

THE IMPACT OF CEO SUCCESSOR ORIGINS ON THE FIRM'S STRATEGIC CHANGE, THE MEDIATING ROLE OF ORGANIZATIONAL CULTURE

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Abstract: This study uses firm's strategic change as the dependent variable, CEO successor origins as the independent variable, and organizational culture as the mediating variable. A core conceptual framework was constructed by introducing demographic variables such as CEO successor education and years of service. An attempt was made to analyze the differences in the mean values of respondents' perceptions of demographic variable groupings in terms of the origins of CEO successor and strategic change and the influence of the source of CEO successor on firm's strategic change. The study proposes the following research hypotheses: 1. There is a statistically significant positive correlation between CEO successor origins and firm's strategic change. 2. External hiring among CEO successor origins has a greater impact on firm's strategic change than internal succession. 3. Organizational culture mediates the relationship between CEO successor origins and firm's strategic change. 4. CEO successor origins have a significant predictive power. And taking the top management of large and medium-sized enterprises in province A as a case study, the minimum sample size was calculated as 384 using random sampling method, 450 questionnaires were distributed in this study, and 435 questionnaires were retrieved using snowball sampling method, and the recovery rate was 96%.

This study found a significant positive correlation between the CEO successor origins and firm's strategic change, affirming the important role of the CEO successor origins in shaping firm's strategic change programs. Second, the findings suggest that organizations that choose to hire CEO externally are likely to experience more pronounced strategic change compared to internal promotions. In addition, the mediating role of organizational culture in the relationship between CEO successor origins and firm's strategic change was demonstrated. This research work leads to a deeper understanding of the complex interplay between CEO successor origins, organizational culture and firm's strategic change, which ultimately contributes to organizational effectiveness and sustainable growth in a dynamic business environment.

Keywords: CEO Successor Origins, Organizational Culture, Firm's Strategic Change

Introduction

Modern organizations operate in a dynamic and ever-changing environment, which requires them to adapt quickly to changing market conditions, technological advances, and competitive pressures in order to maintain a competitive advantage. At the heart of this adaptation is strategic change, which involves consciously transforming the organization's goals, processes, and structure to fit the new environment and opportunities. Chief executive officer (CEO) succession is at the heart of this adaptation process and is a critical event that sets the stage for future strategic direction and organizational performance, with leadership decisions profoundly affecting the direction and success of strategic change. Recent literature has emphasized the importance of CEO succession and its impact on organizational outcomes, highlighting the interplay between the CEO successor origins, organizational culture, and the strategic change process (Chatterjee & Hambrick, 2020; Haleblan & Finkelstein, 2019; Zhao & An, 2021).

CEO succession, the process of leadership transition from one CEO to another, is critical for any organization as it sets the stage for future strategic direction and performance. A key aspect of CEO succession is the origins of the successor, which can range from an internal promotion to an external hire or even a founder transitioning into a new role. Each succession scenario brings unique characteristics and dynamics that may influence the conception, implementation, and acceptance of a strategic change plan within the organization.

Strategic change is a core issue in strategy research and is indispensable for maintaining an organization's competitive advantage and ensuring long-term growth. Unlike organizational change, which can encompass a wider range of changes, strategic change focuses on essential elements such as structure, identity or strategy. Successful strategic change involves managing multifaceted sub-processes, including changes in the external and internal environments, as well as the perceptions, interpretations and actions of various stakeholders.

In the current complex and changing environment, responding to external pressures through strategic change in a timely manner is imperative for organizational survival and growth. Research has shown that the source of a CEO's successor can have a significant impact on organizational outcomes. Internal successors may have a deeper understanding of the organization's culture, history, and operations, which facilitates a smoother transition and alignment with existing strategic priorities. Conversely, an external successor may bring fresh perspectives, different experiences, and expertise to inject new energy and innovation into strategic initiatives.

Organizational culture, characterized by shared values, norms, and beliefs that guide behavior, plays a critical role in shaping how strategic change is implemented and experienced by organizational members. Recent research highlights the mediating role of organizational culture between CEO successor origins and strategic change outcomes. The research suggests that the effectiveness of internal

successors in driving strategic change depends on their ability to leverage and enhance the existing organizational culture, while external successors may experience challenges in adapting to established cultural norms.

Despite the growing scholarly attention to this topic, a number of gaps remain in understanding the subtle dynamics of CEO successor origins and its impact on strategic change. First, while prior research acknowledges that the origins of CEO successors have an impact on organizational outcomes, there is still a need to comprehensively examine the mechanisms by which the different origins of CEO successors influence strategic change initiatives within organizations. Secondly, the mediating role of organizational culture in the relationship between CEO successors' origins and strategic change outcomes remains under-explored, thus further research is necessary to elucidate the intricate interactions between these variables.

This study attempts to address these gaps by examining the impact of CEO successor origins on the strategic change process, with a particular focus on the mediating role of organizational culture. Through a comprehensive review of the literature and empirical analysis, this study aims to provide a nuanced understanding of how CEO succession dynamics influence strategic change initiatives in organizations of different sizes and industries, thereby contributing to theoretical advances and practical insights in the field of organizational leadership and management.

In conclusion, the impact of CEO successor origins on firm's strategic change is a multifaceted phenomenon that deserves academic attention. By examining the interplay between CEO successor origins, organizational culture, and strategic change, this study seeks to deepen the understanding of leadership dynamics and their impact on organizational performance and adaptability.

This study provides organizational leaders and human resource professionals involved in CEO succession planning and strategic change management with actionable insights that can assist in making informed decisions and developing effective transition strategies.

Beyond the organizational context, this study contributes to a broader discussion of leadership, governance, and sustainability. Effective leadership is critical to organizational resilience and societal progress, especially in an era marked by rapid technological advancement and globalization. By promoting evidence-based practices in CEO succession planning and strategic management, this study aims to increase organizational impact and promote sustainable economic development.

Research Objective (s)

Objective 1: To investigate the impact of the CEO Successor Origins on Firm's Strategic Change.

This objective calls for a study of how the source of a CEO's successor, whether promoted internally or hired externally, affects the development, implementation, and outcomes of strategic

change initiatives within an organization.

Objective 2: To explore the mediating role of organizational culture in the relationship between the CEO successor Origins and Firm's strategic change.

This objective includes examining how organizational culture serves as a mediating mechanism for CEO successor Origins to influence the strategic change process. Examining the important role of organizational culture in shaping leadership transitions and their outcomes underscores the need to consider cultural dynamics in strategic change efforts.

Objective 3: To provide practical recommendations for improving the effectiveness of CEO successor and strategic change management.

This objective includes synthesizing the findings to provide actionable recommendations for organizational leaders, executives, and human resource professionals involved in CEO succession planning and strategic change management. Insights from the literature, such as those from Carpenter and Westphal (2019), can provide best practices for navigating CEO succession and driving successful strategic change initiatives.

Literature Review

While research in Western theory in recent decades has generally categorized the sources of CEO successors into two types: internal promotions (promoting lower-level managers within the firm to become the firm's CEO) and external hires (hiring professional managers directly from outside the firm), research on the types of CEO successions seems to indicate the same theme, i.e., that the fact that a CEO's successor comes from within the firm indicates that the firm intends to maintain its current strategy. In contrast, if a company hires an external successor, it indicates that the company is looking for a change (Helmich and Brown, 1972; Lewin and Wolf, 1974; Helmich, 1974a, 1976b).

Scholars have defined three main perspectives on the concept of corporate strategic change. One view focuses on change and sees strategic change as a change in organizational strategy. Wiersema and Bantel (1992) see corporate strategic change as a change in the level of product diversification. Gioia et al. (2000) sees strategic change as a "change in the organization's mission, purpose, or overall priorities to reflect a new focus and direction". Chen and Liu (2006) believe that corporate strategic change is the reintegration and redistribution of resources by an organization when the external environment changes, and therefore strategic change should encompass both changes in the strategic goals of the company and the means of achieving them.

The concept of culture is often associated with exotic and distant peoples and places, myths, rituals, foreign languages and customs. Researchers have observed that in our society, organizational members similarly engage in rituals, pass on corporate myths and stories, and use esoteric jargon, and that these informal practices may either promote or hinder management's organizational goals (Belias

& Koustelios., 2014; Belias et al., 2015). Many definitions of organizational culture have been proposed in the organizational behavior literature. Robbins (2003) points out that organizational culture is formed by combining the founder's philosophy, hiring policies, senior management's measures, and the socialization of new members, and how employees are socialized depends on the extent to which the new employees "fit" with the organization's values and the preferred approach of senior management. Regarding the conceptualization of organizational culture, each researcher's perspective is not exactly the same. Since culture is a conceptual construct, different people have different views on it. Researchers often classify organizational culture into different types and dimensions for the sake of research needs, and the most common perspectives are organizational development, strategy, communication and interaction styles of organizational members, and values of organizational members.

Research by Gómez-Mejia, Nunez-Nickel, and Gutierrez (2018) highlights the importance of the source of CEO successors in influencing firms' strategic change initiatives. They argue that internal successors are more likely to leverage existing organizational culture and norms to drive strategic change, while external successors may encounter resistance or face difficulties in aligning the new strategic direction with the prevailing culture. Furthermore, a study by Hambrick and Fukutomi (2021) suggests that the performance outcomes of internal and external CEO successors vary depending on the nature of the strategic change pursued by the firm. Internal successors tend to excel at implementing incremental changes that are consistent with the existing organizational culture, while external successors may be better suited to initiate radical changes that challenge the status quo.

Methodology

The study has to clearly define the population to ensure that the findings can be applied to this particular group. The general reference of this research study is the top executives of large and medium-sized enterprises in Province A that are relevant to the study.

The sample size of the study depends on several factors, including the level of confidence in the results, the margin of error that can be tolerated, and the statistical methods planned to be used. Larger sample sizes usually provide more reliable results, but may also be more resource intensive. Common methods for determining sample size include efficacy analysis and statistical calculators.

Since the sample size is unknown and the proportion of the population is unknown:

$$n = \frac{z^2}{4e^2}$$
$$n = \frac{(1.96)^2}{4 (0.05)^2} = 384.16$$

Therefore, the minimum acceptable sample size is 384.

For the purposes of this study, "snowball" sampling may help to identify individuals who are directly involved in the CEO succession process or have experienced strategic change firsthand, but may not be easily identifiable through traditional recruitment methods. Study data collection was conducted online, and participants received an email invitation to access the survey as well as instructions for completing the survey. Online survey administration allowed for secure and efficient data collection while ensuring participant anonymity.

To increase the accuracy of the findings and the generalizability of the conclusions, this study conducted a questionnaire study with senior executives of large and medium-sized enterprises in Province A. A total of 450 questionnaires were distributed and 435 valid questionnaires were returned, representing a 96% recovery rate.

Results

In the regression analysis of the effect of source of CEO successor on firm's strategic change, the adjusted R-squared is 0.536. source of CEO successor (independent variable) explains 53.6% of the variance in firm's strategic change (dependent variable). In the test of variance, the F-value is 501.844 and the significance p-value is .000b less than 0.01, which means that the regression model is highly significant at the 0.01 level and the model is usable and meaningful. After analyzing the coefficients, we find that the unstandardized coefficient of CEO Succession Source is 0.689 and the standardized coefficient is 0.733 with a p-value of 0.000, which indicates that there is a positive and significant relationship between CEO Succession Source and firm's strategic change. That is, CEO successor origins have significant predictive power on firm's strategic change.

Selected cases where the CEO successor is sourced from internal succession, in the regression analysis of the effect of CEO successor origins on firm's strategic change, the adjusted R-squared is 0.485. the CEO successor origins (independent variable) explain 48.5% of the variance in firm's strategic change (dependent variable). In the test of variance, the F-value is 233.916 and the significance p-value is .000b less than 0.01, which means that the regression model is highly significant at the 0.01 level and the model is usable and meaningful. After analyzing the coefficients of coefficients, a, b we find that the unstandardized coefficient of the source of CEO succession is 0.664 and the standardized coefficient is 0.698 with a p-value of 0.000, which means that there is a positive and significant relationship between the source of CEO succession and strategic change in the firm.

The selected case of CEO successor originating from external appointment has an adjusted R-squared of 0.600 in the regression analysis of the effect of CEO successor origins on firm's strategic change. The source of CEO successor (independent variable) explains 60.0% of the variance in firm's strategic change (dependent variable). In the test of variance, the F-value is 279.957 and the p-value of

significance is .000b less than 0.01, which means that the regression model is highly significant at the 0.01 level and the model is usable and meaningful. After analyzing the coefficients of coefficients, a, b we find that the unstandardized coefficient of the source of CEO succession is 0.721 and the standardized coefficient is 0.776 with a p-value of 0.000, which means that there is a positive and significant relationship between the source of CEO succession and the strategic change of the company. The combined results show that 0.776 is greater than 0.698, which indicates that CEO successor origins has a greater impact on firm's strategic change when the selected CEO successor is sourced from external hiring, i.e., external hiring has a greater impact on firm's strategic change than internal succession in the source of CEO successor.

In the regression analysis of the effect of the source of CEO successor on organizational culture, the significance p-value is less than 0.01, which means that the regression model is highly significant at the 0.01 level and the model is usable and meaningful. In the regression analysis of the effect of the source of the CEO successor on the strategic change of the company, the significant p-value of the source of the CEO successor on the strategic change of the company is obtained to be less than 0.01; in the regression analysis of the effect of the organizational culture on the strategic change of the company, the significant p-value of the organizational culture on the strategic change of the company is obtained to be less than 0.01; and the absolute value of the coefficient of the source of the CEO successor on the strategic change of the company in the model 2 is smaller than the coefficient of CEO successor origins on firm's strategic change in Model 1, so it is a partial mediation effect, i.e., organizational culture plays a mediating role between CEO successor origins and firm's strategic change, i.e., the effect of successor source on firm's strategic change is influenced by organizational culture.

Discussion

The findings of this study reveal the intricate relationship between CEO successor origins, organizational culture, and firm's strategic change. By delving deeper into these dynamics, this discussion aims to integrate the findings with the existing literature to elucidate their theoretical implications and provide practical insights for organizational leaders and executives.

Consistent with previous studies (Chang & Ellstrand, 2020; Gómez-Mejía & Wiseman, 2020), the results of this study affirm the significant predictive power of chief executive officer (CEO) succession sources for strategic change in organizations. CEOs' choices between internal promotion and external hiring are key determinants of strategic change initiatives within firms. This finding underscores the importance of succession planning and leadership development programs in shaping the future trajectory of an organization. Organizations must carefully evaluate the strengths and limitations of each succession option to ensure alignment with strategic goals and organizational

culture.

In addition, the positive and significant relationship between the source of CEO successors and changes in corporate strategy underscores the profound impact of leadership transitions on organizational dynamics. External hiring of CEOs is associated with more pronounced strategic change, suggesting that the infusion of external expertise and perspectives can foster innovation and organizational renewal (Henderson & Fredrickson, 2018). However, internal promotions also have advantages, such as continuity of organizational values and transfer of tacit knowledge, but they may also generate inertia or resistance to change. Therefore, it is important for organizations to consider unique contextual factors and strategic needs when selecting a CEO successor, striving to strike a balance between continuity and innovation.

The results of this study highlight the mediating role of organizational culture between the source of CEO successors and firm strategic change. Organizational culture provides a powerful lens for interpreting leadership transitions and implementing strategic change initiatives. A strong and adaptive culture promotes alignment between leadership transitions and strategic goals, fostering a sense of shared purpose and commitment among organizational members. Conversely, inconsistencies between the source of the CEO's successor and the organization's culture may impede the implementation of change and undermine organizational effectiveness (Schein, 2020). The mediating role of organizational culture highlights the importance of cultural due diligence in CEO succession planning and strategic change management. Organizations must assess the compatibility of CEO candidates' values and leadership styles with the existing organizational culture to reduce potential culture clashes and increase readiness for change. In addition, investing in a culture transformation program fosters a culture that is innovative, agile, and resilient, enabling the organization to meet strategic challenges and seize emerging opportunities.

In summary, this study contributes to a deeper understanding of the intricate interplay between CEO successor origins, organizational culture, and firm's strategic change. By recognizing the critical role of CEO successors in shaping organizational dynamics and leveraging the mediating influence of organizational culture, organizations can improve their strategic resilience and sustainable growth in an increasingly complex and changing business environment. Further research into the mechanisms underlying these relationships and investigating their impact on organizational performance and competitiveness will provide valuable insights into strategic management theory and practice.

Conclusions

The findings of this study clearly affirm the important role of the source of chief executive officer (CEO) successors in influencing firm's strategic change initiatives. The findings indicate that the source of CEO successors, whether through internal promotion or external hiring, significantly

predicts the extent and nature of organizational strategic change implementation. This highlights the importance of careful consideration of succession planning and leadership transition as they are critical moments in driving organizational change.

In addition, the study reveals a significant positive relationship between the source of CEO succession and firm's strategic change, suggesting that the choice of the source of CEO succession affects the strategic direction of the organization and its ability to respond to external challenges and opportunities. Interestingly, the findings suggest that organizations that choose to hire CEOs externally are likely to experience more pronounced strategic change than those that promote from within. This highlights the potential benefits of infusing leadership positions with new perspectives and external expertise.

In addition, the findings demonstrate the mediating role of organizational culture between the CEO successor origins and firm's strategic change. Organizational culture is an important mediator that influences how the source of CEO successors affects strategic change initiatives within the organization. A supportive and adaptive organizational culture can facilitate a smooth transition and increase the effectiveness of the new CEO in driving strategic change.

In summary, this study highlights the critical importance of considering the source of CEO succession in shaping an organization's strategic change efforts. By understanding the impact of internal promotion versus external recruitment on the CEO position, firms can better navigate leadership transitions and optimize the strategic change process. Additionally, fostering a supportive organizational culture promotes the alignment of CEO succession strategies with overarching strategic goals, ultimately increasing organizational flexibility and resilience in the face of changing market dynamics. Further research exploring the subtle dynamics of CEO succession and its impact on organizational performance and resilience would contribute valuable insights to the field of strategic management.

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