Do Institutions Matter for CEO Dismissal?

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ABSTRACT

CEO dismissal is one of the most theoretically interesting topics in strategic management. Previous studies have noted that the extent of control over CEOs exercised by outside directors and senior executives plays an important role in affecting the relationships between relevant organizational characteristics (i.e., organizational performance, CEO-board personal ties, and CEO-senior executive dissimilarity) and the likelihood of CEO dismissal. Drawing on an institutional perspective, this study proposes that national institutions concerning investor protection, individualism, and power distance shape how outside directors and senior executives exercise control over CEOs. As such these national institutions would moderate the relationships between the relevant organizational characteristics and the likelihood of CEO dismissal. To test the hypotheses derived from the above assertions, the present study deploys the data from a sample of 1733 public companies across 20 countries from year 2005 to 2009. The empirical evidence confirms the moderating role of national institutions in CEO dismissal.

摘要

企業 CEO 解雇是戰略管理領域裡面一個具有理論意義的話題。現有研究發現企業外部董事和高層經理對於 CEO 的控制影響相關組織特性（包括組織績效，CEO-董事會私人關係，CEO-高層經理個人特徵差異性）與 CEO 解雇之間的關係。本研究從制度理論出發，認爲國家制度，比如投資者保護，個人主義，以及權力距離影響外部董事和高層經理如何控制企業 CEO。因此，這些國家制度將會調節相關的組織特性和 CEO 解雇之間的關係。本研究利用 20 個國家的 1773 家上市公司 2005 年到 2009 年的資料驗證相關假設。實證結果證實了國家制度所起的調節作用。

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Chapter 1

INTRODUCTION

The study of chief executive officers (CEOs) is one of the mostly attractive areas to scholars in the strategic management field given that CEOs in business organizations probably play the most vital role in strategy formation and implementation (Andrews, 1980; Barnard, 1938; Selznick, 1957). In particular, CEO dismissal, which can be defined as CEO turnover in which CEOs are forced to leave the company for reasons other than age or health concerns (Fredrickson, Hambrick, & Baumrin, 1988; Shen & Cho, 2005), represents an important organizational phenomenon that has a profound impact on organizational survival and success (Finkelstein, Hambrick, & Cannella, 2009). In recent years, when the world has become engulfed by an economic recession and CEOs are being dismissed at an accelerating rate, few topics in strategic management rival CEO dismissal in terms of interest from academia, the media, and the general public.

There are five main perspectives on the antecedents of CEO dismissal, including agency theory (Huson, Parrino, & Starks, 2001; Zhang, 2008), ritual scapegoating perspective (Gamson & Scotch, 1964), organizational adaptation perspective (Karaevli, 2007; Tushman & Rosenkopt, 1996), circulation of power perspective (Ocasio, 1994), and sociopsychological perspective (Jackson et al., 1991). Overall, these perspectives have focused on organizational level factors such as organizational performance, agency conditions (e.g., CEO-board personal ties), and organizational

demography (e.g., CEO-senior executives personal dissimilarity) as the main antecedents of CEO dismissal (Finkelstein et al., 2009; Shen & Cho, 2005).

Extant literature provides valuable insights into the antecedents of CEO dismissal (Finkelstein et al., 2009). Few attentions, however, have been paid to the idea that macro-environmental factors, particularly national institutions, also have important consequences for CEO dismissal. With relatively few exceptions (e.g., Crossland, 2009; DeFond & Hung, 2004), past research has virtually ignored the macro-environment in studying CEO dismissal. In an in-depth assessment of this literature, Finkelstein and Hambrick (1996) have noted that almost no empirical research has examined the relationships between factors external to the firm (particularly national institutional factors) and CEO dismissal. This is a crucial gap in the literature.

From a theoretical standpoint, an organization's national institutional environment constitutes a very important context within which CEO dismissal decisions get framed and executed (Fligstein, 1987; Ocasio & Kim, 1999). Strategic management literature has long emphasized that institutional conditions shape company decision makings as they constrain and structure the activities and behaviors of key company stakeholders within the boundaries of the firm (Peng, Wang, & Jiang, 2008; Shane, 1995). While CEO dismissal represents a major company decision which has a profound impact on the interests of company stakeholders, one might expect that national institutions may influence how CEOs get dismissed.

Further, empirical studies on the antecedents of CEO dismissal have presented

inconsistent findings when samples were from different countries, indicating that national institutions might play a crucial role in CEO dismissal. Specifically, while studies on U.S. samples of firms generally found that prior weak firm performance is significantly related to CEO turnover (Brickley, 2003), studies on Czech Republic (Eriksson, 2005), Finland, (Maury, 2006), Japan (Kaplan, 1994a), and South Korea (Campbell & Keys, 2002) found non-significant relationships between particular performance measures and CEO dismissal.

Similarly, extant studies revealed that while there is a significant relationship between outside directors ratio and the likelihood of CEO dismissal in U.S. companies (Denis, Denis, & Sarin, 1997), such results were not supported by the studies which investigated samples from other countries such as China (Fan, Lau, & Young, 2007) and Australia (Lau, Sinnadurai, & Wright, 2009).

Furthermore, studies investigating the relationship between personal dissimilarity and senior executive turnover also showed inconsistent results. These studies typically see CEO as a member of senior executive group. While studies on companies from both U.S. (Jackson et al., 1991; Wagner, Pfeffer, & O'Reilly, 1984) and the Netherlands (Godthelp & Glunk, 2003) found a significant relationship between individual age dissimilarity and the likelihood of executive turnover, studies on Japanese companies reached different conclusions (Wiersema & Bird, 1993).

Recently, there are a few attempts in the literature to consider how national institutions might affect CEO dismissal. These studies note that taking into account national institutions might help in explaining why there are cross-national variation in

the relationship between organizational performance and CEO dismissal. The first explanation is provided by organizational theorists, who claim that in some societies CEOs possess little managerial discretion, which is the extent to which CEOs are able to imprint their own idiosyncratic stamps on their firms, because there are many formal and informal institutional constraints on CEO actions (Crossland & Hambrick, 2007). They suggest that in these societies company stakeholders will recognize the CEOs' limited discretion and thus will not attribute poor company performance to CEOs (Crossland, 2009).

A second explanation is offered by the proponents of institutional economics, who claim that the strong investor protection will deter board directors from colluding with the incumbent CEOs. As a result, outside directors in societies with better investor protection will be more willing to terminate CEOs of poorly performed companies (Defond & Hung, 2004; Lel & Miller, 2008).

These explanations highlight that although organizational level factors such as organizational performance, CEO-board personal ties, and CEO-senior executive dissimilarity are crucial to CEO dismissal, national level factors such as investor protection and relevant social norms should also be taken into account. The board's decision on CEO dismissal could be facilitated or deterred because board directors across societies have different interpretations of CEO accountability for organizational performance or because laws across societies place different pressures on board directors to make such decisions.

These explanations, though recognizing the impact of a society's institutions on

CEO dismissal, have not provided explicit mechanismic explanations for CEO dismissal. The concept of meahnismic explanations developed by Bunge (1997) suggests that to predict the reality a theory should identify the mechanism underlying the phenomena concerned. Nor have they provided explanations on why there are cross-national differences regarding the relationship between organizational characteristics other than company performance (e.g., organizational agency conditions and organizational demography) and CEO dismissal.

Given the inadequacy of the previous studies in explaining cross-national variation in the likelihood of CEO dismissal, the present study takes an institution-based view to (1) identify the most relevant institutions which could explain the above mentioned cross-national variation; and (2) build a theoretical framework explaining how these factors could have an impact on CEO dismissal.

Through an extensive review of relevant literature, this study finds that though organizational levels factors such as organizational performance, CEO-board personal ties, and CEO-senior executive personal dissimilarity are the main antecedents of CEO dismissal, their impacts on CEO dismissal are influenced by the extent of control exercised by outside directors and senior executives. Researchers have considered mainly three ways of control over CEOs: outside directors' monitoring of CEOs according to formal requirements (formal control), outside directors' tendency to refrain from providing favor toward CEOs based relationships (social control), and senior executives' detection and reaction to CEOs' shortcomings (political control).

The extent of the control over CEOs exercised by outside directors and senior

executives can be shaped by relevant national institutions. According to institutional theory, institutions are "the humanly devised constraint that shapes human interaction" (North, 1990: 3). They could affect individual behavioral patterns by defining legal, moral, and cultural boundaries, setting off appropriate from unacceptable activities (Meyer & Rowan, 1991; Scott, 2008). As members of a society, outside directors and senior executives would exercise their control over CEO behavior in line with relevant institutional requirements.

This dissertation proposes that formal institutions of investor protection, informal institutions of individualism and power distance shape the extent of formal control, social control, and political control over CEOs. Consequently, as the extent of control over CEOs affects the effects of relevant organizational characteristics on CEO dismissal, these national institutions would play a moderating role in affecting the relationships between relevant organizational level factors and CEO dismissal.

The present study focuses on the impact of national institutions on CEO dismissal. It is guided by the following two research questions: (1) Do formal and informal institutions have an impact on CEO dismissal? And (2) how do formal and informal institutions affect CEO dismissal?

The remainder of this dissertation is organized as follows. Chapter 2 will review related literature. It focuses on literature on antecedents of CEO dismissal. This review of literature reveals that previous studies have focused mainly on organizational level factors as antecedents of CEO dismissal and that the impacts of relevant organizational factors on CEO dismissal are affected by the extent of control

over CEOs exercised by outside directors and senior executives. These findings from the extant literature set the stage for theoretical framework development in this study.

Chapter 3 develops theory and hypotheses concerning the impact of national institutions on CEO dismissal. It first discusses how national institutions might influence the extent of control over CEO behavior exercised by outside directors and senior executives. Then based on this discussion, the chapter generates hypotheses regarding the effects of national institutions on CEO dismissal.

Chapter 4 introduces the research methods adopted to empirically test the hypotheses generated in Chapter 3. Sample selection, measurement issues, and statistical techniques are discussed.

Chapter 5 provides the results of the empirical tests for the hypotheses generated in Chapter 3.

Chapter 6 discusses the results reported in Chapter 5 regarding the effects of national institutions on CEO dismissal. The chapter also presents conclusions, limitations of the study, and implications for both research and practice.

Chapter 2

REVIEW OF EXISTING LITERATURE

This chapter is purported to review existing literature concerning the antecedents of CEO dismissal and to identify the major research gaps in this area. There are five perspectives which have been mostly influential in the study of CEO dismissal. The perspectives proposed a number of key antecedents as drivers behind CEO dismissal decision making. These antecedents mainly concern organizational characteristics such as organizational performance, CEO-board personal ties, and CEO-senior executive dissimilarity.

Existing empirical studies on the antecedents of CEO dismissal, however, have found that there are substantial cross-national variation in the relationships between the antecedents and the likelihood of CEO dismissal. The inconsistent research findings imply that national-level factors, especially national institutions, might play an important role in CEO dismissal. Recently, some scholars have attempted to introduce the role of national institution as a contextual variable in this area (Crossland, 2009; DeFond & Hung, 2004).

This chapter is organized into three sections. The first section concerns theories and empirical evidence of the antecedents of CEO dismissal, which are primarily organizational factors. This section ends with a summary of the extant studies on the antecedents of CEO dismissal, claiming that outside directors and senior executives exercise substantial control over CEOs and their control could affect how relevant

organizational characteristics are related to the likelihood of CEO dismissal. Two studies on the impact of national institutions on CEO dismissal will be reviewed in the second section. The final section provides a summary and critique on existing studies and points out the research gaps in the literature.

2.1. Antecedents of CEO Dismissal

Investigations into the antecedents of CEO dismissal have appeared regularly in the organizational literature for half a century or more. Some of the earliest work in this domain investigated the impact of organizational characteristics such as organizational size on CEO succession frequency (e.g., Grusky, 1961, 1964; Gordon & Becker, 1964). One of the major findings noted by those studies was that larger organizations tended to experience more frequent successions than smaller ones. The explanation for this finding was that larger organizations were more bureaucratic in nature and bureaucratic organizations were capable of controlling for the disruptive responses created by CEO succession (Grusky, 1961).

These earliest studies were important, as they explored for the first time the antecedents of CEO turnover. At the meantime, however, these studies were exploratory since they were limited by small sample size and measurement problems (Kesner & Sebora, 1994).

More recent studies on this topic began to conduct systematic examinations of antecedents of CEO dismissal and offer more rigorous theoretical explanations. Five major perspectives, namely *ritual scapegoating, agency, organizational adaptation,*

circulation of power, and sociopsychological perspectives, emerged as dominant in this area. Although these perspectives made different assumptions and distinguish themselves from each other in providing explanations for CEO dismissal, they all focused on organizational characteristics as the main antecedents (Li & Lu, 2011; Shen & Cho, 2005).

Table 1 presents a summary of the five perspectives on CEO dismissal by displaying the main entities involved, the core assumptions, the mechanisms through which CEO are dismissed, and the key determinants of CEO dismissal. These determinants include organizational performance, organizational agency conditions, organizational power dynamics, and organizational demography. The following sections will describe each antecedent of CEO dismissal in turn. During the process, the theoretical arguments offered by each of the five main perspectives are introduced.

2.1.1. Organizational Performance and CEO Dismissal

Of the five perspectives, three, namely *ritual scapegoating perspective, agency theory, and organizational adaptation perspective*, have identified organizational performance as the most important antecedent of CEO dismissal. The earliest studies in this stream started from the research on professional sports teams (Grusky, 1963; Gamson & Scotch, 1964; Allen, Panian, & Lotz, 1979). Results from these studies showed that organizational performance, i.e., the win-lost records of sports teams, was negatively associated with general manager turnover.

TABLE 1

A Summary of five perspectives on CEO dismissal[a]

Central Components	Five Perspectives				
	Ritual scaptegoating perspective	Agency theory	Organizational adaptation perspective	Circulation of power perspective	Social psychological perspective
Observable entities	Board directors, company stakeholders, and CEOs	Owners, board directors, and CEOs	Board directors, CEOs, and environmental contingencies	Board directors, CEOs, and senior executives	Senior executives and CEOs
Core assumptions	. Competence are invariant among managers . Board directors are vigilant monitors	. Agents are opportunistic. . Goals of CEOs and owners are incongruent . Information is asymmetrically distributed	. CEO competence becomes obsolete over time . Board directors are vigilant monitors	. Senior executives will form coalitions with board directors to contest CEO's power	. Individuals prefer similar others . Individuals could derive self-esteem from psychological membership
Mechanisms of CEO dismissal	CEOs are dismissed because board tends to appease stakeholders	CEOs are dismissed because of because their opportunistic behaviors were identified by board	CEOs were replaced because board intends to realign CEO competence with environment	CEOs were replaced because one senior executive won the support of board directors	CEOs dissimilar to senior executives because senior executives make unfavorable evaluations on those CEOs
Determinants of CEO dismissal	Organizational performance	Organizational performance, ownership profile, and board composition	Organizational performance	Power struggles initiated by senior executives	Dissimilarity between CEOs and senior executives

[a] Adapted from Li and Lu (2011).

Gamson and Scotch (1964) developed a *ritual scapegoating perspective* to explain this organizational performance-general manager turnover relationship. They argue that organizations dismiss general managers following poor organizational performance in order to pacify organization stakeholders' dissatisfaction (Gamson & Scotch, 1964). According to this perspective, once an organization encountered a performance decline, its stakeholders are likely to become anxious and lose their confidence in senior executives. Since ordinary stakeholders such as low-rank employees, individual shareholders, and customers might not understand how senior executives function and operate, they would simply attribute poor performance to the senior executives (Salancik & Meindl, 1984). In this sense, to dismiss the CEO will help reduce stakeholder anxiety and rekindle their confidence (Cannella & Lubatkin, 1993; Gamson & Scotch, 1964).

According to Gamson and Scotch (1964) and Brown (1982), dismissing the incumbent CEO will have no substantive effects on organizational performance. This is because organizations are highly constrained by the environmental forces (Hannan & Freeman, 1977) such that CEOs are limited in their decision makings.
At the same time, as the new CEOs possess similar capabilities as their predecessors, the appointment of new CEOs would not make any real improvement on firm performance (Huson, Malatesta, & Parrino, 2004).

Later studies maintained that organizational performance remained to be an important antecedent of CEO dismissal, but the attention began to be drawn to agency

problems (e.g., Coughlan & Schmidt, 1985; Weisbach, 1988). *Agency theory* emerged as a dominant view in this research stream. According to this theory, company owners, who are defined as principals, do not usually manage the company themselves but hire executives—sometimes referred to as agents—to do so. This separation of company ownership from company management raises agency problems caused by conflicts of interest between owners (principals) and executives (agents), particularly CEOs. Whereas company owners' major interests are to maximize their wealth form their investment, CEOs are more interested in pursuing prestige, power, or job security and thus could act opportunistically (Hendry, 2002; Walsh & Seward, 1990; Zajac, 1990).

According to *agency theory*, to protect the principals' interests, shareholders and board directors will dismiss CEOs for reasons of poor company performance. As CEO opportunistic behavior would lead to suboptimal organizational performance, shareholders and board directors typically infer from poor organizational performance that CEOs have behaved against shareholders' interest and make CEO dismissal decisions accordingly (Crossland, 2009).

While proponents of *agency theory* have suggested that CEOs' opportunistic behavior be the main reason for CEO dismissal, other scholars, turn their attention to the alignment between the organizations and environmental contingencies and develop the *organizational adaptation perspective* to explain firm performance-CEO dismissal relationship. The central argument of this perspective is that organizations

should align their strategies, structures, and individual capabilities with environmental contingencies such as customer preferences, technologies, and competitive conditions (Keck & Tushman, 1993). According to perspective, poor organizational performance indicates a mismatch between CEO competence and environmental contingencies (Shen & Cho, 2005). Hence the incumbent CEO should be dismissed if the organizational performance declines, since it is the CEO's incompetence that makes the organization failed to adapt adequately and rapidly to environmental shifts (Drazin & Van de Ven, 1985; Virany, Tushman, & Romanelli, 1992). To turnaround organizational performance, the organization should hire a new CEO who is more competent to lead the organization with more effective strategies which fit the immediate environment demands (Tushman & Rosenkopt, 1996). Therefore, dismissing the CEO is an important way to make the company be adaptive to changes in external environment (Lant & Milliken, 1992).

Overall, these three perspectives, namely *ritual scapegoating, agency theory, organizational adaptation*, all have suggested a negative relationship between organizational performance and the likelihood of CEO dismissal. Following these perspectives, scholars have conducted a multitude of studies to test the extent to which poor organizational performance would lead to CEO dismissal. Table 2 displays the empirical findings of 27 studies published in mainstream business academic journals between 1988 and 2009.

TABLE 2
Firm Performance-CEO Turnover Relationships[a]

Author/s	Year	Sample	Country	Performance Measure	All turnover	Routine turnover	Nonroutine turnover
Weisbach	1988	495 publicly held corporations	U.S. (1974-1983)	Stock returns	significant	--	--
				Change in ROA	significant	--	--
Warner et al.,	1988	269 firms listed on NYSE and AMEX	U.S. (1962-1978	Stock returns	significant	--	significant
Puffer & Weintrop	1991	480 listed firms	U.S. (1983)	Unexpected stock returns	Significant	--	--
				Unexpected industry stock returns	n.s.	--	--
				CAR	n.s.	--	--
				ROA	n.s.	--	--
				ROE	n.s.	--	--
				ROS	n.s.	--	--
Boeker	1992	67 firms in semiconductor industry	U.S. (1968-1989)	Sales growth	--	--	significant
Ocasio	1994	120 industrial firms	U.S. (1960-90)	ROA	significant	--	--
Denis et al.,	1997	1394 firms	U.S. (1985-1988)	Stock returns	--	--	significant
				Change in ROA	--	--	significant
Huson et al.,	2001	8424 firm-years	U.S. (1971-1994)	Stock returns	n.s.	n.s.	significant
				ROA	significant	Significant	significant
				Change in ROA	n.s.	n.s.	significant
Dahya et la.,	2002	650 industrial firms	U.K.	Stock returns	significant	--	significant

			(1988-1996)	ROA	significant	--	significant
Kaplan	1994a	119 firms included in Fortune's list of 500 largest foreign industrials in 1980	Japan (1981-1989)	Stock return	n.s.	--	significant
				Sales growth	n.s.	--	n.s.
				Change in ROA	n.s.	--	significant
				Negative net inform	n.s.	--	significant
Kang & Shivdasani	1995	270 nonfinancial firms	Japan (1985-1989)	Stock returns	--	n.s.	significant
				ROA	--	n.s.	significant
				Negative net income	--	n.s.	significant
Anderson & Campbell	2004	101 listed banks	Japan (1985-90)	Stock returns	--	--	n.s.
				Market adjusted stock returns	--	--	n.s.
				Industry adjusted stock returns	--	--	n.s.
				ROA	--	--	n.s.
				Change in ROA	--	--	n.s.
				Industry adjusted ROA	--	--	n.s.
			Japan (1991-96)	Stock returns	--	--	significant
				Market adjusted stock returns	--	--	significant
				Industry adjusted stock returns	--	--	significant
				ROA	--	--	significant
				Change in ROA	--	--	significant
				Industry adjusted ROA	--	--	significant
Kaplan	1994b	61 largest industrial firms	Germany (1981-1989)	Stock returns	n.s.	--	--
				Sales growth	n.s.	--	--
				Change in ROA	n.s.	--	--
				ROA	n.s.	--	--
				Negative net income	significant	--	--

Campbell & Keys	2002	356 listed firms	South Korea (1993-99)	Stock returns	n.s.	--	--
				ROA	significant	--	--
				Change in ROA	n.s.	--	--
				ROE	significant	--	--
				Negative income dummy	significant	--	--
Eriksson	2005	839 firms	Czech Republic (1998-99)	Sales	n.s.	--	--
				Change in sales	n.s.	--	--
				Gross profit	significant	--	--
				Change in gross profit	significant	--	--
			Czech Republic (1999-2000)	Sales	n.s.	--	--
				Change in sales	n.s.	--	--
				Gross profit	significant	--	--
				Change in gross profit	n.s.	--	--
Tsai et al.,	2006	63 listed family firms	Taiwan (1998-2002)	Stock returns	significant	--	--
				ROA	n.s.	--	--
		241 listed nonfamily firms	Taiwan (1998-2002)	Stock returns	significant	--	--
				ROA	significant	--	--
Firth et al.,	2006	2725 firm years	China (1998-2002)	Stock returns	n.s.	n.s.	n.s.
				ROA	significant	significant	significant
				ROS	significant	significant	significant
				Sales growth	significant	significant	significant
				Negative operating income	significant	significant	significant
Lau et al.,	2007	496 listed firms	China (1998-2003)	ROA	significant	--	--
Fan et al.,	2007	1328 listed firms	China	ROA	Significant	significant	significant

			(1999-2003)				
Kato & Long	2006	638 listed firms	China (1999-2002)	Stock returns	Significant	--	--
				ROA	Significant	--	--
				Profit margin	Significant	--	--
				Change in ROA	Significant	--	--
				Change in profit margin	significant	--	--
Volpin	2002	205 listed firms	Italy (1986-97)	Stock return	Significant	--	--
				Change in ROA	significant	--	--
Brunello et al.,	2003	60 listed firms	Italy (1988-1996)	Stock return	Significant	--	--
				Change in ROS	Significant	--	--
Maury	2006	102 non-financial firms	Finland (1993-2000)	Stock returns	--	--	Significant
				Change in ROA	--	--	n.s.
				Negative operating income	--	--	significant
Lausten	2002	243 firms	Denmark (1992-1995)	ROS	Significant	--	--
				Negative net income	significant	--	--
Lau et al.,	2009	Top 100 listed Australian firms by market capitalization	Australian (1997-2004)	Stock returns	--	--	Significant
				ROA	--	--	significant
DeFond & Hung	2004	21,483 firm-years	33 countries (1997-2001)	Stock returns	Significant	--	--
				Change in ROA	n.s.	--	--
Gibson	2003	1,200 listed firms	8 emerging countries (1993-97)	Stock returns	n.s.	--	--
				ROA	n.s.	--	--
				Change in ROA	significant	--	--
				Sales growth	significant	--	--
Crossland	2009	746 listed firms	15 developed	Stock return	Significant	--	--

			OECD countries	ROA	Significant	--	--
			(1996-2005)	Negative net income	significant	--	--

[a] n.s.=not significant; all significant findings were significant at 0.10 level and in the expected direction (e.g., a negative relationship between return on assets and CEO turnover)

As exhibited in Table 2, the earliest studies focused solely on U.S. samples. In general, these studies showed robust empirical support for the asserted negative performance-CEO turnover relationship. However, while later studies extended this stream of research to investigate samples in non-U.S. countries, they noted a great cross-national variation in the relationship between firm performance and CEO turnover. In particular, a few studies have found non-significant relationships for particular performance measures in the countries which have distinct formal and informal institutions from the U.S., including the Czech Republic (Eriksson, 2005), Japan (Kaplan, 1994a), and South Korea (Campbell & Keys, 2002).

Even for those studies that did find significantly negative relationship between organizational performance and the likelihood of CEO dismissal, the explanatory power of organizational performance is not particularly strong, with the variance explained by performance being in the range of 10 to 20 percent (Finkelstein et al., 2009). All these suggest a need of further investigation of factors beyond organizational performance in the study of CEO dismissal. Organizational agency conditions are the most investigated among these factors.

2.1.2. Organizational Agency Conditions and CEO Dismissal

Since Berle and Means (1932) documented the increasing separation of ownership and managerial control of large U.S. corporations, organizational scholars have been interested in the implications of organizational agency conditions for

organizational consequences. In particular, some scholars have applied *agency theory* for investigation of how the relationships among organizational owners, board directors, and CEOs affect CEO dismissal (Finkelstein et al., 2009).

Students of *agency theory* suggest that agency conditions, as manifested in ownership profile or board composition, could exert considerable influences on CEO dismissal (Finkelstein et al., 2009). First, because not all the owners have the same incentives to monitor CEOs, the ownership profile of organizations (e.g., the presence of institutional shareholders or block shareholders and CEO ownership) plays a significant role in CEO dismissal process (Boeker, 1992; Denis et al., 1997).

Specifically, when the ownership of a company is dispersed, individual shareholders would have no incentives to invest in monitoring the CEO's behaviors, since they could reap little benefit from such investment (Boeker, 1992). Differing from individual shareholders, block holders and institutional shareholders are usually more active monitors of CEOs' behaviors, because their wealth is highly related to the performance of the company (Huson et al., 2001). Hence, the presence of institutional stockholders or company ownership concentration would increase the likelihood of CEO dismissal.

Further, when CEOs hold large shares of a company, they can shelter from monitoring by other owners. This is because the CEOs holding large share have more voting control and other forms of influence within the companies (Boeker, 1992; Denis et al., 1997). As a result, it is highly unlikely that these CEOs will be dismissed.

Second, as the board is the main control mechanism monitoring and disciplining CEOs, the board composition is critical to the CEO dismissal. Previous studies have noted that the characteristics of board concerning proportion of outside directors, CEO duality, director ownership, and board size would affect CEO dismissal decision making (Yermack, 1996).

Boards consisting of more outside directors are more likely to monitoring CEOs' behaviors vigilantly. Comparing to inside directors, who are regarded as passive monitors of CEOs since their future career depends on the CEO (Boeker, 1992), outside directors are assumed to be more vigilant in monitoring CEOs because they have incentives to maintain their reputations in the director labor market (Fama, 1980; Fama & Jensen, 1983; Weisbach, 1988). It is contended in the literature that outside directors who are not successful in their fiduciary duties might experience an *ex post* "settling up" that exacts a price in terms of director reputation (Fama, 1980). Thus, the greater the percentage of outside directors is, the more likely that the incumbent CEO would be dismissed.

In addition, the board where the CEO serves as the chair will be less likely to be vigilant in monitoring the CEO. CEO duality provides more managerial discretion to CEOs and, at the same time, limits the power of the board to discipline CEOs. Hence, it is reasonable to suggest that CEO duality will reduce the likelihood of CEO dismissal.

Further, the percentage of board directors' stock ownership may influence the

board's decision making on CEO dismissal. This is because stock ownership provides directors with incentives to represent owners' interest (Huson et al., 2001; Yermark, 1996). When provided with stock or option grants, board directors will be more vigilant in monitoring and disciplining the incumbent CEOs.

Further, the board size has an influence on the operating effectiveness of board's monitoring of the CEO (Huson et al., 2001; Jensen, 1993; Yermack, 1996). When the board size increases, it becomes less effective when monitoring the CEO because its decision making would become slower. Further, existing studies have also noted that there would be little candid discussion of CEO behavior and performance when board size is too big (Yermack, 1996). Hence, it is highly likely that the larger the board size, the lower the likelihood of CEO dismissal.

Last but not least, according to *agency theory,* powerful social and psychological factors will compromise board directors' willingness to objectively monitor CEOs (Boeker, 1992; Westphal, 1999). More specifically, board directors who have close social ties with a CEO should feel more obligated to support the CEO when needed (Westphal, 1999). In a similar vein, because board appointments confer prestige, status, financial rewards, and perquisites, directors who are appointed by the CEO will be highly likely to give support to the CEO in order to maintain a reciprocal relationship (Boeker, 1992). Hence, it has been proposed that CEO-board personal relationships will critically impair a board's willingness and capacity to control the incumbent CEOs, thus reducing the likelihood of CEO dismissal.

Overall, an introduction of agency conditions into the study of CEO dismissal requires the consideration of the influence of ownership profile and board composition. To test these factors' influences on CEO dismissal, a handful of empirical studies have been conducted in different societies. Table 3 depicts a summary of results from 13 relevant studies published between 1997 and 2009.

As presented in Table 3, the empirical studies have had mixed results. The mixed results might be explained by the fact that the samples used in these studies were drawn from different countries. For example, while Denis et al. (1997) revealed a significant relationship between outside directors ratio and the likelihood of CEO dismissal in U.S. companies, studies using samples from China (Fan et al., 2007) and Australia (Lau et al., 2009) did not confirm a significant relationship between these variables.

TABLE 3

Agency conditions-CEO Turnover Relationships

Author/s	Year	Sample	Country	Agency conditions	All turnover	Routine turnover	Nonroutine turnover
Denis et al.,	1997	1394 firms	U.S.	Ownership of officers and directors	--	--	significant
			(1985-1988)	Outside blockholder	--	--	significant
				Fraction of outside board members	--	--	significant
				Ownership of institutions	--	--	significant
				CEO founding family membership	--	--	significant
Campbell & Keys	2002	356 listed firms	South Korea	Top Chaebols affiliation	significant	--	--
			(1993-99)	Foreign ownership	significant	--	--
				Ownership concentration	n.s.	--	--
				Manager a top holder	significant	--	--
				Bank a top holder	n.s.	--	--
Eriksson	2005	839 firms	Czech Republic	Private ownership	n.s.	--	--
			(1998-99)	State ownership	n.s.	--	--
				Foreign ownership	n.s.	--	--
			Czech Republic	Private ownership	n.s.	--	--
			(1999-2000)	State ownership	n.s.	--	--
				Foreign ownership	n.s.	--	--
Tsai et al.,	2006	63 listed family firms	Taiwan	CEO ownership	n.s.	--	--
			(1998-2002)	Board ownership	n.s.	--	--
				CEO duality	n.s.	--	--
		241 listed nonfamily firms	Taiwan	CEO ownership	significant	--	--

			(1998-2002)	Board ownership	significant	--	--
				CEO duality	n.s.	--	--
Firth et al.,	2006	2725 firm years	China (1998-2002)	CEO duality	--	significant	significant
Lau et al.,	2007	496 listed firms	China (1998-2003)	Outside director ratio	Significant	--	--
				CEO duality	Significant	--	--
				CEO shareholding	n.s.	--	--
				Individual shareholdings	n.s.	--	--
				Dominant owner	n.s.	--	--
Fan et al.,	2007	1328 listed firms	China (1999-2003)	Ownership concentration	n.s.	n.s.	n.s.
				Board size	significant	significant	n.s.
				Outside director ratio	significant	significant	n.s.
				CEO duality	n.s.	n.s.	n.s.
				CEO shareholding	n.s.	n.s.	n.s.
				Individual shareholding	n.s.	n.s.	n.s.
				State shareholding	n.s.	n.s.	n.s.
Volpin	2002	205 listed firms	Italy (1986-97)	State ownership	Significant	--	--
				Foreign ownership	n.s.	--	--
				Bank ownership	n.s.	--	--
				Owner-manager	significant	--	--
				Owner with high incentives	n.s.	--	--
				Large minority shareholders	n.s.	--	--
				Voting syndicate	n.s.	--	--
Brunello et al.,	2003	60 listed firms	Italy (1988-1996)	Largest shareholder	n.s.	--	--
				Second shareholder	Significant	--	--

				Syndicate	n.s.	--	--
				CEO ownership	significant	--	--
Maury	2006	102 non-financial firms	Finland (1993-2000)	State control	--	--	n.s.
				Widely control	--	--	n.s.
				CEO control	--	--	n.s.
				Managerial control (less CEO)	--	--	significant
				Board control (without managerial ties)	--	--	significant
				Two-tier board structure	--	--	n.s.
				Two-tier board without duality	--	--	n.s.
				Dual leadership structure	--	--	n.s.
				Excess control rights	--	--	significant
				High contestability	--	--	n.s.
Lausten	2002	243 firms	Danmark (1992-1995)	Family ownership	Significant	--	--
				Foreign ownership	significant	--	--
Lau et al.,	2009	Top 100 listed Australian firms by market capitalization	Australian (1997-2004)	Board size	--	--	n.s.
				Board independence	--	--	n.s.
				CEO ownership	--	--	n.s.
				Ownership concentratoin	--	--	n.s.
Crossland	2009	746 listed firms	15 developed OECD countries (1996-2005)	Closely hold shares	n.s.	--	--
				Ownership concentration	n.s.	--	--

[a] n.s.=not significant; all significant findings were significant at 0.10 level and in the expected direction (e.g., a negative relationship between outside director ratio and CEO turnover).

2.1.3. Power Contestation from Senior Executives and CEO Dismissal

Agency theory typically treats outside directors as the main counterbalance to incumbent CEO and sees senior executives as in coalition with the incumbent CEO (Walsh & Seward, 1990). This assumption was challenged recently after organizational scholars developed a *circulation of power perspective*, which highlights that the relationship between incumbent CEOs and senior executives are not as friendly as suggested by agency theory (Ocasio, 1994; Shen & Cannella, 2002). Rather, senior executives are ambitious and search for power and control. They would contest for the incumbent CEO's position when any opportunity rises (Ocasio, 1994).

The core assumptions of this perspective concern two concepts, i.e. obsolescence and contestation (Ocasio, 1994). Obsolescence implies that CEOs' competence would become increasingly misaligned with environmental contingencies over time because of their finite and relatively fixed paradigm (Henderson, Miller, & Hambrick, 2006; Ocasio, 1994). While one of the most important sources of power in organization arises from an individual's ability to cope with environmental contingencies, the CEO's competence obsolescence would weaken the CEO's control over the organization and lose power against other senior executives (Pfeffer, 1981). Here, power refers to "a store of potential influence through which events can be affected…to bring about desired outcome" (Cannella & Shen, 2001: 253).

A CEO's competence obsolescence would give other senior executives an opportunity to challenge the CEO power. This gives rise to the concept of contestation.

Contestation occurs when senior executives form political coalitions with other board directors to contest the incumbent CEO's power (Ocasio, 1994; Shen & Cannella, 2002). Because the position of CEO is associated with high prestige and power, senior executives who seek power and control would have strong incentives to initiate power contest against the incumbent CEO (Shen & Cannella, 2002).

According to this perspective, senior executives' power contestation is the main antecedent of CEO dismissal and the likelihood of CEO dismissal increases over time (Ocasio, 1994; Ocasio & Kim, 1999; Shen & Cannella, 2002). Board directors typically select new CEO whose competence aligns with environmental demands and possess better knowledge and skills (Combs, Ketchen, Perryman, & Donahue, 2007; Henderson et al., 2006). Hence, at the beginning of a CEO's tenure, senior executives might refrain from challenging the CEOs because they see dim chances of successfully replacing the new CEO. However, as the CEO's tenure lengthens, and his or her competence obsolescence increases, the CEO will face more and more challenges from the senior executives and are more likely to be dismissed.

Up to now, there have been few empirical studies employing this perspective to investigate the CEO dismissal. The only empirical evidence identified by this study was done by Ocasio (1994), who offered empirical support for the circulation of power perspective. Investigating a random sample of 120 U.S. industrial firms from 1960 to 1990, Ocasio (1994) found that there is an increase in rate of CEO turnover during the first decade of CEO tenure.

2.1.4. Personal Dissimilarity and Senior Executive Turnover

There are also studies investigating the turnover of the entire senior executive group (Wagner et al., 1984). These studies see CEO as a member of that group and thus are highly relevant to CEO dismissal research. Most of these studies have employed the *sociopsychological perspective*.

Sociopsychological perspective maintains that senior executives who are dissimilar to the rest of the group are more likely to be forced to leave, since they tend to be viewed and treated by others less favorably (Jackson et al., 1991). The conceptual foundation for this dissimilarity-executive turnover relationship includes organizational demography model and similarity-attraction paradigm. Organizational demography model proposes that dissimilarity between a senior executive and other senior executive group members concerning values, personalities, and demographic characteristics can diminish communication and increase conflicts and tensions between them (Pfeffer, 1983; Shen & Cho, 2005; Wiesema & Bird, 1993). These conflicts and tensions would in turn increase the likelihood that other senior executives will challenge the position of the dissimilar group member (Wiersema & Bird, 1993). Similarity-attraction paradigm, instead, argues that senior executives would be attracted to individuals who are similar to them and provide favorable evaluation and treatment toward those individuals. Conversely, when an individual is dissimilar to other senior executives, he or she is highly likely to be perceived as a

poor performer and be treated unfavorably (Jackson et al., 1991). Hence, because a dissimilar senior executive tends to have more conflicts with and be treated unfavorably by other group members, he or she is more likely to be forced to leave.

Studies applying *sociopsychological perspective* so far have not tested specifically whether a CEO will be dismissed because of his or her dissimilarities to senior executives. In general, they treat the CEO as part of the executive team and thus only examine dissimilarities among senior executives as a whole group. These studies propose that senior executives who are dissimilar to the rest of the senior executive group are more likely to leave (Godthelp & Glunk, 2003; Jackson et al., 1991; Wagner et al., 1984; Wiersema & Bird, 1993). The value of these studies lies in their identification of cross-national differences. For example, while studies on companies from both U.S. (Jackson et al., 1991; Wagner, Pfeffer, & O'Reilly, 1984l) and the Netherlands (Godthelp & Glunk, 2003) reveal a significant relationship between individual age dissimilarity and the likelihood of dismissal, studies on Japanese companies failed to reach similar empirical results (Wiersema & Bird, 1993).

2.1.5. Summary of the Research on Antecedents of CEO dismissal

CEO dismissal has been a matter of fascination and drama through the ages and research into this topic continues to grow in popularity and relevance. The extant studies have identified concrete organizational characteristics, such as organizational

performance, organizational agency conditions, particularly CEO-board personal ties, and CEO-senior executive dissimilarity, as the main antecedents of CEO dismissal. A careful examination of the extant perspectives on CEO dismissal, however, reveals that outside directors and senior executives play a significant role in CEO dismissal. Both outside directors and senior executives could exercise control CEO behavior and how they exert control over CEOs can influence the effects of organizational characteristics on CEO dismissal.

First, extant studies have showed that *formal control* over CEOs exercised by the outside directors plays a pivotal role in CEO dismissal. Formal control refers to outside directors' monitoring and disciplining of CEOs according to formal requirements. Because individual shareholders typically lack interest or expertise to monitor the actions of the CEOs, they rely mainly on the outside directors to evaluate and discipline the CEOs (Boeker, 1992). In public corporations, outside directors are legally charged with the responsibility of exercising oversight on behalf of the shareholders over CEOs. One of the major requirements for outside directors is to dismiss poorly performing CEOs (DeFond & Hung, 2004; Zhang, 2008). When CEOs are performing poorly, either when they are engaging in opportunistic behavior or when they are not competent enough to cope with environmental requirement, company performance tend to be suboptimal. Hence, to the extent that outside directors will exercise strong control over CEOs, it is highly likely that CEOs of poorly performing companies will be dismissed.

Second, the existing literature notes that *social control* over CEOs exercised by outside directors plays a crucial role in CEO monitoring and CEO dismissal. Social control can be defined as the extent to which outside directors refrain from showing favor toward CEOs with whom they have close personal ties. According to agency theory, outside directors have concerns for their personal relationships with the incumbent CEOs and might refrain from disciplining CEOs with whom they have close relationships (Boeker, 1992; Westphal, 1999). Researchers have noted that that outside directors with close personal ties with CEOs lack social independence and will exercise less control over CEOs (Boeker, 1992; Westhpal & Graebner, 2010). From this perspective, personal social ties between CEOs and outside directors critically impair a board's willingness and capacity to monitor and control the incumbent CEOs, thus lowering the likelihood of dismissal. Recently, researchers have also recognized variation in the extent to which outside directors provide biased treatment toward CEOs with whom they have personal ties. For example, in a study of U.S. large industrial and service firms, Westphal (1999) found that CEO-board social ties did not reduce the level of board monitoring and control. Outside directors in this particular study exercise strong social control over CEOs and refrain from showing favor toward CEOs based on personal relationships. Overall, the extant research suggests that though CEO-board personal ties reduce the likelihood of CEO dismissal, their effects on board monitoring and thus CEO dismissal are dependent on the extent to which outside directors refrain from providing favor based on social relationships.

Third, the *political control* over CEOs exercised by senior executives has important consequences for CEO dismissal. Political control refers to the extent to which senior executives detect and react to the incumbent CEO's shortcomings. As suggested by both the *circulation of power* and *sociopsycholgoical perspectives*, company senior executives are not always in coalition with the incumbent CEOs. Instead, when CEOs are regarded as less than competent, they may stand up and challenge the incumbent CEOs' power. This political control over CEOs exercised by senior executives is termed as mutual monitoring in the finance literature and has been found to play an important role in the internal monitoring of CEO behavior (Fama, 1980; Ocasio, 1994; Shen & Cannella, 2002). Indeed, to the extent that senior executives exercise strong political control over CEOs, it is highly likely that they will challenge the CEOs who they perceived as less than competent, thus increasing the likelihood of these CEOs being dismissed.

Furthermore, so far, existing empirical studies on the antecedents of CEO dismissal have focused primarily on organizational level factors such as organizational performance, organizational agency conditions, and organizational demography (i.e., personal dissimilarity among senior executive groups). Missing from all these studies, however, has been any attention to the idea that national-level factors might also have an impact on CEO dismissal.

This dearth of research into national-level factors affecting CEO dismissal is a surprising void. First, as strategic leadership literature has often emphasized, national

institutional environment represents an important context within which CEO dismissal decisions are framed and executed (Fligstein, 1987; Ocasio & Kim, 1999). The above literature review has noted that the actions taken by outside directors and senior executives can significantly influence CEO dismissal decisions. Hence, to the extent that national institutions can shape how outside directors and senior executives behave, they might play an important role in explaining CEO dismissal. Second, empirical studies in different countries seemed to generate inconsistent results. Empirical tests employing U.S. samples of firms in general provide strong support for the importance of organizational performance, agency conditions, and organizational demography for CEO dismissal (Brickley, 2003; Denis et al., 1997; Ocasio, 1994). Empirical studies using non-U.S. samples of firms, however, provided mixed findings (Campbell & Keys, 2002; Eriksson, 2005; Fan et al., 2007; Kaplan, 1994a; Lau et al., 2009; Wiersema & Bird, 1993). These considerations thus imply a need of further investigation into how national-level institutional factors shape and constrain CEO dismissal and building an institution-based perspective to explain cross national variation in the relationship between relevant organizational characteristics and CEO dismissal.

2.2. Explanations on Cross-national Variation in CEO Dismissal

The notion that the extent of control over CEO behavior can influence how relevant organizational characteristics are related to the likelihood of CEO dismissal

sheds a light on cross-national variation in CEO dismissal. As previously discussed, CEO behavior can be controlled by both outside directors and senior executives. This calls attention to the national context's influence on CEO dismissal, as those contextual factors could shape and constrain how outside directors and senior executives control CEOs (Crossland, 2009; North, 1990). Of various national-level contextual factors, institutional environments have been regarded as the mostly important constraints on individual behavior (Crossland, 2009). Hence, it is important to introduce national institutions as crucial contextual factors in CEO dismissal studies.

Indeed, the evidence provided by previous studies has noted substantial cross-national differences in the relationships between organizational characteristics and the likelihood of CEO dismissal. However, these studies either did not investigate why such variation existed or did not incorporate national level factors in their empirical test. Recently, some scholars realized this gap and began to introduce national level factors into CEO dismissal research (Crossland, 2009; DeFond & Hung, 2004). These scholars focused mainly on the cross-national variation in organizational performance-CEO dismissal relationship and offered two main explanations for this variation.

The first explanation has been made based upon financial economics, which points to the importance of strong investor protection for good corporate governance. According to this explanation, CEOs are more likely to be dismissed for reasons of

poor company performance in societies with stronger investor protection (DeFond & Hung, 2004). Students of financial economics regarded the extent to which CEO turnover is sensitive to firm performance as a measure of corporate governance effectiveness (Firth et al., 2006; Lau et al., 2007). Hence, if investor protection would indeed enhance the effectiveness of corporate governance, the CEO of poorly performing company is more likely to be dismissed in societies with stronger investor protection. Using a sample of 21,483 firm-year observations in 33 countries from 1997 through 2001, DeFond and Hung (2004) found that strong law enforcement institutions significantly improve the association between CEO turnover and poor performance, while extensive investor protection laws do not.

The other explanation comes from Crossland's (2009) study, which proposed that CEOs are more likely to be dismissed for reasons of poor organizational performance in societies where CEOs have higher managerial discretion. Managerial discretion refers to the range of alternatives or options open to the CEO (Shen & Cho, 2005). Crossland (2009) noted that national level institutions shaped the degree of managerial discretion available to CEOs. In some societies, such as the U.S., national institutional factors such as legal origin, ownership profile, employer flexibility, individualism, cultural looseness, and uncertainty avoidance exert less constraint on CEOs' actions. As a result, CEOs from these societies would in general have more discretions than do their peers elsewhere.

Crossland (2009) further proposed that a company's key stakeholders will

implicitly understand how much managerial discretion CEOs have. As a result, in the societies where CEOs have low managerial discretion, stakeholders will be less likely to attribute poor company performance to the CEOs. This argument suggests that the level of managerial discretion in a society moderate the relationship between poor firm performance and the likelihood of CEO turnover. In other words, CEOs of poorly performed companies are more likely to be dismissed in societies where their discretions are high.

Crossland (2009) used an expert academic panel to measure managerial discretion in different societies and then employed this measure to test its moderating effect on the relationship between company performance and likelihood of CEO dismissal. The empirical result provided strong support to the moderating effect. That is, in low-discretion national environments, the performance-turnover relationship is significantly weaker.

The above two explanations represent the first attempts to investigate how national-level factors might influence CEO dismissal. These explanations, however, have several limitations.

First, they both focused on the cross-national variation in the relationship between organizational performance and the likelihood of CEO dismissal, but did not explain why there exist cross-national variations concerning the impact of organizational agency conditions and organizational demography on CEO dismissal.

Second, the explanation provided by DeFond and Hung (2004) is limited to the

impact of formal institutions, i.e. investor protection laws, on CEO dismissal. It neglects the role that informal institutions play in CEO dismissal process.

Third, the managerial discretion explanation, though compelling, overstates company stakeholders' ability to make the correct attribution of company performance. In fact, some researchers have noted that business press and company stakeholders are prone to interpret poor company performance as a direct result of leadership (Chen & Meindl, 1991; Shen & Cho, 2005).

Finally, the managerial discretion explanation focused mainly on the influence of national-level factors on CEOs' behavior. However, as summarized in section 2.1.5, outside directors' behaviors and senior executives' behaviors are also highly consequential for CEO dismissal. An investigation of how national-level factors shape outside directors' and senior executives' behaviors is needed since it helps further delineate the reasons for cross-national variation in the relationships between relevant organizational characteristics and CEO dismissal.

2.3. Summary

The present chapter has reviewed two closely related topics in CEO dismissal literature and sheds a light on gaps in existing studies. First, a majority of the empirical studies on CEO dismissal are conducted using U.S. samples of firms. In general, those studies find consistent findings concerning the antecedents of the likelihood of CEO dismissal (Finkelstein et al., 2009). The few studies using non-U.S.

samples of firms, however, could not find similar results. One possible explanation for such national differences is that the extent of control of CEO exercised by outside directors and senior executives mentioned in section 2.2 varies cross-nationally in line with relevant national institutions. This requires an examination of national institutions which constrain and shape the three control modes.

Second, even studies investigating CEO dismissal beyond U.S. settings have not developed convincing theories on how national level institutions influence CEO dismissal. Although DeFond and Hung (2004) has done a pioneering work, they focused solely on the role of formal institution in explaining the cross-national differences. In fact, both formal and informal institutions could have impacts on actions of individuals and collective actors, such as board directors and senior executives.

Similarly, Crossland (2009) focused primarily on the influence of national-level institutions on CEO behaviors to explain the cross-national variation in CEO dismissal. CEO dismissal, however, is also determined by outside directors' and senior executives' behaviors. Hence, what is missing in the literature is thus an examination on how national-level institutions would influence outside directors' and senior executives' behaviors. While the extent of control over CEOs exercised by outside directors and senior executives can affect how organizational level characteristics influence the likelihood of CEO dismissal, it might be particularly important to investigate how national-level institutions influence outside directors'

and senior executives' control over CEOs.

All these research gaps imply the necessity of an investigation of the influence of formal and informal institutions on CEO dismissal. In particular, it is important to identify how institutions influence outside directors' and senior executives' control over CEO behavior.

To sum up, this chapter has identified the antecedent of CEO dismissal by an extensive review of the main perspectives on CEO dismissal. Then, based on this review, this chapter revealed that the extent of control over CEO exercised by outside directors and senior executives could have an impact on the relationships between relevant organizational characteristics and the likelihood of CEO dismissal. Finally, studies on the impact of national institutions on CEO dismissal are reviewed. In the next chapter, this study will investigate systematically how national institutions influence CEO dismissal and develop relevant hypotheses.

Chapter 3

NATIONAL INSTITUTIONS AND CEO DISMISSAL: A THEORETICAL FRAMEWORK

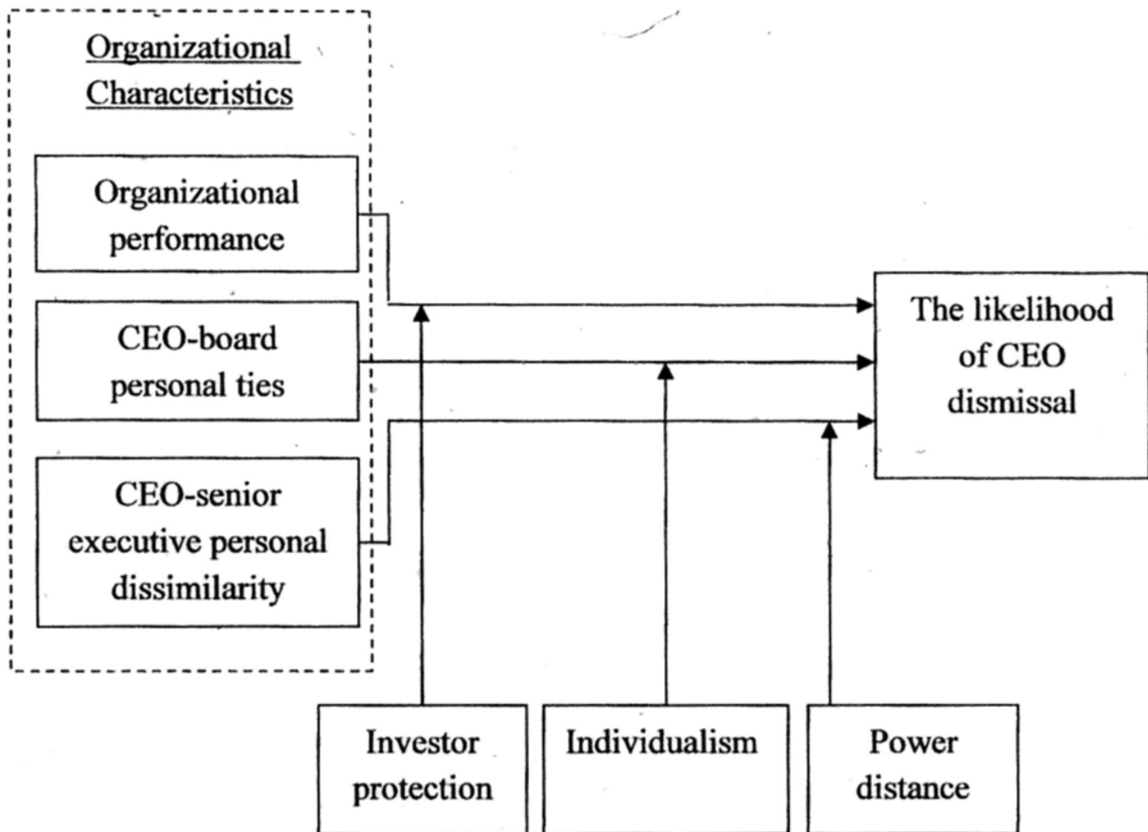
The purpose of this chapter is to develop a theoretical framework which explains how national institutions influence CEO dismissal. The literature review in Chapter 2 has identified relevant organizational characteristic as the main antecedents of CEO dismissal and noted that how these antecedents are related to the likelihood of CEO dismissal might be affected by how outside directors and senior executives exercise control over CEOs. There are three ways through which CEOs' behaviors can be controlled, including formal, social, and political controls. Based on an institutional perspective, this study proposes that outside directors and senior executives will exercise control over CEOs according to relevant national institutions. As such, one could expect that these relevant national institutions play an important role in affecting the relationships between organizational characteristics and CEO dismissal. These relevant national institutions include mainly investor protection, individualism, and power distance.

Recently, scholars in strategic management have drawn substantial attention to national institutions when comparing company strategy and performance across natoins (Biggart, 1991; Chan, Isobe, & Makino, 2008; Peng, 2003; Peng, Lee, & Wang, 2005; Yiu, Lau, & Bruton, 2007). Comparing to other approaches, an

institutional theory is more powerful to explain why company strategic decision makings vary across societies (Biggart, 1991). According to institutional theory, actors, including company stakeholders such as outside directors and senior executives must conform to institutional rules and beliefs. Their conformity to such institutional requirements affects how they control CEO behavior, which, in turn, could have an impact on how organizational characteristics are related to CEO dismissal. Therefore, the likelihood of CEO dismissal may not solely depend on organizational characteristics, such as poor performance, agency conditions, and CEO-senior executive personal dissimilarity. Rather, national institutions might also play an important role.

The following sections will first provide a brief introduction on how national institutions could constrain and shape company decision making. Next, this chapter will move to specify how national institutions could influence formal, social and political control over CEOs. Then, it will propose a research model based upon the institutional perspective and generate specific hypotheses accordingly. This chapter will end by providing a summary of the main hypotheses concerning how national institutions affect CEO dismissal. The overall theoretical framework can be depicted by Figure 1.

FIGURE 1
A Model of the Impact of Institutions on CEO Dismissal



3.1. National Institutions and Company Decision Making

With a long, rich history in the social science (Scott, 2008), institutional theory has generated much interest and attention in strategic management literature in the past two decades (Peng, Sun, Pinkham, & Chen, 2009; Peng et al., 2008). A main reason for the increasing standing of institutional theory in strategic management research lies with the strategic researchers' dissatisfaction of the oversimplifying assumptions on human behavior in the prevailing neoclassical economic theories. Neoclassical economic theories claim that individuals behave to maximize their

personal utilities, while institutional arguments emphasize more on how individuals' behaviors are shaped by formal constraints, social beliefs, and values (Biggart, 1991; DiMaggio & Powell, 1983). Institutions can be broadly classified into formal and informal ones (North, 1990). Formal institutions are explicit, codified, and statute-based rules in a society, including political rules, economic rules, and contracts (North, 1990: 47). They are enforced by a third-party, typically the government. In contrast, informal institutions are tacit, usually unwritten rules which exist outside the legal system (Helmke & Levitsky, 2006). They consist of the conventions, codes of behaviors, norms, mores, and values and are enforced by members of society.

Strategy scholars have made important contributions using institutional theory to study company decision makings (Capron & Guillen, 2009). They have proposed three ways in which national institutions can have a bearing on important company decision makings. First, national institutions influence company strategic decisions through perceived transaction costs. It has been noted that companies pursue their economic interests and tend to choose strategies which minimize transaction costs (Peng et al., 2009). Hence, to the extent that national institutions exert a strong influence on transaction cost within a society, it is expected that they have particular relevance to company decision making. For example, Khanna and Palepu (1997) indicated that companies from emerging economies are more likely to be highly diversified because of institutional voids. In these economies, where formal institutions tend to fall short in providing support for low transaction cost business

operations, highly diversified business groups can minimize transaction costs of strategic factors (Yiu, Lu, Bruton, & Hoskisson, 2007). In addition, following the same logic, several studies have examined the association between national institutions and entry mode into new markets (Kogut & Singh, 1988; Shane, 1994). These studies indicated that there exist country patterns in the propensity of firms to choose one entry mode as opposed to others, as national institutions influence differentially the perceived or real transaction costs of entry modes.

Second, national institutions shape company decision makings as they provide bases for legitimacy (Deephouse, 1996). Researchers have revealed that organizations in the same organizational field tend to adopt similar structures and strategies. Organizations succeed in becoming isomorphic with the institutional environments can gain the legitimacy necessary for survival (Meyer & Rowan, 1997). Empirical studies have demonstrated that organizations prefer company strategies which are well accepted by relevant social actors in the choice of acquisition, diversification, and new market entry strategies (Fligstein, 1991; Haveman, 1993; Li, Yang, & Yue, 2007).

Finally, national institutions could affect company decision making through corporate elites, including CEOs, senior executives, and outside directors, because these individuals tend to make decisions in line with national institutional requirements (Geletkancyz, 1997). It is suggested that national institutions are powerful influencers of individual behavior which force people to conform their

actions and behavior to the institutional expectations and requirements (Miller, 1990). As such, corporate elites tend to behave and make company decisions in a desirable or appropriate manner within a national institutional system (Geltkanycz, 1997; Suchman, 1995). A recent study by Steensma, Marino, and Weaver (2000) illustrates how informal social norms influences company executives' preference for cooperative strategies. They found that executives in feminine countries that are also low in individualism and high in uncertainty avoidance prefer cooperative strategies. Similarly, Geletkanycz (1997) theorized and found that company executives' commitment to strategic status quo differs in accordance with national social norms. In addition, Kogut and Singh (1988) demonstrated that company executives in uncertainty-avoiding countries will prefer joint ventures over acquisitions because of their lower uncertainty in terms of management of this organizational type.

Overall, national institutional environment constitutes a very important context within which company decisions get framed and executed. National institutions drive company decision making as they influence differentially the perceived or real transaction costs of the strategic choice, determine which organizational structures or strategic choices are acceptable and supportable, and, more importantly, induce corporate elites, including CEOs, outside directors, and senior executives, to behave in desirable ways. The idea that corporate elites tend to behave and make decisions in accordance with national institutions has important implications for CEO dismissal research. As reviewed in Chapter 2, whether a CEO will be dismissed is to a large

extent dependent on how outside directors and senior executives exercise control over CEOs. Hence, to the extent that outsider directors' and senior executives' behavior, including their control over CEOs, are influenced by relevant national institutions, it is highly likely that national institutions will play a role in CEO dismissal decisions.

The role of institutions in a society is to "reduce uncertainty by establishing a stable structure for human interaction" (North, 1990, 6). In reducing uncertainty, institutions also constrain individual behavior. Institutions impose constrains by defining legal, moral, and cultural boundaries, setting off appropriate from unacceptable activities (Meyer & Rowan, 1991; DiMaggio & Powell, 1983). In other words, institutional factors such as legal rules and social values shape individual and organizational behavior by limiting possibilities, making some forms of action look more reasonable because they are accepted in a society (Biggart, 1991).

How do national institutions affect outside directors and senior executives when they consider dismissing a CEO? According to institutional theory, actors, either individuals and/or collectives, should comply with requirements derived from formal and informal institutions (North, 1990; Scott, 2008). Their decision making has to follow institutional rules, which are presented as laws or social norms. As members of a given society, outside directors and senior executives not only internalize prevalent social values, but also experience reinforcement pressures preventing them from violating the relevant legal rules and social values (Biggart, 1991; Helmke & Levitsky, 2004). Outside directors and senior executives therefore are highly likely to conform

to formal laws which regulate their roles, accountabilities, and duties. At the same time, their decision making has to conform to expectations of the society's social norms or informal institutional pressures. As a result, both formal and informal institutions can constrain, motivate, and shape outside directors' and senior executives' actions when they are involved in a CEO dismissal decision.

The above discussion does not deny the intra-national differences concerning outside directors' and senior executives' behavior within a society. However, prior literature has suggested that cross-national differences are much more substantial than intra-national differences (Crossland & Hambrick, 2007). In other words, outside directors and senior executives in a given society are assumed to behave homogeneously and their decisions tend to become similar with each other. Thus, outside directors' and senior executives' behavior is supposed, according to an institutional theory, to differ systematically across countries, as there are pronounced, prevailing differences in the national institutions constraining outside directors and senior executives in different countries. The next two sections will explain in turn how formal and informal institutions affect outside directors' and senior executives' control over CEOs.

3.2. Formal Institutions and Formal Control

Formal institutions refer to "rules and procedures that are created, communicated, and enforced through channels widely accepted as official" (Helmke & Levitsky,

2004: 727). Scholars in economics and sociology deploy different approaches to study the role of formal institutions. While economists focused mainly on how a country's formal institutions could affect transaction costs (e.g., North, 1990; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997), sociologists tend to focus on how formal institutions might lead to structural isomorphism across organizations (e.g., DiMaggio & Powell, 1983).

How do formal institutions influence activities of board directors and senior executives? Formal institutions regulate individual behavior through coercive control (Scott, 2008). More specifically, formal institutions are enforced by regulatory authorities, which have the power of coercion (Hodgson, 2006; North, 1990). These authorities closely monitor the actions of individuals and sanction those who behave against the formal requirements. As a consequence, individuals will adhere to relevant formal institutions in order to avoid formal sanctions (Helmke & Levitsky, 2004).

As members of a society, company stakeholders would also comply with the laws, rules, and regulations which regulating their behavior. Board directors and senior executives in particular will be careful to comply with the requirements imposed by formal institutions, because they could suffer substantial losses if they were found to violate respective laws and regulations. Such loss includes their prestige, social status, and other benefits associated with their corporate positions, as well as their future careers in director or managerial labor market (Wiesenfeld, Wurthmann, & Hambrick, 2008).

National formal constraints are particularly relevant for how outside directors exert formal control over CEOs. Formal control, as mentioned in section 2.1.5, refers to outside directors' monitoring and disciplining of CEOs according to formal requirements. To the extent that there are explicit formal laws and regulations concerning outside directors' oles and behaviors, it is highly likely that company outside directors will observe these laws and regulations when exercising control over CEOs.

Probably the most relevant of all institutions, as they pertain to formal control exercised by outside directors, is the formal institutions concerning investor protection. Of the considerable body of work investigating formal institutions, investor protection institutions have so far received the most research attention (Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2008). A number of authors have examined the cross-national differences in investor protection and how such difference relates to differences in how economies and capital markets perform (e.g., La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997; 1998).

Outside directors tend to exert stronger formal control over CEOs where investor protection institutions are better developed. Societies characterized by better investor protections will provide outside directors greater motivation to perform their fiduciary duties. In such societies, it is relatively easier for minority shareholder to call extraordinary shareholders meeting and to protest directors' decisions in court (La Porta et al., 1997). The potential for shareholders to oust directors would induce

outside directors to exert strong formal control over CEOs.

In contrast, outside directors in societies characterized by weaker investor protections might have less incentive to control incumbent CEOs. It is extremely difficult for minority shareholders to organize a meeting to challenge or oust directors. Judicial venues for shareholders to protest directors' decisions are also rare. As such outside directors might be reluctant to fulfill their formal responsibility of monitoring CEOs. Instead, they might decide that collusion with CEOs and expropriation of minority shareholders are better than keeping close eyes on CEOs. Thus, it is highly likely that the extent of outside directors' formal control of CEOs will vary cross-nationally in line with formal institutions concerning investor protection.

3.3. Informal Institutions, Social Control, and Political Control

Informal institutions refer to "*socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels*" (Helmke & Levitsky, 2004, 727). Differing from formal institutions, which are clearly defined rules and regulations, informal institutions are usually implicit and defy neat specification (Hodgson, 2006). Informal institutions have been found to affect key social and economic actions within a society, including modes of information exchange, conflict-resolution mechanisms, and business practices (Barley & Tolbert, 1997; Biggart, 1991; Biggart & Hamilton, 1997).

How do a society's informal institutions affect directors' and senior executives'

behavior? A country's informal institutions constrain individual behavior in two ways. The first concerns individuals' internalization of informal institutions. Individuals typically develop a set of foundation cognitions (schema, belief structures, or mental templates) mostly through their early socialization experiences (Berger & Luckmann, 1967; Hofstede, 2001). Once this socially constructed view of reality is established and the social norms are internalized, individuals will act in line with social norms because other types of behavior are simply inconceivable (Berger & Luckmann, 1967; DiMaggio & Powell, 1983; Scott, 2008). The other way informal institutions constrain individual behavior is informal sanctions (Gibbs, 1981; Scott, 2008). Informal sanctions includes social distancing, shame, ridicule, sarcasm, criticism, disapproval, and, in extreme cases, social discrimination and exclusion (Gibbs, 1981). Individuals who behave against informal institutions will typically be sanctioned by members of a society. As a result, the threat of being sanctioned will induce individuals to conform to societal norms (Biggart, 1991; Gibbs, 1981). Indeed, informal institutions, or social norms, are so powerful influencers of behavior that they "possess the power to induce people to act publicly in ways that deviate from their private inclinations" (Miller, 1999: 1056). Hence, as members of national societies, directors and senior executives are highly likely to behave in line with social norms, as they not only internalize societal norms, but also experience social reinforcement pressures which prevent them from acting against these norms. In fact, research has shown that social norms (e.g. individualism) not only influence corporate

executives' attitudes and beliefs (e.g., Geletkanycz, 1997), but also mould their behavior patterns when making key company decisions (Lu & Heard, 1995; Shane, 1995).

Informal institutional constraints could have important implications for how outside directors and senior executives exercise control over CEOs. As mentioned in section 2.1.5, while social control refers to the extent to which outside directors refrain from showing favor toward CEOs with whom they have close personal relationships, political control is the degree to which senior executives detect and react to the incumbent CEO's shortcomings. These two ways of control over CEOs concerns mainly how outside directors and senior executives interact with CEOs. While there are few formal institutions regulating social interactions, informal institutions governing how individuals interact with people with whom they have personal relationships and with people who are of higher organizational ranking are not uncommon in every society (Hofstede, 2001). Of those informal institutions, the most fundamental ones affecting social control and political control over CEOs include individualism and power distance. The next two sections describe how these two informal institutions are related to social control and political control.

3.3.1. Individualism and Social Control

The social norm concerning individualism varies greatly across societies and has been identified as one of the most fundamental cultural values (Gelfand, Bharwuk,

Nishii, & Bechtold, 2004). Almost all major cultural typologies have incorporated at least one value that reflects this social norm (e.g., Hoftstede, 2001; House, Hange, Javidan, & Gupta, 2004; Trompennars & Hampden-Turner, 1998). Individualism refers to the extent to which people are expected to stand up for themselves or alternatively act predominantly as a member of a group (Hoftstede, 2001). It is the most researched social norms in the field of management and has been found to be associated with specific executive attitudes and behaviors in different societies (Geletkanycz, 1997).

The extent of social control over CEOs exercised by outside directors will vary cross-nationally in line with informal institutions concerning individualism. Outside directors are more likely to refrain from showing favor toward CEOs with whom they have personal relationships in societies characterized by individualistic values. In these societies, individuals tend to cherish task achievement more than personal relationships. Company stakeholders such as shareholders will also have strong expectations that outside directors should fulfill their fiduciary duties (Khatri, Tsang, & Begley, 2006; Triandis, 1995). Consequently, outside directors in these societies might refrain from protecting CEOs with whom they have close personal ties.

Alternatively, outside directors might be less able to refrain from showing favor toward CEOs based on personal relationships in societies characterized by collectivistic values. In these societies, individuals tend to value harmonious relationships and feel duty-bound to take care of others with whom they have close

personal relationships (Trandis, 1995). Thus, it is highly likely that outside directors would engage in less vigilant monitoring and to exert less control over CEOs where there are close personal social ties between CEO and outside directors. Taken together, the above arguments indicate that outside directors are more likely to exercise social control over CEOs in high individualism societies than in low individualism societies.

3.3.2. Power Distance and Political Control

Another fundamental informal institution concerns a society's tolerance for unequal power distributions (Carl, Gupta, & Javidan, 2004). This institution has been typically identified as power distance and found to be associated with both managerial attitudes and behaviors in different societies (e.g., Geletkancyz, 1997; Shane, 1995). It can be defined as the degree to which "members of an organization or society expect and agree that power should be shared unequally" (Carl et al., 2004: 517). Whereas individuals in high power distance societies perceive power as providing social order and relational harmony, their counterparts in low power distance societies expect and accept power relations that are more consultative or democratic (Hofstede,2001).

The extent of political control over CEOs by senior executives tends to differ cross-nationally in line with social norms concerning power distance. In societies where power distance is greater, senior executives will be less likely to engage in political control. They are more likely to acquiesce when they hold different opinions from CEOs and are less likely to react to the shortcomings of the CEOs.

In societies characterized by low power distance, though, there tend to be strong political control over CEOs by senior executives. These societies are egalitarian in nature, with societal members viewed as equals (Carl et al., 2004). Senior executives, who are typically ambitious individuals aspiring for power, will be highly motivated to detect and react to shortcomings of the CEOs in these societies. As a result, it is highly likely that senior executives tend to exercise stronger political control over CEOs in low power distance societies than in high power distance societies.

3.4. An Institution-based CEO Dismissal Research Model

As discussed in Chapter 2, the extent of control over CEOs influences how relevant organizational characteristics are related to the likelihood of dismissal. There are three ways of control over CEOs, including (1) formal control by outside directors, (2) social control by outside directors, and (3) political control by senior executives.

The extent of control over CEOs tends to differ cross-nationally in line with relevant formal and informal institutions. Researchers have noted that company stakeholders, including outside directors and senior executives, are likely to behave similarly as coercive and normative pressures force them to conform to institutional expectations (Scott, 2008; Geletkancyz, 1997). Thus, as both formal and informal institutions vary widely across countries, outside directors' and senior executives' behavior would also differ. Accordingly, outside directors' and senior executives' behavior concerning their control over CEOs will also be shaped by national

institutions. The extent of control over CEOs exercised by outside directors and senior executives varies in line with relevant national institutions.

Taken together, since the extent of control over CEOs exercised by outside directors and senior executives (1) affects the relationships between relevant organizational characteristics and the likelihood of CEO dismissal and (2) varies cross-nationally in line with relevant national institutions, it is highly likely that these national institutions will moderate the effects of relevant organizational characteristics on CEO dismissal. In other words, although in general there are relationships between relevant organizational characteristics and CEO dismissal, the strengths of these relationships are affected by key institutional variables, particularly the formal institution concerning investor protection, and informal institutions concerning individualism and power distance. This means that CEO dismissal could be affected by the interactions between relevant organizational characteristics and national institutions. Accordingly, the present study suggests national institutions play a moderating role in the relationships between relevant organizational characteristics and CEO dismissal. The theoretical framework is presented in Figure 1.

In this model, CEO dismissal is mainly determined by key variables derived from organizational characteristics. These key variables include organizational performance, CEO-board personal ties, and CEO-senior executive personal dissimilarities. Their relationships to CEO dismissal will be moderated by key national institutions, both formal and informal ones. Here, three key variables derived from national institutions

are treated as moderators. The formal institutional variable concerns investor protection, while informal institutional variables refer specifically to individualism and power distance.

3.5. Development of Hypotheses

This section develops hypotheses on how institutions would affect CEO dismissal. It first develops baseline hypotheses concerning the effects of relevant organizational characteristics and the moderating effect hypotheses regarding the moderating role of national institutions. In the meantime, because national institutions could also affect organizational agency conditions, which, in turn, influence the likelihood of CEO dismissal, this section also considers the indirect effects of national institutions.

3.5.1. Organizational Performance, Investor Protection, and CEO Dismissal

Baseline hypothesis: organizational performance and CEO dismissal

As reviewed in Chapter 2, of all antecedent conditions, organizational performance is regarded as the most important to CEO dismissal. In general, organizational performance is negatively related to the likelihood of CEO dismissal. This is because (1) the CEO's step down could ease stakeholders' anxieties and rekindle their confidence, (2) poor company performance might be caused by the CEO's opportunistic behavior, and (3) the mismatch between CEO competence and environmental contingencies could be the main reason for performance decline.

Therefore, poor organizational performance is the main determinant of CEO dismissal. This logic gives rise to the following baseline hypothesis:

Hypothesis 1: Company performance is negatively related to the likelihood of CEO dismissal.

Moderating effect of investor protection

The CEO dismissal decision is mainly made by board directors. While ownership of a public company is dispersed, individual owners have little interest in monitoring the CEOs (Boeker, 1992; Boeker & Goodstein, 1993; Mizruchi, 1983). Instead they rely on outside directors to exert formal control over CEOs.

The extent to which outside directors would exercise formal control over incumbent CEOs, however, depends on how well shareholder rights are protected. Recent economic analyses have shown that shareholders' interests receive different degrees of legal protection across countries (La Porta et al., 1998). In societies with good investor protection, such as in the United States, outside directors are under pressure to make decisions consistent with shareholders' interests. To avoid being ousted from the board or being sanctioned by the state, they tend to make CEO dismissal decision when organizational performance becomes poor (DeFond & Hung, 2004).

In contrast, in countries with weak investor protection, such as in Italy, where

there are few investor protection laws, outside directors are highly likely to collude with the CEOs to receive private benefits through self-dealing such as additional stock issuance to the directors (Shleifer & Vishny, 1997). Indeed, board directors may collude with the incumbent CEOs in order to get reelected themselves, be recommended to other boards, or obtain other private benefits of control (DeFond & Hung, 2004). As a result, these outside directors are less likely to discipline the CEOs even when company performance is poor.

In sum, outside directors in countries with stronger investor protection are more likely to exert stronger formal control over CEOs. Accordingly, when organizational performance is poor, they are also more likely to discipline the incumbent CEOs and make the dismissal decisions. This leads to the following hypothesis:

Hypothesis 2: The strength of investor protection will moderate the negative relationship between company performance and the likelihood of CEO dismissal. Specifically, the negative effect of company performance and the likelihood of CEO dismissal will be stronger in countries with strong investor protection than in those with weak investor protection.

3.5.2. CEO-board Personal Ties, Individualism, and CEO Dismissal

Baseline hypotheses: CEO-board personal ties and CEO dismissal

Ownership profile and board composition create agency conditions and have an

impact on CEO dismissal. Extant studies on agency conditions treat outside directors as the main counterbalance to incumbent CEOs (Finkelstein et al., 2009). However, recent studies on board composition suggest that even outside directors might not be independent if they have personal ties with the incumbent CEOs (Boeker, 1992; Westphal, 1999). These directors will support the CEOs in order to maintain reciprocal relationships, especially when the CEOs are facing pressures to leave. As a result, in organizations with board of directors comprised of great proportion of directors having personal ties with CEOs, CEOs have much lower likelihood of being dismissed. This leads to the following baseline hypothesis:

Hypothesis 3: The proportion of outside directors having personal ties with a CEO is negatively related to the likelihood of CEO dismissal.

At the same time, outside directors who have multiple ties with a CEO might be friendlier toward the CEO than those who have single or no tie with the focal CEO. Hence, CEOs who have many ties with outside directors are less likely to be dismissed than their counterparts who have few ties with outside directors.

Hypothesis 4: The number of personal ties that a CEO has with outside directors is negatively related to the likelihood of CEO dismissal.

Moderating effect of individualism

Social norms of individualism could exert an influence on the extent of social control over CEOs exercised by outside directors. In individualistic societies, such as the United States, individuals value task achievement, even at the expense of relationships (Trandis, 1995; Khatri et al., 2006). To the extent that a seat on a board is a structural position demanding board directors to evaluate and discipline CEOs (Mizruchi, 1983), outside directors have more incentives to monitor and discipline CEOs in individualist countries, even if they have personal relationships with the CEOs.

In contrast, in collectivist countries, such as in Japan, individuals value in-group relationships based on ascriptive ties and feel obliged to take care of one another (Triandis, 1995). In such societies, outside directors with personal ties with CEOs would feel obliged to support the CEOs, especially when the CEOs are in difficult situations. Otherwise, they may face group sanctions (Hofstede, 2001).

Thus, compared with their counterparts in collectivistic societies outside directors in individualistic societies are more likely to exercise social control over outside directors. They are more likely to refrain from showing favor based on personal relationships and thus are more likely to discipline CEOs with whom they have personal ties. Thus, based on this logic, the following hypotheses are proposed:

Hypothesis 5: Individualism will moderate the negative relationship between

proportion of board directors having personal relationships with CEOs and the likelihood of CEO dismissal. Specifically, the negative effect of the proportion of board directors having personal ties with a CEO on the likelihood of CEO dismissal will be stronger in collectivistic societies than in individualistic societies.

Hypothesis 6: Individualism will moderate the negative relationship between number of personal ties between CEOs and outside directors and the likelihood of CEO dismissal. Specifically, the negative effect of the number of personal ties between CEOs and outside directors on the likelihood of CEO dismissal will be stronger in collectivistic societies than in individualistic societies.

3.5.3. CEO-senior executives Personal Dissimilarity, Power Distance, and CEO Dismissal

Baseline hypothesis: CEO-senior executive personal dissimilarity and CEO dismissal

The study of demographic diversity is one of the mostly attractive areas in the literature on CEO succession and top management team (TMT). The research on this topic can be divided into two camps. The first camp links TMT demographic diversity to various organizational outcomes such as organizational performance and organizational strategic change (Carpenter, 2002; Wiersema & Bantel, 1992). The empirical studies in this stream of research have so far reached inconsistent results.

One of the main explanations for this inconsistency is that demographic diversity can have both beneficial and detrimental implications for organizational outcomes. On the one hand, heterogeneous TMTs are more open to change and have a wider set of information sources and perspectives which are necessary for company innovation and performance (Wiersema & Bantel, 1992). On the other, TMT demographic heterogeneity tends to increase dysfunctional conflicts among TMT members (Pfeffer, 1983).

The other stream of research on demographic diversity centers on the implications of demographic dissimilarity for individual turnover behavior. These studies focus mainly on the turnover of individual TMT members (e.g., Jackson et al., 1991; Wiersema & Bird, 1993). They have noted that the dissimilarity between CEOs and senior executives might be one of the main antecedents of CEO dismissal, as senior executives tend to perceive dissimilar CEOs as less than competent and thus are highly motivated to take action against these CEOs (Jackson et al., 1991). According to organizational demography model and similarity-attraction paradigm, individuals tend to have divergent values and personalities from dissimilar others and thus provide unfavorable evaluations toward those individuals (Pfeffer, 1983; Jackson et al., 1991). Research on performance evaluation has consistently documented that raters tend to provide unfavorable evaluations toward ratees who are dissimilar to raters (Tsui & O'Reilly, 1989).

When they perceived incumbent CEOs to be poor performers, senior executives

are highly motivated to engage in power contestation (Shen & Cannella, 2002). In these situations, senior executives would see higher chances to become the new company leaders (Combs et al., 2007; Shen & Cannella, 2002). As a result, CEOs dissimilar to senior executives are more likely to be forced to leave, as they would face more power contestations from senior executives (Ocasio, 1994; Shen & Cannella, 2002). This leads to the following hypothesis:

Hypothesis 7: Dissimilarity of incumbent CEOs to senior executives is positively related to the likelihood of CEO dismissal.

Moderating effect of power distance

How does power distance influence the above relationship? Power distance would affect the extent of political control over CEOs exercised by senior executives. In high power distance societies, where individuals regard power as providing social order and relational harmony, senior executives might refrain from engaging in political control (Fu et al., 2004). While CEOs are of higher ranking than the non-CEO executives in all societies, this hierarchical arrangement has different connotations in different societies. In societies characterized by high power distance, such as France, it is viewed as existential and subordinates acknowledge the power of others simply based on where they are situated in hierarchical positions (Hofstede, 2001). Indeed, a study by Schramm-Nielsen (1989) found that French bosses were

highly respected and rarely challenged by subordinates. As a result, in these societies, even if a CEO is demographically dissimilar to and perceived as less than competent by senior executives, he or she could still maintain his or her position.

In contrast, in low power distance societies, such as Denmark, organizational hierarchical arrangement is seen as an inequality of roles established for convenience (Hofstede, 2001). In these societies, where power is shared among individuals (Carl et al., 2004), senior executives are highly likely to detect and react to shortcomings of the CEOs.

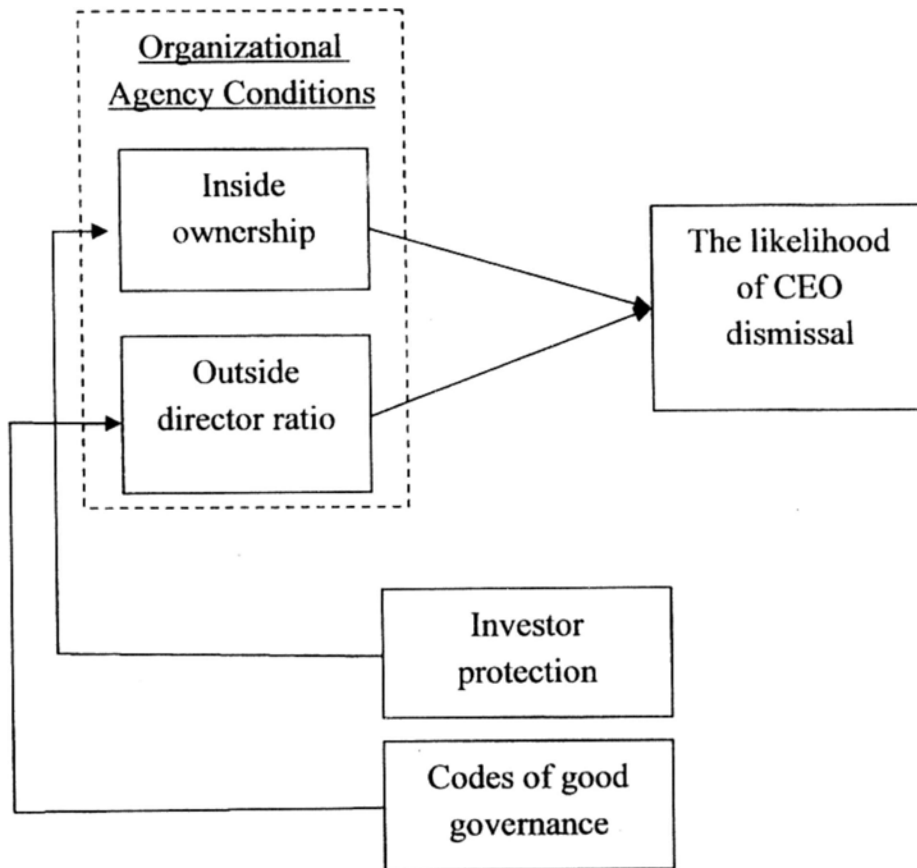
Overall, the above arguments propose that senior executives tend to exercise stronger political control in low power distance societies than in high power distance societies. Accordingly, power distance should moderate the effects of CEO-senior executive personal dissimilarity on CEO dismissal, as strong political control amplifies the positive relationship between personal dissimilarity and CEO dismissal. Thus, the following hypotheses are proposed:

Hypothesis 8: Power distance will moderate the positive relationship between dissimilarity of incumbent CEOs to senior executives and the likelihood of CEO dismissal. Specifically, the positive effect of dissimilarity of incumbent CEOs to senior executives on the likelihood of CEO dismissal will be stronger in low power distance societies than in high power distance societies.

3.5.4. Indirect Effects of Institutions on CEO Dismissal via Organizational Agency Conditions

The complexity of the relationships among organizational characteristics, national institutions, and CEO dismissal rests on the fact that organizational agency conditions could be shaped by national institutions (La Porta et al., 1998). Organizational agency conditions concern mainly company ownership profile and board composition. Ownership profile refers to the identities of a company's shareholders and the sizes of their equity positions, while board composition characteristics of interest include the size and structure of the board. National institutions can create incentives for company stakeholders such as company shareholders and executives to adopt certain types of ownership and board structures (Aguilera & Jackson, 2003). Among the national institutions which might affect organizational agency conditions, investor protection and codes of good governance are particularly relevant as they are explicitly designed to cope with company agency problems. The following two sections will investigate how these two institutions affect relevant organizational agency conditions, which in turn have an impact on the likelihood of CEO dismissal. Figure 2 depicts the indirect effects of institutions on CEO dismissal via organizational agency conditions.

FIGURE 2
Indirect Effects of Institutions on CEO Dismissal via Organizational Agency Conditions



3.5.4.1. Indirect effect of investor protection on CEO dismissal via company inside ownership

Discussion in section 3.2.1 noted that board directors have more incentives to monitor CEOs in societies with stronger investor protection. Hence, CEOs are more likely to be dismissed for reasons of poor company performance in countries with stronger investor protection. However, investor protection also has an impact on company ownership profile, which could influence CEO dismissal, too. Thus, the relationships among national institution concerning investor protection, company

ownership profile, and CEO dismissal deserve further investigation.

The cross-national difference in company ownership profile has been widely studied recently (e.g., Denis & McConnell, 2003; Faccio & Lang, 2002; Roe, 1993; Shleifer & Vishny, 1997). An important finding noted by these studies is that the formal institution concerning investor protection had a strong effect on company ownership profile (Shleifer & Vishny, 1997). This is mainly because the strength of investor protection in a society will affect the private benefits of control for the controlling shareholders, which in turn determine the equilibrium ownership structure of a company (La Porta, Lopex-de-Silanes, Shleifer & Vishny, 2000). A shareholder is typically referred to as a controlling shareholder if his or her ownership in the company exceeds 20 percent (La Porta, Lopez-de-Silanes, Shleifer & Vishny, 1999). In societies where investor protections institutions are weak, controlling shareholders could benefit from expropriation of the value from minority shareholders, which refers to the transfer of value from the minority shareholders to the controlling shareholders (La Porta et al., 1999; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). They thus would hold more ownership themselves and would have less interest in selling shares in the market.

In contrast, companies in societies with good investor protection are more likely to have dispersed ownership. In these societies, because the rights of investors are well protected by formal institutions, controlling shareholders are less likely to be expropriated by other shareholders if they lose control of the company. As a result,

they are more willing to cut their ownership by selling their shares in order to raise funds for company development (Roe, 1993).

Accordingly, there will be a negative relationship between the strength of investor protection and company inside ownership. That is, companies in societies with good investor protection are more likely to have lower inside ownership than their counterparts in societies with poor investor protection. Insider shares include shares held by officers, directors, and their immediate families, share held in trusts, shares held by another corporation, shares held by pension benefit plans, and shares held by individuals who hold 5% or more of the outstanding shares (Erkens, Hung, & Matos, 2009).

In the mean time, as reviewed in Chapter 2, agency theory proposes that there is a negative relationship between company inside ownership and the likelihood of CEO dismissal. This can happen for two reasons. First, inside ownership is likely to be associated with the relative power of the CEOs (Dahya et al., 2002; Denis et al., 1997). For example, Denis et al. (1997) noted that company inside ownership will be correlated with high CEO voting control, employment of fewer professional managers, and greater inside board representations. In addition to enhancing CEO power, company inside ownership also inhibit the external corporate control market and, in so doing, reduce the likelihood of CEO dismissal (Denis et al., 1997). Because it is extremely difficult for external bidders to take over a company with high inside ownership, board directors will feel little pressure to take disciplinary action against

the incumbent CEOs.

The above arguments propose that the strength of investor protection is negatively related to company inside ownership, which, in turn, will have a negative relationship with the likelihood of CEO dismissal. Thus, investor protection would have an indirect effect on the likelihood of CEO dismissal through inside ownership. Hence, the following hypothesis is proposed:

Hypothesis 9: Investor protection has a significant indirect effect on the likelihood of CEO dismissal through company inside ownership. Specifically, investor protection has a negative effect on company inside ownership, which is negatively associated with the likelihood of CEO dismissal.

3.5.4.2. Indirect effect of codes of good governance on CEO dismissal via outside director ratio

Literature review in section 2.1.2 has noted that an independent and effective board of directors would be more vigilant in monitoring and disciplining CEOs (Finkelstein et al., 2009). This directs attention to codes of good governance, which have emerged as a primary tool to increase the effectiveness of board directors (Enrione, Mazza, & Zerboni, 2006). Codes of good governance are a set of "best practice recommendations regarding the behavior and structure of the board of directors of a firm" (Aguilera & Cuervo-Cazurra, 2004: 417). In general, such codes

are a set of norms rather than mandatory legal requirements (Enrione et al., 2006; Yoshikawa & Rasheed, 2009). However, such codes might effectively affect the board structure, which in turn have an impact on the likelihood of CEO dismissal.

Although the content of codes varies slightly across societies, one of the recommendations almost every code provides is to include outside directors on the boards (Zattoni & Cuomo, 2008). For example, China Securities Regulatory Commission (CSRC) issued in year 2001 a guideline requiring at least one third of the board should be outside directors by the end of June 2003.

Countries vary greatly in the number of codes that have been created (Aguilera & Cuervo-Cazurra, 2009). In some countries, such as the United States and United Kingdom, there are 25 distinct codes. These codes of good governance were developed by multiple issuers, including stock exchanges, director associations, manager associations, professional associations, and investors (Aguilera & Cuervo-Cazurra, 2004). In some other countries, such as Norway and China, there are only one or two codes, which were mainly issued by stock exchanges. Still in some other countries, such as Israel, no code of good governance has been issued. The number of codes of good governance in a country will influence the board structure, particularly the outside director ratio, of a company.

Specifically, in countries where there exist a large number of codes of good governance, companies are highly likely to have boards with large proportion of outside directors. In these countries, there are typically multiple issuers of these codes.

These issuers such as stock exchanges, investors, professional associations are also key company stakeholders. As a result, companies face substantial pressure to embrace these codes and to include outside directors on the board in order to gain legitimacy (Aguilera & Cuervo-Cazurra, 2004).

In contrast, in societies with relatively few of these codes, companies might be reluctant to adopt measures such as including more outside director on boards to improve their corporate governance. In these societies, there is very little pressure on companies to include outside directors on the board. As a result, it is highly likely that companies in these societies will not have incentives to appoint outside directors. Indeed, both executives and large shareholders would prefer a passive board such that they can receive more personal benefits from their control positions (DeFond & Hung, 2004).

In the meantime, as reviewed in section 2.1.2, agency theory proposes that there is a positive relationship between outside director ratio and the likelihood of CEO dismissal. This is because outside directors, compared with inside directors, have more incentive to maintain their reputations in the director labor market, and thus are more likely to vigilantly monitor and discipline the incumbent CEOs.

The above arguments propose that the number of codes of good governance is positively related to the proportion of outside directors, which in turn will increase the likelihood of CEO dismissal. This suggests that the number of codes of good governance will have an indirect effect on the likelihood of CEO dismissal through

outside director ratio. Hence, the following hypothesis is proposed:

Hypothesis 9: the number of codes of good governance has a significant indirect effect on the likelihood of CEO dismissal through company outside director ratio. Specifically, the number of codes of good governance has a positive effect on company outside director ratio, which is positively associated with the likelihood of CEO dismissal.

3.6. Summary

In this chapter, a set of hypotheses based on institutional theory has been developed. National institutions are suggested to influence CEO dismissal in two ways. The first concerns the moderating effect of national institutions on the relationships between relevant organizational characteristics and the likelihood of CEO dismissal. Formal institutions concerning investor protection and informal institutions concerning individualism and power distance are identified as the key national institutions affecting the impacts of relevant organizational characteristics on the likelihood of CEO dismissal.

The other way that national institutions affect CEO dismissal refers to their indirect impacts via organizational agency conditions. While national investor protection are asserted to influence CEO dismissal via company inside ownership, the number of codes of good governance developed in a country could affect the likelihood of CEO dismissal through its impact on the proportion of outside directors.

In the next chapter, research method used for testing the hypotheses generated in this chapter, including sample selection, construct measurement, and data analysis method, will be reported.

Chapter 4

METHOD

This chapter provides a description of the methodology used to test the hypotheses generated in Chapter 3. It consists of three sections. The first section describes the sample. The second section discusses measurement issues. The last section describes the statistical methods used to test the hypotheses.

4.1. Sample Selection

To test the hypotheses, this study investigates publicly traded companies from 20 countries: Australia, Belgium, Canada, China, Denmark, France, Germany, Greece, Hong Kong, India, Ireland, Israel, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom, and United States. There are three reasons for choosing public companies from these countries. First, these 20 countries have been widely used in previous studies of cross-national business phenomena (e.g., La Porta et al., 1997), and they represented a significant proportion of the world's GDP and publicly traded companies. Over the sample frame used in this study (2005-2009), these countries were responsible for 66% of total world GDP. In addition, the market capitalization of public firms from these countries accounted for 76% of total world market capitalization (World Bank, 2010). Second, there are great variations in

national institutions among these countries. As the main purpose of this study is to examine the role of national institutions in CEO dismissal, it is necessary that the national institutions of sampled nations be different from each other. Third, choosing a sample of listed companies makes the data used to test the hypotheses publicly available.

The data on CEO dismissal, CEO-board personal ties, and CEO-senior executives dissimilarity were extracted from BoardEx, a database that contains detailed biographic information on individual executives and board members of approximately 12,000 publicly listed firms worldwide. Because of its broad coverage of international firms, BoardEX has been used to study cross-national corporate governance issues (e.g., Erken et al., 2009).

The sample frame consists of five financial years from 2005 to 2009 inclusive. Although BoardEx began providing biographic information for listed companies in North American and Europe in 1999, it is not until recently that BoardEx started covering large number of companies outside of North American and Europe. Because most of the observations for companies from those nations come from 2005, 2006, 2007, 2008, and 2009, this study conducted empirical analysis using data from 2005 to 2009, which is the latest with complete data.

This study began by including all firms headquartered in the 20 countries. Three countries were represented by more than 400 firms: United States (4263 firms), United Kingdom (1565 firms), and Canada (420 firms). As it was not feasible to

collect data on every firm from these countries, a stratified random sample of 120 firms were selected for each of the three countries. The stratification is based on market capitalization. The companies from these three countries were first separated into four non-overlapping groups based on market capitalization. A random sample of 30 companies was then taken from each of the four groups. For the remaining 17 countries, this study selected all available companies from each country. Firm-year observations with unidentifiable CEOs or with missing data on independent and control variables were excluded. These restrictions resulted in a total of 4,739 firm-year observations in 20 countries.

Because top executive titles vary both across countries and within countries, CEOs were identified using the following procedures: First, companies that have executives with the title *chief executive officer, chief executive, CEO, or executive chairman or chairwoman* were identified. Second, for companies without officers with the preceding titles, prior studies and the business press were searched to identify the most common title for CEOs in each country. Third, if above two steps failed to identify the CEOs, this study further searched company annual reports to infer the titles of the top executive. Table 4 presents the titles used to identify CEOs in each of the sample countries based on the preceding procedure.

Additional data on company performance and ownership structure were gathered from Datastream Advance.

TABLE 4

Title Used to Identify the CEO in Each Country, in addition to Chief Executive Officer, Chief Executive, CEO, and executive chairman or chairwoman

Country/region	Management Title[a]
Australia	Managing director
Belgium	Managing director
Canada	None
China	President
Denmark	Managing director
France	None
Germany	None
Greece	Managing director
Hong Kong	Managing director
India	Managing director
Ireland	Managing director
Israel	None
Italy	Managing director; General manager
Netherlands	Managing director
Norway	President
Spain	Managing director
Sweden	Managing director
Switzerland	President
United Kingdom	Managing director
United States	None

[a] Source: Germany and Netherlands (Gregory & Simmelkjaer, 2002); India (Gibson, 2003); United Kingdom (*Hoover's Handbook of World Business*, 1997).

4.2. Measurement

4.2.1. Dependent variable

A major challenge to this study is to identify *CEO dismissal* because firms seldom fully disclose the true reasons behind CEO resignations (Finkelstein et al.,

2009). Many prior studies relied on the CEO's age at departure or on company announcement to examine whether the turnover was voluntary or involuntary. However, such approach is problematic because a CEO's age is not a direct indicator of the nature of CEO turnover and companies might indicate that a CEO departed voluntarily when in fact he or she is forced to exit. A more rigorous method for identifying CEO dismissal is to rely on press accounts to reveal the nature of CEO departure. This method has been used by Shen and Cannella (2002), Wiersema and Zhang (2010), Zhang (2008) and proved to be able to provide a more valid measurement of CEO dismissal (Shen & Cannella, 2002). Given the importance of identifying CEO dismissals, this study follows this method and uses an approach similar to that of Shen and Cannella (2002: 1198-1199).

Specifically, a firm-year is first classified as a turnover year if the name of the CEO changes between successive fiscal years. For example, if the CEO of a given company in 2007 was Smith while the CEO in 2008 became Robert, year 2007 would be classified as the turnover year. There are 592 turnovers in this study's sample. The author then searched *Dow Jones Factiva* database to collect all reports about the CEOs who have experienced turnover. The author also searched BoardEx to get the profile of each of these CEOs, including their current and historical employment roles. Finally, based on the news reports and personal profile information, the author and a postdoctoral research fellow from a mainland China university separately classified CEO turnover into five categories: (1) CEO turnover as a consequence of CEO's

death or of clear health issues, (2) of a CEO's acceptance of a similar position at another organization, (3) of a merger or acquisition, (4) of planned succession, and (5) of CEO dismissal. The first four categories of CEO turnover represent voluntary departure where the CEOs chose to leave rather than being pushed. Classifying CEO turnover into the first four categories serves the purpose of differentiating CEO dismissal from other types of CEO turnover. This method thus would minimize the possibility of mixing CEO voluntary turnover with CEO dismissal and improve the measurement validity. Table 5 provides examples of data coding on the first four categories.

TABLE 5
Examples of Data Coding on CEO Turnover

Coding Category	Example
Turnover as a consequence of death or clear health issue	Michel Rollier, 62, was appointed the head of the world's largest tyre manufacturer on May 29 this year following the death of Edouard Michelin.
	Lloyd's insurer Beazley's chief executive and founder Andrew Beazley is relinquishing control of the firm to have hospital treatment, a statement from the firm said. The company said Mr Beazley will be undergoing medical treatment in the coming months and will therefore have a reduced day-to-day involvement in the business.
Turnover as a consequence of a CEO's acceptance of a similar position at another position	Rune Bjerke is to leave Hafslund as president and CEO to become group chief executive of financial services group DnB NOR, the Oslo-based power company said Wednesday.
	Dow Jones reported that France Telecom has named Executive Vice President Didier Lombard as the new Chairman and Chief Executive Officer. France Telecom's board approved the move two days after former Chairman and Chief Executive Officer Thierry Breton was chosen by President Jacques Chirac to become France's new Finance Minister.
Turnover as a consequence of merger and acquisition	Gloucester Coal chief executive and managing director Rob Lord agreed to leave the company along with four other directors on June 17 when Noble increased its stake in Gloucester Coal to 87.7%.
Turnover as a consequence of planned succession	Bruce Wilkinson, McDermott's current Chairman and Chief Executive Officer, who in February 2008 announced his intention to retire, commented, 'On behalf of the entire Board, I want to congratulate John on this well deserved promotion. We have a robust succession planning program within McDermott, and John's appointment as CEO confirms it veracity.'

Among the first four categories, to judge whether a CEO turnover is a result of acceptance of a similar position at another position is the most difficult task, as a CEO might claim that he or she had a similar or better place to go even if he or she was dismissed. Thus, if a CEO was reported as getting similar positions in other organizations, this study corroborates the reports with that CEO's personal profile information retrieved from BoardEx and make sure whether the CEO indeed became a senior executive in another company or an official in local or central government shortly after CEO turnover.

After classifying CEO turnovers into the first four categories, this study further examined the remaining cases and classified these cases into the fifth category, namely CEO turnover as a consequence of CEO dismissal, if they fitted the following four criteria. First, a CEO was directly reported as having been fired or forced out. Second, a CEO was reported as having resigned unexpectedly or immediately, due to poor performance, undisclosed personal reasons, or a desire to pursue other interests. Third, a CEO was reported as taking early retirement and there was a discussion of performance problems. Lastly, a CEO was reported as having been demoted to a lower position. The first three criteria are proposed and used by Shen and Cannella (2002) and Zhang (2008). The last criterion is included in this study because some CEOs might choose to stay in the company after being dismissed because they have no better alternatives.

Specifically, an example of news reports on CEOs being fired or forced out can

be illustrated by a report on CEO turnover from Oriflame Cosmetics, a Swedish company, in year 2005.

> "Board members for Oriflame Cosmetics SA said Tuesday they dismissed the company's chief executive, saying the company had not performed as well as it should have under his leadership."

The second criteria to identify CEO dismissal concerns situations in which a CEO was reported as having stepped down unexpectedly or immediately and the reason for the CEO's resignation is poor firm performance, undisclosed personal reasons, or a desire to pursue other interest. A typical example of the CEO resignation resulting from poor performance can be found in the report on a company from Switzerland, Swill Reinsurance, in year 2006.

> "The surprise move was announced on the same day that Swiss Re announced that it had posted earned premiums in p/c business for the first half of 2005 of SFr6.76bn ($5.4bn), down 8% on the same period last year."

News reports on surprise CEO resignation for reasons of undisclosed personal reasons can be illustrated by a report on CEO turnover in Ivg Immobilien, a German company, in year 2008.

> "German real-estate group IVG Immobilien AG said on September 15, 2008, that Wolfhard Leichnitz will step down from his position as chief executive and member of the management board on September 30, citing personal reasons."

A surprise CEO resignation might also be reported as due to the CEO's desire to pursue other interests. This can be seen in the report on Amarin from Ireland in year 2007.

> "Amarin Corporation plc (NASDAQ: AMRN) ("Amarin" or the "Company") announced that Rick Stewart, the Company's Chief Executive Officer, has resigned effective immediately to pursue other business interests. Thomas Lynch, Amarin's Chairman, has been appointed as Chief Executive Officer, also effective immediately (see also Biotech Business)."

A CEO who was reported as taking early retirement and there is a discussion of firm performance problems was also treated as a dismissal. An example of news reports on CEO early retirement with discussions of performance problems is two reports on CEO turnover at Canadian Imperial Bank of Commerce in year 2005. In one news report, the CEO was reported as taking early retirement.

> "Canadian Imperial Bank of Commerce, the country's fifth-biggest bank, said chief executive John Hunkin will step down Aug. 1, sooner than planned. President Gerry McCaughey was promoted to replace him."

While in another report, there was a discussion on performance problem during the CEO's tenure.

> "Mr. Hunkin leaves a bank that has fallen to fifth in assets from second when he succeeded Al Flood as chief executive in June 1999. Over the same period, CIBC's stock has been the second-worst performer among Canada's six biggest banks."

Finally, there are occasions when a CEO was demoted to a low position within the same company. This study sees CEO turnover occurred in these occasions as CEO dismissal resulting from demotion. News reports on demotion of CEOs can be illustrated by a report on CEO turnover at Omega Pharma from Belgium in year 2008.

> "BRUSSELS, March 13 (Reuters) - Belgian health products distributor Omega Pharma demoted its chief executive on Thursday as its 2007 results fell short of expectations."

Initially, the author and the postdoctoral research fellow could come to agreement on 536 cases in terms of classifying CEO turnovers into the five categories, with inter-rater reliability being 91%. For the remaining 56 cases, the author and the postdoctoral research fellow each searched for more information on the focal CEOs from websites and then discussed with each other on the classification. Finally, they

come to agreement with each other on all of the classifications after discussion.

Of the 592 turnovers in this study's sample, 11 cases were consequences of a CEO's death or of clear health issues, 20 cases were consequences of a CEO's acceptance of a similar position at another organization, 29 cases were consequences of a merger or acquisition, 244 cases were consequences of planned succession, and 288 cases were consequences of CEO dismissal.

Of the 288 CEO dismissal cases, 26 were classified as having been fired, 207 were classified as having resigned unexpectedly or immediately due to poor performance, undisclosed personal reasons, or a desire to pursue other interest, 18 were classified as taking early retirement and there were discussions of performance problems, and 37 were classified as being demoted to lower positions.

4.2.2. Independent variables

Ten independent variables are included in this study. They have been noted by extant studies as the main antecedent factors and national institutions influencing CEO dismissal. The first seven are organizational level independent variables, which were updated yearly and lagged the dependent variable by one year. There are three variables concerning national institutions. They were measured by static indicators which have been widely used in management and finance literature.

Independent variable No. 1 *Firm performance* can be measured by accounting based and market-based measures of firm performance. This study selects both.

Specifically, Accounting based measures include *return on equity* (ROE) and *profit margin*. *ROE* is calculated as income before extraordinary items and discontinued operations divided by equity. *Profit margin* is calculated as net profit after taxes divided company revenue. Market-based measure of performance is *market-to-book ratio (MTB)*, which is calculated as a company's market capitalization divided by the company's total book value. The data for measurements of firm performance were collected from Datastream Advance.

BoardEx provides information on individual network for each executive or board director. Specifically, for each executive or board director, this database displays executives or board directors he or she may know as they were at an organization at the same time at some point in their life. That is, their work or study experience overlaps. This database termed the executives or board directors that an individual may know as linked directors. For each pair of individual and his or her linked directors, this database also provides information on their overlap start date and overlap end date. Hence, for each firm-year in the sample, this study could track each CEO's individual network to determine whether a CEO had personal ties with each of the outside directors sitting on a company's board.

Independent variable No. 2 *Connected proportion*, i.e., the proportion of outside directors having personal relationships with CEO, was measured by the total number of directors with personal ties with the incumbent CEO divided by the total number of outside directors in a board.

Independent variable No. 3 *Number of ties*, i.e., number of ties between outside directors and CEO equals $\sum_{i=1}^{n} \frac{T_i}{n}$ (1),

where n is the total number of outside board members, T_i is the number of personal ties between a CEO and the *i*th outside director.

Independent variable No. 4 *Dissimilarity between a CEO and senior executives* was measured by the Euclidean distance measure widely used in previous studies (e.g., Jackson et al., 1991). This study examines two of the mostly studied personal attributes, namely age and organizational tenure. While previous studies on the relationship between personal dissimilarity and the likelihood of turnover have also investigated demographic attributes such as sex and race (e.g., Tsui, Egan, & O'Reilly, 1992), this study does not examine such attributes because in some societies it is very rare for a CEO to be dissimilar to senior executives in these two aspects. In some societies such as China, most of the senior executives and CEOs are male and of the same race. For each personal attributes, individual dissimilarity equals

$$[\sum_{j=1}^{n} \frac{(s - s_j)^2}{n}]^{1/2} \quad (2),$$

where n is the number of senior executives, s is the CEO's values on an attribute, and s_j is the jth member's value on that attribute. The demographic data for both the CEO and senior executives were from BoardEX. Following Finkelstein and Hambrick (1990) and HafebLian and Finkelstein (1993), senior executives are identified as inside board members.

Independent variable No. 5 *Inside ownership* was measured as the shares held by the company insiders divided by total outstanding shares. This data is retrieved from Datastream Advances. The datatype for this variable in Datastream Advances is closely-held shares. Insiders correspond to officers, directors, and their immediate families, share held in trusts, shares held by another corporation, shares held by pension benefit plans, and shares held by individuals who hold 5% or more of the outstanding shares.

Independent variable No. 6 *Outside director ratio* was measured as the percentage of board directors who are outside directors. Following Erkens et al., (2009), this study uses *BoardEx* data and classifies directors as outside directors if they are non-executive directors (i.e., not full-time emplyees).

Independent variable No. 7 *Investor protection* was measured by the anti-self-dealing index developed by Djankov et al. (2008). This index is better grounded in theory and works better empirically than the index of anti-director rights constructed by La Porta et al. (1997) and the revised anti-director index in Djankov, La Porta, Lopez-de-Silanes, & Shleifer (2008).

Independent variable No. 8 and No. 9 *Individualism* and *power distance* were retrieved from Hofstede's (2001) five dimensions cultural framework. Hofstede's (2001) framework has been criticized on both empirical and theoretical grounds. Nevertheless, this framework has been largely validated and provides a reasonable representation of national culture (Li & Harrison, 2008).

Independent variable No. 10 *Number of codes of good governance* is retrieved from Aguilera and Cuervo-Cazurra (2009), who compiled a database of codes of good governance issued until the middle of 2008. Aguilera and Cuervo-Cazurra (2009) include in their database all unique documents that propose a set of best practices for the behavior of the board directors and the better functioning of corporate governance. Specifically, these two authors exclude three sets of corporate governance documents from the database. First, laws that have been issued by governments are excluded because they are legal requirements rather than a set of voluntary best practices. Second, codes of good governance that developed by a firm were also excluded, because they only address the needs of one specific firm and are not best practices for firms in a society. Finally, initial drafts and updates of codes of good governance are excluded in order to avoid double-counting codes that provide essentially the same set of recommendations.

4.2.3. Control variables

This study also includes several controls. For each firm-year in the sample, this study controlled for *CEO age*, the age in years of the CEO at the end of the financial year. Further, this study controlled for *board size*, as large board could potentially involve more power contestations. Board size was measured as the number of person composing the board of director. This study also controlled for *firm size*, because larger companies could attract more outside CEO replacement for the current CEOs.

Firm size was measured as the natural logarithm of company asset.

In addition, this study also includes dummy variables indicating industry and year to ensure the results are not driven by unobservable industry and year fixed effects. The control variable concerning industry effects was measured by a dummy variable, *finance industry*, as financial companies are typically more closely monitored and exhibit higher CEO dismissal rate. This variable was coded 1 for companies from finance industry and 0 otherwise. The control variables concerning year effects were measured by four year dummy variables.

4.3. Data Analysis

There are three available analytical techniques for analyzing the data of this study, random effect xtlogit regression, event history analysis, and hierarchical generalized linear modeling (HGLM). Extant studies focused on companies within a single nation, and thus all the analytical units are in the same level. For these studies, random effects xtlogit regression models and event history techniques are appropriate for data analysis (Shen & Cannella, 2002; Wieresema & Zhang, 2010). The units of analysis for these two methods are different. While the unit of analysis for random effect xtlogit regression is company, the unit of analysis for event history analysis is CEO. A key advantage of random effects xtlogit models lies in its ability to taken into account of unobserved heterogeneity. A common approach to addressing this issue is to add firm-specific error terms which vary randomly over time for each firm. Event

history technique is preferred by some researchers because it enables the researchers to capture the potential effect of time on the dependent variable, CEO dismissal (Zhang, 2008).

This study uses HGLM to test the hypotheses. Thought HGLM could not account for the problem of unobserved heterogeneity and capture the potential effects of time, it is selected for several reasons. First, using this multilevel model provides a convenient framework for studying the multilevel data of this study. By using this model, this study could simultaneously investigate the impacts of national level and organizational level factors which might affect CEO dismissal. Second, HGLM corrects for the biases in parameter estimates resulting from clustering and thus could provide correct standard errors and significance tests. As the main purpose of this study is to investigate the effects of national level institutions on organizational level decisions, it is extremely important to be able to correct for the biases resulting from clustering. Third, HGLM also provides a way of analyzing models with binary outcomes.

Specifically, this study uses Bernoulli HGLM to test the hypotheses. Bernoulli HGLM uses a logit link function

$$\eta_{ijt} = \ln[\mu_{ijt} / (1 - \mu_{ijt})] \quad (3),$$

where μ_{ijt} is the likelihood of CEO dismissal for company i in society j in year t.

The level-1 structural model can thus be described in mathematical notation as

$$\eta_{ijt} = \beta_{0j} + \beta_{1j} X_{ij(t-1)} + \beta_{2j} Y_{ij} + r_{ij} \quad (4),$$

where $X_{ij(t-1)}$ is a vector of time-varying explanatory variables, β_{1j} is a vector of estimated coefficients for $X_{ij(t-1)}$, Y_{ij} is a vector of time-invariant explanatory variables, and β_{2j} is a vector of estimated coefficients for Y_{ij}.

More specifically, the time-varying explanatory variables included in the vector $X_{ij(t-1)}$ are *CEO age, board size, outside director ratio, firm size, inside ownership, ROE, profit margin, MTB, connected proportion, number of ties, age dissimilarity, tenure dissimilarity, and year dummies*. These time-varying explanatory variables are *lagged one year* to reduce possible simultaneity problems. The vector of time-invariant explanatory variables includes the industry control variable, *finance industry*.

To test the moderating effect, this study adopted the following level-2 structural models,

$$\beta_{0j} = \gamma_{00} + u_{0j} \tag{5}$$

$$\beta_{1j} = \gamma_{10} + \gamma_{11}W_j + u_{1j} \tag{6}$$

$$\beta_{2j} = \gamma_{20} + u_{2j} \tag{7}$$

where W_j in formula (5) represent a vector of relevant formal and informal institutions variables and γ_{11} is a vector of estimated coefficients for W_j. The institutions variables refer to *investor protection, individualism, and power distance*.

Chapter 5

RESULTS

The theoretical framework proposed in Chapter 3 claims that national institutions affect CEO dismissal in two ways. The first refers to the moderating effects of national institutions on the relationship between relevant organizational characteristics and the likelihood of CEO dismissal. It is proposed that national institutions shape the control modes of CEO behavior which, in turn, affect how the relevant organizational characteristics are related to CEO dismissal. A second way national institutions affect CEO dismissal refers to the indirect effects of national institutions on CEO dismissal through organizational agency conditions. Specifically, national institutions are proposed to shape organizational agency conditions such as inside ownership and outside director ratio which, in turn, could have great impacts on CEO dismissal.

This chapter reports the descriptive statistics for the variables and the results of the hypotheses tests. It is divided into four sections. The first section presents the descriptive statistics for the key variables of this study. The second section describes the results of the hypotheses regarding the moderating effects of national institutions. The third section presents the results of the hypotheses regarding the indirect effects of national institutions on CEO dismissal. The final section provides the results of supplementary analysis using CEO voluntary turnover as the dependent variable.

5.1. Descriptive Statistics

Panel A of Table 6 discloses the number of observations in the sample and the number and proportions with CEO dismissal in each of the 20 countries this study analyzes. This panel shows that the proportion of CEO dismissal ranges from 2.42% in United States to 10.17% in Denmark, with the average being 6.08%. Panel B of Table 5 reports of the number and proportion of observations with CEO dismissal in total and by year over the period this study analyzes. The panel indicates that the proportion of CEO dismissal remain fairly constant across the years, ranging from 5.13% to 6.26%.

Table 7 presents the means, standard deviations, and correlations of variables in this study.

TABLE 6
Frequency of CEO Dismissal in Each Country

Country/region	Number of observations	Number of CEO dismissals	Proportion of CEO dismissals
Panel A: By country			
Australia	598	46	7.69%
Belgium	123	5	4.07%
Canada	116	6	5.17%
China	148	5	3.38%
Denmark	59	6	10.17%
France	695	33	4.75%
Germany	599	45	7.51%
Greece	107	5	4.67%
Hong Kong	89	6	6.74%
India	201	8	3.98%
Ireland	224	17	7.59%
Israel	109	5	4.59%
Italy	240	16	6.67%
Netherlands	294	17	5.78%
Norway	122	11	9.02%
Spain	149	7	4.70%
Sweden	75	4	5.33%
Switzerland	141	13	9.22%
United Kingdom	361	26	7.20%
United States	289	7	2.42%
Total	4,739	288	6.08%
Panel B: By year			
2005	759	44	5.80%
2006	974	50	5.13%
2007	1088	71	6.53%
2008	1327	86	6.48%
2009	591	37	6.26%
Total	4,739	288	6.08%

TABLE 7
Descriptive statistics[a]

	Variables	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1.	CEO dismissal	0.061	0.239																
2.	CEO age	54.216	9.159	-0.011															
3.	Board size	10.786	5.436	0.037	0.141														
4.	Outside director ratio	0.665	0.162	0.011	0.061	0.453													
5.	Ln(asset)	13.767	2.617	0.020	0.195	0.690	0.369												
6.	Inside ownership	11.590	20.428	-0.007	-0.010	-0.185	-0.194	-0.238											
7.	ROE	0.056	1.152	-0.089	0.057	0.045	0.036	0.112	0.002										
8.	Profit margin	-0.630	24.559	0.006	-0.026	0.029	0.005	0.052	0.011	0.035									
9.	MTB	2.905	8.460	-0.014	-0.039	-0.083	-0.048	-0.134	0.046	0.021	-0.021								
10.	Connected proportion	0.144	0.242	-0.022	0.117	0.087	0.082	0.170	-0.029	0.023	0.033	-0.021							
11.	Number of ties	0.694	2.059	-0.031	0.233	0.061	0.083	0.124	0.008	0.018	0.042	-0.027	0.624						
12.	Age dissimilarity	7.697	5.390	-0.036	0.430	0.052	-0.108	0.034	0.109	0.008	-0.033	-0.012	0.055	0.124					
13.	Tenure dissimilarity	5.526	6.144	-0.033	0.267	0.194	0.030	0.202	-0.026	0.029	0.023	-0.027	-0.125	-0.046	0.195				
14.	Anti-self-dealing	0.530	0.236	-0.002	-0.037	-0.363	-0.220	-0.350	0.026	-0.053	-0.030	0.051	0.049	0.028	0.020	-0.099			
15.	Power distance	45.911	16.842	0.019	0.035	-0.159	-0.021	-0.108	-0.008	-0.043	-0.040	-0.023	0.092	0.048	0.038	0.046	0.184		
16.	Individualism	71.203	17.256	-0.050	0.097	-0.003	-0.031	0.084	0.081	0.050	0.014	0.014	0.056	0.084	0.004	-0.021	-0.087	-0.503	
17.	Number of codes	8.165	7.042	-0.030	0.090	-0.200	-0.131	-0.218	0.023	-0.038	-0.056	-0.013	0.043	0.037	0.079	0.028	0.514	0.481	-0.026

[a] n=4739; Correlations greater than or equal to 0.029 are significant at $p < 0.05$. Correlations greater than or equal to 0.037 are significant at $p < 0.01$.

5.2. Main and Interactive Effects of Organizational Characteristics and Institutions on CEO Dismissal

Table 8 shows the results of HGLM analyses for the main and interactive effects of firm performance and investor protection on CEO dismissal. Hypothesis 1 proposes that firm performance is negatively related with the likelihood of CEO dismissal. This hypothesis is strongly supported when firm performance is measured by ROE because the coefficient for ROE is negative and significant (γ=-0.182, $p<0.01$ in Model 1). This hypothesis, however, is not supported when firm performance is measured by profit margin or MTB (γ=0.002, n.s. in Model 2 and γ=-0.014, n.s. in Model 3). Hence Hypothesis 1 is partially supported.

Hypothesis 2 proposes that CEOs of poorly performing firms are more likely to be dismissed in societies with strong investor protection than in societies with weak investor protection. The results show that the coefficient for the interaction term between ROE and investor protection and that between profit margin and investor protection are negative and significant (γ=-0.599, $p<0.01$ in Model 4 and γ=-0.270 in Model 5). The interaction term between MTB and investor protection, however, is not significant (γ=-0.044, n.s. in Model6). Thus, Hypothesis 2 is supported when firm performance is measured by both ROE and profit margin. The interaction effect between ROE and investor protection and that between profit margin and investor protection are plotted in Figure 3 and Figure 4 respectively. These figures show that with high investor protection (1 SD above mean), firm ROE and profit margin are

negatively related to likelihood of CEO dismissal, whereas when investor protection is low (1 SD below the mean), the effects of ROE and profit margin on the likelihood of CEO dismissal become positive.

TABLE 8
HGLM Results: the Main and Interactive Effects of Firm Performance and Investor Protection on CEO Dismissal[a]

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
1 Intercept	-4.065**	-4.064**	-3.920**	-4.183**	-4.122**	-4.021**
2 Level 1 control variables						
CEO age	0.012	0.016	0.012	0.012	0.016	0.012
Board size	0.040+	0.049*	0.055*	0.037+	0.044*	0.054*
Outside director ratio	0.118	0.025	0.010	0.174	0.067	-0.002
Firm size	-0.029	-0.052	-0.060	-0.022	-0.037	-0.058
Inside ownership	0.003	0.002	0.003	0.003	0.003	0.003
3 Level 1 independent variables						
ROE	-0.182**			0.206+		
Profit Margin		0.002			0.167**	
MTB			-0.014			0.013
Connected Proportion	-1.000**	-0.925*	-0.904*	-1.014**	-1.091*	-0.901*
Age dissimilarity	-0.057*	-0.060*	-0.055*	-0.056*	-0.059*	-0.054*
4 Level 2 independent variables						
Investor protection	0.557*	0.558*	0.749*	0.483+	0.369	0.877*
5 Cross-level interactions						
ROE*Investor protection				-0.599**		
Profit Margin*Investor protection					-0.270**	
MTB*Investor protection						-0.044
Pseudo R^2	0.192	0.221	0.194	0.193	0.226	0.195

[a] n=4739 at company level, n=20 at national level. Industry and Year dummies were included in models but are not show here.

$^+$ $p<.10$; * $p<.05$; ** $p<.01$ (two tailed)

Pseudo R^2 is calculated based on proportional reduction of level 1 and level 2 error variance due to predictors in the models of Table 8 (Snijders & Bosker, 1999).

FIGURE 3
Likelihood of CEO Dismissal and the Interaction between ROE and Investor Protection

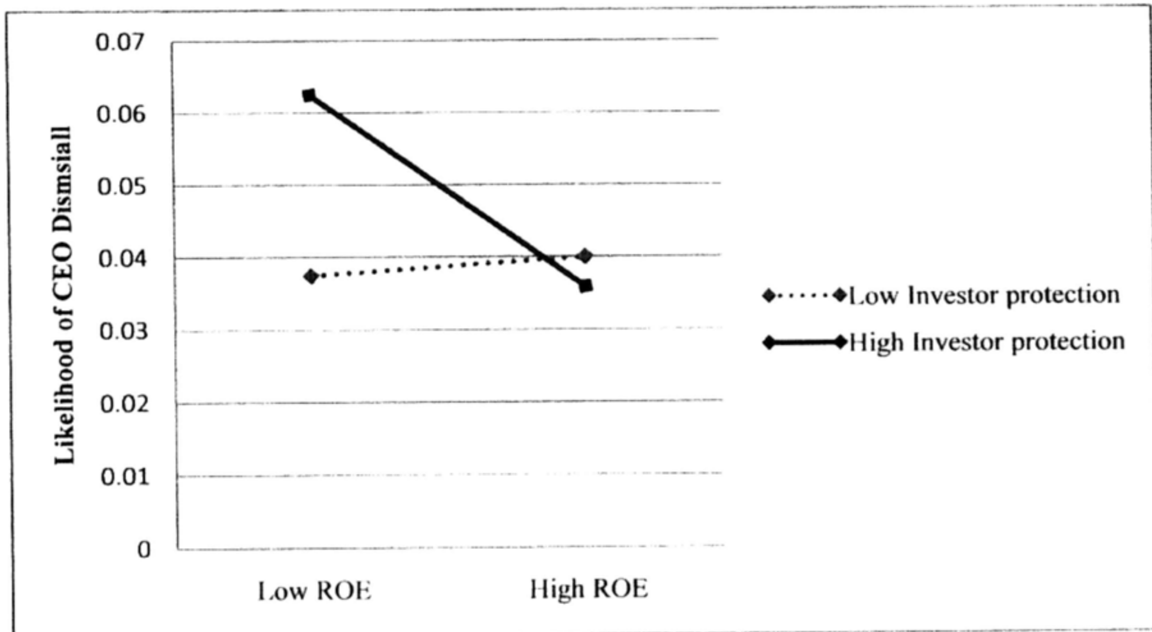


FIGURE 4
Likelihood of CEO Dismissal and the Interaction between Profit Margin and Investor Protection

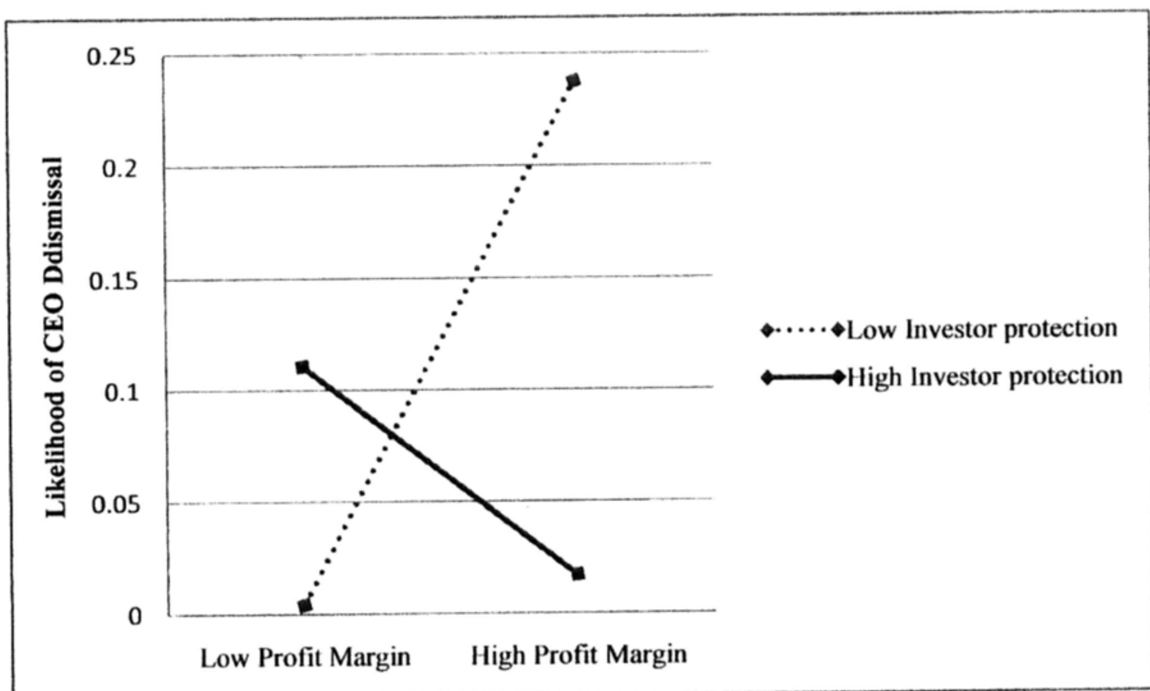


Table 9 presents the results of HGLM analyses for the main and interactive effects of CEO-board personal ties and individualism on CEO dismissal. Hypothesis 3 and Hypothesis 4 predict that two factors, namely the proportion of outside directors with personal ties with the incumbent CEO and the number of personal ties between outside directors and the incumbent CEO, will have a negative impact on the likelihood of CEO dismissal. Hypothesis 3 predicts that the proportion of outside directors having personal ties with a CEO is negatively related to the likelihood of CEO dismissal. This hypothesis is supported because the coefficient of connected proportion is negative and significant (γ=-0.995, $p<0.01$ in model 1).

Hypothesis 4 suggests that the number of personal ties between a CEO and outside directors is negatively related to the likelihood of CEO dismissal. The result shows that the coefficient for number of personal ties is negative and significant (γ=-0.654, $p<0.01$ in model 2). Hence Hypothesis 4 is supported.

Hypothesis 5 proposes that CEOs of companies with high proportion of outside board directors having personal ties with CEOs are more likely to be dismissed in individualist societies than in collectivist societies. As expected, the result indicates that individualism has a positive moderating effect (γ=0.045, $p<0.10$ in model 3). Figure 5 illustrates the moderating effect of individualism.

Hypothesis 6 suggests that CEOs possessing large number of personal ties with outside directors are more likely to be dismissed in individualist societies than in collectivist societies. The result shows that the interaction of number of personal ties

and individualism is significantly negatively related to the likelihood of CEO dismissal (γ=0.031, $p<0.05$ in model 4). Figure 6 illustrates the moderating effect of individualism on the relationship between number of ties and the likelihood of CEO dismissal.

TABLE 9
HGLM Results: the Main and Interactive Effects of Personal ties and Individualism on CEO Dismissal[a]

Variables	Model 1	Model 2	Model 3	Model 4
1 Intercept	-3.808**	-3.895**	-3.604**	-3.702**
2 Level 1 control variables				
CEO age	0.011	0.012	0.011	0.011
Board size	0.038+	0.040*	0.037+	0.040*
Outside director ratio	0.091	-0.019	0.032	-0.003
Firm size	-0.032	-0.036	-0.032	-0.035
Inside ownership	0.003	0.003	0.002	0.002
3 Level 1 independent variables				
ROE	-0.186**	-0.181**	-0.178**	-0.172**
Connected Proportion	-0.995**		-4.406*	
Number of Ties		-0.654**		-3.072**
Age dissimilarity	-0.055*	-0.056*	-0.054*	-0.055*
4 Level 2 independent variables				
Individualism	0.002	0.003	-0.000	0.001
5 Cross-level interactions				
Connected Proportion*Individualism			0.045+	
Number of ties*Individualism				0.031*
Pseudo R^2	0.193	0.194	0.201	0.200

[a] n=4739 at company level, n=20 at national level. Industry and Year dummies were included in models but are not show here.

$^{+}$ *p*<.10; * *p*<.05; ** *p*<.01 (two tailed)

Pseudo R^2 is calculated based on proportional reduction of level 1 and level 2 error variance due to predictors in the models of Table 9 (Snijders & Bosker, 1999).

FIGURE 5
Likelihood of CEO Dismissal and the Interaction between Connected Proportion and Individualism

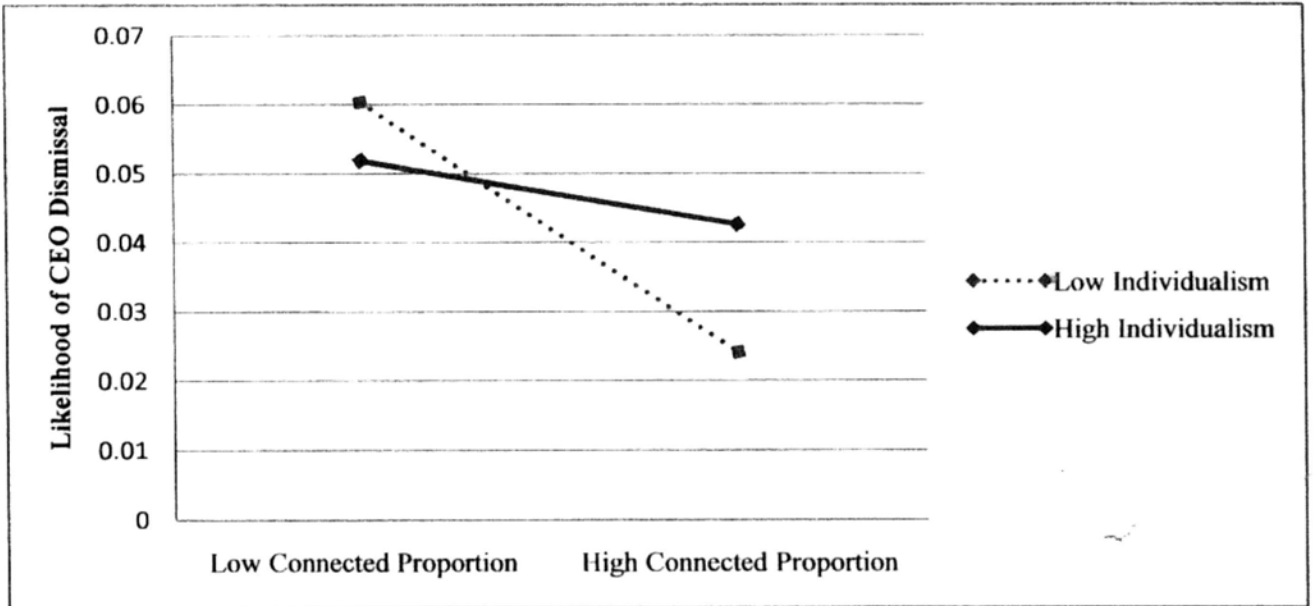


FIGURE 6
Likelihood of CEO Dismissal and the Interaction between Number of Ties and Individualism

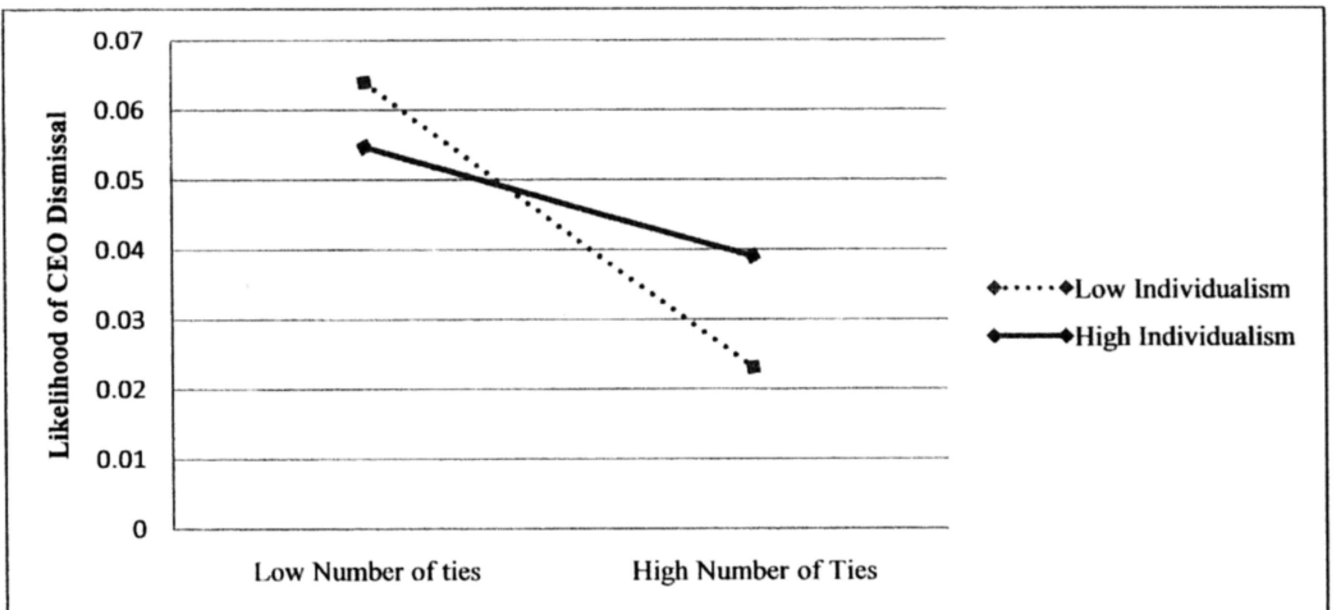


Table 10 reports the results of HGLM analyses for the main and interactive effects of CEO-senior executive dissimilarity and power distance on CEO dismissal. Hypothesis 7 predicts that personal dissimilarity between CEO and senior executives increases the likelihood of CEO dismissal. The results in Table 10, however, show that both age dissimilarity and organizational tenure dissimilarity are significantly, but negatively, related to the likelihood of CEO dismissal (γ=-0.055, $p<0.05$ in model 1 and γ=-0.049, $p<0.01$ in model 2). Therefore, Hypothesis 7 is not supported.

Hypothesis 8 suggests that CEOs dissimilar to senior executives are less likely to be dismissed in high power distance societies. This hypothesis is supported because both the interaction of age dissimilarity and power distance and the interaction between organizational tenure dissimilarity and power distance are significantly and negatively related to the likelihood of CEO dismissal (γ=-0.002, $p<0.05$ in model 3 and γ=-0.002, $p<0.05$ in model 4). Figure 7 and Figure 8 illustrate the moderating effects of power distance on the relationships between CEO-senior executive dissimilarity and the likelihood of CEO dismissal.

TABLE 10

HGLM Results: the Main and Interactive Effects of Personal dissimilarity and Power Distance on CEO Dismissal[a]

Variables	Model 1	Model 2	Model 3	Model 4
1 Intercept	-3.269**	-3.510**	-3.745**	-3.787**
2 Level 1 control variables				
CEO age	0.011	0.003	0.012	0.003
Board size	0.038+	0.026	0.033	0.025
Outside director ratio	-0.061	0.248	-0.122	0.183
Firm size	-0.027	0.203	-0.019	0.020
Inside ownership	0.003	0.002	0.003	0.002
3 Level 1 independent variables				
ROE	-0.175**	-0.202**	-0.175**	-0.188**
Connected Proportion	-0.954*	-1.061**	-0.962*	-1.051**
Age dissimilarity	-0.055*		0.038	
Tenure dissimilarity		-0.049**		0.023
4 Level 2 independent variables				
Power distance	-0.007*	-0.007*	0.004	0.001
5 Cross-level interactions				
Age dissimilarity*Power distance			-0.002*	
Tenure dissimilarity*Power distance				-0.002*
Pseudo R^2	0.191	0.149	0.188	0.145

[a] n=4739 at company level, n=20 at national level. Industry and Year dummies were included in models but are not show here.

[+] $p<.10$; * $p<.05$; ** $p<.01$ (two tailed)

Pseudo R^2 is calculated based on proportional reduction of level 1 and level 2 error variance due to predictors in the models of Table 10 (Snijders & Bosker, 1999).

FIGURE 7
Likelihood of CEO Dismissal and the Interaction between Age Dissimilarity and Power Distance

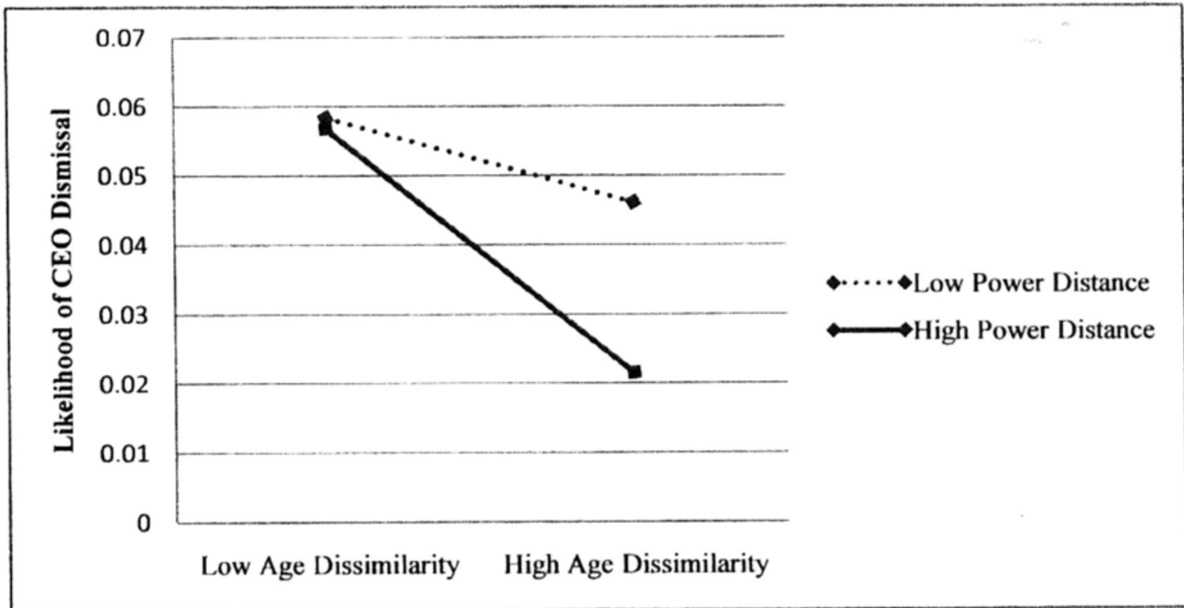


FIGURE 8
Likelihood of CEO Dismissal and the Interaction between Organizational Tenure Dissimilarity and Power distance

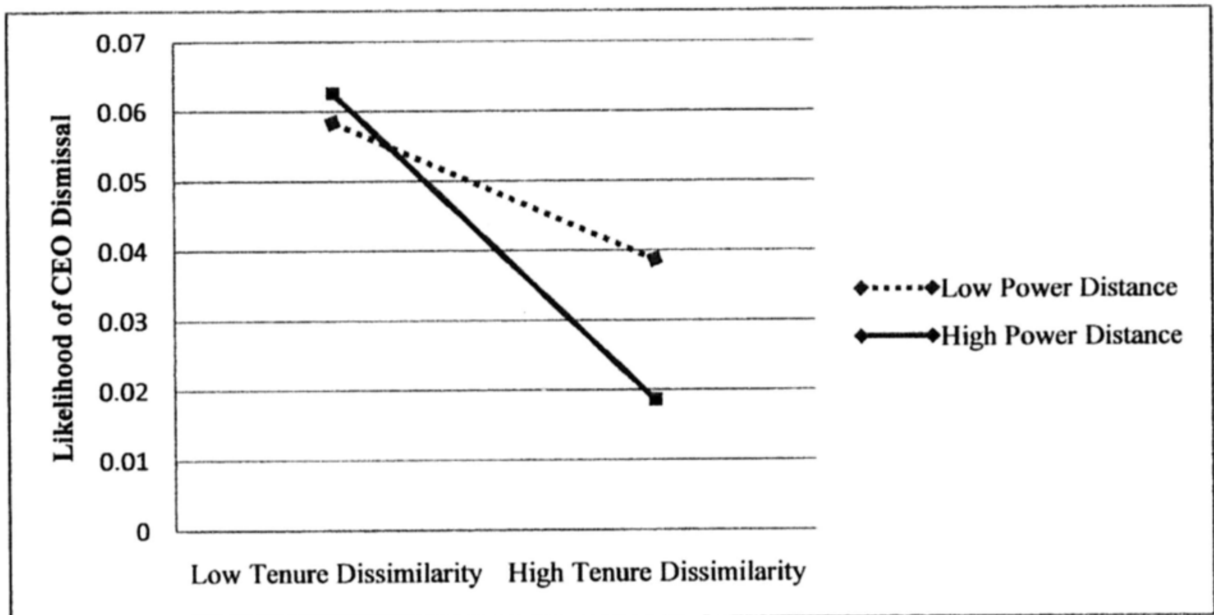


Table 11 presents the results of HGLM analyses when all the relevant main and interactive effects are simultaneously tested. As mentioned above, both company performance and CEO-senior executive dissimilarity are measured by multiple indicators. Because the results are basically the same when these two variables are measured by different indicators, Table 11 only report the results for models using ROE and CEO-senior executive age dissimilarity as the indictors. As shown in Table 11, the results are qualitatively the same as reported in Table 8, 9, and 10, except the result for the interactive effect of number of ties and individualism on the likelihood of CEO dismissal. The result shows that the coefficient for the interaction of number of ties and individualism is not significant (γ=0.004, n.s. in Model 4).

Among the controls, board size is positively and significantly related to the likelihood of CEO dismissal.

TABLE 11

HGLM Results: the Main and Interactive Effects of Organizational Characteristics and Institutions on CEO Dismissal[a]

Variables	Model 1	Model 2	Model 3	Model 4
1 Intercept	-3.560**	-3.586**	-3.969**	-4.158**
2 Level 1 control variables				
CEO age	0.012	0.012	0.012	0.012
Board size	0.039+	0.044+	0.030+	0.035+
Outside director ratio	-0.027	-0.214	-0.072	-0.136
Firm size	-0.025	-0.040	-0.009	-0.023
Inside ownership	0.003	0.003	0.003	0.004
3 Level 1 independent variables				
ROE	-0.167**	-0.132**	0.199	0.243**
Connected Proportion	-0.959*		-4.284	
Number of Ties		-0.160*		-0.502
Age dissimilarity	-0.057*	-0.056*	0.034	0.027
4 Level 2 independent variables				
Investor Protection	0.579*	0.797**	0.476+	0.655+
Individualism	-0.007	-0.007	0.004	0.004
Power distance	-0.001	0.001	-0.003	-0.001
5 Cross-level interactions				
ROE*Investor Protection			-0.564**	-0.614**
Connected Proportion*Individualism			0.043+	
Number of ties*Individualism				0.004
Age dissimilarity*Power distance			-0.002*	-0.002*
Pseudo R^2	0.190	0.200	0.194	0.202

[a] n=4739 at company level, n=20 at national level. Industry and Year dummies were included in models but are not show here.

$^+$ p<.10; * p<.05; ** p<.01 (two tailed)

Pseudo R^2 is calculated based on proportional reduction of level 1 and level 2 error variance due to predictors in the models of Table 11 (Snijders & Bosker, 1999).

5.3. Indirect Effects of Institutions on CEO Dismissal via Agency Conditions

Table 12 presents the results of HGLM analyses for the indirect effect of investor protection on the likelihood of CEO dismissal. Hypothesis 9 predicts that investor protection has an indirect effect on the likelihood of CEO dismissal through inside ownership. The result shows that investor protection (γ=0.236, n.s. in model 1) is not significantly related to the likelihood of CEO dismissal. In addition, investor protection is not significantly related to inside ownership (γ=-0.340, n.s. in model 2) and inside ownership is not significantly related to the likelihood of CEO dismissal ((γ=0.003, n.s. in model 3).

MacKinnon and colleagues (2002) recommended the use of a product of coefficients test for indirect effects. This test has a good balance of small Type I error and high statistical power. MacKinnon, Fritz, Williams, and Lockwood (2007) developed a program, PRODCLIN, for the product of coefficients test. This program can generate a more accurate estimation of the indirect effect than traditional methods (MacKinnon et al., 2007). The PRODCLIN program results reveal that 95% confidence interval of the indirect effect is [-0.001, 0.004], containing zero. Therefore, Hypothesis 9 is not supported.

Table 13 presents the results of HGLM analyses for the indirect effect of the number of codes of good governance. Hypothesis 10 predicts that the number of codes of good governance have an indirect effect on the likelihood of CEO dismissal through outside director ratio. The result shows that number of codes of good

corporate governance is not significantly related to the likelihood of CEO dismissal (γ=-0.014, n.s. in model 1). In addition, the number of codes of good corporate governance is significantly but negatively related to outside director ratio (γ=-0.003, $p<0.05$ in model 2) and outside director ratio is not significantly related to the likelihood of CEO dismissal ((γ=0.126, n.s. in model 3). The PRODCLIN program results also indicate that 95% confidence interval of the indirect effect is [-0.017, 0.010], containing zero. Therefore, Hypothesis 10 is not supported.

TABLE 12

Indirect Effects of Investor Protection on CEO Dismissal via Company Inside Ownership[a]

Dependent variable:	**CEO Dismissal**	**Inside Ownership**	**CEO dismissal**
Variables	**Model 1**	**Model 2**	**Model 3**
1 Intercept	-3.591**	41.468**	-4.201**
2 Level 1 variables			
CEO age	0.009		0.013
Board size	0.039+		0.039+
Outside director ratio	0.106		0.140
Firm size	-0.033	-2.101**	-0.031
ROE	-0.168**	1.222	-0.182**
Connected Proportion	-1.038**		-1.007**
Age dissimilarity	-0.054*		-0.059*
Inside ownership			0.003
3 Level 2 variable			
Investor Protection	0.236	-0.340	0.661*
Pseudo R^2	0.174	0.008	0.193

[a] n=4739 at company level, n=20 at national level. Industry and Year dummies were included in models but are not show here.

$^+$ p<.10; * p<.05; ** p<.01 (two tailed)

Pseudo R^2 is calculated based on proportional reduction of level 1 and level 2 error variance due to predictors in the models of Table 12 (Snijders & Bosker, 1999).

TABLE 13

Indirect Effects of Codes of Good Governance on CEO Dismissal via Outside Director Ratio[a]

Dependent variable:	**CEO Dismissal**	**Outside director ratio**	**CEO dismissal**
Variables	**Model 1**	**Model 2**	**Model 3**
1 Intercept	-3.424**	0.557**	-3.696**
2 Level 1 variables			
CEO age	0.009		0.011
Board size	0.035+	0.012**	0.036+
Firm size	-0.025	0.003	-0.029
Inside ownership	0.002	-0.001**	0.003
ROE	-0.180**	-0.005	-0.189**
Connected Proportion	-0.948**		-1.015**
Age dissimilarity	-0.051*		-0.055*
Outside director ratio			0.126
3 Level 2 variable			
Number of codes of good Corporate Governance	-0.014	-0.003*	-0.009
Pseudo R^2	0.176	0.010	0.190

[a] n=4739 at company level, n=20 at national level. Industry and Year dummies were included in models but are not show here.

$^+$ p<.10; * p<.05; ** p<.01 (two tailed)

Pseudo R^2 is calculated based on proportional reduction of level 1 and level 2 error variance due to predictors in the models of Table 13 (Snijders & Bosker, 1999).

5.4. Supplementary Analysis

Although the focus of this study is CEO dismissal, for comparative purpose this study conducted a supplementary analysis to examine the main and interactive effects of relevant organizational characteristics and institutions on CEO voluntary turnover. CEO voluntary turnover is a dichotomous variable. This study codes CEO turnover in which a CEO left a company for reasons other than being dismissed as voluntary turnover. More specifically, CEO voluntary turnover refers to first four categories of CEO turnover identified in Chapter 4. These CEO turnovers include CEO turnovers as a consequence of CEO's dearth or of clear health issues, of a CEO's acceptance of a similar position at another organization, of a merger and acquisition, and of planned succession.

Table 14 presents the results of HGLM analyses for all the relevant main and interactive effects. Model 1 and Model 2 in Table 14 suggest that organizational performance, CEO-board connections, and personal dissimilarity are not strong predictors of voluntary departure. None of these organizational characteristic are significantly related to the likelihood of voluntary turnover.

Further, Model 3 and Model 4 in Table 14 show that all of the coefficients for the interaction terms are insignificant, except for the coefficient for the interaction term between organizational performance and investor protection. In addition, as expected, CEO age is a significant predictor of voluntary turnover in each of the four models.

TABLE 14

HGLM Results: the Main and Interactive Effects of Organizational Characteristics and Institutions on Voluntary Turnover[a]

Variables	Model 1	Model 2	Model 3	Model 4
1 Intercept	-7.417**	-7.448**	-7.208**	-7.324**
2 Level 1 control variables				
CEO age	0.052**	0.056**	0.054*	0.058**
Board size	0.006	0.014	0.004	0.012
Outside director ratio	-0.043	-0.077	-0.047	-0.079
Firm size	0.045	0.030	0.052	0.037
Inside ownership	-0.014*	-0.015*	-0.014*	-0.015*
3 Level 1 independent variables				
ROE	0.099	0.113	-0.647	-0.552
Connected Proportion	-0.185		-0.576	
Number of Ties		-0.283		-0.936
Age dissimilarity	0.014	0.016	-0.016	-0.001
4 Level 2 independent variables				
Investor Protection	0.381*	0.487*	0.173	0.315
Individualism	0.010**	0.007**	0.005	0.009
Power distance	0.008**	0.011*	0.009	0.006
5 Cross-level interactions				
ROE*Investor Protection			1.216*	1.085+
Connected Proportion*Individualism			0.005	
Number of ties*Individualism				0.010
Age dissimilarity*Power distance			0.001	-0.001
Pseudo R^2	0.176	0.157	0.177	0.161

[a] n=4739 at company level, n=20 at national level. Industry and Year dummies were included in models but are not show here.

[+] $p<.10$; * $p<.05$; ** $p<.01$ (two tailed)

Pseudo R^2 is calculated based on proportional reduction of level 1 and level 2 error variance due to predictors in the models of Table 14 (Snijders & Bosker, 1999).

5.5. Summary

This chapter presents the empirical evidence about the effects of national institutions on CEO dismissal. Table 15 presents a summary of all hypotheses and whether each was supported or not.

As Table 15 shows, the empirical findings in general support the assertion that national institutions have a great impact on CEO dismissal. Because this study explores an important but little researched area, namely the effect of national institutions on CEO dismissal, the findings are informative and encouraging. Next chapter will discuss how the findings reported in this chapter contribute to strategic leadership literature.

TABLE 15
Summary of Hypotheses Testing

Number	Hypothesis	Supported
1	Company performance is negatively related to the likelihood of CEO dismissal.	Yes
2	The strength of investor protection will moderate the negative relationship between company performance and the likelihood of CEO dismissal.	Yes
3	The proportion of board directors having personal ties with a CEO is negatively related to the likelihood of CEO dismissal.	Yes
4	The number of personal ties that a CEO has with outside directors is negatively related to the likelihood of CEO dismissal.	Yes
5	Individualism will moderate the negative relationship between the proportion of board directors having personal relationships with a CEO and the likelihood of CEO dismissal.	Yes
6	Individualism will moderate the negative relationship between the number of personal ties between a CEO and outside directors and the likelihood of CEO dismissal.	Yes
7	Dissimilarity of an incumbent CEO to senior executives is positively related to the likelihood of CEO dismissal.	No
8	Power distance will moderate the positive relationship between dissimilarity of an incumbent CEO to senior executives and the likelihood of CEO dismissal.	Yes
9	Investor protection has a significant indirect effect on the likelihood of CEO dismissal through company inside ownership.	No
10	The number of codes of good governance in a society has a significant indirect effect on the likelihood of CEO dismissal through company outside director ratio.	No

Chapter 6

DISCUSSION

The primary objective of this study is to advance the theory concerning the influence of national institutions on CEO dismissal. More specifically, this study investigates whether or not and how national institutions affect the likelihood of CEO dismissal. The extant literature on CEO dismissal noted that the relationships between relevant organizational characteristics and the likelihood of CEO dismissal are influenced by the extent of control over CEOs exercised by outside directors and senior executives. There are three modes of such control: (1) formal control by outside directors, (2) social control by outside directors, and (3) political control by senior executives.

Using institutional theory as the predominant theoretical lens, this study proposes that national institutions concerning investor protection, individualism, and power distance moderate the effects of relevant organizational characteristics on the likelihood of CEO dismissal. This is because these national institutions shape the extent of the three modes of control, which, as above mentioned, affects the relationships between relevant organizational level factors and CEO dismissal. Empirical results of this study have generally supported this argument.

The following sections will discuss the results presented in the preceding chapter, present the contributions and implications, and point out the limitations and directors

for further research.

6.1. Discussions on Research Findings

6.1.1. Firm Performance, Investor Protection, and CEO Dismissal

Three perspectives, namely ritual scapegoating perspective, agency theory, and organizational adaptation perspective, suggest a negative relationship between company performance and the likelihood of CEO dismissal. Accordingly, Hypothesis 1 predicted that poor company performance will increase the likelihood of CEO dismissal. This study employed three measures of company performance, namely ROE, profit margin, and MTB, to test the company performance-CEO dismissal relationship.

The evidence reported in Table 8 shows that ROE has a negative effect on the likelihood of CEO dismissal, while both profit margin and MTB have no effect at all. The negative association between ROE and the likelihood of CEO dismissal is consistent with the findings from a large number of U.S.-based studies (e.g., Weisbach, 1988; Huson et al., 2002), which revealed that accounting measures of company performance, such as ROA and ROE, are negatively related to CEO dismissal.

The lack of association between profit margin and CEO dismissal could be explained by the finding that the profit margin-CEO dismissal relationships in societies with strong investor protection and in societies with weak investor protection

are of opposite directions. As displayed by Figure 4, while profit margin has a negative impact on the likelihood of CEO dismissal in societies with strong investor protection, there is a positive association between profit margin and CEO dismissal in societies with weak investor protection. Since this study employs a sample of firms from societies with different levels of investor protection, it is not surprising to find that company profit margin is not associated with the likelihood of CEO dismissal.

The lack of a significant effect of MTB on the likelihood of CEO dismissal, instead, could be due to the fact that stock price is often subject to forces beyond management control (Shen & Cannella, 2002; Hambrick & Finkelstein, 1995). Whereas accounting returns are to a great extent under management control, market valuations are affected by too many factors outside CEO's control, including the general level of inflation interest rates and capital market speculation. As a result, MTB might not fully capture CEO performance and thus be less likely to be used by board directors to make CEO dismissal decisions. Though there are a few studies revealing significant relationship between market measures of firm performance and CEO turnover (e.g., Weisbach, 1988; Puffer & Weintrop, 1991), the predominant finding in the literature is that market measures of firm performance are not associated with the likelihood of CEO turnover (e.g., Gibson, 2003; Firth et al., 2006; Kaplan, 1994a, 1994b; Campbell & Keys, 2002).

Overall, this study reveals that company performance has a great impact on CEO dismissal. However, accounting measure concerning ROE seems to be a stronger

predictor of CEO dismissal than other measures of firm performance. Indeed, as extant literature suggested, board directors might find that accounting measures provide convenient targets for CEOs to reach and are more likely to rely on them (rather than market measures) to evaluate and discipline the incumbent CEOs (Shen & Cannella, 2002).

This study proposes that the relationship between company performance and CEO dismissal will vary cross-nationally in line with formal institutions concerning investor protection. Specifically, Hypothesis 2 developed in Chapter 3 has predicted that CEOs of poorly performing companies are more likely to be dismissed in countries with strong investor protection than in those with weak investor protection. The results reported in Table 8 has shown that the interaction effects between company performance and investor protection are significant when company performance is measured by accounting based measures, ROE and profit margin, but not significant when measured by market based measure, MTB.

The significant interaction effects of accounting based measures of company performance and investor protection are consistent with previous research findings on organizational performance-CEO turnover relationship. As indicated in Chapter 2, extant studies reveal that company performance are significantly related to the likelihood of CEO dismissal in societies such as the U.S. and U.K. where investor protections are strong (e.g., Weisbach, 1988; Dahya et al., 2002), but in societies such as Czech Republic and South Korea where investors are poorly protected, this

association between company performance and CEO dismissal is relatively weak (e.g., Campbell & Keys, 2002; Eriksson, 2005).

Though the findings of this study provide an explanation for the cross-national variation in the organizational performance-CEO dismissal relationship, they do not seem to be consistent with DeFund and Hung (2004), which found that the association between CEO turnover and company performance is not related to the investor protection laws. One of the explanations for this finding provided by the authors was that their measurement of investor protection may contain measurement error. This study reduces this measurement error by using a refined measurement of investor protection, i.e., anti-self-dealing index developed by Djankov et al., (2008). As a result, the present study has proved that investor protection indeed significantly improve the association between poor company performance and CEO dismissal.

Overall, evidence from this study reveals that formal institutions are powerful contextual factors influencing CEO dismissal. Strong investor protection will induce outside directors to exercise formal control over CEOs. Accordingly, outside directors from societies with strong investor protection are more likely to make CEO dismissal decisions in situations of poor company performance.

6.1.2. CEO-board Personal Ties, Individualism, and CEO Dismissal

Agency theory claims that board directors with personal connections with CEOs tend to be less vigilant in monitoring CEOs and that the more personal connections

board directors have with CEOs, the more likely those directors will not discipline CEOs. Following this logic, Hypothesis 3 and Hypothesis 4 have predicted that two factors, the proportion of board directors having personal connections with the incumbent CEO and the number of personal connections between directors and the incumbent CEO, will be negatively associated with the likelihood of CEO dismissal. The evidence reported in Table 9 shows that these two factors have significant negative effects on the likelihood of CEO dismissal.

The above evidence is consistent with previous research findings that social ties in CEO-board relationships reduce outside directors' tendency to control management decision making (e.g., Johnson, Hoskisson, & Hitt, 1993; Tosi & Gomez-Mejia, 1989; Wade, O'Reilly, & Chandratat, 1990). CEOs having more social ties with outside directors were found to be more likely to receive favorable treatments such as having a golden parachute (Wade et al., 1990).

In a study on board monitoring in the U.S., however, Westphal (1999) did not find a significant negative relationship between CEO-board social ties and board monitoring. The lack of significant effect of CEO-board social ties and board monitoring in Westphal's (1999) study might be due to the individualistic values prevailing in the U.S. Of the 53 societies in Hoftstede's (1980) original data, the U.S. ranked first in individualism with a raw score of 91. In societies characterized by individualistic values, directors might keep performing their fiduciary duties even if they have social ties with CEOs. This is consistent with this study's argument that

board directors in individualistic societies might value task achievement more than personal relationships.

Overall, the research findings confirm that the social ties between CEOs and outside directors might critically impair a board's capacity to monitor and discipline CEOs, thus decreasing the likelihood of CEO dismissal.

This study proposes social norm concerning individualism as a primary contextual factor influencing CEO dismissal. Hypothesis 5 and Hypothesis 6 have predicted that individualism interacts with directors' relationships with the incumbent CEO to influence CEO dismissal. Specifically, individualism will weaken the negative impact of CEO-board personal relationships on the likelihood of CEO dismissal. The results reported in Table 9 show that individualism interacts with both the proportion of directors having connections with incumbent CEOs and the number of CEO-board personal connections to affect CEO dismissal.

The above empirical evidence indicates that outside directors' tendency to show favor based on relationships is more salient in collectivistic societies. This is consistent with Khatri et al.'s (2006) argument that cronyism is more likely to occur in collectivist than individualistic societies. Cronyism refers to "a reciprocal exchange transaction where party A shows favor to party B based on shared membership in a social network at the expense of party C's equal or superior claim to the valued resource" (Khatri et al., 2006: 62). The significant interaction effects between individualism and CEO-board personal relationships on the likelihood of CEO

dismissal are also consistent with previous research findings that CEO-board relationships are not associated with the level of board monitoring in the U.S., where individualistic values are prevalent (e.g., Boeker, 1992; Westphal et al., 1999).

Overall, evidence from this study confirms that an informal institution concerning individualism plays a crucial role in CEO dismissal. The individualistic social norms encourage outside directors to exert stronger social control over CEOs. They tend to perform their fiduciary duties even at the expense of personal relationships. As a result, compared with their counterparts in collectivist societies, outside directors in individualistic societies are more likely to monitor and discipline CEOs with whom they have personal relationships.

6.1.3. CEO-Senior Executives Personal Dissimilarity, Power Distance, and CEO Dismissal

This study proposes that senior executives are a primary source of power contestation facing incumbent CEOs, especially when the senior executives are demographically dissimilar to the incumbent CEOs. Accordingly, Hypothesis 7 predicted that the dissimilarity between CEO and senior executives would increase the likelihood of CEO dismissal. Two demographic characteristics, age and organizational tenure, are examined. The results reported in Table 10 show that both age dissimilarity and tenure dissimilarity have negative effects on the likelihood of CEO dismissal.

The above evidence contradicts the prediction that demographic dissimilarity will increase the tendency of senior executives to challenge CEOs. These results imply that senior executives are less likely to challenge CEOs who are dissimilar to themselves in age and organizational tenure. A possible explanation for this evidence is that demographic dissimilarities that are consistent with relational norms might be associated with a high level of loyalty by the subordinates toward their supervisors (Tsui, Xin, & Egan, 1995). In most organizational settings, experience and knowledge are important criteria for promotion into supervisory jobs. As a consequence, supervisors who are older, have longer organizational tenure, and are more educated than their subordinates are more likely to be respected by subordinates (Tsui, Porter, Egan, 2002). In a study of a group of insurance salespersons and their supervisors from Taiwan, Farh, Tsui, Xin and Cheng (1998) found that supervisors who were better educated than their subordinates were trusted more by their subordinates. Similarly, in a study of manager-subordinate dyads in Hong Kong and Macau, Lau, Lam, & Salamon (2008) also noted that subordinates will perceive managers as more trustworthy when the demographic differences between subordinates and managers follow normative expectations.

In most organizations, CEOs are older and have longer organizational tenure than senior executives. In this particular study, the average age of CEOs is 54.22, much higher than that of the senior executives, 50.34. Similarly, the average organizational tenure of CEOs, 11.56, is also much higher than that of the senior executives, 8.31.

When CEOs are more experienced, they could gain more respect from the senior executives. As a result, it is not surprising to see that higher levels of both age and organizational dissimilarity between CEOs and senior executives are associated with lower likelihood of CEO dismissal.

To further explore this issue, this study investigated whether CEOs who are older or have longer organizational tenure were indeed less likely to be dismissed. Specifically, this study created two dummy variables, *old CEO* and *senior CEO*. These two variables were coded 1 when a CEO was older or had longer organizational tenure than all of the senior executives and 0 otherwise. Using these two dummies as the measurements of the dissimilarity between a CEO and senior executives, the empirical findings show significant negative associations between these two dummies and the likelihood of CEO dismissal (γ=-0.509, $p<0.1$ for *old CEO* and γ=-0.414, $p<0.05$ for *senior CEO*). These results thus confirm that demographic dissimilarities consistent with relational norms are associated with lower likelihood of CEO dismissal.

Overall, evidence from this study suggests that senior executives tend to show respect to CEOs when CEOs are older or have longer organizational tenure. In these situations, CEOs would face little power contestation and are thus unlikely to be dismissed.

The impact of dissimilarity between CEO and senior executives on CEO dismissal was proposed to vary cross-nationally in line with social norm concerning

power distance. Accordingly, Hypothesis 8 predicted that power distance would interact with demographic dissimilarities to influence CEO dismissal. The results reported in Table 10 show that there are significant interaction effects between power distance and demographic dissimilarities. More specifically, the above found negative relationship between demographic dissimilarity and the likelihood of CEO dismissal is more salient in high power distance societies.

This finding provides support for the moderating role of power distance in the personal dissimilarity-CEO dismissal relationship. In low power distance societies, as the emotional distances between senior executives and CEOs are relatively small, senior executives tend to be more likely to exert political control over CEOs. In such societies, senior executives might not refrain from contesting for CEO power even if the CEOs are older and have longer organizational tenure. By contrast, in countries characterized by high power distance, senior executives are used to autocratic decision making and would rarely contradict the CEOs. The negative impact of CEO-senior executive dissimilarity on CEO dismissal is likely to be stronger in such countries. When CEOs are older or have longer organizational tenure than senior executives, senior executives would see an even greater gap between themselves and CEOs in terms of power and status. Consequently, they would be highly reluctant to contest for power. To further justify these explanations, this study ran two two-way interactions, namely the interaction of *old CEO* and *power distance* and the interaction of *senior CEO* and *power distance*. The results show that the interaction of

senior CEO and *power distance* is significantly and negatively associated with the likelihood of CEO dismissal (γ=-0.013, $p<0.01$), though the interaction of *old CEO* and *power distance* has no significant relationship with CEO dismissal (γ=-0.004, n.s.).

The above evidence is consistent with Van Der Vegt, Van De Viliert, and Huang's (2005) finding that the social norm of power distance moderates the relationship between demographic diversity and organizational outcomes such as innovative climate. It also offers some support for Lau et al.'s (2008) assertions that the social norm of power distance might strengthen the inherent power inequity within vertical dyads and that subordinates might more likely respect their supervisors in high power distance societies.

Overall, evidence from this study confirms that informal institution concerning power distance plays a critical role in CEO dismissal. Senior executives in high power distance societies might refrain from exerting political control over CEOs, especially when the differences between themselves and CEOs are consistent with relational norms (e.g., the CEOs are older or have longer organizational tenure).

6.1.4. Indirect Effect of Institutions on CEO Dismissal via Organizational Agency Conditions

The present study proposes that two formal institutions, investor protection and codes of good governance, could influence CEO dismissal indirectly via relevant

organizational agency conditions. More specifically, Hypothesis 9 predicted that a nation's investor protection has an indirect effect on the likelihood of CEO dismissal through company inside ownership. This hypothesis asserted that strong investor protection decreases company inside ownership that, in turn, has a negative relationship with the likelihood of CEO dismissal. Further, Hypothesis 10 predicted that the number of codes of good governance has an indirect effect on the likelihood of CEO dismissal through company outside director ratio. According to this hypothesis, the number of codes of good governance is positively associated with the proportion of outside directors that, in turn, has a positive relationship with the likelihood of CEO dismissal.

6.1.4.1. Indirect effect of investor protection on CEO dismissal via company inside ownership

The results reported in Table 12 show that the indirect effect of investor protection through company inside ownership is not significant. Company inside ownership is not significantly related to CEO dismissal, while investor protection is also not associated with company inside ownership. A possible explanation for the lack of significant effect of inside ownership on CEO dismissal is that the investigated organizational agency condition, namely inside ownership, does not differentiate between shares held by another corporation, shares held by pension benefit plans, and shares held by individuals who hold 5% or more of the outstanding shares from those

held by officers, directors, and their immediate families. It is highly possible that institutional shareholders and individual shareholders who have no personal relationships with CEOs will have no interest in protecting the incumbent CEOs. Unfortunately, this possibility cannot be tested in this study as the data retrieved from Datastream do not isolate equity owned by CEOs and their relatives. Future research should collect more detailed information on company ownership profiles and examine whether distinct ownership profiles will affect differently the likelihood of CEO dismissal.

The lack of association between investor protection and company inside ownership suggests that companies in societies with strong investor protection do not necessarily have dispersed ownership structures. Indeed, company ownership structure might be path dependent and cannot be changed within a short period of time (Bebchuk & Roe, 1999). When countries had different ownership structures at earlier points in time, these differences might persist at later points in time even if the formal institutions such as investor protection have been greatly improved (Roe, 2003).

Overall, this study does not find evidence supporting the prediction that investor protection indirectly affects CEO dismissal via company inside ownership. Future research might need to pay more attention to the path dependent nature of company ownership structure and use a more valid measure of company inside ownership.

6.1.4.2. Indirect effect of codes of good governance on CEO dismissal via outside director ratio

The results reported in Table 13 indicate an insignificant indirect effect of the number of codes of good governance through company outside director ratio. As shown in Table 13, the number of codes of good governance has a negative relationship with outside director ratio. This is opposite to the predicted positive effect. One possible explanation for this negative effect is that in societies with less codes of good governance, shareholders receive much less protections from the state and thus may require more outside directors to sit on board to protect their interests. Except for the requirement of including independent directors on boards, most of the codes of good governance also include recommendations on governance practices such as maintenance of a sound system of internal control (Auilera & Cuero-Cazurra, 2004). As a result, it is highly likely that societies with more codes of good governance also have strong investor protection. Indeed, the descriptive statistics in Table 2 show that the number of codes of good governance and the measure of investor protection, anti-self-dealing index, are highly correlated ($r=0.514$, $p<0.01$).

Table 13 also shows that there is a lack of significant relationship between the proportion of outside directors and the likelihood of CEO dismissal. This lack of significant relationship could be due to the failure of this study to consider the relationships between outside directors and CEOs. Indeed, as suggested by the findings of this study, not all outside directors are independent monitors of CEO

behavior. Outside directors who are close friends of CEOs might provide support toward the CEOs in order to maintain reciprocal relationships (Boeker, 1992; Fridrickson et al., 1988).

Overall, evidence from this study does not offer support for the prediction that the number of codes of good governance indirectly influences CEO dismissal via outside director ratio. In order to further investigate the relationships among codes of good governance, CEO dismissal, and outside director ratio, further research might need to take into account the personal relationships between outside directors and CEOs.

6.2. Contributions

CEO dismissal is an important strategic issue for all firms (Finkelstein et al., 2009). In order for firms to better manage their CEO succession processes, it is important to understand the driving forces of CEO dismissal. The present study represents an endeavor in this direction.

This study examined the impact of national institutions on CEO dismissal. The literature review in Chapter 2 notes that there are substantial cross-national variations in the relationships between relevant organizational characteristics and the likelihood of CEO dismissal. Further, a careful examination of the literature also reveals that the extent of control over CEOs exercised by outside directors and senior executives could affect the relationships between relevant organizational characteristics and CEO dismissal. All these suggest that national-level factors, which might shape how

outside directors and senior executives exercise control over CEOs, play an important role in CEO dismissal. However, previous studies primarily focused on CEO dismissal within a single country and seldom took into account how national-level factors affect CEO dismissal.

Following an institutional perspective (North, 1990; Scott, 2008), this study proposes a theoretical model in Chapter 3. This theoretical model highlights the area that was ignored in previous research on CEO dismissal, namely, the influence of national institution on the control over CEOs exercised by outside directors and senior executives. It proposes that the extent of control over CEOs by outside directors and senior executives is influenced by national institutions concerning investor protection, individualism, and power distance. As a result, these national institutions would moderate the effects of relevant organizational characteristics on CEO dismissal, as the extent of control over CEOs plays a moderating role in affecting the relationships between relevant organizational characteristics and CEO dismissal.

Highlighting the theoretical linkage between national institutions and CEO dismissal, this new argument helps advance understanding of the determinants of CEO dismissal. Results from a five-year sample of 1733 public companies from 20 societies provide strong support for this study's theoretical framework. These results generate several valuable insights with interesting theoretical and managerial implications.

First, this study contributes to theory development by introducing an

institution-based perspective into CEO dismissal research. While strategy scholars have made important contributions by applying institutional theory to the study of company strategic decisions such as diversification and mergers and acquisitions (M&As), previous studies have not applied a similar approach to study CEO dismissal. They usually regarded CEO dismissal as a micro-level decision and rarely incorporate macro-level factors, such as national institutions, into their theoretical framework. Such a focus engenders an undersocialized view of company decision makers and overlooks the facts that national institutions affects the perceptions, attitudes, and behaviors of key company stakeholders, including outside directors and senior executives, as they engage in CEO dismissal decision makings. As an attempt to systematically investigate how national institutions affect outside directors' and senior executives' control over CEOs, this study has confirmed the value and promise of studying national level factors. It treats national institutions as key contextual factors within which CEO dismissal decisions get framed and executed. In this way, the present study adds to CEO dismissal literature and can be labeled as "an institutional-based perspective of CEO dismissal".

Second, the incorporation of institutional theory into CEO dismissal study leads to a more cross-nationally accommodating research model that offers insight into why CEOs are dismissed at different rate in different nations. As reviewed in Chapter 2, while empirical studies using U.S. samples of firms have found significant impact of organizational performance, agency conditions, and organizational demography on

CEO dismissal, those employing non-U.S. samples of firms are mixed in their findings. This study has proved that national institutions concerning investor protection, individualism, and power distance moderate the relationships between relevant organizational characteristics and the likelihood of CEO dismissal. The present study thus filled an important research gap in the strategic leadership literature by offering an explanation for the inconsistency in existing empirical studies. While the focus in this study is on CEO dismissal, a systematic analysis of the influence of formal and informal institutions on the control over CEOs exercised by outside directors and senior executives will also help to enhance understanding of other corporate governance phenomena such as CEO selection and CEO compensation.

The third major contribution of this study is to offer deeper insight into the relationship between organizational demography and CEO dismissal. While organizational demography concerning dissimilarity between senior executives and incumbent CEOs has important implications for CEO dismissal, the mechanism through which demographic dissimilarity affect CEO dismissal might be complicated than that suggested by extant studies. Using sociopsychological perspective as the theoretical lens, extant studies on senior executive turnover suggest that senior executives, including CEO, who are dissimilar to other members of a senior executive group are more likely to be challenged by other members and thus are more likely to be forced to leave a company. Accordingly, one might expect that a CEO who is dissimilar to other senior executives will be more likely to be dismissed, as he or she

will face more power contestation from senior executives. The results of this study, however, indicate that senior executives are actually less likely to contest for CEO power when CEOs are dissimilar to senior executives in age and organizational tenure. This study contends that senior executives do not necessarily perceive CEOs with dissimilar characteristics as less competent. Instead, they might show more respect toward dissimilar CEOs, as long as these demographic dissimilarities are consistent with relational norms. These findings thus offer an interesting perspective on the studies that relate organizational demography and senior executive turnover.

6.3. Limitations and Directions for Future Research

This study advances understanding of the role of societal institutions in CEO dismissal, but it has limitations that, in turn, suggest interesting avenues for future research. First, the emphasis of this study has been on how national institutions influence the extent of control over CEOs exercised by outside directors and senior executives, and hence it has said little about the control over CEOs exercised by other company stakeholders such as company shareholders and employees. The extant literature on corporate governance stresses that outside directors and senior executives are the main entities exercising control over CEOs for public companies (Fama, 1980; Fama & Jensen, 1983). This is especially true for large public companies where the ownership is dispersed. Company shareholders of these companies have little incentive to exercise control over CEOs. However, for companies with concentrated

ownership, company shareholders might represent important entities exercising control over CEOs (Rediker & Seth, 1995). Similarly, in countries like Germany and Japan, employees might have a greater voice in CEO dismissal decision making than the typical liberal-market economies of the United States and the United Kingdom (Capron & Guillen, 2009). Hence, future research in this area would benefit from an investigation of how relevant national institutions such as prevailing firm ownership structure and legal protection of employee rights might influence the extent of control over CEOs exercised by company shareholders and employees.

Second, this study has not paid attention to the role of micro-institutions, especially organizational culture. The focus of this study on national institutions as a whole can be justified by institutional theory, which emphasizes that national institutional influences will create a significant degree of similarity in structures and practices across organizations (DiMaggio & Powell, 1983). However, more recent studies reveal that despite national institutional constraints, ample room remains for organizations to develop different organizational culture (Gerhart, 2008; Xiao & Tsui, 2007). These studies note that when national institutions are consistent with organizational cultures (e.g., high commitment organizational culture), the impact of national institutions on individual behaviors would be more salient (Xiao & Tsui, 2007). In contrast, in situations where national institutions are in conflict with organizational culture, the effect of national institutions on individual behavior or organizational outcome will be much weaker or even disappear (Pothukuchi, et al.,

2002; Xiao & Tsui, 2007). Hence, one might expect that the relevant national institutions might have a stronger effect on CEO dismissal when they are consistent with organizational cultures. Future research is needed to investigate how national institutions and organizational culture might interact to influence outside directors' and senior executives' behavior, and thus have an impact on CEO dismissal.

Third, like most research on CEO dismissal, this study has relied on archival data rather than direct observations of the extent of control over CEOs by outside directors and senior executives. One of the central arguments in this study is that relevant national institutions shape the extent of control over CEOs. The present study employed the publicly observable outcomes to infer the extent of control over CEOs exercised by outside directors and senior executives. Although the research design of the present study is logically sound and the empirically results have in general support the theoretical arguments, it would be desirable to examine the actual control over CEOs exercised by outside directors and senior executives in future research to fully identity the causal mechanisms underlying CEO dismissal. Future research might extend our inquiry by sending surveys to outside directors and senior executives from nations with distinct institutions to measure directly the extent of control over CEOs they exercised. Surveys of outside directors and senior executives have often suffered from low response rates. To increase the possible number of responses, an in-depth pretest should be used to streamline the survey, making it easier and more appealing to complete. Another avenue of inquiry might be to conduct case studies on

companies from different countries. The main sources of information could be open-ended, semi-structured interviews with outside directors and senior executives. If such studies confirm that the relevant national institutions indeed have an impact on the extent of control over CEOs, they will lend credence to this study's initial findings regarding the moderating role of relevant national institutions in the organizational characteristics-CEO dismissal relationship.

Fourth, this study has used a sample of CEOs in listed companies. The nature of the sample may limit the generalizability of the findings to other contexts. This study limits the sample to public companies because information on these companies is publicly available. Whether the results from this study can be generalized to private companies or organizations in non-profit sectors remains a question. This provides an opportunity for future research to examine the effects of national institutions on CEO dismissal in different organizational contexts.

Fifth, the time period employed in the present study is relatively short. Data on CEO dismissal were collected for the period from 2005 to 2009. One important reason for this was data availability. During this 5-year window, only about a quarter of sample firms experienced CEO dismissal. Although the relatively short 5-year window does not threaten the validity of the present study, having a longer observation window will provide a stronger test of this study's hypotheses.

Lastly, this study has used static measures of institutions. Specifically, this study measures informal institutions concerning individualism and power distance by

Hoftstede's (2001) scores and measures investor protection by anti-self-index developed by Djankov (2008). Although informal institutions are quite resilient and cannot be quickly modified, formal institutions in some societies indeed are subject to change over time (North, 1990). Emerging economies such as China have experienced significant institutional transitions in the areas of investor protection laws during the last decade (Peng, 2003). Thus, future research should pay special attention to the time-variant nature of institutions and investigate how the changes in formal institutions might affect the extent of control over CEOs exercised by outside directors and senior executives.

6.4. Managerial Implications

Findings of this study also have important managerial implications. First, for multinational organizations, it is important to recognize the cross-national differences in company stakeholders' values and behaviors. Board directors, senior executives, and CEOs, socialized from an early age to the social values in their home countries, may keep these values when they are working in other countries. As a result, when company stakeholders from different countries are interacting with each other, board decision making could become complicated. For instance, a CEO from China, where power distance is high, might be surprised to see that senior executives from low power distance societies constantly question their decisions or even contest for their power. Similarly, a CEO from a collectivistic society would be confused when his or

her friends on board do not lend him/her a hand when needed. Hence, multinational organizations may need to design procedures to ensure mutual understanding of each others' values and behaviors among relevant company stakeholders such that they could interact with each other more effectively.

Second, the findings that informal institutions play crucial role in CEO dismissal offer a caution with regard to the tendency of government to focus on establishing formal laws or codes to improve corporate governance. Government agencies should be well aware of the fact that outside directors might act out of self interest and informal institutions such as individualism could affect how they interact with CEOs. Hence, simply requiring a certain proportion of the board to be outside directors might not be effective for corporate governance improvement. The U.S. Securities and Exchange Commission (SEC) has gone one step further by defining independent directors as those who are not relatives of executives or founders, not current or former employees, not employed by banks or law firms, and not from firms with "substantial" business relationships with the focal firm (Finkelstein et al., 2009). This definition of independent directors might be adequate for companies in the U.S., where directors are expected to value task achievement even at the expense of personal relationships. However, in societies characterized by collectivistic values, independent directors so defined might still fail to fulfill their fiduciary duties and show favor toward incumbent CEOs, as long as they have personal connections with those CEOs. Hence, in those societies, government agencies may need an even more

stringent definition of independent director in order to protect investors' interests.

6.5. Conclusion

This dissertation systematically examined whether and how societal institutions matter for CEO dismissal. While the extant studies note that the extent of control over CEOs might play a moderating role in the relationships between relevant organizational characteristics and CEO dismissal, this study contributes to the strategic leadership literature by suggesting that national institutions could shape the extent of control over CEOs exercised by outside directors and senior executives and thus would moderate the effects of relevant organizational characteristics on CEO dismissal. A greater understanding of the impact of institutions on the extent of control over CEOs promises to shed light not only on CEO dismissal literature, but also on the comparative corporate governance research in the future.

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