SHAREHOLDER PERCEPTIONS OF THE CHANGING IMPACT OF CEOS

A strong perception exists that CEOs have significant influence over their firms' outcomes, with recent research suggesting that differences across CEOs can explain significant performance variability. At the same time, there appears to be a strong belief that the importance of leadership has grown over time. Recent research forthcoming in the *Strategic Management Journal* explores whether investors, as a stakeholder group, have attributed greater importance to CEOs in more recent decades based on their reactions to sudden deaths by CEOs.

Key Takeaways:

- Investor responses to sudden CEO death have, on average, not changed over a 60 year period; however, the magnitude of the individual responses to sudden deaths have become more severe.
- Investors also respond more severely on average to the naming of a CEO successor in more recent years, suggesting a strong perception of the importance of leadership.

The authors examined investor reactions to 240 sudden CEO deaths from 1950-2009 to explore whether reactions have been more severe in more recent decades. Over time, the authors note that the market's response to a CEO's sudden death has been slightly negative on average, but has stayed relatively consistent. However, the variability in market reaction has increased greatly over time. That is, the closer to 2009 the CEO's sudden death was observed, the greater the magnitude of the market's reaction. Based on the authors' data, the sudden death of a CEO resulted in a net change of market capitalization of $65 million greater in 2009 than in 1950. For instance, a CEO's sudden death in 1950 might result in a gain or loss of market capitalization of $35 million in 1950, while that same event would have resulted in a gain or loss of $100 million in 2009. Furthermore, the authors illustrate that the magnitude of response to the CEO's replacement has also increased over time, suggesting that the market responds more strongly today regarding leadership than in prior years.

In summary, by using a 'wisdom of the crowds' approach to examine whether investors reactions to sudden CEO death, research suggests greater attributions are made today to the importance of leadership. While the authors do not comment on why some events are received positively or negatively, succession planning today may be more critical than ever to ensure that plans are prepared in the event of sudden CEO turnover to limit potential disruptions to the business and provide appropriate signals regarding the firm's future to important stakeholders.

Source: Quigley, T.J., Crossland, C. & Campbell, R.J. (Forthcoming). Shareholder perceptions of the changing impact of CEOs: Market reactions to unexpected CEO deaths, 1950-2009. *Strategic Management Journal*, DOI: 10.1002/smj.2504.