Value of CEO Succession Policy on CEO Transition

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ABSTRACT

Chief Executive Officer (CEO) transition is a continuous process of change in leadership involving removal of existing CEO and replacement of new CEO. Ideally, CEO transition occurs based upon the CEO Succession Policy developed by the Board of Directors. The CEO succession plan and policy is important because it reduces the impact of a CEO's sudden removal on the firm. In recent time, there is an immense increase in CEO transition recorded among emerging economy, nonetheless, the issue has not been well addressed in the literature. Disclosure policy in Malaysia also views change of CEO as an important element that will have an impact on the firm value. To evaluate the CEO succession policy, this study investigates the effect of CEO transition announcement on the share price. This study adopts the event study method and employs two estimation models for expected return, which are Market Model (MM) and Capital Asset Pricing Model (CAPM). This study examines the simultaneous announcement, which indicates the adoption of succession policy, as well as the announcement of CEO appointment and CEO turnover. A total of 354 announcements of CEO transition from 170 firms listed on Bursa Malaysia, over the duration of ten years from 2007-2016 is observed. The result indicates that the firm's share price generally reacts towards all types of CEO transition announcement, with a stronger reaction significantly observed through the simultaneous announcement. Further robustness check with regression analysis confirms that when the CEO transition announcement is simultaneous, it creates more value to the firm. In other words, the CEO succession policy, where proper CEO transition takes place, eliminates the uncertainty and risk, hence, giving a positive impact on firm value. This finding also contributes to the signalling theory literature, where anticipated event induces a positive reaction from investors, as reflected in the firm share price.

Keywords: CEO succession policy; CEO announcement; Malaysia event study; signalling theory; efficient market hypothesis

INTRODUCTION

Good corporate governance, a diverse board, and a talented Chief Executive Officer (CEO) underpin the strength of many successful firms around the world. This assertion is based upon the roles played by each of these elements along with the stakeholders in both corporate formation and management. The role of the shareholder is to appoint members of the Board of Directors (the Board) to oversee the overall performance and legal compliances of the firm. The Board, in turn, appoints the CEO to oversee the daily activities of the firm while corporate governance strengthens the relationship between them (Garrat 2003). The role of these parties is so vital for corporate success, as the general perception of CEO has changed markedly in recent times, which has subsequently caused various reactions upon CEO transition.

CEO transition, which is also known as CEO succession or change of CEO, is a continuous process of change in leadership within a firm that could occur as planned (through CEO succession planning) or unplanned (Khazanah 2006). CEO transition comprises of CEO appointment and CEO turnover. CEO appointment is viewed as a critical process because it needs to be harmonised with the current performance of the firm, competitive surroundings and its objectives (Khazanah 2006). Thus, the firm takes huge responsibility in appointing the right

CEO for the right job. Most often, the choice of new CEO depends on issues relating to the departure of the existing CEO. CEO turnover is removal of a CEO that could occur in two different scenarios, which are anticipated or unanticipated events. According to Rhim et al. (2006), anticipated event include 'unsurprised' event such as retirement, whereas unanticipated events are 'surprised' event such as death, health issue, legal problems, forced resignation, other personal reasons of the predecessor, and also poor performance of the firm.

In recent time, the percentage of CEO turnover continues to increase globally. Based on the latest finding by PWC (2016a), CEO turnover is showing a growing trend for emerging economies, including Malaysia. According to their report, the annual percentage of CEO turnover surged high to 16.7% in 2015 in comparison to 1.8% in 2000, with an increase of 82.7% in 16 years. Meanwhile, the percentage of forced CEO turnover increased by 39%, from 1.8% in the year 2000 to 2.5% in the year 2015. Figure 1 illustrates the CEO's turnover rate for emerging economies.

Based on a study by Lassoued and Attia (2013), Dedman and Lin (2002), and Denis and Denis (1995), the sudden removal of CEO affects share price. Thus, firms in the UK try to refrain from announcing any turnover event (Dedman & Lin 2002). To minimise the impact of CEO turnover on share price, firms globally begin to adopt the
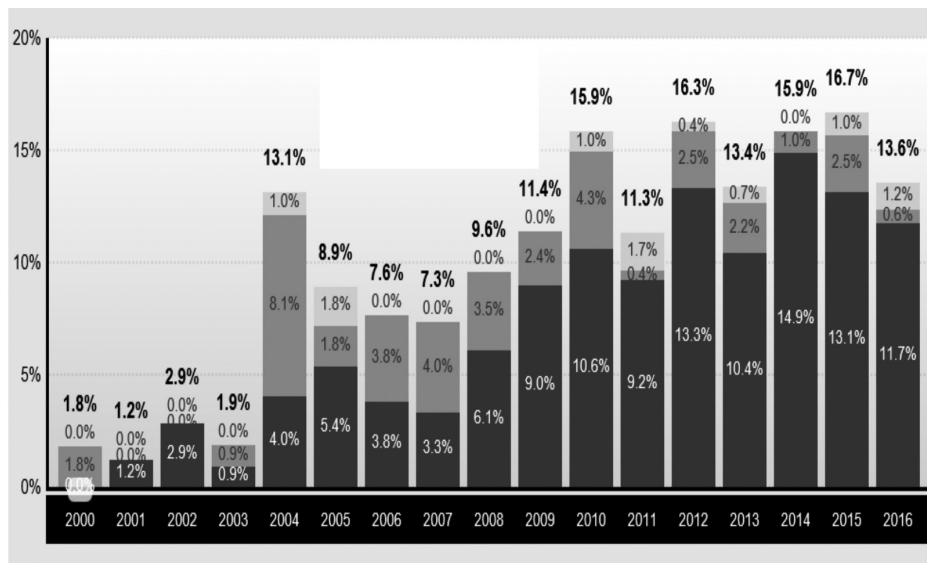
Source: Adapted from PWC (2016a)

FIGURE 1. Turnover rate for emerging economy

CEO Succession Policy as part of the firm's governance structure. The relationship between CEO succession plan and firm value is confirmed by a finding by PWC (2015), where forced CEO turnover reduces share price by 13% in comparison to planned CEO turnover at 0.5%. In the United States of America, the Securities and Exchange Commission (SEC) (2009) removed Rule 14a-8(i)(7) that often used by firms to refrain from disclosing their CEO succession process to the shareholder. According to O'Brien and Ferris (2010), policy change indicates that the SEC recognises poor CEO succession planning as a business risk and raised policy issue that affects the daily activity of the firm. Similarly, in Australia, the ASX Corporate Governance Council (2014) gives importance to the CEO succession planning by requiring the board to establish nomination committee to oversee the CEO succession planning under of the Corporate Governance Principles and Recommendations (Recommendation 2.1).

In spite of that, Malaysia has yet to recognise the importance of CEO Succession Policy and its impact on firm performances because many firms fail to distinguish the CEO succession plan as part of the Board's responsibility (Khazanah 2006). According to a finding by PWC (2016b), out of 48 family-owned business surveyed, 31% of them has no succession plan in comparison to the global trend at 43%. Moreover, only 15% of firms have a proper strategic plan. Failing to establish the CEO succession plan causes leadership gap from sudden removal of CEO, which leads to inheritance court battles, especially in family-owned business (Lopez 2017). Moreover, this leadership gap and its disruption on the firm's daily activity causes investors to lose confidence in the firm (Khazanah 2006). Therefore, the Malaysian Government through Putrajaya Committee for GLC High Performance launched the Green Book (Enhancing Board Effectiveness) under GLC Transformation Programme among others to address CEO

succession planning and the issue of CEO sudden removal (Khazanah 2006). However, this policy is not mandatory and applies only to Government Linked Companies (GLC). The impact of CEO Succession Policy on the stock market is an interesting issue to investigate, especially in an emerging economy. Even though research on succession has been excessively done since 1950, research on CEO transition only transpired in the 80s (Mehrabani & Mohamad 2011). Most studies are largely one-dimensional with samples from the developed counties. In Malaysia, Ahmad et al. (2016), Hassan et al. (2016) and Ishak and Latif (2012) have examined CEO turnover announcement and its impact on the stock market, whereas Amran and Ahmad (2010) study focuses on the appointment of CEO in family-owned business. Apart from that, other researchers such as Badru et al. (2017) and Amran et al. (2014) has extended the research by investigating the impact of CEO characteristic on firm performances. So far not many studies were done to investigate the impact of different types of CEO transition announcement. Thus, this study seeks out to examine the share price reaction from three different announcements: (1) simultaneous (CEO turnover and appointment), (2) CEO turnover, and (3) CEO appointment.

Being the second most competitive economies in the Asian region (International Monetary Fund 2007; 2016), Malaysia has a unique legislative framework consisting of common law and shariah, which influences the formation of the corporate governance structure. Moreover, the Malaysian government has revised the Malaysia Code of Corporate Governance (MCCG) three times in the period of 10 years to ensure the firms adopt the best practice of corporate governance. The sample for this study has been carefully chosen to reflect the scenario following the launch of Green Book in the year 2006, where CEO succession policy was established in order to enhance the board effectiveness. Therefore, all related CEO transition

announcements on Bursa Malaysia listed firms are observed from the year 2007 to 2016, which is over a span of ten years. A sum of 345 announcements from 170 firms is used in this study. To avoid bias, all recurrent announcements on a similar event of CEO transition announcement is carefully removed from the analysis.

This study employs an event study to investigate the impact of different types of CEO transition announcement on the stock market. Investors reaction is captured as abnormal returns, which are estimated using the Market Model (MM) and Capital Asset Pricing Model (CAPM). The impact of an announcement event on share price is determined by estimation of abnormal return (AR), which is the differences of actual event return minus the expected event return (Fama 1970). For robustness, these abnormal returns are regressed against a few independent variables as a proxy for industry, size, leverage and firm performance. This study is expected to deliver a modest contribution to the literature on CEO succession policy, especially in the emerging market. In addition, the results from these findings would allow policymakers to re-examine current disclosure policy on CEO transition, establish an appropriate CEO Succession Policy, and thus minimise repercussions caused by sudden CEO turnover.

LITERATURE REVIEW

Prior studies have investigated the effect of CEO transition using different methodologies, including event study, which also tested the efficiency of the market. According to Fama (1970), the market is efficient and therefore all available information is absorbed in the share price. In other words, it is unlikely for an investor to gain profit based on the movement of the share price that is caused by available information (Clarke et al. 2001). Therefore, any changes in CEO may cause a reaction to the share price. However, when information is easily available and accessible by everyone, the movement of share price becomes predictable (Malkiel 2003).

This occurs because information transforms to signal, which will then influence the movement of share price, as signals are alterable (Spence 1973). In the case of the simultaneous announcement, the successors are identified and groomed based on CEO succession policy, therefore the information on the appointment of the new successors are signalled to the investors prior to the announcement date. The immediate appointment of CEO reduces leadership gap and uncertainties, which minimizes any negative impact on firm performances.

Among the preliminary exploration on CEO transition is a research conducted by Warner et al. (1988) on 269 firms in the US between 1963-1978. They find that CEO transition has no impact on share price before and during the announcements but the reaction is reported if the removal is by force. Unlike Warner et al. (1988), Bonnier and Brunner (1988) study on 87 announcements in the US between 1969-1983 indicates that a change in CEO causes a positive abnormal return of 2.479%. Moreover, when a CEO is an outsider, a higher abnormal return of 5.395% is reported in comparison to a 0.266% return regarding other positions than CEO. Similarly, a study by Cools and Praag (2007) for 343 CEO turnover in Dutch Market over the period of 1991 to 2000 suggests that change in CEO (turnover) has a positive impact before (0.01%), during (0.21%) and after (0.26%) the event announcement.

Unlike the aforementioned scholars, the finding of Suchard et al. (2001) shows vastly different results. These individuals find that stock price reacts positively, however insignificantly, on the CEO announcement day; however, the reaction drastically shifted to negative following the announcement, especially for an already poor-performing firm. Suchard et al. (2001) explain that the positive reaction prior to the announcement occurs because the removal of an inefficient CEO in a poor-performing firm could potentially improve the firm's future performance. However, the negative reaction during the post-succession period implies a higher probability of strategic changes and uncertainty regarding the firm's future cash flow.

As for Charitou et al. (2010) study that examines 158 firms in the US over the period of 1993 to 2005, a positive reaction is observed for all three-day event; before (0.33%), during (1.06%) and after (1.36%), when the transition is CEO appointment. Another paper by Lassoued and Attia (2013) argue that CEO transition causes the share price to react negatively for underperforming firms, but when interacting with other variables including origin, CEO transition causes a significantly positive reaction. Meanwhile, Dedman and Lin (2002) state that the share price reacts negatively when a CEO is removed by dismissal or takes a new job. Due to different reactions to CEO transition, firms in the UK choose to announce CEO turnover and CEO appointment simultaneously to minimise the impact on the leadership gap.

In Malaysia, there are limited studies on CEO transition and largely only focuses on CEO turnover. According to a recent study by Hassan et al. (2016) on 135 announcements over the period of 2002 to 2008, CEO turnover has a positive impact on the stock market; before (2.10%), during (2.41%) and after (3.11%) the announcements of CEO turnover. However, this finding is inconsistent with the prior finding of Ishak and Latif (2012) on 247 announcements over the period of 2008 to 2010. According to their finding, the share price reacts positively prior (0.91%, 0.7%) and on the day of announcements (0.56%, 0.157%) but negatively on the day after the announcements (-0.32%, -0.6%) using MM and CAPM estimations respectively. In another study, Ahmad et al. (2016) observe the impact of CEO transition on the stock market at the end of the financial year. Based on 105 announcements of CEO turnover during the period of 2008 to 2014, the study finds that the change of CEO does not affect share price over a short period. On the other hand, Amran and Ahmad (2010) examine the appointment of CEO in family-owned business upon 975 firms over the period of 2003 to 2007. Based on their finding, family succession has some influences on firm performances.

The past investigation evidences that change in leadership has a mixed reaction towards the share price. Based on Fama et al. (1969), the stock is able to adjust to new information, especially where such information is perceived by investors as capable of increasing the future wealth of the firm. The new information is positive (or negative) signals sent by the firm to manipulate investor's decision. The firm manages to manipulate investors because investor's mind is conditioned by their motives, knowledge, experience, feelings and other cognitive, emotional and social influences to which such information can trigger (Redhead 2009). Following the above explanation, the following hypothesis constructed:

Hypothesis: Investor reacts significantly to CEO transition announcements

DATA AND METHODOLOGY

In order to pursue the research objectives, data collection involves the selection of CEO transition announcement events. Initial collection includes 1,353 announcements for the period of ten years (2007 to 2016) from the Bursa Malaysia website. Since the focus of this study is on CEO, the announcement of other key personals such as CFO, COO, Acting/Interim CEO, Deputy CEO, Executive Director, Executive Vice President, General Manager, Chief Administrator Officer and amendment on the announcement are removed from this observation, reducing the announcement to 345 announcements. Out of these 345 announcements, 171 announcements (54%)

are CEO appointment, 109 announcements (34.3%) are CEO turnover, and 74 announcements (11.7%) are the simultaneous announcement. The summary of CEO transition by year is illustrated in Table 1.

Besides announcement events, firm data, such as adjusted share price, market index, and other firm particulars were collected from DataStream. The data covers 170 firms across eleven sectors, which are Construction, Consumer, Finance, Hotel, Industrial Product, Infrastructure (IPC), Plantation, Trading & Services, Properties, Real Estates Investment Trust (REITs), and Technologies. Table 2 illustrates the division of announcements based on sector. The highest percentage of CEO transition announcement is in the Trading & Services sector with 90 announcements, followed by the Industrial Product sector with 63 announcements, and the lowest percentage is in the Hotel sector with only one announcement (in the appointment).

To evaluate the impact of the event, the effect of CEO transition announcement is measured using a widely known event study method proposed by MacKinlay (1997). Based on the earlier work of Fama (1976), the influence of an event on share price is determined by estimation of abnormal return (AR). The AR of firm i on day t is formulated as in eq. (1) below:

$$AR_{i,t} = R_{i,t} - E(R_{i,t}) \tag{1}$$

Where,

$AR_{i,t}$ = abnormal return of firm i on day t
$R_{i,t}$ = daily return for firm i on day t
$E(R_{i,t})$ = expected return firm i on day t

TABLE 1. Total number of firm by year and type of announcement

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Appointment	17	13	16	18	16	14	19	18	21	19	171
Turnover	10	12	5	8	12	12	10	12	14	14	109
Simultaneous	0	12	16	6	4	2	6	10	10	8	74
Total	27	37	37	32	32	28	35	40	45	41	354

TABLE 2. Total number of firm by sector and announcement

No	Sector	Appointment	Turnover	Simultaneous	Total
1	Construction	3	3	0	6
2	Consumer	15	8	8	31
3	Finance	12	6	6	24
4	Hotel	1	0	0	1
5	Industrial Product	31	18	14	63
6	IPC	4	2	6	12
7	Plantation	6	18	4	28
8	Trading & Services	49	33	8	90
9	Properties	22	0	18	40
10	REITS	10	8	6	24
11	Technologies	18	13	4	35
	Total	171	109	74	354

The daily return for a firm is calculated as in eq. (2) as follows:

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}} \tag{2}$$

Where,
$P_{i,t}$ = price for firm i at the end of day t
$P_{i,t-1}$ = price for firm i at the end of day $t-1$

For validation purpose, two models are used to estimate the expected return, $E(R_{i,t})$, which are MM and CAPM. Most scholars prefer to use MM in comparison to CAPM because CAPM has a restriction on using interest-free rates as interception term. This restriction causes error term to be large, which could subsequently affect the finding (Fama & French 1996). The expected return for both the MM and CAPM are based on eq. (3) and eq. (4) below, as used by Ishak and Latif (2012) and Nthoesane and Kruger (2014), respectively:

$$E(R_{i,t}) = R_{i,t} - (\alpha_i + \beta_i R_{m,t}) \tag{3}$$

$$E(R_{i,t}) = \tau_f - \beta_i(R_{m,t} - \tau_f) \tag{4}$$

Where,
α_i and β_i are parameters using estimation period
τ_f = risk free rate (based on 3 months Treasury bill)

Similar to the daily return, daily market return is calculated using eq. (5) as follows:

$$R_{m,t} = \frac{M_{i,t} - M_{i,t-1}}{M_{i,t-1}} \tag{5}$$

Where,
$M_{i,t}$ = market price at end of day t
$M_{i,t-1}$ = market price for firm i at end of day $t-1$

Subsequently, to measure the effect of an event during a particular event window involving several firms simultaneously, data from several announcements are aggregated and averaged using eq. (6) as follows:

$$AAR_{i,t} = \frac{\sum_{i=1}^{n} AR_{i,t}}{n_1} \tag{6}$$

Where n is number of the firm on day t.

Similarly, the cumulative average abnormal return (CAAR) is calculated from day $t1$ to $t2$ using eq. (7) as follows:

$$CAAR_{t1, t2} = \sum_{t2}^{t1} AAR_t \tag{7}$$

The variance for $AAR_{i,t}$ and $CAAR_{t1,t2}$ are calculated based on Ishak and Latif (2012), as in eq. (8) and eq. (9) as follows:

$$\sigma^2 = \frac{1}{n^2} \sum_{i=1}^{n} (AR_{i,t} - AAR_{i,t})^2 \tag{8}$$

$$\sigma^2 = \frac{1}{n^2} \sum_{i=1}^{n} (CAAR_{t1,t2} - CAAR_{t1,t2})^2 \tag{9}$$

where $CAAR_{t1,t2}$, is the cumulative average abnormal return of firm i from period of $t1$ to $t2$.

The statistical test for abnormal return and cumulative average abnormal return is formulated using eq. (10) and (11) as follows:

$$t_{AAR} = \frac{AAR_{i,t}}{\sigma(CAAR)/\sqrt{n}} \tag{10}$$

$$t_{CAAR} = \frac{CAAR_{t1,t2}}{\sigma(CAAR)/\sqrt{n}} \tag{11}$$

A long event window of 90-day is observed, with 60 days prior to the announcement and 30 days following the announcement. This is to capture long-term reaction on share price, as in Ishak and Latif (2012). In order to determine which type of CEO transition announcement has higher impact on the share price, several shorter event windows surrounding the announcements are also observed, such as (-1,1), (-1,0), (0,1), (-10,10), (-10,0), (0,10) and (-10, +10). All announcements begin with the day (0), whereas negative (-) signs indicate days prior to announcements and positive (+) signs indicate post announcements day, see Figure 2. An examination on a different length of event windows is important to understand the behaviour of investors towards the announcement of CEO transition. The reaction of share price would vary in time or day.

For robustness check, a regression analysis is conducted to verify the abnormal returns. The regression model includes CAAR as the dependent variable, and the independent variable is CEO announcement (simultaneous announcement, CEO turnover, and CEO appointment) along with control variables, which include firm performance (which is represented by EPS, ROA and ROE), leverage, firm size, and industry. These are common ratios used in financial literature. The regression model is shown as follows (eq. 12):

$$CAAR_i = \alpha_i + \beta_1 CT_i + \beta_2 EPS_i + \beta_3 ROA_i + \beta_4 ROE_i + \beta_5 LeV_i + \beta_6 Size_i + \beta_7 TS_i + \beta_8 IP_i + e_i \tag{12}$$

Where
CAAR = Cumulative average abnormal return for event window (-1,1), (-1,0), (0,1), (-10,10), (-10,0) and (0,10)
CT = CEO Transition (measured by dummy variables, 1 if simultaneous announcement and 0 otherwise)
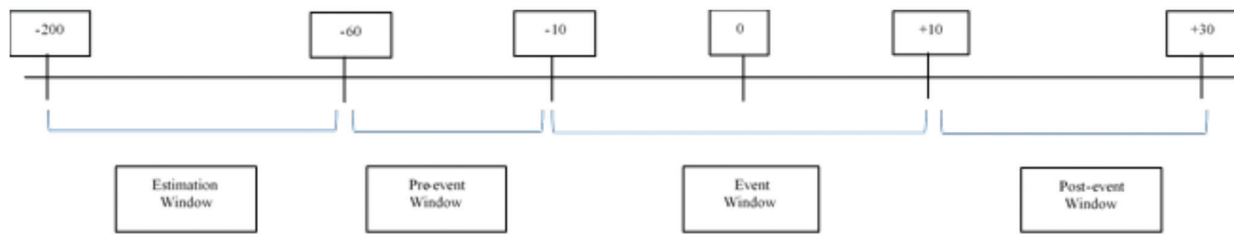
FIGURE 2. Event window

EPS = Earnings per Share [Net income/average outstanding shares]

ROA = Return on Asset [Net income/average shareholder equity]

ROE = Return on Equity [Net income/total asset]

Lev = Leverages [Total Liabilities/total asset]

Size = Firm size measured by log of asset

TS = Trading and Services (measured by dummy variables, 1 if Trading and Services and 0 otherwise)

IP = Industrial Product (measured by dummy variables, 1 if Industrial Product and 0 otherwise)

e = error term

The OLS regression is checked for normality and corrected for heteroscedasticity. Due to large outlier especially on ROE and ROA, about 54 announcements are removed to ensure the data does not cause analysis bias. Thus, the total announcement is reduced to 300; 144 for CEO appointment, 92 for CEO turnover announcement and 64 for the simultaneous announcement. Next section elaborates the findings from the analysis.

FINDINGS AND DISCUSSION

The estimation of abnormal return is averaged out across all firms (this is referred to as average abnormal return AAR) and t-value is calculated to indicate the significance. For the simultaneous announcement, there is no significant AAR across the day (-10) to (+10) when using the MM estimation. However, when using the CAPM estimation, the AAR shows significantly negative at (0.59%) ($p < 0.01$) on the day (-3). The negative AAR could be due to leakage of information on changes of the CEO because in planned succession, the information of the CEO is readily available prior to the official announcement. However, AAR is positively significant at 1.6% ($p < 0.01$) on day (+1) and 1.41% ($p < 0.01$) on day (+6) post simultaneous announcement. The positive reaction could also be due to acceptance of planned CEO succession by investors. In planned succession, the successor is prepared and trained before the appointment and better aware of the firm's well-being, and most likely this is known by the investors. The mixed signs of AARs might be due to price reversal to correct overreaction (Brooks, Patel & Su 2003).

As for the announcement of CEO turnover, none of the AAR is significant using the MM estimation. However, when using the CAPM estimation, the AAR is positive and significant at 0.51% on the day (-5) before the announcement of the CEO turnover. The positive reaction could be due to leakage of information on the removal of CEO, which is probably from the underperforming firm. During post announcements, it is observed that the AAR is negatively significant at 0.65% ($p < 0.01$) on day (+3) announcement of CEO turnover. The negative AAR could be subsequent to leadership gap that may disturb the daily activity of the firm before another CEO is appointed. Table 3 illustrates the AAR for all announcements.

For the announcement of CEO appointment, the AAR is positive and significant at 1.77% using the MM estimation and 0.84% ($p < 0.01$) using the CAPM estimation on the day (-5). The positive AAR might indicate investors' positive reaction towards early information on the appointment of the new CEO. Even though positively significant AAR at 0.74% (t <0.01) is observed on day (-3), AAR is negative but significant at (-0.4%) ($p < 0.01$) on day (-1) using the CAPM estimation. The price reversal could result from additional information attached to the CEO characteristics that may not be in favour of the investors. For post announcement of the CEO appointment, the AAR is negative but significant at (-1.93%) ($p < 0.01$) using the MM estimation and (-0.6%) ($p < 0.01$) using the CAPM estimation on the day (+7). The negative return is in accordance with prior finding of Lassoued and Attia (2013), which indicates that news on the new CEO might not be well received by the investors.

The cumulative average abnormal return (CAAR) is plotted on the graph (refer Figure 3 and 4) to better illustrate the trend of AARs for all three announcements for an extended period of 90 days (-60, +30). Looking at the graphs, before the announcement, a stronger reaction is realised when using the CAPM estimation compared to the MM estimation. The CAPM estimation differs from the MM estimation, where the individual firm risk is considered in the formula. Nonetheless, the trend is similar. During the post-announcement period (0, +30), a higher return is observed for the simultaneous announcement for both models in comparison to the announcement of the CEO appointment and turnover announcement. This positive reaction is in accordance with the prior finding by Suchard et al. (2001) and Ishak and Latif (2012). The higher return for the CEO turnover announcement may be due to positive expectation on the appointment of new the CEO, especially in poor performing firm.

Shorter event window is also examined for day (-10, +10) using both the MM and the CAPM estimation.

TABLE 3. AAR for CEO transition using MM and CAPM for 20-day event window

Event Day	MM						CAPM					
	Simultaneous		Turnover		Appointment		Simultaneous		Turnover		Appointment	
	AAR	Z-score	AAR	Z-score	AAR	Z-score	AAR	Z-score	AAR	Z-score	AAR	Z-score
-10	-0.09	-0.495	0	-0.47	0.007	-1.206	-0.11	-0.58	-0.02	-0.06	-0.45	-1.16
-9	-0.22	-1.099	-0.33	0.43	-1.166	1.158	0.23	0.43	-0.26	-0.92	0.48	1.32
-8	-0.16	-0.403	-0.5	0.07	-2.201	0.264	-0.17	-0.42	-0.51	-2.14	0.07	0.27
-7	0.43	1.151	0.53	0.03	1.748	0.097	0.39	1.04	0.63	2.0	-0.01	-0.03
-6	-0.03	-0.121	-0.72	0.15	-1.552	0.659	0.41	0.81	-0.93	-1.88	0.2	0.88
-5	0.05	0.132	0.51	0.76	1.766	1.794*	0.02	0.05	0.51	1.75*	0.84	1.98*
-4	-0.08	-0.217	0.01	0.28	0.028	0.921	-0.39	-0.87	-0.02	-0.07	0.33	1.1
-3	-0.6	-1.7	0.06	0.64	0.221	1.64	-0.59	-1.66*	0.02	0.07	0.74	1.92*
-2	-0.32	-0.773	0.09	-0.17	0.196	-0.646	-0.31	-0.76	0.21	0.45	-0.23	-0.83
-1	0.84	1.351	-0.18	-0.4	-0.642	-1.704	0.68	1.06	-0.17	-0.61	-0.4	-1.75*
0	0.18	0.436	-0.56	0.24	-1.112	0.675	0.39	0.81	-0.1	-0.29	0.21	0.57
1	0.67	1.756	0.44	0	0.974	0.013	1.6	1.87*	0.17	0.46	0.09	0.26
2	-0.31	-0.735	-0.28	-0.24	-0.911	-0.825	-0.32	-0.75	-0.34	-1.12	-0.28	-1.01
3	0.13	0.403	-0.74	-0.15	-2.528	-0.534	-0.17	-0.45	-0.65	-2.26*	-0.05	-0.19
4	-0.72	-1.076	0.26	-0.09	0.952	-0.348	-0.75	-1.11	0.19	0.68	-0.1	-0.38
5	-1.52	-1.685	0.7	-0.09	1.114	-0.315	-1.53	-1.7*	0.77	1.22	-0.17	-0.6
6	0.73	1.09	-0.35	0.25	-0.96	0.651	1.41	1.87*	-0.32	-0.87	0.28	0.72
7	0.63	1.356	-0.56	-0.63	-1.933	-1.995*	0.55	1.14	-0.39	-1.16	-0.6	-1.92*
8	-0.24	-0.428	0.1	-0.02	0.411	-0.052	-0.28	-0.49	0.12	0.48	-0.05	-0.13
9	-0.06	-0.153	-0.75	-0.11	-0.914	-0.412	-0.09	-0.24	-0.83	-1.01	-0.12	-0.45
10	2.54	1.531	0.1	0.08	0.268	0.339	3.01	1.69	0.19	0.53	0.11	0.45

Note: * significant at 0.1, ** significant at 0.05, *** significant at 0.01. The sample size is based on 354 announcements from 170 firms.
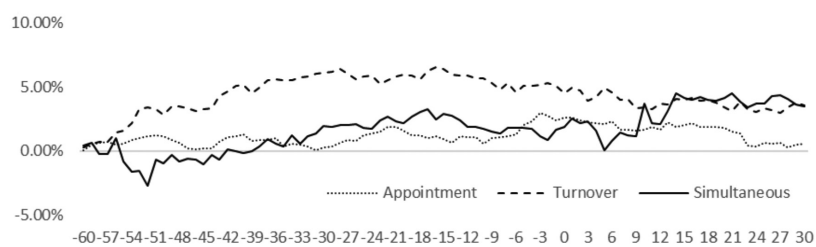

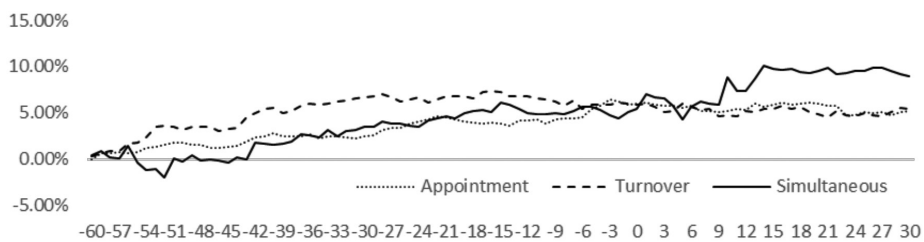FIGURE 3. CAAR using MM for 90-day event window (-60, +30)

FIGURE 4. CAAR using CAPM for 90-day event window (-60, +30)

Based on Figure 5, using MM estimation, simultaneous announcement has shown higher CAAR in comparison to CEO appointment or CEO turnover, whereas CEO appointment has shown lower CAAR post announcement. There is a possibility that the information on the change of CEO has not been well received by the investors. However, an observation on Figure 6 (CAPM estimation) shows that all three announcements move about similar trend, with higher return for CEO turnover. The higher CAAR for the announcement of CEO turnover might be due to the positive reaction of possible merger and acquisition activity (PWC 2016a). However, following the day (+8) onwards, simultaneous announcement shows an upward trend, indicating that investors have more confidence for the firm that establishes succession plan. This is because in a planned succession, leadership gap does not occur, thus, reducing the risk of uncertainty. Based on the plotted graph, slightly higher value of CAAR is obtained for the CAPM estimation in comparison to the MM estimation due to the different calculation of risk measurement.

On more detailed observation, based on Table 4 below, the CAAR is only significant for the simultaneous announcement, using both estimation models. Using MM estimation, positive and significant CAAR is obtained at 1.68% (with $p<0.05$) for event window (-1, +1). However, when using the CAPM estimation, significant and positive CAAR is observed at 1.99% (with $p<0.01$) for event window (0, +1); 3.8% ($p<0.05$) for event window (0,

+10) and 3.95% (with $p<0.05$) for event window (-10, +10). The highest CAAR is observed for the simultaneous announcement for a longer period of event window (-10, 10), and significantly positive return from post announcement event window of (0, +1) and (0, +10). This positive reaction might explain the reduction in uncertainty of leadership gap due to immediate CEO appointment based on planned succession.

REGRESSION ANALYSIS OF THE CAAR

For robustness check, the CAAR was regressed on some important variables identified in the financial literature as contributing factor, using a linear regression model on all announcements. Based on MM estimation as in Table 5, the model is found significant only for event window (0, +10) with f-value at 1.705 [$p<0.01$]. Simultaneous announcement dummy with t-value at 2.939($p<0.001$) is found to be highly significant. This indicates how significant the succession policy is in determining the firm value. A similar result is found when CAAR (using CAPM estimation) is regressed. Simultaneous announcement is found significantly positive for almost all event windows: (-1, +1) with f-value at 1.856 [$p<0.01$, Adj R^2=5.3%]; (-10, +10) with f-value at 1.853[$p<0.01$, Adj R^2=5.5%]; and (0, +10) with f-value at 2.068 [$p<0.05$, Adj R^2=5.4%]. The model is significant when the simultaneous predictor has higher t-value. Nevertheless, the model indicates low R^2 since other predictors are not significant.
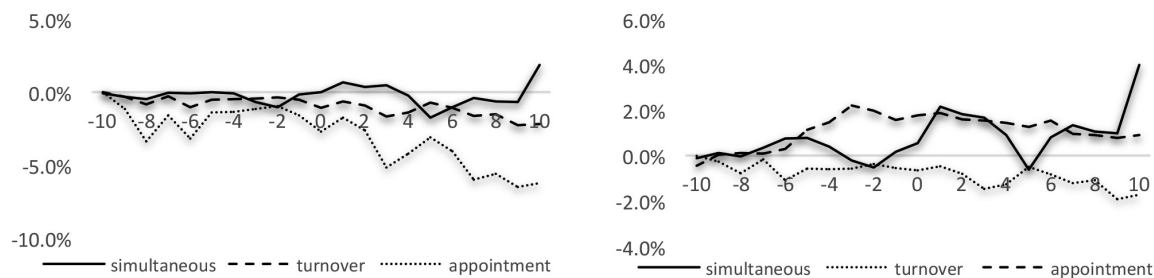
FIGURE 5 and 6. CAAR using MM and CAPM for 20-day event window (-10, +10)

TABLE 4. CAAR for CEO transition using the MM and the CAPM estimation for different event windows

Event Day	MM						CAPM					
	Simultaneous		Turnover		Appointment		Simultaneous		Turnover		Appointment	
	CAAR	Z-Score	CAAR	Z-Score	CAAR	Z-Score	CAAR	Z-Score	CAAR	Z-Score	CAAR	Z-Score
(-10,+10)	1.82	1.404	-2.19	-1.556	0.57	0.332	3.95	2.19**	14.84	1.218	0.88	0.695
(-10,0)	-0.01	-0.01	-1.1	-1.472	1.56	1.209	0.53	0.421	-0.64	-0.643	1.77	1.535
(0,+10)	2.02	1.615	-1.64	-1.473	-0.75	-0.792	3.8	2.319**	-1.18	-1.057	-0.67	-0.893
(-1,+1)	1.68	2.096**	-0.3	-0.601	-0.15	-0.299	2.66	2.465**	-0.1	-0.209	-0.09	-0.196
(-1,0)	1.01	1.352	-0.74	-1.347	-0.15	-0.382	1.06	1.327	-0.27	-0.808	-0.19	-0.454
(0,+1)	0.85	1.585	-0.12	-0.244	0.24	0.519	1.986	1.991*	0.06	0.135	0.41	0.871
0	0.18	0.436	-0.56	-1.112	0.24	0.675	0.385	0.806	-0.1	-0.292	0.2	0.566

Note: * significant at 0.1, ** significant at 0.05, *** significant at 0.01. The sample size is based on 354 announcements from 170 firms.

TABLE 5. Regression analysis (all sample) for different event windows using the MM and CAPM estimation

	MM						CAPM					
	(-1,1)	(-1,0)	(0,1)	(-10,10)	(-10,0)	(0,10)	(-1,1)	(-1,0)	(0,1)	(-10,10)	(-10,0)	(0,10)
constant	-1.591	-4.246	1.073	-10.384	-10.199	-1.768	-0.526	-3.266	2.136	-8.850	-11.013	1.562
	(-0.737)	(-1.452)	(0.521)	(-1.475)	(-1.905)	(-0.364)	(-0.226)	(-1.144)	(0.921)	(-1.330)	(-1.985)	(0.342)
eps	-0.023	0.003	-0.023	-0.218	-0.222	0.007	-0.035	0.004	-0.022	-0.313	-0.261	-0.034
	(-0.279)	(0.059)	(-0.283)	(-0.775)	(-0.859)	(0.077)	(-0.386)	(0.081)	(-0.249)	(-1.175)	(-0.998)	(-0.349)
roa	0.020	0.014	0.003	0.034	0.032	-0.001	0.021	0.018	-0.005	0.091	0.049	0.034
	(0.333)	(0.224)	(0.064)	(0.204)	(0.213)	(-0.008)	(0.337)	(0.292)	(-0.088)	(0.521)	(0.314)	(0.301)
roe	-0.024	-0.018	-0.012	-0.053	-0.035	-0.023	-0.031	-0.040	-0.013	-0.102	-0.048	-0.076
	(-0.256)	(-0.188)	(-0.134)	(-0.199)	(-0.146)	(-0.181)	(-0.293)	(-0.404)	(-0.132)	(-0.379)	(-0.197)	(-0.503)
leverage	-0.209	-0.410	-0.035	0.195	-0.472	0.431*	-0.185	-0.200	0.027	0.054	-0.243	0.308
	(-1.200)	(-1.296)	(-0.279)	(0.464)	(-1.125)	(1.716)	(-1.130)	(-1.162)	(0.212)	(0.131)	(-0.626)	(1.478)
asset	0.093	0.317	-0.083	0.641	0.834	-0.053	0.021	0.247	-0.165	0.531	0.895	-0.303
	(0.558)	(1.439)	(-0.525)	(1.110)	(1.969)	(-0.134)	(0.114)	(1.163)	(-0.921)	(0.982)	(2.044)	(-0.828)
ind_prod	0.495	0.891	0.449	4.870	3.801	1.915	0.123	0.456	0.337	3.747	2.810	1.606
	(0.445)	(1.007)	(0.441)	(1.344)	(1.296)	(0.915)	(0.104)	(0.492)	(0.309)	(1.054)	(0.952)	(0.734)
trad_serv	1.403	0.747	0.764	2.751	1.127	1.731	0.934	0.327	0.630	2.668	0.519	2.171
	(1.586)	(0.992)	(0.937)	(1.302)	(0.650)	(1.132)	(0.961)	(0.438)	(0.700)	(1.289)	(0.300)	(1.372)
simultaneous	2.403	1.405	0.999	3.420	-0.403	3.821***	3.576***	1.333*	2.339**	6.645***	0.588	6.154***
	(3.116)	(1.825)	(1.713)	(1.924)	(-0.282)	(2.939)	(3.684)	(1.753)	(2.534)	(3.313)	(0.378)	(3.814)
Adj R²	0.039	0.043	0.010	0.037	0.042	0.030	0.053	0.025	0.026	0.055	0.042	0.054
F Stat	1.488	1.044	0.606	1.338	0.853	1.705*	1.856*	0.841	0.992	1.853*	0.723	2.068***
N	300											

Note: * significant at 0.1, ** significant at 0.05, *** significant at 0.01. Regression sample includes all types of the announcement: simultaneous, turnover and appointment, which is 300 in total. Dependent variable is the CAARs for event window [(-1,1), (-1,0), (0,1), (-10,10), (-10,0), (0,10)]. Independent variables are dummy variable of different announcement types, while control variables are firm performance (measured by EPS, ROA, ROE), firm size (measured by log of asset), leverage and industry type dummy: trading/services (Trad-Serv) and manufacturing (Ind-Prod). This regression model is tested for multicollinearity and all variance inflation factor are below 10. This regression analysis is also adjusted for heteroscedasticity using Andrew Hayes. The total number of the announcement is reduced to 300 due to the removal of outliers.

TABLE 6. Regression analysis (simultaneous announcement only) for short and long-term event window using MM and CAPM

Model	MM						CAPM					
	(-1,1)	(-1,0)	(0,1)	(-10,10)	(-10,0)	(0,10)	(-1,1)	(-1,0)	(0,1)	(-10,10)	(-10,0)	(0,10)
constant	6.414	4.785	5.135	20.527	-0.01	24.034	7.512	7.007	7.007	17.972	-3.373	25.725
	(1.07)	(0.788)	(1.137)	(1.696)	(-0.002)	(2.079)	(1.051)	(1.069)	(1.069)	(1.043)	(-0.479)	(1.576)
eps	0.175	0.154	0.104	0.048	-0.019	0.151	0.11	0.088	0.088	-0.181	-0.1	0.018
	(1.732*)	(1.784*)	(1.34)	(0.405)	(-0.277)	(0.941)	(0.763)	(0.778)	(0.778)	(-0.975)	(-1.561)	(0.085)
roa	0.016	0.002	0.105	0.203	0.114	0.181	0.055	0.115	0.115	0.592***	0.207	0.49*
	(0.13)	(0.014)	(1.019)	(1.584)	(0.588)	(1.324)	(0.43)	(1.083)	(1.083)	(2.683)	(1.205)	(1.798)
roe	-0.119	0.029	-0.297*	-0.042	-0.086	-0.106	-0.338	-0.477**	-0.477**	-0.764*	-0.396	-0.727*
	(-0.56)	(0.108)	(-1.812)	(-0.167)	(-0.248)	(-0.447)	(-1.398)	(-2.471)	(-2.471)	(-1.999)	(-1.272)	(-1.714)
leverage	-0.32	-0.285	-0.326	-1.649	0.046	-1.986**	-0.224	-0.299	-0.299	-1.103	0.412	-1.817
	(-0.67)	(-0.601)	(-0.873)	(-1.657)	(0.084)	(-2.042)	(-0.395)	(-0.574)	(-0.574)	(-0.783)	(0.738)	(-1.329)
asset	-0.026	0.323	-0.04	1.474	0.418	1.364	-0.377	-0.966	-0.297	0.987	0.937	0.291
	(-0.05)	(0.601)	(-0.094)	(1.659)	(0.517)	(1.372)	(-0.657)	(-0.564)	(-0.564)	(0.703)	(1.062)	(0.202)
ind_prod	-2.816**	-2.936**	-0.283	5.908*	-0.874	6.382**	-2.793	0.438	0.438	4.2	-1.639	6.426**
	(-2.130)	(2.106)	(-0.405)	(1.923)	(-0.436)	(2.478)	(-1.496)	(0.301)	(0.301)	(1.21)	(-0.785)	(2.064)
trad_serv	1.413	-1.777	3.107	-0.217	-8.331***	8.031	0.345	1.842	1.842	-0.8	10.526***	9.451
	(0.43)	(-0.644)	(1.046)	(-0.048)	(-3.193)	(1.371)	(0.076)	(0.455)	(0.455)	(-0.114)	(-3.430)	(1.153)
Adj R^2	0.215	0.162	0.365	0.269	0.255	0.352	0.162	0.169	0.169	0.219	0.343	0.262
F stat	3.345***	1.811	8.927***	1.449	3.404***	1.698	4.151***	5.398***	5.398***	1.512	4.186***	3.471***
N	64											

Note: * significant at 0.1, ** significant at 0.05, *** significant at 0.01. Regression sample only includes the simultaneous announcement of 64 in total. Dependent variable is the CAARs for event window (-1,1), (-1,0), (0,1), (-10,10), (-10,0), (0,10). Independent variables are firm performance (measured by EPS, ROA, ROE), firm size (measured by log of asset), leverage and industry type dummy: trading/services (Trad-Serv) and manufacturing (Ind-Prod). This regression model is tested for multicollinearity and all variance inflation factor are below 10. This regression analysis is also adjusted for heteroscedasticity using Andrew Hayes. The total number of the announcement is reduced to 64 due to the removal of outliers.

TABLE 7. Regression Analysis (CEO turnover announcement only) for short and long-term event window using MM and CAPM

Model	MM						CAPM					
	(-1,1)	(-1,0)	(0,1)	(-10,10)	(-10,0)	(0,10)	(-1,1)	(-1,0)	(0,1)	(-10,10)	(-10,0)	(0,10)
constant	3.577	-3.863	11.004	-29.404	-16.516	-9.32	3.542	-5.819	11.009	-32.825	-20.918	-10.262
	(0.733)	(-0.975)	(1.946)	(-1.848)	(-1.548)	(-0.598)	(0.706)	(-1.63)	(1.907)	(-1.973)	(-2.041)	(-0.64)
eps	-0.031	-0.015	0.014	0.237	0.2	0.067	-0.002	0.017	0.034	0.095	0.2	-0.052
	(-0.283)	(-0.258)	(0.142)	(1.155)	(1.38)	(0.436)	(-0.017)	(0.31)	(0.307)	(0.419)	(1.414)	(-0.24)
roa	-0.086	0.019	-0.055	-0.314	-0.167	-0.097	-0.098	0.054	-0.082	-0.301	-0.166	-0.064
	(-0.751)	(0.146)	(-0.558)	(-1.514)	(-0.495)	(-0.311)	(-0.822)	(0.463)	(-0.728)	(-1.294)	(-0.51)	(-0.191)
roe	0.256	-0.003	0.198	0.141	0.039	0.041	0.29	-0.062	0.248	0.206	0.084	0.018
	(1.147)	(-0.014)	(0.941)	(0.427)	(0.079)	(0.098)	(1.193)	(-0.37)	(1.032)	(0.523)	(0.179)	(0.036)
leverage	-0.217	0.291	-0.884	2.114	1.32	0.547	-0.359	0.416	-0.897**	2.367	1.635	0.609
	(-0.387)	(1.036)	(-2.132)	(1.707)	(1.633)	(0.452)	(-0.948)	(1.547)	(-2.087)	(1.825)	(2.082)	(0.486)
asset	-0.346	-1.177	0.035	-0.178	-0.856	-0.247	0.241	-0.099	0.31	0.075	0.123	-0.079
	(-0.964)	(-0.807)	(0.104)	(-0.311)	(-0.702)	(-0.516)	(1.142)	(-0.432)	(1.385)	(0.151)	(0.287)	(-0.161)
ind_prod	0.489	1.968*	-0.044	-5.683	-0.15	-4.101	0.298	1.388*	-0.133	-5.913	-1.157	-3.798
	(0.356)	(1.675)	(-0.029)	(-0.908)	(-0.064)	(-0.628)	(0.212)	(1.691)	(-0.086)	(-0.907)	(-0.537)	(-0.573)
trad_serv	2.55**	2.026**	2.094**	2.853	2.196	2.225	2.165**	1.093	2.178**	2.001	0.772	2.336
	(2.588)	(2.147)	(2.117)	(0.801)	(0.777)	(0.917)	(2.000)	(1.25)	(1.995)	(0.566)	(0.275)	(0.958)
Adj R²	0.118	0.181	0.099	0.120	0.080	0.046	0.117	0.105	0.11	0.116	0.098	0.042
F	1.397	1.445	1.715	0.819	0.96	0.364	0.876	1.198	1.3	0.906	1.286	0.392
N	92											

Note: * significant at 0.1, ** significant at 0.05, *** significant at 0.01. Regression sample only includes the CEO turnover announcement of 92 in total. Dependent variable is the CAARs for event window (-1,1), (-1,0), (0,1), (-10,10), (-10,0), (0,10). Independent variables are firm performance (measured by EPS, ROA, ROE), firm size (measured by log of asset), leverage and industry type dummy: trading/services (Trad-Serv) and manufacturing (Ind-Prod). This regression model is tested for multicollinearity and all variance inflation factor are below 10. This regression analysis is also adjusted for heteroscedasticity using Andrew Hayes. The total number of the announcement is reduced to 92 due to the removal of outliers.

TABLE 8. Regression analysis for (CEO appointment announcement only) for short and long-term event window using MM and CAPM

Model	MM						CAPM					
	(-1,1)	(-1,0)	(0,1)	(-10,10)	(-10,0)	(0,10)	(-1,1)	(-1,0)	(0,1)	(-10,10)	(-10,0)	(0,10)
constant	-5.422	-5.702	-4.342	-13.366	-12.663	-5.331	-5.195	-8.042	-3.78	-9.987	-12.004	-2.078
	(-1.471)	(-1.041)	(-1.259)	(-1.241)	(-1.471)	(-0.739)	(-1.418)	(-1.163)	(-1.136)	(-1.127)	(-1.439)	(-0.394)
eps	-0.252	-0.107	-0.252	-0.996	-0.861	**-0.243****	-0.265	-0.082	-0.264	-0.977	-0.901	-0.189
	(-1.38)	(-1.11)	(-1.457)	(-1.293)	(-1.122)	(-1.978)	(-1.451)	(-0.915)	(-1.522)	(-1.301)	(-1.184)	(-1.632)
roa	0.063	-0.037	-0.011	0.095	0.068	-0.084	0.09	-0.005	0.007	0.075	0.097	-0.114
	(0.615)	(-0.373)	(-0.129)	(0.331)	(0.264)	(-0.808)	(0.826)	(-0.043)	(0.076)	(0.272)	(0.364)	(-1.166)
roe	-0.04	0.073	0.032	-0.017	0.045	0.082	-0.065	0.025	0.015	0.024	0.383	0.116
	(-0.262)	(0.042)	(0.236)	(-0.041)	(0.131)	(0.496)	(-0.396)	(0.127)	(0.103)	(0.062)	(0.109)	(0.844)
leverage	-0.265	-0.158	-0.151	0.11	-0.507	0.574	-0.412	-0.355	-0.14	-0.306	-0.771	0.417
	(-1.212)	(-0.928)	(-0.822)	(0.139)	(-0.804)	(1.176)	(-1.534)	(-1.208)	(-0.738)	(-0.441)	(-1.147)	(1.376)
asset	0.362	0.401	0.343	0.868	0.951	0.298	0.346	0.417	0.285	0.608	0.896	0.036
	(1.263)	(0.968)	(1.278)	(0.982)	(1.402)	(0.508)	(1.218)	(0.836)	(1.102)	(0.839)	(1.369)	(0.085)
ind_prod	2.057	1.735	1.425	**9.309***	7.883	2.529	2.125	2.019	1.491	0.86	7.592	2.204
	(1.061)	(1.088)	(0.824)	(1.659)	(1.48)	(1.085)	(1.058)	(1.149)	(0.824)	(1.538)	(1.416)	(0.855)
trad_serv	0.83	0.378	-0.419	3.118	3.191	-0.942	0.6	0.815	-0.363	3.842	3.542	-0.349
	(0.589)	(0.329)	(-0.319)	(0.902)	(1.106)	(-0.414)	(0.41)	(0.608)	(-0.267)	(1.207)	(1.278)	(-0.16)
Adj R^2	0.081	0.049	0.095	0.17	0.173	0.068	0.086	0.106	0.09	0.173	0.184	0.051
F stat	0.575	0.504	0.554	0.784	0.816	1.444	0.694	0.742	0.484	0.666	0.864	1.204
N	144											

Note: * significant at 0.1, ** significant at 0.05, *** significant at 0.01. Regression sample only includes the CEO appointment announcement of 144 in total. Dependent variable is the CAARs for event window (-1,1), (-1,0), (0,1), (-10,10), (-10,0), (0,10). Independent variables are firm performance (measured by EPS, ROA, ROE), firm size (measured by log of asset), leverage and industry type dummy: trading/services (Trad-Serv) and manufacturing (Ind-Prod). This regression model is tested for multicollinearity and all variance inflation factor are below 10. This regression analysis is also adjusted for heteroscedasticity using Andrew Hayes. The total number of the announcement is reduced to 144 due to the removal of outliers.

Due to the model's low level goodness of fit, another regression is conducted with a separate sample based on types of the announcement, to observe the effect by sample type. Table 6 shows the regression analysis based on simultaneous announcement firm only. Using MM estimation model, a better and higher value of Adj R^2 is obtained. Significant f-value is observed at 3.345 [$p<0.01$, Adj R^2=21.5%] for event window (-1,+1); f-value at 8.927 [$p<0.01$, Adj R^2=36.5%] for event window (0,+1) and f-value at 3.404 [$p<0.01$, Adj R^2=25.5%] for event window (-10,0). Similarly, for CAPM estimation, apart from the event window (-10,+10), all other event windows are mostly significant. Variable ROA and ROE are also significant in some event windows, indicating the contribution of firm performance in the CAAR. The industrial product sector also shows significance, which indicates the importance of industry role to the firm value. Overall, when the regression is analysed separately based on the announcement type, the model shows a better goodness of fit. This might be due to a clearer signal of CAAR as positive news in comparison to other types of CEO transition announcement.

Separate regression analysis is also conducted on CEO turnover announcement sample (refer Table 7) and CEO appointment sample, however, indicating a different outcome (refer Table 8). None of the event windows for both estimation models shows significant f-value, as none of the individual independent variables has high explanatory power. Further analysis would be required to identify factors that significantly contribute to these types of announcements.

CONCLUSION

This paper investigates the impact of CEO transition announcement on share price using both MM and CAPM estimation. In general, the announcement of CEO transition has an impact on the share price. However, the significant positive impact is clearly observed when the announcement of CEO appointment and turnover occurs concurrently. Share price reaction is observed even before the announcement, which indicates early leakages of information. In addition, when comparing the three types of the announcement, the simultaneous announcement is observed to induce stronger reaction and gives a higher positive return in comparison to CEO appointment or turnover announcement. This is in accordance with prior findings by Cools and Praag (2007), who suggest that changing CEO caused a positive return following a succession period.

Moreover, with the regression analysis, the model indicates significantly positive for the simultaneous announcement dummy, indicating that the investors positively react to planned CEO transition more than to CEO turnover or appointment. In planned CEO transition, the new CEO is expected to continue with the firm's current strategy to increase shareholders' wealth and avoid introducing new measures that may create uncertainty or concern within existing investors' decision-making processes.

Thus, a higher gain is obtained when investors have access to additional information on a new appointee, which allow them to predict the future return of the firm and, consequently, its future overall success. In other words, the investors favour the planned CEO succession because it reduces the leadership gap as well as minimising interruption in the firm's operation during the transition period.

Also, this study discovers that investor might react differently to the removal of CEO. Further investigation is needed to understand the negative reaction from investors. Nonetheless, it can be observed that CEO appointment can minimise the negative reaction from the removal of CEO. Indirectly, this emphasizes the importance of the government to re-examine the need for the CEO succession policy. The policy has shown to be beneficial for the firm and its stakeholders.

Nonetheless, this study has some limitations. This study has to include the financial crisis period due to limitation of data availability. Moreover, some data in the DataStream was not updated, which requires removal of some data in the regression analysis. To further understand the issue, this study can also be extended by analysing CEO characteristic (such as the origin of CEO, prior experience, age, education, ethnicity, family ownership, stock ownership, and others), in determining its contributing factor to the firm value. Another extension that can be made to this study is cross-country comparison. Since this finding is purely on Malaysian sample, an inclusion of Asian countries would possibly extend the literature, where comparison of different markets with different policy measures in the emerging economies could be examined.

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