

Stock Market Reaction to CEO Appointment – Preliminary Results¹

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Abstract

Purpose: The aim of this paper is to examine shareholders' reaction to the decision of the supervisory board to appoint a CEO in companies listed on the Warsaw Stock Exchange.

Methodology: An event study and the mean-adjusted model were applied. The abnormal returns were measured as the CAAR in the entire (-60, + 60) window and selected sub-windows.

Findings: The obtained values of abnormal returns indicate the shareholder's negative reaction. Throughout the observation window, they oscillate slightly below zero, and in the window (0, +20) they are negative at -1.566%. Irrespective of the observation window, negative abnormal returns were obtained for over half of the observation (52–57%). Therefore, preliminary results indicate the predominance of the information effect over the real one. The decrease in market value as a result of the event may result from an increase in investors' uncertainty as to the effects of changes in strategy and skills of the new CEO.

Originality: The research is a unique one. To date, no one has carried out research into shareholders' reaction to a CEO appointment in either the Polish or Central and Eastern European capital markets. They primarily bring the value of cognition of shareholders' behaviour in the analysed event, which is reflected in share prices. They extend the literature on the signalization instruments, i.e. the activities that boards can undertake due to the new information transmitted to the capital market participants and stakeholders. The market reaction to a CEO appointment will without a doubt interest investors; the institutions responsible for supervision (which in the case of Poland is the Financial Oversight Commission) and the legislator in charge of regulations that prevent insider trading while promoting corporate disclosure transparency.

Keywords: CEO appointment, abnormal return, event study

JEL: G140, G390

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Introduction

The quality of leadership has a significant impact on companies' financial results (Kaiser, Hogan and Craig, 2008). Furthermore good management has contributed to economic growth, as proven in the World Management Survey (Koźmiński, 2013). In the theory of management, a chief executive officer (CEO) is considered a key figure since s/he is responsible for drawing up and implementing the company's strategy, its structure and obtained results. CEOs are expected to have a broader perspective and to take this into account in their managing operations (Jaskółka, 2011). Researchers often highlight leadership as being an important element of corporate governance, having a significant influence over the level of generated profits (Davidson et al., 2006). In public companies, any changes in key persons may cause a correction of stock market investors' perception of a company's development opportunities, which, especially in the short run, may produce results in the form of a sudden change in the valuation of the company, and in the long can run result in limited access to capital and reduce a company's capacity to generate profits (Gangloff, Connelly and Shook, 2014).

A change of the person who manages the business, the so called key person, is one of the most discussed research problems in the field of corporate governance. In the past, as in many other empirical works on the capital markets, the US market is the most abundant in research in this field, though it is not the only one. With the development and introduction of codes of corporate governance, it has become a subject of interest on other capital markets. Over the past decades researchers' interest in the issue of succession management has increased significantly (Kesner and Sebora, 1994; Pessarossi and Weill, 2013; Gomulya, Wong, Ormiston and Boeker, 2015). The development of research perspectives gave rise to the formulation of new research questions, as well as tools and techniques serving the performance of empirical analysis. As a consequence, certain theories were also formulated. From the perspective of organizational theory, the phenomenon of a key person succession may be explained on the grounds of the following three theories: common sense, vicious circle and ritual scapegoating.

The common sense theory assumes that a company's results should always improve when an ineffective CEO is replaced (Grusky, 1963, Helmich, 1975, Allen, Panian and Lotz, 1979; Dalton and Kesner, 1985; Kesner and Sebora, 1994). In contrast, in line with the vicious circle theory, one needs to expect that the company's standing will deteriorate as a result of a succession due to a disturbance of relations both in the business environment and within the company. Therefore, relations with clients, suppliers and employees may be disturbed (Grusky, 1960; Beatty and Zajac, 1987; Ishak and Latif, 2013). According to the ritual scapegoating theory, a CEO dismissal takes place even

if s/he is not to blame for a company's poor results (Gamson and Scotch, 1964; Boeker, 1992; Khanna and Poulsen, 1995). As a result, appointing a new CEO does not mean that a company's economic results will improve. In turn, on financial grounds, succession and related processes are considered significant market signals. The so-called signalling theory put forward by Spence (1973) assumes that when choosing the CEO the supervisory board may, especially where a change in a CEO position is a consequence of poor financial results, give out signals to the environment regarding future results (Wiersema and Moliterno, 2006). The signaling theory suggests that changes in the value of companies that are a consequence of changes in the CEO position can be attributed to the information effect, the real effect or a combination of the two. Since secondary financial markets do not lead to any direct transfer of resources to the firm, prices in these markets have real consequences only if they affect the actions of decision makers in the real side of the economy. According to Bond, Edmans and Goldstain (2011), this may happen for three reasons, which originate from the informational role of prices:

- First, real decision makers learn new information from secondary market prices, and use this information to guide their real decisions,
- Second, even if decision makers do not learn from market prices, they care about market prices because they are party to contracts that are contingent on market prices,
- Third, another possibility, favored by proponents of behavioral finance, is that secondary-market prices have a real effect on economic activity because real decision makers irrationally follow the price and use it as an anchor.

If the CEO rotation was unexpected, then the message about the change in the CEO position may indicate that the company's results are worse than originally expected. In such a situation, investors react negatively in response to an information component of the message. However, should investors expect an improvement in the results, then a real positive effect of the message will appear. The consequences in the form of a share price change, and as a consequence of increasing or decreasing of the valuation of the company, may be different depending on which of the above will be dominant (Adams and Mansi, 2009). Therefore, the results of empirical analyses are inconclusive, and in some cases even contradictory due to the context of succession. The question arises – why is this happening? Is succession, regardless of its nature, bad news for investors and does it entail a situation where results are not that good with regard to plans and expectations? Or does perhaps the appearance of a new executive mean an opportunity for investors for a change in a financial situation? Results of empirical studies on succession are not conclusive.

The research of consequences regarding the CEO rotation covers varied issues, from the circumstances preceding the succession (Lauterbach, Vu and Weisberg, 1999), to re-employment of previously dismissed managers (Erkens, Gan and Stolowy, 2015), to differences in companies' financial results which are a result of choosing successors from among the company's staff and among persons from outside of the company (Lin and Li, 2004), to effects seen in market indices, for instance in the share price change (Davidson, Worell and Dutia, 1993; Worrell, Davidson and Glascock, 1993). For example, findings of an analysis carried out by Gangloff, Connelly, Shook (2014) allow for the conclusion that investors assess successions better where the successor comes from outside the organization and where the company shows poor financial results before the event.

To date, the phenomenon of CEO succession on the Polish capital market has not been researched, except for a study on the resignation of a management board member in companies listed on the Warsaw Stock Exchange, conducted by Gurgul and Majdosz (2007). The authors demonstrated that shareholders judged a management board member's resignation negatively. Nevertheless, their research period is relatively short, from January 2000 to June 2005 and covers 60 successions. The problem associated with researching this issue arises from the fact that information of successions must be hand-collected, making it a time-consuming process. This study aims to fill a research gap in the literature and to attempt to answer the question on how investors reacted to the phenomenon of a CEO succession in the Polish capital market in the period from 2000 to mid-2015.

The structure of the paper is as follows. Section 2 describes the empirical evidence regarding market reaction to a CEO succession in earlier studies. This section presents the hypothesis development. Section 3 discusses methodological issues. In section 4 we discuss the sample selection procedure. Section 5 presents the obtained results. The final section, section 6, summarizes the findings and presents our conclusions.

Literature Review and Hypothesis Development

The results of the empirical studies on how CEO changes influence market value are very diverse, which hinders a comparative analysis of the outcomes. The corporate governance systems may affect the market reaction. Systems of corporate governance can be distinguished according to the degree of ownership and the identity of controlling shareholders. Some systems are characterised by wide dispersed ownership (outsider systems), whilst others tend to have concentrated ownership or control (insider systems). In the US model, there is a separation of ownership and management.

Executive Directors run the organization and the non-Executive Directors monitor the performance of these managers. The board is a single tier body with the Executive and Non-Executive Directors choosing the organization's course. The European model gives importance to all stakeholders. The board is a two tier structure with a supervisory board comprising of Non-Executive Directors which controls decision making by the Executive Directors. For this reason, the analysis of the impact of CEO succession on market value may be of an aggregate nature and take into account the functions performed by certain successors, and these can vary between insider and outsider systems. Another factor differentiating the studies are the circumstances or reasons for the appointment. From this perspective, the market assessment of a succession event may involve the appointment to the position of an existing or new person, dismissal, retirement, resignation or death.

Referring to signaling theory, the change of a key person in the company signals that investors' expectations have not been met, actual results are not satisfactory or that the current management has not lived up to the challenge and must be replaced in part or in full. As a result a company's share prices should fall. On the other hand, the appointment of a new person, signals a change has been made and that the company intends to get back track, which should be reflected in improved results and thus share prices should also rise. Both effects cancel each other out. Therefore, how do shareholders react to an executive rotation? The results are not conclusive.

Davidson et al. (1990) conducted a study in which they analyzed how the successor's function and origin affect the creation of value for shareholders. The data set consisted of 367 appointments to key management positions announced by the largest US companies according to the Fortune 500 ranking in 1986. The first events took place in 1963. We can conclude from the obtained results for the entire study population and study sub-groups that the force of shareholders' reaction to a succession depends on the successor's function. Throughout the observation window and for all appointments a significant increase of 2.82% was observed. In the case of a sub-sample of a CEO and a CEO plus the President of the board of directors, the increase is significantly the highest and amounts to 10.74%. Davidson et al. (1990) found evidence that a change in key positions in the company is important for shareholders and has a positive impact on the company's value creation. The authors observed a real effect. At the same time, they argue that the most important function in which the shareholders see the potential for company development is the CEO as well as the CEO and the President as one person.

One of the circumstances leading to the rotation in the position of a chief executive officer is the death of a current CEO. One of studies conducted into such a case was

by Worrell et al. (1986), in which the authors adopted a hypothesis that the death of a key board member is associated with a loss of value for shareholders. The research sample consisted of 127 such events that took place in the years 1967 to 1981 in the US market, including a subgroup involving 23 chief executive officers (CEOs). An abnormal return in the window $(-90, 0)$ was negative for the entire population at $-0,61\%$ and positive after the event in the interval $(0, +30)$ with the value of 1.56% . Results for the CEO subgroup looked somewhat different, where the decline of abnormal returns continued also after the event and the CAR measure reached -9.36% throughout the observation window $(-90, +30)$. In a situation where event data concerned people who served simultaneously as a CEO and the chairman of the Board of Directors abnormal returns were positive at 3.83% throughout the observation window. However, when the information concerned only the chairman of the Board of Directors, in the period preceding the event, a decline in the CAR measure was observed initially before rising to the level of 2.62% . Summing up the research results obtained by Worrell et al. (1986), the shareholders are not indifferent to a CEO appointment. In aggregate terms, its impact is likely to be minor and the authors found no evidence of the significance of the obtained results. However, in the case of the death of the person holding the function of a CEO, shareholders' reaction is negative, and significance tests confirm that from the point of view of shareholders, the position of a CEO is critical for the company and a change as a result of his death negatively affects the market value. The abovementioned studies of the market response to a board member leaving as a result of death, are not the only ones on the US market. Nguyen and Nielsen (2010) observed that a decline in share prices follows as a result of the sudden death of an independent director. The CAR measure in a four-day window $(-1, +2)$ amounted to about -1% .

Another undertaken research topic included other possible circumstances of a change in top management, and among them a resignation of a board member. The study conducted by Furtado and Rozeff (1987) observed a share price increase within two days after the board of directors' announcing a forced resignation of a top manager. However, their research sample consisted of only 11 such cases for US companies over eight years. In turn, a share price decline as a reaction to a resignation (not only forced) of a person occupying a high position among the management can be found in a long-term period of several months in the results of research carried out by Warner et al. (1988). At the same time, in the same research, the window $(-1, 0)$ observed a slight increase in abnormal returns. The observed discrepancy is most likely the consequence of a negative assessment of the company's results in the form of a past share price. The authors, wishing to examine market performance in various types of dismissals, identify the reasons for a resignation and pinpoint that successions are rarely reported

in the press as a consequence of letting someone go and hence it is difficult to pinpoint the real reasons for changes in top positions.

Elisaid, Wang and Davidson (2011) focused their research on examining the previously disregarded context of the phenomenon of succession. This is, amongst others, concentrating on the analysis of market performance to the appointment of external successors who have experience as CEOs in other companies. The authors wanted to answer the question of whether investors respond to this type of succession differently than to a CEO appointment of a person who has not performed such a function before. As a result of the analyses it was possible to prove that the market reacts positively to appointing an experienced manager from outside the company as a CEO. In addition, it was noted that companies that employed former CEOs were characterized by higher debt ratios and had a greater chance of risk of bankruptcy in the period preceding the succession. Moreover, their findings did not improve significantly after the change in the position of a CEO.

The CEO's succession and related shareholders' response was also subject to analysis in developing markets. In their studies on the emerging Malaysian market, Ishak and Latif (2013) prove the existence of a positive and statistically significant investors' response to the change of a CEO in windows (-10, 0) and (-5, 0). At the same time the authors explain that these results indicate the likelihood of information leakage on the planned succession. On the developing Chinese market Pessarosii and Weil (2012) also observed a positive response to the CEO appointment. Huang at el. (2008), in turn, found evidence for a positive response to the within-company appointment of an executive in their research on the Taiwanese capital market.

Among the numerous examples of market assessment of the CEO turnover we find only one that concerns the Polish capital market. Gurgul and Majdosz (2007) analysed the impact of managerial resignation on market prices of companies listed on the Warsaw Stock Exchange. An event study in a short window from -5 to +5 days was performed. The day of the event was marked by announcing the information about the resignation to the public for the first time. The study sample consisted of 60 resignations in companies listed on the main market from January 2000 to June 2005. Abnormal returns were calculated on the basis of the market model. The results were presented as average daily abnormal returns. The obtained values before the event on days $t = -4$, -2 and -1 as well as on day $t = +4$ were positive. On the remaining days average daily abnormal returns were negative at -1.006% on $t = 0$ and -1.068 on $t = +3$. The statistical significance of the results was confirmed accordingly for the values obtained on days $t = -2$, 0 and $+2$. In summary, Grugul and Majdosz indicate that the likely cause of the

observed positive reaction in the interval before the event involves treating the resignation as an attempt to solve problems in the company. Having heard the information, a minority of shareholders react negatively by treating such a resignation as a loss of human capital. Nevertheless, summing up the daily returns obtained by the authors throughout the observation window gives us an aggregate CAAR at -1.698%, which points to the fact that on average the shareholders' reaction is negative. Moreover, Gurgul and Majdosz (2007), in order to eliminate autocorrelation in the market model, conducted a calculation of standardized abnormal returns according to the market model which takes into account the GARCH (1,1) error term proposed by Hilliard and Savickas (2000). In this approach, the cumulative average abnormal return was also negative throughout the observation window, while values in sub-windows preceding the event were positive, whereas after the event they were negative and statistically significant in intervals (-2, -1), (0, +3), (0, +5). In addition, the analysis of variability of standardized returns pointed to a greater diversity in the interval before the event compared to the window after the incident. The authors conclude that the higher variability before the event results from the uncertainty as to the occurrence of resignation and nervous reaction of shareholders to constant speculation.

Numerous studies on top manager succession address the issue of the position being taken by a woman. Although the CEO gender is not the subject of these studies it cannot be omitted here. It is a potential direction for further research on the Polish capital market. One of them is a study by Campbell and Vera (2010) on the Spanish market. According to the authors, the findings of the regression analysis show that in the long term, a woman taking up a position on the board will have a positive impact on the share price, and thus on its market value. The presented research findings are not the only ones that address the issue of parity and positions taken by women. This issue was the subject matter of research conducted by Rose (2007), Smith et al. (2006) and Farrell and Hersch (2001). Carter et al. (2003), Erhard et al. (2003) Jehn and Bezrukova (2003) and Bohren and Ström (2007). The results were ambiguous and often contradictory.

The quoted results of selected studies on changing a CEO indicate that in aggregate terms the shareholders' reaction is still positive. A successor is seen as a person who will effectively manage the company and serve the growth of shareholders' wealth. In this case, the real effect outweighs the impact of the information effect. Nevertheless, if the circumstances of the succession are taken into account, it turns out that this is not a homogeneous phenomenon. The market perception of death and an unforced resignation is negative; thus the loss of a key individual is perceived as a loss of intellectual capital and an increased risk that the performance will deteriorate and that

the shareholders' value will decline. Different results are observed when successions are due to forced departures, with the observed reaction being positive. It is a signal of prospects of improving the company's financial standing. The new CEO is expected to deliver a more efficient management and an increase in the company's value.

As shown in the findings of the analyses in question, investors did not respond in a uniform way and consequently the results of the abovementioned analyses are sometimes contradictory. Yet there is no doubt about the fact that changes in the position in top management have an impact on the company's results and strategy, and thus the wealth of shareholders. Clayton, Hartzel and Rosenberg (2003) explain the reasons for the observed discrepancies as follows: a change in the value of a company resulting from a change of a CEO is a consequence of two phenomena:

- an information effect, where a change is a signal that a company's perspectives are weaker than expected,
- a real effect, where the new CEO is expected to bring about improvement in the results.

The findings of such research (e.g. Bonnier and Bruner, 1989 or Elisaid, Wang and Davidson, 2011) indicate that real positive effects may occur, but they may be dominated by the occurrence of the information effect. To sum up, most studies show that the real wealth's effect is dominant with respect to the information effect. This phenomenon has yet to be examined on the Polish capital market. In an attempt to bridge said research gap on the ground of the signaling theory the following research hypothesis was formulated:

Shareholders' reaction to the CEO appointment in companies listed on the Warsaw Stock Exchange is positive and similar to that observed in developed markets.

Methodology

A commonly used method of assessing shareholders' reaction is an event study and measurement of abnormal returns that are ultimately carried out by companies' shareholders. In this study also, the implementation of the research task and searching for answers to the question of whether a corporate event such as a CEO appointment is viewed negatively by shareholders and leads to a decrease in abnormal returns, were carried out by means of an event study. The date of the press release as the date of a CEO appointment by the supervisory board was adopted as an event date. The abnormal

returns were measured in the window 60 days before and 60 days after the transaction (-60,+60) as a cumulative abnormal return – CAR (Sudarsanam, 2003). An aggregated abnormal return for all CEO appointments was Cumulative Average Abnormal Returns $CAAR_{t_1}^{t_2}$ in the event window (t_1, t_2) (Agrawal, Jaffe and Mandelker, 1992).

$$CAAR_{t_1}^{t_2} = \sum_{t=t_1}^{t_2} AAR_t$$

where:

$CAAR_{t_1}^{t_2}$ – cumulative average abnormal returns in the window (Cumulative Average Abnormal Returns);

t_1 – starting day of observation window;

t_2 – ending day of the window;

AAR_t – average abnormal returns for all the analysed shares in period t (Average Abnormal Returns).

The average abnormal return for all appointments in the period t was calculated as an arithmetic average of returns for the sample. The daily abnormal return for company i over the period t was a daily return less an expected return on the share of company i over period t, as in the following formula (Fama et al., 1969):

$$AR_{it} = R_{it} - E(R_{it})$$

where:

AR_{it} – abnormal return for company i over period t,

R_{it} – return for company i over period t,

$E(R_{it})$ – expected normal return for company i over period t,

t – day or month, depending on the data accepted for calculations and unit of the event window.

With regards to the essence of abnormal return, in order to measure its value, first the actual return should be calculated, followed by the expected return. And while the former is relatively easy to estimate, the latter can present more problems. The estimation of an expected return means arriving at a return for shareholders over an ordinary period. In other words, the return estimated at this stage is the “simple” return provided that the event did not occur. At this stage the mean-adjusted model has been applied.

$$AR_{it} = R_{it} - K_i$$

where:

K_i – daily return on shares i over an independent days' period (-160, -61).

Calculations were carried out on the basis of share prices adjusted for splits, dividends, subscription rights, purchase rights, acquisition rights, denominations, and other events. Quotations of companies came from the available database on the stooq.pl internet service.

In order to validate the statistical significance of the obtained results, a parametric test based on the Student's t-test (t-statistic) was performed. The null hypothesis claimed that the average cumulative abnormal returns over a given interval are equal to zero for the study population. The condition of the compliance of results with the normal distribution was also taken into account in the statistical analysis, which ultimately decided on the rejection or acceptance of research results. Adjusting the distribution to a regular one was verified by a chi-square test.

Sample selection

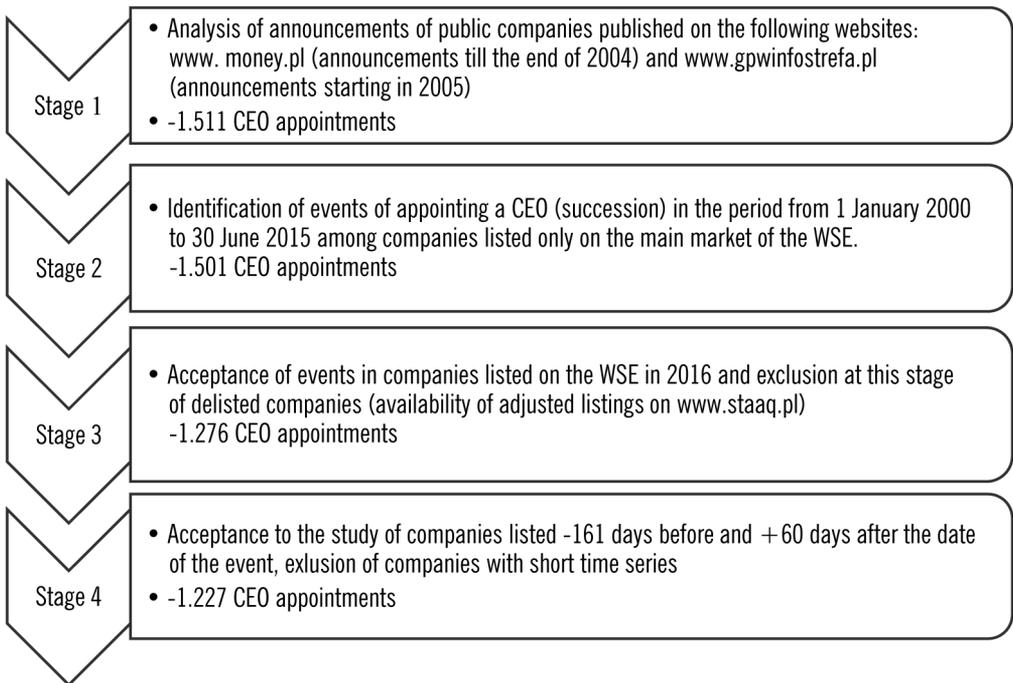
At the beginning of the sample selection procedure, information on CEO appointments was gathered on the basis of public companies' announcements from available websites. At this stage, the research works focused on browsing through companies' announcements, identification of analysed events, dates of the events and the names of the CEOs. Despite the fact that public companies are required to publish this type of information in the form of current reports, it was only at the end of 2004 that the Securities and Exchange Commission (now the Financial Supervision Authority) launched the Electronic System for Information Transfer (ESPI), whose resources have been made available on the GPWInforstrefa website. Earlier announcements were transferred to the EMITENT system, but they were not as structured as in the currently functioning ESPI system and their identification was possible by browsing through the publication of company reports on the websites of business internet services, i.e. Bankier.pl or Money.pl. In aggregate, from the beginning of 2000 till the end of June 2016 1.511 such events were identified.

Further sample selection was carried out in a few stages. First, companies whose shares were not listed in the main market of the Warsaw Stock Exchange were excluded, which limited the investigated population to 1,501 events of CEO appointment. Then,

at this stage of proceedings, companies whose shares were delisted were eliminated from the research and companies whose adjusted share quotations were available in the database of www.stooq.pl were accepted. The investigated population was reduced to 1.276 appointments. However, ultimately, methodological requirements, and above all the time period of listing companies on the stock market had to be taken into account in the analysis. The companies that had been in trading for too short a time, which resulted in the absence of data, had to be rejected as it was not possible in their case to calculate abnormal returns for the assumptions adopted in the observation period or to calculate the expected rate of return. As a result of the last stage of selection taking into account availability of quotations, 1.227 CEO appointments in companies listed on the main market of the Warsaw Stock Exchange in the period from 1 January 2000 to 30 June 2015 were adopted.

Figure 1 presents subsequent stages of sample selection necessary to perform the event study.

Figure 1. Sample selection procedure



Source: own study.

Results and Discussion

The performed event study for the CEO appointment and the obtained CAAR in the entire window (-60, +60) was slightly above zero and not statistically significant. Results from selected sub-windows allow noting that the greatest decline falls for the interval (-20, +20) at -1.566%. Yet, even this value at $\alpha = 0.1$ was not statistically significant, and such significance could only be observed at $\alpha = 0.15$. Analysing the CAAR values in subsequent intervals, we can observe that the companies' market value dropped mainly in the following intervals: (0, + 10) and (0, + 20) at -0.69% and -1.04%, respectively. These values were statistically significant at $\alpha = 0.1$ but no fit to a normal distribution was observed.

The obtained results signal that just like in the research by Gurgal and Majdosz (2007) addressing shareholders' reaction to a managerial resignation, decisions of the supervisory board about the CEO appointment are not welcome with the market's positive response. In fact, to the contrary, the market value declines and shareholders account for the negative abnormal results. However, there is no confirmation of this phenomenon in statistical significance tests.

Moreover, it needs to be noted that the sample included all events of CEO appointments, regardless of the reasons for succession. Most likely this is the cause of the observed differentiation of abnormal returns. For in approximately 45% of the studied events, the reaction was positive in all of the observation windows. This means that a top manager appointment results in certain groups of events including an increase in the company's market value. This is why, further research must identify the cause and character of the appointment, i.e. whether it was a re-appointment, a resignation, a recalling or whether it was an effect of a sudden departure (e.g. as a result of death or illness) or one planned due to the end of the term in office.

The values of achieved abnormal returns for the entire period and selected sub-periods are presented in Table 1.

Figure 2 presents the cumulative average of abnormal returns obtained in the entire window. The graphic illustration of results allows for the observation of how the shareholders' response is shaped. Soon after day $t=0$ (CEO appointment), there was a drop in the CAAR over twenty days to approximately -1.5%. Then, abnormal returns increased and remained at slightly below zero. The course of this reaction may be explained by the fact that initially investors do not accept the decision of the supervisory board, which is reflected in the drop in the market value. After about 20 days

abnormal returns begin to rise, since the perspectives on a company's further operations more than likely seem to be on the increase to investors.

Table 1. Cumulative Average Abnormal Returns (CAAR) in sub-windows

Observation window	CAAR	p-value	Negative CAAR (number of appointments)	Share in %	Positive CAAR (number of appointments)	Share in %
(-60,+60)	-0.00243	0.91397	649	52,89%	578	47.11%
(-60,-1)	-0.00557	0.64987	639	52.08%	588	47.92%
(-40,-1)	-0.01384***	0.13676	667	54.36%	560	45.64%
(-20,-1)	-0.00526	0.36023	676	55.09%	551	44.91%
(-10,-1)	0.00279	0.48884	668	54.44%	559	45.56%
(-1,0)	0.00022	0.90060	664	54.12%	563	45.88%
0	-0.00002	0.99072	662	53.95%	565	46.05%
(0, +1)	0.00267	0.26582	655	53.38%	572	46.62%
(0, +10)	-0.00690**	0.08806	677	55.18%	550	44.82%
(0, +20)	-0.01040**	0.09037	679	55.34%	548	44.66%
(0, +40)	0,00035	0.97093	658	53.63%	569	46.37%
(0,+60)	0.00314	0.81931	675	55.01%	552	44.99%
(-40,+40)	-0.01349	0.39739	676	55.09%	551	44.91%
(-20,+20)	-0.01566***	0.10788	698	56.89%	529	43.11%
(-10,+10)	-0.00410	0.50854	658	53.63%	569	46.37%
(-1,+1)	0.00291	0.29217	662	53.95%	565	46.05%

Note: statistical significance is tested utilizing the standard t-test (t-statistic);

* Statistical significance at the level $\alpha = 5\%$;

** Statistical significance at the level $\alpha = 10\%$;

*** Statistical significance at the level $\alpha = 15\%$;

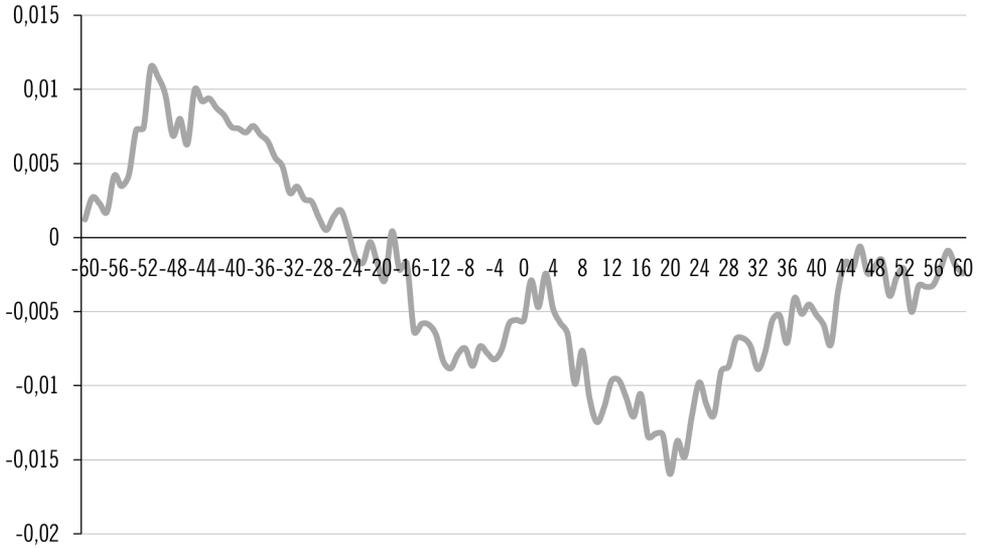
Fit to the normal distribution was tested with the chi-square test – statistical significance at the level $\alpha = 5\%$.

Source: own study.

Something else that can be observed in Figure 2 is a drop in abnormal returns much earlier than CEO appointments, starting from approximately 20 days before and lasting till about 10 days preceding the event. Just before the appointment of a new key person, the CAAR increased again. A detailed explanation of these preliminary observations

requires the exclusion in the next part of the research of events accompanying a CEO appointment, in particular dividend payments, stock splits, tenders and others decisions. Only then will it be possible to say whether the observed reaction is actually the result of a top manager succession.

Figure 2. Cumulative Average Abnormal Returns (CAAR) in the window (-60; +60)



Source: own study.

In summary, the obtained research results do not contradict the existence of the signaling effect, but because of the poor results of the statistical tests they also do not provide conclusive evidence for it. We have no reason either to accept or to reject the hypothesis that the shareholders' reaction is positive and similar to that observed in other capital markets in the world. From the achieved declining additional returns, we can only assume that the observed decrease of abnormal returns to a CEO appointment in the Polish capital market is probably the so-called effect of signaling. In particular, the information coming from the company before the succession is a signal for investors that the company's results and prospects are poorer in relation to the expected ones, which is reflected in share prices' decrease before the announcement of a CEO appointment. The fall in abnormal returns continued after the event for nearly 20 days, allowing for the assumption that a CEO known to shareholders is not well received, and thus they do not see prospects for improving the quality of management or, in turn, the company's results. Thus, the so-called real effect probably does not occur. However, we cannot state this definitively due to the results' lack of statis-

tical significance. It should be noted, however, that an increase of abnormal returns, after the succession, begins with a time delay of 20 days after the event and continues to the end of the observation window. Why is this happening? It could be related to the first decisions taken by the newly appointed CEO, to which the market reacts positively and revises its previous assessment and uncertainty as to the company's prospects. Is this, therefore, evidence for the occurrence of the real effect?

Investigating this phenomenon requires an identification of the appointment circumstances and in particular whether this is a reappointment or a new appointment. It will only be possible to identify the real effect when the new CEO is expected to improve the financial performance, which should be reflected in the share price increase after the event. In our opinion, whether the response is similar in the case of state-owned companies should be analyzed, where top management positions are filled primarily for political rather than economic reasons. In the case of a different market assessment, such successions should perhaps be excluded from the study or examined separately due to their specific nature.

Conclusions

This paper observed an interesting phenomenon, which had not been previously analysed on the Polish market, except for the research performed by Gurgul and Majdosz. The obtained results indicate that investors on the WSE respond negatively to a CEO appointment, and this is initially confirmed in statistical significance tests. In other words, we are dealing with a situation where the information effect described earlier dominates over the real effect. A company's market value decreases as a result of the event because its perspectives are worse than originally expected. At the same time, uncertainty as to the effects of the new key person's strategy and skills also leads to lowering the valuation.

It needs to be remembered that the presented results concern all types of CEO appointments, irrespective of succession circumstances. The next step in further research should take the form of a division of the population into research sub-groups and an analysis of the shareholders' reaction in the context of various types of successions. These include a forced succession, because of a resignation or recalling, or planned, due to the end of the term in office, or those resulting from medical reasons, e.g. as a result of a death or illness. Moreover, in order to observe a reaction to the succession only, it is advisable that disturbing events, (such as payment of a dividend, splitting shares, a merger or acquisition, etc.) should be excluded.

In summary, the obtained results neither confirm nor contradict the existence of the information effect. Due to the poor results of statistical significance tests we did not find conclusive evidence for the negative market assessment of a CEO appointment in the Polish capital market, but the obtained negative abnormal returns are the starting point in the search for answers to whether a CEO is a critical figure for the company and how it translates into market value. Further studies should consider the circumstances of the appointment, as these may affect the market assessment of a given event.

Finally, it is always worthwhile to attempt to find who could potentially be interested in the results of such research. The market reaction to a CEO appointment will without a doubt interest investors, institutions responsible for supervision, which in the case of Poland is the Financial Oversight Commission, and the legislator in charge of regulations that prevent insider trading while promoting corporate disclosure transparency. The reaction observed in this research and how it differs from reality may inspire studies on law violations. Such reactions become particularly significant in view of the European Commission's war on insider trading, European stock exchange manipulations and the applicability in Poland, since July 3, 2016, of the European Market Abuse Regulation (MAR) intended to impose significantly more severe capital market abuse sanctions. Parallel to the MAR is the Directive 2014/57/EU on criminal sanctions for market abuse (MAD II), which establishes penal provisions on market crime.

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