

Do CEOs exercise managerial discretion to save their jobs?

Sungsoo Kim · Rakesh B. Sambharya ·
Joon Sun Yang

Published online: 2 October 2014
© Springer Science+Business Media New York 2014

Abstract Chief Executive Officers (CEOs) wield considerable power and authority. In many industries and contexts, CEO turnover is studied in terms of antecedents, the event itself, and the related consequences. However, the extent to which CEOs exert their power and attempt to prevent their dismissal has not been thoroughly examined. In this study, we examine the role of CEOs exercising managerial discretion in their effort to prevent their own corporate demise. We hypothesize that CEOs cut discretionary expenses such as research and development, advertising, and rent in order to boost earnings and enhance financial performance. A sample of CEO turnover from *Standard and Poor's ExecComp* database for the period 1992–1998 in US firms yielded 474 turnover firms and 2,066 control firm-years. We tested the effects of CEO turnover and managerial discretion on firm performance measured by cumulative abnormal stock returns. We also compared the turnover and non-turnover firms in terms of pattern of discretionary spending prior to CEO turnover. The results are consistent with our prediction that CEOs facing termination attempt to post higher earnings by reducing discretionary spending after controlling for firm performance, firm diversification, book to market ratio, and CEO ownership, industry-, and year dummies.

Keywords CEO turnover · Managerial discretion · CEO power

S. Kim · R. B. Sambharya (✉)
Rutgers School of Business, Rutgers University, Camden, NJ 08102, USA
e-mail: sambharya@camden.rutgers.edu

S. Kim
e-mail: sungsoo@camden.rutgers.edu

J. S. Yang
School of Business, Sogang University, Seoul, Korea
e-mail: jyang@sogang.ac.kr

1 Introduction

A change in Chief Executive Officer (CEO) is a momentous event in the history of any organization as the turnover has tremendous implications on future organizational strategic direction and success. A study of global CEO succession by the consulting firm, Booz, Allen, and Hamilton, mentioned that succession rates averaged around 10 % from 1995 to 2003 (Lucier et al. 2004). The average tenure for CEOs in 2003 was only 7.6 years, the lowest since 1995 (Kaplan and Minton 2012; Lucier et al. 2004). In contrast, Vancil (1987) reported that CEO tenure was more than 14 years in the early 1980s. CEO turnover has steadily increased over the past decades due to higher scrutiny from shareholders, boards of directors, the media, and financial markets (Kaplan and Minton 2012). The literature on CEO turnover, both voluntary and involuntary, is vast; the phenomenon is largely attributable to poor performance, contingencies, such as size, firm age, and industry characteristics, and the power relationship between the board of directors and the CEO (Kesner and Sebora 1994). However, given the omnipotent status and power embodied in the CEO suite, surprisingly, relatively few studies, to the best of our knowledge, have explored whether CEOs would exercise discretion in an attempt to prevent their pending dismissal. The present study investigates the exercise of discretion used by CEOs measured by cutting expenses in order to remain office after controlling for firm performance, CEO ownership, firm diversification, and book to market value ratio.

Managerial discretion has been of interest to researchers in strategic management (Hambrick and Finkelstein 1987; Finkelstein and Hambrick 1990; Finkelstein and Boyd 1998; Shen and Cho 2005; Williamson 1963) and economics (Jensen and Meckling 1976; Williamson 1963). Scholars have studied the role of managerial discretion and its relationship to executive tenure (Finkelstein and Hambrick 1990), CEO compensation (Finkelstein and Boyd 1998), CEO dominance and team size (Haleblian and Finkelstein 1993), and current performance and commitment to the status quo (Hambrick et al. 1993).

The purpose of this paper is to investigate the extent to which CEOs facing termination exercise managerial discretion with respect to discretionary spending in order to achieve certain outcomes like meeting financial targets. We propose a logit model where the response variable is CEO turnover firms (1) versus non-turnover firms (0). The test variable is discretionary expense such as R&D, Advertising and Rent Expenses, with five control variables: two profitability measures [return on assets (ROA) and Net Income], market expectation, diversification, firm size and CEO ownership. Finally we include two dummy variables to control for period (YEAR) and industry (IND). We also examine the stock market reaction to the discretionary investments made by CEOs facing termination. In the context of the efficient market hypothesis the stock price would react positively (negatively) to value-relevant (irrelevant) discretionary investment. The dependent variable is cumulative abnormal return (CAR) and the test variables are turnover variable (TO) and discretionary items (DISC) in Ordinary Least Square (OLS) model. Our control variables, as in logit model above, and our moderating variable is interaction of turnover and discretionary variable (TO * DISC). The sign on the mediating

variable is expected to be negative as the stock market is expected to react negatively to opportunistic investment motivated by manager's self-interests.

The paper is organized as follows. First, we provide relevant a literature review and theoretical background for the study and present hypothesis. Next, we present the research design and methodology employed in the study. Then, we present the analyses. Finally, we offer our discussion, conclusion, and venue for future research.

2 Literature review

A vast array of extant literature exists on CEO turnover. Some studies on CEO turnover have investigated the influence of contextual variables, such as age and size (Grusky 1963), and industry structure (Datta and Rajagopalan 1998). Several studies have investigated the effect of prior performance on CEO turnover (Boeker 1992; Dalton and Kesner 1985; Datta and Guthrie 1994; Friedman and Singh 1989). CEO turnover has also been studied in terms of successor characteristics, such as insider/outsider, age, tenure, and functional background (Dalton and Kesner 1985; Datta and Guthrie 1994; Friedman and Singh 1989; Helfat and Bailey 2005; Quigley and Hambrick 2012) and the role of the board of directors (Khurana 2001; Halebian and Rajagopalan 2006; Tian et al. 2011; Zhang 2011). Compared to the above streams in the literature the investigation of CEO turnover from a CEO power perspective has been relatively sparse. CEO turnover researchers have called for investigation from a CEO power perspective (Fredrickson et al. 1988; Ocasio 1994; Pitcher et al. 2000).

Managerial discretion has been recognized in many ways in the economics and management literature. Economists view managerial discretion in terms of incentives and opportunism, and the freedom CEOs have in pursuing personal objectives in pay, power, status, and prestige (Williamson 1963). In contrast, management literature focuses on the range of strategic options made available to CEOs in the context of organizational constraints. Shen and Cho (2005) conceptualized managerial discretion in two broad themes: latitude of objectives and latitude of actions. Latitude of objectives refers to the freedom CEOs practice while pursuing personal objectives, as opposed to stakeholder objectives. Agency theory suggests that managers work on behalf of stockholders but have incentives to maximize their own interests rather than that of the shareholders (Jensen and Meckling 1976). The discretion managers exercise varies across organizations (Williamson 1963). Meanwhile, latitude of actions refers to the range of strategic options of managers that are demanded by stakeholders, which may be constrained in terms of environmental and organizational contexts. Hambrick and Finkelstein (1987) stated that managerial discretion might be influenced by factors like market growth, product differentiation, capital intensity, and organizational inertia.

Agency theory is concerned with resolving two issues that exist in the relationship between the principle and the agent. The first is the agency problem that surfaces when the desires and goals of the principal and agent clash and the principal finds it hard to verify the activities of the agent. Second, the problem of risk sharing arises when the principal and the agent have different notions of risk

(Eisenhardt 1989). The principal-agent problem primarily exists due to the information asymmetry between shareholders (principal) and managers (agent). Since the shareholders do not observe managers' actions or are not aware of their actions, this contributes to moral hazard and adverse selection problems. Agency cost arises mainly because of the separation of ownership from control (Jensen and Meckling 1976). Thus, CEOs are able to manipulate whatever resources that are available to them in order to maintain their position. We hypothesize in the paper that CEOs will cut expenses in order to boost their firms' earnings and financial performance. Our finding is consistent with this context in that CEOs attempt to save their jobs at the expense of shareholders, the principal, by reducing their investments in R&D and other discretionary costs.

Past research on managerial discretion indicates the importance of this topic. Managerial discretion has been studied at the environmental level (Crossland and Hambrick 2007; Hambrick and Abrahamson 1995), organizational level (Finkelstein and Boyd 1998) and individual level (Carpenter and Golden 1997). Finkelstein and Hambrick (1990) found that executive tenure is positively related to strategic persistence and strategic conformity to industry norms (i.e., a reflection of risk-averse and imitative tendencies of long-tenured executives) in high discretion environments, but not in low discretion environments. Halebian and Finkelstein (1993) reported that team size and CEO dominance are significantly associated with firm performance in a high discretion environment, but not in a low discretion environment. Hambrick et al. (1993) found that current performance and commitment to the status quo are more strongly related in high discretion industries than in low discretion industries. Hambrick and Abrahamson (1995) found that environment-level managerial discretion is consistent across diverse industries.

CEO turnover is the ultimate exercise in organizational politics (Pfeffer 1981). CEO dismissal is a unique event that usually occurs as a result of the exercise of power. CEOs lose their jobs when they lack sufficient power to prevent their dismissals (Tushman et al. 1989). Powerful CEOs have the ability to rig their incentive contracts (Morse et al. 2011). A few studies have found that CEOs have managed to remain in office even when their firms have shown poor performance (Allen and Panian 1982; Boeker 1992). Recent stories in the business press suggest that even in poorly performing organizations, CEOs can exert power to prevent their termination. This phenomenon has only recently started to be studied in academic circles to the best of our knowledge. CEOs are likely to maximize their power and use all the resources at their disposal in order to retain their jobs (Pi and Lowe 2011). They are ambitious individuals who have "made it to the top" of their organizations and enjoy the prestige, power, and exorbitantly high compensation (Finkelstein and Boyd 1998).

In this paper, we posit that CEOs in underperforming organizations will exercise their discretion in the form of cost-cutting measures to improve their firm's financial position in order to appear competitive and to avoid potential firing. Fredrickson et al. (1988) posited a comprehensive model of CEO dismissal in which CEO power is one of the four factors influencing CEO termination. Fredrickson et al. (1988) stated that CEOs exercise their discretion to forestall their removal. Because they derive power from personal

characteristics (e.g., charisma) (Zaleznik and Kets de Vries 1975), control of critical resources (e.g., customers, proprietary technology, or key personnel contacts) (Hambrick 1981), or prestige and status (Fredrickson et al. 1988), CEOs would be able to wield managerial discretion to preserve their jobs. In a study of Chinese CEOs, Pi and Lowe (2011) found that CEOs structural power, political connections, and tenure allowed them to remain in office.

3 Hypothesis development

CEOs continuously face mounting pressures from investors, creditors, and other stakeholders while “meeting and beating” the financial targets desired by the market. One of the most sought-after targets is earnings per share. Capital markets expect these values to be higher compared with those from the last period, non-negative and, most importantly, higher than the expectation set by the market. Since the shareholders’ decision to fire managers hinges largely on financial performance, CEOs would have stakes in the outcome of the financial reporting process. Murphy and Zimmerman (1993) investigated the financial performance surrounding CEO turnover and concluded that changes in discretionary spending are due mainly to poor performance, rather than opportunistic behavior, on the part of outgoing CEOs. They used *Forbes* data from 1971 to 1989 to “disentangle” the effects of performance and managerial discretion. However, their study suffered from survival and selection biases, as only successful firms were included in the *Forbes* 500 list.

Extant literature documents an array of horizon problems. CEOs that face high termination risk make less risky investments (Chakraborty et al. 2007). CEOs approaching a known retirement or removal date have a genuine incentive to make accounting or investment decisions in order to increase current earnings in their final years, albeit at the expense of future earnings. Due to impending dismissal, they are expected to hold a myopic view of the firm’s investing horizon; they are also likely to exhibit opportunistic behaviors as a means of maximizing personal benefits at the expense of shareholder interests (Watts and Zimmerman 1979). Outgoing CEOs in poorly performing firms may make discretionary investment decisions in an attempt to *cover up* the firm’s deteriorating financial situation (Dechow and Sloan 1991).

Reported earnings are the most commonly used performance measure employed by stakeholders, including investors, creditors, regulatory agencies, and pension funds, etc. (Murphy and Zimmerman 1993; Defond and Park 1999). Due to inherent problems in information asymmetry, CEOs have an information advantage over shareholders. CEOs also control the accounting system, whereas shareholders and creditors could only observe ex-post reported earnings. This situation might lead to earnings manipulation by CEOs (e.g., posting targeted financial numbers like earnings per share, return of investment, etc.), such that cash flow from certain types of transactions (e.g., R&D) would not be realized until the subsequent period. Dechow and Sloan (1991) reported a decline in growth rates in R&D expenditures around the time of CEO turnover, and they attributed the decline to outgoing CEOs

who boost current period profit. By examining one discretionary item, it seems that they failed to demonstrate the overall impact of various discretionary items when taken altogether.

If the financial outlook seems uncertain, CEOs can use all types of power to curb expenses in order to meet target earnings, a variable that the stock market closely follows. If a CEO perceives that his/her job might be in jeopardy, the pressure to cut costs becomes paramount. In other words, cutting costs is one way of delivering better performance in terms of earnings and stock price performance. The essence of managerial discretion is that CEOs have recourse and the latitude to pursue multiple courses of action. In this context a CEO facing dismissal due to poor performance might use their power to make decisions that they have authority over (Pi and Lowe 2011). In sum, CEOs would exert executive hubris using the power derived from various sources as a means of retaining their jobs.

Previous research on managerial discretion has shown that R&D and advertising expenditures are important items over which CEOs can exert managerial discretion (Carpenter 2000; Finkelstein and Hambrick 1990). Discretionary expenses are not the same as other ordinary expenses like wages or utilities expenses in that they would cut R&D or advertising expense as a last resort after they cut all other ordinary expenses. Rent expense is another area for cost cutting, as it could be construed as a proxy for management intention for future expansion. CEOs can increase/decrease office and/or warehouse space depending on their assessments on the future expansion/contraction. They can also intentionally cut the rent below the normal level in order to reduce short-term expense, as rents are assumed subjects of considerable managerial discretion (Mulford and Gram 2007). The spending patterns of these discretionary variables are expected to relate inherently with one another, as they are most likely influenced by firm performance and CEO turnover. In turn, CEO turnover is determined partially by firm performance.

Hypothesis 1a Compared to CEOs in non-turnover firms, *CEOs in turnover firms cut R&D spending to boost reported earnings during the period preceding their terminations.*

Hypothesis 1b Compared to CEOs in non-turnover firms, *CEOs in turnover firms cut advertising spending to boost reported earnings during the period preceding their terminations.*

Hypothesis 1c Compared to CEOs in non-turnover firms, *CEOs in turnover firms cut rent spending to boost reported earnings during the period preceding their terminations.*

Viewed in its entirety, the aforementioned discussion leads to the following testable hypothesis stated in alternative form, where the null hypothesis is no action on discretionary spending:

Hypothesis 2 Compared to CEOs in non-turnover firms, *CEOs in turnover firms cut discretionary spending to boost reported earnings during the period preceding their terminations.*

4 Research methodology

4.1 Sample

We identified a sample of CEO turnover from *Standard and Poor's ExecComp* database covering the period of 1992–1998 in US firms. Each turnover firm (TO) must have sufficient data in the CRSP and *Compustat* PST, Full-Coverage, and Research to allow for the orderly computation of variables; these items are then included in the analysis for the year of turnover. The control group (NTO) consisted of firms that did not change CEOs over the period of 1992–1998; it must meet the same data requirements as in the turnover firms. We believe large sample observations for 7 years provide a reasonable basis for generalizing empirical evidence, especially in an association study context. We also argue that the results reported here are not sensitive to the time period as it is unlikely that behaviors of stakeholders would change enough to produce different outcomes. Zhang (2011) also used the period 1992–1998 to study CEO turnover.

These procedures yielded a sample of 474 turnover firm-years and 2066 control firm-years. The segment information reported by Financial Accounting Standard Board (FASB) 14 seemed to provide more reliable data in hypothesis testing; the FASB 131 severely compromises the comparability of segment information across the enterprises over the “purported” benefit of relevance. One of our control variables, the Herfindahl Index (i.e., based on FASB 14), was available only up to 1998.¹ Sample firms were evenly distributed across industries. The percentage of industry distribution for sample firms was compared with *Compustat* distribution. Exceptions in relation to the *Compustat* distribution were noted for Industries 2 and 5, which contained more sample representations, and Industries 6 and 7, which showed lower percentages of representation. Overall, it appears that industry distribution does not affect our analysis.

4.2 Measurement of variables

4.2.1 Dependent variables

Two dependent variables were used: cumulative abnormal returns² (CAR) and a dichotomous response variable. First, stock market reaction to CEO turnover was measured by CAR, of which data was obtained from the CRSP database. CAR has been used by researchers on CEO turnover studies (Friedman and Singh 1989; Tian et al. 2011; We used CAR from the context of an association study, rather than an event study, to investigate how the stock market perceives managerial actions with respect to

¹ SFAS 131 was issued by the FASB in June 1997 and is effective for fiscal years commencing after December 15, 1997. The main difference between SFAS 131 and SFAS 14 deals with how a segment is defined. Under SFAS 14, business segments are defined by industry groupings of products and services sold to external customers. In contrast, SFAS 131 defines segments based on how management organizes divisions within the enterprise for making decisions and assessing performance. The management approach along with the other provisions of SFAS 131 offers several tradeoffs relative to SFAS 14's industry approach. However, the definition of what comprises a geographic segment is more discretionary under FASB 131, and may result in a noisy measure.

² Market adjusted cumulative abnormal returns over a 12-month period starting from April 1_t to March_{t+1}.

discretionary spending. We assumed a negative relationship between CAR and discretionary investment when they are viewed as value-decreasing spending by managers. Second, CEO turnover was measured as dichotomous response variable: TO (i.e., 1 refers to turnover firm and 0 is for non-turnover firm). The methodological challenge is to disentangle the factors that lead to dismissal from those that would lead to trimming expenses. In other words, firms performing poorly are also in great need of cutting costs. However, managers would cut all other unnecessary variable expenses in such cases before they cut discretionary investments such as R&D or advertising expenses which are critical for a firms' survival. In an efficient market hypothesis the capital market is expected to see through value-maximizing or -minimizing actions, so our dependent variable, CAR, is regressed over the various definitions of discretionary investments after controlling for other factors found to be relevant in the previous literature such as size, growth, risk, and industry/period effects.

At the onset it should be acknowledged that CEO dismissals are not clearly reported by organizations (Fredrickson et al. 1988). CEO turnover can be a result of dismissals, deaths, retirements, mergers and acquisitions, and resignations (Shen and Canella 2002). Firms are reluctant to give the true reasons for CEO turnover in order to avoid embarrassing details about top management behavior and allow the CEO to leave to save face. Since our study includes all types of CEO turnover and the results could lose some statistical power.

4.2.2 Independent variables

The main independent variable (managerial discretion) was captured by the expenses for research and development (R&D), advertising (ADV), and rent (RENT)³ (Carpenter 2000; Finkelstein and Hambrick 1990). These three expense variables were added together to create another variable, DISC1. We also created another variable (DISC2), which is a sum of R&D and advertising expenses only.

4.2.3 Control variables

Four control variables were obtained for this present work. First, since poor firm performance has been the most cited reason for CEO dismissal (Fredrickson et al. 1988), it was included in this study and measured by Net Income which is deflated by the beginning market value of equity, and ROA (Boeker 1992; Murphy and Zimmerman 1993). Second, firm diversification was measured by the Herfindahl Index.⁴ Firm diversification is a major characteristic of complex organizations and

³ All variables are deflated by the beginning market value of equity to control for market expectation.

⁴ Herfindahl Index is a measure of the size of firms in relation to the industry and an indicator of the amount of competition within the industry. It is defined as the sum of the squares of the market shares of the all the firms within the industry, where the market shares are expressed as fractions. The result is proportional to the average market share, weighted by market share. As such, it can range from 0 to 1.0, moving from a huge number of very small firms to a single monopolistic producer. Increases in the Herfindahl Index generally indicate a decrease in competition and an increase of market power, whereas decreases indicate the opposite. High (low) values of Herfindahl Index imply high (low) levels of industry concentration and hence low (high) levels of competition.

more diversified firms are harder to manage and affect firm performance and thus included in this study. Third, we calculated the book to market ratio (BVMV) (Beaver and Ryan 2000; Barber and Lyon 1997). This variable is included to control for firms' specific growth and risk characteristics. The lower this ratio is the higher the capital market's expectation for firm growth and for higher perceived risk. Finally, we have CEO ownership power (CEOOWN) to denote the personal stake of the CEO (Boeker 1992; Daily and Johnson 1997; Pi and Lowe 2011). Firm size has been shown to affect CEO succession (Ocasio 1994; Vancil 1987). LMV, a size variable, was measured by natural log of market value of equity to control for the size effect (Friend and Lang 1988). This is to control for capital market's expectation for size-related differences among different sizes of the firms.

4.3 Models

To examine the behavior of turnover firms, we commenced our test using two different models. CAR was regressed with the discretionary variable interacting with turnover dummy (DISC1 * TO) and with other control variables, including Net Income, BVMV, Herfindahl Index, CEOOWN, and ROA:

$$\begin{aligned} \text{CAR}_t^c = & a_0 + a_1\text{TO} + a_2\text{DISC1}_{t-1} + a_3\text{ROA}_t + a_4\text{Net Income}_t + a_5\text{BVMV}_t \\ & + a_6\text{Herfindahl}_t + a_7\text{CEOOWN}_t + a_8\text{TODISC1}_{t-1} + \Sigma\text{YR} + \Sigma\text{IND} + \epsilon_t \end{aligned} \quad (1)$$

Then, DISC1_{t-1} and TODISC1_{t-1} were replaced by DISC1_{t-2} and TODISC1_{t-2} , respectively. We reran the model with DISC2 variable in a similar manner. We expected the coefficient of TODISC1 and TODISC2 to be negative, as the market negatively react to the discretionary spending by CEOs facing termination. We employ OLS regression as our estimates of coefficients are unbiased and normally distributed. Given the linear relationship between stock returns and independent variables and random distribution of the variables OLS regression is expected to produce the reliable coefficient estimates.

We also employed the following logistic model to investigate the difference between TO and NTO firms on the pattern of discretionary spending prior to CEO turnover. Control samples (NTO) were selected by matching by fiscal year, and size within SIC 2-digit industry. As with the financial data we use a logit model because error distribution follows cumulative logistic probability, and log likelihood test results is the model fitness test under Logit regression assumption. As we do not believe error terms follow normal distribution we chose Logit over Probit and Tobit models, respectively.

$$\begin{aligned} \text{TO}_t = & a_0 + a_1\mathbf{R\&D} + a_2\text{Net Income}_t + a_3\text{BVMV}_t + a_4\text{Herfindahl}_t \\ & + a_5\text{LMV}_t + a_6\text{CEOOWN}_t + a_7\text{ROA}_t + \Sigma\text{YR} + \Sigma\text{IND} + e \end{aligned} \quad (2)$$

TO is an indicator variable with a value of 1 if the sample firm is a turnover firm; otherwise, TO equals 0. In lieu of R&D we input ADV, RENT, DISC1 and DISC2, respectively. We repeat these two models for the 2 years prior to the turnover in

order to measure the impact of various types of discretionary spending by the same turnover firm further back into the past.

5 Results

Table 1 reports Pearson correlation coefficients among variables we used in our OLS and logistic regressions in Tables 3 and 4. The statistical significance reported among discretionary variables suggests that firms' spending decisions in discretionary items are made interdependently. We therefore analyze each variable separately first and then sums of discretionary items (DISC1 and DISC2, respectively).

Panels A and B of Table 2 report the results from *t* test for key variables between TO and NTO. The Net Income of TO is significantly lower from $t = 0$ onwards, indicating that TO managers, compared with NTO managers, charge various expenses to earnings without pressures from stakeholders; more likely, this is done to post higher earnings, an attempt to "clean the mess" from the outgoing management. A striking contrast to this phenomenon is the investment pattern of TO in discretionary spending led mainly by ADV and RENT, which rise beginning $t + 1$. This is consistent with the "big bath" theory wherein the new management with "a clean slate" would accrue various charges against earnings. The R&D expenditures of TO firms are marginally higher than NTO firms after the turnover, indicating that new management is more likely to increase R&D expenditures. TO firms engage in intensive advertising after a turnover, implying that new management attempts to boost sales revenues with increase in advertising expenditures. RENT exhibits a similar pattern (i.e., increased spending by TO after turnover), but it manifests lower spending in $t - 1$ and $t = 0$.⁵ Viewed in its entirety, discretionary spending (DISC1)⁶ declines in the years leading to the turnover but increases after a turnover. These results are consistent with our prediction, albeit in a univariate context. Viewed in its entirety, TO firms have less discretionary spending prior to turnover, probably to boost their earnings. However, the same group spends much more after TO, probably to remain "on track" in their investing activities. Panel B reports a similar finding—an increased spending pattern by TO after the turnover, both individually and collectively. The univariate test produces results consistent with our predictions. We provide the similar results in multivariate contexts below.

In addition, we regressed cumulative abnormal annual stock return (CAR) on the various discretionary and other variables of interest (Table 3). The objective of employing CAR as the dependent variable is twofold. First, the stock market is expected to see thorough managerial actions on discretionary spending under the semi-strong form of market efficiency. The significant statistical finding would

⁵ We winsorize the bottom and top 1 % of the continuous variables, as such is customary in removing the outliers in a market study like ours. A total of 438 firm-years were deleted as outliers, as reported in Table 1.

⁶ The results of DISC2 are qualitatively the same as DISC1.

Table 1 Pearson correlation among variables

	Net Income	R&D	ADV	RENT	DISC1	TO	BVMV	Herfindahl
Net Income	1.000							
R&D	-0.021	1.000						
ADV	0.134***	-0.026	1.000					
RENT	0.149***	-0.112***	0.367***	1.000				
DISC1	0.120**	0.391***	0.662***	0.553***	1.000			
TO	-0.031	0.015	-0.048	0.005	-0.063	1.000		
BVMV	0.269***	0.083***	0.349***	0.387***	0.552***	0.037*	1.000	
Herfindahl	-0.130***	-0.007	-0.083*	-0.044**	0.124**	-0.060***	-0.142***	1.000
CEOOWN	-0.049**	-0.103***	-0.081*	0.021	-0.090	-0.082***	-0.045**	0.169***

***, **, * 1, 5 and 10 % significance level, respectively

Table 2 Mean difference *t* test results

Panel (a) <i>t</i> statistics between TO (=1) and NTO (=0) firms on Net Income, R&D, ADV, RENT and DISCI						
	<i>t</i> - 2	<i>t</i> - 1	<i>t</i> = 0	<i>t</i> + 1	<i>t</i> + 2	
Net Income	-0.55	-0.90	-5.45**	-3.88***	-2.63***	
R&D	-0.56	-0.02	0.50	1.25	0.15	
ADV	-0.63	0.64	1.33*	3.09***	2.91***	
RENT	-0.53	-1.00	0.28	2.31***	2.88***	
DISCI	-2.21***	0.10	0.67	2.80***	2.76***	
Panel (b) <i>t</i> test results between TO and NTO for changes in Net Income, R&D, ADV, RENT and DISCI ^a						
	(<i>t</i> - 2) - (<i>t</i> - 1)	(<i>t</i> - 2) - (<i>t</i> = 0)	(<i>t</i> - 1) - (<i>t</i> = 0)	(<i>t</i> = 0) - (<i>t</i> + 1)	(<i>t</i> = 0) - (<i>t</i> + 2)	(<i>t</i> + 1) - (<i>t</i> + 2)
Net Income						
TO	-0.70	2.19**	5.06***	1.47*	1.25	0.59
NTO	1.10	1.15	2.95***	3.28***	3.86***	1.30*
R&D						
TO	0.56	0.37	-0.17	-0.97	0.86	1.79**
NTO	1.25	1.28	0.51	-0.29	1.03	1.17
ADV						
TO	-0.41	-1.44*	-1.04	-1.39**	-1.27	-0.69
NTO	1.19	0.01	-1.08	-0.71	0.15	0.88
RENT						
TO	0.75	0.70	-0.01	-1.64*	-1.98**	-1.11
NTO	1.13	1.15	1.16	-0.49	-2.16**	-1.68**
DISCI						
TO	-0.61	-1.18	-0.65	-1.41*	-1.36*	-0.77
NTO	2.49***	2.14*	-0.20	0.05	0.63	0.54

***, **, * 1, 5 and 10 % significance level, respectively

^a DISCI results are qualitatively the same as DISCI

Table 3 Regressions of annual stock returns on the discretionary and control variables

Variable	t - 2					
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
TO		0.133 (1.51)*	0.151 (1.95)**		-0.013 (-0.15)	-0.023 (-0.40)
DISC1 _{t-1}		0.502 (1.31)*				
TODISC1 _{t-1}		-0.796 (-1.40)*				
DISC2 _{t-1}			0.791 (1.97)**			
TODISC2 _{t-1}			-1.378 (-2.00)**		0.344 (0.88)	
DISC1 _{t-2}					-0.536 (-1.41)*	
TODISC1 _{t-2}						0.754 (1.83)**
DISC2 _{t-2}						-0.476 (-1.72)**
TODISC2 _{t-2}						1.361 (2.50)***
Net Income	2.231 (12.95)***	1.859 (3.40)***	1.879 (3.84)***	1.8 (9.02)***	1.362 (2.24)**	0.046 (0.30)
BVMV	-0.101 (-3.12)***	-0.065 (-0.55)	-0.036 (-0.34)	-0.089 (-2.39)***	0.07 (0.55)	-0.118 (-1.15)
Herfindahl	0.097 (3.19)***	0.081 (0.67)	0.059 (0.55)	0.103 (3.12)***	-0.128 (-1.13)	-0.066 (-0.42)
CEOOWN	-0.023 (-0.54)	-0.122 (-0.76)	-0.089 (-0.60)	-0.086 (-1.90)**	-0.088 (-0.53)	1.14 (3.02)***
ROA	-0.099 (-0.91)	0.489 (1.23)	0.614 (1.72)**	0.248 (1.82)**	1.019 (2.34)**	0.059 (0.22)
Intercept	0.068 (1.35)	0.472 (2.15)**	0.483 (2.27)**	0.014 (0.28)	0.075 (0.27)	Yes
ΣYEAR	Yes	Yes	Yes	Yes	Yes	Yes
ΣINDUSTRY	Yes	Yes	Yes	Yes	Yes	Yes
N	2,497	303	346	1,918	242	277
Adjusted r ²	0.154	0.166	0.171	0.157	0.137	0.138
F value	29.37	4.18	4.53	24.83	3.31	3.51
p value	0.001	0.001	0.001	0.001	0.001	0.001

Table 3 continued

Variable	t - 1			t - 2		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
DW	1.829	1.947	1.826	1.821	2.050	1.865
VIF (highest)	1.778	3.075	2.548	2.022	3.198	2.793
Shapiro-Wilk W	0.986	0.988	0.989	0.972	0.982	0.981
Hettest (χ^2)	125.05 (0.25)	130.30 (0.63)	144.82 (0.29)	113.32 (0.24)	102.85 (0.87)	121.97 (0.46)

***: ***: * Statistical significance at the 1, 5 and 10 % levels (one-tail test) respectively. Models 1, 2 and 3 are based on t - 1 data whereas Models 4, 5, and 6 on t - 2 data. The figures in parentheses indicate *t* values

confirm our prediction that managers are involved with value-decreasing activities. Second, this OLS regression procedure would validate our findings to be consistent with prior capital market research results.

After controlling the other variables, the stock market reacted positively to Net Income, which is consistent to those reported in the accounting literature. The stock market considers R&D as an asset with a positive coefficient for unexpected increases in R&D spending. ADV shows a negative sign, although insignificant, as it is an expense item; this is consistent with the empirical literature. Our main test variables at $t - 1$ interacted with TO, and these all show the predicted negative signs for the models. The sum of discretionary costs (Models 2 and 3) was statistically significant. DISC1, the sum of R&D, ADV, and RENT (Model 2), was significant at the 10 % level. This result holds when we define DISC2 as the sum of R&D and ADV alone, indicating that in a multivariate context, managers reduce a combination or all of discretionary spending in order to post higher earnings—a final attempt to “save their jobs.”

We conducted similar tests for Models 5 and 6 by using the values from Table 3, but by replacing all discretionary variables $t - 1$ with $t - 2$. The reduction of discretionary spending 2 years prior the turnover was more pronounced in $t - 2$, but with similar statistical significance. Specifically, DISC1 was significant at the 5 % level in Models 3 and 6 and at the 10 % level in Model 1. Clearly, the stock market negatively reacts to discretionary spending made by outgoing CEOs, reflecting the suboptimal nature of the investment. TODISC was significant at the 5–10 % level for all models for both $t - 1$ and $t - 2$. ROA was positively significant in Models 3, 5, and 6, which is consistent with prior literature documenting positive stock market reaction on the profitability measure. Taken together with the univariate results, outgoing CEOs deliver less discretionary investments, and their quality of investments, at least from market perspective, are also poor.

We also performed logistic regression analyses between two groups (Table 4). At the year before turnover, the TO group spent less discretionary costs compared with NTO, with the exception of ADV as reported in Panel A. This suggests that ADV brings short-term revenues and managers are not willing to cut this item as much. TO also show lower earnings at the turnover year, implying that CEOs facing termination would try to cut various discretionary spending to boost earnings, with the exception of ADV, in order to gain revenue increase for that period. The predicted result was that TO have less internal CEO ownership in general (CEOOWN) compared with NTO, and CEOs facing termination have less stock ownership in the company. The reduced discretionary spending was more pronounced for $t - 2$ (Panel B of Table 4). All discretionary variables were statistically significant in Table 4, again with the exception of ADV. This suggests that managing financial reporting through discretionary spending existed as early as 2 years prior to turnover. The CEOOWN variable produced similar results for $t - 2$. Taken together, all hypotheses, with the exception of H1b (advertising) are consistent with our predictions. Hypotheses of 1a, 1c and 2 are rejected at conventional statistical levels. Although H1b was not rejected the sign is consistent (negative) with our prediction.

Table 4 Logistic regressions of turnover (TO = 1, else 0) on lagged discretionary costs; R&D, ADV, RENT, DISC1 and DISC2

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
R&D		-1.753 (6.53)***				
ADV			3.185 (0.86)			
RENT				-5.006 (2.86)*	-1.843 (2.83)*	
DISC1						
DISC2						
Net Income	-0.828 (0.43)	-0.642 (2.53)	-4.882 (3.49)*	-0.802 (0.34)	-8.359 (6.35)**	-1.873 (2.74)*
BVMV	0.683 (7.54)***	0.038 (0.10)	0.36 (0.32)	0.494 (3.30)**	-0.597 (0.56)	-7.155 (5.36)**
Herfindahl	-0.221 (1.01)	-0.504 (2.83)*	-0.82 (2.17)	-0.437 (3.36)**	-2.37 (9.16)***	-0.64 (0.67)
LMV	0.163 (13.70)***	0.106 (2.97)*	0.206 (4.92)**	0.089 (3.38)**	-0.003 (0.01)	-2.089 (8.57)***
CEOOWN	-0.551 (1.77)	-1.402 (4.93)**	-1.71 (3.24)*	-0.695 (2.32)	-2.161 (3.05)*	0.102 (0.71)
ROA	-0.752 (0.62)	-2.571 (4.31)**	4.503 (4.28)**	-0.84 (0.65)	4.397 (1.92)	1.207 (0.22)
Intercept	-3.499 (13.50)***	-3.263 (6.17)**	-13.701 (0.01)	-2.621 (7.06)***	-11.076 (0.01)	-12.365 (0.01)
ΣYEAR	Yes	Yes	Yes	Yes	Yes	Yes
ΣINDUSTRY	Yes	Yes	Yes	Yes	Yes	Yes
N	2,469	1,364	531	2,021	299	342
Pseudo-r ²	0.038	0.071	0.144	0.04	0.181	0.182
Likelihood ratio	59.522	63.166	50.128	52.37	38.296	42.966
p value	0.001	0.001	0.001	0.001	0.002	0.001

Table 4 continued

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
R&D		-1.285 (5.11)**				
ADV			-2.013 (0.23)			
RENT				-6.54 (3.08)*	-6.345 (5.86)**	
DISC1						
DISC2						
Net Income	0.129 (0.01)	-0.527 (0.07)	-0.703 (0.34)	-0.503 (0.09)	-1.447 (0.11)	-4.928 (3.98)**
BVMV	0.251 (0.69)	-0.187 (0.17)	-0.705 (0.84)	0.193 (0.35)	-1.488 (2.47)	-0.227 (0.03)
Herfindahl	-0.32 (1.68)	-0.592 (3.13)*	-0.924 (2.56)*	-0.531 (4.04)**	-1.418 (3.74)*	-1.584 (2.96)*
LMV	0.141 (7.84)***	0.041 (0.36)	0.208 (3.82)**	0.061 (1.23)	-0.032 (0.06)	-1.191 (3.04)*
CEOOWN	-0.373 (0.71)	-1.182 (2.75)**	-1.966 (3.30)*	-0.561 (1.28)	-2.011 (2.32)	0.055 (0.18)
ROA	-1.408 (1.39)	-2.039 (1.65)	0.454 (0.04)	-1.638 (1.60)	-0.24 (0.01)	-1.513 (1.43)
Intercept	-3.266 (7.04)***	-2.215 (2.65)	-12.614 (0.01)	-2.164 (2.97)*	-10.511 (0.01)	-2.423 (0.79)
ΣYEAR	Yes	Yes	Yes	Yes	Yes	Yes
ΣINDUSTRY	Yes	Yes	Yes	Yes	Yes	Yes
N	1,899	1,048	417	1,539	243	278
Pseudo-r ²	0.042	0.08	0.153	0.047	0.162	0.156
Likelihood ratio	50.18	55.22	43.621	47.066	29.171	31.48
p value	0.001	0.001	0.001	0.001	0.001	0.001

***, **, * Statistical significance at the 1, 5 and 10 % levels (one-tail test) respectively. The figures in parentheses indicate *t* values. Models 1, 2 and 3 are based on *t* - 1 data whereas Models 4, 5, and 6 on *t* - 2 data

We performed several robustness checks to see if our model survives appropriate fitness checks. First, we computed variance inflation factors (VIF) to diagnose multicollinearity problems. The highest VIF scores are around two which were significantly lower than critical scores of ten. We also checked for auto-correlation problems for our cross-sectional time-series data. Durbin Watson (DW) scores of about two across the models indicate non-autocorrelation. Lastly, we performed a test on normality of residuals. Shapiro–Wilk W value was 0.98 and being close to one indicates normality (p values ranging from 0.168 to 0.266), and Kolmogorov–Smirnov D scores ranged from 0.034 to 0.081 ($p = 0.15$).

6 Discussion and conclusion

We investigated the difference in discretionary spending patterns by turnover versus non-turnover firms. Due to information asymmetry, managers with pending turnover (or who have resigned) have a window of opportunity to exercise their discretion in deciding the timing and extent of these expenditures. We have predicted and reported the reduced discretionary spending by outgoing CEOs. The negative reaction from the stock market was also documented for the discretionary spending by these managers. We also offered evidence that the stock market provides discounts on these investments, as they inevitably include agency costs.

The findings of this study suggest that CEOs facing termination exercise managerial discretion by decreasing expenses in order to boost earnings and to show better financial performance. Clearly, a significant difference exists between turnover and non-turnover firms, especially after a CEO succession event, proving the attempts of showing better performance by cutting discretionary expenses. This is consistent with previous literature on CEO hubris (Hayward and Hambrick 1997), and CEO power (Boeker 1992; Daily and Johnson 1997). The findings also indicate that CEOs exercise latitude of objectives by cutting down on discretionary expenses (Shen and Cho 2005); this is consistent with the agency theory showing that CEOs are driven by personal objectives rather than by shareholders interests. As the tenure of CEOs is placed in doubt, the motivation to exercise power is so strong that they would get pecuniary and status benefits.

The present study has merely scratched the surface of the topic on managerial discretion. Managerial discretion is an important concept, and it needs to be expanded into other areas, such as divestment, outsourcing, and restructuring. Under these situations, CEOs are likely exercise power by cutting down on expenses in order to boost earnings and to enhance short-term performance in a bid to retain their jobs.

How can various stakeholders deal with the issue of CEO discretion? CEOs are in very strong positions due to the power they possess in the organization. They can influence their own compensation, appoint directors who are beholden to them, formulate strategies, and identify their successors. The various stakeholders, on the other hand, are spread thin; they are also indirectly involved in organizational operations and, unlike CEOs, do not have the knowledge or power to influence the firm. Thus, asymmetry exists in the way by which power is distributed in

organizations. Such organizational imbalance (i.e., power structure) enables CEOs to exercise virtually uncontested power. In theory, the board of directors should oversee the discretions made by the CEO; however, in reality, this rarely happens. The power of CEOs increases with tenure (Ocasio 1994), and thus, the temptation to retain their jobs is rather understandable. However, due to the asymmetry in the aforementioned power dynamics, minimal oversight is practiced over the discretion exercised by CEOs. This manifests as a major problem in corporate governance.

Therefore, stakeholders, particularly the boards of directors, need to strengthen their oversight powers and demand explanations from CEOs. CEO power and consequent celebrity status in recent years is somewhat a reflection of societal mores. The winner-take-all mentality and the adoption of the tournament model have celebrated the notoriety of the CEO. The real problem lies in the asymmetry of power between the CEO and the board of directors. Although in theory the board is supposed to monitor the performance of the CEO and preserve and build the company. But instead of fulfilling that responsibility many boards fail to do this and instead think that their role is to maximize short-term shareholder value. Boards have become complacent and often act as a rubberstamp for CEO actions. CEOs eager, in cahoots with boards, in order to boost earnings engage in cost cutting that smoothes earnings. This not only satisfies the analyst community and but preserves the CEO's job. Clearly this is a fertile area for future research.

There are several limitations with our current study. First, the sample period is limited to 7 years due to data availability. We do have enough observations to test our hypotheses, but more powerful tests would be possible to control for the period effect with longer time series data. Secondly, we use association study to relate the turnover event to market returns. In the absence of event date for each sample our association study is the best approach. However we understand returns measured with an event would yield more precise market measures. Third, we do not have access to the detail story of each turnover: retirement, health reasons, involuntary resign, etc. Given the reasons of turnover, which is not available on *ExecComp*, we believe one can conduct more powerful studies.

References

- Allen, M. P., & Panian, S. K. (1982). Power, performance, and succession in the large corporation. *Administrative Science Quarterly*, 28, 538–547.
- Barber, B. M., & Lyon, J. D. (1997). Firm size, book to market ratio, and security returns: A holdout sample of financial firms. *The Journal of Finance*, 52(2), 875–883.
- Beaver, W. H., & Ryan, S. G. (2000). Biases and lags in book value and their effects on the ability of book to market ratio to predict book return on equity. *Journal of Accounting Research*, 38(1), 127–148.
- Boeker, W. (1992). Power and managerial dismissal: Scapegoating at the top. *Administrative Science Quarterly*, 37, 400–421.
- Carpenter, M. A. (2000). The price of change: The role of CEO compensation in strategic variation and deviation from industry strategy norms. *Journal of Management*, 26, 1179–1198.
- Carpenter, M. A., & Golden, B. R. (1997). Perceived managerial discretion: A study of cause and effect. *Strategic Management Journal*, 18, 187–206.

- Chakraborty, A., Sheikh, S., & Subramanian, N. (2007). Termination risk and managerial risk taking. *Journal of Corporate Finance*, *13*, 170–188.
- Crossland, C., & Hambrick, D. C. (2007). How national systems differ in their constraints on corporate executives: A study of CEO effects in three countries. *Strategic Management Journal*, *28*, 767–789.
- Daily, C. M., & Johnson, J. L. (1997). Sources of CEO power and firm performance: A longitudinal assessment. *Journal of Management*, *23*, 97–117.
- Dalton, D. R., & Kesner, I. F. (1985). Organizational performance as an antecedent of insider/outsider chief executive succession: An empirical assessment. *Academy of Management Journal*, *28*, 749–762.
- Datta, D., & Guthrie, J. P. (1994). Executive succession: Organizational antecedents of CEO characteristics. *Strategic Management Journal*, *15*, 569–577.
- Datta, D. K., & Rajagopalan, N. (1998). Industry structure and CEO characteristics: An empirical study of succession events. *Strategic Management Journal*, *19*(9), 833–852.
- Dechow, P. M., & Sloan, R. G. (1991). Executive incentives and the horizon problem: An empirical investigation. *Journal of Accounting and Economics*, *14*(1), 51–89.
- Defond, M. L., & Park, C. W. (1999). The effect of competition on CEO turnover. *Journal of Accounting and Economics*, *27*, 35–56.
- Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *Academy of Management Review*, *14*, 57–74.
- Finkelstein, S., & Boyd, B. K. (1998). How much does the CEO matter? The role of managerial discretion in the setting of CEO compensation. *Academy of Management Journal*, *41*(2), 179–199.
- Finkelstein, S., & Hambrick, D. C. (1990). Top management team tenure and organizational outcomes: The moderating role of managerial discretion. *Administrative Science Quarterly*, *35*, 484–503.
- Fredrickson, J. W., Hambrick, D. C., & Baumrin, S. (1988). A model of CEO dismissal. *Academy of Management Review*, *13*(2), 255–270.
- Friedman, S. D., & Singh, H. (1989). CEO succession and stockholder reaction: The influence of organizational context and event context. *Academy of Management Journal*, *32*, 718–744.
- Friend, I., & Lang, L. H. P. (1988). Empirical test of the impact of managerial self interest on corporate capital structure. *The Journal of Finance*, *43*(2), 271–281.
- Grusky, O. (1963). Managerial succession and organizational effectiveness. *American Journal of Sociology*, *69*, 21–31.
- Haleblian, J., & Finkelstein, S. (1993). Top management team size, CEO dominance, and firm performance: The moderating roles of environmental turbulence and discretion. *Academy of Management Journal*, *36*, 844–863.
- Haleblian, J., & Rajagopalan, N. (2006). A cognitive model of CEO dismissal: Understanding the influence of board perceptions, attributions and efficacy beliefs. *Journal of Management*, *43*, 1009–1026.
- Hambrick, D. C. (1981). Environment, strategy, and power within top management teams. *Administrative Science Quarterly*, *26*, 253–275.
- Hambrick, D. C., & Abrahamson, E. (1995). Assessing managerial discretion across industries: A multimethod approach. *Academy of Management Journal*, *38*, 1427–1441.
- Hambrick, D. C., & Finkelstein, S. (1987). Managerial discretion: A bridge between polar views of organizational outcomes. In B. Staw & L. L. Cummings (Eds.), *Research in organizational behavior* (Vol. 9, pp. 369–406). Greenwich, CT: JAI Press.
- Hambrick, D. C., Geletkanycz, M. A., & Fredrickson, J. W. (1993). Top executive commitment to the status quo: Some tests of its determinants. *Strategic Management Journal*, *14*(6), 401–418.
- Hayward, M. L. A., & Hambrick, D. C. (1997). Explaining the premiums paid for large acquisitions: Evidence of CEO hubris. *Administrative Science Quarterly*, *42*, 103–127.
- Helfat, C. E., & Bailey, E. E. (2005). External succession and disruption change: Heir apparent, forced turnover and firm performance. *Strategic Organization*, *3*, 47–83.
- Jensen, M. C., & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics*, *3*, 305–360.
- Kaplan, S. N., & Minton, B. A. (2012). How has CEO turnover changed? *International Review of Finance*, *12*, 57–87.
- Kesner, I. F., & Sebora, T. C. (1994). Executive succession: Past, present, and future. *Journal of Management*, *20*(2), 327–372.
- Khurana, R. (2001). Finding the right CEO: Why boards often make poor choices. *Sloan Management Review*, *43*(1), 91–95.

- Lucier, C., Schuyt, R., & Handa, J. (2004). CEO succession 2003: The perils of “Good” governance. *Strategy + Business*, 35, 1–17.
- Morse, A., Nanda, V., & Seru, A. (2011). Are incentive contracts rigged by powerful CEOs. *The Journal of Finance*, 66, 1779–1821.
- Mulford, Charles W., & Gram, M. (2007). The effects of lease capitalization on various financial measures: An analysis of the retail industry. *Journal of Applied Research in Accounting and Finance*, 2(2), 3–13.
- Murphy, K. J., & Zimmerman, J. L. (1993). Financial performance surrounding CEO turnover. *Journal of Accounting and Economics*, 16, 273–316.
- Ocasio, W. (1994). Political dynamics and the circulation of power: CEO succession in US industrial corporations, 1960–1990. *Administrative Science Quarterly*, 39, 285–312.
- Pfeffer, J. (1981). *Power in organizations*. Marshfield, MA: Pitman.
- Pi, L., & Lowe, J. (2011). Can a powerful CEO avoid involuntary replacement? An empirical study from China. *Asia Pacific Journal of Management*, 28, 775–805.
- Pitcher, P., Chreim, S., & Kisfalvi, V. (2000). CEO succession research: Methodological bridges over troubled waters. *Strategic Management Journal*, 21, 625–648.
- Quigley, T. J., & Hambrick, D. C. (2012). When the former CEO stays on a board chair: Effects on successor discretion, strategic change, and performance. *Strategic Management Journal*, 33, 834–859.
- Shen, W., & Canella, A. (2002). Power dynamics within top management and their impact on CEO dismissal followed by inside succession. *Academy of Management Journal*, 45, 1195–1206.
- Shen, W., & Cho, T. (2005). Exploring involuntary executive turnover through a managerial discretion framework. *Academy of Management Review*, 30, 843–854.
- Tian, J., Halebian, J., & Rajagopalan, N. (2011). The effects of board human and social capital on investor reactions to new CEO selection. *Strategic Management Journal*, 32, 731–747.
- Tushman, M. L., Virany, B. & Romanelli, E. (1989). *A longitudinal study on determinants of executive succession*. Working paper, Graduate School of Business, Columbia University, New York.
- Vancil, R. F. (1987). *Passing the baton: Managing the process of CEO succession*. Cambridge, MA: Harvard Business School Press.
- Watts, R. L., & Zimmerman, J. J. (1979). The demand for and supply of accounting theories: The market for excuses. *The Accounting Review*, 54(2), 273–305.
- Williamson, O. E. (1963). Managerial discretion and business behavior. *American Economic Review*, 53, 1032–1057.
- Zaleznik, A., & Kets de Vries, M. F. R. (1975). *Power and the corporate mind*. New York: Scribner.
- Zhang, Y. (2011). Information symmetry and the dismissal of newly appointed CEOs: An empirical investigation. *Strategic Management Journal*, 29, 859–872.

Sungsoo Kim is a Professor of Accounting at Rutgers School of Business at Camden. He received his Ph.D. in Accounting from Bernard M. Baruch College, CUNY and began his teaching career with Herbert Lehman College in New York City. Before joining Rutgers he taught at the University of Minnesota Duluth for 5 years. His publications include *the Accounting Review*, *Journal of Management Accounting Research*, *the Financial Review*. He is currently Area Head and Director of Ragone Center for Accounting Excellence.

Rakesh B. Sambharya (Ph.D., Temple University) is an Associate Dean of Graduate Programs and a Professor of Management and International Business at the School of Business, Rutgers University—Camden. His research interests are in the areas of global strategies, international competitiveness, Japanese management, foreign direct investment and corruption, innovation and technology, international and product diversification, composition of top management team. He has published in many leading academic journals including the *Strategic Management Journal*, *Journal of International Business Studies*, *Organization Studies*, *Management International Review*, *Journal of International Management*, *International Business Review*, *Business Horizons*, *British Journal of Management*, and the *Scandinavian Journal of Management*.

Joon Sun Yang is an associate professor at Sogang University, Korea. He received a Ph.D. in Business Administration from Temple University and worked as an assistant professor at the University of Minnesota Duluth. His teaching and research interests are in the area of Accounting. His publications have appeared in numerous academic journals including *Accounting Horizons*, *Auditing: A Journal of Practice and Theory*, and *International Journal of Auditing*.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.