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Whom to dismiss? CEO celebrity and management dismissal☆

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ABSTRACT

Based on the power dynamics in strategic leadership ranks, this study examines whether chief executive officer (CEO) celebrity serves as a source of CEO power and empirically investigates its role in management dismissal. In the spirit of scapegoating theory, this study proposes that CEO celebrity weakens the likelihood of CEO dismissal but strengthens the likelihood of executive dismissal in the face of poor firm performance. This study goes further to explore the previously unexamined question of "whom to dismiss" and argues that less powerful non-board executives as opposed to board executives are more likely to be handy scapegoats of power dynamics. The data from Korean public firms in the aftermath of the Asian financial crisis largely support such a scapegoating hypothesis.

1. Introduction

Does a change in leadership help or hurt an organization's performance? There can be no general answer to this question. Indeed, proponents of the ritual scapegoating perspective (Brown, 1982; Gamson & Scotch, 1964) emphasize poor performance in dismissal (or involuntary turnover), but they anticipate no performance improvement following the dismissal. That is, leaders or managers can be dismissed because of poor organizational performance over which they have little substantive influence, and such turnover will have no impact on subsequent organizational performance (see Rowe, Cannella, Rankin, & Gorman, 2005, for a comprehensive review). These early scapegoating studies paved the way for research that investigates management dismissal in large corporations from the power perspective.

Power-based arguments shed new light on ritual scapegoating theory by showing that management dismissal is strongly affected by the power dynamics within top management (Finkelstein, 1992). Specifically, the influence of power on management dismissal has been a central focus of research on current succession and governance, with the premise that the exercising of power truly takes place during the dismissal (e.g., Ocasio, 1994; Shen & Cannella, 2002; Zhang, 2006). Due to causal ambiguity of firm performance (Dierickx & Cool, 1989), it is quite difficult to pin down who is to blame for poor performance; thus, a blame game within management may occur naturally. Along this line, this study investigates management dismissal and the role of power in the dismissal. However, in contrast to the extant literature on scapegoating and the power perspective, this study looks primarily at CEO celebrity as an external source of CEO power and then explores the previously unexamined question of whom to dismiss. Understanding an external source of CEO power and a victim of scapegoating seems essential to develop a more complete theory of scapegoating.

To examine the scapegoating phenomenon, it is important to understand who actually controls the dismissal and to consider different power sources of both the CEO and executives. This study focuses on CEO celebrity and executive board membership because these two variables are central in understanding the scapegoating phenomenon at the executive level as an outcome of the power dynamics among the CEO, non-CEO executives (hereafter, executives), and the board of directors. On the one hand, CEO celebrity may serve as a critical source of CEO power. In particular, the celebrity CEO receives increased support and trust from internal stakeholders, such as boards of directors and other executives in the strategic leadership ranks (Wade, Porac, Pollock, & Graffin, 2006). On the other hand, board membership may serve as a source of executive power vis-a-vis the CEO. Board membership suggests some degree of influence over the CEO because the board has the responsibility of hiring and firing CEOs.

The primary purpose of this study, therefore, is to investigate the role of CEO celebrity and executive board membership in executive dismissal. More specifically, this study addresses the following questions: Is it likely for a celebrity CEO with power to shift the blame for poor performance to lower level executives? If so, who is the CEO more likely to use as a scapegoat through passing on the blame? To examine the first question, this study divides management dismissal into CEO and executive dismissals and investigates the role of CEO celebrity in dismissal. To examine the second question, this study further divides executive dismissal into board executive dismissal (dismissal of

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executives who are board members) and non-board executive dismissal (dismissal of executives who are not board members) and compares the moderating effects of CEO celebrity on each type of executive dismissal.

2. Theory and hypotheses

Scapegoating theory has its origin in the early study of succession and its implications for performance in the context of sports teams (Rowe et al., 2005). The dismissal of lower level managers in baseball teams is a classic example of 'slump-ending' rituals between seasons (Gamson & Scotch, 1964). Thus, the overall null effect of midseason succession is readily interpreted from the point of view of ritual scapegoating (Brown, 1982). An extension of this argument applies to the dismissal of lower level executives by CEOs and the board in large corporations. When firm performance sags, managers are likely to be accused of incompetence and dismissed. CEOs are the most likely targets. However, CEOs with power may try to shift the blame to lower level executives (Boeker, 1992).

Power refers to the capacity of individual actors to exert their will and achieve their goals in a particular relationship (Pfeffer, 1981). Specifically, CEO power refers to the extent to which a CEO has authority and influence over a firm and its management. The extant research has suggested that, in addition to their authority as CEO, CEOs acquire power from various sources, including internal sources such as managerial expertise and ownership control and external sources such as personal prestige and social status (Finkelstein, 1992). In the context of management dismissal and scapegoating, CEO power is reflected in a CEO's capacity to exert his or her will and strengthen the CEO's position in relation to other executives and the board.

In recent years, CEO celebrity has received considerable attention as a source of CEO power. CEO celebrity refers to the extent to which a CEO is known to the public through the media in a positive way (Hayward, Rindova, & Pollock, 2004; Treadway, Adams, Ranft, & Ferris, 2009). The concept of CEO celebrity is consistent with the public's infatuation with celebrities (Hayward et al., 2004). The intensive public attention on firm performance legitimates the popular ideology that CEOs matter. The CEO is a salient causal agent of firm performance, and a celebrity CEO feels more control over the firm (Treadway et al., 2009). However, the actual power celebrity CEOs can exert over the board and other executives may vary depending on the power dynamics at the top. The CEO holds considerable discretion over executive dismissal while the board of directors has the formal authority to dismiss the CEO. However, the power dynamics are much more complicated than they appear due to the dual role of board executives as both board members and executives. Board membership of executives may place the CEO and the board executives in bilateral dependence (Boeker, 1992; Mian, 2001).

From the power perspective, but consistent with scapegoating theory, this study examines the roles of CEO celebrity and executive board membership in management dismissal. The two variables become a credible source of influence and power of the CEO and executives, respectively, and, in interaction, shape a target for scapegoating. For example, if CEO celebrity can buffer the CEO from dismissal when firm performance is poor, and if scapegoating of executives occurs, then the CEO should decide which of the executives to dismiss. However, if an executive has significant influence within top management via board membership, the CEO cannot easily dismiss this executive. Instead, the CEO is likely to target less prominent executives who have relatively limited influence and power. In other words, a celebrity CEO will be more likely to sacrifice non-board executives to placate the board and shareholders without concern about sacrificing his or her pawns (Lorsch & MacIver, 1989).

Fig. 1 summarizes our arguments about CEO celebrity and executive board membership and the roles of CEOs and executives in management dismissal. Poor firm performance increases the likelihood of both CEO and executive dismissals. However, the presence of a celebrity CEO can influence the power dynamics in favor of the CEO. This study proposes that CEO celebrity weakens the likelihood of CEO dismissal but increases the likelihood of executive dismissal in the face of poor firm performance. Moreover, within the domain of executive dismissal, the moderating effect of CEO celebrity is even stronger in the case of non-board executives than board executives.

2.1. Firm performance and management dismissal

Executive departures come in several forms, including death, illness, mandatory retirement, leaving for an executive position in another company, and dismissal (Finkelstein, Hambrick, & Cannella, 2009). The most theoretically interesting type of management exit is the dismissal because power and influence are most likely to be exercised in this area (Boeker, 1992). Management dismissal is defined as the departure of CEOs or executives from a firm against their will (Fredrickson, Hambrick, & Baumrin, 1988). Why do CEOs and executives lose their jobs? The most obvious answer is that their firms are performing poorly (Finkelstein et al., 2009). Since the ultimate goal of firms is to maximize shareholders' wealth, firm performance must be the most credible basis

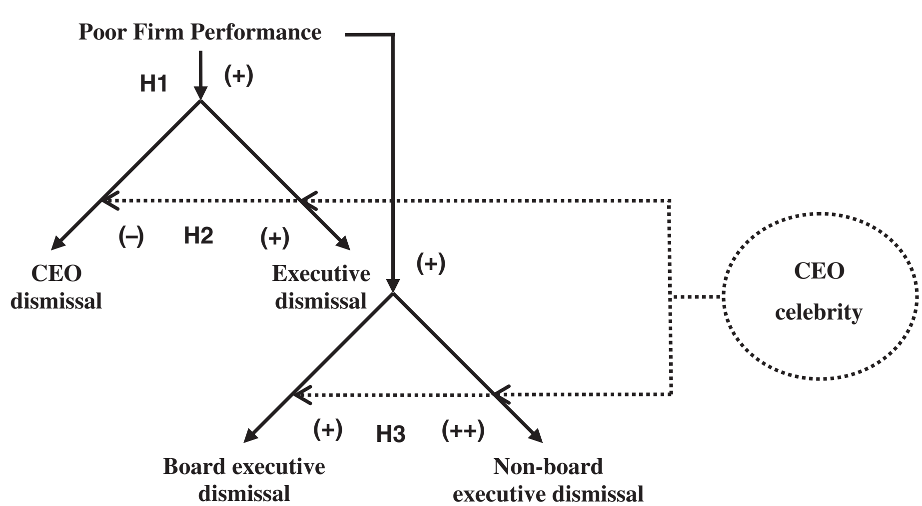

Fig. 1. CEO celebrity and its effect on management dismissal.