An Empirical Investigation on the Choices of Supply Chain and Operations Management Executives

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Short abstract
This paper provides empirical evidence on the performance effects and choice of appointments of Supply Chain and Operations Management Executives (SCOMEs). The analysis is based on a sample of 681 SCOME appointments that are publicly announced during 2000-2011 period. We find that the stock market reaction is positive on the day of the announcement. The market reaction for newly created SCOME positions is positive, and when a SCOME is an outsider rather than an insider. The strongest positive reaction is observed when outsiders are hired for newly created SCOME positions. We also find that the likelihood of a SCOME being an outsider is greater for firms that are smaller, operate in more concentrated industries, and have experienced poor prior performance.

Keywords: Stock market reaction, Chief supply chain officer, Supply chain and operations management

Topics: Supply Chains

Methodology: Empirical Work

Over the last decade, the complexity and challenges of managing global and outsourced supply chain networks in an intensely competitive environment has increased the prominence and importance of the Supply Chain and Operations Management (SCOM) function. To ensure that SCOM functions are effectively executed, many firms are changing the composition of their top management team (TMT) by creating positions to appoint Supply Chain and Operations Management Executives (SCOMEs). SCOMEs have responsibility for all or a broad spectrum of SCOM functions including manufacturing, operations, supply chain, procurement, logistics, and distribution. Many SCOME positions are at the Senior Vice President and Executive Vice President levels and these senior executives are sometimes referred to as Chief Supply Chain Officers (CSOs). In several firms, SCOMEs now report directly to Chief Executive Officers (CEOs) or Chief Operating Officers (COOs), a sharp contrast from 15 to 20 years ago when such SCOME positions were generally not part of TMTs and rarely reported to CEOs or COOs.

While there is an extensive body of analytical and empirical literature on design, development, and implementation of strategies in SCOM, we know little about executives who have the responsibility to manage all or a broad spectrum of SCOM.
functions. For example, little is known about the background of individuals who are appointed as SCOMEs, how investors react to the appointment of SCOMEs, and what factors influence choices made by a firm to appoint SCOMEs by promoting internally within a firm or by hiring an outsider. This gap is surprising given that SCOM strategy is a key part of a firm’s corporate strategy. As an initial step towards developing more systematic knowledge about SCOMEs, this paper empirically examines three issues.

First, we examine the stock market reaction to announcements of appointments of SCOMEs. We hypothesize that newly created SCOME positions will be viewed positively by investors and test whether the stock market reaction is consistent with this prediction. We also examine whether the stock market reacts differently to hiring SCOMEs from inside or outside the firm.

Our motivation to examine the stock market reaction to appointments of SCOMEs is to provide an assessment of whether the stock market values the top-level focus placed on SCOM functions. Furthermore, our work complements research that examines stock market reaction to appointments of other senior executives. Much of this research has focused on CEO appointments. However, studies on the stock market reaction to non-CEO appointments in other functional areas are limited and include Chief Financial Officers, Chief Information Officers and Chief Marketing Officers. We compare and contrast the stock market reaction to appointments of SCOMEs with appointments of senior executives in other functional areas.

Second, we examine the stock price and operating performance before and after the appointment of SCOMEs. Examining the performance before the SCOME appointments provides insights into whether these appointments are associated with poor prior performance.

Third, we examine factors that drive the choice of SCOMEs. In appointing SCOMEs, a firm could choose to promote an insider or hire an outsider. We provide evidence on factors that affect the likelihood of whether a SCOME is an insider or outsider. More specifically, we hypothesize why factors such as firm size, homogeneity of a firm’s industry, level of concentration of a firm’s industry, and performance of a firm in the period prior to the appointment of a SCOME affect the choice of appointments from inside or outside a firm. This analysis provides empirical evidence on the practices followed by firms with respect to appointment of SCOMEs. These findings also provide guidance and suggestions to firms on some factors to consider in appointing SCOMEs.

Our empirical analyses are based on a sample of public announcements of 681 SCOME appointments over a ten year period from 2000 to 2011. Our results on the stock market reaction show that on the announcement day, the mean (median) reaction is 0.24% (0.09%). The mean (median) market reaction is 0.63% (0.28%) for newly created positions and 0.07% (0.05%) for existing positions. Further, the market reacts more positively when a SCOME is an outsider than an insider. The mean (median) market reaction is 0.45% (0.16%) for outsider appointments and -0.18% (-0.02%) for insider appointments. In the case of outsiders appointed to newly created SCOME positions, the mean (median) abnormal return is 0.82% (0.22%).

We find evidence of both poor stock price performance and poor operating performance in the period preceding the appointment of SCOMEs. The mean (median) stock price performance is -5.64% (-1.98%) during the year preceding the appointment of SCOMEs. In the period preceding the appointment of SCOMEs, we see statistically significant decrease in return on assets, some evidence of decline in sales over assets, and statistically significant increase in total costs over sales. We find that new SCOME appointments are not followed by an immediate improvement in stock price and
operating performance. However, there is no further decline in performance suggesting that the decline in performance observed in the pre-appointment period does not appear to continue after the new SCOME is appointed. We find that the likelihood of a SCOME being an outsider is greater for firms that are smaller, operate in more concentrated industries, and have experienced poor prior performance.