INVESTOR REACTIONS TO CEO RETIREMENT ANNOUNCEMENTS

CEO transitions are natural and unavoidable events during a company’s lifecycle; however, they carry significant consequences for organizations. These consequences create considerable uncertainty in the minds of stakeholders, particularly investors, regarding the company’s future. Recent research in the Journal of Management Studies explores how investors make sense of, and companies can use, retirement announcements to convey information to influence stock market reactions to CEO announcements.

The researchers examined investor responses to more than 150 CEO retirement announcements from 2003-2012 and found that, on average, company stock prices declined by 41 basis points following the announcement of a CEO’s retirement. The authors then explored how information communicated in the announcement influences the market’s negative response. The authors find that press releases containing realistic and analytic language increased the market’s reaction, while cues regarding activity decreased the market’s reaction. Such language is designed to affect the level of uncertainty in the information communicated to the public. Further, the authors illustrate that the market responds more favorably to announcements that are generally more positive in nature due to authenticity, tone, and commonality.

In summary, CEO succession announcements can create considerable uncertainty for investors that typically triggers a negative response. The authors suggest that companies can control the narrative surrounding CEO succession announcements, especially to reduce uncertainty, through the language and tone that is used to communicate the announcement.

Key Takeaways:

- CEO retirement announcements create considerable uncertainty regarding company future and yield a negative investor response, on average, of 41 basis points.
- The use of uncertainty reducing language positively influences investor responses to CEO retirement announcements.
- Positive language in CEO announcements also evoke a more positive investor response to retirement announcements.