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IMPLICATIONS OF INSIDER AND OUTSIDER CEOs ON FIRM PERFORMANCE: EVIDENCE FROM CEO SUCCESSIONS FROM TURKEY

ŞİRKET İÇİNDEN VE DIŞINDAN ATANAN GENEL MÜDÜRLERİN FİRMA PERFORMANSINA ETKİLERİ: TÜRKİYE'DE GENEL MÜDÜR DEĞİŞİMLERİ İLE İLGİLİ BULGULAR

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Abstract
This study investigates the performance consequences of Chief Executive Officer (CEO) succession in an emerging market as prior research suggests that the differences in the performance implications of CEO successor's origin may be related to the distinctive contexts offered by these economies. Hence, we investigated the impact of a new CEO origin on firm profitability in Turkey for the years 2010 and 2011. The results showed that there is a positive association between outsider successors and post-succession profitability in listed companies in Turkey. Further, the effects of unrelated and related outside succession on post-succession firm performance differ. While the related outsiders affect negatively the firm performance, unrelated outsiders contribute positively to the post-succession profitability (ROA). These findings thus contribute to the existing CEO succession literature by emphasizing the value of outsider CEOs' fresh perspectives, new and diverse skills and initiative for change.

Keywords: CEO succession, outside succession, inside succession, firm performance, emerging economy

Öz
Genel müdür değişimleri alanında bugüne kadar yapılmış araştırmalar genel müdür haleflerinin şirket içinden veya dışından seçilmesinin firma performansı üzerinde farklı etkilere neden olmasını gelişen ekonomiler tarafından sunulan farklı bağlamlarla da ilişkili olabileceğini öne sürmektedir. Bu kapsamda, çalışmamızda gelişen bir ekonomi olan Türkiye'de genel müdür değişimlerinin firma performansı üzerindeki etkilerinin incelenmesi hedeflenmektedir. Bu amaçla, 2010 ve 2011 yılları arasında atanan yeni genel müdürlerin firma karlılığı üzerindeki etkisi araştırılmıştır. Sonuçlar, Türkiye'de borsada işlem gören şirketlerde şirket dışından atanan halefler ile değişim sonrası firma karlılıkları arasında olumlu bir ilişki olduğunu göstermiştir. Ayrıca, şirket dışından atanan bağlantılı veya bağlantısız haleflerin firma performansına etkilerinin farklı olduğu bulunmuştur. Şirket dışından atanan fakat bağlantılı yöneticiler firma performansını olumsuz yönde etkilerken, bağlantısız şirket dışı genel müdürlerin şirket kârlılığına (aktif karlılığı) olumlu katkıda bulunduğu saptanmıştır. Bu bulgular, şirket dışından transfer edilen genel müdürlerin yeni bakış açıları, yeni ve çeşitli becerileri ve değişim yönelimliliklerinin önemini bir kere daha vurgulayarak mevcut Genel Müdür değişimi yazınına katkıda bulunmaktadır.

Keywords: Genel Müdür değişimleri, şirket içi halefler, şirket dışı halefler, firma performansı, gelişen ekonomiler

GENİŞLETİLMİŞ ÖZET

Araştırma Amaçları

Şirket üst düzey yöneticilerinin şirket stratejilerinin oluşturulması sürecindeki rol ve katkıları nedeniyle şirket performansı üzerinde önemli etkileri bulunmaktadır. Bu çalışma şirket üst düzey yöneticilerinin firma finansal performansına etkileri üzerine yoğunlaşmakta ve özellikle yeni atanan bir CEO'nun (genel müdürün) kökeninin diğer bir deyişle bu kişinin şirket içinden atanan veya şirket dışından görevlendirilen bir yönetici olmasının firma kârlılığı üzerindeki etkisini gelişen bir ekonomide, Türkiye'de, araştırmayı amaçlamaktadır. Her ne kadar bu alanda gerçekleştirilen daha önceki çalışmalar bu ilişkiyi bir çok gelişmiş ülke bağlamında araştırmış ve sorgulamış olmasına rağmen küresel arenada gittikçe artan öneme sahip olan gelişen ülkelerde bu alanda göreceli olarak çok daha sınırlı sayıda çalışma yapılmıştır. Çalışma bu alandaki araştırma boşluğunu da doldurmayı amaçlamaktadır. Gelişen ekonomilerde gerçekleştirilmiş birçok araştırmanın gösterdiği gibi, CEO değişikliği ve CEO halefinin kökeninin performans üzerindeki etkileri ile ilgili elde edilen çelişkili bulguların nedeni bu ekonomiler tarafından sunulan farklı bağlamlarla ilgili olabilmektedir. İkinci olarak, aile mülkiyeti ve işletme grubu organizasyon yapılarının diğer bir çok durum gibi önemli olduğu gelişen ülke bağlamında genel müdür haleflerinin farklı özelliklerini kavramak için bu haleflerin kökeni üç grupta kavramsallaştırılmış ve kategorize edilmiştir. Son olarak, genel müdür değişikliklerinin performans etkilerinin firmanın değişim öncesi performansına bağlı olduğunu önerilmiştir. Ayrıca, değişim öncesi firma performansının yeni genel müdürün özellikleri ve firma performansı arasındaki ilişkiyi etkileme düzeylerinin belirlenmesi de hedeflenmiştir.

Araştırma Metodolojisi

Araştırma tasarımımız, genel müdür (CEO) değişikliği yaşayan firmaları içermektedir. Borsa İstanbul'da halka açık şirketler araştırmanın ana kütlesini oluşturmaktadır. Toplamda 258 firmaya ait 523 firma gözlemi incelemeye dahil edilmiştir. Yıllık firma performansı ve diğer firma özelliklerine ilişkin veriler KAP (Kamu Bilgilendirme Platformu) elektronik veri tabanından ve şirketlerin finansal raporlarından toplanmıştır. Nedenselliklerin daha iyi anlaşılması için, değişim öncesi ve değişim sonrası yıllar için veriler toplanmıştır. Yeni genel müdürün kökeninin şirketin finansal performansı üzerindeki etkileri regresyon analizi yardımıyla ölçülmüştür.

Bulgu ve Sonuçlar

Regresyon analizinin sonuçları, araştırma hipotezlerinden ikisine ampirik destek sağlamaktadır. İlk olarak, şirket dışından görevlendirilen yeni genel müdürlerin değişim sonrası aktif karlılığı ile ölçülen firma performansı ile pozitif ilişkili, şirket içinden atanan yeni genel müdürlerin ise negatif ilişkili olduğu sonucuna varılmıştır. Ayrıca, şirket dışından görevlendirilen genel müdürlerin şirket dışından ama aynı zamanda şirketle ilişkili veya ilişkisiz olmalarının performansı nasıl etkilediği de sorgulanmış ve bu genel müdürlerin etkilerinin farklılaştığı görülmüştür. Şirket dışından görevlendirilen fakat ilişkili yeni genel müdürler firmanın karlılığını olumsuz yönde etkilerken, ilgisiz dışsal genel müdürlerin aktif karlılığına pozitif katkıda bulundukları saptanmıştır. Diğer bir deyişle şirketle herhangi bir ilişkisi olmamış tamamıyla bağımsız yeni genel müdürlerin daha başarılı olduğunu söylemek mümkündür. Bu bulgular şirket dışından atanan genel müdürlerin şirkete yeni ve farklı bakış açıları ve farklı beceriler ve değişim dinamikleri getirme potansiyellerinin önemini vurgulamaktadır. Ayrıca çalışmanın yeni genel müdür kökeninin firma performansına etkilerini inceleyen yazındaki tutarsız birbiriyle çelişen bulguları, bazı iç ve dış koşulları gelişmiş ekonomi bağlamındakilere göre farklı olan gelişen bir ekonomiden elde edilen bu bulgularla bir araya getirerek anlamlandıracağını ve destekleyebileceğini de belirtmekte fayda var. Çalışmamız aynı zamanda bazı anahtar içsel koşulların genel müdür değişimi sonrası şirket sonuçlarını nasıl etkilediğini de incelemektedir. Kurama uygun olarak, dışardan atanan genel müdürlerin ve özellikle ilgisiz dış CEO'ların olumlu performans etkilerinin, aile şirketleri ve yabancı sermayeli şirketlerde özellikle güçlü olduğunu görülmüştür. Bununla birlikte, dışardan atanan genel müdürlerin performans üzerindeki olumlu etkilerinin özellikle değişim öncesi firma performansının düşük olduğu koşullarında güçlü olacağı varsayılmıştır anacak bu hipoteze destek bulunamamıştır.

INTRODUCTION

The upper echelons perspective (Hambrick & Mason, 1984; Hambrick, 2007) proposes that Chief Executive Officers (CEO) are valuable sources of intellectual capital for a firm and subsequently their effect on the firm's strategies and organizational outcomes are critical (Finkelstein, Hambrick & Cannelle, 2009; Quigley & Hambrick, 2015; Quigley et al., 2017). Consequently, succession of a CEO, one of the most critical and strategic changes in the life of any company, is expected to influence a firm's performance through changes in leadership skills and styles, adaptability to change, and accessibility of resources (Cao, Maruping & Takeuchi, 2006; Giambatista, Rowe & Riaz, 2005; Thornton & Ocasio, 1999). There are multiple strategies for choosing a new CEO. A firm may choose to manage the CEO transition through an inside succession by a "horse race" amongst internal nominees or by selecting and crowning of an "heir apparent" or an outside succession by a comprehensive searching of external candidates (Finkelstein & Hambrick, 1996; Friedman & Olk, 1995). Inside succession advantages include the retention of context-specific knowledge and successful dynamics of the firm. In contrast, outsiders offer an opportunity to bring fresh perspectives and different experiential knowledge to the decision making process (Ballinger & Marcel, 2010; Hughes, Mellahi & Guermat, 2010; Karaevli & Zajac, 2013). While prior research has explicitly debated the theoretical benefits of CEO succession in general and the contribution of the new CEO's origin (insider versus outsider) on firm effectiveness more specifically, prior research regarding their impact on a firm's post-succession performance has produced varied and conflicting findings (Berns & Klarner, 2017; Datta & Rajagopalan, 1998; Hutzschenreuter, Kleindienst, & Greger, 2012; Karaevli, 2007; Shen & Cannella, 2002; 2003; Zhang & Rajagopalan, 2004). This suggests a growing concern that prior research has largely neglected to investigate how external and the internal characteristics of a company affect the performance implications of a CEO succession (Finkelstein et al., 2009). Furthermore, the effects of insider or outsider successors have not been investigated extensively in developing countries, especially in emerging market contexts, such as in Turkey. Yet, the population ecology and neo-institutional perspective (DiMaggio & Powell, 1983; Hannan & Freeman, 1977) have challenged upper echelons perspective, debating that, as firms are largely constrained by external forces and organizational contingencies, top executives might have limited impact on organizational outcomes and as a consequence their impact on organizational outcomes may differ. However, in the current succession literature there is a scarcity of comprehensive conceptualization and testing of the impact of executive succession on performance in different context (Karaevli, 2007). In this perspective, Turkey provides a very interesting research setting for studying CEO succession in an emerging economy for several reasons. Turkey, in the 1980s, entered a liberalization era, after a long period of import-substituting and state-guided industrialization (Yildirim-Öktem & Üsdiken, 2010). It is now an important middle-income and civil law country. Access to finance is a critical constraint for the growth of many Turkish firms. Foreign investment is extremely important; foreign investors own around 65% of the market capitalization of the Turkey stock market. Many Turkish public firms are members of large and mostly family-controlled business groups (Ararat, Black & Yurtoğlu, 2017). Historically, Turkish legal rules and institutions have been weak and have given firms great flexibility to choose their governance practices. In 2000s Turkey accomplished some important institutional reforms such as the adoption of Corporate Governance Principles in 2003 (Uğur & Ararat, 2006).

This study aims to remedy these weaknesses in the CEO succession literature by contributing to existing knowledge in three main domains: First, this paper aims to investigate the effect of the origin of a new CEO on firm profitability in an emerging economy context. Although prior studies have investigated this relationship across a diverse array of developed country context, a very limited number of studies have been pursued in the developing countries despite their growing importance in the global arena. As prior research conducted in emerging economies (i.e. Chung & Luo, 2013; Claessens & Djankov, 1999; Kato & Long, 2006; Peng, Buck & Filatotchev, 2003) suggest, the differences in the performance implications of CEO change and CEO successor's origin may be related to the distinctive contexts offered by these economies. Hence, we aim to investigate the performance effect of a new CEO origin in Turkey. Second, we conceptualized and categorized CEO successors' origins into three groups in order to apprehend different characteristics of successors in an emerging country context where the family ownership and business group organizational structures are important among the other crucial contingencies: (1) insider succession, in which the new CEO comes from within the company in question; (2) related outsider succession, in which the new CEO comes from another company however affiliated to the same business group of the company in question; (3) unrelated outsider succession, in which the company hires someone new to the company, so the new CEO comes from outside of the company. Finally, we suggest that the performance implications of Chief Executive Officer change are contingent on the firm's pre-succession performance. The connection between the moderating impacts of pre-succession firm performance will be identified.

1. THEORETICAL BACKGROUND AND HYPOTHESES DEVELOPMENT

The upper echelons perspective proposes that top executives affect firm performance as these leaders have a substantial impact on company decisions and strategies (Hambrick & Mason, 1984). Thus, a succession in leadership will be likely to influence firm performance through changes in leadership skills, experience, adaptability to change and accessibility of network resources (Cao et al. 2006; Giambatista et al., 2005; Thornton & Ocasio, 1999).

CEO succession research takes into the consideration the successors' characteristics as central factors in shaping post-succession success and proposes that successors' actions are dependent on their origin, whether the successor is coming from outside or inside of the company (Lauterbach, Vu, &Weisberg, 1999). However, despite the proposed persuasive mechanisms linking CEO succession to performance in the related literature, there is little consensus on the performance implications of CEO succession or on the impact of new CEO origin (Karaevli, 2007). For example, insiders are claimed to have better access to internal network resources (Cao et al., 2006). Inside successors are also more advantageous in the selection process because the board already has detailed information about them, so there is less information asymmetry than with outside succession (Tian, Haleblian & Rajagopalan, 2011). Insiders possess more company-specific and industry-specific knowledge and skills (Zhang & Rajagopalan, 2004; 2010) as well as social ties to employees (Finkelstein et al., 2009; Zajac, 1990). Several researchers have discovered that inside successions could lead to better firm performance than other types of successions (Cannella & Lubatkin, 1993; Zajac, 1990; Zhang & Rajagopalan, 2004; Shen & Cannella, 2003). However, successors hired from outside of the firm, outsiders, are also considered to enrich the company's human capital as they are nominated from a larger pool of applicants with diverse experiences and skills (Bennedsen, Nielsen, Pérez-González & Wolfenzon, 2007). An outside industry successor possesses generic skills, whereas an intra-industry successor has specific industry skills, particularly knowledge gained at other firms (Zhang & Rajagopalan, 2003). Results of the several studies generally conclude that although outsiders have fewer networks and less company-specific knowledge (Connelly et al., 2016; Virany et al., 1992), they are more inclined to introduce change to the organization than insider CEOs (Zhang & Rajagopalan, 2010). It is suggested that these leaders willingness and ability to adjust to changes in turbulent environments will be greater than insiders (Tushman & Rosenkopf, 1996; Haveman, Russo & Meyer, 2001). Finally, research on new CEO origins' performance consequences remains inconsistent. Research evidences suggest that CEO succession is associated positively with company performance while others find no or negative relationships (Berns & Klarner, 2017; Datta & Rajagopalan, 1998; Hutzschenreuter et al. 2012; Karaevli, 2007; Zhang & Rajagopalan, 2004). Overall, the inconclusive findings on CEO succession's performance implications may be due to several contingencies that influence the relationship. We focus on country-specific contingencies in this paper.

Studies conducted in emerging economies (i.e. Chung & Luo, 2013; Claessens & Djankov, 1999; Kato & Long, 2006; Peng et al., 2003) suggest that differences in the performance implications of CEO successor's origin can be associated to the different circumstances presented by these economies. Several researchers have argued that the social context of the country may offer critical contingencies determining whether, and how, CEO succession is associated with performance (Chung & Luo, 2013; Giambatista et al., 2005). Bennedsen and his colleagues (2007) found that in fast-growing industries outsider successors contributed to firm profitability more than family successors. Claessens and Djankov (1999) also concluded in a study conducted in the Czech Republic, an emerging economy that selecting an outsider improves firm performance. Chung and Luo (2013) obtained the same results in Taiwanese listed firms. They found that outside succession is associated with higher subsequent firm profitability than inside successions by family members in an emerging market. In line with the research results conducted in emerging markets, we propose the following hypothesis:

Hypothesis 1: In Turkey as an emerging market, new outsider CEO will be positively associated with post-succession profitability.

Many organizational characteristics affecting top executive succession are analyzed in different studies; however, variables linked to the ownership structure of the firms have been the subject of very little study. In particular, family ownership, foreign ownership, and business group structure are among those organizational characteristics (Finkelstein et al., 2009). We know that emerging economies are gathering together companies that function with different institutional logics providing researchers with more heterogeneous social context and relationships with which to investigate characteristics of CEO successors (Thornton & Ocasio, 2008; Dacin, Ventresca & Beal, 1999). Chung & Luo (2013) propose that in developing countries where market dynamics are weak, transaction costs are high and information asymmetry is acute, outsider CEO successors who have powerful connections and legitimacy play an essential role in facilitating access to the resources and lower transaction costs. They bring fresh knowledge and managerial perspectives into the organization thereby improve the performance. Successors hired from outside the company are also considered to enrich the firm's capital, as they are nominated from a larger pool of contenders (Bennedsen et al. 2007; Chung & Luo, 2013). Several studies also reveal that family ownership, especially in developing countries, is an important factor affecting the company's management structure and performance (Carney, 2005; Chrisman, Chua & Zahra, 2003; Colpan, 2010; Habbershon, Williams & MacMillan, 2003). Another important structural characteristic of emerging market firms is business groups. Business Groups, in other words of *"legally independent firms, operating in unrelated business activities, which are bound together by formal and informal ties"* (Khanna & Yafeh, 2007: 331) were similarly differ in regards to their authority and ownership structure, size and diversification strategies. Yet, as previous studies have indicated, most of the largest economic units in Turkey are constituted by centrally directed, family-controlled, and diversified business groups (Buğra, 1994; Demirağ & Serter, 2003; Gökşen & Üsdiken, 2001; Khanna & Yafeh, 2007; Kula, 2005; Yamak & Üsdiken, 2006; Yurtoğlu, 2003); in addition, foreign investments and multinational companies also play an important role (Demirağ Tatoğlu & Glaister, 2009; Tatoğlu & Glaister, 2000). Therefore, these structural characteristics might provide different alternatives in the selection of a successor. A recent study conducted in Turkey reveals that the CEO succession rate reached an accumulated level of 57 percent between the years 2005 and 2011 in publicly listed firms in Turkey, and 60 percent of these companies assigned an outsider as a successor (Ataay, 2016). However, when the origin of outsiders is analysed in detail, it can be seen that 47.5 percent of these new CEOs are related outsiders; in other words, they are internal transfers between business groups or affiliated multinational enterprises (MNE) companies. Several researchers propose that inconsistencies in the definition and scope of the outsider and insider CEO dichotomy may also have greatly added to the contradictory research results regarding successor origin's consequences (Finkelstein et al., 2009; Karaevli, 2007). CEO origin is still defined and studied as a binary variable in most studies; however, in this study, we conceptualize and define a new concept of related as well as the unrelated outsiders in order to improve the constructs used by prior research in measuring successors' origin. By differentiating related outsiders from unrelated outside successors, we aim to capture different managerial knowledge, skills, and styles that new CEOs bring to a firm based on their previous experience in other firms and industries as well as their effect on organizational performance. As defined by Finkelstein et al. (2009), our CEO successors' origin captures the concept from insiders to outsiders and also takes into consideration CEO transfers within business groups, between affiliated companies, or from the headquarters of multinational enterprises (MNE). With our sample from Turkey, as with the other developing and emerging countries where family business groups and international companies are the dominant structural form (Guillen, 2000; Khanna & Palepu, 2000; Khanna & Yafeh, 2007), we assume that there is a high probability that outsider CEO successors come from local or foreign group-affiliated companies. We classified these successors as related outsiders and proposed that:

Hypothesis 2: New unrelated outsider CEO will be positively related with post-succession profitability compared to related outsider CEO

However, the impacts of a new CEO on organizational performance are also partially formed by the internal contingencies of the company (Hambrick, Finkelstein & Mooney, 2005). The performance of the firm prior to the succession is a main internal contingency emphasized in CEO succession research (Karaevli, 2007; Zhang & Rajagopalan, 2004). Under the condition of poor organizational results, top managers face with accumulated job demands due to the board monitoring pressures as well as the shareholder's expectations to change the firm's status quo (Chen, 2015; Hambrick et al., 2005). In that regard, scholars debate that the pre-succession performance will determine whether an outsider fits the job requirements of the managerial position as well as the situational context (Guthrie & Datta, 1997; Zhang & Rajagopalan, 2003). Consequently, pre-succession firm performance is selected as a key organizational-level aspect, connected to the job challenges fronting new executives (Chen, 2015), that might influence the trade-off between the negative and positive impacts of an outsider (Karaevli, 2007). It has been argued that outside successors are usually preferred when the firms expect and plan change due to performance decline (Cannella & Lubatkin, 1993; Datta & Guthrie, 1994; Zhang & Rajagopalan, 2010). Relative to an insider, it is expected that outsiders are more motivated to achieve some performance turnarounds, as their fresh perspectives and skills new to the firm contribute better to the performance and they are more willing to question standing systems and practices and introduce important strategic and organisational changes (Kesner & Sebora, 1994; Zhang & Rajagopalan, 2004). Numerous studies have also proposed that as outsiders do not have emotional commitments to the company's status quo, their outsider status, and experience allowing them to follow for more strategic options within and outside the organization (Zhang & Rajagopalan, 2010). In this perspective, we propose that;

Hypothesis 3: At a lower level of pre-succession firm profitability, the positive association between a new outsider CEO and post-succession firm performance will be stronger.

2. METHODS

2.1. Sample Selection

The above hypotheses were tested in the context of Turkey. CEO succession research is a newly emerging field of study in Turkey, and an only limited number of study has been conducted in this area. CEO succession was examined as a factor that might have an impact on organizational performance, and there was found a negative relationship between firm performance and CEO turnover (Doğan & Ağca, 2013; Durukan et al., 2012). Our research design includes firms that experienced a CEO change. Publicly listed firms on the Istanbul Stock Exchange (TSE) composed the sample of this paper. In total, there are 523 firm-year observations, pertaining to 258 firms.

Data related to the annual firm performance and other firm characteristics were collected from the *KAP* (Public Disclosure Platform of Turkey) electronic database, and from individual companies' financial reports. For the CEO change and the origin of a new CEO, we adopted a multi-source strategy by searching for all relevant information for each case of CEO change. To have a better understanding of the causalities, data were collected for the years before and after successions. We first identified CEO (or general manager) changes from the list of names provided by the *KAP* database. Than, we excluded the cases with missing information, the final sample reduced to 76 cases of succession for our observation period. In six cases, more than two managerial changes occurred in the observation period. Finally, various databases and firms' financial reports and other documents had been searched to find background information about the incumbent CEO and the origin of the successor CEO.

2.2. Measures

2.2.1. Dependent Variable

Several accounting (e.g., Return on Assets (ROA), Return on Equity (ROE)) and market performance (e.g., Capital Adequacy Ratio (CAR), Tobin Q) measures have been used to operationalize performance. In the present paper, ***return on assets (ROA)*** is used as the dependent variable. ROA is a widely used accounting measure (Finkelstein & D'Aveni, 1994; Henderson et al., 2006; Minichilli et al., 2014; Shen & Cannella, 2002;). We calculated the average ROA for post-succession performance for the two years following the CEO change.

2.2.2. Independent and Moderator Variables

CEO succession: We classified CEO succession into two basic categories: insider and outsider. Consistent with recent succession studies, CEO change was coded as "inside succession" if the new CEO has at least two years of firm's tenure before promoted internally to this position (Cannella & Lubatkin, 1993; Ocasio, 1999; Zhang & Rajagopalan, 2003) or "outside succession" if the new CEO was not a current employee of the company. We also classified outsider successors into two further categories: related outsiders who were employees of other affiliates in the same local or foreign group companies and non-group affiliated outsiders. Among the 76 CEO successions, there were 35 inside successions and 41 outside successions. Interaction variables between inside and outside successors and pre-succession firm performance have been created to test the moderating effects in our hypothesis, (Zhang & Rajagopalan, 2004).

Pre-succession firm performance: Return on assets (ROA) is used to operationalize pre-succession firm performance. The average ROA for the two years before the CEO change is calculated.

2.2.3. Control Variables

We controlled for some theoretically applicable variables to test the moderating effects in our hypothesis. First, ***CEO succession reason*** has been controlled. Prior research has shown that the circumstances under which a succession occurs is crucial to consider in the models. We controlled for the reasons of the CEO succession. The reasons for changes were primarily identified with the help of the firms' public disclosures and financial press news. Planned retirement and voluntary departure of an incumbent CEO were coded as unforced departures, whereas the refusal to renew a contract and replacement of an incumbent CEO following a policy disagreement or difference in opinion or some equivalent reason were classified as forced departures. We also differentiated cases where CEOs were appointed to a new position within the firms or affiliated companies. Second, ***ownership and governance structure*** of the firm has been controlled through the percentage of shares owned by the foreign companies/investors (foreign ownership), business groups (BG) and family business group (FBG). Finally, given problems associated with inertia, we controlled for ***organizational size*** (Tushman & Rosenkopf, 1996). Previous evidence has indicated that firm size could explain the choice of an insider versus outsider and their differing effects on firm performance. It is an important determinant for a decision regarding the extent of investments for developing existing talent or onboarding new talent earlier to limit the "liability of newness" associated with outsiders (Schepker et al., 2017). For example, smaller companies have to select an outsider CEO due to a scarcity of internal candidates. However, larger companies face higher bureaucratization, resulting in more mandatory retirements and a higher CEO succession rate (Finkelstein et al., 2009) thus they are more inclined to promote an insider CEO because they have a larger pool of available internal candidates (Guthrie & Datta, 1997; Lauterbach et al., 1999). Logged values of annual firm sales are used to measure the firm size.

3. DATA ANALYSES AND RESULTS

Descriptive statistics for all the variables included in this study is reported in Table 1. Table 2 presents ordinary least squares (OLS) regression analysis results for the impacts of CEO succession on firm performance.

We first predicted Model 1 with control variables, in Table 2. We found that pre-succession firm performance; firm size, family business group and foreign ownership and CEO succession caused by incumbent CEO promotion are positively and significantly related to post-succession performance. However, Model 2 and Model 3 included variables distinguishing the origin of the CEO successor. Finally, in Model 4, the interactions of inside succession and outside succession with pre-succession firm performance were added. Outside succession led to better post-succession profitability (ROA) than inside succession in our sample.

Table 1: Means, Standard Deviations and Correlations

Variables	Means (s.d.)	1	2	3	4	5	6	7	8	9	10	11	12
1-Pre-succession firm performance	.00010 (.1020)	1											
2-Firm size	18.188 (2.398)	-.04	1										
3-BG ownership	.0786 (.2391)	.006	-.006	1									
4-FBG ownership	.3319 (.2934)	.083	.114	-.377	1								
5-Foreign ownership	.12323 (.2758)	-.12	.273*	-.141	-.359	1							
6- Unforced departure	.6053 (.4920)	-.235*	-.079	.009	-.164	-.001	1						
7- Forced departure	.0132 (.1147)	-.068	-.009	-.038	.023	-.053	-.143	1					
8-Predecessor promotion	.3553 (.4817)	.282*	.085	.019	.205	.026	-.919**	-.086	1				
9- New insider CEO	.4605 (.5017)	.055	.104	.047	-.023	-.017	-.010	-.107	.086	1			
10- New outsider CEO	.5395 (.5017)	-.055	-.104	-.047	.023	.017	.010	.107	-.086	-1.00**	1		
11-Related outsider	.2368 (.4279)	.243*	-.137	-.036	.087	.109	-.183	-.064	.233*	-.515**	.515**	1	
12-Unrelated outsider	.3026 (.4625)	-.288*	.017	-.018	-.056	-.084	.180	.175	-.309**	-.609**	.609**	-.367**	1

† $p<0.10$; *$p<.05$; **$p<.01$; ***$p<0.001$ (2-tailed)

Table 2: Results of OLS Analyses: Performance Consequences of Alternative Types of CEO Succession

Variables	Model 1	Model 2	Model 3	Model 4
Pre-succession firm performance	.363** (.311)	.365** (.278)	.365**(.278)	.363**(.263)
Firm size	.021†(.013)	.023† (.012)	.023† (.012)	.057† (.013)
BG ownership	.120(.133)	.122(.136)	.122(.136)	.118(.120)
FBG ownership	.161*(.115)	.160* (.117)	.160* (.117)	.169* (.120)
Foreign ownership	.230* (.116)	.229* (.121)	.229* (.181)	.216* (.123)
Predecessor unforced departure	.173(.222)	.184(.224)	.184(.224)	.159(.228)
Predecessor forced departure	.077(.304)	.077(.308)	.077(.308)	.072(.312)
Predecessor promotion	.175(.227)	.187(.232)	.187(.232)	.156*(.236)
Main effects				
New Insider CEO		-.026*(.066)	-.026* (.066)	-.040*(.068)
New Outsider CEO		.025* (.053)		.024*(.053)
Related outsider			-.001* (.080)	
Unrelated outsider			.001* (.080)	
Interactions				
Insider X pre-succession performance				.154(.419)
Outsider X pre-succession performance				.347(.351)
Constant	-.122 (.311)	-.199(.306)	-.188(.302)	-.225(.314)
F	1.539 †	1.468	1.135	1.124
R^2	.118	.182	.182	.191

Standardized coefficient are reported; † $p<0.10$; *$p<.05$; **$p<.01$; ***$p<0.001$

In Model 2, we found that outside succession was positively related to post-succession performance (b= -.026; p< .05); however, inside succession has a negative effect on firm performance (b= .025; p< .05). Hypothesis 1 predicted that outside successors are associated with higher firm performance; therefore, this hypothesis is supported. Outside succession led to better post-succession performance than inside succession in our sample.

Hypothesis 2 predicted the performance effect of a related outside successor would be positive compared with that of an unrelated outside successor. Although the performance consequences of an outside successor are positive in our sample, when we sub-grouped outsider successors as related and unrelated, we observed that the impacts of related outsiders on firm performance were negative while the effects of unrelated outsiders were positive. We can say that in-group affiliate companies, the impacts of intra-firm (insider) and intra-group successors are similar and these successors lead firms to a lower level of performance compared with the unrelated outsiders. Hypothesis 3 proposes that the positive relationships between outside succession and post-succession firm performance will be stronger at lower levels of pre-succession firm performance; thus, we expected a negative association between the interaction of outside succession and pre-succession performance and post-succession performance. However, this proposition was not statistically supported (*b=.347*, *n.s.*). Outside succession and inside succession did not differ in their effects on post-succession firm performance based on pre-succession performance level. We found that pre-succession performance had a positive effect on post-succession performance independent of the successor's origins *(b= .363, p<.01)*.

DISCUSSIONS AND CONCLUSION

This paper studies the performance consequences of different types of Chief Executive Officer succession. To better comprehend the impacts of CEO succession on firm performance, we distinguished between three types of succession - inside succession, related outside succession, and unrelated outside succession- and empirically investigated two research questions: (1) how do CEO successors' origin influence post-succession firm performance; (2) how do these performance impacts diverge with crucial organizational contingencies specific to emerging markets? We found empirical support for two of our research hypotheses. First, we concluded that outside succession was positively associated with post-succession profitability, whereas inside succession has a negative impact on firm ROA in our sample. Further, the effects of unrelated and related outside succession on post-succession firm performance differ. While the related outsider affects negatively the firm profitability, unrelated outsiders contribute positively to the post-succession ROA. These findings thus underline the value of potential outside CEOs' fresh perspectives, new and diverse skills and initiative for change (Harris & Helfat, 1997). It is worth noting that this result may also support to reunite the inconsistent findings in the previous literature on the performance impact of new CEO origin by highlighting insights from an emerging market, where some key internal and external contingencies are different compared with those in the context of a developed country. Our study also examined how key internal contingencies moderate the performance consequences of succession. In keeping with the theory, we found that the positive performance effects of outside succession, especially of unrelated outside CEOs, were particularly strong in family business groups and foreign companies. We expected that the positive performance effect of outside succession would be particularly strong under conditions of lower pre-succession firm performance, yet we did not find support for this hypothesis. Our results also imply that performance consequences of outsider or insider CEO did not significantly differ regarding the reasons for succession. However, CEO succession caused by a promotion had a positive effect on performance.

In conclusion, we would like to acknowledge some limitations of our study that, in turn, suggest interesting avenues for future research. First, like most research on CEO succession, our study relied on secondary data rather than on direct observations of the CEO change event. Second, this study classified successors based only on their origins. A finer-grained classification of outside successors, as well as predecessors, would provide further explanation of the performance effects of CEO changes. Some background characteristics of CEOs, such as previous experience, age, education, and tenures, could contribute to an understanding of succession events. Finally, our study is based on a limited sample of listed large firms. This sample and sample size may limit the generalizability of our findings to other contexts, in particular, to the emerging market context. Future research should need to extend our model in different organizational contexts with a larger sample size.

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