

Corporate Performance, CEO Power and CEO Turnover: Evidence from Malaysian Public Listed Companies

(Prestasi Syarikat, Kuasa CEO Dan Pertukaran CEO: Bukti dari Syarikat Tersenarai Awam Malaysia)

Rokiah Ishak

(School of Accountancy, College of Business
Universiti Utara Malaysia)

Ku Nor Izah Ku Ismail

(Institute for Management and Business Research (IMBRe)

Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia)

Shamsul Nahar Abdullah

(Kulliyah of Economics and Management Sciences,
International Islamic University Malaysia)

ABSTRACT

This paper seeks to determine the impact of firm performance and CEO power on CEO turnover. Research in CEO turnover literature found that corporate performance is frequently used as an indicator to evaluate the effectiveness of CEO effort and findings from most of these studies indicate that the turnover rate of CEO is higher for poor performing firms when compared to well performing firms. Furthermore, social network theory and human capital theory suggest that CEOs gain their power from their educational background; skill and functional background; special expertise; experience; industry specialization; prestige; ownership; age; and length of tenure. This power will entrench the CEO in the company, thus making the decision to fire the underperforming CEO more difficult. Our results show that firms with poor performance and older CEOs are more likely to change their CEOs. In contrast, CEO turnover is less likely to occur when firms exercise CEO/Chairman duality; have CEOs who own a certain portion of company shares; and have CEOs with longer tenure.

ABSTRAK

Kajian ini bertujuan untuk menentukan kesan prestasi syarikat dan kuasa CEO ke atas pertukaran CEO. Sorotan kajian berkaitan pertukaran CEO mendapati prestasi syarikat sering digunakan sebagai penentu dalam menilai keberkesanan usaha CEO dan penemuan daripada kajian tersebut mendapati kadar pertukaran CEO adalah tinggi bagi syarikat berprestasi rendah berbanding syarikat berprestasi tinggi. Selain daripada itu, teori rangkaian sosial dan teori modal insan mencadangkan bahawa CEO memperoleh kuasa melalui latar belakang pendidikan, latar belakang fungsi dan kemahiran, kepakaran, pengalaman, keutamaan industri, prestij, pemilikan, umur dan tempoh memegang jawatan yang lama. Kuasa ini akan mengukuhkan kedudukan CEO dalam sesebuah syarikat yang menjadikan proses membuat keputusan bagi melucutkan jawatan CEO berprestasi rendah lebih sukar. Dapatan kajian menunjukkan syarikat berprestasi rendah dan mempunyai CEO yang berumur lebih cenderung untuk menukar CEO. Sebaliknya, pertukaran CEO adalah rendah bagi syarikat yang mempraktikkan dwi peranan CEO/Pengerusi, mempunyai CEO yang mempunyai pemilikan saham syarikat dan CEO yang memegang jawatan untuk satu tempoh masa yang lama.

Keywords: Chief executive officer (CEO); CEO turnover; Corporate performance; CEO duality

INTRODUCTION

A chief executive officer (CEO) is regarded as the mastermind of a business. This is because any action taken by the CEO or taken against the CEO will have an impact on a firm's strategies, policies and future performance. Researchers in CEO turnover literature found that corporate performance is frequently used as an indicator to evaluate the effectiveness of a CEO's efforts (Fan et al. 2007; Kaplan 1994; Maury 2006; Suchard et al. 2001). Findings from most of these studies indicate

that the turnover rate of CEO is lower for well performing firms, as compared to poor performing firms. The authors believe that CEO turnover is triggered by poor corporate performance, rather than good corporate performance. However, the establishment of power by CEOs via CEO/ chairman duality, ownership, tenure, education level, age and skill makes them immune from firm poor performance. In other words, the powerful CEOs remain at their posts, even though they are the ones who should take the responsibility for the poor performance of the firm, via a treat of termination. Thus, the aim of this

paper is to investigate the relationship between firm performance, CEO power and CEO turnover.

The remainder of this paper is structured as follows. The second section of this paper presents a review of the literature, emphasizing the theoretical background and specific theories and empirical evidence that lead to the development of the hypothesis. This is followed by a discussion on the methods that are employed in conducting this study. The results of this study are presented in the following section. Finally, the conclusion and discussion are presented at the end of this paper.

LITERATURE REVIEW

THEORETICAL BACKGROUND

The idea of CEO turnover study stems from research on executive compensation and firm performance premised upon principal-agent theory. As the pay-performance relationship is used as a contract between a CEO and a firm, CEO turnover is also a means to encourage CEOs to do their best. Related to that argument, a CEO is assumed to take the dismissal threat into account when running company activities.

Agency theory is the main underpinning theory which is built on the separation of ownership and control in an organization. The separation between ownership and control leads to self-interested action by those in managers-controlled firms (Jensen & Meckling 1976). As experts of firm-specific knowledge, managers are believed to have gained advantage over firm owners. They may pursue actions which benefit themselves and not the firm's owners. In order to control the managers' action, a board of directors exists to serve the monitoring function. Although agency theory is the main foundation, other theories, such as social network theory and human capital theory, also contribute to the explanation of firm performance, CEO power and CEO turnover relationship.

Hungenberg et al. (2007) claim that human capital theory is based upon resource-based theory, which mainly concentrates on the specific type of resources to which it assigns an accentuated role. This specific type of resource is the human capital which comprises all individual skills, abilities and experiences of a company's employees and managers at all levels. Human capital theory assumes that valuable resources which cannot or can hardly be imitated, substituted and transferred are the main prerequisites for a company's success. Meanwhile, social network theory explains how CEOs accumulate power using several mechanisms (Cannella & Lubatkin 1993; Datta & Guthrie 1994; Goodstein & Boeker 1991; Phan & Hoon 1995). They suggest that CEOs use social co-optation and political pressure to weaken and resolve the board of directors' power in their decision to fire them. This social co-optation and political power are derived through CEOs involvement as insiders of firms who have control over valuable resources, via the duality

position of CEO and the Chairman, and/or through CEOs' ownership in the firm. With regard to the power that CEOs possess, Phan and Hoon (1995) claim that they tend to manipulate power given by the boards for their own advancements, rewards and prerequisites. This power will create a shield for them from being monitored by boards and being fired for not being effective and efficient.

The following section concentrates on the relevant literature to support the hypotheses. The review is primarily developed based upon the agency theory framework, which is concerned about the separation of powers between principals and agents. This theory assumes that the agent will act in the best interest of the owners. Human capital theory and social network theory are also used as complementary theories to agency theory.

CORPORATE PERFORMANCE AND CEO TURNOVER

Previous studies in the UK, the US, Japan and Germany report that CEO turnover is associated with poor performance (Goyal & Park 2002; Kang & Shivdasani 1995; Kaplan 1994; Lausten 2002; Maury 2006). These studies discuss that the coefficient of market adjusted return is negatively significant with CEO turnover. The same results are also captured when the accounting performance is used as performance measurement. In short, although different performance measures are used, their results are similar as they find an inverse relationship between CEO turnover and performance. Their findings support the view that low performance leads to higher turnover rate. The poor performers are dismissed from the companies as there is a threat of monitoring efforts by the board of directors. This is because the board believes that the underperforming CEO should be penalized for the poor performance of the firms. Their results are consistent with agency theory that the threat of turnover will ensure that the CEO's action is aligned with the shareholders' interest. Thus, based on the above arguments, it is hypothesized that:

H₁ Poorly performing firms are more likely to change their CEOs.

CEO DUALITY AND CEO TURNOVER

The proponents of stewardship theory suggest that the joint structure provides unified firm leadership, and removes any internal or external ambiguity regarding who is responsible for firms, process and outcomes. Further, Haniffa and Cooke (2002) assert that the monitoring management can be more efficient via CEO/ chairman duality. They argue that less contracting is needed and information asymmetry is reduced when CEO is also Chairman of the firm. In contrast, Pi and Timme (1993) argue that cost-efficiency and return on assets are lower when the CEO is also the chairman. As the CEO/

chairman has a concentrated power base, this situation will allow the CEO to make decisions for his/her own-self interest at the expense of shareholders.

According to social network theory, CEOs with dual roles have greater formal and informal powers. These powers will allow the board to make decisions that are contrary to that of the CEOs. By focusing on board effectiveness, Fama and Jensen (1983) claim that the concentration of decision management and control of decisions control in one individual reduces board effectiveness in the monitoring of firms' CEOs. In addition, the internal control of a firm is regarded as a failure when the CEO is also the chairman of the board (Jensen 1993). Empirical evidence by Goyal and Park (2002) and Maury (2006) demonstrate that CEOs are less likely to get replaced following poor firm performance when the CEO is also a chairman. Their results support the proposition that duality of board structure will reduce the monitoring efforts by board, including dismissing the underperforming CEO. Thus, the hypothesis is:

H₂ Firms with incumbent CEO holding both CEO and chairman posts are less likely to change their CEOs.

CEO EDUCATIONAL BACKGROUND AND CEO TURNOVER

Bantel and Jackson (1989) assert that CEOs who attained a higher level of education are assumed to have a higher cognitive ability. They are claimed to be more effective in generating and implementing creative solutions to complex problems. A study conducted by Thomas et al. (1991) reveals that CEOs with high education levels tend to pursue strategies that emphasize differentiation and innovation. Empirical evidence from Hambrick and Mason (1984) reveals that education level has positive effects on the top manager's knowledge, capacity of information processing, tolerance and creative power.

A study on CEO or chairman turnover in Taiwan by Ou-Yan and Shuang-shii (2007) finds that CEO educational background has a significantly negative association with the likelihood of CEO turnover. Thus, based on the human capital theory perspective, an individual that has a higher level of educational background is considered to be a firm specific asset and less likely to be dismissed. Thus, it is hypothesized that:

H₃ Firms with higher educational background CEOs are less likely to change their CEOs.

CEO SKILL AND FUNCTIONAL BACKGROUND AND CEO TURNOVER

Human capital theory argues that if a CEO has high firm specific assets, his or her dismissal will represent the loss of firm-specific human capital investment (Phan & Hoon 1995). Many things contribute to the building and accumulation of human capital, such as skills and functional specialization. An incumbent's skill specialization is an indication of job relevance and

industry specific training that a CEO brings to the job. These experiences will reduce the cost of human capital training to the firms and, at the same time, allows the incumbent CEO a higher level of productivity.

With reference to specific functional knowledge, Zajac and Stearns (1997) argue that a CEO with finance and legal background is more professional than a CEO with other functional background. Since the skills of the former are more generalizable and appropriate for most firms, they tend to move from one company to another. This view implies that the turnover of CEOs with a finance or legal background is more frequent than those with other functional backgrounds. Following Zajac and Stearns (1997) proposition, we hypothesize that:

H₄ Firms with finance and legal background CEOs will be more likely to change their CEOs.

AGE OF CEO AND CEO TURNOVER

The age of the CEO also plays a significant role in estimating the probability of turnover. In order to test the effect of age on the probability of turnover, previous studies normally divide age into two categories, consisting of younger CEOs and older CEOs (Borokhovich et al. 2006; Coughlan & Schmidt 1985; Goyal & Park 2002; Lausten 2002). Previous literature from the UK and the US shows that the normal retirement age is between 54-55 years old. Therefore, a CEO whose age is less than 54 is considered as a young CEO, whereas a CEO whose age is more than 55 is considered as an older CEO.

The separation of age is needed due to different performance evaluation applied to CEOs at different ages and the resulting difference on the probability of CEO turnover. For example, Lausten (2002) tests the effect of age in the relationship between turnover and performance. The author finds that the turnover-performance relationship for younger CEOs is based on the pre-tax accounting profits for the preceding years, whereas the relationship for older CEOs is concentrated on the proportion of the pre-tax accounting profits to the annual sales in the firms. This result suggests that young CEOs are assessed on the basis of increasing profit alone, whereas better results including both the profit and the annual sales are expected from the older CEOs.

With regards to the probability of being dismissed, Coughlan and Schmidt (1985) and Borokhovich et al. (2006) claim that a CEO whose age is less than 54 is considered a younger CEO and not influenced by a mandatory retirement compared to a CEO whose age is more than 55. The young CEO is more likely to be disciplined by the threat of turnover when firm performance is poor compared to the old CEO who is close to retirement age. Both studies find a negative coefficient for younger CEOs in the turnover-performance relationship. In contrast, Goyal and Park (2002) find the coefficients of CEO age and the dummy ages of 53 to 55 to be both positive and statistically significant, at less than 1

percent level. A similar finding is derived by DeFond and Park (1999), who find a positive relationship between older CEOs and probability of turnover. They explain that their contradicting result is due to the inclusion of mandatory retirements at age 55 in the US-based firms. Based on the above findings, the following hypothesis is developed:

H₅ Firms with older CEOs are more likely to change their CEOs.

CEO TENURE AND CEO TURNOVER

Tenure is another demographic factor that influences the threat of CEO turnover, either positively or negatively. If a longer tenure is a clue that a CEO is closer to retirement, CEO tenure and CEO turnover are positively related. For example, Lausten (2002) finds a significant positive tenure coefficient which indicates that the longer the CEO has been in the position as a CEO, the higher the probability of turnover.

Alternatively, social network theory claims that CEOs would establish a power base over time. Shen and Cannella (2002) suggest that new CEOs confront significant challenges upon taking office. They need to adjust to their new roles and quickly develop good working relationships with other members of their top management groups, board of directors and powerful outside stakeholders. As time passes, whereby incumbent CEOs have proven their leadership capacity and established their authority in office, the challenges would then be greatly reduced. Thus, it is expected that the longer a CEO has been in the firm, the less likely he is to be removed unless he reaches retirement age. Goyal and Park (2002) include tenure as a control variable in their study and find that the estimated coefficient on the CEO tenure is negative and significant. This result suggests that the probability of CEO turnover is less likely when CEOs have longer tenure. A similar finding is derived from a study by Shen and Cannella (2002), who find that CEOs with shorter tenure are more likely to be dismissed than CEOs with a longer tenure. Thus, we hypothesize the following:

H₆ Firms with longer tenure CEOs are less likely to change their CEOs.

CEO OWNERSHIP AND CEO TURNOVER

The percentage of shares owned by CEOs may have a significant influence on CEO succession. It is expected that when CEOs have a controlling interest over the firms, they may be involved in making firms' decision, including decisions regarding the termination of the underperforming CEO and the naming of the successor. A high CEO ownership is less likely to be associated with CEO turnover (Denis et al. 1997; Iqbal & French 2007). However, a study by Ghosh et al. (2007) provides

evidence that the controlling power of CEOs over firms' decisions depends upon the level of ownership possessed by the CEO. If the controlling power is less than 5 percent, the influence is not significant. However, when the controlling power is more than 25 percent, the influences increase significantly. In short, as the controlling power of a CEO increases, the probability of CEO turnover decreases. Thus, the following hypothesis is developed:

H₇ Firms with CEO ownership are less likely to change their CEOs.

METHODOLOGY

Data on CEO turnover and CEO power are gathered from company annual reports and Bursa Malaysia's website under the company announcement section, while data for corporate performance is gathered from Datastream. The unit of analysis for this study is individual CEO turnover in Malaysian public listed companies. The population of this research comprises of companies that are traded and listed on the Main Board and Second Board of Bursa Malaysia, including both high and low performing firms during the four year interval, between 2002 and 2005. This study chooses 2002 as the starting point, as it follows the recovery of financial crisis in 1997-1998 and the implementation of the Malaysian Code of Corporate Governance (MCCG). The ending period of 2005 is chosen due to the introduction of the new standards by Financial Reporting Standards (FRSs) that replace the standards established by the Malaysian Accounting Standard Board (MASB). The new standards impact the calculation of accounting ratios used in this study. Furthermore, the four-year period is selected as the duration of study following the suggestion made by Dahya et al. (2002), who claim that CEO change studies need to have a longitudinal period to cater for turnover events since CEO turnover is determined by comparing the names of CEOs from one year to the next. The general CEO turnover model is as follows:

$$P(\text{CEO turnover}=1) = f(\text{firm performance, CEO powers})$$

where $P(\text{CEO turnover})$, the estimated conditional probability of CEO turnover, is a function of firm performance and CEO powers. To estimate this model, the logistic regression is used due to the binary nature of the dependent variable that violates the Ordinary Least Squares (OLS) regression assumptions. Table 1 displays the independent variable used in this study.

RESULTS

The sample of this study is all companies listed on the Main Board and the Second Board of Bursa Malaysia that changed their CEOs between 2002 and 2005. After

TABLE 1. Summary of main independent variables and alternative proxies

Variables	Label	Description
Corporate Performance	AVROA	ROA is the ratio of accounting earnings before interest and taxes to the book value of assets. The average, $AVROA_i$ is measured as $(ROA_{t-1} + ROA_{t-2})/2$
Board Leadership	DUALITY	Equals '1' if chairman is also the CEO/MD during the year preceding CEO turnover and '0' otherwise.
CEO Academic Qualification	EDU	Equals '1' if CEO possesses a degree and above and '0' otherwise.
CEO Skill	SKILL	Equals '1' if CEO has a degree with finance and legal studies and '0' otherwise.
CEO Age	AGE Age_1	Age of CEO Equals '1' if it is 55 years of age or less and '0' otherwise.
CEO Tenure	TENURE TENURE_1	Number of months the CEO had held the position. Equals '1' if tenure is less than 60 months in the year preceding CEO succession and '0' otherwise
CEO Ownership	OWN OWN_1	Percentage of shares owned by CEO during the year preceding CEO succession. Equals '1' if CEO own a percentage of shares less than 5 percent, between 5 percent to 25 percent, and more than 25 percent, and '0' otherwise.

Sources: The first variables are obtained from Datastream whereas the rest are from the companies' annual reports.

the screening process, 145 CEO turnover companies were eligible to be included in the analysis. These companies were matched with the same number of companies that did not change their CEOs, resulting in a final sample of 290.

Panel A and Panel B of Table 2 display the descriptive statistics for both continuous and dichotomous variables. It shows that, on average, the sample companies have a

healthy performance with an average ROA of 0.043. The average age of CEOs is 54 years old and the average tenure is 111 months. Only 8.3% of the companies exercise CEO/Chairman duality. As many as 184 CEOs possess degree qualification, while only 18 CEOs possess qualification in finance and law. Out of the 290 CEOs, 186 (64%) own some shares in a company while the remaining do not.

TABLE 2. Descriptive statistics

Variables	Panel A: Continuous Variables		Panel B: Dichotomous Variables
	Mean	Std. Dev	
AVROA	0.043	0.147	
AGE	53.559	8.980	
1 if CEO age < 65 year			262(90.3%)
0 if CEO age ≥ 65 year			28(9.7%)
OWN	15.195	20.022	
1 if CEO owns company shares			186 (64.1%)
0 if CEO does not own shares			104 (35.9%)
TENURE (month)	111.165	93.637	
1 if CEO tenure less than 5 years			119 (41.0%)
0 if CEO tenure more than 5 years			171 (59.0)
DUALITY			
1 if CEO = Chairman			24 (8.3%)
0 if CEO ≠ Chairman			166 (91.7%)
EDU			
1 if CEO holds degree and above			184 (63.4%)
0 if CEO does not hold degree			106 (36.6%)
SKILL			
1 if CEO with finance or law qualification			18 (6.2%)
0 if CEO without finance or law qualification			271(93.7%)

Note: N = 290 observations.

Results from the logistic regression analysis are presented in Table 3. This study assumes that poor performance leads to CEO turnover. Therefore, as hypothesized in H1, we expect that there will be a negative relationship between performance and CEO

turnover. As expected, this study finds a negative and significant relationship between CEO turnover and average prior performance (AVROA). The finding of this study is similar to the findings in studies conducted by Kaplan (1994), Suchard et al. (2001) and Tsai et al.

(2006), which determine that lagged performance is significant in determining CEO turnover. This finding is in line with the statements by Boeker and Goodstein (1993), claiming that an organization may not ordinarily react to poor performance by replacing its CEO in the

same year the poor performance occurs. Therefore, they suggest that the average of two year prior performance is the best performance indicator to be used in the CEO turnover study.

TABLE 3. Regression analysis

Variables	Expected Sign	B	S.E.	Wald	Sig. 1-tailed test	Exp(B)	95.0% C.I. for EXP(B)	
							Lower	Upper
AVROA	-	-2.031	0.936	4.711	0.015**	0.131	0.021	0.821
DUALITY	-	-1.159	0.526	4.843	0.014**	0.028	0.112	0.881
EDU	-	0.229	0.289	0.629	0.214	1.257	0.714	2.215
SKILL	-	0.492	0.574	0.733	0.196	1.635	0.531	5.038
AGE	+	0.031	0.016	3.947	0.024**	1.032	1.000	1.064
TENURE	-	-0.003	0.002	3.782	0.026**	0.997	0.994	1.000
OWN	-	-0.017	0.007	5.487	0.010***	0.983	0.970	0.0997
Constant		-0.853	1.755	0.236	0.314	0.426		
Chi-square				30.555*** (df=8)				
Cox & Snell R ²				10.0%				
Nagelkerke R ²				13.3%				
Hosmer and Lemeshow test				11.924, 15.5% (df=8)				
Classification accuracy: overall				64.1%				

Note: ***p< 0.01, **p< 0.05, *p< 0.10. N =290 observations.

As expected, board leadership or CEO/Chairman duality exhibits a negative significant sign in relation to CEO turnover. Firms that are run by a chairman who is also the CEO of the company (DUALITY) are less likely to change their CEOs than firms that separate the two functions. The reason is to maintain status quo and job security in the same company. This finding is consistent with the contention that a CEO who performs dual roles may have a greater power internally and may be involved in CEO turnover decisions. In line with the conclusions reached by Jensen (1993), the power of the CEO may reduce board effectiveness, since internal control of a firm fails when the CEO is also a chairman of a company. Since the board is ineffective, the underperforming CEO is not subjected to turnover threat. The finding of this study is similar to those of Goyal and Park (2002) and Maury (2006), which find a negative significant relationship between CEO/Chairman duality and CEO turnover.

It is postulated in Hypothesis 3 that firms whose incumbent CEOs hold a degree qualification are less likely to experience CEO turnover. Results in Table 3 show an insignificant positive sign of EDU, which indicates the degree qualification of CEOs, in relation to determining CEO turnover. This study assumes that CEOs with a degree in finance or law are considered as CEOs with skills and functional backgrounds. Thus, in Hypothesis 4 we postulate that CEOs equipped with these qualifications are more likely to move to companies which offer higher compensation, as their skills are needed in all companies. Table 3 shows that the

relationship between incumbent skill and turnover event is not significant. This result implies that the likelihood of CEO turnover is not influenced by CEO skills in finance or law. Although these skills are usually needed in most businesses, only six percent of the CEOs have some law or finance background. The insignificant coefficient of skill suggests that finance and legal background is not perceived as an important quality required by a CEO. This finding is in line with Zajac and Westphal (1996), who argue that a CEO with an industry specialization related to a firm's business operation is more important, regardless of his level of skill and functional background.

Hypothesis 5 states that older CEOs are more likely to be changed than younger CEOs. This contention is supported by the results in Table 3, which demonstrate a positively significant relationship between AGE and CEO turnover. This finding contradicts that of Borokovich et al. (2006), who report a negative relationship between CEO age and turnover event. They find that young CEOs (54 years old and below) are more likely to be changed than the older CEOs (more than 54 years old). However, our findings are similar to those of DeFond and Park (1999) and Goyal and Park (2002) who find a positive relationship between older CEOs and the probability of CEO turnover. They suggest that their anomalous result is due to the inclusion of mandatory retirement at the age of 55 in US firms.

Another variable of CEO power that may influence CEO turnover is CEO tenure (TENURE). Tenure is measured as the number of months a CEO holds the

post. A CEO with a longer tenure is expected to be less likely to experience turnover than a CEO with a shorter tenure. The findings of this study support the contention that a CEO with a shorter tenure is subjected to a higher probability of turnover. We find that there is a negative relationship between TENURE and CEO turnover. This finding is similar to those of Goyal and Park (2002) and Shen and Cannella (2002). This result suggests that the probability of CEO turnover is higher when CEOs have a shorter tenure. CEOs with shorter tenures are considered as having less experience and knowledge compared to CEOs with longer tenures.

The percentage of shares owned by CEOs may also have a significant influence on CEO turnover. When CEOs have some control over firms via ownership, they may intervene in the CEO turnover decision. Thus, this study expects that there will be a negative relationship between CEO ownership (OWN) with CEO turnover. In other words, it is predicted that a CEO who owns shares in the same company is less likely to experience CEO turnover. As expected, the results in Table 3 strongly support H6, as the coefficient of OWN is negative and statistically significant at a 5 percent level. Thus, it is evident that CEO ownership is one of the important factors in determining CEO turnover. This finding reveals that the likelihood of CEO turnover is less likely when the CEOs have a controlling power in firms.

ADDITIONAL TESTS

For the additional sensitivity test, alternative proxies are used to test whether the reported results are sensitive to the measures used. Column 1 in Table 4 lists all of the alternative proxies used in this study. Each alternative

proxy was added individually to the original model and other variables remain constant. For instance, when the alternative proxy was used to measure CEO age (i.e. dummy variable of '1' for CEOs' age below 55 years, instead of number of years), all other variables remain as originally stated. It is believed that CEOs whose ages are below 55 years are not subject to mandatory retirement and their termination is due to underperformance (Lausten 2000). However, the same argument can be applied to explain the condition of older CEOs. Older CEOs are more likely to be changed as they reach their retirement age and their knowledge may be out-dated to cope with current business environment. Thus, it is expected that older CEOs are more likely to be changed than younger CEOs. However, the change of older CEOs is more of a voluntary basis and not due to underperformance. Results in Table 4 show a negative relationship between dummy AGE_1 and CEO turnover. This result implies that firms that have younger CEOs are less likely to experience CEO turnover than firms that have older CEOs. It is not surprising that young CEOs (who are subject to termination due to low performance) are not subjected to punishment because 227 of the 290 (78%) of the sample firms are enjoying healthy performance during the period of study.

For the new proxy of CEO tenure (a dummy variable of '1' if CEO tenure is less than 60 months or five years and '0' otherwise) this study finds that the coefficient of TENURE_1 is positive and significant at a 1 percent level. This result suggests that CEOs with a shorter tenure (less than 60 months) are more likely to be subjected to turnover than CEOs with a longer tenure. Due to their limited knowledge and experiences, CEOs with a shorter tenure are more likely to be changed than CEOs with a longer tenure.

TABLE 4. Results of CEO turnover regression using alternative proxy variables

Variables	Label	Expected Sign	B	SE	p-value
CEO Age	AGE	+	0.036	0.016	0.014***
	AGE_1	-	-1.710	0.505	0.001***
CEO Tenure	TENURE	-	-0.003	0.002	0.020**
	TENURE_1	+	0.852	0.288	0.002***

CONCLUSION

Out of the seven variables tested in this study, five variables vary significantly with CEO turnover. Firm performance, CEO/Chairman duality, CEO tenure and CEO ownership exhibit a negative relationship with CEO turnover, while CEO age shows a positive relationship with CEO turnover. As expected, firms that exercise CEO duality are less likely to have CEO turnover. This may be due to CEO/Chairman job security and continuity of their status quo. In other words, if a CEO/Chairman needs to resign from his CEO post, he may remain as the Chairman

or he will name his children or sibling as the successor.

Social network and human capital theories suggest that incumbent CEOs do accumulate powers via ownership control, education level, tenure or age and these powers will have significant influences on CEO turnover decisions. Results of this study support the hypothesis that CEO ownership will reduce the probability of CEO turnover. Holding some portion of a company's shares indicates that a CEO may have some control in a company. Thus, he or she is less likely to be changed in comparison with to a CEO who does not own any shares. This study also finds that there is a positive relationship between CEO age

and turnover, which explains that older CEOs are more likely to be changed than younger CEOs. This is because older CEOs are subjected to mandatory retirement. For CEO tenure, our study reveals that CEOs with short tenures are more likely to be subjected to turnover than CEOs with longer tenures. The reason is probably because a CEO with longer tenure is regarded as an expert who is capable to handle firms' day to day operations smoothly.

In summary, this study finds that firm performance and CEO power do influence CEO turnover. These findings reveal that firms are more likely to change their CEOs when they are facing low performance and having older CEOs. In contrast the turnovers of CEOs are less likely to occur when firms exercise CEO/Chairman duality; when CEOs possess company ownership; and when CEOs have longer tenures.

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Rokiah Ishak
School of Accountancy, College of Business
Universiti Utara Malaysia, 06010 Sintok Kedah
E-mail: rokiah@uum.edu.my

Ku Nor Izah Ku Ismail (corresponding author)
Institute for Management and Business Research
(IMBRe)
Othman Yeop Abdullah Graduate School of Business
Universiti Utara Malaysia, 06010 Sintok Kedah
E-mail: norizah@uum.edu.my

Shamsul Nahar Abdullah
Kulliyah of Economics and Management Sciences
International Islamic University Malaysia, Jalan
Gombak, 53100 Kuala Lumpur
E-mail: shamsulnahr@iiu.edu.my

