THE VALUE OF CEO MOBILITY: CONTEXTUAL FACTORS THAT SHAPE THE IMPACT OF PRIOR CEO EXPERIENCE ON MARKET PERFORMANCE AND CEO COMPENSATION

NATHAN A. BRAGAW AND VILMOS F. MISANGYI

This study examines the value that prior CEO experience has for the companies that hire such CEOs—as reflected in the firms' subsequent market-based performance—as well as its value for the CEO that possesses this experience—as reflected in his or her initial compensation. While we suggest that shareholders tend not to benefit from firms hiring experienced CEOs, we also argue that particular firm and industry contextual factors that shaped the prior CEO experience help ameliorate this detrimental effect. Regardless, we also suggest that prior CEO experience generally stands to benefit the CEOs, in that it brings them a compensation premium over those CEOs without such prior experience. We tested our hypotheses on a sample of 654 US CEO succession events that occurred between 2001 and 2004 and found broad support for our hypotheses. We close with a discussion of the implications of our findings for future research as well as what they mean for firms hiring experienced CEOs and for CEO careers more generally. © *2015 Wiley Periodicals, Inc.*

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CEO mobility is a relatively recent phenomenon. The CEO position long served as the last step in the business executive career ladder: those few individuals that reached the chief executive position tended to stay in the position until retirement, or dismissal (Lee, 2011). Retirement then usually involved serving as a director on one or more corporate boards, including that of the firm from which they retired (Lee, 2011; Vancil, 1987). For the dismissed, golden parachutes awaited their often quiet departures from the corporate scene (Rau & Xu, 2013). The occurrence of a CEO taking a second CEO position at another firm was a rare one. A report on CEO successions (Karlsson & Neilson, 2009), however, suggests that this is

Correspondence to: Nathan A. Bragaw, Assistant Professor, E. J. Ourso College of Business, Louisiana State University, 2718 Business Education Complex, Baton Rouge, LA 70803, Phone: +1 225 578-6146, Fax: +1 225 578-6140, E-mail: nbragaw@lsu.edu

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no longer the case: while up until 1989 the hiring of a CEO with prior CEO experience represented less than 1 percent of new CEO hires, CEOs are clearly becoming more mobile. The findings show that between the years of 2007 and 2009 the same occurrence was around 20 percent. This trend is a rapidly escalating one, moreover, as it is only in the past decade that the incidence of hiring a CEO with prior CEO experiences has represented more than 10 percent of CEO succession events in a given year (Karlsson & Neilson, 2009). Researchers have taken note of this trend and have recently begun to examine the impact that prior CEO experience has on subsequent hiring firms' performance (e.g., Elsaid, Wang, & Davidson, 2011; Hamori & Koyuncu, 2013).

The extant evidence shows that past experience as a CEO is a detriment to success in a subsequent CEO job, primarily because experienced CEOs have to unlearn firm-specific skills that are not useful in the new firm, a problem that is exacerbated by CEOs' tendencies to become less adaptive as their experience deepens.

Interestingly, although theories of managerial human capital suggest that prior CEO experience would prove beneficial to subsequent hiring firms—as such experience should mean that the newly hired experienced CEO brings with him or her honed general management skills (Bailey & Helfat, 2003; Harris & Helfat, 1997; Murphy & Zabojnik, 2007)—these recent studies have instead found that prior CEO experience hinders performance in the subsequent firm, at least when it comes to accounting-based measures of performance (Elsaid et al., 2011; Hamori & Koyuncu, 2013). The rationale given for this negative effect found by this past research is that prior CEO experience is too heavily laden with the specific environments in which it was gained and therefore is not as beneficial to the new firms as the CEOs (or the hiring boards and their shareholders) believe it will be. In short, the extant evidence shows that past experience as a CEO is a detriment to success in a subsequent CEO job, primarily because experienced CEOs have to unlearn firm-specific skills that are not useful in the new firm (Hamori & Koyuncu, 2013), a problem that is exacerbated by CEOs' tendencies to become less adaptive as their experience deepens (Henderson, Miller, & Hambrick, 2006; Miller, 1991; Miller & Shamsie, 2001).

Despite this evidence of experienced CEOs' subsequent underperformance, and given both the increased trend in boards hiring experienced CEOs (Karlsson & Neilson, 2009) as well as extant evidence showing that shareholders react positively to the announcement of the hiring of such CEOs (Elsaid et al., 2011), it appears that the market and hiring boards still value their hiring. Unlike accounting-based metrics (e.g., return on assets) that reflect historical operational performance, market-based performance (e.g., total shareholder returns) reflects future performance expectations (e.g., Fryxell & Barton, 1990; Richard, Devinney, Yip, & Johnson, 2009; Steers, 1975; Venkatraman & Ramanujam, 1986), expectations that are the result of interpretations and assessments made by analysts and investors open to be influenced by the interactive style and substance of the CEO (e.g., Fanelli, Misangyi, & Tosi, 2009; Westphal & Graebner, 2010). Thus, while CEO experience may positively affect such expectations initially, whether experienced CEOs are able to deliver future returns to shareholders is still a pressing open question. Furthermore, whether or not CEOs are compensated for possessing CEO experience—which they should be according to theories of human capital and labor markets (e.g., Rosen, 1982)—presents another important, but unanswered, question. Though this has yet to be studied systematically, prior research that has compared mean compensation levels provides contradictory evidence about whether experienced CEOs receive higher initial pay than do first-time CEOs (Elsaid et al., 2011; Graffin, Boivie, & Carpenter, 2013).

Our aim in the current study, therefore, is to advance an understanding of CEO experience by seeking to answer the following research questions: Does prior experience as a CEO benefit shareholders? Does it benefit the CEO? And does the kind of experience gained by the CEO matter for bringing such benefits? To answer these questions, we first integrate the previously reasoned logic that CEO experience comes too laden with job-specific skills to be readily transferable across firms (e.g., Hamori & Koyuncu, 2013) with the insights provided by past research that has examined the cognitive and skill inflexibility that develops over the course of CEO tenures within firms (e.g., Henderson et al., 2006) to posit that shareholders do not generally stand to benefit from the hiring of an experienced CEO. Nevertheless, we also argue that certain contextual conditions in which the experience was gained enhance the transferability of prior CEO experience and, thus, help to increase its benefit to the subsequent hiring firm. At the firm level, we suggest that previous experience in running a publicly traded firm (i.e., dealing with Wall Street) involves conceptual skills that are not only crucial to successful market-based performance but are also transferable across CEO positions at publicly traded firms. Thus, we expect that prior CEO

experience gained at a publicly held firm (versus a private firm) helps to ameliorate the negative relationship between prior CEO experience and subsequent market-based performance. In terms of industry contexts, previous research on CEO tenures clearly suggests that the more dynamic the industry, the less likely CEOs are to develop an entrenched paradigm (e.g., Henderson et al., 2006). We, therefore, posit that when CEOs gain their experience in a dynamic industry this also stands to lessen the negative effect such experience may have on subsequent market-based performance.

We then address the second gap in the literature on CEO prior experience by systematically examining the compensation it garners for CEOs from subsequent hiring firms. Specifically, and somewhat paradoxically, while firms do not generally stand to gain from hiring CEOs with prior CEO experience, we suggest that such experience does generally bring value to CEOs themselves by way of compensation premiums. Our argument is based on the assumption that boards believe that prior CEO experience represents a valuable form of human capital—a belief supported by the increased hiring of such CEOs and the positive initial reactions shareholders have to such hiring announcements (Elsaid et al., 2011)—and draws upon theories of CEO labor markets that suggest that hiring firms will offer higher levels of compensation to CEOs with such experience to attract and retain them or risk losing them to other firms who are willing to pay such premiums (Rosen, 1982). Here, too, we suggest that the same contextual conditions in which the prior experience was gained, as described above, should matter to this benefit, and, thus, we examine the moderating effect that these conditions have on the relationship between prior CEO experience and subsequent hiring compensation.

The remainder of the article is organized as follows. We first review the extant literature that has examined prior CEO experience and its effect on subsequent firm operational performance, develop our hypothesis for the effect that prior CEO experience has on a subsequent firm's market-based performance, and then focus on whether prior experience gained in publicly traded firms or dynamic industry environments helps to attenuate this negative effect. We then turn to the development of our hypotheses with respect to the relationship between CEO prior experience and the compensation paid to the CEO by the subsequent hiring firm, and again examine how these particular firm and industry conditions in which the experience was gained moderate this relationship. We test our hypotheses by examining CEO succession events among a sample of S&P 1500 firms during the period 2001 through 2004. Finally, we conclude with a discussion of the theoretical and practical implications of our findings, focusing on what our findings mean both for hiring firms and for CEO careers.

Theoretical Background and Hypotheses

Prior CEO Experience and Subsequent Firm Market-Based Performance

To better understand how prior CEO experience may prove beneficial in a subsequent CEO position to both shareholders and the CEOs themselves, we first consider how CEO experience shapes an individual's mind-set and actions. Early research on CEO experience examined how prior experience colors managerial action over the course of the CEO's tenure within the same firm (Hambrick & Fukutomi, 1991; Henderson et al., 2006; Miller, 1991). This scholarship suggests that a CEO's experiences in the early years of his or her tenure lead the CEO to develop a particular "worldview" (i.e., how one perceives and interprets the surrounding environment) and a "repertoire of skills" for acting on this worldview (i.e., "CEO paradigm"; Henderson et al., 2006). Central to the development of a CEO's paradigm is how the executive learns over time. New CEOs spend the early years at the helm learning about their industry and company (Henderson et al., 2006; Miller & Shamsie, 2001). Over time, the learning decreases as a CEO becomes more familiar with the environment and the sources of information become restricted (Hambrick & Fukutomi, 1991; Henderson et al., 2006; Miller, 1991). Indeed, previous research on strategic simplification has highlighted that CEOs come to rely on fewer, more familiar information sources (Aguilar, 1967; Tushman & Romanelli, 1985) and tend to follow more predictable repertoires for acting on information (Katz, 1982; Miller, 1991), and, thus, tend to become overly reliant on a small number of strategic actions that have previously proven successful for the firm. This is problematic if the environment changes, however, as CEOs remain committed to a set of actions that may no longer match the external market conditions, ultimately dragging down the company's performance (Henderson et al., 2006).

Specifically, and somewhat paradoxically, while firms donot generally stand to gain from hiring CEOs with prior CEO experience, we suggest that such experience does generally bring value to CEOs themselves by way of compensation premiums.

The evidence from this foregoing research suggests that CEOs tend to become committed to their developed paradigms, thereby resisting change, and we suggest that when experienced CEOs are hired by a second firm, they will be likely to employ what they already know: the worldview and repertoire of skills gained at the previous firm. Indeed, a study by Bertrand and Schoar (2003) found evidence consistent with this notion, as their results suggest that executives (CEOs and lower-level top executives) repeat financial and investment policies as well as organizational strategies (i.e., acquisition activities and resource allocations) across firms. To the extent that such strategic persistence prevents a CEO from effectively adapting to a subsequent firm environment, it will be detrimental to the hiring firm. The findings of recent research have shown that, at least with respect to accounting-based measures of performance, CEOs with prior CEO experience tend to underperform their first-time CEO peers who lack such prior experience (Elsaid et al., 2011; Hamori & Koyuncu, 2013). Though the reason given by this recent research for this negative effect is primarily based on the firm specificity of prior CEO experience, and then the incongruence of firm contexts, this reasoning is completely consistent with the CEO tenure literature described above: CEOs who come into their jobs with prior CEO experience are slower to adapt and learn in a new environment because their prior experiences meld into a hardened worldview and set of actions.

While this previous research captures the effect that prior CEO experience has on the operational performance of the subsequent firms that hire experienced CEOs, it does not address whether experienced CEOs can create value for the shareholders of such firms. As outlined earlier, this is a highly important open question given that accounting-based measures of performance are only loosely related to market-based measures (for a review, see Merchant, 2006). This is because while firm market values are partially based on past operational performance, they largely reflect expectations of future performance. For example, investments in research and development or capital improvements can drag down profitability in the short run but boost investor confidence about the future and result in higher market valuations (Elsaid et al., 2011). Furthermore, research has shown that markets respond positively—i.e., shareholder wealth is benefitted at least initially—when firms announce the hiring of an experienced CEO (Elsaid et al., 2011). This suggests that shareholders expect prior CEO experience to be beneficial for future returns.

The question is, then, does the same logic for the negative effect of CEO prior experience on accounting-based performance suggested by past research—that is, negative learning effects, cognitive entrenchment, and the hardening of skills mean that it is not that transferable to the next CEO job—extend to market-based performance?

There is some reason to believe that CEO past experience may indeed be beneficial rather than detrimental to market-based performance. The CEO job entails certain conceptual skills that require the ability to interpret, balance, and manage the complex array of internal and external interdependencies that constitute organizational life (Katz, 1974; Kotter, 1982). This in part means that CEO experience leads to the development of general skills gained from knowledge about multiple business functions (e.g., operations, marketing, finance, etc.; Murphy & Zabojnik, 2004). Moreover, it means that such conceptual skills are needed for one of the major roles performed by the CEO: dealing with the organization's external constituencies—a role that is especially critical to market-based performance. As we argue further below, however, while such conceptual skills may be transferable across firm and industry boundaries (Castanias & Helfat, 1991, 2001), their transferability, and, thus, beneficial effect on market performance, is contingent on the context in which such skills are developed.

In general, there is strong reason to expect that the logic that has previously been given for the detrimental effect of CEO prior experience on operational performance will extend to an experienced CEO's ability to create value for shareholders when hired by a second firm. Simply put, when faced with the particular challenges in the new job of managing market performance, experienced CEOs are also likely to be hindered by their past: they will likely reenact what they learned in the prior job rather than take the time to learn and develop solutions suitable for the new job (cf. Hamori & Koyuncu, 2013). Moreover, although boards of directors presumably select new CEOs with a strategic direction in mind (Westphal & Fredrickson, 2001), they are more likely drawn to experienced CEOs because of the legitimacy and status conveyed by having previously run a corporation (Khurana, 2002). Regardless of whether boards select CEOs for their proven mind- and skill sets, or for their symbolic value, it is reasonable to expect that experienced CEOs, who come ready equipped with a mind- and skill set hardened at their previous firm, would believe that they were hired to employ the same paradigm at the new job. Thus, we hypothesize that:

Hypothesis 1: Firms with newly hired CEOs that have prior CEO experience will have lower market-based performance than firms with newly hired CEOs that do not have prior CEO experience.

Previous research has found that the negative effect of prior experience on operational performance is even more pronounced when the firm in which the CEO developed the job skills has certain similarities to the subsequent hiring firm (Hamori & Koyuncu, 2013). This is because such similarity leads the CEO to falsely believe that the firm-specific experience gained in the first firm readily applies to the new firm. For instance, Hamori and Koyuncu (2013) found that similarity in firm size tends to exacerbate the negative effect between CEO prior experience and subsequent return on assets.

When it comes to market-based performance, however, we suggest that there is at least one similarity between firms that should prove especially beneficial for CEOs with prior experience. Specifically, experience in dealing with important market intermediaries gained in previously leading a publicly traded firm should be beneficial to performing well in a subsequent publicly traded firm. At such firms, CEOs must attend to a number of constituents that CEOs at privately held firms do not; in particular, securities analysts and institutional investors (Hambrick, Finkelstein, & Mooney, 2005). That is, in addition to managing the interactions across functional areas and balancing the expectations of employees, customers, suppliers, and investors, running a publicly traded company also comes with the added scrutiny of securities analysts, institutional investors, and the business press (Chen & Meindl, 1991; Fombrun & Shanley, 1990). The need to effectively maneuver through these additional constituencies can directly affect the firm's reputation and subsequent access to capital, human or otherwise (Fombrun, 1996; Rindova, Pollock, & Hayward, 2006). Indeed, the recent trend in companies going private has been directly attributed to a desire to avoid having to constantly manage to "Wall Street's" quarterly expectations (Gardner, 2013).

Whether prior CEO experience has been gained in a publicly traded firm versus a privately held firm should, therefore, clearly make a difference in the development of job-specific skills; navigating the interdependencies at the helm of a publicly traded firm is significantly different than managing the interdependencies involved with running a private firm. Studies have shown how CEOs' various ingratiating behaviors, communication styles, and impression management tactics can influence institutional investors (Westphal & Bednar, 2008), analysts (Fanelli et al., 2009; Westphal & Clement, 2008; Westphal & Graebner, 2010), and stockholders (Westphal & Zajac, 1998). As a result, CEOs who have previously led publicly traded firms should prove to be beneficial with regard to managing the interdependencies especially crucial to the firm's market-based performance, and, moreover, these conceptual skills should be transferable across publicly traded firms and, therefore, prove beneficial for hiring firms when compared to CEOs whose prior experience was gained in a privately held firm. Thus, such prior experience should serve to mitigate the generally detrimental effect of past CEO experience on subsequent market-based performance. Stated formally:

Hypothesis 2: Public status of the prior firm moderates the negative relationship between prior CEO experience and firm market-based performance such that the negative relationship is weaker when the prior CEO experience was gained in a publicly traded firm.

Specifically, experience in dealing with important market intermediaries gained in previously leading a publicly traded firm should be beneficial to performing well in a subsequent publicly traded firm.

Industry dynamism, or the degree of instability within the firm's competitive environment, is a second contingency that we expect to attenuate the negative effect of prior CEO experience on subsequent market performance. This is because such an industry environment puts pressure on the CEO to constantly adapt to match the needs of the changing market conditions (Datta, Guthrie, & Wright, 2005). Therefore, we expect that a CEO who has gained his or her prior CEO experience in a highly dynamic industry will be less resistant to adapting to the requirements that the subsequent firm may present.

There are two interrelated mechanisms at work here. One is that gaining experience in a highly dynamic industry should mean that CEOs are less likely to become set in their ways. Indeed, evidence from the leadership literature suggests that prior experience in more challenging and complex environments enhances skill development (e.g., DeRue & Wellman, 2009; Ohlott, Ruderman, & McCauley, 1994), thus, making it less likely that the CEO will rely on simplified prescriptions (Datta et al., 2005; Wu, Levitas, & Priem, 2005). Moreover, to the extent that dynamic environments greatly reduce the likelihood that CEOs will experience much success by

way of operational performance (Henderson et al., 2006), this further lessens the degree to which the CEO will develop an entrenched mind-set and hardened repertoire of actions, as CEOs tend to keep developing their skills and actions until they settle in on those that yield at least some level of success (Miller, 1991). Second, the CEO role of managing organizational constituencies consists in large part of meaning making (e.g., Fanelli & Misangyi, 2006; Pondy, 1978) and strategic sense giving (e.g., Gioia & Chittipeddi, 1991) for external stakeholders—including managing the expectations of shareholders and market intermediaries such as securities analysts—and this is especially necessary in highly dynamic and uncertain environments (Pfeffer, 1981). Thus, CEO prior experience gained in dynamic industry environments means that the CEO has had the opportunity to develop skills that should prove particularly beneficial to his or her market-based performance in subsequent CEO jobs.

In short, CEO experience gained in a highly dynamic environment tends to equip CEOs with the mind-set and ability to make sense of new and changing conditions, which should both help their own adaptability to the new situation and enable them to manage the expectations of their external constituencies as to what the new situation means. We, thus, hypothesize that when prior CEO experience is developed in a highly dynamic industry, this will lessen the negative effect that such prior experience generally has on the subsequent hiring firm's market-based performance:

In short, regardless of which of these two logics hold, both suggest that experienced CEOs would receive greater levels of pay based solely on their prior CEO experience.

Hypothesis 3: Prior industry dynamism moderates the negative relationship between prior CEO experience and firm market-based performance such that the negative relationship will be weaker when the CEO's prior CEO experience was gained in a highly dynamic industry.

Prior CEO Experience and CEO Compensation

That prior experiences should reflect differences in pay is at the heart of human capital theory (Becker, 1964). There are, however, two different perspectives on how CEO experience is viewed within the CEO labor market. On the one hand, research on managerial capabilities (e.g., Castanias & Helfat, 1991), which combines Becker's work with that of the resource-based view of the firm (Barney, 1991; Penrose, 1959; Wernerfelt, 1984), argues that CEO experience involves a unique set of skills and, thus, should prove to be a valuable source of competitive advantage for the firms in which it is developed. This research suggests that firm-specific and industry-specific experiences are less transferable than are general managerial skills (Castanias & Helfat, 2001), and, thus, hiring firms will have to pay premiums when hiring outside CEOs to compensate for the risk these CEOs incur in taking a new job that forgoes their previously developed skills (Harris & Helfat, 1997). Empirical support for this logic is provided by studies that have shown higher pay for new executives hired from outside the firm and from outside the industry (e.g., Harris & Helfat, 1997; Shen & Cannella, 2002; Zajac, 1990; Zhang, 2008).

On the other hand, many scholars have argued that the accumulated societal knowledge about various business-related disciplines (e.g., finance, economics, international management) that is inherently embodied in the CEO position makes CEO experience very valuable to organizations. This argument rests on the premise, however, that these skills are general in nature and, thus, highly transferable across companies, and suggests that firms will be forced to compete for CEO talent and that wages will rise as a result of this experience premium (Murphy & Zabojnik, 2004, 2007). Furthermore, the view here is that this human capital should garner a premium in the CEO labor market (Rosen, 1982) above and beyond any risk premium afforded to an outsider hired to the firm (e.g., Harris & Helfat, 1997; Zhang & Rajagopalan, 2003).

In short, regardless of which of these two logics hold, both suggest that experienced CEOs would receive greater levels of pay based solely on their prior CEO experience. However, the evidence to date for whether CEOs receive such a premium in compensation is both sparse and inconclusive (e.g., Elsaid et al., 2011; Graffin et al., 2013). The study by Elsaid et al. (2011) found no significant differences in their mean comparisons of initial compensation between experienced and inexperienced CEOs, yet Graffin and colleagues' (2013) findings suggest that experienced CEOs receive, on average, higher total initial compensation. More generally, studies that have looked at the influence of other types of prior experiences among lower-level managers are suggestive that companies value and pay for prior experiences (e.g., Agarwal, 1981; Carpenter, Sanders, & Gregersen, 2001; Combs & Skill, 2003; Finkelstein & Hambrick, 1989; Fisher & Govindarajan, 1992).

Given these inconclusive findings of previous research, and based on the foregoing theory, we systematically examine whether prior CEO

experience garners a premium in initial compensation. Formally, we hypothesize that:

Hypothesis 4: Newly hired CEOs with prior CEO experience receive higher initial compensation packages than newly hired CEOs without prior CEO experience.

We also expect that prior experience as a CEO in a publicly traded firm or in a dynamic industry environment will tend to strengthen this positive relationship between prior CEO experience and initial compensation. When prior experience as a CEO is gained at a publicly traded firm, this means that the CEO has previously managed the expectations and demands of the very external constituencies who are involved in market performance—he or she has contended with analysts, institutional investors, and scrutiny from the press (Chen & Meindl, 1991; Fombrun & Shanley, 1990; Holmstrom, 1999). Furthermore, these skills should prove to be transferable across publicly traded firms. Therefore, because gaining such prior experience affords a CEO an opportunity to hone his or her skills necessary for successfully dealing with these constituencies, such experience is of greater value to the hiring firm as compared to a potential candidate with prior experience running a privately held firm.

Similarly, a candidate with prior experience as a CEO running a firm in a highly dynamic environment should be seen as more valuable by the hiring firm's board than will a CEO whose prior CEO experience was in a more stable environment, as the former candidate's experience in adapting to changing market conditions should be highly transferable to the new job. Moreover, as discussed earlier, previously being a CEO in a dynamic industry environment should provide invaluable experience in managing the expectations of market constituents.

Thus, we hypothesize the following two moderating conditions to the relationship between prior CEO experience and CEO hiring compensation:

Hypothesis 5: Public status of the prior firm moderates the positive relationship between prior CEO experience and initial CEO compensation at the subsequent firm such that the relationship is stronger when the prior CEO experience is in a publicly traded firm.

Hypothesis 6: Prior industry dynamism moderates the positive relationship between prior CEO experience and initial CEO compensation such that the relationship is stronger when the CEO's prior CEO experience was gained in a highly dynamic industry.

Method

Sample and Data

To test these hypotheses we gathered information on CEO succession events among S&P 1500 firms between 2001 and 2004. We chose this date range because it preceded the 2008 financial crisis, and, thus, we avoid any performance effects of the crisis on our findings. Using the S&P Execucomp database, we collected all succession events in this time frame. This yielded 929 succession events, of which 201 CEOs had prior CEO experience. For this study the focus is on the hiring of permanent CEOs with a long-term perspective, and, thus, we eliminated co-CEOs and CEOs hired on an interim basis. We also sought to avoid including CEOs returning to the CEO position for the same firm (e.g., Michael Dell). Interim CEOs were identified by content analyzing press releases, as obtained from the *PR Newswire* or *Business Wire* news feed services, announcing the appointment of the CEO. If the announcement used phrases such as "interim CEO," "acting CEO," "temporary CEO," or "until a search is completed" (Ballinger & Marcel, 2010), the CEO was deemed to be interim and was excluded from the sample.

When prior experience as a CEO is gained at a publicly traded firm, this means that the CEO has previously managed the expectations and demands of the very external constituencies who are involved in market performance—he or she has contended with analysts, institutional investors, and scrutiny from the press.

All data for this study were gathered from archival sources. To determine prior CEO experience, we gathered biographies on all of the CEOs using the executive profiles from the *BusinessWeek* website, company proxy statements, and press releases announcing the appointment (Harris & Helfat, 1997; Zhang & Rajagopalan, 2003). Data for calculating shareholder returns was obtained from the Center for Research in Security Prices database. The primary source for CEO compensation data was the S&P Execucomp database. Data for the board-specific variables was primarily obtained from the ISS Governance Services RiskMetrics database. All industry- and firm-specific financial data were taken from the S&P Compustat database. When necessary, data were also obtained from firms' financial disclosure forms (i.e., annual reports, proxy statements) from the Securities and Exchange Commission's Electronic Data-Gathering, Analysis, and Retrieval system. After accounting for the excluded CEOs mentioned

above and missing data, the final sample for this study included 654 succession events, 130 of which involved a CEO with prior CEO experience. Univariate *t*-tests comparing key variables for which we had data (total assets, sales, outsider ratio, and profitability) in the year prior to the succession event found no significant difference between our final sample and those firms we had to drop due to lack of data or rules for exclusion (e.g., interim CEOs, return CEOs).

Measures

Dependent Variables

The hypotheses involve two different dependent variables: firm market-based performance and initial CEO compensation. Firm market-based performance was measured as the annual *total shareholder returns* (TSR = closing price of the stock minus the opening price of the stock plus dividends paid, all divided by the closing price of the stock) (Fryxell & Barton, 1990) in the third year of each CEO's tenure. We used the third year of the new CEO's term to measure performance because prior research has found that the first year of a CEO's tenure tends to heavily reflect the actions and performance of his or her predecessor (Hambrick & Quigley, 2014) and that it can take up to three years for the new CEO to implement changes (Gabarro, 1985). For the initial year to count as a year of service, the CEO had to be in the job for a minimum of six months of the year. We did not exclude CEOs who served less than three years because succession events are by nature events that involve the notion of fit between the CEO and the firm. To exclude short-tenured CEOs would potentially bias the sample by censoring those observations that are either a poorer fit or those CEOs that were not a poor fit but instead left for a better position. In situations where the CEO did not serve at least three years as CEO, we measured performance for the last year in which he or she served a minimum of six months as the CEO.

We calculated initial CEO compensation three different ways: *initial total compensation* (the sum of salary, bonus, restricted stock, Black-Scholes value of options granted, long-term incentive payouts, and all other forms of remuneration), *initial cash compensation* (salary only) to reflect the component of pay that is fixed for the initial year, and *initial contingent compensation* (the difference between total compensation and cash compensation, divided by total compensation) to reflect the amount of total compensation that is tied to performance outcomes (Combs & Skill, 2003; Harris & Helfat, 1997). Each was measured using the CEO's first year of service with the firm. As not all firms compensate their CEOs with both cash and contingent compensation, some of the dependent variables contain zero values. Additionally, prior studies have found compensation measures to follow a skewed distribution (David, Kochhar, & Levitas, 1998). We, thus, used an inverse hyperbolic sine function,[1] which provides the benefit of correcting for the skew presented by extreme outliers and zero values (Burbidge, Magee, & Robb, 1988).

Independent Variable

To measure *prior CEO experience,* we followed the framework of work experience measurements developed by Quinones, Ford, and Teachout (1995), which suggests that for job-specific experience, the appropriate measurement mode is time spent on the job. We, thus, measured prior CEO experience as the number of months that each CEO spent in a prior CEO position. We captured this time spent in a prior CEO job via two measures: the *total number of months* served previously as CEO, and the number of months spent as a prior CEO in *the most recent five years* prior to the current CEO position. The total measure is important because, commensurate with the CEO tenure literature, it captures how potentially entrenched the CEO is in his or her past experience (i.e., the longer the prior tenure, the more likely there is a stronger CEO paradigm). At the same time, the five-year measure is also important to include because the total month measure essentially ignores any time gap between the prior term and the current term, and previous research on job skills has suggested that skills that go unused deteriorate over time (e.g., Bailey, 1989). Thus, the five-year measure captures the recency of experience in that it only captures those months served as a CEO in the most recent five years. Moreover, this five-year time frame was chosen based on prior meta-analytic results, which showed that the relationship between job knowledge and job performance tends to plateau after about five years (Schmidt, Hunter, & Outerbridge, 1986).

Moderating Variable

We measured the *public status of the prior firm* categorically (1 = prior firm was publicly traded, 0 = otherwise). Calculating *prior high industry dynamism* was a three-step process. First, we first measured market growth rate for each CEO's prior firm's primary industry (using three-digit Standard Industry Classification [SIC]) in the last year of the CEO's employment. Second, we measured the variability surrounding the industry's market growth as an indicator of dynamism (Dess & Beard, 1984). Third, we split the sample into quartiles and coded those values in the upper

quartile as a 1 to indicate high levels of dynamism in the CEO's prior industry. All other values were coded as a zero.

Control Variables

To control for other possible explanations of the firm's shareholder returns and the CEO's initial compensation, we controlled for factors at the CEO, firm, and industry level. At the CEO level, we included four controls. To control for risk premiums as an alternate explanation of the increased CEO compensation, we controlled for whether the succession event involved a *CEO outsider hire* (Finkelstein, Cannella, & Hambrick, 2009). To measure this we used a categorical variable where 1 indicated the CEO had been previously employed by the firm for less than two years prior to the succession event, and 0 if the CEO had been employed greater than two years (Cannella & Lubatkin, 1993; Harris & Helfat, 1997). Additionally, we included *CEO duality* (1 = CEO also serves as chairman of the board of directors, 0 = otherwise) (Core, Holthausen, & Larcker, 1999; Davidson, Jiraporn, Kim, & Nemec, 2004), *CEO age*, and *CEO education* (1 = CEO has MBA, 0 = otherwise) (Fisher & Govindarajan, 1992).

To account for firm-specific factors that could influence our dependent variables, we controlled for firm-level conditions for the year prior to the succession event, including *prior performance, total diversification*, and *firm size,* as well as the *outside director ratio* as a governance indicator. Specific to the models testing effects on shareholder returns, we used the *total shareholder returns* for the year before the CEO was hired as our performance measure. For models testing effects on initial compensation we used *return on assets* (ROA) for the year before the CEO was hired (measured by total assets/net income), standardized by the firms' primary industry ($[ROA-\mu]/\sigma$, with μ and σ being the mean and standard deviation, respectively, of the four-digit SIC industry's ROA) as our performance measure, which is the more common operationalization used in compensation modeling (e.g., Harris & Helfat, 1997; Sturman, Walsh, & Cheramie, 2008; Zajac, 1990). The hiring firm's *total diversification* level has been shown to affect subsequent performance (Guthrie & Datta, 1998) and was measured using the Jacquemin-Berry (1979) entropy measure of diversification (Palepu, 1985). To measure *firm size* we used the natural log of the hiring firm's sales. The *outsider ratio* is measured as the number of directors not employed as officers of the firm divided by the total number of directors on the board (Weisbach, 1988).

Additionally, we controlled for industry conditions that have been shown to affect postsuccession success, notably *market growth* and *industry dynamism* (Karaevli, 2007). Similar to the method described previously, we measured market growth by regressing sales for each firm's primary industry (using three-digit SIC) ending with the year prior to the succession event. Industry dynamism was measured as the variance surrounding the industry's market growth (Dess & Beard, 1984). Additionally, we followed the method outlined earlier for calculating high prior industry dynamism to also measure and control for high levels of market growth and dynamism, as well as high prior levels of market growth, to account for other factors affecting shareholder returns. Finally, we included dummy variables to control for *primary industry affiliation* (using two-digit Global Industry Classification Standard (GIC) code) and *hiring year* to account for factors affecting pay or performance attributable to either but not captured in other control variables already described.

Given our measures of shareholder returns and initial CEO compensation, we included controls to account for partial years in the CEO's tenure. Specific to the models predicting shareholder returns, we included a dummy variable to indicate whether the hiring year was counted in determining the third year of the CEO's term. If the CEO served less than the requisite minimum of six months in his or her first year, that year was not counted as the first year of service (and the dummy variable was coded as 1), otherwise the hiring year was considered a full year (and coded as 0). For the models predicting initial CEO compensation, we measured for the number of months in the CEO's first fiscal year of service. This *months employed* control variable was included to account for the varying length of first years that might explain differences in pay.

Analysis

To test the effects of prior experience on firm performance and initial CEO compensation, we ran ordinary least squares regression using robust standard errors. We conducted Breusch-Pagan (1979) tests to check for heteroskedasticity and found significant support for using robust standard errors to correct for the nonuniformity of the residuals (Greene, 2008). Collinearity diagnostics on the fully specified models returned mean variance inflation factor scores of less than six, indicating the estimates are not biased due to multicollinearity (Belsley, Kuh, & Welsch, 2004). We also ran multilevel tests to determine if succession events are nested within industry, year, or both. All tests failed to show any significant variance explained using a hierarchical model. All analyses were run using the STATA 11.0 software.

Results

Table I provides the descriptive statistics and correlations for all of the variables. Table II offers an additional selection of descriptive statistics comparing CEOs with prior CEO experience to first-time CEOs. Of the 654 newly hired CEOs in the sample, 130 of them have previously served as a CEO for another firm (19.9 percent). While a majority of the time when a firm hires a first-time CEO, it hires him or her from a publicly traded firm (93.1 percent), experienced CEOs come from both public and private organizations almost evenly (50.8 percent public). Specific to CEO origin, experienced CEOs are more often brought in from outside the firm when compared to first-time CEOs (76.2 percent vs. 31.5 percent). What is surprising, though, is that almost one out of every four experienced CEOs hired are promoted from within the firm (23.8 percent), spending at least two years with the hiring firm prior to assuming the CEO position. Regarding compensation, while the average total compensation for experienced CEOs was not significantly different from that of first-time CEOs ($6.77 million vs. $5.95 million), the cash compensation received by CEOs with prior CEO experience in their first year was significantly less than for first-time CEOs ($0.42 million vs. $0.52 million, $p < .01$). Table II also shows that the mean age of experienced CEOs is around two years older than that of first-time CEOs (average age of 52 versus 50 years old). It follows, then, that the age at which the experienced CEOs in our sample started their first job as CEO was significantly younger than that of the first timers (i.e., experienced CEOs' first jobs were when they were on average 46 years old vs. 50 years old for the first-timers in our sample). When it comes to CEOs' educational backgrounds, experienced CEOs and first-time CEOs are just as likely to have an MBA. Finally, high-reputation firms[2] made few changes in CEOs during this time frame, and in the few instances that they did, experienced CEOs were not among the hires.

Table III reports the results of the regression analyses testing the effects of prior CEO experience on shareholder returns in the third year of the CEOs' tenure. Model 1 displays the results of the model specification of just the control variables. Models 2 through 4 show the results when operationalizing prior CEO experience as the total number of months of prior CEO experience, and Models 5 through 7 show the results when prior CEO experience is measured as the number of months of prior CEO experience in the previous five years. Models 2 and 5 show the results testing the main effect hypothesis, Models 3 and 6 show the interaction effects of the public status of the prior firm, and Models 4 and 7 show the interaction effects of high prior industry dynamism. Models 4 and 7 necessarily are based on the subsample of publicly traded firms as data on prior industry dynamism was only available for such firms. While the significance levels reported in the tables are based on two-tailed tests, we interpret our findings based on one-tailed tests given the directional nature of our hypotheses. Robust standard errors are reported in parentheses.

The first hypothesis predicted that prior CEO experience is negatively related to firm market-based performance. As the results of Models 2 and 5 in Table III show, prior CEO experience has a significant negative effect on shareholder returns whether measuring experience as overall tenure ($\beta = .002$, $p < .001$) or as tenure in the previous five years ($\beta = .003$, $p < .1$). Thus, Hypothesis 1 is supported.

The second hypothesis examined whether the public status of the prior firm in which the CEO experience was gained attenuates the negative relationship between prior CEO experience and subsequent market-based performance. As Models 3 and 6 in Table III show, previous CEO job-specific experience gained in a public firm lessens the otherwise negative effect of prior experience on the shareholder returns in the subsequent firm, but the results suggest that it is the depth of experience rather than its recency that matters: the total months measure is significant ($\beta = .002$, $p < .05$; one-tailed test; Model 3). Thus, Hypothesis 2 is supported.

Hypothesis 3 predicted that high levels of industry dynamism in the experienced CEO's prior term would mitigate the negative relationship between prior CEO experience and subsequent market performance. Table III displays the results of this test in Models 4 and 7, and here such experience matters regardless of the length of time spent as a prior CEO or its recency: both overall tenure ($\beta = .003$, $p < .01$) and tenure in the previous five years ($\beta = .005$, $p < .05$; one-tailed test) are significant and positive. Hypothesis 3 is therefore supported.

Table IV reports the results of the regression analyses testing the effects of prior CEO experience on initial total (Models 1–4), cash (Models 5–8), and contingent (Models 9–12) CEO compensation, respectively. While we again examined CEO prior experience in terms of both its total duration and its recency, the overall pattern of results clearly showed that when it comes to compensation, the recency of prior CEO experience is more important than is its depth. Thus, for matters of simplicity, while we report the results for

both experience measures in the text, in Table IV we report only the results for the recency measure (i.e., months over the previous five years). Models 1, 5, and 9 show the control variable models for each type of compensation, respectively. Models 2, 6, and 10 report the results for the main effect of prior CEO experience on each type of compensation, respectively. The interaction effects of prior public status are reported in Models 3, 7, and 11 for each type of compensation, respectively. The interaction effects of high prior industry dynamism are reported in Models 4, 8, and 12, respectively.

Hypothesis 4 was that prior CEO experience is positively related to initial CEO compensation. The results clearly show that the recency of prior CEO experience matters when it comes to compensation: experience in the previous five years has a positive significant effect on initial CEO total compensation ($\beta = .007$, $p < .05$; Model 2), thus, supporting Hypothesis 4. The analyses of the separate components suggest that this greater pay package comes in the form of CEO contingent compensation (Model 10: $\beta = .002$, $p < .01$), and not in cash compensation (Model 6: $\beta = -.010$, $p < .05$). Indeed, although the depth of experience (i.e., total months measure) did not have an effect on total or contingent pay, it does have a significant effect on cash compensation ($\beta = .004$, $p < .05$) (again, as explained above, the results for the total months measure are not reported in Table IV).

Hypothesis 5 predicted that the public status of the prior firm strengthens the relationship between prior CEO experience and initial CEO compensation. As Model 3 in Table IV shows, there are no significant effects from prior CEO job-specific experience gained in a public firm on initial compensation. Furthermore, the public status of the firm in which a CEO gained the prior CEO experience does not significantly affect either initial cash (Model 6) or contingency (Model 9) compensation. Thus, Hypothesis 5 is not supported. Interestingly, the results do suggest, however, that having prior experience in a publicly traded firm is valued regardless of the level at which this experience was gained (i.e., a prior CEO or as a lower-level manager): the results show that when prior CEO experience is accounted for, prior public experience has a positive main effect on total pay (Model 2: $\beta = .284$, $p < .05$) and on contingent pay (Model 10: $\beta = .056$, $p < .05$), but not on cash compensation (Model 6).

Hypothesis 6 predicted that high levels of industry dynamism in the experienced CEO's prior term would strengthen the positive relationship between prior CEO experience and initial compensation. The results suggest that such experience matters regardless of the length of time spent as a prior CEO: both overall tenure ($\beta = .011$, $p < .05$) and tenure in the previous five years ($\beta = .013$, $p < .05$; one-tailed test; Model 4) are significant and positive, thereby suggesting that firms put even greater value on CEO experience that is gained in highly dynamic industries. While this increase does not significantly alter the initial cash compensation of an experienced CEO (Model 8), it does significantly improve the initial contingent compensation, both for overall tenure ($\beta = .003$, $p < .01$) and tenure in the previous five years ($\beta = .003$, $p < .05$; Model 12). Hypothesis 6 is therefore supported.

Robustness Checks

Prior research examining the effects of prior CEO experience on accounting-based performance has relied on a categorical measure of prior CEO experience (e.g., Elsaid et al., 2011; Hamori & Koyuncu, 2013), and we, therefore, also reran our analyses capturing prior CEO experience as a categorical variable. We did not find a significant relationship between prior CEO experience and market performance when using this measurement. This result is perhaps not surprising given our findings above: while both the total measure and recent five-year measure are significantly negatively related to shareholder returns, the former measure is more strongly related than is the latter. In other words, our findings suggest that as experience deepens, so, too, does its negative effect on subsequent market-based performance, and because the categorical measure captures both short and long previous tenures of experience, this may be why the categorical measure is not significant.

Additionally, we reran our analyses of market performance using the cumulative shareholder returns over the initial three years of each CEO's tenure. The results were robust as the relationship between prior CEO experience and cumulative shareholder returns is significant ($p < .05$; one-tailed test). The results of this robustness check also suggest that the initial period when the new CEO takes over heavily reflects the prior CEO's tenure: the control variable of shareholder returns in the year before CEO hire (i.e., the predecessor's last year of performance), which is not significant in the tests reported in Table III, was a significant predictor of three-year cumulative returns ($p < .01$) in the robustness test. In other words, we found that the presuccession shareholder returns were significantly and positively related to the postsuccession cumulative shareholder returns over the entire three-year window, but not significantly related to the shareholder returns in the third

TABLE I Sample Descriptive Statistics and Pairwise Correlations

Variables	N	Mean	SD	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) Total Shareholder Returns (year 3)	621	0.193	0.434	–0.9773	2.3275	1.000						
(2) Initial CEO Total Compensation	610	8.736	1.200	2.756	12.548	–0.030	1.000					
(3) Initial CEO Cash Compensation	629	6.617	1.065	0.000	8.613	0.075	0.326*	1.000				
(4) Initial CEO Contingent Compensation	610	0.789	0.213	0.000	1.000	–0.045	0.731*	–0.083*	1.000			
(5) Prior CEO Experience (mons)	654	11.615	30.973	0	264	–0.108*	–0.014	–0.174*	0.023	1.000		
(6) Prior CEO Experience (mons, last 5 yrs)	654	5.630	14.324	0	72	–0.067	0.055	–0.215*	0.115*	0.784*	1.000	
(7) Prior Firm Public Status	654	0.847	0.360	0	1	–0.002	0.058	0.128*	0.005	–0.351*	–0.373*	1.000
(8) High Prior Industry Market Growth	522	0.226	0.419	0	1	0.069	0.017	–0.002	–0.002	0.018	–0.008	.
(9) High Prior Industry Dynamism	522	0.264	0.441	0	1	0.003	–0.041	–0.030	–0.061	–0.011	–0.005	.
(10) Increase in Industry Market Growth	522	0.253	0.435	0	1	–0.057	0.099*	0.027	0.074	0.124*	0.113*	.
(11) Increase in Industry Dynamism	522	0.261	0.439	0	1	0.069	0.007	–0.059	0.029	–0.040	–0.056	.
(12) Total Shareholder Returns (year before hire)	625	0.114	0.729	–0.987	6.1412	0.037	0.010	0.048	0.007	–0.075	–0.089*	0.078
(13) Return on Assets (year before hire)	653	0.236	0.456	–4.33	2.1246	0.021	0.060	0.102*	–0.014	–0.029	–0.049	0.117*
(14) CEO Duality	654	0.485	0.500	0	1	0.045	0.051	0.086*	0.009	0.038	0.073	–0.013
(15) CEO Age	654	50.407	6.796	31	74	0.028	–0.030	0.051	–0.065	0.204*	0.116*	0.003
(16) CEO Education	654	0.295	0.456	0	1	0.085*	0.073	–0.089*	0.113*	0.005	0.037	–0.005
(17) CEO Outside Hire	654	0.404	0.491	0	1	–0.125*	0.110*	–0.235*	0.197*	0.319*	0.368*	–0.404*
(18) Total Diversification (year before hire)	654	0.315	0.408	0	1.7359	0.005	0.052	0.153*	–0.029	–0.047	–0.053	0.054
(19) Firm Size (year before hire)	654	7.170	1.675	–0.9314	12.044	–0.028	0.377*	0.321*	0.129*	–0.063	–0.084*	0.144*
(20) Board Independence Ratio (year before hire)	622	0.658	0.164	0.125	0.9375	0.022	0.098*	–0.022	0.158*	0.047	0.013	–0.024
(21) Industry Market Growth (year before hire)	654	0.027	0.122	–1.0724	0.3037	0.050	0.099*	0.069	0.034	0.005	0.036	0.006
(22) Industry Dynamism (year before hire)	654	0.038	0.044	0.0021	0.6452	0.006	–0.101*	–0.065	–0.121*	0.010	–0.004	–0.006
(23) Months Employed (year 1)	654	7.239	3.571	1	12	0.078	0.158*	0.350*	–0.012	–0.065	–0.108*	0.071
(24) Year 1 Used in Measures	654	0.671	0.470	0	1	0.080*	0.183*	0.327*	0.019	–0.055	–0.088*	0.046
(25) Year Used in 3rd Year Measure	654	2.821	0.495	0	3	0.182*	0.080*	–0.010	0.119*	0.015	–0.001	0.018

Variables	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(8) High Prior Industry Market Growth	1.000									
(9) High Prior Industry Dynamism	0.185*	1.000								
(10) Increase in Industry Market Growth	–0.314*	–0.019	1.000							
(11) Increase in Industry Dynamism	0.055	–0.356*	–0.004	1.000						
(12) Total Shareholder Returns (year before hire)	0.014	–0.005	0.074	–0.012	1.000					
(13) Return on Assets (year before hire)	–0.037	–0.031	–0.019	0.015	0.100*	1.000				
(14) CEO Duality	–0.036	–0.005	–0.006	0.012	0.027	0.046	1.000			
(15) CEO Age	–0.021	0.016	0.030	–0.037	–0.022	–0.105*	0.083*	1.000		
(16) CEO Education	–0.034	–0.018	0.048	0.017	0.003	0.012	0.063	–0.048	1.000	
(17) CEO Outside Hire	0.011	–0.074	0.098*	0.192*	–0.210*	–0.180*	–0.031	0.062	0.096*	1.000
(18) Total Diversification (year before hire)	–0.070	0.037	–0.070	0.055	–0.027	–0.043	0.157*	0.129*	0.072	–0.084*
(19) Firm Size (year before hire)	–0.052	–0.085	0.060	0.013	–0.061	–0.068	0.199*	0.176*	0.032	–0.133*
(20) Board Independence Ratio (year before hire)	–0.063	–0.054	0.018	–0.002	–0.011	–0.090*	0.125*	0.069	0.098*	0.071
(21) Industry Market Growth (year before hire)	0.324*	–0.013	0.025	0.026	–0.059	0.061	0.020	–0.090*	–0.030	–0.025
(22) Industry Dynamism (year before hire)	–0.076	0.244*	–0.101*	0.054	–0.015	0.064	–0.023	0.004	0.010	–0.049
(23) Months Employed (year 1)	–0.043	0.069	0.002	–0.007	0.023	0.002	–0.217*	0.026	–0.059	–0.104*
(24) Year 1 Used in Measures	–0.046	0.099*	–0.003	–0.038	0.039	0.009	–0.155*	0.025	–0.047	–0.088*
(25) Year Used in 3rd Year Measure	–0.011	0.038	–0.042	0.017	0.061	0.044	0.011	–0.032	0.071	–0.030

Variables	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)
(18) Total Diversification (year before hire)	1.000							
(19) Firm Size (year before hire)	0.343*	1.000						
(20) Board Independence Ratio (year before hire)	0.112*	0.104*	1.000					
(21) Industry Market Growth (year before hire)	–0.035	0.001	–0.058	1.000				
(22) Industry Dynamism (year before hire)	0.090*	–0.032	0.023	–0.498*	1.000			
(23) Months Employed (year 1)	0.034	0.069	0.013	–0.060	0.055	1.000		
(24) Year 1 Used in Measures	0.029	0.083*	0.007	–0.097*	0.066	0.840*	1.000	
(25) Year Used in 3rd Year Measure	0.032	0.016	0.094*	0.011	0.026	–0.074	–0.036	1.000

TABLE II Descriptive Comparison of CEOs Based on Prior CEO Experience

	Experienced	First-time	*t*-statistic
Number of CEOs[1]	130/19.9%	524/80.1%	
Previously with a publicly traded firm	66/50.8%	488/93.1%	–5.200***
Hired from outside the firm	99/76.2%	165/31.5%	9.957***
Compensation ($ thousands)			
Total	6,766.84	5,945.82	0.771
Cash	415.68	520.23	–3.428***
Contingent	6,351.15	5,425.59	0.876
Age at time of hire (years)	52	50	2.493*
Attained an MBA degree	43/33.1%	150/28.6%	0.995
Hired by high reputation firm	0/0.0%	11/2.1%	1.667+

Notes: $N = 654$
***$p < 0.001$, **$p < 0.01$, *$p < 0.05$, +$p < 0.10$
[1]Percentages are based on total number of CEOs in sample, while all other percentages reported in table are from the number of CEOs within the same category. As an example, 99 experienced CEOs were hired from outside the firm, which is 76.2% of the 130 experienced CEOs in the sample.

year of the new CEO's tenure. As such, this further supports the notion that returns in the third year offer a better indicator of the CEO's capabilities, as they are less an artifact of the performance inherited from the predecessor CEO (Hambrick & Quigley, 2014).

Discussion

The hiring of CEOs with prior CEO experience has been rapidly rising over the past several years, and while shareholders tend to react positively to the announcement of the hiring of an experienced CEO, recent evidence has shown that firms do not actually benefit in terms of profitability (Hamori & Koyuncu, 2013). In the current study, we had three objectives in mind: the first was to determine whether CEOs with such prior experience help to create value for shareholders by achieving better market performance outcomes than their nonexperienced peers. Our expectation was that the negative learning logic for why prior CEO experience has a negative effect on operational performance also generally holds for market performance. We argue, however, that the differences between operational and market performance—in terms of both their orientation and the CEO skills that are required to manage each—mean that the contexts in which prior CEO experience is gained matters for whether or not it is detrimental to subsequent market performance. Thus, the second, and primary, aim was to examine whether particular contextual conditions—the experience gained in leading a publicly traded firm and the level of industry dynamism in the prior firms—help to mitigate the negative performance effects of prior CEO experience. Finally, the third objective of our study was to examine whether prior CEO experience brings value to the CEOs themselves via a premium in hiring compensation packages, as this question previously has not been systematically addressed. Moreover, we examined whether the same contingency conditions apply to initial CEO compensation.

First, we found that CEOs with prior CEO experience generally deliver less value to their shareholders than do their less experienced counterparts. Similar to findings from recent studies that have explored accounting-based measures of performance (e.g., Hamori & Koyuncu, 2013), and building on the previous literature on CEO tenures (e.g., Henderson et al., 2006), we attribute this finding to the notion that experienced CEOs bring with them a hardened worldview and repertoire of skills (i.e., paradigm) that they then attempt to replicate in their new firms—whether the new conditions call for their paradigm or not. Furthermore, our results suggest that the length of experience matters here: the longer the prior experience as a CEO, the more significant the negative learning effect in the subsequent job. Our findings that CEO prior experience fails to create market value coupled with the previous research that has shown that such experience is a detriment to operational performance (Elsaid et al., 2011; Hamori & Koyuncu, 2013) is even more interesting when considering that not only do shareholders react positively to the announcement of hiring such CEOs (Elsaid et al., 2011), but also recent evidence shows that boards are 70 percent less likely to dismiss an experienced CEO in

TABLE III The Relationship between Firm Performance and Prior CEO Experience

Dependent Variable: Total Shareholder Returns							
Variables	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
Constant	–0.246	–0.236	–0.170	–0.350	–0.197	–0.103	–0.331
	(0.281)	(0.281)	(0.282)	(0.309)	(0.281)	(0.281)	(0.308)
Prior CEO Experience (mons)		–0.002**	–0.003***	–0.003**			
		(0.001)	(0.001)	(0.001)			
Prior Public × Prior CEO (mons)			0.002 +				
			(0.001)				
High Prior Dynamism × Prior CEO (mons)				0.003**			
				(0.001)			
Prior CEO Experience (mons, last 5 yrs)					–0.003 +	–0.005*	–0.004 +
					(0.001)	(0.002)	(0.002)
Prior Public × Prior CEO (mons, last 5 yrs)						0.004	
						(0.003)	
High Prior Dynamism × Prior CEO (mons, last 5 yrs)							0.005 +
							(0.003)
Prior Firm Public Status		–0.100	–0.147 +		–0.087	–0.141 +	
		(0.064)	(0.077)		(0.064)	(0.075)	
High Prior Industry Dyamism				–0.099*			–0.095 +
				(0.050)			(0.049)
High Prior Market Growth				0.074			0.070
				(0.058)			(0.060)
High Industry Dynamism				–0.021			–0.019
				(0.052)			(0.051)
High Market Growth				0.000			0.004
				(0.056)			(0.056)
CEO Duality	0.025	0.031	0.036	0.000	0.029	0.032	0.001
	(0.038)	(0.038)	(0.038)	(0.043)	(0.038)	(0.038)	(0.043)
CEO Age	0.003	0.004 +	0.004	0.005 +	0.003	0.003	0.004
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
CEO Education	0.098**	0.097**	0.093*	0.053	0.100**	0.093*	0.055
	(0.038)	(0.037)	(0.037)	(0.040)	(0.038)	(0.037)	(0.040)
CEO Outside Hire	–0.111**	–0.107*	–0.116*	–0.098 +	–0.112*	–0.122**	–0.106*
	(0.039)	(0.046)	(0.047)	(0.052)	(0.047)	(0.047)	(0.051)
Controls for year before CEO hire							
Total Shareholder Returns	–0.021	–0.021	–0.021	–0.027	–0.021	–0.021	–0.028
	(0.031)	(0.031)	(0.031)	(0.031)	(0.031)	(0.031)	(0.031)
Total Diversification	–0.041	–0.042	–0.042	–0.024	–0.043	–0.041	–0.025
	(0.040)	(0.040)	(0.040)	(0.042)	(0.040)	(0.041)	(0.043)
Firm Size	–0.015	–0.015	–0.016	–0.020	–0.015	–0.017	–0.020
	(0.014)	(0.014)	(0.014)	(0.015)	(0.014)	(0.014)	(0.015)
Board Outsider Ratio	–0.166	–0.148	–0.146	–0.237	–0.162	–0.159	–0.226
	(0.169)	(0.166)	(0.167)	(0.197)	(0.167)	(0.168)	(0.197)
Industry Market Growth	0.166	0.170	0.178	0.158	0.177	0.194	0.167
	(0.174)	(0.174)	(0.174)	(0.182)	(0.175)	(0.175)	(0.183)
Industry Dynamism	–0.034	0.008	0.078	0.222	–0.024	0.042	0.250
	(0.491)	(0.491)	(0.480)	(0.512)	(0.497)	(0.485)	(0.506)
Dummy: Year 1 Used in Measures	0.082*	0.076*	0.078*	0.105*	0.077*	0.080*	0.099*
	(0.038)	(0.038)	(0.038)	(0.042)	(0.039)	(0.039)	(0.042)
Year Used in 3rd Year Measure	0.177***	0.178***	0.176***	0.205***	0.178***	0.177***	0.203***
	(0.050)	(0.050)	(0.051)	(0.061)	(0.050)	(0.051)	(0.061)
Joint Significance Tests							
Industry Controls	*	*	*	*	*	*	*
Hiring Year Controls			+				
Observations	600	600	600	481	600	600	481
R-squared	0.123	0.138	0.141	0.162	0.130	0.134	0.156
Adjusted R-squared	0.084	0.096	0.097	0.102	0.088	0.090	0.096

Notes: Robust standard errors in parentheses.
***$p < 0.001$,**$p < 0.01$,*$p < 0.05$, + $p < 0.10$.
Model 4 and 7 use a restricted sample of only those CEOs whose prior firm was publicly traded, and industry information publicly available, to test the prior level of industry dynamism.

TABLE IV The Relationship between Initial CEO Compensation and Prior CEO Experience

Dependent Variable	Initial Total Compensation				Initial Cash Compensation				Initial Contingent Compensation			
Variables	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
Constant	6.405***	6.413***	6.565***	6.210***	5.563***	5.551***	5.741***	5.421***	0.580***	0.582***	0.605***	0.535***
	(0.621)	(0.618)	(0.632)	(0.727)	(0.468)	(0.470)	(0.481)	(0.531)	(0.135)	(0.135)	(0.138)	(0.154)
Prior CEO Experience (mons, last 5 yrs)		0.007*	0.002	0.002		–0.010*	–0.016**	–0.003		0.002**	0.001	0.001
		(0.003)	(0.006)	(0.005)		(0.004)	(0.006)	(0.007)		(0.001)	(0.001)	(0.001)
Prior Public × Prior CEO (mons, last 5 yrs)			0.008				0.009				0.001	
			(0.007)				(0.008)				(0.001)	
High Prior Dynamism × Prior CEO (mons, last 5 yrs)				0.013 +				–0.027				0.003*
				(0.008)				(0.020)				(0.001)
Prior Firm Public Status	0.214	0.284*	0.185		0.034	–0.070	–0.194 +		0.040	0.056*	0.041	
	(0.137)	(0.128)	(0.144)		(0.133)	(0.119)	(0.105)		(0.028)	(0.027)	(0.031)	
High Prior Industry Dyamism				0.153				0.104				0.005
				(0.132)				(0.105)				(0.027)
High Prior Market Growth				0.156				0.140				0.016
				(0.141)				(0.122)				(0.026)
High Industry Dynamism				–0.107				–0.115				–0.001
				(0.145)				(0.118)				(0.027)
High Market Growth				–0.056				–0.062				–0.007
				(0.126)				(0.098)				(0.027)
CEO Duality	0.040	0.028	0.029	0.126	0.188*	0.207*	0.209*	0.281**	–0.006	–0.008	–0.008	0.001
	(0.088)	(0.088)	(0.088)	(0.101)	(0.082)	(0.083)	(0.082)	(0.095)	(0.017)	(0.017)	(0.017)	(0.019)
CEO Age	–0.015 +	–0.016*	–0.017*	–0.016 +	0.001	0.004	0.003	0.001	–0.003*	–0.003*	–0.004*	–0.003 +
	(0.008)	(0.008)	(0.008)	(0.009)	(0.007)	(0.007)	(0.007)	(0.008)	(0.001)	(0.001)	(0.002)	(0.002)
CEO Education	0.120	0.123	0.109	0.118	–0.119	–0.124	–0.142 +	–0.162	0.034 +	0.035*	0.033 +	0.030
	(0.093)	(0.093)	(0.095)	(0.106)	(0.088)	(0.088)	(0.086)	(0.104)	(0.017)	(0.017)	(0.018)	(0.020)
CEO Outside Hire	0.483***	0.429***	0.414***	0.474***	–0.263**	–0.184*	–0.204*	–0.202*	0.089***	0.077***	0.075***	0.084***
	(0.101)	(0.108)	(0.110)	(0.122)	(0.081)	(0.089)	(0.094)	(0.100)	(0.018)	(0.020)	(0.020)	(0.022)

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Controls for year before CEO hire												
Return on Assets	0.197	0.187	0.187	0.335	0.226	0.241	0.241	0.262	0.004	0.001	0.001	0.033
	–0.118	–0.115	–0.116	–0.163	–0.114	–0.120	–0.123	–0.176	–0.021	–0.021	–0.021	–0.028
Total Diversification	(0.095)	(0.084)	(0.082)	(0.108)	0.114	0.099	0.102	0.060	(0.021)	(0.019)	(0.018)	(0.018)
	–0.107	–0.107	–0.107	–0.121	–0.097	–0.096	–0.097	–0.100	–0.022	–0.022	–0.022	–0.023
Firm Size	0.349	0.350	0.346	0.371	0.137	0.136	0.132	0.161	0.029	0.029	0.029	0.032
	–0.034	–0.034	–0.034	–0.036	–0.041	–0.041	–0.042	–0.045	–0.006	–0.006	–0.006	–0.007
Board Outsider Ratio	0.435	0.402	0.414	0.325	(0.221)	(0.173)	(0.158)	(0.260)	0.180	0.172	0.174	0.174
	–0.383	–0.386	–0.386	–0.408	–0.267	–0.271	–0.266	–0.290	–0.087	–0.088	–0.088	–0.093
Industry Market Growth	0.555	0.518	0.542	0.300	0.926	0.979	1.009	1.285	(0.090)	(0.098)	(0.095)	(0.156)
	–0.411	–0.407	–0.407	–0.466	–0.688	–0.679	–0.678	–0.781	–0.079	–0.079	–0.079	–0.086
Industry Dynamism	(0.337)	(0.399)	(0.296)	(0.242)	(0.546)	(0.455)	(0.327)	0.536	(0.522)	(0.536)	(0.521)	(0.492)
	–0.975	–0.968	–0.967	–1.010	–1.273	–1.252	–1.212	–1.007	–0.204	–0.204	–0.201	–0.185
Months Employed (year 1)	0.060	0.061	0.062	0.055	0.103	0.100	0.101	0.100	0.001	0.002	0.002	0.001
	–0.013	–0.013	–0.013	–0.014	–0.014	–0.013	–0.013	–0.015	–0.002	–0.002	–0.002	–0.003
Joint Significance Test												
Industry Controls	***	***	***	***	**	**	**	+	**	**	**	**
Hiring Year Controls		+	+		*	*	*	*				
Observations	609	609	609	487	609	609	609	487	609	609	609	487
	0.325	0.330	0.331	0.336	0.295	0.309	0.311	0.345	0.163	0.171	0.172	0.190
R-squared	0.295	0.298	0.299	0.290	0.273	0.277	0.278	0.301	0.126	0.132	0.132	0.135

Notes: Robust standard errors in parentheses.
$^{***}p < 0.001$, $^{**}p < 0.01$, $^{*}p < 0.05$, $+ p < 0.10$
Models 4, 8, and 12 use a restricted sample of only those CEOs whose prior firm was publicly traded, and industry information publicly available, to test the prior level of industry dynamism.

the first couple of years on the job than they are a first-time CEO (Graffin et al., 2013).

Second, and perhaps more important, our findings that the context in which the prior CEO experience was gained helps to mitigate the negative learning effect provides some hope for hiring firms and their shareholders. In particular, we hypothesized that previously spending time at the helm of a publicly traded firm builds a conceptual skill set that is both different from running a privately held firm—in that it involves dealing with a much different set of external stakeholders—and at the same time is highly transferable across contexts that require such skills. Our results were supportive, as we found that when prior CEO experience was gained in a public versus private firm, the negative effect on shareholder returns in the subsequent firm was lessened. Moreover, we further examined this interaction effect to determine the region of the moderator values in which the interaction is significant (e.g., Preacher, Curran, & Bauer, 2006) and found that here again the length of time spent in the previous job matters: CEOs who have spent at least seven years running a publicly traded firm will outperform a CEO who has the same length of previous tenure at a privately held firm. We also hypothesized and found that prior industry dynamism lessens the negative effect in subsequent jobs. Our findings clearly suggest that CEOs who have previously served as a CEO in a highly dynamic environment—regardless of the length of their previous experience—create more shareholder wealth in their subsequent jobs as compared to those experienced CEOs who come from less dynamic environments.

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Third, we also examined the value that prior CEO experience brings to the CEOs themselves by way of hiring compensation packages, and found that newly hired CEOs with prior CEO experience receive higher initial total compensation than do CEOs without prior experience. This "experience" premium is separate from and in addition to the "outsider" premium (Harris & Helfat, 1997) awarded to CEOs hired from another firm (regardless of any prior CEO experience). When it comes to pay, however, it is the recency and not the length of experience that matters. Furthermore, this increased pay came in the form of contingent compensation rather than cash compensation. This latter finding is somewhat contradictory to the extant notion that fixed compensation will be higher for greater levels of CEO human capital because it reduces the risk to the hiring firm (i.e., the CEO's ability is a known quality; Harris & Helfat, 1997; Sturman et al., 2008) and that CEOs are generally risk adverse and would, thus, prefer fixed compensation (e.g., Jensen & Meckling, 1976). One possible explanation for this result with respect to cash and contingent compensation is that experienced CEOs have greater confidence in their own abilities and, therefore, negotiate a pay package that gives them greater upside should they deliver good results. Further research on this issue is clearly warranted. In any case, our findings that total compensation is higher for experienced CEOs clearly support the notion that such experience is valued by boards of directors and CEOs alike, and that CEOs are paid a premium for having CEO experience.

The context in which CEOs gain their experience also matters with regard to the initial compensation they receive, but evidently the contingency effects apply only when experience is gained in highly dynamic industries. Henderson and Fredrickson (1996) argued that boards often use information processing demands of the job as a proxy for assessing the marginal contribution of a CEO. In this regard, CEOs in more demanding jobs play a more important role in shaping firms' activities to capture value. Following this logic, it would appear that boards view running a firm in highly dynamic industries as a signal of potential for managerial contribution, and reward it accordingly (cf. Finkelstein & Boyd, 1998). Interestingly, we did not find that having previous CEO-specific experience in a publicly traded firm mattered to subsequent pay. Instead, we found that any level of prior experience gained at a publicly traded firm is valued; we found a main effect of prior public experience on hiring compensation. Thus, this suggests that regardless of what level of management such experience was gained, boards want and pay for such experience.

Finally, it is worth elaborating on our findings across the two different measurements of prior CEO experience—we captured both the total number of months of prior experience regardless of whether there was a gap between the experience and the subsequent job as well as the number of months spent during the most recent five years prior to the subsequent job. Our findings with respect to market performance suggest that the longer the previous time spent on the job, the more detrimental the prior experience is to the subsequent firm's market performance. This finding is consistent with what previous theory on the life cycle of CEO tenure suggests: the longer CEOs spent in their previous firm, the more likely they

are to have developed a particular paradigm (e.g., Henderson et al., 2006), and so, overall, accounting for the totality of their prior CEO experience should be more predictive of subsequent behavioral outcomes because it fully captures that greater commitment level. This also means that when prior skills are highly transferable—that is, conceptual or general skills involved in navigating the interdependencies with external stakeholders that publicly traded companies necessarily entail—length of tenure can have an upside to the subsequent job.

When considering initial compensation, however, our findings suggest that of most importance is the recency of the experience gained; the labor market does not reward prior CEO experience in its totality, as we found that only recent CEO experience garners premiums in pay for repeat CEOs. This finding is commensurate with the notion that boards hire experienced CEOs for their status or for legitimacy reasons (e.g., Khurana, 2002), as having more recent experience should increase its value in the eyes of shareholders. It is also possible, however, that firms value more recent experience given the risk that experience gained in earlier, and possibly less relevant, contexts are more likely to be obsolete (Allen & De Grip, 2012).

Of course, our findings are subject to the limitations of our study. That the sample of succession events included only large publicly traded firms listed on North American stock exchanges means that the question remains open as to whether our findings generalize to more entrepreneurial settings or other national contexts. Specifically, we found hiring a CEO with prior experience running a privately held firm to be a detriment to the market value of the firm. It is very possible and in keeping with our logic that prior experience running a publicly traded firm could similarly hinder a CEO who is subsequently called upon to run a private company. Thus, future research that examines this reversal of contexts is warranted. Another caveat of our study that provides an avenue for additional research has to do with the varying types of ways that CEOs could take on multiple CEO positions. Examples include returning CEOs (those who leave the position but subsequently return to the same firm's CEO job; e.g., Michael Dell), multifirm CEOs (those who run multiple firms simultaneously), and interim CEOs (CEOs hired to run the firm while the succession event is ongoing). Each of these types of CEOs offers a different context in which to view how CEO experiences affect future firm performance, and how such experiences transfer across jobs. While future research on how these different career experiences affect both the hiring firms and the CEOs themselves would be of great interest—multiterm CEOs seem to present the most intriguing line of future research: do all of the firms run simultaneously have similar or different contexts?

What Does Prior CEO Experience Mean for a CEO?

The one clear implication that our study has for CEOs and their mobility is that prior CEO experience is of value to them in terms of subsequent pay packages: they receive a compensation premium for such experience. At the same time, another clear implication is that such experience offers no guarantee of performance success in subsequent CEO positions. Indeed, our study suggests that unless such experience allows the CEO to remain adaptable or to develop general conceptual skills that are transferable across contexts, prior experience may only serve to hinder the CEOs subsequent ability to adapt and, thus, perform.

The one clear implication that our study has for CEOs and their mobility is that prior CEO experience is of value to them in terms of subsequent pay packages: they receive a compensation premium for such experience. At the same time, another clear implication is that such experience offers no guarantee of performance success in subsequent CEO positions.

Our findings are revealing as to how CEOs may increase their effectiveness in generating good performance in their second terms. First, leading a privately held firm appears to be of limited usefulness as a training ground for subsequent success as a CEO of a publicly traded firm: gaining too much experience as the CEO in a privately held firm does not seem to build the experience necessary for effectively generating returns for the shareholders at a publicly traded firm. However, CEO experienced gained in a publicly traded firm does seem to translate into more successful subsequent market-based performance. Second, our results present an interesting dilemma with respect to industry dynamism: while previous research has shown that dynamism is a problem for CEOs in their first tenure in that it means that they are likely to not have good performance (Henderson et al., 2006), CEOs who develop their first experience as a CEO in a highly dynamic environment actually seem to benefit in terms of subsequent performance success, as it means that they are forced to be more adaptable and, thus, make better second-time CEOs. Moreover, a deeper look at the descriptives also revealed that CEOs do not have to have stellar performance at the first job

to gain a second shot somewhere else (not previously reported). Indeed, 15 percent of the CEOs hired with prior CEO experience in our sample underperformed their respective industry averages in their first term of service. Evidently, high performance is not a prerequisite for CEOs to get (or keep) additional opportunities.

Finally, in conducting our descriptive analyses we also found that CEOs with prior CEO experience who are promoted from within the firm had higher shareholder returns, on average, than those CEOs with prior experience but hired from outside the firm (28.4 percent vs. 10.4 percent returns; $p < .05$). Thus, it may be wise for experienced CEOs who wish to seek a second term at another company to look for opportunities where they can initially come into the new firm in a lower executive capacity. Indeed, in looking at our sample, we found that this actually happened over one-fifth of the time (i.e., 23.8 percent of CEOs hired with prior CEO experience were promoted from within the firm). Further post-hoc analysis identified two common scenarios for how this occurs. One is when a merger or acquisition results in one of the CEOs taking a lower position in the new organization for some period of time before reassuming the top spot later down the road. An example of this from our sample is Mitchell H. Caplan, who served as CEO of Telebank until its acquisition by E-Trade. He then served as a lower-level executive until promoted to the CEO position within E-Trade three years later. The other common situation when this occurred is when a CEO leaves his or her firm and takes a lower-level executive position at another firm for some time until being promoted to the top spot. An example of this path from our sample is R. Kevin Clinton, who, after serving as the CEO of Meemic Insurance Company, joined American Physicians Capital as COO, and three years later was promoted to the CEO position of the same company. In sum, it appears that the combination of having prior CEO experience and gaining some firm-specific experience in the new firm provides the optimal route to subsequent firm performance achievements.

It may be wise for experienced CEOs who wish to seek a second term at another company to look for opportunities where they can initially come into the new firm in a lower executive capacity.

What Does Prior CEO Experience Mean for Hiring Firms?

For hiring firms, this study offers multiple insights. First, firms should be cautious of hiring CEOs with prior CEO experience. While market reactions to hiring announcements may lure boards into thinking that experienced CEOs are better equipped to manage publicly traded organizations, our results indicate that such CEOs will generally not deliver better returns to shareholders than will a first-time CEO. In this regard, hiring boards are essentially swapping short-term market gains for long-term market losses and would be wise to consider giving other promising lower-level executives an initial chance at the helm over giving an experienced CEO a second (or third) chance. That such CEOs are paid more only exacerbates the downside to boards and their firms of hiring CEOs with prior experience. Second, firms that do hire experienced CEOs would be wise to think twice about hiring individuals who previously served as CEO at a privately held firm. Hiring a CEO who has spent a substantial amount of time previously running a private firm runs the risk of gaining a leader without the requisite mind-set and tools for navigating the expectations of Wall Street. Our results show that the experienced CEOs who delivered the worst returns to shareholders were those that had long previous tenures at the helm of private firms. Third, firms should consider taking a longer-term view toward succession planning. It may be that an outsider is desired to bring about change in the company. But our findings suggest that, when possible, the outsider would benefit from spending some time at lower levels of management within the firm before being given the CEO position. This would provide them with the best combination of skill sets (firm-specific and CEO job-specific) to succeed.

Notes

1. This transformation uses the formula $\sinh^{-1}(x) = log[x + (x^2 + 1)^{1/2}]$. For full discussion on the benefits of the inverse hyperbolic sine function, please see Carroll, Dynan, and Krane (2003).

2. Based on the data on firm reputation compiled by Pfarrer, Pollock, and Rindova (2010) using *Fortune*'s "Most Admired Companies" and the *Wall Street Journal*/Harris Interactive ranking.

NATHAN A. BRAGAW is an assistant professor in the Rucks Department of Management of the E. J. Ourso College of Business at Louisiana State University. He holds a PhD from

the Pennsylvania State University. His research focuses on strategic decision making and how the prior experiences of executives and directors shape their predilection for particular strategic actions.

VILMOS F. MISANGYI is an associate professor of management in the M&O Department of the Smeal College of Business at the Pennsylvania State University. He holds a PhD from the University of Florida. His research focuses primarily on the means by which organizations and their top managers influence, and are influenced by, their external environments and stakeholders.

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