Firm Performance Around Announcements of Changes in Corporate Leadership: Evidence from Nigeria

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This study analyzes changes in firm performance around announcements of changes in the top management of corporate firms in Nigeria from 1997 to 2005. Data was obtained from the Nigerian Stock Exchange (NSE) and the Securities and Exchange Commission (SEC). The study covers all companies, drawn from all sectors, quoted on the first and second tiers of the Nigerian Capital Market that made changes in their board composition during the study period. The study concludes that a change in the top management of a company affects the organization’s performance.

Key words: top management changes, firm performance, announcement effects

Introduction
The examination of the effects of announcements of top management turnover and succession on firm performance has been proposed as a way of gaining insight into whether corporate leaders affect organizational performance or not. However, empirical research gives conflicting results about the possible benefits of such internal control that make interpretation difficult. Warner et al. (1988) find a significant association between poor stock performance and the frequency of management turnover, but find no significant excess returns to shareholders at the announcement of management change. Reinganum (1985) and Borstadt (1985) also find no significant excess returns at the announcement of management change except in specific circumstances related to executive title, firm size and origin of successor. Beatty and Zajac (1985) find an insignificant negative return at management change announcements, while Furtado and Rozeff (1987), Weisbach (1988), Brunner and Bonier (1989), Worrell et al. (1993) and Denis and Denis (1995) report significant positive returns at the announcement of management change. Weisbach (1988) finds that this relationship is stronger for firms with a greater fraction of independent outsiders on the board of directors.

However, there is no known study that has investigated the impact of corporate top management turnover and succession on firm performance in Nigeria. This study provides some evidence of the impact on shareholders’ wealth of changes in the composition of the board of directors of Nigerian listed firms. The study also extends the investigation of the financial consequences of turnover and succession for four types of key executives: board chairmen, vice chairmen, chief executive officers and managing directors. There is also the need for triangulation in research using a different setting such as Nigeria. The study therefore provides a basis for comparison with similar studies from the developed countries, as well as, promotes further interest in the Nigerian capital market. The paper seeks to answer these questions: Does change in top management matter? Do changes in top management impact on firm performance? The overall objective of the study is to investigate the impact of top management changes on shareholders’ wealth.
Review of Selected Literature

Studies on the effects of board changes on shareholders’ wealth report mixed results. Some studies report significant positive abnormal returns around the time of management change (Bonnier and Brunner, 1988; Furtado, 1986; Furtado and Rozeff, 1987; Rosentein and Wyatt, 1990; Worrelle et al., 1993; Denis and Denis, 1993, Fox and Opong, 1999). Other studies however report no significant abnormal performance on the announcement of management change (Borstad, 1985; Klein, Kim and Mahajan, 1985; Reinganum, 1985). Mahajan and Lummer (1993) also find no significant abnormal performance on the announcement of management change. Bhagat and Black (1996, 1997) also find inconsistent evidence on the effect of board composition on performance in a long-horizon study. These suggest that the current push for board independence is unwarranted.

Generally, studies on corporate governance in Nigeria are scanty and just evolving. Nigerian scholars in the area of corporate governance have concentrated their attention on the investigation of the ownership and control structure of business enterprises (Teriba, Edozien and Kayode, 1977), analysis of the pattern of share ownership (Ekpeyong, 1992), a gender analysis of chairmen, chief executives and directors of quoted companies in Nigeria to document the level of the involvement of women in the leadership of corporate firms (Adelegan, 2001), and a review of the different provisions of legislations governing corporate governance in Nigeria from three perspectives: disclosure and transparency, minority and shareholder rights, and oversight management, as well as an evaluation of the standard of corporate governance in Nigeria using the OECD scoring instrument (Oyejide and Soyibo, 2001).

Oyejide and Soyibo (2001) reviewed the practice of corporate governance in Nigeria, and the challenges posed to corporate governance by the implementation of the privatization programme. The paper also analysed the standard of corporate governance in Nigeria. It found that the way the privatization programme was implemented posed a lot of corporate governance challenges which can stretch the relevant corporate governance institutions. In a review of the legislation relating to corporate governance and the analysis of the standard of corporate governance in Nigeria, findings show clearly that the institutions and the legal framework for effective corporate governance seem not to be in existence. As a result, compliance and/or enforcement appear to be weak or non-existent.

Adenikinju and Ayorinde (2001) empirically investigated whether ownership-mix and concentration can explain the observed variation in corporate performance of publicly-listed firms in Nigeria. The study reveals that Nigerian firms are highly-concentrated and there is a significant presence of foreign ownership. However, foreign institutions are more prominent than foreign individuals, a finding that is attributed to weak property rights in the country. The study also finds that ownership structure has no impact on corporate performance in Nigeria.

Adenikinju (2005) examines governance structure of Nigerian firms and managerial characteristics. It also investigates the extent to which the governance structure and managerial characteristics influence performance. The study uses a panel data of firms quoted on the first-tier segment of the Nigerian stock market from 1993 to 2002. The findings show that managerial characteristics and corporate governance have implications on performance. Qualitative direction and quantitative importance of indicators of corporate governance and managerial characteristics on performance vary for low and high growth firms.

Sanda et al. (2005) analysed the impact of corporate governance mechanisms on the performance of firms in Nigeria. The sample covered 93 firms quoted on the Nigerian stock market between 1996 and 1999. The study concludes that firm performance was significantly and positively linked with governance variables, especially ownership concentration and director shareholding. Debt turned out to be significantly and positively associated with firm performance.
Adelegan (2005) examines the relationship between internal and external governance mechanisms employed by Nigerian banks, and finds that there is a high proportion of non-executive directors and a greater likelihood of separating the role of company chairman and chief executive officer (CEO). The proportion of non-executive directors who are former executives is low. These findings suggest that those banks are more likely to appoint non-executive directors for monitoring purpose. Banks in Nigeria have utilized audit committees since 1991. The audit committees contain a large proportion of non-executive directors.

However, the few studies on corporate governance in Nigeria are silent on the question: Do top management changes lead to improved firm performance? This study provides meaningful answers to this question.

Theoretical Framework
The study takes an agency perspective in analysing the issues and principles underlying corporate governance and changes in top management turnover and succession. The starting point of the agency theory is the different objectives of a principal, an economically powerful entity, and an agent. The theory assumes that the principal tries to devise contractual arrangements with one or more agents in such a way that it best serves his objectives. In a general setting, the problem comes down to choosing a contractual arrangement between the principal and the agent, which maximizes the objectives of the principal, subject to the so-called incentive and participation constraints. Given the terms of the contract, the agent behaves optimally. It is assumed that the principal knows the optimal level of action of the agent for each possible contract. Therefore, the principal is able to devise the contract in such a way that the action is optimal for him. This is the incentive constraint. However, since the agent may be able to refuse the contract, in general, the principal should also take a participation constant into account in the construction of the optimal contract. This implies that the utility the agent earns, if he accepts the contract, should at least be equal to the utility he would earn if the contract is not accepted, which is the reservation utility (Jensen and Meckling, 1976).

Agency relationship arises in any situation involving cooperative effort by two or more people. The relationship between the stakeholders, who are the owners of the company, and the management and board of directors, is a pure agency relationship. Separation between ownership and control is intimately associated with the general agency problem. The problem of inducing an 'agent' to behave as if he is maximizing the 'principal’s' welfare exists in all organizations (Jensen and Meckling, 1976).

The existence of agency problems will affect macroeconomic growth and capital market performance, in general, and valuation of firms at the micro level. A firm can be viewed as a nexus of contracts, implicit and explicit, among various parties or stakeholders, such as shareholders, bondholders, employees and the society at large (Jensen and Meckling, 1976; John and Senbet, 1998). The payoff structure of the claims of different classes is different. The degree of alignment of interests with those of the agents in the firm who control the major decisions in the firm are also different. This gives rise to potential conflicts among the stakeholders, which is the principal-agency problem. If left alone, each class of stakeholders pursues its own interest, which may be at the expense of other stakeholders (Jensen and Meckling, 1976).

This study focuses on the private agency perspective of corporate governance with regards to managerialism. Managerialism refers to the self-serving behaviour of managers. Ownership of modern corporations is widely diffused, with most large companies being owned by shareholders. Under separation of ownership from control, the actual operations of the firm are conducted by managers who typically do not own any stock. The potential conflict arising from managers and stockholders manifests itself in many ways. The management-stockholders conflict leads to a managerial propensity for expanding the span of control in the form of empire building at the expense of capital contributors.
or owners, and undue conservative investments in the form of safe, but inferior, projects to maintain the safety of wage compensation and their own tenure (John and Senbet 1998).

Thus, the existence of agency problems is potentially harmful to the owners of the firm and may lead to inefficiency and wealth destruction in an economy. It is in the best interest of owners to resort to control mechanisms that move the operation of the firm toward full efficiency of the Fisher separation principle. The channels for efficiency gains are improved managerial performance and the reduced cost of external capital resulting from appropriate control mechanisms. These controls should be built into the corporate governance system, contractual mechanisms, and market for corporate control and takeovers. The board of directors is an internal mechanism of corporate governance. It is viewed as the primary means through which the shareholders exercise control over top management.

Research Methodology

Model specifications

This study reviews accounting records and examines firm performance around the announcement time of top management changes to corroborate the implied signal in the market. Denis and Denis (1993) examined performance changes following top management dismissals and observed increases in the book value of total assets and reductions in employment levels and capital expenditures in the short run. Previous studies have documented significant corporate downsizing following other organizational changes. Data on changes in operating income before depreciation, total assets, capital expenditures and turnover are analysed for the five years centre around the period of top management changes (2 years before and after the announcements of the appointment, resignation, retirement and death of top board members, as well as around the period of an increase or decrease in the proportion of outside directors).

Firm performance is measured by:

\[ FP_t = \frac{OIBD_t}{TA_t} \]  

where:

\[ OIBD_t = (SA_t - COGS_t - SE_t - GE_t - AE_t) \]

Change in firms’ performance is measured as:

\[ \Delta FP_t = \frac{OIBD_t}{TA_t} - \frac{OIBD_{t-1}}{TA_{t-1}} \]

where: \( OIBD_{t-1} \) and \( TA_{t-1} \) are lags of operating income and total assets.

In measuring accounting performance changes, the study consolidates multiple events for a given firm in a given fiscal year. If a firm experiences two or more changes in a fiscal year, only one observation is recorded. The study calculates the change in firms’ performance for five years (year -2 to year 2) using equations 1 to 3.
The significance of median and mean changes are measured using a two-tailed Wilcoxon signed rank test and a standard two-tailed t-test, respectively. To measure the pre- and post-corporate control activities of top management changes, the study calculates changes in book value of total assets, capital expenditures and sales.

Change in total assets is measured as:

$$\Delta TA = \frac{TA_t - TA_{t-1}}{TA_{t-1}} \quad (4.3)$$

where:
- \( \Delta TA \) is change in total assets
- \( TA_t \) and \( TA_{t-1} \) are book values of total assets at time \( t \) and \( t-1 \) (the preceding year).

Change in capital expenditure is measured as:

$$\Delta CE = \frac{CE_t - CE_{t-1}}{CE_{t-1}} \quad (5)$$

where:
- \( \Delta CE \) is change in capital expenditures
- \( CE_t \) and \( CE_{t-1} \) are capital expenditures at time \( t \) and \( t-1 \) (the preceding year).

Change in sales or turnover is measured as:

$$\Delta SA = \frac{SA_t - SA_{t-1}}{SA_{t-1}} \quad (6)$$

where:
- \( \Delta SA \) is change in sales
- \( SA_t \) and \( SA_{t-1} \) are sales or turnover at time \( t \) and \( t-1 \) (the preceding year).

Hypotheses of the Study

The hypotheses of the study are stated in null form as follows:

(i) \( H_{01} \): Board changes have no information content reflected in share price behaviour; therefore board changes do not matter.

(ii) \( H_{02} \): Board members do not have private information about the present value of the firm.

(iii) \( H_{03} \): Top management turnover and succession does not lead to improvement in firm performance.

Sample Selection, Scope and Sources of Data

The study provides some evidence of the impacts of announcements of top management changes on shareholders' wealth in Nigerian listed firms. The data for the study cover a nine year period. All changes in the composition of the management board of firms that meet the following criteria were collected. First, the company must be listed on the Nigerian stock exchange (NSE). The reason is the ease with which stock prices and financial statements can be obtained for NSE-listed firms relative to firms that are not listed. Second, the date of board changes must be available. Third, there must not be any other major news announcement (mergers and major contracts etc.) in the two week period surrounding the board change. This criterion was to ensure that other variables that could affect the price around the period of management change are eliminated. This is also an attempt to minimize the joint effect from any ambiguity associated with an observed reaction in the week of the announcement of top management changes. Fourth, the price data necessary in the examination of shareholders' wealth effects must be available.

Data was principally obtained from the Lagos and Ibadan branches of the Nigerian Stock Exchange (NSE), and the Securities and Exchange Commission (SEC). Information about changes in board compositions and the years of the changes was obtained from the Stock Exchange fact books from 1997-2005. The dates of board changes was obtained from the annual reports and accounts of all the companies quoted on the Nigerian Stock Exchange (NSE).
The data on firms' share prices as well as price index, dividend per share and trading day were obtained from the daily official price lists of the NSE from 1997 to 2005. The study covers all companies drawn from all sectors of the Nigerian capital market quoted on the first and second tier securities market that made changes in their board compositions during the study period. Data on changes in operating income before depreciation, total assets, capital expenditures, cash flow and turnover were obtained from annual reports of companies and NSE fact books.

Results

Characteristics, size and composition of board of directors in Nigeria

The average board size of quoted companies in Nigeria between 1997 and 2005 is 9. This is consistent with findings by Sanda et al. (2005). Breweries, emerging firms and food, beverage and tobacco sectors have an average of 11 board members.

Ninety-two percent of the board of directors (BOD) of quoted firms in Nigeria have a different chairperson from the chief executive officer (CEO). Twenty-six percent of board members are female, while 2% of quoted firms in Nigeria have female chairpersons.

Twenty-one percent of members of the board of directors are executive directors, while 79% are non-executive. This implies that shareholders are adequately represented on the board, in compliance with the Cadbury report and SEC and CAC code of corporate governance in Nigeria. Foreigners, on the average, own 26% of the shares of quoted firms in Nigeria from 1997 to 2005. Two percent of board members are foreigners during the period of study. Twelve percent of members of board of directors have political affiliations, while 3% of the firms have chairmen with political affiliations. The average number of employees of quoted firms in Nigeria from 1997 to 2005 is 1,358.

Appendix 1 shows board changes of quoted firms in Nigeria from 1997 to 2005. The total number of board changes available for the study is 725. Of these, about 47% are new appointments, 23% are resignations, and 11% are retirements. Only 3%, a total of 19 observations, concerned death.

The joint occurrence of new appointments, resignations and retirements account for 17% of the events. There is a spike in the number of resignations in 1999 and new appointments in 2000. New appointments account for almost half of the board changes. This development reflects the recommendation of the Cadbury committee's report of 1992 that firms appoint non-executive members on their boards. Independent non-executive board members are expected to act as checks on executive excesses.

Review of accounting records and firm performance around the announcement time of top management changes

The results are presented in table 1 below. Firm performance was 12.19% after the announcement of changes in top management. Specifically, with new appointments and retirements, firm performance was 13.22% and 13.63%, respectively, a year after the announcements.

Firm performance improved by an average of 1.50% and 4.22% for all announcements of changes in top management and resignations, respectively. Firm performance also increased marginally by 0.92%, 0.34%, 1.07% and 0.93% a year after announcements of top management changes for new appointments, retirements, joint events and death, respectively.

The change in total assets for all announcements of top management changes a year after the announcement is 9.69%, 9.42% and 35.49% for all changes, resignations and retirements, respectively.

The change in capital expenditures for all announcements of top management changes a year after the announcement is 8.21%, 9.90%, 1.68%, 13.06% and 3.13% for all changes, resignations, new appointments, retirements and deaths, respectively.
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Table 1. Accounting Records and Firm Performance Around Announcements of Top Management Changes

Panel A: Firm Performance %

<table>
<thead>
<tr>
<th>Period in Years</th>
<th>All</th>
<th>Resignation</th>
<th>Appointments</th>
<th>Retirement</th>
<th>Joint</th>
<th>Death</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2</td>
<td>8.44</td>
<td>13.80</td>
<td>11.80</td>
<td>8.82</td>
<td>12.25</td>
<td>-4.45</td>
</tr>
<tr>
<td>-1</td>
<td>11.83</td>
<td>12.84</td>
<td>12.68</td>
<td>11.49</td>
<td>11.35</td>
<td>10.80</td>
</tr>
<tr>
<td>0</td>
<td>10.69</td>
<td>7.63</td>
<td>12.30</td>
<td>13.29</td>
<td>10.53</td>
<td>9.71</td>
</tr>
<tr>
<td>1</td>
<td>12.19</td>
<td>11.85</td>
<td>13.22</td>
<td>13.63</td>
<td>11.60</td>
<td>10.64</td>
</tr>
<tr>
<td>2</td>
<td>11.81</td>
<td>12.04</td>
<td>12.95</td>
<td>13.39</td>
<td>11.08</td>
<td>9.58</td>
</tr>
</tbody>
</table>

Panel B: Change in Firm Performance %

<table>
<thead>
<tr>
<th>Period in years</th>
<th>All</th>
<th>Resignation</th>
<th>Appointments</th>
<th>Retirement</th>
<th>Joint</th>
<th>Death</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2</td>
<td>-1.14</td>
<td>-5.21</td>
<td>-0.38</td>
<td>1.80</td>
<td>-0.82</td>
<td>-1.09</td>
</tr>
<tr>
<td>0</td>
<td>1.50</td>
<td>4.22</td>
<td>0.92</td>
<td>0.34</td>
<td>1.07</td>
<td>0.93</td>
</tr>
<tr>
<td>1</td>
<td>-0.38</td>
<td>0.19</td>
<td>-0.27</td>
<td>-0.24</td>
<td>-1.05</td>
<td></td>
</tr>
</tbody>
</table>

Panel C: Change in Total Assets %

<table>
<thead>
<tr>
<th>Period in Years</th>
<th>All</th>
<th>Resignation</th>
<th>Appointments</th>
<th>Retirement</th>
<th>Joint</th>
<th>Death</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2</td>
<td>16.17</td>
<td>40.60</td>
<td>22.86</td>
<td>29.14</td>
<td>1.08</td>
<td>-12.84</td>
</tr>
<tr>
<td>0</td>
<td>11.99</td>
<td>14.64</td>
<td>10.12</td>
<td>30.40</td>
<td>-0.03</td>
<td>4.85</td>
</tr>
<tr>
<td>1</td>
<td>9.69</td>
<td>9.42</td>
<td>0.41</td>
<td>35.49</td>
<td>0.00</td>
<td>3.13</td>
</tr>
<tr>
<td>2</td>
<td>6.45</td>
<td>1.94</td>
<td>0.92</td>
<td>30.57</td>
<td>0.21</td>
<td>-1.37</td>
</tr>
</tbody>
</table>

Panel D: Change in Capital Expenditure %

<table>
<thead>
<tr>
<th>Period in Years</th>
<th>All</th>
<th>Resignation</th>
<th>Appointments</th>
<th>Retirement</th>
<th>Joint</th>
<th>Death</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2</td>
<td>17.75</td>
<td>15.82</td>
<td>21.09</td>
<td>16.35</td>
<td>-10.45</td>
<td>-12.84</td>
</tr>
<tr>
<td>0</td>
<td>13.67</td>
<td>20.08</td>
<td>7.54</td>
<td>13.39</td>
<td>-12.42</td>
<td>4.85</td>
</tr>
<tr>
<td>1</td>
<td>8.21</td>
<td>9.90</td>
<td>1.68</td>
<td>13.06</td>
<td>-4.78</td>
<td>3.13</td>
</tr>
<tr>
<td>2</td>
<td>22.85</td>
<td>34.82</td>
<td>1.45</td>
<td>32.28</td>
<td>-12.79</td>
<td>-1.37</td>
</tr>
</tbody>
</table>

Panel E: Change in Sales %

<table>
<thead>
<tr>
<th>Period in Years</th>
<th>All</th>
<th>Resignation</th>
<th>Appointments</th>
<th>Retirement</th>
<th>Joint</th>
<th>Death</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2</td>
<td>13.97</td>
<td>12.70</td>
<td>15.20</td>
<td>21.76</td>
<td>17.94</td>
<td>2.24</td>
</tr>
<tr>
<td>0</td>
<td>22.68</td>
<td>7.50</td>
<td>19.04</td>
<td>28.20</td>
<td>14.78</td>
<td>43.86</td>
</tr>
<tr>
<td>1</td>
<td>18.34</td>
<td>11.78</td>
<td>12.82</td>
<td>24.94</td>
<td>18.21</td>
<td>23.94</td>
</tr>
<tr>
<td>2</td>
<td>12.41</td>
<td>11.92</td>
<td>17.66</td>
<td>9.83</td>
<td>8.67</td>
<td>13.99</td>
</tr>
</tbody>
</table>

Computed from data obtained from annual reports of various firms, SEC, and NSE Fact books: 1997 to 2005

Sales or turnover improved by 18.34% on the average a year after the change in top management. Announcements of resignations, new appointments, retirements, joint events and deaths led to improved sales by 11.78%, 12.82%, 24.94%, 18.21% and 23.94%, respectively.
The study tested for the null hypothesis which states that top management turnover and succession does not lead to improvement in firm performance. The results show improvements in firm performance, positive changes in total assets, turnover and capital expenditure. Thus the study rejects the null hypothesis and accepts the alternative hypothesis.

Table 2 presents the mean and the median changes for all the events around top management changes according to type. The results in suggest that overall top management changes are preceded by a high positive change in operating performance as shown by 0.106% mean change for year -1 to 0. Changes in the top management as a result of retirement are preceded by negative significant mean changes in performance for year -1 to 0 (0.669%). For years -1 to +1, changes in the top management resulting in new appointments are associated with positive statistically significant mean performance changes. Mean changes in performance following top management changes resulting in resignation and joint events are positive for the event windows, while the mean performance changes following top management retirements and death are negative and not statistically different from zero.

The median changes in firm performance around the event windows are statistically significant for resignations, retirements and joint events.

**Discussion**

If top management changes contain price-sensitive information, the study is expected to find significant price reactions if the information has not been anticipated by the market. The results provide insights into specific circumstances in which personnel changes will affect shareholders' wealth. The results of firm performance around the pre-announcement, announcement and post-announcement of a top management change have positive information content. This implies that a top management change is in the shareholders' interest and it conveys bad news about the firm's present performance, but good news about its future performance. This is consistent with the findings of Bonnier and Bruner (1989), Worrell et. al. (1993), Furtado and Rozef (1987), Weibach (1988), and Fox and Opong (1999) about announcement and post-announcement periods.

<table>
<thead>
<tr>
<th>Yr.</th>
<th>Top Mgt Changes</th>
<th>Resign</th>
<th>Appoint</th>
<th>Retire</th>
<th>Joint</th>
<th>Death</th>
</tr>
</thead>
<tbody>
<tr>
<td>-1 to 0</td>
<td>Mean</td>
<td>0.106</td>
<td>0.4043</td>
<td>0.2089</td>
<td>-0.669***</td>
<td>0.1621</td>
</tr>
<tr>
<td></td>
<td>Median</td>
<td>-1.51</td>
<td>-0.68</td>
<td>-0.10</td>
<td>-2.17</td>
<td>-1.06</td>
</tr>
<tr>
<td>-1 to +1</td>
<td>Mean</td>
<td>-0.923</td>
<td>-1.826***</td>
<td>0.73</td>
<td>-1.671***</td>
<td>-1.841***</td>
</tr>
<tr>
<td></td>
<td>Median</td>
<td>-0.64</td>
<td>-0.77</td>
<td>-11.14*</td>
<td>-0.76</td>
<td>-0.85</td>
</tr>
<tr>
<td>0 to +2</td>
<td>Mean</td>
<td>-0.928</td>
<td>-1.826***</td>
<td>-0.73</td>
<td>-1.671***</td>
<td>-1.826***</td>
</tr>
<tr>
<td></td>
<td>Median</td>
<td>-1.5128</td>
<td>-0.68</td>
<td>-0.104</td>
<td>-2.17</td>
<td>-1.06</td>
</tr>
</tbody>
</table>

*Note: Operating income is measured as the ratio of operating income to total assets (OI/TA). Means are presented above the median. Significance of mean and median changes are measured using a standard two-tailed t-test and a two-tailed Wilcoxon signed rank test respectively. t-statistics are in parenthesis.

* , ** and *** represent significance at 0.01, 0.05 and 0.1 levels of significance, respectively.

*Sources: Computed by the author from data obtained from the annual report of various firms, SEC, and NSE*
The change in accounting records and firm performance before the announcement of a top management change (year -1 to 0) shows a decrease in performance by -1.14%. Firm performance increased by 1.5%, a year after the change, with a mean performance change of 0.55% for the announcement and post announcement periods (year 0 to +2).

Resignations
The resignation of a top management personnel gives negative results for the pre-announcement, announcement and post announcement periods. The accounting records which gave a reduction in firm performance by -0.96% and -5.21% a year before and the year of the announcement (year -1 and 0). This improved to 4.22% by year 1 after the announcement.

Poor firm performance and accounting records a year before resignation point to the fact that the resignation may be a polite way of dismissal of a poor CEO or chairman. This is supported by the improvement in accounting records a year after resignation announcements. In Nigeria, poor top managers are hardly ever sacked; they are always advised to resign. The resignation of a top non-executive director (for example, chairman or vice chairman) signals negative information content that the change is in the interest of the shareholders, but it conveys bad news about firm performance.

Appointments
It is surprising to note that the appointment of the CEO or top management personnel produces roughly neutral results for the pre- and post event years. This can be explained by the fact that announcements of new appointments are made months after resignation, death or retirement. The market may want to take a wait and see attitude (by not reacting immediately) towards the new appointment (Worrell et. al. 1993), especially when a top manager that is perceived to be valuable has died or retired and he is being replaced.

Joint events
However, joint events or concurrent announcements of resignation or retirement and new appointment produce positive information effects. There are negative changes in firm performance before the announcement (-0.90% and -0.82% for year -1 and 0, respectively) and positive changes in firm performance (1.07%) a year after the announcements. The mean change in performance for year 0 to 2 years after the joint event is 0.497% and the median change is statistically significant. This is consistent with the findings of Worrell et. al. (1993), but inconsistent with the roughly neutral findings of Fox and Opong (1999). This is further consistent with the occurrence of successor-driven recovery, which investors view as a positive step when new top managers take charge.

The origin of the successor is also a key determinant of the change in operating income during the event period (year-1 to 0). An outsider successor occurring concurrently with retirement or resignation has a positive real effect because outsiders may not be committed to the firm’s past policies; they may be the agent of change, altering the mission, objectives, investment, and production strategies and internal organization. This is consistent with Reinganum’s new broom argument. The findings of positive investors’ reactions to top management’s concurrent resignation or retirement and replacement are also consistent with the rational adaptation view of organizational change (Worrell et. al., 1993, and Friedman and Singh, 1989). The announcement of a successor concurrently with a resignation after poor performance may be seen as an adaptive response suggesting strategic redirection. Boards exercise bottom-line control by ousting CEOs when firm performance fails to meet board expectations; and by positioning new key executive at the helm, the board signals the end of the entrenched management (Mizruchi, 1983).

Retirements
Positive changes in firm performance are experienced before and a year after the announcement of retirements. The mean change in accounting records and firm performance a year before to the year of announcement of retirement (year -1 to 0) is negative and statistically significant, while the mean change in performance after the
announcements (year 0 to 2 years after) is positive. The positive shareholder effects may be explained by the fact that retirements may be used to appoint a new CEO or chairman that will bring fresh and dynamic impetus into the firm’s operations. This is consistent with the findings in Adelegan (2008) that no significant Cumulative Excess Returns (CERs) are experienced on the day of announcement (day -1 to 0). This implies that the market has discounted any informational effects. This is not surprising since retirements are always announced in advance. This is consistent with findings in Fox and Opong (1999).

Deaths
Death also produce non significant changes in firm performance. However, Adelegan (2008) shows that death produce large positive shareholder wealth effects in the pre- and post-announcement periods. This can be explained by the fact that death following a long period of ill health will be more in the nature of retirement; it is an opportunity to appoint a full functioning CEO or chairman to replace a CEO or chairman who has been suffering from ill health and has possibly performed below par. Nevertheless, the significant result, around announcement of death, could also be attributed to the fact that the number of death announcements is small.

Conclusion
This study examines the impact of top management changes on stock returns in Nigeria from 1997 to 2005. The study concludes that announcements relating to changes in the membership of the board of directors contribute to shareholders’ wealth. The findings are consistent with hypothesized benefits from internal mechanisms of corporate control in management change.

The study supports the position that predicting the financial consequences of top management change is extremely complex. Future research should consider examining the determinants of shareholder benefits from management change, as well as the effect of industry characteristics, size and age criterion on the link between changes in top management and firm performance simultaneously, given the potential intertwining of those factors.

References


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