Public Abstract

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Graduation Term:SP 2010

Department:Business Administration

Degree:PhD

Title:THE EFFECTS OF CEO SUCCESSION ON CORPORATE RESTRUCTURING AND STRATEGY CHANGE

Drawing from behavioral agency theory, this study examines three CEO succession scenarios—established CEOs, new outsider CEOs, and new insider CEOs—and their effect on the strategic actions of firms undergoing portfolio restructuring. I argue that a firm's restructuring strategies (i.e., the amount and type of businesses sold) are contingent upon the individual CEO's problem framing and risk bearing and that board independence moderates the relationship between the three CEO succession scenarios and a firm's restructuring strategies. Results from 168 firms undergoing restructuring between 1985 and 2004 show that CEO succession events and the successor's origin have a significant impact on both the level of divestiture intensity and strategy change. The result also suggests that board independence, measured as the ratio and equity ownership of independent outside board members, moderates a CEO's decisions regarding types of businesses sold but does not influence divestiture intensity. This research adds to the succession literature by demonstrating that succession consequences on organizations are affected by a CEO's problem framing and risk perception. This research contributes to the behavioral agency theory by showing that corporate boards do not always promote executive risk taking; rather, some forms of risk taking such as divesting related businesses or significant downscoping activity would be discouraged by a more independent board.