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CEO dismissal, institutional development, and environmental dynamism

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Abstract CEO dismissal is one of the most theoretically interesting topics in strategic management. From a critical realistic perspective, we identify the core assumptions underlying perspectives on CEO dismissal and specify the contexts in which these assumptions are likely to be realistic. We then classify these contexts into four scenarios based on high and low levels of institutional development and environmental dynamism and develop an integrative theoretical framework of CEO dismissal. Our framework posits that institutional development and environmental dynamism interact to determine the antecedents of CEO dismissal and who will be selected as the new CEO, as well as the performance consequences of CEO succession.

Keywords CEO dismissal · Institutional development · Environmental dynamism · Critical realistic perspective

The study of chief executive officers (CEOs) is one of the mostly attractive areas to scholars in the strategic management field given that CEOs in business organizations probably play the most vital role in strategy formation and implementation (Dalton & Kesner, 1985; Finkelstein, Hambrick, & Cannella, 2009). In particular, CEO dismissal, in which CEOs are forced to leave the company for reasons other than age or health concerns (Fredrickson, Hambrick, & Baumrin, 1988; Shen & Cho, 2005), represents an important organizational phenomenon that has a profound impact on organizational survival and success (Finkelstein et al., 2009). In recent years, when the world has become engulfed by an economic recession and CEOs are being

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dismissed at an accelerating rate, few topics in strategic management rival CEO dismissal in terms of interest from academia, the media, and the general public.

Research on CEO dismissal has so far focused on three interrelated questions: (1) What are the antecedents of CEO dismissal? (2) Who will be selected as the new CEO after a dismissal? (3) What are the performance consequences of CEO dismissal? (Finkelstein et al., 2009). To this point, research on these questions shows "no sign of slowing, and many interesting and challenging questions remain" (Finkelstein et al., 2009: 197).

To date, scholars have adopted five perspectives in addressing these research questions: the agency theory perspective (Huson, Parrino, & Starks, 2001; Zhang, 2008), the ritual scapegoating perspective (Gamson & Scotch, 1964), the organizational adaptation perspective (Karaevli, 2007; Tushman & Rosenkopt, 1996), the social psychological perspective (Rankin & Rowe, 2006), and the circulation of power perspective (Ocasio, 1994; Ocasio & Kim, 1999; Shen, 1999). Differing significantly in their assumptions concerning *board vigilance* and *CEO competence*, these perspectives offer competing predictions about the antecedents and consequences of CEO dismissal and who will be selected as the successor. Board vigilance refers to the extent to which board directors effectively monitor executives and environmental demands (Finkelstein et al., 2009), whereas CEO competence is concerned with CEOs' personal knowledge, experience, skills, and capabilities in strategic formation and implementation (Miller, 1991).

The empirical results of CEO dismissal studies have also been mixed. For example, while studies on samples of US firms have generally found that prior weak firm performance is significantly related to CEO turnover (Brickley, 2003), studies on firms from the Czech Republic (Eriksson, 2005), Finland (Maury, 2006), Japan (Kaplan, 1994), and South Korea (Campbell & Keys, 2002) have found non-significant relationships between particular performance measures and CEO dismissal.

We believe that an integrated framework should be developed as a matter of urgency to resolve this conflict in the empirical results of prior investigations and to act as a guideline for further research. This requires that we investigate the veracity of the five perspectives identified in the extant literature by examining each of their mechanismic explanations. Tsang (2006) has noted that the critical constituent of a theory's mechanismic explanation is its core assumptions. The extent to which a theory is powerful in explaining a phenomenon observed in the real world depends largely on the degree to which its core assumptions address the realities behind the phenomenon. According to Tsang (2006), this view, whereby core assumptions are connected to the reality, can be labeled as a "critical realistic perspective."

From a critical realistic perspective, we argue that there is a need to incorporate contextual factors derived from institutional development and environmental dynamism into studies of CEO dismissal. We note that the veracity of assumptions made concerning board vigilance and CEO competence from different perspectives depends on both institutional development and environmental dynamism (Defond & Hung, 2004; Henderson, Miller, & Hambrick, 2006). As a result, by simultaneously considering institutional development and environmental dynamism, we are able to reconcile the diverse range of existing perspectives on CEO dismissal and propose an integrative framework for future research.

The remainder of this paper begins with a review of the main perspectives, with a special focus on identifying their core assumptions. We then identify the contexts in which these assumptions are more realistic and build a theoretical framework by paying close attention to these contextual factors.

Existing perspectives on CEO dismissal

According to critical realism, a theory is an explanation describing the mechanisms underlying the phenomena concerned (Tsang, 2006). Essentially, a theory has two central components: structures and mechanisms (Tsang & Kwan, 1999). Structures are sets of internally related entities, both observable and unobservable, while mechanisms are ways of acting (Sayer, 1992). Unobservable entities, or what Tsang (2006) called core assumptions, are central elements of many management theories such as transaction cost theory, agency theory, and the resource-based view (Godfrey & Hill, 1995; Tsang, 2006). The combined effects of structures and mechanisms may generate events that are the objects of study in different disciplines.

In the section that follows, we briefly review the five perspectives on CEO dismissal by identifying the entities involved in their structures—both observable objects and core assumptions—and the mechanisms of each theory. Table 1 exhibits a summary of the observable entities, core assumptions, mechanisms, and determinants of CEO dismissal for each of the five perspectives.

Agency theory

Agency theory has commonly been used to analyze the CEO dismissal phenomenon. In most modern corporations, because company owners, who are defined as principals, do not usually manage the company themselves, they hire executives—sometimes referred to as agents—to do so. The separation of company ownership from company management raises agency problems caused by conflicts of interest between owners and executives, particularly CEOs. Accordingly, although company owners seek to maximize company profit, CEOs are more motivated to pursue prestige, power, or job security and thus could act in a manner that is opportunistic or against the owners' best interests (Hendry, 2002; Walsh & Sewar, 1990; Zajac, 1990; Zhang, 2008).

The unequal distribution of information among company owners and CEOs—information asymmetry—creates two agency problems. The first occurs at the time of CEO succession. Because CEO candidates possess more information about their own abilities than owners or board directors, they may misrepresent their abilities to win appointment to the most prestigious job (Zajac, 1990; Zhang, 2008). This agency problem is usually referred to as *adverse selection* (Zhang, 2008).

The other agency problem arises once the CEO has taken up the position. When owners have less information than their top executive concerning management and operations, CEOs may invest less than the agreed amount of effort in maximizing company profits (Hendry, 2002; Zajac, 1990). This agency problem is formally known as *moral hazard* and can take the form of straightforward shirking or

Table 1 A summary of five perspectives on CEO dismissal.

	Agency theory	Ritual scapegoating perspective	Organizational adaptation perspective	Social psychological perspective	Circulation of power perspective
Observable entities	Owners, board directors, and CEOs	Board directors, company stakeholders, and CEOs	Board directors, CEOs, and environmental contingencies	Board directors and CEOs	Board directors, CEOs, and senior executives
Core assumptions	· Agents are opportunistic	· Competences are invariant among managers	· CEO competence becomes obsolete over time	· Board directors are self-seeking	· CEO competence becomes obsolete over time
	· Goals of CEOs and owners are incongruent	· Board directors are vigilant monitors	· Board directors are vigilant monitors	· CEO competence is irrelevant to CEO dismissal	· Board directors act out of self-interest
	· Information is asymmetrically distributed				
	· Board directors are vigilant monitors				
	· CEO competence is stable over time/CEOs are fully competent				
Mechanism	Boards of directors dismiss CEOs because they have engaged in opportunistic behavior	Boards of directors dismiss CEOs to appease stakeholders	Boards of directors replace CEOs to realign CEO competence with the environment	Boards of directors evaluate dissimilar CEOs unfavorably	One of the senior executives wins the support of board directors and replaces the incumbent CEO
Determinants of CEO dismissal	Identification of opportunistic CEO behavior	Stakeholders' dissatisfaction with company performance	Mismatch between CEO competence and environmental conditions	Dissimilarity between CEOs and board directors	Power struggles initiated by senior executives

pursuing one's self-interest by making management decisions that benefit oneself, such as over-diversification or resistance to takeover bids (Hendry, 2002).

Agency theory suggests that relevant observable entities include company owners, board directors, and CEOs (Finkelstein et al., 2009; Peng, Li, Xie, & Su, 2010). The role of the board becomes critical when a company's ownership is widely dispersed because individual owners have little interest in collecting information on the CEO, instead placing their trust in the board to monitor and control him (Boeker, 1992; Boeker & Goodstein, 1993; Mizruchi, 1983). The board is the main mechanism by which to reduce information asymmetry between owners and CEOs (Eisenhardt, 1989).

Based upon these core assumptions—opportunistic behavior and incentives to seek self-interest among CEOs, goal incongruence between company owners and CEOs, and information asymmetry—students of agency theory present a mechanismic explanation for CEO dismissal. When company owners or board directors find that the CEO has engaged in opportunistic behavior that is detrimental to the owners' interests, they will terminate their relationship by dismissing the CEO (Huson et al., 2001; Pi & Lowe, 2011).

In order to facilitate examination of relationships between company owners, board directors, and CEOs, agency theory has put forward a further assumption on board vigilance. It is suggested that board directors are generally vigilant monitors of CEO behavior and that interactions between board directors and CEOs could be an effective means of reducing information asymmetry. For instance, adverse selection could arise if CEO candidates misrepresent their capabilities. However, the selected CEO will be dismissed as soon as the owners or board directors update their views on the CEO's abilities. Thus, one may expect that the higher the level of information asymmetry between board directors and CEO candidates, the more likely it is that these candidates will misrepresent their competence and that the selected CEO will be dismissed (Zhang, 2008).

Studies on moral hazard problems make similar assumptions on board vigilance (Hendry, 2002; Zajac, 1990). Empirical studies in this line of research have suggested that a CEO's opportunistic behavior will result in poor performance because the CEO will not use the company's resources, including his own efforts, in the most productive way (Defond & Hung, 2004). Hence, one would expect to find a close link between poor company performance and the likelihood of CEO dismissal, as board directors are assumed to be vigilant monitors of CEO's opportunistic behavior (Crossland, 2009; Shen & Cho, 2005).

How do scholars of agency theory define the relationship between CEO competence and CEO dismissal? The impact of CEO competence on dismissal varies according to the circumstances in which a specific agency problem arises (Zajac, 1990; Zhang, 2008). As noted earlier, CEO candidates may misrepresent their competence at the time of CEO selection to win the position. Agency theory predicts that such information asymmetry may not endure over time as owners and board directors can discover the CEO's true capabilities at a later stage. This implies that in the case of adverse selection, CEO competence is invariant over time (Zajac, 1990; Zhang, 2008). Otherwise, the information asymmetry that exists at the time of CEO selection would have little consequence for CEO succession, because it is CEO competence at the time of CEO dismissal rather than at the time of CEO selection that matters for company owners' profits. In the case of moral hazard, existing theoretical assumptions seem to suggest that CEO competence is irrelevant to CEO dismissal because CEOs are fully competent (Hendry, 2002; Shen, 2003).

The ritual scapegoating perspective

The ritual scapegoating perspective approaches the subject of CEO dismissal by introducing different observable entities from agency theory: board directors, CEOs, and company stakeholders. This perspective assumes that managers in the professional manager market possess similar knowledge and skills (Huson, Malatesta, & Parrino, 2004) and that the variance in knowledge and skills among managers is so small that "managerial skill may be considered a constant" (Gamson & Scotch, 1964: 70).

If managers are less distinct in their knowledge and skills, then according to the scapegoating perspective, dismissing the incumbent CEO will not improve the company's performance because the replacement CEO will be of the same quality as the outgoing one. However, board directors may persistently change the CEO for the purpose of appeasing company stakeholders rather than to enhance company performance (Crossland, 2009; Gamson & Scotch, 1964; Huson et al., 2004; Shen & Cho, 2005).

Indeed, once a company's performance declines, the company's stakeholders are likely to become anxious and lose their confidence in top management (Crossland, 2009; Gamson & Scotch, 1964). While ordinary stakeholders such as low-rank employees, individual shareholders, and customers might not understand how top executives function and operate, they simply tend to attribute poor performance to the incumbent CEO (Salancik & Meindl, 1984). As a consequence, CEO dismissal will reduce the degree of anxiety among stakeholders and rekindle their confidence (Cannella & Lubatkin, 1993; Gamson & Scotch, 1964).

Although this perspective rests on a core assumption concerning board vigilance, it is slightly different from that hypothesized by agency theory. The scapegoating perspective assumes that board directors play a role as vigilant monitors of environmental demands and discern company stakeholders' attitudes. They are thus more responsive to stakeholder anxiety and pressure rather than being focused on restricting opportunistic behavior on the part of the CEO. However, this assumption may not necessarily hold. Even if stakeholders are dissatisfied, board directors might retain the incumbent CEO if their collusion with the CEO could provide them with personal benefits (Defond & Hung, 2004).

The organizational adaptation perspective

Many industries are changing rapidly today due to the pace of development in high-technology, particularly information technology, and the trend of economic globalization. Top executives, and CEOs in particular, must ensure their organizations adapt to the changing environment. The central concept emphasized in the organizational adaptation perspective is that organizations should align their strategies, structures, and key individuals with environmental contingencies (Keck

& Tushman, 1993; Virany, Tushman, & Romanelli, 1992). When the external environment begins to change, companies operating in that environment must change their strategy and structure, as well as the mindsets of managers and employees (Shen & Cho, 2005; Tushman & Rosenkopt, 1996).

By focusing on the organizational configuration of organizational strategy, structure, and external environments, the organizational adaptation perspective introduces environmental contingencies as a set of observable entities additional to those of board directors and CEOs. By assuming that a CEO's competence will become obsolete over time as external environments frequently change (Virany et al., 1992), this perspective provides the mechanismic explanation that board directors will replace the incumbent CEO when there is a mismatch between the CEO's competence and environmental contingencies (Karaevli, 2007; Lant & Milleken, 1992). This is because the CEO's strategy and plans are usually rigid and have little elasticity, thus preventing the incumbent CEO from adapting adequately and rapidly to environmental shifts. Seldom can the CEO meet new competence requirements as they arise. Consequently, companies must replace the incumbent CEO to regain a fit between CEO competence and environmental contingencies. Dismissing the CEO therefore becomes an important way to make the company respond to environmental change (Lant & Milliken, 1992). Thus, the key determinant of CEO dismissal is the matching of CEO competence to dynamic environmental contingencies.

Scholars who adopt the organizational adaptation perspective take a different view from others in construing the role of board directors as vigilant monitors in scanning external environments, acting quickly to discern any mismatch between CEO competence and environmental demands, and making decisions on replacing the incumbent CEO with a new one whose competence is aligned with environmental contingencies (Keck & Tushman, 1993; Shen & Cho, 2005).

The social psychological perspective

From the social psychological perspective, the conceptual framework of CEO dismissal is built by examining two observable entities: board directors and CEOs. Proponents of this perspective claim that CEOs who are dissimilar to board directors are more likely to be dismissed (Rankin & Rowe, 2006). They provide two complementary mechanismic explanations for this prediction.

First, the similarity-attraction paradigm suggests that individuals prefer others who are similar to themselves and will therefore provide them with biased evaluation and treatment (Schneider, Goldstein, & Smith, 1995; Tsui & O'Reilly, 1989). Board directors have been found to provide higher pay and less contingent compensation to demographically similar CEOs (Westphal & Zajac, 1995; Young & Buchholtz, 2002) and to select demographically similar individuals as new CEOs and board directors (Westphal & Zajac, 1995; Zajac & Westphal, 1996). Conversely, when the CEO is dissimilar to the board directors, the CEO is likely to receive unfavorable evaluations and is more likely to be dismissed (Rankin & Rowe, 2006).

Second, the self-categorization theory suggests that individuals can derive self-esteem and self-identity from psychological membership, for which demographic similarity is a salient basis (Useem & Karabel, 1986). As dissimilar CEOs do not reinforce the board directors' self-identity, the board directors may find it desirable to replace the incumbent CEO with an individual with whom they share similarities (Zajac & Westphal, 1996).

This perspective is also based on assumptions about board vigilance and CEO competence. In contrast to the three perspectives outlined earlier, all of which suggest that board directors, especially outside directors, act in line with shareholders' interests, this perspective assumes that board directors are self-seeking and make CEO dismissal and selection decisions based on their own preferences. Moreover, the social psychological perspective further assumes that CEO competence is irrelevant to CEO dismissal. According to this perspective, whether a CEO will be dismissed is determined solely on the basis of dissimilarities between the CEO and board directors.

The circulation of power perspective

The basic structure of the circulation of power perspective consists principally of three main observable entities: board directors, CEOs, and senior executives. The core assumptions of this perspective include obsolescence and contestation (Ocasio, 1994). Obsolescence implies that CEOs' competence will become increasingly misaligned with environmental contingencies over time because of their finite and relatively fixed paradigms (Henderson et al., 2006; Ocasio, 1994). When one of the most important sources of power in the organization arises from an individual's ability to cope with environmental contingencies, this obsolescence will lead the CEO to lose control over the organization and senior managers (Pfeffer, 1981). Power is "a store of potential influence through which events can be affected…to bring about desired outcome" (Cannella & Shen, 2001: 253).

Contestation suggests that senior executives will form political coalitions with other board directors to contest the incumbent CEO's power (Ocasio, 1994; Shen & Cannella, 2002). Because the position of CEO is associated with a high level of prestige and power, senior executives, who are typically ambitious individuals with strong needs for power and control, have large incentives to initiate a power contest against the incumbent CEO (Shen & Cannella, 2002).

The mechanismic explanation provided by the circulation of power perspective is that as the incumbent CEO's power erodes and dissipates over time, one of the other senior executives could win the support and approval of the board directors and thus successfully replace the incumbent (Combs, Ketchen, Perryman, & Donahue, 2007; Ocasio, 1994; Ocasio & Kim, 1999; Shen & Cannella, 2002).

The likelihood of CEO dismissal increases significantly as the CEO's competence becomes obsolete because obsolescence provides opportunities for successful power contestation (Ocasio, 1994; Shen & Cannella, 2002). As noted above, new CEOs typically possess knowledge and skills that are compatible with environmental demands because the board of directors can select a CEO whose competence is aligned with conditions facing the firm at the time (Henderson et al., 2006). At this early stage of CEO tenure, power challenges may become latent because the chance of success is slight. Subsequently, however, when the CEO is unable to adapt adequately to environmental changes, he will face a greater number of challenges from senior executives and is thus more likely to be dismissed.

Similar to the social psychological perspective, the circulation of power perspective also assumes that board directors act out of self-interest. They provide support for the CEO when the CEO is powerful, but form coalitions with senior executives when the CEO's competence becomes obsolete to maintain their own power and position (Ocasio, 1994; Shen & Cannella, 2002). This perspective thus contrasts with agency theory, the ritual scapegoating perspective, and the organizational adaptation perspective, all of which assume that board directors are vigilant in performing their fiduciary duties.

Overview

A major tension in the above theories of CEO dismissal lies in their divergent assumptions regarding CEO competence and board vigilance. Specifically, researchers who adopt agency theory, the ritual scapegoating perspective, or the organizational adaptation perspective assume that board directors, especially outside board directors, are vigilant in performing their fiduciary duties to monitor and evaluate senior executives and enhance shareholder gain (Finkelstein et al., 2009), a notion clearly rejected by researchers following the circulation of power perspective and the social psychological perspective.

Furthermore, while both the circulation of power and organizational adaptation perspectives assume that CEO competence will become obsolete over time, studies on adverse selection problems view CEO competence as invariant over time. Studies on moral hazard problems, the ritual scapegoating perspective, and the social psychological perspective even consider CEO competence to be irrelevant to CEO dismissal.

These core assumptions are key elements of mechanismic explanations for CEO dismissal (Godfrey & Hill, 1995; Tsang, 2006). Consider what the circulation of power perspective would look like without the assumption of CEO competence obsolescence. If CEO competence does not become obsolete over time, CEOs can update their knowledge and skills. They will therefore face little contest for their position and will never be replaced.

According to the critical realistic perspective, for theories to have explanatory power and normative implications, it is imperative that their core assumptions are realistic (Tsang, 2006). The logical positivistic perspective instead suggests that it does not matter whether the assumptions of a theory are realistic as long as the theory yields sufficiently accurate predictions (Godfrey & Hill, 1995). A major problem with logic positivism is that researchers adopting this perspective cannot derive normative rules from theories, because a number of feasible alternative theories might be constructed to explain the phenomenon being observed (Tsang, 2006).

Recall that studies on moral hazard problems focus mainly on the negative relationship between company performance and CEO dismissal and that agency theory regards poor firm performance as an indicator of opportunistic CEO behavior. Board directors infer from company performance whether the CEO has behaved opportunistically and subsequently make the CEO dismissal decision on the basis of this inference (Crossland, 2009).

However, this observed negative relationship can also be explained by the ritual scapegoating perspective and the organizational adaptation perspective (Crossland, 2009; Shen & Cho, 2005). The ritual scapegoating perspective maintains that poor company performance will lead to dissatisfaction among company stakeholders, which in turn increases the likelihood of CEO dismissal (Gamson & Scotch, 1964). In addition, according to organizational adaptation theory, a mismatch between CEO competence and environmental contingencies will result in poor company performance (Drazin & Van de Ven, 1985). To the extent that both poor company performance and CEO dismissal are associated with a CEO-environmental mismatch, we can also explain the relationship between company performance and CEO dismissal from the organizational adaptation perspective (Shen & Cho, 2005).

If a negative relationship between company performance and CEO dismissal is observed, a normative implication from agency theory could be that CEOs who have been dismissed have engaged in opportunistic behavior and that no other company should hire them going forward. However, according to the organizational adaptation perspective, environmental shifts and the inability of CEOs to update their skills are actually the main antecedents of poor company performance (Drazin & Van de Ven, 1985). The ritual scapegoating perspective even suggests that fired CEOs do not have any impact on company performance. Neither the organizational adaptation view nor the ritual scapegoating perspective has any implications linking CEO dismissal to opportunistic behavior.

The foregoing analysis suggests that an unrealistic core assumption may lead to an unrealistic mechanismic explanation and, therefore, to misleading normative implications (Tsang, 2006; Tsang & Kwan, 1999). A realistic position is especially important for management researchers, whose main contribution lies in improving managerial actions (Godfrey & Hill, 1995). It is necessary to adopt an empirical approach to determine whether an assumption is realistic (Tsang, 2006). In the next section, we examine the conditions under which the core assumptions of each perspective concerning CEO competence and board vigilance are likely to be realistic.

Institutional development and environmental dynamism

According to institutional economics, one of the main determinants of board vigilance is institutional development (Defond & Hung, 2004; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997). Institutions are "the humanly devised constraints that shape human interaction" (North, 1990: 3). Countries differ significantly in their institutional environments and the extent to which their institutions are developed (Chan, Isobe, & Makino, 2008). Developed institutions will exert extremely strong pressure on board directors to be vigilant in performing their fiduciary duties.

Specifically, in societies with well-developed institutions including shareholder protection laws and a market for corporate control, there will be an *ex post* "settling up" for board directors who are not successful in fulfilling their fiduciary duties (Fama & Jensen, 1983). That is, board directors' current performance will be reflected in their future opportunities and pay. As a consequence, board directors in societies with well-developed institutions are more likely to be vigilant in monitoring senior executives and environmental demands.

First, extensive shareholder protection laws make it easier for minority shareholders to challenge board directors' decisions. La Porta and colleagues (1997) see shareholder protection laws as key constraints on board directors' behavior and even refer to these laws as anti-director rights. Specifically, extensive shareholder protection laws provide shareholders with the right to call an extraordinary meeting of shareholders and judicial venues in which they can challenge directors' decisions. The threats of being ousted and litigation will thus induce directors to act in the interests of shareholders (Defond & Hung, 2004).

Second, a market for corporate control prevents board directors from colluding with CEOs. When board directors collude with CEOs, company performance will not be maximized (Defond & Hung, 2004). In a country with a developed market for corporate control, such companies are likely to be acquired because the acquirer could profit by replacing the incumbent CEO and board directors (Servaes & Zenger, 1996). As a result, board directors will refrain from colluding with the CEO and will have incentives to perform their fiduciary duties to maintain their board positions and develop their reputation in the labor market (Huson et al., 2004).

Environmental dynamism serves as the contextual factor influencing whether core assumptions concerning CEO competence are realistic. Environmental dynamism refers to the rate and unpredictability of change in a firm's external environment (Dess & Beard, 1984; Tan & Litschert, 1994). The sources of environmental dynamism include an increase in the size and number of organizations within an industry, a technological change and its diffusion throughout an industry, and a change in customer demand (Simerly & Li, 2000).

Environmental dynamism determines whether CEO competence will become obsolete over time (Henderson et al., 2006; Miller, 1991). In a stable industry in which customer preferences, technologies, and the competitive landscape seldom change, it is unlikely that CEO competence will be obsolete. This means that as long as the environment is stable enough, CEO skills that are useful today will, to a fair degree, also be useful tomorrow. Incumbent CEOs should concentrate on sharpening their expertise in line with organizational contingencies to enhance company performance (March, 1991).

In contrast, in a dynamic environment, CEO competence will quickly become obsolete. Dynamic environments are characterized by an ongoing barrage of external jolts that disrupt the status quo and noisy and confusing feedback (Tushman & Romanelli, 1985). As the perspectives and paradigms of CEOs are relatively inflexible, they may persist in their beliefs and continue pursuing activities undertaken in the past, even where environmental contingencies have changed rapidly. Therefore, a dynamic environment can quickly lead to CEO skills becoming obsolete.

In summary, whether the core assumptions of the various perspectives on CEO dismissal are realistic depends on the extent to which institutions are developed and the rate and unpredictability of change in a company's environment. With this in mind, we adopt an integrative framework to explore the antecedents of CEO dismissal, new CEO selection, and the performance consequences of CEO succession.

An integrative framework of CEO dismissal

To facilitate discussion, we divide the environmental contexts CEOs face into four distinct scenarios based on high and low levels of institutional development and environmental dynamism. Before proceeding, we ought to clarify that institutional development and environmental dynamism are independent of each other. Given a certain level of institutional development, environmental dynamism can vary significantly. As an example, although the US has highly developed institutions, it is a country that plays host to both stable industries such as branded foods and dynamic industries such as computers (Henderson et al., 2006). Similarly, given a certain level of environmental dynamism, institutional development can also vary significantly. Figure 1 summarizes our central arguments on CEO dismissal in each of the four scenarios we examine.

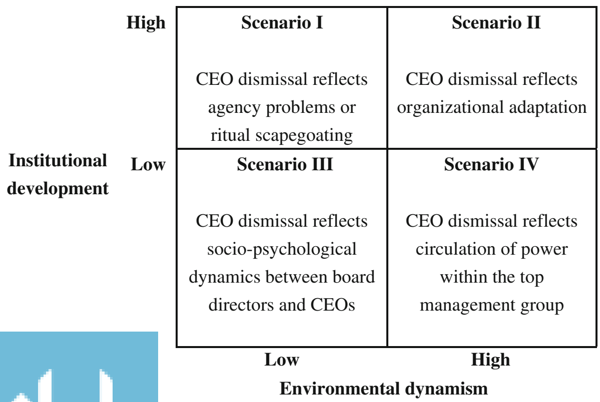
Scenario I High level of institutional development and low level of environmental dynamism.

Companies in this scenario have little concern over the obsolescence of CEO competence because environmental contingencies, including customer preferences, technologies, and competitive dynamics, remain stable over time. Meanwhile, institutions are highly developed and encourage board directors to be vigilant in monitoring CEO behavior and the environment to protect and build their reputation in the market for corporate directors (Fama & Jensen, 1983). An example of this scenario is companies doing business in the branded foods industry in the United States (Henderson et al., 2006). In this scenario, we expect CEO dismissal to resemble most closely the form discussed in agency theory and the ritual scapegoating perspective.

In contexts of a low degree of environmental dynamism, there is little change in the fit between CEO competence and environmental contingencies. It is thus reasonable to assume that CEO competence is invariant over time, as suggested by adverse selection studies, or is irrelevant to CEO dismissal, as found in moral hazard studies and investigations conducted from the ritual scapegoating perspective.

Highly developed institutions will induce board directors to respond with vigor to opportunistic CEO behavior and dissatisfaction among company stakeholders. When CEOs are deemed to have behaved opportunistically, including by misrepresenting their capabilities at the time of CEO selection and putting in less effort after taking office, board directors will fire the CEO because shareholder protection laws provide

Figure 1 CEO dismissal in different scenarios of institutional development and environmental dynamism



shareholders with the right to oust directors who do not discharge their fiduciary duties.

Even if a CEO does not behave opportunistically, mere stakeholder dissatisfaction with company performance may lead board directors to dismiss the incumbent CEO (Crossland, 2009). While stakeholders tend to interpret organizational outcomes as a direct result of leadership (Shen & Cho, 2005), they will also regard board directors who do not fire CEOs of poorly performing companies as having failed to discharge their fiduciary duties. As a consequence, the threat of being ousted in societies with developed institutions will induce directors to terminate the employment of CEOs of poorly performing companies.

Agency theory does not provide predictions on the characteristics of new CEOs or subsequent consequences for the company, as it is mainly concerned with the agent's behavior after a principal-agent relationship has been established. In contrast, the ritual scapegoating perspective suggests that an outside candidate will be selected as the new CEO and that this succession process has no impact on company performance. When stakeholders are dissatisfied with company performance, they might blame the entire top management team rather than the CEO alone (Combs et al., 2007; Shen & Cho, 2005). As a result, board directors are likely to choose an outside individual rather than an existing manager as the replacement CEO. Finally, given that the ritual scapegoating perspective posits that the new CEO will be of the same quality as the outgoing one, we expect no change in subsequent company performance (Shen & Cho, 2005). Based on the above arguments, we derive the following propositions.

Proposition 1a In situations of a high level of institutional development and a low level of environmental dynamism, CEOs are more likely to be dismissed because of the identification of opportunistic CEO behavior or stakeholder dissatisfaction with company performance.

Proposition 1b In situations of a high level of institutional development and a low level of environmental dynamism, an outside candidate is more likely to be selected as the new CEO when the previous CEO is dismissed because of stakeholder dissatisfaction.

Proposition 1c In situations of a high level of institutional development and a low level of environmental dynamism, CEO replacement tends to have no impact on subsequent organizational performance when the previous CEO is dismissed because of stakeholder dissatisfaction.

Scenario II High level of institution development and high level of environmental dynamism.

Board directors in this scenario face strong pressure to act in the interests of shareholders. Meanwhile, CEO skills will soon become outdated because of the rapidly changing environment. An example of this type of scenario is companies competing in the computer industry in the United States. In this scenario, CEO dismissal will largely resemble the form discussed in organizational adaptation theory. That is, it will reflect board directors' efforts to realign CEO competence with environmental contingencies.

Because of the fast-changing environment, CEOs in this context will begin to become less suitable for their position soon after taking office as their skills become outdated (Henderson et al., 2006). CEO competence obsolescence will lead to a mismatch between the firm's environmental contingencies and its organizational structure and strategy, which will in turn have a negative impact on firm performance (Miller, 1991).

In societies with developed institutions, board directors have incentives to monitor the alignment of CEO competence and environment. To the extent that a mismatch between CEO competence and environmental demands might lead to poor firm performance and retention of an unfit CEO will damage their reputation, we expect board directors to make CEO dismissal decisions on the basis of CEO competence (Tushman & Romanelli, 1985).

Because of the high degree of pressure on board directors to act in the interests of shareholders, we expect board directors to monitor environmental shifts closely and select new CEOs based on new environmental demands. After appointing the replacement, the potential for performance improvement is sizable because the predecessor's competence is likely to have become highly obsolete and the new CEO's skills will be much better aligned with current environmental conditions (Henderson et al., 2006).

Proposition 2a In situations of high levels of institutional development and environmental dynamism, CEOs are more likely to be dismissed because of a mismatch between CEO competence and environmental demands.

Proposition 2b In situations of high levels of institutional development and environmental dynamism, candidates whose skills are aligned with immediate environmental contingencies are more likely to be selected as the new CEO.

Proposition 2c In situations of high levels of institutional development and environmental dynamism, CEO succession tends to have a positive impact on subsequent organizational performance.

Scenario III Low levels of institutional development and environmental dynamism.

Board directors in this situation face little pressure to act in the interests of shareholders. At the same time, CEO competence will remain useful for a long time because of stable environmental demands. This type of situation can be observed in monopolistic industries in emerging economies such as China. In this scenario, CEO dismissal will be largely attributable to social psychological dynamics between board directors and CEOs. That is, similarity and interpersonal attraction will play a prominent role in CEO dismissal decisions.

Interpersonal relations have been found to have important implications for personal selection and turnover decisions (Schneider et al., 1995). Studies on CEO succession have shown that boards of directors prefer individuals whose characteristics are similar to their own because such individuals are likely to share their values and reinforce their self-identity (Rankin & Rowe, 2006; Zajac & Westphal, 1996). The influence of these social psychological dynamics will be most salient in the context of a low degree of environmental dynamism. To the extent that managers in the managerial labor market possess similar levels of competence in a stable environment, replacing the incumbent CEO with another individual will not have significant consequences for firm performance.

Moreover, underdeveloped institutions isolate board directors from outside pressures and make it possible for them to make CEO succession decisions based on their own preferences. In this situation, board directors are less concerned about stakeholders' reactions to their decision. Even if stakeholders, including shareholders, are dissatisfied with directors' nepotism toward similar others, they have limited channels through which to protest against board directors (Defond & Hung, 2004).

In this situation, board directors will take the opportunity of CEO selection to recruit individuals with similar values and perspectives (Zajac & Westphal, 1996). This CEO succession process, however, will have no significant impact on subsequent company performance, because managers in the labor market are of similar quality in contexts of a low level of environmental dynamism.

Proposition 3a In situations of low levels of institutional development and environmental dynamism, CEOs are more likely to be dismissed because of their dissimilarities with board members.

Proposition 3b In situations of low levels of institutional development and environmental dynamism, candidates whose values and perspectives are similar to those of board directors are more likely to be selected as the new CEO.

Proposition 3c In situations of low levels of institutional development and environmental dynamism, CEO succession tends to have no impact on subsequent organizational performance.

Scenario IV Low level of institutional development and high level of environmental dynamism.

Board directors in this situation face little pressure from company stakeholders. Meanwhile, CEO competence will very quickly be rendered obsolete by environmental shifts. An example of this scenario is companies competing in the computer industry in China. In this scenario, CEO dismissal will reflect a circulation of power process. That is, board directors will collude with senior executives to contend for the incumbent CEO's power.

In contexts of a high level of environmental dynamism, the ability of the CEO to provide satisfactory solutions to strategic contingencies the company faces declines over time. This decline in CEO competence provides opportunities for senior executives to contest the incumbent CEO's power (Combs et al., 2007; Ocasio, 1994; Ocasio & Kim, 1999). Forming coalitions with board directors could enable contending senior executives to replace the incumbent CEO (Ocasio, 1994; Shen & Cannella, 2002).

Board directors might refrain from engaging in political contests where institutions are highly developed. The formation of coalitions with senior managers to contest the position of the incumbent CEO will intensify political struggles among the top management groups, which in turn will hurt organizational performance and eventually put the positions and reputations of board directors at risk (Huson et al., 2004). In contrast, given that they have little concern over *ex post* "settling up," board directors in contexts of a low degree of institutional development are more likely to form coalitions with senior executives.

After the incumbent CEO is dismissed, the senior executive who won the support of the board of directors will be the successor (Shen, 1999). Contender successors of this type are likely to have a positive impact on subsequent company performance (Shen & Cannella, 2002). They have work experience in the focal company and thus possess firm-specific knowledge (*ibid*). Their exposure to board directors also reduces information asymmetry and thus the risk of adverse selection (Zajac, 1990; Zhang, 2008). Further, as political contenders against the outgoing CEO, they are also less committed to the structures and strategies put in place by their predecessor and are more willing and able to initiate and implement changes. These changes are likely to alleviate mismatches between CEO competence, the organization, and the environment, and to bring about performance improvements (Miller, 1991; Shen & Cannella, 2002).

Proposition 4a In situations of a low level of institutional development and a high level of environmental dynamism, CEOs are more likely to be dismissed because of power struggles initiated by senior executives.

Proposition 4b In situations of a low level of institutional development and a high level of environmental dynamism, senior managers who win the support of board directors are more likely to be selected as the new CEO.

Proposition 4c In situations of a low level of institutional development and a high level of environmental dynamism, CEO succession tends to have a positive impact on subsequent organizational performance.

Discussion and conclusion

In this paper, we adopt a critical realistic perspective to identify the core assumptions of five perspectives on CEO dismissal and specify the contexts in which each core assumption is realistic. Based on these contextual factors, we explore CEO succession through a contextual framework and make several contributions to the extant literature. First, we provide an integrative framework for reconciling a diverse range of existing theories on CEO dismissal by paying close attention to institutional development and environmental dynamism. To some scholars, CEO dismissal is a result of the identification of opportunistic CEO behavior (Crossland, 2009; Huson et al., 2001; Zhang, 2008), or is simply a way of pacifying stakeholders who are dissatisfied with company performance and has little substantive impact on subsequent company performance (Gamson & Scotch, 1964). To others, CEO dismissal is an adaptation mechanism through which CEO competence and environmental demands are aligned (Karaevli, 2007; Tushman & Rosenkopt, 1996; Virany et al., 1992), or is a result of interpersonal interactions (Rankin & Rowe, 2006). Still others instead treat CEO dismissal as a consequence of the power struggle for the CEO's position (Ocasio, 1994; Ocasio & Kim, 1999; Shen, 1999). Largely missing from the prior literature is a systematic analysis of the different types of environmental contexts faced by CEOs and board directors and their impacts on CEO dismissal. The framework we develop suggests that both institutional development and environmental dynamism reflect important contextual characteristics and that they interact to influence the causes and organizational implications of CEO dismissal, as well as who will be selected as the new CEO. To further our understanding, there is a need for future research to pay close attention to the contexts in which CEO dismissal occurs.

Second, this paper extends comparative corporate governance research by investigating the implications of institutional development for CEO dismissal. Most existing studies in the comparative corporate governance literature have focused on explaining corporate governance variation among economies (Aguilera & Jackson, 2003; La Porta et al., 1997) and the implications of this variation for the effectiveness of the company and overall economy (Aguilera, Filatotchev, Gospel, & Jackson, 2008; La Porta, Lopez-de-Silanes, & Shleifer, 2008). Very few studies have examined the impact of institutional development on the CEO succession process (see Defond & Hung, 2004; Lel & Miller, 2008, for exceptions). Our framework suggests that different mechanisms determine CEO dismissal in nations with different institutional arrangements, depending on the degree of environmental dynamism. While our focus in this study is on CEO dismissal, we believe that a systematic analysis of institutional development and environmental dynamism will also help to enhance our understanding of other organizational phenomena such as CEO compensation and board composition.

We acknowledge that our framework, for the purpose of theoretical simplification, focuses on polar situations, dividing both institutional development and environmental dynamism into low and high levels. Although this approach is common in organizational analysis (e.g., Shen & Cho, 2005), in reality, companies may operate in societies with a moderate level of institutional development and in industries subject to a moderate degree of environmental dynamism. In situations such as these, we might need to consider multiple perspectives in explaining the CEO succession process.

Finally, we should note that institutional development and environmental dynamism are subject to change over time. Emerging economies such as China have experienced significant institutional transitions in the areas of investor protection laws and infrastructure development (Peng, 2003). Stable industries such as the cement industry might also be punctuated by periods of turbulence. For example, the introduction of suspension preheating in 1972 brought about industry-wide changes in the US cement industry (Tushman & Rosenkopt, 1996). Thus, in testing our theory, researchers need to pay special attention to the time-variant nature of institutional development and environmental dynamism.

Nevertheless, our framework adopts a critical realist perspective in paying close attention to the contexts in which the core assumptions of each perspective are more likely to be realistic. It posits that CEO dismissal is a function of the interplay between institutional development and environmental dynamism. Depending on the levels of institutional development and environmental dynamism, the antecedents of

CEO dismissal, new CEO characteristics, and the consequences of CEO succession will differ significantly. We hope that in future, our framework will serve as an impetus for empirical studies on CEO succession in different contexts and comparative corporate governance studies.

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