

Does CEO Succession Planning (Disclosure) Create Shareholder Value?

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Abstract

Average cumulative abnormal returns around proxy statements containing “in-depth” disclosures of planning for CEO succession are significantly positive indicating that succession planning is a value-added undertaking. Exploiting a quasi-natural experiment based on a 2009 SEC ruling that induced more succession planning disclosures, we find that succession planning is not value-adding for all firms. Rather, succession planning is value-enhancing for larger, more complex, and more stable firms. Importantly, CEO succession planning appears to be value reducing for smaller, simpler, and less stable firms.

J.C. Penney’s CEO, Marvin Ellison, is jumping ship ... The company has no immediate replacement lined up. Instead, the CEO’s office will be run by a committee – not a good look at a time when decisive action is badly needed.

Wall Street Journal, May 22, 2018

I. Introduction

The announcement above was accompanied by a 1-day drop of 6% in J.C. Penney’s stock price. Business advisory firms and corporate consultants often point to such events as evidence of the importance of corporate planning for CEO succession. However, such ex post evidence potentially misses a critical point. Planning for CEO succession, like many other corporate undertakings, is an investment of time and resources to accomplish a task. The question is whether that undertaking is a positive net present value (NPV) project at the time the decision is made to undertake it. In this investigation, we address that question. We do so by

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conducting event studies around the filing of proxy statements in which firms announce their CEO succession planning practices.

The circumstantial evidence on this point is mixed. On the one hand, as noted above, corporate consultants and business advisory groups urge firms to plan for CEO succession citing purportedly higher corporate earnings and lower CEO turnover as major benefits (see, e.g., Hay Group (2010), Heidrick & Struggles (2010), RiskMetrics Group (2010), Favaro, Karlsson, and Neilson (2015), Barrett (2016), Willis Towers Watson (2016), and Council of Institutional Investors (2017)). In a similar spirit, on Oct. 27, 2009, the SEC revised its position on CEO succession planning stating “One of the board’s key functions is to provide for succession planning ... Going forward, we will take the view that a company generally may not rely on Rule 14a-8(i)(7) to exclude a [shareholder] proposal that focuses on CEO succession planning” (<https://www.sec.gov/interp/legals/cfs1b14e.htm>).

On the other hand, over the period of Jan. 1998 to Dec. 2013, Institutional Shareholder Services (ISS) reports that, among all S&P 1,500 firms, only 25 proposals were set forth by shareholders requesting firms to place on the proxy an item calling for greater disclosure of CEO succession planning by the firm.¹ Of those that went to a vote, all were soundly defeated.² Thus, contrary to advisory firms’ admonitions and the SEC’s posture, these votes appear to impart the message that shareholders do not view succession planning as a value-added project.

We undertake this study using proxy statement disclosures as the announcement that a firm has put in place a succession planning process because firms rarely, if ever, set forth such announcements in other media outlets or SEC filings. Our sample includes all firms with data in the Compustat database over the years 1998 through 2016 for which proxy statements are available on the SEC EDGAR website. We focus on two announcement intervals. The first is the 3-day interval surrounding the filing of proxy statements in which CEO succession planning is first disclosed; the second is the interval starting 1 day prior to the filing of the proxy statement and ending the day of the related shareholder meeting.

The average cumulative abnormal return (CAR) over the 3-day interval is positive and statistically significant: (CAR $(-1,+1) = 0.15\%$; p -value < 0.01). Over the interval from the day prior to the filing of the proxy through the day of the shareholder meeting, the abnormal return is also positive and statistically significant: (CAR $(-1, \text{shareholder meeting}) = 1.05\%$; $p = 0.01$). Over the same time intervals, for firms that make no disclosure statements regarding CEO succession planning, CARs are not significantly different from zero: (CAR $(-1,+1) = 0.00\%$; $p = 0.45$ and CAR $(-1, \text{shareholder meeting}) = -0.18\%$; $p = 0.11$). Recognizing that the level of discussion in disclosure statements is not the same across all disclosures, we separate such statements into “in-depth” and “in-passing” disclosures. All of the value increase around discussion of succession planning are associated with in-depth disclosures: (CAR $(-1,+1) = 0.55\%$, $p < 0.01$; CAR $(-1, \text{shareholder meeting}) = 2.19\%$, $p = 0.01$). CARs are positive but not significantly different from zero for firms with in-passing disclosures: (CAR $(-1,+1) = 0.05\%$, $p = 0.11$; CAR $(-1, \text{shareholder meeting}) = 0.35\%$;

¹As of Jan. 2020, the year 2013 is the latest year for which this statistic is reported.

²These statistics are based on shareholder proposal data for S&P 1,500 companies collected by Institutional Investor Services (ISS) as of Dec. 2014.

$p = 0.47$). Thus, to the extent that CEO succession planning is valued by shareholders, that value accrues to the shareholders of firms that disclose more rather than less about the undertaking.

One interpretation of these results is that CEO succession planning as a general corporate practice is valued by shareholders with the implication that all firms should institute succession planning and disclose it in depth. Such an interpretation ignores that the event study potentially embeds a severe selection bias in that it is possible that only those firms for which succession planning is expected to be value increasing undertake such planning and report it to shareholders.

As we noted, on Oct. 27, 2009, the SEC changed its position with respect to corporate disclosure of succession planning. Prior to that date, shareholders could ask that firms place on the proxy for vote a request for greater disclosure of CEO succession planning; management could resist. The SEC customarily sided with management, ruling that CEO succession planning fell into the category of an "ordinary business matter" and proposals requesting disclosure could be excluded from the proxy statement. As we report later, subsequent to the SEC's shift in posture, firms were more likely to disclose succession planning in their proxies, were more likely to set forth in-depth disclosures, and were less likely to discontinue their disclosures once they had commenced. Thus, the SEC's shift in position appears to have altered corporate behavior.

If the interpretation of the event study results is that succession planning is value-adding as a general corporate practice, and if the SEC's shift in position induced (or coerced) more firms to disclose such planning, to disclose more about it, and reduced the likelihood that firms would subsequently discontinue disclosure once begun, the CAR around Oct. 27, 2009, should have been positive for all firms. To consider this issue, we separate firms into those that had previously made in-depth disclosures and those that had made no previous disclosures regarding CEO succession planning. We conduct event studies around Oct. 27, 2009, for both groups. The 3-day CAR for firms with prior in-depth disclosures is significantly positive (presumably because the SEC's mandate reduced the likelihood that such firms would later discontinue succession planning). More importantly, the average CAR for firms with no prior disclosure of succession planning is significantly negative. The implication is that CEO succession planning is not value creating for all firms.

Our interpretation of the CARs around Oct. 27, 2009, is that the SEC's pronouncement increased the likelihood that firms that had not yet disclosed succession planning practices would be induced (or coerced) into doing so. Our further interpretation is that for firms that had a positive CAR at that time, Oct. 27, 2009, succession planning would have been a positive NPV project and for firms with negative CARs at that time succession planning would have been a negative NPV project. To the extent that the SEC's mandate induced (or coerced) firms into altering their practices, we expect that change in practice to show up soon after Oct. 2009. For that reason, we conduct an event study using the first proxy statements filed immediately following Oct. 27, 2009. If our interpretation of the CARs around Oct. 27, 2009, is correct, for those firms with positive CARs around that date, the CAR should be positive if they do disclose succession planning in their next proxy statements. For those firms with negative CARs at that date,

the CAR should be negative if they disclose succession planning in their next proxy statements.

To address this possibility, we identify all firms' first proxy statements following Oct. 27, 2009, and calculate the CARs around those proxy disclosure dates for firms that disclose in-depth succession planning for the first time. We separately calculate CARs around proxy disclosure dates for firms that had negative CARs around Oct. 27, 2009, and those that had positive CARs around that date. For the first set of firms, both CARs are significantly negative: (CAR $(-1,+1) = -0.20\%$, $p = 0.04$) and (CAR $(-1$ through shareholder meeting) $= -0.51$, $p < 0.01$). For the second set of firms, both CARs are significantly positive: (CAR $(-1,+1) = 0.76\%$; $p < 0.01$) and (CAR $(-1$, shareholder meeting) $= 1.13\%$; $p = 0.06$). These results support our interpretation of the CARs around Oct. 27, 2009 – in particular, for firms with negative CARs around Oct. 27, 2009, CEO succession planning is a negative NPV project.

These results immediately raise the question as to what the characteristics are of firms for which succession planning is a value-added (or value-destroying) undertaking. Based on the assumption that for firms that disclosed voluntarily prior to Oct. 27, 2009, planning and disclosure is a positive NPV project and for those that did not disclose before Oct. 2009, but had negative CARs around Oct. 27, 2009, succession planning is a negative NPV project, we estimate a probit regression with these two sets of firms. Based on this estimation, firms for which CEO succession planning is a positive NPV project are larger, multisegment, more stable firms. For smaller, simpler, less stable firms, CEO succession planning appears to be a negative NPV project.

Our ex ante analysis is motivated, in part, by the observation that CEO succession planning could appear to be a value-added undertaking by considering only ex post outcomes. As a further consideration of that question, we examine abnormal returns when CEO turnover occurs. For firms that had set forth in-depth disclosure statements, the CAR is negative around CEO turnover announcements (-0.38%) but not significantly different from zero ($p = 0.27$) while the CAR for nondisclosure firms around such announcements (-0.64%) is statistically significantly more negative than it is for firms that had made in-depth disclosures (p -value for the difference < 0.01). Apparently, market participants view CEO turnover as a less negative event for firms that have planned for such events. That result, in isolation, could be taken as evidence that CEO succession planning is a value-added exercise for all firms, but that evidence fails to take into account the loss in value that occurred when the succession planning was initiated. Thus, ex post analysis (as in Penney's example above) cannot be taken as evidence that CEO succession planning is a positive NPV project.

The bottom-line conclusion is that CEO succession planning is value-creating for some firms. These tend to be larger, multisegment, more stable firms. CEO succession planning appears to be of much less value and, apparently, even negative value, for smaller, more focused, more volatile firms. As with all decisions, of course, the decision of whether to devote corporate resources to CEO succession planning involves an analysis of the marginal costs and benefits of doing so. The SEC's shift in posture nudges firms toward disclosure but still leaves the decision up to boards and shareholders. To the extent that the SEC's shift in position coerced

boards of some firms to devote resources to succession planning when they should not have, the SEC's action appears to have reduced shareholder value for such firms.

II. Prior Related Literature

Our study relates to an extensive literature on the topic of CEO turnover. A sampling of this very broad literature includes, among many others, Vancil (1987), Denis and Denis (1995), Parrino (1997), Huson, Malatesta, and Parrino (2004), Hermalin (2005), Agrawal, Knoeber, and Tsoulouhas (2006), Bushman, Dai, and Wang (2010), Peters and Wagner (2014), Denis, Denis, and Walker (2015), Burns, Minnick, and Starks (2017), Anderson, Bustamante, Guibaud, and Zervos (2018), and Bennedsen, Pérez-González and Wolfenzon (2020). Berns and Klarner (2017) and Hermalin and Weisbach (2019) provide surveys of various aspects of this literature.

Perhaps the studies to which ours is most closely related are Naveen (2006) and Cvijanovic, Gantchev, and Hwang (2018). Following Vancil (1987), Naveen characterizes firms as having either a “relay succession” plan or a “horse race” to choose the new CEO. She concludes that large complex firms are more likely to have a relay succession process. Our finding that larger multisegment firms are more likely to set forth in-depth disclosure statements in their proxy statements meshes with Naveen's finding.

In a contemporaneous study, Cvijanovic et al. (2018) begin with CEO turnover and from there trace back through 3 years of proxy statements for the years 1994–2010 searching for whether firms had previously set forth statements regarding CEO succession planning. They report that firms that had previously made a proxy statement disclosure are associated with lower likelihood of forced CEO turnover, longer CEO tenure, and lower uncertainty around CEO turnovers. Their study is like ours in that proxy disclosure statements play a key role. The studies are different in that Cvijanovic et al. (2018) trace back from CEO turnover events to identify proxy disclosure statements, whereas we begin with a comprehensive set of proxy disclosures and move forward. Thus, their results are conditional on CEO turnover occurring; ours encompass firms with succession planning disclosure regardless of outcome. They are also different in that Cvijanovic et al. (2018) study the ex post effects of CEO succession planning disclosures, whereas we study the effect of CEO succession planning on contemporaneous share value. Perhaps the most significant difference between our study and theirs is that they conclude that CEO succession planning is a useful practice for all firms, whereas we conclude that such planning is value-enhancing only for certain types of firms, and, indeed, is a negative NPV project for others.

III. Sample Construction

To create the sample, we merge the Compustat database with the SEC EDGAR database using the CIK-CUSIP linkage file from WRDS for the years 1998 through 2016. We begin with 1998 as that was the first year in which electronic filing of proxy statements was required. We access the proxy statement for each Compustat

firm for each year in which a proxy filing is available. Some firms file more than one proxy statement in a year. In our analysis, we use only the first proxy filing of each fiscal year for any firm. This combination of Compustat and EDGAR yields a set of 70,372 proxy statements encompassing 7,950 different firms. We use a customized web-crawling algorithm to search proxies for four keyword phrases to identify succession planning statements. These are “succession planning,” “succession plan(s),” “management development,” and “leadership development.” When a keyword phrase is identified, we then search the paragraph in which the phrase appears for one of four other phrases including “CEO,” “chief executive officer,” “president,” or “key executive.” If the paragraph in the proxy contains such phrasing, we identify the proxy as having set forth information about CEO succession planning.

The first column of Table 1 reports, by year, the number of proxy statements in the sample. This number ranges from a low of 3,466 in 2008 to a high of 4,086 in 1998. The second column gives the number of proxies, by year, in which CEO succession planning is mentioned. That number increases from 156 in 1998 to 1,967 in 2016. As shown in the third column, those numbers represent an increase from 3.8% of the proxies in 1998 to 53.1% in 2016. This column shows a discrete jump in that

TABLE 1
Summary Statistics of CEO Succession-Planning Disclosures

Table 1 presents summary statistics for proxy statement disclosures in the sample. To compile the sample, firms in the Compustat database with data for any years between 1998 and 2016, with no missing or zero values for total assets, are merged with proxy statements from the SEC EDGAR website using CIK. Total number of firms is the number of firms in a given year for which a proxy statement is available. A firm is a disclosure firm if it discloses CEO succession planning-related information in its proxy statement as described in Section III. A first-time disclosure firm is a firm that discloses CEO succession-planning-related information for the first time in its proxy statement. To be included as a first-time disclosure firm, a firm must have a proxy in the prior year. A firm is an in-depth disclosure firm if it sets forth a disclosure statement in a separate free-standing passage with a title related to succession planning or executive review and evaluation as described in Section III. A firm is a first-time in-depth disclosure firm if it is both a first-time disclosure firm and an in-depth disclosure firm.

Proxy Filing Year	Total	No. of Disclosure Firms	No. of Disclosure Firms as a % of Total Firms	No. of First-Time Disclosure Firms	No. of First-Time In-Depth Disclosure Firms	No. of First-Time in-Depth Disclosure Firms as a % of First-Time Disclosure Firms
	1	2	3	4	5	6
1998	4,086	156	3.8			
1999	3,997	163	4.1	35	8	22.9
2000	3,625	171	4.7	28	4	14.3
2001	3,929	250	6.4	50	6	12.0
2002	3,916	278	7.1	49	10	20.4
2003	3,850	469	12.2	198	58	29.3
2004	3,768	710	18.8	282	58	20.6
2005	3,792	801	21.1	132	32	24.2
2006	3,687	828	22.5	96	12	12.5
2007	3,608	925	25.6	173	18	10.4
2008	3,466	931	26.9	106	21	19.8
2009	3,587	1,053	29.4	112	11	9.8
2010	3,541	1,338	37.8	312	134	42.9
2011	3,500	1,467	41.9	156	79	50.6
2012	3,502	1,577	45.0	122	45	36.9
2013	3,487	1,612	46.2	62	27	43.5
2014	3,608	1,744	48.3	95	45	47.4
2015	3,721	1,877	50.4	101	50	49.5
2016	3,702	1,967	53.1	105	48	45.7
Total	70,372	18,317		2,214	666	

percentage after 2009, the year the SEC shifted its position regarding CEO succession planning. The percentage was 26.9% in 2008 and increased to 37.8% in 2010.

In our event study, we focus on initial disclosures of succession planning under the presumption that the effect of disclosure is likely to be greatest when such planning is first announced. The fourth column gives the number of firms, by year, with initial disclosures of CEO succession planning. Of course, once a firm discloses, it cannot enter the initial announcement sample again. Nevertheless, initial disclosures tripled in number from 106 in 2008 prior to the SEC's change in position to 312 in 2010, the year afterward.³

Not surprisingly, the "extent" or "quality" of discussion in the disclosure varies across firms. Consider the disclosure statement by Hewlett Packard Enterprise Company (HP) in its 2016 proxy under the title "Management Evaluation and Succession Planning."

Management Evaluation and Succession Planning

Among the HRC Committee's responsibilities described in its charter is to oversee succession planning and leadership development. The Board plans for succession of the CEO and annually reviews senior management selection and succession planning that is undertaken by the HRC Committee. As part of this process, the independent directors annually review the HRC Committee's recommended candidates for senior management positions to see that qualified candidates are available for all positions and that development plans are being utilized to strengthen the skills and qualifications of the candidates. The criteria used when assessing the qualifications of potential CEO successors include, among others, strategic vision and leadership, operational excellence, financial management, executive officer leadership development, ability to motivate employees, and an ability to develop an effective working relationship with the Board.

In fiscal 2015, with the separation in focus, the Parent HRC Committee conducted a full executive talent review of all proposed candidates for executive leadership positions to ensure that both companies were equipped with the necessary level of public company leadership experience and potential for the future needs of their respective organizations.

In addition, as part of the organization design and talent selection process to staff both companies, management reviewed selection recommendations below the senior leadership level, considering skill sets, performance, potential and diversity.

A distinctive feature of this disclosure is that HP devotes a free-standing passage to the topic with a title that specifically identifies the passage as being related to succession planning and evaluation.

In comparison, consider Nordstrom Corporation. Its 2006 proxy identifies CEO succession planning as one of the board's eight responsibilities under the general rubric of "Corporate Governance and Nominating Committee."

³The number of first-time disclosures does not accumulate to total disclosures as some firms discontinue disclosing each year.

Corporate Governance and Nominating Committee

During the past fiscal year the Corporate Governance and Nominating Committee held four regularly scheduled meetings and conducted one other via teleconference. The Corporate Governance and Nominating Committee is responsible for:

...reviewing and recommending individuals to the Board of Directors for nomination as members of the Board of Directors and its committees;

...

...establishing succession procedures in the case of an emergency or the retirement of the President

...

Or consider the disclosure statement by Servidyne, Inc. in its 2008 proxy. Under the title “Election of Directors” is the entry.

Election of Directors

Hershel Kahn: A Director of the Company since March 2008, Mr. Kahn has served as owner and managing principal of HK Enterprises, a company engaged in management and key executive development, succession planning, labor relations, contract negotiations, executive compensation, and executive coaching and counseling, since 1993.

The distinctive feature of the second entry is the generic title of the section in which the topic of succession is mentioned and the combining of the undertaking of CEO succession planning with a host of other board responsibilities. With regard to the third entry, due to our word search procedure, that, too, is swept into the initial disclosure of succession planning even though the only mention of succession planning is in regards to a director who had worked in the area of succession planning prior to joining the board.

Given the variation in extent and quality of disclosure statements, for later analysis, we classify proxies as having either an “in-depth” or “in-passing” disclosure. We acknowledge that any such classification is subjective. With that recognition in mind, we classify as “in-depth” any proxy that sets forth a disclosure statement in a separate free-standing passage with a title specifically related to succession planning or executive review and evaluation. Otherwise, we label the disclosure as “in-passing.” Thus, the disclosure by HP is categorized as in-depth. The disclosures by Nordstrom and Servidyne are classified as in-passing. In Section A.1 of the Supplementary Material, we present further examples of disclosures that fall into each category.

As shown in the sixth column of [Table 1](#), prior to 2009, the annual percentage of first-time disclosures that are also labeled in-depth hovered around 20%. In 2010, just after the SEC’s pronouncement, that fraction more than doubled to 42.9% and remained elevated thereafter.

It is the case, however, that when a firm sets forth a succession planning statement in any year, that firm does not always include such statements in subsequent years. That is, the sequence of disclosures regarding CEO succession

TABLE 2
Discontinuations of CEO Succession-Planning Disclosures

Table 2 reports the instances of discontinuations of CEO succession-planning disclosure after one or more continuous disclosures. Panel A reports the statistics for the pre-2009 sample (i.e., firms that began to disclose CEO succession-planning-related information during 1999–2008). Panel B reports the statistics for the post-2009 sample (i.e., firms that began to disclose CEO succession-planning-related information during 2010–2016). A firm is a disclosure firm if it discloses CEO succession-planning-related information in its proxy statement as described in Section III. Disclosure firms are classified based on the continuations of their disclosures. A firm is a continuous disclosure firm if it discloses CEO succession-planning-related information in all years after its first disclosure. A firm is a discontinuous disclosure firm if it discontinues disclosing at least once after its first disclosure. The frequency distribution of each group is reported in columns 1 and 2. A firm is an in-depth disclosure firm if it sets forth its initial disclosure statement in a free-standing passage with a title related to succession planning or executive review and evaluation as described in Section III. The frequency distribution of continuous disclosure and discontinuous disclosure firms among in-depth disclosure firms is reported in columns 3 and 4.

Sample of Firms	Disclosure Firms		In-Depth Disclosure Firms	
	Number	Percentage	Number	Percentage
	1	2	3	4
<i>Panel A. Years 1999–2008</i>				
Continuous disclosure	696	60.6	147	64.8
Discontinuous disclosure	453	39.4	80	35.2
<i>Panel B. Years 2010–2016</i>				
Continuous disclosure	780	81.8	365	85.3
Discontinuous disclosure	173	18.2	63	14.7

planning is often “interrupted.” Table 2 summarizes the instances of discontinuations of disclosures following one or more years of disclosure. In terms of continuity, over the years prior to the SEC’s shift in position, in 39.4% of the instances in which a firm disclosed information about succession planning, the firm discontinued disclosure subsequently. In contrast, following the SEC’s shift in position, in only 18.2% of the cases in which a firm began to disclose did the firm later interrupt disclosure.⁴

Thus, the shift in the SEC’s stance appears to have altered corporate behavior in terms of greater likelihood of disclosure of CEO succession planning, more in-depth discussion of planning when disclosure occurred, and more continuous disclosure once begun. One possibility is that some firms that would not otherwise have planned and disclosed such planning were induced (or coerced) into doing so as a result of the SEC’s ruling. We return to this point later.

Appendix A gives characteristics of disclosure and nondisclosure firms. Appendix B provides definitions of the items shown in Appendix A.

IV. Event Study of CEO Succession Planning Statements

A. Initial Disclosures

We conduct an event study around proxy filing dates using daily stock returns from the CRSP database. Here, and elsewhere, we calculate cumulative abnormal returns (CARs) using the Fama–French’s (2015) 5-factor model and the CRSP value-weighted market index with parameters estimated over the 100-day period

⁴Of course, we do not know whether a firm discontinued disclosure after 2016 as our sample ends with that year.

beginning 120 trading days prior to and ending 20 days prior to the event day.⁵ If 100 daily returns are not available, the firm is dropped from the analysis. Likewise, firms with stock prices less than \$3.00 per share as of the event date are omitted. The event in question is the filing date of a proxy statement that contains disclosure of CEO succession planning. We assume that the first year in which a firm could have made any statement of CEO succession planning is 1998. If a firm made no statement regarding CEO succession planning in 1998 and did have a statement in its 1999 proxy, we assume that is the firm's first-ever disclosure statement. If the firm had no disclosure statement in its 1998 or 1999 proxy, but did have one in any subsequent year, we assume that that is the firm's first-ever disclosure regarding CEO succession planning. The abnormal return on any day is calculated as the difference between the actual return on that day and Fama–French predicted return. The CAR for a firm over any interval is the sum of the daily abnormal returns over the interval in question. The sample CAR over any interval is the equally weighted average of the individual CARs over the interval with the top and bottom 1% of CARs winsorized so as to reduce the effect of outlier observations. The reported *p*-values are based on *t*-statistics as calculated in Boehmer, Musumeci, and Poulsen (1991).

CARs calculated over various intervals around initial CEO succession planning proxy statement disclosures are presented in Table 3. The CARs on which we focus most of our attention are the CARs over the interval of day -1 through day $+1$ around the proxy filing date and the interval of day -1 through the related shareholder meeting date. On average, the shareholder meeting date follows the proxy date by 37 days. We focus on the 3 days around the proxy filing date under the presumption that the filing date is the first date on which investors could have learned of the firm's succession planning. We focus on the interval of day -1 through the shareholder meeting date under the recognition that the 25 pages in the typical proxy statement contain an abundance of material such that market participants may not have fully absorbed that information until the shareholder meeting.

As shown in the first row of Table 3, the 3-day CAR ($-1, +1$) is 0.15% with a *p*-value less than 0.01 and the CAR (-1 , shareholder meeting) is 1.05% also with a *p*-value of 0.01. Both of these indicate that, on average, abnormal stock returns around initial filings of proxies with disclosures of CEO succession planning are positive and statistically significantly greater than zero. Further, over the interval of day -1 through day $+20$ the CAR is 0.68% (*p*-value < 0.00) indicating a gradual increase in the CAR over the interval from just before the proxy date through the shareholder meeting date.

One concern with the gradual increase in the CAR over the interval from the proxy filing date through the shareholder meeting is that the benchmark model allows for positive “drift” in abnormal returns. For that reason, we present the CAR over the 40 trading days following the shareholder meetings. Over that time period, the average CAR is -0.25% with a *p*-value of 0.33. This result indicates that model

⁵The Fama–French factors are from Kenneth French's website. The model parameters for each stock are estimated using CRSP daily returns. http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html.

TABLE 3
CARs Around Proxy Filing and Shareholder Meeting Dates

Table 3 reports the average cumulative abnormal returns (CARs) around proxy filing dates for samples of Compustat (merged with SEC EDGAR) firms during 1999–2016. Firms whose stock prices are less than \$3 at the event dates are dropped. CARs are calculated using the Fama–French’s (2015) 5-factor model with the CRSP value-weighted market index. CARs are calculated for six sets of firms. Row 1: A first-time disclosure firm is a firm that discloses CEO succession-planning-related information in its proxy statement for the first time. Row 2: A nondisclosure firm is a firm that discloses no CEO succession-planning-related information in its proxy statement. Row 4: A first-time in-depth disclosure firm is a firm that sets forth its initial disclosure statement in a free-standing passage with a title related to succession planning or executive review and evaluation. Row 5: A first-time in-passing disclosure firm is a firm that makes an initial disclosure that is not in-depth. Row 7: A second-and-beyond disclosure firm is a firm that sets forth a disclosure in one or more proxies after the initial disclosure. Row 8: A first-time omission after an in-depth disclosure firm is a firm that discontinues disclosure of CEO succession-planning-related information for the first time after it disclosed in depth at least once. Event intervals are from 20 days through 2 days prior to the proxy filing date (−20, −2), from 1 day prior to the proxy filing date through 1 day after the proxy date (−1, +1), from 1 day prior to the proxy filing date through 20 days after the proxy date (−1, +20), from 1 day prior to the proxy filing date through the related shareholder meeting date (−1, meeting), from 1 day after the shareholder meeting date through 40 trading days after the shareholder meeting date (meeting +1, meeting +40). CARs are winsorized at the 1% level. The *p*-values are calculated as in Boehmer et al. (1991) and are reported in parentheses below the CARs. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Sample of Firms	CARs Around Proxy Filing Dates					No. of Firms
	(−20, −2)	(−1, +1)	(−1, +20)	(−1, Meeting)	(Meeting + 1, Meeting + 40)	
(1) First-time disclosure	0.18% (0.30)	0.15%*** (0.00)	0.68%** (0.03)	1.05%** (0.01)	−0.25% (0.33)	2,108
(2) Nondisclosure	−0.03% (0.22)	0.00% (0.45)	−0.01% (0.47)	−0.18% (0.11)	−0.16% (0.20)	48,427
(3) Difference: (1)−(2)	0.21% (0.37)	0.15%*** (0.00)	0.68%*** (0.00)	1.23%*** (0.00)	−0.08% (0.26)	
(4) First-time in-passing disclosure	0.36% (0.21)	0.05% (0.11)	0.52%* (0.06)	0.35% (0.47)	−0.45% (0.25)	1,500
(5) First-time in-depth disclosure	0.12% (0.27)	0.55%*** (0.00)	1.17%*** (0.00)	2.19%** (0.01)	0.30% (0.42)	608
(6) Difference: (4)−(5)	0.23% (0.28)	−0.49%*** (0.00)	−0.60%*** (0.00)	−1.90%** (0.05)	−0.75%* (0.08)	
(7) Second-and-beyond disclosure	0.17%* (0.06)	0.03% (0.20)	−0.11% (0.12)	−0.12% (0.19)	−0.13% (0.16)	15,792
(8) First-time omission after in-depth disclosure	0.36% (0.42)	−0.02% (0.48)	−1.59% (0.12)	−2.68%** (0.01)	−1.34% (0.12)	115

drift is not the explanation for the positive and significant CARs over days −1 through +1 and days −1 through the shareholder meeting.

For comparison purposes, we calculate CARs around proxy filings over the years 1998–2016 in which the proxies contain no information regarding CEO succession planning. These are given in the second row of Table 3. The average CAR (−1, +1) = 0.00% with a *p*-value of 0.45 and, the average CAR (−1, shareholder meeting) = −0.18% with a *p*-value of 0.11. The CAR over the 40 days following these proxy dates is −0.16% with a *p*-value of 0.20. None of these CARs is different from zero at traditionally accepted levels of significance. Finally, as shown in the third row, CARs associated with proxy disclosures regarding CEO succession planning are significantly greater than those with no such statements. On the basis of these results, proxies that contain disclosure statements regarding CEO succession planning are different from proxies that contain no such announcements, and the difference shows up in a positive valuation effect for shareholders of disclosing firms.

As we noted, the extent and quality of disclosures regarding CEO succession planning differ across firms. To examine whether the stock price effect differs

depending on the extent and quality of disclosure, we calculate CARs for proxies with in-depth versus in-passing disclosures. The CARs are given in the fourth and fifth rows of Table 3. For in-depth disclosures, $CAR(-1,+1) = 0.55\%$ with a p -value less than 0.01 and $CAR(-1, \text{shareholder meeting}) = 2.19\%$ with a p -value of 0.01. In comparison, for in-passing disclosures, $CAR(-1,+1) = 0.05\%$ with a p -value of 0.11 and $CAR(-1, \text{shareholder meeting}) = 0.35\%$ with a p -value of 0.47. Thus, the abnormal returns for in-passing disclosures are not significantly different from zero, and, as shown in the sixth row, CARs around in-depth disclosures are significantly greater than CARs around in-passing disclosures (p -value for the difference < 0.01). All of the value creation around disclosures of CEO succession planning accrues to firms with in-depth disclosures. The implication is that investors place value on succession planning, but only when there is a greater appearance of seriousness of intent. The mere mention of CEO succession planning apparently does not carry the same weight as a more fulsome and focused discussion.

B. Second-Time and Later Disclosures

We focus our attention on initial disclosures under the presumption that information about CEO succession planning is likely to have its greatest effect the first time such information is released to market participants. The seventh row of Table 3 gives CARs for in-depth disclosures that follow prior in-depth disclosures. For these disclosures, $CAR(-1,+1) = 0.03\%$; p -value = 0.20 and $CAR(-1, \text{shareholder meeting}) = -0.12\%$; p -value = 0.19. Thus, to the extent that CEO succession planning adds value, that value increase occurs when the planning is initially announced. Subsequent disclosures, which are often verbatim repetitions of the initial disclosures, appear not to add further value.

C. Discontinuations of Disclosures

As we noted, not infrequently when firms initiate disclosure, they later discontinue disclosure. This was especially the case prior to 2009. If disclosure is value increasing, perhaps, discontinuation of disclosure is value reducing. To consider that possibility, we calculate CARs around proxy dates in which a firm omits, for the first time, a disclosure following one or more consecutive years of in-depth disclosures. The results are given in the eighth row of Table 3. For such omissions, $CAR(-1,+1)$ is negative but modest in absolute magnitude at -0.02% , and, with a p -value of 0.48, is not statistically significantly less than zero. However, $CAR(-1, \text{shareholder meeting}) = -2.68\%$ with a p -value of 0.01. The latter result, in which the CAR is large in absolute terms as well as being statistically significant, can be interpreted to mean that discontinuation of in-depth disclosure is unwelcome news to shareholders, but, admittedly, the evidence is not overwhelming given the 3-day CAR of -0.02% . Nevertheless, in combination, the results in Table 3 are consistent with the proposition that in-depth succession planning is a value-added undertaking and that discontinuation of such planning is value-reducing.

D. Correlated Disclosures

A common concern with the use of the proxy date as the announcement is that proxies contain more information than just the disclosure of succession planning. It is possible that other new information in proxies is correlated with succession planning statements and that it is the correlated information that gives rise to the positive CARs rather than the succession planning announcements. Prior studies have identified various categories of new information that are associated with a stock valuation effect (Rosenstein and Wyatt (1990), Karpoff, Malatesta, and Walkling (1996), Shivdasani and Yermack (1999), Yermack (2006), Güner, Malmendier, and Tate (2008), Adams and Ferreira (2009), Cai and Walkling (2011), Wang, Xie, and Zhu (2015), Correa and Lel (2016), and Chu, Faasse, and Rau (2018)). These include nominations of new independent directors, nominations of new female directors, nominations of new directors with financial expertise, introduction of supermajority voting requirements, introduction of majority voting in director elections, declassifications of staggered boards, resolutions related to executive compensation, say-no-on-pay proposals, use of an executive compensation consultant, and other corporate governance, social or environmental issues. Information about these items often appear in proxy statements. We search all proxies for firms in the sample for the first appearance of each of these types of possibly correlated announcements. Section A.2 of the Supplementary Material describes the web-crawling algorithm used to identify the occurrence of each type of news.

We create 11 indicators, one for each type of possibly correlated information listed above and one to identify whether the proxy contained an in-depth succession planning disclosure. We, then, estimate two regressions, one with the dependent variable being the 3-day announcement CAR and the other with the dependent variable being the CAR over the interval from 1 day prior to the proxy date through the shareholder meeting. The variable of interest is the indicator distinguishing proxies with in-depth disclosures from proxies with no disclosure of succession planning. As shown in Table 4, the coefficients of both indicators for succession planning disclosure are positive with p -values of 0.08 and <0.01 . Thus, the positive stock price effect associated with in-depth proxy disclosures of CEO succession planning does not appear to be due to other correlated information contained in the proxy statements.

V. Event Study of the SEC's Shift in Position

A. CARs Around Oct. 27, 2009

One interpretation of the event study results is that CEO succession planning is value increasing for all firms. If so, the proper managerial action for boards whose goal is share value maximization is to undertake in-depth planning for CEO succession, to disclose their CEO succession planning, and to disclose it fulsomely. Similarly, the regulatory policy implication is that all firms should be required to disclose and to disclose in depth. The dilemma for such an interpretation is that it fails to recognize the potentially severe selection bias in the sample of planning and

TABLE 4
Regressions of CARs Against In-Depth Disclosure Indicator and Control Variables

Table 4 reports the results of two OLS regressions, one with the dependent variable being the 3-day announcement period CAR around the first-time in-depth proxy disclosure date and the other with the dependent variable being the CAR over the interval from 1 day prior to the disclosure date through the shareholder meeting date. CARs are calculated using the Fama-French's (2015) 5-factor model with the CRSP value-weighted index and winsorized at the 1% level. Firms with stock price less than \$3 at the event date are omitted. The variable of interest IN-DEPTH_DISCLOSURE is an indicator distinguishing proxies with in-depth disclosures from proxies with no disclosure of succession planning. Ten indicator variables control for possibly correlated information that appears in a proxy for the first time, including nominations of new independent directors, nominations of new female directors, nominations of new directors with financial expertise, introduction of supermajority voting requirements, introduction of majority voting in director elections, declassifications of staggered boards, resolutions related to executive compensation, say-no-on-pay proposals, use of an executive compensation consultant, and other corporate governance, social or environmental issues. The *t*-statistics are based on standard errors clustered at the firm level and the related *p*-values are shown in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10%, respectively.

Independent Variable	Dependent Variable	
	CAR (-1,1)	CAR (-1, Meeting)
IN-DEPTH_DISCLOSURE	0.0036* (0.08)	0.0206*** (0.00)
DUMMY (INDEPENDENT_DIRECTORS)	0.001 (0.12)	0.013 (0.42)
DUMMY (FEMALE_DIRECTORS)	0.01 (0.20)	0.01 (0.33)
DUMMY (DIRECTORS_WITH_FINANCIAL_EXPERTISE)	0.17 (0.29)	0.31* (0.09)
DUMMY (SUPER-MAJORITY_REQUIREMENTS)	0.011 (0.41)	0.001 (0.15)
DUMMY (MAJORITY_VOTING_IN_DIRECTOR_ELECTION)	0.007 (0.33)	0.071 (0.12)
DUMMY (DECLASSIFY_A_STAGGERED_BOARD)	0.014 (0.23)	0.001 (0.51)
DUMMY (SHAREHOLDER_RESOLUTION_REGARDING_CEO_COMPENSATION)	0.153 (0.26)	0.2 (0.16)
DUMMY (SHAREHOLDER_RESOLUTION_REGARDING_OTHER_GOVERNANCE_ISSUES)	0.018 (0.38)	0.017 (0.22)
DUMMY (SHAREHOLDER_RESOLUTION_REGARDING_SAY-NO-ON-PAY)	0.12 (0.33)	0.28* (0.05)
DUMMY (THE_USE_OF_COMPENSATION_CONSULTANTS)	1.02 (0.34)	1.13 (0.11)
Year fixed effects	Yes	Yes
No. of obs.	49,035	49,035
R^2	0.20	0.18

disclosing firms. It is possible that only those firms for which succession planning (and disclosure of succession planning) is value-added are the ones that choose to plan and disclose, and that nonplanning and nondisclosure is the appropriate course of action for many firms. If so, such a policy prescription would be counterproductive for boards and managers, and any regulatory bodies, whose goal is to share value maximization or shareholder protection.

It is possible that the SEC's 2009 shift in position regarding succession planning disclosure offers a way to circumvent this dilemma. Prior to Oct. 27, 2009, the SEC took the position that shareholders could ask that firms place on the ballot a request for fuller disclosure of succession planning. Management could object to such requests in reliance on Rule 14a-8(i)(7) under the Securities Exchange Act of 1934. The Commission stated in Exchange Act Release No. 40018 (May 21, 1998) that proposals involving "the management of the workforce, such as the hiring, promotion, and termination of employees" relate to "ordinary business" matters and could, therefore, be omitted from the proxy statement.

On Oct. 27, 2009, the SEC reversed course, stating that “[r]ecent events have underscored the importance of this board function to the governance of the corporation. We now recognize that CEO succession planning raises a significant policy issue regarding the governance of the corporation that transcends the day-to-day business matters of managing the workforce ... Going forward, we will take the view that a company generally may not rely on Rule 14a-8(i)(7) to exclude a proposal that focuses on CEO succession planning” (<https://www.sec.gov/interps/legal/cfs14e.htm>).

As we document above, this shift in the SEC’s posture appears to have altered corporate behavior in that, subsequent to 2009, more firms disclosed succession planning procedures, more firms set forth their planning procedures in-depth, and fewer firms discontinued disclosure of succession planning once begun. If succession planning (and its disclosure) is a value-added undertaking for all firms, and if the SEC’s shift in position increased the likelihood that firms would initiate disclosure, and if market participants anticipated that effect, the CAR around Oct. 27, 2009, should have been positive for all firms and should have been even more positive for firms that had not previously disclosed CEO succession planning. Contrarily, it is possible that planning for CEO succession is not a value-added proposition for all firms, and the SEC’s shift in position induced some firms to implement CEO succession planning and disclosure when doing so was a negative NPV project. If that is the case, and if market participants discerned that likelihood, the CAR at the announcement of the SEC’s shift in position should have had a negative effect on firms that had not previously planned (and disclosed) but might be coerced into doing so in the future. For firms that had previously disclosed, the SEC’s shift in position should have had a nonnegative or even a positive effect. To the extent that the SEC’s shift in position induced no expected change in firm behavior, the CAR should be zero. To the extent that the action reduced the likelihood that such firms would discontinue succession planning, the CAR should be positive.

To investigate this question, we separate firms into those that had previously set forth in-depth CEO succession planning disclosures as their first disclosure statement and those that had not previously made any statement regarding CEO succession planning. We calculate CARs around Oct. 27, 2009, for both groups.⁶ Given that CARs for all firms are calculated over the same dates, the individual firm CARs are likely to be correlated. We, thus, use the portfolio approach in Campbell, Lo, and MacKinlay (1997) and the Fama–French’s 5-factor model to calculate CARs and associated *p*-values. We combine firms with first-time in-depth disclosures prior to Oct. 27, 2009, into one portfolio and firms with no disclosures prior to that date into a second portfolio. The *t*-statistics and related *p*-values are calculated using the time series of daily excess returns as in Campbell et al. (1997).

The results are presented in Panel A of Table 5. As shown in the first row, for firms that had previously made in-depth disclosures as their first disclosures, the 3-day average CAR is positive and statistically significant: $(CAR(-1,+1) = 0.26\%$;

⁶The staff of the SEC reports that no disclosure of the SEC’s change in posture on this question circulated prior to Oct. 27, 2009. We find no mention of the potential change prior to that date in the public press or LexisNexis.

TABLE 5
CARs Around SEC Announcements for In-Depth and Nondisclosure Firms

Table 5 reports the average cumulative abnormal returns (CARs) around two SEC announcements for a portfolio of pre-2009 first-time in-depth disclosure firms (i.e., firms that had set forth an initial disclosure in a free-standing passage with a title related to succession planning or executive review and evaluation in its proxy statement prior to the event date) and a portfolio of pre-2009 nondisclosure firms (i.e., firms that had not disclosed any CEO succession-planning-related information prior to the event date). Panel A presents the CARs around Oct. 27, 2009, the announcement of SEC Staff Legal Bulletin 14E where SEC changed its position on CEO succession planning. Panel B reports the CARs around July 10, 2009, when the SEC published for comment a statement regarding proposals relating to risk (Release No. 34-60332; File No. S7-15-09). CARs are calculated using the Fama–French's (2015) 5-factor model with the CRSP value-weighted market index. Event intervals are from 20 days through 2 days prior to Oct. 27, 2009 (−20,−2), from 1 day prior to Oct. 27, 2009, through 1 day after Oct. 27, 2009 (−1,+1), and from 2 days after through 20 days after Oct. 27, 2009 (+2,+20). The *p*-values are calculated as in Campbell et al. (1997) and are reported in parentheses below the CARs. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Sample of Firms	(−20,−2)	(−1,+1)	(+2,+20)	No. of Firms
<i>Panel A. CARs Around Oct. 27, 2009</i>				
(1) Pre-2009 in-depth disclosure	−2.75% (0.12)	0.26%*** (0.00)	−1.64% (0.20)	189
(2) Pre-2009 nondisclosure	−1.23% (0.24)	−1.34%*** (0.00)	−1.89% (0.14)	1,935
(3) Difference: (1)−(2)	−1.52% (0.27)	1.60%*** (0.00)	0.25% (0.50)	
<i>Panel B. CARs Around July 10, 2009</i>				
(1) Pre-2009 in-depth disclosure	−0.14% (0.15)	−1.12%*** (0.00)	−0.70%* (0.08)	188
(2) Pre-2009 nondisclosure	−0.24% (0.22)	−1.10%*** (0.00)	−0.87%* (0.06)	1,939
(3) Difference: (1)−(2)	0.10% (0.25)	−0.03% (0.34)	0.17% (0.47)	

p-value < 0.01). For firms that made no prior disclosures regarding CEO succession planning, the average CAR is negative and statistically significant: CAR (−1,+1) = −1.34%; *p*-value < 0.01). Further, the CARs are significantly different from each other (*p*-value for the difference < 0.01). These results are consistent with the proposition that succession planning and disclosure are not value-creating undertakings for all firms and that the SEC's shift in position is likely to have induced (or coerced) some firms to plan for and disclose CEO succession planning that would not have done so (and should not have done so) in the absence of the SEC's change in policy.

B. The Information Content of the SEC's Oct. 27, 2009 Pronouncement

Our analysis of CARs around Oct. 27, 2009, embeds the assumption that the only SEC pronouncement on that date concerned CEO succession planning. In fact, staff bulletin 14-E also contains a statement regarding “the application of Rule 14a-8(i)(7) to proposals relating to risk.” If firms that are more likely to disclose CEO succession planning are also firms that are more likely to disclose information about the board's role in the risk management process, perhaps the stock price reactions that we observe on Oct. 27 reflect investors' sensitivity to both the shift in the SEC's position regarding CEO succession planning and its pronouncement regarding risk management. As it turns out, however, on July 10, 2009, the SEC had published for comment a statement regarding proposals relating to risk (Release No. 34-60332; File No. S7-15-09). Specifically, “[w]e also are proposing to require additional

disclosure in proxy and information statements about the board's role in the company's risk management process ... [D]isclosure about the board's involvement in the risk management process should provide important information to investors" (<https://www.sec.gov/rules/proposed/2009/33-9052.pdf>). On that date, the SEC made no mention of CEO succession planning.

If the pattern of abnormal returns on Oct. 27, 2009, was influenced by the SEC's mandate with respect to risk management, the pattern of CARs around July 10, 2009, should have been similar to the pattern around Oct. 27. We, thus, calculate 3-day CARs separately for firms that had disclosed in-depth planning prior to July 10, 2009, and for firms that had not yet disclosed such planning prior to that date. As shown in Panel B of Table 5, the average CARs of the two groups are not significantly different from each other. The implication is that the pattern of CARs around Oct. 27, 2009, is not due to the SEC's statement regarding risk management.

C. Post-Oct. 27, 2009 Disclosures of CEO Succession Planning

Our interpretation of the CARs around Oct. 27, 2009, is that the SEC's pronouncement increased the likelihood that firms that had not yet disclosed succession planning practices would be induced (or coerced) into doing so. Our further interpretation is that for firms that had a positive CAR at that time, succession planning would have been a positive NPV project and for firms with negative CARs succession planning would have been a negative NPV project. To the extent that the SEC's mandate induced (or coerced) firms into altering their practices, we expect that change in practice to show up shortly after Oct. 2009. For that reason, we conduct an event study using the first proxy statements immediately after Oct. 27, 2009. If our interpretation of the CARs around Oct. 27, 2009, is correct, for those firms with positive CARs around that date, the CAR should be positive if they do disclose succession planning in their next proxy statements. For those firms with negative CARs at that date, the CAR should be negative if they do disclose succession planning in their next proxy statements.

To address this question, we calculate CARs around proxy disclosure dates for firms that disclosed succession planning for the first time in their first proxy statement following Oct. 27, 2009. We separately calculate CARs for firms that had negative CARs around Oct. 27, 2009, and those that had positive CARs around that date. The results are given in Table 6. For the first set of firms, both CARs are negative: the average CAR over the 3-day interval surrounding initial disclosure is -0.20% with a p -value of 0.04; the CAR over the interval from 1 day prior to the proxy date through the shareholder meeting date is -0.51% with a p -value < 0.01 . For the second set of firms, the two CARs are positive and statistically significant (CAR $(-1, +1) = 0.76\%$; $p < 0.01$) and (CAR $(-1, \text{shareholder meeting}) = 1.13\%$; $p = 0.06$). These results support our interpretation of the CARs around Oct. 27, 2009 – in particular, for firms with negative CARs around Oct. 27, 2009, CEO succession planning is a negative NPV project.

D. The Dollar Value of the Succession Planning

A further question is how big are the NPVs of value-enhancing and value-reducing succession planning decisions. To gauge those values, we use the CARs

TABLE 6
CARs Around First-Time Disclosures of CEO Succession
Planning for Post-2009 Disclosure Firms

Table 6 reports the average cumulative abnormal returns (CARs) around proxy filing dates and shareholder meeting dates for samples of Compustat (merged with SEC EDGAR) firms after 2009. Firms' first proxy statements following Oct. 27, 2009, are identified. CARs are calculated using the Fama–French's (2015) 5-factor model with the CRSP value-weighted market index. Firms whose stock prices are less than \$3 at the event date are dropped. CARs are calculated for two different sets of firms. Row 1 is firms that had not disclosed any information about CEO succession planning in their proxies as of Oct. 27, 2009, and for which the CAR around Oct. 27, 2009, was negative. Row 2 is firms that had not disclosed any information about CEO succession planning in their proxies as of Oct. 27, 2009, and for which CARs around Oct. 27, 2009, were positive. Event intervals are from 20 days through 2 days prior to the proxy filing date (–20, –2), from 1 day prior to the proxy filing date through 1 day after the proxy date (–1, +1), from 1 day prior to the proxy filing date through 20 days after the proxy date (–1, +20), from 1 day prior to the proxy filing date through the related shareholder meeting date (–1, meeting), from 1 day after the shareholder meeting date through 40 trading days after the shareholder meeting date (meeting + 1, meeting + 40). CARs are winsorized at the 1% level. The *p*-values are calculated as in Boehmer et al. (1991) and are reported in parentheses below the CARs. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Sample of Firms	CARs of Firms With First-Time Disclosure After Oct. 27, 2009					No. of Firms
	(–20, –2)	(–1, +1)	(–1, +20)	(–1, Meeting)	(Meeting + 1, Meeting + 40)	
Firms with negative CARs	–0.50% (0.12)	–0.20%** (0.04)	0.53% (0.39)	–0.51%*** (0.00)	–4.69%*** (0.00)	114
Firms with positive CARs	–0.39% (0.18)	0.76%*** (0.00)	0.67% (0.18)	1.13%* (0.06)	0.23% (0.42)	107

and equity values of firms that disclosed CEO succession planning (voluntarily) for the first time prior to Oct. 27, 2009, as a gauge of the value increase when firms choose to plan for CEO succession and disclose that decision to market participants. We use the CARs around Oct. 27, 2009, for firms that did not disclose prior to 2009 and had a negative CAR around that date along with these firms' equity market values to gauge the value loss for value-reducing succession planning decisions. For the former set of firms, we convert the CARs over two intervals, day (–1, +1) and day (–1, shareholder meeting), to dollar values by multiplying the CARs times the equity market value of each firm as of day –1. The medians of these NPVs are \$1.1 million and \$8.55 million.⁷ For the latter set of firms, we convert the CARs around Oct. 27, 2009, to dollar values by multiplying the CARs times the equity market value of each firm as of Oct. 26, 2009. The median of these NPVs is \$11.2 million.⁸

VI. For What Types of Firms Is CEO Succession Planning a Positive (or Negative) NPV Project?

The conclusion that CEO succession planning (and disclosure) is not a value increasing undertaking for all firms (and, indeed, has a negative value for some firms) immediately raises the question of – for which firms is succession planning a value-added (or value-destroying) project? To address that question, we assume that firms that disclosed succession planning prior to Oct. 27, 2009, did so voluntarily with the expectation that doing so would be value creating. We further assume

⁷We report the medians rather than the means of these values because the means are highly skewed by a few very large firms. The mean NPVs are \$15 million and \$86 million.

⁸We report the median rather than the mean of these values because the mean is highly skewed by a few very large firms. The mean NPV is \$94 million.

that firms that did not disclose prior to 2009 and had a negative CAR around Oct. 27, 2009, are firms for which succession planning would have been a negative NPV project and that the SEC's action was perceived by market participants as increasing the likelihood that such firms would nevertheless be coerced to commence such planning and its disclosure. That is, we are assuming that the boards of both sets of firms were making value maximizing decisions regarding CEO succession planning decisions prior to Oct. 27, 2009.⁹

With these two groups of firms, we estimate a probit model with a dependent variable of one identifying in-depth disclosure firms prior to Oct. 27, 2009, (for every year in which the firm disclosed in-depth CEO succession planning) and zero identifying firms that had not disclosed any information about CEO succession planning as of Oct. 27, 2009, but for which the CAR around Oct. 27, 2009, was negative (with 0 for every year in which succession planning was not disclosed). That is, we are asking whether the two types of firms are statistically and economically distinguishable.

Desirably identifying independent variables for this exercise would follow from a well-grounded theory that would clearly specify the marginal costs and benefits of CEO succession planning for firms of different types. The dilemma for such an exercise is that NPVs depend not on costs and benefits but on the difference between the two. The leading direct costs of succession planning are likely to be related to the cost of identifying and grooming a suitable successor. But, of course, those costs will be incurred whenever the current CEO steps down so those costs are not incremental. The incremental costs are incurred when a suitable successor has been identified and groomed, and then elects to depart the firm.¹⁰ The firm is then in the position of having to repeat the process, perhaps several times, prior to the current CEO's ultimate departure. The costs of grooming a successor CEO are likely to be greater the larger and more complex the firm is. But the benefits of succession planning are also likely to be larger for the same types of firms.

One type of potential benefit that can be envisioned is the likelihood that ongoing projects are less likely to be interrupted if a successor is in place when a CEO steps down. Avoiding interruptions may be especially valuable for firms with large projects. Thus, the marginal costs and benefits of planning for CEO succession are likely to be bigger for bigger firms. But that does not mean that the NPV will be bigger for bigger firms. It could very well be that the marginal costs exceed the marginal benefits by a greater amount for bigger firms. The same is likely to be true for other firm characteristics. Without knowing the marginal costs and benefits of CEO successor replacement associated with each firm characteristic, we do not know what the firm characteristics are that determine the NPV of succession planning for each type of firm. We are, thus, left with an empirical exercise with minimal theoretical guidance as to the characteristics of firms for which the NPV

⁹Excluded from this analysis are firms that had positive CARs around Oct. 27, 2009. The reason for doing so is the presumption that succession planning and disclosure would have been value creating for these firms had they done so. That is, we are assuming that the boards of these firms are not value maximizing with respect to succession planning. We consider this point in Section A.3 of the Supplementary Material.

¹⁰Shen and Cannella (2003) document that two-thirds of anointed CEO successors leave their companies before taking office.

of succession planning is likely to be positive or negative. With that in mind, we turn to firm characteristics identified as playing a role in studies of CEO appointments, CEO firings/turnover, and CEO succession with the goal of estimating a parsimonious model that identifies firm characteristics for which succession planning is likely to be a positive (or negative) NPV project.

In her study of the relay process for CEO succession, Naveen (2006) identifies the characteristics of firms that are more likely to appoint a president or a COO. She identifies these individuals as designated successors and the firms as having a relay succession process. Holding all else constant, Naveen conjectures that the rewards of having a designated successor are bigger for larger and more diversified firms because the losses associated with lost opportunities are also likely to be larger in larger firms. Further, relying on a proposition by Parrino (1997), Naveen conjectures that firms in more homogeneous industries are less likely to appoint a designated successor because, in such industries, the available pool of talent will be deeper. Naveen reports evidence to support her conjectures. The dilemma from our perspective is that each of Naveen's conjectures holds all else constant. That is, she does not present her arguments in terms of NPVs in which both costs and benefits play a role. We include Naveen's variables in the probit model but we do so recognizing that we do not have a prediction regarding the signs of the coefficients.

In their studies of CEO turnover, Huson et al. (2004), Jenter and Kanaan (2015), Gao, Harford, and Li (2017), Ghosh and Wang (2019), Jenter and Lewellen (2021) and others report that turnover is related inversely to firm profitability. Thus, firms with poor performance are more likely to experience the need for succession planning in which case in-depth succession planning is likely to be more valuable, but, for poorly performance firms, the cost of attracting a high-quality CEO may be even higher. We include industry-adjusted operating return on assets and stock return as a measure of performance. We also include year fixed effects in our regression to adjust for macroeconomic impact on performance.

Several studies consider CEO turnover in a dynamic agency framework. The key insight of these studies is that CEO turnover could result from factors other than firm performance. For example, Bushman et al. (2010) present a model and evidence showing a connection between firm risk, firm performance, and CEO turnover. They report that the likelihood of CEO turnover is positively related to firm idiosyncratic stock return volatility. In their model, volatility is related to the board learning about CEO talent. More recently, Bennedsen et al. (2020), reach the same conclusion. They argue that CEO succession planning is more beneficial for firms in high growth environments because CEOs are more valuable in these situations. In any event, as with firm performance, the greater likelihood of turnover for firms with higher volatility could imply that succession planning would have greater value for more volatile firms. And, on the other side of the coin, the greater likelihood of turnover could increase the cost of identifying and grooming a high-quality successor. In a similar spirit, Peters and Wagner (2014) argue that higher firm volatility increases the likelihood that firm characteristics will change causing a change in the appropriate CEO/firm match which, in turn, increases costs to the firm of identifying a suitable successor. Thus, higher firm volatility could increase or decrease the NPV of in-depth succession planning. We use stock return volatility and sales growth measured as our proxies for firm idiosyncratic risk.

Since internal successions are more likely when firms plan for CEO succession, the cost–benefit analysis of CEO succession planning may also be affected by the firm’s tradeoff between insider and outsider successors. Anderson et al. (2018) and a follow-up literature argue that, over time, changes in economic conditions may call for a change in top management that enable the firm to pursue new opportunities. Consequently, internal succession is more likely when an existing strategy is maintained, and external succession is more likely when the strategy is changed. In line with prior literature, we use the market-to-book equity ratio to proxy for the firm’s investment opportunities.

The results of the probit model estimation are in Table 7 along with the independent variables whose complete definitions are given in Appendix B. We are interested in both the statistical and economic significance of the variables. The economic significance of a variable is calculated as the change in the probability of CEO succession planning being a positive NPV project when that variable increases by 1-standard-deviation. We consider a variable to be economically significant if the effect is to increase or decrease the probability by at least 1 percent. The coefficients of $\ln(\text{TOTAL_ASSETS})$ and number of business segments are economically and statistically significantly positive at the 0.05 level, while the coefficient of sales growth and stock return volatility are economically

TABLE 7
 Characteristics of Firms for Which CEO Succession
 Planning and Disclosure is Value Creating

Table 7 presents the results of estimating a probit model with a dependent variable of 1 identifying in-depth disclosure firms prior to Oct. 27, 2009, and 0 identifying firms that had not disclosed any information in their proxies about CEO succession planning as of Oct. 27, 2009, and for which the CAR around Oct. 27, 2009, was negative. An in-depth disclosure is a disclosure statement using a free-standing passage in its proxy with a title related to succession planning or executive review and evaluation as described in Section III. Independent variables are firm characteristics defined in Appendix B. The models are used to calculate the probability that a firm discloses CEO succession-planning-related information in its proxy as a function of firm characteristics. The *t*-statistics are based on standard errors clustered at the firm level and the related *p*-values are shown in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	Prob (In-Depth Disclosure)	Economic Significance
$\ln(\text{TOTAL_ASSETS})$	0.198*** (0.00)	0.41
#BUSINESS_SEGMENTS	0.992*** (0.00)	0.10
INDUSTRY_HOMOGENEITY	-0.023 (-0.23)	-0.04
(INDUSTRY-ADJUSTED) RETURN_ON_ASSETS	0.368* (0.08)	0.06
STOCK_RETURN	0.008 (0.34)	0.00
STOCK_RETURN_VOLATILITY	-0.108** (0.02)	-0.05
SALES_GROWTH	-0.189*** (0.00)	-0.56
MARKET-TO-BOOK	0.005 (0.32)	-0.01
Constant	-2.121*** (0.00)	
Year fixed effects	Yes	
R^2 (Pseudo)	0.10	
No. of obs.	7,693	

and statistically significantly negative at 0.05 level. Neither the proxies for firm performance nor investment opportunities are significant at 0.05 level.

The results of the probit model suggest that the marginal benefits of CEO succession planning are likely to outweigh the marginal costs for larger, multi-segment, more stable firms where stability is measured by stock return volatility and sales growth. Perhaps more importantly, for smaller, simpler less stable firms, CEO succession planning is likely to be a negative NPV undertaking.

VII. CEO Turnover and CEO Succession Planning

The overarching premise of our analysis is that the appropriate way in which to think about whether CEO succession planning is a value-added undertaking is to consider the ex ante effect. The alternative is to consider the ex post effect when CEO turnover occurs. It is possible, of course, that a valuation effect could be observed when turnover occurs even if succession planning is not a value-added exercise ex ante. To address that question, we conduct an event study around CEO turnover announcements.

To do so, beginning in 2003, we access the Capital IQ “Key Developments” data set to extract announcements in the category “Executive Changes-CEO” for our set of Compustat-SEC proxy statement firms that also appear in Capital IQ.¹¹ To distinguish CEO departures from CEO arrivals, we search ExecuComp and the Capital IQ “People Intelligence” data set each year for the name of the firm’s CEO.¹² This allows us to identify instances of CEO departures. In many instances, the data set contains multiple announcements regarding the same departure. We use the first of these as the announcement date of the CEO turnover.

From this set, we identify every instance in which the departure announcement occurred prior to any disclosure of CEO succession planning. We label this the CEO turnover sample with no succession planning. From the remainder, we identify those that experienced a CEO departure at any time following in-depth disclosure of succession planning. We label these the CEO turnover sample with in-depth disclosure of succession planning. Both sets of firms experienced CEO turnover. The difference between them is that one made no disclosure of succession planning prior to the CEO’s departure; the other made an in-depth disclosure in its first-ever disclosure of succession planning prior to the departure. On average, the turnover announcements for these firms follow the in-depth disclosure by 31 months.

We conduct an event study over the 3-day interval surrounding the departure announcements for the two samples. As shown in the first row of Table 8, the CAR for the in-depth disclosure CEO turnover sample is negative but not significantly different from zero: (CAR $(-1,+1) = -0.38\%$; p -value = 0.27). As shown in the second row, the CAR for the nondisclosure CEO turnover sample is also negative. However, this CAR is significantly less than 0: CAR $(1,+1) = -0.64\%$; p -value < 0.01). More importantly, the CAR of the latter sample is significantly less

¹¹Roughly 80% of the firms in ExecuComp also appear in Capital IQ.

¹²Different from ExecuComp, which covers only S&P 1,500 firms, Capital IQ’s professional data set covers a larger set of firms – over 4.5 million professionals and over 2.4 million people including private and public company executives, board members, and investment professionals, globally.

TABLE 8
CARs Around Announcements of CEO Turnover

Table 8 reports average cumulative abnormal returns (CARs) around CEO turnover announcements in the Capital IQ "Key Development" data set for 2003–2016. For each CEO turnover, the CAR around the first such announcement is calculated. CARs are calculated using the Fama–French's (2015) 5-factor model with the CRSP value-weighted market index. Firms whose stock prices are less than \$3 at the event date are omitted. Panel A reports the CARs around CEO turnover for all in-depth disclosure firms and all nondisclosure firms where in-depth and nondisclosure are as described in Section III. Panel B reports CARs around CEO turnover announcements for firms that had not disclosed any information about CEO succession planning in their proxy statements as of Oct. 27, 2009, and for which the CAR around Oct. 27, 2009, is negative. Rows 1 and 4 report CARs for firms with in-depth disclosure of CEO succession planning in a proxy statement prior to the CEO turnover. Rows 2 and Row 5 report CARs for firms with no disclosure of CEO succession planning in a proxy prior to the CEO turnover. Event intervals are from 20 days through 2 days prior to the CEO turnover announcement (–20, –2), from 1 day before through 1 day after the announcement (–1, +1), and from 2 days after through 20 days after the announcement (+2, +20). The *p*-values are calculated as in Boehmer et al. (1991) and are reported in parentheses below the CARs. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Sample of Firms	CARs Around CEO Turnover Announcements			No. of Firms
	(–20, –2)	(–1, +1)	(+2, +20)	
<i>Panel A. In-Depth and Nondisclosure Firms</i>				
(1) In-depth disclosure	0.16% (0.52)	–0.38% (0.27)	0.95% (0.23)	492
(2) Nondisclosure	–0.62%** (0.01)	–0.64%*** (0.00)	0.42% (0.26)	1,862
(3) Difference: (1)–(2)	0.80%*** (0.00)	0.26%*** (0.00)	0.53% (0.22)	
<i>Panel B. Firms With a Negative CAR Around Oct. 27, 2009, and With No Disclosure of Succession Planning Prior to Oct. 27, 2009</i>				
(4) In-depth disclosure	0.42% (0.17)	–0.23% (0.11)	0.46% (0.40)	23
(5) Nondisclosure	0.62% (0.17)	–0.48%*** (0.00)	0.94% (0.23)	70
(6) Difference: (4)–(5)	–0.20% (0.24)	0.25%* (0.03)	–0.50% (0.73)	

than that of the former (*p*-value for the difference < 0.01). Thus, on average, firms that experience CEO turnover experience value losses at announcement of the turnover, but the loss is significantly less for firms that had previously announced succession planning in depth than for firms that had made no such disclosure. Thus, ex post, a conclusion could be that succession planning is value-adding.

A further test is to consider CEO departures only among firms for which CEO succession planning does not appear to be an ex ante value-increasing undertaking. These are firms that had not disclosed CEO succession planning in their proxies prior to Oct. 27, 2009, and had negative CARs around Oct. 27, 2009. There are 93 CEO departures among these firms over the period of 1998–2016. Of these, in 23 instances, the firm had set forth an in-depth disclosure of CEO succession planning prior to the turnover and after Oct. 27, 2009, and 70 never made any disclosure. We calculate CARs for each group over the 3-day interval around their announcements of CEO turnover. The results are given in Panel B of Table 8.

The average CARs for both groups are negative with the CAR of the in-depth disclosure firms being significantly less negative than the CAR of the nondisclosure firms (*p*-value for the difference = 0.03). Thus, turnover in the CEO position is associated with a negative value effect, but, even among firms for which succession planning is apparently a negative NPV project on an ex ante basis, on an ex post basis, the value of succession planning is less negative for firms that did disclose succession planning than for firms that did not.

Taken in isolation, the results in Table 8 could be interpreted to mean that CEO succession planning is value-creating for all firms. Such an interpretation ignores the value loss that occurs for some firms when succession planning is first announced.

A point that merits emphasizing here is that some other studies that consider the effects of planning for CEO succession trace back from turnover in the CEO position to whether that turnover followed disclosure of succession planning. Such studies may conclude that planning for CEO succession adds value. Such a determination ignores the negative value effect that occurs when CEO succession planning is disclosed. That is, we find that even for firms for which planning and disclosure is a negative NPV project *ex ante*, the value effect is positive (i.e., the CAR is less negative) when turnover actually occurs. That does not mean that planning for succession is value-adding for these firms. Conclusions based on *ex post* outcomes such as that of J.C. Penney, miss the point. J.C. Penney was classified as an in-passing disclosure firm. Yes, had J.C. Penney undertaken in-depth planning for CEO succession, the stock price drop on the announcement of its CEO's unexpected departure would have been less, but that does not mean that the NPV of doing so would have been positive upon its initial announcement. A conclusion that CEO succession planning is value creating for all firms is belied by the evidence.¹³

VIII. Some Related Concerns

A. Evidence on the Validity of the Signalling Content in Proxy Statements

Our conclusions about the value of succession planning are based on the presumption that in-depth disclosure of CEO succession planning is a reasonable proxy for actual succession planning. That is, our conclusions are based on the presumption that in-depth disclosure of succession planning is a signal that actual succession planning is taking place. The results of our tests support that presumption, in that, when firms disclose their succession planning for the first time in their proxies, the stock price response is statistically significant.

Nevertheless, we undertake tests to further address the question of whether proxy statement disclosures are credible signals of actual succession planning. We conduct three regressions in which the dependent variable can be thought of as an indicator that succession planning has (or has not) taken place. The three indicators are i) whether a new CEO is announced concurrently with the announcement of the current CEO's departure; ii) whether an interim CEO is announced concurrently with the announcement of the CEO's departure; and iii) whether the firm has in place a president or Chief Operating Officer (COO) when the CEO's departure is announced. The idea is that succession planning is more likely to have taken place if the successor CEO is announced concurrently with the CEO's departure, is less

¹³We also conduct tests using only "unexpected" CEO turnover. These tests show that the CAR for unexpected turnover preceded by in-depth disclosure is significantly less negative than for unexpected turnover not preceded by in-depth disclosure.

TABLE 9
 Evidence on the Validity of the Signaling Content of Succession
 Planning Disclosure in Proxy Statements

Table 9 reports estimates of OLS regressions of CEO turnover outcomes on an indicator for whether a firm has disclosed an in-depth succession plan in its proxy statement prior to the CEO turnover. The dependent variables are an indicator for "Immediate Appointment of Successor CEO" in column 1, an indicator for "Appointment of Interim CEO" in column 2, and an indicator for "Appointment of Designated Successor," as defined in Naveen (2006), in column 3. Firm control variables are as of the latest fiscal year-end prior to the CEO turnover. All variables are defined in Appendix B. The *t*-statistics are based on standard errors clustered at the firm level and the related *p*-values are shown in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	Immediate Appointment of Successor CEO	Appointment of Interim CEO	Appointment of Designated Successor
	1	2	3
INDEPTH_DISCLOSURE	0.190*** (0.00)	-0.304*** (0.00)	0.220** (0.03)
ln(TOTAL_ASSETS)	0.042 (0.36)	-0.038* (0.08)	-0.031 (0.13)
#BUSINESS_SEGMENTS	0.003 (0.37)	0.004 (0.28)	0.00 (0.43)
Constant	-1.958** (0.00)	-5.133 (1.04)	0.04 (1.56)
Year fixed effects	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes
No. of obs.	2,939	2,860	2,606

likely to have taken place if an interim CEO is announced, and (based upon Naveen’s (2006) study) is more likely to have taken place if the firm has in place an heir apparent (i.e., a president or COO).

The regressions are conducted as of the announcement of CEO turnover using all turnover events in Section VII. Data on the announcements of CEO successors are retrieved from 8-Ks filed with the SEC. Whether a president or COO is in place are from ExecuComp and the Capital IQ “People Intelligence” data set. The key independent variable in the regressions is an indicator for whether the firm had an in-depth disclosure of succession planning in its proxy statement immediately preceding the CEO’s departure. Based on Naveen (2006), the control variables are ln(TOTAL_ASSETS), number of business segments, and industry fixed effects.

The results are reported in Table 9. The coefficient is positive when immediate appointment of CEO successor is the dependent variable (*p*-value < 0.01), negative when an interim CEO is appointed (*p*-value < 0.01), and positive when an heir apparent is in place (*p*-value = 0.03). The coefficients of the in-depth succession planning indicator are consistent with actual planning taking place and, thus, support our interpretation of the event study results.

B. Further Robustness Tests and Other Issues

The Supplementary Material addresses certain issues related to the primary results and presents certain robustness tests. In this section, we briefly summarize the results of these tests.

1. Why Do Some Firms Not Plan and Disclose When the Implied CAR Is Positive?

In Section A.3 of the Supplementary Material, we conduct tests to address the question of why some firms for which succession planning and disclosure would

appear to be a positive NPV project do not do so. We find that such firms, on average, are characterized as having fewer independent directors, a higher Bebchuk, Cohen, and Ferrell (2009) CEO entrenchment index score, and longer-serving CEOs (a characteristic not included in the Bebchuk et al. index). We conclude that such firms appear to suffer from an agency problem that limits board effectiveness.

2. An Alternative Interpretation of the Results

In Section A.4 of the Supplementary Material, we consider an alternative interpretation of the primary results. To wit, the positive CARs around disclosures signal an intent of boards to dismiss underperforming CEOs. Contrary to this interpretation, in line with Cvijanovic et al. (2018), we find that CEOs of firms with succession plans disclosed serve longer tenures than CEOs of nondisclosure firms.

3. Using All Disclosures

Arguably our definitions of in-depth vs. in-passing disclosures are subjective. Ergo, in Section A.5 of the Supplementary Material, we conduct the key tests of Tables 4 and 7 using firms with any type of disclosure. With respect to Table 4, given the evidence that some firms that disclosed succession planning after Oct. 27, 2009, did so even though doing so was a negative NPV project, we focus on firms with pre-2009 disclosures. We find that the magnitudes of the coefficients of succession planning disclosure indicator variable are both positive with p -values < 0.05 . With respect to Table 7, the variables of $\ln(\text{ASSETS})$, $\#\text{BUSINESS_SEGMENTS}$, $\text{STOCK_RETURN_VOLATILITY}$, and SALES_GROWTH continue to be statistically and economically significant. Our conclusions are unchanged by including all types of disclosures.

4. Continuation of In-Depth Disclosures Up to Oct. 27, 2009

In Section VI, we conduct various tests in which firms are classified as in-depth disclosure firms if their first-ever proxy statement announcement of succession planning prior to Oct. 27, 2009, was in-depth. Considering that some in-depth first-time disclosure firms discontinue disclosing after having one or more in-depth disclosures, arguably such firms should not be considered as in-depth disclosure firms as of Oct. 27, 2009. We, thus, conduct the event study classifying as in-depth disclosing firms only those firms that had previously made in-depth disclosures as their first disclosures, and also continue to disclose in-depth through Oct. 27, 2009. The results reported in Table 5 are essentially unchanged by this alternative specification.

5. CEO Turnover and In-Depth Disclosure

In Section A.6 of the Supplementary Material, we address a possible concern that the event study around disclosures of succession planning is a “preannouncement” of an impending CEO turnover that already embeds the news of expected turnover. We conduct an event study around CEO turnovers that occurred at least 5 years after the succession planning disclosure. The CARs around such turnover events are essentially the same as for the full sample.

IX. Conclusion

In this study, using all firms with data in Compustat over the period of 1998–2016 for which proxy statements are available in the SEC’s EDGAR database, we investigate whether planning for CEO succession is a value-added corporate undertaking by conducting event studies around disclosure dates where the disclosure date of succession planning is taken to be the first time in which succession planning appears a corporate proxy statement. We conclude that CEO succession planning is a value-added (i.e., positive NPV) undertaking for larger more complex and more stable firms and is apparently a value-reducing (i.e., negative NPV) undertaking for smaller simpler and more volatile firms. To the extent that advisory groups urge boards to plan for CEO succession, boards should take those recommendations with a grain of salt. The SEC’s 2009 ruling that firms may not rely on Rule 14a-8(i)(7) to exclude from their proxy statements shareholder proposals that focus on CEO succession planning nudges firms in the direction of planning for CEO succession and disclosure of such planning, but ultimately, and prudently, leaves the decision of whether to do so up to the shareholders and the boards of each firm.

Appendix A. Summary Statistics for Disclosure Firms and Nondisclosure Firms

Appendix A presents descriptive statistics of the disclosure firms (i.e., firms that disclose CEO succession planning related information in their proxy statements) and nondisclosure firms (i.e., firms that do not disclose CEO succession planning information in their proxy statements). Definitions of the variables are provided in Appendix B. The last column reports *p*-value for the differences in firm characteristics between the two samples. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	Disclosure Firms			Nondisclosure Firms			<i>p</i> -Value for Difference in Means
	Mean	Std. Dev.	No. of Obs.	Mean	Std. Dev.	No. of Obs.	
TOTAL_ASSETS (\$ mil)	10,129	26,452	7,449	2,821	12,235	48,320	0.00***
MARKET_VALUE (\$ mil)	7,985	24,691	7,030	2,063	12,142	45,745	0.00***
FIRM_AGE	11.76	5.9	7,449	9.21	4.7	48,320	0.00***
#BUSINESS_SEGMENTS	12.43	10.5	7,449	9.82	8.5	48,320	0.00***
STOCK_VOLATILITY	0.42	0.5	6,507	0.51	0.6	28,353	0.00***
SALE_GROWTH	0.11	0.01	7,449	0.33	0.1	48,320	0.00***
RETURN_ON_ASSETS	0.07	0.2	7,161	0.03	0.2	46,337	0.00***
MARKET-TO-BOOK	2.00	1.6	5,911	2.11	2.0	37,581	0.00***
R&D_EXPENSE/TOTAL_ASSETS	0.04	0.1	7,449	0.12	0.2	48,320	0.00***
SG&A_EXPENSE/TOTAL_ASSETS	0.20	0.3	7,449	0.21	0.3	48,320	0.00***
CAPITAL_EXPENDITURES/TOTAL_ASSETS	0.04	0.1	7,374	0.05	0.1	44,991	0.00***
CASH/TOTAL_ASSETS	0.17	0.2	7,449	0.25	0.2	48,309	0.00***
LEVERAGE	0.24	0.2	7,440	0.22	0.2	48,220	0.00***
INDUSTRY_HOMOGENEITY	2.74	1.8	7,443	2.51	1.5	48,314	0.00***
SIZE_OF_BOARD	9.44	2.6	4,981	8.37	2.67	29,938	0.00***
INDEPENDENT_DIRECTORS (%)	81%	0.1	4,981	74%	0.15	29,936	0.00***

Appendix B. Variable Definitions

BOARD_SIZE: Total number of directors. Source: RiskMetrics and BoardEx.

CASH/TOTAL_ASSETS: Cash and short-term investments/Total assets. Source: Compustat.

TOTAL_DEBT: Current liabilities + Long-term debt. Source: Compustat.

LEVERAGE: Total debt/Total assets. Source: Compustat.

ln(TOTAL_ASSETS): Natural logarithm of total assets. Source: Compustat.

FIRM_AGE: Number of years since initial public offering. Source: Compustat and CRSP.

INDUSTRY_HOMOGENEITY: The mean partial correlation coefficient for an industry return index in a Fama–French 3-factor model (see Parrino (1997)). Source: Compustat and CRSP.

MARKET_VALUE: Market price per share × outstanding shares. Source: Compustat and CRSP.

MARKET-TO-BOOK_EQUITY_RATIO: (Equity + Total debt + Preferred stock liquidating value – Deferred taxes and investment tax credit)/Total assets. Source: Compustat.

NUMBER_OF_BUSINESS_SEGMENTS: Number of business segments. Source: Compustat.

PERCENTAGE_OF_INDEPENDENT_DIRECTORS: Total number of independent directors divided by total number of directors times 100. Source: RiskMetrics and BoardEx.

RETURN_ON_ASSETS: Operating income before depreciation/Total assets. Source: Compustat – industry median of OROA.

RETURN_ON_ASSETS_(INDUSTRY-ADJUSTED): Return on assets – Fama–French-48 industry mean of return on assets.

RESEARCH_AND_DEVELOPMENT_EXPENSE/TOTAL_ASSETS: Research and development expense/Total assets. Source: Compustat.

SELLING_GENERAL_AND_ADMINISTRATIVE_EXPENSE_(SG&A)_EXPENSE/TOTAL_ASSETS: Selling, general and administrative expense/Total assets. Source: Compustat.

STOCK_RETURN: Mean of daily returns in the 100 days prior to the proxy filing dates. Source: Compustat.

STOCK_RETURN_VOLATILITY: Standard deviation of daily returns in the 100 days prior to the proxy filing dates. Source: Compustat.

SALES_(GROWTH): $\frac{\text{Sale}_t - \text{Sale}_{t-1}}{\text{Sale}_{t-1}}$.

Supplementary Material

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