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Abdullatif A. Alrashdan
Kuwait University

CEO Dismissal and Succession: The Implications for the Firm's Strategic Human Capital Resources

Abstract

Purpose: Firms race to attract, develop, and retain their employees to bolster their competitive advantage. Many of these employees choose to leave the firms when they perceive uncertainty following leadership changes. This paper advances arguments for the effects of voluntary and involuntary CEO dismissals on the firm's strategic human capital resources (SHC). These arguments incorporate the impact of factors that influence the impact of CEO dismissals: TMT size, Capital patience, and firm size. These factors lay the grounds for the firm's leadership succession and alleviate the uncertainty associated with these events. **Study design/ methodology/ approach:** The quantitative analysis conducted in this paper utilizes a Generalized Estimating Equation (GEE) model. **Sample and data:** The paper utilizes a sample of 1,572 U.S. firms listed in the S&P 1500 between 2008 and 2018. The data was retrieved from various archival sources. **Results:** The analysis showed that CEO dismissals led to losses in the firm's SHC. These losses were greater when the CEO was dismissed involuntarily. The loss of SHC following a voluntary CEO dismissal was lower in firms with larger TMT sizes and firm sizes. The loss of SHC following an involuntary CEO dismissal was lower in firms with higher capital patience and larger firm size. **Originality/value:** The paper provides evidence of the different effects of voluntary and involuntary CEO dismissal on SHC. Further, it introduces the impact of organizational factors that influence leadership succession in organizations. **Research limitations/implications:** The findings presented in this paper has limitation in terms of generalizability to non-U.S. firms and firms that are not listed in the S&P 1500.

Keywords: CEO Dismissal, Succession, Human Resources, Stakeholders, Top Management Teams.

JEL classification: M12, M19, M50, M54

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Introduction

Management research is fundamentally interested in the consequences of CEO dismissal and succession (e.g., Gentry *et al.*, 2021; Park *et al.*, 2021; Finkelstein *et al.*, 2009). While the change in leadership is usually perceived as an opportunity for organizational learning and adaptation (Karaevli and Zajac, 2013), such an event also raises uncertainty about the firm's future decisions and performance (Schepker *et al.*, 2017). The disruption that follows this event also varies depending on the reason for the CEO's dismissal, whether the dismissal is voluntary or involuntary (Helfat and Bailey, 2005). The uncertainty that follows such events is often critically observed by the firm's stakeholders, including investors, stock market analysts, and the media (Shin *et al.*, 2022). The firm's employees are another group of stakeholders known to be directly influenced by these events (Wang *et al.*, 2022).

Firms worldwide race to attract, develop, and retain their employees to accentuate their competitiveness (Ployhart, 2021; Eckardt and Jiang, 2019). The firm's strategic human capital resources (SHC), represented by the employees' collective capabilities, are considered a valuable and scarce resource relevant to competitive advantage (Ployhart *et al.*, 2014; Barney and Hesterly, 2010). Empirical evidence reveals that the firm's SHC influences the productivity of other complementary resources, such as physical resources (Riley *et al.*, 2017), tacit knowledge (Lecuona and Reitzig, 2014), and social capital (Dess and Shaw, 2001). Furthermore, the individuals that comprise the firm's SHC are highly sought after by the firm's competitors, which indicates the high job mobility of those employees within and cross-industries (Starr *et al.*, 2018). Considering the importance of those strategically important employees, retaining those individuals is often a priority for firms to improve and sustain their competitiveness.

This paper investigates the effects of CEO dismissal on the firm's strategic human capital resources. Like other stakeholders, the firm's employees observe the dismissal of the CEO of their firm rather critically (Wang *et al.*, 2022), as this event often reflects on their decisions to remain or leave the firm (Bruton *et al.*, 2003). Specially, this paper investigates the employees' reactions to CEO dismissal events. It advances arguments for the differences in the effects of voluntary and involuntary CEO dismissals on a firm's strategic human capital resources, which builds on the fact that involuntary CEO dismissals usually create greater instability in organizations (Helfat and Bailey, 2005). Furthermore, the paper investigates the effects of organizational factors that influence the firm's adapt-

ability and readiness for the CEO succession process: TMT size, capital patience, and firm size.

While scholars underline the effects of the disruption that follows CEO dismissal and succession on the firm's stakeholders (Shin *et al.*, 2022; Park *et al.*, 2021; Schepker *et al.*, 2017; Wiersema and Zhang, 2011), the effects of these events on the firm's employees remain surprisingly scant. Therefore, considering the impact of this element on the sustainability of the firm's competitive advantage, this paper is directed toward the following questions:

RQ1: How does the dismissal of a firm's CEO affect that firm's strategic human capital resources?

RQ2: What organizational elements moderate the effects of this event on the firm's strategic human capital resources?

This paper answers these questions by advancing hypotheses and empirically investigating these arguments using a sample of 1,572 publicly traded U.S. firms listed in the S & P 1500 index between 2008 and 2018. The longitudinal data were collected from sources of archival data on CEO dismissals, firm-level financial data, and data on top management teams and boards of directors. A Generalized Estimating Equation (GEE) model specification is utilized to test the hypothesized effects and robustness checks are conducted to confirm the consistency of the findings presented in this paper.

This paper advances three contributions to strategic management and human resources research. First, the paper contributes to the research on the retention of strategic human capital (Ployhart *et al.*, 2014) by empirically investigating the effects of internal instabilities, following a CEO dismissal event, on the firm's strategic human capital. Second, the paper also enriches the research on CEO dismissal (Gentry *et al.*, 2021) by providing evidence for the varying disruption and adverse effects of CEO dismissal on the firm's resources, depending on the reason for the dismissal. Finally, the paper also contributes to the research of executive succession (Schepker *et al.*, 2017) by underlining the organizational factors that build the foundation for effective succession. For practitioners, the findings emphasize the role of leadership development and succession planning in reducing the adverse effects of CEO dismissals on the firm's workforce.

Literature Review

Management scholars emphasize the effects of the instabilities that arise after executive dismissal and succession (e.g, Kim *et al*., 2021; Ballinger and Marcel, 2010). In particular, CEOs receive significant attention from business scholars due to their influence on their firm's strategic direction and performance (Daily and Johnson, 1997). In addition, CEOs are the ones that are in direct contact with many of the firm's stakeholders, including shareholders, governmental agencies, and the media (Shin *et al*., 2022; Wiersema and Zhang, 2011; Sanders and Hambrick, 2007). Furthermore, stakeholders critically observe the changes in the firm's strategic leadership, particularly those who take the position of the firm's CEO. In fact, CEO change is a major disruptive force in organizations that is often accompanied by significant changes in the firm's processes, routines, structures, resources, and capabilities (Hayward and Fitza, 2017; Finkelstein *et al*., 2009). Such disruption is not always well-managed, as the departure of a firm's CEO is not always voluntary (Wiersema and Zhang, 2011). Interestingly, Gentry *et al*. (2021) find out that database on CEO turnover and dismissal in S & P 1500 firms between 2000 and 2018 reveals that 19% of all CEO dismissals are involuntary. In such cases, CEOs are involuntarily dismissed from their position by the board of directors due to bad performance or behavioral or policy-related problems. Thus, involuntary CEO dismissal involves greater instability, particularly among firms that do not have a foundation for an effective succession (Carey and Ogden, 2000). A group of stakeholders that are particularly vulnerable to those instabilities is the firm's employees.

The literature on strategic human resources has recently focused on understanding the antecedent and effects of collective human capital resources (Ray *et al*., 2022; Gerhart and Feng, 2021). The aggregation of the traditionally micro-level construct of human capital to macro-level human capital resources enriches the Resource-Based View (RBV), particularly on how firms create and sustain their competitive advantage through their employees (Ployhart, 2021). Empirical findings show that collective human capital resources influence the productivity of the firm's complementary resources, such as research and development (R & D), physical assets, and advertisements (Riley *et al*., 2017). Such synergies emphasize the importance of understanding human capital resources emergence, development, deployment, and retention (Eckardt and Jiang, 2019; Kozlowski, 2019; Hausknecht and Holwerda, 2013).

Ployhart *et al*. (2014) make the distinction between "human capital resources" and "strategic human capital resources." Specifically, human capital resources

involve the combined capabilities of all the firm's employees relevant to achieve performance parity. In contrast, strategic human capital resources include only the individuals possessing the knowledge, skills, abilities, and other characteristics (KSAOs) relevant to competitive advantage. Such employees have KSAOs that are valuable, rare, inimitable, and organizationally suitable, which makes them critical for the firm's competitiveness (Barney and Hesterly, 2010). Those KSAOs are often found in individuals who are industry experts, star employees, inventors, and scientists (Morris *et al*., 2021; Wright *et al*., 2014). Considering the importance of strategic human capital resources, firms in various industries race to acquire and develop those strategically important employees to bolster their competitiveness in the global arena (Chatain and Meyer-Doyle, 2017; Riley *et al*., 2017).

While the development of strategic human capital resources is a critical investment that firms often need to make, those individuals often have greater job mobility relative to others as their capabilities are highly sought after by the firm's competitors (Starr *et al*., 2018). Furthermore, the loss of SHC can be a disruption that hinders the firm's routines, processes, and operations (Dalton *et al*., 1982; Nelson and Winter, 1982), reduces the firm's capabilities (Maritan, 2001), and jeopardizes tacit knowledge and social capital (Dess and Shaw, 2001; Grant, 1996). Empirically, scholars find out that the loss of SHC is associated with lower firm performance, not vice versa (Stern *et al*., 2021). Accounting for those hazards, the retention of SHC is arguably more critical to sustaining the firm's competitive advantage, particularly during a period of instability or a downtrend.

Recent studies show an increasing interest in understanding how employees may react following the dismissal of their firm's CEO (Shin *et al*., 2022; Wang *et al*., 2022). However, despite this interest, the empirical research on how CEO dismissal influences the firm's employees remains under study. A significant factor contributing to the scarcity of empirical analysis in this domain is the lack of data on firms' employees, particularly those contributing to their strategic human capital resources. However, recent papers utilize financial data sources to identify and track changes in the firm's SHC, using employee stock-option data (Stern *et al*., 2021; Babenko and Sen, 2014; Carter and Lynch, 2004). Considering that firms offer stock options to their strategically important employees, the rate of cancellation and forfeiture of the firm's employee stock option provides a good measure of the firm's loss of strategic human capital (Stern *et al*., 2021). This method contributes to our knowledge of the antecedents of the firm's strategic human capital resources (Stern *et al*., 2021), employee turnover (Carter and Lynch, 2004), and employee commitment (Phua *et al*., 2018).

Hypotheses Development

Executive dismissal and succession are opportunities for change and primary sources of organizational instability (e.g., Schepker *et al.*, 2017; Hutzschenreuter *et al.*, 2012; Ballinger and Marcel, 2010). Extant research has underlined the effects of TMT turnover on the firm's learning and adaptability (Kolev and McNamara, 2022) when such a process is managed effectively. CEOs, in particular, are regarded as the most influential individuals in their organizations (Daily and Johnson, 1997), and their departure is usually observed critically by the firm's stakeholders (Shin *et al.*, 2022). Specifically, the change in leadership is often perceived as a disruptive force that increases the uncertainty for the firm's stakeholders, especially its employees (Wang *et al.*, 2022; Barron *et al.*, 2011). The firm's employees are critical elements of economic value creation from various of the firm's resources, including physical resources (Riley *et al.*, 2017), tacit knowledge (Lecuona and Reitzig, 2014), and social capital (Dess and Shaw, 2001). The adverse effects of this leadership change are expected to be greater for firms that do not have a well-established foundation for a CEO succession process (Schepker *et al.*, 2017; Biggs, 2004; Carey and Ogden, 2000).

The strategic human capital resources encompass the collective KSAOs that are vital for the sustainability of the firm's competitive advantage (Ployhart *et al.*, 2014). Therefore, retaining those strategic human resources is often a top priority for firms to sustain their competitive advantage when the firm experiences instability. Considering that CEO dismissal and succession are usually followed by changes to the firm's existing processes, routines, and operations, strategically important employees may resist or decide to leave the firm (Kim *et al.*, 2022). Considering the fact that the strategically important employees have higher job mobility due to their highly sought-after KSAOs (Starr *et al.*, 2018), those employees are more than capable of reducing their exposure to this employment risk. The worst-case scenario is when the firm's strategically important employees leave to work for a prominent competitor.

CEO dismissal increases the uncertainty about the firm's future operations, even when the CEO leaves the firm voluntarily to pursue a new opportunity or due to retirement. Particularly for high-performing firms, the departure of the firm's CEO may be seen as a loss of strategic leadership, managerial capabilities, or social capital (Finkelstein *et al.*, 2009; Cao *et al.*, 2006). Furthermore, successor CEOs often implement drastic changes to the firm's strategic direction (Shen and Cannella Jr, 2003), which may involve discontinuing some of the firm's ongoing

operations (Barron *et al.*, 2011). Accounting for the disruption that follows the firm's Voluntary CEO dismissal and succession, employees may resist or have unfavorable views about the new CEO's changes, especially when such changes adversely affect their tasks, responsibilities, and career development (Kim *et al.*, 2022). In such cases, firms are advised to actively manage such resistance as it may encourage the employees to search for new job opportunities and leave. Considering that a firm's strategic human capital consists of employees with KSAOs that are relevant to the firm's competitive advantage (Ployhart *et al.*, 2014), such employees are expected to quickly find new job opportunities, either inside or outside the firm's industry, when such instability arises (Starr *et al.*, 2018). Therefore, H1 is formally stated as follows:

H1: *Voluntary CEO dismissal will be positively associated with the loss of strategic human capital.*

Involuntary CEO dismissals are known to be more chaotic and disruptive compared with voluntary CEO dismissals. In these events, the decision to dismiss the CEO is a corrective action enforced by the firm's board of directors (Wiersema and Zhang, 2011; Helfat and Bailey, 2005) and preceded by bad performance or behavioral or other policy-related reasons (Gentry *et al.*, 2021). Considering their prominence, involuntary CEO dismissals are often adversely viewed by the firm's stakeholders, most notably the shareholders, investment analysts, and the media (Shin *et al.*, 2022; Wiersema and Zhang, 2011). Parrino *et al.* (2003) find out that institutional investors, a prominent group of a firm's shareholders, are more likely to abandon the firm's stock when the CEO is dismissed involuntarily. The adverse reactions are more substantial when the media heavily covers involuntary dismissal event (Burke, 2022; Park *et al.*, 2021). Such instability is also critically perceived by the firm's other stakeholders, especially the employees.

This paper proposes that involuntary CEO dismissals are expected to raise doubts, or at least questions, about the firm's new direction with the new "corrective" leadership. While the change may create opportunities for some employees to fill the firm's leadership vacuum, many risk-averse employees may choose to leave the firm. Furthermore, the loss of strategic human capital is expected to be more substantial among firms that did not establish a foundation of an effective succession plan (Carey and Ogden, 2000; Friedman and Saul, 1991). To reduce the effect of this disruption on their employment, many of the firm's strategically important employees may decide to leave following the case of an involuntary CEO dismissal. Considering their higher-than-average job mobility,

those employees are expected to find new opportunities inside or outside of their industry (Starr *et al.*, 2018). Therefore, this paper hypothesizes the following effect:

***H2 (a)**: Involuntary CEO dismissal will be positively associated with the loss of strategic human capital.*

Considering that involuntary CEO dismissals are inherently enforced (Wiersema and Zhang, 2011; Helfat and Bailey, 2005), Involuntary CEO dismissals usually create more uncertainty about the firm's future performance compared to voluntary CEO dismissals. As a result, those events are expected to be associated with greater losses of strategic human capital. Considering the difference in effects, this paper hypothesizes the following:

***H2 (b)**: The loss of strategic human capital will be greater following an involuntary CEO dismissal compared to a voluntary CEO dismissal.*

The Impact of the Top Management Team

Upper echelon theory emphasizes the contribution of top management teams (TMT) to building the firm's competitiveness under high uncertainty (Finkelstein *et al.*, 2009; Hambrick and Mason, 1984). Like CEOs, TMT executives also embody the managerial capabilities in their organizations (Helfat and Martin, 2015; Helfat and Peteraf, 2015) and are directly involved in the firm's strategic decisions, including mergers and acquisitions (Steinbach *et al.*, 2017), new market entry (Boeker, 1997), and innovation (Qian *et al.*, 2013). Furthermore, TMT executives take a critical role during CEO dismissals and the leadership's transitional stage (Saporito and Winum, 2012) as they become candidates for insider CEO succession (Agrawal *et al.*, 2006). Empirical evidence shows insider CEO succession involves much lower risk than outsider CEO hiring, as the latter is associated with more extreme performance variations (Quigley *et al.*, 2019; Zhang and Rajagopalan, 2010). Furthermore, insider CEO succession is also more advantageous for larger firms as those firms have higher complexity and thus require the CEO successor to have firm-specific knowledge (Naveen, 2006). Therefore, firms with capable candidates among their TMT are better positioned to reduce the uncertainty associated with the CEO succession process.

The availability of candidates for insider CEO succession is expected to affect the relationship between voluntary CEO dismissal and strategic human capital resources. Specifically, firms with more executives in their TMT generally have less need for an outsider CEO hiring, alleviating the uncertainty associated with this succession (Quigley *et al.*, 2019). To put it differently, TMT size signals a concrete

foundation for the firm's insider succession, particularly when the CEO is dismissed voluntarily. To the firm's employees, insider CEO succession is associated with more clarity about the firm's strategic direction, considering their established knowledge about the newly promoted CEO. Unlike outsider CEOs, insider CEOs used to be TMT executives that were highly involved in the firm's strategy and decision-making, which gives them a significant edge in terms of understanding the firm's resources, capabilities, and environment (Zhang and Rajagopalan, 2010). Therefore, a larger TMT size is expected to facilitate better CEO succession by providing alternatives for an insider CEO succession, alleviating the uncertainty associated with a voluntary CEO dismissal. Thus, this paper hypothesizes:

***H3 (a)**: TMT size weakens the positive relationship between voluntary CEO dismissal and the loss of strategic human capital.*

Unlike voluntary CEO dismissals, involuntary CEO dismissal is often a corrective action that aims to turnaround the performance of troubled firms (Wiersema and Zhang, 2011; Helfat and Bailey, 2005). Chen and Hambrick (2012) emphasize that the effectiveness of those corrective measures depends on the fit between the successor CEO and the contextual conditions that lead the firm to perform poorly. To achieve this performance turnaround, the board of directors needs to elect candidates better suited to those contextual conditions than the incumbent CEO. In troubled firms, the search for a successor better suited for the role of the firm's new CEO is expected to be from outside the firm. Like the incumbent CEO, the incumbent TMT members are expected to be framed as misfitted for the job due to their high involvement with the incumbent CEO's faulty decisions. In such cases, incumbent TMT executives can also be exposed to the risk of getting dismissed, just like the incumbent CEO, further accentuating the uncertainty associated with the dismissal. Thus, this paper proposes the following hypothesis:

***H3 (b):** TMT size strengthens the positive relationship between involuntary CEO dismissal and the loss of strategic human capital.*

The Impact of the Firm's Shareholders

The firm's shareholders are important stakeholders that greatly influence CEO hiring, dismissal, and succession (Andrei *et al.*, 2022; Shin *et al.*, 2022). Alongside their internal monitoring through the board, active investors (i.e., shareholders activists) play an external governance role that affects the firm's decisions, most

notably CEO and executive dismissals (Wiersema and Zhang, 2011; Denis and Serrano, 1996). Those external governance practices often influence the frequency of trading the firm's stock, which signals the shareholders' satisfaction with the firm's decisions (Thanassoulis and Somekh, 2016). Conversely, the infrequent trading of the firm's stock indicates the extent of the firm's "patient capital", reflecting the shareholder's commitment and endorsement of the firm's long-term plans (Souder *et al.*, 2016; Sirmon and Hitt, 2003). Considering these trading behaviors, patient capital signals the firm's stability for other stakeholders, most notably stock market analysts and the media (Souder *et al.*, 2016). While the employees may choose to leave the firm whenever they perceive significant uncertainty affecting their employment, the shareholders can sell the firm's stock when they perceive greater uncertainty about its future performance.

Considering that the decisions of the firm's shareholders often affect other stakeholders (DesJardine *et al.*, 2022), this paper argues that the shareholders' reaction toward the dismissal of the firm's CEO serves as a credible signal of subsequent instabilities. Specifically, the extent of the firm's capital patience that follows a voluntary CEO dismissal may project a better succession process. Furthermore, the shareholders' decision to hold the firm's stock also suggests that the voluntary CEO dismissal is not changing their expectations about the firm's future performance (Souder *et al.*, 2016; Sirmon and Hitt, 2003), which is especially vital for high-performing firms. In contrast, a higher trading frequency following a dismissal may project that the shareholders perceive the dismissal of the incumbent CEO as a loss for the firm, particularly when the CEO chooses to pursue a new job opportunity. In such cases, the more frequent trading would indicate that the shareholders do not expect the high performance to persist, which is why they sell the stock. Because of this, the firm's employees are expected to consider capital patience as a credible signal of stability during an event of voluntary CEO dismissal. Therefore, the paper hypothesizes:

H4 (a): *Capital patience weakens the positive relationship between voluntary CEO dismissal and the loss of strategic human capital.*

The extent of capital patience often reflects the shareholders' commitment to the firm and their endorsement of the management's long-term decisions (Souder *et al.*, 2016; Thanassoulis and Somekh, 2016; Sirmon and Hitt, 2003). Considering that involuntary CEO dismissal is an enforced decision that involves greater

instability (Wiersema and Zhang, 2011; Helfat and Bailey, 2005), the shareholders' trading behaviors signal their approval or disapproval of this corrective action. Specifically, a higher trading frequency following an involuntary CEO dismissal signals a decreasing shareholder commitment to the firm's performance, which accentuates the uncertainty for the firm's employees. Conversely, a lower trading frequency following an involuntary CEO dismissal reflects the stability of the shareholders' commitment to the firm and endorsement of this corrective action, despite the uncertainty associated with this event. From the perspective of the firm's employees, this serves as an optimistic signal. Those effects are formally stated in the following hypothesis:

H4 (b): *Capital patience weakens the positive relationship between involuntary CEO dismissal and the loss of strategic human capital.*

The Impact of Organizational Size

Scholars underscore significant differences between smaller and larger firms in terms of the quality of CEO succession planning (Naveen, 2006), shareholder performance scrutiny (Wiersema and Zhang, 2011), and downsizing routines (Brauer and Laamanen, 2014). While they may be prone to inertia, larger firms generally establish structures, routines, and processes that enable them to manage uncertainty more efficiently (Daft, 2015; Gilbert, 2005; Nelson and Winter, 1982). Larger firms are also better positioned to benefit from economies of scale and liquid resources (Kim and Bettis, 2014) and to deter aggressive competition (Mas-Ruiz and Ruiz-Moreno, 2011). Furthermore, those firms are generally more capable of maneuvering adverse environmental shifts (Cheng and Kesner, 1997), economic downtrends (Nason and Patel, 2016), and mitigating organizational decline (Wiseman and Bromiley, 1996). Moreover, larger firms often have better-established routines focusing on leadership development and succession. For instance, Naveen (2006) notes that larger firms groom their TMT executives to succeed the CEO well before the departure of the incumbent CEO, which facilitates insider CEO succession. The preemptive succession planning commonly found in larger firms significantly alleviates the uncertainty associated with CEO dismissals (Quigley *et al.*, 2019; Carey and Ogden, 2000).

The effects of voluntary CEO dismissal on the firm's strategic human capital resources are expected to vary depending on the firm's size. Specifically, larger firms are more developed in terms of their routines, process, and structures (Daft, 2015; Gilbert, 2005) and thus have a better-established foundation for effective

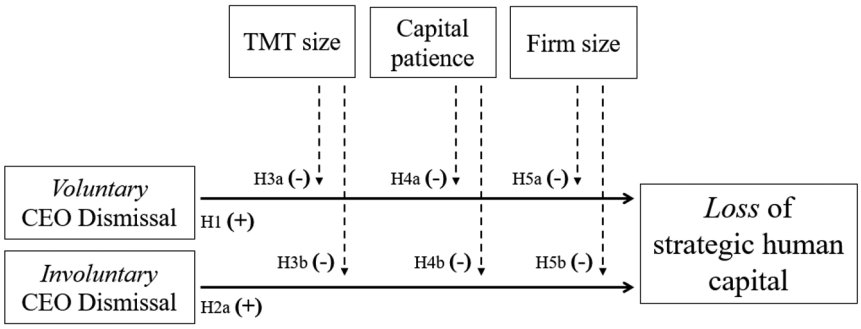
CEO succession. Furthermore, larger firms usually groom their top executives and develop them ahead of time for the position of successor CEO, not only for planning purposes but also for efficiency (Naveen, 2006). To put it differently, succession planning facilitates insider CEO succession, which is the preferred succession strategy (Agrawal *et al.*, 2006) as it is less risky (Quigley *et al.*, 2019) and more cost-effective (Naveen, 2006). As a result, larger companies are expected to experience less disruption to their ongoing operations following a voluntary CEO dismissal event, which reduces the uncertainty for the employees. Therefore, I posit the following:

H5 (a): *Firm size weakens the positive relationship between voluntary CEO dismissal and the loss of strategic human capital.*

The presence of well-defined CEO succession planning in larger firms is particularly advantageous during an involuntary CEO dismissal event (Carey and Ogden, 2000; Friedman and Saul, 1991). Having CEO succession planning as a part of the firm's organizational routines enables larger firms to be prepared to manage the disruption following an involuntary CEO dismissal. Indeed, succession planning is crucial for the firm's employees as such routines significantly alleviate the uncertainty associated with the firm's leadership transition and future direction. Furthermore, those established organizational routines that are dedicated to leadership development and succession provide an opportunity for strategically important employees to advance in their careers and even be nominated for a leadership position themselves, which is likely to reduce their intentions to leave the firm. Considering those effects, the presence of succession planning as part of larger firms' organizational routines is expected to influence the uncertainty and disruption that follow a CEO dismissal, especially if such dismissal is involuntary. Accounting for those effects, I advance the following:

H5 (b): *Firm size weakens the positive relationship between involuntary CEO dismissal and the loss of strategic human capital.*

Figure 1 below summarizes the paper's proposed hypotheses and conceptual model.



** The loss of strategic human capital will be greater following an involuntary CEO dismissal (H2a) compared to a voluntary CEO dismissal (H1).*

Figure 1: Conceptual Model

Methods

Sample and Data

This paper utilizes a sample of publicly traded U.S. firms listed in the *S&P 1500* index from 2008 to 2018, which includes 1,572 firms. The use of publicly listed firms is necessary to test the hypotheses advanced in this paper, particularly those focusing on the interaction of stakeholders' groups (e.g., active investors and employees). Furthermore, the *S&P 1500* firms provide an appropriate context to study the effects of executive dismissals as the decisions of these larger firms are accessible and visible to the firm's stakeholders, including shareholders, analysts, regulators, media, and employees (Shin *et al.*, 2022; Gentry *et al.*, 2021; Bilgili *et al.*, 2017). Moreover, the 10-year period provides ample time to capture the antecedents of the dismissal events in those firms under changing environments and different economic cycles. Lastly, observations are dropped when the data on the variables is unavailable in the data sources. The final sample amounts to a total of 11,162 firm-year observations.

The empirical investigation conducted in this paper utilizes secondary data sources on CEO dismissals, accounting and financial data, executive compensation, and the board of directors. First, the *database of CEO dismissals in S&P 1500 firms* provided by Gentry *et al.* (2021) is used to identify the occurrence and reasons for each CEO dismissal in *S&P* 1500 firms. The data classifies the dismissal as voluntary or involuntary based on the reason for dismissal. The reasons for voluntary dismissals include the CEO pursuing a new job opportunity or retirement. In contrast, involuntary dismissals are due to bad performance and

behavioral or policy-related reasons. Second, *Compustat* is utilized to collect the accounting and financial data. Third, *Execucomp* is the primary data source for information on each firm's CEO and top management team presented in this paper. Finally, *Board Ex* is used to integrate data about the board of directors for each firm in the sample used in this analysis. To summarize, Table 1 below provides a breakdown of the included number of observations per industry in each of the study's ten-year period:

Table 1
Number of Observations per Industry from 2008 to 2018

SIC range	Industry	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
0100-0999	Agriculture, Forestry and Fishing	3	4	3	4	4	3	2	2	1	0	0	**26**
1000-1499	Mining	70	66	63	62	62	59	53	52	49	51	7	**594**
1500-1799	Construction	10	10	10	11	11	11	11	11	10	10	2	**107**
2000-3999	Manufacturing	628	628	615	608	567	555	494	474	454	432	136	**5591**
4000-4999	Transportation, communications, electric, Gas and sanitary service	146	140	135	128	115	103	96	87	73	66	18	**1107**
5000-5199	Wholesale trade	42	41	41	40	37	39	36	37	32	32	14	**391**
5200-5999	Retail trade	111	106	108	109	105	100	94	92	90	86	8	**1009**
6000-6799	Finance, insurance and real estate	54	51	50	46	44	48	46	38	35	32	5	**449**
7000-8999	Services	232	218	209	199	188	189	173	159	152	134	26	**1879**
9900-9999	Non-classifiable Establishments	2	2	2	2	1	0	0	0	0	0	0	**9**
	Total	**1298**	**1266**	**1236**	**1209**	**1134**	**1107**	**1005**	**952**	**896**	**843**	**216**	**11162**

* The descriptions of SIC codes are according to the United States Department of Labor.

Measures

Dependent Variable

The proposed theory focuses on a specific segment of the firm's human capital relevant to the firm's competitive advantage, namely strategic human capital (Ployhart *et al.*, 2014). Considering that firms offer stock-based incentives primarily to their strategically important employees to retain them, prior research

utilizes stock options data as a validated measure to identify and track the change in the firm's strategic human capital (Stern *et al.*, 2021; Babenko and Sen, 2014; Carter and Lynch, 2004). Following the process detailed in Phua *et al.* (2018), the *loss of SHC* is constructed as the percentage of the employee-owned stock options canceled, forfeited, expired, or terminated at any given year. For this study, this percentage is calculated after subtracting the stock options owned by the incumbent CEO. To ensure capturing the effects of independent variables and sequence of events, *Loss of SHC at t + 1* is used as the dependent variable of the empirical investigation.

Independent Variables

The analysis conducted in this paper uses two dichotomous variables to indicate the incidents of *voluntary CEO dismissal* (1 if the CEO leaves voluntarily, 0 otherwise) and *involuntary CEO dismissal* (1 if the CEO is dismissed involuntarily, 0 otherwise). Following Gentry *et al.* (2021) definition of each category, the CEO dismissal is defined as voluntary if the CEO chooses to leave the firm in pursuit of a new job opportunity or due to retirement. In contrast, the dismissal is considered involuntary when the CEO is dismissed due to bad performance or other behavioral or policy-related reasons. The paper clearly differentiates between the two dismissal constructs due to the distinct antecedent and effects of each category, as involuntary CEO dismissals are usually enforced by the board of directors and are often followed by greater uncertainty (Helfat and Bailey, 2005).

Moderators

Hypotheses 3, 4, and 5 test the effect of elements that influence the effectiveness of CEO succession planning in organizations. First, this paper measures *TMT size* as a count variable that reflects the number of executives in the firm's top management team (Carpenter, 2002). Second, *Capital patience* reflects the frequency of shareholders' trading of the firm's stock. Following Souder *et al.* (2016), *Capital patience* is measured by calculating each firm's stock trading intensity, defined as the number of stocks traded in a year divided by the number of shares outstanding. Then, the stock trading intensity for each firm is subtracted from the median level of stock trading intensity in the industry, resulting in an industry-adjusted measure of *Capital patience*. The firm's industry is defined using the 2-digits primary SIC code. Finally, *firm size* was measured using the natural log of the firm's annual revenues (Drnevich and Kriauciunas, 2011). While scholars use different proxies to measure firm size, such as the number of employees (e.g.,

Villalonga, 2004), this paper uses the firm's annual revenues as it is less correlated with the *loss of SHC* and *TMT size*.

Control Variables

The analysis controls for variables that are expected to influence the employees' propensity to leave the firm. The study accounts for the effect of *Industry dynamism*, which indicates the degree of instability and turbulence in the firm's industry (Dess and Beard, 1984). Following precedence, *Industry dynamism* is calculated using the standard error of the industry sales regression slope coefficient divided by the average value of sales during the past five years (Lin and Dang, 2017; Kayo and Kimura, 2011). As for the firm-level variables, the firm's performance is measured using the firm's *Tobin's Q*, calculated as the firm's market value divided by the book value of its total assets (Kim and Bettis, 2014). Also, the analysis controls for the firm's *sales growth* as the percentage change in the firm's sales in each year relative to the previous year. *Slack* is measured following the procedures detailed in Chen (2008) by calculating available, recoverable, and potential slack separately, then adding the standardized scores of each type of slack to get the measure of *slack resources*. Available slack is calculated as current assets divided by current liabilities. Recoverable slack is calculated as the firm's working capital over sales. Potential slack was calculated as the firm's shareholders' equity divided by debt.

The analysis also controls for the firm's *proximity to bankruptcy* using the firm's Altman Z-Score (Altman, 1983). Following the procedure detailed in Chen and Miller (2007), Altman Z-Score is calculated as (1.2 x working capital divided by total assets) + (1.4 x retained earnings divided by total assets) + (3.3 x income before interest expense and taxes divided by total assets) + (0.6 x market value of equity divided by total liability) + (1.0 x sales divided by total assets). The interpretation of the above Z-Score indicates the firm's distance to bankruptcy (i.e., a higher score indicates more distance to bankruptcy). Following precedence (Miller and Chen, 2004), these Z-scores are reversed to indicate the firm's *proximity to bankruptcy*. Therefore, a higher score indicates that the firm is approaching bankruptcy.

The analysis also controls for the effects of different aspects of the firm's board of directors and top management team. For the board of directors (BOD), *BOD size* reflects the number of members on the board. The study also controls for the effects of demographic diversity in the board, with *BOD age diversity* defined as the

standard deviation of the age of BOD members and *BOD gender diversity* as the percentage of board members who are women (Triana *et al.*, 2014; Carter *et al.*, 2003). For the top management team (TMT), the analysis controls for different aspects of TMT diversity, including *TMT age diversity* as the standard deviation of the age of TMT members and *TMT gender diversity* as the percentage of women executives in the TMT (Saeed *et al.*, 2022). In addition, *TMT power disparity* is operationalized as the standard deviation of the total compensation of the TMT members divided by the average TMT total compensation (Richard *et al.*, 2019). Moreover, *TMT turnover* is measured as the number of departed TMT members in a given year divided by the TMT size (Bilgili *et al.*, 2017). Furthermore, the study controls for CEO-focused variables: *CEO duality, CEO tenure*, and *External CEO*. *CEO duality* is a binary variable that indicates if the CEO simultaneously took the role of the Chairman of the board (Dorata and Petra, 2008). *CEO tenure* is defined as the number of years that he or she spent as the firm's CEO. *External CEO* is a binary variable that indicates whether the CEO is succeeded by an outsider CEO (Kim *et al.*, 2022). Finally, the study controls for *industry* and *year* fixed effects.

Results

The data is analyzed using a Generalized Estimating Equation (GEE) model. GEE is preferred to be used when analyzing longitudinal or clustered data as it allows for measuring between- and within-firm variance (Certo *et al.*, 2017). Furthermore, a variance inflation factor (VIF) analysis is conducted to investigate the potential of multicollinearity between the variables. The VIF for all the variables was well below the recommended threshold of 10 (Greene, 2003), which shows that multicollinearity does not affect the analysis. Lastly, the *loss of SHC* at (t + 1) is used as the dependent variable in all the empirical models presented in this study to eliminate the potential of reverse causality. Table 2 reports the descriptive statistics, while Table 3 details the correlations between each pair of variables and the VIF analysi.

The analysis is divided into six steps, each presented in Models 1 through 6, as reflected in Table 4. Model 1 tests the effects of the control variables on the loss of strategic human capital at (t + 1). Model 2 tests the main effects of *voluntary CEO dismissal* and *involuntary CEO dismissal* hypothesized in H1, H2a, and H2b respectively. Model 3 investigates the moderation effects of *TMT size* in H3a and H3b. Model 4 examines the moderation effects of *Capital patience* in H4a and H4b. Model 5 tests the interaction effects of *firm size* on each type of CEO dismissal in H5a and H5b. Finally, Model 6 shows the full interaction model with the six interaction effects.

Table 2
Descriptive Statistics

Variable	Mean	Std. dev.	Min	Max
Loss of SHC (t + 1)	0.087	0.137	0.00	1.00
Industry Dynamism	0.030	0.023	0.00	0.28
Tobin's Q	1.643	1.289	0.11	25.56
Growth (sales)	0.259	17.879	-1.00	1887
Slack resources	-0.005	0.041	-0.04	2.24
Firm size (ln revenues)	7.498	1.693	-2.30	13.05
Proximity to bankruptcy	-0.008	0.007	-0.11	0.03
Capital patience	-1.432	1.793	-10.11	3.89
BOD size	9.217	2.215	3.00	33.00
BOD age disparity	7.290	2.175	0.50	16.30
BOD gender diversity	0.138	0.108	0.00	0.67
TMT size	5.576	1.112	2.00	13.00
TMT age disparity	6.248	2.666	0.00	21.75
TMT gender diversity	0.092	0.132	0.00	0.83
TMT power diversity	0.708	0.305	0.00	2.57
TMT turnover	0.131	0.150	0.00	0.83
CEO duality	0.426	0.495	0	1
CEO tenure	6.418	6.151	0.00	45.00
External CEO	0.027	0.163	0	1
Voluntary CEO dismissal	0.074	0.262	0	1
Involuntary CEO dismissal	0.032	0.176	0	1

Notes: n = 11,162

Table 3
Pearson Correlations and Variance Inflation Factor (VIF)

#	Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	VIF	1/VIF
1	Loss of SHC (t+1)	1.00																						
2	Industry Dynamism	0.02	1.00																				1.14	0.88
3	Tobin's Q	-0.18	0.10	1.00																			1.18	0.85
4	Growth (sales)	0.00	0.00	-0.01	1.00																		1.00	1.00
5	Slack resources	0.02	0.04	0.08	0.00	1.00																	1.13	0.88
6	Firm size (revenues)	-0.14	-0.27	-0.13	-0.02	-0.33	1.00																2.21	0.45
7	Proximity to bankruptcy	0.02	0.18	-0.21	0.01	0.01	-0.12	1.00															1.21	0.82
8	Capital patience	-0.07	0.00	0.05	0.01	0.02	-0.07	-0.05	1.00														1.07	0.93
9	BOD size	-0.11	-0.13	-0.09	0.00	-0.19	0.60	0.10	0.02	1.00													1.74	0.57
10	BOD age disparity	0.04	0.09	0.04	0.01	0.05	-0.15	-0.04	0.03	-0.03	1.00												1.11	0.90
11	BOD gender diversity	-0.02	-0.03	0.04	-0.01	-0.12	0.33	-0.04	0.05	0.29	-0.16	1.00											1.36	0.74
12	TMT size	0.07	-0.04	-0.06	0.01	-0.08	0.14	0.01	-0.09	0.13	-0.04	0.07	1.00										1.30	0.77
13	TMT age disparity	0.06	0.06	-0.04	0.00	0.03	-0.15	-0.04	0.00	-0.14	0.20	-0.16	0.05	1.00									1.12	0.89
14	TMT gender diversity	0.04	-0.05	0.00	-0.01	-0.04	0.04	-0.09	0.02	0.03	-0.06	0.27	0.08	-0.04	1.00								1.11	0.90
15	TMT power disparity	-0.07	-0.04	0.11	0.00	-0.07	0.18	0.00	-0.05	0.08	-0.03	0.07	0.14	0.01	0.03	1.00							1.11	0.90
16	TMT turnover	0.14	-0.02	-0.04	0.04	-0.02	0.04	0.02	-0.03	0.03	0.00	0.06	0.40	-0.01	0.08	0.09	1.00						1.28	0.78
17	CEO duality	-0.09	-0.06	-0.04	0.01	-0.04	0.18	0.00	0.01	0.07	-0.13	0.08	-0.06	-0.04	-0.01	0.08	-0.10	1.00					1.22	0.82
18	CEO tenure	-0.06	0.02	0.03	-0.01	0.04	-0.06	-0.01	0.02	-0.09	0.01	-0.11	-0.13	0.16	-0.07	0.07	-0.18	0.31	1.00				1.25	0.80
19	External CEO	0.08	0.01	-0.02	0.00	0.03	-0.05	0.00	0.00	-0.03	0.02	0.00	0.19	0.04	0.01	0.05	0.25	-0.10	-0.17	1.00			1.12	0.90
20	Voluntary CEO dismissal	0.05	0.00	0.00	0.00	0.00	0.01	-0.02	0.02	0.02	-0.02	0.01	0.09	0.05	0.01	0.05	0.05	-0.01	0.12	-0.04	1.00		1.04	0.96
21	Involuntary CEO dismissal	0.18	-0.01	-0.06	0.00	-0.01	0.00	-0.01	-0.06	0.00	0.01	0.03	0.10	0.01	0.04	0.04	0.10	-0.05	-0.02	0.01	-0.05	1.00	1.04	0.97
	Notes: n = 11,165																							

Table 4
Results from the Generalized Estimating Equation (GEE) Model

Model	1 (Controls)				2 (Main effects)				3 (TMT effects)				4 (Investors effects)				5 (Firm size effects)				6 (Full interaction)			
Dependent Variable	**Loss of SHC (t+1)**				**Loss of SHC (t+1)**				**Loss of SHC (t+1)**				**Loss of SHC (t+1)**				**Loss of SHC (t+1)**				**Loss of SHC (t+1)**			
	Coeff.	SE	p-value		Coeff.	SE	p-value		Coeff.	SE	p-value		Coeff.	SE	p-value		Coeff.	SE	p-value		Coeff.	SE	p-value	
Controls																								
Industry Dynamism	0.859	0.21	0.00	**	0.912	0.21	0.00	**	0.902	0.21	0.00	**	0.918	0.21	0.00	**	0.926	0.21	0.00	**	0.925	0.21	0.00	**
Tobin's Q	-0.023	0.00	0.00	**	-0.021	0.00	0.00	**	-0.021	0.00	0.00	**	-0.021	0.00	0.00	**	-0.021	0.00	0.00	**	-0.021	0.00	0.00	**
Growth (sales)	0.000	0.00	0.41		0.000	0.00	0.42		0.000	0.00	0.42		0.000	0.00	0.42		0.000	0.00	0.46		0.000	0.00	0.44	
Slack resources	-0.082	0.04	0.03	*	-0.078	0.04	0.04	*	-0.078	0.04	0.04	*	-0.077	0.04	0.04	*	-0.078	0.04	0.04	*	-0.077	0.04	0.04	*
Firm size (revenues)	-0.015	0.00	0.00	**	-0.014	0.00	0.00	**	-0.014	0.00	0.00	**	-0.014	0.00	0.00	**	-0.012	0.00	0.00	**	-0.012	0.00	0.00	**
Proximity to bankruptcy	-1.038	0.31	0.00	**	-0.959	0.30	0.00	**	-0.949	0.30	0.00	**	-0.973	0.30	0.00	**	-0.934	0.30	0.00	**	-0.940	0.30	0.00	**
Capital patience	-0.003	0.00	0.00	**	-0.003	0.00	0.00	**	-0.003	0.00	0.00	**	-0.002	0.00	0.01	**	-0.003	0.00	0.00	**	-0.002	0.00	0.02	*
BOD size	-0.001	0.00	0.46		-0.001	0.00	0.30		-0.001	0.00	0.29		-0.001	0.00	0.30		-0.001	0.00	0.32		-0.001	0.00	0.30	
BOD age disparity	0.000	0.00	0.71		0.000	0.00	0.83		0.000	0.00	0.85		0.000	0.00	0.83		0.000	0.00	0.87		0.000	0.00	0.89	
BOD gender diversity	0.049	0.02	0.00	**	0.045	0.02	0.01	**	0.046	0.02	0.01	**	0.046	0.02	0.01	**	0.042	0.02	0.01	**	0.043	0.02	0.01	**
TMT size	0.004	0.00	0.01	**	0.001	0.00	0.28		0.002	0.00	0.08	+	0.001	0.00	0.28		0.001	0.00	0.37		0.002	0.00	0.14	
TMT age disparity	0.001	0.00	0.11		0.001	0.00	0.14		0.001	0.00	0.18		0.001	0.00	0.15		0.001	0.00	0.15		0.001	0.00	0.20	
TMT gender diversity	0.005	0.01	0.64		0.006	0.01	0.58		0.006	0.01	0.58		0.007	0.01	0.55		0.008	0.01	0.47		0.009	0.01	0.43	
TMT power disparity	-0.009	0.00	0.05	*	-0.012	0.00	0.01	**	-0.012	0.00	0.01	**	-0.012	0.00	0.01	**	-0.012	0.00	0.00	**	-0.012	0.00	0.00	**
TMT turnover	0.072	0.01	0.00	**	0.064	0.01	0.00	**	0.065	0.01	0.00	**	0.064	0.01	0.00	**	0.065	0.01	0.00	**	0.065	0.01	0.00	**
CEO duality	-0.006	0.00	0.07	+	-0.003	0.00	0.35		-0.003	0.00	0.30		-0.003	0.00	0.33		-0.004	0.00	0.25		-0.004	0.00	0.21	
CEO tenure	0.000	0.00	0.08	+	-0.001	0.00	0.00	**	-0.001	0.00	0.00	**	-0.001	0.00	0.00	**	-0.001	0.00	0.00	**	-0.001	0.00	0.00	**
External CEO	0.016	0.01	0.03	*	0.025	0.01	0.00	**	0.024	0.01	0.00	**	0.025	0.01	0.00	**	0.026	0.01	0.00	**	0.025	0.01	0.00	**
Explanatory Variables																								
Voluntary CEO dismissal					0.031	0.00	0.00	**	0.112	0.02	0.00	**	0.026	0.01	0.00	**	0.113	0.02	0.00	**	0.183	0.03	0.00	**
Involuntary CEO dismissal					0.108	0.01	0.00	**	0.089	0.03	0.00	**	0.098	0.01	0.00	**	0.298	0.03	0.00	**	0.264	0.04	0.00	**
Interactions																								
Voluntary CEO dismissal * TMT size									-0.014	0.00	0.00	**									-0.013	0.00	0.00	**
Involuntary CEO dismissal * TMT size									0.003	0.00	0.52										0.004	0.00	0.35	
Voluntary CEO dismissal * Capital patience													-0.003	0.00	0.20						-0.004	0.00	0.12	
Involuntary CEO dismissal * Capital patience													-0.005	0.00	0.06	+					-0.006	0.00	0.02	*
Voluntary CEO dismissal * Firm size																	-0.011	0.00	0.00	**	-0.011	0.00	0.00	**
Involuntary CEO dismissal * Firm size																	-0.025	0.00	0.00	**	-0.026	0.00	0.00	**
Constant	0.197	0.05	0.00	**	0.200	0.05	0.00	**	0.195	0.05	0.00	**	0.200	0.05	0.00	**	0.185	0.05	0.00	**	0.182	0.05	0.00	**
Industry Fixed-effects	Yes				Yes				Yes				Yes				Yes				Yes			
Year Fixed-effects	Yes				Yes				Yes				Yes				Yes				Yes			
Observations	11,162				11,162				11,162				11,162				11,162				11,162			
Wald chi2	966.39	**			1,300.86	**			1,315.62	**			1,305.50	**			1,369.04	**			1,390.82	**		

** p<0.01, * p<0.05, + p<0.10

Starting with Model 1, the analysis shows interesting effects concerning the control variables. First, *industry dynamism* has a positive and statistically significant effect on the loss of SHC (β = 0.859, p < 0.01), indicating that firms that operate in highly dynamic and changing industries experience more SHC losses. Such conditions can motivate strategically important employees to leave their firms, whether to join another firm inside or outside the industry. Second, the firm's *Tobin's Q* has a negative and statistically significant effect on the loss of SHC (β = -0.023, p < 0.01), which is expected as higher financial performance motivates the employees to remain in the firm to exercise their stock options (Devers *et al.*, 2007). Third, *slack* has a negative and statistically significant effect on the loss of SHC (β = -0.082, p < 0.05), which is expected as slack resources signal the firm's sound financial health to its decision-makers and other stakeholders (Souder and Shaver, 2010). Fourth, *firm size* appears to have a statistically significant and negative effect on the loss of SHC (β = -0.015, p < 0.01), which also projects the larger firm's resilience and stability (Daft, 2015). Fifth, the firm's *proximity to bankruptcy* appears to have a negative and statistically significant effect on the loss of SHC (β = -1.038, p < 0.01). This finding may suggest that employees of declining firms may decide to remain in their firms due to a lack of better alternatives or other factors (e.g., declining industries).

Model 1 also provides interesting insights concerning the effects of the firm's BOD, TMT, and CEO characteristics. For instance, *BOD gender diversity* has a positive and statistically significant effect on the loss of SHC (β = 0.049, p < 0.01). *BOD gender diversity* is often associated with higher innovation and change in organizations (Triana *et al.*, 2014), which may accentuate the uncertainty for some of the firm's employees. Furthermore, the results show that *TMT power disparity* has a negative and statistically significant effect on the loss of SHC (β = -0.009, p < 0.05). In contrast, *TMT turnover* has a positive and statistically significant effect on the loss of SHC (β = 0.072, p < 0.01). Relatedly, *CEO duality* appears to have a negative and a marginally significant effect on the loss of SHC (β = -0.006, p < 0.10). Interestingly, the higher power disparity between the CEO and the TMT members combined with a lower turnover appears to project a sense of stability within the firm's management team, at least from the employees' point of view. Furthermore, *CEO tenure* has a positive effect but only a marginally significant effect on the loss of SHC (β = 0.000, p < 0.10). Lastly, *External CEO* has a positive and statistically significant effect on the loss of SHC (β = 0.016, p < 0.05),

indicating that outside CEO succession is generally associated with a higher loss of SHC.

Model 2 investigates the main effects hypothesized in H1, H2a, and H2b. Specifically, *Voluntary CEO dismissal* is found to have a positive and statistically significant effect on *the loss of SHC* ($\beta = 0.031$, $p < 0.01$); thus, H1 is supported. On average, firms that experience a voluntary CEO dismissal at any given time also experience a 0.031 loss of SHC in the following year. In other words, following this event, about 3.1% of the employee-owned stock-based incentives are forfeited. Furthermore, *involuntary CEO dismissals* has a positive and statistically significant effect on *the loss of SHC* ($\beta = 0.108$, $p < 0.01$); thus, H2a is also supported. On average, firms that experience an involuntary CEO dismissal at any given time experience a 0.108 loss of SHC in the following year. This loss amounts to about 10.8% of the employee-owned stock-based incentives being forfeited in the next year. Notably, *involuntary CEO dismissals* appear to have a stronger and more pronounced effect on the loss of SHC than *Voluntary CEO dismissals*; thus, H2b is also supported. The difference in the size of the effect implies that involuntary dismissals are more chaotic and cause more disruption to the firm's internal environment, which appears to reflect on the employees as well.

Model 3 integrates the effects of *TMT size* as a factor that influences CEO succession planning. *TMT size* is found to weaken the effects of *Voluntary CEO dismissal* on the *loss of SHC* with a statistically significant effect ($\beta = -0.014$, $p < 0.01$); Therefore, the results fully support H3a. On average, the increase in *TMT size* by one executive significantly reduces the effect of *voluntary CEO dismissal* on *the loss of SHC* by 0.014. This reduction equates to a reduction of 1.4% of employee-owned stock option forfeiture in the following year. As for H3b, Model 3 shows that *TMT size* does not have a statistically significant effect on the relationship between *Involuntary CEO dismissal* on the *loss of SHC* ($\beta = 0.003$, $p = 0.52$); Thus, H3b is not supported. Figure 2 below plots the effects of TMT size on the relationship between Voluntary CEO dismissal and the loss of SHC in H3a:

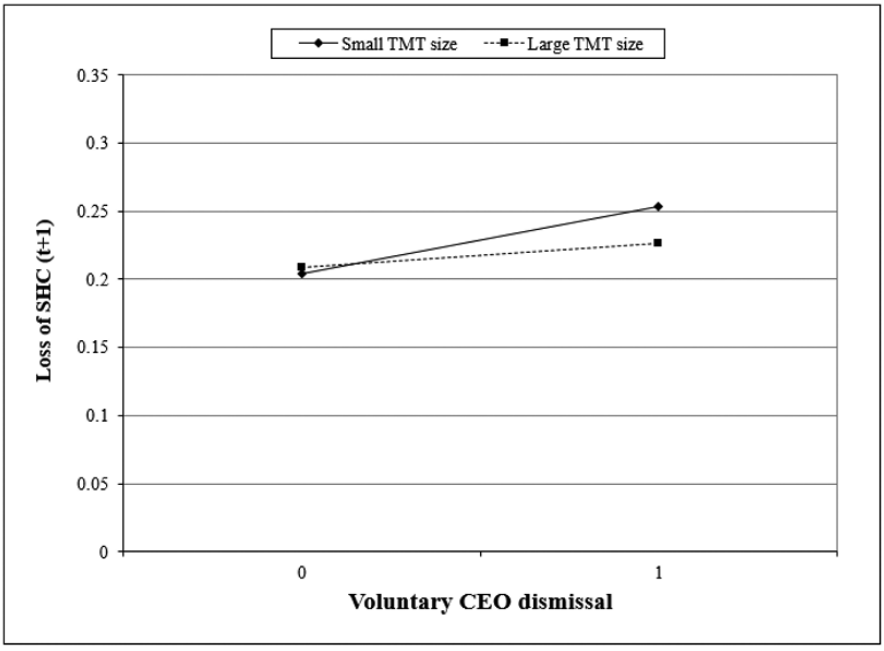


Figure 2: The Moderation Effect of TMT Size on Voluntary CEO Dismissal

Model 4 incorporates the influence of the firm's shareholders. Contrary to H4a, *Capital patience* does not have a statistically significant effect on the relationship between *Voluntary CEO dismissal* and *the loss of SHC* (β = -0.003, p = 0.20); thus, H4a is not supported. In contrast, *Capital patience* has a marginally significant and negative effect on the relationship between *Involuntary CEO dismissal* on *the loss of SHC* (β = -0.005, p < 0.10); thus, H4b is supported. On average, firms with higher *capital patience* relative to their industry (i.e., with lower trading frequency) by 1 unit experience a weaker effect of *involuntary CEO dismissal* on *the loss of SHC* by about 0.5%. Figure 3 below plots the interaction effects of *capital patience* on the relationship between *involuntary CEO dismissal* and the *loss of SHC*:

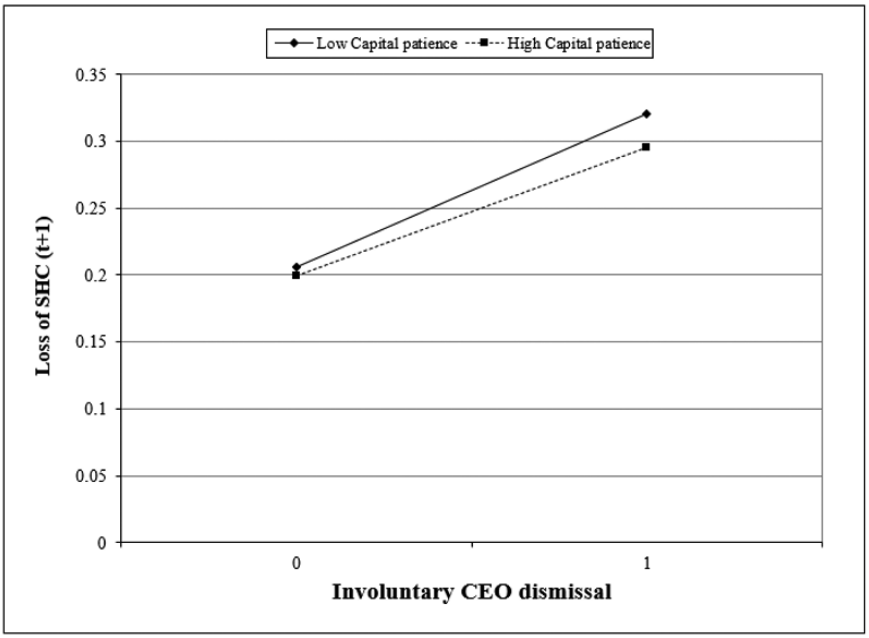


Figure 3: The Moderation Effect of Capital Patience on Involuntary CEO Dismissal

Model 5 focuses on the moderating effect of *firm size* on the effects of CEO dismissal on *the loss of SHC*. As argued in H5a and H5b, *firm size* is found to attenuate the effects of CEO dismissal on *the loss of SHC* in two ways. First, *firm size* has a statistically significant effect on the relationship between *Voluntary CEO dismissal* on *the loss of SHC* (β = -0.011, p < 0.01). On average, larger companies are associated with a weaker effect of *Voluntary CEO dismissal* on *the loss of SHC* by 1.1% per unit of firm size; therefore, H5a is fully supported. Second, *firm size* also has a negative and statistically significant effect on the relationship between *involuntary CEO dismissal* and t*he loss of SHC* (β = -0.025, p < 0.01). On average, larger firms are associated with a weaker effect of *involuntary CEO dismissal* on *the loss of SHC* by 2.5% per unit of firm size; therefore, H5b is also fully supported. Interestingly, the findings confirm that the benefit of firm size is even greater for firms that experience *involuntary CEO dismissal*, which could underline some of the benefits that larger firms acquire due to their more established routines, systems, and structures. To summarize, Figures 4 and 5 below illustrate the moderating effects of *firm size* on the consequences of *voluntary and involuntary CEO dismissal*, respectively:

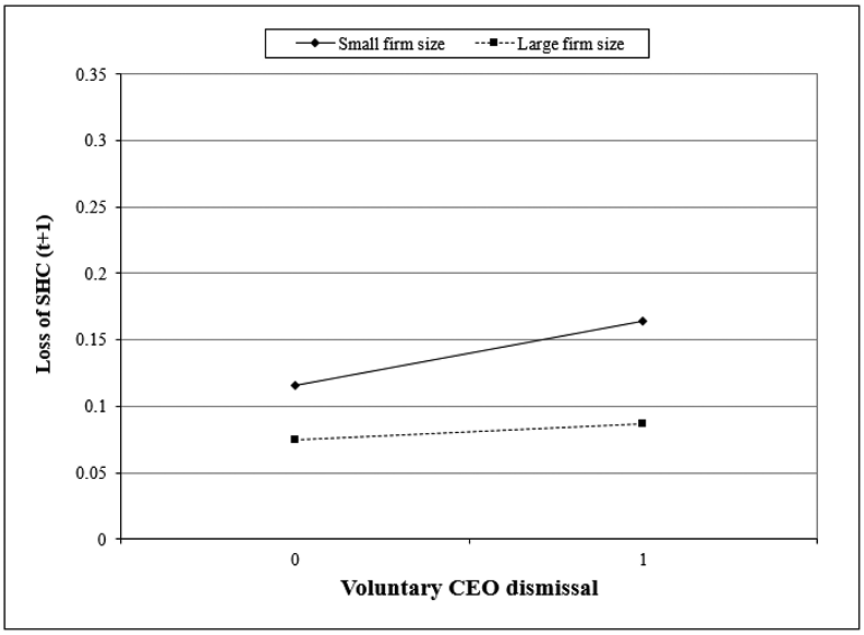


Figure 4: The Moderation Effect of Firm Size on Voluntary CEO Dismissal

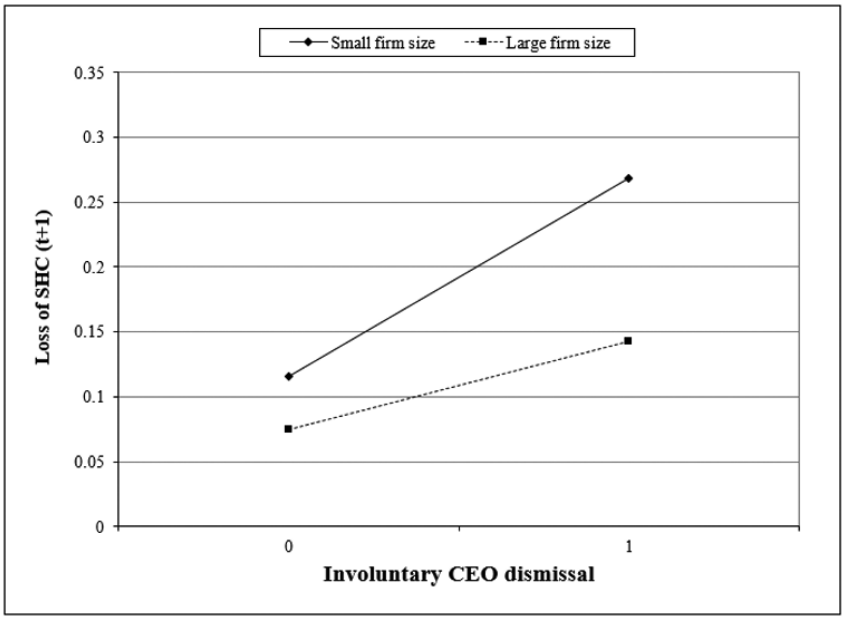


Figure 5: The Moderation Effect of Firm Size on Involuntary CEO Dismissal

Model 6 presents the research's full interaction model and includes all the moderators. The full interaction model further supports the conclusions on H4b as well. Other than this, the conclusions from the previous models remain largely consistent. The full model reveals two important insights. First, *TMT size* appears to attenuate the instabilities that occur during a voluntary CEO dismissal but not during an involuntary CEO dismissal. In contrast, *Capital patience* plays an important role during an involuntary CEO dismissal but not during a voluntary CEO dismissal. The observation underlines the effects of the firm's shareholders on the consequences of CEO dismissal, particularly when the CEO is dismissed involuntarily (DesJardine *et al.*, 2022; Shin *et al.*, 2022). Second, the results confirm that larger firms have a better foundation for CEO succession, which appears to alleviate the uncertainty associated with the dismissal event for the firm's strategically important employees.

Robustness Checks

Several robustness checks are conducted to ensure the consistency of the research's findings. The analysis is replicated using panel data model specifications, either a random effect or a fixed effects model, due to their prevalence in strategic management research (Certo *et al.*, 2017). To decide on the appropriate specification, a Hausman (1978) test is first conducted to determine whether a random-effect model would be suitable. However, the Hausman (1978) test is statistically significant (χ^2 (30) = 236; p < 0.001) and thus recommends the use of fixed effects specification instead. Based on this observation, the analysis is replicated using a fixed effects model with first-order autoregressive error terms (AR1) to limit the exposure to autocorrelation. Indeed, the findings from the fixed-effects model are consistent with my main analysis using the GEE specification. The results of this analysis are detailed in Table 5 below:

Table 5
Results from the Fixed Effect Model with First-Order Autoregressive Error Terms (AR1)

Model	1 (Controls)				2 (Main effects)				3 (TMT effects)				4 (Investors effects)				5 (Firm size effects)				6 (Full interaction)			
Dependent Variable	**Loss of SHC (t+1)**				**Loss of SHC (t+1)**				**Loss of SHC (t+1)**				**Loss of SHC (t+1)**				**Loss of SHC (t+1)**				**Loss of SHC (t+1)**			
	Coeff.	SE	p-value		Coeff.	SE	p-value		Coeff.	SE	p-value		Coeff.	SE	p-value		Coeff.	SE	p-value		Coeff.	SE	p-value	
Controls																								
Industry Dynamism	0.511	0.29	0.08	+	0.578	0.29	0.05	*	0.573	0.29	0.05	*	0.596	0.29	0.04	*	0.590	0.29	0.04	*	0.607	0.29	0.04	*
Tobin's Q	-0.019	0.00	0.00	**	-0.017	0.00	0.00	**	-0.017	0.00	0.00	**	-0.017	0.00	0.00	**	-0.017	0.00	0.00	**	-0.017	0.00	0.00	**
Growth (sales)	0.000	0.00	0.78		0.000	0.00	0.82		0.000	0.00	0.83		0.000	0.00	0.83		0.000	0.00	0.83		0.000	0.00	0.85	
Slack resources	-0.018	0.05	0.71		-0.019	0.05	0.71		-0.020	0.05	0.69		-0.017	0.05	0.73		-0.027	0.05	0.59		-0.026	0.05	0.60	
Firm size (revenues)	-0.001	0.00	0.82		-0.001	0.00	0.80		-0.001	0.00	0.83		-0.001	0.00	0.81		0.000	0.00	0.94		0.001	0.00	0.87	
Proximity to bankruptcy	-1.268	0.67	0.06	+	-1.119	0.66	0.09	+	-1.114	0.66	0.09	+	-1.153	0.66	0.08	+	-1.189	0.66	0.07	+	-1.217	0.66	0.07	+
Capital patience	-0.002	0.00	0.13		-0.002	0.00	0.27		-0.001	0.00	0.34		-0.001	0.00	0.70		-0.002	0.00	0.26		0.000	0.00	0.83	
BOD size	0.002	0.00	0.30		0.001	0.00	0.46		0.001	0.00	0.45		0.001	0.00	0.48		0.001	0.00	0.41		0.001	0.00	0.42	
BOD age disparity	0.000	0.00	0.77		0.000	0.00	0.73		0.001	0.00	0.67		0.000	0.00	0.74		0.000	0.00	0.69		0.001	0.00	0.64	
BOD gender diversity	0.036	0.03	0.20		0.034	0.03	0.22		0.033	0.03	0.23		0.034	0.03	0.21		0.030	0.03	0.27		0.029	0.03	0.28	
TMT size	0.003	0.00	0.12		0.001	0.00	0.59		0.002	0.00	0.34		0.001	0.00	0.55		0.001	0.00	0.74		0.001	0.00	0.47	
TMT age disparity	0.001	0.00	0.40		0.000	0.00	0.60		0.000	0.00	0.67		0.000	0.00	0.62		0.000	0.00	0.64		0.000	0.00	0.74	
TMT gender diversity	-0.026	0.02	0.16		-0.022	0.02	0.23		-0.021	0.02	0.24		-0.020	0.02	0.28		-0.020	0.02	0.27		-0.018	0.02	0.32	
TMT power disparity	0.002	0.00	0.63		-0.001	0.00	0.90		-0.001	0.00	0.91		0.000	0.00	0.92		-0.001	0.00	0.86		-0.001	0.00	0.89	
TMT turnover	0.016	0.01	0.09	+	0.014	0.01	0.15		0.014	0.01	0.15		0.013	0.01	0.16		0.014	0.01	0.12		0.014	0.01	0.13	
CEO duality	0.002	0.00	0.61		0.007	0.00	0.13		0.007	0.00	0.17		0.007	0.00	0.15		0.007	0.00	0.17		0.005	0.00	0.27	
CEO tenure	0.000	0.00	0.95		-0.001	0.00	0.00	**	-0.001	0.00	0.00	**	-0.001	0.00	0.00	**	-0.001	0.00	0.00	**	-0.001	0.00	0.00	**
External CEO	-0.008	0.01	0.32		0.006	0.01	0.40		0.006	0.01	0.44		0.007	0.01	0.39		0.009	0.01	0.24		0.009	0.01	0.24	
Explanatory Variables																								
Voluntary CEO dismissal					0.029	0.00	0.00	**	0.103	0.02	0.00	**	0.023	0.01	0.00	**	0.115	0.02	0.00	**	0.179	0.03	0.00	**
Involuntary CEO dismissal					0.084	0.01	0.00	**	0.031	0.03	0.31		0.067	0.01	0.00	**	0.205	0.03	0.00	**	0.141	0.04	0.00	**
Interactions																								
Voluntary CEO dismissal * TMT size									-0.013	0.00	0.00	**									-0.012	0.00	0.00	**
Involuntary CEO dismissal * TMT size									0.008	0.00	0.09	+									0.010	0.01	0.06	+
Voluntary CEO dismissal * Capital patience													-0.004	0.00	0.09	+					-0.006	0.00	0.03	*
Involuntary CEO dismissal * Capital patience													-0.008	0.00	0.00	**					-0.009	0.00	0.00	**
Voluntary CEO dismissal * Firm size																	-0.011	0.00	0.00	**	-0.011	0.00	0.00	**
Involuntary CEO dismissal * Firm size																	-0.016	0.00	0.00	**	-0.017	0.00	0.00	**
Constant	0.118	0.03	0.00	**	0.123	0.03	0.00	**	0.124	0.03	0.00	**	0.126	0.03	0.00	**	0.119	0.03	0.00	**	0.123	0.03	0.00	**
Industry fixed-effects	Yes				Yes				Yes				Yes				Yes				Yes			
Year Fixed-effects	Yes				Yes				Yes				Yes				Yes				Yes			
Observations	9,590				9,590				9,590				9,590				9,590				9,590			
F-value	5.50	**			11.33	**			11.10	**			11.00	**			11.81	**			11.36	**		
R-squared																								
within	0.02				0.04				0.04				0.04				0.04				0.05			
between	0.05				0.08				0.08				0.07				0.08				0.08			
overall	0.03				0.06				0.06				0.06				0.07				0.07			

** p<0.01, * p<0.05, + p<0.10

Discussion

Management scholars and practitioners are inherently interested in CEO dismissal and succession, as such events reflect on many of the firm's stakeholders (Shin *et al.*, 2022; Wang *et al.*, 2022; Burke, 2022; Park *et al.*, 2021). This paper examines the effects of CEO dismissals on an important group of the firm's stakeholders, namely the employees. While the theory proposed in this paper focuses on the firm's strategic human capital, several of the concepts advanced in this paper may also be relevant to the whole of the firm's workforce. Considering that the firm's strategic human capital resources are the most relevant for competitive advantage (Ployhart *et al.*, 2014), the findings in this paper show that CEO dismissal often negatively influences the firm's competitive advantage. Accounting for the job mobility of those strategically important employees (Starr *et al.*, 2018), this paper proposes that firms benefit from effectively managing the instability that follows CEO dismissal by retaining their strategic human capital resources.

The extant literature differentiates between voluntary and involuntary CEO dismissal, particularly regarding the disruption that such events cause to the firm's internal environment (Gentry *et al.*, 2021; Wiersema and Zhang, 2011). Scholars provide evidence that shareholders and market analysts respond differently to each type of CEO dismissal (Parrino *et al.*, 2003). This paper underlines the differences in the effects of those events on the firm's employees and finds that each of these types interacts with organizational factors in different ways. Using a sample of S&P 1500 firms, this paper provides empirical evidence that voluntary (H1) and involuntary (H2a) CEO dismissal are both associated with losses of the firm's strategic human capital. Furthermore, the findings presented in this paper show that involuntary CEO dismissals consistently lead to greater losses of strategic human capital than when the CEO decides to leave the firm voluntarily (H2b). The finding presented in this paper echoes the insights from prior literature about the different effects of those two dismissal events and underlines the aspects of enforcement and internal instability that often follow an involuntary CEO dismissal (Wiersema and Zhang, 2011; Helfat and Bailey, 2005).

The paper further underlines that the effects of both CEO dismissal events on the firm's strategic human capital resources vary depending on factors that influence the succession process, namely the firm's TMT size (H3 a and b), shareholders' trading behavior (H4 a and b), and organizational size (H5 a and b). While the two types of dismissal events vary in the magnitude of their effects on

strategic human capital, they also respond differently to those factors. Table 6 below summarizes the findings on each of the hypotheses presented in this paper:

Table 6
Summary of the Research Findings

Number	Research Hypothesis	Finding
H1	Voluntary CEO dismissal will be positively associated with the loss of SHC.	Supported
H2 (a)	Involuntary CEO dismissal will be positively associated with the loss of SHC.	Supported
H2 (b)	The loss of strategic human capital will be greater following an involuntary CEO dismissal compared to a voluntary CEO dismissal.	Supported
H3 (a)	TMT size weakens the positive relationship between voluntary CEO dismissal and the loss of SHC.	Supported
H3 (b)	TMT size strengthens the positive relationship between involuntary CEO dismissal and the loss of SHC.	Not Supported
H4 (a)	Capital patience weakens the positive relationship between voluntary CEO dismissal and the loss of SHC.	Not Supported
H4 (b)	Capital patience weakens the positive relationship between involuntary CEO dismissal and the loss of SHC.	Supported
H5 (a)	Firm size weakens the positive relationship between voluntary CEO dismissal and the loss of SHC.	Supported
H5 (b)	Firm size weakens the positive relationship between involuntary CEO dismissal and the loss of SHC.	Supported

Contributions

This research addresses the calls for further integration of strategic management and human resources literature (Ployhart, 2021; Wright *et al.*, 2014) by advancing three significant contributions. First, this article contributes to the growing literature on the retention of strategic human capital resources (Ployhart *et al.*, 2014) by advancing arguments about the effects of CEO dismissal and the subsequent internal instability on the firm's strategic human capital. By utilizing the data on employee stock-option cancellations (Stern *et al.*, 2021), the paper empirically investigates those arguments and differentiates between those effects and events based on the reason for the CEO dismissal. While those strategic human capital resources are essential to the firm's competitive advantage (Barney and Hesterly, 2010), our knowledge of how the changes and transition of the firm's strategic leadership influence those resources remain surprisingly scant. The findings of this paper pave the way for future research to further extend our

knowledge of how other leadership changes (e.g., top management teams, board of directors, and entrepreneurs) can influence the individuals working in the firms.

Second, the paper enriches the contemporary research on CEO dismissal (Gentry *et al.*, 2021) by empirically demonstrating the difference in the impacts of CEO dismissal events on the firm's internal environment and resources based on the reason for the dismissal. To put it differently, the analysis shows that CEO dismissal events vary in terms of how they affect the firms' employees, both in terms of mechanism and magnitude. Building off the insights from extant research, the arguments advanced in this paper incorporate the effects of internal instability in firms following an enforced and chaotic CEO dismissal (Wiersema and Zhang, 2011; Helfat and Bailey, 2005). The findings of this paper provide evidence that involuntary CEO dismissals are usually more disruptive to the firm's strategic human resources, which is another reason why those events are particularly damaging to organizations. For practitioners, the findings presented in this paper provide credible evidence of the chaotic state following involuntary CEO dismissals and emphasize the importance of human resources management systems to reduce the adverse effects of those events on the firm's workforce.

Third, the paper also advances important contributions to the literature and practice of executive succession (Schepker *et al.*, 2017). By integrating insights from streams of literature in strategic management, including upper echelon theory (Hambrick and Mason, 1984), stakeholders theory (Freeman, 2010), and population ecology (Hannan and Freeman, 1977), this article underlines why the adverse effects of CEO dismissal on the firm's employees vary among firms. The findings presented in this paper underscore the role of critical organizational factors (TMT size, capital patience, and firm size) that influence the firm's readiness to manage the CEO dismissal event and why each of those elements appears to behave differently depending on the reason behind the CEO's dismissal. Such findings guide managers, consultants, and practitioners on the elements that facilitate better management and planning for executive succession in publicly traded firms. Furthermore, the paper emphasizes the importance of succession planning and leadership development programs as part of the firm's organizational processes and routines.

Limitations and Directions for Future Research

Despite its contributions, this paper also has limitations. First, this paper uses stock-option cancellation and forfeiture as a proxy for the loss of strategic human

capital. While this measure has been previously used and validated by prior research (Stern *et al.*, 2021; Phua *et al.*, 2018; Babenko and Sen, 2014), the measure relies on the availability of accounting data to identify and track the change in the firm's strategic human capital. This limits the use of this measure to publicly traded firms that are listed in the USA. Second, the conclusions advanced in this paper lack generalizability to non-US companies since this study uses a sample of US-based S&P 1500 firms (Gentry *et al.*, 2021). While the sample used in this paper allows tracking the reasons behind each CEO dismissal event that occurs in those firms during the 10-year period, the findings from this sample are not generalizable to other firms or other financial markets. Lastly, the empirical investigation focuses on how CEO dismissal influences a subset of the firm's workforce, namely its strategic human capital. Future research can extend the conclusion presented in this paper by expanding the focus on the firm's full workforce.

Several suggestions are also proposed for future research on CEO dismissal and strategic human capital. First, future scholars can extend our knowledge of CEO dismissal and succession by further examining the role of the board of directors and the top management team on the instabilities that follow such an event. The leadership transition imposes uncertainty on the firm's employees, and it is important to know what the directors and the other executives can do to facilitate a better transition. Second, moving to a macro-level perspective of strategic human capital resources (Ployhart *et al.*, 2014) creates ample opportunities for scholars to experiment with acquiring, developing, redeployment, and retaining strategic human capital. Despite its limitations detailed in the previous paragraph, accounting data provides an accessible source of data that allows the identification and tracking of the firm's strategic human capital resources (Stern *et al.*, 2021; Phua *et al.*, 2018; Babenko and Sen, 2014), which creates numerous research opportunities in this field. Lastly, future research can extend the findings presented in this paper by examining the effects of CEO dismissal on strategic human capital resources in other markets.

Conclusion

How does the dismissal of a firm's CEO affect that firm's strategic human capital resources? And what organizational factors influence those effects? The answer presented in this paper is (1) CEO dismissals are generally associated with losses to the firm's strategic human capital resources, whether this dismissal is voluntary or involuntary. (2) On average, involuntary CEO dismissals are

associated with higher losses of strategic human capital due to their chaotic and disruptive nature. (3) TMT size, capital patience, and firm size are critical factors that moderate the effects of CEO dismissals on the loss of strategic human capital. In addition, such factors influence the CEO succession process and thus alleviate the uncertainty associated with the leadership transition, which is particularly important to retain the firm's strategic human capital resources. In conclusion, the primary message emphasized in this paper is the hidden benefits of the effective management of CEO dismissal and succession on one of the firm's most strategic resources, that is to say the employees.

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الملخص

إقالة الرئيس التنفيذي والتعاقب الإداري: الآثار المترتبة على الموارد البشرية الإستراتيجية للشركة

عبداللطيف عبدالله الرشدان
جامعة الكويت، الكويت

هدف الدراسة: تتسابق الشركات لجذب موظفيها وتطويرهم والاحتفاظ بهم لتعزيز ميزتها التنافسية. يختار بعض هؤلاء الموظفين ترك الشركة عندما يشعرون بعدم الاستقرار الناتج من حدوث تغيرات قيادية في الشركة التي يعملون فيها. تتناول هذه الدراسة أثر الاستقالة الطوعية وغير الطوعية للمدير التنفيذي على رأس المال البشري الإستراتيجي للشركة. تضمنت الدراسة آثار عوامل تنظيمية على تداعيات هذه الأحداث: حجم فريق الإدارة التنفيذية وصبر/ تحمّل رأس المال، وحجم الشركة؛ إذ إن هذه العوامل تضع الأساس لتعاقب قيادة الشركة وتحدّ من المخاطر المترتبة على هذا الحدث. **عينة الدراسة وبياناتها:** ضمت الدراسة عينة، قوامها 1572 شركة أمريكية مدرجة في مؤشر S&P 1500 بين عامي 2008 و2018. وقد جمعت البيانات باستخدام مصادر بيانات أرشيفية متعددة. **تصميم/منهجية/طريقة الدراسة:** اعتمدت الدراسة أسلوب التحليل الكمي للبيانات باستخدام نموذج معادلة التقدير المعممة (GEE). **نتائج الدراسة:** بينت النتائج أن إقالة الرئيس التنفيذي أدت إلى خسائر في رأس المال البشري الإستراتيجي. وكانت هذه الخسائر أكبر في حالات الإقالة غير الطوعية في حين كانت هذه الخسائر بعد الإقالة الطوعية أقل حدةً في الشركات الكبيرة وذات فرق الإدارة التنفيذية الكبيرة. وفي حال الإقالة غير الطوعية، كانت هذه الخسائر أقل حدةً في الشركات الكبيرة وذات المستوى المرتفع من صبر/تحمّل رأس المال. **أصالة الدراسة:** تقدم هذه الدراسة أدلة على تأثير إقالة الرئيس التنفيذي على رأس المال البشري الإستراتيجي للشركة، وتكشف عن تأثير العوامل التنظيمية على تعاقب القيادة في المنظمات.

حدود الدراسة وتطبيقاتها: النتائج المقدمة في هذا الدراسة لها حدود من حيث قابليتها للتعميم على الشركات غير المدرجة في الأسواق الأمريكية، وكذلك على الشركات غير المدرجة في مؤشر S&P 1500.

المصطلحات العلمية: إقالة الرئيس التنفيذي، التعاقب الإداري، الموارد البشرية، أصحاب المصلحة، الإدارة التنفيذية.

Abdullatif A. Alrashdan is an assistant professor of management at Kuwait University. He earned his Ph.D. in Management from the University of Connecticut in April 2020 with a concentration in strategic management. He also held an MBA from The State University of New York at Buffalo with concentrations in finance, management, and human resources in 2016. He received his bachelor's degree in business administration with a concentration in Finance from Kuwait University in 2006. Abdullatif's research appeared in several international management journals, including *Management Research Review* and the *International Journal of Organizational Analysis*. He also participated in several management conferences, such as the *Academy of Management* and *Strategic Management Society*. (Abdullatif.alrashdan@ku.edu.kw)

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