

Chief Executive Officer/ Managing Director Succession and Value Relevance of Accounting Numbers

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ABSTRACT

Apart from Board of Director, top management, including Chief Executive Officer or Managing Director is also considered as an important governance mechanism of the firm. CEO plays a major role in managing and controlling business operations, thus his/her succession may significantly affect firm performance. This study aims to examine the effect of top management succession on share price. Past studies, which used the event-study methodology to evaluate immediate investors' reactions towards top management succession had their observations done over limited time frame (window periods). Succession may impact the share price beyond the window period because the investors may use information obtained from financial statements to evaluate new top management capabilities. This study contributes to the literature by examining the effects of top management succession on share price at the end of financial years. Book value of equity per share (BE) and earnings per share (EPS) on share price is regressed at three different points of time; year of top management change (TMC), a year after top management change (TMC_1) and post occurrence years of top management change (TMC_C). Findings indicate that BE and EPS are value relevant. Findings also indicate that top management succession is not significantly related to changes in share price over a short period of time (transition year and a post transition year). However, over the longer period of time (TMC_C), our study indicates the top management succession is value relevant. Findings indicate that investors take a longer time to appreciate the new top management on their decision makings. Further analysis indicates that BE is regarded as value relevant by the investors after incorporating firm with outside successor; while EPS is value relevant for the firm with inside successor. This study supports the limited studies in Malaysia which indicate succession events have an implication on share price. Findings in this study may contribute towards strategic decision making in corporate management of public listed companies in Malaysia, specifically when board of directors are considering the top management replacement.

Keywords: Accounting numbers; CEO succession; top management change; value relevance

INTRODUCTION

Top management positions such as Chief Executive Officer (CEO), Managing Director (MD), and Chief Operating Officer (COO) are held by important individuals who are responsible to set the direction of firm's objectives, make strategic and operational decisions, and eventually influence firms' performance and sustainability (Amran, Md Yusof, Ishak & Aripin 2014; Larcker, Miles, & Tayan 2014; Ishak & Abdul Latif 2012; Donohue, Reed & Storrud-Barnes 2007). Therefore, it is understandably agreed that public, specifically investors, will react in certain ways when there are announcements of changes in the top management position since it indicates firms' future financial performance (Jalal & Prezas 2012), and their success or failure (Rhim, Peluchette & Song 2006). Financial performance, which is generally a benchmark of a managers' success in improving the welfare of the owners, is one of the essential considerations in top management turnover (Lindrianasari & Hartono 2012). This notion is supported by several studies (example: Huson, Malatesta & Parrino 2004; Lindrianasari & Hartono 2012; Murphy & Zimmerman 1993; Pourciau

1993) which demonstrate a significant relationship between financial performance and CEO/MD appointments.

The selection of new CEO/MD is said as a critical decision that influences firm's direction and effectiveness (Karaevli 2007), whereby firm post-performance is becoming an important signal about successor's ability. Newly appointed CEO/MD is expected to improve firm performance with the implementation of new strategies and operation (Barron, Chulkov & Waddell 2011; Lindrianasari & Hartono 2012) and increase managerial productivity (Huson et al. 2004). As general view propose, the improvement of firm's post succession performance is due to replacement of ineffective CEO with a new, more capable and competent CEO (Denis & Denis 1995; Ishak & Abdul Latif 2012).

Prior studies discussed the impacts of top management turnover from two related perspectives: capital market performance and accounting performance. Studies from the capital market performance perspective investigate the effect of top management turnover on the changes of firms' share prices over a short period of time (event study approach). However, results from this approach

are inconclusive (example: Dahya & McConnell 2005; Dedman & Lin 2002; Denis & Denis 1995; Setiawan, Hananto & Kee 2011), in which investors are uncertain whether the announcement indicates a good news or a bad news (Setiawan et al. 2011).

In a short period of time, the market reaction towards CEO/MD succession announcements is driven by the characteristics of incumbent and successor, since investors' lack the performance indicators to evaluate the impact of succession on firm future performance. In relation to that, the departure of a well-respected CEO/MD may represent a loss of managerial talent to the company (Dahyaa, Lonie & Power 2000), thus affecting the firm's share price negatively. Meanwhile, the appointment of successor with desirable characteristics may give positive impact to the share price (Nguyen, Hagendorff & Eshraghi 2015). There are previous studies (e.g. Fanelli & Grasselli 2006; Tosi, Misangyi, Fanelli, Waldman & Yammarino 2004; Waldman, Ramirez, House & Puranam 2001), which provided evidence that CEO's charisma affects the perceptions of external stakeholders and share prices. However, as reported by Dahyaa et al. (2000), relatively small or insignificant share price response was observed in earlier studies (such as Ishak & Abdul Latif 2012; Setiawan et al. 2011; Cools & van Praag 2007; Warner, Watts & Wruck 1988), whereby this situation is due to investors' uncertainty of whether the performance of the "new" management is better than its predecessor (Dahyaa et al. 2000).

Therefore, researcher redirected their attention from the capital market perspective to the accounting performance perspective to capture the effect of succession in a longer period of time, which is based on year-end accounting period. Accounting perspective has two types of studies – (i) to examine various accounting and financial measures surrounding CEO/MD succession and (ii) to estimate firm performance consequences of CEO/MD succession. Studies which investigate the behavior of accounting variables indicate only discretionary accounting variables (e.g. R&D expenditures, capital expenditures & accounting accruals) influenced by CEO/MD succession as it is subjected to managerial consideration (Murphy & Zimmerman 1993). On the other hand, firm performance due to CEO/MD is commonly measured by performance indicators such as Tobin-Q, return on assets (ROA); return on shareholder's equity (ROE), total assets and total sales (Lindrianasari & Hartono 2012; Karaevli 2007; Rhim et al. 2006; Shen & Cannella 2002). However, previous studies have shown mixed results regarding the impact of CEO successions on firms' subsequent performance (Ishak, Ku Ismail & Abdullah 2013; Karaevli 2007). Thus, inconclusive findings had been derived of whether succession benefits or disrupts firm performance. Therefore this has motivated us to examine the effect of CEO/MD succession on the share price over a longer window period of observation, rather than daily or monthly performance, as suggested by Karaevli (2007). Unlike the above studies, the current study examines the effect of CEO/MD succession

on the value relevance of accounting numbers reported by Malaysian firms.

We acknowledge that studies on CEO/MD succession are still limited in Malaysia despite fact that research studies in this area have been around for more than 40 years (Bornemann, Kick, Pfungsten & Schertler 2015; Ferris, Jayaraman & Lim 2015). Hence, this current study extends the limited literature on CEO/MD succession in Malaysian context. Prior studies by Ishak and Abdul Latif (2012) and Rosli (2012) examined capital market performance perspective using event-study methodology to examine the effect of changes in top management on share price. Other study by Ishak et al. (2013) investigated the effects of succession on firm performance by using ROA and Tobin-Q to evaluate whether the CEO succession improves, disrupts or has no effect on the firm's post-performance.

Our current study, however, attempts to incorporate CEO/MD succession and firm value, which represented by firm's share price four month after closing of financial year-end. We propose that in real situation, investor might use financial statement information to reflect the benefit of CEO/MD succession to the firm performance. In other words, investors are only able to evaluate new CEO/MD performance after the accounting information has been released. Thus, we incorporate value relevance model to examine whether CEO/MD succession regarded as useful information by investors, which will be reflected in the share price of the firm.

In terms of value relevance, previous studies showed that changes in the accounting standards (Chebaane & Othman 2014; Agostino, Drago & Silipo 2011; Clarkson, Hanna, Richardson & Thompson 2011; Kadri, Abdul Aziz & Ibrahim 2009; Goodwin, Ahmed & Heaney 2008; Bartov, Goldberg & Kim 2005); type of industry (Tan, Hassan & Embong 2014; El-Gazzar, Finn & Tang 2009; Nwaeze 1998) and corporate governance of the firm (Cormier 2014; Jamaluddin, Mastuki & Elmiza Ahmad 2009; Cools & van Praag 2007; Davis-Friday, Eng & Liu 2006) influence value relevance of accounting numbers (book value of equity & earnings). However, none of these studies examined the role of incoming CEOs/MDs on the value relevance of accounting numbers.

According to Habib and Hossain (2013), new CEOs/MDs acknowledge the importance of financial statements information as a platform which allows an outsider to evaluate their efficiency in maximizing shareholder value. Therefore, we believe, they are motivated to influence managers in reporting the accounting information. Hence, this study will investigate whether changes in CEO/MD have a moderating effect towards value relevance of accounting numbers. Additionally, this study will also investigate whether the origin of the incoming CEO/MD (i.e. whether he/she is from inside or outside of organization) influences the value relevance of accounting numbers. In the context of value relevance study, the reliability of accounting numbers depends on the successors' characteristics as they might influence top management decision in the reporting of financial statements.

This study's sample is consisting of 95 companies which made 105 CEO/MD announcements during the period of 2008 – 2014. For each company, we collected accounting data and financial data (share price) for 7-year period. However, data available for regression analysis is only 584 firm-years; derived after we excluded missing data and extreme value from the data set. Our findings indicate that accounting numbers (book value of equity and earnings per share) are value relevant. We also provide evidence that the appointment of new CEO/MD is only value relevant in a longer period of time after the succession. Additionally, the study shows that investors in Malaysia regard earnings as value relevant if the new top management is from inside the organization itself.

This study contributes to prior literature by incorporating CEO/MD succession into value relevance study in order to examine the effects of succession from the investors' perspective. To the best of our knowledge, this is the first study which combines CEO/MD succession and value relevance. Findings in this study may offer implication towards strategic decision making in corporate management of public listed companies in Malaysia, specifically when board of directors are considering the replacement of CEO/MD. The remainder of this paper is organized as follows. Section two discusses literature review and hypotheses development. This is followed by the research methodology and research findings. Finally section five concludes this article.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

THE EFFECT OF CEO/MD SUCCESSION ON THE SHARE PRICE

The effect of managerial succession on firm performance remains a debate in spite of increasing number of studies and renewed attention to this problem (Ishak & Abdul Latif 2012). According to Rhim et al. (2006), research on CEO succession is generally focused on three elements; the antecedents of succession, the origin of the successor, and the consequences of succession. Most of prior studies focused on the consequences of succession, i.e. either on market reactions that are reflected in changes of share prices, or financial and accounting performance of the firm at the end of financial year. An event study methodology is commonly used to evaluate investors' immediate reactions towards the announcement of top management succession (Cheung & Jackson 2012; Dherment-Ferere & Renneboog 2000; Ishak & Abdul Latif 2012; Rosli 2012; Setiawan et al. 2011; Charitou, Patis & Vlittis 2010; Dahyaa et al. 2000).

In the event study approach, share price movement is observed in determining whether CEO/MD succession announcements have information content that influences investors' decision making (Setiawan et al. 2011). However, literature provides mixed findings as most studies indicated positive market reaction (Setiawan 2008; Dahya & McConnell 2005; Huson et al. 2004; Kang & Shivdasani 1996; Denis & Denis 1995; Weisbach 1988),

while other studies (Ishak & Abdul Latif 2012; Dedman & Lin 2002; Warner et al. 1988) reported negative market reaction toward firms' share prices. These inconsistent results could be influenced by how investors' perceived the incoming CEO/MD.

The appointment of new CEO may lead to a positive market reaction if the new CEO has new vision and strong aspiration to achieve better performance (Smith 2011); new leadership style (Kang & Shivdasani 1996) and implement new strategies and policies (Pessarossi & Weill 2013). Smooth top management succession processes may also lead to positive reaction from the investors as it reduces the uncertainty of firm operation and businesses (Setiawan 2008; Rhim et al. 2006; Friedman & Singh 1989). For firms with poor financial performance, the replacement of CEO/MD will send a positive signal to the market (Ishak & Abdul Latif 2012) as it may reflect the firm's intention to initiate strategic change (Shen & Cannella 2002). Therefore, the appointment is perceived as good news because new CEO/MD is expected to improve the firm's performance (Lindrianasari & Hartono 2012; Setiawan et al. 2011; Rhim et al. 2006).

As previously discussed, event study methodology approach focuses on an immediate changes on share prices due to top management changes. Therefore, only limited time frame (window period) has been observed. However, the succession may have an impact on the share prices beyond the window period. As firm performance is used as an indicator to monitor the performance of the top executive (Pourciau 1993), we predict that investors may use financial statement to evaluate the new CEO/MD's capabilities. This is because the information in financial statements allows investors to gauge how efficient the CEO is in fulfilling the expectation (Habib & Hossain 2013). CEO/MD succession may have useful information content to the investors that is reflected in the share prices when investors value firm future prospect at the end of fiscal year. Thus, our hypothesis 1 is:

H1: CEO/MD succession is associated with share price.

CEO/MD SUCCESSION AND VALUE RELEVANCE OF ACCOUNTING NUMBERS

Most value relevance studies assume that investors depend on information in financial statements as their primary references in making investment decisions (Holthausen & Watts 2001; Barth 2000; Lambert 1996). Financial statements present the economic events of a business entity which occurred during the reporting period, and therefore the information should be value relevant to the investors (Hassan & Mohd-Saleh 2010). The usefulness of the accounting information to the investors has been shown through their reactions that are reflected in share prices. Thus, if the statistical relationship between accounting information and the share prices is positive and significant, then the information is said to be value relevant (Hassan, Mohd Saleh, Fuad Rahman & Abdul Shukor 2012).

The Efficient Market Hypothesis (EMH) developed by Fama (1970) is relevant in explaining the effect of accounting numbers on share price. Fama (1970) classified EMH into 3 different types: (1) weak form market efficiency (in which the information set is just historical prices); (2) semi-strong form efficiency (the share prices reflect all information that is publicly available); and (3) strong form efficiency (the share prices reflect all information known to anyone at the point in time both publicly available and private information). Prior studies within Malaysian context indicated that the equity market of Malaysia is of a semi-strong market efficient (Tan et al. 2014; Hussin, Ahmed & Ying 2010; Tuck 2005; Isa & Yap 2004). This is because research found that the share prices of firms listed in Bursa Malaysia reacted quickly to all publicly available information (Tan et al. 2014; Goh, Hassan & Mohd Nor 2008). Annual report is one of the public information that released by a firm. Therefore any information disclosed in the annual report is expected to be reflected in the share price, should the information is deemed useful by the investors (Tan et al. 2014).

Most literature on the value relevance of accounting information had comprehensively documented the association between accounting numbers (i.e. earnings and book values) and share prices (Gulhan 2012). Nevertheless, this does not limit researchers from exploring other factors that might affect the value relevance of accounting numbers. This is because the Ohlson Model (Ohlson 1995) (which is the most prevalent model used in prior value relevance studies), does not provide sufficient explanation of why accounting numbers are associated with firm's share prices. Therefore, many prior researchers have started to examine specific conditions or factors that can influence the relationship between accounting numbers and share price. These include the studies on the effects of accounting standard and regulation in specific industries (Chebaane & Othman 2014; Gulhan 2012; Agostino et al. 2011; Horton & Serafeim 2010; Kadri et al. 2009; Goodwin et al. 2008; Lin & Chen 2005; Bartov et al. 2005) and corporate governance (Cormier 2014; Jamaluddin et al. 2009; Cools & van Praag 2007; Davis-Friday et al. 2006).

In relation to corporate governance (Cormier 2014; Jamaluddin et al. 2009; Cools & van Praag 2007; Davis-Friday et al. 2006); provided evidences that good (bad) corporate governance practices may strengthen (weaken) the value relevance of accounting numbers. The studies incorporated three factors, namely information asymmetry (Cormier 2014); quality of financial reporting (Jamaluddin et al. 2009) and interactions across governance mechanisms (Davis-Friday et al. 2006). While some researchers examined corporate governance mechanisms as a whole, there are studies that focused on a particular governance mechanism. Studies by Tan et al. (2014) and Cools and Van Praag (2007) examined the role of board, as one of the mechanisms of corporate governance, in influencing investor's confidence over accounting numbers.

Besides the above, top management, especially CEO is also considered as an important governance mechanism.

According to Fortune, CEO 'exert enormous influence over entire enterprises' (Fanelli & Grasselli 2006). CEO plays a major role in managing and ensuring the business operations (Amran et al. 2014) and leads a firm to compete in the market (Setiawan et al. 2011). This is consistent with Wu, Quan and Xu (2011) which indicated CEO decision-making power has obvious significant effects on firms' operations. The role of CEO is becoming more prevalent during succession period. CEO turnover is considered as a critical and significant event to the firm (Rosli 2012; Rhim et al. 2006; Clayton, Hartzel & Rosenberg 2000). Both internal and external constituents are likely to view succession as an indication of the firm's future (Rhim et al. 2006); this is because firms are expected to perform better after the new appointment.

In terms of financial reporting, a CEO is responsible for the content, accuracy and completeness of financial disclosures as he or she is considered as a gatekeeper of financial information to be released (Donoher et al. 2007; Rezaee 2003). CEO can influence the Chief Financial Officer (CFO) to be in line with the boards' goals (i.e., encouraging the production of precise and accurate information) or can force CFO to manipulate outputs from the reporting system and overstate performance (Friedman 2014). Hence, the quality of accounting information disclosed in the annual report can directly be associated with the CEO or new CEO. The CEOs/MDs may signal their managerial ability to the shareholders by achieving certain earnings benchmarks during the first full year as a CEO/MD of the firm. Based on prospect theory, we predict that investors have a tendency to react positively if a firm reports an increased earnings rather than losses or decrease in earnings. This effect may become more prevalent if firm is already experiencing poor financial performance preceding to the appointment of the new CEO/MD. Therefore our second hypothesis is:

H2: CEO/MD succession affects the value relevance of book value of equity and earnings.

ORIGIN OF SUCCESSOR

Research on CEO/MD succession has also documented the origin of successor as one of the important factors that affects investors' reactions toward CEO turnover announcements (Setiawan et al. 2011) and firm post-succession performance (Shen & Cannella 2002). Typically, there are two types of successor – insider and outsider. Insider is an executive-promoted from within the firm, while outsider is appointed to the CEO position from other organization (Shen & Cannella 2002).

It is a well-established empirical fact that in the majority of CEO turnovers, the successor is a company insider (Ferris et al. 2015; Pessarossi & Weill 2013; Kind & Schläpfer 2010). This is based on insider qualities in terms of specific knowledge about the firm's operations and social network to acquire internal information (Dherment-Ferere & Renneboog 2000). Besides, insider provides consistency and stability to the organization; thus, ensuring the succession process seamless as possible

(Rhim et al. 2006). However, firms do typically appoint outside successors if they face the pressure of initiating strategic change (Shen & Cannella 2002) or firms are in situations of poor organizational performance, financial distress or bankruptcy (Setiawan et al. 2011; Rhim et al. 2006). In these situations, literature suggests that firms do not believe that an inside successor can bring the desired change; instead, they view outside successor as a catalyst of change that will hopefully lead to improved firm performance (Jalal & Prezas 2012).

In terms of financial performance, literature provides mixed findings of who has better performance, insider or outsider. Researchers such as Ferris et al. (2015), Rhim et al. (2006) and Kesner and Sebora (1994), linked insider with better post-succession performance. This can be associated with pre-succession performance whereby large firms (with stable financial performance) are always electing inside candidates as their new CEOs/MDs (Dherment-Ferere & Renneboog 2000). Thus, the financial performance of post-succession will be better than the pre-succession period. However, in Malaysian context, Ishak et al. (2013) indicated that outsider is better in terms of post-succession performance. In this case the outside successor can be seen able to promote the external knowledge to his/her new company (Georgakakis & Ruigrok 2016). Using a multilevel framework, Georgakakis and Ruigrok (2016) indicated that the outside successor, which share common socio-demography attributes with executives and has a variety of industrial and international experience are positively related with firm performance. In addition to that they also provide a contradictory finding to Dherment-Ferere and Renneboog (2000) where outside succession also associated with well-performing firms. We, therefore, predict that the perception toward the ability of successor to bring better performance to the firm may have an impact on investor's perception. Hence, the third hypothesis is:

H3: Origin of the successor (from inside or outside) affects the value relevance of book value of equity and earnings

RESEARCH METHODOLOGY

DATA SOURCE

This study used secondary data to collect information about CEO/MD succession obtained from the Company Announcements section published in the Bursa Malaysia's website (www.bursamalaysia.com). Accounting data (book value of equity and earnings) and financial data (share price) were extracted from Thomson Financial DataStream. Missing data were manually collected from annual reports published in the official website of Bursa Malaysia or companies' websites.

SAMPLE SELECTION

This study selects 250 firms with largest market capitalization as at 31 December 2014 as sample of this

study. We then reviewed all announcements made by these 250 companies under Company Announcements section, specifically in two sub-categories, "Change in Board Room" and "Change in CEO" to yield at least 100 cases of CEO/MD succession. These two sections disclosed all announcements related to changes in board of directors, chairman and other top management position.

We had identified 105 announcements made by 95 companies during the period of study. This represents 38% of 250 sample companies. This percentage of CEO/MD succession in Malaysia for seven years period is predicted as top executive turnover is relatively a rare event (Pourciau 1993). The announcements also contain information related to date of resignation/appointment, reason for change, the origin of successor (from inside or outside of the organization), qualification and working experience. Table 1 summarizes the characteristics of the announcement and type of the industry. Panel A, Table 1 indicates that 63.8% of the successors are from within the organization itself. The highest number of succession was recorded in 2013 (24 announcements) and the lowest was reported in 2014 (9 announcements). Panel B indicates that 30 (31.6%) of the companies are from trading and services industry.

Second, we then collected accounting data (book value of equity per share and earnings per share) and financial data (share price) for the period between 2008 and 2014. Additional accounting data for year 2007 were collected for all companies which succession occurred in 2008. This allows us to compare share price performance before and after CEO/MD succession. This process yielded 680 firm-years data. However, we excluded 4 firm-years due to missing data or data not available in the database/company website, 61 firm-years data due to extreme value and 31 firm-years data due to negative earnings per share. Therefore, the final observations are 584 firm-years. Table 2 presents a summary of observation for the study.

MEASUREMENT OF VARIABLES

Consistent with prior value relevance studies (Hassan et al. 2012; Hassan & Mohd-Saleh 2010; Jamaluddin et al. 2009; Kadri et al. 2009), the current study utilizes the Ohlson (1995) model. Thus, our dependent variable is firm value, which is measured based on the firm's share price in the fourth month following the closing date of fiscal year. This is consistent with the practice that the audited financial statements will only be available within a period of four months after the closing date (Tan et al. 2014).

Based on Ohlson (1995), our independent variables are book value of equity per share and earnings per share. According to Barth and Clinch (2009), the results obtained using variables on a per share basis provide the most unbiased estimates. As we aimed to examine the role of CEO/MD turnover, a dummy variable is introduced (1, if the company experiences CEO/MD turnover, or 0, if otherwise). We classified the origin of successor either as

TABLE 1. Number of CEO/MD announcement, number of company, type of industry and origin of the successor

Panel A: Number of CEO/MD announcement and origin of the successor			
Year	Number of announcement	Origin of Successor	
		Inside	Outside
2008	15	8	7
2009	11	8	3
2010	16	9	7
2011	12	10	2
2012	18	11	7
2013	24	17	7
2014	9	4	5
Total	105 ¹	67 (63.8%)	38 (36.2%)

Panel B: Type of industry and number of company			
Type of industry	Number of company	%	
Trading & services	30	31.6	
Industrial products	15	15.8	
Properties	13	13.7	
Consumer products	10	10.5	
Finance	10	10.5	
Plantation	6	6.3	
REIT	5	5.3	
Construction	4	4.2	
Infrastructure Project Companies	2	2.1	
Total	95	100	

TABLE 2. Summary of sample for the study

	Number of company	Number of observation (firm year)
Sample of company	250	
Announcement of CEO/MD succession	95	665
Add: Companies which succession occurred in 2008 listed in 2007	15	15
Deduct:		
Missing or unavailable data		(4)
Extreme data		(61)
Negative earnings per share		(31)
Final observation		584

an insider or outsider based on the information disclosed in the company announcements section. Consistent with Huson et al. (2004) and Setiawan et al. (2011), we considered the successor as an insider if the person has been working in the company for at least one year, or has a family relationship with the outgoing CEO/MD. Else, the successor is considered as an outsider. The summary of variables and the measurements is shown in Table 3.

We categorized our period of study into: i) transition year (t_0) - the fiscal year in which the CEO changes, ii) preceding year (t_{-1}) - the year preceding the transition year (Murphy & Zimmerman 1993) and iii) post transition (t_{+1}) - the year after the transition year. We then divided post transition period into two categories; in which TMC_I

indicates a post transition year, while TMC_C indicates post transition years under the stewardship of new CEO/MD. Figure 1 presents the categorization of the time frame for this study.

MULTIPLE REGRESSION MODEL

The Ohlson's valuation model (Ohlson 1995) is widely used in value relevance studies. This model provides a direct link between accounting numbers and firm value which is absent from other models (Barth 2000). The value of firm's equity can be expressed as a function of its earnings and book value of equity (Beisland 2009; Ohlson 1995). Thus, share prices are regressed on both earnings

TABLE 3. Variables and measurements

Variable	Definition	Measurement
<i>SP</i>	Share price	Price of share four months after closing date of financial year
<i>BE</i>	Book value of equity per share	Book value of net assets deflated by outstanding share
<i>EPS</i>	Earnings per share	Earnings for year available to firm's common shareholders deflated by outstanding share
<i>TMC</i>	The occurrence of CEO/MD succession (the year where the succession occur - transition year)	Dummy variable 1 indicates transition year of CEO/MD succession (the occurrence year of CEO/MD succession), or 0 for otherwise
<i>TMC_1</i>	The first year after the occurrence of CEO/MD succession	Dummy variable 1 indicates a post transition year of CEO/MD succession (a year after the transition year), or 0 for otherwise
<i>TMC_C</i>	The post transition years after the occurrence of CEO/MD succession	Dummy variable 1 indicates post transition years of CEO/MD succession, or 0 for otherwise

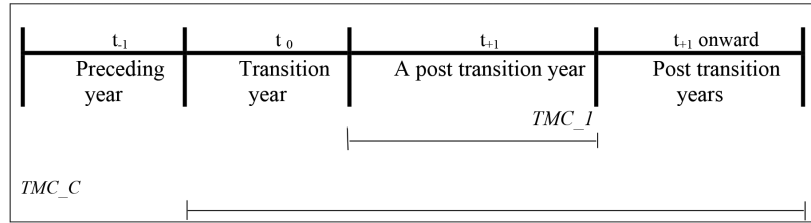


FIGURE 1. Categorization of time frame of the study

and book value of equity to measure how accounting numbers affects market value of equity as represented by share price of the firm. The basic equation of Ohlson (1995) model is shown in Equation (1).

$$SP_{it} = \alpha_0 + \alpha_1 BE_{it} + \alpha_2 EPS_{it} + \varepsilon_{it} \quad (1)$$

where:

SP = share price measured four months following the financial year for firm *i* for year *t*

BE = book value of equity per share for firm *i* for year *t*

EPS = earnings per share for firm *i* for year *t*

ε = error term

We then extended Equation (1) to incorporate the effect of newly appointed CEO/MD on the share price. To do this, we introduced a dummy variable to represent firm with and without succession. A nominal value 1 is allocated for a firm with CEO/MD succession, or 0 if otherwise. Hence, Equations (2), (2a) and (2b) are stated as follows:

$$SP_{it} = \alpha_0 + \alpha_1 BE_{it} + \alpha_2 EPS_{it} + \alpha_3 TMC_{it} \quad (2)$$

$$SP_{it} = \alpha_0 + \alpha_1 BE_{it} + \alpha_2 EPS_{it} + \alpha_3 TMC_1_{it} \quad (2a)$$

$$SP_{it} = \alpha_0 + \alpha_1 BE_{it} + \alpha_2 EPS_{it} + \alpha_3 TMC_C_{it} \quad (2b)$$

where:

TMC = Dummy variable 1 indicates transition year of CEO/MD succession (the occurrence year of CEO/MD succession), or 0 for otherwise

TMC_1 = Dummy variable 1 indicates a post transition year of CEO/MD succession, or 0 for otherwise

TMC_C = Dummy variable 1 indicates post transition years of CEO/MD succession, or 0 for otherwise

Other variables are as defined in Equation (1)

We extended Equation (2) to incorporate the effect of CEO/MD succession on the relationship between share price and accounting numbers. Thus, we included the interaction between CEO/MD succession and book value of equity; and the interaction between CEO/MD succession and earnings per share. These interactions are incorporated into Equations (3), (3a) and (3b). The equations are as follows:

$$SP_{it} = \alpha_0 + \alpha_1 BE_{it} + \alpha_2 EPS_{it} + \alpha_3 TMC_{it} + \alpha_4 CBE_{it} + \alpha_5 CEPS_{it} + \varepsilon_{it} \quad (3)$$

$$SP_{it} = \alpha_0 + \alpha_1 BE_{it} + \alpha_2 EPS_{it} + \alpha_3 TMC_1_{it} + \alpha_4 CBE1_{it} + \alpha_5 CEPS1_{it} + \varepsilon_{it} \quad (3a)$$

$$SP_{it} = \alpha_0 + \alpha_1 BE_{it} + \alpha_2 EPS_{it} + \alpha_3 TMC_C_{it} + \alpha_4 CBE2_{it} + \alpha_5 CEPS2_{it} + \varepsilon_{it} \quad (3b)$$

where:

$CBE/CBE1/CBE2$ = Interaction between $TMC/TMC_1/TMC_C$ and BE

$CEPS/CEPS1/CEPS2$ = Interaction between $TMC/TMC_1/TMC_C$ and EPS

Other variables are as defined in Equations (1) and (2).

We then modified Equations (3), (3a) and (3b) to evaluate the origin of the successor (whether he/she is insider or outsider) as the origin of incoming CEO/MD might influence firm post-performance as well as inventors' confidence. In order to investigate how this factor affects the relationship between share price and accounting numbers, we replaced variable for top management change (TMC , TMC_1 and TMC_C) with new variable which indicates the origin of successor. The new variables that indicate outside successor are $TMCO$, $TMCO_1$ and $TMCO_C$, and inside successor are $TMCI$, $TMCI_1$ and $TMCI_C$ respectively. Hence, the new equations are stated as follows:

$$SP_{it} = \alpha_0 + \alpha_1 BE_{it} + \alpha_2 EPS_{it} + \alpha_3 TMCO_{it} + \alpha_4 CBE_O_{it} + \alpha_5 CEPS_O_{it} + \varepsilon_{it} \quad (4)$$

$$SP_{it} = \alpha_0 + \alpha_1 BE_{it} + \alpha_2 EPS_{it} + \alpha_3 TMCO_1_{it} + \alpha_4 CBE1_O_{it} + \alpha_5 CEPS1_O_{it} + \varepsilon_{it} \quad (4a)$$

$$SP_{it} = \alpha_0 + \alpha_1 BE_{it} + \alpha_2 EPS_{it} + \alpha_3 TMCO_C_{it} + \alpha_4 CBE2_O_{it} + \alpha_5 CEPS2_O_{it} + \varepsilon_{it} \quad (4b)$$

where:

$TMCI$ = Dummy variable 1 indicates transition year of CEO/MD succession with outside successor, or 0 for otherwise

$TMCO_1$ = Dummy variable 1 indicates a post transition year of CEO/MD succession with outside successor, or 0 for otherwise

$TMCO_C$ = Dummy variable 1 indicates post transition years of CEO/MD succession with outside successor, or 0 for otherwise

$CBE_O/CBE1_O/CBE2_O$ = Interaction between $TMCO/TMCO_1$ & $TMCO_C$ and BE

$CEPS_O/CEPS1_O/CEPS2_O$ = Interaction between $TMCO/TMCO_1$ & $TMCO_C$ and EPS

Other variables are as defined in Equation (1).

$$SP_{it} = \alpha_0 + \alpha_1 BE_{it} + \alpha_2 EPS_{it} + \alpha_3 TMCI_{it} + \alpha_4 CBE_I_{it} + \alpha_5 CEPS_I_{it} + \varepsilon_{it} \quad (5)$$

$$SP_{it} = \alpha_0 + \alpha_1 BE_{it} + \alpha_2 EPS_{it} + \alpha_3 TMCI_1_{it} + \alpha_4 CBE1_I_{it} + \alpha_5 CEPS1_I_{it} + \varepsilon_{it} \quad (5a)$$

$$SP_{it} = \alpha_0 + \alpha_1 BE_{it} + \alpha_2 EPS_{it} + \alpha_3 TMCI_C_{it} + \alpha_4 CBE2_I_{it} + \alpha_5 CEPS2_I_{it} + \varepsilon_{it} \quad (5b)$$

where:

$TMCI$ = Dummy variable 1 indicates transition year of CEO/MD succession with inside successor, or 0 for otherwise

$TMCI_1$ = Dummy variable 1 indicates a post transition year of CEO/MD succession with inside successor, or 0 for otherwise

$TMCI_C$ = Dummy variable 1 indicates post transition years of CEO/MD succession with inside successor, or 0 for otherwise

$CBE_I/CBE1_I/CBE2_I$ = Interaction between $TMCI/TMCI_1$ & $TMCI_C$ and BE

$CEPS_I/CEPS1_I/CEPS2_I$ = Interaction between $TMCI/TMCI_1$ & $TMCI_C$ and EPS

Other variables are as defined in Equation (1).

RESULTS

DESCRIPTIVE ANALYSIS

Table 4 presents the descriptive statistic for the total 584 firm-years sample. This table shows mean, median, minimum and maximum value and standard deviation for all the dependent and independent variables. The mean for share price is RM3.4628 with a standard deviation of 3.1062. The minimum and maximum values of share price are at RM0.1100 and RM18.1400, respectively.

Table 5 presents the average share prices during 4 period of time, t_{-1} , which indicates the year prior the transition year, t_0 (a transition year), t_{+1} (a year after the transition year) and t_{+2} (two-year after the transition year). Column 3, Table 5 indicates inconsistent results for the average share price reported in the transition year. Except for 2008, 2011 and 2014, the average share prices are higher than the share price reported before the CEO/MD succession (t_{-1}). The inconsistent findings are consistent with our understanding that the effect of succession during the transition period is ambiguous to the investors. This is because they may not able to associate the performance of the companies with the appropriate CEO/MD. This is because both outgoing and incoming are likely to have had a substantial impact on the transition year's operation (Murphy & Zimmerman 1993). Nevertheless the effect of succession over a longer period of time might be different.

Columns 4 and 5, Table 5 indicate in average, there is an increase in share price during the post transition periods (t_{+1} and t_{+2}). Except for year 2013 (t_{+1}), the average share price for the post transition is higher than the share price during transition year (t_0). However, the share prices for t_{+1} and t_{+2} are higher than the t_{-1} . This could be associated with changes of CEO/MD. The next section will explain this issue further.

TABLE 4. Descriptive Statistics ($n=584$)

	<i>SP</i>	<i>EPS</i>	<i>BE</i>	<i>TMC</i>	<i>TMC_1</i>	<i>TMC_C</i>
Mean	3.46 28	0.268 7	2.18 51	0.155 8	0.14 73	0.496 6
Median	2.40 50	0.198 0	1.73 90	0.000 0	0.00 00	0.000 0
Maximum	18.14 00	1.194 0	8.07 80	1.000 0	1.00 00	1.000 0
Minimum	0.110 0	0.001 0	0.034 0	0.000 0	0.00 00	0.000 0
Std. Dev.	3.10 62	0.227 5	1.61 33	0.363 0	0.35 47	0.500 4
Skewness	1.77 73	1.437 8	1.403 4	1.897 9	1.99 08	0.0137
Kurtosis	6.56 80	4.950 7	4.78 62	4.602 2	4.96 34	1.000 2

SP = share price at four month after financial year end. *EPS* = earnings per share, *BE* = book value equity per share, *TMC* = Dummy variable 1 indicates the occurrence of CEO/MD succession (transition year of CEO/MD succession), or 0 for otherwise, *TMC_1* = Dummy variable 1 indicates a post transition year of CEO/MD succession, or 0 for otherwise, and *TMC_C* = Dummy variable 1 indicates post transition years of CEO/MD succession, or 0 for otherwise.

TABLE 5. Average Share Price before and after the Succession ($n=584$)

Transition year	Share Prices			
	t_{-1}	t_0	t_{+1}	t_{+2}
2008	2.2096	1.7383	2.4071	2.9884
2009	2.6706	3.4122	4.0656	4.1642
2010	3.7459	3.9599	4.0814	5.3201
2011	3.2540	3.1422	3.4039	3.6989
2012	2.5697	2.8306	3.2605	3.2303
2013	3.6298	4.3997	4.3705	NIL
2014	3.7771	3.7705	NIL	NIL

Where: t_{-1} = the year preceding the transition year; t_0 = transition year (fiscal year in which the CEO changes); t_{+1} = post transition year (a year after the transition year); t_{+2} = post transition year (2 - year after the transition year). NIL indicates unavailable share price information for year 2016 and 2017. This is because the study takes share price four month following the closing of each financial year, which in this case, for transition year 2013, t_{+2} indicates financial year 2015 (which requires share price 2016) and for transition year 2014 t_{+1} indicates financial year 2015 (which requires share price 2016) and t_{+2} indicates financial year 2016 (which requires share price 2017).

CORRELATIONS TEST

Table 6 presents correlation matrix for all variables. The findings indicate that earnings per share and book value of equity are significantly and positively correlated with the share price at (0.7361) and (0.6755) respectively. These findings indicate that book value of equity and earnings per share are value relevance of accounting information (Jamaluddin et al. 2009). At the same time, book value of equity and earnings per share are significantly and positively correlated with each other (0.7093). However, multicollinearity is unlikely to be a problem since the correlation between these two independent variables is less than 0.8 (Kennedy 2003).

Table 6 also indicates that *TMC* and *TMC_1* are not significantly correlated with the share price. However, *TMC_C* (0.1253) are significantly and positively correlated with the share price at $p < 0.01$ level. This finding can be interpreted as CEO/MD succession does not influence the investors in their decision making in a short period of time (the transition year and a year after the transition year).

However, over a longer period of time, CEO/MD succession does influence the share price. This indicates that investors may take some time to value the quality and capabilities of the new CEO/MD. This is consistent with our findings presented in Table 5.

MULTIPLE REGRESSION RESULTS

Table 7 presents multiple regression results on the value relevance of book value, earnings and CEO/MD succession (Equations 1, 2 and 3). The regression analyses were performed on 584 observations based on the White's heteroscedasticity-correction. Column 2 Table 7 presents result for Equation (1) which indicated both accounting numbers [i.e. book value of equity per share (*BE*) and earnings per share (*EPS*)] are value relevant. Both variables, *BE* and *EPS*, are positively related to share price at $p < 0.01$. These findings are consistent with prior studies (Gulhan 2012; Goh et al. 2008; Jamaluddin et al. 2009; Kadri et al. 2009; Graham & King 2000).

TABLE 6. Pearson Correlation Matrix ($n=584$)

Variables	<i>SP</i>	<i>EPS</i>	<i>BE</i>	<i>TMC</i>	<i>TMC_I</i>	<i>TMC_C</i>
<i>SP</i>	1.0000					
<i>EPS</i>	0.7361*	1.0000				
<i>BE</i>	0.6755*	0.7093*	1.0000			
<i>TMC</i>	0.0016	-0.0267	0.0086	1.0000		
<i>TMC_I</i>	0.0525	0.0232	0.0326	-0.1785*	1.0000	
<i>TMC_C</i>	0.1253*	0.0361	0.0645	0.4326*	0.4184*	1.0000

Note: * significant at $p < 0.01$

SP = share price at four month after financial year end. *EPS* = earnings per share, *BE* = book value equity per share, *TMC* = Dummy variable 1 indicates the occurrence of CEO/MD succession (transition year of CEO/MD succession), or 0 for otherwise, *TMC_I* = Dummy variable 1 indicates a post transition year of CEO/MD succession, or 0 for otherwise, and *TMC_C* = Dummy variable 1 indicates post transition years of CEO/MD succession, or 0 for otherwise.

The purpose of H1 is to examine the effect of CEO/MD succession on firm's share price. Thus, we extended Equation 1 to incorporate dummy variable 1 which indicates the occurrence of CEO/MD succession in the firm, or 0 if otherwise. We estimated the share price, book value of equity per share, earnings per share, and the occurrence of CEO/MD succession (Equation 2). Column 3 indicates that while *BE* and *EPS* have significant relationship with share price, the appointment of new CEO/MD on the transition year (*TMC*) is not significantly related to share price. The insignificant relationship can be due to the fact that the investors cannot make an assessment on the new CEO/MD's performance during the transition year.

We extended Equation 2 to Equation 2a (column 5) and Equation 2b (column 7) to present our findings about the appointment of new CEO/MD for the first 12 months period and 3-year period. The results from these analyses may provide evidence of how time-factor will affect investors' consideration of newly appointed CEO/MD. Similar to previous findings, we found that incoming CEO/MD does not have useful information content during their first full year as a CEO/MD (*TMC_I*). These findings can be interpreted as, in a short period of time (*TMC* and *TMC_I*), CEO/MD succession does not influence investors in their decision making as investors might not be able to objectively evaluate the incoming CEO/MD performance. The findings also support the scapegoating view which considers CEO/MD removal as a form of scapegoating and new manager is not responsible for firm's immediate performance (Ishak et al. 2013; Huson et al. 2004). In this case, investors might not consider CEO/MD succession as a solution that could alter firm performance, thus market perceived CEO turnover as not having useful information content (Dherment-Ferere & Renneboog 2000).

However, our findings indicate that the CEO/MD succession is significantly related to share prices in a longer period of time (post transition years) as *TMC_C* is positive and significantly related to share price. This indicates that investors do value succession as relevant in determining the share price of the firm, i.e. *TMC_C* has useful information content to the investors in decision making.

From the above results, we can conclude that investors may need some time to evaluate the abilities of the newly

appointed CEO/MD in managing and bringing better performance to the firm because improvements by new CEO/MD may not be visible in a short period of time. This is because the new CEO may need to take some time to align his/her vision and strategy; and therefore improvements and profitability can only be realized at least two years after the transition year (Ishak et al. 2013; Dahyaa et al. 2000). The insignificance of *TMC* and *TMC_I* might be due to the increase in the information asymmetry during the transition period (*TMC*) and a period after *TMC* (*TMC_I*). The new CEO/MD may have the intention to reduce the level of available information (Sohn, Oh, Kang & Bae 2014) as the real performance, which is based on the new policies (introduced by the incoming successor), would not become evident in a short period of time. Thus, we tend to conclude that H1 is supported only when the occurrence of newly appointed CEO/MD are considered over a longer period of time (*TMC_C*). Moreover, these findings also support our early prediction that CEO/MD succession has an implication on market performance beyond a short window period.

We believe that CEO/MD or new CEO/MD plays a role in influencing the quality of accounting report, as they might have the ability to influence the managers or Chief Financial Officer (CFO) to meet their objectives (Habib & Hossain, 2013). Therefore, we analyze the effect of top management change on the value relevance of accounting numbers. Column 4, (Equation 3), column 6 (Equation 3a) and column 8 (Equation 3b), Table 7 present the regression analyses on the effect of interaction between the occurrences of CEO/MD succession and book value of equity per share and earnings per share to share price.

The findings indicate that book value of equity per share and earnings per share are significantly related to share price at $p < 0.01$. These results are consistent at each point of time (*TMC*, *TMC_I* and *TMC_C*); thus, we strengthen existing literature which concluded that earnings and book value of equity are useful accounting information for the investors.

However, when interaction was considered, we found that interactions between *TMC* and *TMC_I* with book value of equity per share (*CBE* and *CBEI*) and earnings per share (*CEPS* and *CEPSI*) are not significantly related to share price. It is believed that incoming CEO/MD may significantly

TABLE 7. Value relevance of book value, earnings and CEO/MD Succession (n=584)
(White's heteroscedasticity-correction)

Variables	Equation 1	Equation 2	Equation 3 ²	Equation 2a	Equation 3a	Equation 2b	Equation 3b
BE	0.5944 (5.0628)*	0.5930 (5.0519)*	0.6091 (4.7179)*	0.5925 (5.0466)*	0.5820 (4.7314)*	0.5812 (5.0046)*	0.6780 (5.2069)*
EPS	7.0621 (7.0537)*	7.0736 (7.0827)*	7.0776 (6.3277)*	7.0620 (7.0530)*	7.0479 (6.6763)*	7.0852 (7.1947)*	5.1296 (4.4969)*
TMC		0.1091 (0.5511)	0.3237 (1.1207)				
CBE			-0.1050 (-0.3560)				
CEPS			0.0694 (0.0308)				
TMC_I				0.2666 (1.0323)	0.1127 (0.3298)		
CBEI					0.0641 (0.1644)		
CEPSI					0.0264 (0.0082)		
TMC_C						0.5407 (3.2749)*	-0.0233 (-0.0862)
CBE2							-0.2324 (-1.0176)
CEPS2							3.9217 (2.0611)**
Constant	0.2665 (2.0617)**	0.2494 (1.9456)***	0.2132 (1.4290)	0.2314 (1.7166)***	0.2577 (1.7890)***	0.0205 (0.1451)	0.3419 (1.6148)
Adj R ²	0.5878	0.5873	0.5862	0.5880	0.5868	0.5947	0.6046
F Stat	416.6960*	277.5050*	166.1772*	278.3825*	166.5744*	286.1366*	179.3272*

Note: Figure in () indicates t-statistic; *, **, and *** indicate significance at p < 0.01, p < 0.05 and p < 0.10, respectively.
SP = share price at four month after financial year end. BE = book value equity per share, EPS = earnings per share, TMC = Dummy variable 1 indicates the occurrence of CEO/MD succession (transition year of CEO/MD succession), or 0 for otherwise. TMC_I = Dummy variable 1 indicates a post transition year of CEO/MD succession, or 0 for otherwise, and TMC_C = Dummy variable 1 indicates post transition years of CEO/MD succession, or 0 for otherwise. CBE = interaction between TMC and BE, CEPS = interaction between TMC and EPS, CBEI = interaction between TMC_I and BE, CEPSI = interaction between TMC_I and EPS, CBE2 = interaction between TMC_C and BE, and CEPS2 = interaction between TMC_C and EPS

utilize accounting choice which reflects an increase in reported earnings during their initial years to indicate significant improvement under his/her stewardship (Bornemann et al. 2015). Insignificant results during *TMC* and *TMC_I* can be associated to investor's perception that accounting choice by new CEO/MD is driven by opportunistic behavior. Hence, accounting numbers are no longer relevant to the investors as they might turn to other sources of information to predict firm value.

Further, we found different results for *TMC_C* as investors react positively toward the interaction between CEO/MD succession and EPS (*CEPS2*) during post transition years. Our findings indicate that the coefficient of *CEPS2* is positive and significant to share price at 0.05 level. However, the interaction between *TMC_C* and *BE* (*CBE2*) is not positively and significantly related to share price. Thus, we conclude that H2 is partly supported. These results are consistent with earlier findings from Equation 2b (example, column 7).

The findings suggest that investors do consider value earnings per share as an indicator in measuring the new CEO/MD's performance during post transition years (*TMC_C*); this is because the capital market expects this value to be higher compared to the last period (Kim, Sambharya & Yang 2014). This is consistent with Murphy and Zimmerman (1993) which indicated *EPS*, instead of book value of equity, is regarded as the most commonly used performance measure employed by stakeholders, including investors, creditors, regulatory agencies and pension funds, etc. These findings also support Ishak et al. (2013) which indicated there is an improvement in post-succession performance, significantly two years after succession events. An improvement may cause investors to react positively during *TMC_C*, which is reflected in firm's share price.

Origin of the successor might play an important role in influencing investors' perception toward the successor's ability in performing his/her duties. Researchers (Setiawan et al. 2011; Shen & Cannella 2002; Kesner & Sebor 1994) indicate that origin of successor is an important factor that affects firm performance and investors' reaction. We therefore incorporate this variable into our analysis.

The objective of H3 is to investigate how the origin of successor affects the relationship between share price and accounting numbers. To do so, we replaced *TMC*, *TMC_I* and *TMC_C* with new variables which indicate the origin of successor. For the outsider, we introduce *TMCO*, *TMCO_I* and *TMCO_C*; and *TMCI*, *TMCI_I* and *TMCI_C* to indicate new CEO/MD from inside of the organization. We then performed separate regression analyses for companies with CEO/MD successor from outside and companies with CEO/MD from inside of organization.

Table 8 presents results for the value relevance of *BE*, *EPS* and origin of the successor. Consistent with Table 7, *BE* and *EPS* are consistently significant and positively related to *SP* at $p < 0.01$ for all equations. Columns 2, 3 and 4 (Equations 4, 4a and 4b) Table 8 present results for the regression analyses for firms with CEO/MD successor

from outside of the organization. The results show that the interaction between the occurrences of CEO/MD succession and book value of equity per share and earnings per share are not significantly and positively related to share price at *TMC* and *TMC_C*; i.e. *CBE_O*, *CEPS_O*, *CBE2_O* and *CEPS2_O* are not significantly related to share price. However, during *TMC_I* (a year after the transition year), we found that *CBEI_O*, instead of *CEPSI_O* is positively and significantly related to share price at $p < 0.01$ level. This indicates that investors have less confidence on EPS for firms with experienced successor from outside of organization during *TMC_I*. The findings support prior studies (Bornemann et al. 2015; Tokuga & Yamashita 2011; Pourciau 1993) which indicate that earnings management is strongly linked with outside successor because it is said that outsider is under a lot of pressure to bring an improved performance/to turn performance around after succession (Bornemann et al. 2015; Shen & Cannella 2002). Hence, investors lose confidence on EPS over firms with outside successor. Thus, they turn to the information disclosed in the balance sheet (book value of equity) to predict firm value.

However, contradictory findings are recorded in the cases of companies with successor from inside of the organization. Columns 6, 7 and 8 (Equations 5, 5a and 5b), Table 8 presents results from the regression analyses for firms with CEO/MD successor from inside of the organization. In contrast to the earlier findings, we found the interaction between *TMCI_I* and earnings per share (*CEPSI_I*) and the interaction between *TMCI_C* and earnings per share (*CEPS2_I*) are significantly and positively related to share price at $p < 0.10$ and $p < 0.05$, respectively. Our results indicate that the occurrence of CEO/MD succession with inside successor influences the value relevance of *EPS*, but not for the *BE*. This contradicts the case of outside successor, whereby investors have more confidence on *EPS* number for the firm with inside successor. This is because investors might believe that insiders have less intention to manage earnings; and hence *EPS*, as disclosed in financial statements, reflects the real improvement on financial position of the firm.

Despite the large number of studies (example, Ishak et al. 2013; Jalal & Prezas 2012; Setiawan et al. 2011; Charitou et al. 2010; Dahya & McConnell 2005) documenting evidence that outsider is perceived as more beneficial to investors, our study, however, indicates that Malaysian investors prefer to insider rather than outsider as they have better positive reaction toward firms with inside successor. These findings extend the limited studies which argued that insider is better due to a smoother transition, better social network and a better vision and understanding about the firm's conditions (Setiawan 2008; Rhim et al. 2006; Dherment-Ferere & Renneboog 2000; Dalton & Kesner 1985). This situation leads to a better firm performance with respect to operations and profitability (Rhim et al. 2006). From the above results, we conclude that *BE* is regarded as value relevance by the investors after incorporating firm with outside

TABLE 8. Value relevance of book value, earnings and to management change: The origin of successor (n=584)
(White's heteroscedasticity-correction)

Variables	Equation 4 ³	Equation 4a	Equation 4b	Variables	Equation 5 ⁴	Equation 5a	Equation 5b
<i>BE</i>	0.5704 (4.6952)*	0.5247 (4.3992)*	0.5028 (3.8946)*	<i>BE</i>	0.6327 (5.0804)*	0.6542 (5.4128)*	0.7912 (5.4690)*
<i>EPS</i>	7.1638 (6.7897)*	7.3845 (7.2048)*	7.1987 (6.3495)*	<i>EPS</i>	6.9709 (6.5845)*	6.7302 (6.5401)*	5.4885 (5.4690)*
<i>TMCO</i>	-0.1636 (-0.3187)			<i>TMCI</i>	0.5463 (1.9741)		
<i>CBE_O</i>	0.3701 (0.8936)			<i>CBE_I</i>	-0.4418 (-1.4256)		
<i>CEPS_O</i>	-1.6546 (-0.6106)			<i>CEPS_I</i>	1.4042 (0.5117)		
<i>TMCO_I</i>		-0.6577 (-1.0353)		<i>TMCI_I</i>		0.5110 (1.6557)***	
<i>CBE1_O</i>		1.0740 (2.6055)*		<i>CBE1_I</i>		-0.7882 (-2.4372)**	
<i>CEPS1_O</i>		-4.7818 (-1.3925)		<i>CEPS1_I</i>		4.9835 (1.8034)***	
<i>TMCO_C</i>			-0.5174 (-1.5908)	<i>TMCI_C</i>			0.3511 (1.3411)
<i>CBE2_O</i>			0.4637 (1.6254)	<i>CBE2_I</i>			-0.6347 (-2.4692)**
<i>CEPS2_O</i>			-0.7543 (-0.3241)	<i>CEPS2_I</i>			5.2315 (2.4390)**
Constant	0.2737 (2.0031)**	0.3065 (2.3287)**	0.3647 (2.4956)**	Constant	0.2093 (1.4917)	0.2146 (1.5249)	0.1328 (0.7870)
Adj R ²	0.5872	0.5962	0.5940	Adj R ²	0.5882	0.5919	0.6051
F Stat	166.8283*	173.1733*	171.6110*	F Stat	167.5223*	170.0820*	179.6941*

Note: Figure in () indicates t-statistic; *, ** and *** indicate significance at $p < 0.01$, $p < 0.05$ and $p < 0.10$ respectively.

SP = share price at four month after financial year end. *BE* = book value equity per share, *EPS* = earnings per share, *TMCO/TMCI* = Dummy variable 1 indicates the occurrence of CEO/MD succession with outside/inside/ successor (transition year of CEO/MD succession), or 0 for otherwise, *TMCO_I/TMCI_I* = Dummy variable 1 indicates a post transition year of CEO/MD succession with outside/inside successor, or 0 for otherwise, and *TMCO_C/TMCI_C* = Dummy variable 1 indicates post transition years of CEO/MD succession with outside/inside successor, or 0 for otherwise, *CBE_O/I* = interaction between *TMCO/TMCI* and *BE*, *CEPS_O/I* = interaction between *TMCO/TMCI* and *EPS*, *CBE1_O/I* = interaction between *TMCO_I/TMCI_I* and *BE*, *CEPS1_O/I* = interaction between *TMCO_I/TMCI_I* and *EPS*, *CBE2_O/I* = interaction between *TMCO_C/TMCI_C* and *BE*, and *CEPS2_O/I* = interaction between *TMCO_C/TMCI_C* and *EPS*.

successor. However, *EPS* is considered as value relevance of accounting information for the firm with the inside successor. Thus, H3 is partly supported.

CONCLUSION

Top management plays an important role in firm's operation and businesses (Amran et al. 2014), and becomes a key determinant in deciding firm's strategy, design, performance and corporate culture (Rhim et al. 2006). His or her position is more prominent during top management turnovers (Bornemann et al. 2015). Our study extends previous studies on top management changes by incorporating the effect of CEO/MD succession on the value relevance of accounting numbers. Thus, the objective of this study is to examine whether the succession of CEO/MD influences firm's share price and the value relevance of accounting numbers.

This study has two important findings. The first finding indicates that CEO/MD succession does not influence the investors in their decision making during the transition year and a year after the transition. However, the result is reversed in the longer periods of study. This is because, in a short period of time, investors might not be able to evaluate the contribution and performance of the new CEO/MD. This is consistent with the studies of Ishak et al. (2013) and Dahyaa et al. (2000) which concluded that improvement in post-succession performance can only be realized at least two years after the CEO/MD assumes the position.

The second finding also indicates that in general, the CEO/MD succession has no significant effect on value relevance of *EPS* and *BE* during short period of time after the succession period. Investors do not rely on accounting numbers during new CEO/MD's first and second year turnover as they (investors) suspect that accounting

numbers do not reflect the true firm's performance. Since generally accepted accounting principles provide flexibility in selecting accounting methods, new CEO/MD might mislead investors and stakeholders by reporting financial performance; either to portray bad or good performance immediately after the succession as to achieve their personal objective.

Further analysis incorporating the origin of successor (whether from inside or outside of organization) demonstrates that *BE* is regarded as value relevant if successors are outsiders. Meanwhile, *EPS* is considered value relevant if the successors are insiders. These findings can be interpreted as Malaysian investors have more confident on *EPS* value if firms elect successors from inside of the firms. This is because investors might believe *EPS*, as disclosed in financial statements, reflects the real improvement on financial position of the firm.

This study has limitation. Sample for this study is limited to 95 firms, which might not represent all the firms which experience CEO/MD succession. Future research needs to consider types of succession element and extends the period of study to gain better understanding on the effect of top management changes on the value relevance of accounting numbers. Future research can also extend this study by investigating the effect of CEO/MD succession on earnings management behavior.

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NOTES

1. 10 companies had made two announcements on CEO/MD succession during the period of study. In the case of multiple announcements, only announcement in the third year after the first announcement is included in the study. This is consistent with Pourciau (1995) and Guan et al. (2005). This is to allow us associate the share prices performance to the first newly appointed CEO/MD.
2. The results are consistent after we exclude *TMC* from the equation.
3. The results are consistent after we exclude *TMC_O* from the equation.
4. The results are consistent after we exclude *TMC_I* from the equation.

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