

Effect before and after announcement of ceo finance essay

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Introduction This study is designed to observe the effect before and after announcement of CEO turnover event happened in the Malaysia listed companies. This chapter is to present the introduction of this study. It consists of background of the study, motivation for the study, research objective, problem statement, scope of study and contribution to the study.

1. 1 Background of the Study The Chief Executive Officer (CEO) defined by Andrews (1987) as higher ranking of general manager in an organization. According to Kaplan S. N. and Minton B. A. (2006), Khurana (2002), Murphy and Zbonjick (2004), Jensen et al. (2004); the CEO turnover events have been increased in the 1990s compare with 1970s and 1980s. In addition, Khaliq et. al (Final Report), the CEO turnover in U. S. hospitals also increase from 14% (1996) to 18% (2002). This has been called attention that the CEO's job becomes most risky over time. CEO turnover may be force and voluntary. As Kaplan S. N. and Minton B. A. (2006) mentions the possible factors that might lead to change of the CEO are related to industry-adjusted, industry and market returns. Clayton et. al., 2000 states that: "Changing in executive leadership is a significant event in the life of a firm. A chief executive officer's ability, preferences, and ultimate decisions affect the firm through the projects the firm selects, its financial policy, and the corporate culture". In simplest way, each of the CEO has different ability and preferences, therefore the decision making also differ. So, CEO changes can change the system of the firm and its performance. The consequences of a turnover are important because a change in stock price can have a meaningful impact to the stakeholders. Specifically, for shareholders, the succession of a CEO is a signal for future success or future failure. So there is

always an effect to the share price due to the market reaction when the CEO changed. The effects are either positive or negative. There are diverse expectations about the market reaction to a CEO appointment. One possibility is that a firm voluntarily making such a change seeks to obtain the benefits of a redirection in its strategic leadership expecting performance improvements as a result. To some extent, if mismanagement of the strategy, vision mission and objectives contributed to financial problems for the firm, a change in leadership is expected to reverse this trend by improving the strategies in the firm. Consequently, this will help to accelerate the firm's performance recovery in the future. Investors will embrace such improvements into their expectations about the firm's future cash flows, which will ultimately be reflected on investors' positive assessment of the news of the new chief executive appointment. This would interpret into a positive share price response on the day of announcement of the CEO's appointment. On the other side, there is probability that the share price will go down after the CEO changed. To some extent, the CEO turnover will bring a negative effect on the company stock performance in the first year after the takeover. One of the reason is the new CEO performance is affected by the bad management or bad performance before the change and he or she unable to turn the table around in the one year time. Another reason is when the organization change the CEO, it will give an image to the shareholders that there is something wrong going on in the management which lead to the CEO turnover. Then, the shareholders will quickly sell their shares and it will force the shares price go down. So normally the organization would not take risk and choose to change their CEO unless

there is no other option. 1. 2Motivation for the studyIn Malaysia, the study on CEO turnover issue is limited. Therefore, the purpose of this study is to look into the effect of announcement of CEO turnover on Malaysia listed companies and seeks to give the impression into the level of influence of the CEO of Malaysia. It is assume that the share price will be more fluctuant if force removal of CEO. Otherwise, most of the international studies are focus on share price effects of developed countries such as United Kingdom, Australia, Germany, China and etc. In addition, most of these international studies are related to determine the causes of CEO turnover or impact the performance of organization after CEO turnover. Therefore, this study is investigating the reaction of stock market of organization which experienced CEO turnover events towards the announcement. But, this study has been conducted mainly at Malaysia. 1. 3Research ObjectivesThe research objective of this study is observed the effects of CEO turnover events in the Malaysia due to the research on announcement effect was not been established. More specific, this study tend toObserving the share price fluctuation of CEO turnoverThe share price period of observation can be break down to three part: Three months before announcement of CEO turnoverThe date of announcementThree months after the announcement of CEO turnover. Do internal or external CEO turnover secession have more impact on share prices? Do forced or voluntary CEO turnover have more impact on share price? 1. 4Problem StatementMost of the studies were limited share price effects after the organization has been experienced the CEO turnover. However, the share price effects before CEO turnover and on announcement date also play very important when analysis this study. The

low share price has relations to CEO turnover happen meanwhile the share price on announcement might is the key for successful of future. In addition, as in introduction, CEO turnover events significantly will impact the life of organization. The effects not only limited to the cultural, behavior of organization; but also the share price of organization. In addition, CEO turnover events also might influence the economics of Malaysia. The uncertainty of future becomes the risk for organization and also country. If the share price of an organization increased for the coming years after CEO turnover events, this is considered as positive result. However, this is assumption and it was not guarantee. Furthermore, most of the studies were focus on other countries and most of them are developed countries such as United Kingdom, United States, and China. This is unable to reflect the share market of developing countries such as Malaysia. Therefore, this study is increase knowledge for CEO turnover in Malaysia.

1. 5 Scope of Study
The scope of research is only restricted to the listed company of Bursa Malaysia and for those are experienced with CEO turnover in year 2010. There are some possible impacts of CEO performance have to observe. However, this research will be facing a limitation. This limitation is related to development of some academic theory to assess the impact of information on the date of the announcement and the actual impact over time of the CEO turnover. Most of the academic theories on CEO turnover event are discussed about its causes and effects, the reaction of the stock market if new information was announced, or share price as a tools of measure the listed company's performance. All of these academic theories bases become the basis for conducting the research.

1. 6 Contribution to the Study
This study is aim to

observe the share price effects on CEO turnover announcement. There are many studies about CEO turnover have been conducted by many researchers. However, most of the studies were focus on how the CEO can be change; whether voluntary or forced? In addition, the studies also focus on other countries such as United States, China and others. Basically, the CEO turnover events believe that the performance of organization will be better. Unfortunately, the change of CEO not guarantees that share price will be increased or future of organization become more brightly in the short-run. Sometimes, it might lead to negative result. For that reason, this study aims to link the share price performance with the CEO turnover event at Malaysia.

1. 6. 1Contribution to KnowledgeSince the syllabuses or courses of most university are not deeply with CEO turnover issue, so this study attempts to increase the knowledge among students. These study perhaps that students can understand the basic about CEO turnover events in Malaysia. 1. 6.

2Contribution to PracticeAnother contribution for this study is related to the practice. The leaders of organization should be deeply considering the impact of CEO turnover. CEO turnover not guarantee that the performance of organization will be better. So, the leader of organization should not take risk and choose to change their CEO simplify.