

# Conservative boards more likely to dismiss CEO

December 4 2019

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When considering an organisation's long-term survival, existential threats that come to mind include external competition or technological disruption. But a potential threat lurks within the firm itself—organisational misconduct among employees can destroy billions of dollars of market value and result in lasting reputational damage.

In cases of financial misconduct, organisations have been known to take strong actions such as dismissing the CEO. Curiously, some boards prefer to take limited or no action toward the CEO, even if it results in criticism that they are deficient in their oversight role.

While the past literature on corporate governance covered board independence and loyalty to the CEO, none examined how the [political ideology](#)—a set of beliefs and values—held by [board members](#) can also influence the process of CEO dismissal. This gap in knowledge piqued the interest of David Gomulya, Assistant Professor of Strategic Management at the Singapore Management University (SMU) Lee Kong Chian School of Business.

"The earliest trigger for my interest in this research topic was the Great Recession that started in 2007 which affected many people," he said. "It was puzzling why not all CEOs are replaced if their firms restated their earnings downward because, at least symbolically, CEOs are usually replaced to signal that the firm is serious in correcting for its mistakes."

In an article published in *Strategic Management Journal*, titled "Political ideology of the board and CEO dismissal following financial misconduct," Professor Gomulya and colleagues examined US S&P 1500 firms that were charged with financial misconduct and required by the Securities and Exchange Commission to restate their earnings within the ten-year period from 2003 to 2012.

To assess a board's political ideology, the researchers used a scoring system for each board director that ranged from -1 to +1. A score of -1 indicated that all donations were made to the Democratic Party while a score of +1 indicated that all donations were made to the Republican Party.

According to their study, politically conservative boards were more

likely to respond by dismissing the CEO than would liberal boards. "Our findings suggest that the ideology of board members can influence critical actions that they take," he said.

By incorporating an important but often overlooked aspect of [corporate governance](#), Professor Gomulya hopes that his study on political ideology and CEO dismissal will complement existing literature on organisation-level behaviours and outcomes.

"We hope this study spurs future research to better understand the interaction between the beliefs of key decision makers and their actions," he said. "Recent trends in politics and business seem to suggest that such factors, although perhaps irrational, may play a larger role than we probably give credit for."

**More information:** U. David Park et al. Political ideology of the board and CEO dismissal following financial misconduct, *Strategic Management Journal* (2019). [DOI: 10.1002/smj.3088](https://doi.org/10.1002/smj.3088)

Provided by Singapore Management University

Citation: Conservative boards more likely to dismiss CEO (2019, December 4) retrieved 27 April 2024 from <https://phys.org/news/2019-12-boards-dismiss-ceo.html>

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