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# Leader Succession: The impact of leaders' background characteristics on organizations' performance

José Daniel Gil Godoy, N. ° 310

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Prof. Violetta Gerasymenko

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## ABSTRACT

The present study aims to reconcile contradictory results of previous studies regarding the impact of the new leader's origin and levels of general and functional experience on the firm's performance after the leader succession event. We analyze 52 succession events drawn from longitudinal public records of professional Portuguese football clubs from seasons 2004-2005 to 2008-2009. Results suggest that outsider leaders have a positive effect on post succession performance in the short term, and that leader's general experience has neither short-term nor long-term positive effect and finally leaders' functional experience has positive effect in the long term but not in the short term.

**Keywords:** Leader succession, Leader's origin, Leader's experience, Organizations' performance.

## INTRODUCTION

Leader succession and in particular top executive succession is commonly viewed as a highly important event in the organizations history, because of its potential impact on the organizations' policies and strategies (Beck, Brüderl and Woywode, 2008). Moreover, as consequence of the relevance of these implications in the business community, scholars have been increasingly interested in studying the relationship between organizations' characteristics and leaders' characteristics.

Furthermore, previous studies in this area (e.g. Grusky, 1964; Helmich, 1974), have widely studied the relationship between Insider/Outsider executive replacements and organizations' performance; however, the field has been fragmented by contradictory findings (Giambatista, Rowe and Riaz, 2005). Similarly, scholars have increasingly studied the relationship between leaders' experience and organizations' strategy (e.g. Datta and Guthrie, 1994; Smith and White, 1987), but they have limited their scope to only analyze this particular relationship.

In the present study I reconcile previous inconsistent findings on leaders' origin and predict the effect of leader's general experience and functional experience by building a theoretical more solid construct and also implementing an improved methodology for measuring organizations' performance.

Furthermore, this study addresses general and functional experience in accordance with White and Smith (1987) classification. Here general experience is defined as the generalist company and industry knowledge learned throughout the leader's professional career. While, leader functional experience is defined as the particular knowledge, skills or aptitudes acquired within a functional track, such as finance, marketing, production, etc.; which made the leaders specialist in that area.

Moreover, the present study differs from previous research by implementing a more accurate methodology that better captures the direct effect of leader' background characteristics on organizations' performance.

First, previous research has made use of several performance measures that makes difficult to link directly the managers' ability or responsibility to the organizations performance. For instance, some has made use of stock price as performance measures, which might vary for reasons other than managerial performance (Gerald W. Scully, 1994). While this research uses a performance construct that Giambatista, Rowe and Riaz in their literature review 2005 suggested as a construct that better capture the real direct effect of managers' abilities or responsibilities on organizations' performance.

Second, this study enhanced previous performance construct by measuring performance in two period of time, instead of just one period of time as it has been commonly used in past research. This provides the advantage of a better prediction of the effect of such leaders' background characteristics on performance, by allowing this study to analyze how these effects could change from the short term to the long term, rather than just wrongly generalize the effect of these leader characteristics on organizations performance.

The study proceeds as follows. First, I present a brief literature review of the three leaders' background characteristics and develop research hypotheses. Then, I explain the data and the method I used to test these hypotheses. Finally, I present the results and conclusions.

## **LITERATURE REVIEW AND HYPOTHESES**

In general, studies conducted on leader succession have focused their attention on determinants of top management succession and on subsequent impact of these factors on the organizations' outcomes. While scholars commonly perceive organizations' poor performance as

a key determinant of top management succession (White, Smith, and Barnett, 1997); when turning the attention to the consequence of succession, previous research have not present consistent results.

Moreover, Hambrick and Mason (1984)'s *upper echelons perspective* postulates that organizational outcomes such as strategic choices and performance levels are consequence of leaders' background characteristics. Furthermore, this postulate has been stimulating researchers to study the organizational outcomes as consequence of hiring leaders with different demographic characteristics (Datta and Guthrie, 1994). The following three characteristics dominated scholar's interest: (1) origin of the leader, (2) leader experience, and (3) leader functional experience.

However, a review of past results on these leader's characteristics has shown that the field present fragmented opinions on how they impact on organizations' outcomes (see a small sample in Table 1).

Research conducted on leader's origin in particular, have been classifying the origin of the successor as *insider* or *outsider*, and based on all the implications that this dichotomy involves, they have been trying to predict how the origin of the leader might impact on the organizations performance. However, as Aysen Karaevli stated in her research of the performance consequences of new CEO "outsiderness" in 2007:

*"Scholars have failed to reach a consensus on whether succession event in general, and insider vs. outsider succession in particular, affects firm performance positively, negatively or insignificantly"*

Furthermore, one recent common thought in the field to explain these types of contradictions is that in many circumstances the differences in the results are attributed to the

Table 1: Small sample of previous research

Author	Year	Context and sample	Variable	Outcome Effect
Guest	1962	Comparison between managers of a Gouldner's (1954) Gypsum Plant and a large automobile plant among 3 years of information.	Succession	Positive
Grusky	1963	Managerial succession and organizational effectiveness over 16 professional baseball teams during two times periods 1921 to 1941 and 1951 to 1958	Succession Occurrence	Negative
Gamson & Scotch	1964	Present 22 mid-season managerial change in professional baseball teams, to test three hypotheses of how leader succession impact on organizations' performance	Succession	Not significant
Grusky	1964	Present managerial change in 21 professional baseball teams between 1954 and 1961	Outsider	Negative
Helmich	1974	Analysis of 29 presidents of manufacturing firm from 1964 to 1972	Outsider	Positive
Data and Guthrie	1994	195 successions in Business Week 1000 firms	Outsider's Functional Experience, Education level	Positive
Audas, Dobson, & Goddard	2002	The impact of succession event on professional sport teams of the English football leagues and Premier League from the seasons 1972-1973 to 1999-2000	Succession	Negative
Sheperd, Zacharakis & Baron	2003	Firms listed in the 1996 Australian Venture Capital Guide, 1995 Australia Development Capital Directory, were used to explored the effect of executive experience and firms' outcomes	Level of experience	Positive to a point and then negative
Ayse Karaevli	2007	Middle and large sized publicly traded corporations between periods 1972 and 2002 in the U.S. Airline industry, as well as, two branches of Chemical industry; were used to reconcile previous findings on leader origin	Outsider	Positive

lack of consistency in the classification of the construct "Insider/Outsider (Datta and Guthrie, 1994; White, Smith and Barnett, 1997, Giambatista, Rowe and Riaz, 2005). For instance, Data

and Guthrie (1994) used 5 years tenure as distinction to consider a replacement as insider or outsider, while Puffer and Weintrop (1995) used 1, 3 and 5 years tenure of dividing point for this classification.

Apart from the studies on leader origin, other research has been conducted on leaders' experience and leaders' functional experience. These studies have made the distinction in perceiving leader's general experience as the company, industry and generalist knowledge gained by executives along their career. In the same way, these studies have perceived functional experience as the specific knowledge acquired within a functional track, such as finance, marketing, production, etc.; which is more specific and particular than the general experience (e.g. White and Smith, 1987).

In addition, research on this area has been studying the relationship between organizations' strategy and leaders' experience or vice versa (e.g. White, Smith and Barnett, 1997; Datta and Guthrie, 1994). These studies address organizations' strategy as the set of actions that normally organizations incur in order to achieve particular goals and objective. For instance, Data and Guthrie (1994) studied the relationship between organizations R&D intensity and leaders' functional background experience.

Moreover, scholars along this particular line of studies have developed two streams of research. One stream of research has follows the "upper echelons perspective" theory, which suggest that organizational performance and organizational strategies are influenced by the leaders background characteristics. While on the other stream scholars have suggested that it is the organizations current strategy that conditions the type of background experience that a chosen leader must possess (e.g. Datta and Guthrie, 1994).

However, it was noticed that previous research of leaders' functional experience has been more interested on predicting the relationship between functional experience and

organizations' strategy, and that little attention has been devoted to analyze how leaders' functional experience affects organizations' outcomes other than strategy, such as organization's performance, for instance.

As noted, several studies have been conducted on succession (e.g. Guest, 1962; Grusky, 1963; Gamson and Scotch, 1964; Audas, Dobson, and Goddard, 2002) and in particular on leaders' background characteristics (e.g. Grusky, 1964; Helmich, 1974; Data and Guthrie, 1994; Ayse Karaevli, 2007; Sheperd, Zacharakis and Baron, 2003), but there is not a unanimous consensus on how leaders' origin and leaders' experience impact on post succession firms' performance. Furthermore, having in mind that these leaders' characteristics have been empirically linked to organizations' outcomes already, it is imperative to reconcile inconsistent results on these topics to the extend the field move forward to a clear understanding on the performance consequence of these executive' characteristics. Furthermore, one of the reasons already identified for theses contradictory findings rely on the validity of previous constructs (Ayse Karaevli, 2007).

Therefore, the purpose of the present study is to contribute to the reconciliation process, by building a more theoretical solid concept for the Inside/Outside construct, as well as, implementing a different methodology for measuring prior and post succession performance. Furthermore, this would permit a direct and much better observation on how succession event affect organization performance, plus, to solve part of the oversimplification where the field is immersed at this moment with the Insider/Outsider dichotomy.

#### **Leader's origin – Insider vs. Outsider**

As noted, several scholars have studies the implications of Insiders or Outsiders replacements, and in general, some scholars argue that hiring an insider leader brings more benefits for the company and that outsider leaders can be disruptive for the firm's performance



(e.g. Grusky, 1964). Moreover, scholars as Datta and Guthrie (1994) suggested that hiring an insider's replacements would result in a cost reduction of the company's selections process, socialization activities and employees' turnover. Furthermore, they also suggested that among the benefits of hiring insiders replacements would be the advantage of hiring a leader with greater knowledge in term of company's internal process, markets, productions and products. Moreover, this believe is in the accordance with the continuity view (Lauterbach, Vu, Weisberg, 1999; Ayse Karaevli, 2007), which implied that insiders replacements posses higher understanding of the firms and that have had the opportunity to created social connections needed to have continuity of processes and strategies.

In addition, if we add the frequent pressures received by outsider from part of the board of director to initiate change, this last argument suggest three further implications. First, outsiders leaders would not provide continuity to the already strategies and processes of the company; second, that outsiders leaders by having lack of company's knowledge would take premature and erroneous decision (Ayse Karaevli, 2007); and third, that in present of previous good performance indicators, outside leaders would more likely alter previous successful strategies.

However, contrary to these believes, there is another general view among scholars considering that outsider replacement have different or broader perspectives (e.g. Hambrick & Mason, 1984; Bennie & O'Toole, 2000), are less commitment to the status quo (Puffer and Weintrop, 1995), and have more propensity in perceiving needs for altering course of actions, which in fact, would result in having leaders less hesitant to make major change (Ayse Karaevli, 2007).

Therefore, this suggests that outsider leaders which are hired when companies are having good performance indicators would rely on their previous experience to takes the best actions.

In the same way, scholars based on the *Resource dependence theory* and *Adaptive view* (e.g. Helmich, 1974; Datta and Guthrie, 1994) argue that outsider leaders are perceived as the best option to solve organizations' adversities, such as poor performance. Furthermore, one reason to believe this is that insiders due to their commitment to previous company's coalitions are less prominent to incur on required changes (Ayse Karaevli, 2007). This is in accordance with arguments based on *Organization equilibrium theory* (March and Simon, 1958) that suggested that the longer the tenure of executive within the company, the less ground-breaking strategies they generate when face with new situations (Datta and Guthrie, 1994).

In addition, some scholars have also suggest that due to insiders' psychological commitment to the status quo and their narrow perspective, they would be more likely to reinforce status quo and to propose short-term solutions, resulting in an increased risk of a further deterioration (Ayse Karaevli, 2007).

Therefore, based on all previous arguments, in case of succession event, outsider leaders seem to positively influence organizations' outcomes independent of the previous performance indicators. Thus, this leads us to formulate the following first hypothesis:

*Hypothesis 1: The firm post-succession performance will be higher if the new leader is an outsider.*

### **Leader's general experience**

Another leader characteristic that has been studied in the past is the leaders' experience. As noted, studies in this subject have focuses more in how the organization strategy is related to the leader's experience (e.g. White and Smith, 1987; White, Smith and Barnett, 1997), rather than how the experience of leader might be an influencing factor for the organizations post performance.

Moreover, after reviewing past research on this topic, empirical research suggested that leaders which have gained more experience by executing different activities usually acquire a significant advantage over those that do not possess much experience. More experienced leaders take better decisions by being able to better distinguish key dimensions from irrelevant aspects of the situation (Shepherd, Zacharakis, and Baron, 2003). Previous research suggests that the higher the level of experience of the leader in terms of skills, aptitudes, and competences; the better decisions he or she would made when confronting challenging situations.

In addition, Hambrick and Mason (1984)'s *upper echelons perspective theory* implied that organizational performance and organizational strategies are influenced by the leaders background characteristics. Researchers suggest that if an organization is looking to shift current strategies to overcome a problematic situation, it would be more beneficiate for the company to hire leaders with more level of experience, thus, goals and objective as consequence of these new strategies could be achieved.

In accordance, others scholars have proposed that in stable environments the acquired industry-specific knowledge is relevant, while in unstable environments leaders require a broader range of multidimensional capabilities and aptitudes to perceive and carry out a wide range of strategic options (Ayse Karaevli, 2007).

These arguments suggest that the level of multidimensional capabilities and aptitudes that a leader might have gained through his or her career would help him or her solve peculiar problems. Thus, by having more experience, top manager will have advantage when facing specific problems over those that do not possess that much experience. In addition, this and the previous implications suggest that the more experience a leader has; the more skills, industry

knowledge, and multidimensional capabilities he possesses to envision and put in practice when facing specific problems.

Lastly, the *Continuity view theory* proposes that the principal objective of the succession is to ensure leadership continuity within organization (Ayse Karaevli, 2007), and that this might shape the selection process to the extent that boards or other decision takers could be inclined to select a leader with the level of experience needed to envision future strategies and produce desired performance indicators.

Therefore, based on all previous arguments, we hypothesize that when leader succession takes place:

*Hypothesis 2: There is a positive relationship between the level of the new leader's general experience and the firm post-succession performance.*

#### **Leader's functional experience**

Besides research conducted on leader's general experience, other scholars have studied different aspects of the leader's experience (e.g. Datta and Guthrie, 1994). For instance, previous research analyzed how new leader's experience gained within the previous functional track affects different organizations' outcomes, such as, organizations' strategies.

Among these studies, previously discussed theories as the *upper echelons perspective* suggest that even though top executives are thought to have a generalist view, they shaped their actions by experiences developed in previous functional areas, and that this might influence the strategic choices taken (Hambrick & Mason, 1984). In addition, the *upper echelons perspective* theory also suggests that career experience apart from functional experience might also influence the strategic directions taken; and that leaders with more career experience than others will be more likely to make strategic change (Hambrick & Mason, 1984).

These arguments suggest that leaders' functional experience seems to play an important role during the decision process; to the extent they become an advantage when choosing the best course of actions for solving organizations' contingency; and as final consequence of having this advantage would be choosing the best strategies that would lead to higher outputs.

In accordance with the theories and perspective linking leaders' functional experience and organizations' strategies, previous empirical studies have shown results that link leader's functional experience and organizations level of R&D intensity (e.g. Datta and Guthrie, 1994). This result suggests that organizations will benefit more by hiring executive with particular knowledge, who will have important advantages in terms of specific know-how needed in some occasions to achieve a particular strategic objective. For instance, according to Datta and Guthrie (1994) organizations being in an environment that requires substantial R&D activities would be more interesting in leaders with functional expertise in the area, because it is critical for organizations' success.

Thus, based on the past arguments of leaders having functional experience and the higher performance consequence obtained by hiring such leaders, we formulate our next hypothesis as follows:

*Hypothesis 3: There is a positive relationship between the level of the new leader's functional experience and the firm post-succession performance.*

## **METHOD**

### **Sample and Data base**

The present study analyzes the impact of new leader's background characteristics on the organizations' performance. The sample used in the present study consist of 24 professional football clubs register in the Portuguese first division league from season 2004-2005 up to season

2008-2009. In general, professional sport teams provide the advantage of public records of team personnel and team performance (Oscar Grusky, 1963). Moreover, sport public data is "*readily observable and there is little ambiguity*" regarding the sport team' objective and their personnel, therefore, the use of sport teams as means of analysis of organizations' behavior provide a great area for analysis of managers' succession and the impact of these leaders' characteristics on the organizations performance (Audas, Goddard & Rowe, 2006).

The full sample consists of 2.664 match result records among all teams. However, because the promotion structure of the Portuguese Football League, which substitute from the first division the bottom 3 teams at the end of each season with the top 3 teams of the lower division (second division), there were not full observation for all teams within the five seasons. Furthermore, after perceiving that the higher number of leader succession took place between 2005-2006 to 2008-2009 and having the interest of including in the final sample the higher numbers of succession observations and also the same number of records among teams, the 2004-2005 season was dropped from the sample, as well as, all the observations for those teams that did not participate in all the seasons from 2005-2006 to 2008-2009. Similarly, all records were dropped for those teams that were missing the goals difference performance measure for the prior and post 2 and 15 games. Thus the final sample consists of 52 succession observations representing 12 teams all of which participated in all seasons from 2005-2006 to 2008-2009.

These public sport data concerning teams' performance and personnel were obtained mostly from the official web site of the Portuguese Football League. However, data regarding coach's demographic information, as well, as previous background were obtained from several online journals and sport web sites, as there are: <http://www.zerozero.pt>, <http://www.sportpress.com>, <http://www.sapo.pt>, <http://terceiroanel.weblog.com.pt>, <http://www.transfermarkt.co.uk>

## Measures

*Successor Origin.* Previous research taking this variable into consideration has defined the leader's origin in several ways. While recent studies have defined leaders' origin as the level to what a successor might bring to its new firm different management style, knowledge, aptitudes, and point of views (e.g. Ayse Karaevli, 2007); earlier studies have defined as the origin from where the new leader came from before taking the executive position, whether the successor came from within the organization or from a different organization, "*Outsider*".

Furthermore, while recent studies definition of "outsiderness" seems to be very similar to what the present study has defined as general experience, due to all these arguments could be considered as part of the leader experience gained by the successor; earlier studies ground their definition of this variable in the main argument that "*Insiders*" tenure gives them opportunity: to develop social networks, to better understand the company's culture and to learn more of the company's internal and external environment. This would allows them to have an advantage over outsiders in terms of working the way to carry out new strategies, to overcome resistance to change and better handle boards' pressures for change (Ayse Karaevli, 2007). However, studies taking this arguments have failed on not taking into account those new leaders, which they considered as "*Outsiders*", but in fact have had worked previously in the company and have had the opportunity to build, as well, social networks, learn the company cultures and understand the internal and external environment of the company. Therefore, the present study trying to overcome this construct validity problem will rely on a finer-grained classification of the insider/outsider dichotomy, which takes this last argument into account. The variable takes the value of 1 if the new leader is an outsider and 0 if the leader is an insider to the organization or if he or she is coming from outside the company but has previously worked in the club before.

*Coach Experience.* Previous studies have developed empirically a typology of CEO's functional career and institutional specializations (Smith & White, 1987). Where an institutional specialization is characterized by company, industry and generalist work experience, and functional career specialization is characterized by particular experiences as related to productions, sales, management, finance, and law. Moreover, base in this typology the present study has classified the year of experience of a coach, as the general experience obtained through its coach professional practice, making the analogy to the previous typology as general experience. Moreover, the variable measure the coach experience as the number of years since the coach began his professional football manager practice until the date of current game.

*Player Experience.* Base on the previous typology of CEO functional career specialization and institutional specialization described above, the year of experience as a professional player that any giving coach could have gained through its previous experience as professional player, makes the analogy to career specialization experience. Therefore, the years of experience as professional football player represent the very specific experience gained on the past by any giving coach at the moment when they were professional football players, and that is very particular and different from the general experience obtained during its coach practice. In addition, this variable measure the player experience as the number of years the coach was active as professional football player. Moreover, it was only considered the years where the coach played in second division or first division of any professional football league.

*Succession Type.* Leader succession could occur at any given moment, and in football clubs in particular, those successions that occurs in the middle of a season are more appropriate for testing the effect of leader's characteristics after succession even. Moreover, the main reason behind is that in mid-season replacement there is less opportunity for external factors to impact on the field manager's influence to operate, and during the break between seasons, players'



trades and retirement of current players could affect the available talent with which the new manager has to work (Gamson & Scotch, 1964). Moreover, the variable takes the value of 1 if the succession happened within the season and 0 if between seasons.

*Prior and Post performance.* Sport setting studies have been measuring performance in a great variety of fashions. For instance, Grusky (1963) measure team performance by team standings at the end of the seasons; Gamson & Scotch(1964) used seasons won-lost records; and Audas, Dobson & Goddard (2002) have measure performance by match to match results in sport teams. Moreover, lattes theoretical reviews have suggest that in the sport settings research measuring performance as studying game-by-game outcomes provide more advantage (Giambatista, Rowe & Riaz, 2005). The main argument of these lattes review is that season to season performance measures fall in capturing the real effect of succession event on team's performance, and match level analysis provide a better means to identify the real direct effect of the change of managers on team's performance (Audas, Goddard & Rowe, 2006). In addition to this, in football coaches are pressured for winning most of the time but also winning by playing well. Club's supporters and journalist share the same common view that playing well means to score many goals and not to suffer much. For instance, Real Madrid team dismissed its head coach Fabio Capello after winning the Spanish league in the season 2006-2007, arguing that the teams did not play well, and won most of the game by one goal. Therefore, the present study measure prior and post performance by the goals difference at match-to-match level.

Furthermore, in order to better predict the type of effect of these three leaders' background characteristics have on the organizations' performance; this study is built over a different methodology which captures the performance measure in two period of time. Short-term which captured the average goals difference up to 2 games prior succession and 2 games after

succession, and the Long-term which captured average goals difference up to 15 games prior succession and 15 games post succession.

*Club Age.* Previous empirical research on leader succession has common perceive organizational age as a control variable. Therefore the present studies measure club age as the number of years since the professional football club was founded until the date of current game.

In addition, a summarized description of the criteria's used to measures all the variables are presented in table in the appendix A.

### **Model**

In order to test the hypotheses the present study required analytic techniques, and having in mind that dependent variable "Goals difference" follows a continuous distribution, that it does not have a discrete distribution and that it could not be considered either categorical or ordinal variable, this study used ordinary least squared (OLS) regression model to predict the effect that leaders' origin, leaders' general experience and leaders' functional experience have on the firm's performance.

Moreover, in order to build a step-wise approach to test the different hypotheses, four different models were built. However, each model consisted in two different sub-models due to the previous commented methodology used to capture prior and post performance. Furthermore, these sub-models referred to the short-term and long-term analysis of each Model, where Model 1 was just built to capture the effect of the control variables over the dependent variable, and it was only for reference purpose; Model 2 includes controls variables and the independent variable "Successor Origin" and it was built to test hypothesis 1; Model 3 consists of the control variables, the independent variables "Successor Origin" and "Coach Experience", and it was construct for testing hypothesis 2; and finally Model 4 which consist of the control variables, and the

independent variables: "Successor Origin", "Coach Experience" and "Player Experience"; which was built to test hypothesis 3.

The full models with all the dependent, independent and control variables for the short-term and the long-term are:

Short term

$$\text{Post short-term performance} = \text{Successor Origin} + \text{Coach Experience} + \text{Player Experience} + \text{Succession Type} + \text{Prior short-term performance} + \text{Club Age}$$

Long term

$$\text{Post long-term performance} = \text{Successor Origin} + \text{Coach Experience} + \text{Player Experience} + \text{Succession Type} + \text{Prior long-term performance} + \text{Club Age}$$

**Table 2. Short-term means, standard deviation and correlation coefficient**

Variable	Mean	Std. Dev.	1	2	3
1. Post short-term performance	0.077	1.319	1.000		
2. Successor Origin	0.731	0.448	0.268	1.000	
3. Coach Experience	10.865	7.812	0.148	0.152	1.000
4. Player Experience	6.942	7.531	0.025	0.117	-0.323
5. Succession Type	0.577	0.499	0.095	-0.520	-0.272
6. Prior short-term performance	-0.423	1.144	0.087	0.328	0.253
7. Club Age	97.615	12.606	0.246	-0.067	0.135
Variable	4	5	6	7	
1. Post short-term performance					
2. Successor Origin					
3. Coach Experience					
4. Player Experience	1.000				
5. Succession Type	-0.132	1.000			
6. Prior short-term performance	0.057	-0.406	1.000		
7. Club Age	-0.302	0.164	0.040	1.000	

**Table3. Long-term means, standard deviation and correlation coefficient**

Variable	Mean	Std. Dev.	1	2	3
1. Post long-term performance	0.072	0.591	1.000		
2. Successor Origin	0.731	0.448	0.129	1.000	
3. Coach Experience	10.865	7.812	0.082	0.152	1.000
4. Player Experience	6.942	7.531	0.305	0.117	-0.323
5. Succession Type	0.577	0.499	-0.223	-0.520	-0.272
6. Prior long-term performance	-0.114	0.530	0.538	0.105	0.158
7. Club Age	97.615	12.606	0.112	-0.067	0.135
Variable	4	5	6	7	
1. Post long-term performance					
2. Successor Origin					
3. Coach Experience					
4. Player Experience	1.000				
5. Succession Type	-0.132	1.000			
6. Prior long-term performance	0.169	-0.137	1.000		
7. Club Age	-0.302	0.164	0.028	1.000	

## RESULTS

Table 2 shows means, standards deviation and correlation coefficients for the short-term model. Similarly, table 3 present descriptive statistics for the long-term model. Moreover, it is not surprising to see that in the long-term model prior performance is correlated with the dependent variable, which in fact is good. It shows that as previous empirical results have revealed it could be a determinant of leader succession, however, this is not part of the present study objective.

In addition, Table 4 shows the result of the OLS regression for the different models. Moreover, Model 1 results in table 4 indicates that in the long-term only the prior performance impact on post goals difference with beta = 0.569 and it was significant at  $p < .001$ . This results as commented earlier suggest that prior performance is a key determinant of leader's succession but also a factor that affect the organizations' post succession performance.

In step 2 when adding the effect of the outsider variable and retaining the control variables constant, the results indicates that in the short-term "Successor Origin" and "Succession

type" variables are significant (beta= 1.235,  $p < .01$ ; beta= 0.800,  $p < .10$ ; respectively). However, in the long-term, Model 2 results indicate that adding the "Successor Origin" variable has not effect with a decrease of the Adj R-squared from the previous Model to Model 2 (28.54% to 27.03% ).

Furthermore, the "Successor Origin" variable was not significant (beta = -0.012,  $p > .10$ ) and prior goals difference variable kept its significance (beta=0.569,  $p < .001$ ). Therefore, Hypotheses 1 which implies that the firm post-succession performance will be higher if the new leader is an outsider; was supported only when measuring post performance in the short term but not in the long term. Model 3 shows the results after adding the effect of the experience gained by the new coach during his professional coaching practice. This model suggest that adding coach experience variable and leaving the control variables and the Successor Origin variable constant, this variable has not effect on the post performance of the team. In both the short-term and long-term models the Adj. R-squared form previous model to this one decreases from 13.35% to 13.29% and 27.03% to 25.94% respectively. In addition, even though coach experience coefficient for both short-term and long-term model had contradictory effect over post succession performance, they were not significant with beta = 0.023,  $p > .10$  and beta = -0.005,  $p > .10$  respectively. Thus, hypothesis 2 which suggests that there is a positive relationship between the level of the new leader's general experience and the firm post-succession performance; was not supported. This hypothesis was neither supported when measuring performance in the short-term or the long-term.

In step 4 after adding player experience to capture the effect of this variable over the post goals difference while leaving the rest of the independent and control variables constant, results indicates that even though the short-term model had F significance at  $p < .05$  and there was a lightly increase of the Adj R-squared form Model 3 to this Model (13.29% to 13.52%), this leaders'

**Table 4. Ordinary least squared (OLS) regression model coefficient**

	Model 1		Model 2		Model 3		Model 4	
	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	
Succession Type	-0.206 (0.144)	0.800 <sup>t</sup> (0.429)	-0.212 (0.169)	0.888 <sup>*</sup> (0.438)	-0.236 (0.175)	0.939 <sup>*</sup> (0.440)	-0.192 (0.171)	
Prior performance	0.569 <sup>***</sup> (0.133)	0.073 (0.167)	0.569 <sup>***</sup> (0.135)	0.049 (0.169)	0.579 <sup>***</sup> (0.137)	0.034 (0.170)	0.513 <sup>***</sup> (0.136)	
Club Age	0.006 (0.006)	0.023 (0.014)	0.006 (0.006)	0.021 (0.014)	0.007 (0.006)	0.025 <sup>t</sup> (0.015)	0.010 (0.006)	
Constant	-0.321 (0.547)	-3.525 <sup>*</sup> (1.421)	-0.309 (0.580)	-3.607 <sup>*</sup> (1.424)	-0.294 (0.585)	-4.282 <sup>**</sup> (1.559)	-0.846 (0.623)	
Successor Origin		1.235 <sup>**</sup> (0.454)	-0.012 (0.185)	1.241 <sup>**</sup> (0.455)	-0.012 (0.186)	1.211 <sup>*</sup> (0.455)	-0.037 (0.180)	
Coach Experience				0.023 (0.024)	-0.005 (0.010)	0.033 (0.025)	0.002 (0.010)	
Player Experience						0.027 (0.026)	0.022 <sup>*</sup> (0.011)	
Prob > F	0.000 <sup>***</sup>	0.029 <sup>*</sup>	0.001 <sup>**</sup>	0.040 <sup>*</sup>	0.002 <sup>**</sup>	0.048 <sup>*</sup>	0.001 <sup>**</sup>	
Adj R-squared	28.54%	13.35%	27.03%	13.29%	25.94%	13.52%	31.01%	
Number of events	52	52	52	52	52	52	52	

\* p< .05; \*\*p< .01; \*\*\*p< .001; t p< .10

Standard errors are in parentheses

characteristics was not significant with a  $\beta = 0.027$  and  $p > .10$ . However, in the long-term the results suggest a direct effect of this variable over the dependent variable. Moreover, the effect of this variable over the models could be noticed by the significant change on the Adj. R-squared from Model 3 to this Model (5.07% increment). The player experience variable in the long-term present a  $\beta = 0.022$  and  $p < .05$ , thus, hypothesis 3 which implies that there is a positive relationship between the level of the new leader's functional experience and the firm post-succession performance; was only supported when measuring post performance in the long-term but not in the short-term.

Finally, as additional test all the hypotheses were tested using different short-term criteria's. Moreover, they were tested using 3, 4 and 5 games as prior and post performance time-windows in order to see if these results changed. These additional tests showed consistent results with the results presented in table 4.

## DISCUSION AND CONCLUSION

The present study is aim to reconcile previous contradictory results of research conducted on leader's background characteristics and organizations' performance. In order to provide a mechanism to let the field move forward to a consensus on what type of effect these leaders' characteristics have on post succession performance, using Ayse Karaevli (2007)'s words, this study relied on the construction of a *"more refined theoretical conceptualization and finer-grained measurement"* of the "Insider-Outsider" construct, as well as, the used of an improved methodology for measuring organizations' performance. This methodology provided the advantage of accurate measures organizations' performance in the short term and long term, which allowed the study to offer precise conclusions of the effect of these leaders' background

characteristics have on organizations' performance, instead of just wrongly provide a generic conclusion.

Moreover, after analyzing longitudinal public records of professional Portuguese football clubs from seasons 2004-2005 to 2008-2009, results shows outsider leaders have a positive effect on post succession performance in the short term and not in the long term. Contrary leaders' functional experience has positive effect in the long term but not in the short term. However, leader general experience has not positive effect in either short term or long term.

In general, these results suggest that organizations having good performance indicators prior succession would in fact continue and even improving these indicators in the long run after succession. Similarly, hiring outsider leaders and hiring leaders in the middle of an organizations' financial year would actually increase performance in the short term after succession. Furthermore, hiring and giving enough time to leaders with functional experience would result in improving organizations' performance.

These results implies that contrary to what many scholars suggest that outsiders leaders are only the best choice if a company in having poor performance indicators, in fact this result proved that independent of the prior performance indicators, hiring an outsider leader would actually increase prior performance. Furthermore, results also support the Ayse Karaevli (2007) suggestion that outsider top executive provide higher performance results in the presence of fewer swift strategic changes. However, as Karaevli also commented this is a paradox due to usually outsider leaders are brought in with the intention to engage in majors' strategic changes.

In addition, these findings provide support for the resource dependent perspective, which implies that new leader's functional experience might be considered a critical criterion in the succession process, due to its importance for achieving particular organizations goals.



However, findings of this study should be interpreted within the limitations of this research. Moreover, the modest amount of final observations presented as part of the final sample, the number of seasons used for the analysis, and the generalizability from sports team to the other complex organizations are part of the study's limitations. For instance, Giambatista, Rowe and Riaz (2005) suggested that sports team present great context in which to study leader succession, while understanding the limitations of generalizing from sports team leadership to leadership of large organizations. Nevertheless, they argued that external validity could not exist without internal validity, and that sport settings research provides great internal validity. Moreover, they also suggest that it was important to examine theories in different context in order to ensure cross-setting validity.

Future studies along this line of research, should investigate the effect of others leader's demographic characteristics and organizations characteristics using a similar methodology. For instance, a natural progression would be a study on how leaders' background education impact on the organizations short term and long term performance. Furthermore, a proposition could be that the level of education has different impact in the short term and long term. Beside this, an alternative study could be trying to predict the shape of effect, which would result in analyzing what the effect on performance is when the level of leader's demographic characteristic increments. For instance, a proposition could be that at low level of leaders' education there is negative impact on organizations' performance, while at high level of leaders' education there is a positive impact on organizations' performance. However, if the level of leaders' educations increments too much it has a negative impact of organizations' performance; suggesting that there is a U-shape relationship between level of leaders' education and organizations' performance. Finally, it is my hope that the present research serve as inspiration for futures

studies for developing a clear understanding of how leaders' demographic characteristics influence organizations' performance.

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## **Appendix A: Short-term and Long\_term sub-model variables definitions**

- Post short-term performance* = *This variable captures the Average of the difference in goals of the next two games after succession took place.*
- Successor Origin* = *This variable takes the value of 1 if the successor came from outside the club and did not work previously either as coach or player of the current club, otherwise 0*
- Coach Experience* = *The number of years from moment the coach became a formal Coach to the current game date. This experience include coaching club's minors teams*
- Player Experience* = *The number of years the actual coach spend being a formal professional football player. To consider a coach as a player, he must have played at least second division*
- Succession Type* = *The variable takes the value of 1 if the succession took place within season and 0 if the succession occurs between seasons.*
- Prior short-term performance* = *This variable captures the Average of the difference in goals of the prior two games before succession took place*
- Club Age* = *This variable capture the number of years since the club was founded until the current game date*
- Post long-term performance* = *This variable captures the Average of the difference in goals of the next fifteen games after succession*

*took place*

*Prior long-term performance = This variable captures the Average of the difference  
in goals of the prior fifteen games before succession  
took place*