Abstract

This study examines the relation between executive succession and corporate capacity. Because corporate capacity is a significant determinant of organizational performance it is an important task to identify its antecedent factors. The study suggests three mechanisms explaining why executive succession is likely to be related to subsequent corporate capacity changes; namely that it for new executives constitutes a means of performance improvement, a signaling device, and a venue for building a power base. It is argued that these mechanisms will relate differently to executive successors with different backgrounds explaining variation in post-succession corporate capacity. The expectations are tested in a longitudinal study of executive succession and corporate capacity in Danish municipalities 1984 -2000. The findings support the forwarded theory and suggest that corporate capacity is smaller following inside succession and larger following outside succession. The study's contributions to research on executive succession and corporate capacity in public organizations are discussed.
INTRODUCTION

Understanding the drivers of performance in public organizations requires a focus on external as well as internal organizational factors. The external environment provides a field of opportunities and constraints in which organizations must navigate and adapt internal strategies and processes. It is vital for public organizations to efficiently span external boundaries in order to solve problems and challenges (Meier and O’Toole 2003; 2004). One way to engage in this task is by importing key personnel from outside to bring new ideas and mindsets to the organization (Boyne and Dahya 2002). Empirically, this has been shown by investigating how different modes of executive succession, inside or outside hiring, have differential effects for subsequent action and performance of organizations (Hill 2005; Kraatz and Moore 2002).

While public organizations are open systems (Meier and O’Toole 2010) the internal organizational configurations are arguably still crucial determinants of the performance of operations and service delivery. One element of the internal organization which has received recent attention is the corporate capacity (Andrews and Boyne 2009; 2011; Meier and O’Toole 2010). The corporate capacity is the centre of the organization and relates to its potential for action by encompassing many cross functional elements which are important for monitoring, controlling, and supporting organizational core operations. Corporate capacity, therefore, is a key determinant of organizational performance (Andrews and Boyne 2011) and is an important part of the structural configuration of organizations. Because the size of the corporate capacity relates to the relative importance placed in horizontal integration it provides a reflection of the values and ideas which managers employ to achieve organizational performance.
Where existing research has investigated the performance effects of both executive succession (Hill 2005) and corporate capacity (Andrews and Boyne 2011) this study investigates how these two important concepts are related. Because influencing the scope and configuration of corporate capacity is an important tool for new executives pursuing organizational performance improvements, I expect executive succession to be related to corporate capacity measured as administrative spending. In particular I suggest three mechanisms linking executive succession and corporate capacity. New executives are likely to be interested in the corporate capacity as a means of showing performance improvements, as a signaling device, and as a way to enhance their power base. Following Boyne and Dahya’s model (2002) I argue that new executives with different backgrounds have different motives and opportunity structures related to these mechanisms which explain a differential impact on corporate capacity after their hiring. This expectation is studied in a longitudinal quantitative study of executive succession and administrative spending in Danish municipalities 1984-2000. The results of the analysis support the theoretical expectations as inside successors are related to smaller post succession administrative spending while outside successors are associated with higher post succession administrative spending. For outside successors further analysis suggests the effect to be especially pronounced for successors who do not come from a prior occupation in the municipalities.

The study contributes to the public management literature in important ways. First, it provides a first study of an individual level antecedent to corporate capacity illustrating, once again, that management matter in public organizations. Different individual level opportunities and motives explain variation in administrative spending. Second, it details one of the ways in which executive succession is related to subsequent organizational performance. While this general
relation has been established in previous research (Hill 2005; Boyne et al. forthcoming) relatively little is known about the actual organizational processes through which this overall objective is pursued. Third, the study illustrates how internal organizational configurations, like the size of the corporate capacity, are influenced by the nature of an organizations boundary spanning activities. Because outside executive successors bring different motives and have different opportunities they favor a corporate capacity approach which differs from that of inside successors. In this way, the study suggest, it may be possible for public organizations to affect the evolution internal processes by controlling the interactions and transactions with the external environment.

EXECUTIVE SUCCESSION AND CORPORATE CAPACITY

Executive turnover and succession events in public organizations have been subject to an increasing amount of research in recent years. This is an important 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 link executive succession to organizational performance. The model proposes that the organizational effects of executive successions depend on the motives, means, and opportunities of the new executive. Different 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., forthcoming), and the degree of subsequent structural changes (<omitted>). 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 enter a new position. Boyne and Dahya (2002) distinguish between the rather abstract motives of pragmatism, altruism, and egoism, and 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 Sebora 1994). Research has generally confirmed this expectation. Hill (2005) found negative short term performance effects but positive long term effects of executive succession. Boyne et al. (forthcoming) found performance effects to depend on prior performance such that positive post succession performance was only achieved if pre succession performance was poor. In another study Boyne et al. (2010) found that executive succession itself can be 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 have received the most attention is whether replacement is 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 organizations. Inside and outside successors will often have different motives entering their new position (Hill 2005) and face different opportunity structures which influence the lines of action they are likely to pursue and the their outcomes. The motives of new executives relates to their aspirations for changing things in the organization. Early evidence suggested that inside successor were associated with fewer organizational changes (Helmich and Brown 1972) and less strategic change (Wiersema 1992) than outside successors. Also the opportunity structure is likely to be affected by the background
of a new executive. While the external constraints on public organizations are likely to be relatively unaffected by an executive succession event, new executives may be able to reinterpret the environment in a way that expands the organization’s options and provides more scope for improving performance (Boyne and Dahya 2002). Because outside successors are likely bring a new ideas and a new mindset they may be less affected by existing external constraints (Kraatz and Moore 2002). Also in relation to internal constraints outside successors may be less affected. Again they are more likely to be able to question and reinterpret existing programmes, processes, and routines (Kraatz and Moore 2002), and they are less affected by the existing power structure and dependencies (Pfeffer 1992). Because the backgrounds of new executives in such ways affect the scope for managerial action it is not surprising that recent studies have found different effects of inside and outside succession in public organizations (Hill 2005; <omitted>).

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, however, is known about the conditions under which executive succession is connected to these strategies, though <omitted>, in a study of Danish municipality directors, shows that external successors are likely to pursue more comprehensive structural changes than inside successors are. One question which may be particularly salient to investigate is how executive succession relates to the administrative spending, or corporate capacity, of organizations. While corporate capacity arguably is 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).

Corporate capacity is one of the terms used to denote the administrative centre, or central office, of organizations. Other designations are management capacity (Ingraham et al., 2003) and administrative spending or overhead (Andrews and Boyne 2009). The corporate capacity relates to the organizational potential for action because it is responsible for cross-cutting functions such as finance, personnel, organizational development, and legal affairs. This role is particular evident in a setting such as that of Danish municipalities where most are 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, the corporate capacity is “potential energy rather than kinetic energy” (Meier and O’Toole 2010, 1030) in the organization 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, other 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.
Although corporate capacity of public sector organizations has received little attention in general, recent research, as stated above, has started to address this gap and identify antecedents as well as direct and moderating effects of corporate capacity (Andrews and Boyne 2009; 2011; Meier and Toole 2010). While Andrews and Boyne (2009) show that administrative spending is lower in larger and higher tier local government authorities in England little is known about how characteristics of top management affect corporate capacity. Influencing the size and composition of a public organization’s corporate capacity can be seen as a combination of the different strategies suggested by Boyne and Dahya (2002) as a way in which executives can affect organization performance by improving capacity competencies or by reallocating budgets. As the administrative leader, the executive has a considerable degree of control over this area. The size of an organization’s corporate capacity, or administrative spending, can be thought of as a performance measure in its own as the constituencies of public organizations typically favour service improvements to administrative spending. Considering administrative spending this way, however, may be too simplistic and it may in reality be better seen as an antecedent to other measures of performance. The role of administrative spending for accomplishing organizational objectives is often unknown in the wider public and, in general, difficult to measure. A recent study, however, suggests that there exists an inverted U-shaped effect of corporate capacity on performance, such that increasing administrative spending is positively related to performance until a certain threshold level after which the effects becomes negative (Andrews and Boyne 2011). On this background it is clearly interesting to explore in further detail the mechanisms explaining the levels of administrative spending to highlight how the size of the corporate centre of organizations is shaped. One of the important factors shaping administrative spending levels is likely to be characteristics of the administrative executive, and therefore, I argue, executive
succession events are likely to impact the administrative spending of organizations (Boyne and Dahya 2002).

**Hypotheses**

As stated, successor origin has been an important variable in studies of executive succession. Studies of private sector firms have especially investigated the relation between successor origin and performance both as an antecedent and an effect (Kesner and Sebora 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 that show outside successors to be related to more post-succession strategic change (1992) and Kraatz and Moore’s study that show that colleges with outside succession are more likely to adopt programs from that executive’s former college (2002). Further attention to organizational outcomes 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.

For at least three reasons, I argue, administrative spending is likely to be impacted by executive succession. New executives are concerned with corporate capacity as means of improving performance, as a signalling device, and as a venue for building a power base. First, as described above, there is a relation between corporate capacity and performance. One of the main concerns of a new executive is to maintain or improve organizational performance. How this is accomplished depends on the organization’s prior performance (Boyne et al., forthcoming;
Lubatkin et al., 1989) and the nature of current challenges. Some organizations may be in need of strengthened horizontal integration calling for increasing the size and responsibilities of the corporate centre. Other organizations will have an excess of slack resources stored in the corporate centre enabling new executives to increase performance by reducing its size. Changing the corporate capacity may also be less a result of its current state and instead based on wishes to reallocate funding, competencies, or parts of the task structure in order to pursue performance improvements. Second, changing the corporate capacity may be a signalling device for new executives who want to clearly mark the change of guard. Change in political leadership normally receives wide attention both within and outside the organization creating a platform for action. In contrast, a change in the administrative leadership is typically a much more obscure event which receives little media attention, and also inside the organization may be of smaller interest to many employees. For most frontline workers the administrative leadership is far removed from their daily duties and most immediate concerns as there will be multiple management layers in between them and the top executives. This creates a challenge for a new executive who want to address organizational performance. To establish a platform for changes in culture, structure or strategies it is necessary to be able to reach the entire organizations. Therefore, it is often important for a new executive to clearly signal that a new person is in charge. A way to do this is by changing the corporate capacity. Because of its cross-functional nature such changes are likely be perceived widely in the organization as a signal of future intentions. This type of signal may also be required by the political body hiring the new executive. A desire for future changes may be a key reason for executive succession and thus it may also be in the interest of the hiring authority to clearly signal the event. Third, a challenge for a new executive is building a powerbase in the organization. While the top executive enjoys
formal authority it is widely recognized that other bases of power are equally important to build (Pfeffer 1992). This involves finding a beneficial position in the informal organizational network (Uzzi and Dunlap 2005) which enables both dissemination of information and influence but also the timely reception of relevant information and knowledge. This challenge involves building a stock of organizational allies which 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 venue where to build a power base that satisfies these needs may be the corporate centre. Again, the ways this is done is likely to depend on the challenges which are faced. By enlarging the corporate capacity the new executive secures more cross-functional information will be available and that it may be easier to reach the entire organization. On the other hand, diminishing the administrative centre may create a more influential role for the executive who will be surrounded by fewer administrative professionals.

While the three mechanisms stated above may explain why there is likely to be a relation between executive succession and administrative spending, they provide no clear indication of the nature and sign of its impact. Looking at the nature of the succession, whether the new executive is an insider or an outsider, may, however, yield more precise expectations regarding the relation between succession and administrative spending. Inside successors face a very particular challenge. They know the organization, its key members, routines, and challenges well. Still, when promoted to the position as top executive they face the tasks of delivering outcomes in terms of performance; clearly signal that though the person is known in the organization he or she now occupies a different role; and building an enhanced power base which can be used for needed support. Because an inside successor possesses inside knowledge about processes and routines the person knows about the existence of slack resources. A
relatively easy way to improve financial performance early on and satisfy constituents may be by cutting administrative expenses. Similarly, a convenient way to signal that a person has moved up into the executive position may be through a hard line on administrative expenses. Part of this process is likely to involve creating distance to the protégées of the previous executive. This also has to do with establishing an independent power base. By diminishing the administrative centre the new executive can increase his or her independent base of power. Because of the existing knowledge about the organization, this is likely to be comparatively easier for an inside compared to an outside successor. For these reasons, the first hypothesis is:

Hypothesis 1: Inside executive succession is negatively related to administrative spending in the subsequent period.

In contrast to the expectations stated above, outside successors may be differently related to the size of administrative spending. Because outside successors are new to the organizations they face somewhat different challenges than inside successors and may employ different approaches to solving them. Outside successors are likely to bring new perspectives and ideas into their new position (Kraatz and Moor 2002). Because Danish municipalities have traditionally been organized according to principles favouring functional differentiation, outsider may especially seek to improve performance by enhancing the horizontal coordination and cooperation. This may be particularly true for new executives originating from an occupation outside the municipalities in less hierarchical organizational settings. Such efforts are likely to involve a greater role for the administrative centre which may thus be expanded. Besides being a way to increase performance expanding the administrative centre may also be the preferred signalling
device for outside successors. Successors with this origin are likely to prefer more comprehensive structural changes (<omitted>) and enlarging the administrative centre early on may signal what is to come. Finally, outside successors may strengthen the corporate capacity in the process of building a power base. Because these successors are not knowledgeable about the organization a primary concern may be gathering information and knowledge. A way to achieve this is by increasing the number of cross-functional knowledge brokers in the administrative centre.

_Hypothesis 2: Outside executive succession is positively related to administrative spending in the subsequent period._

**METHODS**

The empirical setting for this study is Danish municipalities. Municipalities are multipurpose organizations responsible for a wide range of public service in Denmark including child care, schooling, elder care, various social measures, libraries, and maintain most roads. They operate in specific geographical areas and receive funding partly from their own tax collection and partly in form of block grants from government. The municipalities are politically led by a council elected every fourth year. Administratively the municipal organization is led by the so-called municipality director. The position as municipality director is, as are all administrative positions, a professional career position and unaffected by which parties is in majority in the council. Like in England (Andrews and Boyne 2011), the administrative centres of municipalities vary in size among other reasons depending on whether administrative services such as HR are decentralized to the specific service departments.
This study analyzes executive successions in the period from 1984 – 2000. In this period there were 275 municipalities in Denmark. I analyze annual data for 270 of these as five of the largest municipalities are governed by different regulation and governance systems making them incomparable to the rest. The unit of analysis therefore is 4590 municipality-year observations (270 entities for 17 years). In the period the average size of the included municipalities was just below 15,000 inhabitants ranging from 2282 to 106,990.

**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. Corporate capacity has been measured in different ways. Meyer and O’Toole (2010) measure the variable as the percentage of employees who are located in central office administration. However, I follow Andrew and Boyne (2011) and others (e.g. Goold and Capbell 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 away. Data on this variable is collected from the databases of *Statistics Denmark* where financial reports of the municipalities are stored.

**Independent variables**
The main independent variable for the study is the mode of executive succession in Danish municipalities. The source for this variable is 17 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 proving the names of all managers. To construct the variable I recorded the names of the municipality director of each municipality for each year of the study. Next I recorded when a succession event was taking place. 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 that a new director promoted from inside the organization is likely to come from (for early evidence see Riiskjaer 1982). With this data I was able to construct a trichotomous distinction of the backgrounds of new executives. To test hypothesis 1 I constructed a variable called *Inside succession* if a new municipality director was promoted from one of the positions inside the municipality. The data allowed me to distinguish between two types of outside successors, namely from another municipality (*Outside succession – other municipality*) and from outside this distinct field of operations (*Outside municipality succession*). While hypothesis 2 did not explicitly distinguish between different types of outside successors I enter both variables in the analysis to possibly further detailing the relation between outside succession and administrative spending in municipalities. However, even though successors from other municipalities posses some contextual familiarity they still lack important organization-specific knowledge to make them comparable to inside successors. By looking in the formal announcements of the 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.

An important question in studies of the effects of executive succession is when it is reasonable to expect effects to occur. While new executives may be interested in leaving a first impression, it may in reality take a period of time for a new executive to assume the position, get initiatives started, and observe their effects. Therefore, following Boeker (1999) and Kraatz and Moore (2002) I operate with a window of three years to observe the effect of an executive succession. In practice I estimate administrative spending in the three years following an executive succession event. This way of modelling also helps account for the fact that I only have yearly data and therefore am unable to 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 removing 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. Finally, to be able to assess the backgrounds of executives hired in the beginning of the observation window in 1984 I coded the names of municipal managers and executives back to 1980.

Control variables
A number of control variables are entered to isolate the effect of executive succession on administrative spending. Relevant variables to include are 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, liquidity and long term debt. I also include the municipality tax rate which may reflect the financial well being of the municipality. Furthermore, the population of the municipality is included. Previous research suggests that economies of scale exist such that larger organizations have less administrative spending (Andrews and Boyne 2011). As stated the level of administrative spending may reflect the organizational structure and the degree of centralization. The structural setup may also favour certain types of executives so information about this is relevant to include. The basic feature of the structural organization of Danish municipalities is departments (Ejersbo 1998). Traditionally, Danish municipalities have been organized according to a strict functional specialization. This, however, changed during the 1990s where most municipalities began reducing the number of departments to create a larger degree of task coherence. Because the number of departments reflects the level of functional specialization versus centralization it is a valid measure of organizational structure which I include. Information about this is coded from the *Municipality Handbook*. Finally, it is important 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 that a municipality initiate an executive succession event. Because I observe the effects of executive succession in a three year window I include administrative spending lagged by three years for each of the years in the
observation window. In this way the control reflects the period leading up to the succession event. This approach also mitigates well known problems about including lagged dependent variables (Angrist and Pischke 2009). I also ran models (not reported) without the control for past administrative spending and the main results remained substantially unchanged. As I describe below, I estimate fixed effects models which control for the unobserved heterogeneity that can result from municipality-specific characteristics. Therefore, I do not include controls for stable municipality characteristics such as regional location or whether they are more rural or urban in nature. 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 databases of Statistics Denmark.

**Statistical Analysis**

The data are cross sectional time series data as they consist of yearly observations for the 270 municipalities. A first choice is whether to estimate fixed or random effects models. For testing the hypotheses of this study a fixed effects model may be desirable because I am interested in exploring the relationship between time-varying predictor and outcome variables within entities. It is likely that municipalities may have individual, unobserved, characteristics which may bias or impact the variables of interest and therefore should be controlled for. Fixed effects models remove the effect of such time-invariant unobserved heterogeneity so I can assess the predictors’ net effects. Besides this rationale, I conducted a Hausman test which strongly supported the use of fixed effects (Chi2 = 432.55; p<.000). Several further considerations guided the choice of estimation procedure. First, serial correlation is often a concern for panel data analysis. I
conducted a Wooldridge test (Wooldridge 2002) and found significant autocorrelation (p< .000). I also tested for and found significant heteroskedasticity in the error terms (p<.000). These issues are typically handled by calculating robust standard errors. However, this approach ignores possible cross-sectional, or spatial, correlation (Hoechle 2007). While this is likely generally to be a problem in social scientific research, it is especially the case when studying entities such as municipalities. It is not only normal but often explicitly expected that these organizations interact, for instance by learning from each other or engaging in mutual cooperation, and thereby create cross-sectional dependence. This is evidenced in a recent study that show how the mayors of Danish municipalities are tied together in a social network which conveys knowledge as well as social norms and affects expenditure policies (Villadsen 2011). To empirically assess whether spatial dependence is present in my data I conducted a Pesaran CD test (Hoechle 2007). Not surprisingly the test exhibited strong and significant signs of cross sectional dependence (p<.000). To estimate a model which is robust to the abovementioned violations of standard regression assumptions I estimate models with Driscoll/Kraay standard errors (Driscoll and Kraay 1998). This approach is, like conventional techniques such as the Huber/White estimator, robust to heterogeneity and serial correlation but furthermore also able to account for cross-sectional dependence (Hoechle 2007). This estimator is consistent in the presence of within unit serial correlation up to a specified lag and heteroskedasticity of an unknown form. Regarding autocorrelation, compared with the perhaps more well-known procedure of estimating one or more AR(n) terms, the use of this estimator has several advantages (Henisz 2002). It is computationally simpler, easily accommodates higher order autocorrelation, and does not rely on an assumption that the different entities under observation share common autocorrelation parameters. Therefore, I test my hypotheses with fixed effects regression models with
Driscoll/Kraay standard errors. Because municipal spending preferences generally are quite stable I use a lag window allowing for autoregression of up to 4 years. Finally, I tested the model to assess whether time dummies were required. The test rejected the null-hypotheses that year coefficients were jointly equal to zero, so I include time fixed effects in the models. These constitute a control for dynamics of the election cycle which may impact the results. They also control for the effects of macro events like general elections and relative national financial fluctuations.

RESULTS

As noted above municipalities in Denmark enjoy considerable autonomy in the allocation of their resources. Therefore, they constitute a relevant setting to explore antecedents of administrative spending in public organizations. Table 1 provides descriptive statistics for the variables of the study (the 17 year dummies excluded).

Table 2 provides two regressions exploring the relation between executive succession and administrative spending. Model 1 presents the dichotomous division between inside and outside
succession, while model 2 further divides outside successors by whether they come from a position in another municipality or outside the field of municipalities.

The results of the two models consistently support the expectation forwarded in hypothesis 1 that administrative spending is smaller in the period following an inside executive succession. This result indicate that newly promoted executives try to show results and establish their basis of power by reducing the amount of administrative spending relative to the total operating expenses.

Hypothesis 2 expected that outside executive succession would be positively related to administrative spending. This expectation is supported in model 1 as administrative spending is higher in periods following an outside succession event. In model 2 this finding is further scrutinized. Interestingly, this model suggests that the higher administrative spending following outside succession is only pronounced when the outside successor do not come from a position in another municipality. There is a strong and significant relation between hiring this type of executive and administrative spending while the relation for outsiders from another municipality is positive yet insignificant. These results suggest that outsiders from outside the field seek to build their position of power and create networks and contacts by enhancing the corporate
capacity. Not being familiar with this type of organization creating a stronger corporate centre may make it possible to acquire more knowledge and information about organizational action and processes and constitute a means of exercising a stronger influence throughout the organization. These demands may be smaller for outsiders who a familiar with municipal organizations. While on one hand needing to create a basis of power and influence, these executives on the other hand may also see opportunities for simultaneously for obtaining results by not letting the administrative spending increase too much. These opposing forces may explain the insignificant relation for this group of new executives.

A couple of the control variables are worth mentioning. Often research findings in public administration and management are hard to generalize between different contexts or countries. Therefore, it is interesting that this study repeats the finding by Andrews and Boyne (2011) that size of population is negatively related to administrative spending. It is also interesting to observe the negative relation between net operating expenses and administrative spending.

**DISCUSSION AND CONCLUSION**

This study has investigated the relation between executive succession patterns and administrative spending in public organizations. The findings of a study of executive succession in Danish municipalities in the period from 1984 to 2000 illustrate how administrative spending is affected differently depending on the background of a new executive. I argued that three mechanisms explain this finding. Reforming the administrative spending, or corporate capacity, constitutes a way in which new executives can pursue improved performance, it works as a signalling device, and it is way to build a power base. Because these mechanisms are likely to influence successors
with different backgrounds differently the empirical analysis provides support for my theory. Less administrative spending was found in municipalities in periods following inside succession, and higher spending in periods following outside succession. This finding contributes to the growing knowledge of the effects of executive succession in public organizations and the literature on corporate capacity.

While the performance outcomes of executive succession events are becoming increasingly well understood, still we know little about the mechanisms explaining these outcomes. Boyne and Dahya (2002) suggested different ways in which executive succession affects organizational performance but they have been subject to relatively little empirical scrutiny. Changing the administrative spending constitutes an effort by the executive to both change financial allocations but is also a way to change the structural setup of an organization. A larger administrative centre and more cross-functional attention facilitate quite different organizational operations and processes than do 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 lower performance following succession events, and especially outside succession. The results of the presents study suggest that an explanation of the latter part of that finding may be that outside successors operate with a larger administration in the years after assuming the position as executive. In another study <omitted> shows that outside successors are likely to initiate larger structural changes than are inside successors in the period after the 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 focused on the process of executive succession in public organizations. Such research could help illuminate the mechanisms explaining inside and outside succession and not least explore the agendas different types of successors seek to pursue when they are appointed.

This paper also contributes to the literature on administrative spending 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 also investigate the antecedents to the first part of this important causal connection. Where Andrews and Boyne (2009) explore some structural and institutional explanatory factors the present study contributes with an explanation focusing on key individuals. While these two studies generally appear to be complementary and bridge different 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 to corroborate the findings.

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 think this problem should be severely diminished in this study by the use of a three year window for observing effects of succession, and by the inclusion of a lagged dependent variable. Optimally one would wish some exogenously imposed variation in the independent variable to improve the
causal inference (Shadish and Cook and Campbell 2002). However, as executive succession is far from a random process (and so it should be) this condition is probably impossible to satisfy anywhere, yet alone in a 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 the new executives. It would, of course, be desirable with an even more detailed knowledge about the former work experience of the new executives but unfortunately my data sources did not allow this. Finally, it could also be interesting include additional measures of corporate capacity. Unfortunately, data on personnel (FTEs) in administration is not available for the period under study.

Recent research has helped us significantly improve our understanding of drivers of performance 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 forwarded a theory based on three mechanisms of how executive succession is related to administrative spending. While offering another insight into how management matters, the study also opens for future research to further explore the processes and dynamics underlying the findings.
References


### Table 1.
Descriptive statistics

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<tbody>
<tr>
<td>Administrative spending</td>
<td>8.70</td>
<td>1.78</td>
<td>4.94</td>
<td>14.96</td>
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<tr>
<td>Past administrative spending</td>
<td>8.56</td>
<td>1.82</td>
<td>4.94</td>
<td>14.96</td>
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<tr>
<td>Population (log)</td>
<td>9.34</td>
<td>0.69</td>
<td>7.73</td>
<td>11.58</td>
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<td>Number of departments</td>
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<td>1.00</td>
<td>10.00</td>
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<tr>
<td>Liquidity</td>
<td>2.35</td>
<td>1.86</td>
<td>-3.50</td>
<td>27.97</td>
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<tr>
<td>Debt</td>
<td>3.87</td>
<td>3.55</td>
<td>0.00</td>
<td>35.79</td>
</tr>
<tr>
<td>Tax rate</td>
<td>19.07</td>
<td>1.58</td>
<td>11.50</td>
<td>23.30</td>
</tr>
<tr>
<td>Net operating expenses (log)</td>
<td>3.33</td>
<td>0.22</td>
<td>2.68</td>
<td>4.01</td>
</tr>
<tr>
<td>Inside executive succession</td>
<td>0.05</td>
<td>0.22</td>
<td>0.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Outside executive succession</td>
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<td>0.34</td>
<td>0.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Outside executive succession - From municipality</td>
<td>0.08</td>
<td>0.28</td>
<td>0.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Outside executive succession - Outside municipalities</td>
<td>0.06</td>
<td>0.23</td>
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<td>1.00</td>
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</table>
Table 2.
Regression Results predicting Administrative Spending in Danish Municipalities 1984-2000.

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<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
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<tr>
<td>Past administrative spending</td>
<td>0.40***</td>
<td>0.40***</td>
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<tr>
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<td>(0.11)</td>
<td>(0.11)</td>
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<tr>
<td>Population (log)</td>
<td>-0.99**</td>
<td>-0.97*</td>
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<tr>
<td></td>
<td>(0.50)</td>
<td>(0.50)</td>
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<tr>
<td>Number of departments</td>
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<td>-0.04*</td>
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<tr>
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<td>(0.02)</td>
<td>(0.02)</td>
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<tr>
<td>Liquidity(^a)</td>
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<td>(0.01)</td>
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<tr>
<td>Debt(^a)</td>
<td>0.00</td>
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<td>(0.64)</td>
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<td>17 year dummies</td>
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<td>Included</td>
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<tr>
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<td>-0.08**</td>
</tr>
<tr>
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<td>(0.03)</td>
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<td>(0.02)</td>
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<tr>
<td>Outside executive succession - From municipality</td>
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<td>0.03</td>
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<tr>
<td></td>
<td></td>
<td>(0.02)</td>
</tr>
<tr>
<td>Outside executive succession - Outside municipalities</td>
<td></td>
<td>0.19***</td>
</tr>
<tr>
<td></td>
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<td>(0.04)</td>
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<tr>
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<td>0.8691</td>
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<tr>
<td>N</td>
<td>4590</td>
<td>4590</td>
</tr>
</tbody>
</table>

\(^a\) Per capita in 1000s of Danish kroner (DKK)
*) p<0.1; **) p<0.05; ***) p<0.01
Driscol/Kraay standard errors in parantheses.
One-tailed tests for hypothesized relations; two-tailed for controls.