



# EXPERIENCE MATTERS? THE IMPACT OF PRIOR CEO EXPERIENCE ON FIRM PERFORMANCE

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*We sample CEOs of the 2005 S&P 500 corporations to look at the relationship between experience in the CEO position of a different firm and the post-succession financial performance of the firm that they currently lead. We find that experience in the CEO position is negatively related to firm performance. CEOs who directly move to their current CEO position from the previous one and those with job-specific experience in the same or related industry or at the helm of a previous company similar in size to the current one are associated with significantly lower post-succession performance than those without prior CEO experience. The results contribute to the literatures on CEO succession, the performance effect of job-specific experience, and the transferability of human capital. © 2014 Wiley Periodicals, Inc.*

*Keywords:* job experience, job performance, chief executives, CEO succession

## Introduction

**F**inding a CEO is one of the most important hiring events in organizations. Recent years have seen an important new trend in CEO succession: Corporations increasingly hire former chief executive officers (“prior CEOs”) to the CEO post. Between 2007 and 2009, almost 20 percent of the newly appointed CEOs had had CEO experience at another corporation, compared to fewer than 5 percent between 1995 and 2002 (Karlsson & Neilson, 2009). This dramatic increase may be driven by the fact that organizations are

increasingly unwilling to take the risk of hiring individuals with no previous job-specific experience and tend in general to place outsiders in positions that are the same as or similar to the post that they previously held, rather than assigning them to a completely new job function or promoting them to a higher executive level (Charan, 2005). Further, hiring organizations assume that CEO job-specific experience provides both a good track record and an understanding of the CEO job (Khurana, 2001).

Very little empirical research, however, exists on this type of hiring strategy, partly because of the recency of the phenomenon.

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We found only two published articles that addressed the benefits of prior CEOs for hiring organizations: Zhang (2008) shows a negative correlation between prior CEO experience and post-succession firm financial performance. However, the primary focus of her article is *not* the performance effect of CEOs with job-specific experience. Zhang (2008) provides only descriptive statistics on the relationship between job-specific experience and post-succession performance. Elsaid, Wang, and Davidson (2011) find that the large, US publicly traded companies that hire prior CEOs have lower returns on assets, higher debt ratios, and higher chances of bankruptcy up to three years after the succession event than firms with other types of

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*Consistent with the theory of learning transfer, we show that prior CEO experience is negatively related to post-succession firm financial performance.*

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succession, although their stock returns increase. The authors attribute the mostly disappointing performance of prior CEOs to the fact that they are hired by already struggling firms that they are subsequently unable to turn around. Both articles operationalize prior CEOs as a binary variable and analyze the performance consequences of possessing or not having this type of experience. We extend those two articles by examining the characteristics of prior CEOs' job-specific experience, which includes the industry in which they obtained this experience and the size of the firm that they managed. We also look at the circumstances of the succession and see how they relate to post-succession firm performance. Based on human capital theory and the literature on learning transfer and top executive succession, we identify and test three explanations for the fact that prior CEOs may show worse post-succession performance than those without job-specific experience: we argue that prior CEOs may be selected by hiring organizations for more difficult assignments, they are more likely to ascend the CEO post from the outside and lack firm-specific experience, and their job-specific human capital may interfere with their new job, all of these factors leading to lower post-succession

performance. Consistent with the theory of learning transfer, we show that prior CEO experience is negatively related to post-succession firm financial performance. Prior CEOs who directly move from their prior CEO jobs to the new one and those with job-specific experience in similar contexts (i.e., related industries or similar-sized organizations) are associated with significantly lower post-succession performance than those without job-specific experience. At the same time, other types of experienced CEOs are exempt from this negative relationship.

Besides addressing a phenomenon that became very important in recent years and was predicted to increase further among organizations, our article contributes to several literatures. First, it contributes to the literature on CEO succession by looking at a type of successor that has not been the subject of large-scale empirical analyses. Although there has been extensive research over the last decades examining the performance consequences of relay vs. nonrelay successors (Shen & Cannella, 2002; Zhang & Rajagopalan, 2004) and outside vs. inside successors (Karaevli, 2007), research on successors with CEO experience has been very limited.

Second, this study contributes to human capital theory, specifically to the debate on the portability of managerial human capital across different contexts (Murphy & Zábojnik, 2004, 2007), by examining the portability of *job-specific* human capital for highly skilled top executives. While it was long assumed that managerial tasks are highly interdependent, unstandardized, and contextual, and therefore cannot be easily transferred across contexts (Whitley, 1989), more recent studies (e.g., Murphy & Zábojnik, 2004, 2007) have argued that there has been an increase in the relative importance of general managerial capital and a decrease in the importance of firm-specific managerial capital in the CEO job, because the spread of computerized records has made it easy to retrieve firm-specific information on product markets, suppliers, or clients and thus enabled managers to run organizations without previously having spent large amounts of time in them. In contrast with this view, the results here not only

confirm the contextual nature of managerial tasks, but also suggest that in some cases there may be a *negative* transfer of human capital.

## Theory and Hypotheses

### *Job-Specific Experience and CEO Performance*

Outsiders made up 19 percent of global CEO appointments in 2010 (Favaro, Karlsson, & Neilson, 2011). While boards traditionally picked outsiders on the basis of their functional or industry experience, they have also started to focus their attention on another type of outsider: executives with prior CEO experience. About one-fifth of the CEOs who were in office in 2009 had prior CEO experience, and 15 percent of the incoming CEOs possessed job-specific experience in 2010 (Favaro et al., 2011; Karlsson & Neilson, 2009). Executives with prior CEO experience also join firms at the chief operations officer and president level and are groomed by the organization for the top position.

There may be several reasons for this new board preference. CEO jobs are unique among executive-level jobs. They require competencies that are radically different from those needed for lower executive jobs, such as managing the board of directors or the shareholders of the firm. These competencies are most effectively acquired via job-specific experiences (McCall, 2004). The “heir apparent,” the internal candidate who is identified as the successor years or months before the succession event and is groomed for the CEO position by the incumbent, is, without a doubt, exposed to certain aspects of the CEO job (Zhang & Rajagopalan, 2004). But individuals who have actually been CEOs have performed a wider range of position-specific tasks and are the most likely to have obtained the competencies needed for this post.

Boards may also prefer outsiders with prior CEO experience because the risks of information asymmetry and adverse selection inherent in hiring outsiders are less relevant for those who previously held CEO positions (Zhang, 2008). On internal candidates there is more, more diverse, and more

accurate information; when hiring outsiders, boards have less reliable information, often supplied by the candidate. But for outsiders with prior CEO experience, there is more reliable, publicly available information on their performance (e.g., Securities and Exchange Commission filings on the performance of the company that they led, or articles in the business media on the actions that they took). Despite these advantages, two previous studies (Elsaid et al., 2011; Zhang, 2008) suggest that CEOs with job-specific experience perform *worse* than their peers who lack such experience. Descriptive statistics in Zhang (2008) show a negative correlation between prior CEO experience and post-succession firm financial performance. Elsaid et al. (2011) find that companies that hire prior CEOs still see lower return-on-assets figures, a higher debt ratio and higher chances of bankruptcy three years after the succession event, even though the stock returns of these companies are higher than those of non-ex-CEO companies. Based on the prior literature on human capital and managerial human capital (E. E. Bailey & Helfat, 2003; Becker, 1964; Murphy & Zábojnik, 2004, 2007), the portability of human capital (Dokko, Wilk, & Rothbard, 2009; Groysberg, Lee, & Nanda, 2008), and top executive succession (Karaevli, 2007; Zhang, 2008), in the following we provide three reasons why prior CEOs may be associated with lower post-succession firm performance.

### *The Performance of the Hiring Organization Before the Succession Event*

Prior CEOs may see lower post-succession performance than their peers who do not possess job-specific experience because they are more likely to be chosen by firms that experience performance problems. Elsaid et al. (2011) show that the large, publicly traded US firms that hire an ex-CEO have a higher debt ratio a year before, and higher chances of bankruptcy three years before, the succession event than those who hire non-CEOs. Because they already have a track record with other companies, prior CEOs are

considered less risky candidates for troubled hiring firms and are expected to successfully cope with performance problems.

*Hypothesis 1: Organizations that appoint prior CEOs to the CEO position have lower pre-succession performance than other organizations.*

### *The Origin of the New CEO*

The choice of an insider vs. an outsider depends on a range of factors that include industry characteristics, the financial performance, and the intended strategic direction of the firm (Zhang & Rajagopalan, 2004). In addition, the availability of internal candidates—which is a consequence of firms' choice to invest in internal talent development and promotion-from-within practices, or on the contrary, to “buy” talent from the external labor market (Cappelli, 2008)—can have an important role in this choice. The decision to choose an insider vs. an outsider also depends on the firm-specific human capital that a company expects its new CEO to have.

CEOs possess varying quantities and qualities of firm-specific and general human capital that contribute to their job-related productivity and performance. While general human capital increases CEOs' productivity in many organizations equally and is portable across different organizations, firm-specific human capital may only increase productivity within the organization in which it was acquired (E. E. Bailey & Helfat, 2003). Prior CEOs may show worse post-succession performance than their peers who lack job-specific experience because they most commonly come from the outside and lack firm-specific human capital: knowledge about people, organizational procedures, and specific products at the organization, as well as the organization-specific tacit knowledge that is learned informally on the job. Further, their existing human capital may not represent a good fit

with the needs of the hiring organization, or with its culture (Karaevli, 2007). In the case of outsiders, such fit is more challenging to establish before the appointment, since hiring organizations have less complete and less accurate information on outsiders than on those who come from the inside (Zajac, 1990).

Neither do outsiders have the social networks that would make them more productive in their jobs (Kotter, 1982). On the contrary, the senior executives who worked for the outgoing CEO may actively resist the actions taken by the new CEO (Karaevli, 2007). Outsider CEOs therefore either manage out or expect the exit of one or more top executives. This turnover also has an impact on the performance of the new CEO, as succession to key direct report roles must be planned at around the same time as the entry of the CEO.

Lastly, since outsiders are commonly appointed to the helm of corporations that face a performance problem, they are often pushed by the board of directors to take premature actions, which may further lower post-succession performance. To sum up, it is not the job-specific human capital of prior CEOs but the lack of firm-specific human capital that interferes with their performance in the new CEO position.<sup>1</sup>

*Hypothesis 2: CEOs who are hired from the outside are associated with lower post-succession firm performance than insiders.*

### *The Job-Specific Experience of the New CEO*

Previous research suggests that a large component of job-specific skills is transferable across organizations: Murphy and Zábojnik (2004, 2007) argue that CEO jobs have a considerable proportion of general human capital, due to changes in the requirements for the CEO job. These requirements increasingly include communicating with shareholders, with the media, and with capital markets (i.e., they are increasingly focused on external constituencies and less on internal operations). Further, even the firm-specific



component of top executive jobs has become easier to master due to the availability of firm-specific data in computerized form (Murphy & Zábojnik, 2007). Consistent with these arguments, some studies that looked at the effect of job-specific experience on job performance across different contexts found a positive relationship: McDonald, Westphal, and Graebner (2008) showed that the prior experience of outside directors with acquisitions improved the performance of the focal firm's acquisitions. Further, job-specific experience was shown to improve entrepreneurs' venture management skills: entrepreneurs with prior venture experience had more financially successful current ventures (Dyke, Fischer, & Reuber, 1992; Stuart & Abetti, 1990).

Notwithstanding the aforementioned articles, the bulk of the literature on managerial human capital (see Reuber, 1997) shows that job-specific skills are hardly portable: managerial work is contextually dependent, and work requirements vary considerably depending on organizational type, structure, size, or industry. This makes the most effective managerial skills specific to particular contexts.

Further, Groysberg, Lee, and Nanda (2008) and Groysberg and Lee (2009) find that job-specific human capital is hard to transfer across employers even in jobs in which such human capital was considered transferable: these articles show that the job performance of stock analysts dropped after being poached by a different employer. In a related vein, numerous studies found a negative relationship between prior job-specific experience and performance. They argue that prior experience slows down learning in a new context because some knowledge and skills need to be "unlearned" before learning in the new context can take place (Morrison & Brantner, 1992). In addition, as individuals rely on experience from past events, they are more likely to follow templates and decision-making shortcuts, so it becomes harder for them to recognize information inconsistent with their current "knowledge corridor" and modify their decision-making mechanisms (Rerup, 2005). Empirical results confirm the

earlier ideas on "negative learning transfer": Entrepreneurs who were successful at a certain stage of the product life cycle with skills well adapted to that stage started to overestimate their skills. As they led ventures in other parts of the product life cycle or industry evolution, their overconfidence and their inability to take in disconfirming information, recognize changes, and modify their decision-making shortcuts led to failure: the cognitive mechanisms transferred from the previous job-specific experience debilitated performance in the new position (De Koning, 2003; Wright, Robbie, & Ennew, 1997).

Institutional rigidities may also decrease the job performance of those with prior experience (Dokko et al., 2009). These rigidities arise as a result of differences between the prior and current organizations in norms, standards, culture, and operations. Individuals well versed in the norms, culture, and routines of one organization may fail in another, because they may have developed fixed assumptions about how tasks should be done.

Compared to their peers with no job-specific experience, CEOs with prior CEO experience may be especially liable to the negative transfer of learning (i.e., their prior experience interfering with their performance in the current job). Most such CEOs had a successful performance record in their prior CEO job (CEOs with a bad performance record do not find new employment, or most commonly take the helm of organizations one-tenth of the size of their previous employer; Fee & Hadlock, 2004). CEOs who were successful in their last CEO job are likely to replicate actions that worked well before, even if their circumstances change. Further, CEOs with prior experience are often hired precisely to replicate their past success in a particular task (e.g., successfully selling a division or managing a merger or acquisition). Since, however, the context of their new job is different from the previous one and the actions that led to success in the old context may not

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lead to success in the new one, their performance in the new context may suffer. To sum up, prior CEOs may also be less successful in their current job because their stock of job-specific experience may not help, but rather, interfere with their performance in the new job. In line with this, we propose that job-specific experience is negatively related to CEOs' post-succession performance. To tease out the factors that drive prior CEOs' lower post-succession performance, we control for firms' pre-succession performance and the insider vs. outsider status of the CEO.

*Hypothesis 3: CEOs with prior CEO experience are associated with lower post-succession firm performance than CEOs without such experience.*

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CEOs who directly move from their prior CEO post to the new one may be the most likely to rely on the knowledge and skills acquired in their past job, which may hinder their performance in the new CEO position.

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Next we look at various facets of the succession event (CEO-to-CEO direct vs. indirect moves) and of CEOs' past job-specific experience (the type of company and industry in which the experience was gained).

#### *CEO-to-CEO Direct Moves*

Experience has a "shelf life" (Reuber, 1997): knowledge, skills, and abilities deteriorate over time if they are not reinforced. C. D. Bailey (1989) showed that 71 percent of the variance in forgetting a task was explained by the time that elapsed between mastering

the task and the test. If knowledge and skills deteriorate over time, then this implies that individuals are less likely to act upon the knowledge, skills, and abilities that were acquired in the past than upon those that have been acquired more recently, and the less likely it is that cognitive liabilities will damage their current performance (Dokko et al., 2009). This line of research suggests that CEOs who take another, different position between their previous and current CEO jobs are the least likely to be influenced by the cognitive liabilities of their prior CEO experience. At the same time, CEOs who

directly move from their prior CEO post to the new one may be the most likely to rely on the knowledge and skills acquired in their past job, which may hinder their performance in the new CEO position.

*Hypothesis 4: CEOs who move directly from their prior CEO post to the new CEO position are associated with lower post-succession firm performance than those CEOs who hold another job in between and those without prior CEO experience.*

#### *The Relatedness of CEOs' Prior Job-Specific Experience With the Current Job*

Job experience gained in similar situations may be valuable because it speeds up decision making (Finkelstein & Halebian, 2002). An apparent similarity in contexts that is mentioned in the literature is size (Finkelstein & Halebian, 2002), because similar-sized organizations present the same degree of managerial complexity. Another apparent similarity involves being in the same or related industries or industry segments. Consistent with this, in the presence of a large number of industry peers, organizations tend to resort to hiring outsiders with industry-specific experience (Schnatterly & Johnson, 2008). Such successors know the competitive environment and possess industry-specific skills, so they face a less steep learning curve in their new position (Schnatterly & Johnson, 2008; Zhang & Rajagopalan, 2003). The only exception may be when boards recruit an industry outsider or an executive with experience in a firm different from the focal one in an effort to change the strategic direction of the firm.

Yet the literature on learning transfer points out that related knowledge needs to be unlearned before new learning can take place. Learning in a new position was shown to be more rapid when the learning that occurred in the immediately prior experience did not conflict with the knowledge, skills, and abilities required by the new position (Morrison & Brantner, 1992). Moreover, superficial similarities may make an individual less thoughtful about how prior experience is relevant in

a new context. Organizations have different values and norms and use different operating standards, which can make two contexts different under the surface, so that the individual reacts inappropriately (Finkelstein & Halebian, 2002). Organizations that are of similar size or are in the same industry have surface similarities but can also have important operational and cultural differences (Dokko et al., 2009). Schollhammer (1991), for example, found that the number of ventures that an entrepreneur had started in the same or a closely related industry related positively to the failure probability of the entrepreneur's current venture, while new ventures that were unrelated to prior efforts were more successful. These arguments lead us to these hypotheses:

*Hypothesis 5: CEOs with experience in a similar-sized organization are associated with lower post-succession firm performance than those with experience in an organization of a different size and those without prior CEO experience.*

*Hypothesis 6: CEOs with prior CEO experience in the same industry are associated with lower post-succession firm performance than those with experience in a different industry and those without prior CEO experience.*

## Method

### Sample

We sampled the CEOs of the 2005 Standard & Poor's 500 companies, the largest 500 publicly held companies that trade on the NYSE or on NASDAQ. We obtained background information on each corporation from the Orbis and Compustat databases.

We collected the name of the CEO, as of 2005, from the Hoover's International online database. We identified 501 CEOs, since one company had co-CEOs. We obtained biographical data on each CEO from Spencer Stuart, one of the world's largest executive search firms. For each CEO, we have information on gender, year of birth, career history (including the names of all employing organizations and the start and end dates of jobs

at each organization), the job functions in which the executive worked throughout his or her career, and the year of appointment to the CEO position.

For prior CEO experience, we collected data on the start and end dates of each CEO experience, as well as the name of the company. We obtained these data from several resources, including Hoover's International, Marquis's Who's Who, and publicly available online sources such as company websites and [www.zoominfo.com](http://www.zoominfo.com). When none of these sources mentioned prior CEO experience, we concluded that the CEO did not have such experience. We collected financial and industry information on the companies where CEOs held their prior CEO position from the Orbis and Compustat databases.

### Measures

We calculated the *post-succession firm performance* by summing the standardized values of two commonly used operational performance indicators (e.g., Geletkanycz & Boyd, 2011; Karaevli, 2007; Zhang, 2008): industry-adjusted return on assets (ROA) and industry-adjusted return on sales (ROS) for three years (average value) following the succession. A similar composite performance measure was used in previous studies (e.g., Karaevli, 2007). We use an accounting-based measure rather than a market-based one because our focus is the operational performance of the firm rather than its perception by the financial markets. In the succession literature (e.g., Geletkanycz & Boyd, 2011; Zhang, 2008; Zhang & Rajagopalan, 2004) as well as the top management team literature (e.g., Payne, Benson, & Finegold, 2009; Yoo, Reed, Shin, & Lemak, 2009), ROA and ROS have been the most commonly used measures of performance, because—unlike market-based measures—they are more directly influenced by the management of the firm (Hambrick & Finkelstein, 1995). Taking three-year averages eliminates the abnormalities associated with

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a single year's performance (Carpenter & Sanders, 2002).

*Prior CEO* is a dummy variable. It indicates CEOs who held at least one CEO position at a different company before their current position. *Outsider* is a binary variable that signifies executives who have less than one year of tenure with the focal firm when they assume the CEO position (Naveen, 2006).

*Direct move from prior CEO* refers to those CEOs who directly moved from a CEO position to their current CEO position. *Indirect move from prior CEO* indicates those who held a position (e.g., the COO position at the new organization) between their last previous CEO position and their current position.

*Similar-sized firms* is a dummy variable that signifies whether the CEO's prior CEO experience was in a company of roughly the same size as their current one. To compare the size of the two firms, we computed the absolute value of  $\ln(\text{total sales of the prior firm}) - \ln(\text{total sales of the current firm})$ . Information on the total annual sales of the prior firm was captured in the final year of the prior CEO position, and information on the sales of the current firm in the year of the CEO's appointment. For cases where the size difference between two companies was below the median (1.43), we coded the dummy variable *similar-sized firms* as 1. For those where the difference was above the median, we coded the dummy variable *different-sized firms* as 1. Our choice of dummy variables to measure the size difference between two firms was also influenced by the fact that we were unable to find information on the exact sales amount for some prior firms. A detailed examination revealed that a majority of those firms were start-ups or small or medium-sized family firms, while only a few of them were large firms (although they have never been listed as an S&P 500 company). Therefore, we coded those observations as *different-sized firms* as well.

The dummy variables *same industry—prior CEO* and *different industry—prior CEO* indicate whether the CEO's prior experience was in a related industry. *Different industry—prior CEO* indicates that there is no match between the first two digits (i.e., industry group) of the

Standard Industrial Classification (SIC) code of any of the previous companies where the individual served as CEO and the first two digits of the SIC code of the current company; *same industry—prior CEO* indicates at least a two-digit match.

### Control Variables

*Age* indicates the age of the CEO in 2005. *Tenure as CEO* indicates the number of years that the CEO had spent in the CEO job as of 2005. *Years of education* signifies the number of years of education that the executive had (high school education signifies 12 years of education, a bachelor's degree 16 years, a master's 18 years, and a PhD 20 years).

For *functional background*, we created four dummy variables that represent the job function in which the CEO's started their career (cf. Finkelstein, 1992): *output functions* (sales, marketing, product R&D), *throughput functions* (operations, process R&D), *administrative functions* (omitted category; includes finance and administration), and *other functions* (law, consulting, academia, etc.).

Industry was approximated with eight dummy variables, as in previous studies (e.g., Koyuncu, Firfiray, Claes, & Hamori, 2010): agriculture, mining, construction, manufacturing (omitted), transportation and utilities, financial services, retail and wholesale, and other services.

*Organization size* is the natural logarithm of the total annual sales of the organization (cf. Koyuncu et al., 2010; Shen & Cannella, 2002) in 2005.

*Pre-succession firm performance* is calculated in the same way as post-succession firm performance, by summing the standardized values of the firm's industry-adjusted ROA and industry-adjusted ROS for the three years (average value) before the succession. This variable is especially important, because past performance differences that are not caught by other control variables may continue to affect post-succession firm performance (Glebbeeck & Bax, 2004). Moreover, inclusion of the pre-succession firm performance also serves to control for the potential threat of "regression-to-the-mean" effect (Karaevli, 2007; Shen & Cannella, 2002).



## Analyses and Results

Table I presents the means, standard deviations, and bivariate correlations of the key variables in the analysis.

The average CEO is 56 years old and had been in the CEO position for about seven years as of 2005. Female CEOs constitute only 1.4 percent of our sample. Of the 501 CEOs, 19.6 percent have at least one prior CEO experience; 15.8 percent have prior CEO experience in the same industry, while 3.8 percent have experience in a different industry. Slightly more than 11 percent of CEOs were transferred directly from another CEO job. Among the CEOs with prior CEO experience, 30 percent had their previous experience in a similar-sized firm, while 70 percent had it in a different-sized firm.

*Post-succession firm performance* is negatively related to *prior CEO*, and with *direct move from prior CEO, similar-sized firms, and same industry—prior CEO*. At the same time, the correlation between *outsider* and *post-succession firm performance* is not significant. In addition, contrary to the argument that companies with performance problems are more likely to appoint prior CEOs, the correlation between *pre-succession firm performance* and *prior CEO* is not significant either.

The independent variables are strongly correlated because all non-zero values represent the existence of prior CEO experience, while the majority of the zero values represent CEOs without such experience. In order to prevent the possible problems with highly correlated independent variables, we tested each hypothesis in a different model. Further, we made sure that different aspects of prior CEO experience in the different models were not directly related to each other: we checked the correlation among our independent variables excluding the CEOs without prior CEO experience. In this restricted sample, none of the variables were correlated (see Table II).

Hypothesis 1 argues that firms that appoint prior CEOs to the CEO position have lower pre-succession performance than other organizations. To test this hypothesis, we compared the pre-succession performance of the two types of firms with means comparison

tests (*t*-tests) and found no significant differences in the pre-succession performance of these two types of firms. Next, we ran logistic regressions with the dependent variable *prior CEO*. The results are shown in Table III. The control variables were entered in Model 1. In Model 2, the coefficient for *pre-succession firm performance* is not significant, so there is no support for Hypothesis 1. The assumption that prior CEOs see worse post-succession performance than their peers without prior CEO experience because they take charge of underperforming organizations may therefore be ruled out.

We ran ordinary least squares (OLS) regressions to test Hypotheses 2 to 6. The results are shown in Table IV.

We entered the control variables in Model 1. Compared to the *administrative job functions* (finance and administration), CEOs who started their career in *throughput functions* (operations, process R&D) show better post-succession performance (*throughput functions*,  $\beta = 0.278$ ,  $p < .1$ ). *Organization size* is negatively related to *post-succession firm performance* ( $\beta = -0.145$ ,  $p < .01$ ). Also, *pre-succession firm performance* ( $\beta = 0.407$ ,  $p < .001$ ) is positively related to *post-succession firm performance*.

Hypothesis 2 states that CEOs who are hired from the outside are associated with lower post-succession firm performance than insiders. In Model 2, we entered the *outsider* variable and found no significant effect of CEOs' outsider origin on *post-succession firm performance* ( $\beta = -0.132$ , n.s.), which fails to support Hypothesis 2. This result implies that CEOs' outsider status alone does not explain post-succession performance differences.

Hypothesis 3 states that CEOs with prior CEO experience are more associated with lower post-succession firm performance than CEOs without such experience. Model 3 in Table IV reveals that *prior CEO* is negatively related to *post-succession firm performance* ( $\beta = -0.334$ ,  $p < .1$ ), providing marginal support for Hypothesis 3. Model 3 controls for *pre-succession firm performance* and *outsider* status. The marginally significant negative coefficient for *prior CEO* therefore implies that it is CEOs' prior job experience that interferes with their performance at the new organization.

**T A B L E I Descriptive Statistics and Correlations**

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
1. Post-succession firm performance	0.00	1.56											
2. Prior CEO	0.20	0.40	-.11*										
3. Outsider	0.25	0.43	-.03	.32***									
4. Pre-succession firm performance	0.00	1.74	.45***	.03	-.04								
5. Direct move from prior CEO	0.11	0.32	.11*	.73***	.38***	-.02							
6. Indirect move from prior CEO	0.08	0.27	-.03	.61***	.02	-.02	-.11*						
7. Similar-sized firms	0.06	0.24	-.14**	.51***	.23***	-.03	.41***	.26***					
8. Different-sized firms	0.14	0.34	-.03	.80***	.21***	-.01	.56***	.52***	-.10*				
9. Same industry—Prior CEO	0.16	0.36	-.11*	.88***	.24***	-.04	.62***	.55***	.47***	.69***			
10. Different industry—Prior CEO	0.04	0.19	-.02	.40***	.20***	.02	.32***	.21***	.17***	.35***	-.09†		
11. Age	56.59	6.96	.00	.09†	.02	-.01	.09†	.03	.09*	.04	.12**	-.04	
12. Years of education	17.37	1.59	-.03	-.02	-.01	-.06	-.01	-.02	.06	-.06	-.01	-.01	.07
13. Tenure as CEO	7.45	6.66	.04	-.10*	.04	.03	-.03	-.11*	-.07	-.07	-.07	-.07	.43***
14. Output function	0.21	0.40	.07	-.08†	-.01	.08†	-.10	.01	-.07	-.04	-.07	-.02	-.13**
15. Throughput function	0.30	0.46	.02*	.01	.10*	-.05	.01	.00	.02	.00	.03	-.04	-.06
16. Administrative function	0.23	0.42	-.11	.06	-.02	-.04	.08†	-.01	.06	.02	.07	-.01	-.01
17. Other function	0.13	0.33	.02	.07	-.07	.04	.07	.02	.05	.04	.00	.14**	.13**
18. Industry: Agriculture	0.02	0.15	-.01	.03	.04	-.02	.03	.01	-.04	.06	.05	-.03	.05
19. Industry: Mining	0.06	0.24	-.03	-.03	-.04	.01	-.04	.01	-.03	-.01	-.07	.08†	-.05
20. Industry: Construction	0.01	0.11	.04	.08†	.02	.03	.08†	.03	.05	.06	.10*	-.02	-.04
21. Industry: Manufacturing	0.42	0.49	.07	-.15**	-.01	.06	-.11*	-.08†	-.10*	-.10*	-.15*	-.02	-.05
22. Industry: Transportation and utilities	0.14	0.34	.06	.07	.00	.04	.00	.09*	.10*	.01	.05	.04	.01
23. Industry: Financial services	0.16	0.36	-.05†	.01	.00	.02	.00	.01	-.04	.04	.06	-.09†	.03
24. Industry: Retail and wholesale	0.05	0.21	-.08	.05	.00	-.01	.10*	-.03	.10*	-.01	.03	.05	-.01
25. Industry: Other services	0.14	0.35	-.04*	.07†	.01	-.13*	.09*	.00	.04	.06	.08†	.01	.06
26. Organization size	8.85	1.19	-.11	.10*	-.13*	.02	.09*	.04	.05	.08†	.10*	.02	.10*

**T A B L E I** Descriptive Statistics and Correlations (Continued)

Variable	12	13	14	15	16	17	18	19	20	21	22	23	24	25
1. Post-succession firm performance														
2. Prior CEO														
3. Outsider														
4. Pre-succession firm performance														
5. Direct move from prior CEO														
6. Indirect move from prior CEO														
7. Similar-sized firms														
8. Different-sized firms														
9. Same industry—Prior CEO														
10. Different industry—Prior CEO														
11. Age														
12. Years of education														
13. Tenure as CEO	-.09 <sup>†</sup>													
14. Output function	-.14 <sup>**</sup>	-.09 <sup>†</sup>												
15. Throughput function	.00	-.09 <sup>*</sup>	-.33 <sup>***</sup>											
16. Administrative function	.05	-.08 <sup>†</sup>	-.28 <sup>***</sup>	-.35 <sup>***</sup>										
17. Other function	.19 <sup>***</sup>	.03	-.19 <sup>***</sup>	-.25 <sup>***</sup>	-.21 <sup>***</sup>									
18. Industry: Agriculture	.02	.07	-.01	-.01	.08 <sup>†</sup>	-.06								
19. Industry: Mining	-.11 <sup>*</sup>	.05	-.01	-.01	.03	-.08 <sup>†</sup>	-.04							
20. Industry: Construction	.02	-.05	-.06	-.03	.03	.07	-.02	-.03						
21. Industry: Manufacturing	.05	-.01	.03	-.04	-.03	.11 <sup>*</sup>	-.13 <sup>*</sup>	-.22 <sup>*</sup>	-.09 <sup>*</sup>					
22. Industry: Transportation and utilities	-.01	-.01	.01	.01	.02	-.03	-.06	-.10 <sup>*</sup>	-.04	-.34 <sup>***</sup>				
23. Industry: Financial services	.01	-.01	.07	-.03	-.04	.00	-.06	-.11 <sup>*</sup>	-.05	-.37 <sup>***</sup>	-.17 <sup>***</sup>			
24. Industry: Retail and wholesale	-.01	.03	-.04	.08 <sup>†</sup>	-.03	-.06	-.03	-.06	-.02	-.19 <sup>***</sup>	-.09 <sup>*</sup>	-.10 <sup>*</sup>		
25. Industry: Other services	-.02	-.03	-.07	.05	.01	-.04	-.06	-.11 <sup>*</sup>	-.04	-.35 <sup>***</sup>	-.16 <sup>**</sup>	-.17 <sup>***</sup>	-.09 <sup>*</sup>	
26. Organization size	.02	-.06	-.03	.01	.04	.02	.04	-.05	-.02	-.20 <sup>***</sup>	.04	-.18 <sup>***</sup>	.11 <sup>*</sup>	.02

Notes: N = 501.

\*\*\*p < .001, \*\*p < .01, \*p < .05, †p < .1.

**TABLE II** Descriptive Statistics and Correlations (Restricted Sample: CEOs With Prior CEO Experience)

	Mean	SD	1	2	3	4	5
1. Direct move from prior CEO	0.58	0.50					
2. Indirect move from prior CEO	0.42	0.50	−1.00***				
3. Similar-sized firms	0.31	0.46	.07	−.07			
4. Different-sized firms	0.69	0.46	−.07	.07	−1.00***		
5. Same industry—Prior CEO	0.81	0.40	−.05	.05	.05	−.05	
6. Different industry—Prior CEO	0.19	0.40	.05	−.05	−.05	.05	−1.00***

Notes:  $N = 98$ .\*\*\* $p < .001$ , \*\* $p < .01$ , \* $p < .05$ , † $p < .1$ .**TABLE III** Logistic Regression Results: DV = Prior CEO

	Model 1		Model 2	
(Constant)	−5.522**	(2.048)	−5.517**	(2.049)
Age	.055*	(.021)	.055*	(.021)
Years of education	−.101	(.083)	−.102	(.083)
Tenure as CEO	−.085***	(.025)	−.085***	(.025)
Outsider	1.921***	(.273)	1.921***	(.273)
Output function	−.543	(.388)	−.540	(.388)
Throughput function	−.267	(.312)	−.267	(.312)
Other function	.616	(.396)	.619	(.397)
Industry: Agriculture	.895	(.822)	.891	(.823)
Industry: Mining	.601	(.576)	.600	(.576)
Industry: Construction	1.826†	(.966)	1.830†	(.967)
Industry: Transportation and utilities	.945*	(.383)	.944*	(.383)
Industry: Financial services	.482	(.392)	.480	(.393)
Industry: Retail and wholesale	1.140*	(.559)	1.139*	(.559)
Industry: Other services	.828*	(.384)	.821*	(.388)
Organization size	.254*	(.115)	.255*	(.115)
Pre-succession firm performance			−.007	(.059)
Pseudo $R$ -square		0.18		0.18
$\chi^2$		90.72***		90.73***

Notes: Values in parentheses are standard errors.

 $N = 501$ .\*\*\* $p < .001$ , \*\* $p < .01$ , \* $p < .05$ , † $p < .1$ .

In Models 4, 5, and 6, we test the role of different facets of the succession event and of CEOs' past job-specific experience to check whether the different facets of prior CEO experience influence post-succession performance outcomes differently. Models 4, 5, and 6 in Table IV compare the performance outcomes associated with three different groups

of CEOs: two groups with prior CEO experience (classified based on the succession event or the context of the prior experience) and one group without prior CEO experience.

Hypothesis 4 argues that CEOs who move directly from their prior CEO post to the new CEO position are associated with lower post-succession firm performance than those



**T A B L E I V Regression Results: DV= Post-succession Firm Performance**

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
(Constant)	1.036 (.962)	-1.110 (.966)	1.016 (.964)	.991 (.965)	.819 (.964)	.996 (.966)
Age	.003 (.010)	.003 (.010)	.005 (.010)	.005 (.010)	.007 (.010)	.006 (.010)
Years of education	-.004 (.041)	-.005 (.041)	-.010 (.041)	-.010 (.041)	-.004 (.040)	-.009 (.041)
Tenure as CEO	.007 (.011)	.007 (.011)	.004 (.011)	.004 (.011)	.003 (.011)	.004 (.011)
Output function	.260 (.175)	.262 (.175)	.241 (.175)	.232 (.176)	.237 (.174)	.240 (.175)
Throughput function	.278 <sup>†</sup> (.155)	.290 <sup>†</sup> (.155)	.278 <sup>†</sup> (.155)	.274 <sup>†</sup> (.155)	.278 <sup>†</sup> (.154)	.280 <sup>†</sup> (.155)
Other function	.132 (.207)	.126 (.207)	.156 (.207)	.162 (.208)	.163 (.206)	.142 (.210)
Industry: Agriculture	.050 (.434)	.067 (.434)	.107 (.433)	.110 (.433)	.050 (.432)	.114 (.434)
Industry: Mining	-.268 (.267)	-.276 (.267)	-.255 (.266)	-.259 (.266)	-.252 (.265)	-.266 (.268)
Industry: Construction	.475 (.577)	.491 (.578)	.591 (.579)	.602 (.579)	.606 (.576)	.611 (.581)
Industry: Transportation and utilities	.139 (.195)	.142 (.195)	.183 (.196)	.176 (.196)	.217 (.196)	.182 (.196)
Industry: Financial services	-.172 (.189)	-.167 (.189)	-.150 (.189)	-.150 (.189)	-.162 (.188)	-.143 (.190)
Industry: Retail and wholesale	-.453 (.305)	-.449 (.305)	-.398 (.305)	-.377 (.306)	-.332 (.305)	-.403 (.306)
Industry: Other services	.039 (.194)	.040 (.194)	.078 (.195)	.086 (.195)	.084 (.194)	.079 (.195)
Organization size	-.145 <sup>**</sup> (.055)	-.152 <sup>**</sup> (.055)	-.141 <sup>*</sup> (.055)	-.138 <sup>*</sup> (.056)	-.142 <sup>*</sup> (.055)	-.142 <sup>*</sup> (.055)
Pre-succession firm performance	.407 <sup>***</sup> (.036)	.406 <sup>***</sup> (.036)	.406 <sup>***</sup> (.036)	.407 <sup>***</sup> (.036)	.405 <sup>***</sup> (.036)	.406 <sup>***</sup> (.036)
Outsider		-.132 (.147)	-.029 (.172)	.004 (.161)	.004 (.156)	-.037 (.157)
Prior CEO			-.334 <sup>†</sup> (.156)			
Direct move from prior CEO				-.452 <sup>*</sup> (.222)		
Indirect move from prior CEO				-.203 (.232)		
Similar-sized firms					-.850 <sup>**</sup> (.281)	
Different-sized firms					-.136 (.192)	
Same industry—Prior CEO						-.364 <sup>*</sup> (.184)
Different industry—Prior CEO						-.198 (.346)
Adjusted R-square	0.21	0.21	0.22	0.22	0.22	0.22
F-value	10.06 <sup>***</sup>	9.48 <sup>***</sup>	9.19 <sup>***</sup>	8.72 <sup>***</sup>	9.06 <sup>***</sup>	8.68 <sup>***</sup>

Notes: Values in parentheses are standard errors.

N = 501.

\*\*\* p < .001, \*\* p < .01, \* p < .05, † p < .1.

CEOs who hold another job in between and those without prior CEO experience. To test this hypothesis, in Model 4 we entered the two binary variables that represent the two different groups of CEOs with prior CEO experience: those who made a direct move from their previous organization (*direct move from prior CEO*) and those who held a different type of job (e.g., the COO post of the new firm; *indirect move from prior CEO*) in between. The omitted comparison group was CEOs without prior CEO experience. Model 4 shows that CEOs who moved directly from their prior CEO position have significantly lower post-succession performance in comparison to those without CEO experience ( $\beta = -0.452, p < .05$ ), while the ones who held other jobs between their prior CEO position and the current one show no performance difference from those without prior CEO experience.

In addition, to compare the different groups of CEOs with prior CEO experience, we also ran the models in a restricted sample that included only those with prior CEO experience ( $n = 98$ ). The results are shown in Table V. To compare prior CEOs who moved directly between the two CEO positions to those who had other jobs between the two CEO positions, in Model 2 we entered *direct move from prior CEO* (*indirect move from prior CEO* is omitted) and found no significant difference between these two groups. Overall, the results in Tables IV and V provide partial support for Hypothesis 4: there is a significant post-succession performance difference between those CEOs who move directly across CEO jobs and those without CEO experience, but we do not see any statistically significant performance difference between those who moved directly and those with a job in between.

Hypothesis 5 claims that CEOs who previously led a similar-sized organization are associated with lower post-succession performance than those at the helm of different-sized organizations as well as those without prior CEO experience. Our findings from Model 5 in Table IV show that compared to CEOs with no prior CEO experience (the omitted group), previous CEO experience in

a similar-sized firm is negatively associated with post-succession performance ( $\beta = -0.850, p < .01$ ), while experience in a different-sized firm has no relationship with post-succession firm performance. Also, as can be seen in the analyses in the restricted sample (Model 3 in Table V), CEOs with experience in similar-sized firms had significantly lower post-succession performance than the ones who previously led different-sized firms (*similar-sized firms*,  $\beta = -0.739, p < .05$ ). These results provide full support for Hypothesis 5.

Hypothesis 6 states that CEOs with prior experience in the same industry are associated with lower post-succession firm performance than those with experience in a different industry and those without prior CEO experience. Model 6 in Table IV shows that in comparison to CEOs without prior CEO experience (the omitted category), those with prior CEO experience in the same industry indeed are associated with lower post-succession firm performance ( $\beta = -0.364, p < .05$ ), while the ones with prior CEO experience in a different industry do not suffer any performance disadvantage compared to the omitted group. However, as Model 4 in Table V reveals, when we compare the two groups of prior CEOs in the restricted sample, we do not find a statistically significant difference between prior CEOs who had their prior experience in the same industry and the ones who had that experience in a different industry (the omitted group). Our findings therefore provide partial support for Hypothesis 6: CEOs with prior experience in the same industry indeed show performance differences from those with no prior CEO experience, but there are no statistically significant differences between those with experience in the same and those with experience in a different industry.

Finally, as a robustness check, Model 5 in Table V enters all the key independent variables together. The results remain the same.

### *Endogeneity Analysis and Robustness Checks*

To control for the potential endogeneity problem associated with our independent

**TABLE V** Regression Results: DV= Post-succession Firm Performance (Restricted Sample: CEOs With Prior CEO Experience)

	Model 1	Model 2	Model 3	Model 4	Model 5
(Constant)	2.377 (1.956)	2.424 (1.950)	1.452 (1.922)	2.334 (1.977)	1.368 (1.935)
Age	-.005 (.020)	-.007 (.020)	.003 (.019)	-.005 (.020)	.000 (.020)
Years of education	-.051 (.082)	-.054 (.082)	-.014 (.081)	-.052 (.083)	-.016 (.081)
Tenure as CEO	.025 (.029)	.030 (.029)	.016 (.028)	.025 (.029)	.021 (.028)
Output function	-.185 (.425)	-.268 (.429)	-.219 (.411)	-.176 (.430)	-.282 (.418)
Throughput function	.248 (.324)	.236 (.323)	.300 (.314)	.243 (.327)	.277 (.314)
Other function	.486 (.386)	.514 (.385)	.509 (.373)	.508 (.401)	.593 (.386)
Industry: Agriculture	.460 (.770)	.455 (.767)	.214 (.750)	.447 (.777)	.170 (.752)
Industry: Mining	.031 (.611)	.034 (.609)	-.024 (.591)	.063 (.632)	.106 (.607)
Industry: Construction	.531 (.752)	.567 (.750)	.563 (.726)	.513 (.761)	.557 (.731)
Industry: Transportation and utilities	.094 (.379)	.080 (.378)	.250 (.371)	.089 (.382)	.227 (.372)
Industry: Financial services	-.541 (.431)	-.538 (.430)	-.600 (.417)	-.564 (.446)	-.655 (.430)
Industry: Retail and wholesale	-.456 (.527)	-.358 (.531)	-.250 (.515)	-.453 (.530)	-.134 (.522)
Industry: Other services	.177 (.399)	.217 (.399)	.202 (.386)	.173 (.402)	.232 (.387)
Organization size	-.180 (.123)	-.159 (.124)	-.180 (.119)	-.179 (.124)	-.155 (.120)
Pre-succession firm performance	.600*** (.128)	.589*** (.128)	.578*** (.124)	.600*** (.129)	.565*** (.125)
Outsider	-.188 (.257)	-.032 (.285)	-.063 (.253)	-.173 (.267)	.139 (.290)
Direct move from prior CEO		-.364 (.293)			-.379 (.284)
Similar-sized firms			-.739* (.283)		-.761** (.284)
Same industry—Prior CEO				.080 (.366)	.195 (.353)
Adjusted R-square	0.27	0.28	0.32	0.27	0.32
F-value	3.29***	3.20***	3.72***	3.06***	3.43***

Notes: Values in parentheses are standard errors.  
*N* = 98.  
 \*\*\*  $p < .001$ , \*\*  $p < .01$ , \*  $p < .05$ .

variable (i.e., *prior CEO*), we performed two-stage least squares estimations (2SLS) using the following instruments: number of years that the CEO spent in the current company before the succession event (normalized using the logarithmic transformation:  $\log[x + 1]$ ) and the number of companies that each CEO worked for during his or her entire career. The first-stage *F*-statistic of the 2SLS regression had a value of 11.06, which exceeded the threshold that Stock and Yogo (2004) provided. Hence, we can say that our instruments are strong. This statistic is particularly

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*This article is the first to provide an in-depth analysis of the effect of CEOs' prior job-specific experience on the post-succession performance of their organization. We find that CEO experience is negatively related to post-succession firm performance.*

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appealing in our study, because it “adjusts for the number of instruments and endogenous regressors, and is conservative when there are more instruments than endogenous regressors” (Bascle, 2008, p. 296). The second-stage results of the 2SLS regression confirmed the robustness of our findings, as *prior CEO* (which was replaced by the fitted values of the instruments) had a significant negative relationship with *post-succession firm performance*.

A possible explanation for the negative relationship between *prior CEO* and *post-succession firm performance* was that firms that chose executives with prior CEO experience might have had pre-succession performance problems. Even though our tests of Hypothesis 1 ruled out this possibility, we did some additional analyses and tested the relationship between *pre-succession debt/*

*equity ratio* of the firm and the likelihood of selecting a prior CEO. The results from logistic regression analyses showed no significant effect of pre-succession debt/equity ratio on the likelihood of selecting a prior CEO, confirming the robustness of our findings.

In order to account for the possibility that the CEO's appointment date (year of appointment) might influence the results, we replaced our continuous variable *tenure as CEO*, which indicated the number of years that the CEO had spent in the CEO position

as of 2005, with year dummies representing each appointment year. Our results remained the same in the alternative analyses.

Testing Hypothesis 5 required us to compare the size of the CEOs' current and former company. We computed the differences in the companies' size from total annual sales figures. Alternatively, we calculated the differences from total annual assets, which did not change the results.

We also checked whether there were any outliers that accounted for the significant negative relationship between prior CEO experience and post-succession performance. After removing the outliers, our results remained the same.

Finally, we ran additional analyses to address potential sampling bias. Among the CEOs in our sample, the ones who were appointed to their current posts before the late 1990s were less likely to have previous CEO experience, yet they were more likely to have successful post-succession periods, because they still held the CEO position in 2005. At the same time, most of the unsuccessful CEOs who were appointed in those years had already been replaced by 2005. To address this issue, we used an analysis of covariance (ANCOVA) model and tested the effect of a binned *tenure as CEO* variable (binned according to the number of observations, equally weighted: 1 if *tenure as CEO* is five years or lower, 2 otherwise). We also tested the same model using four years as the cutpoint. We could not identify any significant performance differences between more and less recently appointed CEOs.

## Discussion and Conclusions

This article is the first to provide an in-depth analysis of the effect of CEOs' prior job-specific experience on the post-succession performance of their organization. We find that CEO experience is negatively related to post-succession firm performance. CEOs who move directly to their new post or have job-specific experience in a similar-sized firm or a related industry show considerably lower post-succession performance than their peers without prior CEO experience, once at the



helm of their new firm. At the same time, CEOs whose job-specific experience is in a different context (different industry or different organization size) or who take another job between the two CEO positions do not show any post-succession performance differences from their peers without job-specific experience. These findings make important contributions to the literatures on CEO succession, job-specific experience, and the transferability of human capital.

We contribute to the literature on CEO succession by examining the post-succession performance consequences of hiring successors with job-specific experience, an issue not examined in depth in previous articles. Since currently 20 percent of CEOs have such experience (Karlsson & Neilson, 2009), this article guides research attention to an area of great practical relevance. Although two previous studies showed (Elsaid et al., 2011) or implied (Zhang, 2008) that there is a negative relationship between prior CEO experience and post-succession firm performance, our article is the first that explores why job experience harms performance. We eliminate the two possible reasons for the negative relationship between prior CEO experience and post-succession firm performance: pre-succession firm performance problems and the outsider status of the CEO. Our findings show that prior CEOs are associated with lower post-succession firm performance. Specifically, CEOs who directly move between CEO jobs and those whose experience comes from a related context fare considerably worse than their peers without job experience. These results support the arguments on “negative learning transfer”—namely, that past job experience harms performance in the current job and that CEOs need to “unlearn” much of the knowledge and skills to be able to work effectively in the changed context.

We find that companies that hire prior CEOs show no significant pre-succession performance differences from those that hire CEOs with no previous experience. Our results are different from Elsaid et al. (2011), who show that firms that hire an ex-CEO have a higher debt ratio a year before and

higher chances of bankruptcy three years before the succession event than those who hire non-CEOs. It needs to be added, however, that Elsaid et al. (2011) do not find any differences in terms of firms’ bankruptcy potential and debt ratio for two out of the three pre-succession years (Year 1, Year 2, Year 3). In addition, they find no differences in Tobin’s Q (i.e., the total market value of the firm divided by its total asset value). In sum, the differences between our results and those of Elsaid et al. (2011) are not substantial. These differences may exist because we look at three-year performance averages rather than year-by-year comparisons and—in line with previous succession studies—we use a different set of performance measures.

The article also contributes to the vast literature on the relationship between job-specific experience and job performance. This literature has mostly looked at blue-collar and low-complexity jobs, and at the impact of job-specific experience within the same context. It has relied mostly on supervisors’ perception to measure job performance. In contrast, we study one of the most complex jobs and analyze both similar and different contexts; also, we use an objective, publicly available measure of job performance, the financial performance of the corporation managed by the CEO. In addition, looking at CEOs ensures that the experience is truly job-specific, since CEO skills cannot be fully acquired in other, lower-level executive jobs. Our results contravene the bulk of the literature, which has argued that job-specific experience improves performance within the same context. Rather, our findings concur with the handful of articles that show a negative relationship between job experience and performance (Cormier & Hagman, 1987; Dokko et al., 2009; Groysberg et al., 2008; Morrison & Brantner, 1992).

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Our results also go against the common assumptions of human capital theory, which suggests that the experience-based investments that employees make in themselves enhance their job-related knowledge, skills, and abilities and boost job performance (Sturman, 2003). The results here show, however, that more human capital does not always lead to higher job performance. Rather, they suggest that job experience may also lead to the formation of “knowledge corridors” and decision-making templates that

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*We find that—at least, at the CEO level—transferring job-specific skills across organizations involves a performance penalty, and the effects are more severe when the move is direct from the previous CEO post to the new one and the more similar the two contexts are to each other.*

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make it difficult for individuals to take in inconsistent information or take actions that are different from past ones in a changed context. This, in turn, undermines performance. We find that CEOs have lower post-succession performance if they move directly from one CEO job to another, or if the job-related experience was gained in the same industry or in a similar-sized organization.

Finally, our results contribute to an important debate on the portability vs. context specificity of managerial human capital. In general, they lend support to the argument that managerial tasks are highly interdependent, unstandardized, and contextual: they vary considerably depending on the functional area, the management level, and the organizational attributes of the particular context, and they cannot be easily adapted from one job context to another (Reuber, 1997; Whitley, 1989). In contrast, Murphy and Zábajnik (2004, 2007) have argued

that in the past three decades there has been an increase in the relative importance of general managerial capital and a decrease in the importance of firm-specific managerial capital in the CEO job, enabling firms to rely increasingly on outside hiring. Outside hiring, they contend, forgoes firm-specific managerial capital but enables the firm to select from a larger pool of candidates, allowing a better person-organization match. Contrary

to these arguments, we find that—at least, at the CEO level—transferring job-specific skills across organizations involves a performance penalty, and the effects are more severe when the move is direct from the previous CEO post to the new one and the more similar the two contexts are to each other.

### *Managerial Implications*

Our analyses address an issue that is vital for boards, board selection committees, and hiring organizations. They show that in the first three years after succession, the average organization does not benefit from hiring a CEO with previous job-specific experience. In fact, our results are consistent with the experience of practitioners. When asked about the pitfalls of transitions, transition expert Michael Watkins considered the biggest trap that he has “seen new leaders fall into is to believe that they will continue [to] be successful by doing what has made them successful in the past. . . . Too often they fail to see that their new leadership role demands different skills and abilities. And so they fail to meet the adaptive challenge” (Watkins, 2012). In a related vein, when Archie Norman, the former CEO of the UK supermarket chain Asda, was asked for advice that he would give to other CEOs, he said that while “a lot of chief executives look very successful and are very successful in a company at a point in time [. . .], the real test is if you take that genius and put him in a totally different situation to succeed again.” He therefore advises CEOs to “be able to listen, able to understand, able to hear why the culture is totally different, [because] the behavior that worked where [the CEO] worked before may not work [at the new company]” (Tappin, 2012).

Since hiring organizations normally provide higher compensation to outsider CEOs than to insiders (Murphy & Zábajnik, 2004, 2007), the downsides of hiring outsiders with job-specific experience are even greater.

In CEO searches, a common criticism is that the board of directors and the executive search firm in charge of the assignment often “succumb to the usual suspects bias”

(Charan, 2005, p. 78)—namely, that in a search they just look for the most obvious candidates, those whose current position matches the position that the search firm is trying to fill, and do not take the risk of bringing in promising lower-level executives. In a CEO search, for example, search firms may look only at CEOs in other companies and shun a high-potential chief operating officer (COO) or executive vice president (EVP) (Charan, 2005; Khurana, 2001). Our results show that this approach may not offer benefits to organizations. They imply that boards of directors should be more careful about hiring a CEO of a different company to the top position of the focal firm, and give more attention to internal (e.g., relay) succession.

If boards do hire prior CEOs, they should have them in an interim position at the organization for at least a year before they take the CEO post. This allows them to acquire firm-specific human and social capital and, more importantly, to unlearn the knowledge and skills associated with their old job.

Further, hiring organizations should provide ample support to the integration of prior CEOs. One of the biggest problems faced by leaders who move to a new employer is that they assume that similar processes between two employers signify similar cultures, and they fail to adapt to the new company's ways of doing things (Watkins, 2007). While Watkins (2004) advises leaders to mentally promote themselves to the new position by making a psychological break between the old and the new jobs and to take a systematic approach to understanding the new firm's employees, products, structures, culture, and politics, organizations may also do more to help this transition. They need to pay more attention to their new leaders' "acculturation" (Watkins, 2007), an area that they traditionally shunned due to its hard-to-quantify nature. Specifically, they should evaluate and be explicit with the recruit about their culture and about the behaviors that they expect. Finally, they should have an executive integration plan that involves training for executives on how to move to a new organization, diagnose the company, and align strategy and skills (Ruef, 2008).

## Limitations and Future Directions

Like most research on CEO succession, ours relies on secondary data, the most feasible way to get information from a target population who would be unlikely to reply to surveys. Surveys or field observation, however, would allow us to measure the effect of intervening variables between prior CEO experience and firm performance (e.g., decision-making processes and actions taken), which we are unable to do here. This would also enable us to sort out the various causes of poor performance identified in the prior literature—distinguishing cognitive liabilities from institutional ones—and determine more fully why job-specific experience hurts performance in the new job (Dokko et al., 2009).

Second, our sample comes from the largest US firms. Since firm size is a key determinant of the CEO's managerial discretion (Hambrick & Finkelstein, 1987), the relationship between CEO experience and job performance may be more pronounced in small organizations, as they are less constrained by organizational inertia (Finkelstein & Hambrick, 1990; Miller, Kets de Vries, & Toulouse, 1982). Thus, future research should assess the generalizability of our findings to small and medium-sized firms, and those outside the United States, in institutional environments that allow for varying degrees of managerial discretion.

Like several other succession studies, ours follows CEOs up to three years after the succession but cannot tell whether the negative performance impact of prior CEO experience continues beyond this period.

With respect to prior CEOs' previous employers, we chose to focus on some of the most commonly studied organizational characteristics, such as organization size and industry affiliation, but did not look at other characteristics that may mask important

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*One of the biggest problems faced by leaders who move to a new employer is that they assume that similar processes between two employers signify similar cultures, and they fail to adapt to the new company's ways of doing things.*

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cultural and operational differences between two organizations, such as corporations' global presence (their foreign sales and assets as a percentage of their total sales and assets, etc.). Future researchers should also collect information on the financial performance of the prior firm managed by former CEOs to investigate whether the quality of CEOs' previous experience influences their performance on the new job.

Finally, we focused on CEOs' most recent prior CEO experience. This is because, despite the fact that the number of CEOs with prior CEO experience has exponentially grown in past years, our sample still did not contain enough CEOs with multiple prior CEO posts to do reliable statistical analyses. Therefore, an interesting new research avenue includes "serial CEOs"—chief executives with more than one prior

CEO experience—specifically, whether the variety of their job-specific experience helps them in their current job.

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## Note

1. The arguments here apply not only to CEOs, but also to lower-level executives and professionals. Bidwell (2011) finds that those promoted to a position from the inside perform significantly better in the initial two years of the job than those who were hired from the outside.

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