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CEO SUCCESSION RESEARCH: METHODOLOGICAL BRIDGES OVER TROUBLED WATERS

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Disappointed by the lack of consistent and robust findings, scholars suspect that the problems may be related to our research methods and have frequently called for longitudinal, clinical, and psychometric studies of succession. This article compares the findings from one such study with representative studies in the literature. Examining the operationalization of key variables used to study succession antecedents, processes, and organizational consequences, it reveals possible reasons for the disappointing results and suggests ways of strengthening those operationalizations. In addition to suggesting refinements in the measurement of performance, the comparative exercise demonstrates why current proxies for personality and power may create difficulty. It concludes that both field and large-sample research stand to benefit from a closer collaboration. Copyright © 2000 John Wiley & Sons, Ltd.

INTRODUCTION

Executive succession has been the object of sustained and often fruitful research effort over the last three decades. However, as important as the subject is and as abundant as the research has been, leading scholars in the field continue to express frustration; for example, in their comprehensive review of the domain, Kesner and Sebora (1994: 327) conclude that "…there is little that we know conclusively, much that we do not know, and even more that we have not yet studied." Measurement difficulties are thought to be at the heart of the problem of results which are too often inconsistent or weak in their explanatory power and there are repeated calls for new methodologies, namely 'longitudinal,' 'process,' 'clinical,' 'qualitative,' and 'psychological' studies (Hambrick and Mason, 1984; Michel and Hambrick, 1992; Hambrick, Geletkanycz, and Fredrickson, 1993; Miller, 1993; Kesner and Sebora, 1994; West and Schwenk, 1996; Finkelstein and Hambrick, 1996; Datta and Rajagopalan, 1998).

That measurement should prove difficult is not surprising since executive succession is subject to a host of influences including, but not limited to, age and size of the firm, condition of its founding, sector of activity, variability of profitability in the industry, current and past performance, structure, composition and allegiances of boards of directors, power of the incumbent CEO with respect to his or her board, personal characteristics of that CEO, and the availability of alternative candidates. Each of these variables raises special problems with respect to measurement and their interaction compounds the level of difficulty for statistical studies. Including many of these variables in their model of succession, Fredrickson, Hambrick and Baumrin (1988: 268) warned scholars that testing the model requires inclusion of all its variables and that partial tests may produce misleading results. Given the incon-

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sistency of partial tests to date, we are not yet in a position to test the whole model with large-sample methods.

Kesner and Sebora (1994: 365–366) argue that first we need to investigate which variables are still relevant, which variables lack attention, the relationships between variables, as well as their more precise operationalization. How might fieldwork address these issues? By comparing proxies with their real counterparts. Finkelstein and Hambrick (1996: 257) offer an example:

> *Using such proxies for board vigilance as outside director representation or outside director equity may be part of the problem … However, virtually all studies testing the efficacy of board vigilance rely on such data. More direct measures of board vigilance—ideally derived from field and survey data—are needed that can more accurately assess the true extent of board power. It would then be possible to examine whether commonly used board vigilance proxies are related to more direct measures …*

Continuing their line of argument, suppose in the field we observe a CEO able to stay in power in spite of poor performance. We might ask ourselves if the 'best' explanation is because board members held no shares, or were disproportionately insiders, or were his friends or any number of other reasons invoked in the literature. In this way, we would be employing the variables most often used in current statistical research to generate categories of possible explanations of causality in the cases under study. While causality can never be proven but only argued, the pertinence or adequacy of existing variables (or their operationalizations) would be judged on the basis of 'Does such an explanation (variable) fit the facts?' Does it exhibit internal validity in the cases? If so, it may then warrant further use with large-sample methods. This process may help us to discover the 'best' operationalization for statistical work. In other words, we would follow an iterative process of accumulating knowledge. By building bridges between the two generic methodologies, a research program of this nature would then be relying on the strengths of each method to reinforce the other.

This article is deliberately designed to examine the usefulness of such an approach by comparing results from a field study with those in the existing literature. Relying on comprehensive reviews and qualitative meta-analyses of this now vast literature (Furtado and Karan, 1990; Kesner and Sebora, 1994; Finkelstein and Hambrick, 1996), supplemented by findings of specific studies, we briefly review representative research in each of the three main succession domains: antecedents, succession event, consequences. This review is in no sense intended to represent a complete portrait of this research stream and is strictly limited to identifying some of the key variables employed in the literature for which we have comparable data. One field study cannot address all the measurement issues. The second section presents results from an in-depth, longitudinal, and psychological study of strategic leadership in which several cases of succession took place. We present the six cases and the psychological material on the participants in a manner designed to lend itself to a direct comparison with the variables employed in the existing literature. In a third section, we contrast the findings from sections one and two, attempting to judge the 'goodness of fit' of each variable (and its operationalization) with respect to its capacity to offer an internally valid 'explanation' of the chain of events observed in the cases.

Of course, by their very nature, field studies are more or less idiosyncratic. A limited number of cases can be studied with in-depth methods and tenuous external validity is always the price to be paid for 'getting close' to the object of study. One important way to strengthen external validity, however, is to use multiple cases (Yin, 1984; Eisenhardt, 1989; Leonard-Barton, 1990; Barley, 1990). Further, presenting the case material in as close to its original form as possible, often in the language of the participants themselves, enables other scholars to judge for themselves the face validity of interpretations and this intersubjectivity is another way to strengthen external validity. Thus, while any conclusions which emerge from this process must be treated with caution, juxtaposing the findings in the literature to date with the findings in the field allows us both to account for some currently confusing empirical results and to suggest possible refinements to the operationalizations of some of the key variables.

The literature

The central questions of this research stream have been: Does poor performance trigger a succession and, if not, why not? If there is a succession, is the successor 'different' and, if not, why not? Does this successor pursue different policies and strategies and, if not, why not? Do these different policies and strategies result in better performance and, if not, why not? Table 1, adapted from the comprehensive frameworks of both Kesner and Sebora (1994) and Finkelstein and Hambrick (1996), portrays the key variables used in the research stream with typical examples of their operationalization. As noted above, one field study cannot address all such issues; variables for which we have comparable data are indicated. Contingency variables are marked as nonapplicable since case work is inherently ill suited to explore them. It should be noted that incumbent power appears in two places. This is because incumbent power has been shown either to block succession altogether or to strongly influence the succession event and therefore the nature of the successor. In what follows, we highlight the central measurement dilemmas involved in each of the phases of succession.

ANTECEDENTS

Prior performance

In their review of this literature, Kesner and Sebora (1994: 356) conclude: 'In instances where succession frequency was treated as the dependent variable, the findings were consistent—succession rates were higher in low performing firms ….' However, prior performance explains a very low percentage of the variance (Finkelstein and Hambrick, 1996). Weakness in results has been attributed both to studies' reliance on different measures of prior performance (see Table 1) and to the presence of other factors which tend to decouple performance from succession or to moderate it (Miller, 1991; Cannella and Lubatkin, 1993; Zajac and Westphal, 1996; Finkelstein and Hambrick, 1996). Notable among these factors is incumbent CEO vs. board power.

Incumbent CEO power

Research has shown that the greater the power of the CEO, the less the likelihood of his dismissal (Boeker, 1992), and the less the rate of succession (Allen and Panian, 1982; Weisbach, 1988; Ocasio, 1994). The power of the incumbent CEO may be the result of many factors including length of tenure, his or her personal characteristics, the structure of ownership, or the composition of the board, but CEO power relative to the board has been operationalized most often in terms of the separation of CEO and board chair position (Cannella and Lubatkin, 1993; Ocasio, 1994; Zajac and Westphal, 1996) and/or board composition and ownership structure (Boeker, 1992; Westphal and Zajac, 1996). The empirical results are mixed. Scholars have argued that measurement issues are the heart of the difficulty (Finkelstein, 1992).

THE SUCCESSION EVENT

The process

Many scholars have argued that one reason for the tenuous nature of empirical results linking poor performance to succession is related to the failure to distinguish at the outset between a voluntary and an involuntary succession process. Boeker (1992), for example, demonstrates that there are important differences related to power variables in the two contexts and that such differences can obscure any statistical relationships between poor prior performance and succession. In addition, organizations discuss dismissals in euphemistic terms (Fredrickson *et al.*, 1988; Boeker, 1992) making it very difficult for external observers to distinguish between dismissal and voluntary departure.

Incumbent CEO power is thought not only to moderate the rate of succession in the face of poor performance but also to influence the process of the selection of a successor. However, with the exception of two cases in volunteer organizations (Gephardt, 1978; Zald, 1965) very little direct research attention has been focused on the issue of process. As Finkelstein and Hambrick (1996: 174) make clear, the reasons are obvious: 'an examination of processes typically requires access to highly sensitive deliberations and events inside the organization.' Research effort has focused instead on the final outcome of such a process, that is, on the nature of the successor.

Successor characteristics

Researchers have typically hypothesized that poor firm performance will trigger the hiring of an

Table 1. Key Succession Variables and their Measurement

Phase	Variable	Measurement	Comparable case data
ANTECEDENTS	Contingencies	Firm age, size, industry features	N/A
	Prior performance	ROE 3 years prior (Dalton and Kesner, 1985)	Yes
		ROE 1 year prior (Friedman and Singh, 1989)	Yes
		Board expectations versus realized EPS (Puffer and Weintrop, 1991)	Partial
		2-yr sales growth (Boeker, 1992)	Partial
		1-yr ROE and shareholder returns (Cannella and Lubatkin, 1993)	Yes
		ROA 3 years prior (Datta and Guthrie, 1994)	Yes
	CEO versus Board Power And—Frequency and Probability of Occurrence	CEO duality (Canella and Lubatkin, 1993; Ocasio, 1994; Zajac and Westphal, 1996)	Yes
		Inside versus outside directors and ownership structure (Boeker, 1992; Zajac and Westphal, 1996)	Yes
		Expectations, allegiances of board members (conceptual) (Fredrickson et al., 1988)	Yes
		Independent director stockholdings (conceptual) (Fredrickson et al., 1988)	Partial
		Relative CEO/Board tenure (Ocasio, 1994; Zajac and Westphal, 1996)	Partial
		Proportion of directors appointed before the incumbent (Boeker, 1992; Zajac and Westphal, 1996)	Partial
		CEO personal power (conceptual), "judgement, brightness or ability" (Pfeffer, 1981) or "character" (Kesner and Sebora, 1994)	Yes
EVENT	CEO versus Board Power and—Nature of the Departure	Involuntary departure if under age 65 (Puffer and Weintrop, 1991), identified by market research firm (Boeker, 1992), all ties severed (Cannella and Lubatkin, 1993)	Yes
	Successor Characteristics	"outsider" if less than two years of service (Cannella and Lubatkin, 1993), not in the organization during the predecessor's tenure (Dalton and Kesner, 1985), designated in survey (Friedman and Singh, 1989), fewer than 5 years of organizational tenure (Datta and Guthrie, 1994)	Yes
		Functional background and education (Datta and Guthrie, 1994; Zajac and Westphal, 1996)	Yes
		Age (Zajac and Westphal, 1996; Datta and Rajagopalan, 1998)	Yes
CONSEQUENCES	Strategic and structural change	Turnover (Boeker, 1992; Finkelstein, 1992; Virany, Tushman and Romanelli, 1992; Kesner and Dalton, 1994; Keck and Tushman, 1993; Zajac and Westphal, 1996)	Yes
		"going-in mandate" (conceptual) (Finkelstein and Hambrick, 1996)	Yes
	Performance	Stock prices 300 days prior to and after (Beatty and Zajac, 1987)	Partial
		Stock prices 2 days before and after (Friedman and Singh, 1989)	No
		Organizational death (Carroll, 1984) or bankruptcy (Davidson, Worrell and Dutia, 1993)	Yes
		Percentage of games won for sports teams (Grusky, 1963; Allen, Panian and Lotz, 1979; Brown, 1982)	No

outsider. As outsiders are seen to be less committed to the status quo (Hambrick and Mason, 1984) and therefore more likely to effect changes in the organization, they tend to be favored in situations of poor organizational performance. In their review of this literature, Furtado and Karan (1990: 63) indicate that the studies which 'have looked at the relationship between the origin of the successor and prior firm performance have reached different conclusions'. Contradictory findings have been attributed in part to differences in the operationalizations used across studies as evident in Table 1.

In addition, scholars criticize the dominant emphasis of the literature on the insider/outsider dimension as a successor characteristic; Zajac and Westphal (1996: 64) argue that 'Researchers have tended to equate outsiders with differences from the status quo, an equation that begs the question of why someone recruited from outside a firm should be considered truly different from someone within the firm, given the many dimensions upon which individuals can differ.' Accordingly, some have attempted to investigate differences between an outgoing CEO and the successor along the demographic dimensions shown in Table 1. The assumption is that demographic characteristics such as age, education, and functional background 'are indicators of the givens that a manager brings to an administrative situation' (Hambrick and Mason, 1984: 196) and therefore are assumed to be related to cognitive abilities, attitudes, and expertise (Bantel and Jackson, 1989). The emphasis on 'objective' measures reflects also a practical consideration, given the access problems inherent in studies of top management.

However, since results have been modest and demographic characteristics do not covary perfectly with the psychological variables of interest (Bantel and Jackson, 1989), Michel and Hambrick (1992), Hambrick *et al.* (1993), Kesner and Sebora (1994), and Datta and Rajagopalan (1998) all suggest that future studies should gauge psychological orientations of top managers by using means such as scaled psychometric and qualitative approaches. If scholars have called for psychometric studies, it is because there is suspicion that current proxies for personality may be reducing explained variance. Psychometric studies, it is hoped, may help us to refine or to replace current proxies.

SUCCESSION CONSEQUENCES

Post-succession change

Postsuccession strategic and structural change has received scant attention in the literature perhaps for some of the same reasons that the process of selection itself has so rarely been studied. Strategy and structure are difficult to measure from the outside. As we see in Table 1, the one area that has received attention is staff changes, where there is evidence of higher senior executive turnover in the wake of outside compared to inside succession.

Postsuccession performance

Evidence indicates that succession can have a positive effect on performance (Helmich, 1974; Davidson, Worrell and Dutia, 1993), a negative effect (Grusky, 1963; Allen, Panian, and Lotz, 1979; Carroll, 1984; Beatty and Zajac, 1987; Haveman, 1993) because disruptive for the organization, or be inconsequential on performance since it is often a symbolic scapegoating event (Gamson and Scotch, 1964; Brown, 1982; Boeker, 1992). Inconsistencies in the findings have been consistently attributed both to methodological problems (Carroll, 1984; Beatty and Zajac, 1987; Davidson *et al.*, 1993), and to the failure to investigate what new 'leaders do' in terms of strategic and structural change (Greiner and Bhambri, 1989; Miller, 1993). Finkelstein and Hambrick (1996: 210) counsel researchers in the postsuccession performance stream to take account of prior performance, the conditions surrounding the succession, the choice of the eventual successor, and the characteristics of both incumbent and successor, as well as suggesting better ways of measuring performance itself. While laudable as a goal, this represents a very tall order for quantitative studies at this stage of our research when measurement controversies remain at each phase of the succession process and empirical results are thus far so tenuous. In what follows, we attempt to address some of these important measurement issues with data gathered in the field.

The field study

The study of one global financial services firm, called ABC Company, covered 30 years (1960–

90), intensively during the final 15-year period (Pitcher, 1997). During the period under study, ABC company[1] grew from a single-sector, medium-sized insurance company in one region of a developed country to a $20 billion, global financial services firm, competing through autonomous subsidiaries in banking, insurance, brokerage, and trust activities with significant operations in North America, Europe, and Asia. Each of these subsidiaries was managed by a CEO who reported to his own independent board that had a preponderance of outside directors who were subject to legal and financial liability. Board members are also subject to social sanction and this was particularly true in the U.K., where several were members of the aristocracy. These were not, therefore, CEOs in name only reporting to puppet boards; each had full, legal operating authority over an independent juridical entity reporting separate financial results and required to be independent by public regulatory authorities. The divisional structure was somewhat hybrid; a divisional CEO could have sole responsibility for either a worldwide line of business (eg. Life Insurance) or a major market (eg. the United States). In the latter case, the corporation was a miniature replica of the worldwide group and contained autonomous operating subsidiaries in all financial segments in that country.

The research was focused on understanding the impact of CEO personality on strategic change and performance and not on succession per se. Nonetheless, during the 8-year observation phase of the study, nine CEO successions took place at the group and divisional levels, and for six of these we have data sufficiently complete to permit a comparison with the existing literature. Since the object of research was process and personality, it necessitated a research design that was clinical, psychometric, and longitudinal, coupled with multiple research methods. First, the principal researcher was an observer at the level of group and subsidiary boards for a period of 8 years. This position offered the possibility of continuous observation of processes of strategic change through board and committee meetings. Second, 50 semistructured interviews ranging from 1 to 3 hours, with key executives and board members, took place in two rounds in 1986 and 1990 to explore participants' opinions of strategy, structure, and possible links to the personalities of the key executives. Third, archival records, such as internal working documents and annual reports, were consulted. As a personality assessment tool and as a further check on researcher observational bias, a modified adjective checklist (Gough, 1960) was administered. The 60-item adjective checklist was administered to 10 insider observers (during interviews with board members, peers, immediate vice-presidential subordinates) of each of ABC's most important CEOs during the 8 years of observation. Interrater reliability of the lists was 0.71.[2] *Q*-type principal components factor analysis (Overall and Klett, 1972; Miller and Friesen, 1980), correspondence analysis (Lebart, Morineau, and Warwick, 1984), as well as Pearson correlations (and two-tailed tests of significance) were run on the adjective data base. In the discussion that follows, we use these results to compare the personality profiles of incumbents with successors.

The years of observation in both boards and audit committees revealed that consistent quantitative performance measures would be either impossible to gather or would require a Herculean accounting effort, which was not the main purpose of the study. Both profitability and assets were subject to year-to-year discretion. For example, frequent intragroup sales of subsidiaries produced extraordinary gains and losses at both the group and subsidiary levels. Frequent acquisitions and divestitures equally muddied the accounting picture of recurrent earnings. Dis-

[1] For reasons of confidentiality and the sensitive nature of personal data, the company is disguised.

[2] The 15 ABC top managers were each rated on the 60 adjectives by 10 observers. However, because board members in one country often did not come into contact with the divisional CEO in another, a total of 47 observers were needed to ensure that each top manager was rated by 10 knowledgeable observers. Given the nature of the data, it was therefore not possible to use standard interrater reliability measures such as Cochran's *Q*, the Kendall rank correlation coefficient, or the Kendall coefficient of concordance. However, Gough (1960) suggests the use of a dispersion calculation based on agreement by more than two-thirds of the judges. We therefore calculated a measure of overall convergence as the percentage of adjectives (out of 60) for which seven or more observers (out of 10) were in agreement. The overall result of 0.71 convergence for all CEOs is conservative since it fails to take account of close substitutes in the lists like "bold" and "daring". Of course, the fact that the two independent analytic techniques, factor and correspondence analysis, each produced three factors capturing three-quarters of the variance indicates significant convergence of raters as well.

cretionary accounting decisions with respect to asset writedowns or period of amortization of goodwill obscured year-to-year performance measures. Because neither the group nor all subsidiaries were traded on public exchanges across the whole of the study period, stock prices could not be consistently used either. For all of these reasons, performance measures in what follows arise predominantly from observation and interviews supplemented by more objective measures such as stock prices, where available.

Although not part of research designed specifically to study succession, the cases do exhibit features that would have been part of such a design. For example, we would have wanted multiple cases, each successive case being used to validate and compare causal propositions as they emerge, thus strengthening external validity (Yin, 1984; Leonard-Barton, 1990; Barley, 1990). Further, we would have used 'theoretical sampling' (Yin, 1984; Eisenhardt, 1989); that is, we would have chosen cases most likely to contain the phenomena we are seeking to understand. For example, if we wished to weigh the impact of agency conditions on successor selection, we would need cases showing sufficient variance along this dimension. The six cases we present below offer these advantages. The successions take place in one worldwide organization but at two levels—group and autonomous subsidiary—thus capturing differences in agency conditions. All corporations had separate boards of directors with variable composition; for example, some where the CEO was also the Chairman and some not. To distinguish between the two organizational levels, in what follows the CEO of the worldwide group will be called Group CEO, and the main board of directors, Group Board. Here we look closely at two Group CEO successions and four divisional CEO successions in chronological order. Figure 1 displays the structure and the names of the CEOs involved.

RESULTS

The story of succession in ABC company begins in the early 1980s. James, the incumbent CEO and Chairman of the Board of a worldwide financial services corporation, was beginning to consider his future. He had been in office for more than 15 years and had been the architect of the corporation's transformation, principally by acquisition, from a regional player in insurance to a global, integrated conglomerate with subsidiaries in all major segments of financial markets. During his tenure, assets had risen 10-fold and profits, while far from spectacular, followed industry norms and met board expectations. At board meetings, no serious questions arose over the earnings picture and attention was focused on growth. Now in his sixties, the question of succession was for James of growing concern. 'It was on my mind for a long time. I took long walks with my wife, talking to her about whether or not I should step down.' Finally, he made up his mind and gave as his reason, 'Sometimes an executive can stay on too long; an organization needs new blood.'

His choice of a successor was, according to him, obvious. That successor, Cameron, was an insider and had been running the largest division for 6 years. Initially, Cameron was promoted to the presidency of the worldwide group, a promotion that did not require board approval, while James retained the titles Chairman and CEO and was very much still in charge. Gradually, he turned over more and more responsibility to Cameron and, 2 years later, ceded to him all executive power by nominating him for the post of CEO and Chairman. The position of President would disappear. This move required board approval. The Group Corporation, of which Cameron was now to be CEO and Chairman, would ultimately control all the group assets worldwide. At the time, it had shares but no assets but all existing and new assets were to be rolled over into this newly created, and more flexible, legal entity. James had no shares but, very well liked and highly respected, he had enormous influence. In addition to James in the Chair, there were four insiders: Cameron (as President), and Robert, Cobb and Judd, all CEOs of major divisions at the second tier as described in Figure 1. There were seven independent outside directors. Cameron's nomination passed unanimously and without discussion. One independent director said: 'It would never have occurred to us to question James' judgement but apart from that, Cam seemed very competent and he was already President.' It had been a foregone conclusion.

Cameron was very different from James. He was 10 years his junior. He was formally edu-

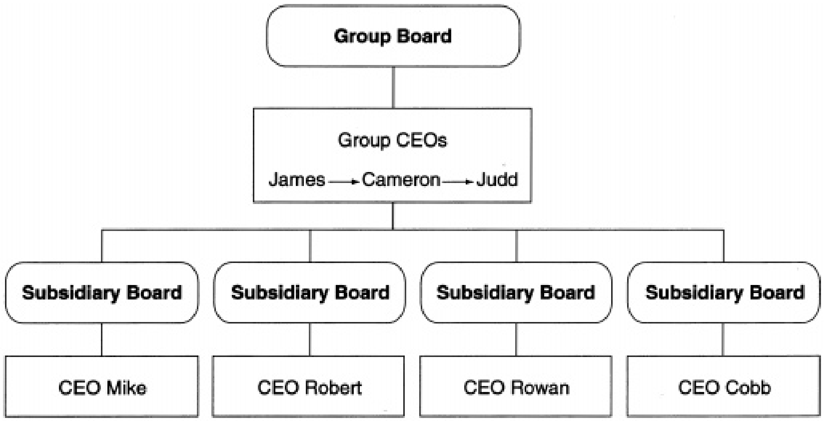

Figure 1. The Structure of the Successions

cated while James was largely self-taught. Originally hired from outside the company to run a major division, he had been a technical consultant to the industry. His functional background was therefore very different from James', who had spent his whole working life in general management. James was described by board members and senior colleagues most often as 'people-oriented,' 'warm,' 'entrepreneurial,' 'wise,' 'intuitive,' 'imaginative,' and 'visionary,' while 10 out of 10 judges rated him zero on 'distant,' 'cerebral,' 'difficult,' 'uncompromising,' 'meticulous,' and 'detail-oriented.' Colleagues and board members described Cameron most often as 'serious,' 'cerebral,' 'distant,' 'determined,' and 'methodical.' Ten out of 10 judges rated him zero on 'people-oriented,' 'exciting,' 'realistic,' and 'open-minded.'

To the new CEO, the top priority was strategic. In an interview in the days following his elevation to the top spot, he argued that it was time to 'bring order to the chaos ..., to rationalize and streamline his (James') acquisitions. He didn't really have a plan you know. There are all kinds of things that need to be sold off.' Divestiture activity accelerated. While James had been an early and lone pioneer, by now the industry worldwide had begun to talk of diversified financial services companies and 'one-stop shopping' for financial services and, while divestiture activity predominated, Cameron did feel the need to make one acquisition in investment banking in order to complete the range of activities. The 'industry recipe' (Grinyer and Spender, 1979) was to be followed to the letter. The following year the acquisition was accomplished. These strategic changes brought in their wake structural pressures.

The notion of 'one-stop shopping' allegedly required 'synergistic' operating capacities across product lines and therefore among various subsidiaries in addition to enormous investments in information technologies and data bases. These issues seemed to point to the need also for integrated formal strategic planning across the whole group, an activity completely absent during James' tenure. Two years previously in an interview one second-tier CEO and Group Board member, Judd, said that strategic planning was unnecessary since 'We don't need it. It's in our guts. We all know our sectors.' Such an attitude was perhaps appropriate for a strategy of growth by acquisition based on a decentralized structure, but began to be seen as less and less appropriate for a strategy of synergy where knowing one's own sector was thought to be insufficient.

Thus began a movement in a rationalizing and centralizing direction. A head office position was created in strategic planning in order to ensure that subsidiary plans both existed and conformed to the central plan. Senior positions in marketing and in information systems were also created. Divestiture activity increased. All of these developments put additional time pressures on Cameron. He felt the need for head office help and, $2\frac{1}{2}$ years after his elevation to the Chair of the group, he created the position of Chief Operating Officer (COO). He chose Judd, one of the second-tier CEOs, for the job. At the same time, changes were taking place at the Group Board level. A major acquisition undertaken in the first year of Cameron's tenure had been accomplished by a share exchange and reciprocal board memberships. To make room for two new members without unduly increasing the size of the board and making it 'unwieldy' in Cameron's words, Robert, a second-tier CEO, was asked to resign his seat. In addition, since the real corporate action was now taking place under the banner of the Group Corporation, significant minority investors who had helped James build the empire were given a seat on the Group Board. Now only three executives, Cameron, Judd and Cobb, sat on the board of 18. James had resigned over a policy disagreement with Cameron.

With the relative decline of the pace of acquisitions and the relative increase in divestitures, asset growth of the group began to plateau. Earnings, on the other hand, were volatile, with intracorporate rollovers and transactions creating nonrecurring paper profits and losses. Overall, recurring earnings hovered slightly below industry norms and began to provoke some questioning on the part of outside board members.

The head office centralizing and rationalizing activity in marketing, systems, and planning, accelerated with Judd's nomination into the COO slot, was not without opposition. Divisional CEOs resisted, sometimes violently. For example, Mike, a divisional CEO responsible for one major country, voiced his disapproval of centralized strategic planning. 'I used to pray before meetings "Please God, help me to keep my mouth shut," but it never worked. They wanted 5-year plans but that stuff's just an excuse not to work. All they do is just produce tons of paper that just goes into a shredder eventually anyway so what's the point?' In 1987 and 1988, group earnings took a turn for the worse. The stock market crash had obvious negative impacts on insurance company earnings. Worldwide severe storms caused underwriting losses in general insurance. In addition, some acquisitions were proving more difficult to integrate than forecast. One of those acquisitions had been engineered by Mike.

In the previous 5 years, this divisional CEO and his company had consistently been the object of high praise in board meetings. Not only strong asset growth but also earnings consistently above both industry averages and budgets had earned him a very strong reputation. The earnings came in part from operations but, in addition, he had his hands personally on the investment portfolio decisions and proved consistently to be an intuitive judge of profitable opportunities. Now, he stumbled. A faulty due-diligence process on an acquisition had failed to disclose serious financial problems in the acquired company and it began to drain all profits out of Mike's division. Those profits had been one of the mainstays of overall group profitability. He said 'There's no tolerance for error. …they (Cameron and Judd) had decided that I had created the problem so I couldn't solve it. It was the excuse they needed. They were just waiting for me to fall.' While approximately 20 percent of the shares of Mike's division were widely held and publicly traded and the board was dominated by outsiders, the Group Corporation held the controlling block and Cameron was Chairman of his Board. Although in his role as Chairman, Cameron himself had approved the acquisition, he now wanted Mike out. There was some board resistance; one outside director commented 'They should never have fired Mike but he was just like James. Entrepreneurial personalities, impulsive, opportunistic. But Cameron was not.' Mike was offered the Chairmanship of the Board but in a nonexecutive capacity. He refused and was given a generous separation package.

Mike obviously played no role in the choice of his successor, who was recruited from outside the company. The successor was 10 years Mike's junior and had postsecondary training in business, whereas Mike, like James, was essentially self-taught. While Mike had spent his early career in both sales and investment functions, his successor had held head office staff jobs. His personality profile correlated positively with Cameron's at 0.60 ($p<0.01$). Mike, like James before him, is described by peers and board members as 'people-oriented,' 'visionary,' and 'entrepreneurial,' while scoring zero out of 10 raters on 'detail-oriented' and 'methodical.' The successor, on the other hand, has his highest ratings on 'serious' and 'controlled.' No one calls him either 'visionary' or 'easy-going.'

Mike's successor undertook strenuous efforts to reorganize the disastrous acquisition, fired staff, sold off what could be sold and merged what could not with other subsidiaries. Ultimately unsuccessful law suits were launched against both the vendor and the accounting company that performed the due diligence. In the 3 years following the succession, earnings did not improve and were often below forecast. The stock price was depressed, trading at a 40 percent discount to issue price. Major asset writedowns that year promised improved future earnings, but 2 years later they had not yet materialized.

With earnings suffering, all major divisions came under closer and closer scrutiny. Robert, a second-tier CEO responsible for a major line of business, began to come under pressure. In the previous 5 years, earnings had been slightly below industry norms. Robert had been hired 3 years previously, during James' tenure, both to turn around earnings and especially to promote growth through acquisitions. In the year prior to the succession, earnings had been significantly below budget as one major acquisition failed to perform as anticipated. 'I knew I couldn't last. The centralization was growing every day especially with the creation of the new COO position. We had such a radically different operating philosophy. Essentially I resigned because I didn't have the energy to fight them. Life's too short.' As an example of these radically different operating philosophies, he indicated that during the discussion of his mission statement of that year, submitted to Judd and Cameron at head office, he had reported that he would be spending a great deal of time travelling to all of his regional offices. Cameron told him that he had 'better things to be doing'.

Approximately 30 percent of the stock of Robert's division was widely held and publicly traded and there were no significant minority blocks. The Group Corporation held the control block and Cameron was Chairman of the Board. The Board itself was heavily dominated by independent outside directors, with only two officers holding a seat. No one on the board quarreled with the decision to replace Robert. The decision was justified by Cameron with the explanation that 'we need someone who's more technical, more rigorous' and did not come to a vote. Robert was given a generous separation package and played no role in the choice of his successor.

David, his successor, had been hired away from a competitor 2 years previously to occupy a similar staff position in finance at group headquarters. Although he was an outsider to Robert's division, having worked closely with him at head office Cameron and Judd considered him an insider. Although he was 10 years younger than Robert, their postsecondary education was strictly comparable. Although Robert had 25 years of line experience, his successor had none, having always operated in a staff capacity. According to Group Board members who had been exposed to David in his head office capacity, he was a difficult man. One recounted an incident during an audit committee meeting. 'We were approving the quarterly statements and press releases and questioning some of the language that he had prepared. We were concerned that it might mislead the shareholders and we wanted to be very careful about it. He was furious and practically accused us of being amateurs. He told us that the audit committee that he used to work with didn't get into such nitty-gritty, leaving the distinct impression that we were in the little leagues.' While Robert is described as 'well-balanced,' 'responsible,' 'reasonable,' and 'trustworthy,' his successor's highest scores are 'intense' and 'determined' and he scores zero on 'helpful,' 'generous,' and 'reasonable.'

Within a year, the underperforming acquisition was sold off, centralized budgeting was reinforced and senior operating officers were replaced and within 2 years earnings had improved substantially. In part this was due to the divestiture, in part to stronger operating results, and in part to normal cyclical improvement in this interest-rate sensitive division. The stock price moved closer to industry averages.

Meanwhile, across an ocean, there was more nervousness. Rowan, CEO of a wholly-owned subsidiary which, through its own subsidiaries, held assets in that country in all major segments of financial services markets, began to come under pressure. 'I don't know why it happened. Profits were on budget; bonuses were paid. I guess they (Cameron and Judd) just wanted more. The spotlight began to shine on us when things started to go badly over there. I guess they needed us to compensate for it.' The mission to grow the business had been set for this division in the years prior to Cameron becoming CEO of the Group and the division had done what was asked of it. Profits, while unspectacular, had met expectations for the previous 5 years and assets had climbed substantially through acquisitions. Two years prior to this succession, one very large acquisition—a one-time growth in assets of 30 percent—was effected. It was proving a daunting task to integrate. Among other things, information systems were not powerful enough to handle the combined operations and investments in technology were major and much higher than anticipated. As a result, profits were lower than hoped (although on budget) and slower to materialize. Rowan felt he needed time, that rushing the integration would cause more trouble in the future. He felt that Cameron and Judd were unrealistic: 'They seemed to think that you could grow and expand and not have an impact on the bottom line. But any schoolboy knows better. They're like the little old lady who says "I want capital gains and income." Totally unrealistic.' Perhaps he was right since, of the 10 raters who observed Cameron and Judd, Cameron scores zero on 'realistic' and Judd one.

Lack of hard work was the major reason given publicly for Rowan's dismissal. Judd explained, 'He simply was not a manager, he was over his head. He was what I call an advisor. He was volatile, unpredictable, imaginative, visionary. A nice guy, very amiable. The kind of guy you might seek ideas from but not the guy to run something. Didn't know how to work.' In contrast, a board member describes Rowan as 'well mannered and considerate. He fired people but he did it nicely. He was hard-working and very dedicated. Very open-minded. Sometimes ahead of his time. I don't know what they wanted. The Chairman didn't defend him at all even though it was Rowan who got him the job [Rowan had engineered the Chairman's original appointment] . He just announced to the board that Rowan was leaving and would be replaced. Cameron indicated that he wasn't up to the job, not technical enough whatever that means, but that he would be well treated. There was no vote and little discussion.' Rowan was given a generous financial settlement.

There were three insiders on this 16-member divisional board dominated by prominent figures in that country and chaired by an independent outsider who held no shares. Rowan was out. His replacement, Peter, was slightly younger (2 years). His education was similar. His functional background was the same. His personality profile was not significantly correlated with Rowan's but positively correlated with Cameron's at 0.27 ($p<0.05$) and at 0.30 ($p<0.05$) with Judd's. He continued the integration and streamlining efforts of his predecessor. Asset growth in the following 3 years was flat and earnings remained disappointing to Judd and Cameron. He was subsequently fired.

More changes were in store at the Group level. Although at this point only in his early sixties, Cameron had succession on his mind. He wanted it to be orderly, and thus had nominated a COO, and projected an early semiretirement for himself. He explained this desire: 'My father died immediately after retirement and I don't want that to happen to me.' He expected the transition to Judd to go smoothly but it did not. There was a board backlash. Significant minority shareholders on the board did not have confidence in Judd's capacities. Sensing that the nomination was fast approaching, independent directors had earlier expressed grave reservations privately to Cameron. 'I told him I didn't trust the guy and asked him if Judd had ever disagreed with him about anything. He looked at me as if I had lost my mind and replied, "No. What's that got to do with anything?" I was shown the door.' The flurry of phone calls passing between independent directors came to naught as they judged that they couldn't easily marshal the votes to block the nomination and also because, as one put it, 'What choice do we have? There's no one else.' If, at one time, Cobb had been in the running with Judd for the top spot, since his division was by far the largest in terms of assets, he was no longer a credible candidate. Most of the independent Group Board members, relatively new to the board, didn't know Cobb. He had been removed from the main board ostensibly to make way for those independent directors. When Judd's nomination was formally presented to the board, it passed without discussion. One significant minority shareholder and board member explained, 'He (Cameron) was adamant. He's a very stubborn man…, it's not clear that we could win a proxy fight. In any event, things will continue to deteriorate and we'll be there to buy up the pieces, cheap.'

Apart from reservations about the individual in question, board members were dissatisfied with the group's performance. Rowan's, Mike's, Robert's and Cobb's difficulties were consolidated into the financial statements of the Group Corporation. Asset growth had stopped and recurring earnings were stagnant or subject to unpleasant surprises. Glowing forecasts presented to the board never materialized. The stock price, which stood at 100 percent of book value when Cameron took the Chair, had declined to 60 percent by the time he stepped down. In the first year of his tenure, an acquisition was privately financed by shares valued at 140 percent of book value, and the representative of that company sat on the Group Board. He had lost, on paper at least, $30 million. He was not happy. Along with another significant minority block, this man controlled slightly less than 30 percent of the stock. Another approximately 20 percent of the shares were widely held and publicly traded. The control block was held in trust and the Chairman of the Board of Trustees was Cameron. Judd was 10 years Cameron's junior and had been with the group in various capacities for 8 years. His education was similar, his functional experience identical; he too had been a consultant to the industry before being hired to run a division. He is described by board members and peers as 'controlled,' 'analytical,' and 'determined' and is rated zero on, among other things, 'people-oriented,' 'bold,' 'intuitive,' and 'open-minded.' His personality profile correlated positively with Cameron's at 0.77 ($p<0.01$).

Judd moved energetically to improve earnings. Fifty percent of one operating division was sold to raise cash. It would later be divested completely. Major reorganization of the Life sector was undertaken and head office further strengthened its administrative control over all divisions and required a 15 percent ROI from each. Everyone knew that, implicit in the ROI requirement, was an 'or else'; as if to drive home the message, four more divisional CEOs were replaced. The first and most important was Judd's old rival Cobb.

With earnings already suffering from the 1987 crash, Cobb's group then suffered major losses from a fraud in hedging instruments. Things were going from bad to worse but getting rid of him would be awkward for several reasons. Administratively, he was Chairman and CEO of his division and reported to a fully independent board of 18 members where, in addition to himself and Cameron and Judd, no other insider sat. Furthermore, he was very respected. Typical of the sentiment, one board member commented, 'None of the earnings problems were his fault.' But the real problem lay elsewhere; in the words of another board member, the die was cast with Judd's nomination: 'There was no way to stop the momentum. There was no way he could get along with them [Cameron and Judd].' Another member, equally discontent but more philosophical said, 'I guess what the shareholder wants the shareholder gets.'

Given this delicate situation, Cobb was offered the possibility of keeping the Chairman's job if he would give up the CEO position to Judd's and Cameron's hand-picked successor. He refused but, knowing that he couldn't hold out, Cobb agreed to accept a financial settlement. In the corridors before the board meeting, hasty meetings were held between board members who had gotten wind of the anticipated change. There was violent opposition on the part of two members but the most violent opponent was offered and accepted the Chairmanship of a major board committee that same day and vocal opposition ceased. In the board meeting itself, serious and penetrating questions were raised: 'What has he done?' Judd answered, 'It's not what he's done, it's what he's capable of doing in the future. He's a great guy but not really an operating person. Ross [the successor] is technically stronger.' With Cobb having given way, however, there was nothing to be done and the discussion did not last long. In Cobb's absence, Judd assumed the Chair and moved Ross's nomination. The board approved. In press statements issued immediately following the meeting, Cobb purportedly 'resigned.'

Ross had been hired into Group headquarters into a staff position 2 years earlier. He had come from a similar position in heavy industry. To Cobb's division he was a perfect stranger although Cameron and Judd thought of him as an insider as they had worked closely with him at head office. He was 12 years younger than Cobb. He had had no significant line experience. He had less formal education. His functional background was similar. He was seen by peers and Group Board members who had worked with him at head office as 'brilliant,' 'energetic,' and 'determined,' but also 'volatile' and 'difficult.' He had some traits in common with Cobb such as 'brilliant' but, unlike Cobb, scored zero on 'trustworthy,' 'easy-going,' and 'reasonable,' and one out of 10 on 'inspiring' and 'open-minded' so, in spite of some superficial similarities, they were seen as very different men. Ross could not 'inspire' in his subordinates what one senior vice-president said of Cobb: 'you work for a man like him once in a lifetime.'

Ross had a reputation as something of a 'financial engineer' and he set out to make major structural and legal changes in the division. Key functions of Cobb's main operating company—like product development and marketing—were transferred to other divisions, leaving the operating company as a sales shell. Other reorganizations saw Cobb's senior people removed, demoted, or transferred. The pre- and postsuccession entities were no longer comparable and performance could not be measured.

In the 3 years following Judd's assumption of the Group CEO role, assets were stable, recurring earnings did not improve, and the ratio of market to book value continued to deteriorate, with the stock price ending the study period at 50 percent of book value. This was a period where the shares of all financial services companies were under pressure; however, the Group's three most comparable rivals' shares were then oscillating around 100 percent of book value. Three years later, the Group was acquired and disappeared as a juridical entity, its divisions having been sold off or integrated with the acquirer.

PERSONALITY

While some personality information is included in the case descriptions, here we present the information on a more systematic basis. The adjective lists were factor analyzed using SPSS *Q*-type principal components factor analysis (Overall and Klett, 1972; Miller and Friesen, 1980). The factor analysis produced three factors with strong eigenvalues (5.2, 3.6, 2.5), explaining together 75 percent of the variance in the data. By looking at the raw data, we can see which adjectives contributed to the formation of the three factors but visual inspection is unsatisfying and notoriously unreliable.

In order to surmount this difficulty, another analytical technique was applied to the same data base. Correspondence analysis uses a chi-square distance measure which allows the 'simultaneous representation of two data sets' and is most appropriate with data consisting of contingency tables and binary coding (Lebart *et al.*, 1984: 30). Our data are of precisely this nature; for example, 'If you are James, will you be seen as visionary?' The correspondence analysis produces vectors which have been created simultaneously by the weight of both the adjectives and the people. In this case, as with the factor analysis, three vectors emerged together accounting for the same three-quarters of the variance. Correspondence analysis has the added virtue of allowing us to see of what the factors are composed. Figure 2 is a computer-generated plot which shows the positions of both the people and the adjectives. We have superimposed on the plot the region associated with each of the three factors generated by the principal components analysis.

As a caution it should be noted that it is legitimate to compare groups of adjectives with other groups of adjectives and groups of individuals with adjectives and other groups of individuals. It is not legitimate to interpret one individual in relation to one adjective. For example, because the word 'wise' sits next to 'Rowan,' we must not conclude that Rowan is the wisest. The position of each individual and each adjective is a simultaneous function of them all. That said, we can see that Cameron, Judd, and the four other successors (Brien, Peter, David, and Ross), all of whom load on Factor 3 in the principal components analysis, are surrounded by the 'cloud' of adjectives most strongly associated with them: uncompromising, intense, determined, cerebral, analytical, insightful, energetic, no-nonsense, hard-headed, methodical, meticulous, detail-oriented. In addition, Cameron, Judd, and Brien load strongly but negatively on Factor 1, suggesting the strong polarity between Factors 1 and 3. James, Mike, and Cobb all load strongly on Factor 1, associated with entrepreneurial, visionary, funny, inspiring, intuitive, imaginative, emotional, daring, people-oriented, and easy-going. Robert and Rowan load strongly on Factor 2 and are seen primarily as sensible, trustworthy, reasonable, realistic, responsible, stable, predictable, conventional, and amiable. Table 2 displays the principal components factor loadings of incumbents and successors and summarizes this personality information. Table 3 summarizes both the case and the personality information but is organized along the variables of interest to the literature.

Comparison and discussion

We now turn to a comparison of the operationalizations of proxy variables used in the literature, with their direct counterparts in the cases. For clarity of exposition, we return to the structure of the literature review: antecedents, event, consequences.

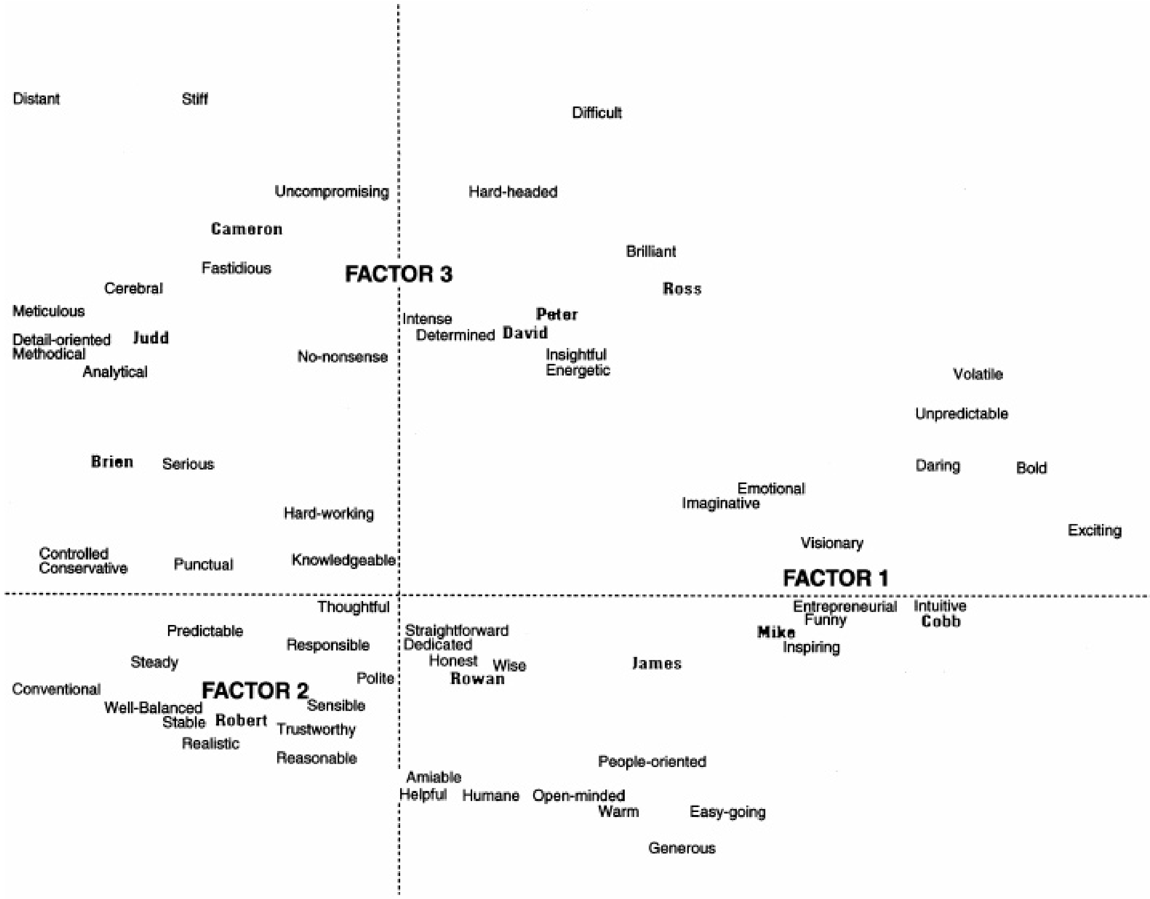

Figure 2. The CEOs and the adjectives

Table 2. Incumbents and successors

	Successions	Factor 1 (ex. entrepreneurial, visionary, funny, inspiring, intuitive, "like Picasso")	Factor 2 (ex. sensible, trustworthy, reasonable, realistic, responsible, "likes people")	Factor 3 (ex. uncompromising, intense, determined, cerebral, analytical, "rigid and brilliant")
1.	James to	0.78		
	Cameron	–0.63		0.64
2.	Mike to	0.87		
	Brien	–0.55	0.68	0.40
3.	Robert to		0.93	
	David			0.83
4.	Rowan to		0.53	
	Peter			0.67
5.	Cameron to	–0.63		0.64
	Judd	–0.58	0.40	0.59
6.	Cobb to	0.88		
	Ross			0.69

SOURCE: Factor and correspondence analysis.

Table 3. A portrait of six succession events

SUCCESSION PHASES	VARIABLES	1. James to Cameron	2. Mike to Brien	3. Robert to David	4. Rowan to Peter	5. Cameron to Judd	6. Cobb to Ross
ANTECEDENTS	Performance Past 5 years						
	• Asset growth	Above expectations	Above expectations	Above expectations	Above expectations	Met expectations	Above expectations
	• Earnings	Met expectations	Above expectations	Met expectations	Met expectations	Below expectations	Above expectations
	Past year • Earnings	Met expectations	Well below expectations	Below expectations	Below expectations	Below expectations	Below expectations
	Board composition	Dominated by independent outside directors	Dominated by independent outside directors	Dominated by independent outside directors	Dominated by independent outside directors	Dominated by independent outside directors	Dominated by independent outside directors
	CEO duality	Combined	Separate	Separate	Separate	Combined	Combined
	Ownership structure	Single corporate owner	Mixed	Mixed	Wholly-owned subsidiary	Mixed	Wholly-owned subsidiary
EVENT	Departure	Voluntary	"Voluntary"	"Voluntary"	Dismissal	Voluntary	"Voluntary"
	Successor • Insider/outsider	Insider	Outsider	"Outsider"	Outsider	Insider	"Outsider"
	• Age	Younger	Younger	Younger	Younger	Younger	Younger
	• Education	More formal	More formal	Similar	Similar	Similar	Less formal
	• Functional background	Different	Same	Different	Same	Same	Same
	• Personality	Different	Different	Different	Different	Same	Different
CONSEQUENCES	Strategic change	Divestitures Centralization	Divestitures Senior officers replaced Rationalization	Divestitures Senior officers replaced Centralization	Rationalization continued	Divestitures Senior officers replaced Centralization	Dismemberment
	Post-succession performance						
	• Earnings	Improved slightly	No improvement	Improved substantially	No improvement	No improvement	Information no longer available

ANTECEDENTS

Prior performance

The case material permits us to see why, in spite of good theoretical grounds for linking succession and poor performance, empirical support might be tenuous. We see that the relationship between performance and succession depends heavily on how performance is measured. As we saw earlier, in the literature it has been measured variously by ROA, ROE, EPS, and sales growth over periods ranging from 1 to 3 years. Confining our examination of the case material to the four cases where there was either an outright dismissal or a constructive dismissal, we see that prior performance is indeed a key variable triggering dismissal; had earnings been measured in the year prior to dismissal, the data are strongly supportive. However, if asset growth or earnings over a longer period had been used, the data would show the opposite.

Some researchers have made the argument that earnings should be measured with respect not to some external standard but with respect to expectations (Puffer and Weintrop, 1991). This makes some intuitive sense since there are obvious trade-offs between growth and short-term earnings, particularly pronounced in the case of growth by acquisition. This phenomenon is most clearly illustrated by Cases 2 and 4, where major acquisitions produced extraordinary costs that depressed earnings. The cases reinforce Boeker's (1992) point about policy choices: he argues that some firms and industries are prepared to sacrifice earnings to build sales. Our cases document that the strategy of growth by acquisition put strain on short-term earnings. This strain was accepted by James, the first Group CEO, but not by his successors, who seemed to feel that both high growth and high earnings could be achieved simultaneously.

Depending on what prior period is used (1 year, 2 years, 5 years) and what measures are used (ROA, ROE, EPS, sales growth, asset growth) the results will be radically different. If we wish only to study the rate of succession and not the reasons, then a 1-year period seems appropriate. If we wish to explore the 'real' reasons, however, some longer period is necessary and the cases support the suggestion of Cannella and Lubatkin (1993) that multiple measures should be used. In addition, some measure of expectations and/or policy choices such as short-term earnings, growth, restructuring, market share, penetrating new markets, needs to be incorporated. It is unusual to expect dismissal of an executive who has been asked to generate growth and produces it—to the definitional detriment of other variables. Unusual or not, however, the cases demonstrate that sometimes it happens and that brings us to the variable 'power.'

Incumbent power

Disappointed by the low levels of variance of succession explained by prior performance, scholars have hypothesized that a powerful incumbent may be able to insulate himself from dismissal. The cases show very clearly that this is so. Most striking in that regard is Case 5, where Cameron was able to insulate himself from dismissal, to retire for purely voluntary reasons, and to control the process of his replacement and all this in spite of poor performance. In addition, in Cases 2, 3, 4, and 6, relatively 'powerless' CEOs were unable to insulate themselves. The cases strongly reinforce the literature but, as with performance, shed new light on measurement issues and help to explain the limited empirical confirmation to date.

As a proxy for incumbent power, many scholars have used the separation of the position of Board Chair and CEO, and the independence of outside directors. Yet, as Table 3 clearly shows, such proxies are unable to discriminate between the cases. In all six cases, the board was heavily dominated by independent outside directors. In Case 1, the incumbent retired and chose his successor with no board opposition. In Case 5, the incumbent retired and chose his successor over major board opposition. In the four other cases, the CEO was dismissed without public opposition from an independent board and in one case, Case 6, was dismissed over major opposition from independent directors. Similarly, CEO duality fails to discriminate. If we look only at the dismissals, in Cases 2, 3, and 4, the Chair and CEO positions were separate. In Cases 2 and 3, the Chair was occupied by a representative of the controlling shareholder and in Case 4 by an independent outside director. In Case 6, the incumbent was dismissed in spite of occupying both posts. With Finkelstein and Hambrick (1996: 257), we believe that these two operationalizations may have a limited utility and that new field and survey-based proxies for board vigilance need to be found.

On the other hand, to the extent that the cases are representative, scholars seem to have been right to have focused on agency conditions (ownership structure). Whether the subsidiary was wholly owned or held only through a significant minority block, whether the controlling shareholder occupied the chairman's spot or not, the major shareholder's representative had his way. This was true even in Case 5, where in spite of the vocal opposition from both independent directors and from powerful significant minority shareholders the control block dominated the decision. The opposing independent directors looked for leadership to the significant minority shareholders and a flurry of hasty telephone calls attempted to marshal sufficient force to block the nomination. In the end, the appointment was announced to the full board, was not subjected to a vote, and was tacitly allowed to take place. As noted above, the largest minority shareholder explained it in the following words: 'He [Cameron, the Group CEO] controls 51 percent of the stock and it's not clear that we could win a proxy fight. In any event, things will continue to deteriorate and we'll be there to buy up the pieces cheap.' And they did.

There was a tendency in all cases for independent board members to bow to the wishes of the controlling shareholder, best captured in the statement of the board member cited above: 'What the shareholder wants, the shareholder gets.' There is a multiplicity of reasons why board members gave way to the wishes of the shareholder, not all as illegitimate as they may appear: to avoid an unwinnable and costly proxy war; to be renominated at the next annual meeting; because of doubts about their own judgments; because of a vested interest in the continuing deterioration. Some have suggested that shareholdings of independent board members may be a better proxy but previous research linking it to, for example, the propensity to adopt 'poison pills' has most often proven disappointing (Finkelstein and Hambrick, 1996). Here, it was the explicit policy of the Main Board to require directors to be shareholders but that did not significantly influence the process of succession. Similarly, it has been suggested that relative CEO/Board tenure may be a telling proxy but, although we do not have systematic data to show it, observation suggests that such a proxy would not have captured important facets of the process in these cases. Ownership structure and personality do.

Given the pervasiveness of ownership structures like this company's, scholars must be extremely wary of random samples drawn uncritically from standard public sources; because each of these cases stood alone as a separate juridical entity, often listed on a stock exchange, it could easily have been caught up in random sampling with the resulting confounding of the hypothesized relationships. At a minimum, researchers must go one step further in sample selection and investigate the presence or absence of control blocks. As institutional investors exert growing influence on boards, their voices too may outweigh their number of votes and succession researchers will have to struggle with this issue as well.

THE SUCCESSION EVENT

The process of selection

Whether the process of selection is board-driven or incumbent-driven will, according to scholars, fatally condition its outcome. In these cases, the process was never board-driven. In Case 1, the incumbent James controlled the process entirely and the board simply ratified his decision. His personality and not his structural power was responsible for its acquiescence. He was highly respected. He chose, however, someone who looked neither like his board nor like himself, a point to which we will return below. Only Case 5 conforms to the predicted logic that an incumbent-driven process will result in the selection of a similar successor. If we fail to take account of agency conditions in our sampling, it may look like Cases 2, 3, 4, and 6 confirm a board-driven process but it was entirely driven by the major shareholder. Whether or not the shareholder sat in the Chair, through his representative he controlled the process and in all four cases the successor was like the shareholder's representative and radically different from the incumbent. The cases strongly support Fredrickson and colleagues' (1988) contention that it is not necessary for the full board to be dissatisfied; it may take only one or two powerful members.

The case material reinforces previous scholars' warnings of the importance of identifying in advance which successions were genuine dismissals (Fredrickson *et al.*, 1988; Boeker, 1992; Finkelstein and Hambrick, 1996). Voluntary departures like James' and Cameron's could easily confound statistical relationships since both good prior performance and bad would be seen to result in a succession and in the selection of an insider and in only one of those cases was the insider 'similar'. Five out of six of the cases show up as voluntary departures although only two were genuine. Only in Case 4 is there an outright dismissal; all the others appear to be voluntary and would show up as such in all official private and public records, confirming the argument of Fredrickson *et al.* (1988) that dismissals are reported euphemistically. These men were 'forced' to resign either by being humiliated, demoted (while being offered symbolic Chairmanships), eliminated from centers of influence (removed from the Group Board), and simultaneously offered lucrative separation agreements. Each individual felt that his alternatives were to wait to be fired (and the settlement offered was deliberately as rich as any court would award) or resign. In explaining their acquiescence to the researcher, they argued that dismissal would look bad to the outside world whereas a resignation could more readily be explained in terms of divergence of managerial philosophies. Reputation intact, they could hope to go on to a challenge elsewhere. Clearly large-sample researchers need to find an efficient mechanism to identify constructive dismissals without having to observe the process inside the company itself. Perhaps after identifying a desirable sample of firms, a series of phone calls to long-time company observers (stock analysts, former board members, trade journal editors) or to the individuals in question may yield usable data.

Successor profile

Hypothetically, where poor prior performance leads to a succession event, we should expect, and indeed hope, that the successor CEO will be in some important sense 'different' from the incumbent. One important proxy variable for measuring change in successor and incumbent attitudes or policies has been outsider vs. insider on the supposition that an outsider will make more changes and is likely to be very different from an insider groomed by the incumbent CEO. Dissatisfied with the empirical results based on the origin of the successor, researchers have sought to measure the difference in 'philosophies and skill repertoires' (Zajac and Westphal, 1996: 68) using the proxy variable of their demographic profiles. The cases seem to show that successor origin is in fact a more robust proxy for significant difference in personality or approach between incumbents and successors than are demographics but that this will depend fatally on other measurement issues related to agency conditions and on how 'outsider' is defined.

In five out of six cases, the origin of the successor is successful in capturing significant difference in philosophy, attitude or personality. Only in Case 1 was the condition 'insider = similar'/'outsider = different' unsatisfied; James and Cameron were very different although Cameron was an insider. But while Cases 2 and 4 are good examples of 'outsiders' being chosen who are very different from incumbents, Cases 3 and 6 are more problematic. In the latter cases, the successors were outsiders to the firm in question but very much seen as insiders to the controlling shareholder. We can see therefore that unless sampling takes account of shareholder relationships, in those two cases the successor will look like an outsider whereas, in fact, he is an insider. Further, how insider is defined is critical since if a 2-year rule applies they are insiders, but any longer will make them outsiders. Depending on the goal and the nature of the research, Cannella and Lubatkin's (1993) 2-year rule, Friedman and Singh's (1989) use of survey respondents' designation, and Finkelstein and Hambrick's (1996) suggested scaled treatment would all have worked to pick up the 'insiderness' of those two cases. Finally, it must be noted that Cameron was consistently going 'outside' in search of people different from incumbents but the people he was looking for 'outside' were not 'different' from him.

If we look at the demographic proxies for difference, the results are more disappointing. As Table 3 so clearly demonstrates, age, one of the variables most often used to capture difference, is completely nondifferentiating; all successors are younger whether or not they are otherwise different. More importantly, however, age has not only been used to capture different but also implicitly to capture 'better.' Based on social-psychological theory, younger has often been used to capture more 'open-minded' (Datta and Rajagopalan, 1998), whereas all the successors were by all measures less open-minded than incumbents in spite of being young. In fact, in the adjective lists, incumbents scored four times higher on 'open-minded' than did their young successors.

Similarly, more formal education has been used to capture both different and, implicitly, 'better,' that is, more open-minded. In Cases 1, 2, and 5, more formal education does indeed capture different. In Cases 3 and 4, it does not, and in Case 6 the incumbent has more education than his very different successor. As in the case of age, education never captures 'open-minded.'

Finally, on the theory that experience in similar professions or functional tracks shapes similar outlooks and perspectives, researchers have sought to capture difference with the demographic proxy of functional experience.[3] In three cases, different functional experience captures difference in personality and in three other cases it does not. Believing that no one demographic proxy may work, scholars have combined several of these separate proxies into indexes (Zajac and Westphal, 1996). But if each proxy alone presents difficulties, the conditional probability of a successful combined index is even lower. Coupled with the measurement difficulties with respect to performance, we can see therefore why current demographic proxies have not proven more robust than successor origin as proxies for differences in personality, approach, or outlook. West and Schwenk (1996) attribute their 'resounding nonfindings' in part to the inadequacy of demographic proxies and conclude that they should be 'cast aside.' While this is a radical solution, the cases do reinforce the need for research into more powerful demographic indicators.

If, on the other hand, we look not at the proxies for personality but at personality itself, we discover that our theories and hypotheses are all strongly confirmed. Whereas no clear pattern emerges when we use the proxies, the pattern is crystal clear in fact. As researchers have long hypothesized, powerful CEOs can insulate themselves. In Case 5, from Cameron to Judd, a powerful CEO was able to impose a like-minded successor in spite of poor performance. In the four cases of dismissal, a 'powerless' incumbent was replaced because of 'poor performance' and his successor's personality was radically different. There was clearly a desire, not on the part of the boards, but on the part of the majority shareholder's representative, to change organizational strategies by replacing one 'type' of manager by another type of manager. Indeed one of the dismissed CEOs complained 'They seem to hire according to type' and a director on the Group Board reported that Judd had called him to inform him of an imminent hire and began the conversation with 'I've got another one.' Cameron and Judd were replicating themselves in all operating divisions. Our theories predict this but our measurements have not allowed us to capture it. First, because we have not separated voluntary departures from dismissals; second, because we have not sufficiently taken account of nor adequately measured agency conditions; and finally because our proxies for personality have been weak. We will return to the issue of the measurement of personality below.

CONSEQUENCES OF SUCCESSION

Postsuccession change

What little empirical work has been done to date does confirm one clear pattern. The aftermath of succession is often high turnover in senior management ranks. The cases strongly reinforce this research. The succession from James to Cameron at the Group level triggered a cascade of dismissals and departures at all levels of the worldwide group. As Cameron chose a like-minded COO in the person of Judd and the two together changed all heads of divisions, those new, like-minded divisional CEOs renovated their senior management ranks in turn and replaced them with like-minded managers. These dismissals triggered many voluntary departures as well, as managers at the vice-presidential levels who were 'similar' in operating philosophy to James and Mike, or to Robert and Rowan, felt that the writing was on the wall. In part, they felt that that writing on the wall had to do with

[3] Zajac and Westphal (1996), following Hambrick and Mason (1984), categorized functional background as: 'output'—marketing, sales, R&D; 'throughput'—production, process engineering, and accounting; 'peripheral'—law and finance. We used this same classification scheme. We note, however, that it is far from easily applied since seven of these executives had been in general management for periods from 20 to 40 years and their functional backgrounds as very young men were long behind them.

incompatible personalities but it also had to do with concrete changes taking place with which they could not agree. New recruits, posit Finkelstein and Hambrick (1996: 189), often have a 'going-in mandate.' In these cases, that going-in mandate was obvious to everyone and quite explicit: 15 percent ROI.

All six successions, whether by outsiders or insiders, demographically similar or dissimilar individuals, following upon voluntary departures or dismissals, or good or poor prior performance, were followed by significant strategic and structural change designed to bolster quarterly earnings. Space limitations prevent full description here of such changes but they may all be described with two words: rationalization and centralization. Strategically, acquisitions slowed, divestitures increased, lines of business were eliminated. From a strategy of growth, innovation, and diversification, the group turned to profits; in the somewhat surprising words of the 1990 annual report, 'Our strategy is profits.' Structurally, world group headquarters became more and more controlling such that, by the end, subsidiary CEOs were CEOs in name only: head office dictated strategy, marketing, technology, and financing decisions and handed down ROI targets of 15 percent per annum.

Was this major change because all successors shared the character traits, and thus the strategic orientation, of Cameron and Judd—rigid, methodical, meticulous, and analytical—or because the competitive environment was soliciting these strategic shifts, or both? If the former, the interpretation would run as follows. In Cameron, we have a man who is qualified by board members and subordinates as difficult and stubborn, brilliant and conventional. A temperament that is more at home with cost control than with the flights of strategic imagination characteristic of James and Cobb and Mike. Emotionally distant and stiff, he did not earn the affection of his board nor of his employees and the grudging respect he was paid was due to his intellectual faculties. This respect wore very thin as reorganization after reorganization failed to improve earnings. Because he was not open-minded—not one single person in interviews or during administration of the adjective test suggested he was—he would not listen even to powerful board members when they sought to dissuade him from nominating a successor so much like himself. Now, with neither respect nor affection as capital, he had no option but to use the power of his controlling shares to enforce his choice. He of course felt that it was the best choice for the corporation; in interview, to justify his choice of Judd, he said, 'He's a very intelligent man.' There was, in his meticulous and methodical mind, only one way to run a business and his protégé shared that view. That 'one best way' was rationalization and centralization and his definition of competence consisted of 'serious,' 'cerebral,' and 'analytical,' and not 'imaginative' or 'funny.' It was thus perfectly natural for him to choose divisional CEOs who exhibited these same traits.

On the other hand, perhaps this movement had nothing to do with personality. Perhaps the strategic landscape was dictating this shift such that any type of person in Cameron's position would have been obliged to move in that direction to ensure corporate survival. In an intriguing new contingency study, Datta and Rajagopalan (1998) attempted to investigate the relationship between industry conditions and successor characteristics, hypothesizing, among other things, that product differentiation and industry growth rate would be positively associated with the choice of more flexible, open-minded successors. As a proxy for open-minded they used age and education. Faced with disappointing results, they speculate that perhaps their demographic proxies were responsible. The cases seem to offer confirmation.

Because of deregulation, the financial services industry was indeed becoming characterized more and more both by product differentiation and by high growth rates as companies sought to compete for the burgeoning savings dollars of baby-boomers approaching an age when investment increases and this competitive environment was perhaps indeed selecting for open-mindedness. Failure to respect its dictates may be why this company faltered. While the successors were indeed younger and sometimes better educated they were not open-minded. If Datta and Rajagopalan had had a better measure for 'open-minded' they may have had more significant results. We would argue, however, that these researchers are very much on the right track; we do need such contingency research in order to sort out the nature of causal relationships in this important domain.

Postsuccession performance

As we saw earlier, empirical results to date with respect to postsuccession performance have been inconclusive and scholars have attributed this to measurement inconsistencies and problems. What we see in the cases is, in general, a continuing deterioration in earnings, a slow growth rate and deteriorating stock performance such that, 3 years after Judd's succession, the company disappeared, conforming to the measure of postsuccession performance used by Carroll (1984). The cases support recent suggestions that researchers measuring postsuccession performance would seem well advised to track both ROE and/or EPS for at least 3–5 years after succession (Finkelstein and Hambrick, 1996). Perhaps other companies in the industry chose their successors more wisely or left the incumbents, who were older but more open-minded, in place. Here the case work seems to support the thrust of previous research showing that succession may have a disruptive effect on organizations (Allen *et al.*, 1979; Carroll, 1984; Beatty and Zajac, 1987; Haveman, 1993). Our research shows that a long period of managerial stability and personality heterogeneity in the TMT correlated with good performance. In which case, one promising avenue of research might be to create matched samples of firms in the same industry where in some cases there were successions, and in others incumbents were left in place.

CONCLUSION

In some senses, we think that these cases indicate that scholars have been right to hold out hope for observation and psychometric testing. This particular longitudinal psychometric study, even though not designed explicitly to study succession, does shed light on why certain measurement difficulties have hindered this research. In particular, it reinforces the need to separate voluntary departures from dismissals, and real dismissals from the apparent. It casts considerable doubt on the utility of CEO duality and board independence as useful proxies for power but shows the critical importance of agency conditions, in particular ownership structure, and attendant power considerations. It suggests some refinements in the measurement of pre- and postsuccession financial performance.

The usefulness of the insider/outsider distinction, however, seems less straightforward. Providing that the definition of 'outsider' is reasonably accurate, that poor performance is accurately captured and agency conditions controlled, this proxy for 'different' is, as researchers have long felt, quite robust to measure the rate of succession and the choice of 'different' leaders. If, however, the goal is to explore how these people are 'different' and with what organizational consequences, it is inappropriate. Researchers using demographic proxies for personality differences have in fact hoped to shed light not only on the choice of different successors but also on this further question. Our cases have highlighted possible reasons why these hopes have so often been dashed.

Unlike the proxies, the direct measurement of personality tells a story, offers an interpretation of events that are otherwise incomprehensible; good (Case 1) and poor (Case 5) performance both result in the succession of an insider. In the first instance, the insider is truly different; in the second he is not. The theoretical logic that poor performance leads to the succession of an outsider in order to ensure 'different' strategies fails to capture any aspect of these two situations. Similarly, in Case 5, an incumbent chose a successor who was younger, had less industry experience, lower organizational tenure, and similar education. Demographic variables should lead one to predict the successor is different but he is not; their personality profiles correlate at 0.77 ($p<0.01$).

What the direct measure of personality tells us, however, is this story. In the 15 years that James had been in charge, the corporation had increased its assets by 10-fold and expanded from local to international markets. This success, surely at least somewhat attributable to the qualities bold, daring, and intuitive, earned him the greatest of respect from his board. His qualities of the heart, humane, amiable, warm, helpful, and generous, earned him affection from both his board members and his employees. Thus, although he owned no shares, and although the board was dominated by independent outside directors, his suggested successor was accepted without question. In addition to his other qualities, he was open-minded and tolerant; he valued people of very different skills. As he said, 'Sometimes one can stay too long in an organization, it needs fresh air, a new approach.' He was not committed to the status quo. But he too underestimated the importance of personality and, still today, lives with bitter regret: 'It's no one's fault but my own bad judgement.' Cameron, however, was committed to his version of the status quo and, because of his personality, it was not at all surprising to see him choose Judd, known on the inside as his 'clone.' Whether or not an incumbent CEO chooses a similar successor appears to depend fundamentally on his personality as much as it does on pure power considerations.

There is little doubt in our minds that in order to untangle succession relationships with statistical significance and robustness, we need to incorporate some reliable measure of personality. The adjective test used in this study requires 10 independent observers per CEO, the observers themselves carefully chosen to ensure a balanced point of view—a task quite beyond management with a large sample. Its self-report variant is unreliable (who would claim to be uncompromising?). One self-report psychometric instrument which is highly regarded (fourth highest citation rank in the psychological literature), reliable, and controls for deceit and response sets, the Eysenck Personality Inventory (Aiken, 1997), may have potential. In the strategy literature, Hambrick *et al.* (1993) used a 'behaviors' questionnaire which comes closer to personality than demographics and did not prevent these researchers from having a sufficiently large sample ($n = 690$). Eisenhardt and Bourgeois (1988) developed a short instrument which measures key aspects of personality or behavior such as centralizing decision power. If our interest is in such specific traits as 'open-mindedness', we can surely measure this more directly with survey methods.

However, the main purpose of this comparative exercise was not so much to resolve specific methodological issues as it was to examine the *raison d'être* of cooperation between the two research approaches: field and large-sample work. We believe these cases demonstrate that fieldwork can help large-sample researchers to understand otherwise perplexing results and to refine both their hypotheses and their measurements. To that end, we need new field studies specifically designed, as ours was not, to explore the best potential proxy for board power. Such crucial debates in large-sample research ought to be a source of inspiration for scholars with the taste, and the time, for casework. Case research, however, cannot control for all the important variables that influence executive succession; only large-sample research can. To throw not only interesting but also reliable and generalizable light on this important phenomenon, we need a collaborative effort.

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