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Disentangling the Effects of CEO Turnover and Succession on Organizational Capabilities: A Social Network Perspective

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Prior reviews of the CEO turnover and succession literature suggest that empirical findings on organizational implications continue to be equivocal. In this paper, we develop a conceptual framework for examining the impact of CEO turnover and succession on organizational capabilities. Using the social network perspective as a theoretical lens, we identify conditions in which CEO turnover is expected to influence organizational exploration and exploitation capabilities. We also identify contingencies under which CEO succession will moderate the impact of CEO turnover on organizational capabilities. Our framework provides a useful lens through which to view the consequences of CEO turnover and succession and sheds some light on the equivocal findings to date.

Key words: CEO turnover; succession; social networks; social capital; organizational capabilities

For decades, organizations have faced the challenge of managing the process and consequences of CEO turnover and succession. In the wake of a CEO's departure, whether voluntary or forced, firms are faced with the critical decision of how to fill the void. Recent literature suggests that organizations continue to struggle with the challenges posed by CEO turnover (e.g., Huson et al. 2004; Kesner and Sebora 1994; Khurana 2001, 2002). Traditionally, evidence regarding the organizational consequences of CEO turnover has been mixed in both the management and organization literature, and in the financial economics literature. Some research has found a vicious circle between CEO turnover and succession and organizational effectiveness, arguing that the tensions and instabilities associated with leadership changes will precipitate a decline of performance and firm value (Beatty and Zajac 1987; Grusky 1960, 1963). Other research has found little or no difference in organizational performance following CEO turnover, supporting the scapegoating view of succession (Brown 1982, Gamson and Scotch 1964, Lieberson and O'Connor 1972). Yet others have found that CEO turnover and succession will lead to improved organizational performance (Guest 1962).

Recent research has further examined this relationship on a more refined basis—for instance, differentiating the nature of CEO turnover (voluntary or forced; e.g., Denis and Denis 1995, Parrino 1997, Wiersema 2002), the nature of CEO succession (inside or outside succession, relay succession or not; e.g., Allen et al. 1979; Helmich and Brown 1972; Parrino 1997; Shen and Cannella 2002a, b, 2003; Zajac 1990; Zhang and Rajagopalan 2004), and the nature of the organizational and environmental context (e.g., Friedman and Singh 1989, Kesner and Dalton 1994, Lant et al. 1992, Virany et al. 1992). All these studies have suggested that CEO turnover and succession and the organizational consequences thereof continue to be an unresolved yet critical issue.

While prior studies on CEO turnover and succession have been quite comprehensive and yielded valuable insights on this important topic, there has been a significant limitation in this stream of research. Studies in the financial economics literature tend to adopt a managerial labor market perspective, regarding the CEO as one type of managerial labor who is the agent of the firm's shareholders (Fama 1980). In general, studies in the management and organization literature adopt a human capital perspective (Strober 1990). Studies in this tradition regard top managers, including the CEO, as one important organizational resource that sets the path for the firm's strategic direction (Finkelstein and Hambrick 1996, Hambrick and Mason 1984) and therefore focus on the unique knowledge, skills, abilities, perspectives, and experience that the CEO and other top managers bring to bear.

We argue that beyond deeming the CEO as a stand-alone agent or resource of the firm, there is another important dimension that is largely neglected in the CEO turnover and succession literature. In particular, there is growing evidence that the effectiveness of a CEO's strategic contributions to the organization is also determined by relationships that the CEO maintains both within and outside the firm (Collins and Clark 2003, Geletkanycz and Hambrick 1997, Rodan and Galunic 2004, Smith et al. 2005). Therefore, CEO turnover and succession not only means a change in the organizational agent or human (knowledge) capital, but, more important, it means a change in the social structure in which the entire organization has been embedded as a result of the CEO's social networks. As Dess and Shaw (2001) point out, the traditional human capital perspective in the management literature does not sufficiently account for the organizational consequences of turnover of such individuals. They propose a social capital perspective—which has social network theory at its root—as an additional lens for understanding the implications of these complex relationships. Recent turnover research has begun to adopt this perspective (e.g., Shaw et al. 2005), although the focus has not been on top management.

Given this backdrop, the purpose of this paper is to introduce an alternative lens for understanding the organizational consequences of CEO turnover and succession by adopting a social network perspective. Specifically, we emphasize the strategic importance of the CEO's social networks, comprising intrafirm and interfirm networks, and develop a conceptual framework to understand how CEO turnover and succession leads to changes in organizational capabilities based on the degrees of network embeddedness of both the departing and successor CEOs. We believe that incorporating the emerging social network perspective into the CEO turnover and succession research is a meaningful contribution to the current literature, which has been heavily based on the managerial labor (agency) and human capital perspectives. It will serve as a means by which to better understand the organizational implications of CEO turnover and succession.

In the following sections, we first provide an overview of the relevant literature, including CEO turnover and succession, social capital, and social networks. We then lay out our conceptual model linking CEO turnover and succession to changes in organizational capabilities using a social network perspective. We conclude with a discussion of the theoretical and pragmatic implications of the framework as well as guidelines for empirical testing.

The Consequences of CEO Turnover and Succession

As noted earlier, CEO turnover and succession has received substantial attention from both management and organization scholars and financial economics scholars. The organizational consequences of such turnover and succession events have been a topic of significant concern. However, researchers have reported inconsistent findings with regard to whether CEO turnover improves, hurts, or is irrelevant to organizational performance (Kesner and Sebora 1994). Studies that show evidence of a negative relationship postulate that CEO turnover and succession is inevitably a disruptive event that leads to organizational instability, an increase in tensions, and deterioration of morale and productivity (Allen et al. 1979; Grusky 1960, 1963). Consequently, CEO changes are often associated with a reduction in a firm's market value (Beatty and Zajac 1987). Studies that do not find a significant relationship between CEO turnover and succession and firm performance view succession as a ritual scapegoating that is meant to appease stakeholders and mask more fundamental organizational weaknesses during performance slides (Brown 1982, Gamson and Scotch 1964, Lieberson and O'Connor 1972). The argument for a positive relationship hinges on the belief that individuals are able to control organizational outcomes (Pfeffer 1977). Leader change is therefore expected to be accompanied by the revitalization of productivity and improved organizational performance (Guest 1962).

Recent research on this topic is focused on identifying contingencies, further disentangling this relationship. First, CEO turnover can be voluntary or forced, and the force that initiates the change influences post-succession firm performance. Denis and Denis (1995) find that CEO dismissal will lead to significant downsizing of operations and an increase in corporate control activities. Wiersema (1995) finds that companies that dismiss their CEOs often experience worse performance than those that replace their CEOs in a routine succession process. According to Friedman and Singh (1989), a CEO's voluntary turnover will receive positive market reaction under conditions of poor presuccession performance but negative reaction under conditions of good presuccession performance.

Another important contingency factor is successor origin. Traditionally, scholars consider the differences between inside succession and outside succession. The general consensus is that inside succession is associated with strategic continuity, whereas outside succession creates an opportunity for the firm to take on strategic change (Helmich and Brown 1972, Huson et al.

2004, Zajac 1990). Shen and Cannella (2002a) provide a more fine-grained distinction between different types of inside succession. Specifically, followers—that is, those groomed by outgoing CEOs—are unlikely to initiate any significant strategic organizational change, whereas contenders—that is, those who assume the CEO position by actively jockeying for the position—are more likely to initiate strategic change. Recently, scholars have started to look at relay CEO succession, where an heir apparent is identified in advance of the actual succession event (Cannella and Shen 2001). Studies show that relay succession has a positive effect on firm performance and shareholder wealth, whereas heir apparent exit has a negative effect (Shen and Cannella 2003, Zhang and Rajagopalan 2004).

The effect of turnover and succession is further complicated by the presuccession organizational and environmental context. First, presuccession organizational performance matters. For instance, Friedman and Singh (1989) find that the market tends to react positively to succession when presuccession performance is poor and negatively when presuccession performance is good. Alternatively, Lubatkin et al. (1989) find that while the successor origin does not matter in poorly performing firms, good firm performance amplifies the positive effect of outside succession. Second, top management team turnover, following CEO succession, also seems to matter. The combination of CEO succession and a moderate amount of top management team turnover is associated with effective changes and better postsuccession performance (Kesner and Dalton 1994); the effect is accentuated for inside CEO succession (Virany et al. 1992). Third, environmental dynamism matters. When the organizational environment has undergone substantial change, and the CEO's skills and expertise no longer fit the firm's chosen strategy, turnover is viewed as an adaptive event, allowing the firm to engage in strategic reorientation and improve performance (Lant et al. 1992, Virany et al. 1992, Wiersema and Bantel 1993).

In general, research in the management and organization literature (e.g., Kesner and Sebora 1994, Virany et al. 1992) regards the CEO as valuable human capital for the firm, emphasizing his or her knowledge, abilities, experiences, and contribution to the firm's strategy and performance. Accordingly, studies of the consequences of CEO turnover and succession are largely based on how the loss, addition, and changes in such knowledge, abilities, and experiences influence the organization. Research in the financial economics tradition (e.g., Furtado and Karan 1990, Huson et al. 2004) largely employs an agency perspective. In this view, a change in leadership denotes a change in managerial labor and, consequently, a potential shift in the execution of shareholders' interests. This literature, therefore, typically examines firms' financial performance and stock market reaction in the wake of CEO turnover and succession.

While these prior studies have done much to advance our understanding of the organizational consequences of CEO turnover and succession, social capital considerations have not played a major role in the theories. Importantly, recent research has shown the salience of social capital and social networks possessed by top executives, including CEOs (Collins and Clark 2003, Gelekanycz and Hambrick 1997, Rodan and Galunic 2004). Consistent with Dess and Shaw (2001), we argue that the impacts of CEO turnover and succession may therefore be significantly understated as a result of failure to take CEO's social networks into account. A social capital perspective is expected to further our understanding of CEO turnover and succession and thus serves as a complement to, rather than a substitute for, existing theoretical perspectives (Shaw et al. 2005).

Social Capital and Social Networks as a Source of Value

Social capital represents the value that is embedded in relationships among people (Adler and Kwon 2002, Leana and Van Buren 1999, Lin 2001). This value emanates from the instrumental action facilitated by social connections (Coleman 1988). It is driven by the goodwill that exists among social actors (Adler 2001, Adler and Kwon 2002). This goodwill facilitates the availability of information, influence, and solidarity among actors in a network of relationships (Adler and Kwon 2002, Coleman 1988, Nahapiet and Ghoshal 1998). Lin views social capital as "the resources embedded in social networks accessed and used by actors for actions" (2001, p. 25). Similarly, Adler and Kwon (2002) argue that the value underlying social capital stems from the social structure of an actor's network of relationships. Thus, a focal actor's standing within a social network is a critical component of his or her social capital. In the context of this research, we argue that a CEO's standing within a social network is a core part of the value that she or he adds to the organization (Leana and Van Buren 1999). We discuss the implications of this view next.

CEOs' Embeddedness in Social Networks and Organizational Capabilities

Drawing on the social network perspective discussed above, we contend that the strategic value of a CEO to a focal organization lies in his or her social connections in addition to his or her valuable stand-alone knowledge, skills, and abilities. As we have already noted, studies that draw on human capital theory do not account for this strategic value. As with other individuals, CEOs can be viewed as entities embedded within one or more social systems (Adler and Kwon 2002). Consistent with the research on top management social networks (Collins and Clark 2003), we differentiate two types of social systems within which CEOs can be embedded—*intrafirm social networks* and *interfirm social networks*.

The former refers to the sets of relationships the CEO has with others within his or her own organization, and the latter refers to the sets of relationships she or he has with individuals outside the organization who hold information of potential value to the firm. We adopt the view that a CEO's value to a focal organization is contingent on his or her standing within both the intrafirm and interfirm networks, first and foremost. Hence, the organizational impact of CEO turnover and succession can be attributed to the nature of the individual's accumulated social capital from both types of networks.

CEOs' memberships in the intrafirm and interfirm social networks can potentially yield benefits for their organizations. Network embeddedness is an important factor that determines the extent to which firms can appropriate value from social networks (Granovetter 1985). Embeddedness in a social network is a function of an individual's position (centrality) within that network and the strength of his or her relationships with other entities within the network (Granovetter 1973, Wasserman and Faust 1994). Our conceptualization reflects the tradition in social network literature that has generally studied two types of embeddedness: relational and structural (Granovetter 1985, 1992). Granovetter views embeddedness as "the fact that economic action and outcomes, like all social action and outcomes, are affected by actors' dyadic (pairwise) relations and by the structure of the overall network of relations" (1992, p. 33). The former refers to *relational embeddedness* and the latter to *structural embeddedness*.

Relational embeddedness emphasizes the quality of connection as featured by tie strength. The strength of ties in a social network has important implications for the quality of information an actor is privy to. Strong ties are characterized by a high level of trust and intimacy, thus enabling actors to gain access to information that is not widely available (Coleman 1988). Structural embeddedness emphasizes the overall patterns of network connections. Centrality is the most important construct in this regard. It is defined as the extent to which a focal actor occupies a strategic position within a network (Wasserman and Faust 1994). Degree of centrality refers to the number of nodes that a focal actor has ties to. Thus, the greater the degree of centrality, the more prestige the actor has within the network (Brass and Burkhardt 1993). Network studies have basically followed one or both of the above approaches to embeddedness (e.g., Ahuja 2000, Gnyawali and Madhavan 2001, Hansen 1999, Levin and Cross 2004, Tsai 2001). In this paper, we consider embeddedness as a combination of both structural and relational embeddedness. That is, a higher degree of network embeddedness refers to the CEO being in a more central position in the network with more strong ties.

In discussing the organizational implications of CEO turnover and succession, we focus on two specific firm capabilities that have received a significant amount of attention in the literature: exploration and exploitation capabilities. The literature suggests that firms achieve superior performance by striking a balance between exploration and exploitation (Levinthal and March 1993, March 1991). *Exploration* deals with "new possibilities" (March 1991)—it refers to firms' abilities to search for and identify new opportunities, discover new knowledge, experiment with new experiences, and seek variation in strategy. Researchers have pointed out that exploration affects firms' growth and long-term prosperity and is particularly important in promoting organizational innovation and change (McGrath 2001, Schumpeter 1934).

In contrast, *exploitation* deals with "old certainties" (March 1991)—it refers to firms' abilities to execute and refine their existing routines, appropriate value from existing knowledge, and strengthen existing advantages. Exploitation yields greater certainty, speed, and clarity of feedback regarding outcomes (March 1991). As a result, exploitation is particularly relevant in firms' profiting from their current investments, enhancing their short-term productivity and efficiency (Darr et al. 1995, Winter and Szulanski 2001).

We want to emphasize that our belief in the relationship between CEOs' social networks and firm capabilities is consistent with the widely accepted assumption in the organization literature that the CEO is the most important individual that influences the strategic direction of the organization. While the top management team as a whole is considered to be the firm's upper echelon, influencing firm strategies and capabilities (Hambrick and Mason 1984), the CEO heads that top management team. As such, control in the organization is strongly exercised by the CEO, who is regarded as the gatekeeper of the entire organization (Lorange 1980, Zajac 1990). For this reason, researchers and organizations (typically through their boards of directors) place heavy emphasis on CEO-related issues (including selection, compensation, and succession) above and beyond emphasis on the top management team (Beatty and Zajac 1987, Kesner and Sebora 1994, Shen and Cannella 2003). We further this line of argument by pointing out that a CEO's social networks—both internal and external—have a significant impact on the firm in terms of exploration and exploitation capabilities.

CEO's Embeddedness in the Intrafirm Network and Organizational Capabilities

A CEO's intrafirm network is composed of his or her connections with other members within the organization—for instance, other top management team members, middle managers in various functional and divisional areas, and even frontline employees. A CEO is more embedded in the intrafirm network when she or he knows more organizational members (has higher structural embeddedness) and knows them well (has higher relational embeddedness). CEOs—even CEOs who emerge from within the same organization—vary in their degrees of embeddedness in the intrafirm network. Intrafirm networks are largely developed through greater exposure to the organization and more opportunities to interact with other organizational members. Because organizations by their nature are different and the career paths of managers vary, the experiences that allow for the development of social networks in an organization will also vary among individuals. In general, longer organizational tenure, more diverse functional positions, and more diverse managerial positions held within the organization all facilitate the CEO's acquisition of an intrafirm network. An organization with a more decentralized structure or with specific network-building human resource practices improves the CEO's chances of developing social relationships with other organizational members (Collins and Clark 2003). Furthermore, the CEO's purposeful actions to construct such a network matters. For instance, former General Electric CEO Jack Welch is known for his deliberate efforts to remember all the employees he met.

We argue that the firm can benefit from the CEO's higher level of embeddedness in the intrafirm network. In particular, the firm's exploitation and exploration capabilities are higher when the CEO is more embedded in the intrafirm network.

There are several factors underlying the relationship between the CEO's embeddedness in the intrafirm network and the firm's exploitation capabilities. First, when a CEO has many strong social connections with other organizational members within the firm, these connections provide an information flow channel alternative to the formal organizational structure and procedures. As proponents of the information processing view of the firm espouse, the efficient flow of information from the CEO, as the top decision maker, to lower levels of the organization is crucial to the successful execution of the firm's strategy (Galbraith 1973, Habib and Victor 1991). When the CEO has accumulated significant social capital, his or her social network inside the firm enhances the efficient transmission of strategic information throughout the organization (Coleman 1988, Leana and Van Buren 1999).

Second, higher embeddedness in the intrafirm social network enables the CEO to more effectively gather information from diverse parts of the organization (Collins and Clark 2003, Mintzberg 1973). Centrality in a social network places the CEO in a strategic position with regard to access to information. Strong ties with other people in the network further ensure the quality of information collection (Hansen 1999). In essence, CEOs with high network embeddedness lie at the crossroads of numerous sources of information within the organization. Thus, they become cognizant of the information that resides within the organization, and where that information is located. Access to such information enables CEOs to make better decisions about how best to exploit the firm's existing resources (Hough and White 2004).

A CEO's embeddedness in the intrafirm social network also has implications for the firm's exploration capabilities. Researchers have pointed out that firms can discover new sources of advantage by combining various sources of knowledge within the organization (Grant 1996, Kogut and Zander 1992). Specifically, firms can combine existing knowledge from different parts of the organization to create new knowledge. Nahapiet and Ghoshal (1998) discuss the process through which social capital enables such knowledge creation to occur, citing as a key driver the communication of information between individuals with different domains of expertise. Support for this link between intrafirm network embeddedness and exploration capabilities has also been found at the unit level. Tsai (2001) finds that within a multiunit firm, units that are central in the interunit network are more innovative. Smith et al. (2005) find a positive relationship between social network size and tie strength and firm knowledge-creation capabilities among top managers and knowledge workers within organizations. They also find a positive relationship between social network size and tie strength, and the number of new products and services created in the firm.

CEOs who are highly embedded in intrafirm networks are in a unique position to discover new ways to combine existing organizational knowledge (Mintzberg 1973). Through a process that Koestler (1964) has termed *bisociation*, CEOs can integrate knowledge from a diverse set of domains within the organization that have never been combined before and do one of two things: (a) discover new ways of doing the same things, or (b) use existing knowledge and competencies in new domains. Hence, CEOs' high embeddedness in intrafirm social networks increases their awareness of what resources the organization has and where those resources are located—giving them access to diverse sources of resources. Awareness of such a wide array of resources provides CEOs with the opportunity to engage in bisociation processes (Kogut 2000). Such bisociation processes give way to new knowledge creation—a critical source of organizational exploration capabilities (Jacobsen 1992, Schumpeter 1934).

CEO's Embeddedness in the Interfirm Network and Organizational Capabilities

A CEO's interfirm social network is composed of his or her connections with individuals external to the firm who hold information of potential value to the firm. These individuals typically include external board members and managerial contacts among suppliers, customers, competitors, financial institutions, alliance partners, government agencies, and trade associations (Collins and Clark 2003). A CEO is more embedded in the interfirm network when she or he has a greater number of such outside contacts (has higher structural embeddedness) and maintains stronger ties with them (has higher relational embeddedness). One important source of a CEO's interfirm network comes from his or her career path prior to the current organization. The number of organizations that the CEO has previously worked for, the number of industries those organizations are in, the number of positions and the level of positions she or he held in those organizations, and his or her tenure in those organizations all shape the CEO's experience through which she or he acquires interfirm networks (Eisenhardt and Schoonhoven 1996). In addition to the CEO's career path, interfirm networks can be developed through other means, including holding external directorate roles, being members of an informal community of peers, or having experience with the management of a firm's strategic partners (Geletkanycz and Hambrick 1997, Westphal and Milton 2000). These different experiences all determine the different degrees of interfirm network embeddedness among different managers.

We argue that the firm's exploration capabilities are higher when the CEO is more embedded in the interfirm network. The value of membership in the interfirm network is that it serves as an informational network for CEOs, providing access to information and knowledge from outside the organization, which may be useful for current and future competitive strategies (Athanassiou and Nigh 1999, Keegan 1984). Prior literature suggests that innovative firms search for new knowledge extensively from external parties. For instance, Rosenkopf and Nerkar (2001) argue that firms should explore by spanning organizational boundaries. Similarly, Katila and Ahuja (2002) point out that firms should search for new knowledge from competitor firms and firms outside the industry. Interfirm networks can therefore be used as a forum for knowledge search and acquisition. The new information and knowledge could be gained from organizations in the same industry, related industries (e.g., upstream, downstream, complementary), or even unrelated institutions (e.g., government agencies) (Katila 2002). When managers are exposed to, and leverage, knowledge from outside, firms are more likely to be able to explore new learning opportunities and combine externally acquired information with their own existing knowledge to formulate more competitive strategies (Grant 1996, Kogut and Zander 1992).

CEOs who are highly embedded in interfirm social networks are strategically positioned at the crossroads of external information. Thus, they are privy to a vast amount of information (Collins and Clark 2003, Salk and Brannen 2000, Westphal and Milton 2000). Such strategic positioning enables CEOs to be better informed of potential demand changes from customer firms, of future supply conditions from supplier firms, and of updated technological developments from proximal firms. Access to such information is a critical part of the entrepreneurial search and discovery process that characterizes firms' exploration capabilities. Bisociation processes thrive on the availability of information and knowledge from a broad array of domains (Koestler 1964). Even when the new information is seemingly irrelevant, it could help managers break mental barriers to the consideration of different alternatives in strategic decision making (Walsh 1995). Consequently, the firm is prompted to explore these opportunities and initiate change. CEOs may combine this information with their existing knowledge in ways that have never before been done, thus creating value (Smith and Di Gregorio 2002).

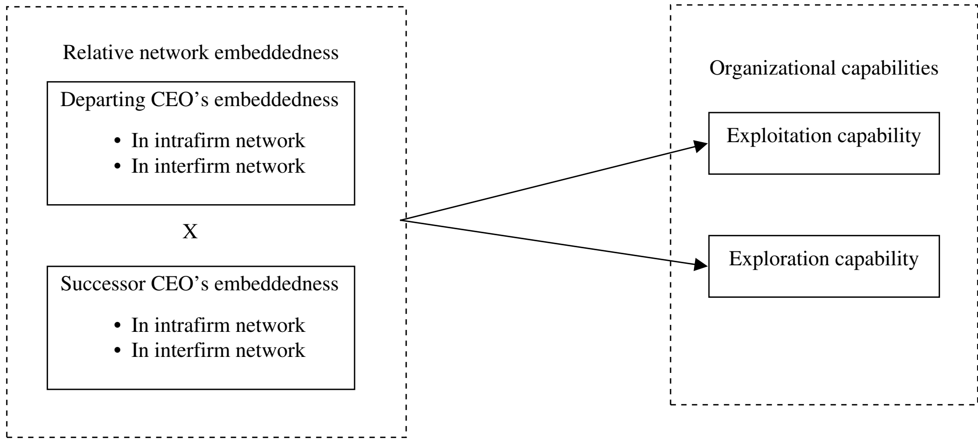
Although a CEO's embeddedness in both the intrafirm and interfirm networks can enhance the firm's exploration capabilities, these two processes involve different mechanisms. Exploration as driven by the CEO's high embeddedness in the intrafirm network is generally based on the novel combination of the firm's existing knowledge and resources, whereas exploration as driven by the CEO's high embeddedness in the interfirm network is largely based on the incorporation of knowledge and resources that are new to the firm. This is consistent with existing conceptualizations of innovation (virtually a form of exploration activity) as an outcome that results from novel combinations of existing knowledge elements or searching for new knowledge elements (Fleming 2001, Katila and Ahuja 2002).

While we believe the value of the CEO's membership in the interfirm network largely lies in enhancing the firm's exploration capabilities, we do not make a strong case that his or her high embeddedness in the interfirm network promotes the firm's exploitation capability.

CEO Turnover and Succession and Changes in Organizational Capabilities

The central theses of our framework are rooted in a view of CEOs as entities embedded within both intrafirm and interfirm social networks. Thus, in our framework the impact of CEO turnover on organizational capabilities depends on differences in the network portfolio between the departing CEO and his or her successor. The implications of CEO turnover and succession follow directly from the arguments developed in the previous section. We first discuss the effects of CEO turnover based on the network standing of the departing CEO; then we discuss the succession effect based on the network standing of the successor CEO.

Figure 1 A Contingency Model of the Immediate Consequences of CEO Turnover and Succession



Departing CEO's Network Embeddedness

Figure 1 illustrates our proposed theoretical framework. As argued above, a CEO who is highly embedded in the intrafirm network has an advantage with respect to his or her ability to gather and distribute information within the organization. In essence, high embeddedness in the intrafirm network places the CEO in the middle of the action, thus enabling him or her to contribute tremendously to the firm's exploitation and exploration capabilities. The departure of a CEO of such embeddedness translates into significant losses in terms of instrumental relationships and the strategic efficiencies he or she facilitates.

First, turnover of a CEO with high embeddedness in the intrafirm network will negatively influence the firm's exploitation capabilities. As pointed out earlier, part of the value of a CEO's social connections with other organizational members is that they facilitate efficient information flow to lower levels of the organizational hierarchy. This value is created by instrumental relationships (Coleman 1988). Thus, greater CEO social network embeddedness will improve the quality of the information flow over and above formal structures and procedures and thus enhance the effectiveness with which strategic decisions are implemented. When such a CEO leaves, this additional social channel is disrupted. The organization may fall short in meeting the information requirement for executing strategic decisions that have been made (Galbraith 1973).

Embeddedness in the intrafirm social network also has important implications for the CEO's role as an information gatherer within the organization. Specifically, having strong connections with many organizational members will give the CEO a greater awareness of the nature and distribution of information and resources that reside within the organization. Awareness of the availability and location of such resources is rooted in the instrumentality of relationships between the CEO and members of the organization (Adler and Kwon 2002, Coleman 1988). Consequently, access to such information will assist the CEO in his or her decision making, putting him or her in a position to leverage the firm's existing resources—and in the process, create value. The turnover of a CEO in this position will lead to the loss of this advantage and therefore negatively influence the firm's exploitation capabilities. As Coleman (1988) points out, the instrumental action facilitated by social connections is lost when those relationships end. Similarly, Burt (1992) suggests that the dissolution of a social connection results in the loss of any value created by that relationship (see also Shaw et al. 2005). Combining the arguments above, we propose the following:

Proposition 1A. *Ceteris paribus, turnover of a CEO with high embeddedness in the intrafirm social network has a negative impact on the organization's exploitation capabilities.*

Turnover of a CEO with high embeddedness in the intrafirm network is expected to negatively influence the firm's exploration capabilities. Because CEOs are at the forefront of navigating the competitive landscape, they are in a position to discover new opportunities for organizational growth and performance. As noted earlier, one important source of discovering new opportunities is through bisociation and novel combination of existing knowledge and resources (Grant 1996, Koestler 1964, Kogut and Zander 1992, Nahapiet and Ghoshal 1998), a process that requires the top management to be aware of what resources and knowledge the firm possesses and where they are located. As embeddedness is equated with the quantity and quality of social connections, high CEO embeddedness implies greater access to a wide array of high-quality information. Access to this kind of information gives way to better CEO decision making. Specifically, it broadens the number of alternatives a CEO can consider with regard to exploration. Tsai and Ghoshal (1998) find that such connections are positively related to innovation. When a CEO with such embeddedness leaves, the firm may no longer benefit from his or her knowledge about the firm's resource distribution. In particular, because the CEO is the top decision maker, the loss of such an embedded CEO will necessarily influence the organization's ability to capitalize on that knowledge.

Proposition 1B. *Ceteris paribus, turnover of a CEO with high embeddedness in the intrafirm social network has a negative impact on the organization's exploration capabilities.*

Turnover of a CEO with high embeddedness in the interfirm network will also negatively influence the firm's exploration capabilities. As argued earlier, having wide and strong connections with outside parties exposes the CEO, and accordingly the firm, to a large variety of information that is of potential value to the firm. Research shows that such CEOs are often considered a highly valuable organizational resource and thus are likely to receive higher compensation (Geletkanycz et al. 2001). Through the CEO's interfirm network, the focal firm can gain information and knowledge that span the organizational boundary. This opens up possibilities for the firm to explore beyond its current set of strengths and advantages. With access to external information, the firm can break existing mental models and identify new growth opportunities, through which the firm may pursue new products, new markets, or new business models. The firm may also get access to the necessary resources for its exploratory effort through the CEO's membership in the interfirm social network by, for instance, acquiring the right talent for the product innovation. Turnover of a CEO with high embeddedness in the interfirm network suggests that the organization may no longer have access to those external knowledge and information sources. The bisociation capabilities of CEOs are a particularly idiosyncratic resource and are, thus, difficult to replicate or even replace (Koestler 1964). In the absence of this ability to acquire and create new knowledge through combinations to formulate innovative strategies, the organization will lose a key aspect of its exploration capabilities (Koestler 1964).

Proposition 2. *Ceteris paribus, turnover of a CEO with high embeddedness in the interfirm social network has a negative impact on the organization's exploration capabilities.*

We have noted that a CEO's embeddedness in the interfirm network does not have a direct relationship with the firm's exploitation capabilities. Exposure to the external sources of knowledge and information does not necessarily improve the information flow within the organization. Thus, turnover of a CEO who is highly embedded in the interfirm network does not necessarily influence the firm's exploitation capabilities.

Successor CEO's Network Embeddedness

So far, we have discussed the implications of CEO turnover for organizational capabilities without considering the impact that succession might have. We now discuss the implications of CEO succession for organizational capabilities. We accomplish this by theorizing that the successor CEO's relative standing in the social networks will moderate the impact of the CEO turnover proposed above. In other words, the negative effect of a CEO departure may be attenuated, or even reversed, depending on the successor CEO's embeddedness in the intrafirm network and interfirm network, respectively.

Although the departure of a CEO with high intrafirm network embeddedness is expected to negatively impact the firm's exploitation capabilities, as we argued in Proposition 1A, there are situations in which this negative influence may be attenuated or even reversed. Specifically, a successor may be in a position to continue to capitalize on the benefits provided by existing resources and competencies.

Such a situation is quite plausible in the case of internally selected successors. Successors who are promoted from within the firm are often more internally embedded than those recruited from outside, in part because of grooming by the outgoing CEO, but also because of their tenure within the organization (Helmich and Brown 1972; Shen and Cannella 2002a, b). By virtue of their high embeddedness in the intrafirm network, such successors are likely cognizant of the organization's existing configuration of intellectual (and other) resources. Thus, they are able to locate and mobilize existing resources to effectively exploit market opportunities and advantages. Zhang and Rajagopalan (2004) examine the performance implications of relay and nonrelay CEO succession; relay CEO succession is a process whereby an incumbent CEO works with an heir apparent and passes the baton of leadership to the heir (Vancil 1987). Zhang and Rajagopalan (2004) argue that relay succession provides the CEO heir the opportunity to learn how to manage relationships with key internal and external stakeholders. They find that compared to nonrelay and outside succession, relay CEO succession is associated with the highest postsuccession firm performance—that is, return on assets, return on sales, and market-to-book value, all of which can be considered efficiency-based financial indicators of firm performance. A successor who is highly embedded in the intrafirm social network is likely to have these relationships already and thus can effectively exploit existing capabilities. This familiarity and social connectivity is likely to result in less disruption to the functioning of the organization. Indeed, prior research suggests that inside successors cause less disruption and tend to improve postsuccession performance (Gouldner 1954, Grusky 1963). In a study of chemical and allied product corporations, Helmich and Brown (1972) find that inside succession results in less organizational change, thus maintaining the status quo. Consequently, we would expect there to be little or no change in the organization's exploitation capabilities in such situations.

However, if a successor CEO is chosen who is not plugged in to the intrafirm network, she or he may not be fully cognizant of the firm's available resources, how those resources complement each other, and, consequently, how to most effectively exploit them. Hence, at least in the short term, the firm is likely to experience the negative effects of CEO turnover.

Proposition 3A. *Ceteris paribus, the negative impact on the organization's exploitation capabilities of turnover of a CEO with high embeddedness in the intrafirm social network will be attenuated when the successor CEO is highly embedded in the intrafirm social network.*

We argued in Proposition 1B that the turnover of CEOs with high intrafirm social network embeddedness is expected to cripple the firm's exploration capabilities. There are two key contingencies, however. The first contingency is with regard to the successor's intrafirm network embeddedness. When the successor CEO is central to the intrafirm social network and has many strong ties, she or he can have access to different sources of information and knowledge within the firm. As a result, she or he is in a good position to facilitate the combination and exchange of existing firm resources and knowledge (Kogut and Zander 1992, Nahapiet and Ghoshal 1998). This means that the firm can still rely on the successor CEO's network position to engage in bisociation processes, a crucial source of firms' exploration capabilities (Koestler 1964). If, unlike the departing CEO, the successor is not highly embedded within the intrafirm network, she or he will have a poor understanding of the organization's available resources. Here, the mechanisms that facilitate informational flow are not in place (Coleman 1988). A limited awareness of the spectrum of resources and their location may lead to ineffective deployment. This will necessarily limit his or her ability to identify new opportunities for leveraging existing organizational resources and competencies even if she or he might have good ideas.

Proposition 3B. *Ceteris paribus, the negative impact on the organization's exploration capabilities of turnover of a CEO with high embeddedness in the intrafirm social network will be attenuated when the successor CEO is highly embedded in the intrafirm social network.*

The second contingency in the relationship stated in Proposition 1B is related to the successor CEO's status in the interfirm network. The firm benefits from the new CEO when she or he has a large and strong pool of connections outside the firm. This will provide the firm with the potential expansion of its current repertoire of knowledge and information. Typically, when the successor CEO is externally hired, she or he may carry contacts outside the focal firm (Parrino 1997). Therefore, the perspective and knowledge that she or he brings to the firm through his or her external contacts is likely to be new to the firm. Indeed, Grusky (1960) contends that outside successors bring with them qualities and values that do not stem from the organization itself. Huson et al. (2004) suggest that such sources of succession yield greater postsuccession performances, compared with inside successors. Gelekanycz and Hambrick (1997) find that executives with extraindustry ties tend to adopt strategies that are contrary to industry norms. Hence, the successor CEO's embeddedness in the interfirm network will enhance the firm's exploration by bringing new perspectives to the organizational strategy.

This is consistent with existing views of externally hired successors as agents of change (Boeker 1997, Gouldner 1954, Wiersema 1992). So when the successor CEO is highly embedded in the interfirm network, that fact can mitigate or even reverse the negative effect on organizational exploration capabilities caused by a departing CEO who is highly embedded in the intrafirm network.

Proposition 3C. *Ceteris paribus, the negative impact on the organization's exploration capabilities of turnover of a CEO with high embeddedness in the intrafirm social network will be attenuated when the successor CEO is highly embedded in the interfirm social network.*

Proposition 2 suggested that the departure of a CEO who is highly embedded in the interfirm network will hamper the organization's exploration capabilities. Much like the contingent situations we have outlined for Proposition 1B (detailed in Propositions 3B and 3C), the negative consequences of the turnover of CEOs of this type will be negated when a successor is chosen who is highly embedded in intrafirm or interfirm networks, or both. Such a successor is able to bring his or her social network ties to bear on managing the organization's exploration capabilities.

First, as pointed out earlier, when the successor is highly embedded in the intrafirm network, she or he is at the crossroads of information flows within the organization and hence can identify exploratory opportunities for creatively combining resources that currently reside individually in the organization. Therefore, the firm can continue to benefit from the successor CEO's role in seeking new organizational advantages by leveraging the existing repertoire of resources. Furthermore, when the successor is highly embedded in the interfirm network, she or he will have a higher affinity for managing strategic reorientation and searching for new sources of competitive advantage (Boeker 1997, Gelekanycz and Hambrick 1997), the hallmarks of superior exploration capabilities.

Proposition 4A. *Ceteris paribus, the negative impact of turnover on the organization's exploration capabilities of a CEO with high embeddedness in the interfirm social network will be attenuated when the successor CEO is highly embedded in the intrafirm social network.*

Proposition 4B. *Ceteris paribus, the negative impact of turnover on the organization's exploration capabilities of a CEO with high embeddedness in the interfirm social network will be attenuated when the successor CEO is highly embedded in the interfirm social network.*

Summary

Drawing on social network theory and the succession literature, we have developed a framework that captures the effects of CEO turnover and succession on organizational exploitation and exploration capabilities. As the literature suggests, the organizational consequences of CEO turnover and succession are mixed and complex (Furtado and Karan 1990, Kesner and Sebora 1994). Our framework is intended to shed light on this complexity and to make sense of the factors at play in the CEO turnover and succession phenomenon from an alternative perspective: the social network perspective. We argue that, whereas the CEO's embeddedness in interfirm social networks is linked to firms' exploration capabilities, his or her embeddedness in intrafirm social networks is linked to both exploitation and exploration capabilities.

The central thesis of the framework is that although the turnover of CEOs who are highly embedded in intrafirm or interfirm social networks, or both, is expected to have generally negative implications for firm capabilities, characteristics of the successor along similar dimensions will promote, negate, or even reverse such negative outcomes. More generally, the framework suggests that in order to mitigate the negative consequences of CEO turnover, successors must be at least comparable, if not superior, to departing CEOs in terms of their embeddedness in intrafirm and interfirm social networks. In fact, when the successor scores higher than the departing CEO with regard to the embeddedness in the intrafirm and interfirm networks, the process of turnover and succession will result in better organizational outcomes.

Discussion

The motivation for this research lay in the need to further our understanding of the organizational implications of CEO turnover and succession. Social network considerations have not taken center stage in prior studies of CEO turnover and succession, which primarily adopt the human capital lens or the agency lens. Yet recent research underscores the importance of introducing social network perspectives to this and related domains (e.g., Dess and Shaw 2001). In fact, it is especially critical to consider the social network implications of CEO turnover and succession in light of research linking top management social networks to organizational capabilities and performance (Collins and Clark 2003, Smith et al. 2005). The objectives of this paper were to introduce this perspective to the domain of CEO turnover and succession and to develop a framework for understanding its organizational implications. In so doing, our model takes a further step in answering the call for research to incorporate social network perspectives into the study of organizational phenomena.

The proposed model contributes to the literature in several important ways. First, as we have already noted, social network considerations are noticeably lacking in the extant literature on CEO turnover and succession. Our adoption of social network theory as a lens suggests that CEO turnover can have devastating effects on critical organizational capabilities, as CEO social network embeddedness fuels organizations' exploitation and exploration capabilities in important ways. Hence, social network considerations should not be neglected in the selection of CEO successors. In highlighting the importance of the social network perspective, we add another important dimension to our understanding of why CEO turnover and succession matters for organizations.

Second, the framework developed in this research further illustrates just how varied and complex CEO turnover and succession can be when key organizational capabilities are at stake. Firms can attenuate, or even reverse, the adverse effects of CEO turnover through careful consideration of the social network embeddedness of candidate successors. The contributions of this research should be viewed as complementary to the contingencies identified by Kesner and Sebora's (1994) review of the CEO turnover and succession literature. The framework developed here identifies the social network characteristics of CEOs and successors as additional contingencies that may explain important inconsistencies related to CEO turnover and succession, and to firm outcomes, as highlighted by Kesner and Sebora (1994).

Third, unlike much prior research on CEO turnover and succession that examines organizational performance as the outcome variable (Allen et al. 1979; Brown 1982; Furtado and Karan 1990; Guest 1962; Grusky 1963; Lieberson and O'Connor 1972; Shen and Cannella 2002a, 2003; Virany et al. 1992; Zhang and Rajagopalan 2004), we focus on organizational capabilities—more specifically, a firm's exploration and exploitation capabilities. Arguably, superior organizational performance results from having great exploitation and exploration capabilities, as well as a balance between them (Levinthal and March 1993, March 1991). Instead of directly linking the turnover and succession event to organizational performance, we examine the important intermediate mechanism—organizational capabilities. This is because we believe that CEO turnover and succession influences organizational performance by first and foremost altering the capabilities of the firm. We believe that singling out the intermediate capability factors can reduce the confounding effect associated with investigating performance outcomes (Huson et al. 2004).

Our model has linkages to the existing CEO turnover and succession literature in terms of the important distinction between inside and outside succession (also referred to as successor origin). Although prior findings on successor origin and firm performance have been inconsistent (see Kesner and Sebora 1994 for a review), it is clear that successor origin has important implications for firm capabilities (Brady and Helmich 1984, Helmich and Brown 1972, Shen and Cannella 2002a). Within our framework, the implications of inside versus outside succession for firm capabilities are evaluated in terms of the value successors bring to the firm through their relative standing in interfirm and intrafirm social networks. There is a potential correlation between successor origin and social network embeddedness such that internally selected CEOs are likely to have higher intrafirm network embeddedness than externally selected CEOs, whereas externally selected CEOs are more likely to have comparatively higher interfirm network embeddedness. Nonetheless, as we discussed earlier, CEOs' acquisition of social capital results from a variety of factors. Therefore, there is likely to be a variation in the amount of intrafirm and interfirm network embeddedness across different CEOs. Managers may have different degrees of intrafirm network embeddedness even if they are from the same organization. Likewise, their different career paths and organization or industry exposure will determine their different degrees of interfirm network embeddedness.

The model developed in this paper can be applied to CEO turnover and succession in a general sense. That is, the model can apply to turnover of any nature—voluntary (resignation) or involuntary (dismissal) (Shaw et al. 1998, Stumpf and Dawley 1981). The framework is also applicable to various turnover contexts—when the organization is in crisis with declining performance, such that CEO turnover becomes a mechanism to correct failing firm strategies (Coughlan and Schmidt 1985, Nystrom and Starbuck 1984, Wiersema and Bantel 1993) or when the organization is in stable state and is experiencing normal turnover (e.g., retirement, new opportunities).

Theoretical Implications, Limitations, and Directions for Future Research

The theoretical framework developed in this research provides several implications for future research. First, the propositions put forward in the current research emphasize the importance of assessing the social network value that a candidate successor possesses in light of the social network value that is being lost through the departure of the incumbent CEO. Future research should therefore incorporate social network embeddedness into studies of CEO turnover and succession. Adopting such a lens will do much to improve our understanding of the underlying mechanisms that link CEO turnover and succession and organizational outcomes. As Shaw et al. (2005) find, social network characteristics can predict organizational performance losses due to turnover, beyond traditional human capital considerations, including organizational tenure. Empirical tests of the framework could measure CEO and successor embeddedness in intrafirm and interfirm social networks following approaches employed by Collins and Clark (2003). Additionally, advanced techniques such as polynomial modeling (Edwards and Parry 1993) could shed light on how differences in CEO and successor embeddedness in intrafirm and interfirm social networks influence organizational capabilities or performance. Polynomial modeling can capture the outcomes of complex relationships in ways that the use of difference scores cannot and thus would be appropriate for examining the complex relationships outlined in our framework (Edwards and Parry 1993).

Second, our framework suggests bisociation as the process through which CEOs and successors leverage the information gathered from intrafirm and interfirm social networks. However, our framework does not discriminate between executives with high versus low bisociation abilities. Clearly, what sets executives apart, particularly in the entrepreneurial domain, is each individual's capacity to use the information and knowledge he or she possesses to discover new sources of advantage (Smith and Di Gregorio 2002). It would be of theoretical interest to know how such entrepreneurial spirit factors into CEO turnover and succession when both the departing CEO and the successor are highly embedded in intrafirm social networks or interfirm social networks, or both. Incorporating the influence of such individual differences with social network considerations would shed additional light on the inconsistent findings regarding the performance outcomes of CEO turnover and succession.

Third, although the framework developed in this research clearly centers around social network considerations, the focus is more on the relative positioning of the departing CEO and the successor within the networks. Other features of the intrafirm and interfirm social networks in which these individuals might be embedded are not explicitly theorized within the framework. However, such considerations have important implications for organizational capabilities within the realm of CEO turnover and succession.

Specifically, our framework does not consider the composition of the networks within which the executive is embedded. This is similar to network *range*, which refers to the diversity of sources in the network (Collins and Clark 2003). By composition, we are referring to, for instance, the mix of industry-related versus non-industry-related sources of information within the social network. These compositional distinctions could be further broken down into supplier-related versus customer-related sources of information. Regardless, differences in the compositional makeup of these social networks have important implications for bisociation processes and capabilities. Smith and Di Gregorio (2002) argue that the greater the diversity of information used in the bisociation process, the greater the novelty of the resulting competitive actions. Geletkanycz and Hambrick's (1997) finding that extraindustry social ties were associated with deviant strategies, whereas intraindustry social ties were associated with strategic conformity, provides some empirical evidence of this argument. Future research should further explore the links between a CEO's social network composition and his or her organizational exploration and exploitation capabilities. In fact, the findings and implications of such research could extend beyond the domain of CEO turnover and succession to a more general theory of top manager social networks and firm capabilities or performance.

Practical Implications

The arguments developed in this research suggest that boards of directors need to seriously incorporate social network considerations into their selection process. In addition to the numerous other factors that boards of directors look for in a candidate, the social relationships that the candidate possesses are a critical asset that boards should not overlook. This is especially true in today's hypercompetitive environment in which competitive advantage is often short lived, and entrepreneurial search and discovery is an ongoing process (D'Aveni 1994). The turnover of a CEO is a great opportunity for board members and key stakeholders to reflect on the preferred strategic direction of the organization. The stakeholders thus have the opportunity to select a successor whose characteristics are in alignment with their own desired goals. Here, the social network embeddedness of the successor comes into play. While an ideal candidate with high levels of both intrafirm and interfirm networks may be difficult to identify, the choice of a new CEO should be driven by the specific goal of the organization at the time of succession. If strategic reorientation or exploration is the goal, stakeholders should focus their selection on the interfirm social network embeddedness of an external candidate (Kraatz and Moore 2002). Although externally hired successors are not expected to be highly embedded within the intrafirm social network, such embeddedness can grow over time as the successor takes steps to establish relationships with various organizational constituents. On the other hand, if maintaining the status quo and exploitation is the goal, stakeholders would be better served by selecting a successor who is highly embedded within the intrafirm social network. Such a candidate is more likely to be found within the firm (Shen and Cannella 2002a) than from outside.

Conclusion

The goal of this paper was to provide a social network perspective on the implications of CEO turnover succession for organizational capabilities. To that end, we developed a framework that sought to explain inconsistencies in extant findings between CEO turnover and succession and firm capabilities by expounding on the social network embeddedness of the departing CEO and the successor in intrafirm and interfirm social networks. The proposed framework responds to recent calls for social network perspectives on important organizational phenomena and has important implications for research and practice.

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