



OXFORD UNIVERSITY
**CENTRE FOR
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WORKING PAPERS SERIES

SERIES 4: SIGNALLING

THE COMMUNICATION ADVANTAGE: INVESTIGATING IMPACTS OF EXTERNAL STRATEGY COMMUNICATIONS

SERIES:10:402

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The communication advantage:

Investigating impacts of external strategy communications

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An earlier draft of this paper has been accepted by the Strategic Management Society early this year

Introduction

Organizations are increasingly undertaking external strategy communications and making significant investments in them. Furthermore, investors are paying more attention, when valuing a firm, to announcements regarding their strategy. Reasons behind this trend include general pressures for greater disclosure, investors' closer interaction with companies, increasing interest in the environmental and ethical implications of strategy and new technological opportunities such as corporate web-pages. Companies' careful execution of corporate communications is not a new phenomenon: surveys carried out nearly three decades ago reveal that over a quarter of listed companies were spending over 50 per cent of their total corporate communications budget on issues related to strategy (Higgins and Diffenbach, 1989). In the early 1990s, millions of corporate advertising dollars were invested by US companies hoping to enhance their strategic credibility (Higgins and Bannister, 1992).

Also, regulators are increasingly encouraging investors to focus more on strategy. Companies such as GE, GSK, and Unilever have even abandoned detailed earnings guidance in order to concentrate analysts' minds upon their longer term strategies (Financial Times, 7 May, 2009). Especially in the US and UK, public corporations frequently complain about how a prevailing focus on short-term earnings conflicts with the needs of longer-term strategy (Rapaport, 2006, Marston and Craven, 1998). However, if organizations want to manage stakeholder understandings, then it becomes the corporation's responsibility to win investor support even for long-term strategies. Educating investors and analysts on strategy is part of the senior management job. Indeed, investor relations departments and top managements are increasingly engaged in selling company strategies to financial analysts, albeit often with considerable difficulty (Laskins, 2006; Roberts et al, 2005). Part of this effort to win support for strategy is the increasing use of formal 'strategy presentations', 'strategy updates', 'strategy reviews', and 'strategy meetings' with analysts and investors, on top of financially-orientated events such as traditional earnings announcements or more closed meetings between analysts and top managers.

This study therefore focuses on corporate communications related to firms' strategy, i.e. announcements which indicate the firm's reliance on long term plans or expansion of the planning staff, and discussion about the firm's grand plans reflect specific cues indicating the firm's philosophy pertaining to its strategic direction. For the purposes of this research, we refer to these as 'external strategy communications'. We use event-study methodology to analyse the impact of strategy communications on share-prices, on the analogy of earnings announcements (e.g. Ball and Kothari, 1991; Vega, 2006). Here we cover a short range of

pre- and post-event windows (-2 and +2) and calculate cumulative abnormal returns for each company (MacKinlay, 1997; Kothari and Warner, 2007). Constructing hypotheses using information theory and voluntary disclosure, we construct an explanatory model which estimates cumulative abnormal returns for the variables new CEO, outsider new CEO, shareprice shock, and shareprice deviation. We control for regular announcements, industry, size, type of announcement, and whether the strategy communication had taken place before the crisis. Our purpose in constructing this explanatory model is to discover factors that prompt investors to react to external strategy communications and to discover under what circumstances an external strategy communication becomes critical to investors.

Theory and Hypotheses

Since the 1990s, there has been a growing interest among researchers and the industry towards qualitative forward-looking information (see for instance Epstein, Palepu, 1999; Francis, Shipper, 1999; Lev, Zarowin, 1999; Gibbins, Richardson, Waterhouse, 1990; Holland, 1999; Higgins, Diffenbach, 1985; Bowen, Davis, Matsumoto, 2002; Mazzola, Gnan, Scortichini, 2005). There are several reasons for this trend: First, there have been a number of important changes in the audit environment starting from the mid-1990s. Legal and organizational changes have limited auditors' liability for audit failures, and large audit firms made significant changes to their audit methodology. These new approaches involved focusing on a business audit rather than a transactions audit (Healy and Palepu, 2001). Firms therefore started engaging in practices that draw attention to the strategic aspects of their business in an attempt to establish credibility among their analyst and investor communities regarding their future direction. Also, there was a growing recognition among firms that above average profitability was no longer sufficient to earn a good reputation among financial analysts and institutional investors (Mazzola et al., 2006). Following the miseries of the financial market, firms quickly came to the realization that frequent strategy updates and follow-ups of strategic plans are as important as communicating above average profitability (Mazzola et al., 2006). Therefore, when traditional communication tools started to fall short of fully communicating the firm's future direction (Francis, Shipper, 1999; Lev, Zarowin, 1999), firms started making increased use of supplementary communication tools (Gibbins, Richardson, Waterhouse, 1990; Mazzola, Gnan, Scortichini, 2005). Furthermore, in relation to financial markets, strategy communications can have an integrative role (Langley, 1988; Higgins, Bannister, 1992; Mintzberg, 1994), can act as consensus catalysts inside and outside the company (Ketokivi, Castañer, 2004; Langley, 1988; Mintzberg, 1994), and are among the most important devices to disclose information about a company's intentions, action plans and expected results (Francis, Hanna and Philbrick, 1997).

A majority of the content in external strategy communications involve making decisions public. External strategy communications cover and discuss a wide range of topics (Francis, Hanna, and Philbrick, 1997) such as financial results, assumptions relating to the environmental framework, the description of strategic intentions and the steps the firm intends to take to achieve its goals, the planned research and development activities – investments. These communications may involve decisions that announce a current resource outflow and an uncertain payback. Therefore, external strategy communications may act in a way to increase uncertainty about the firm's future performance. In terms of predicting the direction of responses, we follow the assumption that strategy announcements and strategic planning go hand in hand. Therefore, a firm carries out a strategy announcement if it has a strategy-related updates (i.e. adjustments, revisions) and/or to outline future strategy (or demonstrate that the firm is following its previously outlined strategy). We also assume that

while strategic planning reduces the risk-complexion of the firm (Kudla, 1980), strategy announcements will act as ways in which shareholders cope with increasing economic, governmental, technological, and competitive risks surrounding their invested firms. In this sense, the perceived riskiness of these firms is different from what it was prior to strategy announcements. As a result, investors revise their return expectations when they receive information on a firm's strategic activities (Kudla, 1980). While this line of reasoning makes sense, the outcomes of previous related research signal that the real picture is more complicated. For instance, Kudla (1980) hypothesized that shareholders of strategic planning firms earned abnormal returns, while shareholders of nonstrategic planning firms did not earn abnormal returns and found that tests did not indicate significant differences between the returns earned by shareholders of planning firms and nonplanning firms. Furthermore, previous studies have not uncovered a consistent set of contingent factors that explain when a positive reaction to strategic planning or the communication of these plans occur, nor have they been able to demonstrate unified outcomes in terms of shareholder reactions (Friedman & Singh, 1989; Furtado & Rozeff, 1987; Lubatkin, Chung, Rogers, & Owers, 1986; Reinganum, 1989).

From the voluntary disclosure perspective, previous findings also send mixed messages as to whether or not strategy announcements have a significant impact on investors' reactions and regarding the direction of their responses. For instance, Bagnoli, Levine, and Watts (2005)'s research findings suggest that Corporate Information Events (CIEs) that focus on financial statements trigger greater analyst revision activity than CIEs that offer strategic or "soft" information. In fact, they found that over 95% of strategic CIEs do not trigger analyst commentaries. Greater analyst revision is likely to cause greater reaction from shareholders (according to the direction of their comments). Therefore, in the absence of, or comparatively low analyst revision for CIEs that contain strategic information, there will be comparatively lower movement coming from investors. In contrast to this, however, Amir and Lev (1996) report that voluntary disclosures that include soft or strategic information such as market population size and market penetration have a more significant relation to stock prices than required financial statement information because investors view such voluntary disclosures as credible.

Also, in a follow-up study, Bagnoli, Levine, and Watts (2005) examine investor response to various CIEs and their analyst revisions. They found that stock prices react most strongly and adjust most quickly to analyst revision clusters that accompany CIEs that focus on financial statement information. They state that CIEs that offer strategic information take longer for analysts and investors to assimilate, and investors appear to rely heavily on later analyst revisions following such events. In line with this finding, then, strategy announcements are inferior to financial announcements in terms of causing investor reaction, or that they will be associated with delayed responses since investors will be waiting for the analysts to publish evaluations. Furthermore, Mazzola et al. (2006) state that their results pointed out at the relevance of corporate leadership, governance mechanisms and corporate communication along with financial performance in driving analysts' evaluations. Analysts' evaluations are, in turn, likely to drive a stronger reaction from investors in comparison to when there is no analyst evaluation. Therefore, since strategy communications is a type of corporate communication, they should be influential in attracting investor reaction.

We therefore suggest:

Hypothesis 1: *There will no significant abnormal returns for external strategy communications*

Regardless of the direction of abnormal returns, a potentially significant event in any business organization is the replacement of its chief executive (Reinganum, 1985). "Executive succession also has symbolic value, as it projects an aura of change in organizational direction" (Haveman et al., 2001 p.258). When uncertainty mounts, yesterday's leaders tend to be seen as having caused today's crises, and their replacement symbolizes salvation and renewal (Gamson and Scotch 1964). The appointment of a new CEO can signal to external and internal audiences the intent to redirect, restructure, and revitalize an organization (Starbuck et al. 1978, Pfeffer 1981). Therefore, while strategy is used to judge new top management (Osborn et al., 1981), external strategy communications can and should be used as tools to evaluate a newly appointed CEO. The significance of this lies in the assumption that corporations that cannot develop "good" strategy may need to change their CEO (Gilmore, 1973; Jauch, Qsborn, & Glueck, 1977; Kudla, 1976). Because there is little consensus on what constitutes "good" strategy, firms facing succession should experience more strategic changes (and therefore experience more communication regarding their strategy) than nonsuccession firms because the new CEO would be expected to develop new, more appropriate corporate strategy (Osborn et al., 1981).

Also, Thompson (1967) who argued that organizations that fail to buffer themselves from external uncertainty and shareprice volatility may be ripe for succession. Thompson's basic arguments have been expanded in two related but different ways. Executive succession can impart new knowledge and skills that make it possible to cope with the dramatic shifts in critical contingencies that follow shocks (Thompson 1967, Pfeffer and Salancik 1978, Boeker 1997). If current executives are not willing or able to pilot their organizations through the new competitive channels, organizations will search for new talent.

Furthermore, research on investor relations and financial disclosure indicates that management quality and personal factors are of high interest for analysts and investors (Mazzola et al (2006)). It is well-known that hiring a respected top manager may be an important step in building or recovering reputation among the financial audiences and financial analysts and investors tend to appreciate managers' solid knowledge of the business and its practical aspects, because it reassures them about their capacity to carry out the proposed plans. So, as analysts and investors find themselves facing plans and environments fraught with uncertainties, the personal reputation of a company's CEO and a strong record of achievements are likely to reassure the financial community about his/her capacity to deliver the promised results. Research consistently shows that the reputation and prestige of a company's CEO and its top management team positively affect the behaviour of financial markets in extraordinary occasions such as IPOs, bankruptcies or takeovers. Even under normal circumstances, the reputation of a company may benefit from association with prestigious top managers, as the reputation of corporate leaders tends to affect the perceived credibility of corporate communication, and their personal aura and charisma may help the company garner the internal and external consensus required to implement its strategies (Mozzola et al., 2006).

While we do not focus on the new CEO's charisma, reputation, or fame, it is still a valid argument to say that if the new CEO making a strategy announcement, it is likely to attract attention from investors and analysts. Hirst, Koonce and Miller, (1999) and Mercer

(2004) have found that management teams and CEOs not only attract high interest from investors and analyst communities, but they also have considerable impact on the consensus of the financial community around the corporate plans. Therefore, this increased attention from investors and analysts for the new CEO may act to either raise or lower their expectations around the time of the announcement which will then be either confirmed, deflated, or rise after the announcement itself. Hence,

Hypothesis 2: *'New CEO' will be associated with cumulative abnormal returns driven by external strategy communications*

Furthermore, we could predict that if the newly appointed CEO is an outsider, there will be less information available to investors about him. Therefore, an outsider CEO carrying out an external strategy communication is likely to be associated with abnormal returns due to the vacuum of information. Also, since he has not been a BOD/SMT member within the company, he would have not taken part in the decisions that have set the strategic direction of the company. He will therefore be assumed to make radical changes regarding strategy. Therefore, the external strategy communication is likely to reveal something that will cause a great reaction among investors. We therefore hypothesize,

Hypothesis 3: *An outsider 'New CEO' will be positively associated with cumulative abnormal returns driven by external strategy communications*

We assume that investors will be hungry for information following a major event, and therefore external strategy communications will trigger reactions from investors who have been anticipating information, which will in turn be reflected in shareprices. We use shareprice shock as a proxy for an out-of-the-ordinary or unanticipated event that may have taken place regarding an organization or within the direct environment of the organization that is likely to have an effect on the organization. In doing so, we adopted a time period of six months to identify these dramatic drops or increases in shareprice. Thus,

Hypothesis 4: *'Shareprice shock' will be positively associated with cumulative abnormal returns driven by external strategy communications*

Kothari et al. (2005), state that "firms with high stock volatilities are less transparent and face greater uncertainty, which create higher information asymmetry" which would imply that we are likely to observe abnormal returns for strategy announcements carried out by those companies that have faced volatility. Stock volatility is the standard deviation of daily stock returns in a one-year period ending six months prior to our main events (Kothari et al. 2005, Rogers and Stocken, 2005). Therefore,

Hypothesis 5: *External strategy communications for firms that face volatility are likely to be associated with abnormal returns*

Data and Methodology

The objective of our study is to analyse the stock price behaviour of firms to external strategy communications. To do this, we follow McWilliams and Siegel (1997) while setting up an event study and MacKinlay (1997) in designing the event study in a way that allows classifying abnormal returns into positive, negative, and neutral categories. The event study methodology is used to assess organizational performance by examining the stock market's response to an announcement (MacKinlay, 1997), assuming that the market prices already reflect all prior information, all changes in the firm's earnings is rapidly reflected in the stock price. Using this method, researchers determine whether there is an 'abnormal' stock price effect associated with an unanticipated event (McWilliams and Siegel, 1997). From this determination, the researcher can infer the significance of the event.

Our dataset comprises of NYSE-listed companies that carried out external strategy communications for the period from 1 January 2005 to 30 December 2009. In order to collect data on announcement dates, we searched EDGAR filings on SEC using the search terms 'strategy announcement', 'strategy review', 'strategy presentation', "strategy meeting", and 'strategy update'. For collecting data on actual earnings, we used DataStream. After investigating the full text of the returned search results and after standardising our data in terms of trading history, 284 firms were retained.

To carry out our analysis, we calculated abnormal returns using a market model for each firm with an estimation window. The deviation was calculated using expected returns and actual returns for every firm. Using procedures employed in prior event studies, the model to capture CAR was:

(1)

= Period- t returns on security ;

Period- t returns on the market portfolio;

, = market model intercept and slope parameters for firm i ;

= disturbance term of stock i on day t .

We used S&P 500 as the index of market portfolio. The S&P is a capitalization-weighted index which indicates the price trend movements based on a broad cross-section of the market. For estimating the market model, the 260 trading day period prior to the event window was used as the estimation window (see MacKinlay, 1997) – basically, average stock price. The length of the period used in our study was consistent with prior studies in management literature (McWilliams and Siegel, 1997).

To calculate CAR, a 5-day event window ($t = -2$ to $+2$) was used. The crucial design issue in an event study is the length of the event window which depends on the event being studied. McWilliams and Siegel (1997) argued that a short period should be included prior to corporate announcements because there may be a leak of information about a firm's strategy. Furthermore, they insisted that the period of a day or more after the corporate announcement

should be considered in order to capture any reaction that may occur in the first few days after the event. Following these suggestions, we used a 5-day event window.

In order to predict the expected return over the $t = [-2, +2]$ event window, we used the coefficient found from regression (1). The abnormal return for stock i on event day t was computed as:

$$\begin{aligned} & \text{---} \\ & = \text{Abnormal return} \\ & = \text{Actual return} \\ & \quad - \text{Expected return} \end{aligned} \tag{2}$$

The estimated abnormal returns were unbiased estimates of the deviation of the actual returns from expected returns. The variance for abnormal returns was calculated as:

$$\text{---} \tag{3}$$

The abnormal returns were cumulated over the event window ($t=2$) in order to calculate CAR and $\text{var}(\text{CAR})$ we used the following formulas. The average abnormal returns can then be aggregated over the event window using the same approach as that used to calculate the cumulative abnormal return for each security i . For any interval in the event window:

$$\tag{4}$$

So, we can use the following to form the CAR's security by security and then aggregate through time,

$$\text{---} \tag{5}$$

For the variance estimators the assumption that the event windows of the N securities do not overlap is used to set the covariance terms to zero. Inferences about the cumulative abnormal returns were drawn using:

$$\tag{6}$$

to test the null hypothesis that the abnormal returns are zero. In practice, because σ^2 is unknown, an estimator must be used to calculate the variance of the abnormal returns $\hat{\sigma}^2$. The usual sample variance measure of $\hat{\sigma}^2$ from the market model regression in the estimation window is an appropriate choice. Using this to calculate $\text{var}(\text{CAR})$, $\text{var}(\text{CAR})$ can be tested using:

This distributional result is asymptotic with respect to the number of securities N and the length of estimation window .

For our estimation model, we used a static linear panel data model where CAR_{ij} is the cumulative abnormal return for firm i two days following event j . Our explanatory variables were the following: whether there has been a CEO change within the year preceding the announcement, whether this new CEO was an outsider, and whether the company experienced a share price shock or volatility in the six months preceding the external strategy communication. As control variables, we included the following: whether a given company carries out these announcements regularly, size, industry, type of announcement, and whether the external strategy communications were carried out before the financial crisis¹.

Findings

Our purpose is to determine whether external strategy communications generate abnormal returns. Table 1 presents the descriptive statistics regarding our variables. In analyzing the data, we categorized share price responses into three categories using guidance by MacKinlay (1997). Figure 1 illustrates these three categories, namely, positive, neutral, or negative returns on share prices for all companies and those companies that do not carry out external strategy communications simultaneously with earnings announcements (Non-EA). Since earnings announcements are the prime candidate for confounding effects, the returns in the absence of these are of primary importance since they reflect the true reaction of shareholders to the content of the strategy announcements. Figure 1 includes CAR for the event window (-2 to +2) and relevant p-values.

Insert Table 1

Insert Figure 1

The results of our analysis show significant CAR for returns on all companies from the preceding day of the external strategy communication until two days past the it within the positive returns category and significant CAR for negative returns starting from two days prior to the event. More importantly, Non-EA companies also experience significant CAR on the day of the external strategy communication for both positive and negative returns categories. We therefore reject Hypothesis 1 stating that there will be no significant abnormal returns for external strategy communications. This outcome explicitly demonstrates that external strategy communications do bring new information, with a potentially very significant impact equivalent to much more studied earnings announcements.

To test Hypotheses 2-5, we ran a regression to calculate estimated betas for the variables 'New CEO', 'Outsider CEO', 'share price shock', and 'volatility'. We use 'size', 'regular announcements', 'industry', 'type of announcement' and 'before crisis' as control variables. In terms of size, we used marketcap for a month prior to the external strategy

¹ We used 01/08/2007 as the approximate start date of the financial crisis (Financial Times, 24 October 2008)

communication as a proxy. We use the variable 'regular announcements' to control for whether companies carry out external strategy communications on a regular basis or not. For industry categories, we used SIC codes to further categorise out data into Kennesey's four categories of primary, secondary, tertiary, and quaternary activities. The 'type of announcement' is a category that is created to distinguish between types of external strategy communications such as 'strategy update', 'strategy review' etc. Finally, we used 'before crisis' to control for whether the external strategy communication was carried out before the recent financial crisis.

Table 2 shows that the results for the explanatory model as a whole, the coefficients for variables New CEO, Outsider CEO, shareprice shock, volatility, and positive CAR for before crisis are all significant. Variable coefficients for size, positive CAR for regular announcements, industry, and communication category are not significant. We therefore do not reject Hypotheses 2-5. In Hypothesis 2, we stated that a new CEO would be associated with CAR but had failed to make a prediction regarding the direction of CAR. The results of our regression show that while positive CAR is associated significantly and negatively with new CEO, the opposite is valid for negative CAR. Therefore, while an announcement made by a new CEO acts to offset positive CAR, it acts to fight in opposing force with negative CAR. The reasons for this might be things such as inflated expectations regarding what the new CEO might bring to the company (in the case of the negative coefficient for positive CAR) and to offset worries (in terms of negative CAR). So, in either case, the new CEO seems to be causing over excitement or extreme anxiety which external strategy communications then help normalise.

In terms of hypothesis 3, the positive and highly significant coefficient regarding outsider CEO demonstrates that we have correctly assumed a positive impact. The reasoning behind this was that an outsider CEO will create a vacuum of information which will then be satisfied by external strategy communications carried out by the company. The reasons for receiving different outcomes compared to new CEO may be due to inflated expectations regarding a new ceo that is coming from inside the company. In either case, it seems that investors tend to exaggerate their expectations or anxieties when there is more information available regarding the new CEO.

In hypothesis 4, we stated that shareprice shock –which acts as a proxy for a major event affecting the company- will have a positive association with external strategy communications since investors will be hungry for information following a major event. We were right in hypothesising the direction and the impact of this variable.

Finally, hypothesis 5 suggested that volatility would be associated with CAR but did not make any inferences about the direction of the association. Our results show that volatility –which we use as a proxy for measuring variability from the market- is negatively and significantly associated with CAR. Reasons for this might include the failure of external strategy communications to convince investors that the company will pick up any time soon. In terms of looking at this issue further, we believe that looking at the length of time that volatility occurs in a company's stock will have a significant further explanatory

contribution. For instance, for companies that have been facing volatility for short periods of time, external strategy communications may act to positively affect shareprice. However, if a company has been experiencing volatility for elongated periods of time, investors may be more immune to external strategy communications. Therefore, this is an area that may need further classification of data.

Regarding our control variables, we find that regular announcements and whether or not the external strategy communication was carried out before the recent financial crisis are significant predictors of negative CAR and positive CAR respectively. We found that size, industry, and the label of the external strategy communication are not predictors of our model.

Insert Table 2

Conclusion

We conclude by drawing attention to the implications of this research. First, our research illustrates that strategy announcements are sources of cumulative abnormal returns on share prices of those companies that carry them out. More importantly, the outcomes we receive from partitioning of data into those companies that carry out strategy announcements simultaneously with earnings announcements and those that don't, reveal that strategy announcements are as important as earnings announcements regarding abnormal returns. Investors care about, and respond to strategy announcements as much as they do to earnings announcements.

Second, our regression model yielded significant outcomes, and among the variables we tested for, we found that carrying out that while opposite to widely held opinions regarding a new CEO's presentation of strategy, external strategy communications may have quite the opposite effect. Therefore, it might be a better course of action to allow expectations to continue to drive up shareprices in expectation of the new CEO – given that these expectations are positive. In the case of nervous investors regarding the new CEO, external strategy communications may help stabilise these worries and help offset negative CAR. If, however, the new CEO is an outsider or if the company has experienced a serious event, external strategy communications are certainly helpful in offsetting the vacuum of information created by uncertainty. Furthermore, strategy announcements regularly is a significant (and positive) estimator of cumulative abnormal return. We therefore suggest that it is possible for firms that carry out strategy announcements regularly have a higher chance of perfecting these communications over time and therefore have an increased chance of establishing control over the direction and scale of their investors' reactions. Investors, on the other hand, through these announcements, can form their own benchmarks for evaluating firms and ultimately become more immune to other factors that cause reactions.

In terms of practical outcomes, this finding further implies that if organizations want to manage stakeholder understandings, then it becomes the corporation's responsibility to win

investor support even for long-term strategies. Educating investors and analysts on strategy is part of the senior management job. As regulators are increasingly encouraging investors to focus more on strategy, companies' careful execution of corporate communications is of utmost importance for responding to not only general pressures for greater disclosure, but also for ensuring investors' closer interaction with their companies, and for responding to the need of their investors for new information regarding a firm's strategy.

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Table 1. Descriptive statistics and correlation matrix

Variables (Non-EA)	N	Mean	St. Dev	1	2	3	4	5	6	7	8	9
1. New CEO	33	0.1162	0.3210	1								
2. Regular announcements	39 firms (out of 167)	0.5246	0.5003	0.0362	1							
3. Size	-	296830.0043	14790.179	-0.0419	-0.0770	1						
4. Shareprice shock	-	0.2465	0.4317	0.0836	-0.0466	0.0580	1					
5. Volatility	-	0.9198	0.5677	0.0230	0.0213	-0.0971	0.0213	1				
6. Before crisis	105	0.5329	0.5001	-0.0478	-0.0201	0.0371	-0.2342***	-0.0698	1			
7. Outsider CEO	20	0.0951	0.1121	0.7259***	0.0122	0.0456	0.0651	0.0536	0.0417	1		
8. Industry	-	-	-	-0.0881	0.2210*	0.0574	0.0357	-0.1525*	-0.0011	0.0751	1	
9. Type of announcement	-	-	-	0.0257	0.5587**	0.3320	0.0271	0.0468	0.0872	0.0652	0.1114	1

† p < .10; * p < .05; ** p < .01; *** p < .001level.

Figure 1. Categorized cumulative abnormal returns for all companies and Non-EA companies

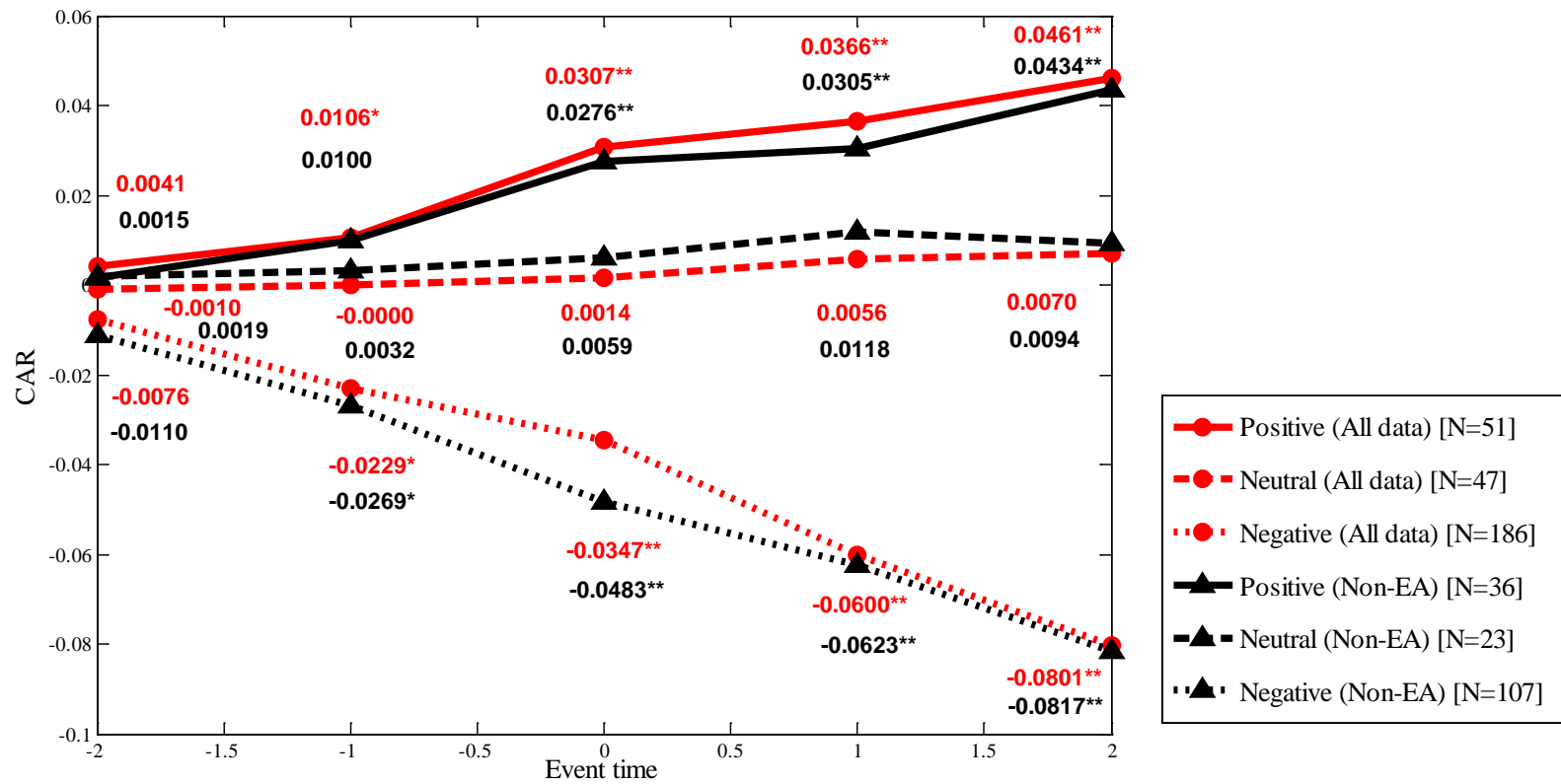


Table 2. Regression results

	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
Response category	Positive	Negative	Positive	Negative	Positive	Negative	Positive	Negative	Positive	Negative	Positive	Negative
Variables												
Intercept	0.0438* (0.0029)	0.0026 (0.0035)	0.0402* (0.0029)	0.0072* (0.0039)	0.0405* (0.0031)	0.0016 (0.0039)	0.0403* (0.0033)	0.0020 (0.0040)	0.0625* (0.0061)	0.0210* (0.0073)	0.0688* (0.6683)	0.0286* (0.0075)
Main Effects (Hypotheses)												
New CEO (binary)	-0.0075 (0.0122)	0.0660* (0.0110)							-0.0178* (0.0125)	0.0719* (0.0113)	-0.0189* (0.0134)	0.0722* (0.0111)
Outsider CEO			0.0083* (0.0341)	0.0742* (0.0129)					0.0091** (0.0032)	0.0081** (0.0012)	0.01011** (0.0052)	0.0201** (0.0211)
Shareprice shock (binary)					0.0231* (0.0079)	0.0095* (0.0081)			0.0218* (0.0080)	0.0048 (0.0080)	0.0219* (0.0089)	0.0052 (0.0092)
Volatility							- 0.0226* (0.0053)	-0.0216* (0.0069)	-0.0229* (0.0100)	-0.0163* (0.0070)	-0.0232* (0.0143)	-0.0174* (0.0088)
Control variables												
Size											-0.0000 (0.0000)	-0.0000 (0.0000)
Regular announcements (binary)												
Before crisis (binary)												
Industry												
Communication category												
R sq.	0.0011	0.0418	0.0019	0.0601	0.0018	0.0529	0.0396	0.0021	0.0402	0.0534	0.0405	0.0542
Change in R sq.			0.0008	0.0183	-0.0001	-0.0072	0.0006	-0.0508	0.0006**	0.0132**	0.0003	0.0008

Table 2. Cont'd

	Model 7		Model 8		Model 9		Model 10	
Response category	Positive	Negative	Positive	Negative	Positive	Negative	Positive	Negative
Variables								
Intercept	0.0481* (0.0085)	0.0236* (0.0088)	0.0315* (0.0111)	0.0838* (0.0132)	0.0278* (0.2340)	0.04582* (0.03127)	0.0221* (0.3321)	0.0356* (0.0442)
Main Effects (Hypotheses)								
New CEO (binary)	-0.0178 (0.0125)	0.0719* (0.0113)	-0.0187* (0.0120)	0.0721* (0.0112)	-0.0269* (0.0124)	0.0730* (0.0113)	-0.0302* (0.0125)	0.0614* (0.0113)
Outsider CEO	0.0123** (0.0501)	0.0233** (0.0254)	0.0123** (0.0501)	0.0233** (0.0254)	0.0133** (0.0411)	0.0517** (0.0551)	0.0171** (0.0422)	0.0542** (0.0443)
Shareprice shock (binary)	0.0218* (0.0080)	0.0048 (0.0080)	0.0198* (0.1941)	0.0069 (0.0080)	0.0298* (0.0082)	0.0086* (0.0081)	0.0301* (0.0083)	0.0143* (0.0080)
Volatility	-0.0226* (0.0053)	-0.0211* (0.0021)	-0.0216* (0.0069)	-0.0229* (0.0100)	-0.0163* (0.0070)	-0.0183* (0.0054)	-0.0154* (0.0071)	-0.0152* (0.0055)
Control variables								
Size	-0.0000 (0.0000)	-0.0000 (0.0000)	-0.0000 (0.0000)	-0.0000 (0.0000)	-0.0000 (0.0000)	-0.0000 (0.0000)	-0.0000 (0.0000)	-0.0000 (0.0000)
Regular announcements (binary)	0.0106* (0.0322)	0.0266* (0.0071)	0.0107* (0.0310)	0.0271* (0.0069)	0.0051* (0.0057)	0.0276* (0.0069)	0.0037* (0.0057)	0.0407* (0.0071)
Before crisis (binary)			0.0245* (0.0060)	0.0077* (0.0069)	0.020* (0.0067)	0.0069 (0.0059)	0.0199* (0.0064)	0.0046 (0.0067)
Industry					0.0013 (0.0060)	0.0011 (0.0101)	0.0015 (0.0082)	0.0017 (0.0076)
Communication category							0.0302 (0.0021)	0.0044 (0.0111)
R sq.	0.1235	0.1198	0.1403	0.0913	0.2138	0.1260	0.2381	0.1430
Change in R sq.	0.0830**	-0.0656**	0.0168**	-0.0285**	0.0735**	0.0347**	0.0243**	0.0170**

N=147. Standard errors shown in parentheses. † p < .10; * p < .05; ** p < .01; *** p < .001level.



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