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National power distance, status incongruence, and CEO dismissal

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ABSTRACT

Using a large database of public companies from 22 countries, we examine the independent and interactive effects of national power distance and status incongruence on the likelihood of CEO dismissal. Status incongruence exists in a top management team when there is an inconsistency of social status and hierarchical status among top management team members. We find that whereas national power distance decreases the likelihood of CEO dismissal, status incongruence has a positive effect on CEO dismissal. Furthermore, the positive effect of status incongruence is more salient in high power distance societies.

1. Introduction

CEO dismissal refers to forced CEO turnover for reasons other than age or health concerns (Fredrickson, Hambrick, & Baumrin, 1988; Zhang, 2008). It is an important, unique, and very visible organizational event that has profound impact on executive team composition, organizational strategy, and organizational performance (Finkelstein, Hambrick, & Cannella, 2009; Wiersema & Zhang, 2011). In recent years, as CEOs have been dismissed at an accelerating pace across countries, studies on CEO dismissal have attracted increasing attention from academia, the media, and the general public (Crossland & Chen, 2013; Zhang, 2008). Prior studies have employed economic, sociological, social psychological, and social status perspectives to delineate the main antecedents of CEO dismissal (Finkelstein et al., 2009). In particular, studies drawing upon sociological perspectives rely primarily on a power circulation theory of control, proposing that internal power contest from other senior executives is one of the main antecedents of CEO dismissal (Ocasio, 1994; Ocasio & Kim, 1999).

However, despite advances in understanding the process through which interest conflicts and competition among top executives might lead to the occurrence of CEO dismissal, several under-explored areas in the CEO dismissal literature remain. The current article attempts to make a contribution that goes above and beyond existing research and theory building by addressing two of these under-explored areas, namely (1) the part played by national culture, and (2) the differences of the effect of status incongruence in various countries around the globe. Status incongruence refers to the inconsistencies between hierarchical status, which is defined as the internal formal organizational status conferred by organizational hierarchical arrangements, and social status, which refers to the relative respected social standing with reference to a particular social grouping or hierarchy.

First, the empirical studies drawing on power circulation theory of control have been concerned primarily with U.S. organizations and U.S. contexts (Aguilera & Crespi-Cladera, 2016; Crossland & Chen, 2013). These studies thus did not take into account the role played by national level contextual variables. However, recent comparative and international corporate governance studies suggest that informal institutions such as national culture have a great impact on corporate governance as a firm-level phenomenon (Aguilera & Jackson, 2003, 2010; Crossland & Chen, 2013). Particularly, as CEO dismissal is greatly influenced by the interactions and power struggles among company stakeholders (Ocasio & Kim, 1999; Ocasio, 1994), it is highly likely that national culture, which places informal constraints on human interactions, will have an impact on CEO dismissal. Therefore, we will examine the following question, which is of increasing importance to firms and scholars: *how does national culture affect CEO dismissal?*

Second, prior power circulation studies did not take into consideration whether status incongruence may affect CEO dismissal. There is even less discussion of how national culture might shape the effect of status incongruence. Recent investigation of status differences in an organizational context, however, has revealed that status incongruence is especially influential in affecting how people think, feel, and behave at work (Perry, Kulik, & Zhou., 1999; Shen, Tang, & Chen, 2013; Tsui, Porter, & Egan, 2002). Status incongruence arises in top management teams when CEOs do not have higher social status than senior executives, and this is not an uncommon phenomenon. When there are status incongruences within top management teams (i.e., when CEOs are not of higher social status than senior executives), it is highly likely

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that such incongruences become a source of interpersonal conflicts between senior executives and CEOs, which in turn increase the likelihood that senior executives form informal coalitions with outside directors to oust the incumbent CEOs (Shen & Cannella, 2002a). As a result, status incongruences within top management teams might have a positive impact on the likelihood of CEO dismissal. Moreover, the way senior executives react to status incongruence can be affected by societal cultural norms. For example, Van Der Vegt, Van De Viliert, and Huang (2005) revealed that individuals react to status differences differently depending on national culture of power distance. Therefore, in order to gain a deeper understanding of the dynamics within top management teams, it is also important to examine the effects of status difference in top management teams across a variety of societies from the angle of national culture.

In this study, we suggest that power distance, which refers to the extent to which members of a society expect and accept that power should be shared equally (Hofstede, 2001), is the most relevant cultural dimension in studying CEO dismissal. Power distance shapes how senior executives interact with CEOs, and thus can have a direct impact on CEO dismissal. Furthermore, it strongly affects how incongruence is being perceived (Farh, Tsui, Xin, & Cheng, 1998) and, hence, would shape the effect of status incongruence on CEO dismissal.

The present study contributes to the comparative and international governance literature by examining how national power distance might shape the effect of status incongruence on CEO dismissal. As noted by Aguilera and Jackson (2010), though most research on comparative and international corporate governance agree that national culture matters, it fails to specify what the key national cultural values might be and how these culture values matter. In this study, we theorize and empirically test how national power distance serves as the key cultural value influencing CEO dismissal, and thus respond to the call for more cross-national theorizing in comparative and international corporate governance research (Aguilera & Jackson, 2010; Filatotchev, Jackson, & Nakajima, 2013).

Furthermore, our study also contributes to the power circulation theory of control by contextualizing the power dynamics among top management team members. While the potential impact imposed by cultural variation on the power struggle among top managers has been recognized, it has yet to be widely examined (Van De Vegt et al., 2005; Wiersema & Bird, 1993). In this study, we examined how national power distance affects the power struggles among top management team members using a sample of listed companies from 22 countries, and thus extend our understanding of power circulation process across countries.

2. Theory and hypotheses

2.1. The power circulation theory of control

The power circulation theory of control is developed from the classic political theories of elite circulation and later adapted by Ocasio (1994) to account for CEO dismissal. According to this perspective, rather than being team members firmly standing behind the CEOs, the senior executives have a strong incentive to challenge their incumbent CEOs (Ocasio, 1994; Ocasio & Kim, 1999), mainly for two reasons. First, senior executives have a desire to advance their own careers. Senior executives are typically ambitious individuals with a strong need for power and control (Lazear & Rosen, 1981; Shen & Cannella, 2002a). Though they are immediate subordinates of the CEOs, the pay and prestige differential between them and the CEOs tend to be substantial. As a result, the senior executives might engage in power tournaments in order to run their own show.

Second, senior executives might contest CEOs' power in order to maintain their own reputation in the external labor market. Because the external labor market evaluates the reputation and value of top management team as whole, senior executives have a strong incentive to monitor the CEOs (Fama, 1980). As a result, unless CEOs can prove their competence in leading the whole company, the senior executives are highly likely to take actions against the CEOs.

Ocasio (1994) noted that power struggles within a top management team might become latent if CEOs could meet the expectations of both the boards and senior executives (Ocasio, 1994; Shen & Cannella, 2002a). However, when they perceive the CEOs to be less than capable, the latent political contests may come to foreground, and the senior executives might seek to remove the incumbent CEOs.

These studies, however, did not take into account the role of status incongruence in influencing CEO dismissal. CEOs by default have legitimate power in organizations and hence higher hierarchical status. Nevertheless, not all CEOs enjoy higher social status than his top management team members. Senior executives who are having similar or higher social status than CEOs may be less susceptible to CEO's influence and may perceive the CEOs as less than capable. Thus, it is likely that any status incongruence within a top management team will result in a higher likelihood of CEO dismissal.

Another distinguishing characteristic of the prior studies in this stream is that they have been conducted on U.S. organizations. These studies, however, may suffer from cultural blind spots. Indeed, sociopolitical dynamics between senior executives and the CEOs do not happen in a vacuum. Both senior executives and CEOs are embedded in societies and as such their attitudes and behaviors are highly likely to be shaped and constrained by prevalent social norms (Geletkanycz, 1997). According to institutional theory, a society's social norms shape individual attitudes and behaviors in two ways.

The first concerns individuals' internalization of social norms. Individuals typically develop a set of foundation cognitions (schema, belief structures, or mental templates) mostly through their early socialization experiences (Berger & Luckmann, 1967; Hofstede, 2001). Once this socially constructed view of reality is established and the social norms are internalized, individuals will act in line with social norms because other types of behavior are simply inconceivable (Berger & Luckmann, 1967; DiMaggio & Powell, 1983; Scott, 2008). The other way social norms constrain individual behavior concerns informal sanctions (Gibbs, 1981; Scott, 2008). Informal sanctions include social distancing, shame, ridicule, sarcasm, criticism, disapproval, and, in extreme cases, social discrimination and exclusion (Gibbs, 1981). Individuals who behave against social norms will typically be sanctioned by members of a society. As a result, the threat of being sanctioned will induce individuals to conform to societal norms (Biggart, 1991; Gibbs, 1981). Indeed, social norms are so powerful influencers of behavior that they "possess the power to induce people to act publicly in ways that deviate from their private inclinations" (Miller, 1999: 1056).

Overall, as members of national societies, both senior executives and CEOs are highly likely to behave in line with social norms, as they not only internalize these norms, but also experience social reinforcement pressures which prevent them from acting against these norms. In fact, research has shown that social norms (e.g. individualism) not only influence corporate executives' attitudes and beliefs (e.g., Geletkanycz, 1997), but also shape their behavior patterns when making key company decisions (Lu & Heard, 1995; Shane, 1995).

Probably the most relevant of all the dimensions of national culture, as they pertain to CEO dismissal, are collectivism and power distance. Collectivism refers to the extent to which people are expected to act predominantly as a member of a group or alternatively stand up for themselves (Hofstede, 2001). Whereas individuals in collectivistic societies (e.g., Japan) are more likely to attribute negative organizational outcomes to a group or collective, those from individualistic societies (e.g., U.S.) are more likely to blame an individual for negative organizational events (Zemba, Young, & Morris, 2006). As such, it is highly likely that CEOs in collectivistic societies are less likely to be dismissed, because board members or shareholders may attribute negative organizational outcomes (e.g., poor firm performance) to the whole top management team rather than the CEO (Crossland & Hambrick, 2007).