

**DETERMINANTS AND CONSEQUENCES OF CEO
SUCCESSION IN MALAYSIAN PUBLIC LISTED COMPANIES**

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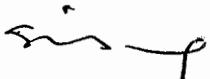
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ABSTRAK

Kajian ini mengkaji faktor utama yang mempengaruhi penggantian Ketua Pegawai Eksekutif (CEO) di kalangan syarikat tersenarai awam Malaysia. Penggantian CEO dibahagikan kepada dua bahagian iaitu pertukaran CEO dan pemilihan pengganti. Kajian ini juga akan menyelidik kesan penggantian CEO ke atas perubahan prestasi syarikat. Memandangkan kurangnya kajian yang dibuat berkaitan penggantian CEO dan dalam persekitaran pemilikan tertumpu yang unik di Malaysia, kajian ini bertujuan untuk memeriksa sama ada prestasi syarikat, tadbir urus korporat, kuasa CEO dan ciri-ciri firma mempengaruhi penggantian CEO dalam syarikat di Malaysia sepetimana yang dilaporkan di negara maju. Prestasi syarikat diukur menggunakan pulangan atas aset syarikat dan Tobin Q. Bagi tadbir urus korporat pula, kajian ini memberi tumpuan bagaimana ahli lembaga pengarah dan struktur pemilikan syarikat mempengaruhi penggantian CEO. Kuasa CEO diproksikan kepada latar belakang pendidikan, kemahiran dan latarbelakang peranan, umur, tempoh memegang jawatan, pemilikan saham dan penempatan semula mantan CEO di dalam syarikat yang sama.

Unit analisa kajian ialah penggantian CEO dalam syarikat tersenarai awam Malaysia untuk tempoh 2002 sehingga 2005. Data penggantian CEO kemudiannya diklasifikasikan kepada pertukaran dan asal-usul pengganti. Regresi logistik digunakan untuk mengenalpasti faktor yang mempengaruhi kecenderungan untuk menukar CEO. Pemboleh ubah bersandar dikodkan sebagai pertukaran dan tiada pertukaran. Analisa berdasarkan 145 kejadian pertukaran dalam tempoh empat tahun, menunjukkan bahawa syarikat yang berprestasi rendah, mempunyai CEO yang berpendidikan tinggi, mempunyai CEO yang berumur, mempunyai CEO yang memegang jawatan untuk jangkamasa yang pendek dan mempunyai nisbah hutang yang tinggi adalah lebih cenderung untuk menukar CEO. Walau bagaimanapun, syarikat yang mempraktiskan dwi peranan CEO/Pengerusi, mempunyai ramai ahli lembaga pengarah yang menganggotai ahli lembaga pengarah beberapa syarikat, dikuasai oleh keluarga atau pihak

pengurusan, mempunyai CEO yang memiliki saham dan mempunyai kepelbagaian segmen operasi adalah kurang cenderung untuk menukar CEO.

Bagi bahagian pemilihan, regresi logistik berasingan dijalankan dengan pengganti luar sebagai pemboleh ubah bersandar. Dapatan kajian menunjukkan bahawa struktur pemilikan, pelantikan semula mantan CEO dan jenis pertukaran amat mempengaruhi pemilihan pengganti CEO. Firma yang dikawal oleh keluarga atau pengurusan lebih cenderung untuk memilih pengganti dalaman, manakala syarikat yang dikawal oleh pelabur institusi adalah lebih cenderung untuk memilih pengganti luar. Firma yang melantik semula mantan CEO kurang cenderung untuk melantik pengganti luar, manakala firma yang terlibat dengan pertukaran secara paksa memilih pengganti luar. Pemboleh ubah lain seperti prestasi syarikat, atribut ahli lembaga pengarah dan ciri-ciri firma tidak mempengaruhi pemilihan pengganti CEO. Secara umumnya, kajian ini mendapati prestasi meningkat selepas penggantian CEO. Peningkatan dalam prestasi syarikat menjadi signifikan apabila firma terlibat dengan pertukaran secara paksa dan melantik orang luar sebagai pengganti.

Implikasi kajian ialah penggunaan teori modal insan dan teori rangkaian sosial bersama teori agensi memberi lebih pemahaman terhadap kajian berkaitan penggantian CEO dalam konteks Malaysia. Kajian ini mencadangkan agar pihak penggubal undang-undang terutamanya Bursa Malaysia melakukan penguatkuasaan ke atas syarikat supaya mereka mendedahkan semua maklumat berkaitan penggantian CEO secara telus dan mutakhir. Di samping itu Bursa Malaysia perlu meningkatkan penguatkuasaan undang-undang untuk meningkatkan amalan tadbir urus korporat yang baik. Bagi syarikat pula, kajian ini mencadangkan agar pihak syarikat memberi lebih penekanan terhadap peranan dan kualiti ahli jawatankuasa pencalonan memandangkan jawatankuasa ini terlibat secara langsung dalam pemilihan CEO yang baru.

ABSTRACT

This study investigates the key determinants that influence Chief Executive Officer's (CEO) succession amongst Malaysian Public Listed Companies (PLCs). The succession of CEO is divided into two parts, turnover of CEO and the selection of a successor. This study also investigates the consequences of CEO succession on changes in firm's post succession performance. Due to the scarcity of studies on CEO succession, and given a unique environment of concentrated ownership in Malaysia, this study seeks to examine whether firm's performance, firm's governance, the power of CEO and firm characteristic influence the succession of Malaysian PLCs' CEO as was examined on developed countries. Firms' ROA and Tobin's Q are used to measure corporate performance. As far as corporate governance is concerned, this study focuses on how board of directors and ownership structures influence CEO succession. Meanwhile, the CEO power is proxied by CEO's age, tenure, educational background, skills and functional background, share ownership and the disposition of the predecessor in the same company.

Unit analysis of this study is the CEO succession in Malaysian PLCs for the period 2002 to 2005. Data of CEO succession is then classified into turnover and the origin of the successor. A logistic regression is employed to identify factors that influence the propensity of CEO turnover. The dependent variables are coded as turnover and no turnover. Analysis on 145 turnover events over a four-year period indicates that firms that experience low performance, have highly educated CEO, have older CEO, have shorter tenure CEO and have high leverage are more likely to change their CEOs. However, firms that exercise CEO/Chairman duality, have many board members with multiple directorships, controlled by family or management, have CEO ownership and have many business segments are less likely to change their CEOs.

For the selection part, a separate logistic regression is employed with outside succession as the dependent variable. Results reveal that ownership structure, predecessor disposition and turnover type significantly influence CEO selection choice. Firms that are controlled by families or management are more likely to select inside successors while firms that are controlled by institutional investors are more likely to select outsiders as new CEOs. Firms that dispose their CEO are also less likely to invite outsiders to become successors, while firms that are involved with forced turnover choose outsiders as successors. Other variables i.e firm performance, board attributes and firm characteristic do not influence CEO selection choice. This study finds that on average, firms' post-succession performance improves following CEO succession. The improvement in firm performance becomes significant for firms involve with forced turnover and select outsiders as successors.

This study implicates that the application of human capital theory and social network theory along with agency theory provide better understanding of CEO succession study in Malaysian context. This study suggests that the regulators especially Bursa Malaysia should enforce companies to disclose all relevant information related with CEO succession on a transparent and timely manner. Besides that, Bursa Malaysia should increase the law enforcement to enhance good corporate governance practices. For companies, this study proposes that they should put more emphasis on enhancing the role and the quality of board nominating committee members as this committee is directly involved in selecting new CEOs.

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TABLE OF CONTENTS

Permission to Use
Abstrak (Bahasa Melayu)
Abstract (English)
Acknowledgement
Table of Contents
List of Tables
List of Figures
List of Abbreviations

CHAPTER 1 INTRODUCTION

1.1	Background of Study	1
1.2	Problem Statement	7
1.3	Research Questions	11
1.4	Research Objectives	11
1.5	Significant of Study	12
1.6	Scope of the Study	14
1.7	Structure of the Thesis	20
1.8	Summary of the Chapter	22

CHAPTER 2 LITERATURE REVIEW

2.1	Introduction	23
2.2	Introduction of Corporate Governance Code	24
	2.2.1 Corporate Governance in Malaysia	26
2.3	CEO Turnover	29
	2.3.1 Theories and Models in CEO Turnover	33
2.4	CEO Selection Choice	40
	2.4.1 Theories in CEO Selection Choice	43
	2.4.1.1 Adaptive View	43

2.4.1.2 Inertial View	44
2.4.1.3 Scapegoating View	44
2.4.1.4 Contingency View	45
2.5 Determinants of CEO Turnover and Selection Choice	46
2.5.1 Corporate Performance	46
2.5.2 Board of Directors' Attributes	53
2.5.2.1 Board Size	56
2.5.2.2 Board Composition	58
2.5.2.3 Board Leadership Structure	62
2.5.2.4 Board Members Multiple Directorships	64
2.5.2.5 Composition of Board Nominating Committee	66
2.5.3 Ownership Structure	67
2.5.3.1 Family Ownership	68
2.5.3.2 Managerial Ownership	70
2.5.3.3 Institutional Investors	72
2.5.3.3 Blockholders	76
2.5.4 CEO Power	77
2.5.4.1 CEO Educational Background	78
2.5.4.2 CEO Skill and Functional Background	78
2.5.4.3 CEO Age	80
2.5.4.4 CEO Tenure	82
2.5.4.5 CEO Ownership	83
2.5.4.6 CEO Disposition	85
2.5.5 Firm Characteristics	86
2.5.5.1 Firm Size	86
2.5.5.2 Firm Leverage	88
2.5.5.3 Firm Diversification	89
2.5.5.4 Industry Effect	90
2.5.6 Turnover Type	91
2.6 The Consequences of CEO Succession	92
2.6.1 Theories in CEO Succession Consequences	93

2.6.1.1	Common Sense Theory	93
2.6.1.2	Vicious Theory	95
2.6.1.3	Ritual-scapegoating Theory	96
2.6.2	Determinant of CEO Succession Consequences	98
2.6.2.1	Pre-succession Performance	99
2.6.2.2	Successor Origin	100
2.6.2.3	Turnover Type	101
2.6.2.3.1	Voluntary turnover	102
2.6.2.3.2	Forced turnover	103
2.7	Summary of the Chapter	104

CHAPTER 3: RESEARCH FRAMEWORK AND DEVELOPMENT OF HYPOTHESES

3.1	Introduction	106
3.2	Research Framework	106
3.3	Research Design Issue	112
3.3.1	Measurement Issue: Prior and Current Measurement.	113
3.3.2	Measurement Issue: CEO Turnover and Selection Year	114
3.3.3	Non-linear Relationship	115
3.3.4	Interaction between Variables	115
3.4	Hypothesis Development for CEO Succession Study	116
3.4.1	Corporate Performance (CP)	116
3.4.2	Board of Directors' Attributes	118
3.4.2.1	Board Size (BSIZE)	119
3.4.2.2	Board Composition (BCOMP)	121
3.4.2.3	Board Leadership Structure (DUALITY)	123
3.3.2.4	Board Members Multiple Directorships (BMDR)	124
3.4.2.5	Composition of Board Nominating Committee (BNC)	126

3.4.3	Ownership Structure	126
3.4.3.1	Family Ownership (FAMILY)	127
3.4.3.2	Managerial Ownership (MGRIAL)	129
3.4.3.3	Institutional investors (INST)	131
3.4.3.4	Blockholders (BLOCK)	134
3.4.4	CEO Power	135
3.4.4.1	CEO Educational Background (EDU)	136
3.4.4.2	CEO Skill and Functional Background (SKILL)	137
3.4.4.3	CEO Age (AGE)	138
3.4.4.4	CEO Tenure (TENURE)	139
3.4.4.5	CEO Ownership (OWN)	140
3.4.4.6	CEO Disposition (DISP)	141
3.4.5	Firm Characteristics	142
3.4.5.1	Firm Size (FSIZE)	142
3.4.5.2	Firm Leverage (LEV)	143
3.4.5.3	Firm Diversification (DIVERS)	144
3.4.5.4	Industry Effect (INDEFFECT)	145
3.4.6	Turnover Type (TURNTYPE)	146
3.5	The Consequences of CEO Succession	147
3.6	Formal Hypotheses	149
3.7	Summary of the Chapter	152

CHAPTER 4: RESEARCH METHODS

4.1	Introduction	153
4.2	Sample Selection Procedure for CEO Succession Study	154
4.2.1	Information Sources	154
4.2.2	Population and Sample Selection	155
4.2.3	Duration of Data	156
4.2.4	Establishing Initial Dataset	157
4.2.5	Assigning Datastream Codes	158
4.2.6	Cleaning the Dataset to Resolve Problem	158

4.2.7	Decision Rules in Sample Selection	159
4.2.8	Methods for Selecting Matching Companies	162
4.3	Method to Identify CEO Succession	165
4.3.1	CEO Turnover	165
4.3.2	Method to Identify CEO Selection Choice	168
4.3.3	Method to Identify CEO Succession Consequences	169
4.4	Methods for CEO Succession Analyses	169
4.4.1	CEO Turnover and CEO Selection Analysis	169
4.4.2	Method for Consequences Analysis	170
4.5	Specification of CEO Succession Models	171
4.5.1	CEO Turnover Model	172
4.5.2	CEO Selection Choice Model	173
4.6	Measurement of Independent Variables for CEO Turnover and Selection Choice Model	174
4.6.1	Corporate Performance	175
4.6.2	Board of Directors' Attributes	177
4.6.2.1	Board Size (BSIZE)	177
4.6.2.2	Board Composition (BCOMP)	177
4.6.2.3	Board Leadership Structure (DUALITY)	177
4.6.2.4	Board Member Multiple Directorships (BMDR)	178
4.6.2.5	Composition of Nominating Committee (BNCC)	178
4.6.3	Ownership Structure	178
4.6.3.1	Family Ownership (FAMILY)	178
4.6.3.2	Managerial Ownership (MGRIAL)	178
4.6.3.3	Institutional Investors (INST)	179
4.6.3.4	Blockholders (BLOCK)	179
4.6.4	CEO Power	180
4.6.4.1	CEO Educational Background (EDU)	180
4.6.4.2	CEO Skill and Functional Background (SKILL)	180
4.6.4.3	CEO Age (AGE)	180
4.6.4.4	CEO Tenure (TENURE)	181

4.6.4.5 CEO Ownership (OWN)	181
4.6.4.6 CEO Disposition (DISP)	181
4.6.5 Firm Characteristics	182
4.6.5.1 Firm Size (FSIZE)	182
4.6.5.2 Firm Leverage (LEV)	182
4.6.5.3 Firm Diversification (DIVERS)	182
4.6.5.4 Industry Effect (INDEFFECT)	182
4.6.6 Turnover Type (TURNTYPE)	183
4.6.7 Summary of Independent Variables	183
4.7 Summary of the Chapter	184

CHAPTER 5 RESULTS ON CEO TURNOVER STUDY

5.1 Introduction	186
5.2 Sample Description and Sample Statistics	186
5.3 Univariate Analysis	193
5.4 Multivariate Analysis	203
5.4.1 Correlation Analysis	203
5.4.2 Logistic Regression Assumptions	207
5.4.3 Logistic Regression Results	209
5.4.3.1 Corporate Performance and CEO Turnover	214
5.4.3.2 Board of Directors' Attributes and CEO Turnover	217
5.4.3.3 Ownership Structure and CEO Turnover	219
5.4.3.4 Incumbent CEO Power and CEO Turnover	222
5.4.3.5 Firms Characteristics and CEO Turnover	225
5.5 Additional Sensitivity Test	227
5.5.1 Alternative Proxies	227
5.5.2 Relationship between Independent Variables and CEO Turnover	235
5.5.3 Forced Turnover versus Voluntary Turnover	238
5.6 Summary of the Chapter	242

CHAPTER 6:RESULTS OF CEO CHOICE SELECTION STUDY AND THE CONSEQUENCES OF CEO SUCCESSION

6.1	Introduction	245
6.2	Sample Characteristics	247
6.3	Univariate Analysis	250
6.4	Multivariate Analysis	261
6.4.1	Correlation Analysis	261
6.4.2	Logistic Regression Assumptions	264
6.4.3	Logistic Regression Results	266
6.4.3.1	Corporate Performance and CEO Selection Choice	269
6.4.3.2	Board of Directors' Attributes and CEO Selection Choice	269
6.4.3.3	Ownership Structure and CEO Selection Choice	272
6.4.3.4	CEO Power and CEO Selection Choice	273
6.4.3.5	Firms Characteristics and CEO Selection Choice	273
6.4.3.6	Turnover Type and CEO Selection Choice	274
6.5	Additional Sensitivity Test	275
6.5.1	Alternative Proxies	275
6.5.2	Relationship between Independent Variables and CEO Selection Choice	280
6.6	Results on Consequences of CEO Succession	284
6.6.1	Further Analysis for Post Succession Performance	290
6.7	Summary of the Chapter	292

CHAPTER 7: SUMMARY AND CONCLUSIONS

7.1	Introduction	294
7.2	Overview, Summary of Results and Conclusions	295
7.3	Implications of the Study.	304
7.4	Limitations of the Study	307
7.5	Suggestions for Future Research	308
7.6	Concluding Remarks	310

REFERENCES	312
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APPENDICES

Appendix 1: Top Management Turnover	327
Appendix 2: Example of Change in Boardroom Announcement	328
Appendix 3: Turnover Type: Example of Voluntary Turnover	329
Turnover Type: Example of Forced Turnover	330
Appendix 4: Successor Origin: Example of Inside Selection	331
Successor Origin: Example of Outside Selection	332
Appendix 5: Regression Analysis Family Ownership, Managerial Ownership and CEO Ownership	333
Appendix 6: Linearity Test	334
Appendix 7: Results of CEO Turnover Study	
Logistic Regression: Model 1: Family Ownership	337
Logistic Regression: Model 2: Managerial Ownership	338
Logistic Regression: Model 1: CEO Ownership	339
Appendix 8: Pearson Correlation	
Correlation between Institutional Investors, Government and Blockholders	340
Appendix 9: CEO Selection Choice Results	
Logistic Regression: Model 1: Family Ownership	341
Logistic Regression: Model 2: Managerial Ownership	342
Logistic Regression: Model 1: CEO Ownership	343

LIST OF TABLES

Table 4.1:	Sample Selection and Screening Process	162
Table 4.2:	Matching Statistics	165
Table 4.3:	Summary of Main Independent Variables and Alternative Proxies	183
Table 5.1:	Sample Characteristics	189
Table 5.2:	Sample Description (Turnover Companies vs. Matching Companies)	191
Table 5.3:	Reason for CEO Turnover	192
Table 5.4:	Descriptive Statistics for Continuous Variables	194
Table 5.5:	Descriptive Statistics for Dichotomous Variables	200
Table 5.6:	Univariate Logistic Regression Results	202
Table 5.7:	Pearson Correlation	206
Table 5.8:	Collinearity Statistics: Tolerance Value and Variance Inflation Factors	208
Table 5.9:	Residual Statistics- Test of Outliers	209
Table 5.10:	Logistic Regression Results: CEO Turnover	216
Table 5.11:	Results of CEO Turnover Regression Using Alternative Proxy Variables	225
Table 5.12:	Summary of CEO Turnover Findings	234
Table 5.13:	Relationship between Independent Variables and CEO Turnover	237
Table 5.14:	Logistic Regression Results: Forced vs Voluntary Turnover	241
Table 6.1 :	Sample Characteristics	249
Table 6.1a:	Redesignation and Disposition of CEO Position	250
Table 6.2:	Descriptive Statistics for Continuous Variables	253

Table 6.3 :	Descriptive Statistics for Dichotomous Variables	257
Table 6.4:	Univariate Logistic Regression Results	259
Table 6.5 :	Pearson Correlation	263
Table 6.6:	Collinearity Statistics: Tolerance Value and Variance Inflation Factors	265
Table 6.7:	Residuals Statistics-Test of Outliers	266
Table 6.8:	Logistic Regression Results: CEO Selection Choice	270
Table 6.9:	Logistic Regression Results- Model 4: Family Ownership and CEO Disposition	271
Table 6.10:	Results of CEO Selection Choice Using Alternative Proxies	278
Table 6.11:	Summary of CEO Selection Choice Findings	279
Table 6.12:	Type of Independent Variables and CEO Selection Choice	283
Table 6.13 :	Changes in Firm Performance Surrounding CEO Succession	288
Table 6.14:	Post Succession Performance Based on Turnover Type	289
Table 6.15:	Changes in Performance- Turnover and Non-Turnover Companies	291

LIST OF FIGURES

Figure 1:	Structure of the Study	14
Figure 2.1:	A Model of CEO Dismissal	38
Figure 2.2:	Three Stage of CEO Dismissal Model	39
Figure 3.1:	Potential Determinants of CEO Turnover	110
Figure 3.2:	Potential Determinants of CEO Selection Choice	111
Figure 3.3:	Potential Determinants of CEO Succession Consequences	112
Figure 3.4:	CEO Succession Time Line	115
Figure 4.1	Time Line for Firm Performance Data	171

LIST OF ABBREVIATIONS

CAR	Cumulative Abnormal Return
CEO	Chief Executive Officer
FCCG	Finance Committee of Corporate Governance
FPLC	Federation of Public Listed Companies Berhad
FRSa	Financial Reporting Standards
IPC	Infrastructure Project Company
KLSE	Kuala Lumpur Stock Exchange (Bursa Malaysia)
MD	Managing Director
MASB	Malaysian Accounting Standard Board
MESDAQ	Malaysian Exchange of Security Dealing and Automated Quotation
MICG	Malaysian Institute of Corporate Governance
MSWG	Minority Shareholder Watchdog Group
OLS	Ordinary Least Square
PLCs	Public Limited Companies
PwC	PricewaterhouseCoopers
R&D	Research and Development
ROA	Return on Assets
ROE	Return on Equity
TOBIN	Tobin's Q
VIF	Variances Inflation Factors

CHAPTER 1: INTRODUCTION

1.1 Background of the Study

On May 14, 2010 the first high-profile removal of the head of a government-linked company was reported in all Malaysian press. The Sime Darby Bhd's group chief executive, Datuk Ahmad Zubir Murshid was asked to take a leave of absence before the expiry of his contract on Nov 26, 2010. The Sime Darby chairman, Tun Musa Hitam comments that Zubir's leaving was in connection with the cost overruns that the group's energy and utilities division had suffered in carrying out projects in Qatar and the Bakun hydro-electric dam. Related to projects delay and cost overruns in Qatar and Bakun, the board of directors announced a negative impact of RM964 million on the group's second half results for the year ended June 30, 2010 (The Star, May 14). The share price of Sime Darby was traded at RM8.65 on May 12 and the price dropped by 51 cents to RM8.14 and became the top loser counter on May 14 trading day.

Following Ahmad Zubir resignation, Datuk Azhar Abdul Hamid who is currently the head of Sime Darby Plantation division was appointed as the acting group chief executive. Two month later, Datuk Mohd Bakke Salleh, a former Felda Global Ventures Holdings Sdn Bhd's group president and chief executive officer stepped in as Sime Darby's acting president and group chief executive. The former acting group chief executive, Datuk Azhar was redesignated as the special adviser to the acting president and group chief executive (The Star, July, 16). However, Datuk Azhar decided to quit

The contents of
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