**New Leaders' Managerial Background and the Performance of Public Organizations: The Theory of Publicness Fit ***

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**ABSTRACT**

We develop a theory of the effect of top management succession on the performance of public organizations. The theory is rooted in the fundamental characteristics of an organization's publicness: ownership, funding, and regulation. We construct the concept of publicness fit – the match between the organization and the leader's previous managerial experience. We argue that the effect of publicness fit on performance depends on the balance of adaptation benefits and disruption costs, which in turn depends on the prior performance of an organization. We propose a research agenda to empirically evaluate propositions developed from the theory of publicness fit.

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Does the specific career background of senior managers in the public sector matter for organizational performance? We know from a substantial body of empirical research that managers at the top of local, subnational, and national bureaucracies make a difference to organizational strategy and performance, for good or ill (Boyne and Meier 2009; Boyne et al. 2011a, 2011b; Hill, 2005; O'Toole and Meier 2003; for a review, see Petrovsky 2010 and for case studies, see Jas and Skelcher 2005). By contrast, we know far less about the contingencies shaping the direction of managerial influence. Some evidence suggests that the performance of the organization immediately prior to managerial change matters for subsequent performance (Boyne et al. 2011a). One of the substantively most interesting contingencies, however, has largely escaped attention: the career background of a senior public manager and how closely it matches the organization he or she is leading.

In this paper we develop a theory of the fit between new leaders and the public organizations they lead, grounded in fundamental characteristics of public organizations. Our objective is to contribute to the body of public management theory. In doing so, we seek to meet the following general conditions for making a contribution to theory with empirical implications (Edwards and Berry 2010; Gray and Cooper 2010; Sutton and Staw 1995):

1. A *new solution* to a significant puzzle in the field. A fundamental criterion for evaluating a theory is its 'utility' as a plausible explanation of an important empirical phenomenon (Corley and Gioia 2011; Whetten 1989). The performance effects of public managers are a major topic of the discipline. The puzzle surrounding these effects lies in

fact that apparently similar public managers improve organizational performance in some cases and worsen it in others. The solution we offer builds upon what is arguably the central concept in the discipline: organizational publicness.

2. The derivation of *testable propositions* that identify the circumstances under which new public managers contribute positively or negatively to organizational performance. Our propositions spell out how we expect managerial effects on performance to depend on publicness fit.
3. The specification of the *form* of the relationship between managerial career background and performance. Our theory predicts the circumstances under which publicness fit is expected to have a monotonous or parabolic relationship with performance.
4. The variables that *moderate* the performance effects of the fit between an organization's publicness and the publicness of its top manager's career background. We argue that these effects are moderated by the prior performance trajectory of the organization in question.
5. The *boundary conditions* that limit the applicability of the theory. These conditions refer to the validity of underlying assumptions in particular empirical contexts (Bacharach 1989; Whetten 1989). We specify the characteristics of organizations and top managers themselves that set boundaries on the relevance of the theory.

In the rest of the paper, we develop the theory of publicness fit and show how it meets all five criteria. We begin by synthesizing relevant insights from the private sector management literature. In the second section, we develop the core concept of our theory: publicness fit, i.e. the fit between an organization's publicness and the publicness of its top manager's career background. In the third section, we connect publicness fit to organizational performance. In the fourth section, we identify the boundaries within which our theory is applicable, and we outline research designs to test the theory. The fifth section contains concluding thoughts.

## WHY DIFFERENCES BETWEEN MANAGERS LEAD TO PERFORMANCE DIFFERENCES

Theories of succession effects assume that organizational leaders have the motive, the means and the autonomy to influence organizational strategies and performance (Boyne and Dahya 2002; Giambatista et al. 2005). Among top managers, the chief executive[1] role is the most important as it entails being in overall managerial control of an organization, with an associated significant personal contribution to strategic management and accountability for organizational performance to stakeholders (Mintzberg 1975; Norburn 1989). For all organizations, two main models of chief executive succession produce general predictions about a change in performance resulting from new leadership: the adaptive and the disruptive models. The adaptive model takes a heroic view of leadership, suggesting that a new leader can alter the fate of an organization by taking actions that improve its performance (Guest 1962; Jackson and Parry 2001). In contrast, the disruptive model suggests that changing the leader creates uncertainty in organizations, distracts employees from their tasks, and leads to lower performance (Grusky 1960, 1963). There are disruption costs to succession because of the need to integrate a new chief executive into complex organizational activities, and the need to cope with any changes in strategy, structure and process that are on the agenda of the new leader (Friedman and Saul 1991). In virtually any situation, the consequences of succession are both adaptive and disruptive and the net effect

[1] Throughout this paper, chief executive denotes the managerial position at the top of an organization. In the United States, this position is often referred to as agency head. We use chief executive since this term is more commonly used internationally and our theory is not specific to a particular national context.

depends on the balance between the two. Even where succession leads to an initial performance drop, adaptation benefits may come to outweigh the costs associated with managing change, and these costs may decline over time.

Prior literature on private organizations suggests that the effects of chief executive succession partly depend on the *origin* of the successor – whether he or she is an insider or outsider to the organization (Carson et al. 2007; Zhang and Rajagopalan 2004). As Karaevli (2007) argues, the concept of outsiderness is "the extent to which a new CEO brings a different leadership style, knowledge, skills, and perspective to a firm based on his or her previous experience in other firms and industries" (682). The consequences of appointing either an insider or an outsider have received a lot of attention in the management literature, starting with a debate about how to interpret evidence on succession-performance relationships in research on baseball teams (Grusky 1964). The research agenda on insiders and outsiders later moved to a variety of firms and industries (Karaevli 2007; Lauterbach et al. 1999). While many new chief executives, including inside appointments, bring about changes in the strategic goals of the organization (Greiner and Bhambri 1989), outside appointments are likely to bring about greater changes (Helmich and Brown 1972; Westphal and Frederickson 2001; Wiersema 1992). For example, Carlson's (1961) study of new school district superintendents shows that outsiders are more likely to add new rules and administrative overheads to the organization.

The concept of outsiderness has been interpreted in two main ways in the private sector literature (Karaevli 2007). The first, and most common, is whether a new chief executive is an insider or an outsider to the organization making the appointment. Even this apparently simple definition raises complex issues because of the ambiguity and permeability of organizational boundaries (Hannan and Freeman 1989). For example, is a new leader from a different division of a multinational conglomerate, and from a different country, an insider or outsider? A second interpretation is whether someone already works in the same *industry* as the organization that they are joining (Davidson et al. 2002). For example, an outsider would be someone switching from running a pharmaceutical company to a telecoms firm.

In the private sector literature, no mention is made of a further dimension of outsiderness: a different sector of the economy. This may be because it is rare for a senior manager to move from running a public or non-profit organization to leading a private firm. By contrast, part of the New Public Management zeitgeist is that private sector executives may be able to produce substantial improvements in performance in the public sector, and many have been recruited with this objective in mind (Hood and Lodge 2006; James 2003; Pollitt and Bouckaert 2011). Thus the concept of outsiderness in the public sector stretches beyond the organization or 'industry' (e.g. health care or policing) to completely different parts of the economy such as non-profit organizations and private firms.

The theoretical importance of the insider/outsider distinction is the *fit* between successor and organization. Fit refers to the degree of overlap between capabilities of the successor and requirements of the organization.[2] This builds on wider ideas from contingency theory about the fit between organizations and their environment (Andrews et al. 2011; Donaldson 2001), and the fit between individual employees and organizational characteristics (Kristof 1996; Vigoda-Gadot and Meiri 2008). According to O'Reilly et al. (1991), such ideas "rest on the premise that positive responses will occur when individuals fit or match the requirements of a situation" (489). In particular, organization or industry-specific socialization (Birnbaum 1971; Helmich and Brown 1972) limits the transferability of human capital between firms and industries (Bailey

[2] Fit is distinct from overall fitness, which, for managers, refers to their capabilities relative to other managers.

and Helfat 2003). In the context of executive succession, insiders are characterized by high fit, and outsiders by varying degrees of lower fit (Kesner and Sebora 1994, 332). The preponderance of evidence from private sector studies is that a firm appointing a new chief executive with a background that fits with the firm's strategic stance performs better post-succession than a firm that appoints a chief executive lacking this fit (see Finkelstein et al. 2009, 101-104).

Once we leave the realm of purely private firms, however, there is no reason to expect inside appointments to be generally beneficial for the performance of an organization. Rather, we argue that a prior issue that must be considered is the closeness of the fit between the characteristics of a public organization and the managerial experience of the new leader. An outsider who has little experience of responding to politicians, public funding and regulatory constraints is likely to be a poor fit with the requirements of leadership in the public sector; by contrast, another outsider, even from a different part of the public sector or currently working in the private sector, is more likely to be a good fit if they have such experience. In other words, we argue that outsiderness per se is not the crucial issue in predicting the impact of succession; what matters is fit.

Our focus on fit has some parallels to, but is distinct from the perennial debate in the U.S. public administration and political science literatures about the relative merits of career civil servants and political appointees (Simon et al. 1950). Political appointees are sometimes associated with higher responsiveness to elected officials. Organizations may also benefit from the broader pool of skill sets available if they are open to political appointees (Maranto 1998). The preponderance of the evidence indicates, however, that the better-performing programs and are led by career civil servants (Lewis 2007). Note that in the U.S., some political appointees come from within the federal bureaucracy, so there is no simple mapping of career servant status onto fit.

## THE CONCEPT OF PUBLICNESS FIT

In the public sector, the extent to which a new managerial leader is an outsider is a function of the difference between the publicness of the organization and the publicness of the new leader's managerial experience. This leads us to propose a new conceptualization of the insider/outsider distinction in the public sector. The concept of publicness fit denotes the match in terms of publicness between the chief executive's experience and their new organization.

Publicness has consequences for the strategic management of public organizations, whose top managers operate under greater constraints and have to take into account diverse and influential stakeholders (Allison 1987; Boyne 2002; Bozeman 1987; Meier and O'Toole 2006; Nutt and Backoff 1993; Richards and Smith 2002).[3] Experience in dealing with public sector-specific constraints and stakeholder influences is important for public sector chief executives. There are three dimensions of the extent of the publicness of a given organization (Hood et al. 1999; Andrews et al. 2011). The first is public ownership, which means the organization is owned collectively by a political community such as a nation-state or a municipality. This dimension is often regarded as the 'core' aspect of publicness (Rainey et al. 1976; Bozeman and

[3] Publicness varies in importance between organizations, which is the essential point of Bozeman's (1987) path-breaking theory. The title of his book, that "all organizations are public," which is sometimes cited without further discussion, has to be put in context for our theory. We agree that the statement would be true in a country with closed borders, i.e. where exit from the country has been removed as an option. With open borders, however, organizations can choose to exit and move their operations and headquarters to another country if the exercise of public authority gets too burdensome on them. There are many examples of this all over the world and through time. Even partial exits can serve as reminders of this fact, such as Microsoft's establishment of a research and development facility in British Columbia, Canada to avoid the limitations on the hiring of foreign information technology specialists imposed by U.S. immigration law (Canadian Broadcasting Corporation 2007). In short, an exit option puts a bound on the validity of the claim that "all organizations are public." This is analogous to the difference in results from economic models of closed and open economies.

Bretschneider 1994).[4] It gives government - national or local - formal control of assets and any value generated, and tends to bring with it distinctive ways of operating in terms of accountability, personnel and resource use. The second dimension of publicness is the degree of public funding, as opposed to selling products on, and obtaining financing from, markets. In public sector organizations funding is often derived largely from tax payers rather than directly from consumers of products or services. Third, there is public control or regulation—the extent to which elected officials or their agents use public authority to constrain the policies and practices of an organization using specific rules or standards (Hood et al. 1999; James 2000; Hood et al. 2000). Whilst regulation is often thought of as something government does to business or the broader private sector, public regulators (oversight departments, inspectors and audit/standards bodies), frequently set, monitor and enforce rules and procedures for bodies that are publicly owned and/or funded.

Each of these three dimensions can vary and the relative weight of each determines the overall degree of publicness of an organization at a given point in time. *Publicness fit* is the match between the organization and the managerial experience of the new leader. By definition, an insider is a perfect fit unless the publicness of the organization changes at the point of succession, for example due to privatization or nationalization. An outsider from a different organization may be high or low fit, depending on the match between the publicness of the organizations in which they have held senior roles previously and the publicness of the organization that they are appointed to lead. For instance, consider the appointment of a new head of a U.S. federal agency. If the new head is a career servant already working in this

[4] While in the United States public ownership tends to be a dichotomy, governments in other countries often hold a fraction of the shares of companies (for a systematic review, see Bortolotti and Faccio 2009). Also note the many investments of sovereign wealth funds. These investments are of a fraction of a company's shares rather than of the whole company but they still raise concerns among some about influence and the gathering of information.

agency, he or she will have complete publicness fit. If the new head is a political appointee recruited from another organization, his or her publicness fit will be lower unless the organization from which or she is recruited is equivalent in all aspects of publicness to the federal agency in question.

The dimension of ownership and associated accountability regimes encapsulate important differences between public and private organizations. Here, insiders are chief executives who have experience of reporting to political overseers[5] in publicly owned organizations, and outsiders are those who do not (having held a senior position only in private or non-profit organizations). Within the public sector, further distinctions exist between those who report to politicians directly and those who report to boards that are semi-independent from politicians – often termed 'quangos', and between different levels of government. Public ownership tends to imply a distinctive set of organizational goals (especially equity in addition to efficiency and effectiveness) and values (especially the potential presence of strong public service motivation in the workforce (Perry and Wise 1990)). New leaders who join a public organization with little prior experience of such organizational characteristics are likely to find it more difficult to engender improvements in organizational performance.

For the dimension of public funding, fit is defined as the match between the types of revenue received by the agency to which the chief executive succeeds, and the revenues of organizations in which they had previous managerial experience. A greater gap between successor and organization reflects lesser fit on the dimension of public funding. For example, if an executive is accustomed to competing for funds in an economic market, it is likely to take some time to adapt to the games that are associated with competing for a share of the

[5] In the United States, these would be members of the relevant legislative committees as well as members of the executive, whereas in parliamentary systems, generally all political overseers form part of the executive.

governmental budget in a political market. The budgetary process in government involves heads of organizations bargaining for funds on behalf their constituencies and learning how to adapt to the institutional role of ‘spender’ in relation to a ‘guardian’ (Wildavsky 1964). Operating in this environment requires a skill set different to that required of chief executives in the private sector seeking to generate income from paying customers or obtain financing from investors or banks. In addition, the public sector has specific rules and conventions governing the use of funds, often set by the treasury or finance bureau, with which those with previous public sector leadership experience will be more familiar. An outsider is likely to take longer to learn how to balance the books and achieve organizational efficiency under the rules of public sector finance.

The third dimension of publicness is the extent to which a given organization is subject to public authority reflected in systems of rule-based control focused on its particular activities (as opposed simply to generic laws applied across society and the economy, such as equal opportunity legislation). We refer to this dimension as public regulation. Across countries, national and sub-national audit agencies engage in this rule-based control of the work of other organization. Major examples include the Government Accountability Office in the U.S. and the Audit Commission in the UK (Hood et al. 1999; 2004; James 2000). The mechanism behind publicness fit in the area of public regulation consists of the external political skills (Ferris et al. 2007) gained by executives by working in a similarly regulated organization. Such skills are of great importance because regulation can create an unfriendly environment, which requires chief executives to initiate strategies that counteract the threats arising from regulation. These strategies vary depending on the relative (un-)friendliness of the regulatory agency, the legislature, and the head of government (Holburn and Vanden Bergh 2008). Hillman (2005) draws on resource dependence theory to suggest that incorporating politicians onto a board of directors adds valuable information and resources to organizations, because it helps them to incorporate knowledge about the policy process and have better lines of communication and access to policymakers.  Our argument is complementary, in that we suggest that a highly fitting successor in terms of regulation brings with him or her a rich network of contacts with relevant regulators.  A successor without such a pre-existing network may have to draw on the resources of a public organization to develop it, and this may be a lengthy process.

The dimension of public regulation is distinct from the dimension of public ownership. There are organizations experiencing strong influence by their political overseers because they are largely or fully publicly owned.  These organizations may or may not also experience strong scrutiny by audit agencies.  Conversely, there is wide variation in the degree to which largely or fully privately owned organizations are controlled by audit agencies.

For top managers, different levels of publicness experience bring with them different degrees of public sector socialization, value orientation, and expertise in political matters in a broad sense (Becker and Connor 2005).  Our construct of an individual's publicness provides a parsimonious way to collapse these factors into a single score.

Each public organization and each new leader of the organization's previous publicness experience can be placed on the dimensions of public ownership, funding and regulation.  The difference in position between the new leader and the organization can be calculated on each dimension to show fit, ranging from complete fit (100%) to complete lack of fit (0%). The three elements to Figure 1 below set out the fit on the three dimensions of publicness.  Combining the dimensions of publicness produces overall levels of congruence between a new chief executive and the organization, i.e. publicness fit.  The extent of fit on regulation, ownership, and funding experience may either run together, or one component may partially offset another.

**Figure 1: The three dimensions of publicness fit**

**[insert Figure 1 here]**

Any chief executive can be located somewhere in the cube depicted in Figure 1, once we know both the publicness (in terms of ownership, funding, and regulation) of the organization he or she leads and the publicness (again, in terms of ownership, funding, and regulation) of his or her career background.

To simplify the exposition, we combine the three dimensions along which publicness fit varies into a single conceptual variable. The most straightforward way to do so is to define chief executive publicness fit as the inverse of the (potentially weighted) sum of the Euclidian distances between the chief executive's experience and their new leadership role on each of these three dimensions. Equation (1) provides a precise definition of the concept of publicness fit:

$$\textit{Publicness fit} = 1 / [a^*(\textit{\% public funding of new org.} - \textit{\% public funding in chief executive's prior managerial experience})^2 + b^*(\textit{public ownership} - \textit{prior managerial experience under public ownership})^2 + c^*(\textit{extent new org. is publicly regulated} - \textit{degree of public regulation in chief executive's prior managerial experience})^2]^{(1/2)}, \qquad (1)$$

where *a*, *b*, and *c* are theoretical weights allocated to each dimension (in case of ignorance about the relative importance of the three dimensions: $a = b = c = 1$). The theoretical weights are determined by the constitutional and political environment of a country (Pollitt and Bouckaert 2011). In adversarial environments, the regulation dimensions will take on greater importance than in more consensual and corporatist environments because in the former, governmental influence occurs particularly by means of formal regulations , so managerial experience along this domain is particularly valuable (Wilson 1989). In countries where governmental transfers, subsidies, and contracts are a primary means of governmental influence, managerial experience along this dimension takes on primary importance.

Viewing publicness fit as a continuous theoretical variable is in line with the more recent and sophisticated work on successor origin in the general management literature, which has also seen a move from understanding successor origin as a categorical concept to understanding it as a continuous concept (Karaevli 2007; Kesner and Sebora 1994).

In sum, new chief executives in the public sector who arrive from outside the organization may vary greatly in the extent of their publicness fit. This depends on their prior experience of senior roles in organizations that are publicly owned, funded and regulated, and the extent to which their experience matches the characteristics of the organizations that they are appointed to lead.[6] In the next section we explain how variations in the publicness fit between chief executive and organization are expected to lead to variations in organizational performance.

## PUBLICNESS FIT AND ORGANIZATIONAL PERFORMANCE

In this section we develop propositions on publicness fit that build upon prior literature on executive succession and performance. We take performance to be the degree to which an organization achieves its statutorily defined goals[7] and, to simplify the exposition of the theory,

[6] Publicness fit is the correspondence between the characteristics of an organization and the managerial experience of its new leader: If an organization of middling publicness hires a chief executive whose experience is primarily in organizations of middling publicness, the publicness fit between this organization and their new chief executive will be high.

[7] Many organizations have more than one statutorily defined goal. For them, maximum possible performance is a frontier indicating the extent to which it is possible to achieve several goals at the same time. The concept of a performance or goal achievement frontier is especially relevant for organizations with a degree of conflict between their goals, such as revenue maximization and customer service for a tax collection agency. For a conceptual and graphical illustration of performance frontiers for firms, see Clark (1996).

focus on two ordered levels of performance, high and low performance. In particular, we take account of the performance of the organization at the time a new chief executive is appointed. Empirical research on executive succession in the private sector has shown that when well-performing organizations recruit new chief executives from the outside, the disruptive effects of succession tend to be more substantial than the adaptive effects (Karaevli 2007). The most convincing explanation for this pattern is the lack of organization-specific experience of the outside appointees (Shen and Cannella 2002, 720-721). Therefore, outsiders from beyond the organization will harm well-performing organizations more than if the succession had been from within the organization. In contrast, poorly performing organizations have comparatively little to lose from giving an outsider a try. Indeed, after some time, outsiders' higher disruption costs will be outweighed by greater adaptive benefits brought about by fresh leadership from beyond the organization, with the net effect being to boost performance more than an insider succession. This boost will be primarily due to strategic change, which can consist of retrenchment – reducing activities that do not contribute effectively to the achievement of its statutory goals – or repositioning – changing how services are provided (e.g. introducing new teaching methods) or shifting emphasis between different statutory goals (Boyne and Meier 2009, 843-844).

While an insider succession would also be expected to bring about a net adaptive benefit, this benefit would be of a much lower magnitude than an outsider succession, due to the lower level of strategic change an insider typically attempts. This pattern of evidence is illustrated in Figure 2 which shows change in performance after a succession event on the vertical axis, prior performance on the horizontal axis, and separate succession effects for insiders and outsiders.

**Figure 2: Chief executive succession effects on organizational performance, for insider and outsider successions, conditional on prior performance**

**[insert Figure 2 here]**

The simplistic view of an insider/outsider dichotomy is insufficient to describe chief executive succession in the public sector, however, as we argued above. We therefore replace the insider/outsider dichotomy with the continuous concept of publicness fit. Existing work on insiders and outsiders in the management literature does not have an equivalent concept. This leads to a much richer theoretical argument, which we now introduce.

High performing organizations will experience net negative performance consequences from any succession since the disruption costs induced by a succession outweigh adaptation benefits, as discussed above. The disruption costs of a succession will be the lower the greater the publicness fit of the new leader is, because greater familiarity with the distinctive constraints of public ownership, funding and regulation translates into lesser costs imposed on the organization. Proposition 1 summarizes this idea:

*Proposition 1: For organizations performing at a high level prior to the succession event, the performance drop following a succession will decrease with the successor's publicness fit.*

Note that even a succession with perfect publicness fit still brings a slight performance drop relative to no succession, since there is simply not much to improve in such an organization but a lot to be disrupted by any succession, just as in the private-sector argument about insider-outsider succession effects illustrated in Figure 2. Proposition 1 implies a monotonically increasing relationship between publicness fit and organizational performance. It is driven by the idea that the less publicness fit a successor has, the more extensive the strategic change they initiate is likely to be, with detrimental consequences for performance. This can be linear but does not have to be. What is important is that the relationship does not change from increasing to decreasing for any value of publicness fit. Figure 3 consequently illustrates Proposition 1 by using a function that asymptotically approaches zero change in performance, with the performance effect of the chief executive succession becoming less and less negative as publicness fit increases, which is one of the possible ways to map out Proposition 1.

**Figure 3: Chief executive succession effects on organizational performance for organizations with high prior performance, conditional on the publicness fit between organization and new chief executive**

**[insert Figure 3 here]**

In poorly performing organizations, as discussed above, the expectation is that the net effect of succession will be positive because adaptive benefits outweigh the disruptive costs. However, just as for high-performing organization, publicness fit also moderates this relationship. As publicness fit declines from 100% fit, (with 100% being the case, for example, for a promotion from within the same organization) the net benefits from succession initially increase, because the succession itself brings a positive net balance of adaptive benefits over disruption costs as the organization pursues new strategies to raise its low performance. There comes a tipping point, however, at which the disruption costs of a new leader with too little publicness fit catch up with the adaptive benefits, and eventually fully cancel the latter out because the new chief executive lacks sufficient relevant experience. In short, the benefits from succession fail to materialize either because of an insufficient match that entails a lack of relevant experience or because of too complete a match that entails an absence of sufficient strategic change, i.e. too little of an attempt at retrenchment or repositioning to improve the organization's performance. For poorly performing organizations, chief executive successors with middle levels of publicness fit will be most likely to introduce the required changes. Proposition 2 summarizes this idea:

*Proposition 2: For organizations performing at a low level prior to the succession event, the performance increase will be nonlinearly related to the successor's publicness fit, such that there is an optimal level of publicness fit strictly between 0 and 100 per cent.*

This proposition implies an inverse U-shaped (parabolic) relationship between publicness fit and organizational performance. As discussed above, this relationship is generated by adding helpful strategic change (adaptive benefits) and disruption at each level of publicness. These two forces are shown separately in the top panel of Figure 4. In the bottom panel of Figure 4 we show their vertical sum, i.e. the aggregate effect, which is spelt out by Proposition 2.

**Figure 4: Chief executive succession effects on organizational performance for organizations with low prior performance, conditional on the publicness fit between organization and new chief executive**

**[insert Figure 4 –a- (top panel) here]**

**[insert Figure 4 –b- (bottom panel) here]**

Figures 3 and 4 are drawn for the extreme cases of high and low baseline performance. Intermediate baseline performance lies between those two cases, with net positive changes in performance and an optimal level of publicness fit (as shown in Figure 4) emerging as baseline performance decreases. The mechanism behind this is the increasing potential for helpful strategic change as baseline performance decreases from high levels. Note that the disruption curve in the top panel of Figure 4 (organizations with low baseline performance) is identical to the total succession effect depicted in Figure 3 (organizations with high baseline performance). This is no coincidence. As baseline performance decreases, more and more potential strategic changes exist that can raise organizational performance.

## BOUNDARY CONDITIONS AND TESTABILITY

Our theory applies to contexts where chief executives can be assessed for publicness fit with the organizations that they are appointed to. First, this means it is most useful for analyzing organizations with more than a minimal degree of publicness. Then, our focus is on the consequences of chief executive successions rather than the reasons for them. Agencies and commissions headed by a multi-member executive with staggered terms virtually never experience a full-scale transition at the top in the way organizations headed by a single chief executive do. Our theory speaks to the latter type of organizations. However, it is of relevance to the former group if one of the top managers has a role equivalent to that of a single agency head and thus the replacement of the person filling this role can be seen as the equivalent of a full-scale leadership transition.

Also, the chief executive has to have sufficient authority and discretion to be able to affect organizational performance. In Hambrick and Finkelstein's (1987) formulation, the discretion of a chief executive is a function of the extent to which the environment allows for changes to be made; organizational structure and resources; and the chief executive's own capability to envision and create change (379). These contingencies map onto work by O'Toole and Meier (2013) pointing out differences in the environment and structures of public organizations as moderators of the performance effects of managers. Given these conditions, our theory has little to say about chief executives who are only figureheads, unable to change the direction of their organization. A large body of systematic evidence indicates, however, that chief executives in many different public sector contexts are able to affect organizational performance (O'Toole and Meier 2011), both in countries that have followed the New Public Management line of reforms and countries that have taken a different trajectory, such as the New Public Governance or the Neo-Weberian State (Pollitt and Bouckaert 2011).

There are several research designs which could in principle be used to evaluate our theory. One fruitful avenue would be to construct a sufficiently large panel data set of organizations passing the above boundary conditions. First and foremost, a degree of chief executive discretion has to be present in these organizations, i.e. chief executives must not simply be figureheads. This data set has to contain valid and reliable measures of publicness fit and organizational performance. To operationalize publicness fit, data on the three publicness dimensions of both the organizations in question and the senior management career history of their chief executives are required.

For the first dimension, public funding, the best approach is to examine the budgets of each organization in the data set, as well as each organization where the chief executives in the data set worked previously, and to ascertain what percentage of each budget is made up of government appropriations and subsidies and what percentage is from self-generated income such as charges levied on customers.

For the second dimension, public ownership, either categorical or numerical indicators are possible. In the former approach, each organization in the data set, as well as each organization where the chief executives in the data set worked previously, would be placed in one of a set of categories related to ownership. A crude but perhaps sufficiently effective way in some contexts would be to have a binary indicator capturing whether an organization falls under administrative or corporate law. Taking a numerical approach instead would require coding the percentage of each organization held by the public. For government agencies, this would be 100 per cent, and for organizations traded on stock exchanges it would be whatever percentage of the firm's capital is held by the government. The latter approach is particularly helpful for countries where governments hold shares in companies, such as in several continental European countries, but it does make the data collection process even more demanding. Existing data sets such as the Thompson Reuters Profiles and Share Ownership repository[8] could be very helpful.

For the third and final dimension of publicness, public regulation, the most feasible approach is to place all organizations in the data set, as well as each organization where the chief executives in the data set worked previously in a senior managerial position, into one of several mutually exclusive categories that differ in the influence that elected officials exert over their operations through rules or standards based on public authority. For example, in the United Kingdom, central government departments, executive agencies, non-departmental public bodies, and private firms would be four categories with decreasing degrees of public regulation. Finer gradations certainly are possible but the increased precision would have to be traded off against the coding effort required. A promising approach to code the extent of public regulation is to use the analytical concepts developed for and applied to regulation inside government (Hood et al. 1999; Hood et al. 2000; James 2000). Regulation entailing standard setting, monitoring and enforcement backed by public authority is not just practiced in government regulation of privately owned and/or funded organizations but applies within the public sector. Regulation is usually reflected in corresponding text in publicly accessible formal regulations, the growth of

[8] http://dmi.thomsonreuters.com/OnDemand/OwnershipData

which has been mapped for the UK public sector (Hood et al. 1999).[9] The amount of regulation of different organizations could then be captured, for example by counting the relevant number of words in the regulations in place, adjusting for differences between substantive areas. Huber and Shipan (2002) used a similar method to code the extent of political control of government agencies between different U.S. states and between different countries, adjusting for the verbosity of different languages in the latter case.

To operationalize organizational performance, indicators have to fulfill two conditions. First, they have to be largely consistent over time, as chief executive succession studies require inferences about changes over time. Second, performance indicators have to be comparable across organizations in the data set. If the data set contains organizations from different policy areas, the performance indicators may have to be relatively abstract. A viable avenue here would be to use the percentage of performance targets set for an organizations that it achieves in a year. The alternative would be to restrict the study to one policy area, such as public secondary education.

The research design of any study testing the propositions from our theory has to be able to exclude the primary threat to the validity of any study of the performance consequences of chief executive successions: regression to the mean. This is a concern if successions occur at relatively high or low levels of performance, and then performance decreases (from high performance just prior to the succession) or increases (from low performance just prior to the succession). In these cases, a plausible explanation for the observed performance change is that the organization simply reverts from unusual year. The best approach to excluding the threat to

[9] In the United States at the federal level, this information would be available in the Code of Federal Regulation, which is available over the internet: http://www.gpo.gov/fdsys/browse/collectionCfr.action?collectionCode=CFR Many other countries as well as subnational entities also make available the text of all regulations on the internet.

validity posed by regression to the mean is to include two quasi-control groups: the organization at other points in time, when it did not experience a chief executive succession, and organizations that are similar in baseline performance that also do not experience a chief executive succession (Boyne et al. 2011a). If the two quasi-control groups do not experience the same reversions in performance from high or low baseline performance that the organizations with a chief executive succession do, then the performance changes in the latter group can be attributed more confidently to publicness fit.

A distinct alternative approach would be to look for sources of exogenous variation in publicness fit, i.e. chief executive successions that are due to death of the previous chief executive and not the performance of the organization under the previous chief executive. A template is provided by Besley et al.'s (2011) study of political leaders' educational background and how it relates to the rate of GDP growth. These authors identify succession effects by looking only at successions due to natural deaths and grave illness. Compared to the first possible approach toward testing our theory, identification of succession effects will be easier when succession can be considered exogenous. At the same time, finding enough suitable cases will be a challenge, and the requirement for valid and reliable performance data is the same as for the first proposed approach.

## CONCLUSION

In this paper we have developed a theory of the impact of new chief executives on the performance of public organizations. In particular, we have examined the potential consequences of appointing an outsider, defined not simply as someone from another organization, but someone whose managerial experience differs from the publicness of the organization that they join. The concept of publicness fit refers to the match between the experience of the new chief executive and the extent of public ownership, funding and regulation of the organization that they are appointed to lead. We use this concept to develop new propositions on the link between leadership change and the performance of public organizations.

Our development of the concept of publicness fit, and the related propositions on performance effects, has sought to meet the five conditions for a contribution to public management theory that we set out in the introduction to the paper. First, the concept of publicness fit offers a solution to a significant puzzle in the field: Why are the consequences of chief executive succession so different across organizations and individuals in the public sector? We have drawn upon the core public management concept of publicness to show that new leaders' different levels of experience of public ownership, funding and control offer a plausible explanation for different outcomes in otherwise similar cases. In particular, we have highlighted the importance of the *match* between new chief executives and the characteristics of the organizations that they join. Second, we have developed testable propositions that executive succession will lead to positive or negative effects on performance, depending on the level of publicness fit. Third, we have shown that the concept of publicness fit helps to explain why the form of the relationship between succession and performance may be monotonous or parabolic. Fourth, we have shown that the impact of publicness fit will be moderated by the prior performance of the organization that is subject to leadership change. And fifthly, we have set out the boundary conditions that limit the applicability of the theory of publicness fit.

The theory we introduce is fairly stark and parsimonious. This allows us to arrive at specific predictions. We subscribe to O'Toole and Meier's (1999) argument that, in the development of theory, progress can only be made "through precise and ultimately falsifiable predictions" (523). Empirical tests, which we hope to inspire with this paper, will eventually determine the validity of the theory of publicness fit. As of now, the theory is useful for refining our thinking about the effects of chief executive successions.

This also applies outside of the academy since, under new public management reforms, positions traditionally reserved to career civil servants continue to be opened up to outsiders from the public and private sectors. It is, therefore, of broad interest to identify under what conditions organizational outsiders are expected to achieve performance improvements. We hope that tests of the theory of publicness fit will help to illuminate this issue.


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Figure 1: The three dimensions of publicness fit

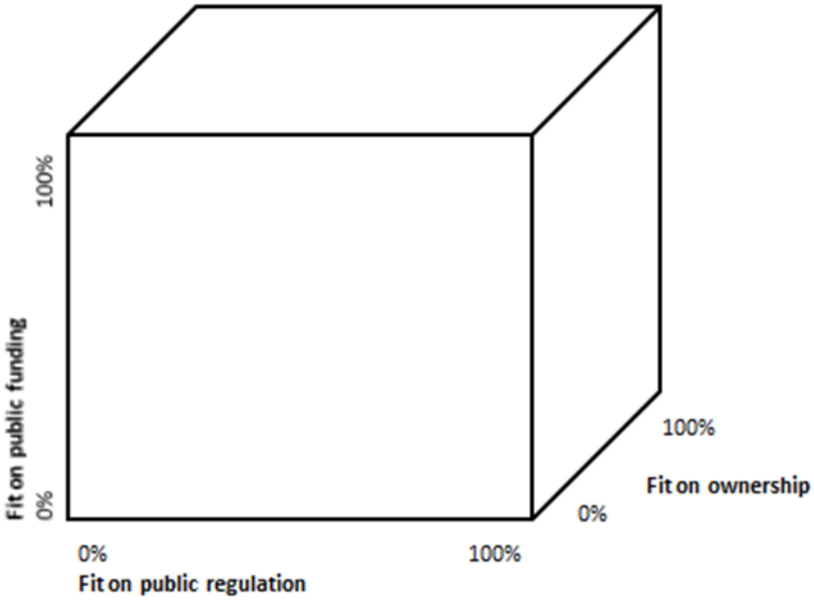

Figure 2: Chief executive succession effects on organizational performance, for insider and outsider successions, conditional on prior performance

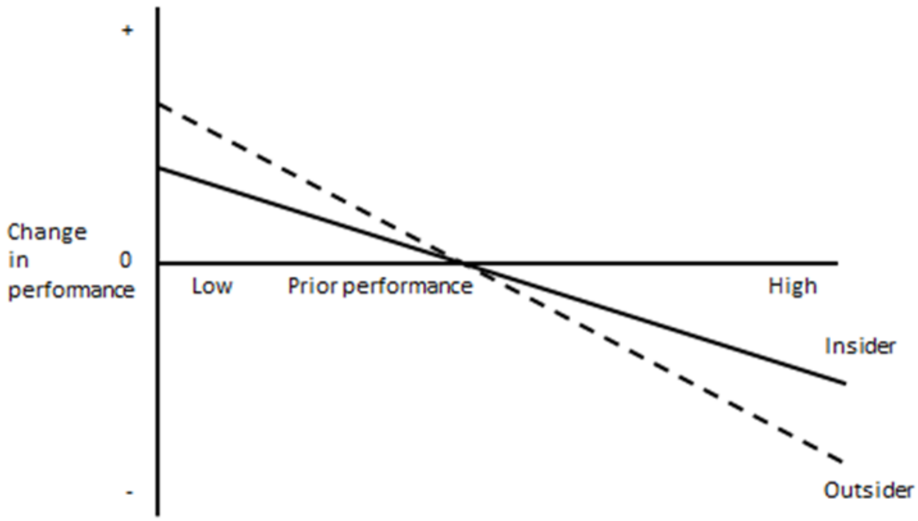

Figure 3: Chief executive succession effects on organizational performance for organizations with high prior performance, conditional on the publicness fit between organization and new chief executive

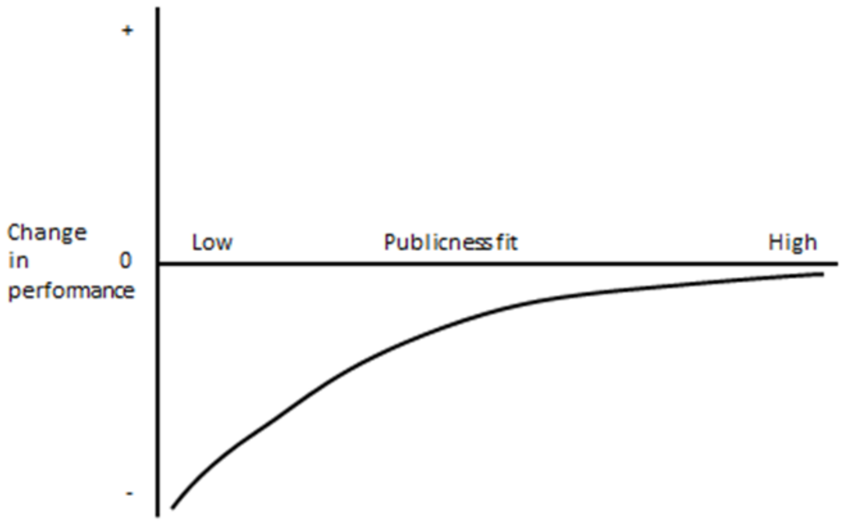

Figure 4: Chief executive succession effects on organizational performance for organizations with low prior performance, conditional on the publicness fit between organization and new chief executive