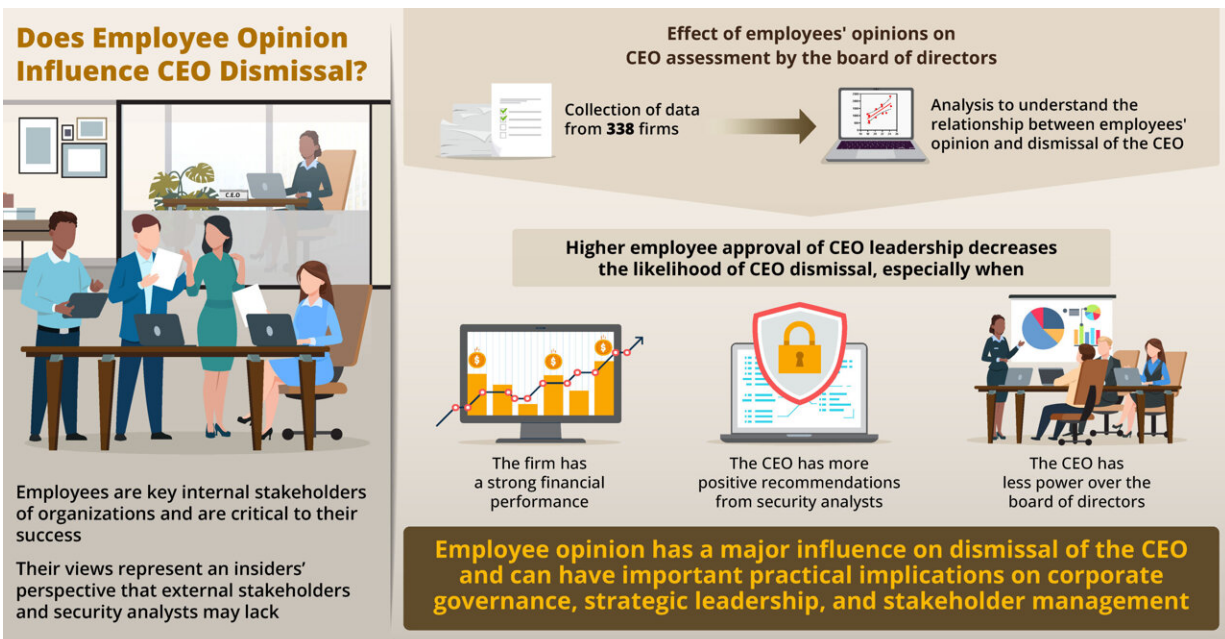


New study describes how employee opinion impacts CEO dismissal

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Do Employees' Views Matter in Corporate Governance?
The Relationship Between Employee Approval and CEO Dismissal
Wang et al. (2022) | Strategic Management Journal | DOI: 10.1002/smj.3465



Employees are key internal stakeholders of organizations and are critical to their success. Credit: Strategic Management Society

Corporate governance decisions, like CEO dismissal, can disrupt organizations. As a result, the board of directors treads with caution while making such decisions. Previous research suggests that boards rely on factors like financial performance and security analyst recommendations to decide on CEO dismissal. A new study published in

the *Strategic Management Journal* in October suggests that employees' opinions of a CEO are also likely to influence the board's decision on CEO dismissal.

"Using financial performance and security analyst recommendations as assessment criteria for a CEO's leadership has limitations," says Danni Wang, one of the study's authors who serves as an assistant professor of management and [global business](#) at Rutgers University. "Firm performance does not fully reflect a CEO's leadership as it can be influenced by factors beyond the CEO's control, and security analyst recommendations may be biased or based on an external perspective."

Wang, along with co-authors Qi Zhu of Hong Kong Polytechnic University, Bruce J. Avolio of University of Washington, David Waldman of Arizona State University, and corresponding author Wei Shen of Arizona State University, argued that as important internal stakeholders of an organization, employees' approval of the CEO is likely to influence the board's decision to retain or dismiss the CEO.

"Employees possess crucial inside information about the CEO based on their experiences, and as implementers of the CEO's strategies in the firm, their opinion of the CEO's leadership has important consequences," says Zhu, an assistant professor of management.

"Moreover, because their job security is directly associated with the firm's success or failure, they have an incentive to monitor the CEO's leadership and strategies."

The researchers also contended that employees' opinions are more likely to influence the board's decision when the firm's [financial performance](#) is relatively strong, analyst recommendations are more positive, and the CEO is less powerful vis-à-vis the board.

To assess these arguments, the authors collected data on 338 firms and

1,252 firm-year observations from Glassdoor.com (an online platform) from 2010 to 2018. Application of regression analysis models to these data yielded results consistent with their hypotheses.

"We observed that employee approvals negatively influence CEO dismissal, that is, higher employee approval lowers the chances of CEO dismissal by the board," explains Avolio, a renowned professor of management and Mark Pigott Chair in business strategic leadership.

"Moreover, we found that the negative relationship of employee approval on CEO dismissal is stronger when [firm performance](#) is more positive and analyst recommendation is less negative, and vice versa," adds Shen, a noted researcher and professor of [strategic management](#). "A powerful CEO, on the other hand, will weaken the effect of employee approval on dismissal decision."

By demonstrating the effect of employee approval on CEO dismissal, these findings offer a key contribution to stakeholder theory, as well as strategic leadership and corporate governance literature. This study also reveals the [boundary conditions](#) whereby [employee](#) opinions become especially relevant for CEO dismissal.

"Employees are gaining importance as internal stakeholders, and their views on CEO approval cannot be ignored," concludes Waldman, a professor and Dean's Council Distinguished Scholar of management and leadership. "CEOs could do well by building a good reputation among employees. Employees should also realize their meaningful role as internal stakeholders and voice their opinion when asked to do so."

More information: Danni Wang et al, Do employees' views matter in corporate governance? The relationship between employee approval and CEO dismissal, *Strategic Management Journal* (2022). [DOI: 10.1002/smj.3465](https://doi.org/10.1002/smj.3465)

Provided by Strategic Management Society

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