



## CEO TURNOVER: THE IMPACT OF THE CEO'S INTERNAL AND EXTERNAL APPOINTMENT ON COMPANY SUCCESS<sup>1</sup>

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### Abstract

As is known, large-scale businesses require top executives who create and manage strategies necessary to move forward within their mission and vision. The impact of these executives, who are commonly referred to as CEO (Chief Executive Officer), but also called General Manager or Executive Board Chairman according to the organization structure of the businesses, is of great importance to the company. This study examines the relationship between CEOs, financial statements, and share values of the 100 companies included in the report of Turkey's most valuable and strongest brands for the year 2021 by Brand Finance between the years 2009-2019. The main topic addressed in the study is to analyze the effect of internally and externally appointed CEOs on the success of companies. Results indicate that CEO appointments have a minimum impact on company success and share value.

**Keywords:** CEO, CEO Succession, Outsider, Insider

**JEL Classification:** G30, M12, G34

## CEO DEĞİŞİMİ: ŞİRKET İÇİNDEN VEYA ŞİRKET DIŞINDAN ATAMANIN ŞİRKET BAŞARISINA ETKİSİ\*

### Öz

Bilindiği üzere büyük ölçekli işletmelerde, ilgili misyon ve vizyon kapsamında ilerleyebilmek için gerekli stratejileri oluşturan ve bu stratejileri yöneten üst yöneticilere ihtiyaç duyulur. Genellikle CEO (Üst Düzey Yönetici; Chief Executive Officer) olarak bilinen fakat işletmelerin organizasyon yapısına göre Genel Müdür veya İcra Kurulu Başkanı olarak da isimlendirilen yöneticilerin, şirkete etkisi büyük önem taşımaktadır. Bu çalışmada, Brand Finance'in 2021 yılına ait Türkiye'nin en değerli ve en güçlü markalarını içeren raporda yer alan 100 şirketin 2009-2019 senelerine ilişkin CEO, finansal tablo ve hisse değerleri arasındaki ilişki incelenmiştir. Çalışmada ele alınan temel konu, şirketlerin başarısı üzerinde şirket içinden ve şirket dışından atanan CEO'ların etkisini analiz etmektir. Sonuçlar, CEO atamalarının şirket başarısı ve hisse değeri üzerinde minimum etkiye sahip olduğunu göstermektedir.

**Anahtar Kelimeler:** CEO, CEO Değişimi, Şirket Dışından Atamalar, Şirket İçinden Atamalar

**JEL Sınıflandırması:** G30, M12, G34

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## **1. Introduction**

In the light of widespread and significant importance of corporate governance and modern industrial organization around the world, many teams, directories and offices have been formed in operating corporate companies. The increase of specialization has created the need for managers in the relevant fields and hence company's organizational structure emerged, where the CEO (Chief Executive Officer) is placed at the top-level of the managers. Depending on the structure, General Manager, General Director or CEO is a key stakeholder in the firm.

The CEO tenure can have various impacts on a company's success. These impacts can depend on factors such as the company's performance, profitability, innovation capability, employee satisfaction, and corporate culture. For example, the appointment of a new CEO can cause changes in the company's management structure. A new CEO can come with a different vision and strategy, which can alter the company's roadmap and positively or negatively affect its performance. Additionally, the CEO's leadership skills can impact the corporate culture and employee motivation. A successful CEO can create synergy among employees and positively influence the corporate culture, while an unsuccessful CEO can cause dissatisfaction among employees and negative changes in the corporate culture. However, the impact of the CEO tenure on company success is not always definite. The impact of a new CEO depends on various factors such as the existing company conditions, market trends, management structure, and many other factors. Additionally, a CEO's success or failure is not solely related to their skills and strategies but is also linked to a combination of other factors.

A research question about CEO turnover in Turkey may be considered for various reasons. For example, the management structure of businesses in Turkey is rapidly changing, and many companies are appointing new CEOs. Additionally, factors such as changing economic conditions, industry trends, and global economic developments in Turkey can trigger CEO changes. Furthermore, many Turkish companies are trying to attract foreign investors, which can also lead to management changes. All of these factors point to the importance of a research on the CEO changes in Turkish companies. Due to this fact, in this study the impact of CEO's internal and external appointments on the company's success have been explored.

Every company may experience many CEO turnovers over its lifetime. The change is not limited to but include bad performance, CEO's health issues or CEO's own decision, even "A good boss should stay in the same position no more than 5 years" belief can be taken into consideration for the Board of the Company to search for a suitable candidate for the CEO position (Capital, 2002). Apart from personal talents and achievements of the newly assigning CEO, being a candidate from the inside or the outside of the company holds a great importance.

While some companies tend to bring a well-known and successful name from outside the company as a CEO in order to add innovation, change the company's structure and/or gain prestige over their rivals and customers, other companies tend to bring insider CEOs who has worked for a period within the company, presented a good performance, and earned the trust of managers and Board members. Although the CEO's financial contribution is a key effect to the company, there are other factors as well. Therefore, to analyze the impact and importance of the CEO turnovers, a critical path for the future of the companies, the financial values, stock market values in Borsa Istanbul (BIST) (if available), and head managers in the companies between the years of 2010-2019 were examined which belongs to the 100 most valuable brands determined by Brand Finance in 2021.

CEO turnover has been a topic to various research papers as well. Different approaches have been applied to these studies and depending on the research year and country, the results may differ from each other. The geography and company culture, where even the reasons for companies to seek a new CEO differ, also show changes in management and approach styles for the CEOs.

In this study, companies based in Turkey have been analyzed along with their past 10 years. This method enables the collection of more data which leads to a more accurate statement based on the effects of the CEOs assigned from inside or outside the companies.

## 2. Literature Review

The issue of appointing outsider CEOs attracted attention between 1970-1980 and almost reached a trend stage in 1990 (Huson et al., 2001: 2277). According to Forbes annual surveys, nearly one in four CEO turnovers in the 1990s were appointed from outside the company. In the early 2000s, this number increased even more and reached almost one third. As a result of this, analysis and studies were conducted on CEOs selected from within the company and appointed from outside the company. After the turnovers, the effect on the financial performance of the company, the effect on the company's stocks, if any, on the company's innovation and R&D works, and various other effects were investigated. The results obtained in studies belonging to different countries and different research years may vary. For this reason, there is a very large literature with different results. Literature studies on the comparison of CEOs selected from within the company and outside the company have been handled under 2 separate headings; studies conducted around the world and in Turkey.

### 2.1. Studies Conducted Around the World

Comparison of insider and outsider CEO turnovers has been the subject of research in different countries and years and there are many research articles regarding this subject.

Regarding the study conducted by Chung et al. (1987), 99 managerial turnovers were researched through a review of 472 American firms between 1971-1976. In their study, ROE analysis was used and as a result, it was stated that there was not much difference between insider and outsider CEOs in terms of its effect on the company performance. In addition, it has been emphasized that companies with high performance in their sector are welcomed by investors more positively and surge in share prices observed when they appoint an outsider CEO.

Datta and Rajagopalan (1998), on the other hand, conducted research on 134 CEOs who took office between 1977 and 1987 and observed that there was not much difference between the insider and outsider CEOs as a result of comparing the effects of company success. In fact, it has been stated that the global market economy, the current competitive situation of the company in the market, the current industry structure of the company and other similar factors are more influential on the performance of the company rather than the origin of the new CEO.

Karaevli (2007) made a list by reviewing the literature for the years 1954-2005 and conducted long-term research on the aircraft construction and chemistry sectors in the U.S. between 1972-2002 and found that the success of the CEOs was not related to their internal or external appointments.

Elsaid et al. (2011) analyzed the effect of outsider CEOs with and without a previous CEO background on company performance also stocks hence stated that financial performance is worse in companies with executives along a CEO background. It has been observed that in case of general manager appointment from outside the company and with a CEO background, the share prices of the company react more positively on the stock market.

The study conducted by Jalal and Prezas (2012) found that CEOs appointed outside the sector, who will generally receive higher salaries and more compensation, have a positive effect on the performance and stocks in the long run.

The study carried out by Hamori and Koyuncu (2015) found that CEO experience is negatively related to post succession firm performance. CEOs moving directly to their new post or having job specific experience in a similar-sized firm or a related industry showed considerably lower post-

succession performance than their peers without prior CEO experience, once at the management of their new adventure.

In a study carried out by Rose (2019), the changes in the share prices of the companies in Denmark, Sweden, and Finland after the CEO turnovers were examined. Hence, the results vary depending on the countries rather than the appointment of the CEO from inside or outside the company, in Swedish companies it has a negative effect on the share prices of the companies after the appointments made from within the company, in Danish companies it has a positive effect on the share price of the company after the change of the CEO appointed from inside the company, and in Finland companies with new CEO as an insider or outsider does not create a change in the share price of the company on the CEO turnover.

As a result of the research conducted by Liu and Xue (2020), it has been observed that outsider CEOs are not successful in terms of company innovation compared to the insider CEOs, contrary to the results in Western Countries.

Although it was stated in some research results that the managers appointed from outside the company were more successful, it is seen that the managers appointed from within the company generally have a greater impact on the company's financial performance, company R&D investments, and innovation studies.

## **2.2. Studies Conducted in Turkey**

Although almost all the studies on the related subject are on global companies located abroad or headquartered abroad, a limited number of studies conducted throughout Turkey have been identified in the literature review.

In a study conducted by Ataay (2018), the effect of the new CEOs appointed between 2010 and 2011 of 258 companies in the BIST on the profitability of the company was investigated. As a result of the calculations made with the ROA analysis, it has been observed that the outsider CEOs are more successful. In addition, in the linked study, there is a comparison between CEO appointments from the companies that are affiliated with relevant firm and the CEO appointments that are disconnected with the company. As a result of the comparison, it is stated that the candidates who do not have any connection with the company have a greater effect on the profitability of the company.

As a result of the study conducted by Ünal and Doğru (2021), on the companies in the BIST100 index, which includes the 100 most valuable companies in the BIST between the years 2015-2019, they could not find a statistical result between the CEOs appointed from within the company and the effect on the share price of the company. This study in the literature is based on the characteristics and share price performances of CEOs. Considering the 163 managers included and 475 observations used in the study, as it was concluded that 84% of appointed CEOs are insider CEOs and these managers tenure is approximately twice compared to the outsider CEOs.

## **3. Data and Methodology**

The studies on the company success of CEOs are examined and it is observed that diverse formulas and approaches are used in performance measurements. In the previous studies, ROA (Return of Assets), ROE (Return on Equity), ROS (Return on Sales), Z-score and other variables were used more extensively (Ataay, 2018; Hamori and Koyuncu, 2015; Karaevli, 2007). This study preferred ROA and ROE performance measures due to extensive usage of them in practice.

ROA and ROE performance measures are generally indicators of profitability and management performance in companies. In this context, ROA and ROE calculations were made for each year as indicators of financial performance in this study.

ROA and ROE calculations are expressed in Equation 1 and Equation 2 as shown below:

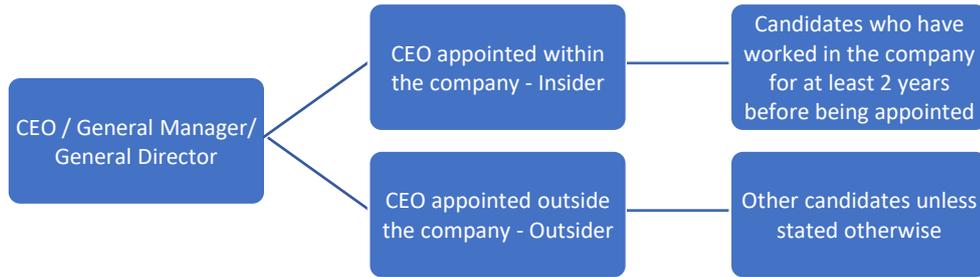
$$ROA = \frac{\text{Net Income}}{\text{Total Assets}} \quad (1)$$

$$ROE = \frac{\text{Net Income}}{\text{Shareholder's Equity}} \quad (2)$$

If the company has publicly traded stocks on Borsa Istanbul, the annual change rates of these shares are also calculated and recorded in the database. The t-test was applied to ROA, ROE, and stocks data to see if there is a significant difference between the variables in the performance calculations of the relevant CEOs. The t-test was conducted on the ROA, ROE, and stocks data of both insider and outsider CEOs, in the T-1, T-2, and T-3 settlement periods.

When similar studies on the subject are examined, the criteria for the internally appointed CEOs- Insider CEOs are to work for at least 2 years (Ataay, 2018; Cannella and Lubatkin, 1993; Harris and Helfat, 1997; Ocasio, 1999; Zhang and Rajagopalan, 2003) within the company. In other cases where not stated otherwise, the manager is positioned as the appointed outside the company CEOs – outsider CEOs. Since the companies assembled under the same roof of a holding determine the same or very similar governance approach, the managers appointed from the companies under the same holding roof are designated as the CEO appointed from within the company as the insider CEO. An image of the CEO distinction is presented in Figure 1.

Figure 1: Distinction of Insider and Outsider CEO



As a result of the literature review, there is numerous studies in different countries, although the number of studies on the relevant subject in Turkey is limited. There are changes in the approach methods included in the researches. As a result of the observations made, while some studies on American companies are based on companies published in the Fortune 500 list (Davidson et al., 1990; Ocasio, 1999), in some researches the companies included in the report published by Forbes are based (Bigley and Wiersema, 2002; Cannella and Lubatkin, 1993; Chung et al., 1987). Also, examples from S&P 500 (Standard and Poor's 500) (Hamori and Koyuncu, 2015), ExecuComp (Elsaid et al., 2011; Jalal and Prezas, 2012), COMPUSTAT (Zhang and Rajagopalan, 2003), and some other sources or criteria (Karaevli, 2007; Rose, 2019) are located. In Turkey - based studies, the companies included in the BIST 100 (Ataay, 2018; Ünal and Dođru, 2021) were examined.

The study is based on the list of 100 most valuable brands in Turkey included in the 2021 report by Brand Finance. Company names, ranking, and sectoral information of the 100 companies/brands are included in the 2021 list of the Brand Finance Turkey 100 report.

Fortune magazine, most widespread in the studies on this subject, has a Fortune 500 Turkey list, which includes companies in Turkey. However, the list of Fortune 500 Turkey magazine was not selected because the year 2021 was not included in the initial period of this study and there was a restriction on access to the relevant data of the companies in the previous issues. The list published by Brand Finance Turkey for the year 2020, published by Brand Finance, has been preferred because the BIST 100 companies, which are based on studies conducted throughout Turkey, has been previously researched and included in the literature. The Brand Finance list, which

has also been opted for in some studies (Günay, 2021; Önder, 2019), publishes Turkey's most valuable brands for the relevant year. Due to the fact that the companies in the list are carried out with a corporate governance approach, access to the data most companies were possible and analysis and interpretation were made with the sufficient number of samples obtained.

All companies of the Brand Finance Turkey 100 list of 2021 issue were elected for this study. Banks and service sectors were excluded from the study as well as the sports for publishing the annual reports in middle of the year instead of the end. Also, some companies' annual reports were not published on their websites and on the KAP (Public Disclosure Platform of Turkey), and there were no active stocks in Borsa Istanbul, a total of 358 CEO-Year data is available over 47 companies. Of the 358 CEO-Year data, 273 belongs to the insider CEOs and 85 to the outsider.

The CEOs, known for their responsibilities of the company's successes and failures, were analyzed between the years 2010-2019 from the relevant companies. First of all, CEOs who worked in the companies between 2010 and 2019 were researched and determined. These data have been determined with the help of annual reports and announcements on the companies' own websites and some news websites. The CEOs appointed from within the company and appointed from outside the company were categorized according to the information in their resumes in annual reports, news websites or LinkedIn accounts, and their tenure dates were noted. The stock information of the relevant companies in the study was obtained from the previous annual data on the Investing Finance website. The values utilized in ROA and ROE calculations are determined from the annual reports or financial reports of the companies. The calculations and data were made annually and in case of a possible CEO turnover happen during the year, the financial data of the relevant year was registered to the CEO who took the office for a longer period during that year.

The financial calculations of the relevant companies, the data on CEO origins, and the categorized data of the CEOs in this study were researched specifically for each company and CEO whereby the data were registered to the database. Although the annual reports of financial reports of the companies are published for public access on the websites of the companies and on the KAP, there is no source where this information is available as a whole package.

Due to the limited time and database allocated for this research, all the companies except banks, service sectors, and sports companies of the list of 100 companies in 2021 published by Brand Finance were researched. A sufficient number of samples has been taken with 10 years of data from 47 companies.

The information about the data sources of the study is presented in details previously. The annual reports and financial reports of the companies have been taken from the websites of the relevant companies or from the announcements on the KAP. Some companies' information between 2010 and 2019 were accessed, while in other companies' data were not fully or partially published. In addition, due to the extraordinary Covid-19 pandemic many companies were deeply affected and many still expect financial and other losses that can't be under the control of the CEO, therefore data for 2020 are not included in this study.

Another limitation is the consolidated and unconsolidated financial statements in the financial and annual reports of the companies. Depending on the establishment and organizational structure of a company, there is a distinction between consolidated and unconsolidated financial reports in some companies. In this study, if the company has a consolidated financial data in their financial report, the consolidated financial data are taken as a basis. However, if the company does not publish consolidated financial data or publishes unconsolidated financial data in their earliest published reports, unconsolidated financial data are used. It is important to note that this constraint is not expected to have an effect that can change the results of the analysis, as there are no switches between consolidated and unconsolidated financial data in the reports of the companies.

#### 4. Results

The t-test was applied to the ROE and ROA data and stock exchange rates of the years in insider and outsider CEOs who took office during the relevant years. Paired samples t-test method was used in the analysis included in the study. The related method is a statistical test to measure the difference between the means in different time periods of two samples/groups to check if there is a significant distinction between them. The alpha value included in the calculation is defined as a default/generally accepted value of 0.05, i.e., 5%. After the first year of the newly appointed CEO, the t-test was applied to the samples belonging to the first (t=1), second (t=2), and third (t=3) years. The t-test formula is shown as in Equation 3:

$$t = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{\left(\frac{(s_1)^2}{n_1} + \frac{(s_2)^2}{n_2}\right)}} \quad (3)$$

The symbol t in the formula represents the t value, x1 and x2 represent the mean of the two groups, s1 and s2 represent the standart deviation values of the two groups, and n1 and n2 represent the sample numbers of the two groups.

The result and explanation of this method, which is applied to determine whether there is a significant difference between the variables, are included in this section.

##### 4.1. ROA

ROA (Return on Assets) is calculated by dividing a business' net income by the assets it owns. In this way, it is seen how effective the company's assets are in generating profit. The higher the value obtained, the higher the profitability of the company is. The t-test results of the ROA calculation for internally appointed and externally appointed CEOs are presented in Table 1 and Table 2.

When the analysis result of the t-test for ROA values are examined, the P(T<=t) two-tail values of both insider and outsider CEOs for all 3 time periods (t=1, t=2, and t=3) were found greater than the default Alpha (0.05) value set at the beginning. As a result of this finding, Null Hypothesis is accepted and it is evident that there is no significant difference between the averages of the sample groups. It has been determined that both CEO groups do not have a great impact on ROA analysis.

Table 1: ROA t-test Analysis Result of Internally Appointed CEOs

t-test: Paired Two Sample for Means	t=1		t=2		t=3	
	Year of Turnover Occurred	1 Year After Turnover	Year of Turnover Occurred	2 Years After Turnover	Year of Turnover Occurred	3 Years After Turnover
Mean	0.07332	0.05134	0.07160	0.06943	0.06709	0.08348
Variance	0.00507	0.00513	0.00339	0.00501	0.00344	0.00189
Observations	30	30	24	24	17	17
Pearson Correlation	0.41741		0.45457		0.65517	
Hypothesized Mean Difference	0		0		0	
df	29		23		16	
t Stat	1.56123		0.15612		-1.51416	
P(T<=t) one-tail	0.06466		0.43865		0.07474	
t Critical one-tail	1.69913		1.71387		1.74588	
P(T<=t) two-tail	0.12932		0.87730		0.14949	
t Critical two-tail	2.04523		2.06866		2.11991	

Table 2: ROA t-test Analysis Result of Externally Appointed CEOs

t-test: Paired Two Sample for Means	t=1		t=2		t=3	
	Year of Turnover Occurred	1 Year After Turnover	Year of Turnover Occurred	2 Years After Turnover	Year of Turnover Occurred	3 Years After Turnover
Mean	0.0448	0.00196	0.08833	0.00811	0.13496	0.05496
Variance	0.0193	0.01666	0.02806	0.00935	0.03744	0.01074
Observations	12	12	6	6	4	4
Pearson Correlation	0.60102		0.38278		-0.21689	
Hypothesized Mean Difference	0		0		0	
df	11		5		3	
t Stat	1.23665		1.24233		0.67083	
P(T<=t) one-tail	0.12099		0.1346		0.27518	
t Critical one-tail	1.79588		2.01505		2.35336	
P(T<=t) two-tail	0.24197		0.2692		0.55036	
t Critical two-tail	2.20099		2.57058		3.18245	

#### 4.2. ROE

ROE (Return on Equity) is a calculation that shows the productivity of a business. ROE is calculated by dividing the net profit of the business by the equity values of the company. In this way, it is seen how much profit is obtained from the capital invested by the company's partners or shareholders and how efficiently the operating resources are used. The higher the value resulting from the calculation, the greater the profit obtained for each unit of capital is. The t-test results of the ROE calculation for internally appointed and externally appointed CEOs are presented in Table 3 and Table 4.

Table 3: ROE t-test Analysis Result of Internally Appointed CEOs

t-test: Paired Two Sample for Means	t=1		t=2		t=3	
	Year of Turnover Occurred	1 Year After Turnover	Year of Turnover Occurred	2 Years After Turnover	Year of Turnover Occurred	3 Years After Turnover
Mean	0.14242	-0.0037	0.17474	0.18514	0.23526	0.19472
Variance	0.049	0.5634	0.01747	0.0189	0.06949	0.0113
Observations	30	30	24	24	17	17
Pearson Correlation	0.52625		0.54203		0.10531	
Hypothesized Mean Difference	0		0		0	
df	29		23		16	
t Stat	1.20997		-0.39481		0.61079	
P(T<=t) one-tail	0.11803		0.34831		0.27496	
t Critical one-tail	1.69913		1.71387		1.74588	
P(T<=t) two-tail	0.23606		0.69662		0.54992	
t Critical two-tail	2.04523		2.06866		2.11991	

When the analysis result of the t-test of ROE values were examined, similar results to the ROA t-test results were obtained. The two-tail P(T<=t) values of both insider and outsider CEOs are greater than the default Alpha (0.05) value in all 3 time periods (t=1, t=2 and t=3) as seen. Therefore, Null Hypothesis was accepted here as well, and it is seen that there is no significant difference between the averages of the sample groups. It has been determined that both CEO groups do not have a large impact on the ROE analysis. As a result of the ROE analysis, there is no difference in the effect on company performance between insider and outsider CEOs. It was

observed that the CEOs appointed from within the company and outside the company did not have a significant effect on company performance.

It can be said that, there is no significant financial difference between the insider and outsider CEOs. Therefore, as long as the board of directors a company is informed correctly during the new CEO selection process, there is no possibility of making a wrong choice among the new CEO candidates for the CEO turnover.

Table 4: ROE t-test Analysis Result of Externally Appointed CEOs

t-test: Paired Two Sample for Means	t=1		t=2		t=3	
	Year of Turnover Occurred	1 Year After Turnover	Year of Turnover Occurred	2 Years After Turnover	Year of Turnover Occurred	3 Years After Turnover
Mean	-0.02156	-0.12201	0.03229	0.09698	0.14532	0.1053
Variance	0.17057	0.28393	0.15612	0.01433	0.10793	0.05261
Observations	12	12	6	6	4	4
Pearson Correlation	0.69059		0.51968		#N/A	
Hypothesized Mean Difference	0		0		0	
df	11		5		3	
P(T<=t) one-tail	0.1945		0.3341		0.43617	
t Critical one-tail	1.79588		2.01505		2.35336	
P(T<=t) two-tail	0.389		0.66819		0.87233	
t Critical two-tail	2.20099		2.57058		3.18245	

### 4.3. Market Performance

The importance of impact of companies on the value of their stocks traded in Borsa Istanbul as publicly open is just as important as the financial impact of CEOs on company income and expenses. According to Chung et al. (1987), while the effect of CEO origin on the company's stock is minimal in the long run, it has a direct effect in the short run. In this study, the effect of CEOs belonging to both groups on the stock performance of companies in the long run was analyzed. The t-test for ROA and ROE calculations has been applied to the rate of change of annual share prices of the companies. As follows, it has been observed whether or not there is a significant difference between the stock changes in companies with insider and outsider CEOs. The results of the related analysis are presented in Table 5 and Table 6.

Respectively, results that supports our previous analyzes were obtained. The two tail  $P(T \leq t)$  values of both internally appointed and externally appointed CEOs are greater than the default Alpha (0.05) value in all 3 time periods ( $t=1$ ,  $t=2$  and  $t=3$ ) as seen. By accepting the Null Hypothesis again, it is seen that there is no obvious difference between the averages of the sample groups. It has been observed that the CEOs appointed from within the company and those appointed from outside the company do not have a clear impact on the financial and market performances of the companies, and there is no deference between the two CEO groups.

Family businesses operating in Turkey have a significant impact on the country's economy (EY 2020), as well as in management within the company. Although family companies are defined as businesses established by a certain family and managed according to generations in order of grandfather-father-son, defining the family businesses as the ownership of more than 50% of the shares of a company or business by a certain family or group (Ang et al., 2000) is more accurate. Therefore, the family or group that owns the majority of the shares in family businesses has a great influence on the vital decisions of the company.

Although most of the companies included in the study are not family businesses, companies operating in Turkey have a corporate management system and principles different from Anglo-

Saxon and Anglo-American systems. In this management system, as a result of the board of directors' decisions and pressure put on the CEO of the company, the board of directors exerts a significant influence within the company. Contrary to the management systems such as Anglo-Saxon and Anglo-American, CEOs have a very low authority and decisiveness within the company. As seen in the results of the analysis, when the insider and outsider CEOs are compared, it has been observed that the companies do not have much effect on their financial and market performances. For this reason, it is thought that Anglo-Saxon or Anglo-American management models are not applied in the companies in Turkey and that the CEOs are selected within the company or appointed outside the company does not make much difference in terms of the financial and market performance of the company, and this criterion to be evaluated for new candidates is not a very decisive stage. Therefore, according to the results of the analysis, it is estimated that the board of directors rather than the CEO is more effective and decisive in financial and market performances of the companies.

Table 5: Company Market Performance t-test Analysis Result of Internally Appointed CEOs

	t=1		t=2		t=3	
	Year of Turnover Occurred	1 Year After Turnover	Year of Turnover Occurred	2 Years After Turnover	Year of Turnover Occurred	3 Years After Turnover
Mean	0.42645	0.45073	0.50549	0.38131	0.3736	0.63328
Variance	0.35146	0.58954	0.36981	0.22112	0.23464	1.7137
Observations	25	25	20	20	14	14
Pearson Correlation	-0.42581		0.40854		0.14426	
Hypothesized Mean Difference	0		0		0	
df	24		19		13	
t Stat	-0.10534		0.92906		-0.73125	
P(T<=t) one-tail	0.45849		0.18226		0.2388	
t Critical one-tail	1.71088		1.72913		1.77093	
P(T<=t) two-tail	0.91698		0.36451		0.4776	
t Critical two-tail	2.0639		2.09302		2.16037	

Table 6: Company Market Performance t-test Analysis Result of Externally Appointed CEOs

	t=1		t=2		t=3	
	Year of Turnover Occurred	1 Year After Turnover	Year of Turnover Occurred	2 Years After Turnover	Year of Turnover Occurred	3 Years After Turnover
Mean	0.2373	0.22652	0.22723	0.11023	0.22723	0.14241
Variance	0.35324	0.22520	0.58310	0.12562	0.5831	0.02719
Observations	10	10	4	4	4	4
Pearson Correlation	-0.32571		0.52440		0.00169	
Hypothesized Mean Difference	0		0		0	
df	9		3		3	
t Stat	0.03903		0.35901		0.21723	
P(T<=t) one-tail	0.48486		0.37168		0.42098	
t Critical one-tail	1.83311		2.35336		2.35336	
P(T<=t) two-tail	0.96972		0.74337		0.84196	
t Critical two-tail	2.26216		3.18245		3.18245	

If the researched companies are managed with Anglo-Saxon or Anglo-American management models, which focus on protecting the interests of shareholders, or with the Continental European

management model (Alp and Kılıç, 2014) focusing on protecting the interests of all stakeholders of the company, different results are likely to be obtained. Due to the relevant management models, it is expected that the management principles such as fairness, transparency, public disclosure and accountability in the management of the companies will be handled more comprehensively in the companies and different results will be obtained in the analyzes.

#### 4.4. CEO Tenure

Finally, the tenure of the CEOs appointed from within the company and those appointed from outside the company were compared. After the group separation of 44 CEOs in total, their tenure in the office were examined. Due to the fact that the tenure specified in years for both groups are not independent and not equal to one other, the unequal variance t-test was applied to the relevant data. After examination, the result of the analysis of the term of office of the insider and outsider CEOs are shown in Table 7.

Table 7: Tenure t-test Analysis Result of CEOs Appointed from Inside and Outside the Company

t-test: Two-Sample Assuming Unequal Variances		
	Average Tenure of Insider CEOs (Years)	Average Tenure of Outsider CEOs (Years)
Mean	6.94086	4.52564
Variance	19.2297	25.6752
Observations	31	13
Hypothesized Mean Difference	0	
df	20	
t Stat	1.4992	
P(T<=t) one-tail	0.07472	
t Critical one-tail	1.72471	
P(T<=t) two-tail	0.14944	
t Critical two-tail	2.08596	

As the relevant results were examined, it is seen that the  $P(T \leq t)$  two tail values of both the insider and outsider CEOs are greater than the default Alpha (0.05) value stated at the beginning. Although, the Null Hypothesis can be accepted here and can be said that there is no significant difference between the two groups, the mean tenure years are still different for the insider and outsider CEOs. The average tenure of CEOs appointed from within the company is 6.9 years, while the average tenure of CEOs appointed from outside the company was found 4.5 years. In other words, t-test results show that there is no significant difference between two groups but as we focus on the average/mean results that we can say insider CEOs do stay longer than the outsider CEOs.

The findings obtained from the analysis results are consistent with the comments and the results found in the literature review about the terms of office of the insider and outsider CEOs.

#### 5. Conclusion

The company-oriented strategies in companies managed with the concept of corporate governance approach, the CEOs who are known as the head of the company and representation of the company are of great importance to the firms. The CEO, top executive of the company, is held responsible for the company's performance, innovations, and success. Consequently, it is accepted that the general manager or CEO is an important leader and directive in the company. As well as the management process of the current CEO, the turnover process of the CEO and the identification of the new candidate is a critical stage for the firm.

Most of the companies operating in Turkey are family businesses. The majority of the companies included in our study were also found to be family businesses and as expected the

majority of the shares of the relevant companies belong to the relevant family members. Therefore, family members have a significant influence on the company.

In this study, the past financial values, share prices, and CEOs of companies of the most valuable brands of Turkey were examined and the success of the CEOs appointed from within and from outside the company were researched and the analysis values of these two groups were compared. A total of 10 years of data for 47 companies were researched and 358 CEO-Year data were obtained. For the financial data obtained, the financial statements of each company were researched from each company's website or via KAP and the data were registered to the relevant database. Information about the CEOs was categorized by their backgrounds obtained from the annual reports of the companies, personal LinkedIn accounts and/or news websites. t-test analysis was applied to the data including ROA (Return on Assets) and ROE (Return on Equity) and the changes of annual stock prices. Different from similar studies, this study includes ROA and ROE calculations and t-test analysis that were applied to all calculations with 1, 2, and 3 years after the CEOs were appointed. In all the results obtained, our Null Hypothesis were accepted and it was determined that there was no big difference between the averages. Therefore, it has been observed that the origins of the CEOs being elected and appointed from within or outside the company does not have a significant effect on company performance, that is, on financial values and company share prices. In addition, the tenure of the CEOs of both groups were examined, and as a result of the comparison, it was determined that the insider CEOs took longer duties than the outsider CEOs.

From the analysis and obtained results, it has been seen that the effects of the CEOs in the companies being appointed from within the company or outside the company are approximately the same on the company performances and the company's stock prices, therefore they do not have a significant effect over each other. Our results support the definition that board of directors, rather than the CEOs, have almost a vital influence on the company in the corporate governance system applied in companies operating in Turkey contrary to the results of the previous studies examined in the literature survey. The fact that the partnership structure of most of the companies in our country is a family business leads to this result. Because even if the company is in the hands of professionals, the family members who dominate the company ultimately make the final decision. In developed western countries especially Anglo-Saxon ones, the partnership structure in management is separated from each other. Since our corporate governance structure is not at this point, whether the appointed CEO is from inside or outside has no effect on the company.

It is recommended to examine more companies, use more time periods, and make use of different lists published by different survey companies for analysis in future studies on the effect of insider and outsider CEOs on company performances. This way, it is thought that more stable and precise results will be obtained in the relevant comparisons and analyses. In addition, as a solution to the restriction experienced in the study due to the fact that the historical financial data of all companies not being published on internet, it is recommended that the data can be requested from approved or independent audit institutions. In future studies on the subject, it is thought that comparing and interpreting the results of developing countries such as Turkey and developed or Anglo-Saxon, Continental European corporate governance models will make an important contribution to the literature. Finally, it would be more fitting to conduct a more detailed study with data such as age, educational background and career history of CEOs and examine the effects with these details.

Companies in search of new CEO focus on whether to select the CEO candidates from within or outside the company. However, as a result of the study, it has been identified that the required skills, character and/or personality plays a crucial role in preferring the fitting CEO. As another option, it can be considered that the new candidate can temporarily take office and take charge for at least 1 year before becoming the CEO.

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