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Three Essays on Structural Power in Corporate Governance: A Critique and Reappraisal

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Three Essays on Structural Power in Corporate Governance: A Critique and Reappraisal

ABSTRACT

Governance theorists have been notoriously concerned with the generation and allocation of power among a firm's constituents and, with few exceptions, have conceived of it as structural. Throughout this extensive body of research, one major limitation lies in its incomplete and provisional attempt to reconcile the structural and functional dimensions of power and to show how they are systematically interrelated. It is therefore altogether fitting for the present work to seek this integration. Based on three studies—of which two empirical and one conceptual—this dissertation cuts a swath through fields where structuralist assumptions remain especially prevalent and offers a more organic understanding of who (truly) governs the business firm. Essay 1 and Essay 2 contribute to the extensive literature on CEO succession, where power dynamics are most fraught. For the first time, research on this salient topic benefits from empirical validation (or confutation) of the classic theories used to explain CEO dismissal—deconstructing, at first, and then refining its underlying political dynamics. In a downward arc from the upper to the lower echelons, the third essay explores the foundational concept of ownership power, advancing a configurational understanding of the construct. To enhance understanding of the substantive issues raised later in this work, each essay makes use of different epistemological approaches, causal logics and analytical methodologies aimed at developing theory.

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INTRODUCTION

Power, in its various forms, has shaped the scholarly discourse of our field for as long as our memory reaches. From economists to sociologists, research in the social sciences remarkably agrees that each and every aspect of organizational life somehow circles back to a discussion around power (e.g., Barnard, 1938; Dahl, 1957; French & Raven, 1959; Pfeffer, 1992). Classic accounts define power as the ability of those who wield it to create an enabling system for their goals (Salancik & Pfeffer, 1977). In this definition, power exists inasmuch as a society or organization is stratified vertically such that, dominant coalitions naturally emerge, rights and resources are unequally distributed across members, and different role positions exist to reinforce and reify this system (Magee & Galinsky, 2008).

Since the advent of the modern corporation and early theorizing on bureaucratic forms (e.g., Weber, 1958, 1968), corporate governance research has long been concerned with the power of organizational constituents as the way in which return and control rights are allocated and restricted (Berle & Means, 1932; Grossman & Hart, 1986). Agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976), and its behavioral corporate governance adaptations (Westphal & Zajac, 2013), has cast a long shadow in the social sciences and has since been invoked to discuss the caveats of dispersed control and the equitable allocation of ownership rights. At its core, the theory looks into the principal-agent relationships between stockholders and managers or employers and employees. Still others have insisted that principal-agent relationships are seldom so pristine, and, along some nodes of the organizational hierarchy, each actor can be principal to some and agent to others (Shapiro, 2005).

Upper-echelons theory (e.g., Hambrick & Mason, 1984; Hambrick, 2007) has likewise approached intra-organizational power dynamics by examining a firm's structural milieu. The study of power within this tradition has proceeded from an understanding of how executives' characteristics—chiefly, composition, structure, and processes—shape firm decisions and

outcomes (Finkelstein, Hambrick, & Cannella, 2009). Nowhere is this more evident than in upper echelons focus on chief executive officer (CEO) power (Finkelstein, 1992). From the standpoint of its role in theoretical and empirical models, CEO power is as palpable as presumed that we may as well designate it as a shadow construct. Pedestrian as this statement may be, what I wish to emphasize is that power constitutes a defining quality of the CEO position and, implicitly or explicitly, it is ubiquitous in our works.

Throughout this extensive body of research, the theme is simple: organizations are populated by different stakeholders, and the distribution of control—who governs and what is the extent of that control—is an important question to be asked about firms. Because of this stratification, it is then tacitly assumed that organizational constituents exert unequal influence on those decisions from which power emerges as a planned or incidental consequence. The assumptions underlying this discussion thus far echo classic conceptualizations of organizational politics and can be summarized as follows: power and influence in firms are conceived of as structural and conferred upon formal role positions. In what follows, I challenge this premise.

Let us consider, for instance, the CEO role. The idea that the executive role is one of power has thus far been so widely accepted as to border on the axiomatic. Most upper echelons scholars, therefore, endeavored not to predict *whether* CEOs are powerful, but rather to explain *why* they are so and in what degree (Busenbark, Krause, Boivie, & Graffin, 2016; Daily & Johnson, 1997; Finkelstein, 1992). Governance theorists have long examined structural sources of CEO power—including CEO-chair duality (e.g., Krause, Semadeni, & Cannella, 2014), influence over board composition (e.g., Joseph, Ocasio, & McDonnell, 2014), and ownership concentration (e.g., Pollock, Fischer, & Wade, 2002)—and how these levers tend to be most effective when working in bundles (Busenbark et al., 2016; Lewellyn & Fainshmidt, 2017).

Owing to the dominance of this theorizing, few studies have meaningfully engaged with power as something negotiated, enacted, and interpreted *within*—and often *in spite of*—structures, rather than being defined by them. The limitations of this view become evident when we consider that, while structural power is embedded in the executive role, some CEOs wield far less influence than anticipated or desired (Fredrickson, Hambrick, & Baumrin, 1988). Moving down the organizational hierarchy, employees appear to be equally plagued and blessed by the same contradictions, as evidenced by the prolific body of research on employee governance and democratic control (e.g., French, 1987). While I do not contend that all power is socially constructed, I do assume that structures interact with and, only eventually, reify more latent dynamics. Although this endeavor may appear best suited to qualitative work, I argue that even quantitative research can reach this level of depth—provided our models are calibrated for theory-building. The next logical question becomes then whether and how this understanding can be achieved.

This dissertation critically examines this unitary approach to organizational power, viewed as structural position, in corporate governance. Discussion revolves and ultimately solves into the long-standing question of “who governs?” the business firm (e.g., Salancik & Pfeffer, 1977) and, especially, what happens when the foundations of that control are constrained or contested. Having split groups into ‘leaders’ and ‘leaded’, ‘managers’ and ‘employees’, each of these three essays unpacks a different structuralist assumption, and its relation to varying outcomes, by questioning whether such a distinction can be swayed for both the upper and the lower echelons of a company.

Much of the present work explores these dynamics in the context of CEO succession and dismissal, viewing these upending events as a rare window into a firm’s power cleavages. Alternatively, power permeates this investigation into other key company stakeholders. To enhance understanding of the substantive issues raised later in this work, each essay is

distinguished by its use of different causal logics and analytical methodologies aimed at developing theory.

In Paper 1, “Firm Performance and CEO Dismissal: A Necessary Condition Investigation”, I investigate the following research question: Does CEO dismissal typically occur *only if* firm performance is poor? The corporate governance literature across disciplines has developed a complex causal web of intervening factors that weaken or strengthen the underlying relationship between poor organizational performance and CEO dismissal (Fredrickson et al., 1988; Haleblan & Rajagopalan, 2006). Yet, the complexity of extant models belies the underlying simplicity of the causal logic involved.

With this essay, I seek to disentangle dismissal of its peripheral causes, many of which rest on assumptions about managerial power and discretion as bulwarks against removal (Ocasio, 1994; Shen & Cho, 2005). With this linkage having reached empirical, but not yet theoretical, saturation, I aim to surface its underlying causal mechanisms. Based on the assumptions of shareholder primacy in agency theory, I propose that while many factors—such as wrongdoing or political infighting—may prevent an underperforming CEO from being dismissed, a CEO will *not* be dismissed if their firm is performing at a high level.

Unlike prior sufficiency treatments of the said relationship, this work employs Necessary Condition Analysis (NCA; Dul, 2016) as a novel analytical tool and method for developing theory. Results show that CEO dismissal typically occurs *only if* an organization’s total shareholder return is in the bottom half of the range. In contrast, and perhaps surprisingly, poor return on assets shows more muted, if any, effects. The results of this study contribute to agency theory by elaborating its boundary conditions; while the theory has long emphasized boards’ discretion and structural capacity to dismiss CEOs, these results challenge (and refute) the sufficiency of this structural lens by demonstrating that performance thresholds serve as preconditions that enable the structural levers of dismissal to function. By recasting the

relationship in terms of causal necessity, I hope to demonstrate the potential value of incorporating this causal logic into theoretical and empirical models.

While the first essay strips CEO dismissal of its ancillary causes, Paper 2, “Born to Die? A Configurational Study of New CEOs (Non-) Dismissal”, builds on this rather raw relationship by adding further theoretical layers. Structural power, as noted above, reflects the properties of a given organizational arrangement rather than the way this power is performed or enacted in practice. This constructivist dimension of power becomes particularly salient in the context of leadership transitions. As noted by prior studies (e.g., Berns & Klarnar, 2017; Joshi, Hambrick, & Kang, 2021; Quigley & Hambrick, 2012; Yi, Zhang, & Windsor, 2020), when predecessors maintain strong control over the succession process or fail to relinquish power properly, the formal control typically expected by incoming CEOs often conflicts with the actual discretion they encounter. Nowhere are the limitations of a structural view of power more evident than at this juncture.

Building on generational views (e.g., Burton & Beckman, 2007; Joshi et al., 2021) and sociopolitical arguments (e.g., Cyert & March, 1963; Shen & Cannella, 2002), I examine how the juxtaposition of former and incumbent CEO roles jointly shapes the conditions under which successors survive. Importantly, I address the long-standing causal question of why some successors are dismissed early in their tenure while others are not (e.g., Pavićević & Keil, 2025; Zhang, 2008). To provide an asymmetric explanation of both early CEO dismissal and its contrastive instance (i.e., CEO survival), I employ fuzzy-set Qualitative Comparative Analysis (fsQCA; Ragin, 2000, 2008). I construct a model of predecessor and successor CEOs attributes, which includes the novel construct of CEO generativity mindset (e.g., Joshi et al., 2021) and provides its first empirical validation. A rich set of findings shows that the extent of predecessor-successor (mis)fit is key to explaining variations in dismissal rates, especially early

in a CEO's tenure. Chiefly, by surveying both the outcome and its absence, this study moves closer to explaining the phenomenon through the language of causality.

Finally, Paper 3, "The Role of Employee Ownership, Financial Participation, and Decision-Making in Corporate Governance: A Multilevel Review and Research Agenda", circles back to agency theory-informed views of power in corporate governance, but this time through a different topic and category of stakeholders: the allocation of ownership rights to employees. Different theories have been developed to test the relationship between employee ownership and firm performance, as well as between employee ownership and employee satisfaction, based on diverse assumptions about the extrinsic, intrinsic or instrumental role these mechanisms play (Klein, 1987). Relatedly, studies have examined whether ownership is perceived by workers primarily as a financial incentive or as a mechanism of control, yielding mixed evidence (French, 1987; Hammer & Stern, 1980).

Given the fragmentation of ownership combinations, current theoretical efforts to unravel the employee ownership bundle have failed to bridge certain enduring conceptual divides. To address this, I review and integrate decades of research on the topic, juxtaposing theory and evidence across three domains: employee ownership, financial, and decisional participation. A core question I explore is whether residual and control rights operate synergistically or in a mutually exclusive manner, and I find evidence of both substitutive and complementary effects. Through a multilevel analysis of the literature, I show how the desired effects of ownership mechanisms are thought to occur as the outcomes of *fit* combinations between their expressions within firms and across national contexts.

Taken together, these three papers substantially contribute to the governance literature by exposing the limitations of classic views that have long guided our understanding of who (truly) governs the business firm. Two of these essays contribute to the extensive literature on CEO succession. For the first time, research on this salient subject will benefit from empirical

validation (or confutation) of the classic theories that have been used to explain CEO dismissal—deconstructing, at first, and then refining its underlying political dynamics. In a downward arc from the upper to the lower echelons, the third essay contributes to the foundational concept of ownership power, advancing a configurational understanding of the construct. Chiefly, these three essays demonstrate the value of incorporating alternative causal logics into the very fabric of our theories and address the paucity of empirical models available for testing them.

In sum, I cut a swath through the various fields where structuralist assumptions are especially prevalent and offer a more organic view, suggesting that we might need to rethink not only our conceptual models, but also how these models are constructed. I hope this endeavor shows how contemporary scholarship might make better use of, and contribute to, sociopolitical theories in corporate governance.

Paper 1

FIRM PERFORMANCE AND CEO DISMISSAL: A NECESSARY CONDITION INVESTIGATION

ABSTRACT

Extensive scholarship has shown that poor firm performance increases the probability of CEO dismissal. Agency theory provides a ready explanation for this relationship: CEOs are the agents of shareholders, and the board of directors who acts on shareholders' behalf will replace the CEO if the CEO is failing to advance shareholders' interests. Such a theoretical explanation assumes, however, a sufficiency relationship that regularly fails to manifest. Many firms perform poorly for years and the CEO is not dismissed. Moreover, there are many non-performance-related reasons for CEO dismissal, such as wrongdoing or political infighting. Thus, we raise the question of how necessary poor firm performance is for a CEO to be dismissed. Based on the assumptions of shareholder primacy in agency theory, we propose that while many factors may prevent an underperforming CEO from being dismissed, a CEO will *not* be dismissed if their firm is performing at a high level. A Necessary Condition Analysis of S&P 1500 firms from 2000 to 2021 shows that CEO dismissal typically occurs *only if* an organization's total shareholder return is in the bottom half of the range. In contrast, poor return on assets shows minimal evidence as a necessary condition for CEO dismissal.

Keywords: CEO dismissal; CEO succession; firm performance; performance measurement; necessary condition analysis

INTRODUCTION

The empirical linkage between firm performance and chief executive officer (CEO) dismissal is one of the most fundamental relationships studied in corporate governance research (Gentry, Harrison, Quigley, & Boivie, 2021). Scholars continue to investigate and debate what makes CEO dismissal more or less likely *in the context* of poor performance, but poor performance itself has become a ubiquitous determinant in conceptual and empirical models (Fredrickson et al., 1988; Haleblan & Rajagopalan, 2006). Though conceptualizations of CEO dismissal range from the purely ceremonial to the truly meaningful, usually varying with scholars' assumptions about managerial discretion (Shen & Cho, 2005), the fundamental explanation for the performance-dismissal link lies with agency theory. The CEO is the agent of shareholders and is responsible for promoting shareholder wealth through firm decisions. If the CEO fails to fulfill this responsibility, the board of directors that represents shareholders' interests will remove the CEO and find a more suitable replacement.

Many have noted, however, that poor firm performance is hardly a sufficient cause of CEO dismissal (Hilger, Mankel, & Richter, 2013). The correlations between a variety of performance measures and dismissal, while generally negative and statistically significant, are often quite low in practical terms. Many factors, such as subjective evaluations and sociopolitical dynamics, interrupt the assumed causal process of poor performance resulting in a board's decision to oust its CEO (Boeker, 1992; Zajac & Westphal, 1996). These factors have been the focus of much CEO dismissal research, with scholars treating the baseline sufficiency relationship (i.e., *if performance is poor then the CEO will be dismissed*) as the foundation of more complicated models (e.g., *if performance is poor and CEO power is low, then the CEO will be dismissed*). And yet, other scholars have deviated from traditional agency theory assumptions and predicted CEO dismissal as a function of non-performance-related factors, such as the CEO's gender (Gupta, Mortal, Silveri, Sun, & Turban, 2020) or socio-emotional

wealth (Andrei, van Oosterhout, & Sauerwald, 2023). Implicit in such studies is the assumption that certain conditions may result in CEO dismissal even if firm performance is not suffering. If this is true, it suggests that poor organizational performance is not only *insufficient* to cause CEO dismissal, but also *unnecessary*.

While the (in)sufficiency of poor performance to cause CEO dismissal is routinely tested in increasingly complex models, the necessity of poor performance for dismissal to occur remains wholly unexamined. Traditional methods of analysis offer few avenues to test necessity in empirical relationships, with the assumptions of correlation- and set-based analytical models primarily rooted in logics of sufficiency. Thus, to more fully illuminate the nature of the relationship between organizational performance and CEO dismissal, we examine the typicality of CEO dismissal events across levels of organizational performance using the recently developed Necessary Condition Analysis (NCA; Dul, 2016). Unlike regression or Qualitative Comparative Analysis (QCA), which estimate the sufficiency of causes to produce effects in a probabilistic or deterministic fashion, respectively, NCA estimates the necessity of a cause for an effect to occur based on a logic of typicality (Dul, 2024). Using market- and accounting-based performance data on S&P 1500 firms from 2000 to 2021, inclusive, we investigate the following research question: Does CEO dismissal typically occur only if firm performance is poor?

Our analysis produces several theoretically informative—and in some cases, surprising—results. Overall, we find strong evidence that poor stock market performance, specifically total shareholder return (TSR), is necessary for CEO dismissal to occur. Or, more specifically, if the firm's stock is performing well, the CEO will not be dismissed. The necessity of poor stock market performance for dismissal holds across alternative measurements, including relative to past performance and relative to industry performance. Surprisingly, poor stock market performance remains a necessary condition for dismissal even

if the CEO is dismissed for personal behavior or misconduct (i.e., when the disclosed reason for dismissal is not performance). This finding could explain why Gentry et al. (2021) found that the relationship between performance and dismissal actually weakened when they removed behavior-related dismissals. In contrast, we find little evidence that poor accounting performance, specifically return on assets (ROA), is necessary for CEO dismissal. This is a bit surprising given the number of significant, negative correlations between ROA and CEO dismissal reported in the literature (Schepker, Kim, Patel, Thatcher, & Campion, 2017).

There are a number of important theoretical, methodological, and practical implications that we can draw from this analysis. We find that poor stock market performance is typically necessary for CEO dismissal to occur. What does this mean for research? Theoretically, it implies that boards are primarily focused on stock performance when evaluating CEOs, and that they are unlikely to take action against CEOs—even for misconduct or other behavioral issues—unless stock performance drops below a particular level. This suggests that agency theoretic assumptions about boards' responsibility for stewarding shareholder value are well-engrained in the boardroom. Methodologically, this finding calls into question the modeling of CEO dismissal without incorporation of a baseline performance relationship. For regression-based models in particular, which form the lion's share of dismissal studies, our research suggests it may be ill-advised to examine non-performance-related causes of CEO dismissal without accounting for the baseline performance effect (i.e., without also interacting the causes with performance).

Perhaps just as importantly, we find that low ROA is not typically necessary for CEO dismissal. ROA, in one form or another, is the most frequently used performance measure included in models of CEO dismissal (Souder, Shaver, Harris, & Alrashdan, 2024; Wibbens & Siggelkow, 2020). Ours is not the first study to produce questionable results for the ROA-dismissal relationship. Gentry et al. (2021) and Flickinger, Wrage, Tuschke & Bresser (2020),

also found stock market performance to be a much better probabilistic predictor of CEO dismissal. That poor ROA seems to be neither necessary nor sufficient for dismissal to occur indicates it might be time for scholars to reevaluate its use in dismissal models. It also suggests that accounting performance measures—or at least the accounting ratios typically studied by management scholars—may not influence board decisions as much as previously thought.

Overall, our study illuminates the causal complexity underlying the seemingly straightforward agency theory explanation for a relationship between poor firm performance and CEO dismissal. It suggests that stock market performance, in particular, pervades board decision making, perhaps informing even decisions that should be made irrespective of performance concerns. It also suggests that scholars may need to rethink not only how they measure performance in models of dismissal, but also how those models are constructed. Necessity is as relevant to causal thinking as sufficiency is (Dul, 2024; Mahoney, 2021) and our research demonstrates the potential value of incorporating a logic of necessity into theoretical models.

THEORETICAL BACKGROUND

Conceptualizations of CEO Dismissal

That some organizations dismiss their leaders in response to poor organizational performance is a fact so well accepted as to border on the axiomatic. As such, initial studies on the topic endeavored not to predict whether dismissal for poor performance occurs, but rather to explain why it occurs with such regularity. There are three major conceptualizations of CEO dismissal: ritual scapegoating, adaptive change, and settling up. All are consistent with a broader agency-theoretic view of CEO dismissal as a mechanism for protecting shareholder wealth, with differences among them deriving mostly from assumptions about CEOs' discretion (Shen & Cho, 2005). Ritual scapegoating conceptualizations CEO dismissal as a symbolic coup in which the board uses the dismissal to divert shareholders' attention from

deeper systemic problems (Cannella & Rowe, 1995; Gangloff, Connelly, & Shook, 2016). This perspective assumes that leaders have little actual influence, and so replacing the CEO precedes little change in organizational performance (Cannella & Lubatkin, 1993; Quigley & Hambrick, 2012; Schepker et al., 2017). Post-dismissal improvements in performance are attributed to slump-end effects or regression-to-the-mean (Gamson & Scotch, 1964; Khurana, 2002).

With the development of upper echelons theory, scholars have devoted considerable attention to the impact that individual leaders, and particularly CEOs, have on their organizations (Hambrick & Mason, 1984; Quigley & Graffin, 2017; Quigley & Hambrick, 2015). Indeed, whereas CEOs may have had limited discretion in the past, there is ample evidence in favor of a more recent increase in the “CEO effect” on company outcomes (Hambrick & Quigley, 2014; Quigley & Graffin, 2017; Quigley & Hambrick, 2015). This perspective assumes that CEOs are impactful, and thus CEO dismissal constitutes a form of adaptive change, wherein boards dismiss CEOs following poor organizational performance so that a new CEO can change course.

Finally, scholars approaching the issue from an economics background have conceptualized dismissal as “the ultimate form” of settling up (Lee, Gupta, & Hambrick, 2022; Wowak, Hambrick, & Henderson, 2011: 724), a market mechanism that disciplines poor performance and rewards superior performance across the labor market, ultimately promoting high-performers and weeding out low-performers (Fama, 1980. Wowak et al. 2011), in addition to finding strong empirical support for the baseline relationship, found that CEOs were particularly likely to be dismissed following poor organizational performance if they were highly overpaid during their tenure. The authors interpreted this as evidence that CEO dismissal for poor performance can serve as an economic settling up that corrects for a lack of return on investment in the CEO.

Whatever scholars' assumptions about the CEO's culpability for poor performance (i.e., scapegoating vs. settling-up) or about the new CEO's ability to change performance (i.e., adaptive change), each conceptualization is consistent with an agency theory view of dismissal, in which CEO dismissal constitutes a governance mechanism whereby the board of directors seeks to satisfy shareholders by removing an underperforming agent. Nevertheless, many CEOs lead underperforming firms for years without being dismissed, and this fact has prompted scholars to investigate why some CEOs face dismissal while others do not in similar performance contexts.

The corporate governance literature across disciplines has, drawing on agency theory and its behavioral corporate governance adaptations (Westphal & Zajac, 2013), developed a complex causal web of intervening factors that weaken or strengthen the underlying relationship between poor organizational performance and CEO dismissal (Fredrickson et al., 1988; Haleblan & Rajagopalan, 2006). Nevertheless, the complexity of extant models belies the underlying simplicity of the causal logic involved. The assumed relationship between performance and dismissal across models remains: *if* organizational performance is poor, *then* the CEO is likely to be dismissed. Starting with this statement, researchers then theorize on conditions that make it more or less true. It is a sufficiency causal logic, the type of logic that forms the foundation of most organizational hypothesis development and testing. However, given the wide array of factors that have been shown to weaken the sufficiency of poor performance for CEO dismissal to occur, it is worth asking whether a sufficiency logic is the most accurate explanation for the perennial performance-dismissal correlation found in the literature. We propose that a more parsimonious explanation for this relationship is one of necessity, rather than sufficiency: *if* organizational performance is *not* poor, *then* the CEO is typically *not* dismissed.

Poor Performance as a Necessary Condition

Causal necessity—often characterized in terms of a counterfactual—is frequently used in theoretical arguments, but rarely hypothesized or tested explicitly. With most research on CEO dismissal relying on probabilistic methods of hypothesis testing, scholars naturally adopt a joint logic of necessity and sufficiency in developing their theoretical arguments. Probabilistic methods generally do not allow for causal asymmetry, assuming that if a predictor is sufficient to produce an outcome, the predictor’s absence must also be sufficient for the outcome not to occur (i.e., the predictor is necessary). However, many scholars have observed that causal asymmetry abounds in social phenomena, wherein a cause’s absence need not have the mirror effect of its presence (e.g., Fiss, 2007; Furnari, Crilly, Misangyi, Greckhamer, Fiss, & Aguilera, 2021).

There are two fundamentally different causal arguments for a relationship between poor performance and CEO dismissal. The one implied in nearly all empirical research on CEO dismissal is that poor performance triggers a board of directors’ attention to the CEO’s (in)ability to lead the firm, and as a result, the board acts to fire the CEO when an array of other conditions is also met (Haleblian & Rajagopalan, 2006; Wiersema & Zhang, 2011). This is a sufficiency argument. Alternatively, there is the argument that poor organizational performance creates a context in which the board is even willing or able to dismiss the CEO, with the final decision depending on other factors (Ocasio, 1994; Shin & You, 2023). This is a necessity argument.

On the surface, they may sound similar, and using traditional methods there can be no distinction in how they are tested. However, the counterfactuals illuminate the differences. In the first case, we must ask: if the firm is performing poorly, is it possible, or even likely, that the CEO is not dismissed? Given the relative infrequency of CEO dismissal events, even among poorly performing firms (Gentry et al., 2021), the answer seems to be “yes.” This calls

into question the sufficiency of poor performance to explain CEO dismissal, and accounts for the array of moderating factors researchers have attached to the baseline relationship.

In the second case, we must ask: if the firm is performing well, is it possible, or even likely, that the CEO is still dismissed? It is difficult to conceive of CEO dismissal as an exogenous event, given that it is a decision made by the board of directors, so such a counterfactual must refer to a case in which either the board mistook strong performance for poor performance or the reason for dismissal was not performance-related. Given CEOs' ability to control the board's access to and processing of information (Krause, Withers, & Waller, In Press; Tuggle, Sirmon, Reutzel, & Bierman, 2010), the former case seems far-fetched. However, there may be instances in which external parties, such as family owners or activist shareholders, force a CEO dismissal by painting a subjectively negative picture of performance (Chen, Cheng, & Dai, 2013). In the latter case, there are many documented situations where CEOs are dismissed for behavioral issues or other forms of misconduct (Arthaud-Day, Certo, Dalton, & Dalton, 2006), or potentially even personal disputes. In such situations, poor performance may not be a necessary condition. Consider the statement released by iGate Corp co-founder and board co-chairman Ashok Trivedi announcing the dismissal of CEO Phaneesh Murthy: "Mr. Murthy's departure was not related in any way to the company's operational or financial performance, both of which remain strong" (Thoppil, 2013). At least from the board's perspective, Murthy was fired for sexual harassment allegations at a time of strong firm performance. At the same time, however, even allegations of serious misconduct are often insufficient to prompt dismissal, as shown by prominent cases of tarnished yet undismissed CEOs (Park, Boeker, & Gomulya, 2020).

It is at least conceivable, then, that CEO dismissal does occur outside the context of poor firm performance. If this is true, it would justify the models that have been put forward testing main (sufficiency) effects of non-performance-related predictors on the likelihood of

dismissal. At the same time, the prominence of organizational performance in extant theoretical and empirical models of dismissal, as well as the many barriers preventing dismissal even under conditions of poor performance, suggest that it would be highly *atypical* for CEO dismissal to occur at a firm performing well. This atypicality would suggest that the absence of strong organizational performance is a necessary but insufficient condition for CEO dismissal (For a discussion of typicality and its relation to necessity theorizing, see Dul, 2024).

Essentially, necessity would mean that the set of firms experiencing high performance and the set of firms dismissing their CEOs do not overlap (Goertz & Levy, 2007; Mahoney & Barrenechea, 2019).

Given that the empirical connection between poor performance and CEO dismissal is so well-established, and yet is demonstrably insufficient for CEO dismissal to occur, there are two logically possible—and non-exclusive—explanations: the relationship between performance and dismissal is entirely configurational, with performance causing dismissal under specific configurations of conditions, and/or poor performance is a necessary but individually insufficient condition for dismissal to occur. Prior research has explored the former, but none has yet explored the latter. Therefore, we provide the following hypothesis to motivate our empirical investigation, using the operator “only if” to signify necessity (see Krause et al., In Press):

Hypothesis: *CEO dismissal occurs only if organizational performance is not strong.*

METHOD

Extant methods of theory testing, particularly those commonly used to study events like CEO dismissal, are built on sufficiency logics and provide limited avenues for testing hypotheses related to causal necessity. Probabilistic methods, assuming that observations are generated as a probability distribution, incorporate an implicit relational symmetry, or at least continuity. Thus, they can illuminate causes that are both necessary and sufficient for an

outcome to occur, but are incapable of revealing if a cause is necessary but insufficient.

Grounded in set theory and Boolean algebra, QCA allows for causal asymmetry and includes a test for necessity. However, QCA, as a configurational method, is inherently focused on the sufficiency of configurations of causal factors (Fiss, 2011), and its conservative measures of fit often limit its ability to identify necessary conditions (Mello, 2021). When QCA does identify necessary conditions, it does so qualitatively—or *in kind*—determining whether X is necessary for Y without providing quantitative insights into the criticality of such necessity (Vis & Dul, 2018). As a result, configurational researchers seldom focus on necessity, and examine it mostly as a preliminary test prior to tests of sufficiency.

In the present study we employ Necessary Condition Analysis (NCA) as both an analytical framework and a way to advance theory in CEO dismissal research. In the following sections, we first describe the data we use to test our research question, and then provide an explanation of NCA and how it suits the purposes of our research (for an extensive discussion on NCA and its applications, we refer to Dul, 2016; Dul, Hauff, & Bouncken, 2023; Dul, Van der Laan, & Kuik, 2020).

Sample and Data Sources

We conduct our empirical tests on a sample consisting of all S&P 1500 firms for the years 2000 to 2021, inclusive, as reported by ExecuComp. For all firm-years, performance metrics were collected and calculated from COMPUSTAT Capital IQ. We source CEO dismissal data from Gentry et al. (2021). Their comprehensive CEO turnover and dismissal dataset is publicly available and regularly updated.¹ As an additional check, we cross-referenced each dismissal event with DEF14A filings. After matching the dismissal variable

¹ For the purpose of this study, we retrieved our dismissal variable from the most up to date version of the dataset provided by the authors (version 01312023). This latest version contains comprehensive data on CEO dismissal up to May 2022 and includes some additional edits and error checks compared to the initial version. The open-source database is accessible via the following link: <https://zenodo.org/records/4618103>

and accounting for missing data, our final sample consists of 45,764 firm-year observations, 3,347 unique firms and 1,301 dismissal events.

Measurement

The primary outcome of interest in our study is *CEO dismissal*, coded as 1 for cases of forced exit, and 0 for cases of either no turnover, voluntary turnover, or retirement. We draw these designations from Gentry et al. (2021). In dissecting motives and types of dismissal, their dataset offers the most detailed coding of CEO turnover available.

We use nine different firm performance operationalizations, covering both accounting and stock market performance, and including raw values as well as both historical and peer aspiration-relative values (Cyert & March, 1963; Ye, Yu, & Nason, 2021). For accounting performance, we use *return on assets (ROA)*, calculated as net income divided by a total book value of assets and winsorized to four standard deviations on either side of the mean to reduce the influence of extreme outliers. For market performance, we use the *1-year total shareholder return (TSR)*, calculated as the annual change in the price of a share of stock plus dividends reinvested, divided by prior year-end share price (Shin, Lee, & Bansal, 2022; Wowak et al., 2011). We used the natural log transformation of TSR to correct for right-skewness². Both ROA and TSR are ratio variables, which might be vulnerable to distortions as the dispersion of the ratio's denominator increases (Certo, Busenbark, Kalm, & LePine, 2020). We therefore also use *net income (NI)* as an unscaled performance measure. An inspection of NI's skewness and kurtosis—which measures deviation from normality and denotes sample peakedness and tail weight (DeCarlo, 1997; Westfall, 2014)—reveals how it exhibits significant leptokurtosis³,

² This transformation was particularly necessary for TSR, which can be problematic due to outliers on the high end, as it has a lower bound of -100% but no upper bound (Wibbens & Siggelkow, 2020). To ease our log-transformation, we used raw (real-valued) TSR and added a constant of 1 to retain negatives and zero values in the transformation. We also conducted analyses on a winsorized variant of TSR and obtained results consistent with those presented here (available upon request).

³ We used the Jarque-Bera goodness of fit test for normality which rejects the null hypothesis of normally distributed profits at the 1% significance level.

meaning the distribution presents sharp peaks and fat tails. Given NI's broad range and wide dispersion, we alleviate nonnormality using an inverse hyperbolic sine transformation (IHS) which, unlike log transformation, remains still defined for negative values and ensures that all values remain meaningful and comparable, especially when addressing heteroskedasticity in financial data (Norton, 2022).

Since NCA does not permit the inclusion of statistical controls, we conduct additional analyses using *industry-adjusted ROA*, *industry-adjusted TSR*, and *industry-adjusted NI* computed by subtracting from focal firm ROA (TSR, NI) the median industry ROA (TSR, NI) (Shin et al., 2022). All variables are calculated in the fiscal year prior to the CEO's departure. In addition, because NCA is a cross-sectional model, we also use performance measures adjusted for the historical reference point. Specifically, ΔROA is calculated as the change in ROA from the prior year, with the same calculation applying to ΔTSR and ΔNI . These time-differentiated variables go back to year $t-2$ due to the lag, and thus might include observations with a prior CEO. This could lead to spurious conclusions if the CEO had already changed from a prior year's poor performance. Therefore, in these models we only include observations where the CEO was the same individual from years $t-2$ to $t-1$. Table 1.1 reports the means, standard deviations, and correlation coefficients for all the data.

Analysis

NCA is based on the logic of causal necessity in which "the necessary condition allows the outcome to exist" (Dul, 2016: 11). The causal necessity of X for outcome Y can be described by the statements "X is necessary for Y" or "no Y without X." More precisely, relationships of necessity manifest different forms based on two orthogonal dimensions: 1) the level of X (high/low), and 2) the level of Y (high/low). The combination of these two dimensions delineates the ontological space of necessity through four fundamental propositions: 1) high X is necessary for high Y ("ceiling" statement), 2) low X is necessary for

high Y, 3) high X is necessary for low Y, and 4) low X is necessary for low Y (“floor” statement) (Dul et al., 2023; Goertz, Hak, & Dul, 2013). When X and Y values are plotted on a coordinate system, NCA identifies ceiling lines and angular empty spaces, where the size of the empty area indicates the degree of constraint exerted by X on Y (Dul, 2016; Dul et al., 2020). Specifically, an empty space in the top left corner signifies that an increase in X is necessary for Y to increase (Dul, 2016).

Lastly, to assess the existence of a necessary relationship, NCA is supposed to answer questions of “whether” and “how much” (Ziliak & McCloskey, 2008). To do so, NCA allows researchers to evaluate the necessity effect size⁴ (d) and its p value,⁵ controlling for both false negatives and false positives, respectively. In NCA, the *size* of an effect is quantified by the ratio of the area of the empty zone to the full zone size (i.e., the zone with observations below the ceiling line, known as ‘scope’) (Goertz et al., 2013). With values ranging from 0 to 1, the effect size d expresses the extent to which a condition X constrains an outcome Y.

To gauge the statistical significance of the effect, an approximate permutation test is employed against the null hypothesis (Dul et al., 2020). Like a traditional p value, the permutation test p value reflects the probability of obtaining a particular sample statistic as a result of random chance. Unlike a traditional p value, the permutation test p value is not derived from the central limit theorem. Instead, a distribution of random samples is generated by reshuffling the X and Y values of the observed sample. The p value is the percentage of all possible permutations of X-Y pairings for which the effect size (d) is greater than the observed effect size (Dul et al., 2020.) As generating all possible permutations becomes computationally intense with even a moderate sample size, requiring $n!$ possible resamples, NCA generates a

⁴ For varying 0 to 1 values of d , the effect size can be determined as follows: $0 < d < 0.1$ is considered a "small effect," $0.1 \leq d < 0.3$ a "medium effect," $0.3 \leq d < 0.5$ indicates a "large effect," $d \geq 0.5$ signifies a "very large effect" (Dul, 2016).

⁵ The exact p value equals the estimated p value plus or minus the accuracy of the estimated p value (p accuracy). (Dul, Van der Laan & Kuik, 2020).

large subset of permutations to approximate the permutation distribution. This produces an estimate of the exact p value. The current version of the NCA R package allows Monte Carlo permutation tests to be easily computed by specifying the number of resamples in the “test.rep” command of the “nca_analysis” function.

As NCA uses the boundaries of a relationship to establish a zone of necessity, it is important to select an appropriate ceiling line. Briefly, ceilings are the outer edges between empty zones and full zones (i.e., regions with observations) (Goertz et al., 2013). The two default ceiling techniques are ceiling envelopment (CE) and ceiling regression (CR), although additional techniques are available. CE generally stands out as the most versatile for curve fitting. Its segmented linear structure protects against model specification errors when data distribution is unknown or nonparametric. Likewise, with dichotomous variables like CEO dismissal which break continuity lines, smoothing categorical data demands special treatment (Simonoff, 1995). Furthermore, opting for a linear ceiling approach like CR with binary or categorical data often yields deflated effect sizes (Dul, 2016). Given the dichotomous nature of our dependent variable, we favor CE as our primary ceiling technique but also consider CR estimates for robustness.

NCA typically models the necessity of an increase in the value of X for an increase in the value of Y. However, our approach requires modeling the necessity of low X values for a dichotomous Y outcome; that is, the necessity of *poor* performance for CEO dismissal. This involved testing for an empty zone in the upper left corner of the X-Y distribution. We enabled the ‘corner = 2’ argument in the ‘nca_analysis’ function, which effectively ‘flips’ the ceiling zone from the default upper left to the upper right corner.

Lastly, NCA demands a very careful evaluation of potential outliers. While Dul (2021) generally suggests that cases that change an effect size more than 30% should be decisively considered outliers, he also notes how the argument does not hold the other way around. While

NCA is very sensitive to outliers in general, we observed that with very large samples the problem equally persists. Our strategy involves a step-wise identification of outliers, and there are some general takeaways we believe might inform future research. Along with outliers reported by the 'nca_outliers' function, we suggest a visual inspection of the scatterplot for more informed decisions. Besides some large outliers (i.e., those contributing to at least 30% change in the estimated effect size), we observed how even smaller ones can have an important impact on the significance parameter even when their removal only marginally affects the magnitude of a relationship. With a large sample like ours, the question becomes: when should one stop? Whether there is a point of saturation remains a subjective assessment. Due to the extensive size of our sample, which limits our ability to thoroughly understand atypical cases, we adopted a minimal interference approach, presenting results that closely reflect their raw form.

Table 1.1: Descriptive Statistics and Pearson Correlation Coefficients

Variables	Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(1) CEO Dismissal	0.03	0.16	1.00																
(2) TSR _{t-1}	0.03	0.57	-0.06	1.00															
(3) ROA _{t-1}	1.80	19.05	-0.04	0.23	1.00														
(4) NI _{t-1}	3.15	4.44	-0.06	0.20	0.52	1.00													
(5) Industry-adjusted TSR _{t-1}	-0.16	0.58	-0.06	0.99	0.25	0.23	1.00												
(6) Industry-adjusted ROA _{t-1}	-0.00	18.34	-0.04	0.23	0.96	0.47	0.22	1.00											
(7) Industry-adjusted NI _{t-1}	-0.68	3.88	-0.05	0.12	0.38	0.77	0.12	0.40	1.00										
(8) ΔTSR	-0.00	0.85	-0.03	0.75	0.05	0.00	0.74	0.05	0.02	1.00									
(9) ΔROA	0.21	17.85	-0.02	0.26	0.43	0.16	0.26	0.46	0.13	0.22	1.00								
(10) ΔNI	0.02	4.65	-0.03	0.23	0.29	0.55	0.23	0.29	0.42	0.00	0.27	1.00							
(11) TSR_perf _{t-1}	0.03	0.58	-0.06	1.00	0.23	0.20	0.99	0.23	0.13	0.75	0.26	0.24	1.00						
(12) ROA_perf _{t-1}	1.81	19.07	-0.05	0.23	1.00	0.52	0.25	0.96	0.38	0.05	0.43	0.29	0.23	1.00					
(13) TSR_other _{t-1}	0.04	0.57	-0.01	1.00	0.23	0.19	0.98	0.23	0.12	0.75	0.26	0.23	1.00	0.23	1.00				
(14) ROA_other _{t-1}	1.80	19.04	-0.00	0.23	1.00	0.52	0.25	0.96	0.38	0.05	0.42	0.20	0.22	1.00	0.22	1.00			

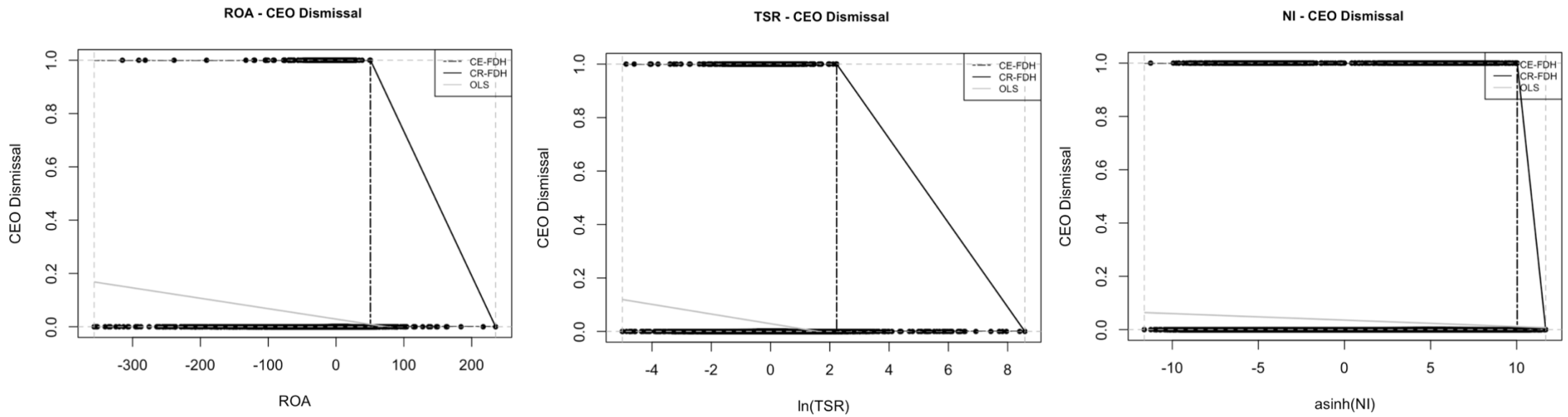
All correlations with an absolute value greater than 0.01 are significant below the $p < .05$ level

Abbreviations: S.D. = Standard Deviation; TSR = Total Shareholder Return; ROA= Return on Assets; NI = Net Income; TSR (ROA)_perf = Total Shareholder Return (Return on Assets) including only performance-related dismissals; TSR (ROA)_other = Total Shareholder Returns (Return on Assets) including only misconduct-related dismissals

RESULTS

In discussing results, we present evidence for raw, historical-relative, and peer-relative performance. Figure 1.1 reports NCA scatter plots, with ceilings and the OLS line, for our baseline analysis. Overwhelmingly, the OLS line shows a very clear positive relationship between poor performance and CEO dismissal for both performance metrics, as expected based on prior research. Despite solid evidence in favor of a positive correlation, necessity analyses uncover some idiosyncrasies. As shown in Figure 1.1, the effect size for ROA is relatively modest and marginally significant (CE: $d = 0.312$, $p = 0.063$; CR: $d = 0.156$, $p = 0.063$). Thus, if low accounting performance is necessary for dismissal, the evidence for such a relationship is weak. For net income, we observe statistically significant yet practically negligible effects (CE: $d = 0.07$, $p = 0.002$; CR: $d = 0.036$, $p = 0.002$). While this indicates some degree of nonrandom influence, NI cannot be credibly considered a necessary condition. In contrast, we can make much stronger inferences with regard to TSR. Our analyses show a large effect size (see footnote 5 for a note on NCA's evaluation of effect sizes), with a very low p value (CE: $d = 0.467$, $p = 0.006$; CR: $d = 0.234$, $p = 0.006$).

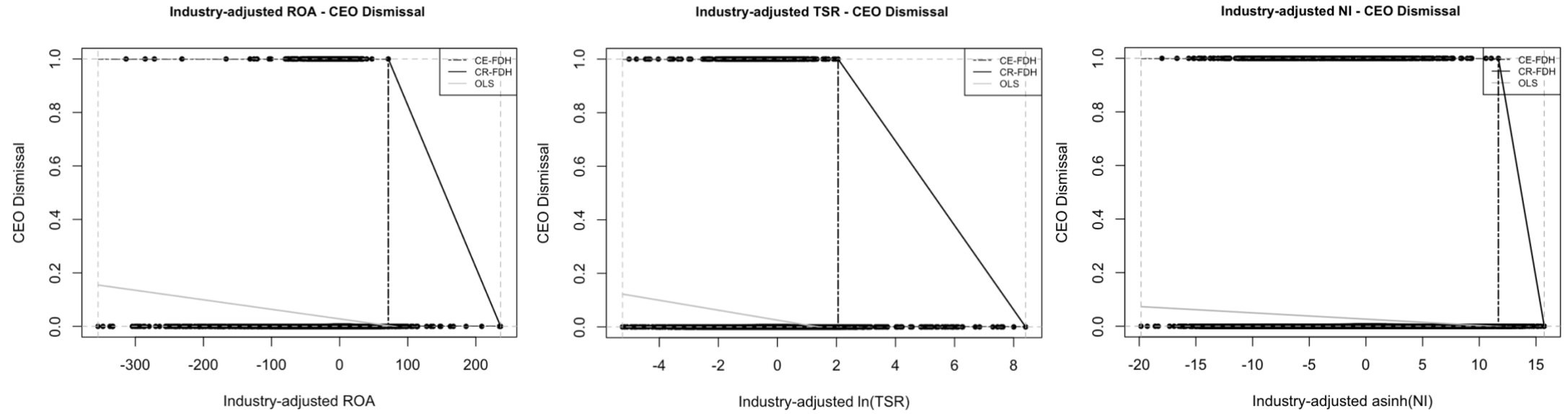
Figure 1.1: Ceiling lines (ceiling envelopment [CE-FDH] and ceiling regression [CR-FDH]) for raw ROA, TSR and NI



Worth mentioning is the shape of our scatter plot and the level of necessity efficiency (i.e., condition and outcome (in)efficiency). Both CE and CR techniques allow TSR effect sizes to closely approach their local maxima (i.e., CE = 1.00 and CR = 0.5), as vividly captured by the NCA scatterplot in Figure 1.1. Moreover, the high degree of necessity of TSR can be easily verified by examining the bottleneck value, which represents necessity *in degree*, or which level of X is necessary for a specific level of Y. In its conventional upper-left corner specification, a bottleneck table displays the floor (or minimum) values of X necessary for a given level of Y. In contrast, upper-right corner analyses present bottlenecks as ceiling values, indicating the *maximum* level of X required to achieve outcome Y (Dul, 2021). In the context of CE bottlenecks, which allow only two values as constraints and are thus more appropriate to our study of dismissal, the percentage bottleneck for TSR is 53.3, suggesting that CEO dismissal is unlikely to occur unless the firm is performing in the top half of the TSR range of values.

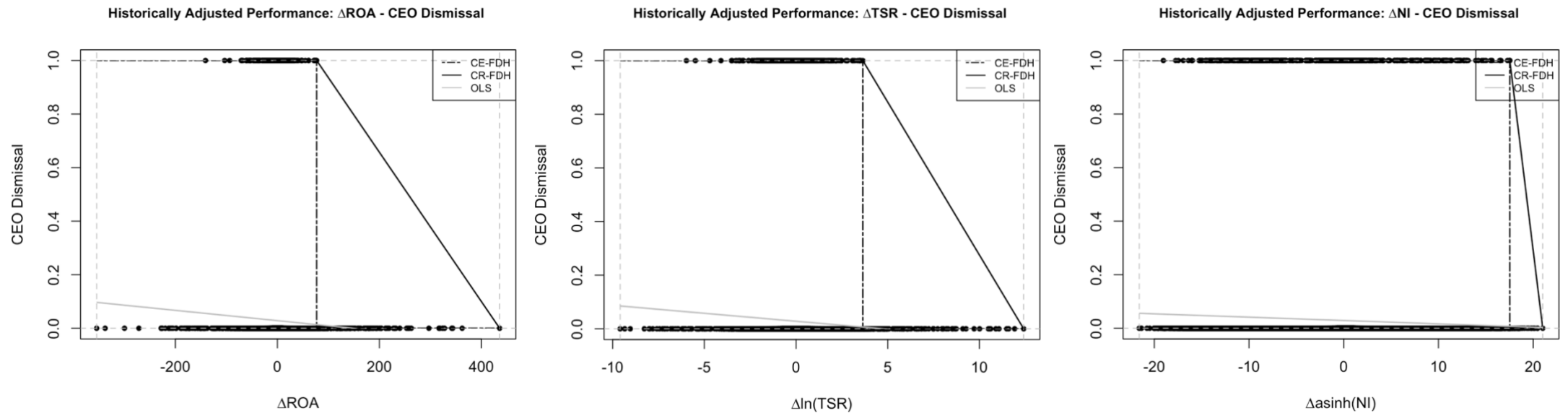
Results are comparable for industry-adjusted performance. We report scatterplots in Figure 1.2. Again, results illustrate that industry-adjusted ROA likewise exhibits little evidence of necessity using either CE ($d = 0.279, p = 0.231$) or CR ($d = 0.140, p = 0.231$). Net Income similarly exhibits very small yet statistically significant effects (CE: $d = 0.114, p = 0.02$; CR: $d = 0.057, p = 0.02$). In contrast, TSR demonstrates large and statistically significant necessity effects using both CE ($d = 0.465, p = 0.01$) and CR ($d = 0.233, p = 0.01$). The bottleneck value for industry-adjusted TSR is 53.5 percent, mirroring the bottleneck for raw TSR.

Figure 1.2: Ceiling lines (ceiling envelopment [CE-FDH] and ceiling regression [CR-FDH]) for industry-adjusted ROA, TSR and NI



Finally, we use a time-differencing approach for testing the necessity of poor performance relative to historical benchmarks. This technique has been similarly proposed for QCA (see Hino, 2009) which also has limited capabilities for dynamic analysis (Caren & Panofsky, 2005). As described before, we time-differentiate our variables to account for relative change effects over time and calculate the difference between times $t-1$ and $t-2$. A year-end time difference helps control for a great deal of unaccounted within-firm variation. As Figure 1.3 shows, the results of this analysis are similar, but with notable differences. In contrast to the other measures of ROA, Δ ROA exhibits a strong and statistically significant necessity effect using both CE ($d = 0.454, p = 0.005$) and CR ($d = 0.227, p = 0.005$). Bottleneck analysis reveals that a firm must be roughly in the lower two thirds of the Δ ROA range for dismissal to occur. This finding indicates that while an overall low level of profitability may not be necessary for a board to dismiss the CEO, low profitability growth is. By contrast, the Δ NI effect is small and nonsignificant (CE: $d = 0.08, p = 0.294$; CR: $d = 0.04, p = 0.294$), further confirming its limited inferential value. Interestingly, historically benchmarked TSR still exhibits statistically significant necessary effects on dismissal, but the effects are more muted than for the raw or industry-adjusted measures (CE: $d = 0.399, p = 0.009$; CR: $d = 0.199, p = 0.009$); a bottleneck of 60.1 reaffirms that CEO dismissal only occurs at firms located outside the top two quintiles of the variable's range. However, Quigley and Hambrick (2012) point out that because TSR inherently includes year-end changes, calculating a change metric for TSR differs from calculating one for ROA or NI. Following their approach, we examined our relationship using a time-differentiated industry variant for Δ TSR. The results are consistent using this alternative (CE: $d = 0.300, p = 0.01$; CR: $d = 0.199, p = 0.01$).

Figure 1.3: Ceiling lines (ceiling envelopment [CE-FDH] and ceiling regression [CR-FDH]) for Δ ROA, Δ TSR and Δ NI



Overall, our primary results provide strong evidence that poor-to-moderate TSR performance, whether as a raw value, industry-adjusted, or historically benchmarked, is a necessary condition for CEO dismissal to occur. NI exhibits minimal effects, with significance vanishing in its time-differentiated variant. In contrast, we only find evidence that poor ROA relative to the prior year is necessary for CEO dismissal to occur, and not ROA as a raw or industry-relative value.

Supplemental Analysis 1: Necessity Over Time

When dealing with longitudinal datasets, NCA ignores the panel structure and essentially performs a pooled version of the method (Dul, 2021). Though NCA does not suffer from the serial correlation issues of pooled data that regression models do (Wooldridge, 2010), it is possible that the effects we find could be driven by necessity of poor performance in one or two years, which would undermine general support for our hypothesis. Thus, we further investigated the sensitivity of the necessary effects we found to a between-effects analysis that estimates piecewise necessity effects using the cross-sections in each year of the study window⁶.

Figure 1.4 and Table 1.2 report CE effect sizes and p values for all 22 annual cross-sections⁷ for TSR. The necessity effects for TSR are large and statistically significant across most years, with a few noteworthy exceptions. Figure 4 shows how the necessity of TSR generally represents with a large effect size, with a range of [0.695, 0.241] and a mean effect size of 0.444. Interestingly, the 2008 Financial Crisis seems to have weakened the necessity of poor TSR for dismissal, perhaps because CEO dismissals became quite frequent—particularly in finance—and the stock market’s behavior quite erratic during this time. We observe a similar

⁶ We exclude Net Income from this analysis for two main reasons. First, NI was incorporated in our earlier models primarily due to its unscaled nature, serving as a complementary performance measure. Second, and relatedly, had NCA results indicated its relevance, we would have retained it in this supplemental analysis. However, the findings consistently demonstrate that NI plays a marginal and statistically non-significant role as a necessary condition for CEO dismissal.

⁷ For between-effects models we display only CE effects and p-values for both TSR and ROA.

dip in the necessity of ROA around the financial crisis, but it is definitely less striking given the much smaller effect size overall, ranging between [0.358, 0.000] with an average of 0.187 and sporadic statistical significance (see Figure 1.5 and Table 1.3). The dip around 2009 notwithstanding, poor TSR performance appears to be consistently necessary for CEO dismissal across time. The necessity of poor ROA performance over time appears marginal and random.

Table 1.2: Ceiling Envelopment [CEFDH] effect sizes and p values for TSR cross-sectional time stamps

Year	N	Effect Size (<i>ce-fdh</i>)	Significance (<i>p-value</i> ± <i>p-accuracy</i>)
2000	2325	0.381	< 0.02*
2001	2339	0.299	< 0.000***
2002	2357	0.379	< 0.02*
2003	2346	0.535	< 0.03*
2004	2322	0.510	< 0.246
2005	2271	0.641	< 0.003**
2006	2243	0.380	< 0.000***
2007	2187	0.487	< 0.02*
2008	2146	0.339	< 0.216
2009	2133	0.241	< 0.556
2010	2104	0.275	< 0.563
2011	2058	0.695	< 0.04*
2012	2032	0.438	< 0.07
2013	2002	0.500	< 0.03*
2014	1988	0.416	< 0.566
2015	1958	0.613	< 0.02*
2016	1942	0.376	< 0.004**
2017	1909	0.450	< 0.02*
2018	1870	0.524	< 0.004**
2019	1825	0.468	< 0.003**
2020	1796	0.440	< 0.005**
2021	1600	0.386	< 0.008**

Figure 1.4: TSR Time trends (2000-2021)

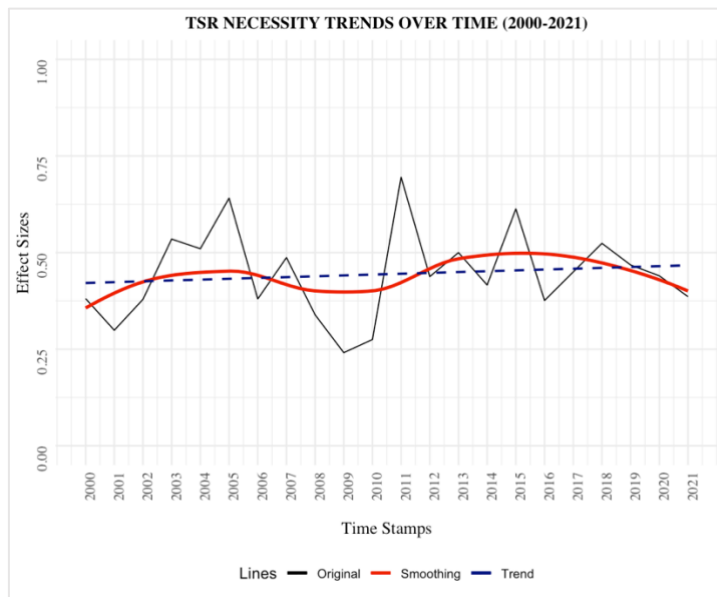
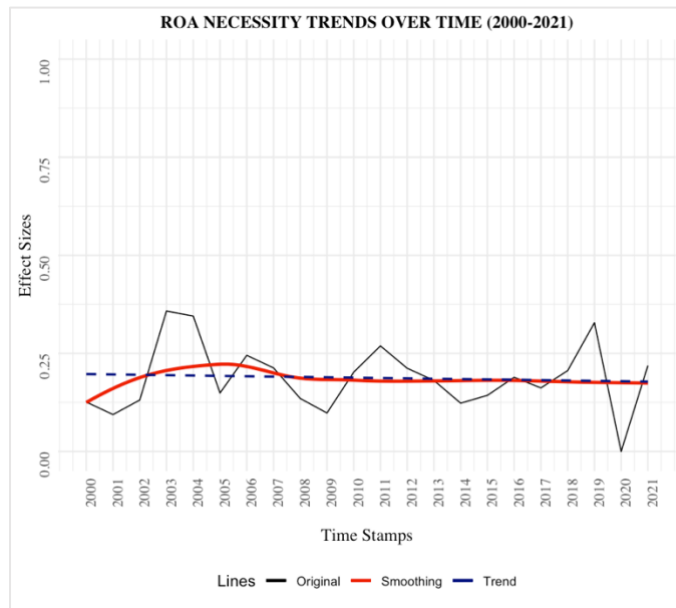


Table 1.3: Ceiling Envelopment [CEFDH] effect sizes and p values for ROA cross-sectional time stamps

Year	N	Effect Size (<i>ce-fdh</i>)	Significance (<i>p</i>-value \pm <i>p</i>-accuracy)
2000	2390	0.126	< 0.00***
2001	2308	0.094	< 0.00***
2002	2306	0.131	< 0.07
2003	2310	0.358	< 0.12
2004	2306	0.345	< 0.123
2005	2256	0.149	< 0.354
2006	2202	0.245	< 0.186
2007	2127	0.213	< 0.1
2008	2084	0.135	< 0.45
2009	2068	0.098	< 0.141
2010	2044	0.202	< 0.264
2011	2004	0.269	< 0.02*
2012	1995	0.212	< 0.353
2013	2014	0.181	< 0.292
2014	2014	0.123	< 0.55
2015	1931	0.143	< 0.05*
2016	1879	0.189	< 0.06
2017	1826	0.162	< 0.23
2018	1792	0.206	< 0.29
2019	1744	0.328	< 0.16
2020	1686	0.000	< 1.00
2021	1484	0.219	< 0.04*

Figure 1.5: ROA Time trends (2000-2021)



To better understand the stability of effect sizes over time, and thus the appropriateness of a pooled approach versus the between-effects approach, we conducted a deviation analysis (i.e., Doty & Glick, 1994; Garcia-Castro & Ariño, 2016). Let d_t represent the effect size at time t , where $T = 2000, 2001, \dots, 2021$. To assess the central tendency across our data points, we compute the mean effect size \bar{d}_i for each t cross-section across all time points using $\bar{d}_i = \frac{1}{T} \sum_{T=1}^T d_T$, where $T=22$ is the total number of cross-sections from year 2000 to 2021, and d_T is the *ce-fdh* effect size recorded for each time stamp.

The deviation measure of each effect size from the mean across the 22 years can be specified using a weighted Euclidean distance D_{Ti} for each time-stamp in the vector⁸, with weights assigned on the basis of cross-sectional significance:

⁸ For added robustness, we also look for potential multivariate outliers. To do so, we create a multidimensional vector with TSR and ROA effect sizes and compute the effective analog of a multidimensional Mahalanobis distance using:

$$D_m = \sqrt{((E - \mu) C^{-1} (E - \mu)')}$$

where E is a multidimensional vector of effect sizes, μ indicates the mean vector of the distribution and C^{-1} is the inverse of the covariance matrix. To evaluate the significance of individual distances, we calculate p -values

$$D_{Ti} = \sqrt{\sum_{T=1}^T (1 - p_T)(d_T - \bar{d}_i)^2} \quad (1.0)$$

where $1-p$ is the weight assigned by taking the ‘not’ p -values, d_T is the *ce-fdh* effect size recorded for each time stamp and d_i represents the mean effect size. This equates to measuring how far our effects are from an evenly distributed vector. With $D_{TSRi} \approx 0.481$ and $D_{ROAi} \approx 0.323$, either relationship is time-dependent.

After cross-sectional deviation scores have been calculated, we can compute the coefficient of variation for between-effects and pooled NCA results. Following prior research, we obtain the analog of a similarity index by subtracting each cross-sectional coefficient from the result of our baseline model (Westphal & Zajac, 1997):

$$S = \sqrt{\frac{\sum_{T=1}^T (d_p - d_T)^2}{T + 1}} \quad (1.1)$$

where d_p represents the results obtained from our pooled model, and $T+1$ at the denominator stands for the total number of cross-sections plus the pooled observation, hence 23.

The resulting similarity score represents the distance of between-effects from the baseline pooled model. We obtain S_{TSR} and S_{ROA} equal to 0.112 and 0.130, respectively. With

referenced to a *chi-squared* distribution and adjusted for $k-1$ degrees of freedom, with k denoting the number of variables. Essentially, this statistical approach gauges the significance of each distance measurement within the context of the multivariate distribution. We obtain several different distance scores [7.52, 0.05], and their p -values with range [0.82, 0.006]. As a general rule, smaller diagnostics might signal the presence of multivariate outliers (Hadi & Simonoff, 1993). A conservative p -value of less than 0.001 is suggested to identify a multivariate outlier (Tabachnick & Fidell, 2007). Results (available upon request) show that none of these p -values surpass this threshold.

values ranging from 0 to 1, the smaller the deviation score, the more homogenous necessity trends are and the closer between-effects are to pooled ones. In both cases, but particularly for ROA, deviation scores indicate that the pooled NCA overlooks some information within the panel. Equation 1.1 moves us closer to formalizing the sensitivity of our measures to temporal volatility and provides further cues into the insignificance of accounting performance. While parsimonious, this approach allows us to show how a between-effects scenario improves on the aggregate pooled model.

Supplemental Analysis 2: Dissecting dismissal motives

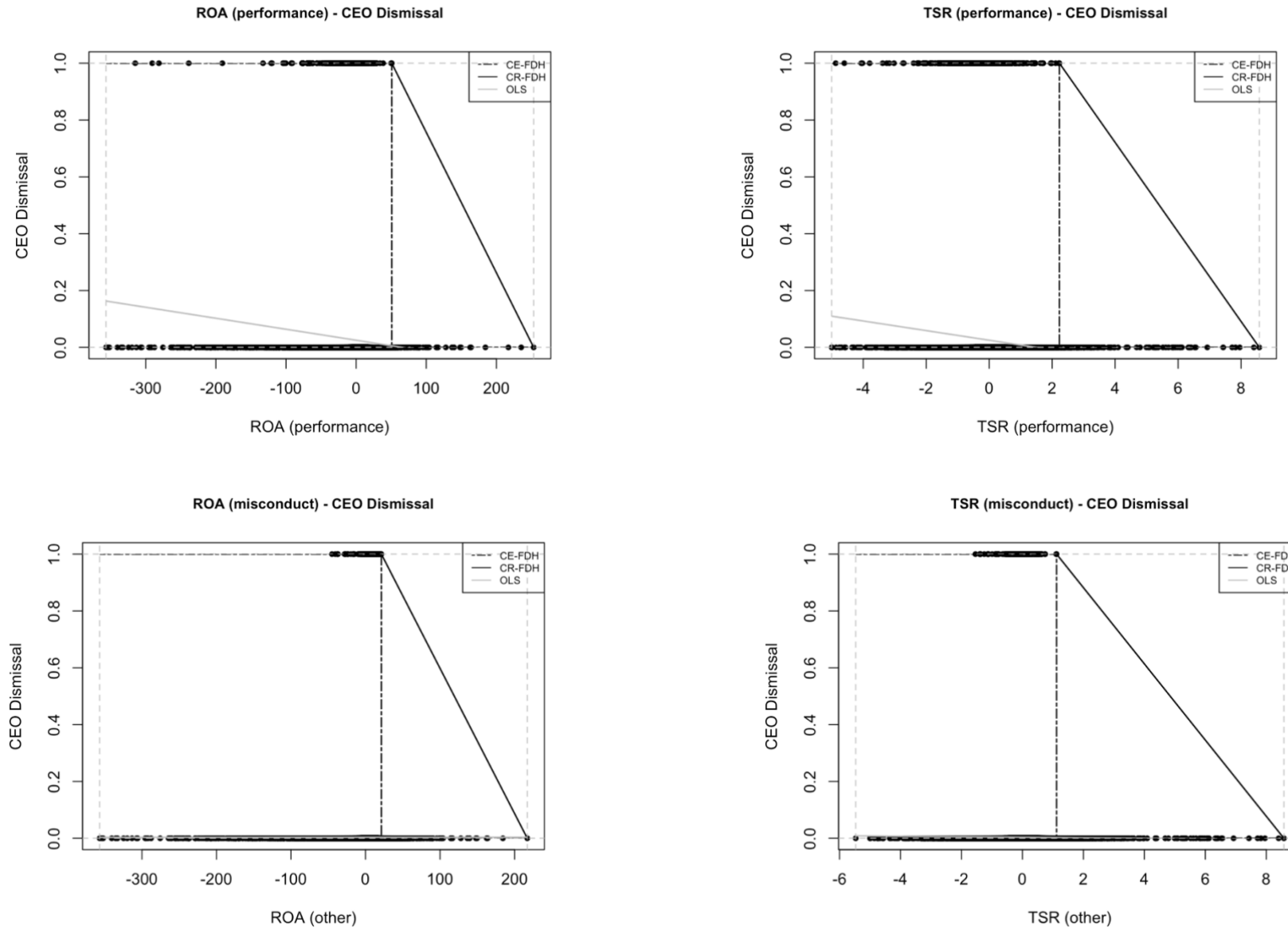
One strength of the Gentry et al. (2021) open-source database is that it moves beyond the classic dichotomization of the turnover construct as either voluntary or involuntary, and codes dismissal based on performance or behavioral motives. As evidenced by our study, agency theoretic assumptions about boards' responsibility for stewarding shareholder value are well-engrained in the boardroom. Instead, situations involving managerial misconduct typically demand from boards the complex exercise of choosing tolerance thresholds for ethical lapses. While some boards seek legitimacy by dismissing CEOs for behavioral or financial breaches, others may "turn a blind eye". This discrepancy raises the question: why are some (tarnished) CEOs dismissed while others are not? Although fully answering this question is beyond the purview of our study, we test the robustness of our results using a more granular dismissal categorization.

We ran analyses on four subsamples (two for each variable) with each excluding one motive or the other. We therefore created two variants for each of our two variables, *TSR (ROA) performance* and *TSR (ROA) other*, and report results in Figure 1.6. As might be expected, the portion of TSR encompassing performance motives manifested nearly identical results to our baseline model (CE: $d = 0.467$, $p = 0.01$; CR: $d = 0.234$, $p = 0.01$). More interestingly, for the misconduct dismissals, we obtain even larger and still statistically

significant necessity effects (CE: $d = 0.531, p = 0.03$; CR: $d = 0.265, p = 0.03$). We observe a similar pattern using ROA for performance-related dismissals (CE: $d = 0.290, p = 0.09$; CR: $d = 0.145, p = 0.09$) and misconduct-related dismissals (CE: $d = 0.341, p = 0.02$; CR: $d = 0.171, p = 0.02$).

Clearly, even allegations of serious misconduct fail to substitute for the causal necessity of poor performance, a finding that these – perhaps counterintuitive – results starkly illustrate. One obvious conclusion we draw is that, despite other potentially legitimate grounds for dismissal, CEOs typically *only* get dismissed if organizational performance is not strong.

Figure 1.6: Ceiling lines (ceiling envelopment [CE-FDH] and ceiling regression [CR-FDH]) for TSR (ROA) performance and TSR (ROA) other



DISCUSSION

Theoretical Implications

By reformulating the relationship between firm performance and CEO dismissal in terms of causal necessity, we depart from prior studies and find evidence that poor performance is a necessary (but not sufficient) condition for boards to oust their CEOs. Crucially, we find that current empirical strategies at hand are unable to uncover causal necessity. To overcome this challenge, we employ Necessary Condition Analysis (NCA) as a novel analytical tool and method for developing theory.

Our findings make several important theoretical contributions. The chief finding is that strong firm performance effectively *prevents* CEO dismissal, which is a new way of thinking about a well-studied relationship. Results show strong support for the necessity of relatively low TSR across several different specifications. Since a combination of individually necessary conditions is itself necessary, our results can be interpreted configurationally, whereby poor stock performance, in terms of raw TSR, industry-adjusted TSR, or historically-adjusted TSR, is individually necessary (both *in kind* and *in degree*) for dismissal to occur (Vis & Dul, 2018). In contrast, we uncover less evidence of necessity for either ROA or NI. This finding collides with a wealth of research showing strong correlations between accounting metrics and CEO dismissal. In this literature, as in corporate governance more broadly, accounting ratios have been the most commonly used measures of performance. Nevertheless, it makes sense that TSR, which reflects stock price changes, might be a more salient indicator of CEO performance for boards of directors, whose primary responsibility within the agency paradigm is to protect shareholder wealth (Flickinger, Wrage, Tuschke, & Bresser, 2016; Wibbens & Siggelkow, 2020). Thus, we encourage scholars to include market metrics in any empirical models of dismissal, and arguably to incorporate any additional causes as moderators of a baseline market performance effect.

With this research, we contribute to agency theory by elaborating its boundary conditions. Specifically, while the necessity of poor stock market performance lends support to agency theoretic assumptions, we show how the cascading effects triggered by a drop in shareholder value are only activated once performance drops below a critical threshold. Above this threshold, dismissal cascades become trapped for higher levels of TSR for which this condition does not hold. For instance, the bottleneck value we identify for TSR tells us that a firm must perform in the bottom half—or more accurately, in the bottom 53 percent—of TSR values for dismissal to occur. While agency theory has long emphasized boards' discretion and structural capacity to dismiss CEOs, research in this tradition has assumed a direct link between structural board attributes and the execution of shareholder-focused governance. Our findings challenge the sufficiency of this structural lens by demonstrating that performance bottlenecks serve as preconditions that enable the structural levers of dismissal to function. In doing so, we highlight the limitations of a unitary approach to structure and show the importance of integrating performance thresholds into agency-based models of CEO dismissal.

Our findings also provide important caveats to scholars interested in misconduct and succession. By dissecting dismissal motives into subsamples indicating either performance- or behavior-related dismissals, results show how performance permeates board decision making and tips the scale even for decisions that should be made irrespective of performance concerns. Even Gentry et al. (2021) note a general difficulty in coding dismissal for behavioral misconduct, as this is also frequently accompanied by poor performance. Specifically, while they do find the performance effect weakens when isolating performance motives, they also uncover little correlational evidence of other predictors for behavior-related dismissals. Conversely, from our study it appears that performance and behavioral motives are juxtaposed rather than mutually exclusive categories. One viable explanation we find is that of a two-way causality between poor performance and misconduct. While this may be less applicable to

behavioral breaches, financial misconduct and accounting-based measures are more strictly intertwined, whereby committing fraud or restating earnings may be last-resort tactics for executives to salvage an already deteriorating performance.

Theorizing by Necessity

Our study also contributes to research by highlighting the value of theorizing by necessity. An analysis of necessity accommodates theory development by identifying theoretical boundaries as the limits within which a relationship holds. The deployment of this logic into both theory and praxis might uniquely elevate some prior hazy causal relationships that may have reached empirical but not theoretical saturation. Consequently, necessity theorizing forces a theoretical reconsideration of canonical wisdom, which may lead to the refinement of extant constructs or even a theoretical upheaval within a given field. Questions researchers might seek to explore through a logic of necessity might involve empirical conundrums or unexplained patterns left unsolved by prior studies as well as empirical regularities or stylized facts (Helfat, 2007). Thus, theorizing by necessity is well suited to the exploration of both seasoned and emergent research ideas.

Moreover, NCA allows us to theorize retroductively on theoretically plausible scenarios that are not empirically observed (Goertz & Levy, 2007). The resulting counterfactual question should be of the form: “why *fact* rather than not-*fact*?” (i.e., Lipton, 1990). Here, contrastive reasoning allows us to identify the causally relevant factor by juxtaposing two situations that share similar causal histories but differ in their outcomes (Lipton, 2017). Said differently, this hypothetical rewrites the underlying dynamics of CEO dismissal in terms of a counterfactual antecedent. Ultimately, this allows us to not only demarcate the operational scope but also to establish the foundational premises of the relationship that, eventually, might serve as the bedrock for further exploration within more sophisticated analytical models.

Implications for Practice

This study provides several important implications for practice. First, the general necessity of poor TSR for performance and the questionable necessity of either ROA or net income suggest that boards of directors are, in fact, focused on shareholder value in determining CEOs' continued employment with the firm. This is an important finding for CEOs, boards, and those who advise and/or monitor them, as it indicates that CEOs may be able to avoid dismissal for low profitability as long as shareholder returns are high.

In addition, we find that poor firm performance is necessary for CEO dismissal even when the firm's stated reason for the dismissal is not performance. This finding has profound implications for corporate governance practice. Perhaps most notably, it suggests that there may in fact be instances of misconduct or at least questionable behavior about which boards are aware, but which do not result in dismissal if performance is strong. Extant studies of CEO dismissal following instances of wrongdoing have struggled to account for such a possibility because there is little data available on cases that do not result in dismissal. It might be imperative upon boards to examine their processes to determine if they are adequately equipped to handle issues of misconduct if not accompanied by suffering performance.

Limitations and Future Research

Our study has limitations that future research might help address. For instance, because NCA only allows for bivariate analysis, there is simply no opportunity for us to explore how other factors interact with the baseline necessity of firm performance. Future scholarship could expand on our study by generalizing our findings into different empirical models. For one, they might limit their investigation of dismissal to the set of poorly performing firms, utilizing, for instance, a two-stage selection model. To give an additional example, scholars could explore how a variety of conjunctural factors differently affect the likelihood of dismissal in the treatment subgroup of poorly performing firms, benchmarking their results to those obtained from an alternative control sample (e.g., one comprising average-performing firms). In some

way, a necessary condition can function similarly to a control variable, while being much more theoretically informed and empirically grounded. Alternatively, it would be useful to replicate our necessity findings using a more configurational approach like QCA.

Further, we narrowed our investigations to three performance measures, TSR, ROA and NI, as well as historical and industry reference-point adjustments of the same. It might be promising to test the necessity of alternative performance metrics as well. To facilitate comparison across performance measures, we see great potential in replication studies that extend our work with alternative variables, including investment analysts' recommendations (Wiersema & Zhang, 2011), as well as unscaled market measures like the recently developed long term investor value appropriation (LIVA; Wibbens & Siggelkow, 2020).

CONCLUSION

Despite a well-established agency theory explanation for the relationship between poor firm performance and CEO dismissal, the type of relationship being theorized—necessary vs. sufficient—remains buried in assumptions and poorly understood empirically. In the present study, we hypothesize that poor firm performance is a necessary condition for CEO dismissal to occur. Using NCA, we find that poor TSR is necessary, whereas accounting performance measures show more muted effects. Results hold across various operationalizations and dynamic settings and demonstrate the value of incorporating a logic of necessity into existing theoretical and empirical models.

Paper 2

BORN TO DIE? A CONFIGURATIONAL STUDY OF NEW CEOS' (NON-) DISMISSAL

ABSTRACT

Several formulations have been offered in an attempt to set down a general causal theory of CEO dismissal. At the same time, its counterfactual—CEO non-dismissal—remains relatively less explicit in theorizing and has since been inferred from dismissal by negating the causes. This study seeks to explain both by examining the tension-laden moments surrounding leadership transitions. We propose an asymmetric explanation for the phenomenon and ask, “what distinctive combination of features accounts for the difference between CEOs who were dismissed early in their tenure and those who were not?”. Using configurational analysis and data from 303 predecessor-successor pairs in the S&P 1500 between 2010 and 2020, our findings show that early and non-early dismissal often emerge from subtly divergent configurations of conditions which are oftentimes surprisingly similar. We identify critical factors—those features distinguishing between the outcome and its absence—as plausible causal explanations.

Keywords: CEO succession, CEO dismissal, upper echelons, causal asymmetry, configurational analysis.

INTRODUCTION

“Leaders contemplate succession with the same enthusiasm that they contemplate death.”

- From John O. Whitney and Tina Packer *Power Plays: Shakespeare's Lessons in Leadership and Management* (2000: 70)

The choice of a chief executive officer (CEO) is widely recognized to be a political decision (Fligstein, 1987; Fredrickson et al., 1988; Ocasio, 1994). Whether it is the result of a highly bureaucratized tournament among senior executives, or whether an executive from outside the firm is called to shake up inertial forces, the hiring and firing of a CEO provides a rare window into “who controls the organization and the bases for that control” (Fligstein, 1987: 44; Jung, 2014)

Contemporary research has added the exploration of predecessors as another dimension to this main drift by pulling together the factors creating some of the less visible sources of constraints for incumbents. As noted by these studies, when predecessors maintain strong control over the succession process or fail to relinquish power properly, the control typically expected by incoming CEOs often conflicts with the actual discretion they encounter (Lee & Gargiulo, 2022; Quigley & Hambrick, 2012). Just as our opening quote calls attention to, few leaders bear the idea of their organizational mortality and, even when they do, they tend to resist it or devise strategies to transcend it. In a recent paper, Joshi, Hambrick, and Kang (2021) discuss how these power-securing tendencies are often connate to CEOs and manifest prior to succession as “generativity mindsets”. Generativity is approached as a key determinant of a new CEO’s survival, as it directly affects their preparedness for the role and their control margin (Hambrick & Lee, 2024)

We know little, however, about the dynamics behind the dismissal of newly appointed CEOs—those elected to the role less than three years after succession (for some exceptions, see Yi et al., 2020 and Zhang, 2008). In fact, leadership transition research has more

extensively questioned what makes new CEOs more likely to succeed, rather than survive, in their role, typically measuring success in terms of performance or capacity for strategic change (e.g., Dwivedi, Joshi, & Misangyi, 2018; Quigley & Hambrick, 2012). Success, however, is at most tangential for fresh appointees, most of whom view survival as their immediate challenge (Lee & Gargiulo, 2022). Moreover, dismissal and success are often not orthogonal, as evidenced by several prominent cases of successful CEOs being ousted. With prior research showing how the past and the present juxtapose during this delicate time, it remains puzzling how much is still unknown about how new CEOs survival is shaped by their predecessors.

It should also be noted that, in attempting to understand what makes the dismissal of new CEOs more or less likely, prior research has most frequently suggested that, by identifying these causes, dismissal might be prevented. For example, Zhang (2008) poses the question “why are some newly appointed CEOs dismissed while others are not?” (:859), suggesting that factors her study identifies as positively correlated with CEO early dismissal (i.e. outsider status, predecessor dismissal) could explain the contrasting instance (i.e. CEO non-dismissal) simply by reversing their sign. The type of reasoning we have just presented is symmetrical and common to probabilistic causation, moving from an established general theory (i.e., causes of dismissal) to infer its opposite (i.e., non-dismissal) by negating those causes (Misangyi, Greckhamer, Furnari, Fiss, Crilly, & Aguilera, 2017). However, linearity assumptions provide few avenues for effectively testing this type of logic. Consequently, non-dismissal has since remained a counterfactual and has hardly been theorized explicitly. And yet, it is equally, if not more, important to explain managers how dismissal might be prevented beyond providing them with satisfying accounts of its causes. Because prior research has already shown that the converse of causes does not necessarily entail the outcome (e.g., Fiss, 2011), we require a method that engages all more keenly with causal

asymmetry such that “every instance of a phenomenon is examined and accounted for if possible.” (Ragin, 1987: 15).

In this study, we seek to explain why some newly appointed CEOs are dismissed early in their tenure while others are not. Building on generational-based arguments (e.g., Burton & Beckman, 2007; Joshi, Dencker, & Franz, 2011; Joshi et al., 2021) and sociopolitical views of the firm (e.g., Cyert & March, 1963; Fligstein, 1987; Ocasio, 1994), we examine how the residual influence of prior leadership combines with incoming leadership, and argue that these layered influences jointly shape the conditions under which successors survive. With prior research showing how structural imprinting and inherited constraints juxtapose during leadership transitions, we argue that the predecessor-successor dyad is best understood as a configuration shaped by this very juxtaposition. To isolate the immediacy of these dynamics during transitions, we conceive survival as early dismissal, defined as involuntary termination within three years of appointment (Yi et al., 2020; Zhang, 2008). By juxtaposing instances in which newly appointed CEOs were dismissed early in their tenure with the instances in which the event did not occur, we ask, “What distinctive combination of features accounts for the difference between CEOs who were early dismissed and those who were not?”. If there are, in fact, critical factors distinguishing between the outcome and its absence, this contrastive lens allows us to identify them as plausible causal explanations.

To present a clear approach for evaluating causal asymmetry in dismissal outcomes, we employ fuzzy-set Qualitative Comparative Analysis (fsQCA; Fiss, 2011; Ragin, 2000, 2008) which effectively provides us with a tool to test asymmetric predictions with the aim of developing theory on how these attributes combine. We put forth a richly-woven model of former and incumbent CEOs attributes to model dyadic misfit and explore how these elements combine into dysfunctional (ideal) patterns. Our model includes the recently developed construct of CEO generativity mindset (e.g., Joshi et al., 2021); we develop a

novel measure that accounts for generative cues in language and archival information about succession.

Our main findings identify three equifinal configurations associated with early dismissal, and six associated with CEO survival. For configurations explaining the outcome, we find that polar generativity mindsets (i.e., anti- or hyper-generativity) are coterminous with predecessor retention as board chair, the degree of heterogeneity between old and new CEOs and their relative power distance. In other words, we find that, across *all* sufficient configurations, CEOs who were dismissed early were less powerful than their predecessors and were appointed under highly bureaucratized or highly disruptive succession processes. By contrast, configurations sufficient for successor CEOs survival present generative predecessors that did not linger as chairs. To further examine how these dynamics intensify within this specific leadership structure, we conduct subset analyses focusing on cases where the predecessor remains as chair. We add to our model the board chair orientation construct, understood as a discretionary approach to board leadership (Krause, 2017). We find that, under predecessor-chairs, a collaborative orientation proves damaging to successors when power distance is high but might instead be beneficial—or, rather, non-damaging—when power distance is low. We filter out causal determinants and conclude by offering testable propositions on the effects of these attributes on (non-) early dismissal.

We broaden succession research in at least three ways. First, whether the extent of predecessor-successor fit is institutionalized or negotiated within the dyad, we show how this relationship is key to explaining variations in dismissal rates, especially early in a CEO's tenure. In this context, we empirically measure the generativity construct and show its predictive and complementary role in explaining succession outcomes while offering the first empirical validation of Joshi et al.'s (2021) stylized predictions. Finally, our arguments lead to an asymmetric explanation of new CEOs early dismissal, deciphering the epistemic black

box of counterfactuals while addressing the paucity of empirical models available for testing them. We identify tipping factors as plausible causal explanations warranting further research. Examining these allows research and practice to uncover why dismissal rates vary across firm contexts that might appear structurally identical on the surface.

THE PAST AS PROLOGUE: THE PREDECESSOR-SUCCESSOR RELATIONSHIP

For over fifty years, the field sought to explain variations in dismissal rates through the lens of contextual conditions (e.g., Chen & Hambrick, 2012; Wiersema & Zhang, 2011) or local power structures (e.g., Cannella & Shen, 2001; Ocasio, 1994). For nearly as long, predecessor CEOs have been widely recognized amongst the latter for shaping their successors' experience of executive-hood. Incumbents live, so to speak, within the organizational boundaries their predecessor had set for them (Marquis & Tilcsik, 2013). While these boundaries lose luster over time, they are observed to be decisive during leadership transitions, where a predecessor's role inevitably yields "a certain type of *succession process* and a certain type of *successor*" (Joshi et al., 2021: 396).

One important theorization of how such imprinting might affect new CEOs survival comes from a small yet informative body of studies (e.g., Graffin, Boivie, & Carpenter, 2013; Yi et al., 2020; Zhang, 2008). For instance, Graffin et al. (2013) find that successors often serve as foils to superstar CEOs, inviting contrast effects that undermine their perceived competence. Conversely, Zhang (2008) shows that outside successors to dismissed CEOs face heightened early dismissal risk due to hiring opacity and weak internal support. Moreover, Yi et al. (2020) note that successors fare worse when former CEOs retain board chair roles, unless countered by active ingratiation tactics. Collectively, these studies point to status tensions and ambiguous canons of legitimacy as core drivers of premature CEO exits.

Overall, we identify two prominent theoretical perspectives in the literature. A first strand of studies has largely drawn on legacy or generational-based views to suggest how a

predecessor's generational shadowing impinges on new CEOs, be it as a benefit or a burden (Burton & Beckman, 2007; Joshi et al., 2011; Wade-Benzoni, 2002). Because position imprints and “structural blueprints” (Carroll, 1984: 112) inevitably institutionalize local expectations for the role, research notes how this may cause a fragmented sense of self and personal conflict when newly appointed CEOs struggle to meet these demands (Burton & Beckman, 2007; Huang, Chen, Xu, Lu, & Tam, 2020). As executive roles turn into family objects, they are passed on to the next cohort which will need to structurally adjust to the firm environment inherited (Wade-Benzoni, Sondak, & Galinsky, 2010).

Among studies in the second strand, structuralist perspectives that implicitly emphasize one's role within an organization and in relation to others abound. In particular, attention has been given to scenarios where the roles of predecessor and incumbent temporally overlap—specifically, when predecessors transition to the role of board chair—and to how this role overlap limits new CEO's success, discretion, and overall survival prospects (Dwivedi et al., 2018; Quigley & Hambrick, 2012; Yi et al., 2020). Implicitly, these studies highlight what we may as well denote as the “glass ceiling” new CEOs will inevitably collide with, as a result of predecessor's gatekeeping role and interpersonal influence (Dwivedi et al., 2018; Oliver, Krause, Busenbark, & Kalm, 2018; Yi et al., 2020).

With prior research showing how structural imprinting and inherited constraints juxtapose during this delicate time, we propose a configurational model for each CEO-match included in our sample by drawing core constructs from these two lines of inquiry. While prior literature has recognized their relevance in CEO dismissal models, their configural effects remain largely unexamined.

Passing over the CEO role

Pre-succession generativity mindset. A theoretical discussion on how predecessors might fail to wield power effectively has been offered prefatory to examining the

mechanisms through which this actually occurs. However, while critical, these perspectives often lack appropriate constructs for measurement. To reflect our theoretical concerns, we draw on the recently developed construct of CEO *generativity* mindset (Joshi et al., 2021). Generativity captures a CEO's dual focus on mentoring future leaders and their varying degrees of willingness to control succession outcomes. Whether high or low, these two orthogonal dimensions define four archetypes of generativity: *hyper-generativity* (high mentorship, high control over succession outcomes), *generativity* (high mentorship, low control over succession), *hypo-generativity* (low mentorship, low control over succession), and *anti-generativity* (low mentorship, high need to control succession outcomes).

Generativity fundamentally shapes the succession process, influencing both its course and the choice of successor. As a relatively entrenched posture, it is, presumably, a key determinant of new CEOs success, as it directly maneuvers their preparedness to the role and control margin. For example, a hyper-generative predecessor is likely to engage in extensive grooming and pass the baton to a well-prepared successor. Such close aides to the predecessor are commonly referred to in the literature as heir-apparent and ascend to power through what Vancil (1987) called *relay* succession. But, on every level of business, even a well-structured relay needs to be managed. In fact, the heir-apparent is likely to experience conflict in reconciling their dual identity as both disciple and independent leader, especially if the predecessor remains an active presence post-succession. On the one hand, the literature suggests that reverent emulation and ingratiation can work to their advantage (Yi et al., 2020). At the same time, the strain of inheriting extensive knowledge yet lacking the space to champion it fully may leave them constrained, ultimately resulting in a tenure that merely rubber-stamps their predecessor's rather than defining its own course. Hence, we might expect these new CEOs to eventually succumb to leadership paralysis and goal displacement, at a heightened risk of dismissal.

Predecessor retention as board chair. The choice of having a separate board chair is an important element of organizational structure, which reflects and predicts the distribution of power among individuals (Banerjee, Nordqvist, & Hellerstedt, 2020). The central question of “who governs?” is, thus, fraught with its own set of challenges when the board chair is a firm’s former CEO.

Under predecessor-chairs, it is widely acknowledged that new CEOs risk becoming entangled in a predecessor’s tension-laden mix of enabling and controlling behaviors (Huang et al., 2020). There are two prominent perspectives on predecessor-chairs. One argues that a predecessor’s lingering presence constrains the incumbent’s capacity for strategic action, reinforcing existing power structures and limiting executive discretion (Dwivedi et al., 2018; Quigley & Hambrick, 2012). The second view is far closer to a coalitional view of the firm (e.g., Cyert & March, 1963; March, 1962), whereby new CEOs find themselves trapped in the paradox of minority leaders and lack the social ties needed for building legitimacy (Yi et al., 2020; Zajac & Westphal, 1996). Successors who altogether fail to navigate the political terrain of succession have been shown to be at greater risk of early dismissal (Yi et al., 2020). Moreover, predecessors who are able to negotiate a board-chair role post-succession, are often able to do so when they wield significant board influence through past appointments or homophilous ties. Altogether, this structural arrangement arguably creates an informal coalition that, as Vancil (1987: 116) puts it, “almost like a junta in a political coup, requests the incumbent’s resignation”.

Predecessor/Successor Human Capital. Since firms are composed of individuals with varying backgrounds, it is only natural that executives with different skills will leave different imprints. The concept of human capital is often framed along the broad versus narrow spectrum. Generally, the breadth of human capital indicates the extent to which an individual possesses general knowledge, skills, and abilities, which in turn affects task

performance (Custódio, Ferreira, & Matos, 2013; Tasheva & Hillman, 2019). Custódio et al. (2013) have formalized such important distinctions classifying CEOs as either *generalists*—executives with broad, scalable managerial expertise—or *specialists*—executives with industry-specific, insular knowledge (Chen, Huang, Meyer-Doyle, & Mindruta, 2021). While either one can be preferred depending on the circumstances, the authors also note that the executive labor market pays generalist CEOs a premium price compared to intra-industry specialists, especially when the tasks they are hired for is notably complex (i.e., as in the case of restructuring or acquisitions). This preference is likely to be even stronger when firms hire externally and switch from a specialist to a generalist CEO.

A perhaps more pressing issue is, however, the degree of fit between the individual and the local environment, broadly defined as the combination of constraints and resources that surround the individual (Miller, Dröge, & Toulouse, 1988). For instance, Chen and Hambrick (2012) found that in turnaround situations, leadership succession is most effective when the new executive is well-matched to the organization's context which, we add, includes the predecessor. Building on that, successors must not only be isomorphic with the firm's environment but also, we argue, with the imprint left by their predecessors, which can impose varying degrees of constraint on future leaders (Burton & Beckman, 2007).

Becoming CEO

Who governs? The idea that the CEO role is one of power is a fact so well accepted as to border on the axiomatic. Most upper echelons research, therefore, endeavored not to predict whether CEOs are or are not powerful, but rather to explain why they are so and in what degree (Finkelstein, 1992; Hambrick & Mason, 1984). As Salancik and Pfeffer (1977) call attention to, the power of an executive is widely recognized as a key antecedent by succession scholars for the ability of those who wield it to create an enabling system for their goals. It follows that, as CEOs may vary in their desires for power, they may also

strategically manipulate it at their advantage (Krause, Priem, & Love, 2015). This discretionary aspect to power becomes particularly salient in the context of leadership transitions. While structural power is connate to the CEO role, successors may wield considerably less influence than their predecessors did (Fredrickson et al., 1988).

Prior research has examined the power held by predecessors either before succession (e.g., Dwivedi et al., 2018; Zajac & Westphal, 1996) or in the post-succession period (e.g., Quigley & Hambrick, 2012; Yi et al., 2020), but it has yet to consider the presence of power cleavages between generations of leaders. To understand why new CEOs may struggle to assert influence, we argue that it is not the absolute level of structural power that matters, but rather the *relative power* or *power distance* within the dyad. While CEO power has been a mainstay in strategic leadership research for as long as our memory reaches, power distance illuminates some different dynamics. From a sociopolitical perspective, we argue that power distance may be artificially created by predecessors to increase their discretion and managerial slack to maintain informal coalitions (Zhang & Greve, 2019; Vancil, 1987). The greater the breadth of such distance, the more effectively they can access and bargain the use of organizational resources to pursue their objectives (Mount, Ertug, Kavusan, George, & Zou, 2024).

Moreover, the lingering presence of a more powerful predecessor can pose an implicit threat of substitution or recombination, casting the former CEO as a ready and legitimate replacement should the successor falter (Krause & Semadeni, 2013). Thus, power discrepancies within CEO dyads, whether substantial or minimal, are likely to influence successors' understanding of "who they are" as leaders. This juxtaposition can shape how authority is perceived and contested within the firm's evolving coalition.

Successor Origin. The insider/outsider distinction has a long-standing tradition in succession research, likely because it serves as both a critical predictor of post-succession

outcomes and a significant product of the succession process itself. Nearly half a century ago, Grusky stated that “the recruitment of the successor from the present staff or from outside the organization may be an important factor affecting the degree of instability created by succession” (1963: 29).

Insider succession generally signals a desire for stability and continuity, but it also risks trapping the organization in path-dependency and a broader resistance to change (Quigley, Hambrick, Misangyi, & Rizzi, 2019). At the same time, successors who strive to emulate their mentors, risk being seen as mere mediocre copycats of their predecessors, especially when the latter were highly successful. By converse, outside succession is often seen as a catalyst for transformation, signaling a board's desire for change by introducing fresh perspectives that can disrupt established organizational routines (Chung & Luo, 2013; Shen & Cannella, 2002). While outsider succession has often been found to correlate positively with CEO dismissal likelihood, such outcomes are typically contingent on a broader set of contextual factors (Karaevli, 2007). For instance, the assumption that outsider CEOs inherently face greater dismissal risk than insiders do, does not hold when the latter assume leadership amid poor performance (Karaevli, 2016; Krause & Semadeni, 2013). High-profile cases—such as General Electric in 2017 and Owens & Minor in 2014—underscore how common insider dismissals can be. This asymmetry has direct implications for our study, as survival patterns are likely to reflect the trade-offs embedded in our model.

Starting Conditions. CEO succession research highlights the significance of starting conditions, as they are likely to shape the dynamics of the role (Chen & Hambrick, 2012). Just as Dwivedi et al. (2018) argue, starting conditions should, in theory, closely inform and anticipate the choice of a successor, such that inside succession is likely to occur when continuity and status quo are desired, whereas outsider appointments tend to be preferred as

inertia-breakers by firms facing severe losses, stagnating performance or turnaround transformations (Chen & Hambrick, 2012; D'aveni, 1989).

Prior research suggests that, particularly in the early stages of a CEO's tenure, firm performance may offer a poor signal of the CEO's actual quality. This is largely because new CEOs inherit performance outcomes in bundles that comprise their predecessor's strategic and resource allocation decisions (Graffin et al., 2013). Given this inherent attributional ambiguity, early performance cannot be credibly extrapolated as an indicator of new CEOs' talent. In response, succession scholars have increasingly advanced evaluative approaches that incorporate both pre- and post-succession outcomes (e.g., Dwivedi et al., 2018; Quigley et al., 2019).

Because of its inertial nature, whether favorable or unfavorable starting performance poses greater challenges for successors remains an important question to be asked. While the former may carry lower expectations, it can also result in the incumbent's constrained capacity to enact change and, consequently, in role encapsulation (e.g., Kanter, 1977), especially when predecessor's imprint is sufficiently strong and successor's vetting period has been extensive (Quigley & Hambrick, 2012). By contrast, unfavorable starting conditions are often accompanied by extrinsic expectations for change, especially in contexts marked by significant organizational disruption—i.e., predecessor fired, abrupt departure, use of an interim CEO (Marcel, Cowen, & Ballinger, 2017; Zhang, 2008). Under such demanding conditions, successors are not only more prone to missteps, but also more likely to experience personal conflict and strain stemming from their inability to meet organizational demands. Thus, whether above- or below-average firm performance positions new CEOs more favorably at the outset remains an open and consequential question.

NEW CEOS (NON-) EARLY DISMISSAL: COUNTERFACTUALS REVISITED

When selecting a new CEO, boards must anticipate alternative leadership trajectories (Hambrick & Lee, 2024). Succession planning, by its nature, is a counterfactual exercise, which involves forecasting and evaluating best fitting replacements. While iterative in nature, with boards recalibrating their judgements post-succession, this scenario analysis should be grounded in inferential reasoning, incorporating prior knowledge to refine posterior beliefs (Krause & Semadeni, In Press). Succession research has similarly operated within a counterfactual framework, identifying the antecedents of dismissal and extrapolating from them to infer the conditions under which it does not occur. If, however, the causal relationship between these factors and dismissal were fully reversible, then instances of dismissal should systematically vanish below or beyond certain thresholds of these variables, *ceteris paribus*. Yet, empirical evidence rarely supports such symmetry. For example, research has consistently grappled with isolating the net effect of CEO origin on dismissal, often finding that such relationship is contingent on contextual moderators (Karaevli, 2007; Krause & Semadeni, 2013; Zhang & Rajagopalan, 2004). More broadly, while it is true that some factors predict dismissal, the absence of these factors does not necessarily immunize a CEO from removal.

At its core, causal symmetry follows a simple inversion: if X increases the likelihood of Y, then not-X must decrease it. Zhang (2008), for instance, asks, “why are some newly appointed CEOs dismissed while others are not?” (:859), implying that factors she finds positively correlated with CEO early dismissal (e.g., outsider status, predecessor dismissal) can also, in reverse, explain CEO retention. A similar leap appears in Wang, Zhu, Avolio, Shen and Waldman (2023) recent study, where the authors state that “employee approval or disapproval of a CEO is likely to influence CEO retention or dismissal” (:1329). Yet, their analysis examines only dismissal likelihood. If, however, employee approval

affects dismissal but is orthogonal to retention, then reducing the likelihood of dismissal does not necessarily improve retention prospects.

The explanations quoted above are often implicitly counterfactual in that they engage in backward causal inference by rerunning the argument with a modified antecedent (i.e., had the successor *not* been an outsider, s/he would have *not* been dismissed). While these causal leaps have led to interesting and oftentimes plausible conclusions, they must be justified by theorists within a scenario where only the outcome, and not its absence, can be observed. But when an outcome's absence *can* be observed and measured, it ceases to be a counterfactual and instead becomes a *contrastive fact* or *contrast class*, against which the fact is opposed (e.g., Lipton, 1990). When an important aim of empirical research is to uncover causal explanations, contrastive reasoning allows to identify them by contrasting the outcome (e.g., CEOs who were dismissed) with cases in which the outcome did not occur (e.g., other CEOs who were not dismissed) (Mackie, 1974; McGill & Klein, 1993).

Given the challenges of counterfactual inference, the contrast class⁹ of dismissal—CEO non-dismissal—has never been theorized explicitly and has since remained a counterfactual. It is nonetheless extremely important to develop a causal understanding of non-dismissal, given the far-reaching implication it has for management inquiry and practice. At the same time, developing a theory of non-dismissal is fraught with its own set of challenges. For one, the further one moves in time from the succession event, the greater the noise surrounding dismissal. In other words, any causal effect potentially explaining why it

⁹ It is important to clarify that when we refer to a contrast class, we mean a scenario in which the focal outcome does not occur. In the case of CEO dismissal, for instance, this does not imply that the CEO is necessarily retained; they may have voluntarily left the firm, or their tenure may have ended for reasons unrelated to dismissal. Similarly, if a successor is not dismissed early, this does not guarantee long-term retention—they may still face dismissal later in their tenure or exit for entirely different reasons. This distinction matters because, as we have just shown, empirical research often assumes that the absence of one outcome necessarily entails the presence of its opposite (i.e., if not dismissal, then retention). The factors that prevent an outcome from occurring do not necessarily promote its alternative, and understanding this asymmetry is critical for refining both measurement and inference in succession research.

occurs or not is likely to weaken or become increasingly confounded over time, making it difficult to provide a broad theoretical explanation without a specific temporal scope. Hence, we focus on instances of *early* dismissal—dismissal within three years of appointment—thereby allowing us to isolate any predecessor effect at play. Prior research is consistent with the use of early dismissal in the study of leadership transitions (see Yi et al., 2020; Zhang, 2008). In fact, the most tension-provoking features of the predecessor-successor relationship, are most evident at this stage.

METHOD

To develop a theory on how these attributes combine into distinct theoretical profiles, we build a configurational framework and employ fuzzy-set Qualitative Comparative Analysis (fsQCA; Fiss, 2011; Ragin, 2000). Research in strategic leadership has moved closer to utilizing this approach at a micro-level of analysis to explore executive characteristics as multi-attribute and equifinal bundles (e.g., Dwivedi et al., 2018; Lewellyn & Muller-Kahle, 2022; Witt, Fainshmidt, & Aguilera, 2022).

QCA models causal conditions and outcomes as set relations, meaning that each case is evaluated based on its degree of membership within a set (Greckhamer, Misangyi, & Fiss, 2013). The assignment of set-membership scores is achieved through calibration, which rests on a scientific or empirical ontology, wherein phenomena are defined and evaluated based on their degree of membership within a set. This process originally adhered to a Boolean "in" or "out" logic, employing binary thresholds characteristic of crisp sets (csQCA) and defining membership solely *in kind* (whether a case belongs to a set). In contrast, fuzzy sets (fsQCA) extend this logic by incorporating continuous gradations to assess membership both *in kind* (whether) and *in degree* (to what extent) (Greckhamer et al., 2013; Vis & Dul, 2018). The resulting configurations can be conceptualized as raw theoretical statements or organizational archetypes, which explain why the presence of a causal condition is sufficient for an outcome

(Rutten, 2023). At the core of QCA lies the minimality principle, which allows causally rich organizational phenomena to be synthesized into parsimonious thematic types that are broadly applicable across organizations (Doty & Glick, 1994; Miller, 2018).

Unlike probabilistic methods, QCA allows for testing *causal asymmetry*, wherein a cause's absence need not have the mirror effects of its presence (Fiss, 2011; Misangyi & Acharya, 2014). This makes configurational approaches particularly well suited for exploring asymmetric predictions and, consequently, for our study.

DATA AND SAMPLE

Our sample comprises all succession events within the S&P 1500 from 2010 to 2020, as reported by ExecuComp. Dismissal data are sourced from the dataset by Gentry, Harrison, Quigley, and Boivie (2021), which provides the most detailed coding of CEO turnover available. We build our matching CEO dataset using a two-stage process. First, we included all events with available information for both predecessor and successor CEOs, excluding cases where involuntary turnover was due to factors other than dismissal (e.g., death or health-related issues) and coding cases where dismissal happened within three years of appointment as early dismissal. Second, since our dependent variables require that successors have exited the firm, our sample includes only succession events where the successor's tenure ended within our decade-long time frame. Data collection draws from various sources: CEO data were gathered from ExecuComp, ISS (RiskMetrics), Lexis Nexis Full Disclosure (FD) Wire, media outlets and company reports; performance metrics were calculated and collected from Compustat. Overall, our sample includes complete data for 303 succession events, 56 of which are early dismissals.

Data and set-theoretic calibration

The assignment of set-membership scores is achieved through calibration, which should reflect the researcher’s theoretical concerns for each case (Greckhamer et al., 2013).

Table 2.1 summarizes the calibration thresholds for our outcome and theoretical attributes.

Outcome

CEO Early Dismissal. Succession literature defines early dismissal as involuntary termination within three years of appointment (e.g., Yi et al., 2020) We code case memberships using a crisp set approach, such that when the successor is fired within three year of appointment cases are coded as 1 (“fully in”), and 0 otherwise (“fully out”).

CEO Non-Early Dismissal. As explained above, QCA provides us with a tool to test how our attributes combine into configurations sufficient for a CEO’s non-early dismissal. This involves taking the negation of the outcome, whereby membership is “fully in” for cases of no turnover, voluntary turnover, or dismissal after three years of appointment, and “fully out” in cases of early dismissal.

Table 2.1: Fuzzy-set membership calibration

Fuzzy-set Calibration	
Theoretical Attributes	Calibration
Outcome: CEO Early Dismissal	Crisp set, 1 = dismissal within three years of appointment, 0 = otherwise
Predecessor is Chair	Crisp set, 1 = chair for at least 12 months postsuccession, 0 = otherwise
Predecessor is Generative	Indirect method: anti-generative → 0 hypo-generative → 0.33 generative → 0.67 hyper-generative → 1.00
Predecessor is Generalist	Crisp set, 1 = generalist, 0 = non-generalist (specialist)
Power Distance (Successor wields less power than Predecessor did)	Crisp set, 1 = successor wields less power (power distance score > 60th percentile), 0 = power equality/ successor wields more power
Successor is Generalist	Crisp set, 1 = generalist, 0 = non-generalist (specialist)
Successor Starting Performance (Poor)	Direct method: TSR ≤ Industry median TSR → "fully in" Halfway mark → "crossover" TSR ≥ Industry Upper Quartile TSR → "fully out"
Successor is Outsider	Crisp set, 1 = successor joined the firm within two year prior to succession, 0 = otherwise (insider)

Theoretical Attributes

Predecessor Generativity Mindset. To the best of our knowledge, this paper is the first attempt to empirically measure the construct. As such, a primary research objective was to develop a generative measure that accounts for both generative cues in language and archival information about succession. As noted by the authors, generative statements can usually be indicative of or mirror the way succession ensues— i.e., successor’s origin, succession context and predecessor’s involvement post-succession (Hambrick & Lee, 2024; Joshi et al., 2021). We thus extend a typical content analysis and perform instead a theoretically informed coding.

A key input to our analysis is the quarterly earnings call transcript data. Prior research suggests that earnings calls provide a direct reflection of CEOs’ unfiltered language, making them more reliable indicators of personality than other publicly available sources (Harrison, Thurgood, Boivie, & Pfarrer, 2019). We extract transcript data for unique CEOs from Lexis Nexis Full Disclosure (FD) Wire and analyze quarterly calls for the fiscal year prior to succession to the year of succession, inclusive. We also rely on media and company reports (DEF14A filings) that contain additional statements made by the CEO as well as information about each succession events. A supplemental appendix lists the full generativity coding for the entire study sample. Consider the following illustrative examples.

1) In September 2017, Dollar Tree CEO Bobby L. Sasser announced his retirement as CEO and transition to the role of Executive Chair, with Gary Philbin promoted to CEO. Sasser described succession as “*an important part of Dollar Tree’s organizational efforts and culture for many years... I have been planning leadership succession for some time, and we are confident this will be a seamless transition.*” This statement mirrors the “relay” succession at Dollar Tree, with Gary Philbin positioned as the long-time heir-apparent. Besides Sasser’s active involvement, there is evidence of his strong desire to clone his

leadership style in the next generation: “*We share the same values, have a common vision for Dollar Tree’s future*”. In fact, Sasser’s continued role as Executive Chair until 2022, without a clear retirement plan, indicates a deliberate effort to maintain influence. Based on these factors, we coded Sasser as a *hyper-generative* CEO.

2) In October 2010, Ray Irani, long-time CEO of Occidental Petroleum, announced his departure under intense investor pressure, transitioning to Executive Chairman while naming Stephen I. Chazen as his successor. Irani’s delayed retirement and reluctance to establish a clear succession plan were evident, as he stepped down only after months of negotiations and investor criticism: “*Shareholders also criticized Occidental for failing to announce a CEO succession plan, even though Mr. Irani already had reached the company’s retirement age of 75 for directors*” (Wall Street Journal, 2010). Despite his dismissal, Irani’s desire to retain control persisted, as he held onto the Executive Chairman role until 2014. Given this combination of minimal commitment to mentoring and a strong need to control the process, we coded Irani as an *anti-generative* CEO.

To calibrate *generativity mindset*, we first conceptualize the four generativity types as an ordinal scale yielding a rank order (from lowest to highest generativity, respectively). Next, we translate this ordinal scale in a four-value fuzzy set with hyper-generativity as “fully in”, generativity as “more in than out”, hypo-generativity as “more out than in” and anti-generativity as “fully out”.

Predecessor is Chair. We code cases where a predecessor is retained as chair of the board dichotomously, assigning a value of 1 when the predecessor CEO continues as board chair for a minimum of 12 months post-succession, and 0 otherwise (Yi et al., 2020). Set membership scores are calibrated using a crisp-set approach, whereby a score of 1 denotes "full membership" and 0 indicates "full non-membership".

Predecessor is Generalist. To construct our measure, we draw on the CEO General Ability Index from Custódio et al. (2013), which integrates five aspects of a CEO's professional career¹⁰ into one continuous measure of human capital skills. Following prior research (e.g., Chen et al., 2021; Custódio et al., 2013), we classified CEOs as either specialists or generalists by creating a dummy variable, *Generalist CEO*. This variable was coded as 1 if a CEO's score on the general managerial knowledge and skills measure was above the median for all CEOs, and 0 otherwise. We calibrate this variable using crisp membership scores, such that predecessors scoring as generalists in the year prior to the succession event were coded as “fully in”, while those scoring as specialists were considered as “fully out”.

Power Distance We construct a measure of power distance that reflects power differentials. First, we operationalized CEO power using a summative index based on three measures identified by prior research as being more discretionary than others (e.g., Krause, Filatotchev, & Bruton, 2016). Our index comprises: (a) CEO duality, where 1 indicates a combined CEO/board chair role and 0 indicates a separation of these roles; (b) board independence, assessed as the percentage of board members classified as independent and reverse-coded to reflect CEO power rather than board power; and (c) CEO stock ownership, measured as the percentage of outstanding firm stock held by the CEO. We standardized all three components and then summed them to create two distinct indices for each CEO. Next, we subtract a successor's power index from a predecessor's one to obtain a measure which incorporates directionality. For values larger than 0, successors wield less power than when their predecessors were at the helm, with negative values indicating the opposite.

¹⁰ Specifically, the measure includes: (a) the total number of positions the CEO has held, (b) the number of firms the CEO has been employed by, (c) the range of industries in which the CEO has experience, (d) a dummy variable indicating if the CEO has previously held a CEO role at another company, and (e) a dummy variable indicating if the CEO has worked for a conglomerate

We code membership in the set of dyads with high power distance (or low successor power relative to predecessor's) by taking crisp breakpoints. Since non-negative values are indicative of power distance, whereas values at or near 0 reflect equilibrium or minimal distance, we take a relatively lax threshold that still captures a majority of observations consistent with the theoretical definition of our variable, while clearly distancing from the floor value of 0. The variable is calibrated using a breakpoint at the 60th percentile of its distribution, such that values above this point are classified as “fully in”, with “fully out” capturing situations of power equality or higher successor's power.

Successor is Outsider. We assessed successor origin by examining whether the incoming CEO joined the firm within two years prior to the succession event (Quigley et al., 2019). Thus, we code a successor's membership in the set of outsiders with a crisp set, such that cases where the successor was an outsider were coded as “fully in”, while insiders were considered as “fully out” of the set.

Successor is Generalist. We code and calibrate successors as either generalists or specialists, following the same dichotomous measure used for predecessors: successors scoring as generalists at the time of their appointment were coded as “fully in”; all other cases were coded as “fully out”.

Successor Starting Performance (Low). When operationalizing starting conditions, extant work has drawn on measures like average performance in years prior to the succession event or performance change (e.g., Dwivedi et al., 2018). Both of these measures, however, incorporate in their measurement years where the predecessor was still in charge. To more accurately capture the concept of starting conditions, we focus on a snapshot of performance in the post-succession year $t+1$. With recent succession literature showing that boards may react more promptly to a decline in stock market performance than to a decline in accounting measures (e.g., Flickinger et al., 2016; Gentry et al., 2021), we use market performance as

total shareholder returns (TSR) calculated as the annual change in the price of a share of stock plus dividends reinvested, divided by prior year-end share price (Shin et al., 2022). Consistent with prior QCA studies (e.g., Fiss, 2011; Misangyi & Acharya, 2014) we calibrate low performance using the direct method of calibration and use the following thresholds: firms that locate at or below the median of their respective industry are coded as “fully in” (\leq median TSR); those located in the upper quartile of their industry as “fully out” (\geq 75th percentile), and the halfway point between these two as the crossover (“neither in nor out”).

Set-theoretic Analysis

Necessity Analyses. Based on the logic of necessary and/or sufficient causality, fsQCA allows subset relations to generate causal statements of necessity and sufficiency. As Ragin’s (2000, 2008) methodology suggests, we conduct necessity analyses prior to performing analyses of sufficiency. To assert the existence of a necessary condition is to empirically find a region of no data, namely the zone above fsQCA’s diagonal reference line, which explains the absence of the outcome for given values of a condition (Goertz et al., 2013). We conduct necessity analyses for all conditions and their negation using the advised consistency benchmark of ≥ 0.90 (Schneider & Wagemann, 2012).

Our necessity analyses reveal that none of the eight conditions sufficient for the outcome surpassed the critical 0.90 consistency benchmark. However, the condition of low starting performance for successors ranked the highest, with a consistency value of 0.73.

Note that, when QCA does identify necessary conditions, it does so qualitatively—or *in kind*—determining whether X is necessary for Y without providing quantitative insights into the criticality of such necessity (Vis & Dul, 2018). Moreover, its conservative fit measures often constrain its ability to identify necessary conditions (Mello, 2021); the recently developed Necessary Condition Analysis (NCA; Dul, 2016) provides a more robust approach for detecting necessary conditions quantitatively. Accordingly, we conduct NCA

analyses for conditions where we anticipate necessity. Specifically, we hold predictions that power distance might be necessary, as this condition is shared across all solutions explaining the outcome. NCA analyses show that high power distance is indeed a critical factor for a successor's early dismissal, with an effect size¹¹ $d = 0.250$ and significance level of $p < 0.002$. Results are presented in Appendix A.

For the outcome's negation, our analyses indicate the existence of a critical condition, namely the absence of a predecessor-chair; in particular, a consistency value of 0.82 qualifies predecessor-chair (i.e. a lack thereof) as an "almost always necessary" determinant (Dwivedi et al., 2018; Ragin, 2000: 109).

Sufficiency Analyses. We conduct sufficiency analyses using Ragin's (2008) truth table algorithm to identify all the logically possible and empirically existent configurations sufficient for a CEO's early dismissal. Solution terms are evaluated based on a *consistency* parameter, which specifies the lower bound for cases to show the outcome (Thiem, 2022). For our solutions to be retained in the minimization process, we set the following criteria to be met following extant literature : a) while a minimum consistency level of ≥ 0.75 is still acceptable, we set a more stringer raw consistency threshold of ≥ 0.80 for the outcome, and of ≥ 0.90 for the outcome's negation, complemented by a proportional reduction of inconsistency (PRI) of ≥ 0.75 to avoid ambiguous subset relations (Greckhamer, 2016); b) we then set the frequency cut-off to a minimum of two cases per configuration for the outcome, and three cases for the non-outcome, to ensure that 70 to 80 percent of the cases are included in the analysis (Greckhamer et al., 2013).

¹¹ For varying 0 to 1 values of d , the effect size can be determined as follows: $0 < d < 0.1$ is considered a "small effect," $0.1 \leq d < 0.3$ a "medium effect," $0.3 \leq d < 0.5$ indicates a "large effect," $d \geq 0.5$ signifies a "very large effect". (Dul, 2016). We report effect sizes referred to the ceiling envelopment (CE) technique, which is more appropriate for handling categorical or dichotomous variables.

Minimization, Solution and Counterfactual Analysis. The final step requires truth table rows to be minimized. To determine sufficiency, pairs of observed configurations are compared to identify instances where they differ by only a single literal. This differing literal is then minimized, and the process continues iteratively until no further minimization is possible and a set of prime implicants, or solution terms, is obtained (Duşa, 2022). Results in Table 2 report the *intermediate* solution for the outcome and its negation. While the *parsimonious* solution includes all *logical remainders*—empirically unobserved configurations of causal conditions—the intermediate solution rests upon counterfactual reasoning—what does not exist but might have been (Morris & Moore, 2000). Thus, researchers can include remainder rows if they resonate with “heoretical and substantive knowledge (Ragin, 2000, 2008). This final step has indeed a lot to do with case knowledge and ‘intimacy’, which our in-depth data collection and coding make possible. For our primary analysis, we incorporate low performance as an easy counterfactual, in that prior research consistently reports its critical role in precipitating turnover (e.g., Fredrickson et al., 1988; Jenter & Lewellen, 2021). For the non-outcome analysis, we include the absence of a predecessor-chair as both a theoretically *and* empirically plausible counterfactual. Not only has prior literature demonstrated its strong empirical relevance (e.g., Yi et al., 2020), but our necessity analyses identified it as a quasi-necessary condition for the absence of early dismissal (see the results section below). We adopt QCA’s iterative approach by qualitatively revisiting cases included in the configurations, later discussing a selection of exemplary ones.

Table 2.2: Sufficiency Analyses

Table 2: Configurations Sufficient for CEO Dismissal									
	Panel 1: CEO Early Dismissal			Panel 2: CEO Non-Early Dismissal					
	1	2	3	1	2	3a	3b	4	5
Predecessor is Chair	●	●	⊗	⊗		⊗	⊗	⊗	⊗
Predecessor is Generative	●	⊗	⊗	●	●	●	●		
Predecessor is Generalist	●	●	⊗			●		●	⊗
Power Distance	●	●	●	⊗	●	●	●	⊗	⊗
Successor is Generalist	●	⊗	⊗		⊗		⊗	⊗	●
Successor Poor Starting Performance	●	●	⊗	⊗	⊗	●		⊗	●
Successor is Outsider	⊗	●	●	⊗	⊗	⊗	⊗	⊗	●
Consistency	0.81	0.91	0.95	0.96	0.99	0.96	0.97	1.00	0.90
Raw Coverage	0.07	0.06	0.03	0.12	0.05	0.04	0.05	0.04	0.04
Unique Coverage	0.07	0.06	0.03	0.09	0.04	0.02	0.01	0.02	0.02
Overall Solution Consistency		0.87				0.97			
Overall Solution Coverage		0.16				0.34			

Notes: Core conditions are represented by ● (presence) and ⊗ (absence); peripheral conditions by ● (presence) and ⊗ (absence). Configurations like 3a and 3b in Panel 2 are “neutral permutations”. Actual minimum thresholds used in the analyses, outcome and non-outcome, respectively: raw consistency .80; .90; PRI consistency .75; frequency of 2; 3 cases/configuration.

RESULTS

CEO Early Dismissal

Panel 1 of Table 2.2 reports the results of sufficiency analysis for CEO early dismissal, sorted by unique coverage¹². We use Ragin and Fiss's (2008) notation to denote a condition's presence (black circles) or absence (crossed-out circles) and integrate Fiss's (2011) core-periphery distinction¹³. Our findings identify three equifinal configurations of predecessor-successor attributes linked to the outcome, each amenable to the typologies of CEO succession first outlined by Vancil (1987). Whether the successor emerges from a highly bureaucratized or highly disruptive succession process (i.e., Vancil's *relay* and *crisis* succession, respectively), dismissal reflects the discrepancy between the successor and the political architecture left behind by the predecessor—what we refer to as a *coalitional misfit*. For configurations explaining the outcome, we find that polar generativity mindsets (i.e., anti- or hyper-generative, respectively) are coterminous with predecessor retention as board chair, the degree of heterogeneity between old and new CEOs and their relative power distance and are predictive of coalitional misfit. Although the complementarity between successors' origin and generativity mindset reflect succession dynamics, performance levels add a further layer of complexity in explaining the inconsistent expectations new CEOs might be subjected to. We label and discuss configurations using Vancil's (1987) typology of CEO succession events, which distinguishes among relay, horse race, and crisis successions. In our analysis, all three configurations appear most amenable to the two extreme types first identified by Vancil: relay and crisis succession.

¹² Coverage represents the explanatory power of a configuration and is calculated as the proportion of cases explained by a configuration relative to the total instances of the outcome (Ragin, 2008). Specifically, unique coverage refers to “the amount of coverage that does not overlap with other configurations” (Greckhamer, Misangyi & Fiss, 2013 :73) and indicates a configuration's redundancy.

¹³ Core solutions are those present in both the parsimonious and intermediate solutions and are represented by large black or crossed circles. Smaller circles represent peripheral conditions, which appear only in the intermediate solution derived from the incorporation of plausible counterfactuals (see Fiss, 2011).

Path 1: Supervised Relay (The Acolyte). Path 1's core constructs are each amenable to a relay succession scenario characterized by power asymmetries (Shen & Cannella, 2002; Vancil, 1987). Our model shows that highly generative predecessors who excessively interfere in the succession process often appoint a vetted insider and are likely to linger as chairs. While matching and substitutive skillset reflect a low discrepancy among outgoing and incoming CEOs, the fact that successors wield less power than their predecessors lends support to the coalitional misfit hypothesis. Qualitative case analysis was indeed revealing this time. We find that, across the entirety of cases belonging to this recipe, predecessor chairs were coded as hyper-generative, which Joshi et al. (2021) theorize as consistent with postsuccession lingering presence. Notably, some exemplary cases fitting this configuration—for example Dollar Tree and Guess Inc.—are marked by long-tenured or founder predecessors who face pressures to resign amid waning performance but still retaining control. Dollar Tree's seamless transition was discussed prior to QCA analysis as a hallmark of hyper-generativity, with outgoing CEO's emphasis on continuity. At Guess, despite being ousted following misconduct allegations, Paul Marciano retained control as Chief Creative Officer and Executive Chairman, ensuring Herrero adhered to the family's vision. After Herrero's ousting, Maurice Marciano (former co-CEO) returned as interim CEO.

Within these dyads, successors are often doomed to remain successors. The static nature of these dynamics is inherited (i.e., internal origin of the appointee and the nature of power transfer) and maintained by local structures (i.e., predecessor retention as chair). This latter point is consistent with past studies on the paradoxical nature of empowering and controlling successors (Huang et al., 2020). Overall, this highly structured relay configuration both reflects and anticipates the successor's imminent threat of substitution, as several cases within this recipe ultimately resulted in leadership recombination, with the predecessor returning to the CEO role (Krause & Semadeni, 2013). Deliberate cloning efforts

(i.e., substitutive skillset) by predecessors are likely employed as a strategic tool to compensate for informational asymmetries and serve as a vehicle for exerting interpersonal influence (Kanter, 1977; Westphal & Zajac, 1995). This dynamic is further intensified by the fact that this configuration is marked by low starting performance. Here, successors face heightened conflict as they are expected to preserve status quo while simultaneously confronting pressures for change. We denote, as a corollary, these successors as *acolytes*, positioned to inherit but not reconfigure the role. Fueled by extensive grooming, these CEOs often begin their tenure with lofty expectations, only to succumb to self-deception and goal displacement (Pruden, 1973). This unique form of misfit arises from conflicting situational identities that insiders must reconcile—the roles of disciple and leader.

Path 2: Negotiated Crisis (The Ambivalent Contender). Path 2 and Path 3 represent two distinct variations of Vancil's (1987) crisis succession scenarios, differentiated by their degree of structural oversight. Path 2, which we term *negotiated crisis*, is marked by ambivalence in succession planning. This recipe encompasses predecessors resisting the idea of succession planning until the board stepped in, as shown by successors low starting performance. This dynamic is further complicated by significant within-dyad heterogeneity, such as the successor being an outsider or possessing complementary human capital. While this contender role is common to many successful transitions and carries extrinsic expectations for change, power gaps and board leadership structure heighten friction and misalignment, where the successor is likely to feel simultaneously overloaded and yet constrained. The absence of generativity, coupled with the retention of chair leadership, suggests that predecessors might be anti- rather than hypo-generative. Once again, case analysis provides valuable insights. Among cases in these configurations, *all* predecessors are coded as anti-generative. For these predecessors, their relationship with the firm amounts to an economic bargain in which the activities and time they sell are aimed at reinforcing their

role. To choose one case, Ralph Lauren's succession dynamics are archetypical. His exit following a rocky year represents a special case of "negotiated dismissal," as defined by Gentry et al. (2021), where dismissal does not prevent CEOs from negotiating continued board influence—Lauren's retention of chairman and Chief Creative Officer roles. This parallels Paul Marciano's case in Path 1. But unlike Marciano, Ralph Lauren exhibits anti-generativity, passively sabotaging incoming CEO Stefan Larsson's professional development to placate his need to retain control. "*When they start designing things I can't understand, I'll quit (...) I am not stepping down nor stepping back. I am stepping up,*" Lauren told The New York Times (2015). His ongoing presence proved fatal: "*The board, Ralph, and I (...) have found that we have different views on how to evolve,*" Larsson said during a conference call with investors.

We refer to this typology of successor as the *ambivalent contender*. The notion of ambivalent leadership has a precedent in the literature, with Presthus theory of organizational behavior (1958, 1962) indicating ambivalence in the context of managerial adjustment to authority. Ambivalent contenders navigate a poorly crystallized leadership structure, where they are neither able to reject their autonomy nor can they play the roles required to achieve it. These leaders face anti-generative predecessors, who fail to relinquish control but also neglect to thoroughly vet them. This lack of vetting compounds within-dyad heterogeneity, contributing to coalitional misfit and increasing the likelihood of early dismissal.

Path 3: Vacated Crisis (The Placeholder). From here on, one might argue that the degree of predecessor control before and after succession is a primary determinant of new CEOs early dismissal, with other factors being interchangeable. If this were the case, the likelihood of a successor faltering would therefore be anticipated. However, the differences observed in Paths 2 and 3 suggest otherwise. We label Path 3 as *vacated crisis*. In this configuration, we observe that structures are more relaxed, and heterogeneity is low. Once

again, predecessors scoring either extremely high or low in generativity and that had more power during their tenure and control after, seem a hallmark of any configuration consistently linked to early dismissal. And yet, this configuration stands out as the only one not decisively shaped by extreme generative mindsets; instead, it includes instances of both anti- and hypo-generativity.

Path 3 is the only recipe marked by low oversight and by a good starting performance. Like Path 1, former and incumbent leaders present overlapping human capital skills, both positioned as specialists. While research denotes external hires as a form of reactive leadership, the low discrepancy/high similarity here suggests otherwise. In this scenario, successor's leadership encompasses lack of guidance and an unclear mandate, responding as an abrupt solution. In this configuration, we observe the case of William Jasper, CEO of Unifi Inc., exiting abruptly and leaving no succession plan in place. This led to the swift departure of his successor, Kevin Hall, within two years of appointment. Often seen as *placeholders*, these CEOs are tasked with maintaining performance levels but frequently lack the resource-based advantages necessary to achieve this. Notably, this limitation has been shown to significantly impact the success of new CEOs (see Dwivedi et al., 2018).

CEO Non-Early Dismissal

Panel 2 in Table 2.2 shows six configurations sufficient for the absence of the outcome, as is custom to explore asymmetric causality in configurational studies (e.g., Misangyi & Acharya, 2014). Paths 3a and 3b are called “neutral permutations”, as they share the same core conditions but differ in peripheral conditions (Fiss, 2011). As we suggested prior to this section, these results invoke an asymmetric criterion for being interpreted and to answer our research question (i.e., “What distinguishes CEOs who were early dismissed from those who were not?”). To most likely identify sufficient causes for early dismissal or, what we denote as contrastive or critical factors (i.e., those who consistently discriminate between

the outcome and its absence), we comment these results through a lesser-known comparative method: Most Similar Different Outcome (MSDO) and Most Different Similar Outcome (MDSO) (see Berg-Schlosser & De Meur, 2009; De Meur & Gottcheiner, 2009). The MSDO-MDSO approach to case analysis allows us to contrast cases that share context but diverge in outcomes or those that diverge in context but share outcomes. Continuing to take leads from Vancil's (1987) typology, we focus here on most similar different outcomes (MSDO), to filter out key conditions when comparing configurations that appear similar on the surface but produce different outcomes.

Path 1: Horse Race (The Front-Runner). A casual comparative case analysis reveals this first combination (Path 1, Panel 2) as quite distinct from any configuration associated with the outcome (Panel 1). In this case, a generative predecessor transfers a well-performing firm to an emergent contender elevated from within the organizational ranks. Most likely, this configuration explains non-dismissal because power asymmetries are minimal and not sustained through board leadership structure: predecessors fully exit the firm, rather than remaining indefinitely as board chairs. Through case analysis, we sought further case-based evidence and found a key determinant of new CEOs' non-early dismissal to be the outgoing CEO's clear intent of finding their best fitting replacement among a pool of potential heirs. For example, B&G Foods succession of 2014 tells us the story of departing CEO David L. Wenner and his intent to leave the company in capable hands. His statement, "*After over twenty years of my leadership, it also seems an appropriate time to transition B&G Foods to new leadership,*" reflects a thoughtful approach to succession, framed not as abdication but as an act of stewardship. Rather than resisting or orchestrating entirely the succession process, he signaled a willingness to collaborate with the board and supported the evaluation of both internal and external candidates. We interpret this configuration as an empirical instantiation of Vancil's *horse race* typology, in which the predecessor neither resists nor

dominates the succession process but has the clear intent of identifying a front-runner for the CEO role.

Paths 2, 3a and 3b: Constructive Relay (The Entrenched). Whereas we first discussed some relay successions that ended unfavorably, causal recipes 2, 3a, and 3b allow us to consider, in relational contrast, how a successful relay may unfold when continuity is enacted without coercion. These three bundles share several elements with Path 1 in Panel 1 such as predecessors scoring high in generativity, high power distance and inside succession. While Path 2 includes good starting conditions, Configuration 3a shares with Configuration 1 (panel 1) a rocky performance in the year following succession. Here too, the absence of a predecessor-chair shifts the outcome favorably. This suggests that internal grooming only yields positive outcomes when the designated successor is able to operate beyond the generational shadow of their predecessor. Amongst others, Path 2 includes the case of DTE Energy Co., where outgoing CEO Anthony F. Earley transferred leadership to his long-standing heir apparent, Gerard M. Anderson, following an extended period of grooming that included his appointment as chief operating officer five years prior to succession. Importantly, the transition occurred under favorable performance conditions, suggesting that the grooming process was both timely and effective. In this context, continuity was not only accepted but preferred, and the high degree of isomorphism between predecessor and successor was interpreted positively by the firm's internal coalition and broader environment.

Additional cases include Texas Capital Bancshares (from Path 3a) and EOG Resources (from Path 3b). In both instances, the predecessor engaged in deliberate succession planning, grooming long-tenured insiders who shared their strategic vision. At Texas Capital, George Jones coordinated with the board to ensure a smooth transition to Keith Cargill, an insider and co-founder. Similarly, at EOG Resources, Mark G. Papa outlined a clear succession timeline, stepping down as CEO and remaining only briefly as executive chair

before fully exiting. As reported by Papa's last conference call in 2013 "*Our succession plan is consistent with what we previously reported. I will step down as CEO on July 1 of this year. Bill Thomas will succeed me at that time as CEO. I will remain as Executive Chairman until Bill replaces me when I retire on December 31 with the title of Chairman and CEO*".

These cases demonstrate that internal continuity and planned succession can be achieved without the predecessor sustaining a central position within the firm's post-transition architecture. In these configurations, the predecessor refrains from insulating the successor and instead facilitates the formation of an informal coalition in which the successor is embedded. The dominant coalition here emerges organically from a preexisting majority group that includes the heir-apparent (Zhang & Greve, 2019).

Path 4: Power Contest (The Usurper). An alternative explanation to new CEOs' non-dismissal can be found in Path 4. This configuration contains mechanisms that link the absence of an overpowering predecessor who exits the firm, with an insider possessing complementary human capital skills and starting off under favorable performance. Prime among them are cases where predecessors were forced to leave the firm. To mention one, Gerald Lee Hassell succeeded Robert P. Kelly as CEO of Bank of New York (BNY) Mellon in 2011 after Kelly was fired amid board dissatisfaction with his abrasive management style. Hassell, along with other of BNY executives, confronted Kelly's recent missteps and proved the board that change was needed and showed them how to address it. This case, as several others included in this configuration, captures a fourth succession process that Shen and Cannella (2002) first denoted as *power contest*. In this case, a group of insiders engages in a political coup to challenge the incumbent's fitness to lead the company (Finkelstein et al., 2009). While prior discussion has centered on a predecessor's implicit or explicit coalition-building efforts, this context reveals how competing subgroups within the top management team may assemble a rival coalition that ultimately marginalizes the predecessor and

contributes to their removal. Unlike the vacated crisis scenario we discussed above (Path 3, Panel 1), leaders stepping in during a power contest are architects of their own success or, perhaps more bluntly, usurpers to the throne. These CEOs rise to power by strategically coopting other insiders with the promise of coalition membership, and few among them can bear the thought of relinquishing camaraderie and its perks. Such internal feuds illustrate how coalitional misalignment can be leveraged by alternate actors who emerge as dominant through intraorganizational contestation.

Path 5: Board-Led Crisis (The Savior). Lastly, Path 5 exemplifies a causal recipe that resonates with the crisis succession model previously outlined. When things go awry, boards can create havoc by forcing the incumbent to resign, clearing the way for a new leader to step in. However, as discussed earlier, even in cases of board-induced dismissal, powerful predecessors have at times managed to negotiate a continued presence by securing the role of board chair. Path 5 does share several elements with Path 2 in Panel 1, including an outsider succession context, low starting performance and complementary human capital skills. However, the absence of a lingering predecessor and a less pronounced power differential relative to the prior leader can be viewed as the two critical preventers (see Mandel & Lehman, 1996) of a new CEO's early dismissal. Consider, for instance, the case of James Buettgen, who assumed the role of CEO at Ruby Tuesday in 2012 following the board-driven dismissal of longtime chief executive Samuel Beall amid deteriorating financial performance. Similar to Path 4, this case illustrates a context in which the successor is not a symbolic placeholder but the board's strategic response to environmental demands. The selection of Buettgen, whose human capital complemented rather than replicated that of his predecessor, reflects a deliberate effort to align leadership characteristics with current organizational contingencies. Following Chen & Hambrick (2012), we interpret this alignment as a high

degree of local fit, or isomorphism, where the organization seeks legitimacy not through replication, but through congruence between leader attributes and contextual pressures.

Supplemental Analyses: Board Chair Orientation

Although our model highlights the critical role of a predecessor's retention as chair—or, more accurately, its absence—the dynamics underlying their relationship with new CEOs remain elusive. Whether it is merely the chair role itself or *how* this role is enacted that matters most for CEO survival, remains to be fully explored.

To address this gap, we conduct a subset analysis of cases where the predecessor is designated as chair and integrate the board chair orientation (BCO) construct within our model. When board chairs appear before a CEO, they knowingly or unwittingly project a definition of their role relationship. In this context, Krause (2017) identified board chair orientation as an important discretionary aspect of chair leadership, oriented toward collaboration and/or control. Whereas collaboration defines the chair's role by advice and guidance, a control-oriented leadership style is marked by heightened monitoring. We source board leadership data using Harrison, Josefy, Kalm & Krause (2023) opensource dataset, which provides an accurate coding for the measure. While their dataset does not cover our entire data frame, we manually code the remaining entries following Krause's (2017) rubric¹⁴. Since the two orientations —i.e., collaboration and control—are compatible for a same chair leader, we create two mutually-exclusive dichotomous variable denoting each orientation and calibrate them in a crisp-set fashion.

¹⁴ Specifically, we content-analyze passages in proxy statements that describe board leadership structure. Boards with a control orientation often emphasize terms such as "oversight" and "independence," highlighting how a separate board chair enhances CEO accountability toward the board. Conversely, boards with a collaborative orientation typically argue that a separate chair allows the CEO to focus on managing the firm or facilitates a clear division of roles between strategic vision and day-to-day operations. For predecessor-chairs, collaboration is frequently justified by their extensive knowledge and experience within the firm.

Table 2.3: Sufficiency Analyses (sub-sample)

Table 3: Configurations Sufficient for CEO Dismissal under Predecessor-Chairs (sub-set)					
	Panel 1: CEO Early Dismissal		Panel 2: CEO Non-Early Dismissal		
	1	2	1	2	3
PC is Generative	●	●	●	●	●
PC BCO_Collaborative	●	⊗	⊗	●	
PC BCO_Control	⊗	⊗	⊗	⊗	⊗
PC is Generalist		●		⊗	⊗
Power Distance	●	●	●	⊗	●
Successor is Generalist	⊗	●	⊗	⊗	⊗
Successor Poor Starting Performance	●	●		●	⊗
Successor is Outsider	⊗	⊗	⊗	⊗	⊗
Consistency	0.98	1.00	0.97	1.00	1.00
Raw Coverage	0.14	0.08	0.31	0.07	0.11
Unique Coverage	0.14	0.08	0.26	0.07	0.06
Overall Solution Consistency		0.99		0.98	
Overall Solution Coverage		0.22		0.45	

Notes: Core conditions are represented by ● (presence) and ⊗ (absence); peripheral conditions by ● (presence) and ⊗ (absence).

Actual minimum thresholds used in the analyses, outcome and non-outcome, respectively: raw consistency .80; PRI consistency .75; frequency of 2 cases/configuration.

Table 2.3 presents the results for our subset analysis. While prior work has found that a more control-oriented chair more likely correlates with CEO dismissal for poor firm performance than a collaborative board does (e.g., Harrison et al., 2023), our model suggests otherwise. Surprisingly, we find that, when the chair leader is the firm’s former CEO, a collaborative orientation triggers successors early dismissal when other conditions combine. However, causal asymmetry illuminates how collaboration might, in fact, be a double-bind. Specifically, a collaborative BCO cements an adversarial dynamic within the dyad when power distance is high but points to the non-outcome when power distance is low. It is likely

that the type of collaborative orientation exploited by highly powerful predecessors goes well beyond their role demands. In such a case, a collaborative predecessor chair might represent a singular case of extra-role behavior or discrepant role (Goffman, 1949).

As for the absence of both orientations (Path 2, Panel 1 and Path 1, Panel 2), we interpret it as a lack of board chair role clarity or a general lack of involvement. This situation is characterized by ambivalence, in that predecessor retention intrinsically carries expectations of guidance for the successor. Interestingly, the absence of control is also a double-bind and constant for both solution types. For the outcome's negation though, its consistency value of 0.87 places it as a quasi-necessary condition. We also find instances of quasi-necessity for the absence of outsidership, with an analogous consistency value of 0.87. Note that, the continued presence of insiders, coupled with the absence of a control-oriented board leadership, may signal a self-selection dynamic whereby most predecessors who remain as chairs tend to be highly generative and legacy-focused, and often maintain an active presence by adopting a collaborative board leadership style. Lastly, we observe that while generativity may offer insights into which BCO is likely to be adopted, it does not substitute for it.

DISCUSSION

Grounded in generational and sociopolitical perspectives, this study has examined the tensions some successors experience during their initial years of tenure as a specific case of coalitional misfit with their predecessors. Specifically, we addressed the long-standing causal question of why some successors falter while others do not (e.g., Pavićević & Keil, 2025; Zhang, 2008). Because much of the existing literature is grounded in symmetrical causal reasoning, it tends to overlook the relevance of non-dismissal cases, precluding its ability to thoroughly address this issue. We propose an asymmetric explanation for the phenomenon, one that enables the identification of nonimplicative causal factors through the

mere preclusion of either outcome. We construct a richly-woven model of predecessor and successor CEOs attributes to push our theoretical expectations further and explore how these elements combine into dysfunctional (ideal) patterns.

Using fsQCA for data analysis, we find three primary pathways for new CEOs early dismissal that are synthesizable along Vancil's (1987) theoretical distinction of succession outcomes. Two of these pairs (i.e., "relay" and "negotiated crisis") involved unfavorable starting conditions and a more bureaucratized division of roles, which is itself neutral but becomes negative when predecessors are hyper- or anti-generative, when power distance is considerably high and when the predecessor-chair adopts a collaborative approach to board leadership. The third scenario (i.e., "vacated crisis") is more unusual: while a positive performance legacy and relaxed structures put an outsider in a favorable position, the incumbent's adjustment typically results in stabilization. Whether the successor ascends to the role through a bureaucratized relay or an abrupt crisis, high power distance or, better, the successor's reduced power relative to their predecessor, emerges as the least common denominator across these configurations.

For non-dismissal outcomes, we identified six equifinal configurations that offer a more nuanced view of how successors' ascendance to the role and their post-succession positioning within the organization shape their eventual fitness. In line with our theoretical predictions, the findings show that even highly bureaucratized or disruptive succession processes may carry limited negative consequences, as long as there is close alignment between an incumbent's starting conditions, their capabilities, and the way succession unfolds. Across these configurations, we observe a range of narratives: one reflects a well-executed relay, others resemble internal horse races, and a few stem from managed power struggles. Prime among the successor's tasks is the management of coalitions. Whether positioned as a natural heir within the predecessor's established clique or emerging as a

broker of dissent among rival executives, the successor's viability rests on their capacity to (re)negotiate their standing within the firm's evolving coalition structure (March, 1962). It is through this brokerage that successors negotiate both position and power and avoid the symbolic relegation to roles such as acolyte, ambivalent contender, or placeholder.

While prior research has noted how some predecessors may deliberately seek to undermine their successors (e.g., Joshi et al., 2021), this study finds that no specific configuration of predecessor *or* successor traits is inherently beneficial or harmful. Instead, characteristics currently classified as problematic in either party can produce divergent outcomes when the predecessor-successor relationship is analyzed holistically. The configurational nature of these relationship contributes to recognizing that it is the juxtaposition, or covariation, of these two roles, rather than their independence-dependence, that shapes the outcome. As a final theoretical endeavor, we conclude by filtering out key causal condition identified by our study, and that future research might elaborate further.

Causal determinants of new CEOs (non-) early dismissal: facilitators and preventers

The motivation for this work is twofold. If, on the one hand, we were incited by the notable paucity of studies exploring dismissal as a reflection of intergenerational conflict, we also aimed, more broadly, to address a gap in the literature of fundamental theoretical and causal relevance. As we noted at the outset, current research is split between a highly composite yet complex view of factors explaining dismissal but has been somewhat indifferent to providing a similarly strong explanation for the conditions under which it does not occur. This general indifference, backed by the inability to effectively process non-occurrences through traditional analytical methods, occasioned the literature to procure mirror-image explanations for the counterfactual occurrence. We addressed the following by construing a configurational model that accounts for causal asymmetry. For both the outcome and its absence, the resultant sufficiency configurations can be framed as contrastive (i.e.

“what distinguishes CEOs who were terminated early from those who were not?”). Not only this approach allows us to frame contrastive explanations for the same phenomenon but, more importantly, to filter out its main differentiators. Indeed, causal asymmetry envisions that configurations of conditions for alternate outcomes can oftentimes be surprisingly similar, if not for a few tipping factors. These tipping factors, we note, can be interpreted as plausible causal explanations for the phenomenon.

As we scratch the surface of our study’s results, we filter out those conditions that effectively differentiate the outcome from its absence. In doing so, it is important to clarify what a true differentiator is, as one could be prone to judge this section as a simple synopsis of our results. In general, conditions sufficient for the outcome to occur can be framed as precursory in a configurational sense (i.e., CEO early dismissal occurs if performance is poor *and* successor’s relative power is low, etc.); while such nonparsimonious explanations abound in the social sciences, they are too complex to be construed as theory themselves. Should, for example, high power distance emerge as a distinctive explanation for early dismissal among new CEOs, we would expect all dismissed incumbents to exhibit this dominant trait across causal recipes. In other words, if *all* dismissed CEOs share the presence (or absence) of a particular condition, that condition qualifies as causally distinctive. By contrast, the existence of failed cases where powerful successors are nonetheless dismissed suggests that high power distance alone does not constitute a sufficient explanation for early exit.

We define, as a corollary, a trait to be causally distinctive if its explanatory power is both nonredundant and nonconflicting across configurations. To map these causal conditions, we identify them as either *facilitators* or *preventers*. The distinction rests upon facilitative causes being enabling for the occurrence of a target outcome, and preventing causes being inhibitory (Mandel & Lehman, 1996). Moreover, since interpreting the causes of a non-

occurrence can be theoretically counterintuitive, we believe that addressing them in terms of preventability equips future works with better tools for conducting empirical tests. In presenting these key factors, we develop a series of propositions.

Facilitators. In configurations sufficient for a new CEO's early exit, we observe that dismissed successors were less powerful than their predecessors. As noted above, all three causal recipes share the presence of high intragenerational power distance as a common explanatory denominator. From a contrastive perspective, this pattern suggests that being less powerful is a causally distinctive condition for dismissal. Complementary NCA analyses further revealed that high power distance is a necessary component of a sufficient configuration to explain early dismissal. This condition holds for both our baseline and subset analyses. Thus, these findings suggest that:

Proposition 1: The presence of high intragenerational power distance is a necessary condition for the early dismissal of successor CEOs.

Note that, while each condition is analytically independent, their effects might be interpreted configurationally. For instance, while power distance emerges as an unequivocal marker *across* all configurations, we find that the combination of either extreme generative mindset (i.e., hyper- or anti-generativity) and the retention of the predecessor as board chair enables dismissal to occur *within* configurations. Said differently, the combination of extreme generative mindsets and chair retention is a necessary individual component of a combination of factors that is sufficient but unnecessary for early dismissal to occur. Alone, these conditions are not sufficient, nor do they appear in all outcome-producing configurations, meaning they are not necessary on their own. Rather, they are necessary parts of sufficient conjunctures. In other words, we define this causal conjunction as an INUS condition (see Mackie, 1974; Ragin, 1987)—that is, an insufficient but necessary (and nonredundant) part of

an unnecessary but sufficient causal recipe (Mahoney & Barrenechea, 2019). In sum, we propose:

Proposition 2a: The combination of predecessor's hyper-generative mindset and their retention of the board chair role, is an INUS condition for the early dismissal of successor CEOs.

Proposition 2b: The combination of predecessor's anti-generative mindset and their retention of the board chair role, is an INUS condition for the early dismissal of successor CEOs.

Our subset analyses reveal some other differing sets of facilitative causes. Under predecessor-chairs, we find that early dismissal cases are characterized by an overall low level of performance in postsuccession year one. But how, exactly, should we interpret this finding? We argue that under predecessor-chairs, successors who are handled poorly performing firms do not respond to their mandate by changing the firm's strategic course. Interestingly, we find similar patterns in the causal paths that include our full sample: among the three configurations explaining early dismissal, the two that involve poor starting performance also include the presence of a predecessor-chair. Because poor performance and predecessor retention are necessary parts of sufficient conjunctures, we conclude that:

Proposition 3: Under predecessor-chairs, poor starting performance is an INUS condition for the early dismissal of successor CEOs.

Ironically, when predecessors fulfill their mentoring duties, excessive extra-role behavior in the form of collaboration cements new CEOs' level of stress and conflict, as an analysis of board chair orientations revealed. As Oliver et al. (2018) show, collaboration is often preferred by board chairs working with women executives as a form of benevolent sexism. Here instead, coalitional and generational perspectives suggest that collaboration may serve former CEOs as a strategic tool to negotiate control and soften the threat of

obsolescence (Hambrick & Fukutomi, 1991). A discrepancy in the amount of collaboration conveys control and so is experienced by the successor as a *threat to the bond*—a situation where interaction destabilizes an individual’s sense of the self (Goffman, 1967). However, causal asymmetry illuminates an important difference; a collaborative orientation points to early dismissal when power distance is high, but may instead delay it when power distance is low. Thus, collaboration and high power distance are a sufficient causal conjunction. It follows that:

Proposition 4: Under predecessor-chairs, a collaborative board chair orientation is an INUS condition for the early dismissal of successor CEOs when power distance is high.

Lastly, we note that all successions involving predecessor-chairs are of the relay type, which explains the overall high level of generativity observed across both the outcome and nonoutcome solutions, as well as successors’ insider origin. This partly explain the similarly sustained absence of control-oriented board leadership. Since these conditions appear both redundant and conflicting, we refrain from interpreting them as causal facilitators or preventers.

Preventers. Our interpretation of negated causes as *preventers* is consistent with a notion of counterfactuals as post hoc subjunctive conditionals—i.e., what actions could or should have been taken (Mahoney & Barrenechea, 2019; Mandel & Lehman, 1996). Logically, the negation of any cause can be interpreted as a sufficient preventer and viceversa. For example, since the absence of a predecessor-chair implies the absence of early dismissal, this equates to stating that the absence of a predecessor-chair is sufficient to prevent early dismissal. While necessity analyses find the absence of a predecessor-chair to be quasi-necessary (consistency = 0.81), its explanatory value appears to depend on its causal conjunction with the presence of a generative predecessor. Accordingly, we propose:

Proposition 5: The absence of a predecessor-chair is sufficient to prevent the early dismissal of successor CEOs, particularly when the predecessor is generative.

We draw on this evidence to refine our understanding of fit within this specific leadership structure. Echoing the argument above, our subset analyses show that a collaborative board chair orientation does not inherently imply control when power structures are symmetrical or skewed in favor of the successor. In this case, collaboration conveys partnership as evidenced by our findings (e.g., the “constructive relay” recipe). In sum:

Proposition 6: Under predecessor-chairs, a collaborative board chair orientation is sufficient to prevent the early dismissal of successor CEOs when power distance is low.

More broadly, this finding suggests how even a well-executed relay does not seamlessly translate into an ordered succession, and that such translation rests on the outcome of local power dynamics.

A model for future research

Our study contributes to the succession literature in at least three ways. First, we show that the extent of predecessor-successor (mis)fit is key to explaining variations in dismissal rates, especially early in a CEO’s tenure. We build a configurational model that reflects generational perspectives and political views of the firm, such that our fit configurations can be understood as the outcome of intergenerational misfit. Chiefly, by surveying both the outcome and its absence, our study moves closer to explaining the phenomenon through the language of causality. As we have derived these causal ascriptions from configurational analysis, we believe they are still quite raw and require further empirical validation and theoretical development. We expect that a fertile line of future inquiry lies in the theoretical development of this empirically derived propositions.

Second, we include in our model the generativity construct as a cognitive syntax for explicating cause-effect relations that reflect pre- and post-succession dynamics. Notably, we

provide the first empirical validation of Joshi et al.'s (2021) stylized predictions and offer its first operationalization. As with any construct, its measurement must remain closely aligned with its underlying theoretical premises. To this end, we extend traditional content analysis by incorporating archival data into our coding efforts. While our approach reflects a high degree of theoretical fidelity, it may be worth refining and expanding this operationalization on larger samples or through machine learning or language-based models (e.g., Harrison et al., 2023). We thus see the most immediate follow-up to our work as an empirical examination of generativity's influence on other firm outcomes, using different methods.

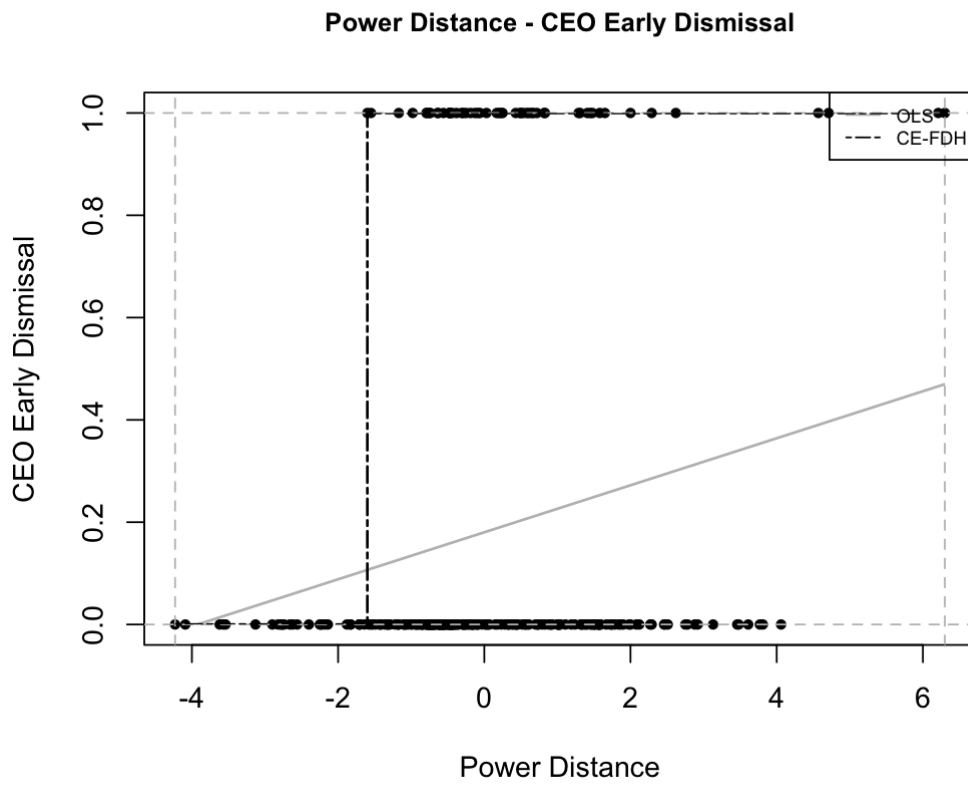
Finally, our work informs organizational sociology by recasting configurational misfit as the result of coalitional dynamics. Future research might explore additional conditions that foster these dynamics and contribute to dismissal, including one notable factor omitted from our dyadic model: the role of the board. By surveying the literature, we have discussed how the cooptation of board members through prior appointments or homosocial ties can serve predecessors as a tool for exerting interpersonal influence (Stern & Westphal, 2010; Zajac & Westphal, 1996). One question we already think it is worth asking is whether predecessors and boards form a dominant coalition, under what conditions successors occupy an effective minority status, and how counterweighting coalitions might be formed.

CONCLUSION

This study sought to explain new CEOs' premature departure by examining the degree of (mis)fit with their predecessors. The dyadic model explored refines existing assumptions about intergenerational conflict in firms and represents the first configurational investigation of early CEO dismissal. Results identify causal patterns and regularities that offer a novel understanding of the dynamics involved. Examining these allows research and practice to uncover why dismissal rates vary across firm contexts that might appear structurally identical on the surface.

Appendix: NCA Analysis

Figure 2.1: Ceiling line (ceiling envelopment [CE-FDH]) and regression line (OLS) for Power Distance – CEO Early Dismissal



Paper 3

THE ROLE OF EMPLOYEE OWNERSHIP, FINANCIAL PARTICIPATION, AND DECISION MAKING IN CORPORATE GOVERNANCE: A MULTILEVEL REVIEW AND RESEARCH AGENDA

ABSTRACT

The allocation of return and control rights to employees has been somewhat overlooked in governance literature, but it has garnered interest from scholars across various fields. We review and integrate five decades of research on this topic, juxtaposing theory and evidence from three distinct yet interrelated ownership domains: employee ownership, financial and decisional participation. A core question we explore is whether residual and control rights operate synergistically or in a mutually exclusive manner, and we find evidence of both substitutive and complementary effects. This work highlights how the interaction between financial and control rights shapes employees' satisfaction with ownership and their engagement in the firm and across different contexts. To help research navigate such an expansive topic, we develop a multilevel framework and offer novel theoretical and methodological pathways for future research.

Keywords: Corporate governance, employee ownership, participation in decision making, financial participation, multilevel framework, literature review

INTRODUCTION

The efficient allocation of ownership rights to stakeholders – the right to receive residual income and the right to participate in high-level decision making (Grossman & Hart, 1986; Hansmann, 1988) – is a critical topic in corporate governance research. Scholars have theorized for decades as to whether and how the allocation of one or both of these rights can profoundly influence stakeholder behaviors and, consequently, impact various organizational outcomes (Hansmann, 1988, 2000).

Despite its theoretical relevance, corporate governance research has remained closely aligned with the tradition of agency theory, focusing on the consequences of the separation between ownership and control in large public companies (Berle & Means, 1932; Jensen & Meckling, 1976). This rather narrow emphasis on conflicts of interest between shareholders and top managers in widely-held companies has prevented research from investigating the broader allocation of ownership rights to stakeholders, in particular, to employees (Blair & Roe, 1999).

Over time, scholars—particularly in human resource management and industrial relations—started discussing the antecedents and consequences of employee ownership (EO), financial participation (FP), and decision-making (DM). Different theories have been developed to test the presumed relationship between employee ownership and firm performance, as well as between employee ownership and employee satisfaction, based on different assumptions about the extrinsic, intrinsic or instrumental role these mechanisms play, from interest alignment to psychological ownership (Klein, 1987; Kruse, 1996; Pierce, Kostova, & Dirks, 2001)

This academic interest has been nurtured by several policy reports and reforms initiated by policymakers. Interest surged in the 1970s with the UK Bullock report (1977) and the U.S. Employee Retirement Income Security Act (ERISA, 1974), which promoted

Employee Share Ownership Plans (hereafter, ESOPs). After an initial spike, academic focus waned until the last decade, when renewed policy interest in employee participation reignited momentum. Notable examples include the UK's 2016 green paper on corporate governance reform and the U.S. 2018 Accountable Capitalism Act and Reward Work Act.

Five decades of research on the topic have generated a wealth of findings and themes. But what, exactly, are the implications of these mechanisms for individual and firm outcomes? Explaining the empirical link with employee attitudes or behaviors is a popular topic among researchers in the field. However, the non-linearity of the main relationship calls for further theoretical and empirical refinement. Performance effects are also routinely tested, but the slightly positive results obtained are often marginal and contingent on firm characteristics and institutional environments (see Doucouliagos, Laroche, Kruse, & Stanley, 2020; Freeman, Blasi, & Kruse, 2010; O'Boyle, Patel, & Gonzalez-Mulé, 2016). As a result, recent studies on EO, FP, and DM are embracing broader contingency or complementarity theses to explain the said equivocal findings.

Prompted by a continuous interest in the topic and a rather fragmented literature, this review aims at identifying major results, highlighting open issues, and suggesting various ways to develop a more comprehensive understanding of the phenomenon (Simsek, Heavey, Fox, & Yu, 2022). Specifically, our systematic review integrates and juxtaposes theory and evidence from three partially distinct streams of research—employee ownership, financial participation and decision making—as to emphasize the theoretical and empirical links among them. Second, our multilevel review aims at reconciling and interpreting the equivocal or statistically marginal results in this research field, analyzing the complex relationships between employee financial participation and decision-making, as well as the potential moderating role of various contextual variables. Lastly, as the existing systematic reviews have been published more than twenty years ago (see Ben-Ner & Jones, 1995;

Pierce, Rubenfeld, & Morgan, 1991; Rousseau & Shperling, 2003), our study provides a timely update to the literature and discusses new avenues for future studies.

To this end, we conducted an integrative and interdisciplinary review of prior empirical studies published in reputable journals. Building on recent reviews (e.g., Bezemer, Pugliese, Nicholson, & Zattoni, 2023; Zattoni, Dedoulis, Leventis, & Van Ees, 2020), we used selected keywords to identify relevant articles published in top journals and analyzed our final pool of 184 studies along various dimensions aimed at capturing the theoretical framework, the research method, and the main results.

Our findings encourage governance scholars to further investigate the antecedents and the consequences of EO, FP and DM, and identifies best practices to gather novel evidence. Overall, we note that the construct of employee ownership has been uniformly used by scholars to position a wealth of studies involving some form of employee ownership, financial participation or decision making. This has led to a large yet uneven body of research, among and across different fields, theoretical domains and levels of analysis. To better understand the complex and multidimensional nature of the construct, we encourage future studies to investigate its various facets. This includes juxtaposing different dimensions, such as the degree of financial and/or decisional participation, and the specific technical forms of the plan.

Second, our multilevel review underlines how future studies might benefit from a more holistic contingency understanding of the phenomenon. To illuminate the embeddedness of these relationships, we invite scholars to incorporate the influence of these multilevel interactions into richer and more comprehensive theoretical frameworks.

Lastly, current research often relies on rich qualitative methods for single case studies or small samples, and quantitative approaches for large archival datasets. While both have significantly advanced our understanding, future work could benefit from mixed or multi-

method designs, hierarchical linear models that integrate micro-, meso-, and macro-level data, and alternative analytical strategies.

EMPLOYEE OWNERSHIP, FINANCIAL PARTICIPATION AND DECISION- MAKING

The ownership of the firm

The ownership of an asset implies the right to control it and the entitlement to claim its returns (Hansmann, 2000). In line with this perspective, ownership of a firm is conventionally understood as comprising two interrelated rights: the residual income right—the claim to the firm’s net earnings—and the residual control right—the ability to influence key organizational decisions (Hansmann, 1988).

Following an initial debate over which stakeholders should hold ownership rights to optimize firm efficiency and survivability (e.g., Grossman & Hart, 1986; Zattoni, 2011; Zingales, 1998), corporate governance scholarship gradually coalesced around a shareholder-centric conception of the firm. According to this perspective, shareholders are entitled to receive ownership rights for two complementary reasons. First, unlike other stakeholders—who typically benefit from contractual or regulatory safeguards—shareholders remain particularly vulnerable to managerial opportunism in the absence of residual control rights (Jensen & Meckling, 1976). Second, whereas other stakeholders receive fixed compensation, shareholders claim the residual income, aligning their incentives with firm value creation and fostering intrinsic motivation to enhance organizational performance (Alchian & Demsetz, 1972).

Relatedly, most of the national legal systems allocate these two ownership rights to shareholders, who make the most important decisions and receive the residual income (e.g., Blair & Stout, 1999). In such a context, corporate governance scholars focused their attention on the consequences of the separation between ownership and control in widely-held

companies. Specifically, they investigated the emerging agency problems between shareholders and top managers, and analyzed the effectiveness of various governance mechanisms to address these issues (Jensen & Meckling, 1976). Only recently, governance scholars have expanded our understanding of agency problems by investigating the consequences associated with both the presence and the identity of large shareholders, as well as their use of control enhancing mechanisms to aggrandize control over the company (Kumar & Zattoni, 2019).

Despite a large consensus on this traditional view, the debate on whether stakeholders should receive ownership rights is far from being settled (Zattoni, 2011). Among a company's various stakeholders, employees hold a critical role as they both make significant firm-specific investments exposing them to the risk of managerial opportunism (Blair, 2010; Blair & Stout, 1999), and have the potential to significantly influence the firm's long-term performance (Barney, 1990; Freeman & Lazear, 1995). The relevance of this topic is underlined by the high interest shown by both policymakers from several countries and scholars from various disciplines (Blasi, Kruse, Sesil, & Kroumova, 2003; Long, 1978a; Pierce et al., 2001).

The allocation of ownership rights to employees

Scholars have long recognized the conceptual complexity of ownership, noting that ownership rights may be bundled within a single actor or distributed across multiple organizational participants (Ben-Ner & Jones, 1995: 533). Thus, while all employee ownership plans grant (one or both) ownership rights to employees (Quarrey, Blasi, & Rosen, 1986), they substantially differ in design and intent (Toscano, 1983). A useful classification distinguishes these plans based on the degree of allocation of the two ownership rights, i.e., the residual return rights and the residual control rights (Ben-Ner & Jones, 1995). Building on this framework, Ben-Ner and Jones (1995) offer a typology that situates private firms and

worker cooperatives at opposite ends of the ownership spectrum. Between these two extremes, they position plans that emphasize employee participation either to financial results (e.g., profit sharing, stock options), or to decision making (e.g., employee representation on the board, codetermination).

Employee financial participation includes several plans, with the most common being profit-sharing and stock option plans. Profit-sharing plans are popular in several countries (like the US, the UK and France) where corporate legislation encourages companies to grant employees a share of firm profits in the form of cash savings or future bonds. Agency theory predicts that such direct link between employees' remuneration and firm profitability (Doucouliagos et al., 2020) would positively affect employees' attitudes and ultimately also firms' productivity and performance (Coyle-Shapiro, Morrow, Richardson, & Dunn, 2002; Florkowski & Schuster, 1992; Magnan & St-Onge, 2005). Broad-based employee stock option plans – those targeting the majority of company's employees – can be viewed as levered claims on a stock, with the option value increasing in parallel with stock price growth (Babenko, Du, & Tserlukevich, 2021). Broad-based stock options are quite common among Anglo-American countries, where they are implemented to influence employees' attitudes (e.g., retention, motivation and risk taking), mitigate agency costs, and impact firm productivity (e.g., Blasi, Freeman, & Kruse, 2016; Oyer & Schaefer, 2005).

Employee decision making may take various forms, with the most common ones being employees' involvement in decisions, board-level employee representation, and codetermination. Since early studies on the Yugoslav experience, scholars have highlighted that employee participation in decision making may equally affect their satisfaction (Obradovic, 1970; Obradovic, French Jr, & Rodgers, 1970) and generate positive effects on wages and productivity (Chen, Su, & Wang, 2023; Russell, Hochner, & Perry, 1979). Board-level employee representation, an embedded practice in several European countries (such as

Austria, Germany, and the Scandinavian ones), gives employees a voice over matters concerning them and the firm, attenuates employment reductions during times of crisis (Gregorič, 2022; Gregorič & Rapp, 2019) and emphasizes the relevance of employees and other stakeholders' interests (Adams, Licht, & Sagiv, 2011; Dam & Scholtens, 2012; Nekhili, Boukadhaba, & Nagati, 2021). Finally, studies on German codetermination – characterized by the presence of employee-elected supervisory board members and workers' councils at the plant-level – underline its potential positive effects in term of higher exchange of information, long-term collaborative orientation and higher company performance (Fauver & Fuerst, 2006; Freeman & Lazear, 1995).

Lastly, employee ownership plans may include employee stock ownership and worker cooperatives. Different employee stock or share ownership plans – like ESOPs in the US or the UK – allocate shares to employees, usually at a discount and with tax benefits, with the aim of motivating employees while improving company outcomes (O'Boyle et al., 2016). The level of employee ownership varies significantly across different company settings and influences the potential effect on employee attitudes and firm outcomes alike. On one hand, the literature suggests that plans providing employees with marginal incentives and no substantial decision-making power may generate frustration among employees, with a consequent zero or negative impact on company's results (French, 1987; Long, 1979, 1981). On the other hand, it underlines that, beyond a certain optimal ('prudent') threshold, both cash flow and control rights may become ineffective or even detrimental (Fauver & Fuerst, 2006; Ginglinger, Megginson, & Waxin, 2011; Guedri & Hollandts, 2008). Worker cooperatives are employee owned and managed companies, where workers have full control and return rights. Approached as potential vehicles to transform capitalism and founded on democratic principles—i.e., 'one head, one vote'— cooperatives may struggle to manage typical tensions between meritocracy and equality, hierarchy and democracy, profitability

and employment (e.g., Basterretxea, Heras-Saizarbitoria, & Lertxundi, 2019; Bonache & Zárraga-Oberty, 2020; Bourlier-Bargues, Gond, & Valiorgue, 2024).

This brief overview of the literature showcases how plans differ significantly based on whether they allocate one or both ownership rights to employees. We discussed the numerous arguments supporting their potential positive impact on individual behavior and firm outcomes, and the lack of integration across studies due to differences in plans and scholarly disciplines. In this context, we propose that the topic shall be addressed by simultaneously considering three key domains, employee ownership, financial and decisional participation, which have occasionally overlapped and occasionally diverged one from another. Our ultimate goal is to take stock of what is known and identify new research opportunities through a multilevel and more comprehensive understanding of the phenomenon (Simsek et al., 2022).

METHOD

Sample

We examine a wide range of research and follow a systematic selection process to ease replication and transparency (Banerjee et al., 2020). In sampling articles to include in our review, we scanned and preliminarily analyzed leading journals in business, management, finance, accounting, organization and human resource management areas. Consistently with prior reviews (e.g., Zattoni et al., 2020; Zattoni, Leventis, Van Ees, & De Masi, 2023), in order to keep the number of articles manageable and to analyze equally rigorous works, we considered only papers published in the top journals of each field, i.e., those classified as 4 and 4* in the ABS/AJG list (see Table 1). The only exception is the inclusion of *Corporate Governance: An International Review (CGIR)* – ranked as 3 in ABS/AJG – given its status of leading journal on corporate governance.

To conduct a systematic sampling of published research articles, we followed a disciplined approach in the manner of prior studies (Banerjee et al., 2020; Pugliese, Bezemer, Zattoni, Huse, Van den Bosch, & Volberda, 2009). We started our exploratory search process using the following set of keywords: “employee OR worker” complemented by a term indicating “ownership” in the field “AB Abstract or Author-Supplied Abstract”, and the journal name in the field “SO Publication Name”. The specific keywords employed in combination with “employee OR worker” include “ownership”, “cooperative”, “ESOPs”, “governance”, “board-level representation”, “directors”, “codetermination”, “participation in management”, “profit-sharing”, “financial participation”, “stock incentives”, “equity incentives”, always in the field “AB Abstract or Author-Supplied Abstract”.

Our literature search in the electronic database *Business Source Ultimate* was conducted at the end of January 2024. The first screen yielded an initial sample of 256 articles. We downloaded all papers and carefully parsed their abstracts to exclude those not directly related to employee ownership. From this initial pool of articles, we discarded those that were conceptual articles, call for papers, editorials, business cases, duplicates, or covered a topic outside the scope of this review (e.g., employee ownership was not the focal construct). The discipline that has experienced the most significant drop in articles from Step 1 to Step 2 is Accounting (see Table 3.1). This is because, within this field, the concept of employee ownership encompasses narrow-based or executive options, which were beyond the scope of our article. We ended our search using a snowball sampling procedure (e.g., Milliken & Martins, 1996), cross-analyzing references cited in our initial pool of studies to identify any potential missing articles. After this screening, our final sample consists of 184 empirical articles. While not explicitly included in the analysis of the empirical literature, we also considered other sources (e.g., conceptual, review, and meta-analyses) to gain a deeper understanding of research to date.

Our careful content analysis considered several elements. Authors read and coded all articles in the sample based on a set of theoretical and methodological themes: (i) use of theory; (ii) employee ownership mechanisms; (iii) research setting; (iv) sample period; (v) research method; (vi) data analysis; (vii) source of data; (viii) moderating variables; and (ix) dependent variables. The coding scheme has been agreed after an initial open coding phase based on a subsample of studies and followed by a discussion between the two authors. As we integrate these three employee ownership domains, our approach takes on similarities to umbrella reviews, offering a comprehensive yet exploratory perspective (Simsek et al., 2022).

Table 3.1 – Number of empirical articles on employee ownership in selected journals

<i>Academic Journals (ranking)</i>	<i>Preliminary Sample</i>	<i>Final Sample</i>
Academy of Management Journal (4*)	9	8
Administrative Science Quarterly (4*)	2	2
Journal of Management (4*)	3	0
British Journal of Management (4)	3	1
Journal of Management Studies (4)	6	4
<i>General Management (total)</i>	23	15
Management Science (4*)	8	5
<i>Management Science (total)</i>	8	5
Journal of International Business Studies (4*)	4	4
Journal of World Business (4)	4	4
<i>International Business (total)</i>	8	8
Organization Science (4*)	4	4
Human Relations (4)	17	15
Organization Studies (4)	7	6
<i>Organization Studies (total)</i>	28	25
Human Resource Management Journal (4*)	9	7
Human Resource Management (4)	19	17
Industrial Relations (4)	26	21
British Journal of Industrial Relations (4)	31	29
<i>Human Resource Management (total)</i>	85	74
Strategic Management Journal (4*)	3	3
<i>Strategy (total)</i>	3	3
Journal of Finance (4*)	11	10
Journal of Financial Economics (4*)	15	15
Journal of Corporate Finance (4)	7	6
Journal of Financial and Quantitative Analysis (4)	6	5
Review of Finance (4)	2	2
<i>Finance (total)</i>	41	38
Accounting Review (4*)	14	3
Accounting, Organizations and Society (4*)	4	1
Journal of Accounting and Economics (4*)	12	6
Journal of Accounting Research (4*)	12	0
Contemporary Accounting Research (4)	9	0
Review of Accounting Studies (4)	4	1
<i>Accounting (total)</i>	55	11
<i>Corporate Governance: An International Review (3)</i>	5	5
Grand Total	256	184

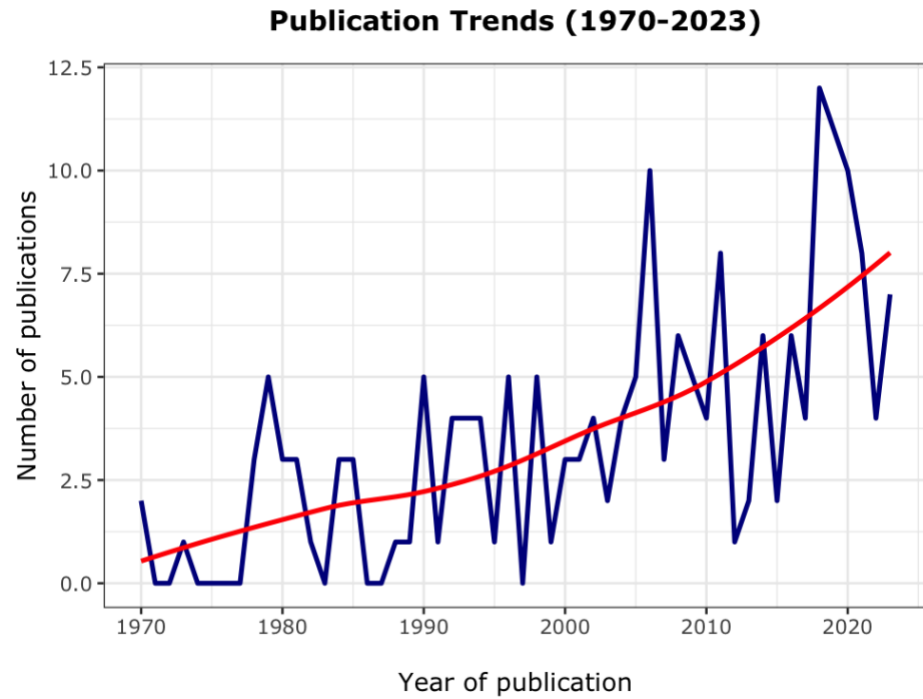
RESULTS

Prevailing trends in the literature

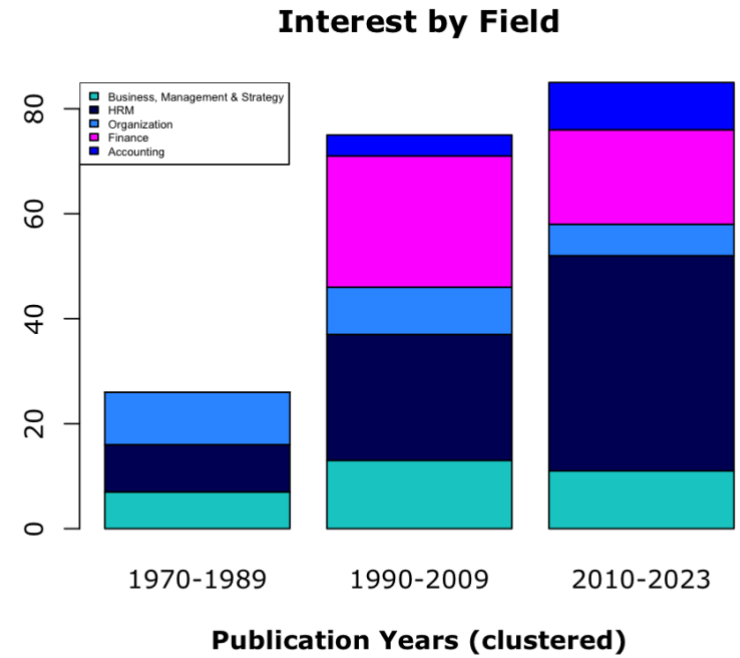
Results from our content analysis covering over five decades of research on employee ownership revealed several important patterns and critical areas. Despite research on the topic has witnessed discontinuous waves in popularity, results show a sustained increase in interest and a definite upward trajectory, with slightly less than half of articles in our sample (46%) published between 2010 and 2023 (see Figure 3.1a). As shown in Figure 3.1b, the topic permeates unevenly the different disciplines: about two-fifths of our sample is sourced from Human Resource Management outlets (74 articles), while a significant portion is also found in Finance journals (38 articles). By segmenting our sampled articles into three distinct time periods, we observe how the topic has either surfaced or receded within particular academic fields over time. For instance, finance scholars have been initially uninterested in the topic, but started to increasingly engage in more recent time periods, in the same fashion as accounting research. Business and management scholars have shown only modest interest in the topic, which appears to be waning over time. Interestingly, only a small pool of articles covers this topic in *Corporate Governance: An International Review*. This reveals that governance literature has conventionally adopted a traditional view of ownership, focused on the analysis of agency problems related to ownership dispersion or concentration.

Figure 3.1– Publication Trends over five decades of research (1970-2023)

(A) Time trends



(B) Interest by field over time



In general, our content analysis revealed that scholars have expressed greater interest for employee share ownership (75 articles), followed by stock options (51), profit-sharing (42), worker cooperatives (21), codetermination (14), employee participation (10) and employee directors (8), respectively (we refer to Table 3.2 for a specification of articles sampled within each of the three domains examined).

Research has employed a restricted set of theoretical lenses, with agency (38%) and social psychological theories (26%) being the two dominant approaches. Specifically, research on financial participation is dominated by agency theory, which explains the allocation of return and control rights to employees as a way to align workers' interests with company's ones (Akerlof, 1982; Blasi et al., 2016). Sociocognitive perspectives are, instead, widely employed by studies examining employees' meaningful expectations and psychological ownership (Long, 1978a; Pierce et al., 2001; Vroom, 1964). Early studies have also drawn upon sociopolitical perspectives (7%), which, however, have waned over the longer run. Less often, scholars have adopted other theories (e.g., human capital, stakeholder, institutional and transaction cost theory). Overall, the majority of studies (71%) has explored employee ownership's outcomes, whereas a smaller set has analyzed its antecedents and/or functioning. The use of a wide array of moderators is relatively common (60 articles or 33%), particularly in HRM and organization studies.

Despite a very diverse range of variables explored, we were able to round the main outcomes to five clusters (see Table 3.2). All in all, scholars in the field have shown a significant interest in firm-level outcomes (76%), with organizational performance and productivity being the most widely studied variables (30%). At the same time, this literature exhibits a much stronger focus on individual-level constructs (24%) compared to other fields in governance research, where their frequency is much lower (Foss, Husted, & Michailova, 2010). Explaining employee attitudes like satisfaction and motivation is in fact a popular goal

for scholars in this field (14.7%). The literature on antecedents (25%) is substantial and predominantly popular among finance scholars adopting an agency perspective.

About the empirical setting, studies on financial participation and employee share ownership focus mostly on liberal market economies (LMEs) (Hall & Soskice, 2001). However, more recent research points to an increase of non-Western samples, with a growing interest toward emerging economies (e.g., Kim & Patel, 2021; Yoon & Sengupta, 2019). Conversely, studies on employee participation in decisions (e.g., Fauver & Fuerst, 2006; Ginglinger et al., 2011; Gregorič & Poulsen, 2020) have mostly analyzed coordinated market economies (CMEs), where employee board-level representation is institutionalized via codetermination laws in Germany or mandatory employee board representation in France and Scandinavian countries. Finally, transitioning economies have been mostly analyzed by early studies with an almost exclusive focus on worker managed companies in Yugoslavia.

Our review illustrates some interesting patterns in methods and data collection as well (see Table 3.3). Results point to a majority of quantitative studies (86%), with fewer qualitative and some mixed-methods studies. Moreover, the majority of studies are cross-sectional (50%) as compared to longitudinal ones. To better understand the distribution of topics by method of analysis, research on employee ownership has been mostly examined through quantitative and cross-sectional analyses, based on surveys (e.g., Coyle-Shapiro et al., 2002; French & Rosenstein, 1984) or available databases (e.g., Kim & Han, 2019). By the same token, research on financial participation is largely quantitative and heavily archival in terms of data sources. Studies involving cooperatives have instead almost exclusively employed primary data, through either surveys or single case studies (e.g., Stern & Hammer, 1978; Basterretxea et al., 2019). Still underrepresented are alternative methods of data analysis: we find only two multilevel studies (e.g., Kim & Patel, 2021; Oehmichen, Wolff, &

Zschoche, 2018), no configurational approaches, and just a handful of studies examining curvilinear effects (e.g., Ginglinger et al., 2011; Ogbonnaya, Daniels, & Nielsen, 2017).

Data collection relies on a variety of sources: 64 studies (33%) collect primary data, 128 studies (66%) archival data. Regarding primary data, 31 articles (48%) used only surveys, 12 studies exclusively relied on qualitative methods (18%), 13 articles combine surveys and interviews or observational data (20%), and 8 studies (12%) combine primary and secondary sources.

Table 3.2 – Descriptive statistics of theoretical findings¹

	TOTAL		FINANCIAL PARTICIPATION		PARTICIPATION IN DECISIONS			OWNERSHIP	
	#	%	<i>Profit-sharing # (%)</i>	<i>Stock options # (%)</i>	<i>Directors # (%)</i>	<i>Codeterm # (%)</i>	<i>PDM # (%)</i>	<i>ESOPs # (%)</i>	<i>Coops # (%)</i>
Use of Theory									
Theoretical lenses (#)	211		49	52	13	16	12	84	25
Theoretical lenses (mean)	1.14		1.16	1.02	1.62	1.12	1.20	1.12	1.19
Agency theory	81	38.38%	24 (48.97%)	25 (40.32%)	4 (28.57%)	5 (29.41%)	2 (15.38%)	36 (39.56%)	6 (20.68%)
Sociocognitive theories	55	26.06%	12 (24.48%)	7 (11.29%)	1 (7.14%)	4 (23.52%)	4 (30.77%)	22 (24.17%)	11 (37.93%)
Sociopolitical perspectives	15	7.10%	0 (0.00%)	0 (0.00%)	2 (14.28%)	2 (11.76%)	4 (30.77%)	7 (7.69%)	3 (10.34%)
Institutional theory	12	5.68%	4 (8.16%)	3 (4.83%)	0 (0.00%)	0 (0.00%)	0 (0.00%)	5 (5.49%)	3 (10.34%)
Other theories	22	10.42%	2 (4.08%)	18 (29.10%)	6 (42.85%)	5 (29.41%)	2 (15.38%)	14 (15.38%)	2 (6.89%)
No theory (or implicit)	26	12.32%	7 (14.28%)	9 (14.51%)	1 (7.14%)	1 (5.88%)	1 (7.69%)	7 (7.69%)	4 (13.79%)
Main research topic									
Performance/ productivity	63	30.00%	18 (32.72%)	18 (28.12%)	3 (30.00%)	5 (33.33%)	3 (30.00%)	19 (29.68%)	4 (21.05%)
Employee turnover	23	10.95%	10 (18.18%)	7 (10.93%)	0 (0.00%)	1 (6.66%)	1 (0.00%)	5 (7.81%)	2 (10.52%)
Employee wages	13	6.19%	4 (7.27%)	1 (1.56%)	2 (20.00%)	2 (13.33%)	1 (10.00%)	2 (3.12%)	3 (10.52%)
Employee attitudes	31	14.76%	7 (12.72%)	2 (3.12%)	0 (0.00%)	1 (6.66%)	3 (30.00%)	16 (25.00%)	5 (26.31%)
Type of Mechanism as DV	53	25.23%	9 (16.36%)	28 (43.75%)	1 (10.00%)	3 (20.00%)	1 (10.00%)	12 (18.75%)	4 (21.05%)
Other firm outcomes	27	12.85%	7 (12.72%)	8 (12.50%)	7 (40.00%)	4 (20.00%)	3 (20.00%)	10 (15.62%)	2 (10.52%)
Research on Outcomes									
Studies on Outcomes (#)	131		35	23	7	11	9	59	16
Number of DV (mean)	1.70		2.02	1.74	1.71	1.72	1.53	1.93	1.19
Individual-level outcomes	31	23.66%	7 (20.00%)	2 (8.69%)	0 (0.00%)	1 (9.09%)	3 (33.33%)	16 (27.11%)	5 (31.25%)
Firm-level outcomes	100	76.33%	28 (80.00%)	21 (91.30%)	7 (100.00%)	10 (90.90%)	6 (66.66%)	43 (72.88%)	11 (68.75%)
Total number of studies	184		81			24		79	

¹Note: The percentages presented in the table refer to the number of papers published in each category. In certain instances, such as for mechanisms or use of theory, we coded more than one category (e.g., the sample may encompass both profit-sharing and stock options), resulting in a total that exceeds the overall number of papers.

Table 3.3 – Descriptive statistics of methods and data sources

	TOTAL		FINANCIAL PARTICIPATION		PARTICIPATION IN DECISIONS			OWNERSHIP	
	#	%	Profit-sharing # (%)	Stock options # (%)	Directors # (%)	Codeterm # (%)	PDM # (%)	ESOPs # (%)	Coops # (%)
Research Method									
Quantitative	159	86.41%	38 (90.47%)	51 (100.00%)	7 (87.50%)	11 (78.57%)	7 (70.00%)	70 (93.33%)	7 (33.33%)
Qualitative	12	6.52%	2 (4.76%)	0 (0.00%)	1 (12.50%)	3 (21.42%)	0 (0.00%)	2 (2.66%)	7 (33.33%)
Mixed-methods	13	7.06%	2 (4.76%)	0 (0.00%)	0 (0.00%)	0 (0.00%)	3 (30.00%)	3 (4.00%)	7 (33.33%)
Data Analyses									
Cross-sectional	95	50.53%	23 (53.48%)	19 (34.54%)	1 (12.50%)	7 (50.00%)	7 (70.00%)	43 (56.57%)	12 (57.54%)
Longitudinal	89	47.34%	19 (44.18%)	34 (61.81%)	7 (87.50%)	7 (50.00%)	3 (30.00%)	31 (40.78%)	9 (42.85%)
Multilevel	2	1.06%	0 (0.00%)	0 (0.00%)	0 (0.00%)	0 (0.00%)	0 (0.00%)	2 (2.63%)	0 (0.00%)
Experiment	2	1.06%	1 (2.32%)	1 (1.81%)	0 (0.00%)	0 (0.00%)	0 (0.00%)	0 (0.00%)	0 (0.00%)
Data collection									
Secondary data	128	66.66%	29 (69.04%)	48 (91.66%)	6 (75.00%)	8 (57.14%)	2 (12.50%)	57 (73.08%)	6 (25.00%)
Primary data	64	33.33%	13 (30.95%)	5 (8.33%)	2 (25.00%)	6 (42.85%)	8 (87.50%)	21 (26.92%)	18 (75.00%)
<i>of which:</i>									
Only primary (surveys)	31	48.43%	7 (16.66%)	3 (5.88%)	1 (12.50%)	4 (28.57%)	5 (50.00%)	12 (16.00%)	4 (22.22%)
Only primary (qualitative)	12	18.75%	2 (4.76%)	0 (0.00%)	1 (12.50%)	1 (7.14%)	0 (0.00%)	3 (4.00%)	8 (44.44%)
Only primary (surveys+qual)	13	20.31%	4 (9.52%)	0 (0.00%)	0 (0.00%)	1 (7.14%)	3 (30.00%)	3 (4.00%)	3 (16.66%)
Primary and secondary	8	12.5 %	0 (0.00%)	2 (3.92%)	0 (0.00%)	0 (0.00%)	0 (0.00%)	3 (4.00%)	3 (16.66%)
Empirical settings									
Single-country study	154	83.69%	35 (83.33%)	46 (90.19%)	7 (87.50%)	13 (92.85%)	9 (90.00%)	60 (80.00%)	18 (85.71%)
Multiple-country study	30	16.30%	7 (16.66%)	5 (9.80%)	1 (12.50%)	1 (7.14%)	1 (10.00%)	15 (20.00%)	3 (14.28%)
Research setting									
Liberal market economies	129	64.17%	30 (65.21%)	43 (81.13%)	0 (0.00%)	7 (43.75%)	2 (20.00%)	60 (68.96%)	11 (50.00%)
Coordinated market economies	47	23.38%	13 (28.26%)	5 (9.43%)	8 (100.00%)	7 (43.75%)	2 (20.00%)	17 (19.54%)	6 (27.27%)
Emerging economies	8	3.98%	1 (2.17%)	2 (3.77%)	0 (0.00%)	1 (6.25%)	0 (0.00%)	4 (4.60%)	3 (13.63%)
Transition economies	10	4.97%	1 (2.17%)	0 (0.00%)	0 (0.00%)	1 (6.25%)	6 (60.00%)	3 (3.44%)	1 (4.54%)
Global representation	7	3.48%	1 (2.17%)	3 (5.66%)	0 (0.00%)	0 (0.00%)	0 (0.00%)	3 (3.44%)	1 (4.54%)
	184		81		24			79	

A MULTILEVEL ANALYSIS OF THE LITERATURE

In the following section, we review and synthesize the literature through a multilevel contingency framework. Our layered model outlines individual-, firm-, and country-level antecedents, moderators and outcomes, with the goal of uncovering the most salient patterns in EO, FP, DM research.

Research on Antecedents

Individual-level antecedents. At the individual level, research on antecedents has typically tried to understand workers' preferences for entering into or investing in ownership arrangements, along with identifying factors that influence their financial behavior. Articles in this cluster have invariably focused on stock options, profit-sharing, and ESOPs.

In these studies, a major challenge for researchers is to disentangle the effect of individual traits or heuristics from other exogenous factors on which employees heavily rely on. Among studies exploring antecedents to employees' financial behavior, Ouimet and Tate (2020b) show how external events (like negative financial shocks) may induce risk-averse employees to update their portfolio choices and to increase option exercises. Pendleton and Robinson (2023) similarly report that both individual risk preferences and the depth of stock price lows are jointly informative when it comes to employees' decisions to sell or retain stock upon exercise. These findings point to loss aversion as the dominant heuristic, showing that employees respond more strongly to negative events than positive ones.

Alternatively, some scholars have explicitly analyzed the role of more manifest characteristics. Research has shown how certain employee traits may independently impact their perceptions of ownership and financial behaviors. For example, Florkowski and Schuster (1992) suggest that women tend to be better inclined to financial participation. Similarly, when analyzing option exercise behaviors, studies report that men exercise faster than women (e.g., Carpenter, Stanton, & Wallace, 2019), but women tend to make better

choices (e.g., Agnew, 2006). Among studies exploring job demographics, Hallock, Salazar and Venneman (2004) report that higher salary, tenure and education level positively correlate to the quality of financial choices and satisfaction with a plan.

The extent to which employees feel part of an organization which genuinely champions employee ownership also informs and interacts with their cognitive profile. For example, some studies note that perceptions of managerial commitment and/or corporate culture, and the presence of collective ideals, attitudes or values are all important antecedents (e.g., Caramelli & Carberry, 2014; Hochner & Granrose, 1985).

In sum, scholars have studied a wide range of personal traits and attitudes. Results show that employees generally exhibit risk aversion, with women being more risk-averse and cautious than men. Furthermore, higher levels of skills and education have been found to be correlated with more informed financial decisions, which in turn influence employee satisfaction. One potential implication of these findings is that more skilled or educated employees may disproportionately benefit from ownership, thereby deepening inequalities within different segments of the workforce.

Firm level antecedents. Prior research investigated a range and mix of internal enabling factors and external pressures as firm-level antecedents to employee ownership. Several studies sought to understand the role of ownership or governance mechanisms as potential solutions to agency problems. We identify three agency-based rationales: monitoring, entrenchment and risk avoidance. Examples of articles falling into either one category include investigations into employee ownership's capacity to mitigate monitoring costs (e.g., Kroumova & Sesil, 2006; Pendleton, 2006), its potential to counteract takeover threats and short-term pressures (e.g., Black, Gospel, & Pendleton, 2007; Useem & Gager, 1996), and the ability to infuse firms with immediate equity capital when facing cash flow

constraints – emphasized by the tax-qualified nature of some plans (e.g., Bergman & Jenter, 2007; Core & Guay, 2001; Kruse, 1996).

All in all, we have detected four broad types of firm-level motives: a) incentive effects, b) attraction and retention, c) back-door financing, and d) defensive strategies. For instance, Core and Guay (2001) suggest that companies use options to both attract and retain employees, as well as to provide incentives. In contrast, Oyer and Schaefer (2005) argue that small option grants and periods of high stock volatility may dilute quickly the motivational impact, whereas the benefits of employee sorting and retention endure over the longer run. However, both studies agree on the role of ownership grants as a means of internal finance. Similarly, Zhang (2006) discovers that options can serve as a covert form of equity financing for overvalued firms, while Babenko & Tserlukevich (2009) show that stock options are mostly used by firms with greater potential tax benefits. Another driver beyond incentives relates to the defensive role of ownership. Within this stream, Useem and Gager (1996) suggest that managers – under the threat of a takeover – try to modify company ownership by replacing institutional investors with employee shareholders. Call, Kedia and Rajgopal (2016) report similar evidence for firms facing financial misconduct, where stock options are granted to employees to thwart the risk of whistleblowing. In both cases, self-interested managers “bribe” employees by granting them shares (Useem & Gager, 1996).

Other key antecedents relate to a firm’s characteristics or shareholders’ base. Using a sample of Danish firms, Gregorič and Poulsen (2020) show that companies with employee directors are larger and older, have a more firm-specific human capital and higher union density. Alternatively, Mullins, Brandes, and Dharwadkar (2016) model the differential adoption of human resource practices on investors' time horizons and find that family owners are more inclined to adopt these practices compared to institutional investors. A final pool of studies models adoption on internal firm governance, such as the presence of a family CEO

(as seen in Mullins, 2018) or the positive effect of impression management through chief executives' discourse (e.g., Li, Shi, & Dasborough, 2021), while just a few explored specific firm and industry characteristics. Among those, Wang, He and Mahoney (2009) study ESOPs' antecedents and consequences and show that positive productivity effects are contingent on the specificity of a firm's resource base.

In sum, the literature on firm antecedents has been dominated by finance scholars adopting an agency perspective. Whether serving as a deterrent or a remedy, some studies seem to reflect how the use of financial participation harbors managerial benefits often hinging on utilitarian interests rather than on a genuine commitment to employees' well-being. This opens several avenues for debate as to whether employee financial participation is designed to prioritize managerial interests above employees' ones.

Country-level antecedents. Extant research is mostly silent on how the national context influences either the adoption or the functioning of employee ownership. Whilst researchers started to broaden their investigations both in scope and samples, only a handful of recent studies have explored the role of formal and informal institutions as antecedents of employee ownership.

For example, some studies have explored the influence of the national institutional context (such as the presence of tax incentives and the efficiency of the stock exchange) on the allocation of ownership rights to employees. By using data from selected European countries, Ligthart, Poutsma and Brewster (2022) find that country-level variables are more important than HRM strategies in affecting both the diffusion and the characteristics of financial participation. Similarly, Croucher, Brooks, Wood and Brewster (2010) underline that financial participation is more common in Liberal Market Economies, than in Coordinated Market Economies, due to a greater emphasis on shareholder value creation.

A few studies have also acknowledged the impact of informal institutions, chiefly, national culture (Hofstede, 2001). Schuler and Rogovsky (1998) find that share ownership plans are more commonly observed in countries characterized by higher individualism, lower uncertainty avoidance and reduced power distance. Similarly, Bova and Vance (2019) underline that in countries with high uncertainty avoidance, options are exercised earlier. Then, Oehmichen, Wolff and Zschoche (2018) find that positive workgroup attitudes towards an ESOP complement the impact of weak host country institutions on foreign subsidiary employees' participation in ESOPs.

In sum, macro environments can act as significant enablers or veto players for the implementation and success of ownership plans. This accounts for a substantial portion of the unexplained variance across firms and studies. Although the embedded nature of institutional structures makes them hard to change, virtuous policies could play a crucial role.

Research on Outcomes

Individual-level outcomes. Early studies examine attitudes in terms of power perspectives related to employees' expectations of control. A major point of interest at the time centered on understanding whether employee ownership was viewed by workers as a financial incentive or a mechanism of control (Alutto & Belasco, 1972; French, 1987). These works generally document that a workers' decisional participation lower than desired or expected may decrease their satisfaction and their commitment to the organization. Long's (1979, 1981) analysis on the discrepancy between actual and desired organizational influence after conversion to employee ownership shows that EO has little impact on their long-term influence. Similarly, Hammer and Stern (1980) find no decisive evidence of workers' preference for involvement in company matters. Long (1981) shows that the key factor behind declining motivational patterns is the 'disillusionment' or frustration experienced by employees when their expectations of control do not align with their actual influence. This

issue is also supported by French and Rosenstein (1984), who report stronger identification effects for employees with lower expectations of control. Along these avenues, Klein (1987) tested three different views – the intrinsic, the instrumental, and the extrinsic satisfaction model – and found support for both the instrumental and the extrinsic one.

Despite its breadth, research investigating how employee financial participation and participation in decision-making jointly shape attitudes is still unsettled. Buchko (1993) finds that employees involved in deferred ESOPs do not appreciate the extrinsic rewards in the short term, while major effects on attitudes come usually from more immediate benefits, such as the increase in participation. Studies on worker cooperatives are similarly positive. Obradovic, French and Rodgers (1970), and later Oliver (1984), observe higher satisfaction and commitment among workers when the levels of decisional participation are higher. Differently, Bayo-Moriones and Larraza-Kintana (2009) unveil how participation negatively moderates the relationship between profit-sharing and commitment, downplaying their presumed complementarity. Further complicating the picture, Ogbonnaya et al. (2017) found U-shaped curvilinear effects between profit-related pay and three measures of employee attitudes.

While the literature typically leans towards stronger support for synergistic effects, our findings hint at the simultaneity of both substitution and complementarity *among* various mechanisms and *across* them. Explored mainly through sociopolitical lenses, these studies put the discrepancy between actual and expected control at the nexus of their debates.

Firm-level outcomes. A theoretical discussion has developed around the question of whether and to what extent allocating one or both ownership rights to employees yields superior firm outcomes. Several scholars began to address this question by testing a number of hypotheses on a quite diverse range of outcomes. In reviewing the literature, we identify

three nonexclusive thematic clusters. These encompass studies examining (a) performance, (b) agency problems, (c) employee turnover and/or wages.

Despite a substantial body of literature seeking to answer this question, two recent meta-analyses on the relationship between employee ownership and firm performance show that results are slightly positive, yet frequently insignificant (Doucouliagos et al., 2020; O'Boyle et al., 2016). Within our sample, we identify (a) studies finding a direct positive link (e.g., Lin & Sesil, 2011; Sesil, Kroumova, Blasi, & Kruse, 2002), (b) studies finding small or null effect sizes (e.g., Ginglinger et al., 2011; Kim & Patel, 2020; Liu, Chen, & Wang, 2016), and (c) studies embracing broader contingency or complementarity theses to explain or substantiate performance variations (e.g., Blasi et al., 2016; Guedri & Hollandts, 2008; Kim & Patel, 2021; Yoon & Sengupta, 2019).

Interestingly, certain performance studies delve into the notion of 'prudent' levels of employee ownership and representation. Among studies on decision making, Fauver and Fuerst (2006) show that employee representation on the board has a positive impact on firm value up to a certain optimal threshold, beyond which these positive effects tend to wane. Instead, Faleye, Mehrotra & Morck (2006) found decisive evidence of a consistent negative link. Notably, their labor voice indicator is negatively significant for performance, with the coefficient showing increasing negativity as the minimum stake of labor control is raised. Gleason, Kieback, Thomsen and Watrin (2021) report a similar tradeoff, with workers using their control and voting rights to maximize their payroll incentives over and above their monitoring duties. When divorced from a share in a firm's returns, these works show how excessive representation can turn firms into a "country club" for workers (Fauver & Fuerst, 2006: 681), where employees lobby in favor of policies maximizing their fixed and residual equity claims (Jensen & Meckling, 1979).

Other studies added further nuance by simultaneously exploring EO and DM. Guedri and Hollandts (2008) find that the relationship between employee ownership and performance has an inverted U-shape, and that employee board representation has no significant moderating effect. Ginglinger et al. (2011) equally find curvilinear effects, but with some evidence of complementarities between employee ownership and employee representation on the board. Overall, these studies underline that beyond a certain optimal threshold, both employee ownership and representation may become ineffective and curb firm performance.

A significant number of studies has explored agency conditions, indicating that firms may implement ESOPs through 401(k) plans to insulate management from the corporate control market (Beatty, 1995; Gordon & Pound, 1990; Rauh, 2006). For example, Chaplinsky and Niehaus (1994) find that nonmanagerial employees may be tempted to negotiate higher reservation prices with potential bidders and, hence, may thwart hostile attempts. Masulis, Wang and Xie (2020) find similar support for management-worker alliance theory (Pagano & Volpin, 2005). Separately, they also find that firms equipped with robust HR practices more negatively correlate with shareholder acquirer returns, emphasizing that employee support for management depends on receiving sufficient benefits in return, i.e., workers must be "enticed" (Useem & Gager, 1996). Babenko and colleagues (2021) find that, for target firms with stock options, M&As can represent a chance to trim excess employee compensation and, eventually, restore it at competitive market levels, which favors shareholders of target firms with heightened takeover premiums. Lastly, there is compelling evidence highlighting that employee ownership is an internal mechanism for promoting good governance, in alignment with positive agency theory (Jensen & Meckling, 1976; Misangyi & Acharya, 2014). For instance, Bova, Dou, and Hope (2015) and more recently Birkhead (2024) demonstrate that employee ownership correlates with enhanced transparency and decreased corporate

misconduct. In summary, the implicit contractual nature of the worker-management relationship allows managers to strategically leverage employee ownership as a defensive mechanism to mitigate endogenous and exogenous firm risks.

Among other variables, employee turnover and employee wages have been frequently explored. Gerhart and Trevor (1996) find greater employment stability for firms with a profit-sharing plan, consistent with some earlier micro and macroeconomic findings (e.g., Balkin & Gomez-Mejia, 1987; Kruse, 1993). Similarly, Kurtulus and Kruse (2018) demonstrate that financial participation may curb unemployment during firm-level upsets or economy-wide shocks. However, several studies have shown how firms' ability to achieve positive employee results in the long run is rooted in the way each mechanism is designed. For example, Aldatmaz, Ouimet & van Wesep (2018) find that unvested employee stock options are able to retain employees only until these options vest, after which turnover increases by an amount which levels off any former reduction. Kim, Maug, and Schneider (2018) note that under a system of parity codetermination, entrenched employees receive protection from job layoffs during industry downturns, yet, at the cost of reduced wages.

Overall, research on outcomes has generated a dearth of findings and themes. While HR outcomes are generally supported, firm-specific outcomes remain unsettled. Performance is by far the most contentious region which we believe is approaching empirical but not theoretical saturation. However, when significant effects are observed, results tend to be more positive than negative (Blasi, Conte, & Kruse, 1996). As a result, most studies embrace broader contingency or complementarity theses to explain the said equivocal findings.

Moderating effects

Moderating effects in studies on individual behaviors. Pierce, Kostova and Dirks (2001) noted how “ownership, in its actual and perceived state, is associated with certain rights” (p. 302). The emergence of a complementarity thesis moved scholars closer to

examining the role of several important boundary conditions for the emergence of positive emotional states among workers.

Among firm-specific moderators, HR policies and organizational culture garnered significant attention. In a comparative case study, Basterretxea and Storey (2018) identified managerial commitment to employee ownership as a crucial moderator. They found that when managers actively support and champion the ownership model, employee satisfaction and productivity are generally positive. Along these lines, Blasi, Freeman and Kruse (2016: 70) noted that “what is critical to the complementarity story is that (...) the combination of shared capitalism with workplace practices/culture has a stronger impact than when these are used separately”.

The moderating role of participation and extent of involvement is at the crux of the ownership-attitudes relationship. Studies have equally supported Klein’s (1987) instrumental and extrinsic satisfaction models. Long (1980) discovered that a larger gulf between actual and desired control interrupts the causal chain between EO and behavioral outcomes. Similarly, Long (1982) found that employees with high job involvement reported significantly greater job satisfaction and a higher likelihood of staying with the firm compared to their more decisionally deprived counterparts. Other studies examined whether pay system efficacy is reinforced by the value employees place on compensation. Hammer and Stern (1980), along with French and Rosenstein (1984), suggested that the moderating role of pay, or extrinsic, satisfaction outweighs the benefits of higher control. Sweins and Kalmi (2008) similarly found that profit-sharing satisfaction positively mediates the relationship between pay knowledge and commitment.

With a number of studies including moderators or non-linear effects, existing research is clear in stating that the motivational channel of individual mechanisms should not be overplayed. While there seems to be solid evidence in favor of financial participation’s

positive impact via HR strategy outcomes, the role of decisional participation remains particularly unsettled. Surprisingly, the dearth of studies remains still undecided if and how employee ownership and participation in decision-making effectively work together to maximize their joint payoff.

Moderating effects in firm performance studies. Scholars exploring performance outcomes have successfully broken a cycle of stagnant empirical results by paying close attention to the impact of contingencies. Based on our review, there seem to be three highly recurrent themes.

A first moderator we frequently observe in performance studies relates to the characteristics attached to each employee ownership mechanism, i.e., broad- vs narrowly-based, deferred vs not deferred (e.g., Han, Shin, Castellano, Konrad, Kruse, & Blasi, 2020; Ittner, Lambert, & Larcker, 2003). A second one revolves around the moderating effect of board-level employee representation. While employee representation on board appears value-enhancing for several firm proximal outcomes (e.g., Nekhili et al., 2021), some studies report mixed or inconclusive effects depending on both the type of employee representatives or the extent of representation (e.g., Guedri & Hollandts, 2008; Robinson & Wilson, 2006)

Third, several studies have explored the instrumental value of HR practices, with mixed results. Yoon and Sengupta (2019) find that the productivity gains from employee ownership are maximized when there are complementary HR practices (e.g., training and early promotion opportunities). Further, Blasi, Freeman and Kruse (2016) report similar evidence of strong complementarities effects among HR strategies, positive workplace culture and group incentive pay systems. Kalmi, Pendleton and Poutsma (2005) find, instead, no evidence of complementarities between employee financial participation and either (direct or indirect) forms of participation. They conclude that financial participation appears to work in a mutually exclusive fashion, as surmised by the substitution hypothesis (Kruse, 1993).

Another fairly common boundary condition that has been explored is firm size. As numerous-employee firms transfer risk-bearing capacity to employees through financial participation, the dilution of shares among employees fosters shirking behaviors, which pose a challenge as group size increases and effective monitoring becomes impractical (Kang & Kim, 2019; Kim & Ouimet, 2014). Lastly, at the meso level, scholars have found evidence supporting the positive moderating role of high industry growth and instability in the relationship between employee ownership and performance (e.g., Kim & Patel, 2021).

Decades of research have revealed how closely intertwined ownership mechanisms and external contingencies are. For example, Kang and Kim (2019), and later Kim and Patel (2020), acknowledged some performance variation across different macroeconomic conditions (i.e., recessions or shocks). Prince, Prince & Kabst (2020) find instead that national cultural values affect the performance success of financial incentives. As per formal institutional drivers, Ichniowski & Shaw (1999) compare US and Japanese share capitalism models, finding more positive performance results for Japanese firms.

Overall, there is sufficient evidence to believe that the effectiveness of ownership is closely linked to plan design and to the normative expectations of the institutional environments where individuals and firms operate (Suddaby, Bitektine, & Haack, 2017). The fact that several performance studies in this field are often context free explain some inconsistency in findings.

A Multilevel Contingency Framework

Given the fragmentation of ownership combinations, current theoretical efforts to unravel the ownership bundle have failed to present a framework capable of bridging certain enduring conceptual divides. In this review, we proposed that the topic shall be addressed by simultaneously considering three key domains, employee ownership, financial and decisional

participation, which have occasionally overlapped and occasionally diverged one from another.

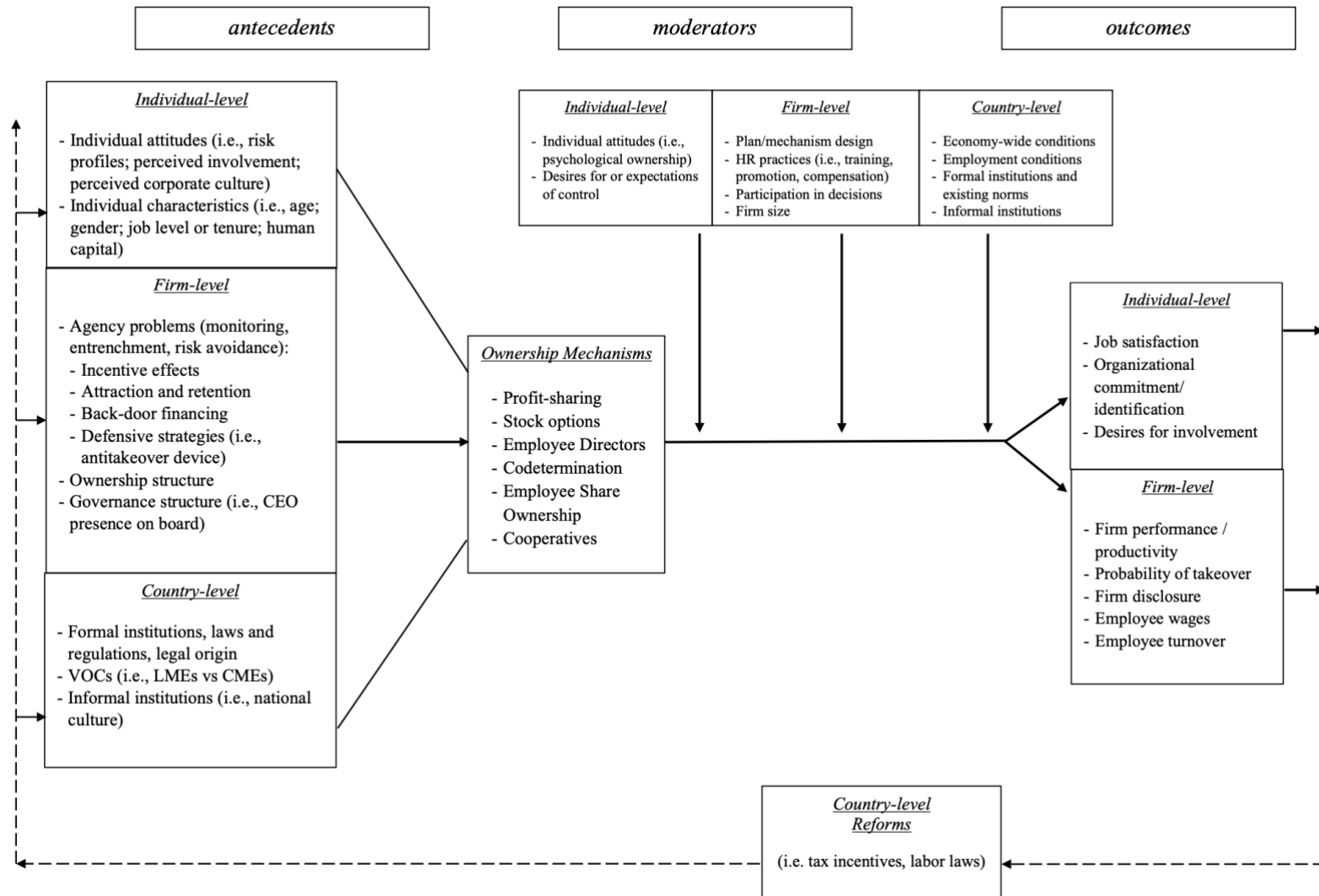
Our findings illustrate that researchers have found unique results about the phenomenon, leading to a situation where they often fail to effectively engage with one another. As it is evidenced by our content analysis, the desired effects of ownership mechanisms are thought to occur as the outcomes of *fit* combinations between the expressions of each mechanism within an organization, and the inclinations of individuals. To help research move through such an expansive topic, we developed a contingency framework indicating the most salient antecedents, moderators and outcomes explored so far, while blending different levels of analysis (Figure 3.2). Since each level contains a particular set of determinants or processes, integrating them has the potential to offer a more complete understanding of their contextual effects. We believe that juxtaposing theory and evidence from our three domains could navigate research closer to “examining corporate governance practices within a holistic context” (Aguilera, Filatotchev, Gospel, & Jackson, 2008: 479).

Overall, we were able to detect some common themes. Broadly, the EO context is characterized by managerial self-interest as a primary driver (i.e., EO as a corrective or preemptive tactic), motivated by incentives, retention, liquidity, or defensive strategies. Behavioral effects are significant, which leads us to the microfoundations of our model. A number of studies incorporating individual and cognitive traits as both antecedents and moderators suggest that the independent motivational impact of individual mechanisms should not be overemphasized. We find more positive than negative, though often negligible, performance results, and a contested terrain of intervening variables. As Figure 3.2 shows, most moderators explored so far are firm-specific, including variables related to plan design, HR policies, organizational culture, and firm size. Important exceptions include individual-level moderators such as participation in decision-making and psychological ownership, and

less often country-level ones such as macroeconomic shocks or institutions. Relatedly, despite researchers' efforts to embrace new approaches and explore various moderators, a one-dimensional perspective on the country context has caused them to hit a roadblock. Results from our review clearly indicate the informative role of institutions and emphasize the need for researchers to make greater strides in isolating their impact (Busse, Kach, & Wagner, 2017).

In taking stock of extant research, our contingency framework introduces a layered and dynamic approach, suggesting a circular feedback whereby, as each set of relationship prompts changes at the individual and firm level, those outcomes yield, over time, to the emergence or sophistication of country-level reforms (e.g., codetermination laws or tax incentives are both subsumed under this label) which loop back into the dynamics of adoption in subsequent rounds (see the dashed line in Figure 3.2). At the same time, the existence of a clear legislative or tax framework might push more firms to establish a plan or more workers to enter into a plan. Altogether, the long-run cumulative effect of this mimicking process might yield to profound changes among and across individuals, firms and countries.

Figure 3.2 – Integrating prior research: toward a multilevel contingency framework



DISCUSSION

Our interdisciplinary review enriches our understanding of the literature on employee ownership, financial participation and decision making. Overwhelmingly, we observe a research area that is moving towards dialogue and cross-fertilization across different fields, domains and levels. With the latter in mind, this final section presents suggestions to further investigate the employee ownership construct, to better analyze the role of contextual variables, and to broaden methodological choices.

Unraveling the employee ownership construct

Taking leads from Tannenbaum (1983: 236), our review states that "ownership is not a simple concept". Given the complex and entangled nature of the construct, we invite scholars to analyze it in more depth. As ownership rights may be allocated or restricted variously (e.g., Ben-Ner & Jones, 1995; Rousseau & Shperling, 2003), it may be useful to further explore how they are divided or disaggregated among employees to understand their effective degree of participation to economic returns and/or their degree of influence on decision-making. Empirical evidence has in fact emphasized that a formal allocation of (one or both) ownership rights does not necessarily correspond to a substantial participation to the economic return and/or a real influence on decisions for the employees.

Second, the literature highlights that the allocation of both ownership rights to employees may generate either substitutive, null or complementarity effects (e.g., Bayo-Moriones & Larraza-Kintana, 2009; Kalmi et al., 2005; Kato & Morishima, 2002). Standalone financial participation can work well when a country's national culture emphasizes the importance of extrinsic motivation, where financial markets are efficient and employees perceive incentives as financially rewarding. In absence of these conditions, divorcing equity incentives from participation in decisions may elicit some negative behaviors, like free-ridership or frustration, unless they are balanced by participatory HR

practices (e.g., Blasi et al., 2016; Coyle-Shapiro et al., 2002). Likewise, board-level employee representation may produce positive effects even when it is divorced from ownership, but only until a certain threshold. When worker representatives are not residual claimants, an excessive labor representation could introduce some agency problems as employees may be tempted to maximize their benefits at the expense of company performance (Faleye et al., 2006; Fauver & Fuerst, 2006). Accordingly, employee ownership of both rights appears a superior solution to the polar allocation of either residual control or return rights, but, still, within certain conditions. Empirical evidence indicates, in fact, that when employees have the full control of both rights, companies may face some governance problems (e.g., Richter & Schrader, 2017). For example, research on worker cooperatives underlines that employee-owned companies should address serious challenges concerning, for example, the resistance of managers to delegate control (Bourlier-Bargues et al., 2024) or employees inclination to maximize their benefits (Basterretxea et al., 2019). In short, future studies should better investigate if and how the complementary or substitutive relationship between the two ownership rights influences employee attitudes and firm outcomes, and how corporate governance and HR participatory practices can favor the emergence of positive effects.

Third, a recent stream of research emphasizes the importance of analyzing ownership competence (Foss, Klein, Lien, Zellweger, & Zenger, 2023), shifting the focus of research from the incentive effects associated with ownership to owners' competences applied to decision-making. According to this view, ownership competence includes the matching competence (right to use), the governance competence (the right to appropriate), and the timing competence (the right to transfer). Some prior studies show that employee ownership leads to different strategic decisions compared to shareholder ownership. For example, studies on worker cooperatives indicate that these companies struggle to combine their economic and social dimension in relation to various business decisions like the

compensation of employees working abroad (Bonache & Zárrega-Oberty, 2020) or the governance of subsidiaries (Bretos, Errasti, & Marcuello, 2018). Moreover, studies on employee participation in decisions suggest that worker directors tend to promote more monitoring (Fauver & Fuerst, 2006), more responsible decision-making (Lin, Schmid, & Xuan, 2018) and a pro-stakeholder orientation (e.g., Adams et al., 2011; Kochan & Rubinstein, 2000). Building on this perspective, we encourage future studies to explore how employee ownership may act as a governance mechanism, its potential to substitute or complement board monitoring and resource dependence role, and its subsequent impact on firm outcomes.

Toward a better understanding of contextual moderating variables

Our review highlights that research on employee ownership remains dispersed across distinct scholarly domains, often lacking integration. This fragmentation has contributed to a body of mixed and sometimes contradictory findings. Scholars such as Blasi, Freeman, and Kruse (2016) suggest that these inconsistencies may stem from the influence of contextual moderators operating at the individual, firm, and country levels. Future research would benefit from explicitly incorporating these contextual elements into theoretical models and adopting analytical tools—such as mixed methods, multi-level designs, and configurational approaches—that allow for a more precise understanding of when and how employee ownership shapes behavior and outcomes.

First, at the individual level, future research would benefit from more nuanced theorizing around how employees interpret their ownership stakes—whether as a purely financial asset or as a claim to decision rights within the firm. The literature offers divergent views: some scholars argue that employees may view ownership through a financial lens, with satisfaction hinging on share returns and minimal desire for influence (e.g., French & Rosenstein, 1984; French, 1987). Others suggest that employee ownership may fall short if

individuals perceive a gap between their expected and actual influence on firm decisions (e.g., Klein, 1987; Long, 1981). Building on this tension, Pierce, Rubinfeld, and Morgan (1991) propose that both formal and psychological ownership shape behavior and outcomes. Accordingly, future work should develop models that examine how the interaction between formal structures and employees' subjective sense of ownership shapes individual engagement, particularly when ownership is seen as both a right and a resource. Rich qualitative approaches—such as participant observation or ethnographic work—may be especially valuable in uncovering the mechanisms underlying these dynamics.

Second, firm-level moderators such as organizational size and HRM practices offer important, yet under-integrated, explanatory leverage. Research suggests that larger firm size can constrain participatory processes by centralizing expertise and limiting democratic governance—especially in employee-owned firms and cooperatives (Bretos et al., 2018). Share dilution among a broad employee base may further erode incentive effects (Kang & Kim, 2019). At the same time, HRM systems may operate as amplifiers or dampeners of ownership effects. For example, high-commitment HR practices have been shown to strengthen the positive relationship between employee ownership and employee attitudes (Kato & Morishima, 2002; Kurtulus & Kruse, 2018). Yet, in cooperative contexts, there may be cultural or ideological resistance to adopting managerial practices perceived as individualizing or market-driven (Basterretxea et al., 2019). These tensions invite deeper theory development around complementarities and frictions between ownership design and organizational systems.

Third, recent studies have drawn attention to the role of country-level factors in moderating ownership effects. Macroeconomic fluctuations—such as recessions or financial shocks—may shift employees' risk appetites and their engagement with ownership structures. During downturns, EO programs may play a stabilizing role by buffering against layoffs and

reinforcing collective resilience (Kim & Patel, 2020; Kurtulus & Kruse, 2018). Moreover, such contexts may catalyze greater employee participation, especially among less experienced workers, through increased exercise of stock options or engagement in ownership plans (Ouimet & Tate, 2020a). Beyond macroeconomic trends, institutional and cultural conditions shape how EO is perceived and enacted across national contexts. Weak formal institutions and strong group norms, for instance, may influence participation in ESOPs among foreign subsidiaries (Oehmichen et al., 2018). Additionally, cultural dimensions—such as social trust, uncertainty avoidance, and performance orientation—appear to moderate the behavioral and performance effects of EO (Kang & Kim, 2019; Prince et al., 2020). These findings underscore the need for theory-building that explicitly incorporates institutional and cultural contingencies, ideally supported by cross-national comparative designs.

Clarifying Boundary Conditions Through Targeted Research Designs

Contemporary research has either qualitatively investigated employee ownership in one or few companies using rich primary data collected through interviews, surveys or participant observation (e.g., Basterretxea et al., 2019; Bonache & Zárraga-Oberty, 2020), or has tested theoretical predictions on large firm samples using secondary data from archival sources or databases (e.g., Fauver & Fuerst, 2006; Lin et al., 2018). These two types of studies have the merit to provide complementary lenses (i.e., qualitative and quantitative), but new methodological perspectives could significantly move future scholarship beyond current knowledge. For example, as previous studies show that time may influence the effects of employee ownership (e.g., Kato & Morishima, 2002; Onaran, 1992), we encourage scholars to investigate the effects of employee ownership longitudinally. This would effectively allow scholars to better understand the delay between the allocation of (one or both) ownership rights and its impact on individual or organizational outcomes in the short and in the long

run. Moreover, longitudinal approaches would allow scholars to analyze the life-cycle of employee-owned companies (like cooperatives) to better understand the triggering events that may lead or prevent their degeneration (e.g., Basterretxea et al., 2019). Finally, a longitudinal perspective could effectively guide scholars in developing deeper knowledge on the pathways enabling or hindering the coexistence of hierarchical structures and democratic participation in employee-owned companies (French, 1987).

Next, we encourage scholars to improve the rigor of quantitative studies in various ways. With the literature denoting that the presence of employee ownership does not guarantee any significant effect per se, scholars may adopt more nuanced operationalizations that go beyond simple dummy variables indicating the presence of a particular type of mechanism (e.g., ESOP), for instance, calibrating variables in terms of the degree of employee participation to financial results or key decisions. An alternative analytical strategy we believe would similarly accommodate such theory-development is Necessary Condition Analysis (NCA; Aguinis, Ramani, & Cascio, 2020; Dul, 2016). Grounded in the logic of causal necessity, NCA identifies cause(s) that make an effect necessary rather than purely conjunctural. By identifying bottlenecks, NCA would allow scholars to uncover which is the minimum required level of employee participation to financial results and/or in decision making that generates a positive impact on their attitudes and firm outcomes (Hauff, Guerci, Dul, & van Rhee, 2021).

Moreover, previous studies on the allocation of ownership rights to employees suggest that several variables play a moderating role at multiple levels (e.g., French & Rosenstein, 1984). They include individual-level variables like the profile of employees (e.g., their income, wealth or risk preferences); company-level variables like the characteristics of the plan (e.g., the reasons behind its adoption and its technical features), the organizational size or the HRM practices; and country-level variables, like corporate or tax law, the efficiency of

financial markets and the national culture. While we identify only two multilevel studies within our sample, we see great merit in this approach, which has allowed authors to develop dynamic path models where institutional and firm factors interact in a complementary or substitutive fashion. Thus, multilevel modeling may be a promising option for researchers aiming to capture micro-, meso, and macro-level dynamics and to develop nested theoretical frameworks.

Our findings hint at a simultaneity of both substitution and complementarity effects, in particular, between employee financial participation and participation in decisions (e.g., Kalmi et al., 2005), between participation in decisions at the top and at the bottom of the company (e.g., Gregorič & Poulsen, 2020), as well as between employee ownership and HR practices (e.g., Kurtulus & Kruse, 2018). However, neither our review nor regression methodologies can adequately capture such combinatorial recipes. To appropriately consider these joint effects, future studies should develop nested or configurational theoretical models using fuzzy set Qualitative Comparative Analysis (fsQCA; Fiss, 2011; Ragin, 2000, 2008). Calibrating variables through continuous fuzzy scales can assist scholars to quantitatively and semantically distinguish the construct both *in kind* and *in degree* across its three domains (Vis & Dul, 2018).

In summary, adopting these methodological approaches allows scholars to isolate the causal mechanisms through which formal and psychological ownership either substitute for or reinforce one another, interact with contextual contingencies across individual, organizational, and institutional levels, and jointly shape the emergence of targeted behavioral and performance outcomes.

CONCLUSION

Practitioners and scholars alike have recently emphasized that employees' competencies and skills are perhaps the most critical assets for firm success. Our systematic and

interdisciplinary review indicates that allocating either or both ownership rights to employees can enhance their attitudes, leading to positive spillovers on company outcomes.

Additionally, it also underlines the significance of different allocations of return and control rights, and the non-linearity of the presumed empirical linkages. Based on our findings, we advocate for further scholarly investigation into the employee ownership construct, by analyzing various configurations of ownership rights, exploring the moderating role of several boundary conditions, and adopting a broader set of methods.

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