

Till death do us part: Relationship shocks, supply chain organization and firm performance

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Abstract

Within modern economies firms are embedded in often complex supply chains, creating strong interdependencies between firms. But what happens when these supply chains are disrupted, what changes does this bring about? We answer these questions, focusing on what happens when connections between companies exogenously break because of the unexpected death of the CEO within one of the firms. We rely on detailed data from the TSR which provides firm level measures of CEOs start and exit dates along with buyer-supplier linkages. This data is matched to detailed statistics on Japanese firms which enables us to identify the effects of leadership change on supplier networks and subsequent performance. We find that for firms that suffer such deaths this promotes the churning of suppliers but not for customers and therefore that these shocks propagate towards upstream firms through the supply chain. There is also evidence that this affects the short-term performance of indirectly affected firms as the shock propagates backwards along the supply chain.

Keywords: CEO change, supply chain, Japan, firm, productivity

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