Corporate Ownership and Control: Economic, Sociological and Behavioral Approaches

D I S S E R T A T I O N
of the University of St. Gallen,
Graduate School of Business Administration,
Economics, Law and Social Sciences (HSG)
to obtain the title of
Doctor Oeconomiae

submitted by

Katarina Sikavica

from
Trimbach (Solothurn)

Approved on the application of

Prof. Dr. Emil Walter-Busch

and

Prof. Dr. Alfonso Sousa-Poza

Dissertation no. 3532

Studentendruckerei, Zürich 2008
The University of St. Gallen, Graduate School of Business Administration, Economics, Law and Social Sciences (HSG) hereby consents to the printing of the present dissertation, without hereby expressing any opinion on the views herein expressed.

St. Gallen, June 23, 2008

The President:

Prof. Ernst Mohr, PhD
Acknowledgments

Writing a dissertation is at the same time a cumbersome, lonely and exciting task. Above all, however, it would have been a downright impossible venture had it not been for people whose unconditional support I was able to rely on at all times.

First and foremost, I would like to thank both of my supervisors, Prof. Dr. Emil Walter Busch and Prof. Dr. Alfonso Sousa-Poza for generously providing me with all the support I ever requested while leaving me the luxury of freedom to pursue my own research interests and evolve into the researcher I had set out to become. Once again, I would like to express my gratitude to both professors for helping to finish this piece of work and obtain my degree in a timely manner. My very special thanks go to Prof. Walter-Busch: without his spontaneity and straightforwardness I might have been left without the opportunity to complete my doctoral degree. I am deeply indebted to him, not only for the opportunities he gave me but also for his tireless mentoring, encouragement and support in many respects.

Sincere thanks are given to the Swiss National Science Foundation for granting me a full-time scholarship and providing me with the opportunity to work and study for a year at the Kellogg School of Management, Northwestern University, in Chicago IL. Having been raised in a noncommittal communist country and having obtained the largest part of my education in a Western European style social democracy, I was curious to learn about both the economic and the educational system in the United States. The scholarly and personal experiences I gained from my trip(s) were brought into this dissertation and will, hopefully, contribute to its quality and academic insight.

Thanks are also due to my parents, Antun and Nevenka Sikavica who unconditionally supported and encouraged my academic ambitions. It is they who made it possible for me to pursue my education, which will both accompany and assist me throughout my entire life.

Last but not least, I should like to thank Manuel Puppis, the man at my side, to whom I dedicate this dissertation. No words can duly express my feelings of heartfelt love, gratitude and respect for him. With his kindheartedness, patience and integrity he will always be my anchor windward and my guiding light.

Zurich, spring 2008

Katarina Sikavica
# Table of Contents

Summary ................................................................................................................................................. 5

I. Introduction: Ownership in Flux, Theory in Stagnation ................................................................. 7

II. The Economic Approach to Corporate Ownership and Control. Ownership Structure, Firm Performance and CEO Turnover: The Case of Switzerland ................................................................................................................. 15

1. The Impact of Performance on CEO Turnover ........................................................................... 16
2. The Role of Shareholders in CEO Turnover Decisions ............................................................. 17
3. The Swiss Corporate Governance Setting .................................................................................. 20
4. Sample and Data ............................................................................................................................ 22
   4.1 Dependent Variables .................................................................................................................. 23
   4.2 Independent Variables ............................................................................................................... 24
      4.2.1 Performance ....................................................................................................................... 24
      4.2.2 Ownership .......................................................................................................................... 25
   4.3 Control Variables ....................................................................................................................... 27
5. Descriptive Statistics ....................................................................................................................... 28
6. Regression Results .......................................................................................................................... 33
   6.1 The relationship between CEO departure, company performance and ownership .................. 33
   6.2 The Impact of the Founder-CEO ............................................................................................. 40
7. Discussion and Conclusion .............................................................................................................. 46


1. The Power- and the Efficiency Approach to CEO Dismissal ....................................................... 58
2. The Process of CEO Dismissal and the Role of the Governance Structure Therein ..................... 60
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.</td>
<td>The Impact of Network Properties on CEO dismissal</td>
<td>63</td>
</tr>
<tr>
<td>4.1</td>
<td>CEO Dismissal and Relational Embeddedness</td>
<td>64</td>
</tr>
<tr>
<td>4.2</td>
<td>CEO Dismissal and Structural Embeddedness</td>
<td>66</td>
</tr>
<tr>
<td>5.</td>
<td>Method</td>
<td>69</td>
</tr>
<tr>
<td>5.1</td>
<td>Sample and Data Collection</td>
<td>69</td>
</tr>
<tr>
<td>5.2</td>
<td>Measures</td>
<td>69</td>
</tr>
<tr>
<td>5.2.1</td>
<td>Dependent Variables</td>
<td>69</td>
</tr>
<tr>
<td>5.2.2</td>
<td>Independent Variables</td>
<td>70</td>
</tr>
<tr>
<td>5.2.3</td>
<td>Controls</td>
<td>71</td>
</tr>
<tr>
<td>5.3</td>
<td>Analysis</td>
<td>72</td>
</tr>
<tr>
<td>6.</td>
<td>Results</td>
<td>72</td>
</tr>
<tr>
<td>7.</td>
<td>Discussion</td>
<td>76</td>
</tr>
<tr>
<td>IV.</td>
<td>The Behavioral Approach to Corporate Ownership and Control.</td>
<td>87</td>
</tr>
<tr>
<td>1.</td>
<td>Exit, Voice and Loyalty as Forms of Shareholder Activism</td>
<td>89</td>
</tr>
<tr>
<td>2.</td>
<td>Economic Conceptions of Ownership and Shareholder Activism</td>
<td>90</td>
</tr>
<tr>
<td>3.</td>
<td>Property Rights and Psychological Ownership Juxtaposed</td>
<td>92</td>
</tr>
<tr>
<td>3.1</td>
<td>Legal Ownership and Property Rights</td>
<td>93</td>
</tr>
<tr>
<td>3.2</td>
<td>Psychological Ownership</td>
<td>94</td>
</tr>
<tr>
<td>4.</td>
<td>The Impact of Legal Ownership and Psychological Ownership on</td>
<td>97</td>
</tr>
<tr>
<td></td>
<td>Shareholder Activism</td>
<td></td>
</tr>
<tr>
<td>4.1</td>
<td>Shareholder Activism under Standard Power Distributions</td>
<td>98</td>
</tr>
<tr>
<td>4.2</td>
<td>Shareholder Activism under Pressure Sensitivity</td>
<td>104</td>
</tr>
<tr>
<td>5.</td>
<td>Discussion and Conclusion</td>
<td>108</td>
</tr>
<tr>
<td>V.</td>
<td>Outlook: Quo Vadis, Corporatio?</td>
<td>119</td>
</tr>
</tbody>
</table>
Summary

In this dissertation, I investigate control issues in the modern corporation from an economic (chapter 1), a sociological (chapter 2) and a behavioral perspective (chapter 3). I center on CEO turnover and shareholder activism in order to hypothesize on the degree to which shareholders become involved in corporate control. Chapter 1 examines the impact of company performance and ownership on CEO turnover and tenure in Swiss companies. The empirical analysis suggests that Swiss CEOs are dismissed for poor performance albeit only when they have no ties to family shareholders. Both the size of shareholdings as well as the type of shareholders are found to be decisive for CEO changes: institutions and family shareholders are found to shorten CEO tenure provided that the CEO is not a member of the founding family. Chapter 2 focuses on the impact of social relations on the efficiency of the governance structure. Social capital, which accrues from the dyadic and network relationships between the CEO, the board of directors and corporate owners, is argued to have a positive effect on the likelihood of dismissing a poorly performing CEO. My empirical findings indicate that poorly performing companies are more likely to dismiss their CEO when proximity and strong ties between the CEO and corporate owners exist and the ownership structure is rather heterogeneous. In chapter 3, I propose a behavioral model of shareholder activism and corporate control. I juxtapose legal and psychological ownership to develop propositions regarding the forms and tactics of activism shareholders are likely to adopt. My model suggests that shareholders holding varying levels of legal and psychological ownership develop disparate relationships with the organization, place emphasis on different objectives and thus use different forms of activism (exit, voice, loyalty), each associated with a different degree of publicity and impact on CEO labor markets.

Gegenstand dieser Dissertation sind Kontrollprobleme börsenkotierter Aktiengesellschaften aus ökonomischer (Kapitel 1), soziologischer (Kapitel 2) und verhaltenstheoretischer Perspektive (Kapitel 3). Im Mittelpunkt der Betrachtung steht das Verhalten der Aktionäre in Bezug auf Entlassung und Amtsdauer von Geschäftsführern. Im ersten Kapitel wird der Einfluss von Unternehmensperformance und Eigentümerstruktur auf die Fluktuationen der Geschäftsführer untersucht. Meine empirischen Ergebnisse deuten auf eine signifikante Erhöhung der Entlassungswahrscheinlichkeit bei sinkender Unternehmensperformance hin. Allerdings scheint dies nur dann der Fall zu sein, wenn die Geschäftsführer keinerlei familiäre Banden mit den Aktionären aufweisen. Sowohl Eigentümerkonzentration als auch der Typus des Aktionärs haben einen Einfluss auf den Wechsel in der Chefetage: Wenn der Geschäftsführer kein Spross der Eigentümerfamilie ist, dann zeichnen institutionelle Anleger und Familienaktionäre für eine Kürzung der Amtsdauer verantwortlich. Im zweiten Kapitel
I. Introduction: Ownership in Flux, Theory in Stagnation

From the incorporation of the first limited liability company, the Swedish Stora Kopparberg in 1347, the modern business corporation has become the most popular legal form of organizing the division of labor in a market economy. Among the core characteristics of the publicly traded corporation are its separate legal personality and its ownership structure, which is oftentimes comprised of many individual and/or corporate shareholders with merely an ephemeral relationship with the corporation. This line-up is the outcome of the transition from entrepreneur-controlled business to a publicly traded company in the hands of many dispersed shareholders who delegate its day-to-day management to more knowledgeable specialists and its oversight to a team of directors. As opposed to their role in the entrepreneurial business, where the founder-owner has full control over the company’s assets, shareholders in public corporations retain merely the rights to dividends, information and the appointment of managers and directors. In this dissertation, I investigate control issues in public corporations from an economic, a sociological and a behavioral perspective. More precisely, I focus on CEO turnover and shareholder activism in order to hypothesize on shareholders’ behavior and the degree to which they become involved in corporate control. In the center of attention are shareholders’ financial incentives, their power and social relations, and their psychological dispositions towards ownership of the corporation. As my study suggests, extant theories of the firm and the organization seem ill-equipped to explain shareholder behavior. However, understanding shareholders’ interests and motives is rising rather than declining in importance due not only to problems pertinent to the “separation of ownership and control” (Berle & Means, 1932) but also to the more recent changes in capital markets such as the increase in number and diversity of investor types and a steady internationalization and liquidity of capital flows.

The splitting up of the management and control task has been given mixed credit in the management and organization theory literature: the risks associated with the public corporation were raised early on by Adam Smith (1776) in one of his most widely cited statements:

“The directors of such companies, however, being the managers rather of other people’s money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own (…). Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company”.

In a seminal work on the “separation of ownership and control”, Berle and Means (1932) were among the first to elaborate on the concern that owners have lost control over their firms which, therefore, are believed to be left to the “mercy” of managers. In this perspective, disperse shareholders are believed to simply pocket the dividends or, when dissatisfied with management, to give up on the corporation and sell off their stakes. In our day, the stance that organizations are devoid of any contribu-
tions by shareholders other than financial is known under the notion of “managerialism” (e.g. Williamson, 1985; Williamson, 1964). Indeed, Kang and Sorensen (1999) point to the fact that organization scholars seem to take managerial dominance for granted and that they, therefore, usually drop the ownership variable from the “organization equation” altogether.

In the theory of the firm, by contrast, the organization of ownership plays an important role albeit from a different perspective: as opposed to the claims by managerialists, agency theory scholars emphasize the benefits of the “separation of ownership and control” (Fama, 1980; Jensen & Meckling, 1976). In this view, the modern business corporation, where management is entrusted with the “initiation and implementation” of decisions while the role of owners has devolved into their “ratification and monitoring”, is seen to be the result of an evolutionary struggle toward the most efficient organizational form of maximizing shareholder wealth while minimizing agency costs (Fama & Jensen, 1983). Agency scholars thus share the opinion that shareholders will not and should not assume any other role in corporations than cashing in residual claims, bearing risk and taking some minimal part in the decision control. The motivation of shareholders to engage in corporate control is viewed to be essentially a matter of their financial interests: only blockholders are assumed to have financial incentives large enough to become involved in corporate affairs (Admati, Pfleiderer, & Zechner, 1994; Shleifer & Vishny, 1986). To this day, agency theory is the only organizational theory to account for shareholders as relevant organizational participants worthy of consideration.

However, as several reviews on shareholder activism and CEO turnover suggest, agency theorists are unable to explain all the facets of shareholder behavior (e.g. Daily, Dalton, & Rajagopalan, 2003; Gillan & Starks, 1998; Pitcher, Chreim, & Kisfalvi, 2000). In addition, recent developments call for a new approach to both ownership and control of corporations. Due to an increase in the liquidity and internationalization of capital markets, we are witnessing not only a rise in shareholders but also an increase in the diversity of shareholder types, some of whom are more interested in the corporation and some of whom care more about the shares. Internationalization and liquidity of capital markets have been promoted by waves of domestic deregulation and tremendous advances in communication technology. Actors from all over the world can access relevant information more quickly, easily and cheaply than ever before and make investments on a global scale. This has led to a proliferation of shareholder types as many parties are interested in minimizing the risk of their investments by taking advantage of a diverse portfolio. Nowadays, not only companies and investment trusts acquire shares but also government agencies, insurance companies, pension funds and also many private individuals.

Without doubt, the corporate ownership landscape is changing. Shareholder types are mushrooming, yet very little is known about their interests in the company, their assertiveness vis-à-vis the CEO, and their attitudes towards corporate control. As anecdotal evidence suggests, some shareholders are more active, others more passive, than what is assumed by conventional wisdom. For example, private equity
firms are notorious for their short-term investment horizons and very invasive behavior towards companies. Although the term private equity suggests that the source of the funds is private, i.e., not reachable in public markets, on occasion private equity firms will buy an undervalued firm listed publicly, “work on it”, change it and then, finally, sell it. With the increase in the liquidity of capital markets, we can expect private equity deals to be more frequent. Clearly, private equity firms’ interests differ from those of other shareholder types. However, even the more traditional shareholder types, such as families, appear to be more distinct in their behavior than what has been believed to be true thus far: in line with the “Buddenbrooks effect” the first generation of family owners is found to behave differently than the second generation (Kang, 1998). Villalonga and Amit (2006), for instance, find that family ownership creates firm value only when the firm is run by the founder. By contrast, when the descendent of the founder is appointed CEO, firm value is destroyed, suggesting not only a dissipative behavior of the second generation CEO but also a lack of control in second generation family firms. Finally, the increasingly frequent adoption of stock ownership and equity plans on the top management level and, as a result, the steadily increasing managerial ownership stakes in the company may lead to a “recombination” of ownership and control. This practice has received mixed ratings. While stock options and equity plans were launched as a means of interest alignment between managers and owners of the company (Jensen & Murphy, 1990; Murphy, 1997), more recently, they have been found to result in managerial entrenchment and to prevent efficient controls (Morck, Shleifer, & Vishny, 1988; Morck, Shleifer, & Vishny, 1989). It is self-evident that against the background of these recent developments, we need greater insight into the interests and preferences of owners, and new approaches are necessary that are better suited to explaining and predicting the behavior of shareholders with respect to corporate control.

This dissertation concerns owners’ contribution to corporate control and their propensity towards shareholder activism. But what exactly is corporate control? A closer look at the notion of control reveals that economists, sociologists and psychologists disagree in their opinions regarding the implications associated with shareholder control. Agency theorists typically limit the extent of corporate control to the tasks that are legally assigned to shareholders. In this view, corporate control implies the selection of qualified managers or, in other words, the hiring, firing and compensating of top management (Jensen & Ruback, 1983) via voting at the annual general meeting. Shareholders are assumed to undertake this task for reasons of financial incentives. In other words, effective control in this view implies that managers are dismissed in the event of poor company performance. From a more sociologically colored point of view, however, effective control is associated with the extent to which shareholders have the power to influence management. For example, Kang and Sorensen (1999) differentiated between three “bases of power” which corporate ownership can be equipped with. They put forward the argument that shareholders differ with respect to their formal authority, social influence and expertise. These “power assets” are viewed to be decisive for the extent to which owners will become involved in the
monitoring and control of management. Thus, corporate control is viewed to be not only a matter of the size of shareholdings but also a matter of the authority that comes with social ties, adequate information and relevant knowledge. Finally, I argue from a behavioral point of view that control is also a matter of motivation and willingness to become involved in a company’s affairs. While financial incentives and economic interests are a powerful motive for action, and while networks and ties equip actors with authority and information, shareholder attitudes and behavior are likely to be more complex. I shall elaborate on this thought in more detail below.

The aim of this dissertation is to explore the impact of corporate ownership and control from the three perspectives mentioned: firstly, from an economic point of view and based on agency theory, I investigate to what extent Swiss shareholders assume their part in corporate control. More precisely, I measure the impact of ownership concentration and ownership type on the likelihood of forced CEO departure in the event of poor company performance. Research on CEO turnover belongs to a well-established and rather mono-paradigmatic body of knowledge and is primarily conducted in the financial economics literature. Results are reported from various corporate governance settings worldwide, but the findings on the effect of ownership on CEO turnover are rather mixed. This investigation is, to the best of my knowledge, the first to be conducted in the Swiss context and, accordingly, the results are not only new but also somewhat surprising: although I find evidence of a controlling effect by corporate shareholders, control is virtually non-existent when the CEO has ties to the founding family or when he is the company’s founder.

Not surprisingly, the economic approach has been criticized by sociologists as being “under-socialized”; that is, neoclassical economics assumes rational and self-interested behavior to be minimally affected by social relations. Agency theory and new institutional economics postulate that social and institutional arrangements, such as the separation of ownership and control in public corporations, were previously thought to be harmful but are in fact efficient because they render opportunistic behavior costly and, therefore, have a disciplining effect on the actors involved. By contrast, sociologists contend that no economic exchange is bereft of social relations. Mark Granovetter, among others, has brought to our attention the argument of embeddedness according to which networks and social ties impact economic behavior in such a way that they affect both the quality and quantity of the information actors have as well as the level of trust between actors (Granovetter, 1985). In other words, no economic behavior is independent of social relations and neither is shareholder involvement in corporate control and the CEO labor market. In fact, as my findings from the economic analysis of the Swiss CEO labor market suggest, the existence of efficiently functioning CEO labor markets seems to be an epiphenomenon of embeddedness. Therefore, the second chapter of this dissertation concerns actors’ networks and social ties. In particular, I investigate how the social capital of owners, directors and the CEO impacts the likelihood of CEO departure. The findings suggest that actors benefit from their social capital in order to obtain finer-grained information
which they then use in order to evaluate CEO effort and, if need be, to oust the poorly performing CEO.

The largest contribution to the theory of corporate control is probably made in the third chapter of this dissertation: I argue that the financial incentives and power derived from authority and insider information are not the only factors decisive for owner involvement in corporate control. Rather, as stated above, the most reliable trigger of shareholders’ controlling behavior lies in their willingness and motivation to become involved in corporate affairs. Yet both the economic and the sociological arguments are based on rational choice theory. Economists view shareholder activism to be the result of a cost-benefit analysis: shareholders are likely to become involved only if the financial benefits of intervention exceed its costs (Admati et al., 1994; Holderness, 2003). The same argument is put forward by Mark Granovetter (1985:506), who asserts that shareholders act rationally given the situation:

“I suggest, in contrast, that while the assumption of rational action must always be problematic, it is a good working hypothesis that should not be easily abandoned. What looks to an analyst like non-rational behavior may be quite sensible when situational constraints, especially those of embeddedness, are fully appreciated.”

In other words, Mark Granovetter and, with him, many other sociologists view behavior as driven by interests in contrast to what Albert Hirschman has termed “passions”, which are believed to belong to the domain of non-rational behavior (Hirschman, 1977). I argue that if we persist in this view, we will never be able to explain why shareholder activism demonstrably occurs even though there is no conclusive evidence for much financial pay-off of shareholder involvement in corporate control (Black, 1992; Gillan et al., 1998; Karpoff, 2001). However, instead of arguing about interests vs. passions and rational and irrational behavior, I suggest taking into consideration a different approach for explaining the rationale for shareholder action. The foundations for this new approach can be traced back to the behavioral theory of the firm (March, 1994; March & Simon, 1958; Simon, 1976) and to what has been termed the “logic of appropriateness” (March & Olson, 2004).

In a series of works, March and Olson (March, 1994; March & Olson, 1995; March et al., 2004) argue that rational choice theory is but one “logic of rationality”. While the authors acknowledge that interests are legitimate and that incentives play an important role, they advance an alternative approach to human decision making according to which action is viewed to be driven by rules of appropriate or exemplary behavior. In line with Simon (1976), they contend that rules of behavior are followed not only because they are deemed to be rightful, expected and legitimate (March, 1994) but also, and above all, because they are in accord with a person’s roles and identities. In line with this reasoning, I put forward the argument that shareholder activism and owners’ involvement in corporate control are dependent not only on their financial incentives but also on the extent to which shareholders identify themselves as owners of the corporation. In other words, while financial incentives and property rights are important drivers of action because they define shareholders’ benefits and
their legal rights and duties, shareholders' psychological dispositions towards company ownership are decisive for their motivation and willingness to become involved in CEO turnover decisions.

The dissertation is structured into three chapters, each of which makes a contribution to one of the approaches to corporate ownership and control above discussed. The first chapter is in the economic tradition and concerns the question of whether owners of Swiss companies assume their control duties and dismiss poorly performing CEOs. The second chapter deals with the social capital of the actors (owner, directors, the CEO) involved in CEO turnover decisions and the extent to which these actors take advantage of their social ties and networks when it comes to corporate control decisions. Finally, in the third chapter I advance a behavioral approach to corporate ownership and control and present a theoretical model along with propositions on the likelihood of shareholder activism. Most importantly, the three chapters are interconnected yet independent from each other. Since they are intended to make a contribution to three different streams of research and thus three audiences, they each adapt to the expectations of their audiences and follow, in terms of theory, method and presentation style, the particular logic of the targeted academic audience. Given this structure, I hope that the three chapters will lend themselves to solid journal publications. The dissertation closes with a short section containing a discussion and conclusion.
References


II. The Economic Approach to Corporate Ownership and Control. 
Ownership Structure, Firm Performance and CEO Turnover: 
The Case of Switzerland

This study examines the impact of company performance and ownership on CEO turnover and tenure in Swiss companies. Both market-based and accounting-based measures of performance are found to increase the likelihood of forced CEO departure yet to be unrelated to CEO tenure. Swiss CEOs are dismissed for poor performance albeit only when they have no ties to family shareholders. CEOs who are founders or members of the founding family have tenures which are, on average, 4.5 years longer than those of non-family CEOs. Both the size of shareholdings as well as the type of shareholders is found to be decisive for CEO changes: there is some evidence that large institutional shareholders increase the likelihood of CEO dismissal. In addition, institutions and family shareholders are found to shorten CEO tenure provided that the CEO is not a member of the founding family.

Keywords: CEO Turnover, CEO Tenure, Ownership Structure, Corporate Governance, Corporate Control

CEO turnover and the length of CEO tenure have always been at the center of attention for those scholars interested in who has a say in the modern corporation. Ever since Berle and Means’ (1932) frequently quoted observation of the growing “separation of ownership and control” in listed companies, scholars have been interested to know whether CEOs are fired in the event of poor performance. While the task of exercising control over top human assets lies in the hands of corporate boards, directors cannot take any action without the approval or, at any rate, the agreement of the major shareholders. This assertion is based on the premise that shareholders have power and incentives large enough to exercise their control rights and oust top executives. Therefore, forced CEO departures particularly in the case of performance declines, can be viewed as an indicator of shareholder supremacy over the CEO.

The salient questions for all corporations, thus, are: is shareholder monitoring effective or are managers insulated from corporate control? Furthermore, given that there are many different actors who are involved in corporate control, it is also important to know which shareholders actually become involved. In other words, previous research suggests that shareholder monitoring is determined by two parameters: the size of shareholdings and, more recently, also the type of the dominant shareholder. Large shareholders with great stakes in the company have financial incentives to become involved in corporate control (Admati, Pfleiderer, & Zechner, 1994; Shleifer & Vishny, 1986). In addition, as some authors have argued, shareholder incentives might differ across shareholder types (e.g. Kang & Sorensen, 1999; Thomsen & Pedersen, 2000).
Empirical findings from various studies across corporate governance systems worldwide suggest that shareholders in general do get fired for poor performance (e.g. Datta & Guthrie, 1994; Kang & Shivdasani, 1995; Kaplan, 1994; Warner, Watts, & Wruck, 1988) and that there is a non-negligible effect of the company’s ownership structure including the level of stakes controlled by the CEO (e.g. Dahya, Lonie, & Power, 1998; Denis, Denis, & Sarin, 1997; Huson, Parrino, & Starks, 2001). However, given that ownership landscapes differ across corporate governance systems (Roe, 2003; Roe, 1990), the efficiency and effectiveness of corporate control is found to be distinct across national settings (see e.g. Franks & Mayer, 2001a; Lausten, 2002; Renneboog, 2000; Volpin, 2002 for some European examples). This study is, to the best of my knowledge, the first to provide empirical evidence on the impact of ownership on CEO turnover in Switzerland. As the findings suggest, Swiss CEOs do get fired for poor performance. However, this relationship does not hold true for CEOs who are founders or members of the founding family: founder CEOs are rarely fired and have a tenure that is on average 4.5 years longer than that of non-founder CEOs no matter how well or badly their performance. In addition, shareholders do have an impact on both CEO turnover and CEO tenure, albeit not only depending on the size of their shareholdings but also depending on who they are. Institutions and families appear to exert a disciplining effect: there is evidence that some institutional shareholders increase the likelihood of forced CEO departure. In addition, institutions and families are found to shorten CEO tenure. Again, however, this is only true when the CEO is not the founder or a founding family member. In conclusion, the case of Switzerland can be classified to be somewhere between the Anglo-Saxon (or market-oriented) and the Germanic (or network-oriented) corporate governance system: it has in common with the Anglo-Saxon system a strong and well-functioning stock market and it shares the above average levels of ownership concentration and stability with the Germanic system. However, in terms of corporate control it is peculiar because the salient stakeholders are neither institutions nor banks but founders, families and their descendants.

In the following, I provide a brief literature review on previous finding from the CEO turnover literature along with a short section on the Swiss corporate governance setting. Subsequently, I describe the sample and the sampling procedure employed in the empirical analysis. In the next two sections the dependent and independent variables are discussed and the descriptive statistics are presented. The data analysis section concludes with the presentation of regression models and results. The chapter closes with a discussion section.

1. **The Impact of Performance on CEO Turnover**

Company performance plays a crucial role in CEO turnover research. On the one hand, performance is viewed as being a proxy for CEO effort and, therefore, the likelihood of CEO turnover is expected to increase following financial distress and per-
formance declines. On the other hand, the relationship between CEO turnover and company performance is viewed to mirror the efficiency of the firm’s governance mechanisms since the turnover-performance sensitivity is hypothesized to be stronger when owners and their representatives on corporate boards execute their monitoring role vigilantly. The effect of performance is well documented in the literature and across international contexts (e.g. Kang et al., 1995; Kaplan, 1994; Lausten, 2002; Renneboog, 2000; Volpin, 2002). Yet although many studies have been able to corroborate the negative relationship, there are several issues scholars appear to disagree about. Firstly, there is little unanimity regarding which performance measure is decisive with respect to dismissal decisions: while some scholars rely exclusively on shareholder value and stock returns (e.g. Coughlan & Schmidt, 1985; Fee & Hadlock, 2000; Warner et al., 1988; Weisbach, 1989) others claim that earnings and profits are equally important (e.g. DeFond & Park, 1999; Rosen, 1990). Secondly, not all studies find a significantly negative relationship between turnover and performance. For example, Dalton and Kesner (1985), Friedman and Singh (1989), Davidson and colleagues (1990) and Puffer and Weintrop (1991) failed to document any statistically significant relationship between the two variables, and Morck and colleagues (Morck, Shleifer, & Vishny, 1988) reported a large and positive relationship between the two variables, indicating that CEOs might actually be hindered from leaving the company when the business is going downhill. Thirdly, some scholars claim that performance explains only very little of the variation in CEO turnover (Brickley, 2003) and that considerable performance declines are necessary before CEOs are fired (Ang & Chua, 1981; Gilson, 1989; Schwarz & Menon, 1985). It follows from this that factors other than performance such as the structure of the corporate ownership, the characteristics of the top executives and possibly also the independence of corporate boards are likely to influence CEO turnover decisions.

2. The Role of Shareholders in CEO Turnover Decisions

The role of ownership structure in CEO dismissal decisions is grounded in the well-known literature of agency theory (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976). Agency theorists conceive of owners as “residual claimants” (Fama et al., 1983) whose primary task is the provision of capital and the bearing of financial risk. Owners are assumed to intervene in corporate control, or as Jensen and Ruback (1983) put it, in the decision of “hiring, firing and compensating” top management, only to the extent that the benefits derived from the intervention exceed its costs. In other words, from an agency theory perspective monitoring by shareholders has public good character (Demsetz & Lehn, 1985): shareholders who actively engage in corporate control and the monitoring of managerial effort produce a good from whose benefits no shareholder can be excluded. As a result, since no shareholder owns 100% of a company’s shares, all shareholders are tempted to stay away from any intervention and to free-ride on the fellow shareholders’ action (Hart, 1995).
Large blockholders, however, who bear excessive risks due to their lower levels of diversification, have larger incentives to monitor the CEO because they are unable to sell off their shares without incurring a significant loss of wealth (Shleifer et al., 1986). This is due to the fact that the selling off of large blockholdings may cause dramatic decreases in the company’s share price. As a result, large shareholders’ benefits from monitoring are assumed to outweigh their costs, which is why large shareholders are attributed higher levels of CEO scrutiny (Admati et al., 1994; Shleifer et al., 1986). In general, thus, the presence of large blockholders and the incidence of high levels of shareholder concentration are expected to have a positive effect on the likelihood of CEO departure. Several empirical papers have been able to corroborate this hypothesis (e.g. Denis et al., 1997; Goyal & Park, 2002; Huson et al., 2001; Pound, 1988; Warner et al., 1988).

More recently, however, some scholars have pointed to the fact that there is no direct relationship between the mere presence of a large blockholder and the likelihood of CEO turnover because not all shareholders exhibit the same propensity to become involved in corporate affairs (Barcley & Holderness, 1991; Pound, 1988). On the one hand, as Denis and colleagues (1997) point out, a sizeable block of shares (over 25%) is necessary to increase the likelihood of CEO departure. On the other hand, the propensity to become involved in CEO turnover issues seems to depend on the type of a given shareholder. Kang and Sorensen (1999), for example, suggest that shareholder types differ in their motivation to “capture their property rights”. This is attributed to the difference in shareholder power and authority over management (Changanti & Damanpour, 1991; Dye, 1985; Kang et al., 1999) and to the extent to which they can be classified as “pressure-resistant” vis-à-vis the management (Brickley, Lease, & Smith, 1988; O’Barr & Conley, 1992; Verstegen Ryan & Schneider, 2002). Finally, some scholars have put forward the argument of preference heterogeneity among corporate owners:

“Whereas ownership concentration measures the power of shareholders to influence managers, the identity of the owners has implications for their objectives and the way they exercise their power, and this is reflected in company strategy and with regard to profit goals, dividends, capital structure, and growth rates” (Thomsen et al., 2000:705).

The impact of ownership on CEO turnover is thus supposed to vary across shareholder types, the size of their shareholdings, their incorruptibility vis-à-vis the CEO, and the way in which they set their priorities are set.

Shareholder types are most commonly classified along the following five categories (e.g. Franks, Mayer, & Renneboog, 2001b): founder and the founding family, institutional investor (including banks, mutual and pension funds (Verstegen Ryan et al., 2002)), other companies (as the outcome of horizontal or vertical integration (Williamson, 1985)), the government (frequently as an alternative to regulation (Shleifer & Vishny, 1997)), and individual shareholders. There are several studies that look into the impact of one or more of these shareholder types on the likelihood of CEO departure; however, the findings they present are rather inconclusive. For example, several
scholars report that the probability of CEO dismissal is positively related to the presence of a large institutional investor (e.g., Goyal et al., 2002; Huson et al., 2001). Others, however, find no such effect (Cosh & Hughes, 1997; Neumann & Voetmann, 2005). Furthermore, an investigation into the difference in priorities across California hospitals revealed that different hospital types (church-owned, physician- or community-owned, for profit, government-owned, district-owned and teaching-hospitals) exhibit a different turnover-performance sensitivity: while financial performance was negatively and significantly related to both board and CEO turnover for all types of hospitals, different ownership types were found to place different weights on the levels of charity care and administrative expenses. As a result, in for-profit hospitals administrative expenses were a significant predictor of CEO and board turnover while in non-for-profit hospitals this was not the case (Eldenburg, Hermalin, Weisbach, & Wosinska, 2004). Finally, family ownership has been found to slightly diminish the likelihood of forced CEO departure given that families oftentimes hold a majority of shareholdings and, therefore, appoint their own descendants as CEOs. Control problems in family firms are well known in the literature, as several studies find a significantly negative relationship between CEO ties with the founding family and the likelihood of dismissal (Denis et al., 1997; Franks et al., 2001b; Huson et al., 2001).

The distinction between family and non-family held firms is frequently discussed under the heading of “locus of control”. Based on the seminal work by Berle and Means (1932), this distinction expresses the dichotomization into “owner-controlled” and “management-controlled” companies depending on the extent to which dispersion of ownership has advanced and the firm is assumed to be controlled by managers (Cubbin & Leech, 1983; Leech & Leahy, 1991). Empirical studies usually center on the length of CEO tenure rather than on CEO turnover: for example, CEOs of owner-controlled firms were found to have tenures three times as long as those of managers of other firms (McEachern, 1977). Furthermore, CEO tenure was found to be unrelated to firm performance in owner-controlled firms but was positively related to firm performance in externally controlled and manager-controlled firms (Allen & Panian, 1982; Salancik & Pfeffer, 1980). Finally, James and Soref (1981) investigated the impact of the “locus of corporate control” on the probability of CEO removal. Contrary to what was reported above, they found no relationship between the probability of involuntary CEO departure and the type of corporate control (i.e., owner vs. manager control). Essentially, they found that negative corporate performance was the only predictor of CEO dismissal regardless of whether or not the firm was under managerial control.

Related to the discussion of the “locus of control” is the issue of CEO ownership. Along with the increase in the variable part of executive compensation, and the introduction of equity and stock option plans, there has been a steady increase in shareholdings held by (non-founder) CEOs. With respect to the consequences of CEO ownership two competing arguments have been put forward in the literature: in line with the traditional agency theory argument, CEO ownership is hypothesized to have a positive governance effect as it is expected to alleviate the role of information
asymmetries, to prevent managerial shirking, and to align the interests of managers with the interests of owners (Jensen & Murphy, 1990; Murphy, 1997). However, these beneficial effects are attenuated by the increased risk of managerial entrenchment; that is, high levels of CEO ownership are found to result in undesirably strong security of tenure for CEOs: the higher the percentage of equity owned by management, the lower the likelihood that managers will be dismissed (Morck et al., 1988; Morck, Shleifer, & Vishny, 1989). In addition, high levels of managerial ownership are also found to diminish the sensitivity between turnover and performance (Denis & Denis, 1994, 1995; Kang et al., 1995).

In sum, ownership structure vested in the presence of large blockholders or high levels of ownership concentration is expected to, firstly, have a direct impact on the likelihood of CEO turnover and, secondly, to increase the likelihood of forced CEO departure in the event of poor performance. The impact of owners is assumed to differ across owner types, while ownership by the CEO is expected to diminish the likelihood of CEO departure. In addition, CEO family ties and CEO founder status are likely to increase the length of CEO tenure despite poor performance. A small caveat, however, should be mentioned: research into the variety of corporate governance systems across industrialized nations points at the fact that there might be considerable differences with respect to ownership structure (e.g. Bebchuck & Roe, 1999; Roe, 2003; Roe, 1990), the design of property rights (Aguilera & Jackson, 2003; Gilonson, 2000; Lannoo, 1999; Pochet, 2002), and even the mandatory levels of disclosure and transparency (Aguilera & Cuervo-Cazurra, 2004). All of these factors might impact they way owners assume their role as corporate watchdogs and, consequently, also on the likelihood of CEO departure in the event of performance declines. While a comparative analysis of CEO turnover across various national settings is beyond the scope of this work, in the discussion section an attempt is made to set the “case of Switzerland” in relation to other contexts with respect to ownership structure, shareholder monitoring and the likelihood of CEO departure. In the following I first provide a brief overview of the Swiss corporate governance situation before turning to data description and the empirical analysis section.

3. The Swiss Corporate Governance Setting

The most distinctive features of Swiss corporate governance are a strong and well functioning capital market, a moderately high level of ownership concentration with dual-class shares and a two-tier board system. Firstly, the Swiss economy is characterized by a relatively high amount of equity financing with a strong stock exchange. Put in relation to the country’s population base (about 7.5 million), there are a relatively large number of listed companies and an above-average number of multinational corporations found particularly in the well-developed chemical and manufacturing industries and the banking and insurance sectors. For example, in 2006 the total market capitalization of the SPI companies (i.e., companies with a free-float of at
least 20%) amounted to 1222 billion CHF; the number of transactions executed was almost 24.5 billion and the total exchange turnover amounted to about 2 billion Swiss Franks.1

Secondly, among the listed companies are many small and medium-sized companies, so-called “local caps”, which are frequently controlled by a dominant owner who holds a considerable number of shares. The control in these companies is frequently backed up by the adherence to dual-class shares, where the number of shares held is disproportionate to the level of voting rights associated with these shares. Thus, local caps oftentimes know the promise of capital markets while, at the same time, retaining the control over their companies. Nonetheless, Swiss shareholders have been described as rather passive by some authors as they, allegedly, lack the power, information and resources to stand up and act. In particular, institutional investors who are very active in the Anglo-Saxon market-oriented corporate governance system have been characterized as being rather passive (Schiltknecht, 2003). However, more recently there has been incremental change on the horizon: Ethos, the pension fund association that groups some 90 pension funds under its umbrella, has been regularly challenging top managers’ decisions and the corporate governance of Swiss companies. More recently, for example, Ethos has pressured the Nestlé leadership to separate the CEO and the chairman position of the company’s chief executive Peter Brabeck. In the same vein, Ethos has attempted to enforce a special audit at the UBS in the wake of the bank’s financial crisis. Regarding ownership of Swiss companies, another feature worth mentioning is cross-shareholding. In network-oriented corporate governance systems like in Germany, cross-shareholdings are viewed as impeding to functioning of the market for corporate control. However, cross-shareholdings are not widely used in Switzerland and their transparency is guaranteed on a regulatory basis (Hofstetter, 2002). As for corporate boards, at long last, Swiss companies legally enjoy considerable freedom with respect to the question of how to structure their boards. However, although they are legally free to install a one-tier board with executive and non-executive directors being grouped in one and the same governing body, Swiss companies typically exhibit a two-tier board system composed of a supervisory board (Verwaltungsrat) and general management (Geschäftsleitung). Traditionally, the supervisory board has been composed predominantly of independent outside directors, although the incidence of CEO duality, that is, the combination of CEO and Chairman into one position, still occurs despite the fact that this practice has been adopted somewhat less frequently in recent times.

4. Sample and Data

The Swiss sample employed in this study is drawn for the year 2003 and contains the top 200 companies ranked by market capitalization quoted on the Swiss Stock Exchange (SWX) on December 31, 2003. Next, matching data for 2000 through 2005 were collected in order to obtain an (unbalanced) panel of six years. This exact period was chosen mainly for data availability reasons: on the one hand, Switzerland introduced a directive regularizing the disclosure of corporate governance data only in July on 2002 (the “SWX Swiss Exchange Corporate Governance Directive (CGD)”). The CDG had the effect of increasing the previously rather modest (before 2002) or virtually non-existent (prior to 2000) transparency standard. On the other hand, in spring 2008 when the last regression models were run for this study, annual reports (that are usually published in spring of the subsequent year) were available only for 2006. Data from 2006 was necessary to determine CEO departures in 2005 which were then related to performance and ownership variables in 2005. Thus, this restriction defined the upper boundary of the sample.

Since the sampling procedure is based on the market capitalization criterion the argument of a bias toward good performers might be put forward. Despite the fact that this criticism is, at least to some extent, legitimate, the Swiss context and the small number of companies quoted at the Swiss exchange allowed for little alternative sampling procedures: for example, the electronic database Thomson One Banker revealed that there were only 214 quoted companies for the year 2000 and only 222 companies for 2001. Adding small caps for these years would thus result in including the population instead of a random sample. This would introduce bias with respect to both ownership and transparency because smaller companies are more likely to be controlled by families and tend to have lower disclosure standards due to their lower market visibility. Reducing the sample, on the other hand, would highly diminish the frequency of observations for the dependent variables (see descriptive statistics below). As a result, I judged the above to be the most reasonable procedure given the peculiarities of the context.

The final sample required that irrelevant companies be eliminated from the sample. In line with the convention in the field, investment trusts were excluded given their peculiar business model and governance structure. Furthermore, due to control changes, mergers and mortality over the period under investigation the final panel is made of up 1059 company years (2000: 164; 2001: 175; 2002: 179; 2003: 182; 2004: 183; 2005: 176). Unfortunately, however, the dataset contained many missing values. I checked for regularities in these values but was unable to detect any systematic pattern. Some data (e.g. performance) was missing from the Thomson One Banker Data Base. Other (e.g., CEO tenure) was not provided in companies’ annual reports, regardless of, e.g., the performance levels or the ownership structure. Thus, it can be reasonably assumed that the missing values are mainly due to the lack of disclosure requirements by companies quoted at the SWX. Imputing the missing values seemed not to be a good choice: on one hand, imputing values for dummy vari-
ables is not straightforward; on the other, there is no conclusive evidence that imputed values do not result in distorted results. Therefore, I chose to run the regressions with marked-out missings. The downside of this procedure is that it considerably reduces the sample size; the upside is that it allows for comparability of models and estimates. I thus ran a series of logistic regressions with CEO turnover as the dependent variable using a panel of 656 years (2000: 73; 2001: 90; 2002: 104; 2003: 125; 2004: 132; 2005: 132) and a series of linear regressions with CEO tenure as the dependent variable using a panel of 583 years (2000: 57; 2001: 77; 2002: 96; 2003: 113; 2004: 117; 2005: 123).

4.1 Dependent Variables

I used three different dependent variables in the study. Firstly, I differentiated between voluntary or natural departures termed “turnover” and involuntary or forced departures termed “dismissal”. Turnover occurred and the variable was coded “1” for that year whenever the CEO had changed in the subsequent year of investigation. This information was obtained by consulting companies’ annual reports. I differentiated between voluntary and forced departures by recurring to a procedure first adopted by Coughlan and Schmidt (1985:48). The authors argue that in order to be able to test the “monitoring hypothesis”, a distinction between turnover and dismissals must be made. CEO turnover is only in those cases the result of a monitoring effort where the current CEO has been forced to depart. Not surprisingly, however, this differentiation is not easily achieved as companies typically do not report the true reasons for changing their CEOs – particularly not in the case of outright dismissals. In order to circumvent this difficulty, Coughlan and Schmidt suggest analyzing press reports surrounding departures. The authors propose a list containing possible reasons companies may offer for the departure of executives. They suggest classifying death, ill health, retirement, control change and the assumption of another position in the firm as voluntary departures; the assumption of another position outside the firm, the pursuit of other interests, policy differences, poor performance, firing and the incidence where no reason is reported are suggested to be classified as forced departure. Although some scholars choose to stick to the turnover variable, and in order to exclude voluntary departure simply control for CEO age, the Coughlan and Schmidt approach has now become a standard approach for discriminating between natural and unnatural turnover (see e.g. Conyon & Florou, 2002; Cosh et al., 1997; DeFond et al., 1999; Weisbach, 1989 who adopted the same approach). Therefore, I opted for the above taxonomy and analyzed press releases of the Neue Zürcher Zeitung (NZZ) that surrounded a CEO turnover event. Given that the NZZ is locally known as a high-quality newspaper, one can be reasonably confident that the information provided by the newspaper is reliable and that departures classified as forced are indeed non-voluntary.

Besides turnover and dismissal, in the second part of the study I also used “tenure” as an independent variable. This variable is continuous and stands for the num-
ber of years a CEO holds office. The information on tenure was obtained from the companies’ annual reports. In the year of appointment, tenure was coded as 0; every subsequent year in office was coded as plus 1 year of tenure.

4.2 Independent Variables

4.2.1 Performance

The most important dependent variable in a study of corporate control is company performance. However, as indicated previously, there is no agreement among scholars on what performance measure to use in order to test the likelihood of departure following performance declines. In general, the disagreement revolves around market- and accounting-based measures of performance and the question of which performance measure is judged by constituencies to be a better proxy for CEO effort. Several studies rely exclusively on market-based measures of performance (e.g. Conyon, 1998; Dahya et al., 1998; Warner et al., 1988). These scholars argue that shareholders are the principal beneficiaries of the company and that, therefore, negative changes in shareholder returns are most likely to trigger shareholder interventions. As Warner et al. (1988) put it: "information about management performance is reflected in stock returns and such information is used in evaluating performance". At the same time, as the advocates of the market-based measure of performance argue, it is not necessary that shareholders actually base their decisions on stock returns, but it is sufficient that the performance measures used are correlated with stock returns. As a consequence, I follow Conyon and Florou (1998, 2002) and use an index of stock returns as provided by Datastream in the Thomson One Banker electronic database. This measure is defined as the 12-month stock return, assuming that dividends are reinvested. The formula employed by Datastream is the following:

\[ R_{It} = R_{It-1} \times \frac{P_{It}}{P_{It-1}} \times (1+DY_t), \]

where

- \( R_{It} \) = the RI at time \( t \)
- \( R_{It-1} \) = the RI at time \( t-1 \)
- \( P_{It} \) = the Price Index at time \( t \)
- \( P_{It-1} \) = the Price Index at time \( t-1 \)
- \( DY_t \) = the gross dividend yield at time \( t \).

Since the figure provided by an index is per se meaningless, I used the change in the index relative to its previous year level by calculating the ratio of return index at time \( t+1 \) over return index at time \( t \).

On the other hand, advocates of accounting-based measures of performance argue that since stock prices are subject to speculative and exogenous shocks, they do not reflect information about the effort and skills of the CEO accurately. Instead, they suggest using accounting-based measures of performance since they are judged to be more “discretionary” measures which are more stable, less amenable to external influences and thus better able to be controlled by chief executives (Cosh et al., 1997). Despite the fact that some scholars dismiss accounting-based measures as
too noisy to be suitable performance indicators, Rosen (1990), for example, insists that accounting numbers cannot be worthless since they are the main source of information not only for managerial decisions but also for the stock market. Finally, although accounting measures may be subject to manipulation by managers (through, e.g., the choice of depreciation methods), Rosen emphasizes that this is not likely to occur (or at least not undetected) frequently. The most often used accounting-based measures of performance are earnings and return on assets (e.g. Denis et al., 1997; Mikkelson & Partch, 1996; Weisbach, 1989). As a result, in order to capture the performance effect on CEO turnover as accurately as possible, I used both market- as well as accounting-based performance measures.

The accounting-based performance measure used is return on assets (ROA), defined as the ratio of earnings before interest and taxes (EBIT) and total assets (cf. Denis et al., 1997; Fizel & Louie, 1990; Parrino, 1997). Return on assets is an indicator that reflects how well a company does in “squeezing” earnings out of the total assets employed in the business. Specifically, I used both the level of ROA as well as changes in the level of ROA ($\Delta$ ROA). The level of ROA represents a firm’s performance in the year preceding CEO departure, whereas changes in ROA represent the trend in a firm’s performance. The data was retrieved from the Thomson One Banker electronic data base. For all measures of performance, I estimated the models using both one- and two-year lags. However, only one-year lags, i.e., only performance in the year immediately preceding CEO departure, turned out to be decisive in terms of forced CEO exits.2

4.2.2 Ownership

In order to capture the effect of ownership, I used three different ownership measures: firstly, I generated a dummy variable for those cases where there was at least one large blockholder, i.e., a shareholder with a stake higher than 5%. Secondly, I also investigated the effect of the level of the largest blockholder. Denis and colleagues (1997), for instance, used dummies for the existence of large blockholders but a continuous variable for measuring the impact of board ownership and the ownership of institutions. Similarly, Dahya et al. (1998) collected data on the number of blockholders holding more than 3% and more than 10% of shares respectively as well as data on the size of any equity stake owned by a major blockholder. Finally, in order to capture the impact of all shareholders simultaneously, I calculated a meas-

---

2 The theory of “relative performance evaluation” (RPE) (Holmstrom, 1982) suggests that executives should be evaluated in relation to firms in the same market or industry in order to account for the common external shocks those companies face. Such an evaluation of CEO effort calls for weighting the performance of a given company by its industry average. Unfortunately, the Swiss sample is too small and too diverse for meaningful industry averages to be retrieved since many industries, as defined by the four-digit SIC code, were only represented by one or two companies. Therefore, in the present analysis relative performance evaluation is not taken into account.
ure for ownership concentration in each company. Ownership variables were gathered from the companies’ annual reports and were aligned with the information published on the SWX homepage.

With respect to the chosen ownership measure, a couple of remarks are necessary. The first concerns the definition of “blockholder”: most scholars define blockholders as being those shareholders that hold more than 5% of the company’s stock (Holderness, 2003). Accordingly, corporate governance disclosure rules, including the ones imposed on companies by the Swiss Stock Exchange, usually stipulate that those shareholdings that exceed the 5% percent threshold be disclosed. However, some scholars question the explanatory power of a predetermined shareholdings and/or voting rights threshold. Hambrick and Finkelstein (1995), in a study on executive compensation, for example, discussed the issue of whether the double level of shareholdings can be viewed to linearly translate into the double level of monitoring. They conclude that there is indeed a threshold effect of vigilance that functions in such a way that above a certain threshold (e.g. 5%), large blockholders will invest in monitoring but that their monitoring will not double if their shareholdings double. The authors found endorsement for this though when they ran models with both categorical and continuous variables: both models were significant, but the model with the categorical variable explained significantly more variance than the model with the continuous variable.

The second remark concerns the difference between shareholdings and voting rights: given that the size of shareholdings is considered as a proxy not only for the owner’s motivation but also for his power and impact, it goes without saying that such a conception of ownership presupposes a system where the one-share-one-vote principle is adhered to. In governance systems, including in Switzerland, where certain shareholder groups might hold voting rights that are disproportionate to their stakes, data on voting rights must be considered. Strictly speaking, therefore, ownership data in this study represents voting rights and not the mere level of shareholdings. Finally, the measure of concentration employed in this study is the Hirschman-Herfindahl Index, which is defined as follows:

$$HHI = \sum_{i=1}^{n} s_i^2$$

where $s_i$ is the size of shareholdings of a shareholder $i$ in a given firm, and $n$ is the number of shareholders having more than 5% of votes. The Hirschman-Herfindahl Index ($HHI$) ranges from $1/N$ to 1, where $N$ is the number of blockholders. Equivalently, the index can range up to 10,000 because percents of voting rights are used. In general terms, a value below 1000 indicates low concentration, one between 1000
and 1800 moderate concentration, and one above 1800 high concentration. Admittedly, given the SWX disclosure rules, I was only able to collect data on those shareholders that hold more than 5% of shareholdings; in return, however, the dataset includes the stake of all blockholders a firm had at the end of a given year.

Besides investigating the size of the largest blockholder and the level of ownership concentration per company, I discriminated between the types of the largest blockholders. Similar to the classification by Franks and colleagues (2001b) but adapted to the circumstances in Switzerland, I classified shareholders into the following 7 categories: company, institutional investor, founder or family member, government, board member, individual, and CEO (but not founder or founding family member). This data was obtained from the companies’ annual reports and was compared and aligned with the information found on the SWX webpage.

4.3 Control Variables

In order to capture effects that do not derive from the independent variables, I included a set of control variables representing those predictors that have been found to have a significant effect on CEO departure in previous studies. Firstly, given that the number of outsiders on corporate boards has been found to increase the likelihood of CEO turnover, I controlled for the impact of board structure (Hermalin & Weisbach, 1998; Weisbach, 1989) and included a variable termed “board independence”, which is coded 1 when all of the board of directors were independent outsiders and 0 otherwise. Furthermore, I also included a dummy variable termed “CEO duality”, which is coded 1 when the CEO and the chairman are the same person and 0 otherwise. In addition, given that the relationship between turnover, performance and ownership might differ across industries, I included the four-digit SIC code designating the industry a company operates in. Finally, in order to control for the effect of size, I used the natural logarithm of company sales in each year. Board variables (outsider status and independence) were retrieved from annual reports; the SIC codes and sales data were gathered from Thomson One Banker electronic database.

---

3 Even in a one-share-one-vote system the relationship between the shareholders’ voting rights and their level of control is not linear because a stake above 50% indicates majority or total control. Therefore, in order to measure shareholders’ impact, some scholars have suggested using the Shapley value instead of the Hirschman-Herfindahl Index. Given the complexity of the Shapley measure and given that it is found to lead to paradoxical results under certain conditions (see Parsons, Maxwell, & O’Brien, 1999), I opted to use the more traditional measure, which is the Hirschman-Herfindahl Index.
5. Descriptive Statistics

Table 1 displays the frequencies and rates of CEO turnover and dismissal: the average turnover rate in the 6 years under investigation is about 15%, the average rate of forced departure is about 5.5%:

\[
\begin{array}{cccc}
\hline
\text{Year} & \text{Frequency} & \text{Percent/Year} & \text{Frequency} & \text{Percent/Year} \\
\hline
2000 & 26 & 15.85 & 8 & 4.88 \\
2001 & 26 & 14.86 & 13 & 7.43 \\
2002 & 24 & 13.41 & 11 & 6.15 \\
2003 & 27 & 14.84 & 7 & 3.85 \\
2004 & 27 & 14.75 & 10 & 5.46 \\
2005 & 29 & 16.48 & 11 & 6.32 \\
\hline
\text{Total 2000-2005} & 159 & 15.01 & 60 & 5.68 \\
\end{array}
\]

Over the years the frequency of turnover remained rather stable, with a smaller drop in 2002 (turnover) and 2003 (dismissal) and a re-rise in 2005 (turnover and dismissal). As displayed in table 2, the most frequent reason given for voluntary departures was retirement (59 cases; 37.74%). Furthermore, around two-thirds of all departures in the sample were voluntary and, accordingly, one-third was identified as forced. Among the most frequent reasons given for forced departure was poor performance (18 cases; 11.32%), followed by policy differences between the CEO and the board of directors (14 cases; 8.81%).

\[
\begin{array}{ccc}
\hline
\text{Reported Reason} & \text{Frequency} & \text{Percent} \\
\hline
\text{Dismissals} & & \\
assumes other position outside company & 0 & 0.00 \\
pursues other interests & 8 & 5.03 \\
fired & 9 & 5.66 \\
policy differences & 14 & 8.81 \\
no reason reported & 11 & 6.92 \\
poor performance & 18 & 11.32 \\
\text{Total Dismissals} & 60 & 37.74 \\
\hline
\text{Voluntary Departures} & & \\
depth & 2 & 1.26 \\
control change & 14 & 8.81 \\
il health & 6 & 3.77 \\
retirement & 18 & 11.32 \\
assumes other position inside company & 59 & 37.11 \\
\text{Total Vol. Departures} & 99 & 62.26 \\
\text{Total Turnover} & 159 & 100 \\
\end{array}
\]

Furthermore, as table 3 reveals, the average tenure of a Swiss CEO is about 5 years (overall standard deviation being 5.2 years); In addition, CEOs can remain in office for up to 33 years. However, this is an exception rather than a rule since the median
The Economic Approach

value for tenure for the whole sample is 3 years and only the last 5 percentiles have tenures that exceed 15 years.

Table 3: Tenure of CEOs

<table>
<thead>
<tr>
<th>Year</th>
<th>Nr. of Observations</th>
<th>Mean</th>
<th>Min.</th>
<th>Max.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>57</td>
<td>5.67</td>
<td>0</td>
<td>33</td>
</tr>
<tr>
<td>2001</td>
<td>77</td>
<td>3.81</td>
<td>0</td>
<td>29</td>
</tr>
<tr>
<td>2002</td>
<td>96</td>
<td>4.34</td>
<td>0</td>
<td>30</td>
</tr>
<tr>
<td>2003</td>
<td>113</td>
<td>4.23</td>
<td>0</td>
<td>27</td>
</tr>
<tr>
<td>2004</td>
<td>117</td>
<td>4.38</td>
<td>0</td>
<td>28</td>
</tr>
<tr>
<td>2005</td>
<td>123</td>
<td>4.85</td>
<td>0</td>
<td>25</td>
</tr>
<tr>
<td>Total 2000-2005</td>
<td>583</td>
<td>4.55</td>
<td>0</td>
<td>33</td>
</tr>
</tbody>
</table>

Tables 4 and 5 summarize the frequencies of the main performance variables used in the study: the variable return index is used in the models as the ratio of its value in the year t over its value in the year t-1. As a result, the important information that can be retrieved from the measure is the level of change in points over the year. A value greater than 1 indicates a positive change (gain); a value smaller than 1, a negative change (loss).

Table 4: Return Index

<table>
<thead>
<tr>
<th>Year</th>
<th>Nr. of Observations</th>
<th>Mean</th>
<th>Min.</th>
<th>Max.</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>73</td>
<td>1.20</td>
<td>0.58</td>
<td>4.24</td>
<td>3.66</td>
</tr>
<tr>
<td>2001</td>
<td>90</td>
<td>0.78</td>
<td>0.16</td>
<td>1.48</td>
<td>1.32</td>
</tr>
<tr>
<td>2002</td>
<td>104</td>
<td>0.79</td>
<td>0.14</td>
<td>2.20</td>
<td>2.06</td>
</tr>
<tr>
<td>2003</td>
<td>125</td>
<td>1.45</td>
<td>0.45</td>
<td>7.44</td>
<td>6.99</td>
</tr>
<tr>
<td>2004</td>
<td>132</td>
<td>1.21</td>
<td>0.29</td>
<td>2.28</td>
<td>1.99</td>
</tr>
<tr>
<td>2005</td>
<td>132</td>
<td>1.34</td>
<td>0.78</td>
<td>2.92</td>
<td>2.14</td>
</tr>
<tr>
<td>Total 1999-2005</td>
<td>656</td>
<td>1.13</td>
<td>0.40</td>
<td>3.43</td>
<td>3.03</td>
</tr>
</tbody>
</table>

On average the change was positive over the period of investigation, indicating a steady increase in the stock return of Swiss companies. However, the range of change appears to vary considerably across years: in 2001 it was 1.32 points while in 2003 it amounted to 6.99 points. A closer examination of these values indicated that they were driven by single outliers. For example, the value of 6.99 in the year 2003 was driven by one single case amounting to 7.44 index points. The next smaller two values occurred in 2000 (4.24) and in 2003 (3.66). I checked for influence and leverage of these outliers and ran the regressions with and without them. The results did not change significantly.

The summary statistics for return on assets of the sample companies is provided in table 5. The measure is defined as a ratio of earnings and assets and is measured in percent. In the table below, I provide the changes in ROA as compared with the
previous period. Negative values indicate a loss; positive values a gain. On average, the sample companies report a slight increase in the return on assets in the period of investigation, the only exception being the year 2001, when an average loss is reported. The range in values is equally dispersed as was the case for the market-based measure of performance: it ranged from 23.97 in 2005 to 68.47 in 2000. Similarly, the value of 61.38 was an outlier (the next smaller values amounted to 43.95 in 2004 and 42.26 in 2000). Again, these values were non-influential and did not exert leverage when included in the regression models.

Table 5: Return on Assets

<table>
<thead>
<tr>
<th>Year</th>
<th>Nr. of Observations</th>
<th>Mean</th>
<th>Min.</th>
<th>Max.</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>72</td>
<td>2.81</td>
<td>-7.09</td>
<td>61.38</td>
<td>68.47</td>
</tr>
<tr>
<td>2001</td>
<td>89</td>
<td>-4.27</td>
<td>-56.20</td>
<td>7.70</td>
<td>63.90</td>
</tr>
<tr>
<td>2002</td>
<td>103</td>
<td>0.39</td>
<td>-17.83</td>
<td>19.45</td>
<td>37.28</td>
</tr>
<tr>
<td>2003</td>
<td>125</td>
<td>1.73</td>
<td>-39.31</td>
<td>41.55</td>
<td>80.86</td>
</tr>
<tr>
<td>2004</td>
<td>132</td>
<td>1.26</td>
<td>-23.18</td>
<td>43.96</td>
<td>67.14</td>
</tr>
<tr>
<td>2005</td>
<td>131</td>
<td>0.34</td>
<td>-9.08</td>
<td>14.89</td>
<td>23.97</td>
</tr>
<tr>
<td>Total 1999-2005</td>
<td>652</td>
<td>0.38</td>
<td>-25.45</td>
<td>31.49</td>
<td>56.94</td>
</tr>
</tbody>
</table>

The Swiss peculiarities of the governance system manifest themselves above all when it comes to the ownership structure of the listed companies. For example, it is interesting to note that only about 11% of all companies in the sample have no large blockholder, i.e., no blockholder holding more than 5% of shareholdings; only about 17% of companies have a (largest) blockholder that holds less than 10% of shareholdings; about 9% have a (largest) blockholder that holds more than 70% of voting rights.

Table 6: Yearly Averages of Largest Blockholder, the Sum of 5 Largest Blockholders; HHI

<table>
<thead>
<tr>
<th>Year</th>
<th>Largest Blockholder</th>
<th>Largest 5 Blockholders</th>
<th>Hirschman-Herfindahl</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>31.08%</td>
<td>38.39%</td>
<td>1716.78</td>
</tr>
<tr>
<td>2001</td>
<td>30.92%</td>
<td>39.52%</td>
<td>1735.96</td>
</tr>
<tr>
<td>2002</td>
<td>32.60%</td>
<td>42.70%</td>
<td>1880.74</td>
</tr>
<tr>
<td>2003</td>
<td>32.57%</td>
<td>43.44%</td>
<td>1857.68</td>
</tr>
<tr>
<td>2004</td>
<td>31.29%</td>
<td>41.83%</td>
<td>1717.14</td>
</tr>
<tr>
<td>2005</td>
<td>31.17%</td>
<td>40.63%</td>
<td>1680.55</td>
</tr>
<tr>
<td>2000-2005 average</td>
<td>31.61%</td>
<td>41.09%</td>
<td>1764.81</td>
</tr>
</tbody>
</table>

The overall mean value for all companies is around 31.5% (see table 6). Table 6 provides summary statistics for the ownership variables: ownership concentration has remained remarkably stable over time, with fluctuations in the largest shareholder variable of only about 1.5%. Only when all shareholders are counted together does a slight increase in 2002 and a moderate drop in the concentration rate in the last year of investigation become visible.
In addition, figure 1 shows the fairly equally distributed size of the largest blockholder over the years of investigation. The boxplots indicate the range of shareholdings / voting rights (0% to 100%), the median value or the 50th percentile (ca. 31%) as well as the 25th and 50th percentile (ca. 10% and ca. 52% respectively).

As for the number of blockholders per company, roughly one-third (30.80%) of all the sample companies have just one blockholder; another third (30.40%) have two large blockholders, and the rest have more than two and up to five large blockholders (19.15%: 3 blockholders; 8.11%: 4 blockholders; 3.94%: 5 blockholders). The distribution of the Hirschman-Herfindahl Index, the measure of the overall shareholder concentration of a given company, is displayed in figure 2: notwithstanding a number of (no leverage, non-influential) outliers, the range of the index is from 0 (no concentra-
tion) to about 7900 (very high concentration), with an overall median value of about 800. However, given then fact that the medium 50% of all values lie between 150 and 3000, the level of concentration can be rated as moderately high.

Table 7 displays the distribution of the largest blockholder types for every year under investigation. The picture is very similar to the one discussed above: the frequencies of shareholder types have remained more or less equal during the period under investigation. Most frequently, largest blockholders of Swiss companies were institutions (e.g. banks, insurance companies, pension funds, investment trusts); founders or their families were the largest shareholders in between 23% and 26% of cases. Companies and the government were the largest blockholders in between 8% and 10% of cases. Finally, individual investors, board members, and CEOs were considerably less frequently and only in 0.7% through 4.80% of companies the largest blockholders.

<table>
<thead>
<tr>
<th>Blockholder Type</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Blockholder</td>
<td>10.96</td>
<td>13.33</td>
<td>6.73</td>
<td>8.00</td>
<td>8.33</td>
<td>8.33</td>
<td>9.28</td>
</tr>
<tr>
<td>Company</td>
<td>19.18</td>
<td>14.44</td>
<td>17.31</td>
<td>19.20</td>
<td>15.91</td>
<td>14.39</td>
<td>16.74</td>
</tr>
<tr>
<td>Institution</td>
<td>32.88</td>
<td>32.22</td>
<td>32.69</td>
<td>32.00</td>
<td>36.36</td>
<td>34.09</td>
<td>33.37</td>
</tr>
<tr>
<td>Founder / Family</td>
<td>23.29</td>
<td>26.67</td>
<td>26.92</td>
<td>22.40</td>
<td>22.73</td>
<td>25.00</td>
<td>24.50</td>
</tr>
<tr>
<td>Board Member</td>
<td>1.37</td>
<td>2.22</td>
<td>1.92</td>
<td>1.60</td>
<td>2.27</td>
<td>2.27</td>
<td>11.65</td>
</tr>
<tr>
<td>Individual</td>
<td>1.37</td>
<td>1.11</td>
<td>1.92</td>
<td>3.20</td>
<td>0.76</td>
<td>3.03</td>
<td>1.90</td>
</tr>
<tr>
<td>CEO, not Founder</td>
<td>1.37</td>
<td>2.22</td>
<td>3.85</td>
<td>4.80</td>
<td>3.79</td>
<td>3.03</td>
<td>3.18</td>
</tr>
<tr>
<td>Total %</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

In addition, table 8 summarizes the average level of shareholdings of the largest shareholder per blockholder type and year. What becomes clear from the summary statistics of blockholder types is the dominance of the largest blockholders because subsequent smaller blockholders hold considerably lower average levels of shareholdings.

<table>
<thead>
<tr>
<th>Blockholder Type</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company</td>
<td>33.53</td>
<td>44.33</td>
<td>39.95</td>
<td>39.88</td>
<td>41.40</td>
<td>35.35</td>
<td>39.07</td>
</tr>
<tr>
<td>Institution</td>
<td>22.49</td>
<td>21.44</td>
<td>19.23</td>
<td>21.54</td>
<td>20.10</td>
<td>23.01</td>
<td>21.30</td>
</tr>
<tr>
<td>Founder / Family</td>
<td>39.40</td>
<td>38.70</td>
<td>41.50</td>
<td>44.24</td>
<td>39.02</td>
<td>37.45</td>
<td>40.05</td>
</tr>
<tr>
<td>Government</td>
<td>65.02</td>
<td>61.87</td>
<td>64.76</td>
<td>59.93</td>
<td>59.64</td>
<td>58.79</td>
<td>61.67</td>
</tr>
<tr>
<td>Board Member</td>
<td>50.50</td>
<td>36.19</td>
<td>35.49</td>
<td>37.87</td>
<td>42.04</td>
<td>48.89</td>
<td>41.83</td>
</tr>
<tr>
<td>Individual</td>
<td>12.00</td>
<td>12.00</td>
<td>15.05</td>
<td>12.96</td>
<td>12.00</td>
<td>30.17</td>
<td>15.70</td>
</tr>
<tr>
<td>CEO, not Founder</td>
<td>72.13</td>
<td>66.81</td>
<td>42.77</td>
<td>37.94</td>
<td>42.29</td>
<td>34.88</td>
<td>49.47</td>
</tr>
</tbody>
</table>

For example, as shown in table 6, the overall difference between the stake of the largest blockholder and the stakes of the 5 largest blockholders was only 9.5%, indicating that blockholders 2 through 5 together held on average only 9.5% of shares. As for the largest blockholder type, the most important insight gained from tables 7
and 8 is that while institutions are more frequently the largest blockholders in companies, families on average hold larger shareholdings (40.77%) than institutions (22.02%). Moreover, although the size of government shareholdings seems rather high, the importance of government ownership in Swiss listed companies is second rank. More specifically, large government stakes derive almost exclusively from the 24 cantonal banks, 21 of which enjoy government guaranty and most of which are quoted at the stock exchange. In addition, Swiss companies show a considerable degree of vertical and horizontal integration as companies on average appear to hold up to 37.6% of shareholdings in other companies. As for the rest of shareholder types, non-founder CEOs and board members hold very large stakes. However, given that their frequency of occurrence is relatively low, they are of little importance in the Swiss ownership landscape.

6. Regression Results

This section reports results from the empirical analysis relating corporate performance and ownership to the likelihood of CEO departure and the length of CEO tenure. For the binary outcome variables CEO turnover and CEO dismissal, I employed maximum likelihood estimation, relying on regression models for categorical dependent variable. For the continuous variable tenure, I used the generalized least square technique (GLS). In order to guarantee coefficient comparability, I estimated the models with marked-out missing values, which is why the samples used for the GLS-regressions are somewhat smaller than the sample used for the logistic regression. As discussed above, I used several operationalizations of the ownership variable. However, because most of these variables are based on the same data, they tend to be highly correlated. For example, due to its formula the level of the Hirschman-Herfindahl Index is largely determined by the size of the largest blockholder, which is why there is co-linearity between these two variables (correlation coefficient: 0.96; significance: 99%; VIF>12). In linear regression models such variables are characterized by a large Variance Inflation Factor (VIF>10). Highly correlated variables introduce redundant information in a regression model and cause inflation of the standard errors, which results in imprecise coefficients. Therefore, most models are fitted using only weakly correlated variables at one time. For the same reason, full models are omitted from the regression tables.

6.1 The relationship between CEO departure, company performance and ownership

In the first part of the analysis, I investigated the likelihood of CEO departure given a set of predictor and control variables. I employed three different sets of regression models with very similar and robust results: binary logit (probit) models, multinomial logit models and bivariate probit models. Virtually all studies on CEO turnover agree
on the assumption that the incidences of turnover in a sample represent independent events and thus apply a binary regression technique to a pooled sample consisting of the total of company years. Since the dependent variables (CEO turnover, CEO dismissal) are categorical, I first estimated a binary response model using logistic regression. I estimated two separate sets of models for the two independent variables (turnover and dismissal), thereby relating the probability of CEO departure to two different measures of performance and a set of ownership variables. Formally, the binary logistic regression model is stated as follows:

\[ \ln \Omega(x) = \ln \frac{\Pr(y = 1 | x)}{\Pr(y = 0 | x)} = x \beta \]

which indicates the relation of the probability of occurrence of an event \( y = 1 \) to the probability of its non-occurrence \( y = 0 \) given \( x \), and range from 0 when \( \Pr(y = 1 | x) = 0 \) to \( \infty \) when \( \Pr(y = 1 | x) = 1 \). The \( \Omega(x) \) is log odds or the “logit” which ranges from \(-\infty\) to \( +\infty \), indicating that the model is linear in the logit. Given that in the event of binary outcomes the assumptions of the linear regression are violated, the ordinary least squares technique is inappropriate and the coefficients are estimated using the maximum likelihood method. Binary logit and probit models differ in their assumptions regarding the error distribution: while logit models assume a logistic distribution, probit model rely on normal errors. Logit and probit models yield very similar coefficients and the regression results of the two models are therefore interchangeable (Long, 1997).

Besides the plethora of CEO turnover studies that rely on binary logistic (or probit) regression (Conyon, 1998; Dahya et al., 1998; Denis et al., 1994; Franks et al., 2001b; Parrino, 1997; Warner et al., 1988; Weisbach, 1989, to name but a few), more recently Huson and colleagues (2001), in their study on internal monitoring mechanisms and CEO turnover, opted for a multinomial logit and a bivariate probit model. The multinomial logit model is essentially an extension of the bivariate logit model as the multinomial logit model can be thought of as simultaneously estimating a series of binary logits. In order to do this, I created a new categorical variable with three outcomes where 1 indicates that there is no turnover, 2 indicates voluntary departure and 3 indicates forced departure. (Since the outcomes are not assumed to be ordered, the actual values taken on by the independent variables are irrelevant.) I then estimated a multinomial logit model relating the probability of the two departure categories, turnover and dismissals to the base category, which stands for “no turnover”. The advantage of this procedure is its increasing efficiency both in fitting the models and their interpretation since it allows for both outcomes to be estimated simultaneously. The formal specification of the multinomial logit model is a follows:

\[ \ln \Omega_{mb}(x) = \ln \frac{\Pr(y = m | x)}{\Pr(y = b | x)} = x \beta_{mb}^n, \text{ for } m = 1 \text{ to } J \]

where \( b \) is the base category which is also referred to as the comparison group and \( m \) are the categories under scrutiny (such as turnover and dismissal). The bivariate
The Economic Approach

The Economic Approach

probit model, finally, is somewhat different from the two models just discussed as it consists of a two-step (maximum likelihood) procedure where two regression equations are estimated simultaneously in such a way that the outcome of the second equation is predetermined by the outcome of the first equation. The covariance of the disturbances $\rho$, which in both equations are assumed to have a mean of zero and a variance of 1, are used for estimating the probabilities. All three models (including the binary probit estimation) consistently produced very similar results (when STATA 9.0 statistical software package is used): while the size of the coefficients varied slightly, the direction of the signs and the significance levels were (almost) exactly identical.

In the following, I present the results of the multinomial logit model. The outcomes must be interpreted in relation to the base category, which is “no turnover”.

Tables 9 and 10 provide the regression results for the likelihood of CEO departure using market based (return index) and accounting based (changes in ROA) performance measures. The results are nearly identical except that the accounting-based performance measures were somewhat less significant. In models 1a and 1b the likelihood of CEO departure (1a: turnover; 1b: dismissal) is related to the market based measure of performance and a set of control variables. As compared to no turnover, the estimates reveal a significantly negative relationship between CEO dismissal and the ratio of return index and its previous year value. The coefficient (-1.46) is significant at a 99%-level. By contrast, no significant relationship between market-based performance and voluntary CEO departure is revealed in the data: the sign in front of the coefficient is positive (0.56) and not significant at conventional statistical levels. In addition, the likelihood of voluntary and forced departure differs also in the event of CEO duality and in dependence of company size: CEO duality, or the simultaneous assumption of the CEO and chairman position, appears to be negatively related to the likelihood of forced CEO departure. However, the coefficient (-1.23) is only modestly significant at the 90%-level. By contrast, in the case of CEO turnover duality seems not to play a role, as is indicated by the positive and insignificant coefficient for CEO duality (0.20). Company size, on the other hand, exerts a decisive influence on the likelihood of forced CEO departure: CEO dismissals are significantly more likely in larger companies as measured by company sales (0.36). Once more this relationship does not hold for CEO turnover, suggesting that larger companies have better monitoring mechanisms than smaller ones but not necessarily a higher fluctuation rate of CEOs. Furthermore, the coefficient for the composition of the corporate board is not significant in the first two models. However, in every other model with turnover as the independent variable, board independence is found to be significantly negatively related to CEO departure. One interpretation of this finding is that independent boards might have a positive impact on the work satisfaction of top executives and, therefore, decrease voluntary CEO fluctuations. Finally, in the logistic regression models I did not control for CEO age given that the departure reason retirement was accounted for in the coding of the turnover variable.

Models 2a and 2b relate CEO departure to both performance and ownership variables. In the first model only the size of the largest blockholder and dummy variables
representing the most important blockholder types are included. Similarly as in the
first two models, the results indicate that poor performance is negatively and signifi-
cantly related to the likelihood of CEO dismissal (-1.28) but not so to the likelihood of
CEO turnover (0.06). Again, size of companies seems to raise the likelihood of dis-
missal (0.32) but not of turnover (0.03), and CEO duality appears to impede CEO
dismissal (-1.29) but not turnover (0.25). As for the ownership variables, the coeffi-
cient of the dummy variable indicating the presence of a large blockholder is positive
but insignificant. Similarly, no significant effect is found for the size of the largest
blockholder: in both cases (turnover and dismissal) the coefficient is very small,
negative and insignificant. Only the type of the largest blockholder seems to have a
small influence: while neither the coefficient for family nor the coefficient for company
was significant, there is some, albeit very modest, indication that institutions might
increase the likelihood of CEO dismissal (1.05) but not of turnover (0.41). (The insti-
tutional investor coefficient is larger and of higher significance in the model using the
accounting-based performance measure.) This finding persists when interaction
terms between the size of the largest shareholder and the type of the largest share-
holder are introduced (models 3a and 3b): in the event of CEO dismissal, the interac-
tion term for institutions and size is modestly significant. However, the direction of the
coefficient is different than expected: the size of institutional shareholdings is nega-
tively related to the likelihood of CEO dismissal (-0.05). One reason for this puzzling
result might be the heterogeneity of institutions and their relationships to the CEO
and the company. As Brickley and colleagues (1988) suggest, institutions differ with
respect to their pressure resistance vis-à-vis the CEO: large institutional sharehold-
ners (e.g. Banks) that provide consulting or other services to the company will shy
away from intense monitoring activity out of fear of bedeviling their relationship with
the CEO and endangering their businesses with the company. Given this result, I
created a variable that sums all institutional shareholdings per company and a vari-
able that sums all outside shareholdings (companies, institutional investors, the gov-
ernment and large individuals) and related their size to CEO departure. Both coeffi-
cients were insignificant. In addition, I also tested for the conditional effects of owner-
ship by interacting all ownership variables with company performance.
Table 9: Multinomial Logit Model Regressing CEO Turnover/Dismissal on Return Index and Ownership

<table>
<thead>
<tr>
<th>Variable</th>
<th>(1a)</th>
<th>(1b)</th>
<th>(2a)</th>
<th>(2b)</th>
<th>(3a)</th>
<th>(3b)</th>
<th>(4a)</th>
<th>(4b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-2.67***</td>
<td>-4.51***</td>
<td>-3.05***</td>
<td>-4.64***</td>
<td>-3.15***</td>
<td>-5.02***</td>
<td>-2.83***</td>
<td>-4.53***</td>
</tr>
<tr>
<td>(0.81)</td>
<td>(1.01)</td>
<td>(0.91)</td>
<td>(1.21)</td>
<td>(0.98)</td>
<td>(1.31)</td>
<td>(0.84)</td>
<td>(1.12)</td>
<td></td>
</tr>
<tr>
<td>Return Index</td>
<td>0.56</td>
<td>-1.46***</td>
<td>0.06</td>
<td>-1.28***</td>
<td>0.07</td>
<td>-1.25***</td>
<td>0.07</td>
<td>-1.30***</td>
</tr>
<tr>
<td>(0.24)</td>
<td>(0.50)</td>
<td>(0.24)</td>
<td>(0.49)</td>
<td>(0.24)</td>
<td>(0.49)</td>
<td>(0.25)</td>
<td>(0.01)</td>
<td></td>
</tr>
<tr>
<td>Largest Blockholder Size</td>
<td>-0.00</td>
<td>-0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>(0.00)</td>
<td>(0.01)</td>
<td>(0.02)</td>
<td>(0.02)</td>
</tr>
<tr>
<td>Family</td>
<td>0.29</td>
<td>0.34</td>
<td>0.08</td>
<td>0.80</td>
<td>(0.43)</td>
<td>(0.73)</td>
<td>(0.10)</td>
<td>(1.46)</td>
</tr>
<tr>
<td>Largest Blockholder</td>
<td>0.41</td>
<td>1.05*</td>
<td>0.66</td>
<td>1.90***</td>
<td>(0.40)</td>
<td>(0.40)</td>
<td>(0.59)</td>
<td>(0.75)</td>
</tr>
<tr>
<td>Institution</td>
<td>0.35</td>
<td>0.83</td>
<td>0.65</td>
<td>1.97**</td>
<td>(0.47)</td>
<td>(0.68)</td>
<td>(0.73)</td>
<td>(0.98)</td>
</tr>
<tr>
<td>Size Block x</td>
<td>0.00</td>
<td>0.02</td>
<td>(0.02)</td>
<td>(0.03)</td>
<td>(0.02)</td>
<td>(0.02)</td>
<td>(0.03)</td>
<td>(0.03)</td>
</tr>
<tr>
<td>Family</td>
<td>-0.00</td>
<td>-0.05*</td>
<td>(0.02)</td>
<td>(0.03)</td>
<td>(0.02)</td>
<td>(0.02)</td>
<td>(0.03)</td>
<td>(0.03)</td>
</tr>
<tr>
<td>Stockholder</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.09)</td>
<td>(0.00)</td>
</tr>
<tr>
<td>Company</td>
<td>-0.72</td>
<td>-0.35</td>
<td>-0.65*</td>
<td>-0.21</td>
<td>-0.66*</td>
<td>-0.26</td>
<td>-0.75***</td>
<td>-0.31*</td>
</tr>
<tr>
<td>(0.33)</td>
<td>(0.40)</td>
<td>(0.34)</td>
<td>(0.41)</td>
<td>(0.34)</td>
<td>(0.43)</td>
<td>(0.33)</td>
<td>(0.42)</td>
<td></td>
</tr>
<tr>
<td>Duality</td>
<td>0.20</td>
<td>-1.23*</td>
<td>0.25</td>
<td>-1.19*</td>
<td>0.22</td>
<td>-1.29*</td>
<td>0.23</td>
<td>-1.23*</td>
</tr>
<tr>
<td>(0.31)</td>
<td>(0.66)</td>
<td>(0.35)</td>
<td>(0.67)</td>
<td>(0.35)</td>
<td>(0.68)</td>
<td>(0.35)</td>
<td>(0.67)</td>
<td></td>
</tr>
<tr>
<td>logsales</td>
<td>0.03</td>
<td>0.36***</td>
<td>0.03</td>
<td>0.32***</td>
<td>0.30</td>
<td>0.30***</td>
<td>0.03</td>
<td>0.11*</td>
</tr>
<tr>
<td>(0.08)</td>
<td>(0.01)</td>
<td>(0.08)</td>
<td>(0.10)</td>
<td>(0.08)</td>
<td>(0.11)</td>
<td>(0.08)</td>
<td>(0.07)</td>
<td></td>
</tr>
<tr>
<td>SICcode</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td></td>
</tr>
</tbody>
</table>

**Chi²**: 0.000***  0.000***  0.000***  0.000***  0.0582  0.0724  0.0845  0.0703

Note: in models “a” the dependent variable is turnover; in models “b” the dependent variable is dismissal. The base category is: no turnover.

***: p<0.01; **: p>0.05; *: p<0.1; standard errors in parentheses.
Table 10: Multinomial Logit Model Regressing CEO Turnover/Dismissal on Changes in ROA and Ownership

<table>
<thead>
<tr>
<th>Variable</th>
<th>(1a)</th>
<th>(1b)</th>
<th>(2a)</th>
<th>(2b)</th>
<th>(3a)</th>
<th>(3b)</th>
<th>(4a)</th>
<th>(4b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-2.60***</td>
<td>-6.40***</td>
<td>-2.97***</td>
<td>-6.30***</td>
<td>-3.01***</td>
<td>-6.64***</td>
<td>-2.73***</td>
<td>-6.23***</td>
</tr>
<tr>
<td></td>
<td>(0.76)</td>
<td>(0.97)</td>
<td>(0.90)</td>
<td>(1.14)</td>
<td>(0.93)</td>
<td>(1.24)</td>
<td>(0.77)</td>
<td>(1.04)</td>
</tr>
<tr>
<td>ΔROA</td>
<td>-0.00</td>
<td>-0.04*</td>
<td>-0.00</td>
<td>-0.04*</td>
<td>-0.00</td>
<td>-0.04*</td>
<td>-0.00</td>
<td>-0.03*</td>
</tr>
<tr>
<td></td>
<td>(0.20)</td>
<td>(0.02)</td>
<td>(0.02)</td>
<td>(0.29)</td>
<td>(0.02)</td>
<td>(0.02)</td>
<td>(0.02)</td>
<td>(0.20)</td>
</tr>
<tr>
<td>Largest Blockholder Size</td>
<td>0.00</td>
<td>-0.01</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.00)</td>
<td>(0.01)</td>
<td>(0.10)</td>
<td>(0.02)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Largest Blockholder: Family</td>
<td>0.30</td>
<td>0.31</td>
<td>0.01</td>
<td>-0.89</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.44)</td>
<td>(0.73)</td>
<td>(0.80)</td>
<td>(1.51)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Largest Blockholder: Institution</td>
<td>0.41</td>
<td>1.17***</td>
<td>0.66</td>
<td>2.06***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.40)</td>
<td>(0.53)</td>
<td>(0.60)</td>
<td>(0.75)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Largest Blockholder: Company</td>
<td>0.35</td>
<td>0.78</td>
<td>0.65</td>
<td>1.87*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.47)</td>
<td>(0.68)</td>
<td>(0.73)</td>
<td>(0.99)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size Block x Family</td>
<td>0.00</td>
<td>0.20</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td>(0.03)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size Block x Institution</td>
<td>-0.01</td>
<td>-0.52*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td>(0.03)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size Block x Company</td>
<td>-0.00</td>
<td>-0.05</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td>(0.03)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Largest Blockholder: Outsider</td>
<td>0.34</td>
<td>0.80*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.30)</td>
<td>(0.44)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hirschman-Herfindahl</td>
<td>0.00</td>
<td>-0.00*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.00)</td>
<td>(0.00)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outsider Board</td>
<td>-0.72***</td>
<td>-0.35</td>
<td>-0.65*</td>
<td>-0.23</td>
<td>-0.66*</td>
<td>-0.28</td>
<td>-0.76***</td>
<td>-0.31</td>
</tr>
<tr>
<td></td>
<td>(0.33)</td>
<td>(0.40)</td>
<td>(0.34)</td>
<td>(0.41)</td>
<td>(0.34)</td>
<td>(0.44)</td>
<td>(0.33)</td>
<td>(0.42)</td>
</tr>
<tr>
<td>Duality</td>
<td>0.20</td>
<td>-1.15*</td>
<td>0.25</td>
<td>-1.13*</td>
<td>0.22</td>
<td>-1.21*</td>
<td>0.23</td>
<td>-1.16*</td>
</tr>
<tr>
<td></td>
<td>(0.35)</td>
<td>(0.67)</td>
<td>(0.35)</td>
<td>(0.67)</td>
<td>(0.35)</td>
<td>(0.67)</td>
<td>(0.35)</td>
<td>(0.67)</td>
</tr>
<tr>
<td>Logsales</td>
<td>0.03</td>
<td>0.40***</td>
<td>0.03</td>
<td>0.35***</td>
<td>0.03</td>
<td>0.34***</td>
<td>0.03</td>
<td>0.36***</td>
</tr>
<tr>
<td></td>
<td>(0.08)</td>
<td>(0.01)</td>
<td>(0.08)</td>
<td>(0.10)</td>
<td>(0.08)</td>
<td>(0.11)</td>
<td>(0.08)</td>
<td>(0.00)</td>
</tr>
<tr>
<td>SICcode</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
</tr>
<tr>
<td>Number of Observations</td>
<td>656</td>
<td>656</td>
<td>656</td>
<td>656</td>
<td>656</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chi²</td>
<td>0.000***</td>
<td>0.000***</td>
<td>0.000***</td>
<td></td>
<td></td>
<td></td>
<td>0.000***</td>
<td></td>
</tr>
<tr>
<td>Pseudo R²</td>
<td>0.0479</td>
<td>0.0650</td>
<td>0.0776</td>
<td>0.0620</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

***: p<0.01; **: p>0.05; *: p<0.1; standard errors in parentheses.

Note: in models “a” the dependent variable in turnover; in models “b” the dependent variable is dismissal. The base category is: no turnover.
While a number of previous studies which find that owners become active in the event of poor performance (e.g. Dahya et al., 1998; Denis et al., 1997), this was not the case in the Swiss sample. Finally, I tested for the effect of the overall ownership concentration and related the size of the Hirschman-Herfindahl Index to CEO turnover and dismissal (models 4a and 4b). The coefficient is very small, negative and only modestly significant (-0.00) and is likely to be driven by the size and the type of the largest blockholder. As suggested in the descriptive statistics section, the largest blockholders are most frequently, companies, institutions and families. Companies and institutions are likely to be rather lax monitors due to their aforementioned potential business relationship with the company. Families, on the other hand, might under certain circumstances have an outright negative effect on the likelihood of CEO departure even in the event poor performance.

Before I turn to the investigation of CEO family ties and family ownership, I provide additional information on the most salient of the above regression runs. Given that the logistic regression model calculates \(\ln \Omega(x)\), the log of the odds (or, in other words, the “logit”), the estimated parameters do not provide straightforward information for understanding the relationship between the independent variables and the outcomes. In order to place the result in a meaningful economic perspective, I use models 2a and 2b and provide the odds ratio \(e^{\beta_2}\) and a plot of the predicted probabilities for the three salient independent variables, return index, size of the largest shareholder, and the presence of institutions of largest shareholders.

### Table 11: Coefficients and Odds Ratios

<table>
<thead>
<tr>
<th>Comparison</th>
<th>Coefficients for:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Return Index</td>
</tr>
<tr>
<td>Dismissal</td>
<td>Turnover</td>
</tr>
<tr>
<td>e^{\beta_{\text{Diss</td>
<td>Turn}}}</td>
</tr>
<tr>
<td>P</td>
<td>0.01</td>
</tr>
<tr>
<td>Dismissal</td>
<td>no Turnover</td>
</tr>
<tr>
<td>e^{\beta_{\text{Diss</td>
<td>No T}}}</td>
</tr>
<tr>
<td>P</td>
<td>0.00</td>
</tr>
</tbody>
</table>

As shown in table 11, when the likelihood of CEO dismissal is compared to the categories voluntary departure and no departure, the signs for the coefficients are the same and of comparable size except for the shareholder type coefficient, which is larger and significant when dismissals are compared to no turnover as opposed to when they are juxtaposed with voluntary departure.
Not surprisingly, the same holds true for the odds ratios: relative to the category no turnover, the presence of institutions as the largest shareholder is expected to change the odds of dismissal by a factor of 2.87 as compared to the relation between dismissal relative to turnover where the odds of dismissal change only by a factor of 1.89. In addition, figure 3 provides a plot of the predicted probabilities of forced CEO departure when the largest shareholder is an institution or some other shareholder type and as the return index moves from its lowest to its highest decile. Despite the fact that the predicted probabilities are rather small, it becomes evident that the likelihood of forced CEO departure increases markedly in the event of institutional investor presence.

6.2 The Impact of the Founder-CEO

The next section addresses the issue of CEO entrenchment in Swiss companies. As discussed in the literature review section, ownership by the CEOs has received mixed credit: CEOs have been found to entrench themselves and to use their shareholdings as sources of power against corporate governance instruments destined to discipline them. Unfortunately, in the Swiss context, disclosure requirements with respect to executive ownership deriving from, for example, stock option and equity plans are very lax. Therefore, data on board and executive ownership is rather unreliable. Nonetheless, another way to address CEO entrenchment is to inspect the company’s locus of control and to investigate whether the CEO is the founder or a member of the founding family. In table 12 crosstabs between dismissal and founder-CEO are provided. The values suggest that we can be 95% confident that CEO dismissal hardly ever occurs when the CEO is the founder or a descendent of the founding family.
Table 12: Dismissal and Founder-CEOs

<table>
<thead>
<tr>
<th>CEO is Founder or Family Member</th>
<th>Dismissal</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>Yes</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>534</td>
<td>68</td>
<td>602</td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>33</td>
<td>0</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>567</td>
<td>68</td>
<td>635</td>
<td></td>
</tr>
</tbody>
</table>

Note: Pearson Chi²(1) = 4.17; p=0.041

The most straightforward course of action would be to include a dummy variable in the logistic regression models indicating whether the CEO is or is not a family member. However, given that a non-founder CEO predicts the outcome 0 of the dismissal variable perfectly, such a procedure is technically not possible. In order to obtain an idea of the efficiency of governance mechanisms in the presence of founder CEOs, I estimated a series of linear regressions using CEO tenure as the dependent variable. According to Fizel and Louie (1990:168), CEO tenure and CEO turnover are closely related: “because turnover is the event of incumbent CEO leaving office and tenure is the interval between turnover events, tenure is inversely related to the frequency of turnover. Consequently, the variables that influence the likelihood of turnover should also influence tenure, but the signs of the coefficients in the turnover model should be opposite [to] those in the tenure one.” Therefore, I related corporate performance and ownership variables on the length of CEO tenure for the two groups, founder CEO and non-founder CEO, separately. Using tenure as the dependent variable allows for recurring to the least square technique and estimating a linear model. However, given the characteristics of the dependent variable in relation to the set of predictors, pooling the cross sections together as chosen for the categorical models is inappropriate. Firstly, intercept coefficients may vary over time and, secondly, ordinary least squares may be biased because of enduring individual firm-characteristics that are not considered in the model. In addition, as previous research suggests, tenure in year t might not be independent from tenure in the year t-1, implying that the sample cannot be considered as consisting of independent observations. This concept is known in the literature as the seasons-of-CEO-tenure hypothesis: longer tenured and thus more established CEOs are more likely to remain in post than are more recently appointed ones (Hambrick & Fukutomi, 1991; Shen, 2003). In the presence of such endogenous variables, Brown (1982) and Finkelstein and Hambrick (1990), authors who have studied CEO tenure, recommend recurring to models that combine a cross sectional and a longitudinal dimension. In order to respect the panel structure of the data, these authors advocate either a fixed-effects model or a generalized least square regression including a lag of the dependent variable in order to adjust for endogeneity in the models. The F-Test, which is suitable for assessing the appropriateness of the fixed-effects model, indicated that the intercepts vary across units (firms) (F=0.0000) but (when the dataset was “re-shaped”) not across time (F=0.3599). In addition, several tests evaluating (panel) heteroscedasticity (e.g. the White-test, the modified Wald-test and the Lagrange-Multiplier Test) consistently indicated the presence of group-specific error variances. As consequence, using the
The generalized least square model (thereby correcting for heteroscedastic unit variances by weighting the betas by an inverse of the cross-section specific variation) appeared to be the best alternative, given the data. The model's equation can be formulated as follows (Brown, 1982):

\[ y_{it} = \beta_0 + \beta_1 x_{it} + \beta_2 t_{it-1} + \alpha_i + u_{it} \]

where \( y_{it} \) represents the independent variable with unit \( i \) at time \( t \) and \( x_{it} \) represents the set of dependent variables with the units \( i \) at time \( t \). The coefficients \( \beta_0, \beta_1 \) and \( \beta_2 \) retain their standard interpretations as intercept and slope. The term \( t_{it-1} \) stands for the lagged endogenous variable “tenure”, while the term \( \alpha_i \) is an unmeasured variable that varies across units (firms) but not over time and absorbs all unmeasured firm factors related to tenure that vary across firms. Finally, the term \( u_{it} \) is assumed to be a standard random disturbance. As in the event of logistic regression models, I used both market-based and accounting-based measures of performance. Since both set regressions yielded very similar results (in models using accounting-based performance measures, the coefficients were smaller and, for the performance variable, only significant at the 90% level), I refrain from presenting the models using changes in ROA. Table 13 displays the results obtained when the market-based performance measure was used.

In models 1 through 4 I ran separate regressions for founder and non-founder CEOs. The columns “a” display the estimates for non-founder CEOs, while the columns “b” display the estimates for founder CEOs. In model 5 I regress tenure on performance, control variables and a dummy variable coded 1 when the CEO is the founder or a member of the founding family. As displayed in table 13 the beta coefficient for the dummy variable was positive and significant, indicating that, holding all other variables constant, founder-CEOs on average have a tenure of over 4.5 years longer than non-founder CEOs. In addition, the coefficient for the return index is negative, small and insignificant, which suggests that performance does not have a significant effect on the length of tenure when the CEO founder-status is controlled for. In models 1a and 1b the regressions for the two groups are run separately: in companies where the CEO is not the founder or a family member, performance is positively and significantly related to CEO tenure. In other words, for a one-point increase in the return index relative to its previous year’s value, CEO tenure increases by over half a year. By contrast, the relationship between tenure and performance in companies with a founder CEO is fairly large, negative and significant. This indicates that founder CEOs not only do not get fired, but that they remain in post regardless of the negative performance of their company. This finding is consistent throughout the models 1-4: non-founder CEO tenure is significantly and positively related to company performance while founder tenure is significantly negatively related to it.
Table 13: GLS Regressions Estimating the Impact of Market Based Performance and Ownership on the Length of CEO Tenure

<table>
<thead>
<tr>
<th>Variable</th>
<th>(1a)</th>
<th>(1b)</th>
<th>(2a)</th>
<th>(2b)</th>
<th>(3a)</th>
<th>(3b)</th>
<th>(4a)</th>
<th>(4b)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-7.78***</td>
<td>-6.33***</td>
<td>-7.90***</td>
<td>-6.29***</td>
<td>-8.03***</td>
<td>-5.63*</td>
<td>-7.19***</td>
<td>-2.67</td>
<td>-5.85***</td>
<td>-5.13***</td>
<td>-6.26***</td>
<td>-4.35***</td>
</tr>
<tr>
<td></td>
<td>(0.67)</td>
<td>(3.14)</td>
<td>(0.75)</td>
<td>(3.20)</td>
<td>(0.71)</td>
<td>(3.05)</td>
<td>(0.80)</td>
<td>(2.62)</td>
<td>(0.73)</td>
<td>(0.83)</td>
<td>(0.75)</td>
<td>(0.81)</td>
</tr>
<tr>
<td>Tenure Lag</td>
<td>0.04***</td>
<td>-1.33**</td>
<td>0.04***</td>
<td>-0.12*</td>
<td>0.05***</td>
<td>-0.11</td>
<td>0.05***</td>
<td>-0.16**</td>
<td>0.03***</td>
<td>0.03***</td>
<td>-0.04***</td>
<td>-0.04***</td>
</tr>
<tr>
<td></td>
<td>(0.01)</td>
<td>(0.07)</td>
<td>(0.01)</td>
<td>(0.70)</td>
<td>(0.17)</td>
<td>(0.08)</td>
<td>(0.00)</td>
<td>(0.08)</td>
<td>(0.01)</td>
<td>(0.01)</td>
<td>(0.01)</td>
<td>(0.07)</td>
</tr>
<tr>
<td>Return Index</td>
<td>0.64***</td>
<td>-1.06***</td>
<td>0.73***</td>
<td>-1.00***</td>
<td>0.67***</td>
<td>-1.49***</td>
<td>0.50***</td>
<td>-1.42***</td>
<td>-0.04</td>
<td>-0.02</td>
<td>-0.06</td>
<td>-0.04</td>
</tr>
<tr>
<td></td>
<td>(0.17)</td>
<td>(0.46)</td>
<td>(0.17)</td>
<td>(0.47)</td>
<td>(0.18)</td>
<td>(0.54)</td>
<td>(0.16)</td>
<td>(0.54)</td>
<td>(0.09)</td>
<td>(0.09)</td>
<td>(0.01)</td>
<td>(0.07)</td>
</tr>
<tr>
<td>Blockholder</td>
<td>-0.24</td>
<td>0.40*</td>
<td>(0.29)</td>
<td>(0.66)</td>
<td>-0.00</td>
<td>0.03***</td>
<td>-0.54*</td>
<td>(0.33)</td>
<td>-0.00</td>
<td>(0.00)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Largest Blockholder</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Largest Blockholder: Family</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-1.27***</td>
<td>-0.30</td>
<td>(0.19)</td>
<td>(1.01)</td>
<td>-1.07***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.23)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Largest Blockholder: Institution</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-0.64***</td>
<td>-1.50*</td>
<td>(0.18)</td>
<td>(1.13)</td>
<td>-0.97***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.23)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Largest Blockholder: Company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-0.56***</td>
<td>-2.00***</td>
<td>(0.23)</td>
<td>(1.36)</td>
<td>-0.89***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.27)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Founder</td>
<td>4.58***</td>
<td>3.48***</td>
<td>1.87***</td>
<td>2.47***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.42)</td>
<td>(1.44)</td>
<td>(0.62)</td>
<td>(1.13)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Founder x Blockholder</td>
<td>1.22</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Founder x</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size Blockh.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Founder x Family</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Founder x</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institution</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Founder x Company</td>
<td>Outsider</td>
<td>Board</td>
<td>Duality</td>
<td>Logsales</td>
<td>SICcode</td>
<td>Age</td>
<td>Number of Observations</td>
<td>Chi²</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------------------</td>
<td>---------</td>
<td>-------</td>
<td>---------</td>
<td>----------</td>
<td>---------</td>
<td>-----</td>
<td>------------------------</td>
<td>------</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.28</td>
<td>(0.18)</td>
<td>0.28</td>
<td>-0.51</td>
<td>0.00</td>
<td>0.25</td>
<td>473</td>
<td>0.000***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-2.20***</td>
<td>(1.11)</td>
<td>-2.20***</td>
<td>-2.90***</td>
<td>-0.00***</td>
<td>0.01</td>
<td>61</td>
<td>0.000***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.32*</td>
<td>(0.97)</td>
<td>0.72***</td>
<td>-0.50***</td>
<td>0.00***</td>
<td>0.24</td>
<td>473</td>
<td>0.000***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-0.61</td>
<td>(0.77)</td>
<td>13.16***</td>
<td>-2.75***</td>
<td>-0.00***</td>
<td>0.01</td>
<td>61</td>
<td>0.000***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.14</td>
<td>(0.18)</td>
<td>0.70***</td>
<td>-0.52***</td>
<td>0.00***</td>
<td>0.24</td>
<td>473</td>
<td>0.000***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-0.30</td>
<td>(0.19)</td>
<td>13.24***</td>
<td>-2.83***</td>
<td>0.00***</td>
<td>0.24</td>
<td>61</td>
<td>0.000***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.51***</td>
<td>(0.18)</td>
<td>2.12***</td>
<td>-0.61***</td>
<td>0.00***</td>
<td>0.00</td>
<td>473</td>
<td>0.000***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.49***</td>
<td>(0.19)</td>
<td>2.50***</td>
<td>-0.63***</td>
<td>0.00***</td>
<td>0.00</td>
<td>61</td>
<td>0.000***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.49***</td>
<td>(0.18)</td>
<td>2.42***</td>
<td>-0.54***</td>
<td>0.00***</td>
<td>0.00</td>
<td>473</td>
<td>0.000***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.30</td>
<td>(0.19)</td>
<td>2.26***</td>
<td>-0.60***</td>
<td>0.00***</td>
<td>0.00</td>
<td>61</td>
<td>0.000***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-2.31</td>
<td>(1.78)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

***: p<0.01; **: p>0.05; *: p<0.1; standard errors in parentheses.

Note: in models “a” the CEO is not the founder; in models “b” the CEO is the founder. The base category is: no turnover.
A similar pattern is revealed for previous tenure. The coefficient for previous non-founder CEO tenure is in general smaller, positive and significant. This finding appears to support the hypothesis on the “seasons of CEO tenure” (Hambrick et al., 1991), according to which established CEOs who have been in post for a while do not quit as readily as more junior and less established CEOs. On the contrary, the coefficient for previous tenure of founder CEOs is in general larger, significant but negative. This suggests that founder CEOs terminate their tenure because they remain in post for a long time until retirement.

Models 2 and 3 include a dummy variable for the presence of a large blockholder and a continuous variable measuring the size of the largest blockholder. Both coefficients were positive and significant for founder CEOs. For example, in companies where a large blockholder is present, all else being equal, founder CEOs have tenures that are 0.4 years longer than of CEOs in companies with no large blockholder. The same relationship holds true for the size of the largest blockholder: for every additional share or voting right, founder CEO tenure increases by 0.03. This result, surprising at first, becomes more self-evident when the type of the large blockholder is taken into account. Among the 63 companies in the sample with a founder CEO, the largest shareholder is most frequently (36 or 57.1%) the founding family, followed by institutions (14 or 38.9%) and companies (6 or 9.5%); finally, in 6 (9.5%) of companies there was no blockholder at all (crosstabs of shareholder type by incidence of founder family member: chi^2: 166.84, p<0.000). Thus, the positive association between CEO tenure and the incidence and size of the largest blockholder derives from the fact that family member CEOs enjoy protection by their family even in the event of poor performance. (The coefficient for the return index in models 2b and 3b is -1.0 and -1.49, indicating a significantly negative relationship between CEO tenure and company performance.)

Against this background it is less surprising that in the case of a non-founder CEO, both the dummy variable for the presence of a blockholder and the continuous variable for the size of the largest blockholdings is negative, albeit smaller and insignificant. More precisely, in the case of a non-founder CEO, the largest blockholders are most frequently institutions (33.5%), followed by families (21.5%) and companies (16.5%). This finding suggests that both institutions and families exert a disciplining role but only when the CEO is not a member of the founding family. In order to confirm this result, I ran regressions, including dummy variables for the three most dominant shareholders types: as revealed in column 4a, all three shareholder types included in the model (family, institutional investor and company) have a significantly negative impact on the length of non-founder CEO tenure. For example, the presence of large family shareholdings reduces non-founder CEO tenure on average by 1.27 years (large institutional shareholdings: 0.64 years; large company shareholdings: 0.56 years). In the subsample of founder CEOs (column 4b), by contrast, only the coefficients for the blockholder types “institutions” and “company” are significant; the coefficient for family blockholders is negative but small and insignificant at conventional statistical levels. Interestingly, the presence of large company blockholders
seems to have the largest disciplining effect on founder CEOs: their presence reduces founder CEO tenure on average by two years (-2.0). However, in order to test whether the coefficients in the two subsamples are indeed significantly different, I re-ran regressions 1 through 4 using the entire sample but included an interaction term of the dummy variable for founder CEO and each of the ownership variables. As columns 6 through 8 indicate, only the interaction terms, including the size of the largest shareholders and the founding family as the type of the largest shareholder, are significant. This suggests that the two subsamples differ significantly only with respect to the impact of the largest shareholder and the founding family on the length of CEO tenure. By contrast, the effect of the presence of a large blockholder as well as of institutions and companies appears not to be significantly different in the two subsamples. Last but not least, I ran regressions including interaction terms of performance and all ownership variables used but found no significant effects.

Finally, a look at the coefficients of the control variables reveals a consistently positive and significant impact of duality on CEO tenure: both founder and non-founder CEOs remain considerably longer in post when they simultaneously act as the company’s chairman. Moreover, there is some evidence that outsider boards might exert a disciplining function in companies with a founder CEO: in models 2 and 3 the coefficient for the outsider board dummy is negative and significant, indicating that outsider boards reduce the founder CEO tenure by up to 2.29 years on average. However, this effect disappears in the subsequent models when ownership variables are added although the sign of the coefficients remain the same. In addition, as was the case in the logistic regression, company size seems to have a significantly negative effect on both founder and non-founder CEO tenure, indicating that in larger companies stronger governance mechanisms might be in place. Somewhat surprisingly, CEO age seems to have a positive effect on CEO tenure in both founder and non-founder CEO subsamples. Although intuitively one would expect that, due to the increased chance of retirement, older CEOs would have shorter tenures, that finding seems to support the seasons-of-tenure-hypothesis (Hambrick et al., 1991): older CEOs are more difficult to remove, possibly also because of mutual adjustments between them, the board of directors (Lynall, Golden, & Hillman, 2003) and the organizational environment (Miller, 1991). Finally, as opposed to the logistic regression in linear regression models, industry differences seem to play an important role. Because the variable SIC is not continuous, the size of coefficients cannot be readily interpreted.

7. Discussion and Conclusion

In this chapter of the dissertations I set out to answer three questions related to corporate ownership and control in Swiss listed companies: the first question concerns the effectiveness of shareholders in removing poorly performing CEOs. The second question concerns the differences in owner types regarding issue of control. Finally,
The third question touches upon the similarities and differences between Switzerland and other corporate governance settings. In light of the empirical findings, the most clear-cut answer can be provided to the first question: Swiss CEOs do get fired in the event of poor performance; Shareholder response to both stock return and profit declines follows immediately and one-year lags of the performance variables are sufficient to detect a significantly negative association with CEO dismissal. As for the second question, there is some modest evidence that the presence of some (most likely pressure-resistant) institutions increases the likelihood of forced CEO departure. However, the impact of institutions is found to be direct and not conditional on performance as all interaction terms between performance and ownership are insignificant. In addition, there is no conclusive evidence of any association between board independence and the likelihood of forced CEO departure. In other words, the board of directors seems not to have a great influence in CEO dismissal decisions. On the contrary, Swiss CEOs seem to be well-insolated from internal monitoring particularly when they simultaneously assume the role of chairman. Finally, monitoring mechanisms seem to function better in large companies as size is found to be negatively related to forced CEO departure.

A closer look at CEO tenure reveals a high level of entrenchment by those CEOs who are the company founders or descendants of the founding family. Founder CEOs remain in post event when performance is persistently poor. Moreover, large blockholdings held by family shareholders enhance CEO entrenchment as family stakes are found to be positively related to CEO tenure regardless of negative performance levels. On the other hand, when the CEO is not the founder and not kin to the founding family, corporate governance mechanisms seem to function more efficiently as there is (some modest) evidence that both families and institutions reduce CEO tenure.

With respect to the third question asked in this chapter, Switzerland, on one hand, lives up to its reputation of being ranked between the Anglo-Saxon and the Germanic corporate governance system. On the other hand, when it comes to the efficiency of corporate control mechanisms, the situation in Switzerland seems to parallel that in countries with high levels of family owner dominance such as Denmark or Italy. For example, the average turnover rate of 15% for Swiss CEOs is similar to what is reported worldwide: DeFond and Hung (2004:283) find the average turnover rate for the US and UK to be 14% and 16% respectively. In the Benelux countries, companies exhibited a turnover rate of between 12% and 17%; in Scandinavia, between 16% and 20%. In Spain the average turnover rate has been found to be to 15% and, finally, in Germany it amounted to 19% (DeFond et al., 2004). However, when it comes to the levels of forced CEO departure, with an average dismissal rate of 6%, Swiss CEOs are much “better off” than their Anglo-Saxon counterparts. In the US, the rate of forced departure appears to be considerably higher than in Switzerland. Huson et al. (2001), for instance, report a dismissal rate of 16% in large public US firms listed on the New York Stock Exchange in the period between 1971 and 1994. Nonetheless, CEOs are dismissed for poor performance in most countries no matter
the structure of the companies’ internal and external governance mechanisms (see e.g. Dahya et al., 1998; Huson et al., 2001; Kang et al., 1995; Kaplan, 1997; Renneboog, 2000; Warner et al., 1988).

This unconditional relation between CEO turnover and company performance is somewhat surprising given the rather distinct levels of ownership concentration around the world. For example, in the Anglo-Saxon context, where regulation prevented the build-up of large positions by single shareholders, the number of companies with a large blockholder is typically much lower than in continental Europe. In his political analysis of corporate governance systems, Marc Roe (2003) provides a comprehensive list of the portion of mid-sized companies without a blockholder holding 20% of the stakes: in Austria, Italy and France all mid-sized companies have such a blockholder; in Germany, the Netherlands and in Sweden 90% of all companies do so; the percentage of companies in Belgium, Finland and Norway is 80%, and in Australia, Denmark and Japan it is 70%. The number for the UK and Canada is 60% and, at the outer end of the continuum, there is the United States, with only 10% of companies exhibiting such a blockholder. In Switzerland, according to Roe, the number of mid-sized companies with and without a 20% blockholder is 50%. Thus, the situation in Switzerland can be said to mirror its position on a continuum between the network- and the market-oriented corporate governance systems as the concentration of ownership in Swiss companies rank on an intermediate level.

When the prominence of shareholder types is compared across contexts, the disparities are more pronounced: in the Anglo-Saxon context institutional investors typically are the most dominant shareholder types both on an aggregate as well as on the single firm level (Denis et al., 1997; Franks et al., 2001b; Huson et al., 2001). By contrast, in the Germanic (also termed: network-oriented) corporate governance systems, pyramidal ownership by companies and large banks is found to be most characteristic (Franks et al., 2001a; Kang et al., 1995). Not surprisingly, these are the shareholder types who are found to exert the largest disciplining function. Dahya and colleagues (1998) and Huson et al. (2001), for example, find a significantly positive impact of institutional investor shareholdings in the Anglo-Saxon context. In addition, in the Anglo-Saxon context much smaller blocks of shares seem to be sufficient for efficient monitoring to take place. In Germany, by contrast, little association between the likelihood of CEO turnover and ownership concentration is found. Instead, disciplining seems to occur as a result of changes in large blocks of shares, which are traded on a rather active and surprisingly liquid market for share blocks (Franks et al., 2001a; Köke, 2000).

The situation in Switzerland is different as compared to both Germany and the US and UK. As indicated above, although institutions do have some disciplining effect on Swiss CEOs, the Swiss ownership landscape is clearly dominated by founders and their families who more often than not appoint their own people and virtually insulate them from any control mechanisms. Similar findings are reported from Denmark, Italy, and for the 70s and 80s, also in the US. Lausten, for example, finds that family ties reduce the turnover of Danish CEO significantly (Lausten, 2002). Similarly,
Brunello and colleagues (2003) report that the conditional probability of turnover in Italian firms is close to zero when the CEO is at the same time the firm's owner. Furthermore, studies on locus of control and the length of CEO tenure in the US context report a similar level of CEO entrenchment as in Switzerland: Salancik and Pfeffer (1980) find no relationship between company performance and CEO tenure in owner-controlled firms. Alan and Panian (1982:546) report that CEO ties with the controlling family increase tenure and reduce the likelihood of turnover. They conclude that profitability is not the only goal of the large corporation and that families might be willing to sacrifice some degree of corporate profitability in order to retain some degree of direct family control.

The similarity of these findings with the "case of Switzerland" is surprising for two reasons: on the one hand, the ownership landscape and, therefore, also the levels of CEO entrenchment have changed considerably since the publication of the studies by Salancik and Pfeffer and Allan and Panian in the early 80s. As a result, over 25 years later one can reasonably expect less family entrenchment and shorter CEO tenures in the US context. On the other hand, Switzerland has a stronger stock exchange and a more active stock market than Italy. Against this background, the similar levels of CEO entrenchment and the sustained dominance by family shareholders are rather astonishing.

Given that alternative governance mechanisms (such as corporate boards) do not mitigate the control problem in Swiss family firms, it seems appropriate to ask the question about the boon and bane of family ownership: what about corporate governance and control in family firms? What are the constraints of non-value maximizing behavior by family CEOs? Extant research on the matter provides rather inconclusive results. While some scholars find evidence that family-owned companies underperform relative to those which are not under family control (Holderness & Sheehan, 1988; Morck et al., 1988), others are unable to support this finding (Anderson & Reeb, 2003; Denis et al., 1994). For example, Claessens et al. (2006) report that the detrimental effect of ownership concentration on firm performance is contingent on the type of majority owner. While concentrated ownership by companies and institutions is not associated with value discounts, managers in companies dominated by family or governmental ownership are found to be more likely to divert benefits to themselves. In addition, the detrimental effect of family ownership is found to be exacerbated in contexts with low minority shareholder protection (La Porta, Lopez-de-Silanes, & Shleifer, 1999; Maury, 2006). This is consistent with my findings with respect to Swiss CEO labor markets as institutions, and, to some extent, companies were also found to increase the likelihood of forced CEO departure and to shorten CEO tenure. Denis and Denis (1994), on the other hand, argue that family ownership can be an efficient form of organizing when organization-specific skills and knowledge are concentrated in a small number of individuals. In such instances, the consolidation of decision management and decision control can be efficient as it allows families to preserve their organization-specific capital by avoiding the possibility of mistakenly being replaced by less efficient managers. However, more recently
Villalonga and Amit (2006) urged scholars to differentiate between the ownership, control and management of family firms. They find that family ownership creates values when the company’s founder holds the position of CEO. By contrast, when family firms are run by second-generation descendants, firm value is destroyed and minority shareholders are expropriated. Kang (1998) has termed this phenomenon the “Buddenbrooks Effect”, a reference to a novel by Thomas Mann in which the story about the dissipative behavior of the second generation Buddenbrooks is told.

In the light of this more recent discussion, no conclusive judgment about the situation of corporate governance and control in Switzerland can be made. On the one hand, the somewhat patchy dataset and the rather modest significance of the empirical results notwithstanding, the governance and control mechanisms seem to function efficiently. On the other hand, Swiss CEOs with family ties seem to be largely isolated from any monitoring and control. This situation is exacerbated by the circumstance of dual class shares, low protection of minority shareholder and the still rather low levels of transparency and disclosure with respect to corporate governance in Switzerland. Chances are high, therefore, that in some of the listed family firms, value is destroyed and minority shareholders are expropriated due to the self-serving behavior of family CEOs. In order to confirm this assumption, further research on CEO turnover and tenure should discriminate between ownership, control and management of family firms. Above all, future research on the matter should examine in far greater detail the characteristics of the CEO and CEO ties with the founding family should be examined with greater care and scrutiny.
References


This study focuses on the impact of social relations on the efficiency of the governance structure. Social capital, which accrues from the dyadic and network relationships between the CEO, the board of directors and corporate owners, is argued to have multiple and very different effects on the likelihood of dismissing a poorly performing CEO than does financial capital as captured by the actors’ level of shareholdings and the level of their voting rights. Data from a sample of Swiss companies collected over the period 2000-2004 was employed. The results indicate that poorly performing companies are more likely to dismiss their CEO when proximity and strong ties between the CEO and corporate owners exist and highly heterogeneous ownership structure is present.

Keywords: CEO dismissal, social capital, social networks

Social capital has been found to have an effect on various organizational issues such as the likelihood to get loans and receive lower interest rates (Uzzi, 1999), the creation and maintenance of strategic alliances (e.g., Gulati, 1998; Rowley, Behrens, & Krackhardt, 2000) and the reduction of organizational dissolution rates (Pennings, Lee, & Witteloostuijn, 1998). More recently, scholars have paid closer attention to the impact of social capital on a firm’s corporate governance or, more precisely, on the efficiency of its monitoring and incentive structure. Following this line of research, social capital has been found to influence the internal working of corporate boards (Pye, 2004), the process of CEO selection (Harris & Helfat, 2004) and even the level of executive compensation (Belliveau, O’Reilly, & Wade, 1996). However, little is known on the impact of social capital on the likelihood of CEO dismissal in the event of poor company performance. Important actors who are involved in the process of CEO evaluation and who have the authority to remove a poorly performing CEO are the board of directors and corporate owners. Together they constitute the organization’s governance structure. Previous research on the matter has focused exclusively on the division of powers as represented by the actors’ amount of shareholdings (i.e. financial capital) and their relative dependence (Pearce & Zahra, 1991) on each other (e.g. Boeker, 1992; Dahya, Lonie, & Power, 1998; Daily & Dalton, 1995; Denis, Denis, & Sarin, 1997; Ocasio, 1994; Salancik & Pfeffer, 1980; Zajac, 1990). However, scholars have overlooked that CEO labor markets are firmly embedded in social relations and that the CEO, the directors and owners are not only in relationships with each other but also with various other constituencies. In this chapter, I argue that these relationships constitute a source of power (i.e., social capital) much different from the one deriving from the level of shareholdings and the level of voting rights. In
light of the above, I intend to fill this gap in the existing literature by exploring the moderating effect of the governance structures’ social capital on the relationship between CEO dismissal and company performance. More precisely, I am concerned with how network properties (such as proximity, tie strength and density) influence the likelihood of forced CEO departure in the event of poor company performance.

This study makes two important contributions. Firstly, it extends previous research on CEO tenure and turnover based on resource dependence theory (Pfeffer & Moore, 1980; Salancik et al., 1980; Wagner, Pfeffer, & O’Reilly, 1984). Rather than only focusing on power and resource provision, the study investigates personal interdependences in the form of social capital within and between organizations and thus draws our attention to the fact that CEO labor markets are strongly affected by information and the level of trust and social identification actors retrieve from their social relations. Secondly, unlike most previous investigations into CEO dismissals which focus either on the relationship between the CEO and the board of directors or between the CEO and corporate owners, it considers the impact of both the social capital of directors and the social capital of owners. In the following section, I give an overview of previous research on the antecedents of CEO dismissal. Next, I develop my theoretical arguments and derive my hypotheses. The subsequent sections deal with the data, method, results and the interpretation thereof. The last section contains a discussion and conclusion.

1. The Power- and the Efficiency Approach to CEO Dismissal

Research into changes of chief executive officers (CEOs) has used various terms for this phenomenon. To avoid any confusion, it seems appropriate to start with some definitions: finance and economics scholars, to begin with, are rather inclined to use the term “turnover” in the context of CEO transitions (e.g. Conyon, 1998; Coughlan & Schmidt, 1985; DeFond & Park, 1999; Denis et al., 1997; Gilson, 1989; Goyal & Park, 2002; Weisbach, 1989). Turnover is defined as any voluntary or involuntary departure of the top executive. That is, turnover includes forced and unforced, i.e., voluntary as well as involuntary departures. Turnover is sometimes used when no unambiguous distinction can be made between voluntary departures and dismissals (e.g. Mikkelson & Partch, 1996). Sociologists and management theorists, on the other hand, frequently employ the term succession in the context of CEO changes (e.g. Allen & Panian, 1982; Brown, 1982; Dalton & Kesner, 1985; Datta & Guthrie, 1994; Kesner & Sebora, 1994; Ocasio, 1994, 1999; Shen & Cannella, 2002; Zajac, 1990). Although used interchangeably with the term “turnover”, succession has a slightly different connotation: contrary to “turnover”, “succession” implies that the vacancy left by the incumbent CEO will be filled. Thus, succession “implies an interest in what happens after the event” (Harrison, Torres, & Kukalis, 1988:212). Most scholars investigating succession are interested in the consequences; those investigating turnover are concerned rather with the antecedents of CEO changes. Finally,
The term “tenure” is tightly linked to turnover and succession as refers to the interval between turnover events (Harrison et al., 1988). The present study is on CEO turnover or, more precisely, on forced CEO departure. As a result, the term “dismissal” will be used. This is due to two factors: firstly, an attempt has been made to differentiate between forced and unforced departures. Secondly, the focus of the present paper is on social capital as the antecedent of CEO dismissal. To avoid potential confusion, in the following literature review I will employ the neutral terms “CEO departure” or “CEO change”.

Research into the antecedents of CEO changes has unfolded into two more or less independent streams of research: the “efficiency approach” and the “power approach”. The efficiency approach, which is based on agency theory (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976), has focused exclusively on the effect of owners’ and directors’ financial capital. Financial capital in terms of shareholdings and voting rights is seen as the primary vehicle enhancing the motivation of directors and owners in monitoring and disciplining the CEO. Directors, for example, are viewed as operating most vigilantly when they hold substantial shareholdings in their company (Denis & Sarin, 1999); that is, board ownership has in general been found to be positively related to CEO departure (Dalton, Daily, Ellstrand, & Johnson, 1998). Similarly, owners are viewed as only being able to overcome the free-riding problem (Demsetz & Lehn, 1985) they face if they hold a block of shares large enough to motivate them to exert pressure on directors in order to remove a poorly performing CEO. However, empirical evidence on the impact of ownership structure is mixed. Some scholars report a significantly negative direct and indirect relationship between ownership dispersion and CEO turnover (Boeker, 1992); others were not able to find any relationship between ownership dispersion and CEO departure at all (Franks, Mayer, & Renneboog, 2001). In sum, agency theory and the efficiency approach provide some empirical evidence on the effect of financial capital on CEO departure. However, no attention has been paid to the social capital and the social relations between the CEO, the directors and the owners.

By contrast, the “power approach” has laid the foundation for a more intense examination of social relations in corporate governance issues. Based on resource dependence theory (Pfeffer, 1992; Pfeffer & Salancik, 1978), this approach has been concerned with conceptualizing power between actors. Power is seen as a relational concept: actors have or lack power only in relation to some other party such as the board of directors or corporate owners (Pearce et al., 1991). Unfortunately, scholars adhering to the “power approach” have not investigated truly relational data such as dyads, triads, or networks. Instead, they have employed concepts which they have associated with higher or lower amounts of power. For example, CEOs are viewed to derive their power from their formal position, their social relationships and their connection to crucial strategic resources. In other words, CEOs have been found to enjoy greater power and to face a lower likelihood of forced departure when they occupy the chairman position and when most directors are insiders who owe their posi-
tion to him/her or have been elected during his/her tenure (Boeker, 1992; Cannella & Lubatkin, 1993; Fredrickson, Hambrick, & Baumrin, 1988).

In terms of the influence of owners on CEO departure, the power approach has followed a path similar to that described above in the context of the efficiency approach: depending on who is at the controls, scholars have attempted to identify the “locus of power” in the company. Salancik and Pfeffer (1980), for example, along with other authors (James & Soref, 1981; McEachern, 1977) differentiated between owner-managed firms (concentration of shareholdings among managers), management-controlled firms (dispersion of shareholdings among shareholders), and externally controlled firms (concentration of shareholdings among shareholders). They found that CEO tenure was unrelated to firm performance in owner-managed firms but was positively related to firm performance in externally controlled and manager-controlled firms.

To sum up: the review of existing literature on the antecedents of CEO changes reveals fairly little consideration of social capital and social relations in CEO dismissal decisions. To the extent that they have been included in the investigation, social relations are viewed predominantly as having a detrimental effect on the functioning of the governance structure. For instance, the “power” approach investigates only the downside of social relations as it focuses mainly on CEO dominance over his or her board. However, besides the CEO-board relationship there are other social relations which may play a more beneficial role in corporate governance. As will be argued in the next section, the social capital of the governance structure is likely to have multiple and very different effects on the relationship between CEO dismissal and company performance.

2. The Process of CEO Dismissal and the Role of the Governance Structure Therein

CEO changes are not singular, isolated events. Rather, the “seasons” (Hambrick & Fukutomi, 1991) of a CEO’s career in an organization are marked by stages of appointment, assessment and, ultimately, departure. In each stage the governance structure of an organization, that is, the board of directors and corporate owners, plays a crucial role in decision making. In the appointment stage, for example, the board of directors assumes the task of managing the succession process. With or without the support of a nomination committee, directors are concerned with selecting (internally or externally) the right person with the right abilities for the job at hand. The directors’ decision is then approved by corporate owners at the annual general meeting. If disagreement concerning the directors’ choice develops, owners can oppose or even discard the directors’ decision provided that they are powerful enough to do so.

In the assessment stage, which forms the basis of the CEO dismissal decision, directors must continuously evaluate the CEO’s ability and effort. However, the per-
formance of a focal CEO cannot be determined in absolute terms. Instead, directors must rely on existing performance benchmarks and will compare the performance of the CEO under scrutiny to the performance of CEOs of other organizations operating under similar conditions. In the event of above-average performance declines, directors will eventually come to the decision to remove a poorly performing CEO. Corporate owners can influence this process either directly, by occupying a seat on the board of directors, or indirectly, by engaging in collective action and exerting pressure on the directors representing them. In either case, both owners and directors must be equipped with enough information and authority in order to accomplish their monitoring tasks skillfully and diligently. For this purpose they not only need financial capital deriving from the level of their shareholdings but also social capital, which accrues from their social relations and their position in the social networks surrounding them.

3. Social Capital of the Governance Structure

Social capital refers to the resources available to an actor by virtue of his relationships to other actors and his location within a social structure or network (Adler & Kwon, 2002; cf. Bourdieu, 1985; Coleman, 1988, 1990; Nahapiet & Ghoshal, 1998; Portes, 1998). As opposed to financial capital, social capital is a non-monetary resource that essentially inheres in social relations and networks. There are a couple of characteristics that differentiate social capital from any other sort of capital. For instance, social capital is produced jointly by the actors involved in a relation (Coleman, 1990; Nahapiet et al., 1998). It does not exist beyond this relation; it changes as relations and rewards change over time, and it disappears when relations cease to exist. Furthermore, unlike other resources, social capital supply increases rather than decreases with its use (Leana & Van Buren III, 1999; Portes, 1998).

Social relations and formal contracts are viewed to be two different institutional arrangements that govern the economic exchange between people and organizations (Jones, Hesterly, & Borgatti, 1997; Poppo & Zenger, 2002; Zaheer & Venkatraman, 1995). Formal contracts such as those described in the principal-agent relationship (Fama, 1980; Jensen et al., 1976) specify the future duties and rewards of the agent along with the rights of the principal to monitor the agent’s performance (Macneil, 1978). Formal contracts underlie most relationships based on financial capital. However, no exchange between two or more actors is bereft of a social component. Instead, exchange relations between actors are “embedded” in social structure as it arises from the actors’ dyadic relations and from the structure of the overall network of relations (Granovetter, 1985). Moreover, most social relations are characterized by an underlying psychological contract. Psychological contracts are defined as an individual’s beliefs about the terms and conditions of a reciprocal exchange and agreement between the person and another actor (Rousseau, 1989). Thus, contrary to exchange based on formal contracts, exchange based on psychological contracts and
grounded in social relations is characterized by mutual interdependence, relational trust, and discipline in opportunistic behavior due to reliance on future cooperation (Larson, 1992; Uzzi, 1996).

Against this background, social capital of the governance structure is the behavioral asset that accrues from embedded personal and network relations among the CEO, the board of directors and corporate owners. For example, contrary to the suggested predominance of the relationship between CEO and directors, CEOs can also establish relationships with corporate owners. This is especially likely to be true for owners who not only hold a large stake in the firm but who at the same time occupy a seat on the corporate board. Furthermore, directors will most likely engage in social relations with other directors, especially with those with whom they share seats on same boards. Finally, corporate owners may also establish relationships with each other. These relationships may be created and cultivated at the annual general meeting when concerted voting is involved or they may occur in the case of cross-shareholdings, i.e., when two owners hold shares of each other’s companies. Taken together, all these relations add up to a respectable amount of social capital in an organization. In other words, social capital constitutes a source of power actors can use for their own benefit or for the benefit of their group, their organization, or their network.

Social capital equips actors with two types of benefits: control benefits and motivation benefits. Firstly, control benefits arise because social capital forges the information and control architecture in an organization (Burt, 1997; Nahapiet et al., 1998; Pye, 2004); that is, actors who are linked by social relations have the opportunity to exchange fine-grained information regarding important issues (Gulati, 1998). Such information is in general private, scarce, and it is not available on the free market. Furthermore, durable social relations between actors result in norm internalization or “value introjection” (Portes, 1998); in other words, actors who rely on frequent interaction follow norms and rules because the non-adherence to those norms and rules would lead to sanctions in the community or the network. This in turn leads to high levels of shared trust, which dismisses the probability of opportunism and reduces the need for costly monitoring processes (Putnam, 1993). As a consequence, trust and effective sanctions increase the credibility of a source and the quality of the information provided by that source (Coleman, 1988).

Secondly, social capital also enhances the actors’ motivation to intervene in organizational decision making; that is, actors such as the board of directors and corporate owners who share a common fate eventually develop a sense of social identification with the group, the organization, or the network they belong to (Ashfort & Mael, 1989; Haslam, 2004). According to Portes (1998), a shared social identity and class consciousness lead to bounded solidarity between actors which in turn facilitates action by both individuals (Coleman, 1988, 1990) and collectives (Leana et al., 1999). Actors with high social capital develop what some authors have termed “associability” (e.g. Paxton, 1999), namely, the “willingness and ability to subordinate individual goals and associated actions to collective goals and actions” (Leana et al.,
Thus, social capital enhances goal alignment and collective goal orientation among actors and promotes the motivation of actors to pursue common interests and engage in concerted action.

As opposed to the ideas developed by scholars investigating social capital, research on CEO dismissal which focuses only on formal contracts and financial capital tends to assume that all actors share an equal amount and quality of information concerning the performance of the focal CEO. This has led to the belief that financial capital, (i.e., voting rights) suffices for fulfilling the task of monitoring the CEO. However, those actors who possess not only financial but also of a large amount of social capital are equipped with more insider and more fine-grained information. Moreover, actors who have a large amount of social capital are often better able to harmonize their goals and agree upon a course of collective action. Thus, social capital provides actors with different resources than financial capital; while financial capital equips actors with voting rights, social capital provides them with the information and motivation necessary to fulfill their task.

In the following section, I will draw attention to several elements of social capital. Employing social network and resource dependence theory, I will hypothesize on how ties between actors and the properties of the overall network influence the dismissal of a poorly performing CEO.

4. The Impact of Network Properties on CEO dismissal

The social capital available to organizations is a function of the nature of their embeddedness in social structure and networks (Dacin, Ventresca, & Beal, 1999:337). In other words, social networks between organizational actors furnish firms with social capital (Gulati, 1998:297). A social network can be defined as “a set of nodes (e.g. persons, organizations) linked by a set of social relationships (e.g. friendships, transfer of funds, overlapping membership) of a specified type” (Laumann, Galaskiewicz, & Marsden, 1978:295). As a result, social network theory is concerned with relations between actors rather than with individual behaviors, attitudes and beliefs. Typically, social network analysis produces “relational data”, i.e., data which captures the properties of relations between two or more actors (Wasserman & Faust, 1994). Galaskiewicz and Wasserman (1994:xiii) outline the basic assumptions of social network theory as follows:

- Actors and their actions are viewed as interdependent rather than independent units.
- Relational ties between actors are channels for the transfer of resources (either material, like money, or nonmaterial, like information, political support, friendship, or respect).
- Network models focusing on individuals view the network’s structural environment as providing opportunities for or constraints on individual action.
Network models conceptualize structure as enduring patterns of relations among actors. From a contingency perspective, social networks are viewed to moderate key organizational processes. This moderating influence of social networks can be examined on two different levels of analysis (see figure 1): on the level of personal relationships, the focus of attention is predominantly on dyadic, i.e., pairwise, ties. On the network level, by contrast, the structural morphology of the network and the actors’ network positions are at the center of attention.

4.1 CEO Dismissal and Relational Embeddedness

The content and quality of pairwise relationships between actors are sometimes investigated under the heading of relational embeddedness (e.g. Rowley et al., 2000). Relational embeddedness “stresses the role of direct cohesive ties as a mechanism for gaining fine grained information. Actors who share direct connections with each other are likely to possess more common information and knowledge of each other.” (Gulati, 1998:296)

Thus, relational embeddedness reduces uncertainty as it provides actors in dyadic relationships with information on the partner’s behavior and, in particular, on his effort, ability and reliability. Two aspects of relational embeddedness can be distinguished: proximity and tie strength. While proximity refers to technical closeness, tie strength refers to the quality and intensity of a relationship.

Proximity between actors is related to the concept of distance. In technical terms, the distance between actors (nodes) in a network is defined as the length of the shortest path that connects them (Scott, 2000). Zero distance or maximum proximity occurs when two actors are directly connected; that is, proximity is highest when two actors can interact directly and when they have the opportunity to engage in face-to-face communication. Proximity is a necessary but not sufficient condition for the establishment of strong ties. For proximity to occur, actors need not be in a family- or acquaintance relationship with each other. Proximity simply requires personal interaction and face-to-face communication to be possible.

In principal-agent settings, that is, in settings where, due to information asymmetry, principals delegate the accomplishment of certain tasks to specialized agents, proximity allows for better monitoring of the agent. Uzzi (1999), for example, de-
scribed how banks rely on personal contracts with their clients in order to obtain private information concerning the clients’ creditworthiness. In a qualitative study, Pye (2004:82) finds the same phenomenon to occur between institutional investors and the management. As one of her interviewees commented about the information upon which he, as an investor, developed his investment decisions:

“The quantitative element is universal to us all, you see… there’s very little information that you can glean quantitatively which is not available to everybody so the qualitative element of analyzing the strategic direction or “is the management any good?” is what differentiates in terms of your decisions about companies.”

Thus, personal relationships and direct interaction between principals and agents allow for more accurate and timely first-hand-information on the individual agent’s ability and effort. Therefore, from the point of view of CEO monitoring, the likelihood of CEO dismissal in the event of poor company performance is expected to be greatest when there is high proximity (or zero distance) between the CEO and owners. This occurrence is most likely when a large number of owners are represented on the company’s board of directors. In formal terms:

\[ H1: \text{Poorly performing organizations with a higher proportion of owner representatives on the board of directors will be more likely to dismiss the CEO than poorly performing organizations with a lower proportion of owner representatives on the board of directors.} \]

As opposed to the concept of proximity, tie strength requires more than just direct interaction between two parties involved in a relationship. According to Granovetter (1973), tie strength is a function of the amount of time, the emotional intensity, the intimacy, and the reciprocal services between two actors. Strong ties are usually maintained between close friends and family members. A number of benefits accruing from strong ties have been identified in the literature: strong ties have been found to raise the exchange of high quality information and tacit knowledge (Uzzi, 1996). Furthermore, strong ties have been found to enhance relational trust, reciprocity, long-term perspective, and social control (Larson, 1992). Moreover, there is high agreement among scholars that strong ties create different informational benefits than weak ties. While strong ties are viewed to promote fine-grained information exchange, weak ties are viewed as helping to access novel and heterogeneous information (Granovetter, 1973; Uzzi, 1999).

In principal-agent settings strong ties are likely to reduce the distance of standpoints between principals and agents. In other words, frequent, intimate, and emotionally intense interaction between principals and agents is likely to lead to a shared understanding of the utility of strategic decisions and the assessment of corporate performance. In the long run, such convergence of perceptions and meanings may lead to collective myopia, resulting in organizational inertia. Against this background, CEO changes, even in the case of substantial performance declines, are less likely in the event of strong ties between principals and agents, owners and CEOs.
Furthermore, strong ties between principals and agents not only promote unanimity concerning the utility of certain decisions and behaviors but have also been found to influence the assessment of a CEO’s effort. In a study of the effect of social capital on CEO compensation, Belliveau and colleagues (1996), for example, found that strong ties influence the evaluation of the CEO. When a judgment task is difficult (which is frequently the case in CEO assessment), the social influence, credibility and attractiveness of an information source is used in lieu of facts. As a result, the authors found that strong ties between the CEO and the compensation committee’s chairperson positively influence the level of CEO pay.

By contrast, weak ties, which are characterized by lean and sporadic interaction, are less likely to lead to rigidity and detrimentally static relationships between owners and the CEOs. Instead, the access to novel and heterogeneous information which is conveyed by means of weak ties is likely to enhance the dynamics in the succession process. For example, weak ties deriving from acquaintanceships have been found to convey information on new job openings (Granovetter, 1973) and to sustain community cohesion and collective action (Leana et al., 1999). Thus, in the context of CEO dismissal, those ties between owners and the CEOs which are marked by a lower frequency of interaction, by less intimacy and less intensity are expected to exhibit a better and more objective monitoring quality and to lead to a higher likelihood of CEO dismissal in the event of poor company performance. CEOs are expected to establish weak ties to dominant owners when these owners are institutional investors or large individual shareholders. In formal terms:

\[ H2: \text{Poorly performing organizations with weak ties between the CEO and the dominant owner will be more likely to dismiss the CEO than poorly performing organizations with strong ties between the CEO and the dominant owner.} \]

4.2 CEO Dismissal and Structural Embeddedness

Unlike the concept of relational embeddedness, which refers to pairwise relationships between actors, the concept of structural embeddedness concerns the structural morphology of the network and emphasizes the informational value of the structural position the actors occupy in the network (Gulati, 1998). According to Gulati (1998), the informational position an actor occupies in the structure is a function of the actor’s relational pattern in this network. These relations promote the diffusion of valuable information across the network and enhance the feeling of social identification and solidarity among network members. In the present study, network properties of the governance structure are accounted for by means of two concepts: density and heterogeneity. Density refers to the interconnectedness of the directors, while heterogeneity covers the degree of “sameness” in the ownership structure.

The density of a network is a group-level property which rests on observable social relations between actors in the network. In technical terms, density denotes the number of connections between actors in relation to the overall network. Coleman (1988)
argues that one of the benefits of a dense network is collective social capital, which promotes shared behavioral norms and cooperation (Rowley, 1997). Thus, dense networks are characterized by both the diffusion of information across the network and the motivation of network members to intervene in organizational decision making.

The density of the directors’ network can be conceived of as interlocking directorates, i.e., as the sum of the non-duplicated ties the firm’s board has to all other boards in the network of organizations (Davis, 1991). Resource dependence theorists (Pfeffer, 1973; Pfeffer et al., 1978) argue that corporate boards, by means of their boundary-spanning activities, contribute significantly to the reduction of environmental uncertainty. Boards of directors not only provide organizations with advice and legitimacy, but also with channels for exchanging information with other firms as well as with preferential access to commitment and support from important constituencies outside the firm. In addition, Hillman and Dalziel (2003) draw our attention to the fact that boards not only contribute to the organizations through their human capital (expertise, experience, reputation) but also through their relational capital, i.e., through their ties to other actors in the network. Interlocking directorates have been found to play an important role in this respect (for a review cf. Mizruchi, 1996): firstly, some scholars argue that interlocking is an attempt to control the organization. Researchers have found that large shareholders, particularly in the event of performance declines, strive to achieve board representation (Mizruchi, 1982). Secondly, interlocks have been found to promote intraclass social cohesion among the members of a business elite (Ornstein, 1984; Palmer, 1983; Useem, 1984). Thirdly, interlocks are viewed as a mechanism of innovation diffusion across the corporate network. Several organizational practices ranging from the adoption of “poison pills” and golden parachutes (Davis, 1991) to the introduction of the multidivisional form (Palmer, Jennings, & Zhou, 1993) have been found to have spread across the network of interlocked directors. Finally, and most importantly, interlocking directorates have been found to play an important role in disseminating information across firms (Burt, 1980; Haunschild & Beckman, 1998).

All these characteristics of board interlocks play also a crucial role in the process of CEO dismissal; that is, directors who sit on several boards have the opportunity to inspect and observe several CEOs. Therefore, when it comes to CEO assessment, they are equipped with several benchmarks and can compare the performance of the focal CEO to the performance of the CEOs of other organizations. Furthermore, directors who sit on several boards can provide the focal organization with blueprints on the management of the succession process. Last but not least, directors, who are members of the business elite, will care about their status in this social network. This corresponds to the argument advanced by agency theory scholars, who argue that directors are motivated to sanction poorly performing CEOs because they are careful not to gamble their reputation as experts (Fama et al., 1983). Thus:
**H3: Poorly performing organizations with more interlocks will be more likely to dismiss their CEO than poorly performing organizations with fewer board interlocks.**

As opposed to corporate boards, who face not only financial but also reputational incentives to invest in CEO monitoring and control, corporate owners are frequently confronted with the free-rider problem (Demsetz et al., 1985). The free-riding problem arises in public good situations. Public goods are characterized by impossibility of exclusion and jointness of supply. Impossibility of exclusion means that members of the collective cannot be excluded from using the public good if they do not contribute to it. Jointness of supply, on the other hand, means that one person’s use of that good does not diminish the level of the good for other persons (e.g. Hardin, 1982; Olson, 1965; Samuelson, 1954). From the owner’s point of view, corporate governance in general and CEO dismissal decisions in particular have public good character; that is, owners who actively engage in monitoring and controlling the CEO’s actions and who, in the event of poor performance, invest in order to enforce his removal, produce a public good from which no owner can be excluded. As a result, since no owner (unless he holds 100% of the company’s shares) has the right to all residual claims, all owners are tempted to avoid any intervention in organizational decision-making and free-ride on other owners’ actions. Key dilemmas thus exist in the production of a public good because the incentive structure that arises from impossibility of exclusion tends to reward non-contributors. Or as Hart (1995) puts it: “…monitoring is a public good: if one shareholder’s monitoring leads to improved company performance, all shareholders benefit. Given that monitoring is costly, each shareholder will free-ride in the hope that other shareholders will do the monitoring.” As a result, even large blockholders face a social dilemma because they must decide between contribution to the public good and intervention in CEO dismissal decisions or complete abstention from corporate governance.

However, some scholars have argued that group heterogeneity may influence the motivation of group members to engage in collective action and to contribute to the joint supply of a public good (Hardin, 1982; Marvell, Oliver, & Prahl, 1988; Oliver, Marvell, & Teixeira, 1985). Heterogeneity in this literature refers to factors like interest in the public good, resources available to contribute to public good production, and the costs of those contributions. Research on the impact of group heterogeneity on collective action has found that the presence of actors with diverse characteristics facilitates collective action because it increases the likelihood that a “critical mass” of highly motivated actors will emerge to initiate action. Thus, as group heterogeneity increases, so does the potential for collective action.

From the owner’s point of view, this reasoning is evocative of the fact that an organization’s ownership structure is composed of different owner types. Owner types have been portrayed in the literature as differing with respect to their prioritization of organizational goals, their investment horizon, and their risk propensity (McConnell & Servaes, 1990). For instance, while institutional investors follow a short-term invest-
ment horizon and exhibit a high risk propensity (Graves & Waddock, 1990), family owners typically follow a long-term investment horizon and exhibit a low risk propensity (Atkinson & Galaskiewicz, 1998; Thomsen & Pedersen, 2000). Furthermore, different owner types can also be expected to have differing amounts of resources for initiating collective action. In sum, a highly heterogeneous ownership structure enhances the likelihood of owner associability and motivation to actively engage in the joint disciplining of a poorly performing CEO. In formal terms:

\[ H4: \text{Poorly performing organizations with more heterogeneous ownership structure will be more likely to dismiss the CEO than poorly performing organizations with less heterogeneous ownership structure.} \]

5. Method

5.1 Sample and Data Collection

The data used in this analysis is based on a sample of the top 140 Swiss companies listed on the Swiss Exchange (SWX) for the period 2000-2004. The companies were selected as follows: among all listed companies the investment trusts were excluded; then the largest 140 companies ranked by market capitalization in December 2003 were selected. Due to data unavailability and missing values, 5 companies were excluded from the initial sample. This new sample was then completed with companies from 2000-2002 and 2004, which resulted in an unbalanced panel (some companies were delisted or ceased to exist) yielding a total of 679 company years.

Data on CEO turnover, CEO characteristics (age and tenure), and on board composition, structure and interlocks were collected from companies’ annual reports. Data on the ownership structure was primarily collected from annual reports but was then cross-checked by consulting the SWX webpage, where the identities and shareholdings of all owners holding more than 5% of shares are publicly disclosed. Finally, performance and sales data were collected from the electronic source Thompson One Banker.

5.2 Measures

5.2.1 Dependent Variables

CEO changes were identified by using the companies’ annual reports: CEO change was coded as 1 (and 0 otherwise) whenever the same individual was not identified as CEO in the consecutive financial year. This was checked by comparing the name and age of the current CEO with the corresponding information in the next year’s annual report. This procedure was accomplished for the whole time period under investigation (2000-2004), leading to a total of 679 firm years and 85 instances of CEO change (12.52%).
In order to distinguish dismissal from voluntary turnover, I followed a procedure which was first adopted by Coughlan and Schmidt (1985) and which subsequently became a modus operandi frequently employed by scholars from both the economics and the management disciplines (Cosh & Hughes, 1997; DeFond et al., 1999; Shen et al., 2002; Warner, Watts, & Wruck, 1988; Weisbach, 1989): in order to obtain more detailed information on the reasons for CEO departures, I analyzed the press coverage (mainly the *Neue Zürcher Zeitung*) that surrounded a CEO departure event. As in Coughland and Schmidt (1985), I analyzed the press reports for the following potential reasons for CEO departure: death, ill health, retirement, control change (e.g., takeover), and assumption of another position in the firm were coded as voluntary departures; “takes other position outside the firm”, “pursues other interests”, policy differences, poor performance, firing, and “no reason reported” were coded as dismissal.

### 5.2.2 Independent Variables

The impact of company *performance* was tested using two measures: market-based measures are viewed as conveying information on managerial effort and performance, and they are said to be less controllable by chief executive officers (Cosh et al., 1997) than accounting-based performance measures. Therefore, I follow Conyon (1998) and use an index of stock returns as my market-based measure of performance. I rely on the return index provided by Thompson One Banker’s database Datastream. This measure is defined as the 12-month stock return assuming that dividends are reinvested\(^4\). In order to correct for skewness of the data I use the natural logarithm of the ratio of return index at time \( t \) / return index at time \( t_0 \). However, since stock prices are subject to speculative and exogenous shocks, they reflect information that includes more than the effort and skills of agents. Furthermore, stock prices incorporate the market estimate of the probability that a poorly performing CEO will be fired and therefore tend to underestimate the effect of corporate governance (Weisbach, 1989). As a result, in order to account for the performance effect on CEO dismissal as accurately as possible, I use market-based as well as accounting-based performance measures in my analysis. The accounting-based performance measure is return on assets (ROA), defined as the ratio of earnings before interest and taxes (EBIT) and total assets (cf. Denis et al., 1997; Fizel & Louie, 1990; Parrino, 1997).

\(^4\) The Datastream formula is:

\[
R_{it} = R_{it-1} \cdot \left( \frac{P_{it}}{P_{it-1}} \right) \cdot (1+DY_t), \quad \text{where}
\]

- \( R_{it} \) = the RI at time \( t \)
- \( R_{it-1} \) = the RI at time \( t-1 \)
- \( P_{it} \) = the Price Index at time \( t \)
- \( P_{it-1} \) = the Price Index at time \( t-1 \)
- \( DY_t \) = the gross dividend yield at time \( t \)
Since performance declines are expected to precede dismissal decisions, I lag both measures of performance by one year.

Unlike the Anglo-Saxon legal tradition, where organizations have unitary board structures, Swiss boards are usually made up of two separate bodies; that is, with rare exception (e.g. CEO duality, CEO board presence) Swiss organizations are equipped with a board of non-executive directors (“Verwaltungsrat”) and a board of management (“Geschäftsleitung”). Thus, the board of directors is a truly supervisory body. Dominant or important owners are frequently represented on the board of directors. Owner representation is measured as the ratio of the sum of owner representatives on the board, and total board size.

The strength of tie is accounted for by means of the identity of the dominant owner. Dominant owners are those owners holding the highest level of shareholdings in the company. Companies quoted at the SWX are obliged to disclose the identity of all owners controlling more than 5% of the firm’s voting rights. Thus, dominant owners will control a respectable block of shares. If the dominant owners are institutional investors or large individual shareholders, tie strength is coded as weak (not strong). If, on the other hand, the dominant owner is a company, a founding family, the state, or a board member, those owners are expected to establish strong ties to the CEO. Tie strength is expected to be higher between the CEO and those owners who pursue a longer investment horizon, who exhibit a lower risk propensity and who identify more strongly with the focal organization. Those owners are expected to engage in long-term relationships with the CEO and to maintain frequent interactions with him. Ultimately, such ties can eventually transform into more intimate, even friendship-like relationships. By adopting such an operationalization of tie strength, I follow Rowley and colleagues (2000), who divided strategic alliances into groups of strong and weak ties. Equity alliances, joint ventures, and non-equity cooperative ventures were coded as strong ties, marketing agreements, and licensing and patent agreements were operationalized as weak ties. Interlocking directorates are operationalized in a standard way. In accordance with Davis (1991), board interlocks were measured as the total number of other boards each director sat on, summed across all directors, minus any duplicated ties. For the measure, the network boundaries were extended to include all boards of all Swiss companies quoted on the SWX for the period 2000-2004. Finally, owner type heterogeneity was measured using Blau’s index and the following formula:

$$Blau's \ Index = 1 - \Sigma p^2$$

where p is the proportion of owners in the pth owner type category.

5.2.3 Controls

In order to only capture the effect of social capital on CEO turnover, I control for variables representing financial capital which were documented as having an impact on
the relationship between CEO dismissal and corporate performance: the size of shareholdings by directors is measured by adding up the shareholdings of all directors on a board. In addition, to account for differences in financial capital across types of dominant owners, I include a variable that captures the level of shareholdings by the dominant owner. Furthermore, I control for ownership concentration in a given company by including the Hirschman-Herfindahl concentration measure in the regression analysis. Finally, in order to control for company size effects, I add the natural logarithm of sales as a measure of company size.

5.3 Analysis

To analyze the effect of company performance and social capital on the likelihood of CEO dismissal, I estimate logit models relating the probability of the dichotomous dependent variable to performance and network properties, assuming that

\[
\text{Logit} \left( p = PR(y = 1|x) = \log \left( \frac{p}{1-p} \right) \right) = \alpha + \beta' x
\]

where:
\( \alpha \): intercept parameter
\( \beta' \): vector of slope parameters
\( x \): vector of the independent variables that may affect the probability of turnover
\( p=PR(y = 1|x) \): probability model

6. Results

Table 1 provides descriptive statistics on all variables used in the study. As indicated above, the total sum of observation years is 679 for the top 135 quoted at the Swiss Stock Exchange. The total number of CEO changes amounts to 85 (12.52%); of those, 49 (57.65%) are coded as dismissals. Table 1 reveals up to 959 observations for measures involving company performance. This is due to the fact that in order to compute performance lags, performance measures dating back to 1998 are included in the dataset. (Both lag1 and lag2 are computed; however, because lag2 yielded no significant results, it is not included in the presentation of the results.)

Table 2 provides the correlation matrix and Table 3 the results of the logit regressions (cf. pages 27-29). For the purpose of simplicity, only results including the market-based performance measures are presented. Regression results including ROA yielded very similar results and are therefore left out.
Table 1: Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Min.</th>
<th>Max.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover Total</td>
<td>85</td>
<td>0.13</td>
<td>0.33</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Dismissals</td>
<td>36</td>
<td>0.05</td>
<td>0.22</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Return Index (Ratio: t1/t0)</td>
<td>890*</td>
<td>1.15</td>
<td>0.56</td>
<td>0.09</td>
<td>4.50</td>
</tr>
<tr>
<td>ROA</td>
<td>898*</td>
<td>4.84</td>
<td>7.78</td>
<td>-43.93</td>
<td>38.29</td>
</tr>
<tr>
<td>Ratio of Owner Representatives per Board (in %)</td>
<td>650</td>
<td>22.36</td>
<td>20.27</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Weak Ties with Owners</td>
<td>171</td>
<td>0.18</td>
<td>0.38</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Strong Ties with Owners</td>
<td>432</td>
<td>0.45</td>
<td>0.49</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Interlocks per Board</td>
<td>422</td>
<td>3.37</td>
<td>2.86</td>
<td>0</td>
<td>13</td>
</tr>
<tr>
<td>Heterogeneity of Ownership Structure in % (Blau's p x 100%)</td>
<td>602</td>
<td>25.73</td>
<td>43.94</td>
<td>0</td>
<td>90</td>
</tr>
<tr>
<td>Size of Board Ownership (in %)</td>
<td>313</td>
<td>12.65</td>
<td>19.76</td>
<td>0</td>
<td>74</td>
</tr>
<tr>
<td>Size of Dominant Blockholders' Shareholdings (in %)</td>
<td>603</td>
<td>34.92</td>
<td>24.53</td>
<td>5</td>
<td>96.5</td>
</tr>
<tr>
<td>Ownership Concentration (HHI, in %)</td>
<td>548</td>
<td>42.66</td>
<td>25.64</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Log sales</td>
<td>918*</td>
<td>6.49</td>
<td>1.79</td>
<td>0.58</td>
<td>11.37</td>
</tr>
<tr>
<td>Below Average perf. x Rep_Ratio</td>
<td>650</td>
<td>0.14</td>
<td>0.19</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Below average perf. x Weak Ties</td>
<td>959*</td>
<td>0.11</td>
<td>0.32</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Below Average perf. x Strong Ties</td>
<td>959*</td>
<td>0.29</td>
<td>0.46</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Below Average perf. x Interlock</td>
<td>360</td>
<td>0.67</td>
<td>0.79</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Below Average perf. x p</td>
<td>602</td>
<td>0.17</td>
<td>0.43</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

* including lagged performance measures, i.e. performance data on 1998-2004.
**Table 2: Correlation Matrix**

<table>
<thead>
<tr>
<th></th>
<th>Dismissal</th>
<th>Return Index</th>
<th>ROA</th>
<th>Rep_Ratio</th>
<th>Weak Ties</th>
<th>Strong Ties</th>
<th>Interlock</th>
<th>Blau's p</th>
<th>Dominant Owner</th>
<th>Board Ownership</th>
<th>HHI</th>
<th>Log Sales</th>
<th>Below av. perf.x</th>
<th>Below av. perf.x</th>
<th>Below av. perf.x</th>
<th>Below av. perf.x</th>
<th>Below av. perf.x</th>
<th>Below av. perf.x</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dismissal</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return Index</td>
<td>-0.21*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>-0.12*</td>
<td>0.29*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rep_Ratio</td>
<td>-0.02</td>
<td>0.02</td>
<td>0.02</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weak Ties</td>
<td>-0.03</td>
<td>0.02</td>
<td>0.05</td>
<td>-0.21*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strong Ties</td>
<td>0.03</td>
<td>-0.02</td>
<td>0.03</td>
<td>0.41*</td>
<td>-0.42*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interlock</td>
<td>0.04</td>
<td>-0.00</td>
<td>0.02</td>
<td>-0.26*</td>
<td>-0.22*</td>
<td>-0.05</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blau's p</td>
<td>-0.02</td>
<td>0.02</td>
<td>0.06</td>
<td>0.11*</td>
<td>0.02</td>
<td>-0.28</td>
<td>-0.05</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dominant Owner</td>
<td>-0.10</td>
<td>0.07</td>
<td>0.00</td>
<td>0.34*</td>
<td>0.28*</td>
<td>-0.01</td>
<td>-0.07</td>
<td>-0.09</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board Ownership</td>
<td>-0.05</td>
<td>0.04</td>
<td>0.16</td>
<td>0.22*</td>
<td>0.04</td>
<td>0.25*</td>
<td>-0.22*</td>
<td>0.02</td>
<td>-0.00</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HHI</td>
<td>-0.05</td>
<td>0.02</td>
<td>0.00</td>
<td>0.46*</td>
<td>0.22*</td>
<td>-0.12*</td>
<td>-0.08</td>
<td>0.04</td>
<td>0.71*</td>
<td>0.03</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Log Sales</td>
<td>0.06</td>
<td>0.04</td>
<td>0.00</td>
<td>-3.44*</td>
<td>-0.14*</td>
<td>0.00</td>
<td>0.37*</td>
<td>-0.08</td>
<td>-0.01</td>
<td>-0.33</td>
<td>-0.23*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below av. perf.x</td>
<td>0.04</td>
<td>-0.39*</td>
<td>-0.04</td>
<td>-0.66*</td>
<td>-0.21*</td>
<td>-0.26*</td>
<td>-0.18*</td>
<td>0.06</td>
<td>0.24*</td>
<td>0.14</td>
<td>0.27*</td>
<td>-0.27*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rep_Ratio</td>
<td>0.07</td>
<td>-0.23</td>
<td>0.06</td>
<td>-0.26*</td>
<td>0.78*</td>
<td>-0.33*</td>
<td>0.06</td>
<td>-0.03</td>
<td>-0.32*</td>
<td>-0.30*</td>
<td>0.09*</td>
<td>-0.08</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below av. perf.x</td>
<td>0.06</td>
<td>-0.39*</td>
<td>-0.06</td>
<td>0.20*</td>
<td>-0.30*</td>
<td>0.71*</td>
<td>-0.06</td>
<td>0.06</td>
<td>0.26*</td>
<td>0.04</td>
<td>0.21*</td>
<td>-0.06</td>
<td>0.58*</td>
<td>0.23*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weak Ties</td>
<td>0.15</td>
<td>-0.54*</td>
<td>0.08</td>
<td>-0.23*</td>
<td>0.08</td>
<td>-0.12</td>
<td>0.52</td>
<td>-0.01</td>
<td>-0.12</td>
<td>-0.11</td>
<td>0.18*</td>
<td>0.19*</td>
<td>0.34*</td>
<td>0.37*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below av. perf.x</td>
<td>0.06</td>
<td>-0.21*</td>
<td>0.02</td>
<td>0.02</td>
<td>-0.04</td>
<td>0.04</td>
<td>-0.15</td>
<td>0.90*</td>
<td>-0.06</td>
<td>-0.01</td>
<td>0.01</td>
<td>-0.06</td>
<td>0.20</td>
<td>0.05</td>
<td>0.24*</td>
<td>0.37*</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

***: p<0.01; **: p>0.05; *: p<0.1
Model 1 shows the results of the plain model including only the effect of performance on dismissal, controlling for various measures of financial capital. Company performance (as measured by the return index) has a significant negative effect on the likelihood of CEO dismissal. Furthermore, financial capital as measured by the size of the dominant owners’ shareholdings and the size of board ownership has also found to increase the probability of CEO departure. Consistent with Hypothesis 1 (Model 2), a higher ratio of owner representatives on corporate boards, or increased proximity between principals and agent, are found to have a significant effect on CEO dismissal: the interaction term between below average performance and owner representatives ratio is negative and significant, indicating a higher probability of CEO dismissal in the event of poor performance for those companies that have a higher ratio of owner representatives on boards:

**Table 3: Regression Results**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
<th>Model 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-3.09*</td>
<td>-2.54</td>
<td>-2.68*</td>
<td>-5.07**</td>
<td>-3.94*</td>
<td>-4.00**</td>
</tr>
<tr>
<td>Return Index</td>
<td>-1.15*</td>
<td>-1.90**</td>
<td>-1.23*</td>
<td>-2.48**</td>
<td>-1.42</td>
<td>-1.82**</td>
</tr>
<tr>
<td>Rep_Ratio</td>
<td>2.74</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weak Ties</td>
<td></td>
<td>-1.6**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strong Ties</td>
<td></td>
<td></td>
<td>3.81**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interlock</td>
<td></td>
<td></td>
<td></td>
<td>0.80</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blau's p</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.00</td>
<td></td>
</tr>
<tr>
<td>Dominant Owner</td>
<td>-0.06*</td>
<td>-0.55*</td>
<td>-0.67**</td>
<td>-0.07**</td>
<td>-0.10**</td>
<td>-0.45*</td>
</tr>
<tr>
<td>Board Ownership</td>
<td>-0.25*</td>
<td>-0.26*</td>
<td>-0.26*</td>
<td>-0.28**</td>
<td>-0.28</td>
<td>-0.02</td>
</tr>
<tr>
<td>HHI</td>
<td>0.04*</td>
<td>0.03</td>
<td>0.03</td>
<td>0.03</td>
<td>0.06*</td>
<td>0.03</td>
</tr>
<tr>
<td>Log Sales</td>
<td>0.02</td>
<td>-0.06</td>
<td>0.07</td>
<td>0.11</td>
<td>0.06</td>
<td>0.13</td>
</tr>
<tr>
<td>Below Average perf. x Rep_Ratio</td>
<td>-5.67*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below Average perf. x Weak Ties</td>
<td>1.53</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below Average perf. x Strong Ties</td>
<td></td>
<td>-2.15*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below Average perf. x Interlock</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-0.35</td>
<td></td>
</tr>
<tr>
<td>Below Average perf. x p</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-4.23*</td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.12</td>
<td>0.16</td>
<td>0.17</td>
<td>0.21</td>
<td>0.20</td>
<td>0.14</td>
</tr>
<tr>
<td>Prob &gt; chi2</td>
<td>0.04**</td>
<td>0.04**</td>
<td>0.03**</td>
<td>0.01**</td>
<td>0.06*</td>
<td>0.09*</td>
</tr>
</tbody>
</table>

***: p<0.01; **: p>0.05; *: p<0.1
Hypothesis 2 (Model 3) predicts that weak ties between owners and the CEO will enhance the likelihood of CEO dismissal in the event of poor performance. Contrary to my expectations, no significant relationship between the interaction term of below average performers and weak ties and CEO dismissal is revealed from the data. Instead, weak ties are found to have a direct negative effect on CEO dismissal regardless of the level of performance. By contrast, in the event of poor performance, those CEOs who exhibit strong ties with corporate owners are found to face a higher likelihood of dismissal. As shown in Model 4, the incidence of strong ties interacts significantly and negatively with the below average performance dummy. Hypothesis 3 predicts a higher likelihood of CEO dismissal for poorly performing companies with a higher number of interlocked directors. However, the data reveal no significant direct or indirect effect of board interlocks on the probability of CEO dismissal (Model 5). Finally, consistent with Hypothesis 4, the heterogeneity of the ownership structure is found to significantly increase the likelihood of forced CEO departure for below average performance. The interaction effect between below average performance and the heterogeneity measure “Blau’s p” is, as expected, found to be negative and significant (Model 6).

7. Discussion

In this study, I set out to investigate the embeddedness of CEO labor markets. More accurately, my aim was to empirically test how social capital and network properties of corporate directors and owners influence the likelihood of forced CEO departure. The argument was based on the observation that there is a difference, firstly, between social and financial capital and, secondly, between social relations and formal control. In other words, in order to succeed in the evaluation of CEO effort and to remove a poorly performing executive, owners and directors need both the powers that come with voting rights as well as the insider information that comes with the network of social relations. In addition, while financial capital provides actors with financial incentives, social capital equips them with shared trust and associability or, in other words, with a perceived obligation to take action. Moreover, it was noticed that social relations and formal control constitute two different institutional arrangements that govern economic exchange. While boards and owners may resort to formal control in order to execute supervision, shared norms and values that evolve with social relations are oftentimes a more efficient governance device. In sum, social relations are viewed to be an important yet under-investigated phenomenon of CEO labor markets.

As opposed to many previous studies on the impact of social relations on the likelihood of CEO dismissal, this investigation focuses on both the social capital of directors and the social capital of owners. It extends the corporate governance and CEO turnover literature in several ways: firstly, it adds to the evidence on the importance of board composition as a means of monitoring the CEO. In contrast to previous re-
search, which has predominantly centered on the independence of corporate directors (Boeker, 1992; Dalton et al., 1998; Zajac & Westphal, 1996), this study draws attention to the importance of interlocking directorates and owner representatives on corporate boards. In poorly performing companies, owner representatives on corporate boards are found to be an efficient governance mechanism for disciplining the CEO; that is, the increased proximity between owners and the CEO which increases when owners sit on corporate boards results in more timely and more accurate information on CEO behavior. This information is used in order to evaluate CEO effort and, as the results suggest, increases the likelihood of CEO dismissal in the event of poor company performance. However, some scholars have argued that company performance cannot be equated with CEO performance and that absolute measures of performance might contain random factors beyond CEO control. They therefore suggest that executives should be evaluated in relation to the firms in the same market or industry (Gibbons & Murphy, 1990; Holmstrom, 1982). While this objection is certainly accurate, the small sample properties in the present study (too few companies per industry to calculate meaningful industry averages), unfortunately, do not allow for such a procedure to be adopted. Further research should thus take relative performance evaluation into consideration and investigate whether more accurate information available to boards and owners results in differences in the likelihood of forced CEO departure following bad years in the firm and bad years in the industry or market. As opposed to owner representation on corporate boards, there is no evidence that board interlocks have any significant impact on the likelihood of dismissal. I hypothesized that board interlocks, on the one hand, increase the information and the number of benchmarks available to directors. On the other hand, in line with agency theory (Fama et al., 1983) I argued that directors who are well-networked in the business elite will be better monitors because they care more about their reputation in that network. However, neither the increase in information nor the concern about reputation seems to increase board monitoring, suggesting that either board independence and board non-affiliated status increase the likelihood of departure or that directors as members of the business elite are rather reluctant to sanction other members of the business elite. However, these are only speculations since the sign in front of the interaction term was insignificant, albeit negative as expected, suggesting that board interlocks in fact increase the likelihood of CEO departure in the case of poor performance.

Secondly, this study also adds to previous research on CEO turnover by paying closer attention to social capital of owners. Unexpectedly, owners who were assumed to have weak ties to the CEO appear not to increase the likelihood of dismissal in the event of poor performance: the interaction term of the dummy variable indicating that the dominant owner is an institution or a large individual investor and company performance was not significant. Instead, I find that those owners assumed to develop strong ties with the CEO indeed increase the likelihood of CEO departure in the event of poor performance. This unexpected result might be due to my operationalization of strong and weak ties. Strong ties were assumed to be fostered by
those owners who have a long investment horizon, a low risk propensity and a higher identification with the organization. As previous research suggests, families, companies, and also governmental owners are likely to behave in this way (Atkinson et al., 1998; Shleifer & Vishny, 1997; Thomsen et al., 2000). Therefore, it can be reasonably assumed that these owners would not react as immediately and rigorously in the case of stock return declines as other owner types. Institutional investors, by contrast, are viewed to prioritize short-term financial goals (Graves et al., 1990) and as dismissing CEOs who do not live up to these expectations (e.g. Dahya et al., 1998). Yet my results provide evidence for the opposite: while there is no effect of institutional or large individual investor presence, families, companies and governmental owners seem to be more vigilant monitors. One reason for this may be, on the one hand, that owner types are not adequate proxies for the strength of ties. Further research should thus make an attempt to measure tie strength with more accuracy by, e.g., collecting data on owners’ and CEOs’ joint membership in clubs and associations or by measuring the length, frequency and intensity of meetings attended by owners and the CEO. Another reason for the lack of evidence of institutional investor involvement may be the fact that the variable captures all types of institutional investor without differentiating between institutional investor types such as banks, pension funds and mutual funds. Institutional investor types have been found to vary with respect to their pressure sensitivity vis-à-vis the management: those institutional investors who maintain a business relationship with the company are less likely to scrutinize the CEO out of fear of endangering the mutual business.

Thirdly, the present study extends our knowledge of the effects of owners’ structural embeddedness in CEO dismissal decisions. As in the case of tie strength, owner types were resorted to for measuring heterogeneity. Several scholars have argued that different owner types, due to differences in their socio-political interests, pursue different goals (Changanti & Damanpour, 1991; Davis & Stout, 1992; Fiss & Zajac, 2004; Palmer, Friedland, Jennings, & Powers, 1987; Palmer & Barber, 2001; Palmer et al., 1993). Collective action theory suggests that a critical mass of heterogeneous actors is necessary in order to initiate group action (Hardin, 1982; Marvell et al., 1988). However, empirical evidence on the conditions of owners’ joint ventures and collective action is scarce. My data suggests that heterogeneity of interests and resources positively influence the likelihood of collective action and thus the probability that a poorly performing CEO will be dismissed. Further research on corporate owners should extend the consideration of dominant owners and large blockholders to include the properties of the whole ownership structure. Social network theory provides a number of measures (e.g. density, centrality, connectivity) suitable for capturing the features of ownership structure.

In sum, the results of the present study underscore the importance of “embedded governance” and social capital in CEO dismissal decisions. As all other economic forms of exchange, formal contracts between the principal and the agent are marked by social relations prevalent in each stage of the CEO’s career. In other words, be it on the level of dyadic relationships or on the level of networks, social capital appears
to be the necessary complement to financial capital to promote efficient and effective monitoring of the CEO.
References


305-360.

Governance: Exchange Conditions and Social Mechanisms. *Academy of Man-


Laumann, E. O., Galaskiewicz, J., & Marsden, P. V. 1978. Community Structure as 
Inter-Organizational Linkages. *Annual Review of Sociology*, 4: 455-484.

Leana, C. R., & Van Buren III, H. J. 1999. Organizational Social Capital and Em-

Classical, Neoclassical and Relational Contract Law. *Northwestern University 


Heath.

McConnell, J. J., & Servaes, H. 1990. Additional Evidence on Equity Ownership and 

Mikkelson, W. H., & Partch, M. M. 1996. The Decline of Takeovers and Disciplinary 

Sage.

Mizruchi, M. S. 1996. What do Interlocks do? An Analysis, Critique, and Assessment 
of Research on Interlocking Directorates. *Annual Review of Sociology*, 22: 271-
298.

Nahapet, J., & Ghoshal, S. 1998. Social Capital, Intellectual Capital and the Organ-

Ocasio, W. 1994. Political Dynamics and the Circulation of Power.: CEO succession 
285-319.

Ocasio, W. 1999. Institutionalized Action and Corporate Governance: The Reliance 

terdependence, Group Heterogeneity, and the Production of the Collective Action. 

Press.


IV. The Behavioral Approach to Corporate Ownership and Control.
Tell Me What You Feel and I’ll Tell You What You Own:
Towards a Behavioral Theory of Shareholder Activism and Corporate Control

Shareholder activism is traditionally rooted in agency theory and based on the notion of financial incentives. I argue that economic approaches to corporate ownership and property rights provide only a partial explanation for shareholder activism and that in order to understand shareholder activism in its full breadth and depth a more cognitive and emotional approach to corporate ownership and control is necessary. I juxtapose legal and psychological ownership to develop propositions regarding the forms and tactics of activism shareholders are likely to adopt. I also investigate to what extent legal and psychological ownership impact the likelihood of CEO turnover. I propose that shareholders holding varying levels of legal and psychological ownership develop disparate relationships with the organization, place emphasis on different objectives and thus use different forms of activism (exit, voice, loyalty), each associated with a different degree of publicity and impact on CEO labor markets.

Keywords: shareholder activism, CEO turnover, psychological ownership, shareholder identity and identification, property rights.

Shareholders are found to exert influence on organizational decisions as distinct as CEO labor markets (e.g. Boeker, 1992; Cosh & Hughes, 1997; Dahya, Lonie, & Power, 1998), strategic diversification (e.g. Goranova, Alessandri, Brandes, & Dhawadkar, 2007; Ramaswamy, Li, & Veliyath, 2002), R&D-expenses (e.g. Lee & O'Neill, 2003), innovation (e.g. Hoskisson, Hitt, Johnson, & Grossman, 2002), corporate social performance (e.g. Johnson & Greening, 1999) and corporate governance (e.g. Singh & Harianto, 1989; Werner, Tosi, & Gomez-Mejia, 2005). Previous research on shareholder motivation assumes a direct and positive relationship between the size of shareholdings, financial incentives and shareholder action: in line with the agency theory argument (Fama & Jensen, 1983; Jensen & Meckling, 1976), large shareholders representing high levels of ownership concentrations are viewed to be more likely to engage in corporate control because, in the event of performance declines, they cannot sell off their large stakes without incurring a significant loss of wealth (Admati, Pfleiderer, & Zechner, 1994; Shleifer & Vishny, 1986). Small and dispersed shareholders, by contrast, are viewed as lacking the motivation to become involved in company issues. Because small shareholders are thought to free-ride on other shareholders’ action, dispersed ownership is viewed to have no impact on companies. This thought is summarized under the notion of “managerialism” and the thesis that, due to the lack of shareholder incentives to assume a part in corporate control, corporations are largely unattended and left to the “mercy” of management.
(Berle & Means, 1932). Agency theory scholars, though, defang the problems associated with dispersed shareholdings by putting forward the argument that the "separation of ownership and control" is an economically efficient way to organize the division of labor between managers, whose task is to run the company, and shareholders, who are responsible for "bearing risk" and providing for financial capital (Fama, 1980; Fama et al., 1983; Jensen et al., 1976).

However, as ample evidence suggests, shareholders large and small continue to become involved in various corporate issues, particularly in the event of financial distress and performance declines. Moreover, views on shareholder activism are mixed, with little agreement over the direct effects of activism on organizational behavior or its indirect effects on corporate performance (Black, 1998; Daily, Dalton, & Rajagopalan, 2003; Gillan & Starks, 1998; Karpoff, 2001). Given that there is no conclusive evidence that shareholder activism and shareholder interventions in corporate control result in a positive impact on stock price performance and shareholder wealth, it seems justified to ask the question of what motivates shareholder activism and why shareholders actually opt for getting involved in corporate control. Indeed, resolving the issue of shareholders’ motives and moving beyond the conception of ownership as a "purely economic variable" (Fiss & Zajac, 2004) would not only help us to understand the managerialism thesis better, but would also increase our knowledge about the conditions under which shareholders are likely to act as a viable external governance mechanism (Walsh & Seward, 1990) and either initiate strategic change or oust the poorly performing CEO. In other words, a better understanding of shareholder motivation will advance our insight into the boon and bane of the "separation of ownership and control" (Berle et al., 1932). Only if we understand the motivation of shareholders will we be able to assess whether shareholders are more likely to assume a passive role as "residual risk bearers" (Fama, 1980; Fama et al., 1983; Jensen et al., 1976) or whether they are prone to take action but are, in fact, constrained by laws, regulations, and institutional barriers (Davis & Thompson, 1994; Roe, 1994, 2003; Useem, 1993). In other words, it is the motivational rationales governing ownership that are decisive for answering the question of whether public corporations are an "economic necessity" or a "political adaptation" (Roe, 1991) and whether shareholders are indeed a valuable device for "corporate control" (Jensen & Ruback, 1983).

In line with Daily and colleagues’ (2003) proposal, several more recent studies have taken important steps towards our better understanding of shareholder motivation by adopting an approach to shareholder activism that discriminates between categories of shareholders (e.g. David, Hitt, & Gimeno, 2001; Hoskisson et al., 2002; Kang & Sorensen, 1999; Ramaswamy et al., 2002). However, while these studies recognize the difference in behavior across types of legal ownership, they leave room for a finer-grained classification of shareholders and the inclusion of cognitive and emotional approaches to corporate ownership and control; that is, all of these articles adopt an agency view grounded solely in economic conceptions of ownership as the basis for shareholder action.
In this chapter, I draw on the concept of psychological ownership and identity theory in order to develop a more complete and thus more accurate picture of shareholder motivation. By juxtaposing legal and psychological ownership, I hope to be able to pave the way for a behavioral theory of ownership better suited to shedding light on the rationale behind shareholder actions. I draw on property rights, financial market and social identity theory and develop propositions on how legal and psychological ownership interact to affect the form of shareholder activism. Also, I discuss these propositions with respect to shareholders’ impact on CEO labor markets and the likelihood of CEO turnover. In a nutshell, I argue that the likelihood of CEO turnover is related to the means at shareholders’ disposal and that these means, in turn, depend on shareholders’ psychological disposition toward company ownership.

In the following sections, I briefly introduce the outcome variable, exit, voice and loyalty as forms of shareholder activism. Then, I review the extant literature on shareholder activism with special attention to the motives that are conjectured to drive shareholder interventions. Next, I juxtapose the concepts of legal and psychological ownership and develop propositions regarding the form of activism in the case of different levels and mixes of legal and psychological ownership as well as distinct power distributions between management and shareholders. The chapter closes with a discussion of the implications of the theory for future research.

1. Exit, Voice and Loyalty as Forms of Shareholder Activism

In line with Gillan and Starks (1998:11), shareholder activism can be defined as a continuum of responses to corporate performance. When dissatisfied with CEO effort and company performance, shareholders can adopt several forms of activism. In Hirschman’s (1970) terminology, they can opt for “exit, “voice” or “loyalty”. I use the term “activism” to refer not only to shareholder “voice” interventions but also to exit and loyalty. For example, “exit” is the most likely outcome when there are outside options, i.e., when an organizational participant can leave the organization without incurring any significant losses. From the point of view of shareholders this requirement is fulfilled when a shareholder decides to sell off his stake and to invest in another firm. “Voice”, on the other hand, occurs when for some reason “exit” is not a viable solution. Under such conditions, shareholders can opt for various tactics for voicing their dissatisfaction and pressuring management. For example, they may choose a formal intervention mechanism such as filing a proposal to the proxy statement; they may engage in private negotiations with management and directors or they may choose to target companies publicly by using the media as amplifiers of information in order to draw the attention of a larger public. According to Becht and colleagues (2002), most industrialized countries allow for all of these tactics to be pursued. Finally, organizational participants who are dissatisfied with the organizations and the CEO may also opt for “loyalty”. According to Hirschman (1970), loyalty is a calculated behavior that occurs when an individual feels attached to the organi-
zation. However, “loyalty” is also associated with self-deceptive behavior, which is likely to happen in organizations that impose severe initiation or punishment for exit or, in other words, when the power distribution within the organization operates at the expense of organizational participants. In such instances, organizational participants or, in this case shareholders, simply concentrate on the positive aspects of their membership in the organization and at least for some period of time endure in the belief that “the right turns will more than balance the wrong ones”.

All types of shareholders, both large and small, have been found to engage in all of the described forms of activism and to take all of these actions. While shareholders’ exit choices are visible from fluctuations in the share price, the missing effect of ownership on corporate performance and CEO disciplining might be attributed to shareholders’ opting for “loyalty”. Examples of the more participative shareholder behavior in corporate control are the intense waves of takeovers and control changes during the 1980s (e.g. Davis & Stout, 1992; Jensen et al., 1983), the proxy process (e.g. Black, 1998; Karpoff, 2001), and the targeting of companies in the public media (e.g. Farrell & Whidbee, 2002; Wu, 2004), which are well documented in the literature. In addition, ample evidence suggests that shareholder interventions have targeted both corporate strategy and governance: on the one hand, shareholders have attempted to execute pressure on CEOs in order to changes strategy (e.g. Amihud & Lev, 1999; Goranova et al., 2007; Lane, Cannella, & Lubatkin, 1999); On the other hand, in order to safeguard their interests shareholders are also found to make use of incentives and governance mechanisms (e.g. Denis, Denis, & Sarin, 1997; Hambrick & Finkelstein, 1995; Tosi et al., 1999). Despite this variety of forms of shareholder activism most previous research has centered solely on economic conceptions of ownership and has attributed all shareholder actions to financial incentives. In the next section I briefly review the extant literature on shareholder activism.

2. Economic Conceptions of Ownership and Shareholder Activism

Theories of shareholder activism typically adopt a very narrow approach to corporate ownership as they predominantly draw on agency theory and the primacy of financial incentives. According to agency theory (Fama, 1980; Fama et al., 1983; Jensen et al., 1976), dispersed shareholdings in public corporations represent an efficient way of organizing since a shareholder’s primary role is the provision of capital and the bearing of financial risk. An implication of this is that shareholders develop a rather ephemeral relationship with the organization. It follows that in the event of performance declines, the dominant strategy of shareholders is to opt for exit and to sell their shares. Costly voice or loyalty are not a likely outcome because unless a shareholder has enough shares to bear the costs of such actions, she will choose to either sell or free-ride off the activism of others (Admati et al., 1994). Large blockholders, therefore, are considered the most likely to engage in activism and discipline poorly per-
forming CEOs because they have a large financial incentive to do so and cannot eas-
ily sell their shares without negatively impacting the firm’s market value (Shleifer et
al., 1986).

Based on this agency reasoning, the level of shareholdings is commonly used as a
proxy for shareholder incentives to engage in monitoring management. The effect of
shareholders on corporate strategy and governance is assumed to be direct, and the
operationalization of “ownership” is usually either a measure of ownership concentra-
tion or a dummy for the existence of a large blockholder. Empirically, this approach
has yielded numerous positive results of shareholder activism. First and foremost, as
ample evidence suggests, some shareholders do become involved in CEO turnover
issues and fire poorly performing CEOs (e.g. Dahya et al., 1998; Denis et al., 1997;
Huson, Parrino, & Starks, 2001). Yet shareholders are also found to engage in vari-
ous other issues related to corporate strategy and governance. For example, Tosi
and Gomez-Mejia (1989) show that firms with a majority blockholder have less CEO
monitoring, lower levels of variable CEO pay, and overall less board and shareholder
involvement in CEO compensation issues. Bethel and Liebeskind (1993) find that
high levels of ownership and ownership concentration are positively associated with
corporate restructuring activity and negatively associated with corporate diversifica-
tion. Similarly, Hill and Snell (1989) and Baysinger and colleagues (1991) find a posi-
tive association between ownership concentration and corporate R&D spending.
These are but a few examples, but most studies on the impact of owners on corpora-
tions to date rely on the level of shareholdings as the proxy for financial incentives
and thus implicitly also on an economic conception of shareholder motivation and
shareholder activism.

However, despite these results, there is considerable controversy in the literature
regarding the accuracy of some of the effects of shareholder activism. The debate
between Lane, Cannella and Lubatkin (1998) and Amihud and Lev (1999) and Denis,
Denis and Sarin (1999) is a good example of this disagreement. The authors find
conflicting results when investigating the effects of ownership concentration on cor-
porate diversification (see Lane et al., 1999 for a summary), and while these differ-
ences are attributed to disagreement over the interpretation of results and methodo-
logical flaws, it seems plausible to question the economic conceptions of ownership
traditionally employed in the literature.

Financial incentives are, no doubt, a very powerful motive for shareholder activ-
ism, yet many scholars agree that not all shareholders have the same preferences,
goals, power or influence. Kang and Sorensen (1999) reject the notion that financial
incentives are the sole determinant of investor activism and contend that different
types of owners will have different preference structures and opportunities to influ-
ence the firm. Similarly, Verstegen Ryan and Schneider (2002) suggest that different
types of investors have different activism preferences regardless of whether they
hold the same number of shares. However, while these empirical studies discriminate
between owner types, they tend to categorize owners using conventional categories
of legal ownership (e.g. public pension versus mutual funds, insurance companies, corporate pensions, family, founder and government ownership).

In summary, agency-theory-based studies of ownership effects and efforts to differentiate among owner types share two important characteristics which may impair our understanding of shareholder activism: firstly, they both rely on empirically unverified behavioral assumptions of financial incentives and solely extrinsically motivated individuals; and, secondly, as will be elaborated on in the next section, they are both based on a conception of ownership borrowed from legal approaches to ownership and the property rights literature. As for the fist issue, Tsang (2006) argues that such an approach of “assumption-omitted theory testing” where “reduced models” are relied upon runs the risk of being based on unrealistic mechanistic explanations which may ultimately result in underspecified models and spurious results. As for the second, I argue that legal ownership provides only a partial explanation of shareholder behavior. Given that, to the best of my knowledge, no attempt has been made to investigate the motivation of shareholders, I question whether financial incentives can be taken for granted as the sole driver of shareholder activism. Therefore, I contend that the notion of ownership merits closer attention.

3. Property Rights and Psychological Ownership Juxtaposed

Legal ownership as conceived in the theory of property rights (Demsetz, 1967; Furrubotn & Pejovich, 1972, 1974) can be viewed as the natural complement to what social psychologists have termed “psychological ownership” (Pierce, Kostova, & Dirks, 2001; Pierce, Kostova, & Dirks, 2003b). Legal and psychological ownership differ with respect to five tenets: the relationships described, the values attributed, the functions fulfilled, the motivation evoked, and the rationale of emergence. While they represent very different dimensions of corporate ownership, I contend that they often occur jointly, albeit with varying levels and mixes, and that considering both contributes to a more complete picture of shareholder behavior. Figure 1 compares the major tenets of the legal and psychological ownership views. In the next section, I first consider legal ownership and property rights and then turn to juxtaposing psychological ownership to them.
Figure 1: Legal Ownership and Psychological Ownership Juxtaposed

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Legal Ownership</th>
<th>Psychological Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>Value of the ownable is a matter of the level of rights held in that object</td>
<td>Value of the ownable lies in its characteristics and the functions it fulfills for the owner</td>
</tr>
<tr>
<td>Motivation</td>
<td>Associated with extrinsic motivation</td>
<td>Associated with intrinsic motivation</td>
</tr>
<tr>
<td>Function</td>
<td>Instrumental function</td>
<td>Symbolic and instrumental function</td>
</tr>
<tr>
<td>Emergence</td>
<td>Accrues from financial investments and the acquisition of property rights</td>
<td>Accrues from social identification with the role as owner and the group of corporate owners</td>
</tr>
</tbody>
</table>

3.1 Legal Ownership and Property Rights

The commonly accepted conception of ownership in both agency theory and implicitly in the owner types approach to shareholder activism is that of property rights (Demsetz, 1967; Furubotn et al., 1972, 1974). For example, in their seminal article on agency theory, Jensen and Meckling (1976:307) focus on “the behavioral implications of the property rights specified in the contracts between managers and owners of the firm”. Very similarly, Kang and Sorensen (1999) state: “our basic thesis is that the organization of ownership allocates property rights, or control of assets, to various actors involved in the firm – in the owner-managed firm to a single actor, in the typical corporation to many actors.” This is rather surprising given the skeptical attitude many management theorists display toward economic concepts in general and the nexus-of-contracts view of the firm in particular. It is even more astonishing as one considers the specific concept of ownership in property rights theory.

Property rights theory relies on a rather technical conception of ownership: in the theory of the firm, ownership is nothing more than another contractual relationship between two parties within the nexus of contracts that constitute the organization (Fama, 1980; Jensen et al., 1976). Legally, ownership is viewed as a bundle of rights specified in a contract that defines the relation between individuals with respect to a material or immaterial object or “ownable” (Grunebaum, 1987). Ricketts (2002:114) states that “ownership is not well defined” and that “assets seem not to have owners”. Instead, “rights to use assets and to claim income flows are simply divided up between cooperating groups of people in ways which facilitate mutual gain”. Thus, in this view ownership has very little to do with the characteristics of the “ownable”, but rather, its essence lies in the contractual relation between people. As Furubotn and Pejovich (1972:1139, emphasis added) put it: “a central point noted is that property rights do not refer to relations between men and things but, rather, to the sanctioned behavioral relations among men that arise from the existence of things and pertain to

---

5 We use the terms “object” and “ownable” interchangeably to refer to both material and immaterial objects.
their use. Property rights assignments specify the norms of behavior with respect to things that each and every person must observe in interaction with other persons or bear the costs of non-observerance.” It follows from this definition of ownership that the value of an object depends on the bundle of property rights exchanged in the transaction and that it therefore derives from the rights an individual holds in this object (Furubotn et al., 1972). Surprisingly, thus, in this perspective ownership actually materializes as a handicap since property rights enter the individual’s utility maximization equation in the form of constraints: property rights define the set of options among which the individual can choose. As a result, different property rights are hypothesized to lead to different penalty-reward structures that influence the individual’s behavior (Furubotn et al., 1972, 1974). This means that the level of rights in the “ownable” determines the value of that “ownable”. In other words: the more rights, the more valuable the object.

The same approach to ownership is also adopted with respect to shareholders, the most salient example of which is by Fama (1980). Fama (1980:290) argues that “ownership of capital should not be confused with ownership of the firm” and that “in the ‘nexus of contracts perspective, ownership of the firm is an irrelevant concept”. In addition, he states: “dispelling the tenacious notion that a firm is owned by its security holders is important because it is a first step toward understanding that control over a firm’s decisions is not necessarily the province of security holders.”

In light of its very technical conception of ownership, it seems that property rights theory is not well equipped for explaining shareholder activism in its full breadth and depth; that is, from a property rights point of view, shareholders as “owners” of a public corporation hold only a small and well defined subset of rights in that organization. Among these are the right to dividend payments, the right to vote upon the election of directors and certain major corporate changes, and the right to information in the form of inspecting corporate books (Clark, 1986; Kang et al., 1999:126 ff.). In particular, the property rights conception of corporate ownership does not foresee any intervention of shareholders into issues that are the prerogative of managers (i.e., strategy) and directors (i.e., monitoring). Most notably, property rights theory does not envision shareholder interference in CEO turnover decisions. Thus, the effect of shareholders on corporate strategy and governance is not assumed to be direct but, if present at all, is mediated by their votes at the annual general meeting. This thinking is consistent with the role of shareholders as risk bearers and the motivation-as-financial-incentives line of reasoning. However, given that there is ample evidence that shareholder activism goes beyond shareholder votes and proxy proposals, an approach to corporate ownership that goes beyond legal rights and extrinsic motivation seems necessary.

### 3.2 Psychological Ownership

As the theory of psychological ownership (Pierce et al., 2001; Pierce et al., 2003b) suggests, ownership can be more than just a contractual relationship between indi-
individuals. In this view ownership has not only a legal but also a psychological dimension. As Etzioni (1991:466) argues: ownership can (but does not have to) be both at the same time; it is a “dual creation, part attitude, part object, part in the ‘mind’, part real”. According to Pierce and colleagues, (2003a:84) psychological ownership can be understood as a “cognitive-affective state that characterizes the human condition”. Most importantly, psychological ownership, sometimes referred to as “possession”, is not a priori visible from the outside because for psychological ownership to occur there need not to be any signs of physical occupation of the object present. In addition, psychological ownership is usually not recognized by the legal system, and it therefore does not come with powers codified in a set of formal rights. More accurately, psychological ownership deploys its effects as a feeling of possessiveness, as the subjective perception that the object is “my”, “mine” or “our” (Pierce et al., 2001; Pierce et al., 2003b).

As opposed to legal ownership, psychological ownership refers to the relationship between people and things, between the owner and his “ownable”, rather than to the relationship between two contracting parties. As a result, from the psychological point of view the value of an object lies in the characteristics of the object and the psychological functions it fulfills for its owner rather than in the number of rights the owner holds in that object. Scholars argue that psychological ownership has a cognitive-utilitarian (James, 1950; Litwinski, 1947; Rudmin, 1990) and an affective-symbolic (Belk, 1991; Dittmar, 1991, 1992; Furby, 1978) core. While the former refers to the instrumental functions of the objects, the latter stands for hedonistic purposes and the pleasure of possessing that object. These functions are strongly intertwined and more often than not occur jointly.

From a cognitive-utilitarian point of view and in line with the utilitarian tradition (Rudmin, 1990), Litwinski (1942; 1947) draws our attention to the fact that unlike the notion of property rights in an object, possessions are not a random and coincidental act but are acquired and maintained by the owner in order to serve some of his future anticipated problems. Thus, psychological ownership differs from legal ownership in that it centers attention on the reasons for acquiring and maintaining rather than the mode of exchange of objects. Psychological ownership implies planning and at least an initial intention to conserve the object for some amount of time, while legal owner-

---

6 The term psychological ownership was introduced to organization theory by Jon Pierce and colleagues (1991, 2001, 2004), whose primary focus of interest was the interplay of legal and psychological ownership by organizational employees. While these scholars have made a valuable contribution to the insights regarding the psychological dimensions of ownership, their primary unit of analysis was the employee and the impact of stock option programs on employee behavior and performance. I deem this theorizing not readily applicable to the study of outside shareholders given that shareholders constitute a very different group of organizational participants whose ownership is a matter of purposeful and deliberate contributions to an organization (Simon, 1945; March & Simon, 1958) and not the manifestation of an extrinsic motivator adopted by a hierarchically superior party. Ultimately, the extent to which inside (employee) shareholders and outside (investor) shareholders differ in the psychological dimension of ownership remains an empirical question.
ship is rather concerned with the exchange and distribution of property rights in the object (Belk, 1991). Moreover, possessions are acquired and maintained because they enhance individuals' feelings of efficacy (Pierce et al., 2001; Pierce et al., 2003b). Furby (1978), for example, finds that through possessions individuals feel that they can impact their environment. Similarly, in an experimental study Beggan (1991) finds that people use possessions to compensate for control motivations they are unable to satisfy through mastering an ability.

At its affective-symbolic core, psychological ownership serves above all hedonistic purposes. Belk (1991) argues that some possessions become “special”, loaded with symbolic meaning that transcends the utilitarian needs of the possessor. According to the author, in such instances economically rational behavior is not a likely outcome. Rather, under these circumstances individuals will display a set of behaviors that are market by economic irrationality” and the high value attributed to the object such as unwillingness to sell for market value, willingness to acquire with little regard for price, non-substitutability and the difficulty to discard of it. Furthermore, there is an empirically buttressed effect of psychological ownership on the evaluation of an object: several experiments have shown that individuals tend to assess an object more favorably and find it more attractive if they have feelings of possession towards it (Heider, 1958; Nuttin, 1987). Among the negative effects found in association with psychological ownership was resistance to organizational change, unwillingness to share property and responsibility as well as feelings of being overwhelmed by the burden of responsibility (Pierce et al., 2001). Such behavior occurs when possessions become extensions of the self by means of mastery, creation, or knowledge of the object. This means that contrary to legal ownership, which appears to predominantly satisfy extrinsic motivation, objects are not viewed to be a means to ends but rather an end on their own, apt to satisfy its owner’s intrinsic needs and motivations in the psychological ownership view. In the same vein, several authors propose that possessions serve as instrumental expressions of the self and that there is a close connection between possession, the self and a person’s identity (see Pierce et al., 2003b:89). In other words, psychological ownership is accompanied by the individual’s feeling of being psychologically tied to an object such that this object is viewed to be a part of the self (Furby, 1978) and a symbolic mediator between self and other (Dittmar, 1992).

In summary, as the discussion of the differences between legal and psychological ownership suggests, psychological ownership is a natural complement to legal ownership. Above and beyond formally specified rights and duties governing the relationship between people, psychological ownership points to the fact that the value of an object is a subjective assessment of the characteristics of that object as well as the (hedonistic and instrumental) functions it fulfills for its owner. While legal and psychological ownership may occur jointly, psychological ownership is neither directly associated with legal ownership nor does it need its financial counterpart to occur. In fact, as several scholars have put forward (Etzioni, 1991; Furby, 1978, 1980b; Pierce et al., 2003b), psychological ownership can and does occur in the complete absence of
legal ownership. Furby’s (1978; 1980a; 1980b) cross-cultural and cross-age studies provide compelling evidence that people do not see the legal aspects of their objects as reigning supreme. Rather, the most important characteristics of an object are oftentimes their instrumental and hedonistic functions. This can be attributed to the different rationales behind legal and psychological ownership: while for legal ownership to occur it suffices that an individual acquires a set of property rights, the occurrence of psychological ownership depends on the extent to which the object becomes part of the self, or, in other words, to which an individual identifies with being an owner of that object. From an organizational point of view, psychological ownership manifests itself when the shareholder identifies with being an owner of that company rather than just holding a set of rights and bearing risk, all the time ready to dispossess of it for profit. As a result, legal and psychological ownership are expected to have a distinct impact on shareholder behavior. I elaborate on this thought in the next section.

4. The Impact of Legal Ownership and Psychological Ownership on Shareholder Activism

Shareholders are distinct with respect to the level and mix of legal and psychological ownership they hold. Both dimensions are associated with motives for action and thus may trigger some form of shareholder activism. As will be argued, the form of activism is decisive for the extent to which CEOs are likely to alter their course of action or, alternatively, leave their position. In the following sections I develop a model examining how shareholder activism tactics vary depending on the level and mix of shareholders’ legal and psychological ownership. I investigate how these dimensions differ in terms of what motives and powers they equip shareholders with, thereby impacting on the activism tactics shareholders are likely to choose. I argue that shareholders holding different levels of legal and psychological ownership develop distinct relationships with the organization in terms of duration and intensity, and they therefore differ in their inclination to publicly act as owners of that organization. I first examine standard or normal conditions in which the power of shareholders is a direct and positive function of the level of their legal shareholdings (see Figure 2). Based on financial market and social identity theory, I develop propositions regarding the form of activism a shareholder is likely to adopt. I contend that, under conditions where shareholder power is a direct function of the level of shareholdings, shareholders are likely to opt either for exit or for one of three possible voicing tactics. I then examine conditions under which power distributions between management and shareholders are not clear-cut and shareholders are sensitive to pressures emanating from the management (see Figure 3). I argue that in such instances shareholders are likely to resort to loyalty or to coalition building with like-minded.
4.1 Shareholder Activism under Standard Power Distributions

When shareholders’ bargaining power vis-à-vis management is a direct function of the level of shareholdings and ratification rights, shareholder activism will range from exit, or selling off shares, to various tactics of voice and pressuring such as engaging in negotiations with the CEO, filing proxy proposals, and targeting campaigns in the media. One important characteristic that differentiates these tactics is the degree of their publicity and the hype they generate: for example, while direct negotiations with the CEO are a private form of activism, shareholder proposals will eventually become known to the financial community, while targeting via public media will reach an even larger public (Gillan et al., 1998). The level of publicity of a tactic, be it exit or voice, will have different effects on the company’s share price. As proponents of the efficient market hypothesis (Fama, 1970) and the random walk theory (Malkiel, 1996) suggest, share price reflects all currently available information including the overall market’s subjective expectations of future performance. Thus, if the announcement of shareholder activism constitutes bad news because of its signal that the company is in financial distress and if it is likely to have a negative impact on shareholder value, shareholders following a shareholder value maximization strategy will have an interest in keeping the publicity and visibility of their actions as low as possible. Empirical evidence suggests that the market seems to differentiate between the announcement of shareholder targeting and the outcomes of targeting. In his review of shareholder activism Karpoff (2001) concludes that the effect of the announcement of shareholder proposals on abnormal stock return, if statistically significant in the first place, tends to be negative (e.g. Karpoff, Malatesta, & Walking, 1996; Prevost & Rao, 2000), while studies that examine the impact of negotiated settlements report positive average effects on shareholder value (e.g. Strickland, Wiles, & Zenner, 1996; Wahal, 1996). Interestingly, very similar findings are reported from the CEO turnover literature. While CEO turnover is found to have a demonstrably positive impact on the company’s operating performance (Denis & Denis, 1995; Huson, Malatesta, & Parrino, 2004), there is no conclusive evidence on the kind of signal announcements of CEO changes convey to the stock market. Based on a review of the existing literature Huson and colleagues (2004) conclude that, on the one hand, CEO changes constitute good news as they convey the prospect of future performance increases given that management problems are solved. On the other hand, as the authors argue, changing the CEO may also transmit the message that recent management decisions have proven unsound and that therefore, performance declines are a likely outcome in the future. Empirical evidence based on the event study method buttresses the ambiguity of the signal: the findings are mixed as some studies find significantly positive stock price reactions (Bonnier & Bruner, 1989; Huson et al., 2004; Weisbach, 1988) while others find significantly negative (Khanna & Poulsen, 1995) or plain insignificant stock market reactions to the announcement of CEO turnover (Reinganum, 1985; Warner, Watts, & Wruck, 1988).
It is important to note, however, that shareholders with distinct levels of legal and psychological ownership will differ with respect to their vulnerability regarding fluctuations of the share price due to market signals and the priority they assign to the shareholder value. As a small but burgeoning stream of literature suggests, contrary to the standard agency theory argument, shareholders exhibit different preference structures and therefore focus on different company objectives (Fiss et al., 2004; Kang et al., 1999; Palmer, Friedland, Jennings, & Powers, 1987; Palmer, Jennings, & Zhou, 1993; Pedersen & Thomsen, 1997; Ramaswamy et al., 2002; Thomsen & Pedersen, 2000). We argue that the importance attached to shareholder value is a result of the shareholders’ conception of ownership and the relationship they develop with the company. Shareholders who conceive of ownership solely as a matter of property rights and who are predominantly extrinsically motivated are more likely to prioritize a short-term-relationship and financial objectives and will thus be more highly vulnerable to fluctuations in the share price.

This rationale seems to be particularly important for large blockholders who despite holding large levels of legal ownership feel only low levels of psychological ownership towards the company (Figure 2, upper right hand quadrant). Legal ownership accrues from the accumulation of property rights and financial investment of shareholdings. In general, large shareholders cannot easily sell off their shares without incurring a significant loss of wealth because the exit form of activism would constitute a negative signal to the rest of the financial market, which would be apt to trigger an erosion of the company’s market value (Shleifer et al., 1986).

**Figure 2: Shareholder Activism under Standard Power Distributions**

<table>
<thead>
<tr>
<th>Legal Ownership</th>
<th>Psychological Ownership</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>+</td>
<td></td>
<td>+ Psychological Ownership</td>
</tr>
<tr>
<td>strong identification with being an organizational owner and high levels of shareholdings</td>
<td>weak identification with being an organizational owner and high levels of shareholdings</td>
<td></td>
</tr>
<tr>
<td>(P3) salient tactic: negotiating and formal way interventions</td>
<td>(P1) salient tactic: negotiating</td>
<td></td>
</tr>
<tr>
<td>strong identification with being an organizational owner and low levels of shareholdings</td>
<td>weak identification with being an organizational owner and low levels of shareholdings</td>
<td></td>
</tr>
<tr>
<td>(P4) salient tactic: formal interventions and recurrence to public media</td>
<td>(P2) salient tactic: exit</td>
<td></td>
</tr>
</tbody>
</table>

In line with agency theory (Eisenhardt, 1989; Fama, 1980; Jensen et al., 1976), large shareholders are vested with both financial incentives and legal (voting) powers to scrutinize management because of their large financial investments in stakes that entitle them to make use of veto powers and ratification rights (Becht et al., 2002). As opposed to Karpoff’s (2001) findings above, activism by large shareholders may thus
also convey a positive signal to the market regarding the future of the company. However, as Maug (1998) and Kahn and Winton (1998) argue, monitoring by large blockholders could constitute private information that they can use to generate profits by buying stock prior to any publicity concerning it. As a result, regardless of whether blockholder activism is perceived as positive or negative, if blockholders prioritize shareholder value and short-term returns (i.e., if they have large financial stakes but low psychological ownership), they are likely to opt for voice tactics exhibiting low levels of publicity and will thus favor private negotiations and jawboning management and directors. This is even more the case given that jawboning has been found to have a positive impact on shareholder value (Strickland et al., 1996; Wahal, 1996). Thus:

**P1:** Shareholders exhibiting high levels of legal ownership and low levels of psychological ownership will favor private negotiations with management over other activism tactics.

Against this background and from the point of view of CEO turnover, large blockholders who attach great importance to stock market reactions and stock returns will be very careful when it comes to CEO turnover decisions. Given that they cannot predict how the message of CEO change will be understood by market participants, they are likely to use their power in order to pressure management in bargaining and negotiation rounds. CEO turnover is thus likely to occur only after considerable performance declines in such a way that the erosion of market value due to performance declines exceeds the potentially bad news CEO turnover may be understood to signal.

By contrast, shareholders exhibiting both low levels of psychological ownership and low levels of legal ownership (Figure 2, lower right hand quadrant) will pursue objectives similar to those of large blockholders. Given that their primary interest is financial, they too will opt for a strategy that generates the largest financial net benefits. However, as opposed to large blockholders, they will care less about the signals their tactics convey to the market as they will have less difficulty getting rid of their small stakes – an action that is not likely to have a huge impact on the company’s market value. For the same reason, they are unlikely to invest in expensive voice tactics and even less so in any actions intended to remove the CEO. In other words, small shareholders with low levels of psychological ownership will not impact the likelihood of CEO turnover. Rather, they are most likely to opt for the exit strategy:

**P2:** Shareholders exhibiting low levels of legal ownership and low levels of psychological ownership will favor exit over other activism tactics.

Shareholders feeling psychological ownership towards the company and those holding only legal ownership differ with respect to the goals they prioritize and therefore also in their activism tactics because of their different relationship with the company. As stated previously, in contrast to legal ownership, psychological ownership emerges when there is a strong psychological relationship between the owner and the “ownable”, i.e., when the owner feels that the object is “my” or “mine”. As several
authors contend, this occurs when the object becomes strongly associated with self and identity (Pierce et al., 2003b) in such a way that it becomes part of the self, an extension of the self into the environment (Furby, 1978) or a symbolic mediator between self and the other (Dittmar, 1991). Self and the self-concept, an individual’s cognitive structure and the way in which an individual envisages and perceives “what makes me me and you you” (Owens, 2003) have important consequences for action as they influence the individual’s cognitions, emotions and behavior. Parker (2001), for example, investigated the role of self-concept in task performance. He finds that individuals who compare themselves with others and who are sensitive to evaluations by others may invest considerable effort into increasing performance in order to maintain a positive self- and social image. Similarly, Tarant and colleagues (2001) find that self-esteem is negatively related to intergroup discrimination as well as outgroup derogation. With respect to shareholder activism this thus means that psychological ownership and the integration of the organization into the self-concept have important consequences for shareholder behavior and the choice of activism tactics.

An individual’s role and social identities are a critical part of his conception of self. Role identities incorporate a person’s position in a network of role relationships (Stryker, 1968; Stryker, 1980; Stryker, 1987) and are an individual’s unique internalized identifiers (McCall & Simmons, 1966). This means that an individual’s role identity is associated with a set of expected behaviors that come with that particular role (e.g. father, brother, boss). Social identities, on the other hand, are derived from groups and categories to which individuals belong (Ashfort & Mael, 1989; Tajfel, 1974, 1978; Tajfel & Turner, 1979). According to self-categorization theory, individuals are viewed to separate groups into self-like and self-unlike members and into us vs. the others (Hogg & Terry, 2000; Turner, 1985; Turner, Hogg, Oakes, Reicher, & Wetherell, 1987). In line with social interactionism (Mead, 1934) identity theorists posit that human behavior and interaction is shaped by the actor’s self-concept and that identity is closely related to motivation. In his theory of situated motivation, Foote argues that an individual’s identities give his behavior meaning and purpose. Role then is seen as an “empty bottle” filled with a content that is identity: “and he can only ascertain which role is his in each situation by knowing who he is. Moreover, he must know who he is with considerable conviction and clarity if his behavior is to exhibit definiteness and force, which is to say, degree of motivation” (Foote, 1951:16, emphasis by author).

The identity-based conception of motivation differs substantially from the economic notion of incentives. In general terms, economists conceive of incentives as a reason for preferring a choice to its alternative. Alternatives are evaluated in terms of a cost-benefit analysis, the best alternative being the one that results in the largest net benefits. This is consistent with the idea of shareholder activism driven and determined by the level of financial shareholdings. However, when there is a high level of psychological ownership and thus a shareholder perceives the organization to be part of the self, the shareholder develops an identity that incorporates the organization. In other words, given his feelings of ownership for the organization, he will iden-
tify with the role of being an owner of that organization and being part of the group of owners of that organization. In a situation that calls for action, such as in the case of performance declines and CEO turnover decisions, he is likely to exhibit a behavior which is in line with his role as owner with an interest in the well-being and long-term survival of the organization and less so as merely a shareholder with a primary interest in short-term gains and shareholder value. As Pierce and Rogers (2004) argue, the motivational rationale of psychological ownership lies in the link between the well-being of the target of psychological ownership – here the organization – and the self: an increase in the well-being of the target results in a positive image, a decrease, in a negative image and the diminution of the self. In fact, several empirical studies provide evidence on the relationship between psychological ownership and the individual’s investments in the viability and well-being of the “ownable”. For example, psychological ownership has been found to be particularly effective in explaining volitional behavior. In their comparison of legal and psychological ownership of employees, Van Dyne and Pierce (2004a) and Vandevalle et al. (1995) find that psychological ownership increases employee extra-role behavior, while legal ownership is more likely to have a positive effect on intra-role behavior. The authors argue that when there is a lack of psychological ownership, a drop in extra-role behavior is more likely given that intra-role behavior is readily amenable to sanctioning and has thus more serious consequences. Psychological ownership is also found to increase the protection and defense of the possessed object (Beaglehole, 1932), to enhance personal sacrifice, the assumption of risk and the experience of responsibility and stewardship by the owner as well as to increase the level of explained variance in organizational citizenship behavior (Van Dyne & Pierce, 2004b).

This argument echoes to an extent the antagonism between the logic of appropriateness and logic of consequences as put forward by March and Olson. In a series of works, March and Olsen (March, 1994; March & Olsen, 1995; 2004) argue that pursuing net benefits is but one logic of rationality – the rationality of consequences – and that individuals oftentimes also use what the authors have termed the “logic of appropriateness”. Underlying the logic of appropriateness is an identity-based conception of motivation: action is viewed to be rule-guided and rules are followed because they are deemed natural, rightful, expected and legitimate (March, 1994). In addition, the rules invoked are normally in accord with a person’s roles and identities and must be viewed as appropriate given the situation. According to March and Olsen (2004:4), most of the time individuals take reasoned action by trying to answer three elementary questions: “what kind of situation is this? What kind of person am I? What does a person such as I do in a situation like this?” As a result, a shareholder who identifies with being an owner of the company is likely to behave differently than a shareholder who lacks these characteristics.

It follows from this line of thought that shareholders who feel psychological ownership for the company and who thus identify with being an owner will opt for different activism tactics given, firstly, that for these constituencies ownership of the company is an end in itself and the value of the company derives from its characteristics and
not only from the prospect of financial gains. Secondly, shareholders with high levels of psychological ownership will not only favor organizational viability and long-term survival but will also be motivated to act appropriately and show this openly given their role and identity as the company’s owner. Thirdly, the self-conception of shareholders with high levels of psychological ownership is likely to comprise a decisiveness to demonstrate their non-persuasibility vis-à-vis management and thus, their readiness to oust poorly performing managers. These shareholders are therefore more likely to resort to activism tactics that are characterized by a certain degree of publicity. In particular, when it comes to disciplining managers, these shareholders are likely to take advantage of the logic of the top management labor market, which is sensitive to information conveyed about managerial performance. In other words, like directors who assume their role as monitors because they care about their reputation (Fama, 1980), managers will care about the information conveyed about their ability and effort because they have an interest to leave a good impression on their future employers. Thus, shareholders holding high levels of psychological and a high level of legal ownership (Figure 2, upper left hand quadrant) will not shy away from costly yet often merely precatory formal intervention tactics despite the fact that these tactics might have a negative impact on short-term financial gains. In fact, as some authors have argued, large shareholders who maintain a long-term relationship with the company might be inclined to assume a role of learning private information about the effort of management and convey this information to other shareholders in the market (Chidambaran & John, 1998). Although the authors contend that the reason for this practice lies in the attempt to reduce free-riding by other shareholders by passing on the cost of managerial cooperation in monitoring to the rest of the shareholders, I argue that long-term relational investing is likely to occur in the first place when shareholders develop psychological ownership for the company. Large shareholders who exhibit high levels of psychological ownership are thus likely to use both: private negotiation with management and formal intervention mechanisms. Given that by means of their legal ownership they are equipped with high levels of voting power, large shareholders constitute a threat to management and will therefore successfully resort to jawboning management. On the other hand, their assumed role and identity as owners will induce them to also take advantage of formal intervention tactics:

**P3:** Shareholders exhibiting high levels of legal ownership and high levels of psychological ownership will favor private bargaining and formal intervention over other activism tactics.

As opposed to shareholders holding low levels of psychological ownership, these shareholders will not shy away from exerting considerable pressure on the CEO. Given that their primary objective is the long-term company survival, they will care less about how the stock market reacts to their actions. Interventions by shareholders holding both high levels of legal and high levels of psychological ownership will thus raise the likelihood of CEO turnover considerably. Imaginable scenarios are either
Shareholders holding high levels of psychological ownership but few legal shares (Figure 2, lower left-hand quadrant) differ with respect to the level of legal ownership and thus voting power they have at their disposal. While they share the same identity motivation as owners of the company and while they are likely to prioritize the long-term survival of the organization over short-term returns and shareholder value, they are not in the position to engage in negotiations with management. Therefore, they are likely to resort to other instruments suitable for pressuring management. Most likely, they will take extensive advantage of the fact that the CEO labor market is sensitive to information regarding CEO effort and success (Holmstrom & Tirole, 1993). In other words, they are likely to increase the level of publicity regarding managerial and company performance in the hope that this information will shake up other constituencies and incite them to sanction the poorly performing or misbehaving CEO. Indeed, as ample evidence suggests, negative publicity and bad news in the media regarding company performance significantly increases the likelihood of CEO turnover (Farrell et al., 2002; Wu, 2004). In addition, in their study of pension fund activism, Del Guercio and Hawkins (1999) find that highly indexed and externally managed funds are associated with high levels of publicity and visibility. They argue that these funds resort to the targeting of companies via public media since their goal is to increase the impact of shareholders and effectuate change rather than increasing short-term profit. In addition, the authors cite CalPERS and CalSTRS CEOs who state that publicity is not only a powerful but also a very cost-effective tool to effectuate change. Similarly, Monks and Minow (1995) argue that the biggest contribution of pension fund activism might have been to create awareness not only among the financial community but also among the general public. This finding is in line with the motivation-as-identity argument and the thought that shareholders with high levels of psychological ownership will resort to all tactics at their disposal necessary to ensure the company’s long-term survival and, if need be, to oust the incumbent CEO. In the case of shareholders holding low levels of legal ownership, these tactics will include formal intervention and targeting the company by means of public media:

**P4:** Shareholders exhibiting low levels of legal ownership and high levels of psychological ownership will favor formal intervention and targeting using public media over other activism tactics.

### 4.2 Shareholder Activism under Pressure Sensitivity

So far we have considered the situation under which the level of legal ownership and property rights is directly and positively related to shareholder power. However, as several authors have argued, under certain conditions large shareholders, i.e., those with high levels of legal ownership, (see figure 3) will remain passive despite their
dissatisfaction with the course of action (O’Barr & Conley, 1992) or will have the power only to impact on certain decisions (Changanti & Damanpour, 1991; Dye, 1985). At the same time, it is important to note that “power” is a relational concept (Pearce & Zahra, 1991): shareholders have or lack power only in relation to management and the CEO. Thus, shareholder power is diminished in relation to the extent of CEO power. Brickley and colleagues (1988) argue that differences in activism derive from shareholders’ “pressure sensitivity.” For example, shareholders who are in a business relationship with the company have less discretion regarding the choice of activism tactics. In these cases, shareholders are likely to either vote with management or, if they can, sell off their shares. From the point of view of management, these shareholders are classified as having a lower saliency because they possess less power, legitimacy and urgency and are thus a smaller threat to management (Mitchell, Agle, & Wood, 1997). However, in line with the conception of motivation as identity, I argue that large pressure-sensitive shareholders will differ in their forms of activism and their attitude towards the CEO depending on the extent to which they feel psychological ownership for the company and thus identify as the company’s owners.

In fact, pressure-sensitive shareholders who feel high levels of psychological ownership for the company assume a double role as, on one hand, the company’s owners and, on the other, as the management’s business partners. According to identity theory (Stryker, 1968; Stryker, 1980; Stryker, 1987), people have the possibility of choice even though they are constrained by the situation; that is, the self is viewed to be structured by a hierarchical ordering of identities which differ in their salience (Stryker, 1980) or prominence (McCall & Simmons, 1978) and thus the likelihood that they will be activated in a given situation. An identity is likely to become salient when an individual is committed to the role relation associated with that identity (Stryker, 1980). Thus, if a shareholder strongly identifies himself as management’s business partner, then he is likely to meet the expectations associated with that particular role. On the other hand, if the shareholder strongly identifies with the role of owner of that company, then he is likely to exhibit commitment to the community of owners and to act so to satisfy the requirements of this role relation. This line of reasoning bears an important consequence with respect to the choice of activism tactics by pressure-sensitive shareholders and the likelihood of CEO turnover: those shareholders that identify with the role of a business partner are indeed most likely to opt for what Hirschman (1970) terms “loyalty.”
Initially, loyalty was conceived of as a passive but constructive tactic where the individual waits patiently for conditions to improve, thereby giving some kind of support to the organization (e.g. Farrell, 1983; Rusbult, Farrell, Rogers, & Iii, 1988). In the later development of this construct, however, loyalty is conceived of as less a matter of passive support and more a matter of helpless endurance of a situation the individual is unable to alter. For example, Wity and Cooper (1989) argue that individuals display behavior associated with loyalty when they feel trapped in the organization. They investigated exit, voice and loyalty in workplace situations and find that when employees referred to loyalty, they did not describe it as a constructive behavior but rather as resignation and making peace with the situation.

On the other hand, shareholders who exhibit psychological ownership for the organization and who thus identify with the role of owner are more likely to look for ways of pursuing their interests in line with their owner identity. Given their low-power position relative to the management, they might, provided that the regulatory and institutional framework permits it, attempt to find like-minded shareholders and engage in coalition-building. As political and resource dependence theories of organization suggest, individuals who find themselves in situations where they are struggling for the defense of their interests are likely to form coalitions and develop instruments that will bolster their power vis-à-vis other coalitions (March & Simon, 1958; Pfeffer, 1978, 1980; Pfeffer & Salancik, 1978). In fact, while in the U.S. coalitions by share-
holders appear to form rather seldom given the restrictions emanating from the Securities and Exchange Commission (SEC)\(^7\) (Black, 1998), there is some international evidence that shareholders do indeed engage in coalition building in order to defend their interests. For example, in their investigation of British institutional investors, Black and Coffee (1994) find that British institutional shareholders engage in coordinated efforts and are prone to target companies jointly. The same evidence is found in Italy, where shareholders’ agreements and voting trusts are a rather common occurrence (Gianfrate, 2007). Moreover, in a recent account of his initial concept and a survey of contributions to it, Hirschman argued that voice can be an end in itself and that when public policies that have public good character are pursued, a “participation explosion” can occur that results from a “sudden enormous intensification of the preference for public actions” (Hirschman 1980: 433). In addition, he claims that “it is in the nature of the public good or the public happiness that striving for it cannot be neatly separated from possessing” it (ibid.). In other words, shareholder activism can in the event of high levels of psychological ownership turn a cost into a benefit. It thus seems reasonable to assume that pressure-sensitive shareholders who identify as owners of the company will attempt to build coalitions in order to advocate and defend the company’s interests. Finally, in terms of publicity both coalition building and loyalty can be viewed in the light of my previous propositions and shareholders’ inclination to openly act as owners of the organization: while the choice of loyalty, which is likely to occur under conditions of low levels of psychological ownership, is associated with no publicity at all, in the event of coalition building, which I conjecture to be the dominant strategy in the case of high psychological ownership, publicity is not only taken for granted but may become an end in itself. Conveying the information of managerial failure and increasing its public awareness may boost the solidarity between shareholders, enhance collective action towards scrutinizing management, and thus prevent a mass selling off of shares and the erosion of the company’s market value. Therefore:

\textit{P5a: Pressure-sensitive shareholders with a high level of psychological ownership will opt for coalition building and investments in social movements.}

\textit{P5b: Pressure-sensitive shareholders with a low level of psychological ownership will opt for loyalty.}

From the point of view of CEO turnover, it seems plausible to assume that shareholders’ pressure-sensitivity will differently impact on the likelihood of CEO departure. High levels of shareholder pressure-sensitivity are positively related to CEO power. Therefore, as extant research confirms, pressure-sensitive shareholders with low levels of psychological ownership are less likely to oust an incumbent CEO and will

---

\(^7\) Shareholders who act together on a voting issue and together own 5\% of a company’s shares must file a Form 13D with the SEC and risk a lawsuit if they fail to disclose their activism plans.
therefore not impact on the likelihood of CEO turnover. By contrast, pressure-sensitive shareholders with high levels of psychological ownership are likely to make the removal of a poorly performing CEO their utmost concern and are therefore likely to significantly increase the likelihood of CEO turnover.

5. Discussion and Conclusion

I raise a question here that seems to have puzzled management and economic scholars alike for several decades: what motivates corporate shareholders? In an attempt to pave the way for a behavioral theory of ownership and control, I point to the fact that the economic conception of ownership as property rights provides only a partial explanation for shareholder behavior and that in order to understand shareholder motivation we need to incorporate a more cognitive and emotional approach to corporate ownership. By combining theories of legal and psychological ownership, I propose a model that predicts the form of activism a shareholder is likely to opt for. More specifically, employing a motivation-as-identity approach to activism, I suggest that shareholders who identify with being an owner of the organization will place less emphasis on short-term returns and shareholder value and will be more likely to resort to tactics characterized by a certain degree of publicity that give them an opportunity to openly act as owners for the members of the financial community and the larger public. In addition, I argue that pressure-sensitive shareholders who exhibit low levels of psychological ownership will opt for loyalty, while pressure-sensitive shareholders with high levels of psychological ownership are more likely to try to overcome this obstacle by building coalitions with the like-minded in order to increase their bargaining power vis-à-vis management. From the point of view of corporate control and CEO turnover, my theoretical model in general predicts a higher likelihood of CEO turnover in the case of high levels of psychological ownership: since shareholders exhibiting high levels of psychological ownership will attach less importance to stock returns and shareholder value, they will care less about the signal the announcement of CEO changes conveys to the market and will use their power to oust the poorly performing CEO even if they are in a relationship of dependence with the CEO.

I hope the model provides not only a finer-grained classification system for corporate shareholders but also greater insight into shareholders’ motivation and behavior. My argument is that in order to assess whether and to what extent shareholders can be considered as a viable governance mechanism, we need to take into account shareholders’ cognitive and emotional dispositions towards ownership of the company as well as the saliency of their roles and identities. In other words, I call for a genuinely organizational theory of ownership that is better able to account for the behavior and contributions of shareholders as “organizational participants” (March et al., 1958; Simon, 1945, 1976).

My model is pertinent to both corporate strategy and governance and the theory of psychological ownership. More specifically, if one is ready to accept that there are
significant differences among shareholders with respect to their emotions and cognition regarding the organization, then most of the studies that investigate the impact of ownership on various organizational outcomes relying on ownership concentration or level of shareholdings as surrogates of ownership need to be reconsidered in the light of a motivation-as-identity approach to corporate ownership.

Future research could empirically investigate whether various types of shareholders are likely to exhibit systematically different levels of psychological ownership. In fact, Pierce and colleagues have not only developed an instrument for measuring psychological ownership (Pierce, Van Dyne, & Cummings, 1992), but they have also successfully applied it to the field of employee ownership and participation plans (e.g. Pierce et al., 2004; Vandevalle et al., 1995). Furthermore, as the sparse yet insightful previous research on intercultural differences in conceptions of ownership (Furby, 1978, 1980a, b) suggests, cognitive and emotional dispositions towards ownership might vary with cultural settings and institutionally distinct governance systems. Thus, shareholder identities and therefore also the likelihood and mode of their intervention might differ across countries, nations, and systems. In addition, if psychological ownership and thus shareholder behavior is, as some have argued, a matter of socialization practices (Dittmar, 1992; Etzioni, 1991), then this has important implications for the institutionalization of property rights systems in, for example, transition economies. More specifically, accepting that “ownership” is not only a legal but also a cognitive and emotional phenomenon presupposes the acknowledgement that the financial market system cannot be exported to different contexts without taking into account market participants’ psychological dispositions towards ownership of the corporation.
References


Dittmar, H. 1992. The social psychology of material possessions: to have is to be: St. Martin’s Press.


V. Outlook: Quo Vadis, Corporatio?

In this dissertation, I set out to bring “the ownership variable back into the organization theory equation”. I focus on CEO labor markets and shareholder activism as surrogates for analyzing control problems that accrue from the separation of ownership and control in publicly listed corporations. I argue that control issues in corporation are exacerbated due to the increase in diversity of shareholder types and the rise in internationalization and liquidity of capital markets, and that in order to be better able to explain and predict shareholders’ actions, we need to know more about both shareholders’ social relations and their psychological dispositions towards ownership and control of the companies they “own”.

In order to obtain a more complete picture of extant approaches to ownership and control of corporations, I take up the positions of economists, sociologists, and (social-) psychologists and explore the issue of corporate ownership and control from three different points of view. My first study, which assumes a financial economics perspective, is based on agency theory and contains an extensive and, to the best of my knowledge, the first empirical investigation into CEO turnover in the Swiss context. My findings suggest that the control mechanisms are working well in Swiss corporations, albeit only to the extent that the CEO is not the founder of the company or related to the founding family shareholders. In my second study, I implicitly focus exclusively on turnover of those CEOs who are not related to the founding family; that is, given that CEO changes are virtually non-existent in those companies where the CEO has family ties with the owners, the focus in the second study is actually on non-founder- and non-family-controlled corporations. In this second study I take on a sociological perspective and point up the fact that all economic arrangements are embedded in social relations and that, therefore, when investigating CEO labor markets, we need to take into account the actors’ networks and social capital. As my findings suggest, directors and owners make use of their social capital not only as a means of power over the CEO but also as a means for obtaining more and finer-grained information on the ability and effort of the incumbent CEO. Moreover, social ties and networks are found to increase the “associability” of owners and to raise their motivation to become involved in corporate control. Motives and passions as opposed to interests and incentives (Hirschman, 1977) were the main subject of my third study. From a social-psychological point of view, I maintain that in order to be able to understand shareholder behavior in its full breadth and depth, we need a finer-grained classification of shareholder types and greater insight into shareholders’ self-conception as owners of companies. My attempt to lay the foundation for a behavioral theory of ownership suggests that shareholders’ legal and psychological ownership interact to define both their propensity to become involved in corporate control and the tactics they choose to achieve this goal. In general, I view sharehold-
ers’ psychological ownership to be positively associated with the likelihood of CEO turnover.

Overall, the findings in this dissertation suggest that insights into the future of the corporation are best obtained by taking a closer look at the interests and motives of those who provide for capital in modern companies and are eager to take control, thereby co-determining the creation and distribution of wealth in society. While the intellectual inquiry into who controls the capitalist firm has a long history, scholars have typically taken up a normative point of view as their work has centered either on the “capitalist class” (Zeitlin, 1974) or on the political conditions enhancing or impeding the efficient control of the corporation. For example, many studies in the Marxist tradition are inclined to adhere to the dichotomization of capitalist vs. working class. From this point of view, control issues in the modern corporation are discussed against the background of workers’ exploitation by members of the capitalist elite. The salient question is usually whether managers’ interests are more aligned with the interests of the elite or with the interest of workers. Zeitlin (1974), for instance, in contrast to Berle and Means (1932) argues that managers work in the interests of the capitalist class. Other scholars such as Useem (1984) and Glasberg and Schwarz (1983) state the emergence of a new “caste” made up of a “networked elite” of managers and directors who sit on each others boards and stick together firmly in order to maintain their bastions of power.

Other inquiries into corporate control focus rather on the conditions surrounding shareholder involvement and managerial discretion in responding to shareholder demands than on the class struggle between owners, managers, and workers. For example, in an investigation of the pattern of corporate ownership around the world, Roe (2003) puts forward the argument that the keeping up of large blockholders in European economies has to be viewed as the result of political decisions in social democracies which impede the development of an efficient takeover market, thereby necessitating the emergence of alternative governance mechanisms. Similarly, Davis and Thompson (1994) argue that corporations are not an "economic necessity" which evolved as the most efficient legal form, but rather, that they are embedded in social structure and are thus the upshot of power and political struggles. The authors contend that investors have incentives to influence management but that the political climate and legal restrictions in the U.S. regulatory environment have prevented them from becoming actively involved in corporate control. Finally, Useem (1993; 1996) has drawn our attention to the fact that managers depend on support from the organizational environment. As a result, the focus on financial conceptions of control and the rise of shareholder activism in our times have triggered savvy responses from managers, who make an effort to re-structure their operation in order to mollify shareholders.

More often than not, popular inquiries into the boon and bane of the modern corporation have explicitly and implicitly wandered off into its reification. Exemplary for a popular examination of the modern firm is the Canadian documentary “The Corporation”. The filmmakers consider the corporation as a person and evaluate its behavior
towards society as a psychologist might evaluate an ordinary person by using the criteria specified in the *Diagnostic and Statistical Manual of Mental Disorders*. Allegedly, the psychological diagnosis of the “corporate person” reveals all symptoms of psychopathy such as callous unconcern for the feelings of others, incapacity to maintain enduring relationships, reckless disregard for the safety of others, deceitfulness, incapacity to experience guilt, and failure to conform to social norms and legal rules⁸, etc.

Thus, both popular and scholarly examinations into the modern corporation tend to drift off into class discussions and dichotomizations, while popular accounts view corporations oftentimes as the root of all evil. Starting with this dissertation, I would like to put forward the argument that neither the demonization of the corporation nor its dissection into bromidic us-vs.-them simplifications will contribute to our better understanding of the division of rights and duties in this important institution. Rather, a more in-depth inquiry into the motives, interests and propensity of corporate owners to capture their rights and duties seem to be the most promising way to obtain more insight into the behavior of the corporation and, therefore, also into the drivers of the transformation of capitalist society.

⁸ http://www.thecorporation.com/
References


Curriculum Vitae

Katarina Sikavica

Born on April, 23rd 1973

Education

1986-1994  „Klassisches Gymnasium“ (grammar school) Type B, Olten/Switzerland
1997-2002  Studies in Communication Science (major) and Management (minor) at the University of Zurich/Switzerland; degree: MA UZH
2003-2008  PhD in International Management at the University of St. Gallen/Switzerland; degree: Dr. oec. HSG
2008-     Post-Doc Studies at the Munich School of Management, Ludwig-Maximilian’s-University, Munich/Germany

Academic Experience

2003-2005  Research assistant at the Institute for Mass Communication and Media Research, University of Zurich/Switzerland
2003-2006  Research assistant at the Institute for International Management, University of St. Gallen/Switzerland
2006-2007  Research assistant at the Institute for Labor Economics and Labor Law, University of St. Gallen/Switzerland
2007-2008  Full-time scholarship of the Swiss National Science Foundation as a visiting fellow at the Kellogg School of Management, Chicago, IL/USA
2008-     Research associate at the Center of Basic Organizational Research, Ludwig Maximilian’s University, Munich/Germany