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How to cite this publication

Please cite the final published version:

Villadsen, A. R. (2016). The relation between executive succession and corporate capacity, *Journal of Public Administration Research and Theory*, 26(1), 19-29.
doi: 10.1093/jopart/muu036

Publication metadata

Title:	The relation between executive succession and corporate capacity
Author(s):	Villadsen, A. R.
Journal:	<i>Journal of Public Administration Research and Theory</i> , 26(1), 19-29
DOI/Link:	http://dx.doi.org/10.1093/jopart/muu036
Document version:	Accepted manuscript (post-print)

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THE RELATION BETWEEN EXECUTIVE SUCCESSION AND CORPORATE CAPACITY

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Abstract

This study examines the relation between executive succession and corporate capacity. Drawing on theory on executive succession, it is argued that corporate capacity is likely to increase following succession as new executives need early support to succeed in the job. The effect of succession is expected to decrease over time as the new executive settles in. These effects are expected to be most pronounced following outside successions. My expectations are tested in a longitudinal study of executive succession and corporate capacity in Danish municipalities 1993-2000. The findings largely support the theory put forward and suggest that corporate capacity is unaffected by inside succession and increased following outside succession. The study's contributions to research on executive succession and corporate capacity in public organizations are discussed.

INTRODUCTION

Corporate capacity is increasingly being highlighted as significant not only for understanding *if* organizations achieve their goals but also for understanding *how* they do it (Andrews and Boyne 2011; Meier and O'Toole 2010; Ingraham, Joyce and Donahue 2003). Corporate capacity refers to the administrative centre of an organization and relates to its potential for action by encompassing cross-functional elements which are essential for monitoring, controlling, and supporting organizational core operations. Corporate capacity, therefore, is an important part of the structural configuration of organizations as well as a key determinant of organizational performance. It has been argued that the importance of corporate capacity for public organizations is increasing (Andrews and Boyne 2011), presumably as a result of the increasing demands for flexibility and complexity put on public service delivery today. Against this background it is not surprising that research is showing an increasing interest in the determinants of the size of the corporate centres in public organizations (Boyne & Meier, 2013). This is a question which relates to the core functioning of organizations. A better understanding of how public organizations work to achieve their objectives requires more knowledge about this vital dimension.

This paper explores the influence of executive succession on corporate capacity. Where recent research has investigated the performance effects of both executive succession (Hill 2005; Boyne et al. 2011) and corporate capacity (Andrews and Boyne 2011), this study investigates how these two important concepts are related. This important question addresses both gaps in our knowledge about the outcomes of executive succession as well as about antecedents of corporate capacity. This paper suggests a dynamic model where executive succession is initially related to increasing corporate capacity; however, this effect fades over time. Following Boyne and

Dahya's executive succession model (2002), it is argued that new executives with different backgrounds have different motives and opportunity structures which explain a differential impact on corporate capacity. This expectation is studied in a longitudinal quantitative study of executive succession and administrative spending in Danish municipalities 1993 -2000. The results of the analyses largely support the theoretical expectations.

The study contributes significantly to the public management literature. First, it provides a rare study of an individual level antecedent to corporate capacity illustrating, once again, that management matters in public organizations. By suggesting a temporal non-linear effect of executive succession, it is among the few studies to investigate longitudinal dynamics of this important organizational event. Second, it details one of the ways in which executive succession is related to subsequent organizational outcomes. While previous research has established a general relation between executive succession and organizational performance (Hill 2005; Boyne et al. 2011), relatively little empirical knowledge exists about the actual organizational processes through which this overall objective is pursued (Boyne and Dahya 2002). Third, the study illustrates how internal organizational configurations, such as the size of the corporate capacity, are influenced by the nature of an organization's boundary spanning activities. Because outside executive successors lack organization-specific knowledge and because they bring different motives and backgrounds to the table, it is likely that they will increase corporate capacity in ways inside successors are not. The study suggests that it may be possible for public organizations to affect the evolution of internal processes by managing interactions and transactions with the external environment.

The paper proceeds as follows. First, the theoretical section presents executive succession and corporate capacity and subsequently theorizes their relation. Next follows the method section. Finally the results of the quantitative analyses are presented and discussed.

EXECUTIVE SUCCESSION AND CORPORATE CAPACITY

Executive Succession in Public Organizations

Executive turnover and succession events in public organizations have been subject to an increasing amount of research in recent years (Petrovsky, James and Boyne 2014). This is a central research topic because executives define organizational objectives and values, control and organize resources, and promulgate change. Boyne and Dahya (2002) suggest a conceptual model which links executive succession to organizational performance. Their model proposes that the organizational effects of executive successions depend on the new executive's motives, means, and opportunities. Various parts of this model have been explored in recent research which has investigated antecedents to executive succession (Boyne et al. 2010) as well as outcomes of executive succession events including student test scores (Hill 2005), public service performance (Boyne, et al. 2011) and the degree of subsequent structural changes (Villadsen, 2012). While the results of this line of research support the notion that executives have the power to impact and change organizational processes and operations, it has only started to explore the motives and opportunities causing executives to pursue different lines of action and obtaining different results after they take up a new position. Boyne and Dahya (2002) distinguish between the motives of pragmatism, altruism, and egoism, and they define opportunities in terms of the internal and external constraints on the strategies which new executives adopt. These general

factors suggest why executive succession events are likely to be important in shaping subsequent organizational action and outcomes (Kesner and Seborá 1994). Research has generally confirmed this expectation. Hill (2005) finds negative short-term performance effects but positive long-term effects of executive succession. Boyne et al. (2011) find that performance effects depend on prior performance such that positive post-succession performance is only achieved if pre-succession performance is poor. In another study Boyne et al. (2010) find that executive succession itself can be a consequence of organizational performance indicating that the direction of causality is not clear-cut regarding this question. One of the factors regarding executive successions, which has received the most attention, is whether the position is filled by an internal candidate or someone from outside the organization. Attending to the outcomes of different types of succession may be instrumental in detailing how and why these events affect an organization. Inside and outside successors often have different motives when taking up their new position (Hill 2005). They face different opportunity structures which influence the lines of action they are likely to pursue and their ensuing outcomes. The motives of new executives relate to their aspirations for changes in the organization. Early evidence suggests that inside successors are associated with fewer organizational changes (Helmich and Brown 1972) and less strategic change (Wiersema 1992) than outside successors.

Despite this recent attention to executive succession, the mechanisms relating executive succession to different organizational outcomes are still far from clear. While Boyne and Dahya (2002) argue that new executives can employ different strategies to improve organizational performance, in most empirical studies the mechanisms linking executive succession to performance is inferred and not measured. Boyne and Dahya point out that new executives can reform internal structures, processes, budgetary priorities, and personnel (2002: 189) which in

turn can affect organizational performance. Little is known about the conditions under which executive succession is connected to these strategies, though Villadsen's (2012) study of Danish municipality directors shows that external successors are liable to pursue more comprehensive structural changes than inside successors. One question which may be particularly salient to investigate is how executive succession relates to organizations' administrative spending, or corporate capacity. While corporate capacity arguably is a key determinant of success and failure of public organizations (Andrews and Boyne 2011), relatively little is known about the factors which shape its size (but see Andrews and Boyne 2009 and Boyne and Meier, 2013).

Corporate Capacity

Corporate capacity is one of the terms used to denote the administrative centre, or central office, of an organization. Other designations are management capacity (Ingraham et al. 2003), administrative spending or overhead (Andrews and Boyne 2009), and administrative intensity (Boyne and Meier, 2013). Corporate capacity relates to the organizational potential for action because it covers cross-cutting functions such as finance, personnel, organizational development, and legal affairs. This role is particularly evident in a setting such as that of Danish municipalities which are mostly organized according to functional specialties. Andrews and Boyne argue that corporate capacity in this way "signifies the stock of resources that can be mobilised in support of organizational goals" (2011, 4). That is, corporate capacity is "potential energy rather than kinetic energy" (Meier and O'Toole 2010, 1030) which can be flexibly deployed throughout organizational units, or for specific tasks or projects. Following Goold and Campbell (1987), Andrews and Boyne describe how corporate capacity can enhance

performance in three ways: by carrying out governance functions, by providing service to frontline units, and by directly influencing units, for instance, by reviewing plans and budgets and setting up targets and objectives. In another study Meier and O'Toole (2010) show that corporate capacity interacts with managerial networking to enhance the positive effects of networking. On the other hand, some studies suggest corporate centres to have limited or even negative value for organizations (Goold, Campbell and Alexander 1994; Bowman and Helfat 2001). For more specific service areas, Brown and Potoski (2006) show that governments can buy management capacity from private service providers and thereby limit the scope and value of their own central offices. Andrews and Boyne (2009) show that administrative spending is lower in larger and higher tier local government authorities in England.

The Relation between Executive Succession and Corporate Capacity: Hypotheses

Why is executive succession related to corporate capacity? Studies of private sector firms have especially investigated the relation between successor origin and organizational performance both as an antecedent and as an effect (for a review, see Kesner and Seboria 1994, and see Hill 2005 and Boyne and Meier 2009 for recent examples involving public organizations). As stated, much less attention has been devoted to exploring how successor origin relates to internal organizational practices and structures. Exceptions, however, include Wiersema's study showing outside successors to be related to more post-succession strategic change (1992), and Kraatz and Moore's (2002) study showing that colleges with outside succession tend to adopt programs from the new executive's former college. Further attention to organizational outcome of succession events is necessary for detailing the mechanisms guiding successor choice and

shaping post-succession performance. One such outcome of relevance is the size of the corporate capacity as executive successions provide both the dynamics and the impulse for changes in the fundamental processes of organizations (Shen and Cannella 2002).

While executives continually focus on developing and improving the capacity of their organization, newly appointed executives are like to intensify this focus following executive succession events. On a general level this assertion is in line with Boyne and Dahya's theorizing (2002) which argues that new executives are not only motivated towards action, they also have the necessary means and opportunity for action in the period following their hiring. These means include formal power related to their position and furthermore to strategizing activities. Where Boyne and Dahya (2002) are interested in how new executives can impact organization performance, the focus of this paper on corporate capacity is different. While corporate capacity is arguably related to organizational performance (Andrews and Boyne 2011), somewhat different reasons explain why executives tend to focus on corporate capacity following successions. As described above, Boyne and Dahya (2002) suggest that new executives may approach the position with different motives. Consistent with a motive of egoism, increasing corporate capacity early on in tenure is a vehicle by which a new executive can gain essential new knowledge, establish his or her position by sending strong signals, and a way to shape a desired power base. These factors would help a new executive succeed and make an impact in a new job. I will further detail this argument below.

A first challenge for a new executive is gaining knowledge about the organization. While obviously some knowledge is already present through previous appointment (for inside successors) or obtained through the hiring process, an early priority is to gain more detailed, often tacit, knowledge about organizational culture, routines, and general operation. Improving

administrative capacity supports this process by transmitting essential knowledge or by pointing to places of interest in the organization.

Changing the corporate capacity may also be a signal from new executives who want to clearly demonstrate the change of guard. Usually change in political leadership receives wide attention both within and outside an organization creating an action platform. In contrast, a change in administrative leadership typically goes almost unnoticed and receives little media attention. Even inside an organization, many employees may find this of limited interest. For most frontline workers, administrative top leadership is detached from their daily duties and most immediate concerns as there will be multiple management layers between themselves and the top executives. This creates a challenge for a new executive. Establishing a platform for effective leadership requires an ability to reach out to the entire organization. Therefore, it is important for a new executive to send a clear signal that a new person is in charge. A way to do this is by increasing corporate capacity. This serves both to improve organization-wide communication and may flag future intentions.

Finally, an important challenge for a new executive is to build a powerbase in the organization. While the top executive enjoys formal authority, it is widely recognized that it is equally important to build other power bases (Pfeffer 1994). This involves finding a beneficial position in the informal organizational network (Uzzi and Dunlap 2005) which enables dissemination of information and influence but also the timely reception of relevant information and knowledge. This challenge involves building a stock of organizational allies who can help the executive achieve desired objectives. Such allies can be knowledge and information brokers but can also champion change projects in the organization. A relevant place to begin to build a power base that satisfies these needs may be the corporate centre. By boosting corporate capacity, the new

executive is able to pick his or her own team: a larger staff enables an increase in the availability of more cross-functional information, and it is easier to reach the entire organization to disseminate information and direction. In total these arguments suggest that corporate capacity is expected to increase following executive succession events:

Hypothesis 1: Executive succession is positively related to administrative spending in the subsequent period.

While executive succession may trigger increased spending on corporate capacity functions, it is questionable whether this has a long-term effect. Previous research indicates that effects of succession are dynamic. For instance, Hill's study (2005) reports negative short-term effects and positive longer-term effects suggesting that a new top executive needs some time to settle in before being able to make a positive mark. Increasing capacity early on is part of this process. As time passes, however, and the new executive becomes familiar with the organization and the employees in corporate functions, he or she is likely to start a capacity cutback. This may involve dismissing excessive staff from the old leadership and identifying and doing away with slack functions. Studies of temporal dynamics of executive succession and following actions are relatively limited. I suggest that the expectation put forward above is non-linear of an inverse U-shaped function such that corporate capacity increases in size immediately following the succession event but that this effect diminishes over time possibly becoming negative.

Hypothesis 2: The effect of executive succession on administrative spending is inversely U-shaped such that an initial positive effect diminishes over time.

While the arguments stated above may explain why a relation between executive succession and administrative spending is probable, they do not take the nature of the succession into

consideration. I argue that the dynamics of the succession between inside and outside successors are likely to be quite different. This is consistent with Petrovsky, James and Boyne's arguments that the relative match in "publicness" between a new executive and the organization affects subsequent performance (2014). Specifically, I suggest, externally hired successors are more liable to affect corporate capacity than internally promoted executives.

Organizations hire outside executive successors when "they face the pressure of initiating strategic change" (Shen and Cannella 2002: 719). Because outside successors are new to the organization, they face somewhat different challenges than do inside successors and may employ different approaches to solving them. Principally, outside successors lack organization-specific knowledge especially about intangibles such as culture, routines, and human capital which cannot easily be observed from the outside. This challenge is particularly salient for new executives originating from a non-municipal occupation and quite different organizational settings. Increasing corporate capacity by bringing in staff that is knowledgeable about the organization and core processes is a necessary solution to closing this knowledge gap. On the other hand, outside successors are likely to bring fresh perspectives and ideas to their new position (Kraatz and Moore 2002). Putting new ideas into life is also likely to require a strong and supportive corporate centre that can link to other parts of the organization. This need is further amplified by external successors tending to engage in major changes requiring effective support functions (Villadsen 2012).

On the other hand in-house promotion is unlikely to have the same effect on corporate capacity. Such new executive profiles are familiar with the organization, its key members, routines, and challenges. Insiders are typically not hired to conduct large-scale changes but rather to ensure continuity (Shen and Cannella 2002). Consequently they are unlikely to conduct substantial

changes early on. Put together, these arguments suggest the following modification of the hypotheses above:

Hypothesis 3: The relation between executive succession and corporate capacity is stronger if the new executive is hired outside the organization.

METHODS

The empirical setting for this study is Danish municipalities. Danish municipalities are multipurpose organizations responsible for a wide range of public services including child care, schooling, elder care, various social measures, libraries, and maintenance of most roads. They operate in specific geographical areas and their funding mainly comes from their own tax collection but also partly from national block grants. While municipalities are politically governed by a council elected every four years, service provision lies in the hands of a large administrative organization headed by a municipality director. The position as municipality director is, as are all administrative positions, a professional career position unaffected by the majority in the council. The administrative organization is large and complex reflecting the diversity of the tasks municipalities are charged with solving; the organization is normally structured according to the main service areas such as elder care, child care, and technical areas. These departments are supported by an administrative centre typically located at city hall. Like in England (Andrews and Boyne 2011), the administrative centres of municipalities vary in size partly depending on the degree to which administrative services such as HR and accounting are decentralized to specific service departments.

This study analyses executive succession in the period from 1993 – 2000. At that time there were 275 municipalities in Denmark. As five of the largest municipalities are governed by different regulation and governance systems making them incomparable, annual data for 270 municipalities are analysed. Therefore the unit of analysis is 1890 municipality-year observations (270 entities for 7 years). In this period, the average size of the included municipalities was just above 15,000 inhabitants ranging from 2282 to 83036.

Dependent variable

As discussed, different concepts have been used to refer to the corporate capacity of an organization. In this study I focus on administrative spending as a measure of corporate capacity. This is a relevant measure of capacity in Danish municipalities as it entails administrative spending but not spending related to individual service areas. Corporate capacity has been measured in different ways. Meier and O’Toole (2010) measure the variable as the percentage of employees in central office administration. However, I follow Andrew and Boyne (2011) and others (e.g. Goold and Campbell 2002) who measure corporate capacity as the expenditure on administration as a percentage of the total net service expenditure. While both head counts and spending measures are valid ways of operationalizing the size of an organization’s corporate capacity, the spending measure is less prone to the disturbance which can occur when parts of the administrative function are contracted out. ¹

¹ The data for this variable is obtained from “Municipality Key Figures” (Kommunale Nøgletal) published by the Ministry of the Interior. While there may be slight differences in how administration is accounted for, the figures are publically available and used by researchers, practitioners and other observers.

It is a valid question whether administrative spending reflects capacity, organizational excess spending or slack. I argue that in the Danish case, administrative spending can be seen as valuable measure of capacity. Following a wave of de-bureaucratization in the fiscally tight 1980s, most administrative slack is likely to have been done away with. Furthermore, as administrative spending is a publically available, this is not an obvious place to “hide” excess spending. To further ensure that the dependent variable does not capture slack rather than capacity, as described below, I introduce a series of controls that are likely to capture organizational excess spending.

Independent variables

The main independent variable for the study is executive succession in Danish municipalities. I focus on replacements in the position as municipality director (CEO). This is the highest administrative position and the person in charge of the overall administrative organization responsible for the daily operations in public service delivery. The source for this variable is 10 volumes of the *Municipality Handbook* (Kommunalhåndbogen) which is a directory published annually. The handbook provides contact information and describes the key structural elements of each municipality as well as listing all manager names. To construct the variable I recorded the name of each municipality director for each year of the study. Next I recorded the event of a succession. To trace the background of the new executive, I also recorded the names of all department heads and the chief secretary for each municipality for each year. These are the positions an internally promoted director is likely to come from (for early evidence see Riiskjaer 1982). This data enabled me to construct a trichotomous distinction of the backgrounds of new executives. *Inside Succession* was reported if a new municipality director was promoted from a position inside the municipality. The data allowed me to distinguish between two types of

outside successors, namely those from another municipality and those from outside this distinct field of operation. As hypothesis 3 only focused on a distinction between inside and outside successor I collapsed these categories to form the variable *Outside succession*. In a separate analysis I found results very similar to the ones reported below when distinguishing between the two different types of outside succession. By examining the formal announcements of succession events in the main professional municipality journal, I was able to corroborate parts of the coding. I found no instances where the background of a new municipality director stated in the announcement differed from the one I had found using my database. To assess hypothesis 3 and whether the effects of succession differed between inside and outside successors, I estimated separate models for the different types of succession.

To test hypothesis 1 and whether administrative spending increased following a succession event, I followed Boeker (1997) and Kraatz and Moore (2002), and operated with a window of three years to observe the effect of an executive succession. I recoded the succession variables such that they take the value of 1 in each of the three years following a succession event. In practice, therefore, I estimated whether administrative spending in the three years following an executive succession event varies from other years. This way of modelling the effects of executive succession events also helps account for the fact that I only have yearly data and therefore cannot distinguish between successions early or late in a given year, which, of course, affects the likelihood of observing effects in the following year. While not completely eliminating this problem, the three-year window should diminish its impact substantially. Also, reverse causality is a substantial concern when studying the effects of executive succession. Observing the effect over a longer time span should mitigate this problem because performance measured two or three years after the event is less likely to be a causing factor. Below I describe

further measures I have taken to reduce the problem of reverse causality and sample selection. To be able to assess the backgrounds of executives hired at the beginning of the observation window in 1993, I coded the names of municipal managers and executives back to three years before this time period.

Hypothesis 2 posited that the effect of executive succession on corporate capacity is likely to be non-linear in an inversely U-shaped fashion. To assess this directly, first I constructed a count variable measuring time since the succession. Again I focused on a three-year window. This variable, *Succession time count*, takes the value 1 in the year following succession, 2 the next year, and 3 the final year of the window of interest. To assess non-linearity, I centred the count variable around zero and then squared it.

Control variables

A number of control variables are entered to isolate the effect of executive succession on administrative spending. Relevant variables include those which may affect the timing and mode of executive succession as well as the administrative spending pattern. Variables for the financial status of the municipalities fulfil these criteria as executive succession and administrative spending may conceivably be affected by financial strain as well as existing organizational slack. Therefore I include per capita measures of municipality net operating expenses and long-term debt. I also include the municipality tax base which reflects the financial wellbeing of the municipality.

As organization performance is likely to be related to both executive succession patterns (Hill 2005; Boyne et al. 2011) and corporate capacity (Andrews and Boyne 2011) it is important to

control for this factor. Unfortunately no comprehensive performance measure for Danish municipalities is available. So I include different variables: Operation spending per citizen, which has already been mentioned, is the first control variable included. While lower operating spending may be a sign of efficiency, it may also indicate lower service quality. Therefore I include a composite measure for service level calculated by the Ministry of the Interior. Further I include a measure of the overall amount of contracting. To account for characteristics of the political system of the municipality I include dummy variables measuring the mayor's party.

It may be important to include some measure of past administrative spending. This is likely to be correlated with administrative spending in a subsequent period and may indeed be the very reason why a municipality initiates an executive succession event. Because the inclusion of a lagged dependent variable may be problematic, I also estimated models without the control for past administrative spending. The main results remain substantially unchanged (available from the author on request).

I include a variable indicating the elapse of time since the beginning of the observation window. As noted below, this variable accounts for temporal dependence but it is particularly useful as it controls for the possibility that increases in administrative spending follow a simple time trend. All control variables are lagged by year to better reflect the expected causal structure. Unless otherwise noted, the data for the control variables are obtained from *The Ministry of the Interior* databases.

Statistical Analysis

The data are panel data as they consist of yearly observations for the 270 municipalities. Because unobserved heterogeneity is a serious concern, I analyse the relation between executive succession and administrative spending by estimating fixed effects models. Fixed effects models control for municipality constant factors such as location, political and administrative culture, and history.

To account for temporal dependence I included a count variable indicating time since the beginning of the study. In separate analyses (not reported) I also directly modelled autocorrelation. Results were very similar to the ones reported here even though I had to remove the time count variable in these estimations. Because the inclusion of the count variable aids in interpreting the non-linear effects, I chose to report the fixed-effects regressions.

To gauge the robustness of the results, a number of further analyses were conducted. The tables below include results of some of the conducted robustness tests. Sample selection is a valid concern for this type of analysis as it may be hard to separate forces leading to executive turnover from those related to patterns of administrative spending. To account for sample selection I estimated a two-stage model. In the first step I estimated the likelihood of executive turnover happening in a given municipality in a given year using a probit model with independent variables indicating municipality debt, size, and operating expenses. As instruments, I further included measures of liquidity and director age. While liquidity may reflect management's ability to control municipality cash flows, it is not likely to be directly related to succession decisions. Age was included as older directors may be more likely to step down and I am not aware of any previous studies suggesting that age is related to administrative spending. Based on the predicted values from this estimation I calculated the Inverse Mills Ratio (IMR) which indicates the amount of correction due to non-random selection. This variable was

included in all models reported to account for sample selection but as correction was minimal, I chose to present models without the IMR to avoid the stricter assumptions related to this type of modelling.

Further I estimated random effects models which gave quite similar results to fixed effects models. Finally, cross-sectional dependence may be a concern if municipalities imitate or learn from each other in the course of time or are subjected to similar external influences. To address this concern I estimated regressions with Driscoll-Kraay standard errors (Hoechle, 2007).

RESULTS

As noted above, Danish municipalities enjoy considerable autonomy in the allocation of their resources. Therefore, they constitute a relevant setting in which to explore antecedents of administrative spending in public organizations. Table 1 provides descriptive statistics for the variables of the study.

Insert table 1 around here

Before turning to the formal regression analyses, figure 1 below provides a simple image of the relation between executive succession and administrative spending. The figure is broken down

by type of succession and illustrates average administrative spending in relation to total operating expenses in normal years and in the three years following executive succession events. It appears that administrative spending falls after inside succession while it increases following outside succession. Note, however, that only the increase after outside succession is significantly different from zero using a normal .05 cut off ($p < 0.01$).

Insert figure 1 around here

Table 2 provides eight regression models exploring the relation between executive succession and administrative spending. Models 1 to 4 present fixed-effects estimations testing the hypotheses. Models 5 to 8 present some of the robustness tests.

Insert table 2 around here

Models 1 and 2 include the effects of inside and outside executive succession. As already indicated in figure 1, results differ between the different modes of executive succession. Inside executive succession is not indicated to be associated with increased administrative spending. In model 2, however, we see a positive and significant effect of outside executive succession (0.12; $p < 0.01$). This indicates that executive succession is associated with an increase of a .12-percentage point increase in administrative spending in relation to operating expenses in the following period. While this may sound as a small figure, it is an effect of substantial meaning. It

corresponds to an increase of approximately DKK 416 (USD 70) per inhabitant in an average sized municipality. In total this amounts to more than DKK 600,000 (USD 100,000) in an averaged sized municipality. There is partial support for hypothesis 1. In a separate analysis (not reported), I found the result for outside succession to be very similar for the two types of outside succession for which data were available, namely from another municipality and from outside the field of municipalities.

Models 3 and 4 test hypothesis 2 and whether the effect of executive succession on administrative spending decreases over time. Again no effect of internal succession is found in model 3. Model 4, however, indicates that new executives are associated with increased spending but that this effect dampens. The squared count variable is negative and significant (-0.08; $p < 0.01$) indicating that the effect is non-linear and inversely U-shaped. Note that the effect is weak.

Each of the models offer improved fit compared with model 1. It should be noted that the incremental fit offered by executive succession patterns is small. This is not surprising as executive succession is but one of a large range of factors contributing to the size of corporate capacity. Still the effects presented in the results are both substantially and theoretically meaningful.

Robustness Tests

To scrutinize the robustness of the results reported above several, additional analyses were conducted. Some of these are presented in models 5 – 8. Here focus is on the robustness of the theoretically interesting results of model 4 but similar tests were conducted for the other models

as well. Even though the fixed effects specification appears relevant, a random effects model was also specified with very similar results (model 5). In model 6 the IMR was included to adjust for sample selection. Only a slight and insignificant adjustment was indicated. As the inclusion of a lagged dependent variable may be a cause of distortion, model 7 is an estimation without this variable. Model 8 presents an estimation with Driscoll-Kraay standard errors robust to cross-sectional dependence.

Furthermore, to directly account for possible auto-correlation I specified an Arreallano-Bond autoregressive model (not shown). While this is based on a differencing of variables and consequently led to somewhat different interpretations, it also showed a significantly positive effect of outside succession and a significant diminishing trend.

DISCUSSION AND CONCLUSION

This study investigated the relation between executive succession patterns and corporate capacity in public organizations. Based on theory about executive turnover, it was argued that corporate capacity is likely to increase following turnover events. It was further argued that this increase would diminish over time and be more substantial when organizations hire successors externally. The findings of a study of executive succession in Danish municipalities in the period from 1993 to 2000 generally supported these claims. External successions are associated with an increase in administrative intensity. This effect decreases (slightly) over the following years. This indicates that early on new executives try to establish a trusted base of support staff that can help him or her succeed in the new job. It is not surprising that this is especially relevant for successors coming from outside the organization consequently lacking organization specific knowledge. As

the new executive settles in and becomes more knowledgeable about the organization, it becomes possible to slowly reduce administrative intensity and focus it around a smaller group of key staff.

This study has highlighted important dynamics of executive succession patterns in public sector organizations by showing how the nature of succession affects early job behaviour and by illustrating the temporal and non-linear nature of these events. While the understanding of performance outcome of executive succession events is increasing, we still know little about the mechanisms explaining this outcome. Boyne and Dahya (2002) suggested different ways in which executive succession affects organizational performance, but these have been subject to relatively little empirical scrutiny. Changing administrative spending constitutes the executive's effort to change financial allocations but it is also a way of changing an organization's structural setup. A larger administrative centre and more cross-functional attention facilitate quite different organizational operations and processes than does an organization in which administration occupies a relatively smaller role. Therefore, the finding that executive succession is related to administrative spending is consistent with the predictions of Boyne and Dahya (2002). In an empirical study, Hill (2005) found that public organizations exhibited reduced short-term performance following outside succession events. The results of the present study suggest that one explanation of that finding may be that outside successors operate with a larger administration in the years after assuming their executive position and need time to settle in in their new position. In another study Villadsen (2012) shows that outside successors are likely to initiate larger structural changes than are inside successors in the period following their appointment. A by-product of more substantial structural changes may be the need for more coordination, which may constitute an additional explanation for the findings of this study. It

would be interesting to see future research of a more qualitative nature that focuses on the process of executive succession in public organizations. Such research could help illuminate the mechanisms explaining inside and outside succession and not least help explore the agendas that different types of successors pursue when they are appointed.

This paper also contributes to the literature on corporate capacity in public organizations by exploring executive succession as an antecedent. Recent research has shown how corporate capacity is linked to organizational performance (Andrews and Boyne 2011) and that it positively moderates the link between managerial networking and performance (Meier and O'Toole 2010). Even though future research should continue to explore the relation between corporate capacity and performance, it is clearly of equal importance to investigate the antecedents to the first part of this causal connection. A recent paper found administrative intensity to be a function of environmental turbulence and organizational size (Boyne and Meier, 2013), and Andrews and Boyne (2009) explore structural and institutional explanatory factors. The contribution of the present study is an explanation founded in upper echelon theory focusing on executives as key individuals. While these studies generally appear to be complementary and bridge national contexts, future research could explore antecedents of administrative spending in other institutional contexts than local authorities and possibly also outside a Western European context.

Some limitations to the study should be noted. While I have taken some measures to mitigate the problem of reverse causality, it may still be a concern in a study like this one. Of course, it is very likely that administrative spending patterns trigger a certain type of succession. I have tried to diminish this problem by estimating a two-stage model, by using a three-year window for observing effects of succession, and by including a lagged dependent variable. Optimally one

would wish some exogenously imposed variation in the independent variable to improve the causal inference (Shadish, Cook and Campbell 2002).

However, as executive succession is far from being a random process, this condition is probably impossible to satisfy anywhere, let alone in democratic country like Denmark with a high degree of local level autonomy. If a setting for a natural experiment of executive succession and its outcomes should exist, it would be extremely interesting to further explore the dynamics of these important events. Another limitation concerns the backgrounds of new executives. An even more detailed knowledge about the former work experience of the new executives would be desirable, but unfortunately my data sources did not allow this. Finally, it would also be interesting to include additional measures of corporate capacity. Unfortunately, data on administrative personnel is not available for the period under study.

Recent research has helped us significantly improve our understanding of the performance drivers of public organizations. Among other factors the effects of executive succession as well as corporate capacity have been investigated. This study contributes to this line of research by suggesting that these concepts are themselves interconnected. This study has put forward a theory suggesting how the nature and dynamics of executive succession events affect corporate capacity. While offering another insight into how management matters, the study also opens up for future research to further explore the processes and dynamics underlying the findings.

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Figure 1. Executive Succession and Administrative Spending in % of Operating Expenses

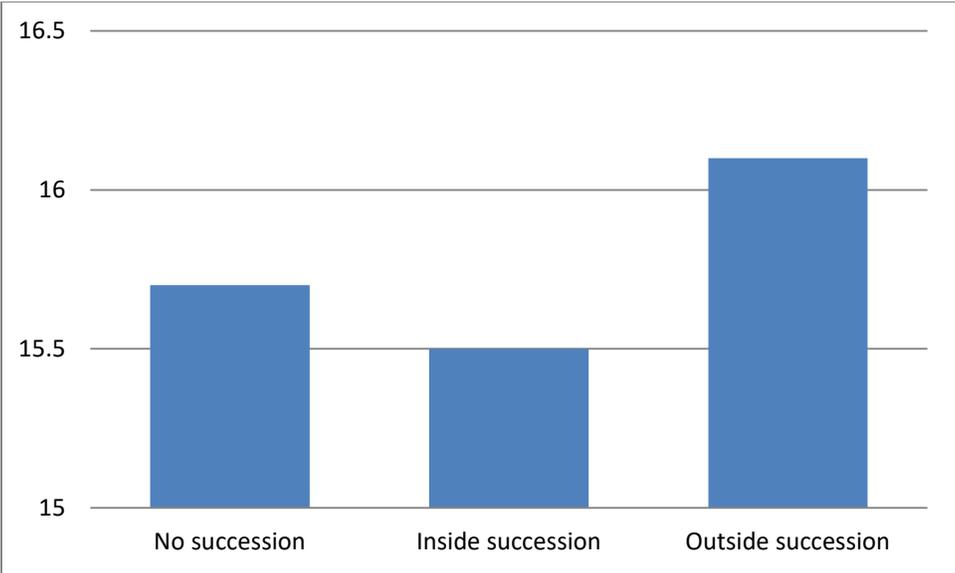


Table 1. Correlations

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1 Administrative Spending	1.00													
2 Lagged Administrative Spending	0.94	1.00												
3 Population (ln)	-0.26	-0.23	1.00											
4 Number of Departments	-0.13	-0.11	0.39	1.00										
5 Operating Expenses	0.14	0.17	0.39	0.15	1.00									
6 Debt	-0.10	-0.11	-0.14	0.01	-0.19	1.00								
7 Tax base	0.15	0.19	0.43	0.10	0.43	-0.17	1.00							
8 Contracting	0.21	0.22	0.08	0.07	0.23	-0.08	0.33	1.00						
9 Service Level Index	0.19	0.20	0.15	0.03	0.43	-0.12	0.48	0.20	1.00					
10 Sample Selection	-0.21	-0.22	0.04	0.06	-0.45	0.87	-0.19	-0.12	-0.24	1.00				
11 Urban Population	0.00	0.03	0.69	0.29	0.36	-0.18	0.57	0.17	0.30	-0.08	1.00			
12 Time Count	-0.01	0.01	0.01	-0.09	0.61	-0.10	0.47	0.11	0.20	-0.36	0.00	1.00		
13 Internal Succession	-0.02	-0.02	-0.01	0.00	0.00	-0.02	0.00	-0.01	0.03	-0.03	0.01	0.03	1.00	
14 Outside Succession	0.08	0.07	-0.04	-0.07	0.02	-0.04	0.02	0.01	0.04	-0.05	-0.05	0.02	-0.07	1.00

All correlations $> |0.04|$ are significant with $p < 0.05$

Table 2. Regressions predicting Administrative Spending in Danish Municipalities 1994-2000

	-----Fixed effects models -----				Random effect	Sample selection	No lagged DV	Driscoll-Kraay Std. Errors
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Lagged Administrative Spending	34.796*** (3.585)	34.563*** (3.593)	34.674*** (3.537)	34.355*** (3.514)	90.963*** (1.610)	34.046*** (3.519)		34.355*** (6.650)
Population (ln)	-6.770*** (1.823)	-7.034*** (1.790)	-6.744*** (1.797)	-7.027*** (1.775)	-0.194*** (0.038)	-6.970*** (1.769)	-10.433*** (2.394)	-7.027*** (1.125)
Number of Departments	-0.002 (0.034)	-0.000 (0.034)	-0.001 (0.034)	0.001 (0.034)	-0.021 (0.016)	-0.003 (0.035)	0.018 (0.045)	0.001 (0.009)
Operating Expenses ^a	-0.067*** (0.020)	-0.068*** (0.020)	-0.066*** (0.020)	-0.066*** (0.020)	0.012** (0.004)	-0.066** (0.020)	-0.101*** (0.023)	-0.066*** (0.015)
Debt ^a	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000* (0.000)	0.000*** (0.000)
Tax base ^a	-0.003 (0.006)	-0.003 (0.006)	-0.003 (0.007)	-0.004 (0.006)	0.000 (0.002)	-0.004 (0.006)	-0.003 (0.009)	-0.004 (0.003)
Contracting	-0.002 (0.027)	-0.000 (0.027)	-0.002 (0.026)	-0.001 (0.026)	0.004 (0.008)	-0.003 (0.025)	0.013 (0.036)	-0.001 (0.018)
Service Level Index	0.254 (0.684)	0.229 (0.679)	0.263 (0.682)	0.234 (0.679)	0.156 (0.253)	0.123 (0.677)	-0.516 (0.847)	0.234 (0.502)
Urban Population	0.015 (0.016)	0.015 (0.016)	0.014 (0.016)	0.015 (0.016)	0.002 (0.001)	0.017 (0.016)	0.025 (0.018)	0.015 (0.008)
Time Count	0.128** (0.044)	0.130** (0.044)	0.126** (0.044)	0.128** (0.044)	-0.043*** (0.013)	0.125** (0.044)	0.199*** (0.050)	0.128** (0.035)
Internal Succession	-0.025 (0.070)							
Outside Succession		0.123** (0.047)						
Internal Succession Count			0.086 (0.157)					
Internal Succession Count Squared			-0.008 (0.058)					
Outside Succession Count				0.259** (0.092)	0.213** (0.080)	0.317** (0.097)	0.298** (0.105)	0.259*** (0.033)
Outside Succession Count Squared				-0.083** (0.032)	-0.085* (0.034)	-0.098** (0.033)	-0.084* (0.033)	-0.083*** (0.011)
Sample selection						-0.114 (0.105)		
Constant	27.093*** (4.665)	27.738*** (4.590)	27.066*** (4.596)	27.799*** (4.552)	1.544*** (0.312)	27.891*** (4.516)	41.877*** (5.812)	27.799*** (2.746)

R ² (within)	0.1816	0.1859	0.1828	0.1879	0.1602	0.1885	0.0742	0.1879
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^a Per capita in 1000s of Danish kroner (DKK).

*) p<0.5; **) p<0.01; ***) p<0.01 Standard errors in parentheses.