

FACTORS OF CEO FAILURE: MAPPING THE DEBATE

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Abstract

The failure of the CEO has been studied at great length in the literature. We order and classify the factors that lead to CEO failure into those a CEO can influence (endogenous) and those that are given (exogenous). The absence of unanimity in the literature leads us to conclude that insufficient attention has been paid to the main factor: the personal characteristics of CEOs. The agency approach and method are insufficient to understand leadership performance in organizations, due to the oversimplified view of human nature on which they are based and their heavy reliance on mathematical modeling.

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FACTORS OF CEO FAILURE: MAPPING THE DEBATE

Introduction

“What do you mean by the ‘failure’ of a CEO?” When we tried briefly to explain this study to various managers of a large multinational, this was their first question. After all, can a CEO who leaves with a multi-million payoff be said to have failed? In this study we do not aim to cover every aspect of the issue of compensation. Our goal is to bring together, organize and classify the endogenous and exogenous factors that lead a top executive to lose the trust of the board of directors, shareholders, colleagues and subordinates, resulting in exit from the company (with or without compensation).

According to Dotlich and Cairo (2003), CEO failure is attributable to human behavior, i.e. to what CEOs are like and how they behave in certain circumstances (Charan, 2003).

One might obviously argue that CEOs tend to lose their job when their company performs badly and the directors (who are responsible for overseeing management), the shareholders (who will not receive the desired return) and the market as a whole (suppliers, creditors, customers, etc.) demand a replacement. This has been demonstrated empirically, particularly during the last quarter of the 20th century.¹ And yet, according to Fredrickson et al. (1988), poor firm performance explains less than half the variance in CEO dismissals and CEO turnover. In other words, half of all CEO failures occur while the company is performing well. Clearly, there must be other factors at play.

This is a highly topical issue. A total of 524,000 jobs were lost in the United States in December 2008 and that included CEO jobs (*The Wall Street Journal*, January 13, 2009). In times of crisis, CEO turnover can double (Jenter and Kanaan, 2008). The recent announcement by the Obama administration of a cap on the pay of executives whose companies have been rescued with taxpayers’ money (*Financial Times*, February 5, 2009) is a clear example of the level of interest in CEO performance in recent times. Similar reactions have been seen in many other developed countries.

¹ James and Soref (1981), McEachern (1975), Salancik and Pfeffer (1980), Coughlan and Schmidt (1985), Warner et al. (1988).

According to Charan (2005), “CEO leadership must be treated differently because it is unique in scope and importance. The actions of CEOs determine the future of corporations, which collectively influence entire economies. Our quality of life depends on excellence at the top”.

This interest has to do with the influence that multinational enterprises have on today’s economy. The economic assets they manage are greater than the GDP of entire nation-states. The people who control them therefore probably have more power and influence than many heads of government (Cappelli and Hamori, 2004). It is therefore important to understand what CEOs are like and how they behave in order to understand the reasons why sometimes they fail.

We do not intend to focus on the causes of CEO failure in the present economic environment, however, but in an atemporal (though not static) perspective.

By our definition, a CEO has failed if he is unable to meet the expectations of the board of directors, the shareholders and the market, as manifested in the decision to press for the CEO’s removal.

It is important to note that the literature we shall be reviewing presents the conclusions of studies using mainly United States samples. It therefore predominantly reflects the Anglo-Saxon model of corporate governance, centered on shareholder value creation (Rappaport, 1986). The shift from public to private ownership of large European companies over the last decade has resulted in steady cross-Atlantic convergence in corporate governance (Milne, 2009). Yet the Anglo-Saxon model retains certain distinctive features that need to be borne in mind when applying the conclusions found in the literature to European firms² (Gentry et al., 2007^a, and Russell Reynolds Associates, 2006a, 2006b).

In his historical study, Vancil (1987) concludes that 90% of CEO turnover is due to retirement, death or disability, i.e. factors that have nothing to do with firm performance. In other words, only 10% of CEO successions come about unexpectedly, as a result of a board decision prompted by the company’s results, a change of ownership, a restructuring, a strategic change, or any of the other causes we shall be considering. In this article, therefore, we shall focus on the 10% identified by Vancil: the dismissals and voluntary departures. While other studies have taken a broader approach, our view is that this smaller group is the one that demands rigorous study, as these are the events that have most theoretical interest (Fredrickson et al., 1988). By examining the causes we will be able to determine why CEOs fail or at least shed some light on what leads to failure.

CEOs fail for a wide variety of reasons. Companies rarely disclose the reasons for dismissal or contract termination, or only in the vaguest terms (Cannella and Shen, 2002). It does not seem feasible to cover all the causes of failure and the interrelationships between them, but it is worth reflecting on the main causes that have been analyzed and studied in the international academic literature.

² There is no unified European model (Guest, 2008). The model least like the Anglo-Saxon one is perhaps the German model. The main differences between the Anglo-Saxon and the German include: CEO remuneration (significantly higher in the United States); separation of CEO and Chairman roles (required by law in Germany, almost universal in the United Kingdom and less common in the United States); board representation (mainly the CEO and executives in the United States, equal presence of independents in the United Kingdom and considerable representation of the main shareholders in continental Europe); and employee participation in the selection of directors (in Germany, Austria and Denmark). See Krivogorsky (2006) and Russell Reynolds Associates (2006b).

In this article we will try to weigh the academic contributions in light of the theory of human behavior put forward by Pérez López (1993)³ and with reference to the new approaches that may come together to create an alternative paradigm (Pfeffer, 1993) to that of agency theory, one that has more precise explanatory power (Ghoshal, 2005).

First, we shall distinguish between endogenous factors (modifiable: the result of a function which the CEO himself can influence) and exogenous factors (beyond the CEO's control, i.e. given). As we shall see, the CEO can indirectly influence some of the exogenous factors, so as to lessen their impact.

The endogenous factors include ownership of an interest in the company (Salancik and Pfeffer, 1980; Core and Larcker, 2002), compensation systems (Murphy, 1998), CEO origin (Puffer and Weintrop, 1995; Fredrickson et al., 1988; Warner et al., 1988), CEO capabilities (Dotlich and Cairo, 2003; Cappelli, 2008; Ciampa, 2005; Charan, 2005; Zajac, 1990, and Gentry et al., 2007b) and CEO involvement in selecting directors (Hermalin and Weisbach, 1998; Boeker, 1992). At the same time, there are conditioning factors external to the CEO that influence the exit decision: company size (Reinganum, 1985; Grusky, 1961), board composition (Weisbach, 1988; Hermalin and Weisbach, 1998; Bhagat and Black, 2002), the presence of institutional investors (Doidge et al., 2006), the actions of the CEO's predecessor (Conger and Nadler, 2004) and the existence of an incomplete succession plan (Kovach, 1986; Walter, 2002; Conger, 2004, and Watkins, 2004). This classification is not intended to be exhaustive, but singles out the factors we consider most relevant today (Table 1).

Table 1

Factors in CEO failure*

Endogenous	Exogenous
Interest in the capital	CEO age and tenure
Remuneration	Influence of predecessor
CEO origin	Company age and size
Selection of directors	Mergers and acquisitions
Competencies	Type of industry
	Board composition
	Directors' commitment
	Valid successor
	Industry regulation

* Source: compiled by the authors.

This classification is merely illustrative, as in practice the factors cannot be so neatly separated. An endogenous factor may be reinforced by exogenous factors. Tenure, for example (an exogenous factor insofar as it does not depend exclusively on the CEO himself) makes it more likely that a CEO will own stock in the company (an endogenous factor) and be able to influence the selection of directors (another endogenous factor), i.e. more likely that a CEO will be powerful enough to hold on to his job despite below-par performance.

³ A theory built upon by, among others, Chinchilla (1997), Cardona and García Lombardía (2005), Argandoña (2007) and Rosanas (2008).

This article is divided into five parts. In part two, following this introduction, we analyze the most important endogenous factors identified in the literature. In part three we describe the main contributions in the literature on exogenous factors. In part four we briefly review some theories of human behavior and organizations (particularly, Pérez López, 1993) that may provide a basis for new theory development. Lastly, we present our conclusions and outline directions for future research.

2. Endogenous Factors

In what follows we analyze the factors that have been identified in previous studies as possible causes of CEO failure. These are all factors the CEO can influence, although his influence is not always positive (in the sense that a CEO may effectively hasten his own departure). Given the lack of consensus in the literature, there is almost no positive statement to be made about how these endogenous factors affect CEO failure. As the statistical models lack explanatory power, we turn to competencies as a possible alternative.

As we said, in practice the causes of failure are not neatly separated. Nor does there appear to be a direct relationship between cause and failure taken in isolation. Some of the articles we review address the relationship between a particular cause and CEO failure; others group together two or three causes. As we describe in the section on competencies, we have not found a holistic model that combines quantitative and qualitative measures and achieves valid results. According to Kesner and Sebora (1994), research to date has omitted variables that influence CEO exit. The models used in much research omit qualitative variables because it is difficult to obtain homogenous, and therefore comparable, data.

2.1. Interest in the capital of the company. Remuneration

Apart from the influence of personal characteristics (which we examine at the end of this section), there are other explanations for why a CEO remains in the post despite the company's having below-industry-average performance. One is the possession of an interest in the company's capital. According to Salancik and Pfeffer (1980), an increase in stock ownership is positively correlated with tenure; stock ownership gives CEOs an artificial defense against failure. This view presupposes power struggles in the company.

Although there is no consensus in the literature⁴ regarding the correlation between CEO stock ownership and firm performance, empirical studies (Core and Larcker, 2002) suggest that companies perform better when CEO remuneration contains a larger proportion of stock options (or other medium-term arrangements whereby CEOs are paid in shares). An increase in ownership interest is an incentive for the CEO to work to improve the company's performance (Core and Larcker, 2002; Morck et al., 1988). In other words, executives (agents) receive an

⁴ Core and Larcker (2002) explain the reason for the lack of consensus in the literature. In their view, the different theoretical foundations of the two schools of thought foster dispersion of results. Both schools study the relationship between CEO stock ownership and firm financial performance. On the one hand, Morck et al. (1998) assume that the costs of adjusting suboptimal contracts are very high; consequently, the cost of rewriting executive contracts results in worse firm performance. On the other hand, the school that began with Demsetz and Lehn (1985) considers that there are no adjustment costs, so firms adjust the level of executive stock ownership to an optimal level. At the optimum there is no relationship between stock ownership and firm performance.

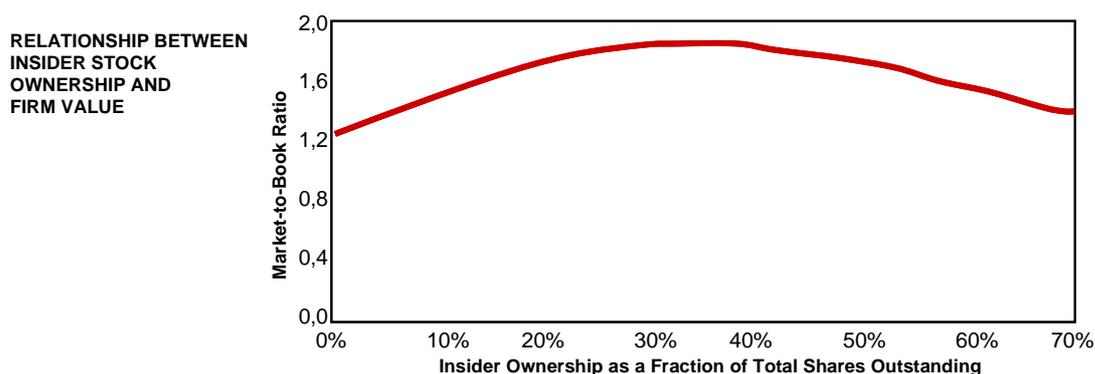
incentive to align their interests with those of shareholders (principals). This incentive is needed because of the agent rationality underlying agency theory (Jensen and Meckling, 1976; Jensen and Murphy, 1990b). As we shall see later, however, said incentive also has perverse effects that may defeat the original purpose. Rosanas (2008) criticizes this aspect of agency theory, which he believes makes excessive claims based on weak theoretical foundations. In his view, the explanation of the principal-agent relationship given by Ross (1973), Holmström (1979) and Grossman and Hart (1983) is more mathematically valid and more deductively accurate.

Following Shivdasani and Zenner (2004), we note that other authors find stock ownership not to be beneficial once it reaches a level where the CEO has control of the firm (McConnell and Servaes, 1990; Morck et al., 1988).

In Figure 1 we see how firm value (measured by the ratio of the share's quoted price to its book value) increases with the percentage of capital held by company members (insiders). Once stock ownership goes beyond 35%, however, the relationship reverses, i.e. when managers and insider directors have a substantial interest in the company (over 35%), the company's value starts to fall. This suggests that excessive insider stock ownership results in ineffective supervision and poor advice to management.

Figure 1

Insider Ownership as a Fraction of Total Shares Outstanding



Source: McConnell and Servaes (1990).

Remuneration

For non-founder CEOs, stock ownership depends to a large extent on the company's compensation system. In recent years, compensation systems have tended increasingly to link executive pay to firm performance. This is a hotly debated topic that has attracted considerable media attention (Core et al., 2007). Since 2006 the United States Securities and Exchange Commission requires entities under its supervision to disclose full details of the remuneration of their CEO, CFO, next three highest paid executives and directors. Following widespread government intervention during the financial crisis that began in the summer of 2007, criticism of executive pay has intensified. The obvious question is, do the CEOs of companies that have had

to be bailed out with public money deserve their large pay packages?⁵ Are the risks CEOs take in order to earn their bonuses justified? Murphy (1998), Taleb (2009), and Berrone et al. (2008) adopt an approach that broadens the limits of agency to explain CEO remuneration in terms of political, economic and social factors. To understand this debate and determine how CEO pay influences CEO failure, we shall briefly describe the usual structure of CEO compensation (based on Murphy, 1998).

Base salary

The remuneration of a CEO, or of any “C-Suite” executive,⁶ is usually on four levels. On the first level is the base salary. Usually the base salary is fixed on the basis of reports on pay levels in the industry (bearing in mind the company’s size, as measured by turnover or, increasingly in recent years, market capitalization). The base salary is a key component (one that executives consider very carefully) and usually is negotiated for five-year periods, with pre-established annual raises. As the base salary is fixed, a risk-averse executive will prefer an increase in base salary to an increase in performance-based pay. Ultimately, the base salary determines the scale of the other components of CEO pay, in that bonuses are often expressed as a percentage of base salary, options are fixed as a multiple of base salary, and retirement and other benefits also tend to be proportional.

Bonus

The second level of executive pay is the annual bonus. There is huge variety in bonus practices. Bonuses usually reflect the firm’s performance over a complete year tax, as measured by various financial ratios, usually using accounting variables such as sales revenue, added value or operating profit. The relationship between CEO performance (hard to measure) and bonus size is the most important component of pay-performance sensitivity (which measures by how much a CEO’s total pay increases for every \$1,000 increase in shareholder wealth).

CEO performance is usually determined using accounting measures. Some compensation plans, however, combine accounting information with measures of the CEO’s professional performance.⁷ Because professional performance is difficult to measure, there is a bias in favor of accounting measures.

The bonus is payable when the performance of the CEO, or of the company, lies within the “bonus range.” A performance improvement within this range entails an increase in the CEO’s bonus (Figure 2).

As Murphy (1998) points out, this relationship is not linear (although it appears as such in the figure) and the slope of the curve could be convex or concave, depending on how the first and last increases are valued.

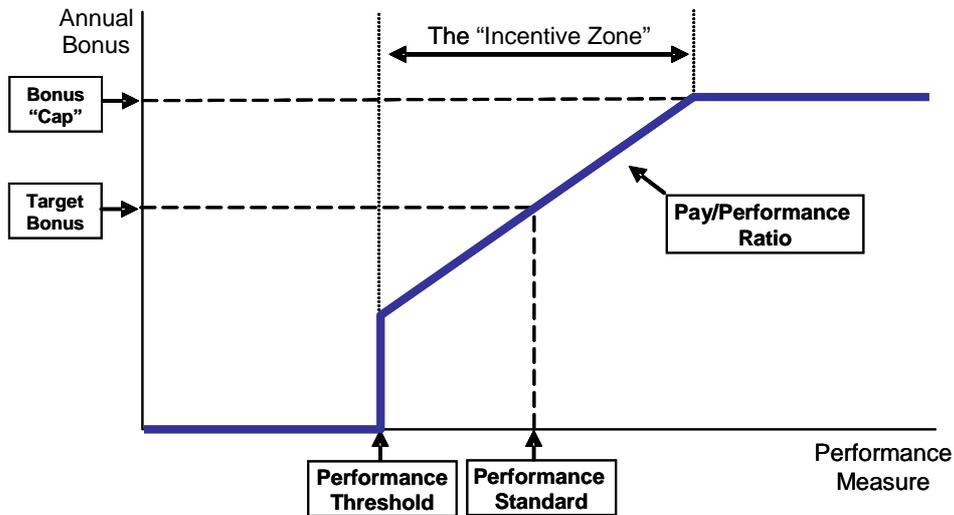
⁵ On February 4, 2009, the United States Treasury announced new rules on executive compensation. The salary (excluding restricted stock and multi-year plans) of the CEOs and other executives of firms that have been bailed out with public money was capped at \$500,000.

⁶ The group of officers of a business organization who have the word “Chief” in their title (CEO, CFO, COO and others).

⁷ Henderson et al. (2006) note the difference between firm performance and CEO performance, but include only the former in their study. Firm performance, measured by various accounting ratios, includes the work of the CEO, together with a wide range of variables that are not affected by the CEO’s decisions.

Figure 2

Components of a "Typical" Annual Incentive Plan



Source: Murphy (1998).

This type of bonus structure is known as an 80/120 plan. The figures show the two extremes of the performance range that earns a bonus. Below 80% of target performance, which is fixed beforehand by the company (usually by the board), there is no bonus payout, and the payout is capped at 120% of target. The percentages can vary (90/110, 95/100, etc.).

Stock options

The third level of executive pay is stock options. A stock option is a contract under which the option holder has the right to buy a percentage of the company's shares at a fixed exercise price on a given future date. Stock options cannot be sold and the right is forfeited if the holder leaves the company. According to Hall and Murphy (2003), during the 1990s the use of stock-based pay increased for employees at all levels, not just top management. These authors explain that stock options have been used to attract and retain talent,⁸ dilute executives' risk aversion and exploit tax advantages, being assumed to be "innocuous" in terms of their impact on companies' balance sheets.

A stock option is said to be *in-the-money* when the price fixed in the contract is below the market price at exercise. In this case the holder wins. An option is said to be *out-of-the-money* when the price fixed in the contract is above the market price at exercise. In the latter case, although the option will not be exercised and so no actual loss will be incurred, there will be a loss of expected income and thus a negative wealth effect (Bartol et al., 2008).

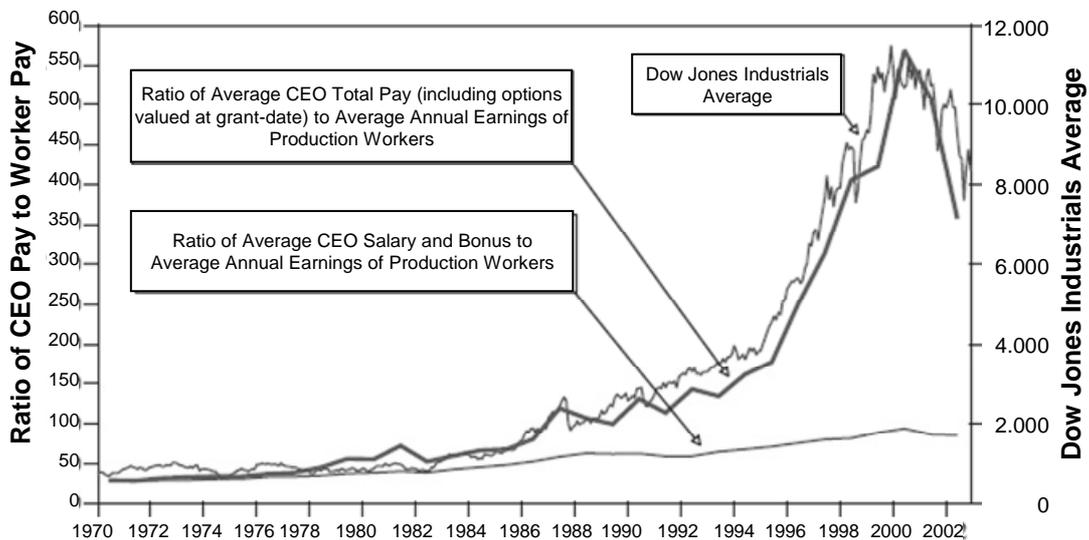
As Figure 3 shows, stock-based remuneration has grown considerably since 1992, in line with the benchmark index (in this case, the Dow Jones Industrial Average).

⁸ Argandoña (2000) explains the ethical connotations of this type of compensation. He states that compensation will be more motivating the greater the proportion of variable (performance-related) pay and the greater the pay-performance sensitivity, i.e. by how much pay increases for each unit of additional performance).

This is therefore a pro-cyclical form of compensation and its effects on the economy are nowadays widely debated (Harris, 2009). Figure 3 shows the ratio of total average pay of the CEOs of S&P 500 companies and the average pay of industrial workers in the United States. At the beginning of the nineties CEOs were paid 50 times more than the average worker, not including options, or 70 times, including options. In 2002, one year after the dotcom bubble burst, CEO pay without options was 60 times the average salary, or 360 times with options, although this is still considerably below the peak reached just before the bubble burst, when the average CEO earned 550 times the average worker. Stock-based pay increased 415% in twelve years. The increase in base salary and annual bonus over this same period (again relative to the wage of the average United States worker) was 20%. Without stock-option fever, therefore, CEO compensation in 2002 would have been just 20% higher than in 1992, compared to the actual figure of 415%. The level of inequality this generated is hard to justify given the risks taken during the growth years (Hall and Murphy, 2003) and the impact of CEO decisions on the real economy (and on workers).

Figure 3

Dow Jones Industrial Average and the Ratio of average CEO Pay to Average Pay for Production Workers, 1970-2002



Source: Hall and Murphy (2003).

Other remuneration

CEOs are also paid in other ways: through restricted stock (used especially in downturns, when options tend to be out-of-the-money), multi-year bonus plans (typically based on firm performance over a three-year horizon),⁹ supplementary pension plan contributions, etc. This latter form of compensation is not easy to analyze, as the amounts are not taxable until they are received, by which time the CEO is no longer with the company (Murphy, 1998). To avoid

⁹ The last six-year plan offered to CEO Ken Chenault by the board of American Express has been praised as a model of performance-related pay (*Fortune*, 2008).

these gaps, new SEC accounting rules require companies to disclose the actuarial increase in the value of pension plans generated each year.¹⁰

Influence on CEO failure

Research into CEO compensation has focused mainly on pay-performance sensitivity (Jensen and Murphy, 1990a; Coughlan and Schmidt, 1985). The above authors assess the impact on CEO earnings of a \$1,000 change in shareholder wealth. Jensen and Murphy demonstrate that in larger firms the link between share price performance and CEO pay is very weak (over the period from 1974 to 1986, CEOs earned an additional \$3.25 for every \$1,000 of shareholder gain). These studies use the CEO-shareholder ratio of listed companies to empirically verify the postulates of agency theory (Jensen and Meckling, 1976), which assumes that the goal is to align the interests of managers and owners.¹¹ Their conclusions provide only weak support for those postulates, however. This reveals a clear incongruity with agency theory as used to justify the use of pay linked to business objectives (annual or multi-year bonuses) and stock options. Said theory presupposes a divergence of interests and proposes the above compensation schemes as a remedy, although they have proven invalid, perhaps because the premises are so superficial.

How compensation influences failure depends, among other things, on the relative importance of each level of remuneration in total CEO pay. Theorists have switched from studying total compensation to analyzing the structure of compensation (Mehran, 1995). Not all levels of pay influence CEO turnover to the same extent. As Murphy (1998) points out, annual or multi-year bonuses can generate perverse incentives for the company and, ultimately, for the CEO himself. In recent years we have seen cases of fraud in large companies (Satyam Computer Services in 2009, Parmalat in 2007, AIG in 2004, Enron and WorldCom in 2001). During the dotcom bubble both *Forbes* magazine and *MarketWatch* reported dozens of cases of accounting fraud in large organizations. If this behavior is repeated, more accounting fraud is likely to come to light in 2009.

Berrone (2008) explains that the difficulty of measuring the benefits of socially responsible behavior creates problems for remuneration committees that would like to reflect such behavior in executive pay. According to this author, executive compensation plans are dominated by financial measures (Murphy, 2000).

Needless to say, the relationship between bonuses and stock options, on the one hand, and fraud, on the other, is not direct. Yet the motivation this kind of compensation plan generates can lead to other problems. As Murphy (1998) points out, when part of an executive's pay is linked to the achievement of personal targets, there may be a perverse incentive for the CEO to manipulate his results. A CEO whose performance exceeds the upper threshold for bonuses may work less hard, while one whose performance near year-end is below the threshold may be more inclined to make a special effort.

¹⁰ The Obama Administration measures announced in 2009 (but not yet approved by Congress) also force companies to disclose more details about executive pay, including severance packages (which may not last more than one year), and require closer monitoring of extraordinary expenses (private jets, for example). Also, stock awards cannot be cashed in until government aid has been repaid.

¹¹ Zajac and Westphal (1995) describe two theoretical approaches to explaining executive pay: one based on agency theory (Jensen and Meckling, 1976) and the so-called human resource approach (Pfeffer, 1994). The difference between the two is clearly marked: according to agency theory, pay is designed to align the interests of managers with those of owners, whereas according to human resource theorists, it is designed to retain talent in the firm.

CEO performance is particularly difficult to assess if the assessment includes not only accounting measures but also measures of competencies and competency improvement (Dierdoff and Surface, 2008).

Skills have been accepted as a factor in remuneration since the mid-1960s. But an executive's personal qualities or competencies are very difficult to measure. Skill-based pay is used by two-thirds of the companies in the *Fortune* 1000 (Lawler et al., 1998), but there is no consensus on how to measure the overall improvement in the quality of a person, or of a CEO in particular. Using the United States Army special operations forces as their sample, Dierdoff y Surface conclude that skill-based pay is effective in that those who are paid for improving their skills (in this particular case, language skills) learn more than those who are not. However, payment linked to individual skills development can be criticized (Pfeffer, 1998) for encouraging individual ambition at the expense of team work, limiting knowledge transfer and emphasizing the short term over the organization's long-term mission.

Stock options have also been criticized (Yermack, 1997). Numerous articles question the idea that stock options align the interests of executives and owners (Core et al., 2005). According to Bartol et al. (2008), any benefit from aligning interests is offset by the incentive to manipulate results. These authors also analyze the influence compensation systems have on the behaviors that lead to manipulation of revenues. They conclude that the likelihood of revenue manipulation increases with the amount of out-of-the-money options received and decreases with the proportion of capital owned by the CEO.

Bartol et al. (2008) consider that unethical CEO behavior, where CEOs manipulate revenue figures, is explained by Kahneman and Tversky's prospect theory (1979). According to prospect theory, the expectation of losses prompts individuals to make aggressive decisions that counteract or minimize the effect of any losses.

Crawford et al. (1995) find empirical evidence of pay differences in the United States banking industry in the 1980s and discover that this difference derives from changes in banking regulation. They conclude that pay-performance sensitivity increased with deregulation. There seems to be a closer correlation between CEO pay and firm performance in the deregulated banking industry.

With respect to influence and power relations in top management, the literature divides into two schools with contrasting approaches: agency theory (Jensen and Meckling, 1976; Eisenhardt, 1989; Kosnik and Shapiro, 1997) and the managerial approach (arising from Berle and Means, 1932). Both schools aim to explain the relationship between ownership and control in corporations. Agency theorists focus on the actions taken by owners to bring the interests of the agents into line with their own. They try to determine what form of CEO compensation is most conducive to firm performance.¹² Followers of the managerial approach reject the link between compensation and results, arguing that a CEO's first priority is to increase the company's size. Accordingly, they have tried to link CEO compensation to company size (Tosi et al., 2000).

¹² Dow and Raposo (2005) present a theoretical model to explain the CEO's capacity to influence shareholders' attempts to align their interests through pay schemes. The CEO can use his knowledge of the alternatives to his benefit, i.e. he can engage in mergers, acquisitions or other initiative that are likely to mean higher pay for him in the future, even if they result in a loss of value for shareholders.

Tosi et al. (2000) conclude that 40% of the variance in CEO compensation is attributable to company size, while company performance explains only 5%. However, changes in compensation are equally sensitive to changes in size and performance.

Terviö (2007) concludes that the variable that best explains the level of CEO compensation is company size and that the distinctive qualities or talents of CEOs do not explain much of the variation in pay. Given the competitive balance in a market where CEO talent and CEO jobs are scarce, the added value that CEOs generate through their distinctive competencies has a weak effect on shareholder wealth.

The disparity of the findings (which is repeated throughout the literature on the factors considered in this article) supports Collins' (2001) conclusion that it is impossible to link any particular compensation model to firm or CEO success. Jensen et al. (2004), whose previous works provided theoretical justification for performance-based pay (Ghoshal, 2005), explain how, given the complex relationship between financial markets, companies, executives and boards of directors, optimal compensation may mitigate but cannot entirely eliminate agency costs.

2.2. CEO origin: outsider or insider

Another relationship that displays empirical regularities is that between the decision to dismiss a CEO and the CEO's origin, i.e. whether the CEO is an insider or an outsider. Insider/outsider status has been defined in different ways: Weisbach (1988) defines an outsider as a manager who does not work for the company (i.e. who has no responsibilities in the company beyond board responsibilities) and who is not a former employee or a relative of a former employee, nor a lawyer, accountant, financial adviser or employee of any other company that has contractual relationships with the company in which he serves as a director. There is no generally accepted definition (Kesner and Sebor, 1994). According to Dalton and Kesner (1983) and Wiersema (1992), an outsider is a successor who is hired after his predecessor has already departed. Others, following Vancil (1987), define an outsider as a successor who has been with the company for less than one (Davidson et al., 1990) or two (Cannella and Lubatkin, 1993) years at the time of succession. This indeterminacy is one of the reasons for the diversity of results reported in the literature.¹³

Some researchers have found positive correlations between dismissal and outsider status. That is to say, all else equal, a CEO (or senior executive) promoted from inside the company has more chance of staying on than one brought in from outside. According to Collins (2001), 70% of successful companies have an insider CEO.

Furtado and Karan (1994) claim that CEO origin is significantly related to poor firm financial performance only if the board uses accounting ratios such as EBIT or ROA to measure performance. Where other ratios (ROE) are used, there is no statistically significant evidence of higher CEO turnover. These results suggest that boards use accounting rather than market information to assess CEO performance. The correlation between the hiring of an outsider CEO and accounting ratios seems significant in small companies (Furtado and Karan, 1994).

¹³ As we shall see later, in the wake of the Worldcom, Enron and Parmalat scandals regulatory bodies have defined more closely who qualifies as an outside director. For a description of the problems this issues has raised over five decades of research, see Karaevli (2007).

Agrawal et al. (2007) establish that the choice of an outsider CEO, effectively limiting existing employees' incentive to strive for the top job, has to do with organizational structure. Firms with a product-oriented structure, they suggest, tend to look for CEO candidates outside their own organization.

Zajac (1990) find that internal successors generate higher revenue, while Furtado and Rozeff (1987) find that they generate a higher share price. Given the variety of definitions (Kesner and Sebora, 1994), however, other researchers have concluded that having an outsider CEO correlates with improved company results (Reinganum, 1985, and Warner et al., 1988). For the latter authors, however, the positive correlation between hiring an outsider and subsequent results is very weak.

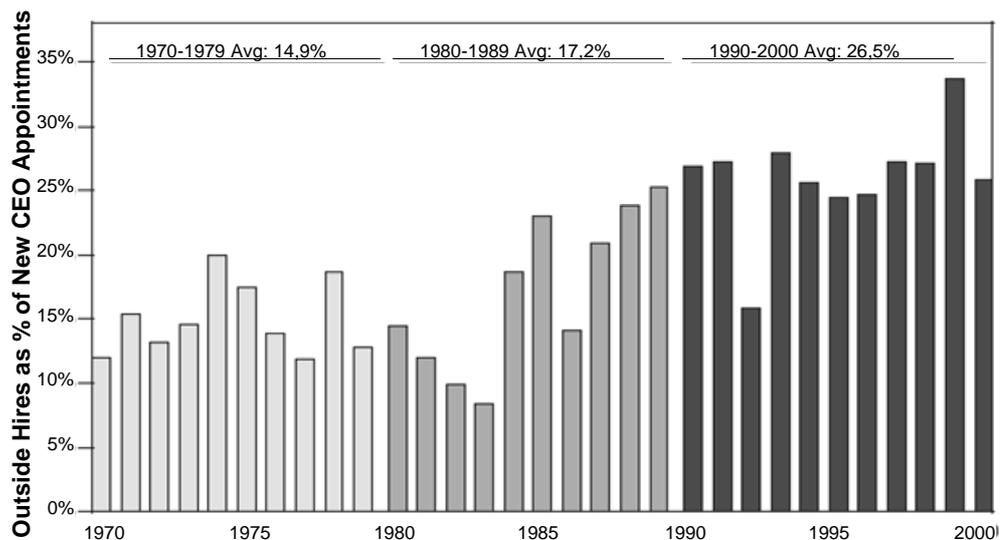
Dalton and Kesner (1983, 1985) conclude that smaller companies with average profitability (i.e. those not in either the top or bottom deciles) have a greater tendency to hire outsider CEOs. Confirming this tendency, Kets de Vries (1988) states that internal CEO succession is beneficial in large, complex companies, as it reduces friction among management.

Although the tendency points toward outsider CEOs, we still need to know who qualifies as an "outsider." The intention in using the term may be to emphasize the successor's lack of experience in the company or its industry, or that his hiring will bring about changes in the company's management, leadership or strategy (Karaevli, 2007). As there is no consensus in the literature, some claim that no one really knows what effect external succession has on a company compared to internal succession (Kesner and Sebora, 1994). For Kaplan et al. (2008) CEOs should be hired based on talent, rather than insider or outsider status.

Figure 4 shows the general trend in the United States, where the proportion of outsider CEOs increased in the last third of the 20th century (Jensen et al., 2004, p. 32).

Figure 4

Outside Hires as Percentage of New CEO Appointments in Large United States Firms, 1970-2000



Source: Jensen et al. (2004).

2.3. Membership of the board of directors

Boeker (1992) adds board membership as another field of analysis. As Mizruchi (1983) says, being a member of the board of directors gives a CEO greater influence. Boeker explains in his article that, where a firm is performing badly, the CEO is more likely to dismiss senior executives the less demanding the board of directors is in its monitoring of his activities. In other words, he will be inclined to blame outcomes on his senior executives and so save his own job.

This looser control is usually associated with a high proportion of internal, non-independent directors (Rostow, 1959; Fama and Jensen, 1983; Mizruchi, 1983; Weisbach, 1988; Fredrickson et al., 1988). Another stream of research, however, relates internal promotion to organizational success (Davidson et al., 1990; Zajac, 1990; Bower, 2007; Bhagat and Black, 2002). For Bower (2007), a successful CEO is an internal appointee who develops the capabilities and perspective usually attributed to outsiders. On this basis, we could infer that a mainly insider board would exercise stricter control over the CEO and be as demanding as outsiders are said to be.

If a CEO's main concern is to hold on to his post (Brady and Helmich, 1984), he will try to acquire the power to help him do so.¹⁴ He will therefore try to influence those who may want him dismissed if the company's results deteriorate, namely the directors, who have the formal authority to dismiss him (Selznick, 1957), and the owners, who are directly affected by poor firm performance (Boeker, 1992). One way to reduce the amount of pressure from the board of directors is by becoming a director.

The CEO has a seat on the board when the roles of CEO and Chairman are combined. According to a study by Russell Reynolds Associates (2006b), there is a clear tendency, increasingly backed by the literature, to separate the two roles. The reason for this tendency is the increasing participation of directors in strategy formulation and the need for board independence to meet standards of good corporate governance. The figure of the CEO-Chairman persists, however. According to Russell Reynolds Associates (2006b), in 2005 the two roles were separate in only 29% of companies in the S&P 500.¹⁵ Advocates of the combination of roles argue that having a CEO-Chairman reduces power struggles and facilitates succession. Survey respondents explain that the main reason for combining the roles is to have better chances of hiring an outside CEO, who will not find his authority within the company challenged.

Based on empirical data, Baliga et al. (1996) conclude that there is insufficient evidence to infer any negative impact of separating the CEO and Chairman roles. Brickley et al. (1997) also analyze the impact of separating roles using statistical methods and conclude that the costs are greater than the benefits. Apart from these empirical studies, Lorsch and Zelleke (2005) confirm their preference for a single CEO-Chairman. Regulators, however, have tried to make separation of the two functions mandatory. Their position is supported by the empirical work of Dalton and Rechner (1991) and Pi and Timme (1993), which show improved firm performance under division of roles.

Finkelstein and D'Aveni (1994) review the two main approaches to this question: the agency approach, which presupposes conflict between CEO and board and advocates separation of

¹⁴ Shleifer and Vishny (1989) explain that one way for a CEO to protect his job is by selecting projects that require specific human capital that cannot easily be transferred.

¹⁵ In other indices the percentage varies: Nasdaq 100 (41%), Eurotop 100 (79%) and FTSE (93%). As we have seen, there is a clear difference between the United States and Europe on this matter.

roles, and the institutional approach, which places the emphasis on unity of command and the benefits of strong leadership.

2.4. Participation in the selection of directors

Shivdasani and Yermack (1999) introduce another explanatory variable: CEO involvement in selecting the members of the board of directors. There are those who argue that boards with a majority of independent directors exercise tighter control over CEOs (Hermalin and Weisbach, 1998; Weisbach, 1988; Jensen, 1993). A CEO may influence board supervision by influencing the selection of directors. Shivdasani and Yermack (1999) conclude that companies where the CEO has a say in selecting directors tend to select directors who exercise less control over the CEO. In these studies, as in those that analyze board composition, impact is measured by changes in the company's share price. Shivdasani and Yermack (1999) find a significantly higher impact in companies that appoint independent directors when the CEO has no part in selecting them. To explain this, they suggest that CEO participation signals to the market that the new director is less likely to exercise strict control over the CEO's activities. Klein (2002) likewise concludes that CEO membership of the nomination committee correlates with a smaller number of outsiders on the audit committee and higher CEO compensation, suggesting lax board supervision. In short, the empirical literature indicates a limited amount of value creation for companies when the CEO does not have a say in choosing directors.

With respect to CEO dismissal, Mace (1971) infers that CEO involvement in the director selection process limits board independence, as the chosen directors are likely to be personally close to the CEO. The board will be more tolerant of poor firm performance and less likely to dismiss the CEO. This increase in CEO power has been identified in the literature as a reflection of growing CEO stock ownership and tenure (Baker and Gompers, 2003).

Hermalin and Weisbach (1998) approach the question from a different angle. Rather than analyzing how boards behave depending on their insider or outsider composition, they argue that board behavior and board composition are related and united in the figure of the CEO. Although by law it is the shareholders that select the directors, they usually choose among pre-selected candidates. Overtly or covertly, depending on the extent of his influence, the CEO may have a hand in pre-selecting candidates. As Hermalin and Weisbach indicate, to understand corporate governance, the selection and performance of directors need to be considered simultaneously.

The studies we have mentioned can be summed up by the hypothesis that, all else equal, a CEO who has a say in selecting directors is less likely to be dismissed.

2.5. Competencies

Many authors consider the factors mentioned so far insufficient to explain CEO failure (Kesner and Sebor, 1994; Core and Larcker, 2002; Finkelstein, 2003; Shivdasani and Zenner, 2004; Cappelli and Hamori, 2004; Boone et al., 2007). In the literature, CEO failure has been attributed to a great variety of factors, yet lack of competencies, as one of those factors, has been underestimated due to the empirical difficulty of obtaining valid statistical evidence of competency. Fredrickson et al. (1988) attribute high explanatory potential to competencies, but they build their model of failure using empirically observable variables and fail to tackle the essential issue. Other authors have systematized competencies (Charan, 2005; Cardona and Wilkinson, 2009) or aimed for a deeper analysis (Kesner and Sebor, 1994).

The external factors we have considered so far fail to provide a valid explanation. That is why we consider it crucial to analyze CEO characteristics, or character, in more depth in order to understand CEO failure (Kesner and Sebor, 1994).

Many authors agree that lack of the necessary competencies is the main reason for CEO dismissal (Dotlich and Cairo, 2003;¹⁶ Conger and Nadler, 2004; Cappelli, 2008; Charan, 2005; Gentry et al., 2007a and 2007b). In this section we discuss a number of characteristics that repeatedly emerge in CEO failure and propose that they be used as explanatory variables in a hypothetical regression aimed at explaining the dependent variable “CEO failure.” This line of research is intended to remedy the shortage of qualitative analysis in the literature (Gentry et al., 2007b). CEO competencies may serve as a basis for future studies aimed at explaining the contradictions observed in CEO dismissals.

According to Fich (2005), it is vital that financial economists study the retention of C-Suite executives, considered the most highly qualified human capital. Retention processes can explain part of CEO success or failure. It has been shown that talent declines abruptly when a CEO moves to a different company and does not recover until after several years of adaptation (Groysberg et al., 2004). This suggests that besides CEO characteristics, success also depends on other factors, such as the company’s resources, systems and processes, and internal networks, as well as the CEO’s capacity to surround himself with a competent team.

As the literature reveals, promotion on its own is not enough to ensure success. Kovach (1986) concludes that in many cases a brilliant career is not sufficient to guarantee talent. A rapid rise may prevent an executive from acquiring the competencies that make a good people manager (Walker, 2002, and Watkins, 2004). Many of the CEO failures we see nowadays are due at least in some measure to an inadequate career design that prevents the acquisition of management competencies (Saint Martin and Stein, 2008).

According to Cappelli and Hamori (2004), the *Fortune 100* CEOs of 2001 differed from those of 1980 in several ways: they were younger, they became CEO having spent fewer years in the company, and they were more likely to have come through the public education system. CEO careers are changing, in that most CEOs today are hired from outside the company and reach the top with a shorter track record.

In Khurana’s (2002) view, the pendulum of expected CEO capabilities has swung from professional excellence and honesty toward charisma and leadership ability. We may wonder whether this is a good thing. According to Susaeta et al. (2008), based on a survey of Spanish executives, credibility is the most highly valued quality in a CEO. Yet there are clear differences between industries. Neither ethics nor social or environmental responsibility feature among the top four reputational characteristics of CEOs in the financial industry.

Sonnenfeld and Ward (2007) identify the following reasons for failure: firm performance, personal conduct, illegal action, disagreements with the board on strategic or political issues, and merger or acquisition. The authors then divide these reasons into two groups, depending on the extent to which they damage the CEO’s reputation on exit: negative reputation exits (poor performance, improper conduct, illegal actions) and neutral reputation exits (strategic or political disagreements with the board, and mergers and acquisitions). In Table 2 we see that

¹⁶ Dotlich and Cairo identify eleven defects that are found recurrently in CEOs that have failed. For each of the characteristics they study they identify an approximate threshold above which the characteristic becomes a defect that can increase the probability of failure.

the reasons for dismissal affect a CEO's chances of returning to an executive position. A CEO who is dismissed for any of the first group of reasons is 25% less likely to be appointed to an executive role again, only half as likely (46%) to regain an advisory role (on a board of directors) and 67% more likely to retire.

Table 2

	Negative reputation exits	Neutral reputation exits
Regained active executive role	29,60%	39,40%
Regained active advisory role	14,80%	27,30%
Retired	55,60%	33,30%
	100%	100%

Source: Sonnenfeld and Ward (2007).

Fich and Shivdasani (2005) study the effect that investigation for fraud has on non-executive directors. They conclude that it does not significantly increase turnover but does make it less likely that those directors will be appointed to other boards.

We believe that this type of statistically valid empirical study should be encouraged in order to establish a proper model for explaining CEO failure in terms of these qualitative variables. We realize that there is a major problem of data collection. Bennis (1959) discusses the confusion that has arisen around this subject. Then, as now, the difficulty lies not in lack of evidence, but in the abundance of it and the contradictory conclusions it appears to support.

One method that might be useful would be interviews with, or surveys of, CEOs and the people around them, aimed at determining the influence of each of the characteristics we typically find in senior executives. This is the method used in demographic analyses of top management teams¹⁷ and in books recounting the experience of top managers, as revealed in conversation (Finkelstein, 2003; Sonnenfeld and Ward, 2007; Dotlich and Cairo, 2003; Cardona and Wilkinson, 2009; and many others). According to Jensen et al. (2004), this type of qualitative analysis is more commonly used by executive search organizations (headhunters), so one may well ask what type of person would be the model for a CEO position.

We should make it clear that there is no necessary link between these characteristics and CEO failure. In practice, CEOs of successful companies have various of these characteristics. It is no less true, however, that the accumulation or intensity of some of them in a CEO may be conducive to failure (Dotlich and Cairo, 2003).

Unless leaders find the happy medium in each competency, they may tend to an extreme. Maccoby (2000), for example, analyzes narcissism. The same competency can be a weakness when taken to excess, and a strength if kept within limits (Kets de Vries and Miller, 1985; Campbell et al., 2004). According to Maccoby (2003), however, it is difficult to draw the line between confidence and overconfidence. Narcissism is undesirable in many ways, but in some circumstances narcissists can be extraordinarily useful, or necessary even. Chatterjee and Hambrick (2007) studied a sample of 111 CEOs over the period 1992-2004. They used proxy

¹⁷ This article refers to several of these studies: Warner et al. (1988), Simons et al. (1999) and Miller et al. (1998). Authors that have analyzed these characteristics and their impact on corporate strategy include Iaquinto and Fredrickson (1997) and Jensen and Zajac (2004).

variables to measure CEO narcissism and concluded that it is not significantly correlated with firm performance. Narcissistic leaders do seem to be more inclined to adopt dynamic, grandiose, alluring strategies (high risks, multiple acquisitions) that lead to extreme outcomes: huge success or catastrophic failure. Duchon and Drake (2008) tackle the question from an organizational point of view. Narcissism may become a company's dominant culture, to the point where ethical behavior, even legality, is subordinated to the achievement of the organization's objectives.

According to Gentry et al. (2007a), the methodology introduced by Lombardo and McCauley (1994) can be used to gather observations on a manager's characteristics through 40 questions, answered over a period of five years by the manager's direct superior, peers and subordinates and the manager himself. The questions concern characteristics in five areas of competency: interpersonal relations, leadership, adaptation to change, goal achievement and functional orientation. The authors' results show that disparity between observations is attributable to managers' exaggerated perception of their own qualities. The authors also show that this disparity is positively correlated with hierarchical level: the higher up in the organization a manager is, the greater the discrepancy between how he sees himself and how others see him. This leads us to conclude that the discrepancy will be greatest in CEOs.

Groysberg et al. (2004) analyze the problems of adaptation suffered by "star managers" coming into a new company, where they find themselves in a hostile environment, with different resources and procedures from those they were accustomed to in their previous company. They attribute this hostility to the insiders in their team, who see the preferential treatment given to executives hired from outside as unfair compared to the recognition they receive for their efforts.

According to Collins (2001), who conducted an extensive field study on the success of United States public companies, it is impossible to simplify this complex process into a single function. In Collins' view, strategy is not the cause of success; technology may speed up a transformation but not create it; and success cannot be linked to any particular compensation system. Indeed, we believe that the variables determining CEO success and failure are so numerous and so varied that they simply cannot be modeled. Simplified explanations that establish statistical relationships between, say, having one outside director more or less, or a 1% change in stock ownership, and CEO failure prevent any holistic understanding of the problem.

The question of CEO failure also goes beyond corporate governance, which does not consider the person as a whole nor attempt to grasp all the dimensions of a person. Just as a CEO who aims only to satisfy his subordinates' basic needs is doomed to failure (Pérez López, 1993), research into CEO failure that ignores the deeper question in the interests of statistically significant results is mistaken. However significant the results, if the variables are inadequate, the question will not be answered. This conclusion, though consistent with a deep view of management that is poorly represented in the literature, is in fact not new. As early as 1959 Bennis announced a fracture in organization theory: the transition from mechanistic models (free of friction with human emotions) to "human relations" models, which take account (or claim to take account) of the intuitions, beliefs, perceptions, ideas and feelings that inevitably interfere in employee decision making.

Nevertheless, we do not believe that the difficulties involved in studying the endogenous factors are impossible to overcome. In light of the risk of statistical oversimplification, we propose an advanced qualitative study (Kaplan et al., 2008) that will help today's CEOs to successfully meet the challenges of their position.

Table 3 shows the bibliographical references we have used to examine the endogenous factors. The divergence in the literature is clear. Only competencies are unanimously recognized by scholars.

Table 3

Factor	Increases likelihood of staying on as CEO		Reduces likelihood of staying on as CEO		No clear effect on CEO failure / Other approaches to the factor	
Relation to failure	Author (year)	Contributions	Author (year)	Contributions	Author (year)	Contributions
Interest in the company <i>Greater share in the company's capital is associated with closer identification with shareholders' interests (in an agency perspective).</i>	Jensen and Meckling (1976)	Started agency theory.	Shivdasani and Zenner (2004)	Excessive stock ownership makes it less likely that a CEO will perform well.	Chung (2008)	Pay-performance sensitivity and independent directors are substitutes; they exert the same influence.
			McConnell and Servaes (1990)	Beyond a certain level the effect of stock ownership is reversed and becomes detrimental to performance.		
	Salancik and Pfeffer (1980) Morck et al. (1988) Core and Larcker (2002)	A CEO who holds a higher percentage of capital is more likely to act in the shareholders' best interests and to survive.	Morck et al. (1988)	Rewriting contracts entails an excessive cost for companies. With suboptimal contracts, interests are not aligned.		
			Hermalin and Weisbach (1991)	Increases in stock ownership (above 1%) entail better firm performance.		
Remuneration <i>Like the factors linked to stock ownership, compensation has in many cases been studied as a way of aligning interests.</i>	Jensen and Murphy (1990b) Coughlan and Schmidt (1985)	Interests are aligned by increasing the proportion of variable pay (linked to firm performance).	Kahneman and Tversky (1979)	The prospect of losses (out-of-the-money options) leads people to make aggressive decisions to counteract or minimize losses.	Yermack (1997)	Anticipating bull markets, CEOs increase the proportion of stock options in their contracts.
					Tosi et al. (2000)	Around 40% of the variance in CEO compensation is attributable to company size. Firm performance explains only 5%.
	Crawford et al. (1985)	In deregulated industries CEOs receive more performance-related pay, resulting in better firm performance.	Jensen (2004) Ghoshal (2005) Argandoña (2007)	Optimal remuneration may mitigate agency costs, but it cannot eliminate them completely.	Collins (2001)	The complexity of a CEO's tasks makes it impossible to design an ideal compensation system.
			Bartol et al. (2008)	The incentive to manipulate accounting ratios offsets the beneficial effect of alignment of interests.	Terviö (2007)	CEO compensation is explained by firm size.

			Taleb (2009) Murphy (1998)	Compensation linked to stock performance may encourage CEOs to take unjustified risks.	Core et al. (2005)	The increase in total compensation is explained by the growing risk entailed in stock-based compensation.
Outsider CEOs <i>The indeterminacy of the term "outsider" and the disparity of the research findings makes it impossible to determine the impact of outsider status on CEO failure.</i>	Weisbach (1988) Reinganum (1985) Warner et al. (1988)	Outsider CEOs enable the companies they lead to perform better.	Collins (2001)	Only 30% of the companies that go from "good to great" do so with an outsider CEO.	Kesner and Sebor (1994) Karaevli (2007)	The absence of a common definition of the term "outsider" is an obstacle to the study of this variable.
			Furtado and Rozeff (1987)	Outsider CEOs generate less revenue than insiders.		
	Dalton and Kesner (1983, 1985)	Smaller companies with average profitability are more likely to hire outsider CEOs.	Kets de Vries (1989)	Internal succession is beneficial in large, complex companies because it eliminates structural friction.	Agrawal et al. (2007)	Selection of outside candidates reduces employees' incentive to make the necessary effort to reach the position.
			Zajac (1990)	An outsider CEO is unlikely to succeed if the company wants continuity rather than a strategic break.	Kaplan et al. (2008)	CEOs are hired based on talent, not origin.

Factor	Increases likelihood of staying on as CEO		Reduces likelihood of staying on as CEO		No clear effect on CEO failure / Other approaches to the factor	
Relation to failure	Author (year)	Contributions	Author (year)	Contributions	Author (year)	Contributions
Outsider CEO (continued) <i>The indeterminacy of the term "outsider" and the disparity of the research findings makes it impossible to determine the impact of outsider status on CEO failure.</i>			Bower, (1992) Davidson et al. (1992) Bhagat and Black (2002)	Internal promotion is positively correlated with improved firm performance.		
			Cannella and Shen (2002)	Outside CEOs develop weaker social networks and lack the support of top management.		
			Brady and Helmich (1984)	Outside CEOs have shorter tenure if the object of the succession was to achieve stability and continuity.		
			Ocasio (1994)	Outsider CEOs have less chance of institutionalizing their power.		
Participation in the selection of the board of directors <i>The literature is practically unanimous on this point: participation is seen as a CEO defense mechanism that reduces shareholder value.</i>	Mace (1971)	CEO involvement in the selection process limits board independence.				
	Weisbach (1988) Wade et al. (1990) Jensen (1993) Hermalin and Weisbach (1998) Shivdasani and Yermack (1999)	Companies in which the CEO has a say in selecting directors tend to select directors who exercise less control over the CEO.				

	Klein (2002)	CEO membership of the nomination committee correlates with a smaller number of outsiders on the audit committee and higher CEO compensation.				
Factor	Institutional theory: unity of opinion is beneficial		Agency theory: the CEO holds on to power, but at a high cost to the company and its shareholders		Other	
Relation to failure	Author (year)	Contributions	Author (year)	Contributions	Author (year)	Contributions
Board membership. CEO-Chairman role <i>Both institutional and agency theory agree that combining the two roles aids CEO survival, but with opposite consequences.</i>	Baliga et al. (1996)	There is not enough evidence to infer that combining the CEO-Chairman roles results in worse firm performance.	Selznick (1957)	The board of directors has the formal power to dismiss the CEO. CEO board membership may affect the board's performance of this function.	Brady and Helmich (1984)	A CEO's primary concern is to hold on to power. CEO board membership may be interpreted as an attempt to prolong his mandate.
	Brickley et al. (1997)	Empirically, the costs associated with separation of the roles are greater than the benefits.	Mizruchi (1983)	Increases the CEO's influence.	RRA (2006b) MacAvoy and Millstein, (2003)	Executives prefer that the roles of CEO and Chairman not fall upon the same person.
	Lorsch and Zellecke (2005)	Avoidance of power struggles and smoother successions.	Boeker (1992)	Increases the CEO's ability to attribute his own mistakes to other executives.	Finkelstein and D'Aveni (1994)	Distinguish between the institutional and agency approaches in the literature.
			Rechner and Dalton (1991) Pi and Timme (1993)	Companies that have separated the two functions achieve better results.		

Factor	Increases likelihood of staying on as CEO		Reduces likelihood of staying on as CEO		No clear effect on CEO failure / Other approaches to the factor	
Relation to failure	Author (year)	Contributions	Author (year)	Contributions	Author (year)	Contributions
Competencies <i>Competencies have increasingly been seen as a fundamental factor in CEO failure. Authors agree on their importance for avoiding CEO failure.</i>	Kesner and Seborá (1994)	To study CEO failure properly, it is necessary to study each CEO's competencies.			Pérez López (1993)	The study of management must take into account the three types of motivation inherent in any human action.
	Conger (2004)	An incomplete succession plan increases the probability of failure.			Groysberg et al. (1994)	Talent declines abruptly when a CEO switches company. This indicates that there are factors that reinforce a CEO's capabilities: firm resources, systems and processes, internal networks, etc.
	Gentry et al. (2007a and 2007b)	CEOs who have a more inflated view of their own capabilities are more likely to fail.			Khurana (2002)	Nowadays, firms seek competencies that are closely related to short-term results, namely CEOs with charisma and leadership quality in preference to professional excellence and honesty.
	Cappelli and Hamori (1994)	The perception of capabilities varies over time: today firms seek younger CEOs with a shorter track record who have been educated in the public education system.			Fich (2005)	Companies want to retain highly qualified human capital.
	Core and Larcker (2002) Finkelstein (2003) Shivdasani and Zenner (2004)	The reach of the studies focused on searching for empirical patterns has proven inadequate.			Boone et al. (2007)	Financial economists have reached few conclusions regarding the forces that determine board composition. The motivations of a director cannot be reduced to an arbitrary number of years in the company.
					Terviö (2007) Gabaix and Landier (2008)	Legal restrictions on compensation may result in labor market inefficiencies, as they prevent the signaling of the most efficient managers.
	Cappelli (2008) Charan (2003) Dotlich and Cairo (2003) Charan (2005) Cardona and Wilkinson (2009)	Systematization of CEO characteristics and analysis of the influence of each characteristic.			Kaplan et al. (2008)	Executive capabilities are more closely related to success than interpersonal capabilities. First systematic study of the impact of CEO skills and characteristics, based on interviews carried out over four years.

	<p>Kovach (1986) Walker (2002) Watkins (2004) Saint Martin and Stein (2007)</p>	<p>Rapid career progression entails a lack of leadership training.</p>				
	<p>Kets de Vries and Miller (1985) Maccoby (2000, 2003) Campbell et al. (2004) Chatterjee and Hambrick (2007) Friel and Duboff (2008)</p>	<p>Narcissism may prevent business leaders from acquiring leadership capabilities.</p>				
	<p>Bennis (1959) Jensen et al. (2004) Sonnenfeld and Ward (2007) Susaeta et al. (2008)</p>	<p>Competencies determine CEO reputation.</p>				

3. Exogenous Factors

So far we have examined the exogenous factors that can lead to CEO failure. These are variables the CEO himself can influence. For example, the CEO can choose whether or not to hold an interest in the company's capital, or whether or not to take part in selecting directors or his successor; and he can choose to develop the leadership competencies required of a CEO.

His efforts in this direction may be frustrated, however, by other factors. Parrino (1997) identifies several of them and examines the influence the presence of a qualified outside successor can have on the decision to dismiss a CEO. Others include board composition, board control, and industry type. We shall also consider the effect of CEO age and tenure, regulatory framework, multiple directorships ("busy boards") and firm size.

It is reasonable to assume that the main exogenous causes of CEO dismissal are poor firm performance (D'Aveni and Hambrick, 1989) and failure to achieve targets. As we said, however, these do not provide sufficient explanation (Fredrickson et al., 1988). Moreover, defining a measure of firm performance is by no means a trivial task. In fact, the variety of measures actually used by boards to measure their firms' performance indicates an absence of agreement as to the relative merits of accounting and market variables (Brickley, 2003).

3.1. Demographic factors

Age deserves serious consideration. In most empirical studies it is used as a control variable. In the studies discussed below it is used mainly to exclude departures for retirement from departures that need explaining.

Some authors have tried to relate age to CEO failure. Morck et al. (1988), for instance, note that organizations with young CEOs have higher rates of CEO turnover. According to Weisbach (1988), Barro and Barro (1990), Murphy and Zimmerman (1993) and Goyal and Park (2002), however, age and turnover are positively correlated.

Vancil (1987) introduces age as an explanatory variable for CEO turnover and concludes that an outgoing CEO's choice of successor is influenced by the successor's age insofar as the CEO will try to choose a successor who has at least 10 years to retirement at the time of succession.

Brickley (2003) suggests that age has not been studied in depth and asks how retirement age affects or is related to the choice of successor.

In the literature exploring the link between job tenure and CEO survival there are two schools of thought. On the one hand, the theory of circulation of power (Selznick, 1957; Michels, 1962; Pareto, 1968) predicts conflict between elites, which puts more pressure on the established order and, consequently, on the CEO. The institutionalization of power (Pfeffer, 1981), in contrast, explains the CEO's capacity to perpetuate his power. One instrument of institutionalization is the loyalty of directors appointed by the CEO himself (Wade et al., 1990). The institutionalization of power allows CEOs to extend their mandate, even if the company goes into the red (Ocasio, 1994). It should also be noted that long-serving CEOs have added value for their companies in terms of the relationships they have built up with customers, regulators and suppliers, which cannot easily be passed on to a successor. There are also clear loyalties within a company. The longer a CEO has been in the job, the more likely he will have appointed directors to the board and so

(according to Fredrickson et al., 1988; Boeker, 1992; Cannella and Shen, 2002; and Lehn and Zhao, 2006) the more power he will have to prevent any decision to dismiss him.

Hambrick and Mason (1984) created “upper echelons theory,” which claims that observable demographic characteristics of senior executives, such as diversity of age, education or background, influence organizational outcomes. Attempts have been made to relate such diversity to innovation, diversification and firm performance (Kisfalvi and Pitcher, 2003). The theory suggests that diversity of perspectives on the strategic environment propitiates a more effective, more rational response (Simons et al., 1999). Like large boards, however, diversity can generate conflict (Ocasio, 1994, and Pfeffer, 1981), hamper decision making and prevent consensus on strategy (Kisfalvi and Pitcher, 2003). O’Reilly et al. (1984) study 31 *Fortune 500* companies using the concept of demographic distance. Based on similarity of age and tenure, they conclude that, at an individual level and in the event of conflict, the executives that have been with the company longest and that are most distant in age from the rest of the group are most likely to be dismissed. Finkelstein and Hambrick (1990) use these “demographic” variables to analyze strategic decision making¹⁸.

Another exogenous factor considered in the literature is the characteristics of the CEO’s predecessor (Reinganum, 1985; Fredrickson et al., 1988; Cannella and Shen, 2001; Conger and Nadler, 2004). Fredrickson et al. describe four ways in which the characteristics of the predecessor make it more likely that his successor will be dismissed: a) job tenure: for the reasons already stated, regarding board loyalty and possible comparisons between the two CEOs; b) the reasons for the predecessor’s departure: the incoming CEO will be under more pressure if his predecessor was fired than if he left to head another company and the board understands that the job they are offering has been considered inferior; c) continued presence of the predecessor in the company (either as a director, as a consultant, or in some other capacity): the newcomer will be under close scrutiny and the market does not react favorably to such successions (Reinganum, 1985); and d) the predecessor’s having been the founder of the company¹⁹: the previous three influences will be combined, thus augmenting the CEO’s chances of being dismissed.

3.2. Company size and age

Numerous articles have been written on the impact of CEO succession on shareholder wealth. Reinganum (1985) is a classic example, pointing to an association between succession and return on equity. The author signals the need to establish certain control variables for company size, successor origin and the measures taken by the outgoing CEO.

¹⁸ Before this top management approach to strategy, there was another strand of theory that denied the influence of managerial discretion on firm performance, seeing strategy, rather, as the result of forces unrelated to management and as arising in response to the environment or to the inertial forces surrounding organizations in a given industry (Lieberson and O’Connor, 1972; Hannah and Freeman, 1977, and Salancik and Pfeffer, 1977).

As Jensen and Zajac (2004) explain, there is an alternative view to this theory of elites in agency theory that ignores demographic factors and focuses on conflicts of interest between agents (identified by their structural position in the organization, e.g. CEO, outsider director, insider director) and the principal.

¹⁹ Adams et al. (2009) identify the causal relations between founder CEOs, firm performance and CEO survival. They find that founder CEOs tend to leave their firm when it is performing well (firms with founder CEOs tend to perform better than others) and stay on in the post or on the board of directors (thanks to the power they have acquired) when the firm is performing less well than others in its industry.

He finds that in large companies CEO succession has no statistically significant impact on stock price (Reinganum, 1985). In small companies, however, he finds an “abnormal cumulative return”.²⁰ Combined with the above, Reinganum’s findings imply that the CEO of a small company is more likely to be dismissed if he has been promoted from within. According to Cappelli and Hamori (2004), these two factors (small company and internal promotion) are unlikely to occur simultaneously, as small companies increasingly tend to hire CEOs from outside.

There is no agreement in the literature as to the impact of firm size on CEO turnover. Boeker (1992), who defines size in terms of company sales compared to industry average sales, concludes that size may affect turnover because in larger companies routines become institutionalized, increasing the number of dismissals. Using a sample of the smallest and largest *Fortune 500* companies, Grusky (1961) finds that large companies have higher CEO turnover.

Others, such as Brady and Helmich (1984), find no significant impact of company size on CEO dismissal.

Miller et al. (1982) argue that size has an inertial effect on CEOs in that as corporate processes entail stricter monitoring of, or limitations on, management, larger organizations will tend to have higher CEO turnover.

With respect to company age, the most recent studies note a growing correlation between company age and number of outside directors (Boone et al., 2007; Coles et al., 2008; and Linck et al., 2008). As we shall see, the relationship between majority outside boards and CEO turnover is one of most fiercely debated issues in the literature. Therefore, there is no conclusion to be drawn as to how company age affects CEO failure.

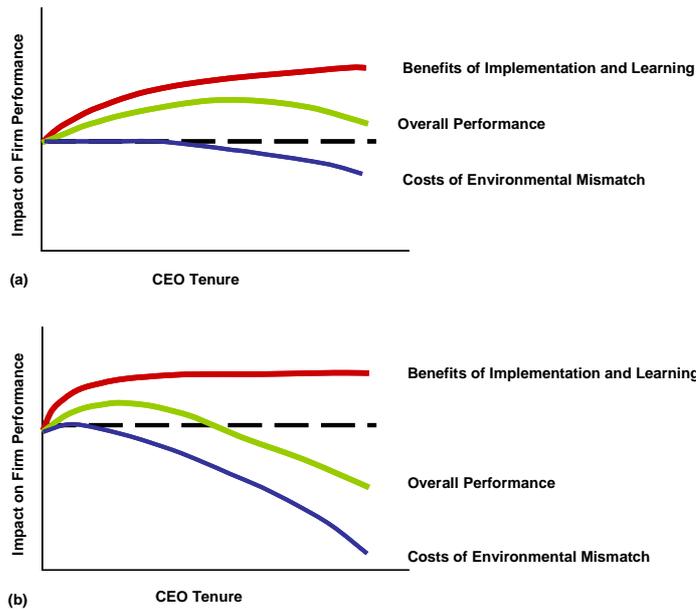
3.3. Industry type

According to Fredrickson et al. (1988), industry type can affect CEO turnover through three channels: the level of development of the industry, the diversity of financial performance, and the number of companies. Level of development is found to have a range of contrasting effects. In young industries there is no benchmark for CEO or firm performance (Pfeffer and Moore, 1980), as industry knowledge is limited (Porter, 1980). This can increase CEO turnover for two reasons: divergence of interests among the directors of these companies can make the CEO more vulnerable and at the same time prevent consensus (inside and outside the company) on dismissal. Henderson et al. (2006) suggest that CEOs in fast-growing industries can contribute strategic value to their companies intensely but for a short period. In contrast, stable industries (the authors cite the United States food industry) provide an environment in which CEOs can improve their companies’ performance over a longer period, albeit less dramatically.

The two charts in Figure 5 show the trend reported by Henderson et al. (2006, p. 450) in the impact of the CEO on company earnings (a) in stable industries and (b) in fast-growing industries.

²⁰ This term is commonly used to explain the impact a certain event has on a variable. In our case, Reinganum studies the impact that succession announcements have on stock prices. For an explanation of event study, see MacKinlay (1997).

Figure 5



Source: Henderson et al. (2006).

Another influence on CEO turnover is disparity of earnings within an industry (as explained by Fredrickson et al.). Boards of directors use not only their own company's past performance but also the performance of rival firms as an indicator of their company's performance. Heterogeneity of performance in emerging industries can create incentives in either direction (Parrino, 1997).

Fredrickson et al. identify a final source of influence: the number of companies in an industry. This last variable does not alter the effect of the previous two and correlates highly with industry age and disparity of earnings.

Referring to R&D-intensive industries, Berry et al. (2006) and Coles et al. (2008) find that the trend is toward a larger proportion of insiders on boards of directors. The theoretical explanation is that directors in these industries need industry-specific knowledge to do their job. CEOs therefore seem more likely to survive in industries with high R&D expenditure (many of them young companies).

In contrast, Linck et al. (2008) find a positive correlation between the proportion of outside directors and R&D investment. So if CEO turnover is correlated with the proportion of outside directors (studied in the next section), the proportion of outside directors can be expected to influence CEO turnover.

3.4. Board composition. Institutional investors

Board composition, especially the proportion of executive and non-executive directors, can be expected to have a major impact on the likelihood of CEO dismissal (Boeker, 1992). According to Shivdasani and Zenner (2004), few issues find such consensus in academia: board decisions are generally thought to be better for shareholders when the board has a majority of non-

executive directors. Even so, there are those who deny any such relationship between outside directors and company performance.

Weisbach (1988), for example, argues that boards are, for shareholders, the first line of defense against incompetent management and concludes that, where outsiders are a majority,²¹ the stock price is positively correlated with CEO succession. This means that a change of CEO is a signal to the market that the change will generate value for the company. This result is explained by there being a majority of outside directors. The New York Stock Exchange (NYSE) considers that effective boards of directors make independent judgments in the performance of their duties. Having a majority of independent directors will improve board supervision and limit any damage that might arise from conflicts of interest (NYSE, 2003). Mizruchi (1983) also explains that a board's ability to dismiss a CEO depends on having independent non-executive directors.

Having a majority independent board may therefore be a good explanatory variable for CEO dismissal in the event of poor management performance (Shivdasani and Yermack, 1999). Fama and Jensen (1983) note that, in order to preserve their reputation as directors, outside directors will work to eject under-performing CEOs and thus signal their decision monitoring capability to the market.

Despite the evidence, the above argument is questionable. When we talk in this way about independent directors and CEOs, we are somehow assigning them to the categories established by Jensen and Meckling (1976) in agency theory: principal and agent. In Jensen and Meckling's view, independent directors are the ones that most faithfully represent shareholders' interests. They are the ones who try to align the interests of managers (and ultimately the CEO) with those of shareholders.

However, the ability of independent directors to monitor and oversee management can be interpreted in a different sense, which has received insufficient attention in the literature. Non-executive directors could be expected to exercise more effective control and monitoring of CEO decisions (Shivdasani and Zenner, 2004; NYSE, 2003; Fama and Jensen, 1983), as they are good advisers and have a "wealth of experience," so CEOs would make fewer mistakes and give fewer signals to the market (e.g. declines in earnings) that might spark a chain of decisions leading to CEO dismissal. In other words, CEOs in companies with majority outside boards should be replaced less frequently

The literature argues in favor of majority outside boards on the understanding that insiders are less likely to dismiss a CEO to whom they owe their position (Fama, 1980). This lack of independence leads boards to turn a blind eye to management opportunism at shareholders' expense (Fama and Jensen, 1983).

Having a majority of independents on the board therefore appears to add value to the firm through CEO succession. Weisbach (1988), in contrast to the control variables fixed by Reinganum (1985), concludes that the results of the correlations are not affected by company size, capital structure or industry type.

²¹ As we have said, there is no unanimity in the literature on what is meant by "outside." Since 2002, following the Enron and Worldcom scandals, the NYSE and Nasdaq determined a majority of outsiders on the boards of publicly traded companies and audit committees. The Sarbanes-Oxley Act defined more clearly what constitutes an outsider for both bodies.

Since Weisbach several articles have been published searching for patterns. Borokhovich et al. (1996), Jensen (1993) and Agrawal and Knoeber (1996) reach identical conclusions, with slight methodological differences: the chances of CEO dismissal are slightly higher when there is a high proportion of non-executive directors.

Boeker (1992), citing Friedman and Singh (1989), states that a majority independent board, over which the CEO has less influence, is a factor in favor of CEO dismissal.

Other researchers, however, question the importance of board composition. Longstreth (1995) is skeptical of any correlation between board composition and firm performance. He also contends that directors' management oversight role may detract from their advisory role, which may be neglected if directors habitually adopt an attitude of confrontation with management. For Tobin (1994), who analyzes the issue from a legal perspective, the link between the number of outside directors and board independence is weak. In his view, many inside directors with an interest in the company would set more ambitious goals and ask more searching questions. He therefore considers "independence" to be just one of the many characteristics of the "ideal" director (Faulk, 1991).

Despite the theoretical consensus (with the noted exceptions), the empirical findings disagree (Mehran, 1995; Coles et al., 2008). Hermalin and Weisbach (1991) conclude that board composition and firm performance are unrelated. Their findings call the claimed positive correlation between outsider boards and firm performance into question. They acknowledge that their findings contradict the literature and argue in favor of the beneficial effects of insider boards, which understand the company's day-to-day operations (Mace, 1971, and Vancil, 1987) and the succession process (Mace, 1971). This positive assessment of the contribution of insider directors is shared by Coles et al. (2008) and Berry et al. (2006). According to these authors, in R&D-intensive industries, where an organization's own knowledge is relatively important, an increase in the number of insiders on the board is associated with improvements in Tobin's Q.

These conclusions contradict the logic underlying regulation in many countries, where restrictions are imposed on board size and composition (proportion of outsiders). All too often regulation oversimplifies the role of directors and attributes illusory advantages to directors brought in from outside the firm.

Bhagat and Black (2002) study firm profitability in relation to board composition. They conclude that companies with majority independent boards are no more profitable than those with a majority of executive directors.

Jin Chung (2008) analyzes the interaction between board independence and pay-performance sensitivity. He finds an inverse relationship between the two variables (more pronounced in large companies) and concludes that they are substitutes. Jin Chung identifies board independence with a majority of outside directors (subject to the caveats already mentioned) and observes that the Sarbanes-Oxley Act of 2002, which mandated a larger percentage of outsider directors on the boards of publicly traded companies, resulted in lower pay-performance sensitivity compared to the control group. He conjectures that this substitution is possible because the two variables have similar effects: the control exercised by a majority independent board can also be achieved by linking executive pay to firm performance. Guest (2008) likewise discovers variables reflecting CEO monitoring that cannot be reduced to formal independence of directors. Agrawal and Knoeber (1996) find that the importance of board independence depends on the effectiveness of other measures, such as the presence of institutional investors (discussed below) and dispersion of capital (discussed previously).

The solution, therefore, would seem not to be more regulation (MacAvoy and Millstein, 2003) or “more independent” boards, nor power sharing between the board of directors and the management team (led by the CEO). Rather, the aim should be to strike a delicate balance, so that board and management join forces to grow the company in the long run (Canals, 2008).

Institutional investors

Institutional investors tend to hold substantial interests in companies. The literature has produced various hypotheses regarding these investors’ ability to monitor management. On the one hand (as Boone et al., 2007 explain), significant stock ownership tends to align interests (based on Jensen and Meckling’s [1976] agency cost theory). Kieschnick and Moussawi (2004) argue that the presence of institutional investors favors board independence and so enhances CEO control.

Doidge et al. (2006), however, interpret the presence of institutional investors differently: the greater the concentration of capital, they say, the easier it is to obtain private profit at the expense of small shareholders and thus also the company as a whole.

Once again we find almost total disagreement in the literature as to the influence of institutional investors on CEO monitoring and, hence, the likelihood of CEO dismissal.

3.5. Board size and commitment

According to Fredrickson et al. (1988) CEO turnover is higher in companies with large boards of directors. Where there is a large number of directors, there are more likely to be different interest groups; any policy the CEO adopts is more likely to be criticized from different angles; and CEO decisions supported by one group of shareholders are more likely to be rejected by another group. This disparity may result in higher CEO turnover.

Other authors concur. Chaganti et al. (1985), for example, conclude that board size is positively correlated with firm performance. Based on a sample of 54 chemical companies over a 30-year period, Helmich (1980) finds that in companies with below average earnings the larger the board of directors, the higher the rate of CEO turnover.

O’Reilly et al. (1984) suggest that people who work together on a common project over a period of years tend to have the same values. This can be an advantage or a disadvantage for the CEO, depending on the position adopted by this like-minded group on the board. According to Fredrickson et al. (1988), cohesion among directors will be an advantage, as it reduces the pressure that board size can create for a CEO. For these same authors, disparity of age among directors or short tenure entails a greater likelihood of CEO dismissal.

As experience suggests, however, time does not smooth away differences. The mere fact that directors have worked together for many years is no guarantee of board unity (Selznick, 1957). In many cases, time allows interest groups to form (such as those mentioned in the case of large boards) in pursuit of particular agendas.

Iaquinto and Fredrickson (1997) conclude that companies with more cohesive top management teams achieve better results. These authors also explore the direction of causality and find that cohesion among the top management team modifies firm performance, not vice versa. In

addition, they find that firm size (which is reflected in board size) is positively correlated with diversity of views among members of the top management team.

This size-related diversity has been found to have a delaying effect on CEO dismissal due to the difficulty of reaching consensus (Lipton and Lorsch, 1992; Jensen, 1993; Monks and Minow, 1995; Yermack, 1996; and Eisenberg et al., 1998). The costs of coordination and the presence of free riders make it likely that large boards will perform their CEO monitoring role less effectively (Lehn et al., 2003).

Fan et al. (2007) find no significant relationship in their study using a relatively small sample of Chinese companies.

Coles et al. (2008) find a U-shaped parabolic relationship between firm performance (measured by Tobin's Q) and board size. In other words, there is a certain optimum at the two extremes: small boards and large boards regularly achieve better results than medium-sized boards. This pattern holds for complex industries, whereas in simpler companies an increase in number of directors is associated with a decrease in Tobin's Q.

Dalton et al. (1999) and Shivdasani (2004), in their bibliographical reviews, conclude that scholars disagree as to the impact of board size on corporate governance. The optimal size for any given company is not easy to determine and it does not seem useful to prescribe an ideal board size for all companies.

Directors' commitment

Using Core et al.'s (1999) definition of "busy directors" (those with three or more directorships if still working, or six or more if retired), Fich and Shivdasani (2005) introduce another factor that influences board effectiveness. According to their research, the number of busy directors is inversely related to CEO monitoring. Beasley (1996) and Perry and Peyer (2005) also find a decrease in monitoring capacity due to multiple directorships. Thus, the more busy directors there are on a board, the lower the level of board control and, all else equal, the lower the probability of CEO dismissal even if the firm performs badly.

However, there is a strand in the literature that sees a positive in this: the experience gained on multiple boards adds value to the company (Pritchard et al., 2003), so there is no reason to set a limit to the number of directorships.

3.6. Valid successor and succession plans

Hermalin and Weisbach (1998) consider that a CEO has a better chance of staying on if there is no obvious successor in the organization. A CEO who has a hand in the succession process therefore faces a conflict of interests: if he selects a brilliant candidate, he will soon be replaced, whereas if he chooses a less capable candidate, he will have no immediate rival (Fredrickson et al., 1988). This interpretation of succession is inconsistent with the value creation arising from internal succession (San Martín and Stein, 2008; Bower, 2007).

Greenblatt (1983) argues that senior managers' perceptions of the CEO affect CEO turnover. CEOs considered irreplaceable ("Rebecca Myth") are better able to hold onto their position (Kets de Vries, 1988) than those that have to compete with a would-be "savior" ("Messiah").

Cannella and Shen (2001) suggest that the presence of an heir is determined by the interaction of three parties: outside directors, the outgoing CEO and the successor himself. The authors

conclude that an heir succeeds (i.e. becomes CEO) if he has experience in the company, the environment is favorable (independent directors tend to back the heir in order to limit the incumbent CEO's power), the outgoing CEO does not control the process (scant stock ownership, short tenure) and the heir has strong leadership qualities.

According to Fredrickson et al. (1988), CEO turnover increases once an industry has matured and shareholders are able to make comparisons and accurately assess CEO performance. In these cases, the board has access to a talent pool, thus reducing the CEO's bargaining power.

Behn et al. (2005) find that the market reacts favorably to CEO succession when a succession plan has been established and there is a publicly identified heir apparent.

According to Conger (2004), an incomplete succession plan entails a direct increase in the probability of CEO failure. An employee who has risen too quickly may not be a good replacement, as he may well not have acquired the necessary leadership competencies (Kovach, 1986). As Pérez López (1993) puts it, an executive who has climbed too fast will not have acquired the necessary personal experience to learn to lead. Walker (2002) highlights the importance of competencies when he notes that people who are used to relying on their own capabilities are slow to discover new roles, such as promoting growth in others, delegating, or building effective teams. Watkins (2004) offers recommendations to new leaders to help avoid failure in the transition period. In his view, failure early on in the CEO's tenure results from failure to understand the new situation or lack of the necessary competencies and flexibility to adapt to it. Premature failure is sometimes related to the narcissism of CEOs who think they can do everything on their own, spurning the support of their predecessor (Friel and Duboff, 2009).

3.7. Mergers and acquisitions: institutional factors

One exogenous reason for CEO turnover often cited in the literature is the merger or acquisition of the CEO's company (Grossman and Hart, 1980; Daines and Klausner, 2001; Offenbergl, 2009; Netter et al., 2009). However, this factor correlates very closely with poor organizational performance. Most acquisitions come in the wake of a period of below industry average results (Martin and McConnell, 1991). Like firm performance, therefore, this factor has limited power to explain CEO failure (Fredrickson et al., 1988).

Martin and McConnell distinguish between disciplinary and synergistic mergers and acquisitions. Synergistic M&As generate gains by combining the resources of the acquirer and the target.²² In these cases, there is little change in CEO turnover. In disciplinary M&As, however, CEO turnover increases significantly. Martin and McConnell consider an acquisition or merger to be disciplinary when the target is performing poorly. The acquisition of the poorly performing target and the replacement of its top managers effectively disciplines management inefficiency. The possibility of becoming a takeover target is an incentive to change inefficient behavior and brings the interests of management into line with those of shareholders.

²² The debate in the corporate finance literature on what prompts a company to acquire or merge with another, and the consequences of such acquisitions and mergers, is beyond the scope of this study.

According to Short and Keasey (1999), in economies where there are few defense mechanisms²³ against hostile takeover, this market discipline (Jensen, 1988) is efficient.

Institutional factors

According to Geddes and Vinod (2002), regulatory changes in an industry influence CEO survival. Their direct conclusion is that CEOs in deregulated industries have shorter tenure. Indirectly, these changes influence CEO turnover because deregulation generates at least two contrasting effects for CEOs. On the one hand, Geddes and Vinod observe that deregulation is linked with smaller boards and a smaller proportion of outside directors. On the other, there is insufficient evidence to be able to state unequivocally that deregulation influences the proportion of outsiders. Therefore, deregulation has opposite effects on CEO turnover. Smaller boards and fewer outsiders are indicators of lower CEO turnover,²⁴ but the lack of statistically significant evidence means that the proportion of outsiders cannot be said to favor turnover. The aggregate effect is ambiguous and requires further research.

As regards the effect that deregulation has on individual industries, Crawford et al. (1995) and Hubbard and Palia (1995) examine the United States banking industry. Hubbard and Palia find that a deregulated sector is associated with greater pay-performance sensitivity. They also find that deregulation entails higher rates of CEO turnover. In their view, these results are consistent with the idea that legal restrictions on CEO pay reduce labor market efficiency: standardization of pay prevents the market from signaling the most efficient managers. This lower CEO labor market efficiency has been studied in a theoretical framework by Gabaix and Landier (2008) and Terviö (2007). In their models these authors attempt to assess the effect that CEO talent has on company earnings and, consequently, the optimal level of additional compensation.²⁵

The growing importance of capital markets in recent years has also affected CEOs' decisions. Vancil (1987) correctly predicted growing pressure on CEOs from the capital markets. He foresaw that the market (seeking to maximize shareholder wealth) would be an impartial judge of CEO's decisions and would ultimately determine CEO survival. Vancil's predictions were accurate (Guerrera, 2009). However, this demand for short-term results can also undermine the longer-term development of a company and its professionals, which are essentially what will enable the company to survive over the medium to long run (Canals, 2008).

As with the endogenous factors, the results of our review of the literature on the exogenous factors of CEO failure are summarized in a table (Table 4).

²³ For a review of the literature on the influence of these CEO and top management defense mechanisms, see Daines and Klausner (2001) and Stout (2002).

²⁴ In parts of the literature analyzed in this article, the relationship described here is seen as being the reverse: small boards tend to make faster decisions, resulting in higher CEO turnover.

²⁵ Ortín and Salas (1997) conducted an empirical study using a sample of executives of Spanish companies. They conclude that Rosen's (1982) model of hierarchical assignment based on talent applies in Spain. This fosters interest in establishing an efficient labor market for senior managers.

Table 4

Factor	Increases likelihood of staying on as CEO		Reduces likelihood of staying on as CEO		No clear effect on CEO failure / Other approaches to the factor	
<i>Relation to failure</i>	Author (year)	Contributions	Author (year)	Contributions	Author (year)	Contributions
CEO age (older) <i>Are older CEOs more likely to be dismissed?</i>	Morck et al. (1989)	Younger CEOs have higher turnover rates.	Weisbach (1988) Murphy and Zimmerman (1993) Goyal and Park (2002)	Empirical evidence shows a significant negative relationship between age and dismissal.	Brickley (2003)	Insufficient empirical evidence to draw conclusions.
Long tenure <i>A long-serving CEO is less likely to be dismissed than a shorter-serving one.</i>	Pfeffer (1981)	Theory of the institutionalization of power.	Selznick (1957) Michels (1962) Pareto (1968)	Theory of the circulation of power: time generates conflicts between elites.		
	Fredrickson et al. (1988) Wade et al. (1990)	Loyalty of board members hired during CEO's tenure.				
	Boeker (1992) Ocasio (1994) Lehn and Zhao (2002) Cannella and Shen (2002) Baker and Gompers (2003)	Greater CEO influence.	Vancil (1987)	After 10 years CEOs start to be worn down.		
	Henderson et al. (2006)	In stable industries CEOs can learn more. The impact of CEOs' decisions on the environment allows 10-15 year tenures.				

Greater demographic diversity <i>Does greater demographic diversity (education, age, origin) in top management teams promote CEO survival?</i>	Simons et al. (2001)	Diversity of approaches to the environment propitiates a more appropriate strategic vision, which helps the CEO to improve the company's performance.	O'Reilly et al. (1984)	The greater the demographic diversity of the top management team, the greater the threat to CEO survival.	Hambrick and Mason (1984)	Started the study of demographic factors: Upper echelon theory.
	Kisfalvi and Pitcher (2003)	Laxer monitoring of the CEO due to diversity of board opinion.			Liebertson and O'Connor (1972) Hannah and Freeman (1977) Salancik and Pfeffer (1977)	Strategy (as a source of CEO failure) is determined by the environment: it is an inertial response to the environment.
	Finkelstein and Hambrick (1990)	Longer-serving top management teams obtain above-average results.			Jensen and Zajac (2004)	The agency view does not include these demographic factors.
Outgoing CEO <i>The activity of the outgoing CEO may facilitate the decisions of the incoming CEO.</i>	Vancil (1987)	Facilitates the transition and the incoming CEO's first decisions	Helmich (1977)	Outgoing CEOs leave behind an image created over a long period.	Fredrickson et al. (1988)	Succession is influenced by the outgoing CEO's tenure, reasons for exit, active presence in the company after leaving the CEO position, and company founder role
			Pfeffer (1981) Cannella and Shen (2002) Conger and Nadler (2004)	The loyalty of old directors makes succession more difficult.		
			Reinganum (1985)	Succession is less successful if the outgoing CEO remains in the company.		

Factor	Increases likelihood of staying on as CEO		Reduces likelihood of staying on as CEO		No clear effect on CEO failure / Other approaches to the factor	
Relation to failure	Author (year)	Contributions	Author (year)	Contributions	Author (year)	Contributions
Company size <i>The bigger the company, the smaller the probability of CEO dismissal.</i>	Reinganum (1985)	If the CEO is an insider, a statistically valid pattern is observed: in small companies, CEO turnover is higher.	Grusky (1963)	Large companies have higher turnover.	Cappelli and Hamori (2004)	The two characteristics are unlikely to occur simultaneously. There is insufficient evidence to determine the direction of the effect.
			Miller et al. (1982) Boeker (1992)	In larger companies CEO monitoring processes are more likely to be institutionalized, leading to higher CEO turnover.	Brady and Helmich (1984)	There are no empirical differences based on company size.
					Tosi et al. (2000)	CEOs try to increase company size because in doing so they increase their own compensation.
Company age <i>High correlation with company size: older companies can be expected to dismiss fewer CEOs than younger ones.</i>					Boone et al. (2007) Coles et al. (2008) Linck et al. (2008)	Correlation between company age and proportion of independent directors. Impact on CEO turnover is indeterminate.
Board composition <i>Having a majority of outsider directors implies stricter supervision of CEO activities.</i>	Mace (1979)	Insider directors contribute value to the CEO with their advice and knowledge of daily operations.	Rostow (1959)	Outsider directors monitor CEO decisions more rigorously.	Demsetz (1983)	Dispersion is linked to weaker control.
	Vancil (1987)	Insider directors facilitate smooth succession.	Jensen and Meckling (1976)	Independent directors, who are not influenced by the CEO, can help to minimize agency costs.	Hermalin and Weisbach (1991)	There is no empirical relationship between CEO turnover and board composition. There may be no real relationship; or insiders may be the same as outsiders.

	Faulk (1991)	Independence should not be the only factor considered.	Fama (1980) Fama and Jensen (1983)	Independent directors' desire to cultivate their reputation in the senior management market makes them more demanding of CEOs.	Agrawal and Knoeber (1996)	Board supervision must be considered in conjunction with other variables, such as the presence of institutional investors or the dispersion of capital.
	Tobin (1994)	Insiders set more ambitious goals than outsiders because they have closer ties with the company	Mizruchi (1983)	Identifies independence with outside, non-executive directors. Concludes that the capacity to dismiss the CEO is dependent on the presence of outside directors.	Bhagat and Black (2002)	There is no enough statistical evidence to state that outsider boards obtain better results than insiders.
	Longstreth (1995)	Excessive concern for supervision is detrimental to the board's advisory role. The merit of independence needs to be proven.	Weisbach (1988)	Independent directors are the first line of defense of shareholders' interests.	Canals (2008)	Rather than a power struggle, it would be better to find a balance that allows insiders and outsiders to combine forces.
	Mehran (1995)	There are no empirical data to compare this logical consequence with agency theory.			Guest (2008)	Identifying independence with better supervision is an oversimplification.
	Coles et al. (2008)	Better firm profitability with more outside directors on the board in R&D-intensive industries .	Friedman and Singh (1989) Boeker (1992) Jensen (1993) Borokhovich et al. (1996) Agrawal and Knoeber (1996)	Greater probability that succession will not be initiated by the CEO.		
			Shivdasani and Yermack (1999)	The market does not value the inclusion of independent directors when the CEO sits on the nomination committee.		
			Shivdasani and Zenner (2004)	A majority of articles stress the importance of outside supervision.		

Factor	Increases likelihood of staying on as CEO		Reduces likelihood of staying on as CEO		No clear effect on CEO failure / Other approaches to the factor	
Relation to failure	Author (year)	Contributions	Author (year)	Contributions	Author (year)	Contributions
Institutional investors <i>Institutional investors tend to be associated with stricter management supervision on account of their board representation through independent directors.</i>			Kieschnick and Moussawi (2004)	Institutional investors favor the presence of independent directors who will supervise the CEO's activities more strictly.	Doidge et al. (2006)	Ownership concentration may facilitate private gain at the expense of shareholder gain.
					Boone et al. (2007)	Given their substantial equity ownership, the interests of institutional investors are aligned with those of shareholders. The impact of these owner groups on the CEO is ambiguous.
Board size <i>How does board size influence the decision to replace the current CEO. Board size has been associated with fragmentation of views.</i>	Chaganti et al. (1985)	Successful companies have larger boards than unsuccessful ones.	Fredrickson et al. (1988)	In larger boards, rival groups are more likely to form. If the CEO identifies with any of these groups, there may be confrontation with the others.	Selznick (1957)	Merely having worked together on the board for a long period does not necessarily mean that directors are united in their views
	Lipton and Lorsch (1992) Jensen (1993) Monks and Minow (1995) Yermack (1996) Eisenberg et al. (1998)	The diversity of large boards leads to laxer monitoring of CEO activities. Coordination costs lead to dilution of board monitoring of management.	Helmich (1980)	Higher CEO turnover in companies with large boards and below-average performance.	O'Reilly et al. (1984)	Board members tend to come to share the same values over time. The impact on CEO turnover is unclear.
					Dalton et al. (1999) Shivdasani and Zenner (2004)	There is no unanimity in the literature on the impact of board size.

			Iaquinto and Fredrickson (1997)	Top management team cohesion results in better firm performance: large boards prevent such cohesion, as they increase the likelihood of divergence of opinion.	Fan et al. (2007)	No relationship has been found between CEO turnover and board size.
					Coles et al. (2008)	Complex organizations perform better (as measured by Tobin's Q) when they have large boards.
	Lehn et al. (2003)	Coordination costs and the greater probability of having ineffectual directors on the board dilutes board control				
Board commitment <i>Multiple directorships may enhance supervision (broader, more diverse experience) or they may decrease it (difficulty of advising appropriately).</i>	Beasley (1996) Perry and Peyer (2005) Fich and Shivdasani (2005)	Busy boards are less able to supervise the CEO effectively.	Pritchard et al. (2003)	Boards whose members have experience from multiple directorships have access to best practices and are better able to monitor the CEO.	Fich and Shivdasani (2005)	Companies whose reputation is damaged by irregular activities do not have higher board turnover, but they do have fewer directors who also sit on other boards.

Factor	Increases likelihood of staying on as CEO		Reduces likelihood of staying on as CEO		No clear effect on CEO failure / Other approaches to the factor	
Relation to failure	Author (year)	Contributions	Author (year)	Contributions	Author (year)	Contributions
Type of industry <i>Do younger, more innovative industries with higher R&D spending have higher CEO turnover?</i>	Fredrickson et al. (1988) Parrino (1997)	CEOs less likely to face dismissal in young industries with large numbers of companies (disparity of results) and no generally accepted criteria for assessing CEO performance.	Fredrickson et al. (1988)	Boards in mature industries may place higher demands on CEOs, due to the relative ease of achieving good performance.	Coles et al. (2008) Berry et al. (2006)	Boards in R&D-intensive industries have a higher percentage of insider directors. There is no empirical evidence that this higher percentage of insiders has any impact on CEO turnover.
	Henderson et al. (2006)	CEOs learn more in stable industries. The impact of their decisions on the environment allows 10-15 year tenures.	Henderson et al. (2006)	In nascent industries there is more statistical noise and boards' decision-making capacity is more limited.	Linck et al. (2008)	There is a positive correlation between R&D investment and the proportion of outsider directors. The effect of this circumstance is unclear.
Valid successor <i>Companies need to establish succession plans. Divergence of interests may disrupt such plans.</i>	Fredrickson et al. (1988)	The CEO has incentives to appoint less capable successors and so reduce the pressure of succession.	Hermalin and Weisbach (1988)	In the short term, succession has a positive impact on stock price.	Greenblatt (1983)	In the event of succession, top managers may see the successor as a Messiah (putting the incumbent under greater pressure) or they may succumb to the Rebecca Myth (comparing the successor unfavorably with his predecessor).
	Hermalin and Weisbach (1988)	A CEO's job is safer when there is no clear successor within the company.	Cannella and Shen (2001)	A CEO is more likely to be replaced when the company is performing well, the CEO has little influence over the choice of successor and there is a successor with leadership capabilities.	Behn et al. (2005)	The return to shareholders improves if the heir is announced publicly.
			Bower (2007) San Martín and Stein (2008)	CEOs have incentives to make their succession a success.		
Institutional factors. Mergers and acquisitions <i>Having a market that disciplines inefficient management puts pressure on CEOs to perform well.</i>	Vancil (1987)	The capital market, which performs the monitoring tasks described by Jensen (1988), provides an incentive for better management performance.	Grossman and Hart (1980) Jensen (1988) Daines and Klausner (2001)	Mergers and acquisitions can help to protect shareholders, as they monitor and replace inefficient executives.	Geddes and Vinod (2002)	The effects found in the empirical comparison (of regulated and unregulated industries) do not indicate causal relations.

	Martin and McConnell (1991)	Mergers and acquisitions may be synergistic or disciplinary. Synergistic M&As may strengthen the position of the target company's CEO.	Crawford et al. (1995) Hubbard and Palia (1995) Offenberg (2009) Netter et al. (2009)	Empirically, companies involved in M&A processes have higher CEO turnover.	Rosen (1982) Ortín and Salas (1997)	The labor market may generate hierarchical assignment of talent within companies. The influence on CEO survival will depend on the effectiveness of the market assignment.
			Gabaix and Landier (2008) Terviö (2003)	Based on theoretical models, caps on CEO pay distort the labor market and reduce the pressure to perform optimally.	Short and Keasey (1999) Daines and Klausner (2001) Stout (2002)	Managers may develop defense mechanisms that discourage M&A processes.
					Canals (2008)	Market supervision of corporate governance may be excessively biased toward the short term and may undermine the longer-term development of companies and their employees.

4. Theoretical Underpinnings of Management

We do not know what factors are decisive in CEO failure. We can draw no valid conclusions as to the factors that regulators have taken for granted, viz. board size, percentage of independent directors, separation of CEO and Chairman roles, and performance-related pay. None of these factors is unanimously supported in the literature. In some cases, empirical studies have denied their impact; in others, they have disputed the nature of their impact.

The difficulty of modeling CEO behavior statistically prompts us to inquire into the reasons for the lack of scientific certainty in almost all the fields we have considered.

Ghoshal (2005) asks this same question and argues the need to explore the paradigm that currently rules the social sciences. According to Ghoshal, “research and the development of science in disciplines such as economics, law and sociology are rooted in the radical individualism of Hume, Locke and Bentham”. The negative reduction of human nature and the premise of self-interest as the only driver of human behavior were distilled and formalized in the so-called “Chicago school” headed by Friedman (1953).

The principles of unbounded rationality (perfect information about states of nature before and after decisions and perfect representation of preferences in a known utility function), which allowed the formal, mathematical development of these disciplines during the last century (Rosanas, 2008), have come under scrutiny as a result of their scant capacity to explain the current economic crisis. As Aranzadi del Cerro (1999) points out, we should not be surprised at the lack of explanatory power of current economic theory if Friedman himself states that, “a theory cannot be tested by the realism of its assumptions” but only by its predictive power. According to Aranzadi del Cerro, the search for statistical correlations has taken precedence over the search for causal relations. The limitations of this method, premised on unbounded rationality, that maximizes a welfare constraint known to the individual are amplified when it is applied to areas such as management, and specifically CEOs, whose complexity is not amenable to such reductionism.

According to Ghoshal, management today rests on this paradigm, which establishes premises about human beings that are of questionable validity (Folger and Salvador, 2008). Sen (1987), like Termes (2001), states that the universe of human motivations cannot be reduced to a single motive and insists that Adam Smith and his moral sentiments have been oversimplified.

The assumption that has most influenced management science – which depends on economics (Ghoshal and Rocha, 2006) – and that underlies the studies we have considered so far is that of self-interest as the only motive of human behavior (Friedman, 1953).

This economic premise has flooded the literature in areas such as agency theory (Jensen and Meckling, 1976), transaction cost economics (Williamson, 1975), industrial organization economics (Porter, 1980) and the social networks structural approach (Burt, 1982). All these influential theories take this assumption about human behavior as valid and derive their conclusions from it.

Ghoshal (2005) notes that besides belittling the human being by identifying motivation exclusively with self-interest, this paradigm has infected the social sciences, and thus also

management, through another channel. In what Hayek (1989) called the “pretension of knowledge,” business schools over the last 50 years have tried to build a scientific model as perfect as that of the exact sciences. Yet their scientific modeling has proven ineffectual. In view of the results of this study, or rather the scant conclusions found in the corporate governance literature, one may well ask, which of these two causes – the fixing of erroneous, negative premises about man or the pretension of using methods inappropriate to the object of study – has brought management to its current state? Probably a combination of the two.

In his theory of human action Pérez López (1993) explains how the exclusion of ethics from the problems and cases analyzed in business schools results in a denial of reality as a whole and makes it impossible to achieve optimal solutions. Ethical issues cannot be isolated, as they are inherent in human action. Contrary to the assumptions of the current paradigm in the social sciences, ethics is not the problematic component that makes modeling impossible. As Pérez López (1993) explains, a complete theory of human motivation, i.e. one which accepts that the motivation to perform any action can only be explained in terms of all three types of motivation that Pérez López identifies (i.e. “extrinsic”, “intrinsic” and “transcendent”), calls for a profound change in the way we conceive of organizations.²⁶ Similar far-reaching changes have been advocated by other scholars, including Pfeffer (1993) and the Positive Organizational Scholarship group in Michigan (Cameron, Dutton and Quinn, 2003).

Ghoshal asks why there has not been a fundamental rethink in corporate governance. His answer – like that of Hayek (1989) – is crucial: “the honest answer is that such a perspective cannot be elegantly modeled –we don’t have the mathematics to do it” (at least not yet).

It would seem that our attempt to develop a broader-based model must rely on these new methods and approaches to the study of corporate governance (Kesner and Sebor, et al., 1994), draw support from other disciplines, such as psychology (Kaplan, 2008) and ethics, and see man holistically, rather than reducing the human condition to the mere satisfaction of extrinsic or intrinsic motives (Pérez López, 1993; and Chopra, 2006).

Rosanas (2008) points out that we therefore need to consider concepts such as loyalty and identification (which Simon [1947] regards as keys to rationality) and altruism and justice (Folger and Salvador, 2008), which have no place in current agency theory but which may provide a broader²⁷ and perhaps more appropriate theoretical framework for future studies of CEO failure.

²⁶ Pérez López (1993) articulates his theory on the hierarchy of motives that drive human action. Believing that extrinsic and intrinsic motives are not enough, he focuses on transcendent motives, i.e. those that take into account the impact that an agent’s actions have on a given counterpart. The establishment of a formal framework of analysis may serve to develop at least part of this new theoretical foundation. For a summary, see Argandoña (2007).

²⁷ He mentions the line of research opened up by modern institutional theory (DiMaggio and Powell, 1991), which limits the impact of unbounded rationality due to almost mechanical industrial imitation.

5. Conclusions

1. We find no consensus in the literature as to the factors that lead to CEO failure. We therefore cannot draw valid conclusions on how to model failure. Given the disparity of the statistical results, it is impossible to design a single model that satisfactorily explains CEO failure. We have analyzed the various factors that may contribute to CEO dismissal, but the conclusions are unclear, and there is a considerable temptation to relate the variables (Kesner and Sebor, 1994), with the result that no practical consequences follow.
2. In view of the absence of unanimity on the causes of CEO failure and the unsatisfactory nature of the explanations backed by powerful statistical methods, we conclude that the most decisive and informative variable, namely CEO characteristics, has not been sufficiently studied. CEO characteristics (not only competencies) may be the area of greatest interest for research into CEO failure.
3. We believe that the complexity of the task carried out by CEOs calls for a set of qualitative explanatory variables of such depth that the process most likely cannot be modeled (Ghoshal, 2005; Hayek, 1989). Attempts to answer this question statistically have produced no satisfactory results.
4. We have probably reached a point of diminishing returns in *logit* models focused on the correlation between CEO turnover and firm financial performance. To improve our understanding of these complex processes we need to explore other, less well trodden paths (Brickley, 2003). The search must continue, perhaps using innovative methods with a greater emphasis on qualitative analysis and within a new theoretical framework.
5. Firm profitability is significantly negatively correlated with CEO succession, yet it still does not satisfactorily explain CEO failure. The criteria used to measure firm performance are disparate (accounting performance, market share, industry-weighted, etc.), so the results depend on the sample and the criteria used. As we announced at the beginning of this study, the relationship between firm performance and CEO failure is widely acknowledged (and seems common sense), but it is not a sufficient explanation.
6. We have analyzed the influence of CEO stock ownership on CEO turnover. The two seem to be inversely related: the higher the CEO's interest in the firm's capital, the lower the probability of CEO dismissal.

This conclusion fits with Jensen and Meckling's (1976) agency theory, which argues that stock ownership aligns managers' interests with those of shareholders and so reduces agency costs. Nevertheless, numerous authors attribute a perverse effect to stock-based pay, in that it can encourage CEOs to act unethically and even manipulate their companies' accounts, thus effectively increasing their chances of failure.²⁸

Although this is a central question for corporate governance, there is no consensus, in theory or practice, as to how CEO stock ownership affects either firm performance or CEO succession.

²⁸ The subprime crisis seems sufficient evidence of this.

7. Another much debated variable in relation to CEO failure is board composition. Despite general agreement on the desirability of majority independent boards, we believe that this issue has been oversimplified in the literature and in regulation, while the value of executive directors has been underestimated. In fact, Bhagat and Black (2002) find no statistically significant evidence that companies with majority independent boards perform better than those with majority non-independent boards. The preference for independent directors is too closely linked to agency theory (Ghoshal, 2005) and is not based on a rigorous analysis of directors' personal qualifications or a precise definition of "independent" (Shivdasani, 2004).

Financial economists have reached few conclusions regarding the forces that determine board composition (Boone et al., 2007).

8. Two factors favor CEO survival: CEO membership of the board of directors and CEO participation in selecting directors. Both increase job stability in the short term, but if the CEO's decisions are self-interested, both may also be detrimental to the company (the value of its shares) and prove harmful in the medium term.
9. A universal definition of failure would allow the various aspects analyzed here to be brought together in a general framework. Studies refer variously to CEO turnover, CEO dismissal, involuntary departure, retirement, decease, etc. This disagreement over the dependent variable makes it difficult to draw any overall conclusions and results in a loss of relevant information.
10. In most of the samples analyzed in the literature, the possibility of survival bias is not considered. Yet when analyzing time series or panel data from different industries, we find a clear survival bias. This entails a loss of relevant information, as company failure will have a high correlation with CEO failure.
11. There is a serious bias in the samples used in field studies of CEO competencies. In our view, the information that is not obtained, due to questions not being answered in interviews, represents a significant loss, as non-response and worse performance may be correlated.
12. To illustrate this lack of unanimity in the literature, below are the profiles of two types of CEO that the research we have analyzed would consider to be at risk of losing their jobs. In some respects the profiles are opposites and yet the literature comes to the same conclusions about both. This suggests that "to date, many different and mutually exclusive theories have sought to study the same phenomenon" (Ghoshal, 2005, quoted in Rosanas, 2008).

CEO A. This CEO is not a member of the board of directors and does not have a say in the selection of directors. He has not been in the company for long and a successor is ready and waiting. He comes from outside the firm and the industry and does not hold many shares in the company. Also, the board of directors is large and has a majority of independent directors, most of whom do not serve on other boards. The company operates in a highly deregulated industry.

CEO B. This CEO (also close to dismissal) has been with the company for many years and holds a substantial proportion of the company's stock. The company's board is small and consists mainly of insiders, who have no other directorships. The company is large and operates in a deregulated sector, where it is subject to share price pressure.

13. We consider that the main avenues for future research in this area are as follows: a) exploration of the differences between industries as regards CEO failure, so as to remove industry bias; b) further in-depth study of CEO competencies as an endogenous cause of failure, using statistically valid qualitative analysis; c) study of the impact of the stock market on the monitoring of CEO decisions; d) assessment of the increase in performance-related pay at all levels of the company (Hall and Murphy, 2003) and of whether agency theory's prediction of greater alignment between employees and shareholders is accurate; e) development of a comprehensive definition of failure, distinguishing between voluntary and involuntary departure, so as to allow more valid conclusions to be drawn and a more holistic basic model to be built; and f) exploration of new approaches, based on recognition of the inability of the existing literature to explain CEO failure, perhaps less dependent on statistics and built on new theoretical foundations (*The Economist*, 2005), moving toward a theory that acknowledges the complexity of human motives in decision making in corporate governance, thus breaking the hold of agency theory (Pérez López, 1993; MacAvoy and Millstein, 2003; Ghoshal and Rocha, 2006; Rosanas, 2008).

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