current situation and conduct a thorough search for an appropriate successor, individuals whose skill sets and talents may often differ markedly from those that companies have needed and sought in the past. While this consideration may not lead boards to freely elect to use an interim, the boards we examined certainly made public statements that justified their choice to use an interim as facilitating a full and thorough search for a new CEO. At least in theory, interim CEOs allow boards to cope with bounded rationality and improve decision making by alleviating the time constraints that prevent them from assessing a number of alternatives (Bell, Raiffa, and Tversky, 1988; Simon, 1997). Likewise, an extended CEO search potentially allows uncertainty regarding the exact needs of the firm to dissipate over time as the board gathers information from potential candidates and stakeholders, and as the state of the organization evolves (March and Simon, 1958; Sebora and Kesner, 1996). Following this logic, boards that are confronted with crises but remain unwilling to use an interim could possibly compromise the firm's prospects by satisficing on the choice of a successor for the sake of quick resolution.

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Diane Brady (2006), writer for *Business Week*, suggests a second benefit: that boards use an interim when they must dismiss a lackluster CEO even before finding a permanent replacement. The role and influence of the incumbent CEO, particularly on the selection of a successor is a crucial issue because prior research shows that the power and self-interest of a firm's outgoing CEO can bias the search for the next leader (Boeker and Goodstein, 1993; Cannella and Shen, 2001; Pitcher *et al*., 2000). Handpicked successors allow departing CEOs to shape their own legacies, while major changes in the type of CEO carry negative judgments. The departing CEO's interest in preserving his or her legacy or promoting followers may seriously diverge from shareholder interests (Jensen and Meckling, 1976). Interim CEOs ostensibly allow the board to evenhandedly match CEO qualifications and firm needs in a way that is free from the political influence of a predecessor. This ability may be crucial to a firm whose prior CEOs have exposed it to crises that threaten its future.

Despite these arguments, a review of management research and theory suggests two main reasons why, all other things being equal, an interim is likely to underperform a permanent CEO. First, firm success depends not only on its strategic fit with the environment (Andrews, 1971), but also on whether top executives are able to make decisions that recognize and seek to exploit changes in the competitive environment (Zajac, Kraatz, and Bresser, 2000). Socially, a wide range of stakeholders look to the CEO as a symbol of the organization's present values and its likely future direction (Kesner and Sebora, 1994; Miller, Kets de Vries, and Toulouse, 1982). Going without an individual formally holding the CEO position may delay critical decisions, perhaps causing periods of damaging strategic stasis and inertia (Huff, Huff, and Thomas, 1992). Even if the board does not formally limit the interim CEO's mandate to enact organizational change, interim CEOs can hesitate to make critical hires or long-term strategic changes that a permanent successor may reject. For instance, one of the informants we interviewed noted that in his interpretation of the interim CEO role, 'you really aren't free to do exactly what you want...to recruit the new CEO, you had to leave that person some flexibility with regards to the strategy' (personal interview). As Claire Babrowski, interim CEO of Radio Shack in 2006 noted, she saw her role as that of a steadying force: 'I needed to calm investors, employees and customers.' And yet she also felt she had limited discretion to compete, noting: 'I was determined not to do anything that might force the board's hand to choose me if they didn't want me,' and 'I didn't want to stick the company with expensive talent or commit millions of dollars...before someone permanent was named' (Hymowitz, 2006). Notable in these statements are the extremely low levels of perceived managerial discretion (Hambrick and Finkelstein, 1987), as well as the absence of strategic actions aimed at setting a strategic direction, and a presumed incapacity to alter the firm's near-term stance against its competitive rivals (Miller and Chen, 1994; Haveman, 1993b). To the extent that interim successions limit managerial choice and action, we expect that this succession process will harm firm performance as long as the interim CEO remains in office.

Second, succession processes are by their very nature disruptive (Grusky, 1960). They change the attitudes, emotions, and behaviors of all individuals involved (Ballinger and Schoorman, 2007; Burns, 2003). CEO successions stoke latent political differences in the TMT and intensify power struggles because organizational control and influence are at stake (Pfeffer, 1981). Members of the TMT are likely to protect their own self-interests by making political trade-offs and building competing coalitions (Cannella and Shen, 2001; Stevenson, Pearce, and Porter, 1985). As Hambrick notes (1994), this kind of political fragmentation can damage decision making, endangering the firm's competitiveness. Eisenhardt and Bourgeois (1988) have also shown that excessive politicization of decision-making processes can contribute to poor organizational performance.

We expect that the problems of politicization and fragmentation of the TMT are likely to be magnified during interim CEO successions, because the use of an interim CEO both extends uncertainty about who will be the permanent leader, and creates a leadership vacuum within the firm. Given the nature of their role, interim CEOs are less likely than permanent CEOs to possess the long-term coercive authority to impose the kind of cooperative environments that are crucial to a well-functioning TMT (Hambrick, 1994). To the extent that quality decision making requires that TMT members cooperatively share, interpret, and act on complex sets of disjointed information (Amason and Sapienza, 1997; Huber and Daft, 1987), we

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expect that the absence of a permanent CEO who can impose cooperation and order will harm the firm's subsequent outcomes.

If, as we expect, interim CEOs expose the firm to periods of strategic stasis and promote political fragmentation in the TMT, then firms that use an interim CEO should experience lower performance during that interim period, compared to firms that immediately replace their CEOs.

Hypothesis 1a. Firms that appoint an interim CEO during succession processes are likely to experience lower financial performance during the interim CEO's tenure, compared to those firms that use non-interim processes.

Interim CEOs and firm survival

While we expect that the limitations of the interim CEO successions will most dramatically harm the firm while the interim CEO leads the firm, the negative effects of stasis and TMT fragmentation may also handicap the viability of the firm in the long turn, even after the board identifies a permanent successor. The board's decision to use an interim CEO can institutionalize a short-term emphasis on immediate crises, which, while perhaps necessary in the midst of crises, also postpones the opportunity for strategic change (Zajac, Kraatz, and Bresser, 2000). Likewise, the likelihood that interim successions prompt discord in the TMT and create uncertainty among crucial shareholders is similar to the kinds of social deterioration that others have associated with the downward spirals that precede organizational failure (Hambrick and D'Aveni, 1992; Staw, Sandelands, and Dutton, 1981). As such, we expect the disruption associated with interim CEO successions will increase the likelihood of firm failure.

Hypothesis 1b. Firms that appoint an interim CEO during succession processes are more likely to experience long-term failure, compared to those firms that use non-interim processes.

Interim succession processes, like other types of CEO successions, vary in many important respects (Vancil, 1987). Using a contingency perspective (Lawrence and Lorsch, 1967), we examine whether the specific contexts in which a board implements interim succession processes, or the manner in which they structure the position of interim CEO, determine how this process affects firm outcomes.

Industry dynamism

If the use of an interim CEO harms firm performance by prompting periods of strategic stasis, then this succession process should be particularly troublesome in dynamic environments where delayed decisions run the risk of exacerbating the misfit between the firm's activities and its external challenges (Hedberg, Nystrom, and Starbuck, 1976; Miller and Chen, 1994). Rapid environmental change posses a unique challenge because that change tends to undermine the value of any decisions that emerge from prolonged consideration (Bogner and Barr, 2000). Eisenhardt (1989) found that successful firms coped with rapidly changing environments by increasing the speed of their decision-making processes.

The issue of decision speed aside, rapidly changing environments also tend to confront CEOs with more onerous information processing challenges (D'Aveni, 1994; Miller and Friesen, 1980). While high-velocity environments demand quicker decisions, successful executives will also simultaneously use more information, consider more alternatives, and seek greater amounts of advice from others (Eisenhardt, 1989). These rapidly changing environments stress the cognitive processes of the best executives, requiring them to cope with unfamiliar and uncertain data, possibly committing the firm to significant changes in its strategic course (Bogner and Barr, 2000). While any particular interim CEO may be experienced and capable, we suspect that the context of his or her employment means that he or she lacks both the time and authority to take the actions necessary to cope with these challenges.

Hypothesis 2a. The negative association between interim CEO appointments and firm performance will be stronger in dynamic industries than in stable industries.

Hypothesis 2b. The likelihood that interim CEO successions are associated with long-term firm failure will be higher in dynamic industry environments than in stable industry environments.

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Interim CEO duality

If the use of an interim CEO harms firm performance by prompting uncertainty and political self-dealing in the TMT, then this succession process should be less harmful when the interim CEO also possesses a separate position of formal authority within the organization that allows them to minimize political fragmentation. Fragmentation of the TMT into competing coalitions is troublesome, because this precludes the type of information sharing and cooperative sensemaking activities that are necessary for quality decision making (Hambrick, 1994; Simsek *et al*., 2005). Chairmen who temporarily take the interim title may be in the best position to exercise coercive power over TMT members to prevent these problems. For example, 'chairman-interims' can direct the institutional resources of the board to increase the dependence of TMT members (Pfeffer, 1981). Also, chairman-interims ultimately direct the search process for the new CEO, which increases their influence over the behavior of executives who vie for that position. This type of duality reflects higher levels of CEO power because it signals unambiguous decision-making authority at the top of the organization (Fama and Jensen, 1983; Finkelstein and D'Aveni, 1994: 1080). As a result, we expect,

Hypothesis 3a. The negative association between interim CEO appointments and firm performance will be weaker when the chairman and interim are the same person, and stronger when this duality does not exist.

Hypothesis 3b. The likelihood that interim CEO successions are associated with long-term firm failure will be lower when the chairman and interim are the same person, and higher when this duality does not exist.

DATA AND METHODS

Sample

The sample in this study provides a representative range of CEO successions occurring in publicly held U.S. firms. The sample consists of any firm listed in a Standard and Poor's (S&P) index that also experienced a CEO succession during the period between 1996 and 1998. We included all instances where any part of the CEO succession process occurred during the period. We selected this historical time period to insure that sufficient data existed regarding firms' post-succession performance and survival rates.

We identified CEO changes from the *Execucomp* database, a subset of the *COMPUSTAT* database containing annual information on the executives of over 2,600 publicly held, S&P index member firms. For each of these events, we then reviewed a comprehensive set of press releases, news articles, and official filings with the United States Securities and Exchange Commission to determine whether the event fit our overall definition of CEO succession. Consistent with prior research (Shen and Cannella, 2003), our analysis excludes CEO changes that arose from changes in corporate control, such as mergers, acquisitions or spin-offs. This process identified 540 CEO successions during the time frame. Complete management and financial data were available for 479 succession episodes, of which 89 involved the use of an interim CEO.

Measures

Interim and non-interim CEO successions

The compelling aspect of the interim CEO succession is that firms rely on a temporary CEO after an incumbent CEO leaves the firm, but before the board designates a permanent successor. We use two criteria to define interim successions. First, the incumbent CEO relinquishes the position and *ceases to serve as CEO* before a successor is named. Second, the board of directors names a specific executive as *'interim CEO,' 'acting CEO,'* or explicitly announces that he or she is serving in the role of CEO *'until a search is completed.'*

We used a multistep process to examine these criteria and categorize successions as interim or non-interim. First, we identified the specific date listed in *Execucomp* as the last day of the incumbent CEO's tenure, and compared that date to the day listed as the first day of the successor's tenure. Gaps between these days, or the presence of an extremely short-tenured CEO (e.g., five days) indicate that a *possible* interim CEO succession has occurred. Second, we collected and content analyzed company press releases, news reports, and company filings to determine the nature of each CEO change and the exact date of the first public announcement of a permanent successor. Third,

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we determined from company and press release documents whether the board designated a specific executive(s) as temporary CEO during the interim following the departure of the incumbent CEO, but prior to the public announcement of a replacement. Using dummy variables, we coded interim succession processes as one, and all non-interim succession processes as zero.

Industry dynamism

Following prior research, we measured industry dynamism as the temporal variation in industry sales growth and employment growth at the four-digit Standard Industrial Classification (SIC) code level (Zhang and Rajagopalan, 2004). First, we calculated sales growth instability as the standard error of the slope coefficient for sales growth divided by the mean value of sales in a three-year period beginning with the year that the CEO succession occurred. We calculated instability in employee growth using a similar procedure. Lastly, we standardized these two scores and took their mean as a composite measure of overall industry instability. We collected this data from *Compustat*.

CEO duality

We dummy coded instances of CEO—chairman duality as one, and instances of non-duality as zero (Finkelstein and D'Aveni, 1994). We coded this variable for both interim CEOs and successor CEOs in the case of non-interim successions. We collected this information from the *Reference Book of Corporate Managements: America's Corporate Leaders* (Dun & Bradstreet, 1996), press releases, and SEC filings.

Firm performance

We measure firm performance in two different ways: encompassing *accounting-based* and *market-based* measures of performance. First, we measure *accounting-based performance* as the average quarterly return on assets (ROA). Given that our study examines performance differences during the period that an interim CEO serves, and because firms differ greatly in how quickly they replace a CEO, we measured average quarterly ROA over four progressively longer post-succession periods. Specifically, we measured *average quarterly ROA* over the periods ending one, two, three, and four quarters after the departure of the incumbent CEO. This approach assures that our performance metrics accurately reflect the diminishing size of the 'treatment' group (firms employing interim CEOs) over time (Shen and Cannella, 2002b). We examine ROA because it is a highly visible accounting metric that is closely assessed by both executives and the investor communities to which they respond (Carpenter, 2002). We averaged ROA over subsequent quarters to reduce volatility and better reflect the firm's condition over the full period of time after the incumbent CEO departs the firm.

Second, we capture the *market-based performance* of the firm by examining the firm's Tobin's Q (TOBINQ) *at the end* of the first, second, third, and fourth quarters following the departure of the incumbent CEO. TOBINQ is defined as the adjusted market value of the firm's common equity, divided by the book value of its assets, thus capturing the premium that stockholders place on the firm's assets, which reflects investors' current sentiment regarding the firm's future prospects (Dennis, Nandy, and Sharpe, 2000).

Firm survival

Our analysis of firm survival captures the longer-term impact of this succession choice: whether the use of an interim CEO diminishes the firm's long-term chances of survival even after a permanent CEO is named. We code *firm survival* as the length of time elapsed from the appointment of a permanent CEO until either the firm expires or the end of a seven-year period following the appointment. In keeping with other research investigating firm survival (e.g., Fischer and Pollock, 2004), a firm is coded as expiring if it was delisted from its primary stock exchange with a delisting code between 500 and 585 in the *CRSP* database. These delisting codes indicate firm bankruptcy or the inability of the firm to otherwise maintain listing requirements such as market capitalization, a minimum number of shareholders, or minimum stock price.

Control variables

To more carefully isolate the influence of using an interim rather than a non-interim succession process, our empirical model also includes a number of important control variables. Given that our review of this phenomenon suggests that firms are

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likely to use interim succession processes in times of distress, we first carefully control for differences in pre-succession firm performance (Zhang and Rajagopalan, 2004). Specifically, we measure the firm's TOBINQ at the end of the quarter prior to the succession [*pre-succession TOBINQ*] and the average firm ROA during the four quarters preceding the CEO succession [*pre-succession ROA*]. Likewise, we sought to control for whether the firm experienced significant improvements or deteriorations in performance just prior to the succession. For this reason, we measured changes in ROA [*pre-succession ROA change*] and TOBINQ [*pre-succession TOBINQ change*] over the 12-month period prior to the succession event.

Second, we also control for past and future performance differences between the various industries in which our sample firms compete. We collected the *pre-succession industry-level performance* and *post-succession industry-level performance* that coincided with the firm-level performance metrics described above (Zhang and Rajagopalan, 2004). We categorized industry membership based on two-digit SIC code.

Third, we sought to separate the specific effect of using an interim versus non-interim CEO succession process from the broader, but still potentially challenging, task of the board of directors having to cope with 'surprise' successions. To accomplish this, we control for situations where public and press documents indicate that the CEO succession was prompted by the sudden death of a CEO [*CEO death*], or because the CEO became the target of investigation for malfeasance by regulatory bodies [*CEO malfeasance*]. To this same end, we also control for both the prior *CEO's age* and the prior *CEO's tenure*.

Finally, we also control for *firm size*, measured as total assets. We control for the level of *diversification,* captured as the entropy measure based on business activities in the year in which the CEO succession occurred (Jacquemin and Berry, 1979). We also control for outside versus *inside CEO successions,* for both interim and non-interim groups. We also control for the *year* in which the succession occurs. An additional variable, *firm age,* was included as a control in the survival analysis, as younger firms may be more likely to fail following succession events (Haveman, 1993a). We determined firm founding dates from SEC filings and other published accounts.

Data analysis

Data pertaining to the effect of interim CEO successions on accounting and market-based performance were analyzed using ordinary least squares regression techniques. As shown in Table 1, 89 of the 96 firms that used an interim CEO did so for longer than 45 days (i.e., half of an accounting quarter), which was required to meet our definition of an interim CEO succession. Boards of directors elected to use an interim CEO for longer than two, three, or four quarters in 84, 56, and 31 cases, respectively. To accommodate this, our analysis includes four separate empirical models that test for average performance differences as of one, two, three, and four quarters following the departure of the incumbent CEO. Using multiple staged models provides some insight into how the impact of interim succession processes plays out over time as progressively fewer and fewer firms that initially use an interim CEO continue to do so. Table 2 provides the means and correlations among all variables included in the analysis. Table 3 presents the analysis of the relationship between interim successions and ROA over each of these periods. Table 4 presents the market-based performance analysis of TOBINQ. Missing data for certain control variables reduced the number of interim cases used in the regression models shown in Tables 3 and 4.

We analyzed data pertaining to the effect of interim CEO successions on long-term firm survival using proportional hazards regression techniques (Cox, 1972). We predict the likelihood of firm failure at a particular time for those firms that have stayed in the sample up to that point as a function of our covariates. This prediction is expressed as a function of both the main effects and interactions of both continuous and discrete independent variables (Allison, 1984; Klein and Moeschberger, 2003). These tests are presented in Table 5.

RESULTS

Hypothesis 1a suggests that firms using an interim CEO succession will experience lower performance during that interim CEO's tenure compared to those firms who immediately replace their CEO. Our analysis strongly supports this hypothesis. With regard to average ROA, the coefficient for interim CEO succession is negative and significant

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Table 2. Descriptive statistics and correlations

NAME	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1 Interim CEO	0.18	0.38																		
2 Industry instability	−0.09	0.62	0.10																	
3 CEO duality	0.39	0.49	0.05	0.01																
4 Average ROA 1 QTR	−0.39	8.59	−0.07	0.01	0.02															
5 Average ROA 2 QTR	−0.12	5.75	−0.15	0.02	−0.01	0.89														
6 Average ROA 3 QTR	0.01	4.93	−0.18	0.03	0.01	0.81	0.95													
7 Average ROA 4 QTR	0.09	4.49	−0.19	0.03	0.02	0.77	0.91	0.96												
8 TOBIN Q 1 QTR	1.96	1.36	−0.09	0.00	−0.09	0.00	0.05	0.04	0.04											
9 TOBIN Q 2 QTR	1.99	1.49	−0.11	0.01	−0.07	0.00	0.05	0.06	0.06	0.94										
10 TOBIN Q 3 QTR	2.00	1.46	−0.12	0.03	−0.06	−0.01	0.05	0.06	0.08	0.91	0.95									
11 TOBIN Q 4 QTR	2.03	1.56	−0.11	0.04	−0.08	−0.05	−0.02	−0.03	−0.01	0.84	0.86	0.90								
12 Event year	1997.08	0.84	0.14	0.01	−0.01	−0.04	−0.05	−0.04	−0.05	0.03	0.02	0.03	0.07							
13 Firm size	5982.13	19756.42	−0.09	−0.04	0.11	0.04	0.04	0.04	0.04	−0.11	−0.10	−0.10	−0.10	−0.07						
14 Prior CEO age (years)	58.65	8.38	−0.22	−0.12	0.03	0.13	0.20	0.22	0.22	−0.15	−0.16	−0.14	−0.19	−0.01	0.15					
15 Prior CEO tenure (days)	3502.51	3026.27	−0.14	−0.08	−0.07	0.06	0.09	0.10	0.10	−0.02	−0.02	−0.01	−0.06	−0.10	−0.02	0.47				
16 Inside CEO succession	0.84	0.37	−0.28	−0.04	−0.05	0.03	0.07	0.09	0.10	0.08	0.08	0.09	0.06	−0.04	0.09	0.10	0.09			
17 CEO death	0.02	0.14	0.10	−0.02	0.07	0.04	0.04	0.05	0.05	0.09	0.08	0.09	0.05	−0.03	−0.02	0.10	0.17	0.06		
18 CEO malfeasance	0.01	0.12	0.10	−0.01	0.03	−0.01	−0.01	−0.01	−0.01	−0.06	−0.06	−0.05	−0.05	−0.07	0.07	0.00	0.01	−0.03	−0.02	
19 Diversification	0.00	0.79	−0.12	−0.06	0.16	0.06	0.07	0.07	0.08	−0.07	−0.06	−0.05	−0.07	−0.05	0.79	0.16	0.00	0.10	−0.02	0.12

Note: Pre-succession performance controls and post-succession industry performance controls not shown due to space limitations. A full correlation table is available from the first author upon request. Correlations with an absolute value greater than 0.09 are significant ($p < 0.05$).

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Table 3. Interim CEO successions and operational performance (ROA)

	ROA 1 quarters			ROA 2 quarters		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Constant	−506.681	−505.47	−417.474	−470.21	−461.24	−392.504
Pre-succession ROA (4Q)	0.209**	0.210**	0.204**	0.191**	0.191**	0.186**
Pre-succession ROA change	−0.004	−0.004	−0.004	−0.011*	−0.011*	−0.011*
Industry pre-succession ROA	−0.042	−0.043	−0.043	0.005	0.002	0.012
Industry post-succession ROA	0.401	0.402	0.362	0.496+	0.505+	0.421
Event year	0.254	0.253	0.209	0.234	0.23	0.196
Firm size	0.000	0.000	0.000	0.000	0.000	0.000
CEO's age	−0.035	−0.035	−0.031	0.002	0.001	0.005
CEO's tenure	0.000	0.000	0.000	0.000	0.000	0.000
Inside CEO succession	0.495	0.496	0.582	0.388	0.395	0.449
CEO death	0.497	0.498	0.606	0.153	0.154	0.258
CEO malfeasance	−1.086	−1.085	−1.172	0.416	0.423	0.210
Diversification	0.287	0.286	0.344	0.046	0.045	0.093
Industry instability	−0.022	−0.033	−0.010	0.1436	0.0578	0.154
CEO duality	−0.509	−0.508	−0.888*	−0.369	−0.366	−0.696*
Interim CEO succession	−0.507	−0.051	−1.339*	−0.928*	−0.943*	−1.750**
Interim succession * instability		0.022			0.18	
Interim succession * CEO duality			2.044*			1.913*
N	478	478	478	469	469	469
(Interim succ)	83	83	83	74	74	74
F	11.26**	10.53**	10.89**	18.44**	17.26**	17.89**
R^2	0.267	0.267	0.274	0.379	0.379	0.387

	ROA 3 quarters			ROA 4 quarters		
	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
Constant	−324.675	−320.301	−289.132	−305.271	−288.783	−281.017
Pre-succession ROA (4Q)	0.187**	0.187**	0.183**	0.171**	0.172**	0.169**
Pre-succession ROA Change	−0.011**	−0.011**	−0.011**	−0.001	−0.002	−0.001
Industry pre-succession ROA	0.020	0.017	0.016	0.033	0.029	0.038
Industry post-succession ROA	0.180	0.192	0.174	0.188	0.184	0.155
Event year	0.162	0.160	0.144	0.152	0.144	0.140
Firm size	0.000	0.000	0.000	0.000	0.000	0.000
CEO's age	−0.006	−0.006	−0.005	−0.016	−0.015	−0.014
CEO's tenure	0.000	0.000	0.000	0.000	0.000	0.000
Inside CEO succession	0.506	0.512	0.555+	1.023**	0.951**	1.016**
CEO death	0.047	0.047	0.118	−0.098	−0.083	−0.056
CEO malfeasance	0.197	0.203	−0.123	−0.956	−0.954	−0.963
Diversification	0.037	0.036	0.065	0.059	0.066	0.07
Industry instability	0.087	0.035	0.101	−0.018	0.017	−0.003
CEO duality	−0.086	−0.084	−0.284	−0.049	−0.077	−0.119
Interim CEO succession	−0.816*	−0.830*	−1.543**	−1.353**	−1.300**	−1.754**
Interim succession * instability		0.111			−2.166	
Interim succession * CEO duality			1.611*			0.99
N	445	445	445	421	421	421
(Interim succ)	51	51	51	27	27	27
F	23.72**	22.2**	22.76**	23.85**	22.5**	22.44**
R^2	0.453	0.453	0.458	0.469	0.471	0.47

+ $p < 0.10$, * $p < 0.05$ ** $p < 0.01$

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Table 4. Interim CEO successions and market performance (TOBINQ)

	TOBINQ 1 quarters			TOBINQ 2 quarters		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Constant	6.706	11.474	5.961	−37.343	−32.757	−33.185
Pre-succession TOBINQ	0.827**	0.828**	0.827**	0.925**	0.926**	0.925**
Pre-succession TOBINQ change	−0.002**	−0.002**	−0.002**	−0.003*	−0.003*	−0.003*
Industry pre-succession TOBINQ	0.001	0.001	0.001	0.002	0.002	0.002
Industry post-succession TOBINQ	−0.003	−0.003	−0.003	0.003	0.003	0.003
Event year	−0.003	−0.006	−0.003	0.019	0.016	0.017
Firm size	0.000	0.000	0.000	0.000	0.000	0.000
CEO's age	0.004	0.003	0.004	−0.003	−0.003	−0.003
CEO's tenure	0.000	0.000	0.000	0.000	0.000	0.000
Inside CEO succession	0.131*	0.135*	0.130*	0.171*	0.175*	0.174*
CEO death	0.006	0.008	0.005	−0.033	−0.035	−0.024
CEO malfeasance	−0.109	−0.106	−0.109	−0.118	−0.115	−0.129
Diversification	0.033	0.032	0.033	0.032	0.031	0.034
Industry instability	−0.012	−0.050	−0.012	0.009	−0.030	0.009
CEO duality	−0.016	−0.015	−0.012	0.063	0.064	0.042
Interim CEO succession	0.026	0.021	0.034	−0.130	−0.137	−0.182+
Interim succession * instability		0.079			0.081	
Interim succession * CEO duality			−0.021			0.123
N	479	479	479	470	470	470
(Interim succ)	84	84	84	74	74	74
F	177.11**	166.19**	165.7**	162.46**	152.32**	152.22**
R^2	0.851	0.852	0.851	0.843	0.843	0.842

	TOBINQ 3 quarters			TOBINQ 4 quarters		
	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
Constant	−70.581	−70.397	−69.361	−188.883	−190.915	−192.350
Pre-succession TOBINQ	0.829**	0.829**	0.828**	0.758**	0.758**	0.759**
Pre-succession TOBINQ change	−0.004**	−0.004**	−0.004**	−0.001	−0.001	−0.001
Industry pre-succession TOBINQ	0.002	0.002	0.002	0.002	0.002	0.002
Industry post-succession TOBINQ	0.002	0.002	0.002	−0.006	−0.006	−0.006
Event year	0.035	0.035	0.035	0.095+	0.096+	0.096+
Firm size	0.000	0.000	0.000	0.000	0.000	0.000
CEO's age	0.000	0.000	0.000	0.005	0.005	0.005
CEO's tenure	0.000	0.000	0.000	0.000	0.000	0.000
Inside CEO succession	0.245*	0.245*	0.247*	0.214	0.223+	0.217
CEO death	0.130	0.130	0.135	−0.157	−0.160	−0.164
CEO malfeasance	−0.263	−0.263	−0.277	−0.400	−0.401	−0.401
Diversification	0.074	0.074	0.075	0.069	0.068	0.067
Industry instability	0.052	0.050	0.052	0.136	0.131	0.133
CEO duality	0.132	0.132+	0.123	0.093	0.097	0.109
Interim CEO succession	−0.213+	−0.213+	−0.250	−0.360*	−0.365*	−0.266
Interim succession * instability		0.004		M	0.269	
Interim succession * CEO duality			0.079			−0.216
N	445	445	445	421	421	421
(Interim succ)	48	48	48	27	27	27
F	98.81**	85.88**	85.92**	47.45**	44.41**	44.44**
R^2	0.762	0.762	0.762	0.637	0.637	0.637

+ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$

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Table 5. Interim CEO successions and firm failure

	Firm failure (within 7 years)					
	Model 1		Model 2		Model 3	
	b	Hazard ratio	b	Hazard ratio	b	Hazard ratio
Pre-succession TOBIN (4Q)	−1.669**	0.190	−1.677**	0.190	1.614**	0.200
Pre-succession TOBIN change	−0.003	1.000	−0.004	1.000	−0.002	1.000
Industry pre-succession TOBIN	0.018	1.020	0.018	1.020	0.02	1.020
Industry post-succession TOBIN	0.038	1.040	0.038	1.040	0.04	1.040
Firm age	−0.006	1.000	−0.006	0.990	−0.005	0.990
Event year	0.109	1.120	0.111	1.120	0.143	1.150
Firm size	0.000*	1.000	0.000*	1.000	0.000*	1.000
Prior CEO's age	−0.066*	0.940	−0.065**	0.940	−0.068**	0.930
Prior CEO's tenure	0.000	1.000	0.000	1.000	0.000	1.000
Inside CEO succession	0.203	1.220	0.193	1.210	0.064	1.070
CEO death	−12.915	0.000	−12.912	0.000	−12.939	0.000
CEO malfeasance	−15.304	0.000	−15.315	0.000	−15.070	0.000
Diversification	1.569*	4.800	1.576	4.840	1.647*	5.190
Industry instability	−0.631	0.530	−0.376	0.690	−0.623	0.540
CEO duality	−0.744+	0.480	−0.744+	0.480	−0.207	0.810
Interim CEO succession	0.556	1.740	0.532	1.700	0.987*	2.680
Interim succession * instability			−0.401	0.670		
Interim succession * CEO duality					−1.756+	0.170
N	496		496		496	
(Failure events)	(39)		(39)		(39)	
Chi-square (df)	71.26(16)	**	71.32 (17)	**	75.54 (17)	**
Pseudo-R^2	0.16		0.16		0.17	

+ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$

for the periods ending two quarters ($p < 0.05$), three quarters ($p < 0.05$), and four quarters ($p < 0.05$) after the departure of the incumbent CEO. These results are shown, respectively, in Models 4, 7, and 10 of Table 3. The use of an interim CEO succession is also related to significantly lower TOBINQ three quarters ($p < 0.10$) and four quarters ($p < 0.05$) after the departure of the incumbent CEO. These results are shown, respectively, in Models 7 and 10 shown in Table 4.

Hypothesis 1b suggests that the use of an interim CEO succession will increase the likelihood of firm failure. The results of the survival analysis appear in Table 5, and Model 1 shows that the use of an interim CEO was not significantly associated with firm failure within the following seven years ($\beta = 0.56$, *ns*). While the raw data roughly points to a greater risk of failure associated with employment of an interim CEO (14.4% of firms employing an interim CEO failed within seven years after the successor was named, compared against only 7.7% of firms that immediately named a successor), it is evident that controlling for past performance and other factors, we do not find any evidence that firms using an interim CEO fail at a faster rate than firms that immediately appoint a permanent CEO. Hypothesis 1b was not supported.

Hypotheses 2a and 2b proposed that the adverse impact of an interim CEO succession would be greater in dynamic industries. As seen in our analysis, the moderator terms for industry dynamism did not moderate the main effect of this phenomenon on firm performance, nor on long-term firm survival. Thus, Hypotheses 2a and 2b are not supported.

Hypothesis 3a proposed that the adverse impact of an interim CEO succession on performance would be lesser when the board appoints its chairman as interim CEO. The data show that interim CEO-chairman duality moderates the effect of this choice on subsequent average ROA, but not TOBINQ. Specifically, the results suggest that selecting the chairman to also serve as interim CEO offset the operational harm of using an interim CEO during the two quarters ($p < 0.01$) and three quarters ($p < 0.05$) following the depar-

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ture of the incumbent CEO. Thus, Hypothesis 3a is partially supported.

Finally, in Hypothesis 3b we propose that appointing the chairman as interim would moderate (lessen) the association between interim CEO succession and long-term firm failure. This hypothesis is supported. As seen in Model 3 of Table 5, the moderator term for chair-interim duality was significant ($b = -1.75,\ p < 0.10$) and the main effect for interim CEO successions becomes significant ($b = 0.98,\ p < 0.05$). We further explored the form of this interaction using subsample analysis. In the subsample of firms using an interim CEO, the decision to select the board chairman as interim was significant and negative ($b = -2.29$, $p < 0.05$), meaning that the practice was associated with a lower likelihood of subsequent firm failure. In percentage terms, 7.9 percent of firms using a chairman-interim failed in the subsequent seven years, whereas approximately 20 percent of firms that appointed a person other than the chairman failed in the same time period.

DISCUSSION

This study quantifies the cost to firms that extend the CEO search process by appointing an interim CEO. Our results provide strong empirical evidence that this type of CEO succession places the firm at a competitive disadvantage. Still, our findings suggest that boards can mitigate this potential harm by carefully selecting which executive they appoint as interim. Despite the strength of our main finding, some unanswered questions remain regarding precisely how this arrangement harms the firm.

As expected, we find that the board's employment of an interim CEO is associated with reduced operational returns during the interim's tenure. Controlling for prior performance and other relevant factors, the average firm in our sample that used an interim CEO for two, three, and four quarters following the departure of a CEO earned $110 million, $148 million and $278 million less in net income during those periods, respectively, than did firms that immediately replaced their CEO. These amounts are significant, particularly in relation to the average compensation paid to CEOs at the time. For example, the average annual CEO compensation—including salary, bonus, and stock options—for all firms listed in the *Execucomp* database during the sampled time frame was $3.8 million. One plausible interpretation of these differences is that board compensation committees should consider the salary demands of CEO candidates within the broader context of the harm that an extended interim succession might inflict on firm competitiveness.

We also found that interim CEO successions are associated with lower market-based performance during the interim's tenure, but that this negative effect is strongest for firms that continue to use this temporary arrangement after a year or more. Thirty-one of the interim successions in our sample lasted at least four quarters. On average, this subset of firms had a market capitalization at the end of that period that was 19 percent lower than firms using non-interim successions. The lack of influence on very short-term market performance is consistent with the efficient-markets hypothesis (Fama, 1970), where investors anticipate the opportunity costs to firms of lower relative performance in the future. Broadly consistent with that view, firms that use an interim CEO are much more likely than others to experience a significant deterioration in market capitalization (i.e., TOBINQ) during the year preceding the CEO succession ($p < 0.05$). Still, our analysis shows that investors impose severe penalties on stock price as the board's inability to finalize the CEO transition continues.

Using a contingency framework, we proposed that if interim CEO successions harm the firm because they promote politicization of the TMT (Simsek *et al.*, 2005; Welsh and Dehler, 1988), then board chairmen who take the interim role are likely in the best position to mitigate that negative effect. As hypothesized, our results show that the eventual influence of interim CEO successions depends largely on who fills the interim position. Specifically, interim CEO successions harm ROA primarily when different individuals hold the positions of interim CEO and board chairman. The negative impact of 'non-chairman interims' is approximately twice as large as the generalized negative effect for using an interim CEO. In contrast, the use of a 'chairman interim' *fully* mitigates that harm in the periods ending two and three quarters after the departure of the incumbent CEO. Selecting the chairman as interim did not mitigate the negative main effect for those firms that continued to use this arrangement for

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four or more quarters. This may mean that duality in the chairman-interim CEO role can compensate for the absence of a permanent CEO, because these individuals leverage their position power to reduce uncertainty and enforce appropriate behavior within the TMT. However, this challenge may become more difficult as the selection of a CEO continues to remain unresolved. As time progresses, more and more senior executives may be expected to act in their personal interests as they seek the top job or bargain for higher wages, or decide to leave the firm, which can further hurt the firm's prospects (Hambrick and D'Aveni, 1992).

The negative influence of interim successions on market-based performance was not contingent on chairman-interim CEO duality. However, results do show that firms that appoint someone other than the chairman as interim CEO were at a greater risk of subsequent failure. Overall, this evidence is consistent with other studies that show that chairman-CEO duality dramatically increases the CEO's influence within the organization (Finkelstein and D'Aveni, 1994). Based on these empirical results, we conclude that boards who are compelled to use an interim CEO should attempt to mitigate the potential harm to future competitiveness by appointing (or retaining) an individual to serve as both chairman and interim CEO, and by transitioning to a permanent successor as quickly as possible.

Our contingency framework also suggests that if interim-CEO successions harm firm performance because they prompt periods of strategic stasis within organizations, then the negative influence of this process should be greater in dynamic industries (Bogner and Barr, 2000; Eisenhardt, 1989). Contrary to our expectations, industry dynamism did not moderate the influence of this succession process on any of our outcome measures.

To probe this non-finding further, we examined two additional characteristics of industry structure that may potentially moderate the main effect. First, we investigated industry concentration, which scholars have linked to the level of industry rivalry (e.g., Porter, 1980). As noted by Karaevli (2007: 694), higher levels of industry fragmentation (evidenced by low levels of concentration) are associated with higher levels of rivalry, and a greater range of competitive actions (Hambrick and Finkelstein, 1987). If the appointment of an interim CEO harms firm performance because of strategic stasis, then it is plausible that the use of an interim CEO would be more damaging in conditions of low industry concentration. To test this idea, we measured concentration as the percentage of market share for the top four firms in each industry (Karaevli, 2007). Second, we reasoned that the use of an interim CEO may be more damaging in industries with relatively high levels of entry and exit, a concept that has been used by others to measure degree of rivalry (Baum and Korn, 1999). Accordingly, we measured entry and exit as the percentage change, year-to-year, in the number of firms reporting sales in each SIC segment. Specifically, we examined the average annual entry and exit during the three years preceding and following the succession event. *Ex post* analyses using these measures were nonsignificant, and did not affect the other results presented herein.

The stark contrast of this finding to our inductive analysis led us to empirically examine that stasis argument further. We investigated *ex post* whether firms using an interim CEO succession were less likely over the following year to change their orientation on several dimensions that might reflect strategic change. Specifically, we examined whether firms using interim CEOs were less likely to: 1) change the number of employees employed by the firm, 2) sell or buy assets, and 3) enter or exit new industries, as measured by *Compustat* segment data. Though firms using an interim CEO were less likely to experience year-over-year change on all three of these dimensions, those differences were not statistically significant for our sample. Thus, while our inductive investigation suggests that interim CEO successions apparently cause some inflexibility within organizations, whether that inflexibility accounts for underperformance and failure remains an empirical question.

The strong evidence that having an interim CEO serving as chairman can moderate the negative influence of this succession process led us to examine further how the board's choice of who serves as interim CEO might impact future outcomes. We divided the group of interim CEOs into three categories. We classified 'insider-interims' as those interim CEOs who held operating managerial positions inside the firm but had not served as chairman and were not appointed as chairman at the time of their interim CEO appointment. We classified 'chairman-interims' as those individuals who held both the chairman and interim CEO title during the tenure, regardless of whether they had held

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Table 6. Post-hoc analysis of 'outsider-interims,' 'insider-interims,' 'chairman-interims,' and ROA

	ROA 1 quarters	ROA 2 quarters	ROA 3 quarters	ROA 4 quarters
Constant	−402.812	−366.644	−292.100	−261.981
Pre-succession ROA (4Q)	0.205*	0.188**	0.185**	0.171*
Pre-succession ROA change	−0.004	−0.011*	−0.011*	−0.002
Industry pre-succession ROA	−0.040	0.013	0.018	0.039
Industry post-succession ROA	0.345	0.416	0.156	0.133
Event year	0.202	0.183	0.146	0.131
Firm size	0.000	0.000	0.000	0.000
CEO's age	−0.030	0.008	−0.003	−0.017
CEO's tenure	0.000	0.000	0.000	0.000
Inside CEO succession	0.331	0.201	0.383	0.881*
CEO death	0.522	0.173	0.054	0.005
CEO malfeasance	−1.096	0.378	−0.109	−0.988
Diversification	0.360	0.113	0.072	0.069
Industry instability	−0.016	0.151	0.101	0.007
CEO duality	−0.877*	−0.667*	−0.264	−0.144
Insider-interim	−0.924	−1.219*	−1.117*	−1.225+
Chairman-interim	0.680	0.214	0.097	−0.881
Outsider-interim	−2.389*	−2.749*	−2.752*	−2.909*
N	478	469	445	421
F	9.72**	16.08**	20.4**	20.06**
R^2	0.276	0.391	0.462	0.473

+ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$

the chairman title prior to the succession event. We classified 'outsider-interims' as those individuals who were not previously operating managers at the firm and were appointed interim CEO but not appointed chairman during their tenure. We initially focused on chairman-interims because they likely have higher levels of political power and discretion. However, chairman–interims are also intriguing because their advanced age makes these individuals least likely to eventually take the permanent CEO position. For example, only five of the 40 chairman-interims eventually succeeded to the permanent position, compared with 21 of the insider- and outsider-interims. In our sample, 33 were insider-interims and 16 were outsider-interims. Interestingly enough, insider-interims were no more likely to ascend to the permanent CEO position than outsider-interims.

Prior research has highlighted that outside successors are predominately hired following periods of low performance, especially when the firm lacks a cadre of qualified executives (Brady and Helmich, 1984; Shen and Cannella, 2002a). In the case of interim successions, the board's choice to appoint an outsider-interim is intriguing, because outsiders are logically the least likely to have the firm-specific knowledge and established personal relationships that are necessary to assuage uncertainty and control political self-dealing within the TMT. Indeed, the appointment of an outsider might be a clear signal that the board lacks confidence in its TMT, which might hasten its fragmentation. On the other hand, outsiders likely lack a commitment to the status quo, and are perhaps in the best position to instigate difficult choices that are needed to change strategic direction (Brady and Helmich, 1984).

To get at the consequences of this choice, we conducted an *ex post* analysis using contrasted dummy codes to compare the performance effects of 'chairman-interims,' 'outsider-interims,' and 'insider-interims' against those firms that used non-interim succession (comparison group). As seen in Table 6, in terms of ROA, 'outsider-interims' underperformed non-interim successors more severely than did 'insider-interims.' Consistent with our earlier findings, firms that appointed the chairman as interim did not experience significantly lower ROA than those firms that immediately replaced their CEO.

Closer analysis of our data suggests that a few common factors characterize 'outsider-interims.'

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For example, all but one of the 'outsider-interims' in our sample was a member of the firm's board prior to being named interim CEO. Moreover, six of the 16 outsider interims were retired executives who had held the position of CEO at another firm prior to being named interim CEO. In these cases the outsider was not concurrently named chairman at the time of their appointment as interim CEO. At least in some cases, such as at Nextel Communications and Trimble Navigation, 'outsider-interims' were apparently appointed by the board in the interest of specific stakeholders such as banks, bond-holders, or institutional investors, ostensibly with a mandate to take specific tactical actions aimed at satisfying those narrow interests. Compared to outsider-interims, the role of the chairman-interim is perhaps more clear-cut—primarily one of a 'care-taker' who manages the firm through crises until the succession process can be completed. These findings suggest that in cases where the departing CEO served as chairman as well, the board should name the interim CEO to the role of chairman as well. In the case of 'insider-interims,' it seems clear that whether these temporary leaders serve in a 'place-warmer' or 'try-out' role depends on the board's intent.

Beyond simply offering clear support for advocates of succession planning (Charan, 2005), the inductive element of our study draws attention to the inherent challenges that boards face with the unexpected departure of relatively new CEOs (Zhang, 2008). Prior research on horse-race successions show that the top internal candidates who do not become the CEO often leave the firm (Cannella and Shen, 2001). Likewise, empirical studies have documented the predictable patterns of political and social behavior that follow a succession, many of which prompt the most talented executives to leave the organization (Kesner and Dalton, 1994; Shen and Cannella, 2002b). The apparent inadvisability of using an interim CEO points to the importance of more research that addresses how boards might form contingency plans against the risk that the new CEO proves unsuitable. Boards might partially meet this challenge by increasing pay and promotional incentives for talented executives who are passed over for the CEO spot, with the express intent of retaining top talent (Helfat and Bailey, 2005). Researchers and boards might also explicitly consider ways to balance the need for early and substantive succession planning with the reality that a series of 'heir-apparents' will depart the firm if the current CEO continues to perform satisfactorily (Shen and Cannella, 2003). Further research should also investigate the role that interactions between boards and executive search firms plays in the duration of the search.

Our study offers insight on recent research examining the dismissal of newly appointed CEOs. Zhang (2008) shows that boards are more likely to dismiss newly appointed CEOs when the prior succession episode was characterized by conditions that limited the board's ability to collect enough information to make an appropriate selection. Recall that one of the common public justifications for using an interim CEO is that it facilitates an extended search process, which presumably increases the availability of information about the needs of the candidate in relation to the needs of the organization. While rushing the selection of a new CEO might create a vicious cycle of firm successions where a series of CEOs are hired and fired (Shen, 2003; Wiersema, 2002), our study suggests that using an improperly structured interim CEO arrangement to extend the CEO search process is not a viable solution.

We would like to acknowledge some limitations of this study. First, our findings are consistent with theory suggesting that interim CEO successions are associated with higher levels of uncertainty within the TMT, which is likely to lead to increased politicization, conflict, and fragmentation that eventually harms the firm. Yet, like prior research, our study used archival data rather than direct observation of managerial behavior. Future research might remedy this problem by directly exploring the impact of interim CEOs on TMT processes. Second, the inductive portion of this initial study provides a clear depiction of why and how firms use interim CEO successions. Yet, this issue is important enough to deserve empirical confirmation. Future research might consider other issues that prompt or lengthen interim CEO succession processes, such as the board's willingness and ability to meet salary demands, as well as candidates' unwillingness to be associated with a corporate failure (Wiesenfeld *et al.*, 2008). There are also interesting questions regarding whether factors like the board's lack of vigilance, or management's efforts to co-opt the authority of the board can contribute to the firm using an interim CEO. Third, our inability to conclude that interim

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CEOs harm firm performance more in dynamic industries means that we cannot clearly isolate strategic stasis as a proximate cause of the poor subsequent performance. Though the problem of strategic stasis was clearly evident in the cases we examined, future research might directly examine how this succession process alters decision-making processes within the firm. Another avenue to consider is whether strategic stasis is an antecedent to failure in succession processes as opposed to being a result of them.

CONCLUSION

This research helps us begin to understand more about when, why, and how often boards extend their CEO search processes by appointing an interim CEO. Our study confirms perceptions that publicly-traded firms commonly use interim CEOs. The use of an interim CEO harms firm performance during the time that the interim CEO manages the firm, principally when the board appoints someone other than the chairman as interim CEO. Appointing someone other than the chairman as interim CEO also increases the firm's long-term risk of failure. Based on our empirical data, we conclude that the use of an interim CEO during successions is an inferior *post hoc* fix to succession planning processes that boards of directors should avoid.

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