

EXECUTIVE SOCIAL CAPITAL AND CEO APPOINTMENTS

Forthcoming research in the *Strategic Management Journal* suggests that the strength of the relationship between an executive and the incumbent CEO can strongly influence the likelihood of an executive gaining future appointment as a CEO. The authors argue that social ties between executives reduce uncertainty in hiring decisions by highlighting shared experiences and demographic similarities. Further, such ties between candidates and the CEO should have stronger effects when the incumbent CEO has more power and company performance is strong.

Key Takeaways:

- Social capital ties between an executive and a CEO increase the likelihood of the executive's subsequent appointment as CEO.
- Geographic, employment, university affiliation, and board overlap ties all positively influence appointment, with more ties enhancing the likelihood of CEO appointment.
- Ties are particularly beneficial for appointment when the CEO has greater power and the company has performed well.

The researchers examined more than 6,000 CEO succession events in publicly traded companies in Japan for a 20 year period. Their results indicate that the likelihood of CEO appointment for a given candidate increases by 18% when the candidate shares a geographic tie to the CEO, 62% when a prior employment tie exists, 53% greater when there is a

prestigious university tie, and 18% greater when the tenure of the two executives overlaps by 8 years compared to the average tenure of 4 years. Further, an executive's likelihood of CEO appointment increases as he or she shares more ties with the incumbent CEO. Finally, greater ties between the two executives increase likelihood of CEO appointment when the CEO also serves as board chair and the firm's accounting performance has been strong compared to competitors.

In summary, the authors suggest that social capital between an executive CEO candidate and the incumbent CEO can reduce uncertainty and information asymmetry regarding the capabilities of a potential CEO. This provides greater confidence in the executive's ability to succeed as CEO and results in a greater likelihood of eventually being named CEO.

Source: Wiersema, M.F., Nishimura, Y., & Suzuki, K. 2018. Executive succession: The importance of social capital in CEO appointments. *Strategic Management Journal*, DOI: 10.1002/smj.2766.

