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Exploring antecedents and consequences of top management succession and replacements in large multinational firms

By

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Declaration of Original Authorship

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Abstract

This doctoral thesis investigates various aspects of top management succession through 4 papers. The aim is to develop a holistic understanding of factors shaping the process of replacing top managers and the consequences of such changes – both for the firms involved and individual prospective top managers. Particularly, it focuses on different levels of leadership (senior leadership teams and CEO) and different contexts impacting the replacements. The first paper (chapter 2) examines the extended senior leadership team of Fortune 500 Global firms, assessing how they can ensure strong strategic agility through behavioural integration (i.e., tenure overlaps) and shared distributed cognition (i.e., knowledge overlaps). The chapter shows how bringing these two dimensions together in a 3 by 3 framework enables firms to understand how too little succession and too much succession can both be bad for the firm. Furthermore, it shows that firms need to handle the inevitable successions appropriately. Chapter 3 advances the understanding of top management team (TMT) succession by developing a new conceptual framework that theoretically explains the mechanisms guiding direct non-CEO top management replacements (i.e., when a new individual takes over in a specific role, e.g., a CFO for a CFO). The framework is based on a theoretical extension of the *fit-drift/shift-refit* model. The specific framework looks at the characteristic of the new TMT member vis-à-vis his or her immediate predecessor and the incumbent TMT. By comparing the new executive against the predecessor and the TMT, the thesis can build a more comprehensive model of explaining what drives the TMT composition.

The second half of the thesis takes a more empirical view, examining different levels of leadership (TMT and CEO) as well as different contexts guiding replacements. Chapter 4 empirically investigates the mechanisms of the framework presented in chapter 3, by examining a sample of the world's largest firm (Fortune 500 Global). The paper presents a comprehensive coding of direct replacements of top managers, allowing for a comparison with the individual member and the incumbent TMT, providing solid insights into changes in the executives' experience background. The empirical analysis is based on a multi-level model of TMT replacements. In chapter 5, the thesis utilises a sample of American listed firms, finding that CEO succession following corporate misconduct is associated with higher executive job demands, which the new CEO gets rewarded for through a higher initial compensation compared to non-misconduct CEO succession. Because of the rarity of misconduct, the thesis applies a matched sample approach, directly comparing CEO succession following misconduct

with CEO succession in non-misconduct situations. Thereby the chapter contributes to the research on misconduct, CEO initial pay and TMT succession.

Together this thesis thereby contributes to various theoretical and empirical factors of succession. It does so by bringing the papers together in chapter 6, showing the relevance of studying top management succession through different levels of leadership and with different contexts in focus.

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Chapter 1: Introduction

1.1 Background, research scope and motivation

When studying firms, their behaviours, strategy and performance, an important element to consider is the people in the firm, as they are responsible for the path of the firm. Such individuals, whether the CEO, top management team (TMT), middle management or general employees, all matter for organisations as their decisions and actions shape the operations and possibilities of the firm (Cyert & March, 1963; Kanter, 1977; Schneider, 1987). Particularly strategic decisions taken at the managerial level impact the firm's direction as actions trickle down throughout the organisation. Strategic leadership scholars are researching multiple areas and factors shaping how such leaders think and act (Carpenter, 2011; Finkelstein, Hambrick, & Cannella, 2009; Hambrick, 1994). Particularly, the introduction of Upper Echelons Theory (Hambrick, 2007; Hambrick & Mason, 1984), using individual demographic variables (Pfeffer, 1985), has guided the research towards a greater understanding of a plethora of different firm-level outcomes. Studies find top managers impact areas such as the firm's social responsibility (Chin, Hambrick, & Treviño, 2013; Oh, Chang, & Jung, 2018; Orlitzky, Schmidt, & Rynes, 2003; Shea & Hawn, 2019; Slater & Dixon-fowler, 2009), strategy at both domestic and international level (Chatterjee & Hambrick, 2007; Foss & Pedersen, 2016; Kunisch, Menz, & Cannella, 2017; Ruigrok, Georgakakis, & Greve, 2013; Wowak, Mannor, Arrfelt, & McNamara, 2016) and performance (Cannella, Park, & Lee, 2014; Carmeli, 2008; Musteen, Francis, & Datta, 2010; Nadkarni, 2010; Tasheva & Nielsen, 2022).

Whilst many aspects of strategic leadership provide exciting avenues for further research, this thesis focuses on the role of successions and replacements[1] of different levels of top management – i.e. CEOs, TMT and other top managers. Succession is one of the greatest challenges for firms, as a major challenge is attracting and retaining talent (Gallardo-Gallardo, Thunnissen, & Scullion, 2020; Mellahi & Collings, 2010). Succession has been studied from different perspectives. For example, a lot of research focuses on the antecedents for top management departure (Andersson, Castellani, Fassio, & Jienwatcharamongkhol, 2022; Andrus, Withers, Courtright, & Boivie, 2019; Fee & Hadlock, 2004; Gentry, Harrison,

[1] Throughout the thesis terms such as succession and replacements are used interchangeably. Whilst they might have slightly different meanings, they refer to the situation when a new member enters the TMT by replacing a specific member, unless otherwise stated.

Quigley, & Boivie, 2021; Hambrick & D'Aveni, 1992). Such studies consider aspects such as performance deterioration, poor executive-firm fit and career opportunities, to mention a few. What is interesting is the variety of different events that can shape the departures from the firm and how this will impact the selection of a new executive (Hollenbeck, 2009; Quigley, Wowak, & Crossland, 2020; Zajac, 1990). Because naturally, the circumstances shaping the departure will also impact the subsequent executive selection. Yet, there are mixed findings on how this approach occurs (for reviews, see Berns & Klarner, 2017; Giambatista, Rowe, & Riaz, 2005; Kesner & Sebora, 1994). This becomes further evidenced by the second aspect of top management succession literature, which looks at outcomes following executive departures and successions, such as strategic changes (Barron, Chulkov, & Waddell, 2011; Tushman & Rosenkopf, 1996) and performance (Georgakakis & Ruigrok, 2017; Schepker, Kim, Patel, Thatcher, & Campion, 2017; Shen & Cannella, 2002). Often, the argumentation rests on the fact that departures can negatively impact the firm because of the loss of key talent (Bilgili, Calderon, Allen, & Kedia, 2017; Messersmith, Lee, Guthrie, & Ji, 2014).

Regardless, looking at turnovers and the deficiencies in the current literature, it remains important to stress that succession and turnover are not purely negatives, as they can be essential building blocks for the firm's succession by enabling innovation (Hunt, Prince, Dixon-Fyle, & Yee, 2018; Yeoh, 2014) and strategic agility (O'Reilly III & Tushman, 2011). By ensuring a certain persistent level of TMT turnover, firms can gradually bring in new eyes on things such as the strategic direction (Kaczmarek & Nyuur, 2021). Furthermore, turnover can lead to better enculturation of the TMT, as there is a likelihood of replacing members that are socially outgroup members and therefore do not adequately contribute to the development of the firm (Harrison & Carroll, 1991; Tsui, Egan, & O'Reilly, 1992). However, it is crucial to ensure a certain degree of differences between the TMT members in such a situation to retain adequate differences in talents and perspectives possessed by the incumbent TMT. In their study, Harisson & Carroll (1991) find that gradual turnover can have positive disruptive efforts to challenge conformity; however, it is vital to handle the disruptions appropriately to ensure consistency and retain some shared experience between members. The latter is vital, as we yet know little about the specific ways to reach an optimal level – something this thesis will aim to tackle. For example, some studies find that the change of CEOs can positively impact things such as social performance (Chiu & Walls, 2019). Therefore, the departures of executives can be considered essential – both as individuals move on and as a strategic tool for the organisation (Hilger, Mankel, & Richter, 2013).

Considering these opposing views simultaneously, it is evident that more research is needed to disentangle the complexity and mixed findings in the succession literature. For example, it is crucial to understand the context of the succession (i.e., what situation the firm is facing when the succession occurs), whom the new top manager is replacing (i.e., the direct predecessor's characteristics), and how the new manager's characteristics align with other managers in the firm. That way, a better assessment of the antecedents for and consequences of succession is possible as more information is included in the investigation of hiring a new manager. This thesis seeks to contribute to providing more clarity on studying the holistic top management succession process. However, to understand the holistic process of succession, it is also essential to have a better grasp of some potential outcomes based on succession in different contexts. Notably, two different types of outcomes are deemed interesting for this thesis; 1) how successions change the team's dynamics and capabilities and 2) the impact successions have on the focal individual.

At the group level, the impact of succession comes in various forms depending on a multitude of factors, including the context and characteristics of the incumbent, departing and entering managers. Thus, better understanding the changes in the firm's dominant coalition is of great interest to scholars and practitioners alike. As mentioned, gaining strategic agility and overcoming challenges are widely important for firms, and changes to composition at different levels of leadership will be worth exploring further. To understand this better, this thesis considers both theoretical and empirical examinations of senior leadership teams in the world's largest firms. Particularly, at a wider leadership level, the first part of the thesis theoretically and empirically considers how behavioural integration (Carmeli & Schaubroeck, 2006; Hambrick, 1994) and functional experience overlaps (Tasheva & Hillman, 2019) can matter for the development of transactive memory and lead to strategic agility (Lewis & Herndon, 2011; Mohammed & Dumville, 2001; Weber & Tarba, 2014). Such strategic agility is often examined as a consequence solely of the current activities, but considering the lens of succession can further develop the understanding of how firms go about shaping strategic agility as an ongoing process. As such, this type of examination contributes to the thesis by understanding the potential consequences of too many successions but will also elaborate on why too few successions can be an issue that leads to groupthink. Elaborating further on this, the thesis narrows down and focuses more specifically on the successions that occur in these firms at the highest managerial level – the TMT. By both considering a novel 2 by 2 framework where the new top leader is compared to the incumbent TMT and the predecessor and further

testing some effects of this empirically, the thesis shows how firms go about "refitting" their teams (Finkelstein et al., 2009). Such a refitting stage will gradually show how firms on a more granular scale can improve their capabilities and contribute to the knowledge developed on the strategic agility of the firm.

Towards the end of the thesis, the second foci - the impact succession has on individuals, then comes into play. The impacts can both be considered in terms of how the individual fit role assigned and, therefore, the satisfaction the new manager has with the tasks. Alternatively, it can be considering the impacts on the individual's remuneration, which is granted based on their fit with the role and context. An often-studied concept in the latter impact relates to CEO-specific replacements and their pay package (Berns & Klarner, 2017; Ma & Seidl, 2018). Specifically, there is a growing interest in understanding initial compensation (Chen, 2015; Graffin, Hubbard, Christensen, & Lee, 2020), which this thesis seeks to advance the knowledge on. While it is widely established that new CEOs will face team-level integration challenges, it is interesting to get a better grasp of what happens when the new CEO enters the team under high complexity with immense challenges. By looking at what happens to new CEOs in the aftermath of severe financial misconduct (Dechow, Ge, Larson, & Sloan, 2011; Gupta, Mortal, Chakrabarty, Guo, & Turban, 2019; Karpoff, Koester, Lee, & Martin, 2017; Koch-Bayram & Wernicke, 2018), the thesis utilises executive job demands to understand how the contexts, including predecessor context, matters for the challenges they are facing, and the compensation package they receive. Such a contribution links to the study of holistic succession by including notions on the predecessor and understanding personal-level outcomes of succession.

By bringing these different studies together, it is possible to see how succession is something highly complex, which firms need to consider carefully as it has consequences for various parties – including the firm's ability to gain sufficient strategic agility and performance. The thesis this way also opens further research opportunities, which can greatly complement existing knowledge. However, an important step in understanding the relevance of succession also requires an examination of the different tiers of leadership.

1.2 Different tiers and coalitions of top management

In studying strategic leadership and succession, scholars tend to use different levels of leadership and units of analysis. The two most frequent units of analysis are the CEO and TMT. Many studies provide similar arguments regardless of which focus they apply to their research, typically starting with a brief assessment of Hambrick and Mason's (1984) seminal work presenting the Upper Echelons theory. One of the interesting arguments in their paper is that whilst studying different levels of management is all important, studying the whole TMT will provide a better assessment than only studying the CEO. They also argue that despite the larger impact of studying the wider TMT, studying the CEO remains crucial – especially through the impact he or she may have on the wider TMT. In studying the holistic succession approach, this thesis will tap into different tiers of strategic leadership. Figure 1.1 shows a very simplistic model of hierarchies within leadership, with the board of directors on top[2], followed by the CEO, the TMT, the broader leadership, and the rest of the firm. Obviously, most firms will have more complex leadership structures than the one depicted in figure 1.1, but nevertheless, these tiers provide a good illustrative purpose. In this thesis, I[3] split the impacts into different tiers of such hierarchy to study different yet comparable effects of leadership succession.

With the focus on leadership succession in mind, I approach the challenge from the different levels of leadership, as presented in figure 1.1. By starting with the broader, extended leadership moving up to the TMT and ending with an assessment of the CEO. Taking this approach provides an understanding of both the processes associated with leadership succession and potential differences depending on the level. At the same time, I provide insights into the effectiveness and importance of succession to ensure some new skills enter the firm and the firm simultaneously avoids becoming overly stuck in a status-quo scenario where firms lack innovation and flexibility. To do so, the thesis first explores data on the extended senior leadership in broad terms. Particularly, it brings in the debate on how there in the leadership cadre can be a need for both distribution of skills, but also sufficient knowledge overlaps (Heavey & Simsek, 2017; Zajac, Gregory, Bedwell, Kramer, & Salas, 2014). This exploration of the extended senior leadership provides an opportunity to explore data that is pivotal for the overall thesis, but it also provides an insight into the thinking and understanding

[2] The dotted line indicates that board of directors are not engaging in day-to-day activities, instead focusing on broader issues, such as selecting the CEO.
[3] In the introduction, this refers to the author of the thesis. In some of the chapters "we" may be used to confirm to academic journal language

of succession and leadership in firms. Particularly as it becomes clear how firms are in need of some succession to stay as agile as possible, but simultaneously, the successions need to be handled appropriately and bring in adequate skills. Next, the thesis builds a 2 by 2 framework, which helps putting the specific successions into further context. The aim is to provide an overview of the more specific succession literature but also provide a template that can help guide future research. This framework considers the relevance of understanding both who is departing the firm, who is taking over, and how they compare to the rest of the incumbent TMT. Building on that, the thesis seeks to test some of the effects presented in the 2 by 2 framework – particularly in the case of large MNEs (Fortune 500 Global). In this section, I utilise similar data as in the first exploratory paper (chapter 2) but boil it down to the more narrow TMT. This happens for two reasons. First, it provides a better understanding of a more fine-grained dataset, enabling testing of specific top management replacements (e.g., CFO for CFO). This would not be possible in the wider, extended leadership team, given a large amount of overlapping, generic titles. Second, it provides insights into more strategic leadership literature that is gaining increasing traction in the field of International Business (Cuypers, Patel, Ertug, Li, & Cuypers, 2021; Georgakakis, Wedell-Wedellsborg, Vallone, & Greve, 2022).

Finally, I take the analysis one step further up the ladder in figure 1.1, looking at CEO replacements. Particularly, this is done to understand the importance of firm contextualisation further. However, where I earlier in the thesis focus on more generic, overarching contexts that fit a lot of firms, this section takes focus on a more niche contextualisation – firm-level misconduct. Particularly, I explore and analyse the higher job demands imposed on a new CEO being tasked with restoring a firm after it is caught in misconduct (Dechow et al., 2011). As such, I am able to advance the understanding of how firms might be going about succession in another specific context and what firms are looking for in that specific context. While I am not testing directly for the behaviour of the new manager – regardless of whether at CEO level or TMT level, this approach enables an understanding of the relevance of succession and how understanding indicative signals in terms of characteristics is relevant. As such, this thesis provides a detailed insight into top management composition – at different levels – particularly focusing on how succession aids this composition.

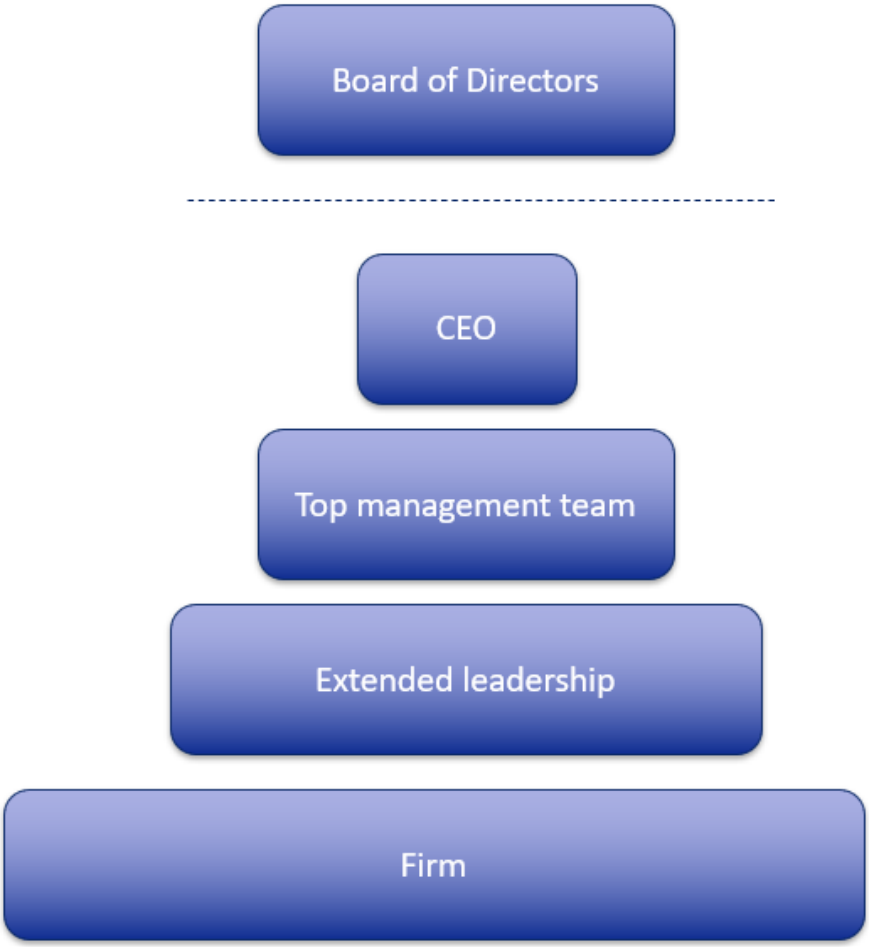

Figure 1.1 Simplified Leadership Hierarchy

Source: Author

1.3 Primary research contributions

As explained, the thesis aims to contribute to top management succession literature regarding the processes of replacements and towards knowledge on the outcomes of such successions for individuals and firms alike. To do so, the thesis contributes to various theoretical constructs by covering important gaps in the current understanding of top management succession research.

The first theoretical contribution of this thesis is thus to explore the functioning of the wider senior leadership and how too many successions and too few successions both potentially cause issues. Based on firm cases, I theorise and show how firms benefit from an overlap of experience – that is, having shared knowledge available. Furthermore, behavioural integration matters for the team's effectiveness in pursuing strategic agility and knowledge sharing, as

being aware of what the colleagues know can be helpful for the firm's success. As such, this part of the thesis provides a better insight into the management's role in fostering strategic agility. Notably, I link this to how succession can impact the development of such agility by ensuring the right level of succession – not too many and not too few – is vital for the firm's success. Furthermore, this sheds light on the characteristics needed for the effective governance of MNEs and IB by extending the knowledge on the sample of Fortune 500 Global firms – a sample that is also relevant for a later section of the paper.

The second theoretical and empirical contribution to the holistic process of top management replacements is to utilise the *fit-drift/shift-refit* model (Finkelstein et al., 2009; Rickley, 2019) in explaining the behavioural and social adjustments that occur in TMTs. The model was originally developed as a framework to explain the selection of a new CEO, but this thesis extends its applicability to the wider TMT. This contribution is important as the TMT composition matters greatly for the firm (Acar, 2016; Cuypers et al., 2021). Therefore, the small constant changes that occur to the composition can have damaging consequences if not handled correctly. To better understand these changes, the thesis aims to answer questions such as:

- *Which factors are relevant when predicting the new TMT member's characteristics upon entrance into the team?*
- *How does the new TMT entrant compare/contrast to predecessor and incumbent TMT, and in which way does it impact the composition and effectiveness of the TMT?*

These questions are broad in nature; however, they are important to answer. Because if the new entrant to a TMT is highly similar to the incumbent team, previous research would often assume that the diversity remains stable (Bunderson & Sutcliffe, 2002). However, if the top manager they replace is highly dissimilar on key characteristics, then there will have been compositional diversity change. Therefore, an important contribution of this thesis is the development of a conceptual framework explaining the TMT replacement process. Notably, it is through looking at the new TMT member against their direct predecessor and the wider TMT. Such a contribution advances the succession research field and provides several opportunities for more research in the academic area.

Elaborating on the theoretical contributions of the framework mentioned above, the thesis empirically tests some of the effects on a sample of the world's largest firms. The main

rationale for this is that multinational enterprises (MNEs) are some of the most complex organisations to manage (Buckley & Casson, 2019; Nielsen, 2010a). As such, the compositional changes that happen because of replacements will be vastly important. In taking this approach, the thesis contributes to International Business research and succession research. The focus is on understanding how factors at different levels shape the replacement that occurs when managers depart. The different managers are compared based on their functional and international experience backgrounds. Thereby, the thesis also contributes toward knowledge of the relevance of functional and international experience possessed by top managers (Rickley, 2019). Notably, it will help shed light on situations that can lead to increased or decreased diversity in TMTs. As such, the role of the manager in the field of IB can benefit vastly from the findings of this thesis. For example, the findings can help shed light on hitherto unexplained firm-level effects. We do so by examining:

- *How can international complexity shape the non-CEO top management replacements?*
- *Which impacts do top management changes have on the governance of MNEs?*

Another theoretical contribution to the succession literature is a better understanding of the executive job demands that shape new CEOs' job challenges, notably when taking over after financial misconduct. Additionally, by contributing to this field, the thesis also shows how such added executive job demands impact the initial CEO pay. That way, in the effort to advance the understanding of succession, the thesis also contributes to knowledge on executive job demands (Hambrick, Finkelstein, & Mooney, 2005), CEO initial pay (Chen, 2015; Graffin et al., 2020) and corporate misconduct research (Castro, Phillips, & Ansari, 2020; Gangloff, Connelly, & Shook, 2016; Koch-Bayram & Wernicke, 2018). I do so by exploring:

- *How does previous firm-level misconduct impact the executive job demands on the CEO? And how is this relevant for the initial remuneration?*

Taking the different contributions together, it becomes clear that the focus on better understanding the holistic replacement process of senior leaders can have a vast impact on the firm and individuals in various different ways. By providing a better understanding of different contexts, as well as developing a conceptual framework, the thesis provides several important contributions to the extant senior leadership and IB research – at different levels of management. Because succession of top managers is important at different levels, this thesis helps by providing further insight into the differences and the relevance.

1.4 Structure of the thesis

This thesis is structured around four different academic papers. The first paper (chapter 2) explores the data in a sample of Fortune 500 firms to better understand the wider leadership's working mechanisms. Particularly, the focus is on the role of knowledge overlaps and behavioural integration through shared experience. The paper thus provides insight into the data, which will be relevant for a later paper in the thesis, whilst also providing insight into how firms optimally create strategic agility through their ability to handle succession appropriately. Whilst I am not directly measuring successions in the paper, it provides valuable insight given the argumentation around optimal tenure length. Furthermore, it is relevant as it gives an example of one of the reasons why firms need to handle succession professionally, whereas the rest of the papers focus more on the specific successor chosen. The paper furthermore contributes to showing the importance of understanding differences between different international regions, notably Europe, North America and Asia pacific. This is relevant for a later paper also using Fortune 500 Global.

In chapter 3, I develop a conceptual framework that looks at the new TMT entrant's characteristics compared to both the immediate predecessor and the incumbent TMT. The chapter utilises the *fit-drift/shift-refit* model (Finkelstein et al., 2009) and other theoretical contributions toward understanding the different contexts of strategic leadership. Additionally, the chapter provides additional insights into the replacement process of top managers – something relevant for the rest of the thesis. The paper, with its novel framework, provides different types of non-CEO top management replacement, thus opening up several potential research avenues.

Chapter 4 builds on chapter 3 by empirically testing direct, non-CEO top management replacements. In this chapter, I use the same data as in chapter 2 (Fortune 500 Global) but narrow it down to the Top Management Team rather than the extended leadership team. This allows for a more granular assessment of specific top management replacements, as the paper matches predecessors and successors based on the specific titles and functions. This paper thus provides novel and important empirical contributions to succession literature and IB research.

The final paper (chapter 5) switches to focusing on the impact contextual succession can have on the individual. Based on a sample of American firms, the chapter investigates the CEO's initial pay after succession caused by corporate misconduct. This context adds to the

executive job demands, thereby contributing theoretically and empirically to understanding how context can shape the role the new CEO assumes in a firm and how they are compensated for the added complexity. The importance of studying CEO pay and a more niche contextualisation is that it provides even further insight into what firms are doing when replacing their top managers. As such, the paper provides insight into the highest level of day-to-day management and complements the rest of the thesis by providing more knowledge of what firms do amid succession scenarios.

Chapter 6 provides a summary and conclusion, linking the key findings of the different papers presented in the thesis.

Chapter 2: Senior Leadership Teams: Characteristics and Key Functions Enabling Strategic Agility[4]

Abstract

This chapter examines the senior leadership team's role in the organisation and its contribution to strategic decision-making and agility. We develop a conceptual framework of strategic agility in senior leadership teams, proposing that a combination of distributed cognition and behavioural integration form the basis of an effective transactive memory system, which enables senior leadership teams to foster agility in firm-level decision-making. Further, using data from Fortune 500 Global senior leadership teams, we show how our conceptual framework can help to advance a more nuanced understanding of companies' approaches to strategic agility in senior leadership teams.

[4] This paper will feature in the book "Senior Leadership Team and the Agile Organization" Edited by Stephen J. Zaccaro, Nathan Hiller, and Richard Klimowski. Routledge, Taylor & Francis Group

2.1 Introduction

In an increasingly complex and dynamic business world, strategic agility is the ability of firms to remain flexible, nimble, adaptable, and responsive as they develop and grow over time (Weber & Tarba, 2014). Agility enables a firm to seize opportunities, innovate, diversify, and respond rapidly to change. It is closely associated with the notion of organisational ambidexterity (Gibson & Birkinshaw, 2004; Mom, Van den Bosch, & Volberda, 2007), i.e. the combination of exploration and exploitation strategies (March, 1991; Weber & Tarba, 2014). Ambidextrous organisations are able to effectively balance alignment and adaptability, thus providing a platform for the development of competitive advantage.

Numerous studies have argued that CEOs and top managers are key instrumental forces enabling and shaping agile organisations (e.g. Cao, Simsek, & Zhang, 2010; Carmeli & Halevi, 2009). In this chapter, we review and explore how the characteristics and functions of senior leadership teams enable and shape strategic agility in large organisations. First, we review the literature on senior leadership teams as an antecedent of strategic agility and advance the argument that transactive memory at senior leadership level is key to the development of strategic agility in organisations (Chen & Liu, 2018; Heavey & Simsek, 2017). A strong transactive memory system (TMS) provides team members with the range and depth of knowledge required to make key decisions, whilst also enabling an effective distribution of tasks and responsibilities to optimise the team's utilisation of its own knowledge and resources (Brandon & Hollingshead, 2004; Lewis & Herndon, 2011). Hence, we argue that a senior leadership team is most likely to thrive if its members collectively possess a wide range of experience backgrounds and diverse cognitive frames, whilst also having overlapping experience backgrounds and a clear understanding of its own team members' strengths and weaknesses (Halevi, Carmeli, & Brueller, 2015; Heavey & Simsek, 2017). Second, we show how strategic leadership team characteristics in relation to distributed cognition and behavioural integration have evolved at the world's largest firms over the ten-year period from 2010 to 2020. We observe a number of key trends and developments in the composition of strategic leadership teams and use these observations to explore key antecedents of strategic agility at senior leadership level. Finally, we present three mini-cases extracted from our data that complement and extend our understanding of how the structure and composition of strategic leadership teams shape strategic agility.

2.2 Senior leadership teams and strategic agility

An emerging literature describes the role of senior leadership teams as antecedents and enablers of strategic agility in organisations (Chen & Liu, 2018; Heavey & Simsek, 2017). In increasingly complex and dynamic firm environments, agile organisations must be able to pivot effectively between exploration and exploitation strategies in response to shifting environmental influences (Weber & Tarba, 2014). Strategic agility is therefore considered to be a key enabler of organisational performance over time. Agility not only allows firms to stay competitive; it also helps them to overcome potential disruption from creative destruction by being at the frontier of new developments, thus driving the innovation and efficiency required to be at the forefront of an industry (O'Reilly III & Tushman, 2011). In an ever-changing business landscape, the capabilities associated with handling both the incremental and disruptive changes act as a key asset for firms (Bui, Chau, Degl'Innocenti, Leone, & Vicentini, 2019).

To explain the role of senior leadership teams in shaping strategic agility, we draw on the concepts of behavioural integration (Hambrick, 1994), distributed cognition (Bunderson & Sutcliffe, 2002), and transactive memory in leadership teams (Rau, 2006; Wegner, 1987). A key prerequisite of agility in leadership teams is the collective ability of team members to maximise knowledge utilisation by working together and communicating effectively. Strategic agility, therefore, requires a certain level of behavioural integration in the team, i.e. the ability to self-manage and effectively integrate the range of different knowledge domains in a timely and efficient way (Hambrick, 1994). Behavioural integration enables team members to recognise knowledge complementarities and effectively distribute tasks and responsibilities to enhance the overall utilisation of knowledge and resources in the team (Lewis & Herndon, 2011; Wegner, 1987). Team members who know each other well will be able to assign tasks or consult relevant individuals faster and more accurately, thereby ensuring quicker and higher-quality decisions (Carmeli & Schaubroeck, 2006; Mom, Van den Bosch, & Volberda, 2009)– and thus enhancing strategic agility (Doz & Kosonen, 2010). As behaviourally integrated team members coordinate their knowledge more effectively, they contribute to the creation of enhanced team-level mental models (Klimoski & Mohammed, 1994) and organisational ambidexterity (Lubatkin, Simsek, Ling, & Veiga, 2006), which are crucial for the development of an effective TMS, i.e. the strong and systematic use of available knowledge in the team to

enable strategic agility and performance (Lewis & Herndon, 2011; Lewis, Lange, & Gillis, 2005).

However, despite these advantages (Carmeli & Schaubroeck, 2006; Fox, Simsek, & Heavey, 2021), we argue that there is likely to be an upper limit to the effectiveness of team longevity and the associated benefits of behavioural integration. Once a senior leadership team has spent a significant amount of time together, we expect the team to experience diminishing returns to the process gains associated with behavioural integration, such as improved intra-team communication, team cohesion, and TMS effectiveness (Argote & Ren, 2012; Stahl, Maznevski, Voigt, & Jonsen, 2010; Zhang, Hempel, Han, & Tjosvold, 2007). Above a certain level of team longevity, teams may experience that the costs of groupthink and rigidity begin to outweigh the benefits of social integration and shared experience. Team members are likely to develop increasingly similar and convergent perspectives over time, leading to conformity, a lack of critical questioning in decision-making, and insufficient consideration of alternative courses of action (Barkema & Shvyrkov, 2007; Janis, 1991). Tenure and longevity may also negatively affect risk-taking propensity, as the willingness of individuals to exploit available knowledge and learn from experimentation is likely to decline gradually over time (Finkelstein et al., 2009; Miller & Shamsie, 2001). Overall, this perspective aligns with Heavey and Simsek's (2007) findings, which show that organisational ambidexterity and TMS strength derive from interactions between the costs and benefits associated with behavioural integration and the distribution of knowledge in senior leadership teams.

Whilst behavioural integration provides leadership teams with the requisite knowledge of 'who knows what' to optimise the utilisation of the team's knowledge base (Miller, Choi, & Pentland, 2014), it is also crucial that team members collectively possess a differentiated set of experiences and cognitive frames – shaping the lenses through which senior leaders absorb and make sense of information (Starbuck & Milliken, 1988). Bunderson and Sutcliffe (2002) suggest that distributed cognition in teams can be measured in two ways – either by capturing the average level of intrapersonal (i.e. within-person) experience distribution or by gauging the interpersonal (i.e. between-person) distribution of individual specialisations. Whilst both are potentially valuable operationalisations, we focus on the former as it aligns most closely with strategic agility by capturing the extent to which a senior leadership team possesses a high average level of cognitive capacity – as opposed to measuring the variety of individual cognitive capacities in the team. Intrapersonal distributed cognition ensures that a leadership team has the breadth of differentiated yet complementary knowledge to engage with a range of

relevant knowledge domains, whilst also possessing a depth of knowledge in their domain to effectively meet the firm's information-processing requirements and make well-informed decisions in dynamic and complex environments (Dahlin, Weingart, & Hinds, 2005; Mathieu, Maynard, Rapp, & Gilson, 2008; Nielsen, 2009; Vallone, Elia, Greve, Longoni, & Marinelli, 2019). Lewis (2003) argues that teams "need to share some overlapping knowledge in order to coordinate their actions and perform well" (p. 602), hence suggesting that distributed cognition combined with strong functional communication form the basis of an effective TMS. Under such conditions, teams are able to tap into one of the core tenets of transactive memory, namely the ability to rely on other people knowing more than oneself, thereby ensuring that individuals only need to know what others know (Wegner, 1987). This notion is in line with Heavey and Simsek's (2017) findings that the impact of TMS on organisational ambidexterity is amplified with high levels of cognitive distribution in the senior leadership ranks.

However, in line with the notion of an optimal balance between variety and specialisation in strategic leaders' backgrounds (Ferguson & Hasan, 2013; Mueller, Georgakakis, Greve, Peck, & Ruigrok, 2021), we contend that above a certain level of distributed cognition we are likely to observe a diminishing or even negative impact of further cognitive variety. If all team members are generalists with highly varied backgrounds and limited specialisation, it is increasingly likely that the team members' knowledge and experience are similar in substance as they are likely to be lacking in depth and distinctiveness (Li & Patel, 2019). Hence, by striking a balance between cognitive variety and in-depth specialist knowledge in their senior leadership teams, firms will maximise their ability to generate alternative courses of action and strategic innovation.

Following the above, an effective senior leadership team requires the presence of individuals with distinct knowledge backgrounds as well as a clear understanding of 'who knows what' within the team (Lewis & Herndon, 2011; Wegner, 1987). Hence, we argue that combining the notions of distributed cognition and behavioural integration provides a platform for understanding the effectiveness of senior leadership teams, following the logic that these are the core building blocks of a strong TMS at senior leadership level and therefore enable firms to achieve high levels of organisational ambidexterity (Brandon & Hollingshead, 2004; Mathieu, Heffner, Goodwin, Salas, & Cannon-Bowers, 2000). Whilst we do not directly observe TMS in this study, the insights that we derive from observing key metrics associated with the underlying concepts of behavioural integration and distributed cognition will be used to show how large firms calibrate the building blocks of TMS at senior leadership level, as well

as to suggest future research directions linking TMS in senior leadership teams with the notions of organisational ambidexterity and strategic agility.

A TMS is characterised by the combination of overlapping knowledge and overlapping tenure, which help to ensure the formation of effective work structures (Palazzolo, Serb, She, Su, & Contractor, 2006). By relying on the three key pillars of a TMS, *specialisation, credibility, and coordination* (Argote & Ren, 2012; Lewis, 2003), we can outline how behavioural integration and distributed cognition in senior leadership teams matter for the strategic agility of firms. First, teams comprising a range of overlapping functional backgrounds will allow for the creation of shared mental models combining breadth and depth of knowledge (Denzau & North, 2000). Distributed cognition fosters knowledge breadth and depth, enabling the team to unlock *specialisation* expertise (Heavey & Simsek, 2017), whilst behavioural integration provides team members with an understanding of 'who knows what' – thus allowing the firm to maximise its utilisation of the distributed knowledge residing within the team (Lewis et al., 2005). Second, a diverse overlapping cognitive base in the senior leadership team enables collaboration across units by strengthening *credibility* within the team, thus creating a strong platform for TMS development and an environment conducive to strategic agility. Finally, a combination of tenure overlaps and intrapersonal functional diversity is likely to unlock *coordination* advantages, thus helping firms to maximise the output of their senior leadership team and enable strategic agility. In Figure 2.1, we present a typology of senior leadership teams combining the notions of distributed cognition and behavioural integration, as well as the expected implications for strategic agility.

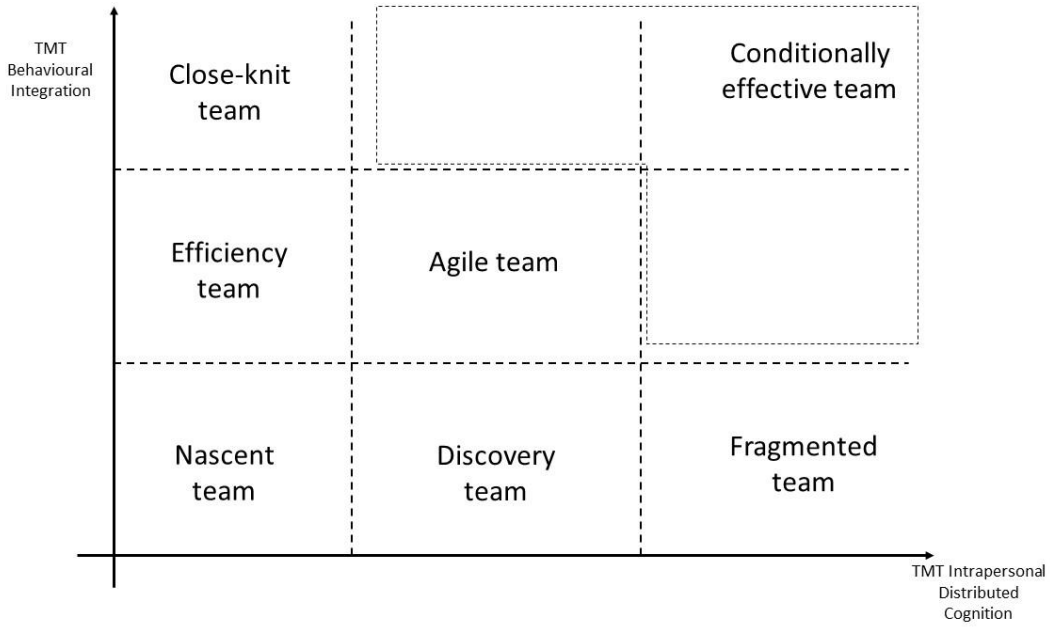

Figure 2.1 Senior leadership team typologies

2.2.1 Leadership team effectiveness and strategic agility

Based on our conceptual framework, we derive a typology of senior leadership team agility (see Figure 2.1) comprising nine quadrants reflecting the nine different combinations of low-medium-high levels of distributed cognition and behavioural integration in senior leadership teams. Whilst the framework postulates that the optimal state is found at the medium level of both axes, the exact optimal combination of distributed cognition and behavioural integration is fluid and context-dependent. Hence, when utilising this framework empirically, we do not propose a specific optimal level or combination of the two dimensions. We rather provide a rationale for a theoretical inflexion point above, which we expect to find diminishing returns to higher levels of distributed cognition and behavioural integration. We encourage future research to investigate our framework empirically and to explore whether (and if so, where) such optimal levels may be found. In the following section, we further explain the quadrants and their expected impact on the strategic agility of firms.

2.2.1.1 Nascent team (low distributed cognition-low behavioural integration)

Teams in this quadrant will typically be in the early stage of formation and contain individuals with narrow specialisations. Wegner (1987) argues that in the early formation of a team, some degree of who knows what is established based on factors such as titles. Such early-stage transactive knowledge is prone to error as it tends to rely largely on superficial cues and

assumptions, e.g. assigning a specific task to a team member based on past job titles without paying attention to the different nuances of the field in question. Therefore, such teams may not function optimally, neither in terms of generating a sufficient number of new ideas nor in terms of productivity and efficiency. As such teams would largely consist of specialists, it is likely that there could be some degree of interpersonal functional diversity with some potential for strategic innovation and positive performance implications (Bunderson & Van der Vegt, 2018; Buyl, Boone, Hendriks, & Matthyssens, 2011). However, due to the limited behavioural integration and lack of overlapping knowledge, it is likely that a lack of effective communication would hamper the development of ambidexterity (Carmeli & Halevi, 2009; Rosing, Frese, & Bausch, 2011). Li & Hambrick (2005) find that behavioural disintegration is likely to have a negative impact on performance. These notions together lead to the conclusion that being low on both axes is associated with limited team-level agility.

2.2.1.2 Efficiency team (low distributed cognition-medium behavioural integration)

A certain level of behavioural integration impacts the effectiveness of knowledge sharing, as the time spent together will increase the understanding of 'who knows what' (Carmeli & Schaubroeck, 2006; Halevi et al., 2015). However, due to the low overall level of distributed cognition – whilst the team members may have knowledge of other team members' specialisations – the knowledge-sharing capabilities will be limited due to limited knowledge overlaps stemming from a general lack of diverse knowledge backgrounds in the team (Dahlin et al., 2005). Such teams are likely to be quick and efficient in assigning tasks and responsibilities to individuals who are deemed to most closely match the task requirements. In this quadrant we are, therefore, likely to find well-oiled and functioning senior leadership teams, albeit making limited use of expertise and transactive memory due to a lack of distributed knowledge in the team. Whilst the firm will engage specialists to resolve complex tasks, they will typically draw on a limited range and depth of knowledge from a narrow spectre of backgrounds and specialisations, thereby lacking the ability to recombine knowledge into new solutions (Galunic & Rodan, 1998). Accordingly, Heavey and Simsek (2017) argue that when teams are "[…]composed of narrow functional specialists, who have spent most of their career in a functional silo, the development of a transactive memory system is likely to focus on the cultivation of pockets of specialised functional experience" (p.926). As a consequence, such teams are likely to focus on exploitation-oriented strategies with less opportunities to develop innovative solutions and foster strategic agility (Schubert & Tavassoli, 2020).

If behavioural integration continues to increase whilst retaining a team of limited cognitive diversity (i.e. moving towards the upper-left quadrant of Figure 2.1), it is likely that the senior leadership team will become increasingly close-knit and deeply familiar with other team members' knowledge and capabilities. However, in such circumstances it is also likely that the negative consequences of excessive integration may begin to emerge, such as a lack of critical questioning of established routines, leading to inertia, groupthink, and a gradual failure to adapt to changing environments (Carmeli & Halevi, 2009). A key challenge under such conditions is that firms may potentially experience efficiency gains and thrive in the short term, as they optimise the exploitation of existing business models, knowledge and outputs – however, over time they are likely to become exposed to creative destruction, thus highlighting the importance of ensuring senior leadership team renewal to remain agile in the longer-term.

2.2.1.3 Discovery team (medium distributed cognition-low behavioural integration)

In senior leadership teams with a relatively high average distribution of knowledge backgrounds combined with low levels of behavioural integration, the primary challenge will be to effectively identify and distribute tasks and responsibilities in the absence of a clear understanding of 'who knows what' among team colleagues. Whilst the foundational knowledge would be in place to develop shared and complementary knowledge resources, the process of matching tasks and responsibilities to the most suitable individual team member – or indeed finding the best way of making such decisions – is likely to be more difficult in less behaviourally integrated and shorter-tenured teams (Carmeli & Halevi, 2009). This may lead to a sub-optimal distribution of tasks among team members and ineffective use of the available skills and capabilities in the senior leadership team. Such teams are therefore likely to be more discovery-focused, generating new ideas and exploring opportunities, albeit with the caveat of potentially lacking efficiency and implementation capabilities due to a lack of integration across units, and thus potentially incurring the costs of duplication and fragmentation. If the available capabilities in the senior leadership team are not fully recognised by all team members, it is likely that the firm may struggle to exploit higher order firm-specific advantages such as routines and recombination opportunities (Verbeke, 2017). At a mid-range level of cognitive distribution, teams are likely to have the capabilities required to develop a reasonable level of mutual understanding – generating a certain level of knowledge sharing and idea generation. However, if the level of cognitive distribution rises to an excessive degree (i.e., moving towards the lower-right quadrant of Figure 2.1), it is likely that the team will be populated by a majority of generalists and lack the knowledge depth and specialisation required

to excel in the exploration of new ideas combined with a lack of mutual knowledge recognition at low levels of behavioural integration. Furthermore, in the early formations of a team (i.e., at low levels of behavioural integration), different backgrounds may often have a disruptive effect on team processes and outcomes, resulting in lower performance (Watson, Kumar, & Michaelson, 1993). Such teams are therefore more likely to experience fragmentation and excessive focus on exploration and discovery, whereby capital is likely to be invested in outputs that often fail to produce the projected benefits (Gibson & Birkinshaw, 2004).

2.2.1.4 Agile team (medium distributed cognition-medium behavioural integration)

Senior leadership teams with a moderate level of behavioural integration combined with a mid-range distribution of knowledge backgrounds are arguably endowed with an optimal set of conditions to be agile and achieve high performance by simultaneously utilising independent knowledge and transactive memory. Under these conditions, team members collectively possess broad knowledge and a wide range of expert capabilities, whilst the individuals also have a clear understanding of how to match key tasks and responsibilities to the knowledge and expertise of their colleagues (Zhang et al., 2007). Hence, the team will have access to a variety of skills and capabilities both within and between team members as well as in the wider external environment (Brandon & Hollingshead, 2004). This provides a strong platform for strategic agility – enabling the firm to focus on exploration and exploitation strategies simultaneously, as team members have both the requisite variety of knowledge and the integrative capacity to consolidate the knowledge variety in an effective way (García-Granero, Fernández-Mesa, Jansen, & Vega-Jurado, 2018). This also paves the way for team-level ambidexterity and enhances the firm's strategic agility through strong dynamic capabilities (Argote & Ren, 2012; Teece, Pisano, & Shuen, 1997). We therefore expect the combination of behavioural integration (Halevi et al., 2015) and distributed cognition (Heavey & Simsek, 2017) to spur the development of transactive memory in the senior leadership team and thereby enable strategic agility.

2.2.2 Maintaining an agile team:

Even if a senior leadership team has reached an optimal combination of behavioural integration and distributed cognition, it is likely to experience the challenge of remaining in the central quadrant over time. Teams that remain unchanged are likely to move towards the upper-central quadrant (see Figure 2.1) and experience diminishing or negative returns to

behavioural integration as team longevity may begin to foster groupthink and inertia (Janis, 1991). Skilton & Dooley (2010) show how repeated interactions on similar tasks can be a drain on motivation and inspiration, leading to less creative solutions, and potentially promoting strategic conformity (Cohen & Bailey, 1997). To avoid such developments, it is important to continuously effectuate changes in senior leadership team composition to spark new vantage points and bring in additional knowledge that will drive the exploration of new opportunities and strengthen renewal processes (Heavey & Simsek, 2017). However, excessive levels of change and team renewal can equally be of concern, as an influx of new team members will typically reset the clock on behavioural integration (unless the same team members have previously worked together), in which case teams are likely to drift towards the bottom-centre quadrant (see Figure 2.1) and struggle to take advantage of the team's inherent capabilities and extended network (Jackson, 1992; Messersmith et al., 2014).

At the same time, in the process of making changes to the senior leadership team, it is important to be mindful of how the changes will affect the level of cognitive distribution in the team. Otherwise, the team may inadvertently drift towards excessive or insufficient levels of cognitive distribution, and thus potentially distort the balance between knowledge depth and variety – either leading to sub-optimal levels of coalescence or fragmentation (Chatman & Flynn, 2001). Creating a strong platform for strategic agility through the senior leadership team is therefore an ongoing process that requires careful attention to the hiring and replacement of senior leaders over time.

In the case of high behavioural integration combined with high cognitive distribution, we argue that the senior leadership team can be 'conditionally effective' in this quadrant, i.e. only if there is a strong symbiosis across the two dimensions. Whilst the default position of a close-knit team of extreme generalists is unlikely to provide agile leadership, it is conceivable that a team of generalists possess high levels of complementary knowledge and cognitive variety and that the effective utilisation of such varied backgrounds is preconditioned on the notion of high behavioural integration. However, this is likely to be a condition that holds only in exceptional cases, whereas in the majority of cases the combination of high behavioural integration and high distributed cognition is likely to produce a combination of conformity and fragmentation that is detrimental to strategic agility.

Drawing on our framework (see Figure 2.1) connecting behavioural integration and distributed cognition in senior leadership teams, we aim to provide an integrated understanding

of how different senior leadership team configurations are likely to facilitate or impede the pursuit of strategic agility in organisations. Whilst it is beyond the scope of this chapter to formally test a set of hypotheses, we believe that a useful initial assessment of the framework can be achieved by mapping out empirical data from the world's largest firms to present a set of key consolidated trends, global comparisons, and selected case examples. The next section first outlines the parameters that we have used to capture the key constructs outlined above, followed by a discussion of key trends and developments that we observe in our empirical data.

2.3 Methodology

2.3.1Data

Our empirical observations are based on an exploration of trends and developments in the composition of senior leadership teams at Fortune Global 500 firms during the period from 2010 to 2020. Employing this data set allows us to study large and successful firms, whilst also considering relevant cultural aspects and home market differences that may influence senior leadership team composition and shape firm strategies. By adopting a multi-country perspective, we are able to consider a multitude of different contexts, albeit with a primary focus on large firms. Specifically, our data comprises the firms listed in the 2019 edition of the Fortune Global 500 list, ranking the largest companies in the world by revenue (Fortune, 2019). Information on the senior leadership teams was sourced from the BoardEx database, using the *Organisation – Composition of Officers, Directors and Senior Managers* in all four modules (i.e., North America, Europe, UK and Rest of the World). Independent (non-executive) directors were excluded to ensure that we only capture the senior leaders. The data contains information on the extended senior leadership team, thus largely capturing the CEO and direct reports in line with the extant TMT literature (Carpenter, Geletkancz, & Sanders, 2004). Information was gathered for all years between 2010 and 2020, however, in our analyses, we have primarily assigned weight to the first and the last year of the study period to illustrate major trends and developments over time. Our data contains extensive information on the background of the senior leadership team members, including their education and functional experience. Some companies had to be left out due to lack of data availability – most notably many firms that are private or state-owned do not provide sufficient data. The final data set includes complete information on 425 firms (out of the original 500) in the year 2020.

2.3.2 Metrics

The two key metrics aligning to our conceptual framework are (1) tenure overlap, employed as a measure of behavioural integration, and (2) average intrapersonal functional diversity, representing the level of distributed cognition.

Tenure overlap impacts the interactions of the team, as time spent together alters knowledge and behaviour (Harrison, Price, Gavin, & Florey, 2002). While the relationship between time spent together and behavioural integration is not necessarily linear (Grijalva, Maynes, Badura, & Whiting, 2020) we consider tenure overlap to be a reasonable proxy for the level of team integration, whilst recognising the possibility of diminishing returns from increasing tenure overlap. We measure tenure overlap following Carroll and Harrison (1998):

$$TLAP = \frac{1}{N^2}\sum_{i \neq j} \min\,(u_i u_j) \qquad [2.1]$$

where N is the team size and u_i is the *i*th member's tenure. Note that this is an adaptation of Carroll and Harrison's (1998) original metric, introducing a squared denominator to account for diminishing interactions per member as the team size increases (Finkelstein et al., 2009; Shaw, 1981; Tsui et al., 1992). In testing the validity of this measure, it remains significantly correlated with the original measure, however, it is not strongly correlated with team size[5]. By accounting for team size in this way we also ensure that our behavioural integration metric is aligned with the importance of task interdependence in achieving TMS (Brandon & Hollingshead, 2004; Zhang et al., 2007). To enhance comparability, we normalised the measure on a scale from 0 to 1.

To capture distributed cognition, we first employ an adaptation of Blau's (1977) index to measure intrapersonal functional diversity at the individual level based on the functional experience of individual team members clustered into 11 different functional categories (Bunderson & Sutcliffe, 2002; Cannella, Park, & Lee, 2008; Georgakakis, Greve, & Ruigrok, 2017)[6]:

[5] The original tenure overlap correlation coefficient with team size is 0.9065. The adjusted tenure overlap correlation coefficient with team size is 0.1379. The correlation between the original and adjusted tenure overlap measures is 0.4104.

[6] The original measure contains 10 different categories, but with the change towards increasing digitalisation, we include an 11th category for information technology.

$$B = [1 - \sum (p_i)^2] \qquad [2.2]$$

where p is the percentage of time spent by the *i*th member in a specific function. We compute the individual metric for each team member and then calculate the average intrapersonal diversity of the team as a proxy for distributed cognition.

To provide additional insights, we computed several alternative metrics to observe other aspects of team composition that may potentially shape TMS formation over time. Distributed cognition based on international experience (as opposed to functional experience) was captured using the same intrapersonal diversity measure, replacing the time spent in different functions with the time spent in different countries. Furthermore, we captured the percentage of women, role tenure, network size, and educational background as other indicators relevant to our framework. Network size is measured based on the number of board positions and formal roles that senior leaders of a focal firm hold in other firms and organisations. To capture educational backgrounds, a measure of the highest degree obtained was computed ranging from no degree (0) to doctoral degree (5) in line with Pegels, Song and Yang (2000) and averaged at the team-level. Furthermore, a series of dummies identify whether a senior leader has completed: 1) MBA, 2) finance education, 3) executive education (non-MBA), and 4) law degree.

2.4 Senior leadership characteristics and strategic agility at Fortune 500 Global firms

We find that over the 10-year period from 2010 to 2020 there are notable developments in the appearance and composition of senior leadership teams at Fortune Global 500 firms that may affect (or be affected by) their increasing need to be ambidextrous, nimble, and agile. In the following, we break down our data by functions and characteristics, by geographic region, by industry, and by highlighting specific illustrative case examples to shed light on how senior leadership team constellations supporting strategic agility emerge over time.

First, trends observed at global level 10 years apart show how senior leadership team characteristics and functions are changing in response to an increasingly complex and dynamic environment. Second, observations by geographic region show how team characteristics emerge gradually and asymmetrically in different parts of the world, thus corroborating the

notion that regional differences persist among the largest multinational enterprises (Rugman & Verbeke, 2004). Finally, differences between industries and sectors are highlighted by observing industry trends and specific case examples, thus outlining how industry differences interact with the composition of senior leadership teams (Ruigrok et al., 2013). Our selection of case examples serves to cross-validate the impact of behavioural integration and distributed cognition towards developing a high quality TMS and reap the benefits of strategic agility.

2.4.1 Overall trends

As shown in the strategic leadership literature, the traits and characteristics of top managers matter for their impact on business outcomes (Blagoeva, Mom, Jansen, & George, 2019). The literature distinguishes different types of traits, such as deep-level versus surface-level characteristics, and show that they have varying degrees of impact on organisational outcomes (Harrison et al., 2002). Some of the most commonly employed characteristics that are relevant to this study are outlined in Table 2.1.

Measure	**2010**	**2020**
Functional experience diversity (mean)	.3943	.3979[7]
International experience diversity (mean)	.1258	.1344[8]
Percentage women	15.81	21.94
Role tenure (mean)	3.1 years	4.1 years
Network size (mean)[9]	1451	1306

Table 2.1 Selected characteristics of Fortune Global 500 senior leadership teams (2010 & 2020)

[7] Insignificant difference (t: 0.8844, p: 0.2312, df: 26289.4) – Specified using Welch's technique for unequal variance.
[8] Significant difference (t: -3.3508, p: 0.0008, df: 26335) – Specified based on Welch's technique.
[9] Network size is based on all connections and individual have with other top managers/directors through spending time together in firms, education and other activities. Based on BoardEx data.

2.4.1.1 Functional experience diversity

Functional experience diversity is one of the most widely used metrics to capture cognitive distribution in senior leadership team (Bunderson & Sutcliffe, 2002). Higher intrapersonal diversity is *inter alia* associated with greater information-processing capacity, creativity, and open-mindedness, which have the potential to raise team performance – particularly in the context of high uncertainty (Cannella et al., 2008). If team members have a broad perspective based on a diverse functional background they are likely to communicate more effectively (Buyl et al., 2011), whereas teams built around functional specialists have rather been found to hamper communication within the team (Bunderson & Sutcliffe, 2002). Hence, it is desirable that average intrapersonal diversity is high, not only to achieve a high level of cognitive distribution, but also because it can support behavioural integration.

Between 2010 to 2020, we observe a small increase in the mean level of intrapersonal functional diversity, suggesting that the functional backgrounds of senior leaders have become slightly more diverse over time. This suggests that the firms in our study have continued to seek a relatively high level of cognitive distribution in senior leadership teams throughout the observation period, however, there is no significant increase in function-based cognitive diversity on a global scale. These observations also align with other recent work suggesting that there is an optimal mid-range level of cognitive variety for senior leaders (Mueller et al., 2021).

2.4.1.2 International experience diversity

Between 2010 and 2020 we observe a significant increase in the level of international experience diversity. Working in different countries enables managers to handle uncertainty, process a variety of information, coordinate complex activities, and effectively distribute resources across locations (Carpenter, Sanders, & Gregersen, 2001; Daily, Certo, & Dalton, 2000; Georgakakis et al., 2017; Sambharya, 1996), as well as providing more complex decision-making schematics (Maitland & Sammartino, 2015a), leading to faster and more accurate decisions. As we are focusing on the largest firms in the world, all but a few of these firms have large international operations, making international experience a desirable quality that is likely to foster strategic agility at the focal firms. International experience can thus be considered as an alternative way of capturing distributed cognition, albeit with a different focus. Whereas functional diversity is primarily associated with the development of new processes, products, and services, international experience is related to new market

development and adaptation, for example through experiential knowledge accumulated from working in different countries (Vahlne & Johanson, 2020).

Whilst the diversity of international experience has significantly increased, a breakdown by region reveals a slightly more nuanced picture. Most notably, senior leaders at US firms have more diverse international experience backgrounds than ten years ago, whilst we observe a decrease in international experience diversity among senior leaders at European firms and no discernible change at firms from the Asia-Pacific region. At the same time, it is important to note that senior leaders at European firms remain well ahead of the other regions in terms of international experience backgrounds. One key reason for regional differences in the international experience profiles of senior leadership teams is likely to be the smaller size of home markets in Europe (Ruigrok & Greve, 2008) relative to the Americas (dominated by the US) and Asia-Pacific (dominated by China). With smaller home markets, greater international operations are needed to become a Fortune Global 500 firm, and international experience in the senior leadership team is positively associated with international diversification (Greve, Nielsen, & Ruigrok, 2009; Herrmann & Datta, 2005) and performance (Tasheva & Nielsen, 2022).

Overall, we note that the largest firms in the world are seeking to increase the diversity of international experience rather than the diversity of functional experience in their senior leadership ranks. Looking at the past decade, it is particularly notable that the internationalisation of senior leadership teams has persisted, albeit somewhat gradually and unevenly, during a period characterised by significant turmoil in global politics and a challenging environment for international trade relations (Ghemawat & Altman, 2019). It appears that senior leaders at large global firms are less affected by such trends as they continue to pursue increasingly diverse international careers. This also corroborates notions from executive cognition theory showing how the distance between markets is increasing and the international experience of senior leaders is important in bridging the resulting gaps (Rickley, 2019).

2.4.1.3 Percentage of women

The ‘glass ceiling’ literature shows how it is typically harder for women to reach the highest ranks of senior leadership (Glass & Cook, 2016; Ng & Sears, 2017), resulting in a persistently unequal gender distribution in the upper echelons of large firms. However, the literature also shows that firms can benefit from having a more equal gender distribution, for

example by taking advantage of differences in viewpoints and risk-taking propensities (Barber et al., 2001), resulting in higher decision quality (Kark & Eagly, 2010). The significant increase from 2010 to 2020, as observed in Table 2.1, is likely to derive from a combination of institutional and stakeholder pressures as well as firms realising the benefits of hiring more women in senior leadership position. Whilst the 10-year observed change from 15.8% to 21.9% must still be regarded as an incremental increase rather than a radical shift, these figures provide some emerging evidence that the world's largest firms are gradually moving away from a 'token' approach to women in senior leadership positions (Kanter, 1993).

At the regional level, we observe an increase in the proportion of women across all three major regions. Notably, the highest proportion of women is found in the Americas, particularly driven by a 27.9% representation of women in senior leadership positions in the US. An overall increase of women in senior leadership positions can potentially add another dimension of distributed cognition, for example manifested in a reduction of groupthink, stronger risk management, and higher quality decision-making – with a resulting positive impact on strategic agility.

2.4.1.4 Role tenure

Average role tenure captures the commitment between firms and their senior leaders and is indicative of how long senior leaders tend to stay in their roles before they move on. From 2010 to 2020 the data reveals a significant increase in the average time that senior leaders spend in their roles. This can either reflect that it takes longer to move on to the next career step or that firms are more committed to their senior leaders than they were in the past.

The difference from 2010 to 2020 could also potentially reflect that the period leading up to 2010 was particularly turbulent, whereas the years leading up to 2020 were relatively more stable. Around 2010, the uncertainty associated with the financial crisis led to significant changes in the senior leadership of many large firms around the world (Doms & zu Knyphausen-Aufseß, 2014). This is likely to have had an impact on average role tenure at the start of our observation period, as many new managers entered senior leadership roles as part of the restructuring processes triggered by the financial crisis. Whilst there may be pros and cons of differences in average role tenure (Karaevli, 2007), the changes from 2010 to 2020 are noticeable and may indicate that senior leaders are increasingly given time to settle and perform in their roles. This can improve TMS by providing opportunities to obtain an in-depth

understanding of the strengths of other senior leadership team members and develop shared mental models over time. Thus, higher average role tenure can potentially help to overcome the challenges of dissimilarity in knowledge foundations between members of a senior leadership team (Harrison et al., 2002).

2.4.1.5 Networks

While networks constitute a key resource for senior leaders and are widely regarded as crucial to the success of large firms (Fernandez & Weinberg, 1997; Nielsen, 2009), our data shows evidence of decreasing average network size between 2010 and 2020 (see Table 2.1). This suggests either that the impact of networks may be diminishing or that large networks are becoming harder to sustain. We offer three possible and complementary explanations for the observed decrease in network size. First, while 'who you know' remains important, 'what you know' is increasingly becoming the key differentiator (Huffman & Torres, 2002). With rising complexity, the importance of capable senior leaders increases and factors such as education and experience become more prevalent (Hambrick et al., 2005). Second, the rise of social media platforms such as LinkedIn is changing how networks function. The most crucial player in a network is the 'connector' (Gladwell, 2000) or 'node' (Burt, 1992), i.e. an individual that connects across multiple networks of connected individuals – and with the advent of professional social media platforms such connectors may be easier to reach, thus diminishing the need for large and complex networks. Evidence from Khattab, van Knippenberg, Pieterse and Hernandez (2020) shows how the utilisation of existing network ties is key to leadership advancement; thus, aspiring senior leaders are more likely to focus on building dense networks with few close ties rather than vast network expansion. Third, there are increasing responsibilities and task demands associated with corporate board seats (Datta, Musteen, & Herrmann, 2009), therefore, senior leaders are rather inclined to take on fewer external board roles, which previously would have produced more extensive networks. This can also be linked to the focus on avoiding excessive board interlocks to ensure that outside directors are genuinely independent (Brass, Galaskiewicz, Greve, & Tsai, 2004). The diminishing average size of external networks is likely to raise the need for a well-functioning TMS and a focus on being strategically agile, as large firms are unable to rely to the same extent on their external networks as a safety net in the case of rapid and unpredictable changes in the external context of the firm.

2.4.1.6 Education

Education contributes to the early formation of knowledge networks, whilst also being a potential source of distributed cognition based on the variety and depth of knowledge acquired through educational experiences (Wally & Baum, 1994). Education is therefore considered as a key driver of innovation – whether it is derived from senior leadership or middle management level (Schubert & Tavassoli, 2020). Table 2.2 reveals some notable changes to the educational landscape amongst senior leaders. First, statistical testing reveals a significant ($p<0.05$) increase in the 'highest degree' metric, suggesting that senior leaders, on average, were more highly educated in 2020 than in 2010. It is worth noting that the overall trend may be affected by general inflation of educational attainment over time (Hambrick & Mason, 1984; Morgan, 2021).

When further breaking down the findings, the picture becomes more nuanced. For MBA degrees and financial education, we do not detect any significant change. Both types of education appear to remain important entry paths to senior leadership roles. The marginally significant decrease in executive education degrees may be at least partially related to the diminishing pool of senior leaders without prior educational degrees – thus potentially lowering the need for existing executives to attend executive education programmes. We observe a marginally significant increase in senior leaders with law degrees. This may at least partially be a reflection of the complexity facing large firms operating across a multitude of regulatory regimes and jurisdictions, as well as the introduction of complex domestic and international corporate regulations such as Sarbanes-Oxley and the Basel Accords (for financial institutions). Overall, this means that large firms face greater legal complexity than they did one or two decades ago.

- Measure	Pearson chi^2	Probability (p-value)	Direction
MBA degree	0.0115	0.915	-
Finance education	1.6381	0.201	-
Executive education (non-MBA)	3.2770	0.070	Decrease
Law degree	3.5641	0.059	Increase
Highest degree	11.5468	0.021	Increase

Table 2.2 Senior leaders' education (differences from 2010 to 2020)

2.4.2 Strategic agility in senior leadership teams: Regional differences and trends

We started by clustering all firms on the Fortune Global 500 list into three broad regions; the Americas, Asia-Pacific (APAC), and Europe based on the location of their corporate headquarters. All firms in our study fell into one of the three regional clusters. In Figures 2.2 and 2.3, each dot in the scatterplot represents one company, showing their proxied levels of behavioural integration (measured as tenure overlap) and distributed cognition (measured as average intrapersonal functional diversity). Figure 2.2 shows that in 2010, tenure overlap was relatively concentrated for the vast majority of firms, whereas there was a greater spread of cognitive diversity – with the highest levels of cognitive diversity found at European firms.

Figure 2.3 shows the same data for 2020 with a few observable changes, most notably that there is a lower spread of cognitive distribution across all three regions. While European firms still seem to have the most functionally diverse backgrounds in their senior leadership teams, firms from the Americas and APAC appear to be catching up. This suggests that firms from across the world are increasingly recognising the importance of cognitive diversity at senior leadership level to build strategic agility. The Fortune Global 500 list is updated every year and one of the most prominent patterns over the last decade is the increasing number of Asian (particularly Chinese) firms on the list (Murray & Meyer, 2020). Many of the Chinese firms that have entered the list in the last decade were not as large and international in 2010 as they are today, and therefore may not have had the same need for distributed cognition until more recently. Overall, the changes from 2010 to 2020 point towards stronger combinations of behavioural integration and distributed cognition in senior leadership teams, potentially increasing the utilisation of TMS to develop strategic agility. The next section explores these observations in further detail by region.

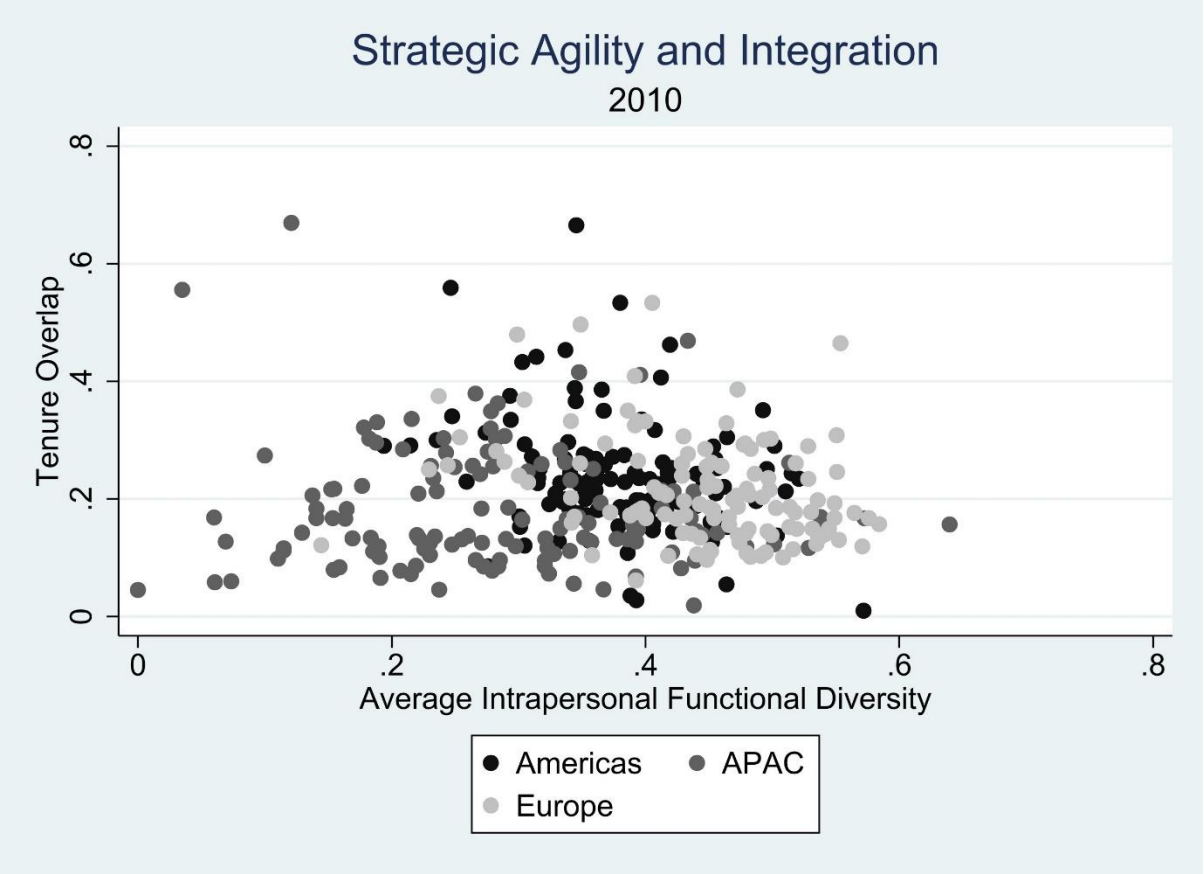

Figure 2.2 Strategic agility and behavioural integration 2010

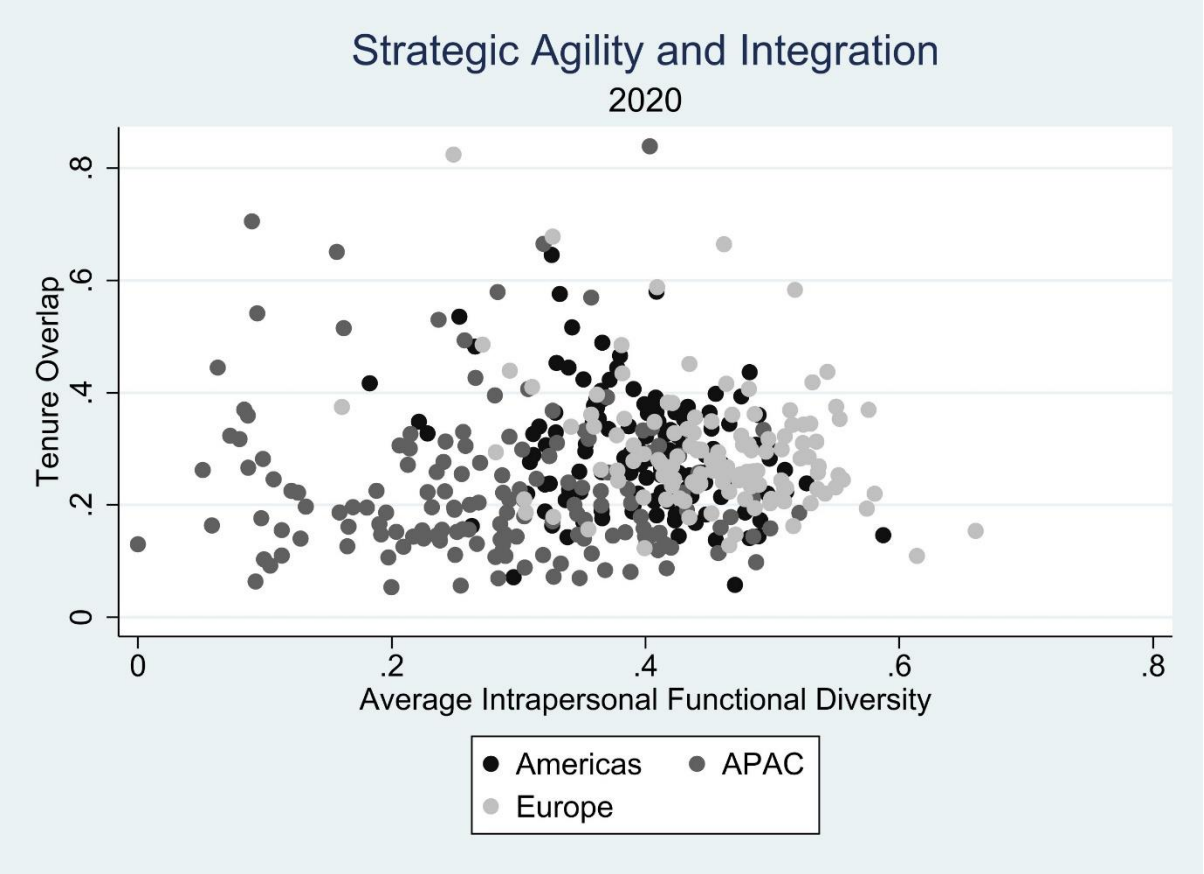

Figure 2.3 Strategic agility and behavioural integration 2020

2.4.2.1 Americas

The Americas region is heavily dominated by the US, with more than 80% of firms from the Americas region being US firms in 2020. As shown in figure 2.4, the non-US firms are largely similar to the US firms in this region. One key observation is the narrow distribution of functional background diversity with a lower spread than in other regions. An important reason for this may be found in the dominant US market and the fierce competition in the US market itself – which is likely to promote isomorphism and foster the emergence of a narrow range of dominant senior leadership profiles. However, even if the emergence of a dominant type of senior leadership profile may be detrimental in some ways (Hambrick & D'Aveni, 1992), most large and successful firms are likely to be capable of reasonably effective senior leadership renewal. This is broadly supported by our observation that a vast majority of firms appear to have the senior leadership characteristics in place to support a strong TMS in line with our framework. Comparing Figure 2.4 with Figure 2.3, it is evident that many firms from the Americas region are likely to be in a strong position to benefit from behavioural integration and distributed cognition as a platform for a well-functioning TMS, albeit provided that they avoid straying into the excessive (unproductive) levels of integration and cognitive variety found at the upper end of each scale.

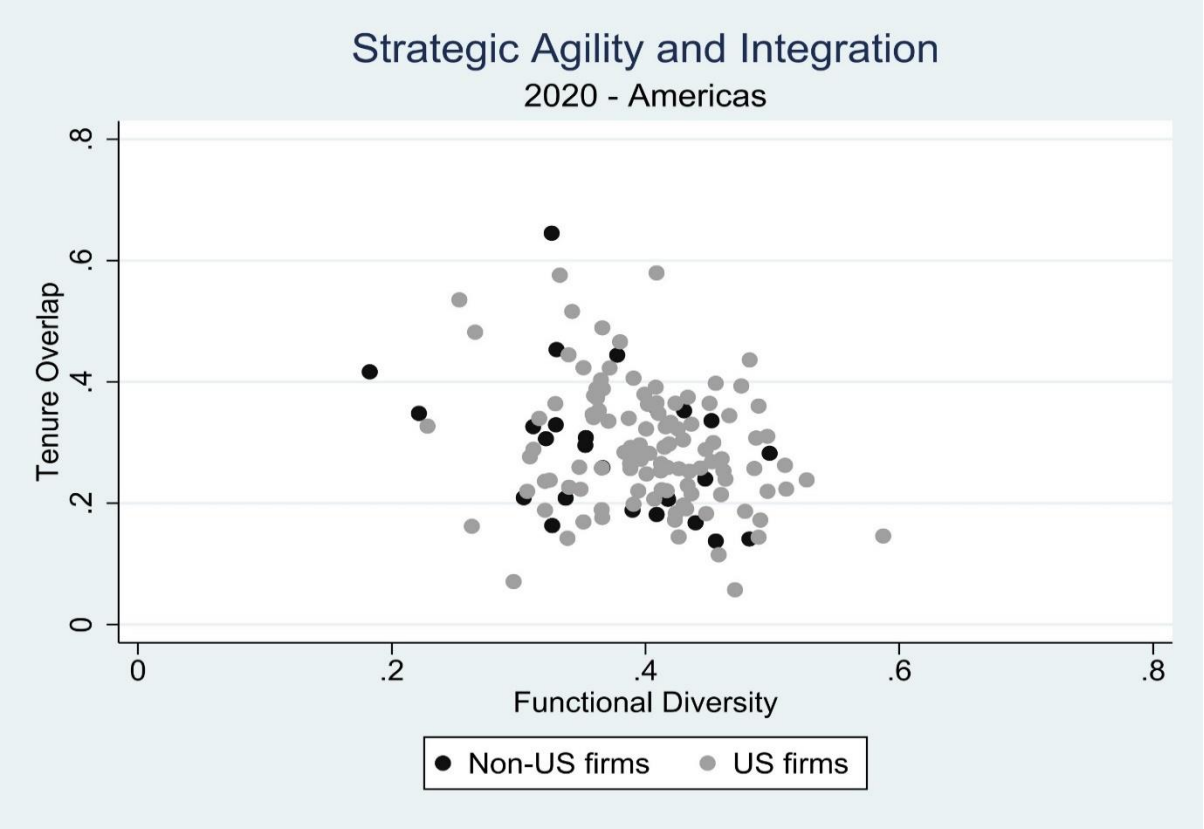

Figure 2.4 Strategic agility – Americas

2.4.2.2 Europe

The European firms in the Fortune Global 500 are dominated by France and Germany with around 22% of the firms each, followed by the UK with 13%. Figure 2.5 shows how firms from the largest countries are at the high end of the cognitive diversity spectrum compared to firms from the rest of Europe. Comparing with the Americas, the average level of functional diversity is higher in Europe, albeit with a larger spread. As noted earlier, European firms also have a notably higher level of international experience diversity, corroborating the notion that European firms may have a greater need for opportunity-seeking capabilities to reach the size and scale of Fortune Global 500 firms. Many large European firms originate in relatively small home markets; hence they have a relatively greater dependence on international operations for growth and prosperity (Greve et al., 2009). Again, we observe that a large proportion of European firms have senior leadership teams that are well-positioned to develop a strong TMS through a combination of distributed cognition and behavioural integration.

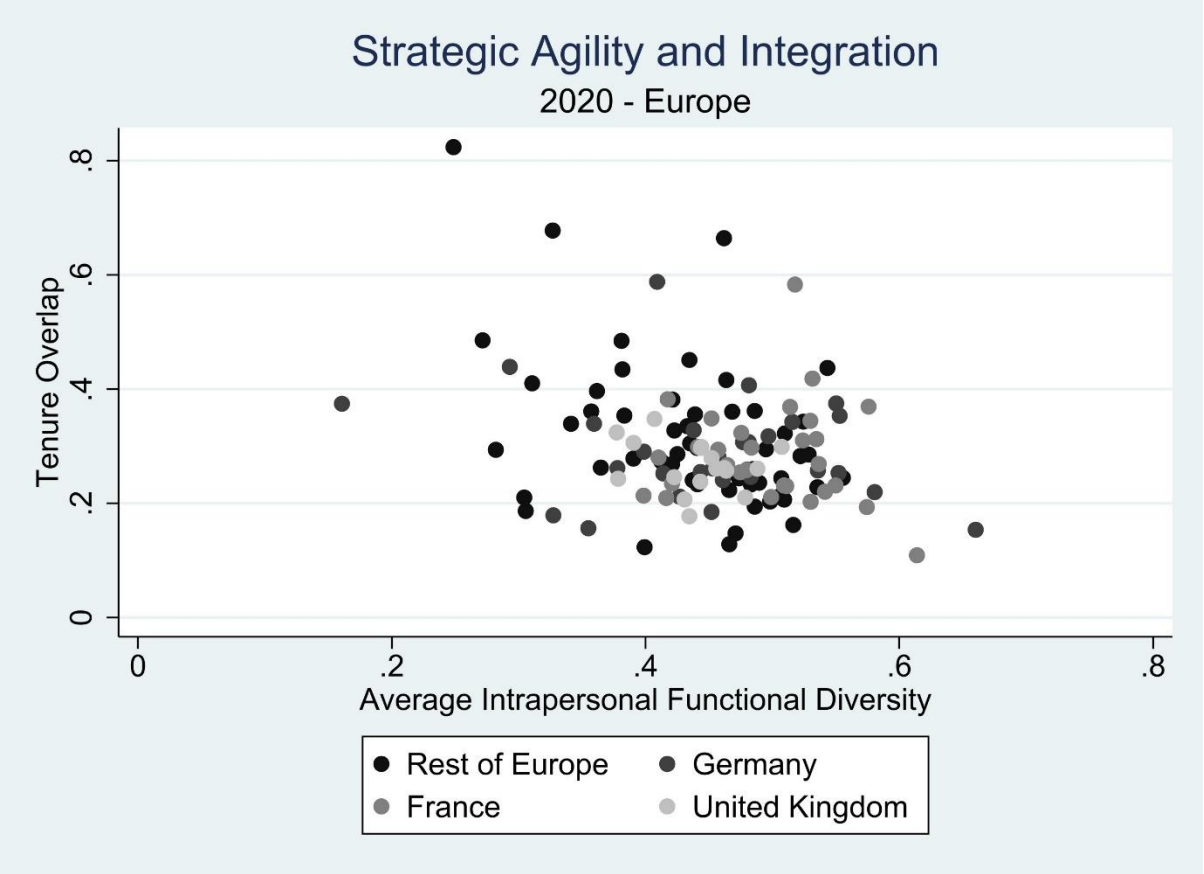

Figure 2.5 Strategic agility and behavioural integration - Europe

2.4.2.3 Asia-Pacific

Examining the APAC region firms in the Fortune Global 500, the highest proportion of observed firms are from Japan with about one third of the total, followed by China with just under 30% (not counting a significant number of Chinese firms that had to be omitted due to lack of data). As opposed to the Americas and Europe, the Asia-Pacific region is characterised by a high proportion of state-owned enterprises – especially in China (Lin, Lu, Zhang, & Zheng, 2020). The implication of limited data availability for many such firms is that Chinese firms are somewhat less represented in our data compared to the actual number of Chinese firms in the Fortune Global 500 list. This also means that the Chinese firms that are included in our study may not be entirely representative, as the included firms are likely to be on average somewhat more open and internationally oriented than the omitted firms (Alon, Wang, Shen, & Zhang, 2014). Nevertheless, we can observe important trends based on the available data, which also includes a number of state-owned enterprises (SOE). It is important to include the impact of SOEs as they are pivotal to development and growth in the APAC region.

Figure 2.6 shows a high concentration of firms with a relatively low level of functional experience diversity, as well as a fairly high spread. The lower levels of intra-personal functional diversity are likely to be a consequence of more rigid and hierarchical structures in senior leadership at APAC firms (Meyer, 2017). At the same time, these firms display lower average scores for tenure overlap and also a greater spread compared to the other regions. At APAC firms, many senior leaders pursue long careers within the same firm, not reaching the upper echelons until relatively late in their careers (Matanle & Matsui, 2011) and often being close to retirement when they get promoted to senior leadership roles. This may be relevant from an integration perspective, as behavioural integration with the firm during a long career may at least partially compensate for a lack of tenure overlap with other team members at the apex of the firm. We also observe a notable number of firms with very high overlapping tenure, suggesting that some senior leadership teams remain unchanged for many years. These are leadership teams that are likely to experience diminishing returns to behavioural integration, as groupthink and inertia are likely to emerge alongside a strong notion of ‘who knows what’ in the team (Janis, 1991). Finally, we observe that relatively few senior leadership teams at APAC firms appear to have a strong combination of distributed cognition and behavioural integration at the same time – suggesting either that APAC firms have less potential to be strategically agile, or, alternatively, they may find other routes to achieve innovation and

agility, building on specific cultural and structural characteristics of APAC firms that are not directly observable with the concepts and metrics employed in this study.

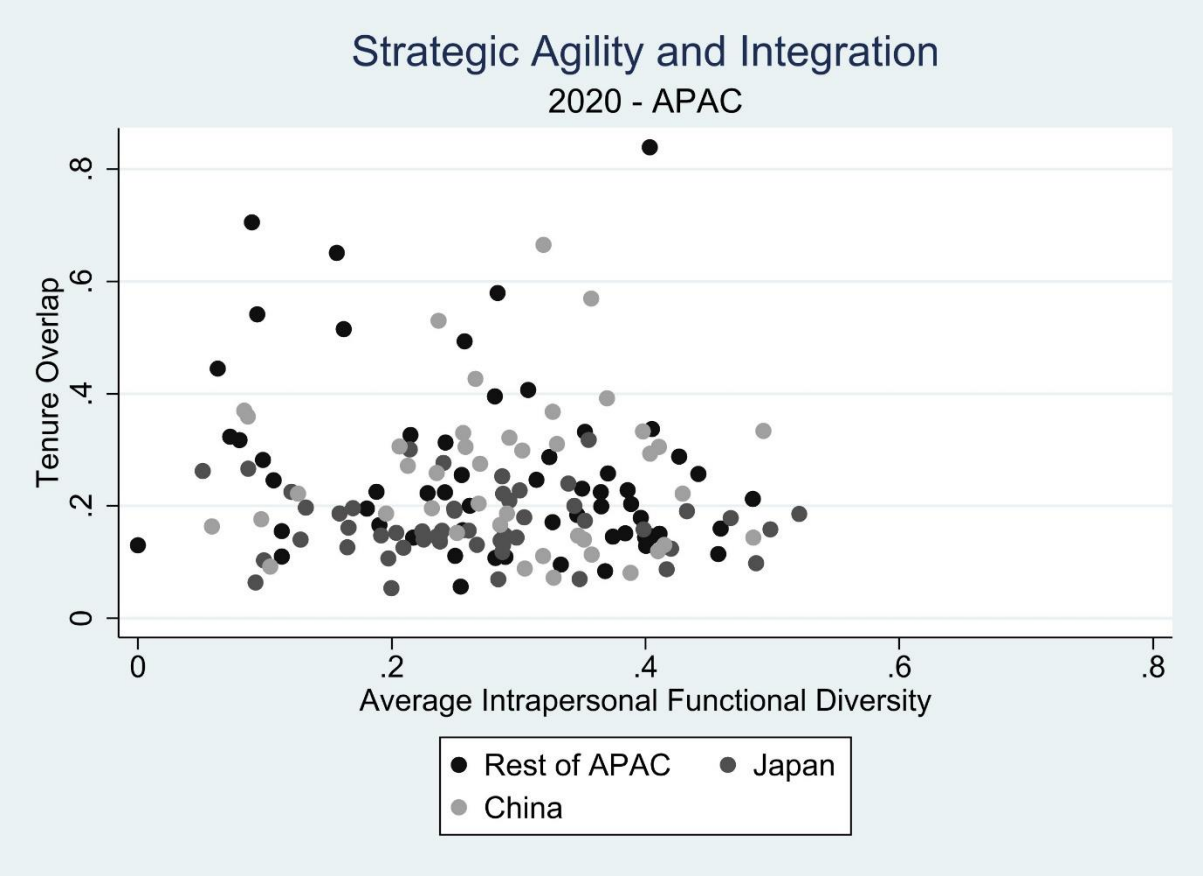

Figure 2.6 Strategic agility and behavioural integration - APAC

2.4.3Three illustrative cases of senior leadership teams and strategic agility

This section presents three illustrative cases selected from the Fortune Global 500 to show how strategic agility may evolve from behavioural integration and distributed cognition in senior leadership teams. These are firms that have recently been in the public spotlight relating to their strategic agility and that also display effective TMS in line with our conceptual framework. Based on our own empirical observations, we analyse whether and how the senior leadership is likely to play a key role in the success of the firm. By presenting a selection of firms that are widely admired in the international business community, whilst also possessing a strong TMS platform according to our data, we aim to cross-validate how behavioural integration and cognitive functional diversity matter as determinants of TMS and as antecedents of strategic agility.

2.4.3.1 Amazon

The ‘general retail’ sector makes for an interesting case in the context of this study. As an industry/sector, it has a very long history and ranges from small convenience stores to some of the largest companies in the world, including Walmart, Tesco and Carrefour. Despite the longevity and necessity of the industry, companies in this industry often operate under challenging conditions in a dynamic and disruptive environment. A key ongoing challenge is that ‘bricks and mortar’ stores are increasingly facing online competition (Lieber & Syverson, 2010). A few of the firms in the Fortune Global 500 have reached their position through an online-first approach – including Amazon and Alibaba. Particularly Amazon is an interesting case, as it is a fast-growing company and widely regarded as being highly innovative and agile (Denning, 2019).

One of the key attributes of Amazon's success is arguably its culture, including the role that leaders play in shaping the firm (Denning, 2019). Rather than focusing on individual business unit performance, the top leaders are responsible for looking holistically at the business and acting to approve short "narratives" where middle managers can submit their ideas for new units. Senior leaders at Amazon therefore need a wide knowledge base and a strong TMS to meet the requirements of their role. Figure 2.7 indicates that Amazon has the required breadth of knowledge and an overlapping tenure that complements the knowledge of ‘who knows what’ in the team. A strong TMS ensures that senior leaders are able to focus on their core functions – exemplified by Jeff Bezos having little day-to-day responsibility compared to many other CEOs and rather concentrating on the overall direction of the firm (Denning, 2018).

In their own description of the role of leaders, Amazon states that "*leaders are owners. They think long term and don't sacrifice long-term value for short-term results. They act on behalf of the entire company, beyond just their own team. They never say "that's not my job*."" (Amazon, 2021). This shows the importance of having a broad understanding of the business and indicates how Amazon has been able to take advantage of a combination of distributed cognition and behavioural integration to achieve strategic agility and high performance. If we zoom in on the composition of Amazon's senior leadership team in 2020 (see Figure 2.8), we can conclude that the company very much remains in the ‘sweet spot’ at a mid-range combination of behavioural integration and distributed cognition, even though we observe a slight decrease in tenure overlap from the 2010 observations.

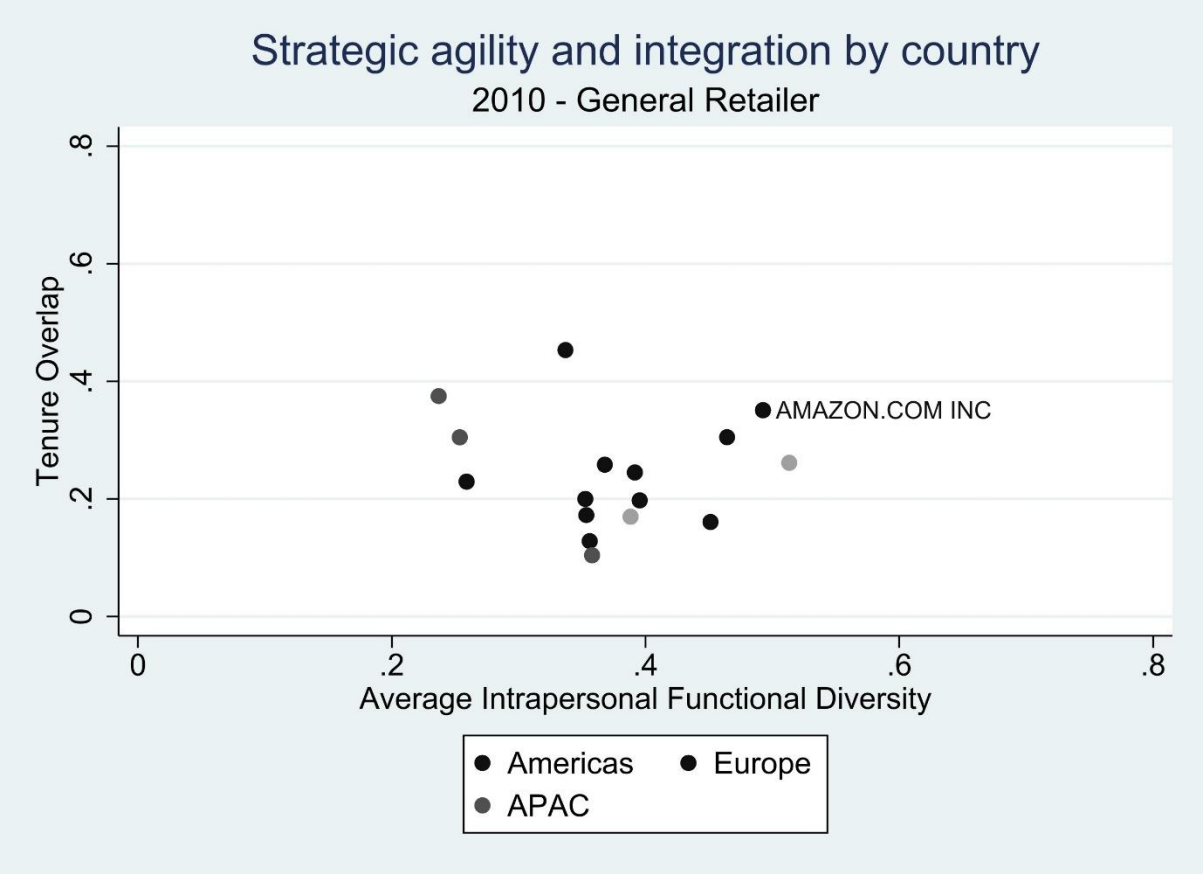

Figure 2.7 Retail industry 2010

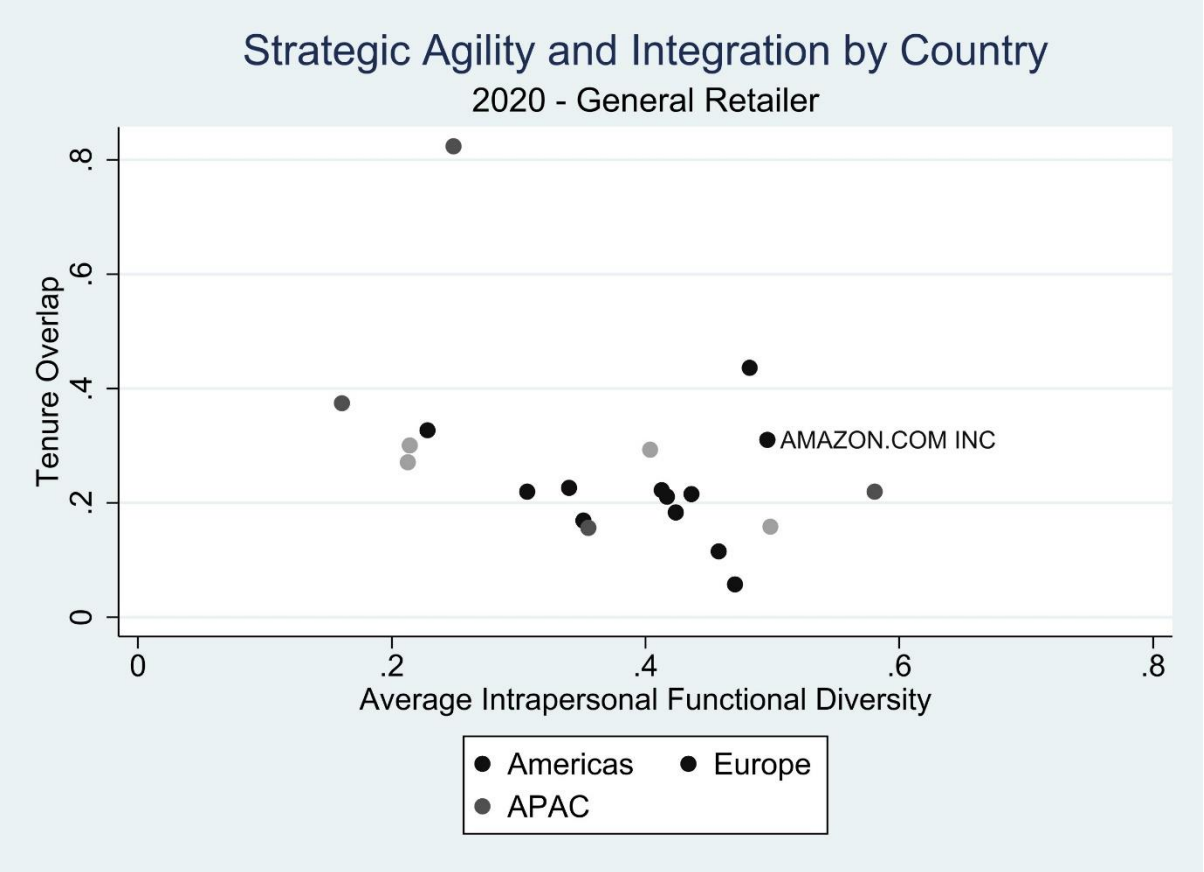

Figure 2.8 Retail industry 2020

2.4.3.2 Christian Dior

The French conglomerate Christian Dior specialises in high-end fashion and related products. The company scores relatively high on distributed cognition and behavioural integration at the same time (see Figure 2.9). The company's recent comparative success relative to its competitors is often attributed to the cumulative contribution of the firm's wide variety of segments. Particularly, the firm's ability to leverage different product types (e.g. wine & spirits, leather goods and perfumes) ensured continued high sales throughout the pandemic. Given the many different underlying brands it is unsurprising that the firm benefits from distributed cognition. Another key feature of the company's success has been its ability to change from a heavy emphasis on physical sales to an increasing focus on online sales. While many firms developed in similar ways during the pandemic (George, Lakhani, & Puranam, 2020), Christian Dior appears to have benefitted particularly from its in-depth understanding of different business units at the senior leadership level. A high level of distributed cognition allowed the company to swiftly introduce technology to develop an online business without losing sight of the value and importance of the company's existing salespeople.

In 2010 the senior leadership team already showed high levels of functional background diversity, whereas the tenure overlap has increased significantly since then. The rise in tenure overlap is likely to have been a key factor facilitating a more effective handling of the recent COVID-19 pandemic crisis, as the managers had important knowledge of 'who knows what' and, therefore, they knew where to go for specific knowledge, thus allowing for effective information-processing and knowledge sharing. It is also worth noting how the firm has relied extensively on M&A activity to achieve its recent objectives and that agility is essential in making M&A strategies succeed (Junni, Sarala, Tarba, & Weber, 2015). Overall, the case of Christian Dior illustrates that even at higher levels of behavioural integration and cognitive distribution there is significant scope for firms to manage those high levels carefully and extract the benefits of high knowledge variety and integration accordingly.

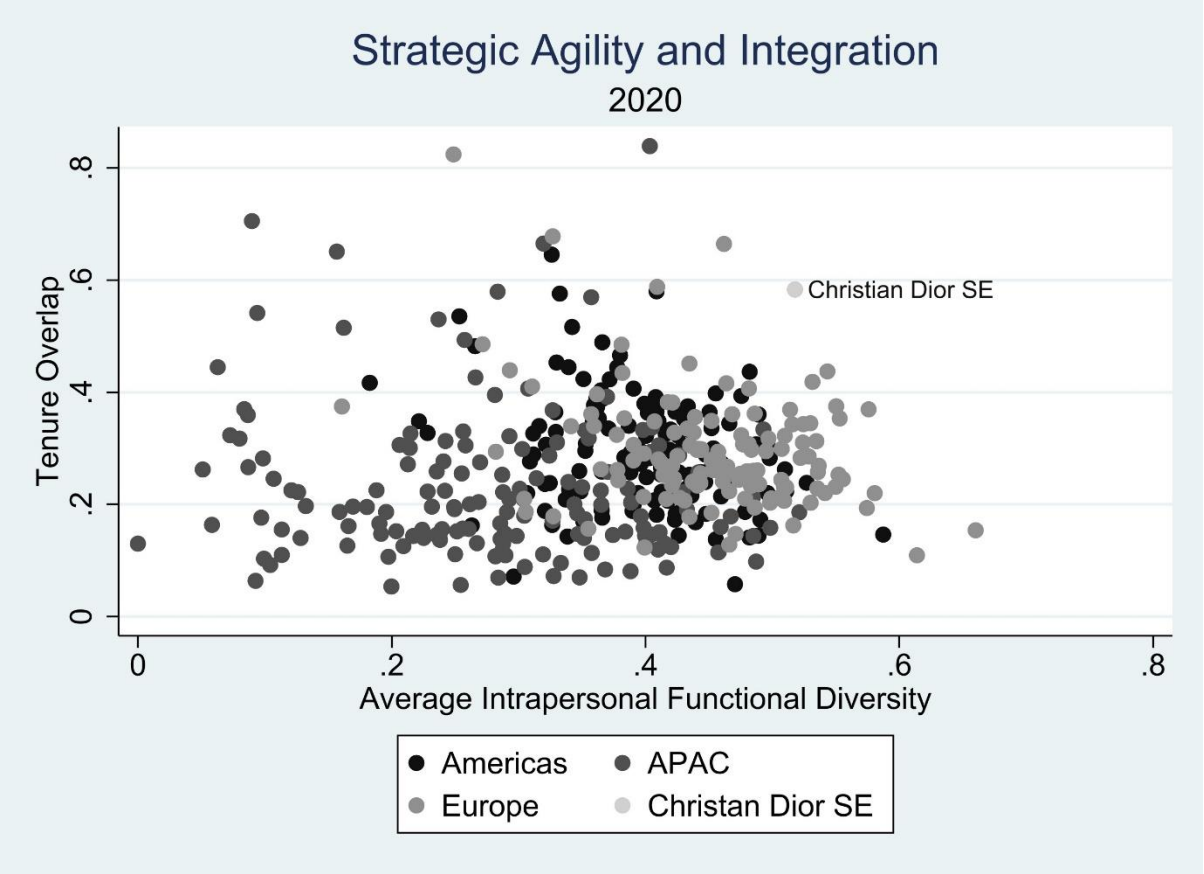

Figure 2.9 Christian Dior SE

2.4.3.3General Motors

With a rich and successful history spanning back to 1908, General Motors (GM) has in recent years experienced severe difficulties including a bankruptcy filing (Wearden, 2009) and a rescue operation that we will not cover extensively in this chapter (Bigman, 2013). The restructuring of the firm makes for an interesting case of regaining strategic agility. Figure 2.10 shows that GM had a very high level of distributed cognitions in their newly composed senior leadership team in 2010, however, due to the restructuring, most of the senior leaders were either new hires or had been given new roles, thus making the overlapping tenure very low and suggesting that the team had limited behavioural integration. The new company that came out of the restructuring was referred to as leaner and more agile (DeBord, 2019) and the success accelerated when Mary Barra became CEO in 2014. One of the new avenues explored with success was in the electrical vehicle market (Shapiro, 2021). Another success is attributed to their ability to maintain a narrower key focus and be strong in their approach to these areas (Trainer, 2020).

Turning to the senior leadership team composition in 2020 (Figure 2.11), GM is no longer an extreme case of distributed cognition without a commensurate level of behavioural integration. Overlapping tenure has significantly increased, providing the company with a platform to develop a strong TMS and an opportunity to regain strategic agility. The change aligns with the aforementioned success in creating a leaner organisation with a clear strategic focus. The case of GM shows how an effective TMS may take time to materialise following a major restructuring. In GM's case, the need to explore new opportunities prevailed and once it found this path, the firm turned to an increasing focus on more effectively exploiting the new knowledge and expertise by increasing behavioural integration.

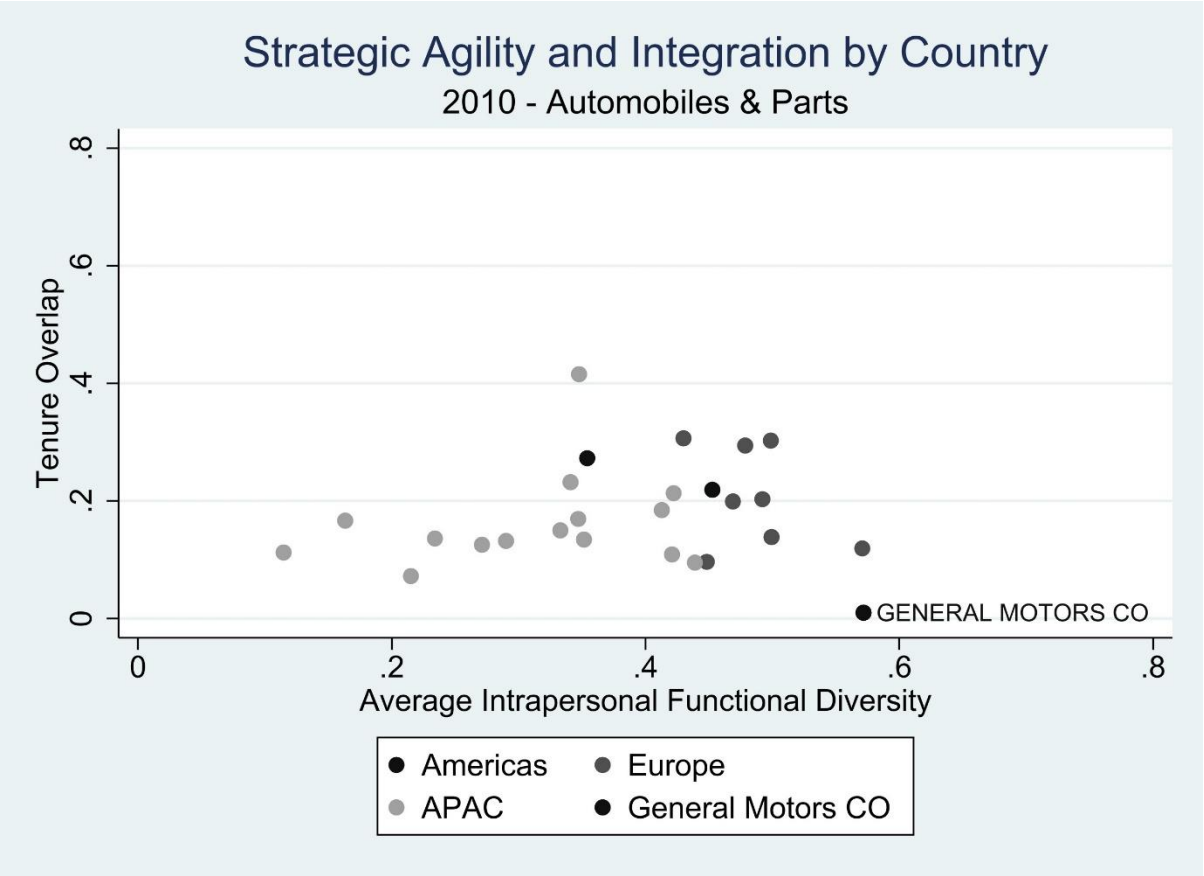

Figure 2.10 Automobile industry 2010 (General Motors)

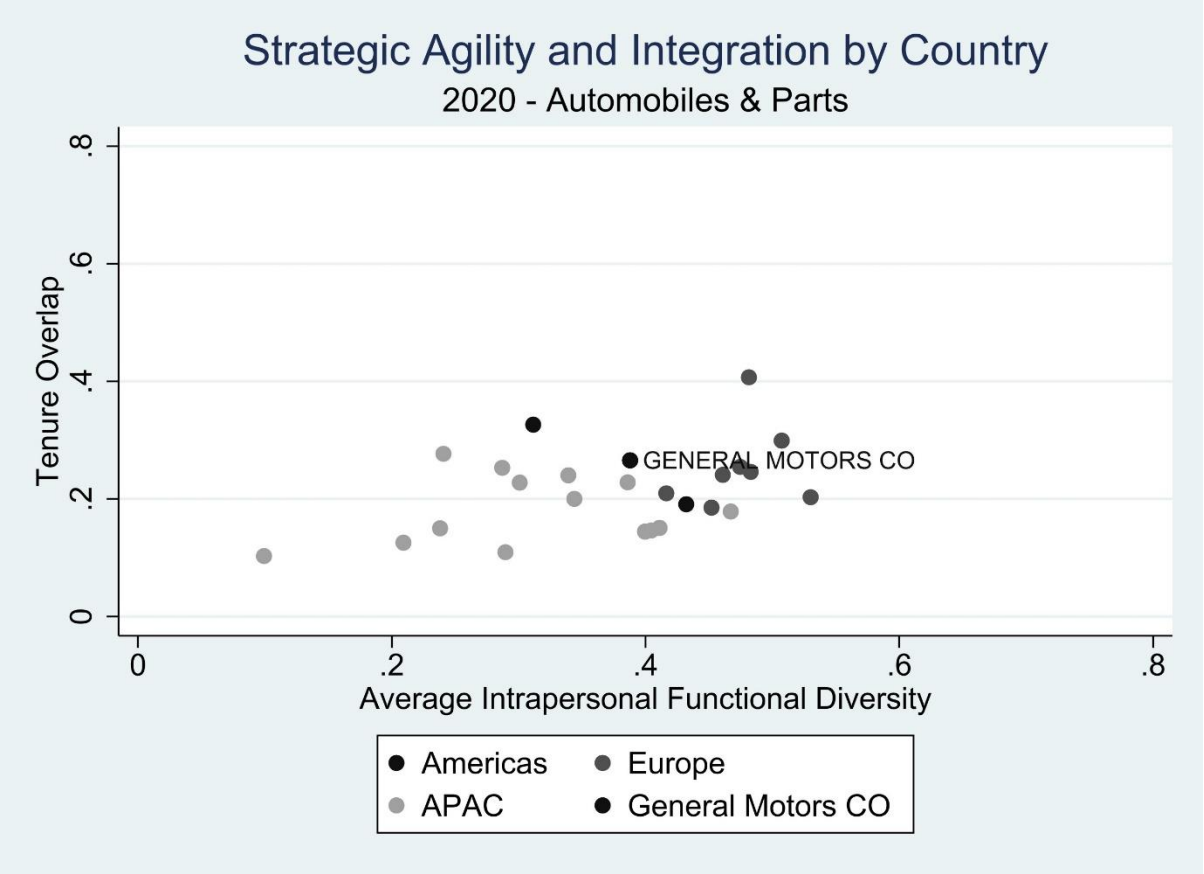

Figure 2.11 Automobile industry 2020 (General Motors)

2.5 Discussion and research directions

In this chapter, we propose a framework modelling behavioural integration and distributed cognition in senior leadership teams as combined antecedents of an effective TMS, which in turn enables strategic agility. Further, we argue that high behavioural integration without a commensurate level of distributed cognition is likely to result in an efficient and largely homogenous team, albeit lacking TMS strength (Lewis & Herndon, 2011), whereas high levels of distributed cognition without a corresponding degree of behavioural integration is likely to produce a knowledge-diverse opportunity-oriented team, albeit lacking an effective TMS due to the lack of a deep understanding of how to optimally utilise the knowledge and expertise residing in the team (Merluzzi & Phillips, 2016).

Observations from 2010 to 2020 based on a Fortune Global 500 firm data set, i.e. covering the largest firms in the world by annual revenues, show some important recent developments and regional differences in senior leadership teams that are likely to affect the emergence and effectiveness of TMS, thus shaping the foundations of strategic agility (Cao et

al., 2010). Overall trends observed between 2010 to 2020 show that behavioural integration and distributed cognition emerge gradually and unevenly. The regional differences show that whilst there are home-region based differences in the desirability of senior leadership traits, there is also some evidence of convergence towards a general need for higher levels of distributed cognition and behavioural integration.

Our observations suggest that the level of intrapersonal functional experience is a key source of distributed cognition, but also that alternative measures can give a more nuanced picture of how firms can achieve a strong TMS, such as international experience backgrounds or an increasing (albeit still limited) gender distribution within the senior leadership teams. This is particularly important given the high degree of internationalisation occurring in many of these firms (Greve et al., 2009; Tasheva & Nielsen, 2022). Regarding the second axis of our framework – behavioural integration – our data suggests that firms are increasingly recognising the importance of this element as a key foundation of becoming an agile and successful firm. Furthermore, by looking into specific firms we observe the impact that senior leadership functions have on the agility of the firm. With firms like General Motors seeking to focus on new opportunities following the initial restructuring before pivoting towards a more focused TMS is an example of the adaptations needed to make a new senior leadership team successful. By the same token, Amazon and Christian Dior provide further interesting examples of how senior leadership teams shape the foundations of strategic agility (Denning, 2018).

2.5.1 Managerial and practical implications

Top managers – and particularly CEOs – can use the knowledge derived from this chapter to develop an action plan on how to optimally configure their senior leadership team. Our theorising and observations suggest the importance of adopting a balanced approach and making optimal use of behavioural integration and cognitive distribution at moderate levels, whilst avoiding the potential negative consequences of excessive variety and integration. This is also consistent with the findings of Heavey and Simsek (2017) suggesting that different organisational experiences may be needed to optimally extract the benefits of a TMS in pursuit of strategic agility.

2.5.2 Future directions

Our framework opens up a need for validation to test how an effective TMS – based on a combination of cognitive distribution and behavioural integration – shapes strategic agility. We present different avenues for further research that align with the main arguments presented in this chapter.

First, as with much other research, contextualisation matters greatly (Samimi, Cortes, Anderson, & Herrmann, 2020). A particular context that can be interesting to study is how the composition of senior leadership teams helped firms to navigate through the COVID-19 pandemic. As shown for example in the Christian Dior case, a strong combination of distributed cognition and behavioural integration in the senior leadership team may have a significant impact on the performance and success of a firm. However, more evidence is needed and one way of doing this may be to adopt a quantitative approach and test how TMS-related senior leadership team characteristics affect firms in uncertain contexts.

In the same vein, further research is needed on other dependent variables, such as performance (Le & Kroll, 2017; Nielsen & Nielsen, 2013; Tasheva & Nielsen, 2022) and innovation (Mihalache, Jansen, Justin, & Van den Bosch, 2012; Nuruzzaman, Gaur, & Sambharya, 2018; Yeoh, 2014). By further validating the TMS concept in the context of senior leadership teams, scholars can vastly contribute to our understanding of the impact that senior leaders have on the firm (Hambrick & Mason, 1984) as well as advancing our knowledge of TMS at the same time (Wegner, 1987). The majority of research on TMS is conducted based on laboratory settings and single company surveys (Lewis et al., 2005), with notable exceptions such as Zhang et al. (2007) who use a multi company survey. The latter is likely to be a fruitful avenue alongside other data sources such as BoardEx to advance our understanding of TMS in senior leadership teams and its impact on firm outcomes.

Finally, the TMS concept presented in this paper lends itself well to the literature on composition and replacement in senior leadership teams (Barron et al., 2011; Bilgili et al., 2017). Our theorising and observations in this chapter can lead to a better understanding of the antecedents of changes in the composition of senior leadership teams. If the senior leadership team of a firm falls into one of the suboptimal quadrants of our model (see Figure 2.1), they may seek to change the composition of the team. This way, our study can help to test the antecedents of senior leadership turnover.

Chapter 3: Changing the sails to steer in the wind: Conceptualising top management succession

Abstract

Studying top management team (TMT) composition tends to be from a single-sided view, by either looking at the characteristics of entries into the TMT or at aggregate turnover levels in isolation. This paper conceptualises a framework where compositional changes in the TMT are shaped by both exits and entries of non-CEO TMT members. When both exit and entry occur, then entry into the TMT is a "replacement", meaning that treating the entry event alone will lack some information that will be provided based on the characteristics of the departing member. We provide a model of four different types of replacements – Continuity-, Minority, Reinforcement- and Disruption Replacement – and suggest contexts that can shape these replacement scenarios by utilising the *fit-drift/shift-refit* model. The types of replacement are based on looking at the new top manager's characteristics and comparing them to both the immediate predecessor and incumbent TMT. Additionally, a reflection on potential characteristics for determining 'fit' is also presented. Thus, this paper contributes to improving the understanding of the holistic TMT succession process.

3.1 Introduction

"When selecting a top replacement in a billion dollar corporation, it's no time to gamble" (Simmonds, 1966: 115)

The question of how to effectively handle the replacement of corporate top managers has for a long been a focal area of interest for academics and practitioners alike (Kesner & Sebora, 1994; O'Brien, 2022). From well-known succession scenarios like replacing Jack Welch of General Electric (Heskett, 2000), to more recent examples such as Rosalind Brewer's appointment as the new CEO of Walgreen Boots Alliance (Kowitt & Zillman, 2021), it shows that finding adequately skilled replacements is a process firms are not taking lightly. Rather, ample time, effort and large sums of money are devoted to finding the right executives, acknowledging the critical role top managers play in the success of organisations (Dewar, Hirt, & Keller, 2019; Vancil, 1987). Whilst being the focal point of attention in research, CEO replacement is not the only type of top management selection that matters greatly for the firm's success. The selection of non-CEO members into the top management team (TMT) also plays a substantial role in the firm's future success (Hambrick, 1994; Hambrick & Mason, 1984; Wiersema & Bantel, 1992). Fully comprehending the impact TMT-member selections have on firm-level measures is, thus, of utmost importance, and something strategic leadership scholars are increasingly investigating (for reviews, see Cuypers, Patel, Ertug, Li, & Cuypers, 2021; Georgakakis, Heyden, Oehmichen, & Ekanayake, 2022; Georgakakis, Wedell-Wedellsborg, Vallone, & Greve, 2022; Menz, 2012; Nielsen, 2010a; Samimi, Cortes, Anderson, & Herrmann, 2020). A core perspective highlighted in this area of research is that understanding the strength of firms is best done by looking at the resources available within the boundaries of the firm (Barney, 1991; Penrose, 1959). One such resource is the human and social capital of the managers (Becker, 1964; Halpern, 2005). The senior managers bring ample experience, values, networks and skills to pivot the firm towards success (Finkelstein & Hambrick, 1996; Prahalad & Doz, 1987).

In understanding these success factors, the context of a static TMT[10] based on various individual- and firm-level factors remain important, as it provides insights into the firms' strategic decision-making processes and performance (Hambrick & Mason, 1984). However, it is worth noting that a TMT is not perfectly stable over time (Hambrick, 1994). Instead, a TMT is a social entity that, at any specific moment in time, reflects a cross-sectional starting

[10] With static is meant a cross-sectional examination of the skills/characteristics available at any moment in time. This is the most widely used approach to studying top management teams.

point where the organisational needs and TMT members' skills fit together. From this starting point, members depart because they no longer "fit" within the TMT or firm - either at a personal level or because the firm develops new and different needs. When such a drift in fit transpires, there will often be a need for a succession, where new members replace departing individual to ensure a refitted TMT with adequate skills for the context they face. This process is consistent with what Finkelstein, Hambrick and Cannella (2009) describe as the *"fit-drift/shift-refit"* model. This paper contributes to the development of succession research by applying and extending this model to develop a 2 by 2 framework that better contextualises the holistic non-CEO TMT succession research, particularly focusing on direct replacement of one manager with another in the same role. Such a framework contributes to advancing the understanding of both the actual managerial changes in the TMT, as well as which antecedents are in place prompting the change. By providing a better understanding of different types of replacements, the paper thus provides various avenues for future research.

To best do so, a review of the extant succession research is needed. Succession research has been conducted for a long time, not just at CEO level, but also considering TMTs (Gordon & Rosen, 1981). The early stage research was typically taking a qualitative approach in the assessments of individual cases of succession (Gouldner, 1954; Guest, 1962). These early-stage papers sparked intriguing findings, including how seemingly similar successions, based on simple characteristics, can lead to drastically different outcomes. Both Gouldner (1954) and Guest (1962) investigated cases of the new CEO being brought in from outside the firm's boundaries. In the former case, the new CEO replaced a vastly popular manager, making it challenging for the new CEO to succeed. On the contrary, the latter case presents a predecessor CEO that was authoritarian and lacked emotional support. This difference provided the new outsider CEO greater latitude for action and change as he was viewed more favourably and as a better fit from the outset of appointment. These early studies were followed by research on different contextual factors shaping the succession event, including the impact of industry characteristics (Datta & Rajagopalan, 1998; Zhang & Rajagopalan, 2003), international contexts (Magnusson & Boggs, 2006; Thams, Chacar, & Wiersema, 2020) and the state of the firm (Biggs, 2004; Chen & Hambrick, 2012; Tushman & Rosenkopf, 1996).

From these divergent investigations, two things are apparent. First, to cope with the high risk associated with executive replacements, particularly at the CEO level, vigilant planning helps mitigate some of the fundamental risks occurring at any succession (Biggs, 2004; Zajac, 1990). Second, much of the extant succession research investigating direct

replacements primarily focus on the CEO level (Barron et al., 2011). Despite calls for and attempts to look at other forms of direct, non-CEO top management replacements (Kesner & Sebora, 1994; Vinkenburg, Jansen, Dries, & Pepermans, 2014), the vast majority of studies remain within the domain of the CEO when comparing and analysing the direct replacement (i.e., considering both the predecessor's and successor's characteristics). However, there are compelling arguments for analysing the holistic TMT as such an approach provides greater insights than solely looking at the CEO replacements (Hambrick & Mason, 1984). Therefore, a conceptualisation of direct replacement of non-CEO top managers is warranted as it can shed further light on TMT composition. Such efforts lead to a greater understanding of the processes of replacement (i.e., understanding the departure reasons and subsequently selecting an adequate individual to take over the role amid specific contexts). Handling this process smoothly and thoroughly provides better conditions for firms to succeed long term. This paper presents a thorough way of approaching research on these direct TMT replacements by considering non-CEO top managers and their fit within the wider TMT and the organisation. The aim is to conceptualise how changes of specific top managers (e.g., CFO for CFO), including potential changes in alignment of characteristics, shape the composition of the "refitted" TMT. Such a succession event is considered a *replacement,* as it compared both the departing top manager, and the successor taking the same specific role. When a direct replacement occurs, the fit (and changes) can be observed both from an individual level (i.e., how the new manager compares to the predecessor) and from a group level (i.e., how the new manager compares to the wider TMT). By taking these two dimensions into consideration, this paper proposes a 2 by 2 framework that can help scholars and practitioners better understanding the effects of changing skills and characteristics in a firm's TMT. The efforts thus allow for a more fine-grained understanding of the small tweaks occurring when firms are refitting and adjusting their TMTs according to the firm's context. Where most studies looking at succession consider either all entrants to, or all departures from the TMT, there is importance in further understanding the mechanisms that guides the direct replacement of one manager with another one taking the same position.

It is worth highlighting that prior studies build the foundations for this novel framework by investigating antecedents for selecting managers with specific characteristics into the TMTs (Georgakakis, Greve, & Ruigrok, 2021; Greve, Biemann, & Ruigrok, 2015), situations leading to turnover (primarily at CEO level) and the consequences of such turnover (Barron et al., 2011; Bilgili et al., 2017). Thereby, these scholars have advanced the understanding of how

firms go about refitting their TMT, albeit without considering the direct fit the new senior leader has against both the predecessor and the incumbent TMT. Additionally, only a few studies look at factors shaping non-CEO TMT departures (Andrus et al., 2019; Johnson, Kolasinski, & Nordlund, 2018). Whilst understanding the direct departure reason is outside the scope of this paper, it is one of the areas that shape the direct replacement and thereby warrants more research. Replacement following dismissal after poor performance will, as an example, be vastly different from replacing a manager that has been headhunted by a different firm because of strong performance. Thus, when seeking to refit the TMT, it is vital to consider the context. Such considerations are applied to the conceptual framework towards the end of the paper, to ensure a thorough presentation of theoretical and contextual factors that can be relevant to study further.

While research on the team processes presented in the 2 by 2 framework in the paper can be relevant for other types of teams (i.e., lower-level teams, such as middle management), it is important to stress the top management focus, given that the dynamics differ from other types of teams. This difference is exemplified by increasing absenteeism in blue-collar groups of the "outgroup members" after longer participation (Reinwald & Kunze, 2020) – something unlikely to happen at the highest managerial level. In TMTs, such effects are found to be reversed, as the increasing behavioural integration over time leads to better integration of outgroup members, thus increasing the transferability of the unique knowledge available in a diverse TMT (Halevi et al., 2015)[11]. However, to effectively utilise these mechanisms, there is a constant need to calibrate and refit the TMT, particularly in more complex organisations (Fox et al., 2021). Therefore, it remains vital to ensure a better understanding of the decision-making process associated with hiring new managers. Furthermore, it is worth pointing out that, unlike previous attempts to conceptualise top management replacement (e.g., Vinkenburg et al., 2014), the framework presented in this paper will cover both inside and outside successions, as firms are increasingly utilising both types of successions – depending on the context and complexities faced. One way of considering the differences is by utilising insider/outsider as one of the focal variables in comparing the new managers to the departing manager and the incumbent team, but other and more complex managerial characteristics are presented.

As such, this paper contributes to the development of non-CEO TMT succession research, particularly by conceptualising and investigating *direct replacements*. Replacement

[11] See chapter 2 of this thesis for a more thorough assessment of these effects.

and succession are often used interchangeably; however, succession can span a broader and include further types of entries into the TMT – including more gradual changes. When dealing with replacement, the focus is on specific roles that are already defined in the team, where a new individual is taking over that specific role once the previous top manager in that role departs. By conceptualising these replacements of specific roles, we propose four generalised archetypes of replacements based on their fit at both an individual level with the predecessor and at the group level with the incumbent TMT. We further theoretically investigate the role of context in shaping scenarios where one archetype might be more frequent than others. This way, our paper allows for a more specific understanding of relevant successions that can shape the firm's future.

3.2 Prior literature on turnover and TMT composition

3.2.1 The TMT replacement process

Dealing with replacing top managers is a vastly important and complex research area, prompting further investigations. To fully comprehend how differences in specific replacement types (such as differences in characteristics, hiring modes and predecessor departure) impact firms, a natural first starting point is to give further consideration to the processes underpinning the successions of top leaders in these firms in general. Whilst the hiring process at lower levels in the firm is often handled in a routine-based manner (Staw, 1980), the complexity and vitality of the senior leaders mean that "[…] scholars have acknowledged that actual executive selection practices vary widely from one case to the next - ranging from relatively loose informal approaches to rigid formalized processes […]" (Georgakakis et al., 2021: 652). Particularly, complexities such as the interfaces that can occur between the CEO and non-CEO top managers (Klimoski & Koles, 2001), the emergence of faultlines (i.e., demographically dissimilar factional groups formed within the TMT) (Georgakakis, Heyden, et al., 2022), differences in departure reasons (e.g., routine retirement, dismissal, illness) (Andrus et al., 2019; Arthaud-Day, Dalton, Certo, & Dalton, 2006) and strategic complexities (Carpenter et al., 2004) are factors that make each executive selection process uniquely complex. However, these factors primarily tend to impact the stages following succession, making it vital to examine further the approach firms take to hire new top managers – something that most often occurs through "[…] a series of judgements made about potential candidates for these

important decisions" (Day, 2009: 159). These important decisions take part in the process that is determined by many factors, which will be examined further.

Any given TMT goes through different stages with varying levels of effectiveness in their decision-making and strategic initiatives, similar to what Hambrick & Fukutomi (1991) calls *seasons* when dealing with a CEO's tenure in an organisation. Their paper explains how during a CEO's tenure, he or she goes through multiple seasons, starting off with a mandate to fulfil a task (typically set forth in the hiring process) until reaching a final stage of dysfunction where the CEO has been too long in the firm, prompting the need for a CEO change. In the intermediate seasons, the CEO goes through stages such as "experimentation" (p.719), where different strategic initiatives are explored before settling on an overarching focus for how the new executive will steer the firm. Thus, it is consistent with the idea that during the tenure of any top manager, matters such as risk-taking, firm-specific knowledge and commitment to status-quo are adjustable[12] (Behr & Fehre, 2019; Dechow & Sloan, 1991; Quigley, Hambrick, Misangyi, & Rizzi, 2019). In light of these different seasons, it is worth highlighting that not all CEOs necessarily go through all the five stages presented in the paper (Hambrick & Fukutomi, 1991). Rather, there are various scenarios leading to more abrupt tenure endings – either because of the CEO's own decision (e.g., early retirement or greater job opportunity elsewhere) or because their contract is terminated because of not living up to expectations (e.g., poor performance, misconduct or a need for new/different skills). Such deviations are often factors that are more unpredictable, which can put pressure on the focal individuals handling the replacement through a selection stage. This is also why the process of top management replacement can be messy and differ widely from one case to the next (Cannella & Holcomb, 2005).

That leaves an important question when considering the process of top management replacement – how are firms handling the process of finding a new executive when (either predictably or unpredictably) a void occurs in the TMT? Vancil (1987), in his pioneering work, explains the different situations firms can go through in selecting their new executives – primarily focusing on new CEO selection. Particularly, the book highlights the importance of seeing the selection of a new top manager not merely as a simple selection of an executive replacement but rather consider it as a critical strategic process. Depending on the nature of the

[12] Comparing this to the discussion of "optimal tenure" in chapter 2 of this thesis is relevant, in the sense that too short tenure means the new manager has not yet accumulated enough information and knowledge to make optimal decisions, whereas too long tenure can be dysfunctional.

succession and the chosen new leader, the firm will be able to see significant shifts in its approach to conducting business. In the analysis, it further becomes evident that the vast majority of successions occur routinely through what is described as either a "Relay Process" or "Horse Races" (Vancil, 1987). In the former replacement process, the incumbent CEO, over a longer period, actively participates in finding their own successor and preparing them for the role they are taking over, such as Andy Jassy taking over from Jeff Bezos at Amazon (Lee, 2021). In the latter process, a pool of (typically internal) candidates fight against each other on who gets the role, as exemplified in General Motors when finding the successor for Jack Welch (Wade, Porac, Pollock, & Graffin, 2008). However, alternative strategies occur – either because of abrupt departures or because the board of directors seek to hire a "maverick"[13] that can come in and shake up the firm and change the current patterns. Building on the processes explained by Vancil (1987), Friedman & Olk (1995) argued that when considering the replacement process, two critical aspects determine the type of successor; 1) knowing who is in charge (i.e., incumbent CEO or nonincumbent); and 2) whether the strategic preferences of the successor's skills are known in advance (yes or no). Based on these factors, the process of finding a top management replacement[14] can take the shape of either of the following four: "[…][1] Crown Heir, [2] Horse Race, [3] Coup d'Etat, or [4] Comprehensive Search" (Friedman & Olk, 1995: 149). The included replacement processes are largely straightforward in that a successor is either appointed early through a structured (typically internal) process (Crown Heir or Horse Race); or through a more disruptive (often external) process (Coup d'Etat or Comprehensive Search).

However, for the scope of this paper, the studies highlighted above have one issue in common that needs to be addressed – the focus in those papers is on the process of CEO replacement rather than non-CEO top management replacement. Whilst there are several similarities between the two processes, there are also some fundamental differences to consider (Barron et al., 2011; Georgakakis et al., 2021). The first important difference between the processes is the participants responsible for making the executive selection. When hiring a new CEO, the board of directors has the final say, albeit often impacted by the incumbent CEO when dealing with more routine-based hires (similar to those of Crown Heir and Horse Race) (Carpenter, 2011; Friedman & Olk, 1995; Magnusson & Boggs, 2006). In some cases, but far

[13] Jack Welch could again be highlighted – however, this time when investigation him being hired, not replaced (Vancil, 1987).
[14] Their study, similar to that of Vancil (1987) also focus on the CEO level.

from all, the rest of the incumbent TMT members also have a say in the CEO replacement process (Vancil, 1987). When selecting non-CEO top managers, on the other hand, the CEO is typically in charge of the final decision, supported by the incumbent TMT (Cannella & Holcomb, 2005; Fee & Hadlock, 2004; Finkelstein et al., 2009; Georgakakis et al., 2021). This means that the selection of non-CEO TMT members is primarily handled by individuals with day-to-day responsibilities, contrary to the CEO selection process where the board of directors tend to meet less frequently and, therefore, may not have the same depth of firm-specific knowledge (Quigley et al., 2020). Having the process run by the executives thus often leads to a faster process when hiring new TMT members. They will be able to draw on a large pool of internal candidates at lower levels of the organisations, either through formal or informal interactions (Bigley & Wiersema, 2006; Vinkenburg et al., 2014). Furthermore, they will understand which requirements the new TMT member will need to fulfil, and thus have the ability to search for potential external candidates (Day, 2009; Hollenbeck, 2009), albeit often by utilising headhunting agencies (Sperry, 1999). This difference means that the process of hiring a non-CEO TMT member will often be smoother than that of a CEO, something that can alter the previously described processes slightly.

A second distinct difference in the replacement processes is the pressure and expectations the newly hired individual faces. Where CEOs are often hired with a specific mandate to fulfil (Behr & Fehre, 2019; Hambrick & Fukutomi, 1991) and find themselves under high levels of scrutiny (Laufs, Bembom, & Schwens, 2016), non-CEO top managers are typically hired to help steer the firm in the direction set forth by the incumbent CEO (Raithel, van Knippenberg, & Stam, 2021; Samimi et al., 2020; Van Knippenberg, Dawson, West, & Homan, 2010). The non-CEO TMT member's role is subsequently narrower and with a more specific focus, increasing the need for the new executive to maintain a proper fit with the skills required to fulfil their tasks and/or work in conjunction with the rest of the incumbent TMT (Finkelstein et al., 2009). Nevertheless, this difference is more evident after the conclusion of the replacement process and the new manager has assumed their role. As such, the selection process is largely shaped by similar thought processes as those suggested by Friedman & Olk (1995). This brings forth one of the major limitations of the current understanding of the replacement processes, irrespective of whether CEO or non-CEO selection, how does the predecessor impact the process? If the predecessor’s departure is expected, there is a longer time to be more thorough in finding the right replacement, whereas unexpected departure

increases the pressure and is associated with more disruptive processes, where the executives in charge need to understand and agree on the preferences of the new candidate much faster.

These factors show how there is a high level of complexity associated with the process of hiring a new executive (CEO or non-CEO) and how each process differs from the next. Regardless, it also shows how there are some quite strict steps that the committee (CEO and TMT) in charge of hiring new non-CEO executives go through. They need to identify what needs the firm has and which pool of talent they can consider (internal versus external) (Bunderson & Sutcliffe, 2002; Hitt & Barr, 1989). Additionally, many of the selection processes are further impacted by more abrupt departures, which provides the committee with a shorter time frame to make their decision (Andrus et al., 2019). Within all this, the firm still needs to ensure that the newly elected executives can actually contribute to and work with the rest of the incumbent TMT. As such, it is relevant to further understand the "fit" that can occur between new members and incumbent TMT. Furthermore, it is relevant to understand whether there can be more predictable changes to this fit, allowing the firm to engage in a better planning process, whereby even abrupt and unexpected departures can be handled through a smoother process. As such, the next section delves into the question of how executives fit within the TMT and how this can change over time. Understanding such notions guide our core research framework in understanding the most typical replacement scenarios that occur in firms when handling executive succession.

3.2.2 Drifting fit and shifting preferences driving the replacement process.

The factors shaping a specific replacement of senior executives in firms – be it large multinational firms or smaller domestic firms – are multifaceted and include various contingencies (Messersmith et al., 2014; Tasheva & Hillman, 2019). The successfulness of the replacement often rests on the individual's characteristics - both the focal replacement's characteristics, stand-alone and in relation to the group. Studying either of the two in a vacuum provides only a fragmented picture (Gordon & Rosen, 1981). To best aid the explication of how replacements occur and which implications they can have on the TMT composition, strategy and performance, the paper draws on the "fit-drift/shift-refit" model (Finkelstein et al., 2009). The model provides a model and a path to explaining the natural changes that occur on an ongoing basis within the TMT. These arguments, together with the process explained above, provide an understanding of how the changes a firm faces create a need for replacements of

individual members to stay "fit". A proper fit between the executives and the organisation has long been acknowledged as a quintessential factor for success (Kotin & Sharaf, 1967), as a lack of fit often have malicious implications on the performance of the firm. These implications occur either as individual group members struggle to work together, thereby hampering knowledge sharing (Bezrukova, Jehn, Zanutto, & Thatcher, 2009; Tasheva & Hillman, 2019), or because they do not bring the right capabilities to develop optimal executive strategies (Helfat & Peteraf, 2015). Whilst the *fit-drift/shift-refit* model is originally intended for considering the board of directors' approach to hiring a new CEO (Finkelstein et al., 2009), it is also applicable to the TMT. Rickley (2019) show how organisations select individuals based on the perceived fit in terms of various different factors, warranting the utilisation of the suggested approach. From the initial fit, executives will, over time, see their fit fade – either slightly (i.e., drifting) or radically (i.e., shifting).

Typically, the drift happens as the firms are making changes to their strategic focus or target markets (Virany, Tushman, & Romanelli, 1992). Alternatively, external changes, such as technological improvements, can make the skills the current top managers possess less relevant (Berns & Klarner, 2017). An alternative cause of drift occurs when leaders are too engrained into the organisation, thereby succumbing to routines and seeing their effectiveness as a leader fade (Geletkanycz, 1997; Gouldner, 1954). As the upper management typically is responsible for large subdivisions, such a drift will lead to strategic concerns for the whole firm. Finally, the drift can also happen at a personal level – whereby the executive sees their fit fade, regardless of whether it is because the role is different from what they expected or they are not progressing through the ranks fast enough (Bragaw & Misangyi, 2017; Cannella & Shen, 2001). Because of the drift that is occurring, there will inevitably be a need for changes in the upper-level management. Whereas the original idea of the model was to see the drift/shift as different degrees of severity, this paper suggests a situation where because the drift is occurring, there is a shift in the preferences for what top managers bring to the table, requiring the firm to ultimately *refit* the TMT, whereby the drifting top managers depart the firm. In most instances, the firm will require a new executive to take over from the misfitting member in an attempt to refit the TMT to the firm's new context (Hambrick & D'Aveni, 1992) – although cases emerge where the TMT fundamentally changes and introduce new roles. In such a situation, the firm will not engage in direct *replacements*, rather, there will be overall structural changes in the succession process (e.g., some positions are closed and replaced by roles with a different focus).

The best way of addressing the changes required as a way of optimising the fit thus goes through looking at different stages of the TMT. Any point in time can be considered a cross-sectional "starting point" of a specific top management team. By such a focus, the TMT composition is measured through variables appropriate for the research question in focus, e.g., biodemographic characteristics (Hambrick & Mason, 1984; Pfeffer, 1985), educational background (Ramón-Llorens, García-Meca, & Duréndez, 2017; Tsui, Egan, & O'Reilly, 1991) or experience and values of the executives (Boone, Lokshin, Guenter, & Belderbos, 2019). During the observation phase, the state of the firm should also be taken into consideration. This will help inform whether there is currently an executive-firm fit or some of the executives have drifted and thereby no longer provide the optimal skills for the firm to pivot. From this starting point, the next stage requires investigation of a multitude of factors determining departure from the team. In the extant literature, attempts to determine such factors have been investigated at various levels (Andersson et al., 2022; Andrus et al., 2019). However, the main use of turnover as a variable has often been as aggregate levels of turnover (Chen & Hambrick, 2012) rather than understanding the specific exit that requires replacement. Regardless of the reason for departure, it is a good idea for the firms to replace the departing members and fill the void left behind to avoid struggles (Hambrick & D'Aveni, 1992). Such decision-making requires effort – whether it is to match managers to strategy (Kaczmarek & Nyuur, 2021; Prahalad & Lieberthal, 1998) or find managers that can drive the change (Kaczmarek & Ruigrok, 2013). The decision of top management selection thus remains essential for the success of the firm, but often relies on too simple measures. Approaching such decision will typically require investigating the alignment of characteristics and fit, thus completing the process through the refit, ensuring a proper mandate to make any changes potentially needed (Gordon & Rosen, 1981). These different thought processes and selection mechanisms ultimately shapes the replacement processes presented in the previous section.

The following sections shed further light on some of the research already conducted within these stages whilst also highlighting contradicting and lacking findings that our proposed conceptualised replacement types can help overcome. This approach provides further depth on some of the consequences associated with compositional changes, including their contextual influences on various scenarios at multiple levels (Greve et al., 2009; Kaczmarek & Ruigrok, 2013). In this regard, it becomes clear why the discretion and characteristics of the incumbent team also matter for the selection of replacement, as the fit also matters at a personal level (Vinkenburg et al., 2014). Following that logic, it is therefore relevant to understand the

characteristics the new entrant will have not only compared to the member they are replacing, but also vis-à-vis the incumbent team, as this will factor into both the selection process, but also the effectiveness of the selection. The paper does so through the stages presented in the *fit-drift/shift-refit* model, as it helps guide the understanding of needs in different parts of the process. Figure 3.1 shows how, as time progress, the firm moves from fit to refitted TMTs as there is a shift in preferences guided by either individual-level or firm-level drift.

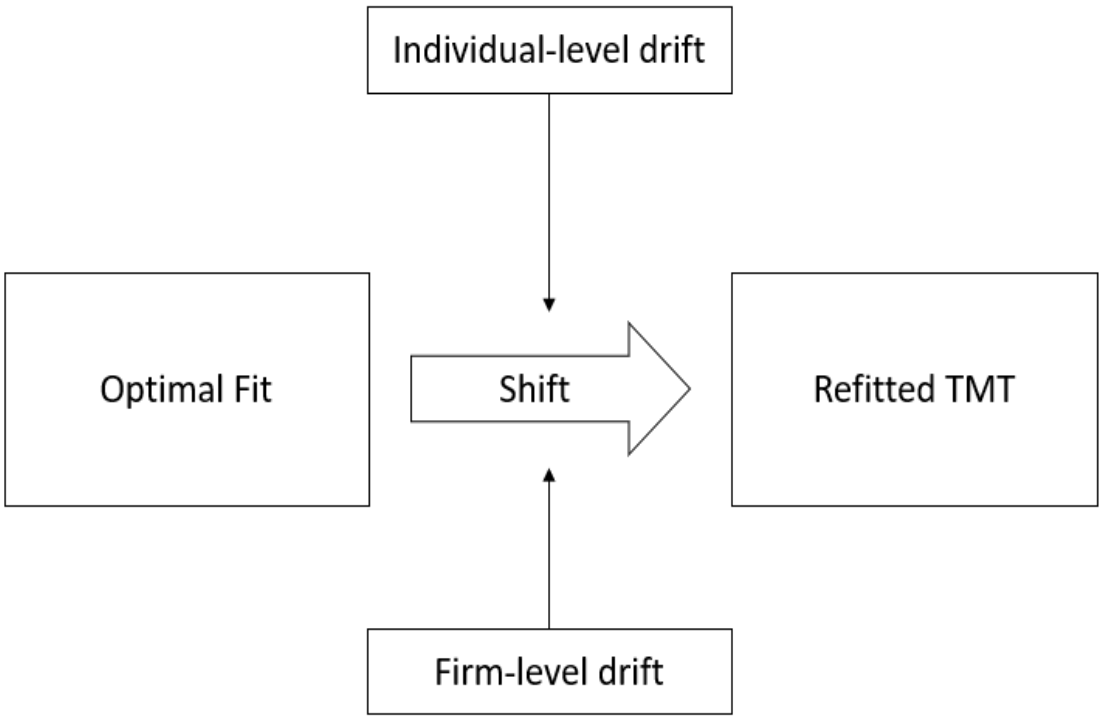

Figure 3.1 TMT succession/replacement process

3.2.2.1 Stage 1: The initial fit of TMT members and the firm

At the apex of strategic leadership research are considerations of the composition of the overall top management group by looking at the group member's individual, easily observable characteristics (Hambrick, 1994). Criticisms of this approach suggest that it is painting too simplistic a picture (Lawrence, 1997), leading to calls for research going more in-depth with fine-grained measures explaining the individual – such as personal values, emotions or political ideology of top managers (Chin et al., 2013; Kalogeraki & Georgakakis, 2021; Samra-

Fredericks, 2004a, 2004b). Nevertheless, research using observable characteristics has elucidated and expounded the impact managers have on various firm-level events and actions (Bunderson & Van der Vegt, 2018; Menz, 2012), validating its positioning in the extant field. The main rationale for using demographic variables is based on Pfeffer's (1985) assessment of how easily observable characteristics can act as proxies for better understanding the actions and behaviours of executives. Typically, variables like age (Doms & zu Knyphausen-Aufseß, 2014; Nadkarni, 2010), social background (Bertrand, Betschinger, & Moschieri, 2020; Kish-Gephart & Campbell, 2013) and gender (Barber et al., 2001; Ryan, Haslam, Morgenroth, Rink, Stoker, & Peters, 2016) have been easier to observe and utilise for studies[15]. To complement these simple demographics, research further applies variables that remain observable but do a better job reflecting individual managers' choices and actions. Variables such as tenure (Juravich, Salaga, & Babiak, 2017; Kunisch et al., 2017), functional background (Buyl et al., 2011; Menz, 2012) and education (Peterson, Smith, Martorana, & Owens, 2003; Wally & Becerra, 2001) typically reflect the individual more in-depth by exegeting the interests of the individual by analysing the choices made – such as career path.

Another criticism of the observable characteristics approach, besides the one highlighted by Lawrence (1997), is that most studies look at a cross-sectional snapshot in time (Greve et al., 2015; Nielsen, 2010a). The cross-sectional approach merely looks at the CEO or TMT, considering which characteristics are present and what the outcomes are in a given moment. These results are then used to determine what is the optimal "fit" between executives and the firm given the current context. Depending on what the firm is striving to achieve or what the external environment dictates, what is considered a "fit" differ vastly. For example, a more heterogeneous TMT, based on functional experience, provides better capabilities in the context of developing new ideas and engaging in explorative actions, whereas homogeneous TMTs are better at exploiting the available resources to make swift decisions (Finkelstein & Hambrick, 1996)[16]. Given this importance, the concept of "fit" matters greatly for the performance of the firm (Hughes-Morgan, Ferrier, & Labianca, 2011) in as far as a poor fit will be detrimental, whereas a good fit can improve the performance. Thus, it becomes apparent how *fit* in the "fit-drift/shift-refit" model can be considered in the context of the wider

[15] For further assessment of potential variables of interest, a later segment of this paper presents variables that have been utilised and remain relevant in the strategic leadership research.
[16] For further reflections on how functional diversity impacts the TMTs and their working together, see chapter 2 of this thesis.

leadership team, and not just as the view the board of directors are taking when hiring a new CEO.

An approach to studying the executive fit is looking at 'matching managers to strategy' and the direction the firm pursues (Gupta, 1986; Kaczmarek & Nyuur, 2021; Kaczmarek & Ruigrok, 2013). Whilst this paper elaborates on this point when looking at the top management refit selection process, it remains explanatory for the current fit of TMTs. Managers act as a great resource for the firm through the ideas and solutions they bring, depending on the level of discretion they have to make strategic initiatives (Finkelstein et al., 2009; Wangrow, Schepker, & Barker, 2015). Therefore, understanding the interplays that occur within teams is of high importance, as a difference in backgrounds can cause a variety of tension if not handled correctly (Barkema & Shvyrkov, 2007). To better understand the tensions (or benefits), the diversity within the team (i.e., the aggregate distribution of individual variables, considering where they are similar or different to their team peers) plays a key role (Harrison & Klein, 2007). Ample research suggests that TMT diversity, together with the firm's contextual environment, explains the effectiveness of teamwork and subsequently helps predict firm-level performance outcomes (Fox et al., 2021; García-Granero et al., 2018; Georgakakis, 2014). For example, functional background diversity tends to benefit firm-level performance (Bell, Villado, Lukasik, Belau, & Briggs, 2011). On the contrary, a lack of such diversity is associated with suboptimal strategic decisions as only limited knowledge sources are utilised in the decision-making process (Doms & zu Knyphausen-Aufseß, 2014). Despite wide efforts, there remain mixed findings regarding the impact of diversity (Homberg & Bui, 2013), making it essential to both contextualise the research on this area, whilst also developing more common ground for investigating diversity impacts. Diversity depends on differences in a variety of attributes, and the negative implications arise when there is a misalignment of these traits without a sufficient integration of team members (Van Knippenberg, De Dreu, & Homan, 2004).

Nonetheless, diversity, despite all the benefits it potentially brings, is a double-edged sword and needs to be handled with caution (García-Granero et al., 2018). One traditional way of handling diversity challenges is by understanding the socialisation and effectiveness that can emerge in teams – particularly through knowing the firm's mechanisms and the colleagues' skill sets (Reuber & Fischer, 2002). Finkelstein, Hambrick and Canella (2009) explain how organisational tenure is an important factor in the firm's success and ability to take advantage of the available resources accumulated through diversity. Too short and too long tenure both

can have damaging implications, consistent with the view of Hambrick (1994). In the early stages of the tenure, performance is hampered by a lack of understanding of the firm's operations and needs, thereby also facing larger negative impacts of demographic dissimilarities (Bui et al., 2019; Carpenter, 2002). At the same time, excessive tenure can have damaging implications of conforming too much to industry norms, including over-commitment to status-quo (Hambrick, Geletkanycz, & Fredrickson, 1993). "An extremely heterogeneous group will have difficulty achieving effective interaction; an increase in homogeneity, even simply through the shared perspective attained by the passage of time together as a group, will enhance behavioral integration. However, beyond some point, increases in homogeneity cause declines in behavioral integration" (Hambrick, 1994: 201). The issues associated with diversity and tenure thus show how it shapes the challenge of attaining the right fit between the environment and the executives at the helm of the organisation (Crawford & Lepine, 2013). Without a proper fit, the executives will not reach the desired tenure, instead leading the firm towards the negative consequences of multiple successive replacements. Combining the right fit with a certain amount of tenure thus helps the firms in achieving more efficient leadership, constituting a viable competitive advantage as it provides value and, at the same time, can challenging to imitate (Barney, 1991).

3.2.2.2 Stage 2: Executive-firm drift as an antecedent for shifts

After establishing how the initial fit (measured through team-level diversity) impacts the firm, it is important to stress that such a fit is only temporary given the firm's surroundings and contexts are not fixed but change rapidly (Cowen & Marcel, 2011). Besides changes in the surroundings, the internal dynamics of the team may also switch, for example, if the vertical differences (i.e., power diversity) alter (Bunderson & Van der Vegt, 2018) or because factional subgroups form within the TMT (Lau & Murnighan, 1998). These factors can lead to two types of drifts – 1) firm-level drift, where the TMT composition is no longer strategically optimal, or 2) individual-level drift, where the individual managers no longer feel the firm is the right match, either because of greater career ambitions, a desire to work less, or they do not feel valued in the current organisation (Gentry et al., 2021). Employee and management departure is a natural consequence of such drift, and is an endemic phenomenon which shapes all organisations (Grusky, 1960), regardless of whether it is at the employee level (Andersson et al., 2022; Griffeth, Hom, & Gaertner, 2000) or top management level (Andrus et al., 2019). Consequently, academics and practitioners alike seek to uncover the causes, effects and

consequences of such departures to ensure optimal handling when replacing the individual manager.

Research on departures of the executive management is rich, but also somewhat fragmented as some studies focus on individual leadership departures (Giambatista et al., 2005), notably CEO succession (Berns & Klarner, 2017; Kesner & Sebora, 1994; Schepker et al., 2017), whereas other studies devote attention to aggregate turnover levels from the TMT (Lel, Miller, & Reisel, 2019; Messersmith et al., 2014; Wiersema & Bantel, 1993). Whilst both foci are vital in studying the departures, they have often been studied in a vacuum whereby there has either only been studied the antecedents for departure (i.e. the causes of the drift) (Andrus et al., 2019; Gupta, Mortal, Silveri, Sun, & Turban, 2020; Hubbard, Christensen, & Graffin, 2017) or the consequences of such departures (Barron et al., 2011). To advance the knowledge further, it is important to acknowledge these previous findings, but also go further in-depth with the theoretical foundation. It is thus vital to combine the two approaches to studying departure, by considering how the firm handles the departure itself and the subsequent replacement. Particularly, by devoting greater attention to the examination of how an individual departure relates to both the individual level and the aggregate TMT enables better planning of the compositional changes following the drift/shift.

The academic, quantitative focus extending the initial qualitative studies (such as Gouldner, 1954) largely originated with Grusky (1960) finding that succession is often a consequence of instability in the organisation, but regardless of circumstances, it is inevitable. Later, Grusky (1963) elaborated on the initial conclusions by finding a correlation between the number of managerial successions and weaker organisation performance. That study led to a debate on various types of succession, where Gamson & Scotch (1964) suggested three overall reasons for succession; 1) *common sense*, where the manager is responsible for the poor performance; 2) *vicious cycle*, postulating a two-way correlation between succession and performance, where poorer performance leads to succession, but simultaneously, succession leads to weaker performance; 3) *ritual scapegoating*, where the manager is not directly responsible for the poor performance, but following a period with slump-performance, the firm is signalling a break by replacing the strategic leader. These early studies looked at data for managers in professional baseball, as this ensured the organisations in focus had similar structures and goals, thereby enabling the investigation of successions in isolation. Despite sports teams being the unit of analysis in more research since (e.g., Brown, 1982; Grijalva, Maynes, Badura, & Whiting, 2020; Juravich et al., 2017), the dynamics of these organisations

differ from traditional firms. Primarily because of different measures for success and added public scrutiny, but also because the emotional aspect of sports tends to be greater where fans can exert pressure to impact the decisions. Therefore, studying the results of Grusky and other scholars' work on traditional businesses is crucial.

The three types of replacements above show that strategic leadership departure is complex and requires a great deal of depth in understanding the causes of the drift that leads to the departure. Significantly so because it has various impacts on firm-level factors going forward. It further shows how the explicit process of top management replacements is multifaceted and can lead to various different scenarios. A substantial part of the succession literature examines the impact succession has on these firm-level outcomes, notably on performance (Georgakakis et al., 2017; Schepker et al., 2017) and strategic changes (Nakauchi & Wiersema, 2015; Tushman & Rosenkopf, 1996). The latter includes, but is not limited to, ethical behaviour (Chiu & Walls, 2019; Connelly, Shi, Walker, & Hersel, 2022), internationalisation processes (Elosge, Oesterle, Stein, & Hattula, 2017; Lin & Liu, 2011, 2012) and product development (Datta & Rajagopalan, 1998). However, merely studying changes based on departures, for example, findings showing immediate changes and performance improvements following succession (Denis & Denis, 1995), without considering the characteristics of the successor, does not adequately inform whether the succession is a success. To tackle this, the paper proposes some of the core findings regarding successor characteristics more carefully in the refit section. However, a better understanding of the antecedents for departure will provide opportunities for further studying the challenges faced in the refit stage. Criticisms suggest that much of the succession literature does not adequately account for the departure reason (Berns & Klarner, 2017). When the departure reason is included, it is primarily similar to the early-stage findings, such as poor performance leading to a higher likelihood of CEO dismissal (Beck & Wiersema, 2011). Some studies are going further to understand the reasons for aggregate executive departure at the TMT level (Barron et al., 2011; Lin & Liu, 2011; Messersmith et al., 2014), however, such studies still suffer from two overarching issues. First, they often maintain an underlying focus on the immediate performance implications without considering the specific successor's characteristics and skills. Secondly, they do not address the specific strategic leader that is departing the TMT (other than the CEO), which means the direct replacement characteristics and strategic area can not adequately be considered.

Attempting to overcome such issues, some studies consider non-CEO top management departs. Andrus and Colleagues (2019) look at two specific antecedents causing non-CEO TMT departure – *reputational and relational shocks*. The former refers to the situations where the firm is faced with events that put the reputation of either the firm or the individual in danger (thereby addressing the point that the drift can be either individual- or firm-level). Such shocks lead to departure, either because the firms are terminating the strategic leader's employment (i.e., either warranted or as a scapegoat) or because they are voluntarily departing to preserve their reputation. The *relational shocks* refer to situations where a trusted colleague (i.e., another TMT member or the CEO) departs the firm, making the individual feel distressed and decide to leave. In another study looking at antecedents for TMT departure, Johnson et al. (2018) test the impact a narcissistic CEO can have on the TMT members, finding a positive association between CEO narcissism and departure, again suggesting different levels of drift. These studies offer a starting point for factors shaping the exit. However, more contextualisation is needed to ensure wider applications. For example, reputational shocks are studied only within the country where the events are occurring. However, cases such as the Volkswagen diesel scandal (Economist, 2018) or the Boeing Plane Crashes (Johnsson, 2019) show examples of reputational shocks that go across borders and therefore require further scope of investigation. Furthermore, the studies do not distinguish between voluntary and involuntary departure, two widely different mechanisms (Shaw, Delery, Jenkins, & Gupta, 1998). Even within the voluntary departure, the motivations can differ greatly, as a career move and stepping back to have more time for other activities are just two of the potential reasons, showing the different nature of even a voluntary departure (Gentry et al., 2021).

Bringing these notions together, it becomes abundantly clear that to adequately study and understand how firms are approaching replacements, the drift in original fit between TMT members and the firm is essential. The drift can happen at different levels, and regardless of the situation, the firm needs to attempt to refit its TMT to ensure the right capabilities are available (Hambrick & D'Aveni, 1992).

3.2.2.3 Stage 3: Refitting the TMT through Executive Selection

Parts of the literature in stage 2 of the succession process acknowledge crucial matters when selecting a new strategic leader. Elaborating further on the specific characteristics of the new leader provide insights into how the selection shapes the firm's future direction. A notable

issue with the executive selection literature addressed in this paper is the dominant focus on CEO selection, with only limited research on the selection of non-CEO members (Georgakakis et al., 2021; Vinkenburg et al., 2014). Furthermore, the studies that consider non-CEO executive selection primarily look at aggregate levels (e.g., Greve et al., 2015), without considering the specific strategic role (i.e., their position in the TMT), as well as predecessor characteristics. There are attempts to solve this issue, primarily dealing with the characteristics of the new CFO (Arthaud-Day et al., 2006; Dauth, Pronobis, & Schmid, 2017; Gupta et al., 2019) or alternatively chief supply chain officer (Roh, Krause, & Swink, 2016). However, despite these examples, when addressing the selection of non-CEO TMT members, there is a scarcity of generalisable information. Furthermore, by not considering the relevant predecessor characteristics, the findings are limiting in our understanding of whether the actions lead to a proper *refit*, or the changes do not really address this issue, leading to a suboptimal TMT composition.

To address the refit, there is a need to learn from the literature on CEO selection. One of the often-studied areas in this regard is whether the CEO is insider or outsider. The measure has both been applied as a simple dichotomous variable (Chiu & Walls, 2019; Kavadis, Heyden, & Sidhu, 2022) and in more nuanced versions, considering the newly selected CEO as insider/outsider regarding both the firm and the industry[17] (Karaevli, 2007; Zhang & Rajagopalan, 2003). Understanding such a measure is important as it, together with the specific type of replacement, provides information on how the new CEO will approach the role. As an example, outsiders are found to be willing to take added risks (Quigley et al., 2019) – hence, they could often be regarded more as a maverick (Vancil, 1987). Furthermore, the insider/outsider decision signals whether the firm and board of directors are committed to the status quo or seek strategic changes (Schepker et al., 2017), consistent with the knowledge presented about different types of replacements in the succession process. The decision also impacts the firm's success going forward, albeit dependent on the context the firm finds itself in. As Georgakakis and Ruigrok (2017) found, the firm performance when selecting an outsider depends on the socio-demographic resemblance with the rest of the TMT, the variety of experience the executive possesses, as well as past firm performance and industry characteristics. Generally, the conditions for success highly rest on other, both internal and

[17] Measure equates to 0 if outsider of the firm and industry, 1 if firm outsider but industry insider and 2 if insider of the firm, and thereby also the industry. Alternative approaches to what define insider has been considered depending on length of service prior to reaching the CEO position.

external factors (Karaevli, 2007), showing the importance of contextualising any findings on executive selection. Whilst the research on insider/outsider is heavily driven by CEOs, such notions are also relevant for lower-level management. There are higher levels of employee movement between firms and less loyalty today compared to previously, where a one-firm career was more likely (Kanter, 1993). Therefore, it is increasingly likely to see non-CEO TMT members arriving from outside the firm, or even the industry.

Whilst the debate on insider versus outsider succession is merely a part of a substantial number of different approaches to studying executive selection, it shows the importance of studying the newly selected executive's characteristics. Such characteristics will partially determine other changes that happen in the firm, such as the new outsider CEO being more likely to make changes to the TMT (Barron et al., 2011). Barron and colleagues additionally find that the changes a new outsider CEO make are more substantial if combined with non-CEO successions. It thus becomes clear how individual changes in the leadership can have ripple effects for other parts of the firm, albeit more impactful if the change is on the CEO position, but still impactful when other TMT members are added (Schepker et al., 2017). Merely appointing a single member can, if the new executive is a misfit, lead to increased friction within the team that can lead to further complications in a vicious cycle (Tushman & Rosenkopf, 1996).

Thus, following the inevitable drift, it is important in the refitting stage to ensure that the selection of the new member is appropriate. One specific approach that has widely been applied in studying the specific selection of top executives is the *Attraction-Selection-Attrition* (ASA) model (Jackson, Brett, Sessa, Cooper, Julin, & Peyronnin, 1991; Montoya & Horton, 2013; Schneider, 1987), which will be utilised more thoroughly in the framework presented later in the paper. The core principle of the model is that perception matters in the selection process, which means that individuals that are boundedly rational may seek individuals they perceive as similar to themselves to join the firm. As the decision-makers feel more comfortable with like-minded people, it can thus have implications for the level of diversity (Ma, Kor, & Seidl, 2022; Nielsen, 2010a; Wowak, Gomez-Mejia, & Steinbach, 2017). Hence, the suggestions by Friedman and Olk (1995) regarding understanding who is in charge of the decision-making in the replacement process is vastly important, as it can determine the characteristics of the new top manager. Whilst it might be beneficial to see the high similarity between people in charge, as it leads to advanced communication when people perceive themselves as similar, the approach should be handled with caution. Accurately determining

the capabilities of the new executive is one of the most tricky aspects of the selection process (Quigley et al., 2020), potentially putting the firm in a situation where there are insufficient skills to handle the context it is in.

However, solely attending the refitting stage to ensure a personality fit through ASA can cause other issues. An abundance of TMT members with the same skillset can lead to underutilisation and dissatisfaction for some individuals, and further cause issues if there is a lack of proper skills to address the complexity of the environment (Stahl et al., 2010). On the other hand, a highly diverse team with different expertise and skills, combined with a low-complexity environment, will likely be associated with communication issues, underutilisation and social categorisation (Turner, Brown, & Tajfel, 1979). Thus, addressing the contexts should be considered in the refitting stage – particularly as the firm might also be facing a strategic shift that impacts the complexity they are facing as time goes on (Tasheva & Hillman, 2019). The international environment is one of many factors shaping firm-level requirements (Sanders & Carpenter, 1998). Given such high complexity associated with operating in multiple markets, there is a need for information processing capabilities tailored to dimensions that can be solved by looking at traits like international experience and nationality diversity (Lin & Liu, 2012; Nielsen, 2010a, 2010b). Greve et al. (2015) test for the antecedents of appointing foreign individuals into the TMT, finding foreign nationals are more likely to be appointed into the TMT if the roles require input- and output functions or if the role depends on a specific geographical location.

Nevertheless, international complexity is only one of many areas that have been considered when dealing with the appointment of new executives. As managers play a substantial role in the strategic decision – regardless of whether it is shaping or implementing the direction (Boone et al., 2019), there is thus a need to further examine the impact of the holistic process. It becomes clear that only considering the characteristics of the new manager relating to which strategic direction the firm will approach is limited. Rather, there is also a need to understand what skillsets the firm is losing in the process when another member is departing. High similarity of predecessor and successor would warrant limited changes – even if the new executive would, stand-alone, appear as someone that would lead to changes. Therefore, the next section provides a brief insight into the importance of contextualising the holistic succession process, before the rest of the paper will make specific suggestions on how to do this, including a reflection on potential approaches to further solve the matter.

3.3 Contextualising the holistic manager-replacement process

The external environment has a substantial impact on the success of newly selected TMT members (Yamak, Nielsen, & Escribá-Esteve, 2014). Therefore, as explicated through the assessment of previous literature, it is important to also factor in the firm's operational context when making executive selections (Edstrom & Lorange, 1984; Fox et al., 2021). Contextualisation can be considered in different ways, for example, by looking at the environment the firm is operating in (internal and external) or alternatively by considering the individual replacement's circumstances. The importance of studying the circumstances becomes clear as, within a TMT, the members will have different functional roles and responsibilities (Menz, 2012; Zhang & Greve, 2019). Where a CEO tends to have more overarching responsibilities, marketing executives will primarily focus on marketing decisions and vice-versa. Therefore, breaking down the senior leadership team into specific roles amid the contextual factors allows for a greater understanding of how role-specific replacements may impact the firm but also allows for greater understanding at aggregate levels. Once such understanding has been achieved, it will also be easier to consider the role of internal and external constraints that may impact the effectiveness of the team (Samimi et al., 2020).

Once that has been considered, it is, therefore, abundantly clear why leadership succession research is so multifaceted and brings different, often contradicting findings. For example, when categorising TMT members based on whether they are majority TMT members or not[18], different outcomes occur, including different utilisations of the focal individual's skills depending on the firm's current context (Khattab et al., 2020). To exemplify how context matters, the findings by Kalogeraki & Georgakakis (2021) show how neither social identity theory nor queen-bee syndrome can, stand-alone, explain what is going on with women in leadership. Their findings clearly show that a better understanding of how individuals contribute requires a more complex investigation using deeper-level individual characteristics – in this case, the CEO's political ideology. Additionally, it has been found that the success of new entrants in the firm's upper echelons depends on the rest of the group – for example, a new outsider CEO is more likely to be successful if there is a subsequent replacement of other TMT members (Karaevli, 2007). By having subsequent TMT successions, the new CEO can set their own team, and avoid guardians of the past regime blocking their strategic actions. In

[18] A variety of different variables can here, like in the rest of the paper determines what constitutes "dissimilarity". Some of the suggested variables are presented in the next section of the paper.

such a situation, combining recent research on the new CEO's vision (Kavadis et al., 2022) with their approach to hiring new top managers can provide an interesting avenue. It can, therefore, also be clear that studying top management replacement will be impacted by context. Having the knowledge presented here makes it clear that when a firm is facing CEO changes, it is likely to see a different replacement process compared to a situation where the CEO remains fixed.

Notwithstanding, the complexity of top management succession keeps opening new research avenues. As we will further elaborate on later in the paper, contexts such as strategic changes, increased competition, corporate misconduct, performance levels and institutional complexity in foreign operations further complicate the studying of finding adequate replacements as it adds further uniqueness to the cases in focus. That being said, the major issue of the extant research remains constrained in as far as it only looks at TMT entries or exits in isolation (Carpenter et al., 2004). Both the causes and nature of the departure and the subsequent selection process are shaped through the different level views. If not taken adequately into consideration, the firm can find itself in large trouble – for example, if the level of diversity is mishandled, leading to challenges associated with e.g., faultlines (Georgakakis et al., 2017; Lau & Murnighan, 1998). Therefore, the first step to being able to understand the holistic process of top management replacement requires some novel terminology to best investigate how firms are improving (or destroying) their leadership. Furthermore, there is a requirement to understand which data and variables can be used, as we acknowledge the challenge of getting access to in-depth, personal data of executives because of their scarce time.

3.4. Characteristics and variables determining "dissimilarity"

Whilst terms such as "diversity" and "dissimilarity" is frequently used, it is important to study the core variables determining which individuals are dissimilar from others in the TMT. Several scholars have devoted substantial effort to researching various characteristics and variables. Since Hambrick & Mason (1984) and Pfeffer (1985) initiated the study of observable characteristics of executives to understand how it shapes their behaviours, the academic field has moved substantially, with several highly influential papers. When dealing with the diversity differences that can occur in a team, Bunderson & Sutcliffe (2002) distinguished between *interpersonal diversity* (i.e., the differences between people) and

intrapersonal diversity (i.e., differences with the focal individual). With some of the characteristics, such as gender, only the interpersonal diversity within a TMT will matter, but for other constructs, such as functional background experience, both can be relevant at the same time. Their findings thus show that in the study of diversity, it is essential to be specific and explicit on how diversity is approached, as there are different scenarios for when a certain type of diversity should be studied. Harrison & Klein (2007) elaborated on the notions for interpersonal diversity, arguing that when studying differences between team members, the differences can be observed within three different groups; 1) *separation*, where team members differs on attitudes towards certain tasks; 2) *variety,* where diversity is observed as differences in information and experiences; and 3) *disparity,* where diversity is vertically based on power-structures. Their efforts in mapping out these different sources of diversity raise important points in how diversity is not merely people being different on the easily observable characteristics. Rather, diversity can come at different forms and level. Distinguishing between different sources of diversity also shows how the executive "fit" can change over time – people and structures within the team can change, leading to different types of diversity, which can hamper the team processes, and subsequently also impact the replacement processes.

This brings forth the final, vastly influential, paper on developing the study of characteristics and diversity in teams. Stahl et al. (2010), in their Journal of International Business Studies Decade award-winning paper, argued that when considering characteristics used for diversity, they come at different levels. Notably, their paper presents how characteristics can be either *surface-level* (i.e., based on gender, nationality, age, etc.) or *deep-level* (i.e., personality traits, values, etc.). The argumentation surrounded that deep-level variables are better at explaining the focal individual, thus providing more meaningful results. Their paper did not refute the study of surface-level variables, merely arguing for their impact differ in significance. In a later comment on their paper, the findings were extended to further types of teams, including the notion that contextualisation remains important when looking at the different levels of diversity (Stahl & Maznevski, 2021). However, classifying all variables into these two categories can be challenging and overly simplistic. In the study of interactions, the perceived differences matter (Montoya & Horton, 2013), providing evidence of the impact of factors at the different hierarchies. In an attempt to improve our understanding of the depth and meaning of variables studied in the literature on top management and diversity, table 3.1 provides a hierarchy of different variables. The aim is to use the notions of surface-level and deep level and extend the influence by adding steps in between the extreme ends – both

allowing for more nuances of the pervasiveness of variables but also enabling temporal elements in the distinguishing (Jackson & Joshi, 2011). The list is not exhaustive; further variables will already be available in the literature, and more will certainly come. However, the list provides a foundation of key variables that have been used in the past and continues to be relevant.

Tiers	Characteristics
1st tier (most surface level)	Age, gender, race, ethnicity, culture.
2nd tier	Nationality, language, biculturalism, insider/outsider, tenure (organisational and industry).
3rd tier	Education, social class
4th tier (deepest level)	Experience (international and functional), political ideology, vision, personality traits

Table 3.1 Tiers of variables

Tier 1 represents the most surface-level tier, containing classical biodemographic variables such as age and gender. These variables are often associated with key organizational outcomes and processes, such as younger executives, and males are more likely to take added risks (Barber et al., 2001). Furthermore, research indicates that there can be differences in career paths based on gender and, subsequently, how they act in their roles (Glass & Cook, 2016; Jeong & Harrison, 2017; Ryan & Haslam, 2007). Race is also at the surface level, as it has been found to impact diversity at the surface level in a meaningful way, but often with a focus on simple, early-stage social categorisation (Guldiken, Mallon, Fainshmidt, Judge, & Clark, 2019; Stahl et al., 2010). The variables at this level are fairly generalising and tend to only impact the early stages in a firm, as over time, other variables change the initial perceptions and thus changing the classification based on such variables (Montoya, Horton, & Kirchner, 2008). Therefore, they are classified at tier 1, indicating that despite their impact and relevance to the study of executive characteristics, they are also overly simple and need strong contextualisation.

In tier 2, variables are still considered at the surface level, but add more specific explanation and contextualisation than in tier 1. An example of this is nationality which is still

surface-level (Jackson & Joshi, 2011), but shapes the individuals' values and beliefs more than, e.g. age (Ruigrok, Peck, & Tacheva, 2007). Research investigating nationality diversity finds various firm-level changes and outcomes (Estélyi & Nisar, 2016; Nielsen, 2010b; Tasheva & Nielsen, 2022), warranting the importance of their study. An apparent reason for the importance of studying nationality is linked to languages, another tier 2 variable that prolongs the behavioural integration process because of potential communication struggles (Montoya et al., 2008), leading to a longer-lasting impact than tier one variables. Generally, nationality is found to be more salient than e.g. culture, as culture is broader and therefore does not face the same communication challenges (Earley & Mosakowski, 2000). Tenure effects are included here as longer tenure signals that an individual is becoming more embedded in the firm, TMT and industry (Richard, Wu, Markoczy, & Chung, 2019; Sutcliffe & Huber, 1998), which will impact the behaviours, but in a surface level manner. Finally, whether the executive is insider or outsider is included here as it has a central role in the literature and impacts the behaviours of the new executive (Fondas & Wiersema, 1997; Guest, 1962; Zajac, 1990). Shared for all of these are that whilst they present a more nuanced impact than tier 1 variables, they remain fairly generalising and does not encompass some of the more individual process and ways of thinking.

The 3rd tier primarily focuses on more deep-level variables, but variables which are based on the earlier stages of the life of an executive. Education is one of these, as the educational background shapes the way individuals think – for example, there are clear observable differences in the problem-solving approach between e.g. engineers and arts degrees (Martínez-Cañas, Mondéjar-Jiménez, & Ruiz-Palomino, 2012; Schubert & Tavassoli, 2020). Similarly, the social class, an individual, is brought up in impacts their way of thinking, as their mindset often reflects where they come from (Chatman & Flynn, 2001; Kish-Gephart & Campbell, 2013). The variables at this tier, thus, reflect factors that shape earlier life stages, including formative years (Piaskowska & Trojanowski, 2014). These variables are therefore providing a deeper insight into the individual behaviour, but remain less salient compared to true deep-level variables given that later experiences might be more recent and have greater predictive strength. However, as we moved closer to understanding the mental schemas of individuals, the knowledge on how to handle replacements is also becoming more fine-grained and with more predictive knowledge.

The 4th and final tier represents the deepest level characteristics, which most accurately predict and shape the individual's thoughts and behaviour. Such variables will impact the firm

and team processes for a longer time and not just be early stage, perceived forming differences. One of the most studied variables at this level is the experience of the individual (Azam, Boari, & Bertolotti, 2018; Li & Patel, 2019). Experience can be broken down in two ways, but often it takes the shape of either functional experience (Buyl et al., 2011) or international work experience (Azam et al., 2018; Le & Kroll, 2017). Functional experience fundamentally shapes the way of thinking and approaching problems and will differ between different dominant functional backgrounds (e.g., marketing versus finance). International experience, on the other hand, leads to different understandings of cultures (Azam et al., 2018) and can shape the team working processes substantially (Fernández-Ortiz & Lombardo, 2009; Nuruzzaman et al., 2018). Experience diversity will, therefore, allow a nuanced view with more different perspectives, but also challenge communication efforts (Montoya & Horton, 2013). Other more personal variables exist at this level, such as the cognitive abilities and mental schemas which impact the ways individuals think and act (Jackson & Joshi, 2011; Maitland & Sammartino, 2015b, 2015a). More recent studies also consider the vision of CEOs (Kavadis et al., 2022) and the political ideology of leaders (Chin et al., 2013; Gupta & Wowak, 2017; Kalogeraki & Georgakakis, 2021). These variables can at times, be more challenging to gather, e.g. by using questionnaires. However, they are also likely to provide more accurate predictions regarding the focal manager's trait and abilities and how it shapes the firm.

By classifying these variables within different tiers, it is by no means attempted to disregard or discourage research on the more surface level aspects. Rather, it is to help guide the researchers, as it should be acknowledged when trying to generalise research. Naturally, the tier 1 variables are easier to generalise but might also be more prone to error than tier 4 variables. Furthermore, when using the archetypes presented in the next section, it will also be clear how it is possible to gain further understanding of the complexity associated with specific replacements.

3.5 TMT replacement framework – similarity and dissimilarity

To overcome some of the issues associated with the complex, multifaceted replacement process and allow for more consistent research on top management succession and replacement, this paper proposes a novel 2 by 2 framework to provide better clarity and contribute with key terminology that can advance the field. The framework considers the particular fit of a new TMT entrant compared to two key components - the incumbent TMT

and the immediate predecessor (i.e., an individual in the same specific role within the TMT who has departed). When analysing the characteristics and similarities against both these players, a more holistic understanding of the top management replacements is possible. As established, the fit-drift/shift-refit model (Finkelstein et al., 2009; Rickley, 2019) offers an excellent theoretical starting point for creating such a framework. There is support for the importance of the right fit for the CEO position impacting performance positively (Chen & Hambrick, 2012). Furthermore, the evidence presented earlier in this paper suggests that such knowledge is also applicable to non-CEO top managers. In their study on top management successions, Chen & Hambrick (2012) mainly focus on turnaround situations and how these will prompt the firm to handle them in specific ways. However, as TMT replacement is an ongoing process, the framework presented takes a generic approach in its terminology. From this framework, it is then possible to contextualise different scenarios making it clear why the process of replacement can be so complex. The turnaround situation is an example of one relevant context, but limiting the framework to turnaround situations only would diminish the potential theoretical development. This is further clear when considering the replacement process, non-turnaround situations are likely to cause some of the more simple hires, such as e.g., the crown heir successor (Friedman & Olk, 1995), whereas a turnaround situation would be drastically different. However, in the different scenarios, it is interesting to see how the alignment of characteristics can yield some interesting findings to complement the selection process of how firms are handling top management replacements. The framework thus seeks to tackle the dearth of research looking at the characteristics of the new entrant vis-à-vis the TMT and the departing member.

In developing the framework, it is important to stress the aspect of non-CEO top management replacement. The focus is on direct replacement, which is a departing member being replaced by a new entrant (internal or external) that enters the same role/function (e.g., a CFO for a CFO). Thereby, the framework encapsulates the holistic succession process from the decision to leave (drift/shift) to an adequate replacement is found (refit). For the purpose of examining the type of replacement depending on their alignment of characteristics vis-à-vis incumbent team and departing TMT member, a 2 by 2 conceptual model (Eisenhardt, 1989a) is shown in figure 3.2. The broad concept of similarity can take various forms, and either be in terms of specific single characteristics or an aggregate measure of multiple different characteristics. The latter will be the most meaningful, as single characteristic studies will leave a large amount of information hidden in a black box, leading to potential oversimplifications

and neglected mechanisms (Lawrence, 1997). From a social classification perspective dealing with single variables can lead to an individual being split between identifying with multiple groups. Therefore, making a "demographic profile" is better for assessing the real managerial impacts rather than using single variables (Tsui et al., 1992). Notwithstanding, some situations may warrant single-characteristic studies, in which case the terminology presented in the framework can be applied.

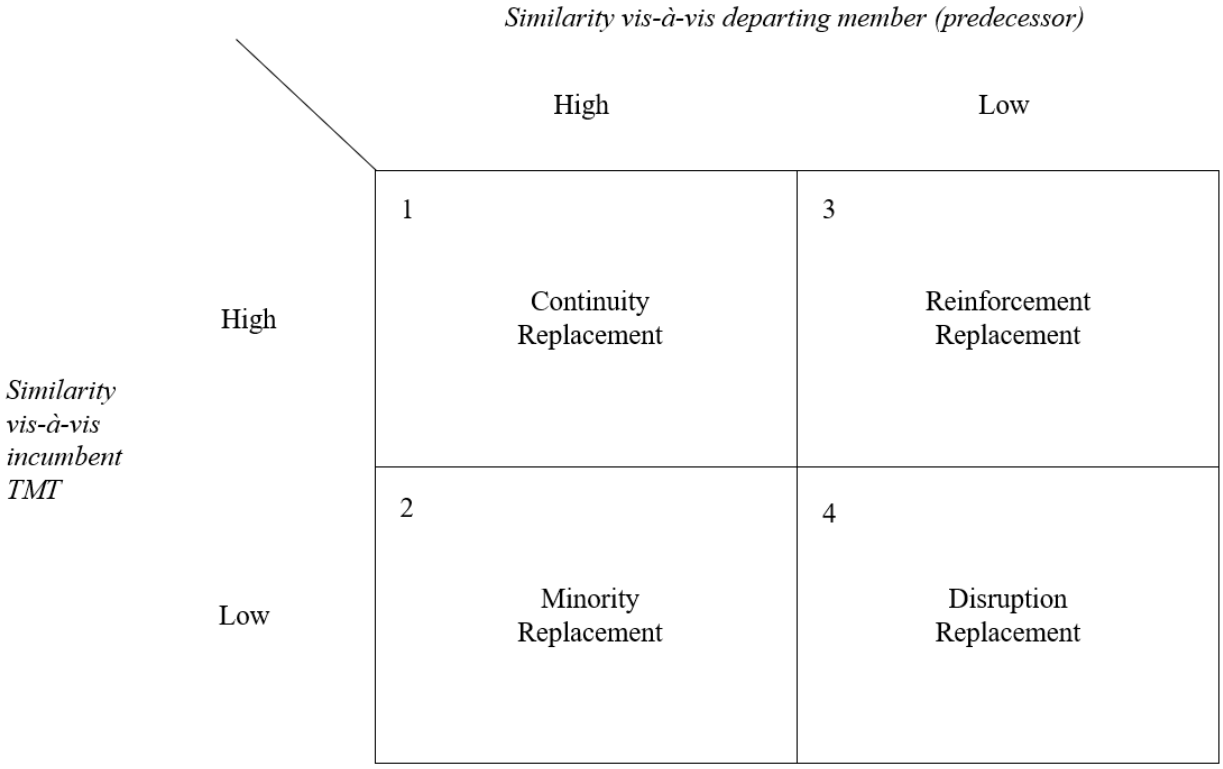

Figure 3.2 characteristics of entrants vis-à-vis departing member and incumbent TMT

For this framework to remain valid, there are several underlying assumptions which potentially create issues in the conceptualisation. For example, the starting point of the TMT in terms of the level of diversity. If the team is already highly diverse, it can be difficult to determine who is similar and who is dissimilar when looking at exits and replacements (on the comparison to the team / y-axis). Under such a situation, the researcher may need to apply independent, expert judgement. Nevertheless, in most cases, it will be possible to find a dominant group making a point of reference. Another important factor to highlight is that whilst the framework is tackling top management replacements, the type of replacements described are not directly correlated

to other studies presented on the selection process (such as Friedman & Olk, 1995; Vancil, 1987). For example, if the selection and replacement process includes a Coup D'etat, it is still possible to see the actual new TMT entrants being any of the four types presented in figure 3.2. This paper, therefore, contributes to advancing the understanding of top management succession by providing more depth in the terminology. For simplicity, the framework is presented as categorical. In empirical studies, scholars may wish to use the two axes based on continuous scores to get more nuances results.

3.5.1 Cell 1: High-high → "Continuity Replacement"

The first type of replacement is an individual having high similarity with both the departing member and the incumbent team. If the initial team is composed of four members, A A A B, then this replacement would be one of the A being replaced by a different A. There is an element of availability of potential executives impacting this scenario, as it is common to see a specific type of people attracted to certain industries (Zhang & Rajagopalan, 2003). Within an industry, it is likely to find a vast amount of executives having similarities in e.g., education and functional experience. Furthermore, matters such as nationality is country dependent, showing how the pool of talent adequate for the specific role may bias the results into favouring such continuity. However, when it comes to the senior leadership, a reasonable assumption is that firms, particularly larger firms, have the ability to attract people from a larger pool of (international) talent, thereby being increasingly likely to find an executive that fits the needs and desires they have (Ruigrok & Greve, 2008). As such, two distinct firm-level rationales for opting for a *Continuity Replacement* occur. The first one relates to the firm and managers' commitment to status-quo (Geletkanycz, 1997; Hambrick et al., 1993) and the second related to the concept of "closing ranks" in TMTs (Boone, van Olffen, va Witteloostuijn, & De Bradabander, 2004).

When firms are operating and performing well, it is often desirable to continue the same path without 'rocking the boat' unnecessarily. Previous research on top managers indicates that factors such as age (Sambharya, 1996) and cultural values (e.g., individualism, uncertainty avoidance and power distance) (Gavetti, 2012; Geletkanycz, 1997) are associated with a more substantial commitment to status quo. However, following succession, such commitment tends to decline as the new leaders seek to make their own changes to the organisation (Behr & Fehre, 2019). One of the ways the literature has previously considered the commitment to status quo

is in the aforementioned insider/outsider discussion. When selecting a new CEO, good pre-succession performance increases the likelihood of selecting an insider to continue the current direction (Quigley et al., 2019), typically in the form of either a Crown Heir or a Horse Race. Such a replacement is often considered a 'routine CEO succession' (Kavadis et al., 2022) that signifies *Continuity*. Similarly, when selecting new TMT members, insiders at lower tiers in the organisation can be considered. However, an alternative approach is to also align the new manager on various characteristics with their predecessor to find someone with a similar mindset and approaches to problem-solving. Particularly if the characteristic alignments focus on deep-level tier variables (i.e., tier 3 or 4), such as functional experience and education (Carpenter, 2002), it is likely the firm is seeking continuity. Furthermore, by selecting a member that aligns with the majority of the incumbent TMT, the firm is avoiding potential communication issues, as explained by the "Similarity-Attraction" effect (Byrne, 1971; Montoya et al., 2008; Schneider, 1987). Overall, such a replacement will often be considered straightforward and signal stability to the board and shareholders (Bloom, Genakos, Sadun, & Van Reenen, 2012).

An alternative situation that can lead to a *Continuity Replacement* occurs through the concept of "closing ranks" (Boone et al., 2004). Whilst many situations of deteriorating performance encourage the firm to make substantial changes (Essman, Schepker, Nyberg, & Ray, 2021), there are situations where the opposite happens. In their study, Boone et al. (2004: 649) concluded that "[…] top executive management teams tend to close ranks when environmental complexity and pressure increases". This warrants that in certain circumstances, despite poor performance, the obstacles surrounding the firm become so large and complex that the TMT values the stability of ensuring they can communicate effectively and work together rather than potentially increasing the diversity to search for more complex knowledge bases. It can also be a consequence of fear of further departures if, besides performance and pressure, some of the executives do not feel personally connected with their employees. Too many departures can make it challenging to continue finding adequate executives, which inevitably will further challenge the survival of the firm (Hambrick & D'Aveni, 1992). Therefore, the potential of closing ranks and thereby appointing *Continuity Replacement* under poor performance cannot be completely ruled out.

3.5.2 Cell 2 Low-high → "Minority Replacement"

The second replacement type, *Minority Replacement,* is an individual that displays high similarity vis-à-vis the predecessor but has a low alignment of characteristics with the incumbent TMT. Using similar terminology as in the previous replacement type, executive B would depart the TMT and be replaced by another B. Such a situation can happen for various reasons. In extreme cases, it is what Kanter (1977) calls a "token" – a single minority member within the team that differs from the rest on specific characteristics. The original term "token*"* was coined to explain boards and leadership teams where only one female was present, in an otherwise male-dominated entity. However, the argumentation applies wider than just gender studies. It can also be applicable to other characteristics, including but not limited to nationality, age, background experience, etc. These characteristics are potentially increasing the diversity within a TMT to ensure the firm can tap into more sophisticated and complex knowledge when making strategic decisions (Williams & O'Reilly III, 1998). Notwithstanding, solely considering a replacement with the explained features (i.e., similarity with the predecessor but not the TMT) as a token would make an oversimplified terminology in many cases. Most firms – particularly the largest firms with complex leadership structures - are unlikely to have an individual that is a complete token (i.e., is the only one displaying specific characteristics) (Greve et al., 2009). Rather, there would be an overlap of characteristics with some members, albeit far from the majority. Therefore, we adopt a different argument from Kanter's (1993) work and refer to this event as a *Minority Replacement*. This better reflects the situation in many leadership teams, where "Minority members have potential allies among each other, can form coalitions, and can affect the culture of the group" (Kanter, 1993: 209). The latter argument in the quote is important – particularly in the contextualisation of replacements – as it signals some of the social changes that happen in the firm over time. For example, if several replacement processes utilise Coup D'Etat and bring in minority members of similarity, it can tip the balance so that the minority ends up as the majority. Overall, the mechanisms for Token Replacement and Minority Replacement are the same, but the latter makes the framework better fit the realities of corporate leadership teams.

A major reason for the importance of understanding the dynamics driving a *Minority Replacement* is the challenge of retaining key employees. One of the greatest challenges for most firms is the attraction and retention of talent (Hausknecht & Trevor, 2011). Dealing with individuals of different characteristics than the dominant part of a team heighten this challenge

as such members are often considered "outgroup members" (Tajfel, 1982; Tajfel & Turner, 1986; Turner et al., 1979). This likely means that, on a personal level, they do not feel embedded in the dynamics of the team. Previous findings show that outgroup members display their dissatisfaction through higher absenteeism (Reinwald & Kunze, 2020), something that can have performance consequences through less effective working conditions and decision-making processes – particularly if the source of diverse skills is not well-integrated. Obviously, absenteeism tends to be a smaller problem at the highest and most senior level, given the responsibility of each member (McDonnell & Cobb, 2020). Yet, it remains important to understand the causes of why and when these outgroup members potentially depart their role and, more importantly, how it can be prevented.

The importance of retaining these members, or alternatively replacing them with similar characteristics through a *Minority Replacement*, stems from two overall arguments. Both of these arguments relate to the importance of and focus on diversity and equality in teams (Derks, van Laar, Ellemers, & de Groot, 2011). The first reason for ensuring the minority individual stays is consistent with the benefits related to diversity in the team. In the optimal fit, there is a certain level of diversity to ensure skills and qualities that match the context of the firm and enable optimal strategic decisions and performance (Dahlin et al., 2005). The second reason relates to how losing a 'minority member' can be problematic as the firm is thereby not 'meeting the quotas' and appears bad in the public eye. With an increasing focus on equality, also in the leadership, these minority members provide the firms with a certain level of diversity that ensure compliance with expectations and regulations (Bratton, 2005; Guldiken et al., 2019). Whilst this is not the optimal approach to hiring individuals, the hope of such strategies is that firms, and society at large, will eventually reap the benefits of greater leadership diversity. Nevertheless, it remains part of explaining why and when firms might utilise *Minority Replacements.*

3.5.3 High-low → "Reinforcement Replacement"

The third type of replacement is individuals with characteristics comparable to the incumbent TMT whilst being dissimilar to the predecessor. In a team A A B C, a replacement where the B is replaced by an A would signify a *Reinforcement Replacement*. Such replacements will, depending on the current level of heterogeneity in the team, resemble a path towards greater homogeneity and lower levels of diversity in the teams. When facing this

situation, it can happen for different reasons, however, most of them are influenced by the mechanisms of the "Similarity-Attraction" effects (Byrne, 1971). In his work, Byrne presents a plethora of different scenarios where the similarity of attitudes leads to better interactions between people as "[…] attraction between persons is a function of the extent to which reciprocal rewards are present in their interactions[…]" (Byrne, 1971: 266). The thesis of the work is that people have a tendency to prefer to work with people of similar traits and beliefs, as they feel greater satisfaction by individuals reinforcing their views (Doms & zu Knyphausen-Aufseß, 2014). Later, the findings were extended to consider the selection process of top managers through the "Attraction-Selection-Attrition" (ASA) framework (Schneider, 1987). The argument is that there is a natural tendency for groups to become more homogeneous over time as the individual in charge of finding a new group member (in TMTs, typically driven by the CEO, consistent with the process of e.g., Crown Heir) is attracted to similar individuals and more likely to select such people from the role. Simultaneously, the attrition stage sees dissimilar individuals as more likely to depart the group – consistent with research on outgroup member departure (Tajfel & Turner, 1986). Results on top management indicate that such a development, whereby homogeneity is increasing, occurs in TMTs (Nielsen, 2009). We, therefore, propose the succession type of *Reinforcement Succession* to reflect a situation where the firm is seeking to reinforce the dominant perspective of the team, as this should be associated with attraction through positive feelings (Montoya & Horton, 2013; Montoya et al., 2008).

Besides this natural tendency to display preferences towards characteristically similar people in the selection process, there are reasons more tied to the firm-level environment. Similarly to previously mentioned in the *Continuity Replacement*, there is an element of closing ranks (Boone et al., 2004). In this instance, it will be more salient given that the departing member is dissimilar to the majority of the team. Thus, it would not merely be an element of maintaining the current focus in the TMT, but rather making an active change towards the effects of Similarity-Attraction when facing challenging circumstances. An example is poor performance following a radical change. Such a situation is self-reinforcing and leads the team to be more reluctant to gamble with the next selection, leading to the team preferring someone similar to themselves as the safe option (van Dijk, Meyer, van Engen, & Loyd, 2017). Following this approach is potentially problematic for the firm, as it can hamper the information processing capabilities in the TMT. Nevertheless, it is often the case that comfort is chosen over capabilities, which can help explain reinforcement replacement.

Finally, it should be noted that this type of replacement can also be a consequence of underutilisation of the available qualities in the team. Particularly, if the TMT is equipped with a dynamic and complex environment through high levels of knowledge diversity, a less complex environment can lead to issues (Thatcher, Jehn, & Zanutto, 2003). One of the main sources of conflict in a leadership team stems from underutilisation, where the individual managers do not feel valued because their skills are not sufficiently utilised. The likelihood of the dissimilar executive departing thus heightens as they are not sufficiently challenged, combined with potentially personal issues in the interactions with other members (Li & Hambrick, 2005). To avoid similar challenges, the firm might, in their replacement approach, focus more on the fit of personality with the rest of the TMT, rather than necessarily replacing the skill sets. This shows how having a clear understanding of what goes on in terms of the replacement type, utilising the framework in figure 3.2 can help firms have clarity over what is going on and handle potential issues if this occurs subconsciously.

3.5.4. Low-Low → "Disruption replacement"

The final type of replacement displays dissimilar traits compared to both the predecessor and the incumbent TMT. In most cases, such replacement leads to higher levels of heterogeneity in the team. When considering this move, the firm should be aware of potential integration challenges, as it is unlikely there will be an instant reciprocal desire for effective communication and interactions (Harrison, Price, & Bell, 1998; Stahl et al., 2010). However, it is worth considering such challenges as, under the right conditions, an executive with these traits can bring in new skills that can drastically change firms' strategic and performance-related outcomes (Tushman & Nadler, 1978). If the firm aims to make significant changes, such as targeting a new geographical- or product market, or breaking away from a slump period, the firm should consider increasing the diversity in the TMT (Carpenter, 2002; Schubert & Tavassoli, 2020). Because such a replacement potentially changes the way the firm is operating, such a type of succession is referred to as a *Disruption Replacement*. Disruptions are not necessarily bad, as it often serves to shake up things and avoid falling for the life-cycle trap of remaining committed to the current path excessively. Additionally, it can also be an attractive way to better target new and larger markets (Bunderson & Sutcliffe, 2002). The impact the new executives have largely depends on the degree to which the new member has the capacity to disrupt. Particularly, if we use terminology from the minority replacement, it

becomes clear. If the disruptor comes in and adds further members to a minority, they might have more discretion in the firm as they can form coalitions that can impact decisions (Kanter, 1993). This can have positive benefits as there can be a "truth supported wins" (Jackson, 1992) in which a decision is more likely to be implemented if it is supported by multiple members of the team. However, if it is merely adding another "token" without overlapping with other members will make it more challenging for the new executive to get their message across to impact decisions. To better understand which type of replacement presents itself, it can be worth holding it together with the replacement process, to understand who oversees the replacement, and what some of the motives are (Friedman & Olk, 1995). This way, it is possible to gain a better understanding of how a *Disrupter* might impact the firm.

Whilst the disruption replacement works to increase the heterogeneity in most cases, there are exceptions. In highly diverse teams, situations where the new member will be dissimilar to both the TMT and the predecessor, without increasing the heterogeneity, exist. Using the previous terminology, consider a team of characteristics A A B C. If the B is departing, but replaced by an individual with characteristics trait D, it will look like a *Disruption Replacement*, but may not create a significant change. Nevertheless, even such a change imposed by the disruption replacement can bring the firm benefits. Either, the new executive is the best-chosen candidate, whereby they will be able to improve the performance (Guldiken et al., 2019). Alternatively, they may bring in a new and different skill set that can lead to new opportunities (McClean, Barnes, Courtright, & Johnson, 2019). Overall, it remains true that if the new executive is in this category, it is likely that they will have some capabilities that can lead to firms changing their path, or at least making some important changes to their current strategy.

The firm will typically opt for a *Disruption Replacement* either to respond to the needs for new skills to handle complexity (Gupta, 1986) or to answer external pressure from various sides (Jeong & Harrison, 2017; Tasheva & Hillman, 2019). In the former case, there can be examples of having the desire to enter a new geographical market. To best do so, the firm seeks to appoint an executive that has knowledge related to the context and can provide invaluable resources. Such a situation typically happens by firms matching the new managers to the strategy (Kaczmarek & Nyuur, 2021). The second reason for engaging in disruption replacement is to respond to calls for further diversity in specific characteristics. For example, if a country is regulating the management teams to have a certain percentage of women in their upper echelons, the firm can be forced to conform by hiring a dissimilar disruptor. The changes

the new executive can make tend to be far greater in the former case, as the new executive will enter with a stronger mandate and more discretion to make decisions (Behr & Fehre, 2019). Nevertheless, regardless of type, it is expected that such an approach to top management replacements will impact the firm's future endeavours. However, the firm also needs to be aware of the integration challenges associated with a disruption replacement in its effort to reap the full benefit.

3.6 Future research directions – applying the framework at multiple levels

After establishing the replacement framework, the natural next step is to apply it to empirical settings to advance succession and replacement research. While it is outside the scope of this conceptual paper to test the framework empirically, this section provides guidance on how scholars can use the framework to gain a more unified understanding of replacements. Research on top management succession has often yielded mixed findings (Berns & Klarner, 2017; Kesner & Sebora, 1994). Therefore, when applying the replacement framework, it is important not to do so in a vacuum but remember to contextualise the research settings. Things such as the departure reason, the firm's performance and stakeholder pressure will shape the way the firm goes about selecting the new member. For example, departures from a specific role within the decision-making scope of the firm (e.g., dismissal or demotion) differs from those outside the scope of the firm's influence (e.g., voluntary departure, illness or death) (Gordon & Rosen, 1981). Depending on the nature of an individual leaving the role, the replacement will differ based on planning processes and readily available (internal or external) talent. Alternatively, it can also be worth considering whether the departing member is actually leaving the firm, or only their position because of promotion[19]. Likewise, the trigger for departure matters too. Whether it is poor firm performance (Lel et al., 2019; Wiersema & Zhang, 2011) or specific industry factors (Datta & Rajagopalan, 1998) that shape the replacement will matter for the chosen candidate.

All these different scenarios will impact both the process of replacement and the type of replacement. For the process, it becomes clear that if the "departure" of a non-CEO executive is because the focal individual has been promoted to CEO, that individual is likely to be a vital

[19] For example, in a dataset, it might be possible to identify a CFO, who are then leaving the role in t+1. Here it is important to account for whether they are leaving the firm, or e.g., becoming CEO as the subsequent firm actions will differ significantly between the two.

part of the selection process of their successor, thereby likely utilising strategies such as crown heir. However, there will be scenarios where it is not necessarily an insider that has long been in the firm taking over in such a scenario. For example, when Andy Jassy took over as CEO of Amazon, his previous role was filled by an outsider – Adam Selipsky – but still in a process where Andy Jassy was a key player (Teal, 2021). Alternatively, if the departing executive is leaving for more abrupt reasons, there can be greater need to look for other strategies, for example, a comprehensive search where several candidates are considered. For example, when Tim Stone unexpectedly departed as CFO of Snap Inc., the firm went through a process over a couple of months to find the right successor, ultimately settling for an insider in Derek Andersen (Rodriguez, 2019; Snap, 2019). At the same time, by combining this with the replacement type and looking at the characteristics, further nuances can be made. For example, considering the profiles of the two CFOs mentioned regarding Snap, it is interesting to see that despite going through a more comprehensive decision-making process, Snap Inc. Ended up selecting a very similar individual in terms of gender, age, and experience (both of them, amongst other jobs, had extensive careers in Amazon prior to joining Snap)[20]. However, other scenarios could be interesting to consider as well – especially as the process and replacement type will differ depending on the reasons for the need of a replacement.

It, therefore, becomes clear that factors impacting the replacement process can occur at different levels, notably through individual or firm-level drift. However, some scenarios can differ from these two, such as important exogenous events triggering departures. Whilst not all possible levels need to be included in studies applying the framework, it is worth theorising according to the different levels (Bell, Fairbrother, & Jones, 2019). Being explicit about the different impacts occurring depending on the level will help steer the research towards stronger contributions, whilst also helping the reader in their understanding of the work. Future studies should seek to investigate some of the research proposals presented in this section or find different contexts where the framework is applicable. For example, research can be considered using multi-level models to approach the research topic (Luke, 2004; Peterson, Arregle, & Martin, 2012). For the guidance of future research, this paper presents simple propositions at three different levels – individual (TMT) level, firm level and country level. These three are in no way exclusive but can lead to interesting research avenues.

[20] Information taken from their respective LinkedIn profiles, to be found at https://www.linkedin.com/in/tim-stone-2176a62/ and https://www.linkedin.com/in/derekandersen/

3.6.1 Individual level – the baseline scenario

At the individual level, the replacements and executive selection leading to compositional TMT changes will often be impacted by a trade-off between the added capabilities top managers bring (Buckley, Chen, Clegg, & Voss, 2016; Tushman & Nadler, 1978) and potential deficiency in social interaction, which can shape preferences for the departing member and the new entrant (Tasheva & Hillman, 2019). As such, different factors regarding who depart and what the replacement process is like the impact the type of replacement from figure 3.2. The impacts can be as simple as the differences between when in-group versus outgroup members depart the firm, and how this process will be handled. However, there can also be further nuances, depending on the characteristics chosen to be of interest. Therefore, leaving out other factors than solely information on the individual level will provide little testable information. With this information, it is possible to make conflicting arguments regarding increasing homogeneity on the one hand (typically associated with Continuity Replacements and Reinforcement Replacements) and increasing heterogeneity on the other hand (typically through Minority Replacement or Disruption Replacement).

When looking at arguments pertaining to increasing homogeneity, the roots of this effect are in social identity theory (Turner et al., 1979). Particularly, the effects presented in the ASA framework (Schneider, 1987) which build on the similarity-attraction paradigm (Byrne, 1971). The evidence from this perspective is that dissimilar people tend to feel as outgroup members and, over time, be more likely to depart the TMT than 'ingroup' members. Nielsen (2009) find evidence for the ASA process, by looking at education, nationality, industry- and international experience. Her results indicate that TMTs converge towards social homogeneity. Whilst such findings are interesting, they need to be treated with caution. For example, it is found that actual similarities do not matter in the long run. Rather, it is the perceived similarities (Montoya et al., 2008) that shape TMT departures and entries. Linking back to the diversity used for determining the fit between the executive and the firm, a challenge with such an approach is that it is found to increase conflicts when the differences are based on values and beliefs (Greve et al., 2009) – variables classified as deep-level, tier 4 variable. Diversity based on such variables relates to *separation* diversity, which is associated with higher withdrawal rates (Harrison & Klein, 2007). These higher rates will most likely lead to voluntary departures of the dissimilar member as the focal individual does not feel embedded in the team. Simultaneously, if conflicts arise, decision makers might be more inclined to let

go of the dissimilar member who does not fitting with the rest of the group, in as far as there are valid grounds for dismissal.

In both scenarios of departure, regardless of whether it is voluntary or involuntary, the motives explained will, *ceteris paribus,* be associated with a preference towards members that are perceived as similar to the majority of the incumbent team. The effects stem from a desire to avoid potential conflicts, thereby ensuring that the firm is operating better and more efficiently (Foss & Weber, 2016). In a study looking at the likelihood of a new appointee being an outsider, Doms & zu Knyphausen-Aufseß (2014) find support for it to be the case when the share of outsiders in the incumbent TMT is already outsiders, lending support for the idea that for a replacement will most likely be displaying similar characteristics to the majority of the TMT. At the same time, the people involved in the decision-making get attracted by similar people (Byrne, 1971), making it likely that the decision-makers select the new appointee that is similar to the incumbent team, but dissimilar to the departing member. Such arguments would typically mean that looking at the firm and TMT from an overall perspective, we would expect to mirror Nielsen's (2009) findings in most searches.

However, contrary to the idea that outgroup members feel less appreciated and that the people involved with the decision-making process favour higher similarity, other studies suggest that the information processing requirements are more salient in TMT composition research (Sanders & Carpenter, 1998; Tushman & Nadler, 1978). In a complex organisation, such requirements might be even more salient (Carpenter & Fredrickson, 2001), as it is a requirement to have a large information processing capacity to cope with the many different markets the firm is operating in (Georgakakis et al., 2021; Jaw & Lin, 2009). Under the assumption that the TMT at the initial stage is highly homogeneous, the firm will seek to increase its skills and knowledge as the firm grows. Hence, the members most likely to depart – voluntarily or involuntarily – are those displaying high similarity to the majority of the TMT. As a response, they will be replaced by dissimilar individuals compared to both the departing member and the incumbent team, to bring in new and distinct perspectives (Estélyi & Nisar, 2016). The increasing homogeneity effects thus stem from the fact that, as time goes, high similarity individuals are less inclined to stay as they feel less important for the success of the firm (Rickley, 2019). They thereby see a drift in the personal fit, whilst the shifting preferences of the firm will lead to a dissimilar entrant. Typically, this will lead to a replacement process where there are some preferences known as to what the firm is looking for (and not looking for), structuring the search process towards specific characteristics and qualities (Friedman &

Olk, 1995). Thereby, it could be argued from the individual TMT level that as firms grow, the increasing need for different capabilities reflect the TMT composition.

It thus becomes clear that solely considering the individual level will give only scarce information about both the process of replacement and the subsequent replacement type. As all successions of top managers bring unique complexity (Greve et al., 2015), looking only at the individual level will often be too simplistic and not provide sufficient information regarding how the TMT's effectiveness may look ex-post. Whilst there can be some relevance in studying the lower-level effects as above, considering different contextual natures will bring further details that can prove highly relevant and valuable in advancing our understanding of top management succession and replacement. In the following section, we integrate different contexts from the firm level and country level, as these can shape the successions. This brings in further information and detail, that can aid the advancement of knowledge and planning to make the handling of executive, non-CEO succession more detailed. That way, it is also possible to see contributions to both academic literature and practice.

3.6.2 ***Firm-level contexts***

When determining what drives the departure and the executive selection, firm-level factors are often among the first to be considered (Hilger et al., 2013; Messersmith et al., 2014). This level provides meaningful effects in the succession process, as elements such as poor performance and strategic change are just two of many relevant factors that have been found to impact both the level of succession and the executive selection (Hollenbeck, 2009; Sperry, 1999; Wangrow, Schepker, & Barker, 2022). Differences at this level can thus help us predict and understand the replacement process and choice of replacement type better. The firm-level factors presented in this paper are in no way exhaustive, and further factors/contexts may be relevant. However, these show some relevant aspects that we know can impact the replacement process but know less about how they impact the type of replacement. This way, the types or replacements presented in table 3.2 can help advance the top management succession literature by providing better terminology and understanding.

3.6.2.1 Performance perspectives

At the firm level, there are some clear-cut variables which, according to the extant literature, trigger departure – the most evident being poor firm performance (Beck & Wiersema, 2011). While findings regarding a few specific sectors suggest that poor performance can be associated with 'closing ranks' (Boone et al., 2004), there is a general consensus that poor firm performance increases the likelihood of CEO departure (Bilgili et al., 2017) and overall TMT departure (Buyl, Boone, & Wade, 2015). Typically, the departure will occur through a disruptive process that can be part of a larger restructuring of the TMT. Simultaneously, the process can also be under time pressure to find a new executive rapidly – making it more challenging to, for example, go through a Comprehensive Search path. Regardless, the aim of succession in the aftermath of poor performance is typically to lead the way for a replacement that brings a new and different skill set to overcome the current challenges (Chen & Hambrick, 2012). As such, using performance as a measure to predict and determine the replacement of a top manager brings a lot of compelling arguments, typically associated with arguments towards further heterogeneity in the TMT.

Using performance is further compelling as it is tangible and easy to interpret. One of the most frequently applied measures is ROA (Ryan et al., 2016), but it can also be other measures such as innovation (Santangelo, Meyer, & Jindra, 2016) or sales growth (Frost, Birkinshaw, & Ensign, 2002). Alternatively, it is possible to apply non-accounting-based performance measures, such as market value (Chang, Dasgupta, & Hilary, 2010; Solal & Snellman, 2019) or Tobin's Q (Combs, Crook, & Shook, 2005; Shi, Zhang, & Hoskisson, 2017). The different approaches to measuring performance have similar advantages in being tangible and, therefore, easily applicable. However, the main difference between accounting-based and market-based measures is that the former typically reflects past performance with short-term implications, whereas the latter shows the expectations of the firm's performance in a longer perspective (Gentry & Shen, 2010). Whilst both types of measures are relevant and interesting, it is thus important to be aware of the implications they may have. It is likely that poor accounting-based performance, through its high visibility and strong signal of potential poor performance, is likely to be associated with certain replacement characteristics – particularly around the time of publishing the firm's annual report. Here the shareholders will get an insight into what the firm has done over the past year, which can put pressure on poorly performing TMTs. However, often times it might be more important to actually consider the

market based performance as it can indicate the trust the investors have in the firm's current direction. A sudden dip in the market value can be a signal from the shareholders that it is time for a change, where it would be interesting to see whether for example a Disruption Replacement is more likely than other types of replacement.

However, the different performance measures discussed all focus solely on the firm itself. A potentially stronger impact when it comes to replacements and TMT composition is how the firm performs against its expectations (Mergenthaler, Rajgopal, & Srinivasan, 2011). Such performance compared to expectations is understood as 'relative performance' and can be measured in different ways, such as performance compared to analysts' expectations, prior year's performance and performance against industry norms (Wangrow et al., 2022). In terms of how to measure performance expectations, it will often be by applying similar market- and accounting-based measures as above, however, this time also comparing it to relevant peer firms or the ex-ante performance expectations of the firm. It is likely that underperforming based on these types of measures can have two overall effects. First, it will increase the likelihood of departure – particularly involuntary departure (Boivie, Graffin, & Pollock, 2012). Second, it will likely lead the firm to pursue new skills when replacing the departing manager in an effort to foster a turnaround (Chen, 2015). That being said, it is not always a given that it is the firm's decision to initiate the succession. Poor performance can also increase the likelihood of individual level drift causing voluntary departure – either as the individual might see better opportunities elsewhere, or the pressure is leading them towards a role under less scrutiny. In such situations, the effects towards the replacement will, however, often be the same, as the firm will seek to make some changes in its current direction. Therefore, whilst considering firm performance in isolation remains relevant, we encourage scholars to consider investigating the impact performance below expectations will have on the TMT composition. One approach could be to test whether the following holds true:

Proposition 1: *Performance (accounting or market based) below expectations will, ceteris paribus, be associated with an increased likelihood of Disruption Replacements, with Minority Replacement being the second most frequent replacement type.*

3.6.2.2 Strategic change

Performance is not the only firm-level factor that is relevant for potential compositional changes to the TMT. Another vital matter that may prompt compositional changes is a firm's desire for a new strategic direction. Granted, there is often a correlation between underperforming firms and those striving for strategic changes. Notwithstanding, the specific, new strategic direction chosen by the firm impact the type of replacement they might be looking for amid departures (Li & Patel, 2019). For example, firms may decide to change their focus towards strengthening the core business by discontinuing certain activities (Sherman, Kashlak, & Joshi, 1998). Alternatively, firms may seek to increase their operations in new markets – either product markets or new geographic locations (Pisani, Muller, & Bogăţan, 2018; Verbeke, Coeurderoy, & Matt, 2018). Such changes in preferences impact the skillsets firms are looking for when seeking to replace a new top manager. Thus, when considering a strategic change motive, it will often be the case that firms spend a significant amount of time ensuring that they find the right candidate – either internally or externally. This prolonged process ensures that the firm is handling the replacement well in finding a new executive. Often times, this would mean looking for a new manager that has different skills compared to the predecessor, and likely also the incumbent TMT, ensuring that they have the relevant knowledge for succeeding in a different market. To exemplify the scenario where new skills are needed, consider the firm's desire to either enter a new geographic market (Nielsen, Asmussen, & Weatherall, 2017; Rugman, 2010) or re-enter a previously unsuccessful foreign market (Surdu, Mellahi, & Glaister, 2019). Under such a strategic change, previous research indicates that a more international TMT can be important for success (Greve et al., 2009). Thus, it would be expected that a firm will be looking for a candidate that differs in characteristics, such as their international experience, to help the firm achieve success in the foreign market. Likewise, if the firm seeks changes to its product market, it is increasingly likely that new, innovative capabilities are needed (Buffington, Foster, Jarmin, & Ohlmacher, 2017; McDonald, West, Rich, & Pfleger, 2019), putting pressure on having candidates with a different type of functional background experience. Overall, this shows that when dealing with strategic changes, we would expect firms to consider replacements that bring in new and different profiles to improve the relevant knowledge available within the TMT.

A firm well-known for its successful approach to changing strategic direction is Siemens, particularly with their "Vision 2020" introduced in 2014 (Anthony, Trotter, &

Scwartz, 2019). At this time, Siemens acknowledged the need to improve automation and digitalisation in the fast-growing tech world. To stay competitive, Siemens realised that they needed to change parts of their core businesses to avoid falling for situations where other competitors would overtake their position. Simultaneously with the strategic change, Siemens introduced a series of changes to their management board – both through internal promotions and hiring new outsider executives (Fritsch, 2015; Siemens, 2014). Whilst some of the changes merely signalled Continuity Replacements, it is interesting to see how the firm saw a need to make changes to their management team to boost the effectiveness of the new strategic direction. In general, the more radical the strategic changes needed, the more necessary it often is to bring in new skills. Other examples have occurred too, and whilst such examples are often impacted by the performance before the strategic change, they remain relevant to study. For example, Netflix has gone through several radical strategic changes, however, with only few management changes on key positions (Lawler, 2013; Mier & Kohli, 2021). Despite these few changes, the new managers have often been hired at strategically critical points, such as in 2013 when Netflix decided to transition from merely being a streaming service to becoming a content creator and decided to replace their Development Officer and promote Greg Peters (Netflix, 2014). What the Netflix case shows us is that the antecedent for strategic changes matters for how top management succession is handled. When poor performance initiates the strategic changes, it is likely there will be a higher number of successions and that they are more aligned with bringing in new skills. When the changes are made to stay relevant and fend off competition, there will likely be fewer changes, and often more in line with status quo. That being said, it is still expected that amid strategic changes, the replacements occurring in the management team are more likely to lead to changes in the skills available in the management team. Thus, we consider that:

Proposition 2*: Strategic changes (Geographic or Product) are associated with an increased likelihood of Disruption Replacement or Minority Replacement – especially when the firm's ex-ante performance has been poor.*

3.6.2.2 CEO – TMT interface: The impact of CEO succession

A final firm-level notion is the interactions between the CEO and wider TMT, i.e., the CEO-TMT interface (Dewar et al., 2019; Georgakakis & Buyl, 2020). Looking at this interface has some similarities to the generic individual-level effects, where ASA mechanisms can

impact the replacement given the CEO's central role in the selection process (Doms & zu Knyphausen-Aufseß, 2014; Herrmann, 2002). However, as the CEO have an impact on all potential successions in each period (year) – not just one individual replacement – relevant CEO effects would, in the case of non-CEO TMT replacements, be considered at the firm level. Whilst it is vital to control for various CEO factors/characteristics when investigating replacements, one specific event stands out that have a large impact on non-CEO TMT replacements – the presence of CEO succession in the same period (Barron et al., 2011; Doz & Kosonen, 2008). Previous research finds that CEO succession can often be associated with other changes to the firm, both in terms of strategic changes and non-CEO TMT member changes (Quigley et al., 2019). One of the core aspects that determines the impact such a CEO succession have on other non-CEO TMT replacements is whether the new CEO is insider or outsider. Following an inside succession, the firm often sticks to status quo as the new CEO knows the firm processes already, which will likely not cause large disruptions in the TMT, although the new CEO will sometimes struggle with finding their own identity (Bilgili et al., 2017; Chastain & Watkins, 2020). There are several examples of firms where insiders have assumed the role of new CEO, often leading to a greater likelihood of continuity (except in some Coup D'Etat scenarios where the insider differs substantially from the predecessor). For example, when Indra Nooyi stepped down as CEO of PepsiCo, she was replaced by an insider in Ramon Laguarta (Cavale & Kumar, 2018). In this succession case, PepsiCo did not face a wave of other TMT replacement; however, the new CEO retained some latitude for strategic changes. Overall, this CEO succession shows a very straightforward situation of a Crown Heir – although also one that displayed a lot of dissimilarities with their predecessor in terms of gender, nationality and experience. In this case, it did not lead to a larger restructuring of the TMT, bringing in other new non-CEO top managers.

On the contrary, an outside successor typically wants a greater impact on the TMT, by setting their own team (Lin & Liu, 2011). Whilst scenarios occur where the outside successor is not leading to larger compositional changes, having an outsider increases the likelihood of this happening, which can have potential implications for the effectiveness of the TMT and the firm. For example, evidence suggests that factional subgroups, divided by faultlines, can occur when a new outside successor enters a firm (Georgakakis & Buyl, 2020). Such factional subgroups potentially lead to a higher number of changes to overcome potential issues, such as communication and collaboration issues, within the TMT. Thus, the outside CEO is likely to be associated with an increase in departure from the team, and it will also increase the

likelihood of the replacement being dissimilar to the incumbent TMT, as the new CEO will pursue changes towards their chosen new path. Evidence suggests that such a strategy might be worthwhile to pursue, as it will increase the likelihood of improving performance (Karaevli, 2007), but only if managed correctly. An example where outside succession impacted the amount of non-CEO TMT changes is Ford, when replacing William Clay Ford Jr. with the firm outsider Alan Mulally in 2006 (Maynard, 2006). After some years of struggling prior to this change, Ford's new CEO made replacements to key positions such as different regional heads and the Chief Marketing Officer role (Vlasic, 2008). Some of the new TMT members differed quite substantially in their experience coming from outside the Auto industry, leading to changing the current direction of Ford. Together with a change in the strategic direction, Ford saw significant improvements following this move (Edmondson, 2021). Whilst this is an example of a success story, it is not necessarily always the case. There are several examples of such replacement strategies backfiring, leading to multiple subsequent successions without leading to better performance by the firm (Hambrick & D'Aveni, 1992). However, as it is a strategy that potentially leads to improvements for the firm, and there is generally an increase in the amount of new CEOs in large firms being classified as outsiders (Nickisch, 2016), it is an area that warrants further research – either stand alone or as an antecedent for performance measures. One aspect to test is:

Proposition 3: *Outsider CEO succession increases the likelihood of subsequent non-CEO TMT Disruption Replacements.*

*3.6.3 C**ountry-level differences***

The final level presented in this conceptual paper is the country level – something particularly relevant when studying multinational enterprises. Many of the largest firms in the world are truly multi-domestic and conduct business in various different countries and thus have to navigate several different cultural and institutional differences (Coeurderoy & Verbeke, 2016). Notwithstanding, firms often remain deeply embedded in the context and complexity of the institutions in their home country (Kostova & Zaheer, 1999; Krause, Li, Ma, & Bruton, 2019). The multinational perspective instead impacts the firms through the institutional distances between countries of operations that increase the organisation's operational complexities (Kostova, 1999; Kostova & Beugelsdijk, 2020). Operating in countries that are vastly different from the home markets puts further pressure on succeeding, as it requires a

different knowledge base, skillset and networks (Shenkar & Zeira, 1992; Vahlne & Johanson, 2017). Whilst it can be interesting to consider this challenge of larger institutional difference between markets as an avenue for future research, we focus in this paper on the complexity of the home country[21]. This is because the TMT composition primarily needs to ensure legitimacy in the home country environment, leading to those institutions having the most direct impact on the composition of the TMT (Yamak et al., 2014). Neglecting how home country institutions and culture impact the composition of the TMT in MNEs is a flawed process, as there are clear tendencies to see an impact from this level. Therefore, the final effort of this paper is to introduce notions of how the external environment, through institutional complexity, shapes TMT replacements. The factors presented in this regard will lend themselves to studies on firms from multiple countries, to ensure sufficient variance in the observations and obtain a meaningful understanding of the differences that can be driven by home country institutions.

3.6.3.1 Institutional factors - complexity

Institutions impact the firm and TMT in different ways, for example, they impact the level of managerial discretion of the decision-makers (Hambrick & Finkelstein, 1987). Prior literature has found that the CEO and chairman of the board have different levels of discretion based on the institutional environment they are working in (Crossland & Hambrick, 2011; Krause et al., 2019). In countries like US and UK, the people in charge have more discretion than, for example, managers in countries like Japan. Similarly, it is found that the TMT's discretion and effectiveness are similarly impacted by institutional factors (Ling, Wei, Klimoski, & Wu, 2015), impacting both what they can do, but also how they are strategically perceived. As such, the replacement process and replacement type will potentially also be shaped by the firm's home-country institutions. This can have both positive and negative impacts. When firms have greater discretion in their institutional settings, the leaders have a more substantial say in the selection process. However, other institutional contexts lead to shareholders having a greater impact – something that can be challenged by less day-to-day information and knowledge. Overall, it shows how institutions can play a large role in understanding the TMT compositions, and therefore is something scholars should consider

[21] Institutional distance is another highly relevant research avenue – regardless of whether it is looking at replacements at HQ TMT level or foreign subsidiary TMT replacements. However, for this paper, the main focus in HQ TMT replacements, and therefore the home country institutional complexity is chosen as the primary context of interest.

when investigating non-CEO TMT replacement – both when considering the process and the type.

A more specific relevant factor when considering the home country effects is the institutional complexity, referring to the quality of the institutions in a given home country. The higher the institutional complexity, the poorer the institutions within a country are (Meyer & Rowan, 1977). Therefore, it is expected that firms operating in high institutional complexity markets are increasingly searching for individuals with strong knowledge of how to handle the home country challenges. Lack of such understanding can be associated with poor performance in the home market and the firm to missing out on crucial deals and resources that is vital for the firm's success (Kostova & Zaheer, 1999; Williamson, 2021). Such a situation would make institutional complexity impact the TMT to converge towards higher homogeneity to ensure a strong fit in knowledge with the home country challenges. On the contrary, MNEs operating in less institutional complexity will find it easier to navigate the home-country context, and thereby seek TMT members that can handle other, more distant markets. This shows that it is often vital to have sorted the home country affairs first – something that is easier under less institutional complexity (Katmon, Mohamad, Norwani, & Farooque, 2019; Narula, Asmussen, Chi, & Kundu, 2019). Such a situation leads to the following impact on TMT replacements:

Proposition 4: *High institutional complexity will be associated with a higher likelihood of selecting a member with similar characteristics to the TMT, thereby making Continuity Replacements and Reinforcement Replacements more likely.*

3.7 Conclusion

This paper provides a conceptual contribution to studying succession within top management teams; particularly with a focus on direct replacements of specific, non-CEO top managers. By using knowledge from the fit-drift/shift-refit model (Finkelstein et al., 2009), the paper makes a theoretical contribution to understanding how firms handle non-CEO TMT replacements. It does so by developing a framework that shows the importance of comparing a new executive with both the incumbent TMT, as well as the immediate predecessor. Through a novel 2 by 2 framework using these two dimensions, four replacements archetypes emerge based on a theoretical examination of the broader succession literature; 1) Continuity Replacement, 2) Minority Replacement, 3) Reinforcement Replacement, and 4) Disruption

Replacement. These different replacement types, standalone, bring a lot of relevance and insight for scholars seeking to understand the replacement of top managers. Furthermore, they complement existing research on how firms tackle the replacement process, thereby providing strong contributions to the theoretical development of the field of top management succession. Besides presenting these relevant types of replacements, the paper further reflects on how the framework can be applied to relevant research avenues – particularly suggesting the importance of studying the replacement through multi-level lenses. Additionally, the paper suggests to gain the most meaningful understanding of what constitutes similarity, it is suggested to use more deep-level variables and, preferably, try to combine them into an "executive profile".

In developing the four replacements, some important paradoxes in the extant succession literature also become apparent. For example, whether a firm focuses on status-quo or seeks strategic changes impacts the types of replacement they hire. Such notions are also linked to the debate on whether there is primarily a need for more information processing capabilities or the focus instead lies on the social interactions enabling communication and knowledge sharing. To best understand and deal with these different paradoxes, a variety of potential contexts are presented, showing that when studying top management replacement, it is vital to contextualise. Preferably, such contextualisation should bring aspects from different levels to get the most accurate and applicable findings. Only this way can succession and replacement research make strong contributions to academics and business leaders. In this paper, the different levels presented were the individual level, firm level and country level. However, many other potential contexts can be studied to improve our understanding of how businesses handle their direct replacements.

Finally, the paper offers insights into relevant approaches for top managers and boards seeking to replace key members of their top management team. Despite highlighting the importance of having a well-planned replacement process, it also offers insight into ways firms and executives should think about findings their new executive. Particularly, when seeking to make strategic changes (geographic or product), or restoring reputation amid poor performance or misbehaviour, it can be relevant to consider replacement types that brings away from the current norms – such as a Disruption Replacement. Practitioners should find such a way of thinking appealing when ensuring to hire new executives with profiles that enable firms to perform optimally.

Chapter 4: Replacing top managers in the world's largest firms: the context shapes successor characteristics

Abstract

This paper empirically investigates non-CEO TMT replacements in the world's largest firms. By utilising a sample of carefully matched predecessor-successor links in Fortune 500 Global firms between 2015 and 2021, the paper tests how the new TMT entrant compares with the immediate predecessor and the incumbent TMT based on their background experience. Notably, the focus is on international- and functional experience. The results indicate that MNEs actively refit their TMTs to fit the context they are operating in, particularly regarding the international experience of their new top managers. These results stem from a multi-level hierarchical linear modelling technique, where the complexity at different levels is taken into consideration. The findings have important theoretical implications, as it contributes to the current field of top management succession literature by providing a more fine-grained approach to studying specific non-CEO TMT members. The paper further contributes to an empirical understanding regarding top management succession research and the role of managers in International Business.

4.1 Introduction

Senior leaders are under constant scrutiny in their role at the helm of the organisation. They are responsible for a plethora of different domains – both inside the organisation and in relation to external stakeholders (Menz, 2012). Besides vital strategic decisions making, they are responsible for areas such as handling internal and external complexities, ensuring employee satisfaction and establishing a foundation for firm performance - both financially and socially (Samimi et al., 2020). While all types of firms are subject to challenging circumstances handled by managers, the multinational enterprises (MNEs) provide the highest level of complexity, as the international aspect with multiple different cultural markets makes them further demanding to govern (Narula & Verbeke, 2015). Generally speaking, global managers face fundamentally different and more complex roles compared to domestic managers, where bounded rationality and bounded reliability increase compared to non-MNE settings (Georgakakis, Wedell-Wedellsborg, et al., 2022). This added complexity includes added requirements for boundary spanning - something not as prevalent in purely domestic settings (Mäkelä, Barner-Rasmussen, Ehrnrooth, & Koveshnikov, 2019; Mendenhall, Reiche, Bird, & Osland, 2012). Besides the international element, the sheer size of the world's largest firms makes them set in their ways of doing business – emphasising the difficulties the leaders face with varying latitude for action and discretion (Finkelstein et al., 2009). Large MNEs are metaphorically speaking similar to big container ships compared to small boats – they are significantly harder to turn. As a consequence, it is vital to ensure that these large MNEs appoint the right leaders capable of managing and navigating the complexity well (Thams et al., 2020). As such, further understanding the handling of TMT composition is crucial, particularly for the organisations themselves, but also for the burgeoning field of research looking at top management turnover and succession (Berns & Klarner, 2017; Giambatista et al., 2005; Kesner & Sebora, 1994).

In studying the MNEs, International Business (IB) research has often focused on higher-level constructs compared to the individual manager level. Such analysis often takes the perspective of a *rational economics* perspective, such as transaction cost economics and internalisation theory (Buckley & Casson, 1976; Williamson, 1979). Alternatively, the focus is on the internationalisation processes, investigating the distance between countries where the focal firm operates (Johanson & Vahlne, 1977; Kostova, 1997). Shared for these strands of IB research is an inherent firm-level focus as the unit of analysis, often oversimplifying the

internal mechanisms of the firm. Despite an increasing amount of studies focusing on the role of managers in international firms and IB (Agnihotri & Bhattacharya, 2015; Cuypers et al., 2021; Nielsen, 2010a; Ponomareva, Uman, Bodolica, & Wennberg, 2022), the field often rely on a "self-reinforcing pattern" (Nielsen, et al., 2020, p. 1481), whereby new knowledge is seldomly generated, and instead, there is an accumulation of existing knowledge. The core constructs remain largely homogenous, whereby more depth and novelty of theory and processes can advance the study of MNE governance. Papers increasingly call for further understanding of the role of managers to overcome an early neglect of their role in the multinational environment (Buckley et al., 2016; Buckley, Devinney, & Louviere, 2007). When studying the role of the firm in IB, a crucial point for success often rests on the resources available within the boundaries of the firm (Penrose, 1959; Rugman & Verbeke, 2002). Such resources either originate from, or are further propelled by capable managers in their decision-making efforts (Finkelstein & Hambrick, 1996; Prahalad & Doz, 1987). The focus of this paper is thus not to discard the importance of extant IB research, but to advance the understanding of the managers of the largest MNEs in the world – the Fortune 500 Global firms. Particularly, the focus is on top management replacements[22] in these firms, to better understand how the firms can optimally handle the challenge.

While acknowledging these vastly important contributions by IB scholars, this paper argues that the rationality arguments often driving such studies of multinational entities can oversimplify the decision-making process. Instead, studies should allow for behavioural concepts, such as cognitive biases and heuristics, to complement IB research (Nardella, Narula, & Surdu, 2020). To understand these behavioural factors, the composition of the top management team (TMT) provides a good predictive assessment of how the top managers work together. Hambrick, Humphrey and Gupta (2015) tackle this issue by proposing that the often mixed findings in the literature on TMTs depend on the fundamental structure of the TMT. Whether the team is displaying high interdependence, or there is a strong hierarchy, matters for the impact the managers have. Well-functioning TMTs possess a greater understanding of the skills available within the firm, for example, through transactional memory systems[23]. Likewise, poor TMT structures hamper the firm's ability to reach its desired objectives, leading to negative consequences (Georgakakis et al., 2017). At the pinnacle of composition research, it is noted that such compositional structures can be fragile and easily disrupted – especially if

[22] The replacement process has been further explained in chapter 3 of this thesis.
[23] For a more thorough assessment of this, please see chapter 2 of this thesis.

culturally dispersed (Mohr & Batsakis, 2019). A particularly disruptive event in the TMT functioning is the handling of top management successions (Hambrick & D'Aveni, 1992).

As such, this paper focuses on empirically testing how Fortune 500 Global firms go about replacing their non-CEO top managers, using a novel framework considering the characteristics of the new top manager, their direct predecessor, and the incumbent TMT[24]. As top management departure from the firm is an inevitable event (Andrus et al., 2019), succession is not considered something purely disruptive to be avoided by the firm. Rather there is a need for a greater understanding of how such replacements are handled, as proper planning yields the best results (Berns & Klarner, 2017). The succession shall, thus, be considered a strategic tool to refit the current team (Finkelstein et al., 2009), albeit with the understanding that some changes can be "shocks" for the firm if the top manager is departing unexpectedly. A strong planning process and awareness of the implications of change will help overcome these issues. Particularly, to understand the role of top managers in large firms, we consider two important characteristics of the managers: their functional experience and international experience backgrounds. With these backgrounds, the focus is on the diversity of such experiences to understand whether the firm looks for managers that are specialists within a narrow functional field or geographic location or rather understand broader areas through a more diverse background. This provides a greater understanding of whether firms are continuing a specific path or seeking to change the skills and human capital available in the TMT.

Attempting to understand how such changes occur requires acknowledgement of the different levels within and surrounding the organisations (Peterson et al., 2012). For succession, the process depends on three overall levels; 1) the surrounding environment the firm is operating in (Elosge et al., 2017; Virany et al., 1992; Yamak et al., 2014), including the institutional environment (Powell & DiMaggio, 1991; Scott, 1995). 2) the performance and changing nature of the firm year-on-year (Daily et al., 2000; Quigley et al., 2019, 2020; Wiersema & Zhang, 2011). 3) the individual's fit and satisfaction in their role (Andersson et al., 2022; Andrus et al., 2019), including the nature of the predecessor (Dwivedi & Misangyi, 2018; Friedman & Saul, 1991; Georgakakis & Buyl, 2020). Therefore, this paper presents a multilevel model where relevant variables at the three distinct levels are investigated, focusing on their impact on the alignment the new executive has with the predecessor and the wider TMT. As the selection of a new executive can be part of a strategic tool to foster changes (Levy,

[24] See chapter 3 of this thesis for in-depth development of the framework

Beechler, Taylor, & Boyacigiller, 2007), understanding potential differences in such replacements can have wide implications for optimising the planning process. It can further lead to an avenue of further potential research on the field, thus contributing to research on IB, strategic leadership and executive succession. We, therefore, proceed with a more thorough assessment of the extant literature on managers in international organisations to further validate our focus on Fortune 500 Global firms.

4.2 Theoretical background and hypotheses

4.2.1 The role of managers in IB

Recent debates in IB research highlight the importance of a more dynamic understanding of behavioural aspects and predictors to advance understanding of the dynamic and multiplex behaviours MNEs display (Surdu, Greve, & Benito, 2021). Research using static theories in IB will often fail to fully corroborate the actual mechanisms of MNEs, due to strict and unrealistic assumptions. Nevertheless, it becomes clear that in key foundational theories, there is scope for the role of managers in the success of the firm, as "[…] in order to co-operate effectively with host governments these managers will need to become sympathetic to the host-country point of view, and to be adept at assessing to what extent, and in what way, acquiescence in government policy is consistent with, or even enhances, long-run profit-maximisation for the firm." (Buckley & Casson, 1976: 106). These notions are further considered as Rugman, Verbeke and Nguyen (2011) argue that IB research is increasingly moving towards a situation where the MNE managers in home and host countries will interact, thereby shifting focus from an overall country-level focus to a more firm-centric focus. Within this firm perspective, the roles of networks, knowledge structures and the ability to work across borders become increasingly important (Lee, Narula, & Hillemann, 2021). This allows scope for key, micro-level factors to understand how firms best handle the complexity of interactions across multiple countries, especially given the role of heuristics and existing knowledge in such a complex environment (Maitland & Sammartino, 2015a).

The scope for managerial impact is further explicated by Casson and Li (2022), arguing that one of the four main complexities that make IB a unique field is the management and the hierarchical understanding, whereby different managers have different roles and are embedded within ownership, production and location. While studying the firm has tremendous value, the

role of the managers is often deeply engrained within them (Buckley et al., 2016). Therefore, advancing the understanding of how firms go about replacing top managers provides a context for better integrating the role of management into the study of firms and cross-border activities. Previous studies considering top managers' role in IB, utilising strategic leadership perspectives, have advanced the understanding of dynamics greatly. For example, Herrmann and Datta (2002, 2006) find that previous, firm-specific experience impacts the choice of entry mode. Likewise, Nielsen and Nielsen's (2011) results show that internationally experienced managers are increasingly likely to choose a full-control entry mode. On the contrary, nationality diversity in the TMT increases the propensity for selecting shared control foreign direct investment (FDI) entry (Nielsen & Nielsen, 2011). Furthermore, overconfidence at the top management team level can also lead to changes in entry modes (Lai, Lin, & Chen, 2017), such that the firm might actually deviate from what IB theory suggests would be the norm (Elia, Larsen, & Piscitello, 2019). Finally, the presence of internationally experienced and nationality diverse TMTs can improve the overall firm performance through these market entries (Nielsen, 2010b).

Nevertheless, it is not only entry modes that managerial efforts have the capacity to impact. There is further evidence of a correlative impact between TMT characteristics and the overall degree of internationalisation (DOI). Empirical findings show that the relationship can go both ways, as DOI can impact the TMT composition (Doms & zu Knyphausen-Aufseß, 2014; Greve et al., 2015; Nielsen, 2009), but the TMT composition can also impact the DOI (Dauth et al., 2017; Fernández-Ortiz & Lombardo, 2009; Pisani et al., 2018). Both directions are vastly important and relevant to study. Nevertheless, it remains imperative to understand how the role of management can impact the firm's international strategy, as it can warrant greater understanding and complement our findings. For example, results show that greater diversity in terms of age and having a larger number of internationally experienced managers increase the foreign presence of a firm (Athanassiou & Nigh, 2002; Sambharya, 1996). Besides merely understanding the amount of international activities, managers also greatly impact where the focal firm's investments go (Buckley et al., 2007; Nielsen et al., 2017). Barkema and Shvyrkov (2007) find that diversity within the TMT can impact the strategic and geographical novelty when looking for new directions. In other words, they find that managers play a key part in the firm's international strategy, including determining the market they enter.

From these considerations, it becomes evident how the departure of managers can cause disruptions. However, it is important when looking at succession to consider a well-planned

replacement as a strategic tool that can have positive implications (Ponomareva et al., 2022). Whether an active decision by the firm or not, whenever a manager is departing the firm, a choice presents itself to the firm of *how to go from here?* The choice becomes notably more important when the firm is losing key talent – something increasingly more likely in MNEs. In a sample of Swedish MNEs and domestic firms, Andersson et al. (2022) find that employees in MNEs are more likely to depart their firms than non-MNE peers. What is interesting in their finding is that this effect is stronger the higher up the ranks of the firm, making MNE management departure a real concern. In such situations, the firm's response will be important as the loss of a key employee can lead to negative impacts on the firm (Staw, 1980; Ton & Huckman, 2008). Such individuals will need to be replaced, and since there is not necessarily a clear heir-apparent[25], it is worth exploring further how the firm goes about the succession. If the firm is prepared for even the unexpected departure, and handles the executive selection for replacement appropriately, the changes might benefit the firm as they can improve strategically and financially. For example, Chiu and Walls (2019) find that CEO change can improve social performance – benefitting several of the firm's stakeholders. However, it can also manage the dynamics within the leadership groups (Georgakakis et al., 2021) and overcome issues such as poor collaboration between key managers.

This paper, therefore, contributes to top management succession and how firms ensure an optimal fit between management and firm (Finkelstein et al., 2009). Together with the evidence presented in the framework in the previous chapter (see figure 3.2), this paper contributes to theory and practice in understanding the international dimensions of top management replacement. To best test these different effects, the paper looks at the differences between the predecessor and the successor, as well as how the successor compares to the incumbent team. Notably, the focus is on the alignment of top managers on *international experience diversity* and *functional experience diversity*. These are core constructs and skills necessary for overcoming the complexity faced in the MNE – both regarding the industry competition but more so in managing across borders (Bartlett & Ghoshal, 1998). Because despite notions of individual preferences (Andersson et al., 2022; Andrus et al., 2019; Johnson et al., 2018) as well as firm-level factors that drive departures and the selection/replacement process (Arthaud-Day et al., 2006; Barron et al., 2011; Nakauchi & Wiersema, 2015), the aggregate surroundings the firm face matter greatly. In some instances, evidence suggests that country-level institutions may have a greater impact than only firm-level considerations

[25] Or crown-heir replacement as explained in chapter 3 (Friedman & Olk, 1995).

(Schmid & Wurster, 2015; van Veen & Marsman, 2008). Therefore, informing the hypotheses, several different levels are considered, to give the best possible understanding of the matter at hand.

4.2.2 International experience diversity

One approach to looking at the managerial skills and their fit with the firm's context is investigating the new manager's exposure to international cross-border settings. A broad grasp of different international contexts is a high priority in managing large MNEs (Ponomareva et al., 2022). As such, international exposure is an increasingly desirable trait for new prospective managers and incumbent managers alike (Groysberg, Kelly, & MacDonald, 2011; Rivas, 2012). International exposure can be measured in various ways, including international experience (IE) (Georgakakis, Dauth, & Ruigrok, 2016; Mohr & Batsakis, 2019; Nuruzzaman et al., 2018; Tasheva & Hillman, 2019), nationality diversity (Boone et al., 2019; Caligiuri, Lazarova, & Zehetbauer, 2004; Estélyi & Nisar, 2016; Kaczmarek & Nyuur, 2021; Nielsen, 2010b; Oxelheim, Gregorič, Randøy, & Thomsen, 2013), international education (Carpenter & Fredrickson, 2001; Dauth et al., 2017; Ruigrok et al., 2007), international experience in the formative years (Piaskowska & Trojanowski, 2014) and wider exposure to different cultural backgrounds (Frijns, Dodd, & Cimerova, 2016; Pisani et al., 2018). Maitland and Sammartino (2015b), in their study of a firm's FDI engagement in a volatile, international environment, argue that international exposure's impact depends on how it is accumulated. They suggest four different dimensions of experience: 1) international breadth, 2) depth of within-country experience, 3) diversity in the exposure to psychically different countries and 4) strategic decision-making experience. These dimensions have predictive value in understanding managers' mental models and scenario-based reactions.

Whilst the different aspects of international exposure presented above are all relevant, this paper first considers the breadth of international experience. Rickley (2019) investigates antecedents for IE of the managers in foreign-owned subsidiaries. Her findings indicate that a larger distance between the headquarter (HQ) and subsidiary is associated with greater levels of managers' IE. This added IE is necessary as it amplifies knowledge sharing in the HQ-subsidiary interface (Meyer, Li, & Schotter, 2020). Additionally, IE at the HQ level provide greater latitude for strategic change and enables good firm performance (Le & Kroll, 2017). This finding is further corroborated by firms' ability to expand faster internationally if they

have internationally experienced TMTs (Mohr & Batsakis, 2019), as these managers can exploit their existing knowledge to overcome obstacles faster and more accurately.

Despite these apparent benefits, conflicting evidence from Hamori and Koyuncu (2011) suggests that managers spending a significant amount of time away from the home country to develop their international experience face additional obstacles in their path to the top. Schmid and Wurster (2017) further elaborate on this by finding that the fastest individuals to reach the top, on average, only spend 1.48 years abroad in developing their international experience. One of the notable reasons for this apparent paradox is that the individuals are missing potential networking and opportunities for showcasing their skills within the organisation when spending time abroad, and therefore have fewer opportunities to propel them to the top rapidly. Taking into account this paradox, it becomes evident that there is a potential misalignment between the firm's and the individual's benefits of IE. This paper helps shed light on this paradox to understand in which contexts firms are hiring individuals with a different IE background compared to the predecessor and, potentially, the incumbent TMT. Such a contribution to the understanding of International Experience of managers is highly needed (Daily et al., 2000; Georgakakis et al., 2016; Schmid & Altfeld, 2018; Schmid & Wurster, 2017) and reply to wide calls for gaining a more thorough understanding of how managerial IE can shape the firm (Rickley, 2019). However, given the firm's international complexity, it is important to consider the role of the manager amid the different levels – starting with themselves, and ending with the overall external, international environment the firm is embedded in.

4.2.2.1 Level 1: Replacement-specific characteristics

At the lowest level, only factors that directly impact the specific replacement is considered (i.e., the direct replacement from one specific manager to another in the same role). These factors do not directly impact other replacements in the same firm in the same year[26]. Various elements impact this level, such as the role the manager assumes (Georgakakis, Heyden, et al., 2022; Menz, 2012), their experience- and educational background (Biemann & Wolf, 2009; Georgakakis et al., 2021; Greve et al., 2015; Magnusson & Boggs, 2006; Zhang

[26] However, a large number of replacements will potentially indicate disturbance, whereby the nature of the individual replacement will have an indirect effect on other potential replacements. Such effect (i.e., number of replacements) would however be considered a level 2 factor.

& Rajagopalan, 2003, 2010) and predecessor characteristics (Elsaid, Benson, & Worrell, 2016; Fredrickson, Hambrick, & Baumrin, 1988). The predecessor's characteristics are particularly interesting to analyse in the context of direct replacements in large MNEs. First, because such characteristics provide information on the role and potential behaviour, the individual had within the TMT. Second, because it is a factor that, other than at CEO level, has not been widely studied in the context of executive selection. Therefore, the first potential impact considered is whether the predecessor is a foreigner or not, as ample research shows that it can impact nationality diversity within the team and alter the skillset available within the TMT (Kaczmarek & Nyuur, 2021; Nielsen & Nielsen, 2013; Pisani et al., 2018; Ruigrok & Greve, 2008).

While nationality potentially causes stereotyping, it simultaneously operates as a predictor of behaviours and attributes the individual brings to the team (Hambrick & Mason, 1984). Notably, potential differences in cognitive schema across nationalities impact both the knowledge and sensemaking approach the individual displays (Hambrick, Davison, Snell, & Snow, 1998; Maitland & Sammartino, 2015b). Earley and Mosakowski (2000), in their multi-study paper on the impact of nationality diversity, find that the benefits to reap from nationality heterogeneity at the team level can be challenging to accomplish in the early stages. However, as time progress, diversity becomes a core strength for the firm. Instead of considering the specific nationality of the predecessor, whether he or she is a foreigner allows for a broader understanding of their impact. A foreigner may bring unique value and contribute to the team despite their potential early status as an outgroup member (Boone et al., 2019). Losing such a member will challenge the firm through the loss of unique knowledge (Giannetti, Liao, & Yu, 2015). Consequently, the firm will seek to fill a very specific knowledge void. It is challenging to find a similar candidate with a comparable skillset and nationality that is also willing to relocate to the firm's location. This is further strengthened as the individual career paths will differ greatly when working abroad (Zikic, Bonache, & Cerdin, 2010). Therefore, the firm is increasingly likely to end up with a new TMT candidate that displays a different type of IE background than the predecessor – regardless of whether a foreigner or a home-country national. Secondly, as the foreign predecessor likely is fulfilling a role where their knowledge is well suited, the firm is likely to look for a candidate that will have a good understanding of the international environment. As such, the firm might be looking for a candidate that does not share the dominant experience characteristics of the firm to avoid increasing the homogeneity (Athanassiou & Roth, 2006). Consequently, it is expected that:

Hypothesis 1a: *Foreign predecessor is associated with the immediate successor displaying low similarity in international experience diversity vis-à-vis the predecessor.*

Hypothesis 1b: *Foreign predecessor is associated with the immediate successor displaying low similarity in international experience diversity vis-à-vis the incumbent TMT.*

The second individual-replacement-level factor of interest is the predecessor's tenure. Tenure plays a substantial role in extant strategic leadership literature as it provides information on various predictors and outcomes. Research uses it to determine outcomes such as how the TMTs work together, the firm's strategic direction and its impacts on performance (Certo, Lester, Dalton, & Dalton, 2006; Finkelstein & Hambrick, 1990; Harrison et al., 1998, 2002; Nadolska & Barkema, 2014; Sørensen, 1999; Van Knippenberg et al., 2010). In the IB domain, research finds positive relationships between tenure and international strategic activities (Barkema & Shvyrkov, 2007; Rivas, 2012; Tihanyi, Ellstrand, Daily, & Dalton, 2000; Wally & Becerra, 2001) – something important for the study of large MNEs. It indicates that top managers need to possess some firm-specific knowledge when handling the entry into new markets/ Furthermore, tenure can be the key to enabling behavioural integration and unlocking the full potential of a diverse TMT (Bunderson & Van der Vegt, 2018; Carmeli & Halevi, 2009; Halevi et al., 2015) – albeit acknowledging that excessive tenure overlaps can lead to groupthink[27] (Certo et al., 2006). The tenure should thus be considered a key variable to handle appropriately in any TMT, as it can play a role in the effectiveness.

Therefore, considering the predecessor's tenure is intriguing, as it partially shows how embedded the previous leader was in the team. Long-tenured predecessor signals that the individual provided important contributions to the organisation. The longer tenure can potentially be a result of the individual bringing a specific skill set to handle their assigned role particularly well. For example, it can be in terms of specific knowledge regarding a foreign market or a division they are running (Kaczmarek & Ruigrok, 2013). Secondly, longer-tenured predecessors will likely have played a role in making the TMT work effectively together (Raithel et al., 2021; Van Knippenberg et al., 2004). As the MNE is highly complex, the TMT will be diverse in other key management characteristics, leading to a greater need for

[27] For a more thorough assessment of the potential benefits of some level of tenure overlap without having excessively long tenure, see chapter 2 of this thesis.

behavioural integration. Consequently, how the firm replaces such a long-tenured manager is critical for the continued success of the firm. As the longer tenure signifies a strong role-individual 'fit', it is expected that the firm will seek to progress with continuity of skills and knowledge – also regarding IE, as the new manager will be taking over the same role and have to handle the same international complexity (Prahalad & Doz, 1987; Verbeke & Fariborzi, 2019). Whilst it can be challenging to find someone with the same skillset, we still expect the firms, through their sheer size and large potential talent pool, will have several candidates. Subsequently:

> ***Hypothesis 2a:*** *Longer predecessor tenure is associated with the immediate successor displaying high similarity in international experience diversity vis-à-vis the predecessor.*
>
> ***Hypothesis 2b:*** *Longer predecessor tenure is associated with the immediate successor displaying high similarity in international experience diversity vis-à-vis the incumbent TMT.*

4.2.2.2 Level 2: firm-year characteristics

The second level presents factors that are nested within the firm but vary according to the year. Included are variables such as firm performance, size of the firm and whether there is a CEO change in the focal year. This level impacts all succession within the firm in a specific year. In the context of executive selection, performance impacts in varying ways the degree to which firms are willing to alter their TMT (Georgakakis et al., 2021; Greve et al., 2015; Pennings & Wezel, 2010; Wiersema & Bantel, 1993). Besides a few contexts (Boone et al., 2004), the prevalent notion is that poor performance increasingly makes the firm consider higher executive dissimilarity when hiring a new top manager (Buyl et al., 2015; Georgakakis et al., 2021; Liu, Valenti, & Yu, 2012). One aspect that has gained increasing interest within performance research is how the performance compares to the aspiration level of the firm (Zhang & Greve, 2019). When considering how the firm is performing compared to industry expectations, it becomes further evident how firms may consider the fit of specific, key executives, impacting the MNE and their decision-making TMT (Surdu et al., 2021). Particularly, the aspiration levels can be considering the firm's return on assets (ROA) compared to the industry the firm operates in, to provide a tangible measure of the firm's

relative performance. Whilst firms differ slightly in characteristics, even within the industry, underperforming on this measure will increase the likelihood of departure and warrant compositional changes (Virany et al., 1992). For large MNEs, the compositional changes could be an attempt to increase the knowledge available within the TMT to improve the performance in different geographical markets. Such skills would typically come through increased international experience and capabilities. On the contrary, if the firm is performing above aspirations, it signals that the firm is on a good trajectory and wants to continue on the same path (Carpenter et al., 2004; Messersmith et al., 2014). Even in times of good performance, there will still be a natural degree of TMT changes[28]. Therefore

> ***Hypothesis 3a:*** *Performance above the average industry performance is associated with the new manager displaying high similarity in international experience vis-à-vis predecessor.*
>
> ***Hypothesis 3b:*** *Performance above the average industry performance is associated with the new manager displaying high similarity in international experience vis-à-vis the incumbent TMT.*

4.2.2.3 Level 3: Firm-level fixed characteristics

The final and highest level impacting top management replacements in this paper is the environment the firm is embedded in. This includes time-invariant effects that impact all replacements within the firm over the sample period. When considering the firm's environment, there are different potential variables to investigate, such as the geographical location, fixed firm characteristics, or the institutional context firm is operating under (Dunning, 2009; Powell & DiMaggio, 1991; Rugman & Verbeke, 2008; Scott & Meyer, 1994; Verbeke et al., 2018). One firm attribute that is reasonably stable over the sample period, both according to our data and a previous study using a similar context (Greve et al., 2015), is the firm's international scope (i.e., the degree of internationalisation (DOI)). Firms face slight variations in their DOI over the years, as they engage in new FDI, re-entry into foreign markets or see changes in sales in certain markets. However, in the sample of these large firms, the highly international firms stay on their high-level DOI, whereas more domestically focused

[28] The hypotheses act in an opposing matter, such that above aspiration leading to high similarity also means below aspiration performance is associated with higher dissimilarity of experience.

firms display lower DOI[29]. This is also reflecting that the sample contains the largest firms in the world, thereby lacking the capabilities to make quick, drastic changes in things such as their international operations.

The level of DOI impacts the top management selection in various ways, as firms respond to the environment they are embedded in through their managers (Hambrick, 1994; Sanders & Carpenter, 1998). Whilst other factors are important too, IE is essential in coping with such internationalisation. As the international complexity increase, so does the information processing requirements (Azam et al., 2018; Rickley, 2019). Capable managers with higher levels of IE provide the required skills to handle such an environment (Nielsen, 2009, 2010b). Greve Biemann and Ruigrok (2015), in their study of executive selections to the TMT, find higher DOI increases the likelihood of hiring foreign managers. It is further found that international firms are more open to foreign board members and top managers (Oxelheim et al., 2013; van Veen, Sahib, & Aangeenbrug, 2014). Like nationality, IE can provide the necessary skills to oversee the more complex firm operations associated with higher DOI. Therefore, it is unsurprising that a recent review by Ponomareva et al. (2022) suggests that international firms are more open to international managers – both in terms of nationality and experience.

Consequently, it is expected that when looking at a direct replacement, the firm's DOI will shape the levels of IE the new member possess. When making a direct replacement, it is important that the firm ensures stability in the capabilities available within the team. Therefore, when looking for a successor, the firm will be increasingly likely to search for an individual that displays similar IE traits as the predecessor. Whilst there can be specific situations where the firm will be increasing the IE in the team, thereby replacing a low IE member with a new high IE member, the prevalent view will be continuity on the individual dimension. On the contrary, given the high diversity typically present in such multinational TMTs (Finkelstein & Hambrick, 1990), the new entrants will likely have a different level of international experience compared to the rest of the TMT. This is because the new entrant will be responsible for a specific part of the operations, potentially tied to a specific geographic location (Schotter & Beamish, 2013). Therefore, they will require different skills than the other top managers in the IE dimension. Using terminology from the conceptual replacement framework[30], such a

[29] All firms are having some international operations, otherwise they have been excluded from the sample to ensure we capture MNE effects.
[30] See chapter 3 of this thesis

succession would be characterised as a "minority replacement". However, given the focus on international experience diversity only, it is not necessarily a minority member per se, but rather a fragmented team replacement – where because of the breadth of skills possessed by TMT members, it can be challenging to find a dominant group within the team. This leads to the following hypotheses:

> ***Hypothesis 4a:*** *high firm-level DOI will be associated with immediate successor displaying high similarity on international experience diversity vis-à-vis the predecessor.*
>
> ***Hypothesis 4b:*** *High firm-level DOI will be associated with immediate successor displaying low similarity on international experience diversity vis-à-vis the incumbent TMT.*

4.2.3 Functional Experience diversity

Besides international experience, another tier 4 variable[31] that can help predict the managers' behaviour and impact the effectiveness of the MNE is the individual's functional background diversity. Similarly to IE, functional experience is widely studied (for reviews, see Homberg & Bui, 2013; Menz, 2012; Nielsen, 2010a; Samimi et al., 2020; Tasheva & Hillman, 2019). Functional experience diversity in the TMT can impact strategy – both domestic and international (Bunderson, 2003; Cho & Hambrick, 2006; Lee & Park, 2006; Richard et al., 2019; Wiersema & Bantel, 1992), as well as the performance of the firm (Buyl et al., 2011; Cannella et al., 2014; Kilduff, Angelmar, & Mehra, 2000). While there is naturally a high level of interpersonal functional diversity in a generic TMT, intra-personal functional diversity provides a more interesting insight into the scope of this paper (Bunderson & Sutcliffe, 2002; Patzelt, zu Knyphausen-Aufseß, & Fischer, 2009; Tasheva & Hillman, 2019). For example, recent studies consider whether the top managers are characterised as "generalists" or "specialists" knowledge base[32] (Li & Patel, 2019; Mueller et al., 2021; Teodoridis, Bikard, & Vakili, 2018). Depending on both the role in the TMT, and the context of the individual succession, such knowledgebases of executives impact how the firm perform. Too much specialisation can hamper the creation of behavioural integration and

[31] For further context, see classification in table 3.1 of chapter 3 in this thesis.
[32] Generalists have a broad variety of different functional experiences, whereas the specialist has a narrower career, specialising in specific functional domains.

communication within the TMT. Likewise, extreme generalists, classified as high intra-personal functional experience diversity, can lead to a lack of in-depth knowledge, thereby challenging the firms' ability to pivot in functional-specific areas[33]. However, there will be functions where these generic terms differ, as certain roles may require narrow specific knowledge, thus preferring individuals with high functional specifications. In the case of top managers, we seek to better understand aspects that shape the hiring of new TMT members, and how the functional experience background aligns with the predecessor and the incumbent TMT. This way, it is possible to gain a deeper understanding of how firms are handling the replacement process, contributing further to the holistic study of successions and replacements.

4.2.3.1 Level 1: Individual replacement factors

The previous section theorised how when replacing a foreign top manager, the new executive is associated with dissimilarity in terms of their IE as the same knowledge is not easily available in the labour market. Therefore, a different kind of knowledge may be necessary to fill the void left by the departing manager. When it comes to functional experience, similar effects can happen when considering the network of the predecessor. The functional experience background experience provides information on what an individual knows. An alternative asset for an individual is their ability to source knowledge from others through larger networks (Gladwell, 2000; Iurkov & Benito, 2017; Khattab et al., 2020; Uzzi, 1997, 1999), that is – *who* they know. When making strategic decisions, or engaging in transactions with outside parties, utilising information available in the network often enhance decision accuracy and enable higher performance (McDonald, Khanna, & Westphal, 2008; Peng & Luo, 2000). Furthermore, proper network utilisation provides opportunities otherwise not available to the firm; for example, M&A deals with entities not publicly announced as willing to sell. It is, therefore, unsurprising that networks play a great role in IB research, as highly networked individuals increasingly help the MNE conduct successful business at home and abroad (Chen, Hsu, & Chang, 2016; Johanson & Vahlne, 2009; Vahlne & Johanson, 2020). Consequently, if a member with a wide and valuable network departs the organisation, an important void of access to external knowledge will be left. This kind of social capital is often not easily available

[33] For a more thorough examination of a desired level of intrapersonal functional experience diversity, please see chapter 2 of this thesis.

in the labour market[34]. Regardless of whether the individual is departing because of retirement or to pursue a better opportunity in a different company, the potential replacement will be unlikely to have access to the same resources in their network. As a response, the firm will be increasingly likely to seek a different skillset in terms of functional experience. This can act as a substitute as 'what you know' can be as valuable as 'who you know' in certain contexts (Huffman & Torres, 2002). Whilst the predecessor in no way needs to have lacked functional knowledge, it is expected that successors taking over a role from someone with ample social capital through their network, will display dissimilarity in terms of the functional experience diversity. Simultaneously, as the highly networked individual likely brought unique skills to the TMT, it is also expected that the replacement executive will bring a knowledge base that differs from the rest of the TMT. Therefore:

Hypothesis 5a: *Predecessor with a large network will be associated with the immediate successor displaying low similarity on functional experience background vis-à-vis the predecessor.*

Hypothesis 5a: *Predecessor with a large network will be associated with the immediate successor displaying low similarity on functional experience background vis-à-vis the incumbent TMT.*

Besides the impact of the predecessor's network, the predecessor's tenure, as was the case with the predecessor's IE, also matters for the alignment of functional experience backgrounds. As stated, longer tenure is often associated with the predecessor's centrality in the firm and TMT. Simultaneously, they will have accumulated influence on important decisions – such as whom to hire (Jaw & Lin, 2009; Ling et al., 2015; Shen & Cannella, 2002). In the hiring process, homosocial reproduction can shape the profile of the new executive and the TMT composition (Elliott & Smith, 2004; Kanter, 1993; Nielsen, 2009). The predecessor, given their personal preferences and impact within the firm, is likely to steer the organisation such that the successor will display high similarity in the functional background as their predecessor. Besides biodemographic variables, the functional background is another area where individuals prefer similarity because of the perceived ease of communication. As Schneider (1987: 441) puts it, "[…] people are differentially attracted to career as a function of

[34] Whilst there are indications of specific executive labour markets (Ruigrok & Greve, 2008), even here a specific network enabler is not easily found.

their own interests and personalities". Therefore, similar experience backgrounds will appear attractive to the predecessor when playing a part in the hiring of their successor (hence operating similarly to a Horse Race or Crown Heir as explained in chapter 3 (Friedman & Olk, 1995)). Simultaneously, the long tenure of the predecessor signals a fit between role and executive characteristics, providing trust that the firm is moving in a good direction towards prosperity (Fondas & Wiersema, 1997). As such, similar to IE background, it is expected that the new TMT member will align with the characteristics of the predecessor and the incumbent TMT.

> ***Hypothesis 6a:*** *Longer predecessor tenure is associated with the immediate successor displaying high similarity in functional experience diversity vis-à-vis the predecessor.*
>
> ***Hypothesis 6b:*** *Longer predecessor tenure is associated with the immediate successor displaying high similarity in functional experience diversity vis-à-vis the incumbent TMT.*

4.2.3.2 Level 2: Performance aspiration

As with IE diversity, it is expected that the firm's performance vis-à-vis industry peers matters for the hiring of a new executive. When a firm underperforms compared to its peers in the industry, it is likely that key decision-makers will consider how the firm can improve its current position through executive selection. As such, firms go through a more comprehensive process, factoring in the relevant needs possessed by a new top manager. Firms are in the process of assessing their performance against their aspirations (Surdu et al., 2021), and performance that fails to meet expectations tends to lead to a higher level of change (Argote & Greve, 2007; Moliterno, Beck, Beckman, & Meyer, 2014). One of the changes that will likely occur is a refitting of the TMT with new skills that can propel the business to better comparative performance. Getting a new non-CEO top manager that can bring a different skill set, such as the capabilities to innovate or turnaround can be valuable (Rugman & Verbeke, 2004; Teece, 2007). On the other hand, if the performance is on a level above the aspirations, the firms are likely to consider more continuity in their replacement process, leading to searching for successors that can directly replace the departing member (Adomako, Opoku, & Frimpong, 2017; Virany et al., 1992). Held together, this leads to expectations that the relative

performance level of the organisation against the industry impacts the functional experience diversity of the new entrant, such that:

> ***Hypothesis 7a:*** *Performance above the average industry performance will be associated with the immediate successor displaying high similarity in functional experience diversity vis-à-vis predecessor.*
>
> ***Hypothesis 7b:*** *Performance above the average industry performance will be associated with the immediate successor displaying high similarity in functional experience diversity vis-à-vis the incumbent TMT.*

4.2.3.3 Level 3: Institutional ICT adaptation

The final impact on the new TMT member's functional experience background stems from the environment the firm operates in. When navigating challenges in the HQ home country, firms show isomorphic behaviour and display similar patterns as other firms under the same institutional influence (Scott, 1995). The pressure surrounding the firm from their context will thus impact key decisions – whether it is through the strength of institutions, the labour market or the financial system (Kostova, 1997; Kostova, Roth, & Dacin, 2008). Despite the large Fortune 500 Global firms being exposed to a variety of institutions with varying levels of complexity, the home country institutions matter greatly in the executive selection process. Within the institutions, there is a need to create legitimacy (DiMaggio & Powell, 1983; Powell & DiMaggio, 1991), whereby the role of the manager is important. Several institutional factors could be considered relevant at this level. However, one particularly interesting aspect that is increasingly relevant in IB research is the role of Information and Communication Technologies (ICT), as well as digitalisation (Alcácer, Cantwell, & Piscitello, 2016; Banalieva & Dhanaraj, 2019). Such technological development played a central role in the development of some of the largest firms in today's day and age – including in the sample used in this paper. The likes of Alphabet (google), Amazon and Alibaba group all reached their massive size by utilising advanced developments in ICT.

Between countries, there are differences in the agility displayed when adopting technologies (Schwab, 2019). There can be ample benefits and competitive advantages to reap from being in a country with greater aptitude for taking up novel technology to improve the firm's situation. However, it challenges the firm by creating extra demands on the executives,

as there are added skill requirements for the new executives. By extension, such demands also impact the TMT selection process. First, the higher ICT adaptation will make existing firm technologies redundant faster, as new inventions and technologies can improve products and processes rapidly. Regardless of whether considering larger firms or smaller entrepreneurs, the scope for technological disruption and creative destruction is larger under high ICT adoption (Eggers & Park, 2018). Second, the skillset of the managers will be harder to keep relevant through the rapid changes. The constant need to adapt to keep up with the opportunities and challenges within the firm increases the pressure on the managers and their dynamic capabilities (Petricevic & Teece, 2019; Teece et al., 1997). Subsequently, as the firm moves on, it is expected there will be more variations within the firm's TMT when they are operating in an institutional environment classified as high ICT adopters. As the requirement changes, new skills and capabilities will occur, leading to changing needs in the functional background, and therefore, the new manager will likely have a different functional background experience than predecessors. As such:

> ***Hypothesis 8a:*** *Higher levels of institutional ICT-adoption are associated with immediate successor displaying low similarity on functional experience diversity vis-à-vis immediate predecessor.*
>
> ***Hypothesis 8b:*** *Higher levels of institutional ICT-adoption are associated with immediate successor displaying low similarity on functional experience diversity vis-à-vis the incumbent TMT.*

4.3 Methods

4.3.1 Sample and data

To investigate effects that impact top management replacements in the largest possible MNEs, this paper utilises a sample of Fortune 500 Global firms. Fortune 500 Global is an annual list of the largest firms in the world, measured by revenue. To be on the list, the firm must provide financial data information to a relevant governmental institution (Fortune, 2021). While this ensures access to relevant financial data, it also entails potential issues as some firms on the list are partially private or government owned, causing some data constraints that need to be handled appropriately. Fortune updates the list annually, so to provide consistency in the sample, we use a baseline year to select firms. For the present study, the sample consists of

firms on the 2019 list. From the initial sample, firms that do not disclose sufficient information because of their ownership status are excluded. Additionally, banks and insurance companies are excluded as the DOI measure is inaccurate or incomputable based on the structure of their revenue. With these exclusions, the final sample consists of 269[35] firms. The sample used for this paper includes the specified firms' TMTs from 2015 to 2021. Financial measures and firm-level data are collected from 2012-2021, ensuring relevant time effects, such as time lags and average sample period data, can be captured fully in all years between 2015 and 2021.

The data collection consisted of multiple stages. First, a list containing all senior leaders in the sample firms was downloaded from the BoardEx database[36]. Next, relevant annual reports extending over the whole sample period were collected and stored. These annual reports were coded based on a manual process where the author went through all relevant reports to identify the actual top management team members as identified by the firm and further cross-check and validate the individuals with a list from BoardEx. As BoardEx provide information on the extended senior leadership team, the manual process ensured that only those top managers identified in the annual report were used for the TMT composition, consistent with other studies of strategic leadership teams (e.g., Barkema & Shvyrkov, 2007; Doms & zu Knyphausen-Aufseß, 2014; Georgakakis et al., 2016; Greve et al., 2015; Hutzschenreuter & Horstkotte, 2013a, 2013b; Kaczmarek & Nyuur, 2021; Kaczmarek & Ruigrok, 2013; Tasheva & Nielsen, 2022; van Veen & Marsman, 2008). In cases where there was ambiguity of information in the annual report or missing annual reports, 'Wayback Machine'[37] was used to access information from the firm's webpages in relevant years (Karpoff et al., 2017). This way, the author was able to access firms' webpages in previous years and cross-check who was listed as their TMT members, if such information could not be sourced in annual reports. Following this manual screening, information on personal characteristics, including education, experience, nationality and network were obtained through BoardEx. Firm-level financial data, including geographically segmented sales information, was obtained from the Osiris database (Lo & Fu, 2016). Finally, data on the institutional environment is collected from the World Economic Forum's Global Competitiveness Report (Schwab, 2019). As the data has a small time-varying impact, the same base year as Fortune 500 Global list is used (i.e., 2019). This

[35] The fairly large number of excluded firms primarily comprise fully state-owned firms with weak information sharing, as well as banks and insurance companies.
[36] Information gathered from all the modules within the database: North America, United Kingdom, Europe, Rest of the World. Data accessed through Wharton Data Service.
[37] Available at https://archive.org/web/

ensures that we capture stable effects of the institutional environment and that the data is not impacted by the Covid-19 pandemic.

After obtaining the relevant data, the next step was to identify direct top management replacements. Whilst there are several scenarios where changing top managers also leads to wider structural changes of the specified roles in the top management team (Gordon & Rosen, 1981), it remains impactful to look at the direct replacements where the predecessor and successor share the same functional role. In some instances, small structural changes, such as changing titles, will occur, challenging the ability to find direct replacements. Therefore, the process of identifying direct roles is a multi-step process. First, a matching is made based on the exact role name as identified by BoardEx, excluding those where the matching is based on generic terms such as "Division CEO" or "Regional President". These replacements are further considered by matching based on the departure date of the predecessor and entry of the successor[38]. Next, all roles are coded into 11 functional roles: Production; Research and Technology; Marketing and Sales; Manufacturing and Engineering; Finance and Accounting; Personnel/HR; General Management and Administration; Legal and Ethics; Strategy; Information Technology; and Others (Bunderson & Sutcliffe, 2002; Cannella et al., 2008; Georgakakis et al., 2017)[39]. Direct replacements are identified based on these roles and the departure- and entry date of the predecessor and successor, respectively. This allows for matching members where the title might not be identical, but the role is essentially the same and cases where one title might be abbreviated and another not. For example, if the predecessor is listed as "Chief Financial Officer" and the successor is "CFO" this approach captures such replacement. Finally, the author went through a manual process of verifying the replacements to ensure accuracy. For the data-analysis, all cases of CEO replacement are excluded, providing a final sample of 764 direct non-CEO top management replacements.

4.3.2 Dependent variables

The study uses four different dependent variables relating to how the new TMT member's 1) international experience diversity and 2) functional experience diversity; relates

[38] There is assigned a margin of time based on the exact role name as unexpected departures will not necessarily lead to perfect matching of departure and entry.
[39] We adopt their 10 roles and include an 11th role based on information technology to reflect overarching structural changes of top management roles. Measure is consistent with that used in chapters 4 and 5 of this thesis.

to 1) the predecessor's experience (IE and functional) and 2) the incumbent TMT's experience (IE and functional). For a graphical display of how the dimensions look, see an adapted version of the framework presented in chapter 2 in figure 4.1. To capture the experience diversity, we make use of intra-personal characteristics. In both cases, the Blau (1977) index is used to compute the diversity:

$$B = [1 - \sum (p_i)^2] \qquad [4.1]$$

For IE, the length of work is classified into the different countries where the individual has worked (Bunderson & Van der Vegt, 2018; Tasheva & Hillman, 2019). The length in an individual country is then divided by the length of all combined country tenures, such as *p* in equation 4.1 is the percentage of time the *i*th member spent in the specific country. By using this approach, we get a measure where 0 connotates all experience has been conducted in a single country, therefore, the individual has no IE diversity. The closer to 1 the score gets, the higher the diversity – that is, the more dispersed the career has been in terms of countries the focal individual has worked in. Similarly, for functional experience diversity, all previous experience is classified into the aforementioned 11 functional categories (Bunderson & Sutcliffe, 2002). In this case, *p* in equation 4.1 denotes the percentage the *i*th member spent in a given functional role.

After computing the individual score for experience diversity based on the Blau index for all TMT members – including successor and predecessor, the next step is to configure the measure to make it comparable between the new TMT member and 1) the predecessor; 2) the incumbent TMT. The two measures follow a similar approach to ensure comparability, although they differ slightly in their computations to ensure they matter for the specific purpose. When comparing the international- and functional experience against the individual predecessor, we use Kalogeraki & Georgakakis' (2021) adapted measure of Tsui, Egan and O'Reilly III's (1991, 1992) measure for 'being different':

$$\sqrt{(Si - Sj)^2} \qquad [4.2]$$

S is the intra-personal diversity score (international or functional). *i* is the new entrant to the TMT, whereas *j* signifies the predecessor. When this is 0, the two individuals display the same experience background. The closer the measure gets to 1, the more dissimilar they are (i.e., higher score = lower similarity). The measure does not say whether the difference is leading to higher or lower experience diversity, only whether the members are different or not.

In the effort to compare the new TMT member to the incumbent team, we apply the measure as suggested originally by Tsui, Egan and O'Reilly III (1991, 1992) and applied by Georgakakis, Greve and Ruigrok (2021):

$$\sqrt{\frac{1}{n}\sum_{j=1}^{n}(Si - Sj)^{2}} \qquad [4.3]$$

Where *n* is the size of the TMT[40], *S* is the experience score, *i* is the new TMT entrant and *j* represents each of the other TMT members in turn. This way, the measure is computing the distance average compared to all members. Similar to above, a score of 0 means high similarity, whereas closer to 1 means high dissimilarity (low similarity). The measure is computed such that it approaches 1 but will never fully hit one.

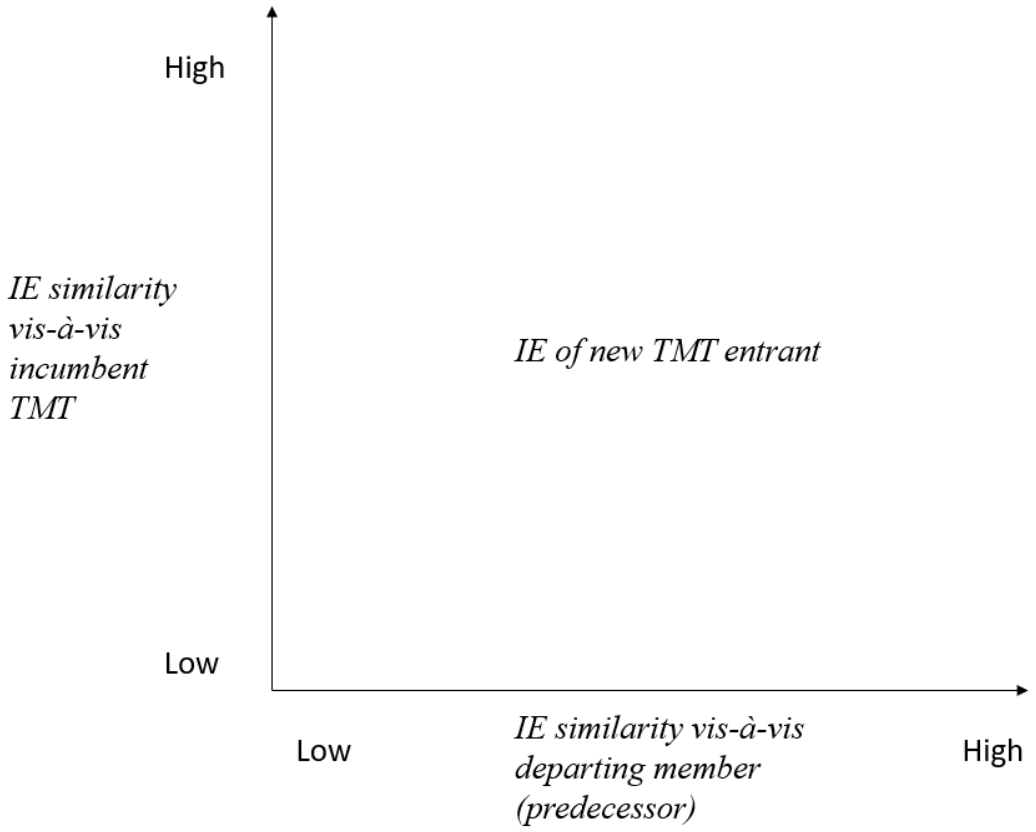

Figure 4.1 Adaptation of conceptual framework

[40] Measured as number of members in the TMT

4.3.3 Independent variables

Predecessor foreign origin is a dichotomous variable of 1 if the nationality of the manager is different from the MNE headquarter country and 0 if they are from the same country (Greve et al., 2015). *Predecessor tenure* is a continuous variable representing how long the focal individual has been appointed by the firm from which he/she is departing (Pfeffer, 1983). The *predecessor network* size is based on a measure by BoardEx. The measure contains overlaps of executives on employment (e.g. shared employment and board overlaps), education, and other activities (Bonini, Deng, Ferrari, John, & Ross, 2022; Delis, Gaganis, Hasan, & Pasiouras, 2017; Krause et al., 2019; Tasheva & Nielsen, 2022). The firm's *Relative ROA* is the relative performance against the industry computed by the return on assets (ROA) as a ratio compared to the industry's ROA (Guldiken et al., 2019; Hillman, Shropshire, & Cannella, 2007). Industry ROA is based on 2-digit Standard Industry Classification (SIC) score. Values above 1 indicate that the firm is outperforming the industry, and under 1 means performance is below the industry average. The relative performance is measured in the year prior to the appointment to ensure it has an impact on the executive selection. The degree of internationalisation, *DOI*, is measured through the use of foreign sales to total sales (Buckley, Dunning, & Fearce, 1984; González, 2019; Greve et al., 2015; Rugman, 1976). This measure reflects how large a part of the business' sales is dependent on foreign markets and therefore, applicable to the context of this paper. Larger ratios indicate a greater need to be able to oversee the added complexity of larger reliance on different markets. Finally, *ICT adoption* is based on data from the World Economic Forum (Schwab, 2019), where one of the pillars of their Global Competitiveness Report is evaluating ICT adoption. The measure takes the shape of 0-100, where 100 indicates the 'ideal state' with the highest possible ICT adoption.

4.3.4 Control variables

Several control variables across the different levels ensure we capture a more accurate effect of the succession. At the individual level, the first control is the new TMT member's *gender* (1 = female, 0 = male) and *age* of the new executive. These variables impact a variety of issues within strategic leadership literature, including the executive selection process. Additionally, we control for the *predecessor age* to ensure capturing effects such as departure being closer to retirement in the empirical model. Finally, on the individual level dichotomous

variables are included on whether the induvial is hired into *throughput functions* (e.g., human resources, operations) or *output functions* (e.g. sales, marketing, investor relations) as it has been found to impact the selection of foreigner into the TMT in previous research (Greve et al., 2015). These variables ensure that results will capture such effects that are comparable for IE (Nielsen & Nielsen, 2011).

At level 2, control variables account for structural changes between the different TMTs in specific years. Therefore, we control for the performance in the year before the appointment using *ROA*. Controlling for the size of the firm is based on *annual sales*. *TMT size* also matters for the selection process, so a measure of the number of TMT members in the specific year is included. Since the paper investigates the predecessor's tenure, there is controlled for the average tenure of the TMT. In certain cultures, long tenure is part of the corporate culture (Rattrie, Kittler, & Paul, 2020); hence, to overcome this effect being the main determinant, controlling for average tenure is necessary. Finally, CEO change can impact the selection of new TMT members (Barron et al., 2011; Lin & Liu, 2011; 2022; Ma & Seidl, 2018). Therefore, a dichotomous variable equal 1, if there is also a CEO change in the focal firm year, is included in the model.

At the third level, we control for the quality of *institutions* across the sample period. The environment the firm is operating in largely shapes its actions and operations of the firm (Wiersema & Bantel, 1993). By controlling for the quality of institutions, some of these effects are captured. The data for institutional quality is collected through World Economic Forum (Schwab, 2019).

4.3.4 Analytical strategy

As touched upon earlier in the paper, the focus of the analysis is impacted at different levels. Particularly, the study focuses on constructs at a micro-level, where individual differences occur when comparing a new top manager to both the predecessor and the successor. However, our study also shows how these replacements are impacted by e.g. firm-specific factors such as internationalisation and the institutions the firm is operating in. Whilst such effects have often been analysed in normal, single-level regressions, this can have some issues as the aggregation of all variables at a single level "removes Level 1 variance and eliminates the opportunity to control for Level 1 confounding variables" (Peterson et al., 2012:

451). As such, given the construction of the data in this paper, it is important to analyse it based on the different levels, ensuring a proper nesting of the levels. This paper focuses on three distinct levels impacting the replacement; 1) the individual replacement of TMT members, 2) the firm year where successions occur and 3) the firm and the environment it is embedded in. The similarity of the new TMT member against the predecessor and incumbent TMT is contingent on these different levels. The dependent variables are based on the lowest level, given that they are different depending on each replacement, respectively. If the firm has multiple successions within a year, they will all differ on level 1. However, as things such as firm performance are based on yearly observations, all successions within a year will be impacted by these variables. Therefore, the successions are nested within the firm (Peterson et al., 2012). Finally, the third level signifies the firm's embeddedness in a certain context that is stable over long periods. As such, all the successions within a firm, regardless of year, will be impacted by this context. To account for these and ensure we are capturing the relevant variance within the individual levels, as well as capturing the fixed effects at the highest level, we nest the individual successions with the firm-year, which are then nested within the overall firm contexts that are fixed over the sample period. To cover these different hierarchies, we use a hierarchical linear model (HLM)[41] (Luke, 2004; Raudenbush & Bryk, 2002).

In using this type of model, on key aspect is to ensure that we mean-centre the variables to facilitate the interpretation of the data (Sommet & Morselli, 2017). For the two higher levels, the decision to centre is straightforward as it is only possible to centre around the grand mean (CGM) (Enders & Tofighi, 2007). At the lowest level, it is possible to select between the CGM or centring within the cluster (CWC) (Enders & Tofighi, 2007). We follow the approach by Georgakakis, Greve and Ruigrok (2021) and use the CGM method for the variables in our sample. This ensures that we are both capturing the relevant variance in our model, and can be able to explain and interpret the effects at the different levels. Upon completing the centring of variables, we analyse the data using the 'mixed' command in Stata – providing a mixed effects model (Hierarchical linear model) where both random and fixed effects are included (Goldstein, 1995).

[41] Also known as multilevel model or mixed-effects model – containing both random and fixed effects within the model.

	Mean	SD	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
International exp. (ind)	.17	.19	1.0000																				
International exp. (group)	.22	.14	.5159	1.0000																			
Functional exp. (ind)	.20	.17	−.0160	−.0036	1.0000																		
Functional exp. (group)	.24	.12	−.0504	−.0573	.4463	1.0000																	
Gender (1=female)	.14	.34	.0188	.0908	.0350	.0409	1.0000																
Age	55.72	6.67	−.0698	−.1407	−.0132	−.0346	−.2080	1.0000															
Input/output exp.	.11	.31	.0112	.1062	−.0288	−.0585	.0046	−.0817	1.0000														
Throughput exp.	.35	.48	.0358	.0298	.0837	.1058	.1795	−.1168	−.3083	1.0000													
Predecessor age	57.78	6.57	−.0202	−.0945	.0092	−.0213	−.0514	.3646	−.1260	.0018	1.0000												
Foreign predecessor (1= foreign)	.01	.11	.1495	.2405	.0017	.0097	.0229	−.1322	.0635	−.0618	−.1298	1.0000											
Predecessor network size	1339.01	1771.16	−.0149	.0377	−.0113	.0148	.1491	−.0362	−.0305	−.0307	−.0244	.1186	1.0000										
Predecessor tenure	195.49	151.06	−.1163	−.0744	−.1239	−.1119	−.1401	.2415	.0207	−.0214	.3257	−.1803	−.1085	1.0000									
ROA(t-1)	5.13	6.43	−.0386	−.0758	.0473	.0182	.1148	−.0333	.0464	−.0197	−.0544	.0015	.1224	−.0252	1.0000								
Annual sales	57942.12	54237.98	.0275	.0779	−.0668	−.0566	.0105	.0231	.0113	.0009	.0319	−.0594	.0644	.0195	−.0175	1.0000							
TMT size	11.42	5.34	−.0205	.0469	−.0202	.0162	.0590	−.0707	.0814	−.0022	.0157	−.0538	.0488	.0905	−.0169	.0235	1.0000						
Average TMT tenure	4.79	3.75	.0326	.0231	−.0022	.0399	.0227	−.0937	.0510	−.0348	−.0244	.1334	.0348	−.0379	.1121	.1084	.0753	1.0000					
CEO change (1=change)	.08	.27	.0344	.0574	.0007	−.0437	−.0291	.1443	−.1654	−.1821	.0605	.0962	.1485	−.0710	−.0593	−.0504	−.1346	−.1071	1.0000				
Relative ROA(t-1)	.95	2.95	−.0754	−.0840	.0260	−.0286	−.0243	.0165	.0016	−.0232	−.0295	.0302	−.0262	−.0556	.3780	.0031	−.1066	.0343	.0058	1.0000			
Institutions	69.35	6.54	.0800	.1308	−.0596	−.0799	.0943	.0234	−.0008	.0509	.1458	.1971	.1661	.1144	.0390	−.0088	−.0851	.0283	.0025	−.0097	1.0000		
ICT adoption	75.62	8.61	−.0285	−.0588	−.0318	.0206	−.0857	.2166	−.0962	−.0189	.1950	−.0231	−.1408	.2346	−.0837	−.0045	.0512	−.0182	−.0627	−.0350	.4846	1.0000	
DOI	.27	.19	.0886	.2188	−.0451	.0358	.0585	.0101	.0708	−.0116	−.0233	.0481	.1878	.0960	.0277	−.0011	.0618	.0681	−.0052	−.0076	.1579	.0115	1.0000

Table 4.1: Correlation Matrix

4.4 Results

Descriptive statistics of means and standard deviation, as well as correlations between variables, are presented in table 4.1. The only high correlations (above .4) occur between different dependent variables, which is unsurprising given they rely on similar measures. However, holding all correlations against each other, and running a variance inflation factor (VIF)[42] test suggest that there are no issues with multicollinearity in the data. Table 4.2 and Table 4.3 presents the HLM regression models for the IE distance between the new TMT member and 1) the predecessor; 2) the incumbent TMT, respectively. Model 1 includes all control variables, which are largely behaving as expected in both models. Worth pointing out is that the age of the new entrant displays a significant, negative relationship, suggesting that new members hired at a higher age tend to display higher similarity with both predecessor and incumbent TMT on IE. Such effects suggest that higher age might, in the IE domain, induce an increased likelihood of "continuity replacement"[43]. Model 2 of tables 4.2 and 4.3 introduce the predecessor's origin and tenure, explaining the level 1 effects on the hiring of a new TMT member into the firm. Comparing the predecessor's origin (i.e., home country versus foreign national), the results in table 2 show a positive, significant (p<0.05) relationship, suggesting that when the predecessor is foreigner, the immediate successor will be dissimilar (low similarity) compared to the predecessor on IE. We find consistent results in table 4.3 when comparing to the group. Thus, the paper finds support for hypotheses 1a and 1b. For predecessor tenure effects, table 4.2 shows a negative significant (p<0.05) relationship, suggesting high similarity. However, table 4.3 shows an insignificant relationship, lending support to hypothesis 2a but not 2b. In other words, predecessor tenure seems to impact the difference in replacement compared to the predecessor, but not against the TMT.

In model 3 of tables 4.2 and 4.3, the relative ROA ratio (level 2) and DOI (level 3) are introduced. These variables do not materially alter the established relationships based on level 1 predictors. The results indicate that the relative performance of the firm against the industry matters for the individual level performance, where better performance leads to higher similarities between new entrants and predecessors, as signified by the negative statistically significant relationship in table 4.2 (p<0.01), lending support for hypothesis 3a. However, comparing IE against the group, the result is insignificant, thus rejecting hypothesis 3b.

[42]Highest score is 1.60, with an average of 1.26
[43] For the specifics of these types of replacement, please refer to chapter 3 of this thesis.

Potentially, this relationship can be a consequence of the ambiguity associated with performance and specifications regarding who departs, something assessed further in the discussion and future research directions. Finally, comparing IE differences between highly international firms (high DOI) and predominantly domestic firms (low DOI), the effects are opposite such that comparing to the individual is insignificant (p>0.1), whereas at the group level, there is a positive and significant result (meaning low similarity), lending support to hypothesis 4b but not 4a. As there is a lack of knowledge regarding who departs the TMT, this is not necessarily unexpected as the level of international experience possessed by the predecessor impacts such that if there is a high level of international experience, it is likely to continue as such with the predecessor, but low international experience can call for low similarity as the first is changing their capabilities.

In terms of assessing the goodness of fit for the models, scholars often disagree on which measures to assess. Particularly, the challenge of no fit statistic being directly created for the purpose of multi-level models means that most papers using HLM do not report goodness of fit measures (Such as Greve et al., 2015; Nielsen & Nielsen, 2011; O'Brien, Sharkey Scott, Andersson, Ambos, & Fu, 2019). In an attempt to overcome this, we follow the suggestions of Greene (2018) regarding nested models and apply the likelihood-ratio (LR) and Akaike Information Criterion (AIC)[44] for comparing the models and assessing how they fit the data. When comparing the control variables only with the full model regarding the similarity between predecessor and successor on IE (table 4.2), we get that the AIC for the simple model is -385.77 and the full model is -402.24, suggesting that our full model fits the data better as the value (not absolutely) is smaller. Furthermore, the LR is 24.47 with a Chi^2 p-value<0.01, showing that our data is a good fit for the model. Hence, we can conclude that when measuring the individual's distance to the predecessor on International Experience diversity, our results provide meaningful insights. Similarly, when comparing the new top manager to the incumbent TMT (table 4.3), the AIC for the simple model is -1145.79, with the full sample being -1150.94. The LR score is 13.14 (Chi^2 p<0.05). This again shows how our data fits the model, making it meaningful to interpret the results and suggesting that our independent variables explain the phenomenon we are investigating. The higher AIC variable in table 4.3, standalone, does not provide a comparison with the scores of table 4.2, given the difference in the dependent variables (Goldstein, 1995; Greene, 2018).

[44] Both of the scores obtained by using the 'lrtest' function in Stata

VARIABLES	(1) Model 1		(2) Model 2		(3) Model 3	
Level 1						
Gender (1=female)	0.000894		-0.00523		-0.00823	
	(0.960)	0.0179	(0.764)	0.0174	(0.640)	0.0176
Age	-0.00233		-0.00175		-0.00181	
	(0.0269)	0.00105	(0.100)	0.00106	(0.0888)	0.00106
Input/output exp.	0.0118		0.0126		0.0111	
	(0.524)	0.0186	(0.494)	0.0184	(0.547)	0.0184
Throughput exp.	0.0171		0.0179		0.0179	
	(0.276)	0.0157	(0.257)	0.0158	(0.247)	0.0155
Predecessor age	-6.64e-05		0.00118		0.00130	
	(0.951)	0.00107	(0.266)	0.00106	(0.211)	0.00104
Predecessor foreign (1=foreign)	-		0.0569		0.0589	
			(0.0172)	0.0239	(0.0155)	0.0243
Predecessor tenure	-		-0.000136		-0.000143	
			(0.00477)	4.83e-05	(0.00268)	4.78e-05
Level 2						
Year	0.00203		0.00105		0.000223	
	(0.593)	0.00380	(0.776)	0.00369	(0.951)	0.00362
ROA(t-1)	-0.000832		-0.000867		-2.35e-05	
	(0.372)	0.000932	(0.354)	0.000936	(0.980)	0.000920
Annual sales	8.07e-11		1.01e-10		1.09e-10	
	(0.466)	1.11e-10	(0.354)	1.09e-10	(0.313)	1.08e-10
TMT size	-9.78e-05		0.000380		-4.81e-05	
	(0.952)	0.00163	(0.814)	0.00162	(0.976)	0.00160
Average TMT tenure	0.00937		0.00627		0.00570	
	(0.0798)	0.00535	(0.253)	0.00548	(0.291)	0.00540
CEO change (1=change)	0.0162		0.0108		0.0118	
	(0.388)	0.0188	(0.570)	0.0190	(0.533)	0.0188
Relative ROA(t-1)	-		-		-0.00404	
					(6.02e-08)	0.000745
Level 3						
Institutions	0.00202		0.00165		0.00142	
	(0.114)	0.00128	(0.198)	0.00128	(0.254)	0.00124
DOI					0.0595	
					(0.179)	0.0442
Constant	0.166		0.160		0.159	
	(0)	0.0118	(0)	0.0125	(0)	0.0122
Observations	764		764		764	
Number of groups	269		269		269	

Robust p-val in parentheses; robust std. error next to p-val

Table 4.2: HLM regression – International experience vis-à-vis immediate predecessor

VARIABLES	(1) Model 1		(2) Model 2		(3) Model 3	
Level 1						
Gender (1=female)	-0.000548		-0.00152		-0.00186	
	(0.958)	0.0104	(0.886)	0.0106	(0.861)	0.0106
Age	-0.00193		-0.00195		-0.00208	
	(0.00363)	0.000665	(0.00420)	0.000680	(0.00229)	0.000683
Input/Output exp.	0.0203		0.0203		0.0204	
	(0.0696)	0.0112	(0.0665)	0.0111	(0.0719)	0.0114
Throughput exp.	0.0111		0.0121		0.0130	
	(0.243)	0.00954	(0.204)	0.00951	(0.177)	0.00964
Predecessor age	-0.000624		-0.000514		-0.000483	
	(0.288)	0.000587	(0.376)	0.000581	(0.406)	0.000581
Foreign predecessor (1=foreign)	-		0.0307		0.0339	
			(0.0216)	0.0134	(0.0148)	0.0139
Predecessor tenure	-		-1.15e-05		-1.04e-05	
			(0.695)	2.93e-05	(0.721)	2.92e-05
Level 2						
Year	0.00459		0.00463		0.00490	
	(0.0930)	0.00273	(0.0878)	0.00271	(0.0687)	0.00269
ROA(t-1)	-0.000718		-0.000785		-0.000799	
	(0.370)	0.000800	(0.327)	0.000801	(0.349)	0.000852
Annual sales	1.20e-10		1.24e-10		1.25e-10	
	(0.250)	1.04e-10	(0.226)	1.03e-10	(0.206)	9.91e-11
TMT size	0.00212		0.00221		0.00190	
	(0.125)	0.00138	(0.108)	0.00138	(0.159)	0.00135
Average TMT tenure	0.00220		0.00138		0.00102	
	(0.599)	0.00419	(0.747)	0.00428	(0.812)	0.00428
CEO change	0.0233		0.0221		0.0218	
	(0.0708)	0.0129	(0.0911)	0.0131	(0.0955)	0.0131
Relative ROA(t-1)	-		-		-0.00108	
					(0.256)	0.000948
Level 3						
Institutions	0.00199		0.00173		0.00147	
	(0.0876)	0.00116	(0.133)	0.00115	(0.183)	0.00110
DOI	-		-		0.117	
					(0.00399)	0.0407
Constant	0.225		0.220		0.221	
	(0)	0.00948	(0)	0.00988	(0)	0.00969
Observations	764		764		764	
Number of groups	269		269		269	

Robust p-val in parentheses; robust std. error next to p-val

Table 4.3 HLM regression – International Experience vis-à-vis incumbent TMT

Switching to the functional experience background, tables 4.4 and 4.5 present HLM regressions. Control variables, level 1 predictors and higher-level predictors are introduced in the tables in a similar order as for IE. Regarding the network of the predecessor, the data shows an insignificant impact on the individual replacement, but a positive, significant (p<0.05) relationship against the incumbent TMT. Thereby, hypothesis 5a is rejected, but 5b is supported. The relationship with tenure on the replacement vis-à-vis predecessor shows a strongly significant (p<0.01) negative relationship, suggesting high similarity in functional experience at higher tenure. Similar effects, although only marginally significant support (p<0.1) occurs against the wider TMT. There is, thus, support for hypothesis 6a, and partial support for 6b. Moving to the level 2 predictors, the relative performance against industry peers shows an insignificant impact on the relationship to the predecessor, but highly significant (p<0.01) effect against the TMT, lending support to hypothesis 7b but not 7a. For the institutional effect on the level of ICT adaptation in the home country, hypothesis 8a is rejected, indicating no impact on the relationship between the successor and predecessor. However, hypothesis 8b is positively related and statistically significant, lending support to the hypothesis.

Similarly to IE diversity, we apply the LR tests and AIC to assess the goodness of fit. For the individual comparison with the immediate predecessor, the simple model provides an AIC of -600.59, whereas the full model's AIC is -605.24. Additionally, the LR score is 14.65 (p<0.05), suggesting that the full model is a better fit for the data, and that our model is providing meaningful insight. For the comparison with the incumbent TMT, the AIC of the simple model (model 1) is -1287.07 compared to the full model (model 3) which is -1294.85. Similarly, the LE score is 17.78 (p<0.01), suggesting that the more complex model is a better fit and that our chosen explanatory variables help predict the characteristics of the new non-CEO TMT member compared to the incumbent TMT.

VARIABLES	(1) Model 1		(2) Model 2		(3) Model 3	
Level 1						
Gender (1=female)	0.00638		-0.00124		-0.00113	
	(0.712)	0.0173	(0.944)	0.0177	(0.950)	0.0179
Age	-0.000451		6.76e-05		8.75e-05	
	(0.656)	0.00101	(0.948)	0.00104	(0.932)	0.00102
Input/Output exp.	-0.00726		-0.00421		-0.00459	
	(0.615)	0.0144	(0.772)	0.0145	(0.763)	0.0152
Throughput exp.	0.0139		0.0138		0.0135	
	(0.289)	0.0131	(0.288)	0.0129	(0.300)	0.0130
Predecessor age	0.000913		0.00193		0.00194	
	(0.380)	0.00104	(0.0813)	0.00111	(0.0794)	0.00111
Pred. network size	-		3.66e-06		3.68e-06	
			(0.598)	6.95e-06	(0.597)	6.95e-06
Predecessor tenure	-		-0.000151		-0.000150	
			(0.00102)	4.58e-05	(0.00130)	4.65e-05
Level 2						
Year	0.00489		0.00426		0.00429	
	(0.134)	0.00326	(0.186)	0.00322	(0.184)	0.00323
ROA(t-1)	0.000445		0.000387		0.000276	
	(0.620)	0.000899	(0.661)	0.000881	(0.799)	0.00108
Annual sales	-1.43e-10		-1.40e-10		-1.40e-10	
	(0.111)	8.97e-11	(0.140)	9.45e-11	(0.139)	9.47e-11
TMT size	-0.000191		8.25e-05		0.000148	
	(0.885)	0.00132	(0.950)	0.00131	(0.911)	0.00133
Average TMT tenure	0.00173		0.000676		0.000691	
	(0.682)	0.00423	(0.868)	0.00408	(0.865)	0.00408
CEO change	0.0229		0.0178		0.0177	
	(0.177)	0.0170	(0.304)	0.0174	(0.308)	0.0174
Relative ROA(t-1)	-		-		0.000473	
					(0.772)	0.00163
Level 3						
Institutions	-0.00170		-0.00141		-0.00133	
	(0.0421)	0.000834	(0.0784)	0.000800	(0.212)	0.00107
ICT adoption	-		-		-0.000111	
					(0.898)	0.000869
Constant	0.191		0.194		0.195	
	(0)	0.00925	(0)	0.00921	(0)	0.00921
Observations	764		764		764	
Number of groups	269		269		269	

Robust p-val in parentheses; robust std. error next to p-val

Table 4.4 HLM regression – Functional Experience vis-à-vis Immediate predecessor

VARIABLES	(1) Model 1		(2) Model 2		(3) Model 3	
Level 1						
Gender (1=female)	0.00481		0.00282		0.00364	
	(0.634)	0.0101	(0.778)	0.00999	(0.718)	0.0101
Age	-0.000860		-0.000888		-0.00115	
	(0.206)	0.000680	(0.198)	0.000689	(0.0974)	0.000695
Input/Output exp.	-0.0131		-0.0107		-0.00700	
	(0.125)	0.00858	(0.211)	0.00854	(0.412)	0.00853
Throughput exp.	0.0118		0.0115		0.0144	
	(0.122)	0.00764	(0.135)	0.00771	(0.0607)	0.00766
Predecessor age	0.000376		0.000561		0.000428	
	(0.602)	0.000721	(0.443)	0.000732	(0.558)	0.000732
Pred. network size	-		8.68e-06		8.64e-06	
			(0.0477)	4.39e-06	(0.0479)	4.37e-06
Predecessor tenure	-		-4.07e-05		-4.66e-05	
			(0.0889)	2.39e-05	(0.0533)	2.41e-05
Level 2						
Year	0.00374		0.00432		0.00441	
	(0.139)	0.00253	(0.0954)	0.00259	(0.0921)	0.00262
ROA(t-1)	0.000259		0.000316		0.000743	
	(0.691)	0.000652	(0.620)	0.000638	(0.235)	0.000626
Annual sales	-1.10e-10		-1.08e-10		-1.14e-10	
	(0.169)	7.99e-11	(0.182)	8.10e-11	(0.143)	7.77e-11
TMT size	0.000640		0.000713		0.000320	
	(0.580)	0.00116	(0.548)	0.00119	(0.790)	0.00120
Average TMT tenure	0.00342		0.00339		0.00334	
	(0.497)	0.00503	(0.502)	0.00505	(0.495)	0.00489
CEO change	0.00309		0.00302		0.00397	
	(0.833)	0.0146	(0.837)	0.0147	(0.787)	0.0147
Relative ROA(t-1)	-		-		-0.00154	
					(0.000624)	0.000449
Level 3						
Institutions	-0.00172		-0.00155		-0.00286	
	(0.0196)	0.000738	(0.0452)	0.000775	(0.000532)	0.000824
ICT adoption	-		-		0.00217	
					(0.00385)	0.000749
Constant	0.247		0.247		0.245	
	(0)	0.00913	(0)	0.00909	(0)	0.00876
Observations	764		764		764	
Number of groups	269		269		269	

Robust p-val in parentheses; robust std. error next to p-val

Table 4.5 HLM regression – Functional Experience vis-à-vis incumbent TMT

4.4.1 Additional analysis

At the individual level, to test the effects of whether the similarity might be caused by an increase or decrease in the experience diversity, we run an HLM regression based on an alternative dependent variable. Instead of accounting merely for similarity, we compute the measure such that:

$$\Delta = S_i - S_j \quad [4.4]$$

Where *S* is the diversity score of *i* the new member, and *j is* the predecessor. This measure will be more sensitive as potential dissimilarity effects will cancel each other out. This is also why it shall not be used to determine the group-level differences. The results are presented in table 4.6 (Model 1= IE, Model 2= Functional experience). As model 2 shows, there seems to be no real impact on the functional experience, as the independent variables are all significant. This likely occurs as the changes potentially cancel each other out – as for example, high similarity can be ascribed to two individuals with high diversity and two individuals with low diversity. Furthermore, we also see when running the goodness of fit test[45], we find that the data is not a good fit with the model. Hence, we cannot conclude anything regarding this impact of functional diversity. Typically, this will be because the functional experience diversity, stand alone, only provides limited insight. This will be addressed further in the discussion. However, the results in model 1[46] present interesting notions to consider. On international experience, the dissimilarity is driven by a decrease in IE when the predecessor is foreigner. This is surprising in the sense that the new executive should fill a void by having more international experience. However, foreigners are generally likely to have more IE, meaning that the results potentially are driven by these effects. The significant negative relationship between relative ROA and the dependent variable suggests that when the firm is performing better, there will potentially be a decrease in the international experience diversity. Whilst the original hypothesis warrants a continuity of similarity on this measure, the results of table 4.6 model 1 suggests that when time is poor, the firm will be increasing the IE, something that confirms our results of the hypothesis. Finally, it is interesting that when considering this measure, the DOI has a marginally significant impact on the replacement, such

[45] AIC for baseline model = 79.9 whereas full model AIC=85.75 – suggesting that the model is not a better fit. Furthermore, the LR score is 2.17 ($p>0.1$), suggesting that the data is not a good fit to the model.

[46] AIC for baseline model 1 is 85.29 and for the full model as reported in table 4.6 it is 65.96. As in this can the values are positive, the full model has the lowest score indicating a better fit with the data. The LR score is 27.34 ($p<0.001$) indicating a good fit with the data.

that higher DOI leads to an increase in the international experience diversity. This confirms that firms of high internationality will be looking for executives that can handle this environment (Greve et al., 2015). In the following section, the results and implications are discussed.

VARIABLES	(1) International Experience		(2) Functional Experience	
Level 1				
Gender (1=female)	-0.0297		0.0327	
	(0.269)	0.0269	(0.206)	0.0258
Age	-0.00162		-0.000626	
	(0.374)	0.00182	(0.704)	0.00165
Input/Output exp.	0.0270		0.0154	
	(0.184)	0.0203	(0.470)	0.0213
Throughput exp.	0.0116		-0.000162	
	(0.512)	0.0177	(0.993)	0.0186
Predecessor age	-0.000625		-0.000614	
	(0.722)	0.00175	(0.722)	0.00173
Foreign predecessor (1=foreign)	-0.123			
	(0.000411)	0.0347		
Pred. network size			-4.98e-06	
			(0.644)	1.08e-05
Predecessor tenure	6.02e-05		6.86e-05	
	(0.316)	6.01e-05	(0.253)	6.01e-05
Level 2				
Year	-0.00144		-0.00121	
	(0.785)	0.00528	(0.818)	0.00528
ROA(t-1)	-0.000919		-0.00223	
	(0.439)	0.00119	(0.179)	0.00166
Annual sales	0		7.35e-11	
	(0.889)	1.29e-10	(0.438)	9.48e-11
TMT size	-0.00157		-0.000694	
	(0.420)	0.00195	(0.731)	0.00202
Average TMT tenure	-0.000144		0.00905	
	(0.983)	0.00663	(0.190)	0.00691
CEO change	-0.0168		-0.0358	
	(0.576)	0.0301	(0.228)	0.0297
Relative ROA(t-1)	-0.00412		-0.00188	
	(0.000207)	0.00111	(0.289)	0.00177
Level 3				
Institutions	0.00145		0.000919	
	(0.265)	0.00130	(0.554)	0.00155
DOI	0.0717			
	(0.0791)	0.0408		
ICT adoption			-0.000181	
			(0.868)	0.00109
Constant	0.00423		-0.0150	
	(0.759)	0.0138	(0.329)	0.0153
Observations	764		764	
Number of groups	269		269	

Robust p-val in parentheses; robust std. error next to p-val

Table 4.6 Sensitivity analysis

4.5 Discussion

This paper makes several contributions to research on top management replacements, strategic leadership experience and the role of MNE managers in IB. First, in the area of top management succession, the paper offers important insights into how firms actively make adjustments to their TMTs in an attempt to ensure a fit between the executive's capabilities and the firm's context (Finkelstein et al., 2009; Rickley, 2019). Particularly by looking at the effects of the new manager's similarity against both the predecessor and the overall TMT upon entry, the paper extends previous work that only compares to either of the two (Georgakakis et al., 2021; Greve et al., 2015; Hollenbeck, 2009; Kalogeraki & Georgakakis, 2021; Zajac, 1990). Combining a comparison of both TMT and predecessors gives a better view of both the individual's fit within the group and which selections the firm may take when refitting the TMTs by identifying changes. As such, the paper advances the understanding of why the MNE top management team looks the way they do (Nielsen, 2009). The second major contribution to replacement research is the matching of managers based on their functional role in the TMT. Only a few papers look at specific, non-CEO managers in their investigations of how the managers can impact firm-level outcomes, typically CFOs (Gupta et al., 2019; Schmid & Altfeld, 2018). However, such studies tend to look at the role of the managers without considering the succession element of comparing a specific predecessor and a specific successor. Other studies are investigating non-CEO top management mobility and selection (Andrus et al., 2019; Doms & zu Knyphausen-Aufseß, 2014; Fee & Hadlock, 2004; Georgakakis et al., 2021; Johnson et al., 2018), in these cases without regarding the characteristics of the predecessor in understanding the characteristics of the new manager. As such, this paper provides a novel approach that other papers investigating TMT succession should consider adopting by analysing what some of the world's largest firms have done in cases where they needed new top managers.

The results of the paper show that firms are refitting their top management team over time depending on the contexts they find themselves in, as well as the skills they lose when the predecessor departs. For example, whilst it has been established that foreigners bring a specific skill set to the top management of a firm (Kaczmarek & Nyuur, 2021; Nielsen, 2010b; Pisani et al., 2018), less knowledge is available on what happens when a foreign manager departs the firm. In some situations, it is possible to find a foreigner from the same country with a similar skillset; however, our results confirm that often the firms are more likely to respond by hiring

an individual with a different international experience background. The differences occur in an attempt to ensure that the new manager is filling a knowledge gap in the firm left by a departing foreigner that likely brought unique skills. In this regard, it is plausible that knowledge sharing within the team has resulted in other top managers possessing some of the specific knowledge of the departing foreign manager (Gibson, Dunlop, & Cordery, 2019), allowing for the new successor to bring a different skillset compared to the previous one. Therefore, in the executive hiring process, the firm can adjust and bring in new and different capabilities. The firm gains ample benefits from such an increase in the knowledge base, for example, improving their international performance (Fernández-Ortiz & Lombardo, 2009; Kaczmarek & Ruigrok, 2013) or increasing the level of innovation (Heyden, Sidhu, Van Den Bosch, & Volberda, 2012; Nuruzzaman et al., 2018). As such, the paper also contributes vastly to the role of managerial capabilities in IB, by shedding further light on the relevance of having managers with international experience diversity at the helm of the MNE (Maitland & Sammartino, 2015b; Rickley, 2019).

Comparing the results to the non-CEO TMT replacement framework presented in the previous chapter[47], when a foreign top manager departs, the successor will, based on their international experience, act as a "Disruption Replacement" because their IE differs from both the predecessor and the incumbent TMT. A major reason for this is that MNEs have highly dispersed TMTs. Through the TMT, firms seek to cover a lot of relevant knowledge, and having a diverse leadership structure helps with this (Boone et al., 2019; Bunderson & Van der Vegt, 2018). This argument is further supported by the finding that the firm's DOI is related to IE, such that the new TMT member is different from the wider top management team. In highly international situations, the firm will be taking advantage of the international labour market and find people with divergent skills (Ruigrok & Greve, 2008). Whilst we do not find direct support for DOI impacting the individual successor-predecessor relationship, the sensitivity analysis shows a marginally significant increase in the IE diversity under higher DOI. This indicates that firms, over time, might get more internationally inclined and understand both the skills they can get from internationally experienced managers (Elron, 1997; Fernández-Ortiz & Lombardo, 2009; Nuruzzaman et al., 2018), but also be more comfortable in integrating diverse people into the TMTs (Groysberg et al., 2011; Mellahi & Collings, 2010; Samimi et al., 2020). This further makes a unique contribution to understanding the managerial role in IB.

[47] See chapter 3 of this thesis

The final set of supported findings regarding the international experience is related to the firm's performance against its industry aspirations. The results show that when the relative performance is higher, the firm is more likely to hire an individual that is comparable to the predecessor. This also means poor performance is associated with increasing changes, consistent with strategic leadership literature (Elsaid et al., 2016; Johnson et al., 2018). Taking the significant negative relationship in table 4.6 into consideration, this further suggests that negative performance compared to the industry should lead to an increase in the international experience diversity. That means that one response by large MNEs underperforming against their peers is to bring in added international capabilities. This finding contributes to the discussion on whether international experience benefits an individual aspiring to reach the highest senior leadership position (Biemann & Wolf, 2009; Schmid & Wurster, 2017). The findings provide mixed encouragement for international support, as it seems that high-performing firms tend to consider less internationally experienced managers when making changes. On the contrary, it is encouraging that there are contexts in our results – such as underperforming firms or highly international firms, which are likely to increase the IE profile of the new manager. Overall, the findings suggest mixed benefits of international experience diversity for the individual, but also evidence that firms consider different backgrounds depending on the situation they face. It further shows that in the executive selection process in MNEs, international experience is a valued characteristic. Further research should look at what such changes mean for the firm's future performance.

Besides the results explained above, in the control variables, we find marginal support for an increase in the dissimilarity between the new member and the incumbent TMT when there was also CEO change in the specific year (table 4.3 model 3). This is interesting as previous research suggests that new CEOs are likely to want to impact the TMT to better reflect them as individuals (Georgakakis & Buyl, 2020; Ma & Seidl, 2018). Our findings show that this might be the case often – however, the marginal significance can be a consequence of not accounting for the selection process – whether the firm, for example, is going through a Crown Heir succession, a Coup D'Etat or something else (Friedman & Olk, 1995). Future research may benefit from looking further into this aspect. To our surprise, we also see that the previous year's performance (ROA, t-1) does not impact the choice of a new non-CEO executive – but instead, it is the relative performance (as hypothesised). As such, this paper suggests that it is worth considering the weight of relative performance rather than absolute performance when looking at top management successions.

The second type of experience the paper focuses on is the functional experience background. Similar to IE, functional experience diversity has been widely researched in the literature because of its relevance in understanding the firm's strategic actions and performance (Hambrick & Michel, 1992; Herrmann & Datta, 2005; Peyrefitte, Fadil, & Thomas, 2002). The paper on this matter further advances the extant research on executive selection. By considering the predecessor characteristics as an antecedent, we hypothesised and found partial support for the impact of the departing member's network. The initial expectation was that the immediate successor would display low similarity in functional experience against both the predecessor and the incumbent TMT, thus acting as another "Disrupter". However, there was only support for the new TMT member having a different experience base from the TMT. Likely, the lack of support for the individual-level hypothesis (Hypothesis 5a) stems from the different options available to the firm. In the aftermath of a highly networked member departing the TMT, there will sometimes be candidates offering the same network and other times not. Thus, only when the network cannot be obtained is there potentially a difference in the functional experience background. However, the statistically significant difference vis-à-vis the incumbent TMT suggests that a well-networked TMT member has a central role in the firm's success and that when seeking to replace them, the firm will need to look at replacements that are different from the TMT, thereby bringing in distinct knowledge.

Similarly, when considering the relative firm performance and the institutional adoption of ICT, the new TMT member only yields significant results against the TMT. In the former instance, higher performance leads to greater similarity, whereas in the latter, ICT adoption leads to less similarity. These results are largely expected, given that good performance signals continuity (Vinkenburg et al., 2014; Virany et al., 1992), whereas ICT adoption calls for new and diverse skills (Alcácer et al., 2016; Banalieva & Dhanaraj, 2019). What is more interesting is the lack of effects on the direct replacement, both in the main results and in table 4.6. A likely explanation is that TMTs are structured with various functional roles, meaning that the combination of differences in roles and contexts provides opposing impacts on the relationship, distorting the results of the specific measure. Given the stronger findings on the predecessor-successor relationship on international experience, it is likely that the differences between members are likely to be found in different areas than their functional background. It is expected that a Chief Sales officer has a strong experience in sales; hence there would often be expectations that they bring in specific skills. This means that functional experience diversity, standalone, likely is not an optimal measure to consider in relation to the

framework tested. Future research could try to see differences between replacements in specific functional groups.

Here it is also interesting to see how the predecessor's age is likely to have an impact on how the new executive looks in comparison. Particularly, the finding that it leads to a marginally significant increase in the dissimilarity between the members shows that the career effects might impact the replacement process. This is likely happening such that as the predecessor gets older, and closer to retirement, the firm may consider finding different skills in the new candidate. Holding it together with the predecessor tenure, as explained in the next section, it becomes clear that firms are making adjustments and refitting their TMT based on the contexts – both when it comes to the external contexts, but also when considering things such as the departing member. Because the final contribution of the paper relates to the impact of predecessor tenure. The results on both IE and functional experience paint a picture of longer tenure being associated with high similarity compared to the predecessor and the incumbent TMT, thereby signalling continuity replacements. The only exception is on IE against the TMT, where the relationship is insignificant. The lack of significant findings at this level potentially indicates that the firm's internationalisation path over the years is changing, so while the prevailing impact on continuity replacements holds in most cases, some are replaced by new members with a different IE background, thus yielding an insignificant result. Overall, the findings support two strands within the literature; 1) the prevalent preference for continuity when things are going well and 2) the power accumulation tenure can bring. The continuity argument is similar to the effects that occur with performance measures. For power accumulation, previous research indicates that tenure is one of the factors that can accumulate power within an organisation, primarily in the CEO role but also in other top management roles (Chen & Nadkarni, 2017; Dutta, Malhotra, & Zhu, 2016; Jaw & Lin, 2009; Katmon et al., 2019). Holding it together with the age impacting the functional tenure as explained, this provides further evidence for the importance of power accumulation in terms of tenure, as executives hired later, with shorter tenure, *ceteris paribus*, do not accumulate the same level of impact. However, for the higher age/longer tenure executives, as the power increases, the departing member might get a say in finding the successor (Cannella & Shen, 2001) – for example, if the departure happens to retirement. In such a situation, there likely will be an element of homosocial reproduction in the TMT, consistent with the results.

Overall, the findings of the paper show that when studying executive selection, it is worth considering their characteristics – both compared to the departing member, but also

against the TMT. This way, it is possible to get a greater understanding of the effects that happen during such succession. By taking such an approach, it is possible to better understand the behavioural aspects of refitting the TMT to new and ever-changing contexts. As such, we are also able to show that firms are engaging in refitting their TMTs. Whilst the nature of the demographic variables only allows us to make predictions regarding behaviour, the evidence suggests that firms are indeed refitting based on the experience amid firm-level context.

4.5.1 Managerial implications

Besides adding knowledge to extant theoretical research, our study also provides findings that can have implications for firms and business leaders. While planning for succession can be challenging because departures often are unexpected, being aware of some approaches to hiring new executives will make the transition process smoother. For example, firms should be aware that if they have a substantial international presence, hiring dissimilar internationally experienced managers from the departing member is a strategy pursued by other firms and, therefore, worthwhile pursuing for the firm. Additionally, the paper also indicates that when highly networked people depart the firm, an alternative can be to find a manager with a functional skillset that differs from the dominant group in the firm. This way, the new executive can bring other skills to the firm. Overall, our findings stress the importance of business leaders making an ongoing assessment of the labour market – both internal and external - being aware of potential candidates that can fill specific voids if an unexpected departure should happen. Having contingency plans ensure that the firm will be less disrupted should key members depart, e.g., for a better career opportunity elsewhere. Holding this together with the important processes going on in the normal CEO selection, firms will be increasingly aware of how to tackle unexpected departures and can avoid potential downfalls.

For the individual executive, the paper provides further insight into the potential paradox of gaining international assignment experience. Whilst there are sometimes effects that can hamper the entry into the leadership position, our findings show that it is possible to reach a high level, if approaching firms in a fitting context. The individual should, when making career decisions towards working in different contexts, be aware that the best approach is to change between firms, rather than seek expatriation from a single firm. Firms are likely to hire individuals with diverse international experience, so this way, the potential lack of inter-firm networking will not be as salient. Additionally, our study can also help explain the relevance

of staying connected and networking – especially when striving to get to the top of the leadership cadre. As networking is found to be a desirable skill, exemplified by the need to replace highly networked individuals with dissimilar characteristics, the prospective leader can use it as leverage when approached for a position. Additionally, the prospective leader might be able to get access to some of the positions through their network.

4.5.2 Limitations and Future research directions

The study is not without limitations, but fortunately, most of these limitations provide interesting areas for future research. The first limitation is that the analysis does not consider the reason for departure. Whether a manager is leaving the firm because of dismissal, career opportunities, or retirement will have vastly different impacts on the mechanisms of succession and subsequent results (Andrus et al., 2019). It is likely, for example, that voluntary departures tend to yield higher similarity in key characteristics, whereas more disruptive departures are more likely to come with changes in characteristics. Taking such departure reasons into account can provide a further understanding of how firms are handling their different departures and what to look for in the new manager. The main challenge with this approach is, however the data collection which will require a substantial effort. An early approach could be to utilise the data on CEO departure reasons in US firms provided by Gentry et al. (2021) to see whether the departure reason has a significant impact on CEO replacements.

A second limitation is the relative simplicity of the predecessor's characteristics. It would be interesting to have more depth on this data, to see things such as role centrality in the TMT, and whether that would impact the similarity of the successor. Inspiration for variables that can be interesting here can be taken from the literature on CEO succession, such as the vision of the firm/individual (Kavadis et al., 2022), political ideology (Gupta & Wowak, 2017; Kalogeraki & Georgakakis, 2021) or more specific depth of the international experience, potentially at a regional level. Some of the insignificant results in this paper are potentially a consequence of not having sufficient information on the predecessor departing, as this will likely impact the results. Further understanding of whether the predecessor is different from the TMT or not could provide insights into the decision-making process. In the current sample, it would have been interesting to consider the direct experience of the predecessor, however, because of our chosen dependent variables, this would have caused multicollinearity issues. As such, more depth in the information can also help our understanding go more towards a behavioural understanding rather than predictive based on generalised assumptions.

As the study supports the possibility of finding specific characteristics alignment between the new member against the immediate predecessor and the incumbent TMT, a natural next step is to investigate what the different alignments mean for the firm going forward. Whether certain replacement types impact the firm's strategic direction or performance can yield highly interesting research opportunities. For example, in those cases where there is a low similarity in the replacements, is such a disruptive replacement good or bad for the firm? Such findings would be interesting both on a comparable sample to the one applied in this paper, but also on other firms of lesser size. Furthermore, it can also be interesting to use different measures that international- and functional experience. This would then contribute further to some of the existing knowledge, such as Georgakakis, Greve and Ruigrok's (2021) findings on dissimilarity based on age, gender and nationality. Other combinations could be highly impactful and should be selected according to the chosen sample. Likewise, future studies should engage in more complex measures containing a collection of multiple variables when determining the "dissimilarity" against predecessor and incumbent TMT.

Another intriguing area is breaking the comparison between the different parties down to even more narrow measures. In this paper, we consider all non-CEO top management replacements. Future studies could look at specific functions within the team against different variables. For example, how does CFO characteristics alignment impact the financial performance, or how does a change in chief sustainability officer impact the firm's CSR strategy? Whilst some of the functions might lead to an overly narrow sample, it is possible to find some intriguing findings that can lead to strong research in the future, further improving the succession and replacement research. In this regard, research could combine different analytical approaches. For example, a qualitative case study can potentially lead to a better understanding of the actual mechanisms in the replacement process, thus advancing the knowledge of the behavioural side of replacements. This paper is not able to test such factors with the current data, but research shedding light on the underlying mechanisms would be important going forward.

Finally, an area of top management team research that has seen an increasing amount of studies would also benefit from the knowledge accumulated in this paper. That is the research on faultlines and how they are managed (Georgakakis et al., 2017; Lau & Murnighan, 1998). Particularly, when the new top manager is low on similarity with the incumbent team, it is likely to lead to some knowledge-based faultlines that need to be managed effectively, or will it not be a cause of concern? Also, will there be the formation of new faultlines in the

period following on from e.g. as ‘Disruption Replacement’? Future research should tackle this problem to advance our knowledge even further.

4.6 Conclusion

Based on a sample of non-financial Fortune 500 global firms, the largest firms in the world, this paper provided key insights into top management succession, executive selection and the role of managers in IB. Through testing the similarity of new TMT entrants vis-à-vis their immediate predecessor and the incumbent TMT, support is found for several of the hypotheses, showing how MNEs are, when faced with departing members, refitting their TMT to fit the context they are operating under. The contexts are found to be influencing the replacement process at different levels. Notably, the study finds that at a micro-level, different predecessor characteristics can impact the choice of successor, measured based on background experience – particularly in terms of international experience, but to some extent also in terms of functional experience.

Chapter 5: Getting paid when books are cooked: Exploring CEO initial pay in the aftermath of financial fraud

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Abstract

Financial misconduct events increase the attention for corporate governance action. This paper investigates two concurrent corporate governance mechanisms in response to corporate misconduct – CEO replacement and the new CEO's initial pay. While replacement of the CEO in some cases is merely an act of scapegoating, the chief executive is, in most cases, aware of the malpractice and should be held responsible. The paper combines aspects of the literature on executive pay, particularly focusing on the initial remuneration, with research on financial fraud. We find that a new CEO entering a firm in a post-misconduct regime faces higher executive job demands than CEOs taking over a firm without misconduct and subsequently receive higher initial pay in the first full year in the job. By utilising the ExecuComp database on executive compensation in all listed American firms (1999-2019) and data from the US Security and Exchange Commission's "Accounting and Auditing Enforcement Releases", we show empirical support for a larger CEO compensation in post-financial misconduct succession. Our results are tested and contextualised through a propensity score matching methodology, comparing firms where succession happens following misconduct with similar firms experiencing succession without misconduct.

5.1 Introduction

Financial fraud, unethical misconduct and corporate scandals are major causes for concern at multiple levels. It creates issues for the individuals initiating and being involved with such actions (Cowen & Marcel, 2011; Wiersema & Zhang, 2013), the firms associated with the fraud (Castro et al., 2020), and the greater society (Bernile & Jarrell, 2009; Zahra, Priem, & Rasheed, 2005). Whilst potential immoral rewards are available for the involved parties, such benefits come with added risk and at the expense of other entities and individuals who follow the rules, thus leading to negative consequences. Following large-scale fraud examples such as Enron (Fazrad, 2005; Rockness & Rockness, 2005), or more recently – Volkswagen (Economist, 2018), regulators put greater emphasis on preventing malicious firm behaviour. Still, such large-scale misconduct increases public mistrust in many firms (Wiersema & Zhang, 2013). The public mistrust, combined with the media's larger scrutiny of firms (Hail, Tahoun, & Wang, 2018) increases the pressure on leaders. Challenges arising from such external pressure can lead to various dissatisfied stakeholders, decreasing sales, governmental fines and potential bankruptcy (Aabo, Hvistendahl, & Kring, 2020; Gangloff et al., 2016; Schnatterly, Gangloff, & Tuschke, 2018; Shin, Lee, & Bansal, 2021; Slater & Dixon-fowler, 2009). Such added pressure is described by Hambrick, Finkelstein and Mooney (2005) as "Executive Job Demands". This paper contributes further to how corporate misconduct can increase the job demands – both for the CEO and for a potential successor should the firm see a change.

Because despite the added risk, far from all misconducting firms go bankrupt as a consequence of their wrongdoings. Often the firm takes necessary actions to try and restore the firm back to a pre-misconduct situation, in the process requiring major effort to change the public view of the firm (Farber, 2005). One of the most apparent actions firms take is to replace their CEO - regardless of whether it is an act of scapegoating by the board (Buyl et al., 2015), or to punish the CEO for initiating the wrongdoing and restore the firm's reputation (Wiersema & Zhang, 2013). A report investigating the fraudulent behaviour in US firms found that between 1998-2007, at least 89% of the fraudulent behaviour was linked directly to the CEO and/or CFO (Beasley, Hermanson, Carcello, & Neal, 2010), an increase from 83% from the previous period starting in 1987 (Troy, Smith, & Domino, 2011). Furthermore, it is clear from their study that financial misconduct often leads to long-term consequences and potential deterioration. Therefore, it is essential for the firms and board of directors to act and solve the

issues to secure the long-term survival of the entities to fulfil their fiduciary duty (Shapiro, 2005).

It is, therefore, important to study the impacts such a change can have on the new CEO's job demands. Whilst organisations often try other efforts than changing the CEO to alleviate the negative consequences, misconducting firms are associated with more frequent successions compared to non-misconduct firms (Bernile & Jarrell, 2009). In the case of CEO succession, different factors and circumstances, besides the act of previous misconduct, have an impact on the success of the change. The type of CEO succession (i.e., dismissal, voluntary departure, routine or interim CEO) (Gentry et al., 2021; Kavadis et al., 2022), the characteristics of the new CEO (Connelly et al., 2022) as well as the compensation of the new CEO are highly interesting phenomena to study (Chen, 2015). Despite these different effects having a central place in the CEO succession literature, there is limited understanding of this in the context of financial misconduct, as only a few papers investigate the characteristics of the CEO in such situations (Connelly, Ketchen, Gangloff, & Shook, 2016; Gangloff et al., 2016; Gomulya & Boeker, 2014; Park, Boeker, & Gomulya, 2020). In this paper, the aim is the further advance the knowledge associated with such CEO replacement in the wake of financial misconduct. Particularly, the focus is on understanding how the increased job demands on the new CEO impact the compensation they require to take the job. To investigate this, a sample of American listed firms provides evidence that contributes to research on executive job demands, CEO succession and CEO compensation. Terms such as misconduct, wrongdoing and fraud are used interchangeably throughout the paper. The terms refer to a situation where the firm has violated the US Security and Exchange Commission's (SEC) rules severely and has been penalised for their actions (Dechow et al., 2011)[48]. Milder forms of financial misconduct exist, but generally, the cases identified by the SEC are more severe and have real implications (Koch-Bayram & Wernicke, 2018; Shi, Connelly, & Hoskisson, 2017), rendering them relevant for the focus of the paper.

To contribute to both the theoretical development of the specified areas, whilst also contributing to firm leaders' handling of crises, this study taps into the literature on corporate corruption and financial fraud. The topic attracts interest from different areas of research, including but not limited to; strategic management (Castro et al., 2020; Koch-Bayram & Wernicke, 2018; Park et al., 2020), accounting and finance (Feng, Ge, Luo, & Shevlin, 2011;

[48] A more thorough description follow in the data section.

Li, Shi, Connelly, Yi, & Qin, 2020) and international business (Bahoo, Alon, & Paltrinieri, 2020; Cuervo-Cazurra, 2006, 2016). Additionally, in an effort to understand how the increased job demands are rewarded, the corporate misconduct and succession perspective is combined with the study of executive compensation (Jensen & Murphy, 1990a, 1990b; Moriarty, 2005). Large remuneration packages to executives compared to average workers have sparked interest in understanding this field. Because why are the CEOs receiving such large compensation packages and are they warranted? The matter has been examined from an academic perspective (Gupta, Chu, & Ge, 2016; Moriarty, 2005) as well as being covered by the wider business press and general society asking questions like "Why do CEOs make that much money?" (Yeung, 2021). This paper contributes to this debate by finding that several contextual factors of misconduct increase executive job demands and lead to higher pay. While this is not judging whether the compensation is fair, it contributes to argumentation around how a capable CEO, through their specific capabilities, needs to be rewarded (Hubbard & Palia, 1995).

Historically, much of the focus on CEO pay-performance relationship is investigated during the CEO's tenure (Jensen & Murphy, 1990a; Ozkan, 2011). Recently, the initial compensation of a new CEO has attracted more interest (Chen, 2015), as the challenges of determining CEO pay initially pose a greater challenge because of information asymmetries (Graffin, Boivie, & Carpenter, 2013; Graffin et al., 2020). One of the main advantages of studying initial CEO pay compared to within-tenure pay is the purity of the compensation before the CEO can make a personal impact through the ex-post settling up mechanisms that will inevitably affect the compensation as the CEO accumulates more power during their tenure (Fama, 1980). At the early stage, the CEO will be given a compensation package based on the expected and perceived benefits the board estimate the CEO will be able to contribute. By investigating and finding evidence for higher initial pay for new CEOs taking over after misconduct, this paper contributes to the understanding of executive job demands, and how this impact the CEO pay.

5.2 Theory and hypotheses

5.2.1 CEO pay and performance literature

A central, albeit simplified, aspect of CEO pay research is whether the remuneration is determined by performance through optimal contracting (Cho, Hwang, Hyun, & Shin, 2020; Jensen & Murphy, 1990a, 1990b) or the CEO exerts power to increase the compensation

package regardless of performance (Devers, Cannella, Reilly, & Yoder, 2007; Gabaix & Landier, 2008; Graffin et al., 2020). The approach to studying this pay-performance relationship has roots in agency theory (Fama, 1980; Jensen & Meckling, 1976). Agency theory provides lenses through which it is possible to understand and analyse interactions between owners and managers within the firm. These interactions are impacted by the different roles and information asymmetry between the relevant parties (Eisenhardt, 1989b). Jensen & Meckling (1976), in their seminal work, explain how the agent (manager) displays self-maximising behaviour and takes advantage of the extra knowledge available to them, even at the expense of the principal (owner). To prevent such behaviour, different tools have been proposed to ensure the agent is fulfilling their fiduciary duty to the principal (Shapiro, 2005). One approach is ensuring 'watchdogs' are present on the Board of Directors to serve the owners' interests (Fama & Jensen, 1983). Having a strong board is often associated with fewer principal-agent issues (Jensen & Meckling, 1976), as they establish greater efficiency and objectivity in the monitoring of the day-to-day managers. One measure considered in the literature is the board's independence, typically measured as the proportion of outside directors (i.e., directors who are not employees in the firm) (Chen et al., 2016). For example, Schepker and colleagues (2017) find that board independence impacts the strategic changes occurring post CEO-succession, exhibiting the role the board has as a monitoring capacity. Similar effects are likely to occur in the aftermath of corporate misconduct, such that independent board members will play a vital role in ensuring sufficient changes at the managerial level. An alternative approach to studying the monitoring capabilities of the board is through gender composition, where having more female directors decrease the likelihood of engaging with misconduct and increase the firm's level of CSR (Liao, Lin, & Zhang, 2018). This is consistent with findings that females are generally less likely to engage in excessive risk-taking (Barber et al., 2001).

A different approach to studying the alignment between the principal and the agent is looking at the remuneration package granted to the CEO. The pioneering study of Jensen and Murphy (1990a) found that although CEOs' compensation was increasing with performance, the level was too small to ensure a strong alignment of interests. Whenever the shareholder wealth increased $1,000, the average CEO wealth increase was as little as $3.25. In their paper, they suggested that to ensure a better alignment of interests, the CEO should: hold significant amounts of company stock; have more radical variable compensation packages; and face a real threat of dismissal. By combining these measures, the manager would be more likely to work

towards increasing shareholder wealth, as it would also be in their own self-maximising interest (Jensen & Murphy, 1990a, 1990b). Their work induced several other studies on CEO pay, finding mixed conclusions regarding whether there is a positive (Bruce & Skovoroda, 2015; Hubbard & Palia, 1995; Malmendier & Tate, 2009) or negative (Cooper, Gulen, & Rau, 2016; Marshall & Lee, 2016) relationship between pay and performance. Some of the positive relationships come from arguments that the CEOs exhibit greater talent and thus are rewarded accordingly. The argumentation entails that even a marginal improvement in a billion-dollar organisation amounts to a large increase in shareholder wealth – an increase much greater than the additional pay the CEO accumulates (Gabaix & Landier, 2008; Hubbard & Palia, 1995). However, contrary arguments suggest that excessive pay leads to overconfidence (Aabo et al., 2020; Cooper et al., 2016), which potentially is detrimental in a firm that already struggles with financial misconduct. In such a situation, an ideal compensation package should encourage the CEO to engage in repetitive good efforts to restore the firm's reputation (Florin, Hallock, & Webber, 2010; Hall & Liebman, 1998; Marshall & Lee, 2016) – for example by considering greater long-term performance incentives (DesJardine & Shi, 2020).

With that being said, most extant pay research presents "within-tenure" pay, either through the specific pay in relation to individual- or firm-level factors (O'Reilly III & Main, 2005) or through settling-up mechanisms (Wowak, Hambrick, & Henderson, 2011). A more recent strand to consider is the initial CEO compensation following the appointment (Chen, 2015). In the context of financial fraud, a likely firm response is to change the CEO. This happens either because the CEO step down because of the misbehaviour, or because the firm dismisses them to send a signal (Park et al., 2020; Wiersema & Zhang, 2013). Either way, identifying and selecting a new CEO is a great challenge, particularly when determining what they are worth (i.e., what they should be paid to assume the role). In the aftermath of financial misconduct, board of director members' mindset tends to change, which impacts their approach to hiring a new CEO (Connelly et al., 2022). As directors are concerned with their own monitoring capabilities being questioned, they are more likely to pay the new CEO a premium for their qualities and the extra job demands they take o. The fight for talent, combined with a lack of information regarding the new CEO's motives and abilities, increases the psychological pressure on the directors (Main, O'reilly, & Wade, 1995). Such pressure can make the directors rely more on instincts and heuristics in the initial employment period (Graffin et al., 2013), leading to excessive pay to ensure the new CEO is capable to handle the tasks, but also willing to take on the extra job demands.

These findings in the extant literature provide suggestions on some of the processes that can impact the initial CEO pay following a misconduct-succession[49]. However, to fully understand whether and how such processes and outcomes emerge, more research is needed. This paper, therefore, seeks to fill this void by relying on *Executive Job Demands Theory* (Hambrick et al., 2005) to explain both the added risk for a new CEO, and how it impacts the role they are assuming. This way, it is possible to contribute to the burgeoning field of the consequences of financial fraud and the consequences it has for firms and managers.

5.2.2 Executive job demands

In any given employment context, it is vital to understand the challenges and demands associated with the role an individual is taking. High demands can engender negative consequences such as increased stress and other mental well-being issues (Karasek, 1979; Van Yperen & Snijders, 2000). Hambrick, Finkelstein and Mooney (2005) discussed the heightened pressure and challenging decision-making processes associated with strategic leaders' job, and coined the term "*Executive Job Demands"*. Since their influential paper, several strategic leadership scholars have used this perspective to explain the role of leaders, and why different contexts are associated with higher complexity and more challenges (e.g., Chen, 2015; Finkelstein, Hambrick and Cannella, 2009; Mueller et al., 2020). In the original iteration of the theory, the authors present three components of executive job demands, 1) task challenges, 2) performance challenges and 3) individual aspiration (Hambrick et al., 2005). The first, *task challenges*, is contextual as it relates to the environmental and situational complexity the executive faces. Examples of tasks that increase such challenges include making choices between alternative options amid resource constraints, handling hostile environments and managing stakeholder pressure (Ganster, 2005; Samimi et al., 2020). The higher the task challenge, the more important support systems and high information processing capabilities become for the executive (Greve et al., 2009; Surdu et al., 2021). Without adequate support, the demands imposed on the strategic leader might be too excessive, leading to the duality of mental distress at an individual level, and sub-par operations at the firm level (Ganster, 2005; Karasek, 1979).

[49] The term misconduct-succession refers to CEO succession in firms following being caught for engaging in misconduct

The second component of executive job demands, *performance challenges*, can thus be catalysed by sub-par performance as a consequence of heightened task challenges. It can, however, also stand alone amid general poor performance of the firm. This challenge is also contextual, and typically resides from pressure to ensure adequate performance for the principals. One of the key roles of executives, notably the CEO, is to ensure satisfying the owners by generating performance that increases their wealth (Fama, 1980; Jensen & Meckling, 1976). Under times of poor performance, the pressure on the CEO increases and stakeholders might contribute less to the firm because of the dissatisfaction (Hambrick et al., 2005). Thus, the pressure on executives increases, leading to higher levels of stress because of uncertainty about resource allocation and whether there is job stability (Bilgili et al., 2017). On the contrary, if the performance is satisfactory or above expectations, the CEO will have better conditions to work under, with extra leeway and scope for implementing initiatives to continue the positive trends (Certo, Connelly, & Tihanyi, 2008). This clearly shows how the two firms' contextual challenges presented by Hambrick and colleagues (2005) are somewhat interdependent.

However, the third component of executive job demands sways away from the contextual nature, impacting the other two challenges. Instead, the increased challenges stem from the individual's *aspirations*. To reach top management stage, there is a need to be driven and motivated. However, different CEOs will exert different types and levels of pressure on themselves. Some might display a higher internal locus of control and thereby feel more responsible for the direction of the firm (Judge, Erez, Bono, & Thoresen, 2003; Lefcourt, 1991). The more pressure the CEO might put on themselves, the greater the challenges associated with doing well becomes, increasing the perceived job demands. It, therefore, becomes clear that notions of pressure and stress are relevant to the level of executive job demands. Ganster (2005) in reply to Hambrick, Finkelstein and Mooney's paper, argues that the relationship between stress and executive decisions leads to altercations in the executive's behaviour and therefore impacts their capabilities greatly. Therefore, it is important to ensure that when hiring a new CEO in a job entailing greater executive job demands, they are capable of coping with them to avoid excessively negative behaviour altercations. Typically, such individuals would be worth more to the firm and be requiring a higher compensation.

5.2.3 Executive job demands in the context of misconduct – impact on CEO pay

Having established the details of executive job demands, one thing that enlarges the challenges of the role is the recovery in a post-financial fraud period. Such complexity will particularly impact the executive job demands if the focal individual is new to the job and have less contextual knowledge (Oh et al., 2018). Firm-level misconduct of any sort has a tendency to hamper the firm's brand value and increase the scrutiny put on the firm by external watchdogs, such as regulators and the media (Schnatterly et al., 2018). To handle such challenges, the firm will be under more strict conditions in its effort to restore the firm's reputation and ensure continued operations (Abatecola, 2019). One of the approaches to restoring the firm is, as mentioned, through hiring a new CEO. From the outset, the new CEO will be subject to, at least, the two first types of challenges associated with job demands – *task- and performance challenges*. Under certain circumstances, the new CEO will face all three components of executive job demands – something that will be elaborated on later in the paper.

The task challenges a new CEO faces following misconduct are primarily associated with higher levels of uncertainty regarding the firm's reputational- and financial situation. When making strategic decisions regarding the firm's future direction, there is insufficient firm-specific knowledge and experience to rely on (Castanias & Helfat, 1991). Overcoming this challenge to make good decisions thus requires high-quality human- and social capital to navigate the complex situation (Becker, 1964; Burt, 1997; Pereira, Temouri, & Patel, 2019). However, merely having the skillset to overcome the task challenges associated with restoring the firm to a pre-misconduct situation is insufficient. Because on top of the task challenges come *performance challenges*. Given that the firm has experienced financial misconduct, the performance will likely suffer, thus raising the level of distress. "Sometimes stakeholders – including customers and employee groups – place great performance demands on companies and have the power to enforce those demands, causing intense pressure for executives …" (Hambrick et al., 2005: 477). Even if handling the objective challenges of correcting past mistakes, there will be added psychological pressure on the new CEO because of such stakeholder pressure. Looking at a comparable challenge, it is found that there are increasing executive job demands on a new CEO in firms engaging in turnaround after weak financial performance (Chen, 2015), for which they are rewarded higher pay than non-turnaround peers.

The clear challenges associated with the job thus become apparent, but so do the difficulties for the firm in identifying and attracting a capable CEO. Individuals possessing the right skillset and mindset to handle the post-misconduct restoration of the firm come at a premium cost (Combs, Crook, & Rauch, 2019). In challenging times, finding a candidate with accumulated context-relevant experience is preferable, as Gomulua and Boeker (2014) find that following financial restatements, firms benefit from selecting people with prior CEO experience – particularly in turnaround situations. However, given the relatively rare nature of post-misconduct turnaround situations, it is difficult to find a sufficiently experienced, and available, candidate (Bernile & Jarrell, 2009; Wiersema & Zhang, 2013). As an alternative, the firm focuses on the individual's talent for running a business. For example, this can be a manager with a broader understanding of different backgrounds that can ensure better interactions amongst the holistic TMT and thereby tap into further knowledge-based resources (Georgakakis et al., 2017). Regardless of whether the firm finds a context-experienced manager or someone with specific talent, it will be related to higher compensation demands (Carpenter et al., 2001; Mueller et al., 2021).

Holding these aspects together, it becomes clear that while the new CEO can potentially be considered a saviour (Lovelace, Bundy, Hambrick, & Pollock, 2018), they will be under greater executive job demands and challenges. Given that CEOs are penalised for financial elements such as missing targets of analysts' forecasts (Mergenthaler et al., 2011), they are also increasingly likely to be blamed for not restoring the firm. Combining this with the rarity of relevant skills and boundary-spanning capabilities (Bahoo et al., 2020; Mäkelä et al., 2019; Peng, Sun, & Markóczy, 2015), the increased executive job demands will be associated with initial compensation such that:

Hypothesis 1: *CEO succession following financial misconduct is associated with higher initial compensation vis-a-vis new CEOs in firms with non-financial-misconduct successions.*

5.2.4 The impact of CEO age on Executive Job Demands

Considering the new executive job, it is also interesting to understand other factors that moderate the executive job demands. These factors, whilst linked to the job, can differ between seemingly similar positions. One such factor to consider is the age of the new CEO, as it determines some of their behaviours, but also provides evidence of where they are in their

career stage. Age is an often-studied variable, relating to several different outcomes, such as risk-taking and strategic changes (Hambrick & Mason, 1984; Troy et al., 2011). In early research on individual characteristics, younger CEOs tend to be associated with greater levels of corporate growth (Hart & Mellors, 1970), particularly through the aforementioned strategic changes (Child, 1972). Likewise, older CEOs are, on average, less inclined to make substantial altercations of the strategic direction and instead display higher commitments to status quo (Datta & Rajagopalan, 1998; Miller, 1991). Whilst these findings primarily affect during the CEO's tenure, they nevertheless raise intriguing questions on the process of selecting a new CEO, also when trying to restore the organisational reputation. Amongst others, it raises the question of whether it is potentially beneficial for the firm to approach younger CEOs to make changes to the way the business runs. Alternatively, investigate whether older CEOs are more desirable through their lower risk-propensity and greater experience (North, 2019). The latter will be the best choice if the board's goal is to alleviate a risk-taking culture. Since younger CEOs have been found to be more likely to rationalise accounting fraud (Troy et al., 2011; Zahra et al., 2005), the board might hesitate to select a young CEO taking over. Overall, the findings on whether younger or older CEOs remain ambiguous and context-dependent.

Therefore, attempting to understand age's impact on executive job demands, and the subsequent pay, requires an assessment of the new CEO's point of view on age and career stage. Given the hypothesis that executive job demands increase the potential pay package, age's effect on executive job demands is interesting. Here the third component of executive job demands, *Individual Aspiration* (Hambrick et al., 2005), becomes interesting. Differences in age and career stage impact how the new CEO see challenges in a job. Older and more experienced CEOs might perceive less risk, whereas "[…]those who are younger or earlier in their careers or jobs may have more to prove and feel under pressure to demonstrate their efficacy and to establish reputation and a foothold[…]" (Hambrick et al., 2005: 477–478). Such a notion makes it apparent that younger CEOs perceive greater demands in the new job, which is supported by the greater career risks they face (Dechow & Sloan, 1991; Matta & Beamish, 2008; Strike, Berrone, Sapp, & Congiu, 2015). Failing to restore the firm's reputation can have damaging implications on the new CEO, challenging the perspectives of finding a similarly high-profile job afterwards (Desai, Hogan, & Wilkins, 2006). The younger CEOs, with longer career horizons, and less accumulated earnings from their previous jobs, demand greater compensation to offset the risk, compared to their peers in non-misconduct firms. Therefore, despite previous findings indicating that, in the absence of fraud, older CEOs get higher

remuneration (McKnight, Tomkins, Weir, & Hobson, 2000), younger CEOs are more likely to be compensated for their added risk. This leads to the first moderating hypothesis:

Hypothesis 2: *The positive relationship between Misconduct CEO Succession and CEO initial pay becomes less pronounced when CEO age increases*

5.2.5 The previous CEO's departure type

There is often an underlying assumption that misconduct succession always happens as a consequence of the board's decision to dismiss the predecessor. However, this is not necessarily the case. Connelly et al. (2022), in their study looking for the characteristics of a new CEO, using a similar sample as this paper, show that only using dismissed CEOs reduces the sample substantially. They argue that it is more appropriate to use the full sample of all CEO departures after misconduct, as it most accurately sheds light on the decision-making process for selecting a new CEO. This paper agrees with this notion, as the board can have grounds for not succumbing to dismissal after fraud (Marcel & Cowen, 2014). Simultaneously the previous CEO might voluntarily depart the firm before being dismissed in the aftermath of misconduct. Such voluntary departure is likely either to preserve their reputation or due to pressure from various stakeholders (Andrus et al., 2019; Essman et al., 2021). This leads to a situation where the succession occurs following misconduct, without the succession appearing as a dismissal in terms of the definition set forth by Wiersema and Zhang (2011) and applied by Gentry et al. (2021). Whether or not the firm decides to dismiss the CEO can come down to the severity of the financial misconduct. Alternatively, the relationships formed between the board and the executive can impact the decision-making process (Goyal & Park, 2002).

An example of the latter can be seen in the American privately held pharmaceutical company, Purdue Pharma. The firm has been accused as a central player in causing the "Opioid Epidemic" in the US through its aggressive marketing strategy associated with potentially addictive painkillers (Lancet, 2021). Despite the malicious practice that regulators brought to the attention, it did not lead to the dismissal of key executives; instead, they left "voluntarily" although under sharp influence of a court settlement (Keefe, 2021). Excluding such a case might prevent the paper from finding a sufficient understanding of the increase in job demands

after misconduct[50]. Similarly, several situations where the CEO departs before the board decides on a dismissal occur. As will be further explained in the data section, there is a substantial time gap between the engagement in misconduct and public disclosure (Karpoff et al., 2017). In this period, the CEO can decide to step down to preserve their future career prospects or because they know their actions will get consequences at some point. This non-dismissal departure can also be through a mutual agreement between the firm and the previous CEO, attempting to allow the new CEO time to make changes in anticipation of the public announcement of misconduct. Regardless of the situation, it is important to consider all types of turnover following misconduct to get the most accurate picture.

Notwithstanding, while all turnover situations are relevant, we contemplate that there is a difference in the risk and executive job demands depending on how the departure of the predecessor is handled. There is an underlying assumption that the new CEO, regardless of the predecessor's succession type, is aware of the misconduct both when hired before or after the public announcement. However, the job demands will be significantly higher if the predecessor has departed through a dismissal as the disruption will be perceived as more severe (Schepker et al., 2017; Zhang & Rajagopalan, 2003). Using signalling theory (Bergh, Connelly, Ketchen, & Shannon, 2014), it becomes clear that the board sends a stronger message to break path from the previous regime by dismissing the CEO. Combining this with misconduct increases the scrutiny by external watchdogs further and adds further to the *task challenges* in executive job demands (Wiersema & Zhang, 2013). Adding to the challenge for the new CEO, Georgakakis and Buyl (2020) find that the wider TMT is subject to stronger factional sub-groups between members hired by the previous CEO and members hired by the new CEO, hampering the working conditions and leading to an increase in the *performance challenges*. Such a situation is more significant given that the new CEO, in their efforts to make substantial changes to restore the firm, will likely also rely on making changes to the wider TMT (Karaevli, 2007). These extra task challenges for a CEO taking over following misconduct leads us to suggest that the stronger signal sent by the board when dismissing the previous CEO leads to added job demands, which subsequently impact the pay, such that:

Hypothesis 3: *The positive relationship between CEO misconduct-succession and CEO initial pay becomes more pronounced when the Predecessor CEO is dismissed*

[50] Given the private status of the firm, this case is not included in the sample, but serves as an illustrative point

5.2.6 Outsider CEOs and greater job demands

Similar to the predecessor's departure type impacting the executive job demands, so does the new CEO's origin. Whether the CEO comes from within the ranks or outside the firm is one of the most studied variables in succession research (for examples, see Chiu and Walls, 2019; Karaevli, 2007; Kavadis, Heyden and Sidhu, 2022; Quigley et al., 2019; Shen and Cannella, 2002; Zajac, 1990; Zhang and Rajagopalan, 2003). Despite the vast amount of research, it remains a focal aspect of the succession event, as the success of origin largely rests on the context of the succession. "Insider versus outsider", thus, remains a fundamental variable to understand when aiming to advance both the scholarly and practitioner-based knowledge on effective handling of CEO succession (Berns & Klarner, 2017). In stable contexts, where the firm is performing admirably and not facing substantial pressure, a "routine" insider succession is associated with positive reactions by analysts (Kavadis et al., 2022) and also tends to lead to subsequent good performance (Zajac, 1990). On the contrary, when the environment is more turbulent than stable, findings point toward outsiders performing better (Karaevli, 2007). The outsider brings rich and previously unavailable knowledge from outside the boundaries of the firm, which can help improve the performance. This leads to situations where, if the knowledge is appropriate, it will propel the firm towards better performance, whereas less usable knowledge has negative consequences. This is exemplified by Quigley et al. (2019), finding that outsiders tend to generate more extreme performance outcomes – either negative or positive – again highlighting that insiders are the more stable option, but outsiders can impact the firm's situation more drastically. Therefore, whilst insiders provide stability, outsiders can provide a break of patterns. This latter notion is supported by Gangloff, Connelly and Shook (2016), finding that in the aftermath of financial fraud, hiring an outsider leads to positive reactions from investors.

Despite the understanding of the misconducting firm's potential preferences, it remains vastly important to understand the situation from the CEO. Notably, CEO outsiderness can amplify the executive job demands imposed on them. For the new CEO, arriving from outside the organisation will be associated with less understanding of the firm's current context (Vancil, 1987; Zhang & Rajagopalan, 2003). This includes less in-depth knowledge of the nature of the previous misconduct. As such, when the new CEO has to steer the organisation toward restoring its reputation, it might suffer from incomplete information (Cyert & March,

1963; March & Simon, 1958), making the decision-making process more challenging (Simon, 1997).

Additionally, the new outsider faces more substantial integration struggles because of the lack of firm-specific knowledge, which challenges the performance of the firm (Fondas & Wiersema, 1997; Georgakakis & Ruigrok, 2017). Evidence suggests that outsiders will be challenged in achieving the optimal benefits from the work of the TMT (Georgakakis & Buyl, 2020). This can hamper the effectiveness of the new CEO until sufficient changes have been made to the wider TMT (Barron et al., 2011). Together, it shows that the new CEO, coming from outside the firm, faces increasing challenges in the early stages of the new job (i.e., increasing executive job demands). Consistent with the previous notions, it is expected that the higher executive job demands impact pay, such that:

Hypothesis 4: *The positive relationship between CEO misconduct-succession and CEO initial pay becomes more pronounced when the new CEO origin is from outside the firm*

5.2.7 Industry complexity and executive job demands

To further advance the understanding of executive job demands and assess the potential role of regulators, the paper's final hypothesis looks at the industry context. More specifically, whether differences in the level of regulation between industries increase the executive job demands imposed on the new CEO in heavily regulated industries. Previous research finds that during the CEO selection phase, industry factors impact the characteristics of the chosen CEO - particularly the CEO's origin and traits (Datta & Rajagopalan, 1998; Zhang & Rajagopalan, 2003). One potentially interesting industry characteristic to study is the level of regulation within an industry. Some industries - such as pharmaceuticals, banking and utilities - experience higher regulation levels than most other industries (Luoma & Goodstein, 1999). These heavy regulations put the firm under greater scrutiny by lawmakers, financial watchdogs, regulators and other relevant stakeholders (Semadeni, Chin, & Krause, 2022). Furthermore, firms in heavily regulated industries tend to be subject to stricter rules than their peers in less regulated industries – for example, banks must comply with several extra regulations, such as the Basel accords (ElBannan, 2017). In the case of banks, some of the largest banks that were already under stricter monitoring faced even further scrutiny after the collapse of Lehman

brothers. Despite several financial packages to help other banks from reaching the same level, the amount of pressure on the executives to navigate the challenging environment increased further (Sorkin, 2010). For example, the implementation of the Dodd-Frank act in 2010 meant banks had to go through extra requirements such as stress tests, as well as larger capital and liquidity requirements. Furthermore, the executives faced greater accountability of their actions – increasing the job demands and the potential risk associated with their role.

An example of how heavily regulated industries may affect CEO compensation can be seen in the previously mentioned case of Purdue Pharma (Keefe, 2021). Through its focus on the selling of strong opioid-based painkillers, the firm found itself in an industry strictly monitored by regulators. This led to additional work pressure having to prepare for inspections and tough questions regarding their product and marketing strategy. This especially increased as the regulators became increasingly aware of a large number of individuals being addicted to Purdue Pharma's painkillers. So whilst the firm was arguably engaging in questionable behaviour, it still shows how the firm's executives faced greater challenges and job demands because of the heavier regulations. Another example of a firm facing challenges by operating in a heavily regulated industry is the utility firm Pacific Gas and Electric (PG&E). PG&E has long been under scrutiny for their central role in supplying energy to large parts of California, especially as they have been involved in some crises (Huang, 2013). For example, PG&E manipulated the energy market to their advantage in 2000-2001. As a consequence, the firm came under bankruptcy control, but was saved in 2004. However, the firm faced even greater monitoring following the issues. Therefore, the executives have been under greater pressure to handle the additional scrutiny, whilst also running a successful business – something that increases the executive job demands further. That is also why, when the firm played a role in the 2018 California fires, PG&E was quickly identified as one of the large problems (Gray & Bakke, 2019). As part of the efforts to save the firm, Patti Poppe was appointed as the new CEO in 2020, facing several challenges of the firm associated with their behaviours and the scrutiny they face from external stakeholders (Bradt, 2020).

This shows how it is relevant to find individuals that can cope with the higher levels of regulatory pressure, including the higher levels of scrutiny (both from institutions and private people) associated with the CEO position in such firms (Hillman, Withers, & Collins, 2009; Pfeffer & Salancik, 1978). In particular, in the aftermath of financial misconduct, it is essential for firms to ensure their leaders are capable boundary spanners who can navigate the

surrounding regulators, and cope with the heightened task challenges already present within the firm. Combining the two contingency factors of higher regulatory pressure and firm-level misconduct thus leads to a dual pressure on the executive job demands. Few individuals have previous experience in handling such challenges, leading to a limited talent pool as they can only draw from a small, specialist labour market when looking for a new CEO. This will subsequently impact the compensation upwards, as the individuals want to be compensated for their unique talent (Hubbard & Palia, 1995; Peng et al., 2015).

The scarcity of supply of capable talent is however only a part of the story. The main driver of an expected higher CEO pay in the aftermath of financial misconduct in heavily regulated industries is the increased executive job demands. Under normal circumstances, heavier regulations have been associated with small increases in CEO pay (compared to non-regulated industries) and changes to the structure of the pay (Jarque, 2008). When combining this regulatory pressure with at least one misconduct case, the workload is expected to increase for the new CEO, consistent with the examples presented above. Thus, the new CEO is expected to face a more significant challenge than their peers taking the CEO positions in firms without misconduct. The new CEO might perceive the role as a challenge worth pursuing, as it can provide them with a chance to succeed under high pressure, but they also want to be compensated accordingly (Schlegelmilch & Robertson, 1995; Sutcliffe & Huber, 1998). In this instance, the effects will be such that added complexity from the higher regulations increases the task challenges, whereas the CEO will also face a greater level of aspiration challenges, both factors increasing the executive job demands. The higher pressure from the industry will, in many ways, induce more stress, translating into executive job demands (Ganster, 2005). With the higher demands through the increased challenges and scrutiny, the initial CEO compensation will be impacted such that:

Hypothesis 5*: The positive relationship between CEO misconduct-succession and CEO initial pay becomes more pronounced when the firm is in a heavily regulated industry*

5.3 Methodology

To test the hypotheses, the paper applies a sample of all listed US firms between 1999 and 2019. A detailed report by Beasley et al. (2010) shows that the misconducting firms come in all sizes, so despite potential differences in their responses to the misconduct, it is deemed most appropriate to use the whole sample. Leaving out either small or large firms would mean we lose out on important information regarding how firms are handling CEO succession following misconduct. However, using all listed firms will mean that parts of the variance come through sheer differences in the firm's size – such as greater financial opportunity, larger talent pools and further publicity for large firms (Bilgili et al., 2017). To ensure it is not the size that is driving the results, we apply two important steps. First, the firms are matched based on size, industry and years, consistent with relevant literature on corporate misconduct, using propensity score matching (Koch-Bayram & Wernicke, 2018). This ensures we are findings comparable firms where the main difference between them is whether they have engaged in misconduct or not. This way, as will be explained further later in the section, we can most accurately ensure that we are, in fact, testing the impact of misconduct on CEO . Secondly, in the regression analysis following the matching of firms, we include further control variables regarding firm size, again ensuring we get the most accurate information on the impact of misconduct on the new CEO pay.

The data is collected through different databases, as well as additional hand-collected variables of interest. First, the ExecuComp[51] database is used to source information on CEOs, including their compensation. For the compensation, we are primarily relying on total pay (TDC1 in ExecuComp), but we also include measures broken down into fixed and variable compensation measures. Furthermore, ExecuComp data is used to identify all succession events by identifying the cases where a new CEO appears in t+1, based on a change in individual ID and name within the firm[52]. Secondly, company data is collected from Compustat, another database containing information on US-listed firms. This database provides data for measures such as firm size, performance and industry classifications. For in-depth, personal information on individual members of the board of directors, as well as further information about the CEO, we rely on BoardEx[53]. This database provides crucial individual information such as demographic data, education and functional experience of individuals. As

[51] The ExecuComp database is accessed through Wharton Data Service and University of St. Gallen.
[52] The CEO is determined based on an ExecuComp variable that determines who is the CEO of the firm.
[53] Accessed the same way as ExecuComp

the BoardEx data is available for outside US firms as well, we get sufficient and consistent data on information regarding the CEOs both inside the US and if they have spent any time abroad (Hooghiemstra, Hermes, Oxelheim, & Randøy, 2019; Schmid & Altfeld, 2018; Tasheva & Nielsen, 2022). Next, to measure financial fraud and misconduct, we utilise the Security and Exchange Commission's (SEC) "Accounting and Auditing Enforcement Release" (AAER), where the data is accessed through Dechow et al. (2011). The AAER data is extended by hand-collecting misconduct-disclosure dates, as will be described further in the following section. To measure the predecessor's departure type, data from Gentry et al. (2021) is applied, and extended by collecting information on some of the smaller firms not present in their data[54].

Despite the data in this paper having longitudinal information on the firms, the event-based nature of successions makes the study apply a cross-sectional analysis. To ensure that the succession events we use for our analysis are relevant, several steps have been taken to ensure the data is accurate. First, we are cross-checking the ExecuComp information with the BoardEx information to ensure that succession is at the CEO level, to avoid potential issues of, for example, a regional CEO appearing as the main CEO of the firm. Secondly, we exclude all cases of firms with co-CEOs, for example, Oracle, which for some years operated with co-CEOs (Feigen, Jenkins, & Warendh, 2022). This is done to ensure the effect we look for is not spread over several individuals, as this can impact the firm's compensation structure differently compared to firms with only one CEO. We furthermore exclude interim CEOs. As interim CEOs are only hired for a short period, they often have a different title and function in the firm. Therefore, the interim CEOs often return to their previous role once a permanent CEO is found, leaving issues with both their compensation not necessarily reflecting the risk they take on, as well as the time period as CEO being too short to provide meaningful data, thereby distorting the results. After making these exclusions, the final sample provides complete information on 2,459 cases of firm-year observations where there occurs any form of relevant CEO succession event. Of these, 175 are following misconduct in the broadest term. However, as will be explained shortly, we apply a stricter interpretation of 'misconduct', bringing the cases of misconduct succession down a bit, to ensure the cases captured are relevant and provide meaningful insight into the effect misconduct has on new CEO pay.

[54] The methodology proposed by the original authors are used to extend the data

5.3.1 Dependent variable – CEO pay

Compensation data is collected through the ExecuComp database. Consistent with the CEO pay literature (Gabaix & Landier, 2008; Guest, 2019; Harris, Karl, & Lawrence, 2019; Kalogeraki & Georgakakis, 2021; Pathak, Hoskisson, & Johnson, 2014), we use the TDC1[55] variable, containing all fixed and variable pay measures. This ensures that the overall pay-package is considered, to avoid leaving out hidden compensation by for example focusing only focusing on the fixed salary. This is relevant as firms are using vastly different compensation structures – often using more variable pay to be able to provide the CEO with higher income compared to a purely fixed baseline salary only compensation package (Harris & Bromiley, 2007; Jensen & Murphy, 1990a). In an effort to reduce the skewness of the variable, we apply the natural logarithm of the compensation. Next, the variable is time-lead one year to reflect the first full CEO-year compensation. As the CEO can be appointed at any time during the first year, this is the most appropriate way of measuring the initial compensation (Chang et al., 2010). Other measures of pay, including an artificially constructed full first-year salary, are available for robustness testing, but this specific measure is most appropriate for the research design. The overall pay is deemed as the most appropriate measure, given the high levels of payment occurring through alternative means, either to disguise it from shareholders or simply to incentivise the executives (Wiersema & Zhang, 2013)

5.3.2 Independent variable – financial misconduct

Financial misconduct events are identified by using the AAER data from Dechow et al. (2011). The data comprise different events the SEC detects as misconduct. Alternative measures for fraud exist, but they tend to rely on fraud estimations (e.g., Schrand & Zechman, 2008), whereas the AAER data only contain cases of severe misconduct, which have been disclosed and investigated by a public institution (Dechow, Hutton, Kim, & Sloan, 2012). Hence, the AAER data ensures that we use the most severe cases of misconduct that can materialise into real CEO changes. AAER cases that are not related to the executive level of the firm, typically cases conducted by subcontractors such as auditors, are excluded. This is done as, despite the CEO's role in signing off on such agreements, the actual mistake has been conducted by outside experts, which means that it should not directly impact the CEO. The

[55] ExecuComp list the variable as: "Salary + Bonus + Other Annual + Restricted Stock Grants + LTIO + Payouts + All Other + Value of Option Grants" (the value of option grants computed using the Black-Scholes formula.

AAER dataset is used for other academic investigations of misconduct (such as Guest, 2019; Koch-Bayram & Wernicke, 2018; Shi et al., 2017), but in most cases, the data is used as the dependent variable to detect antecedents for fraud (Schnatterly et al., 2018). Since this paper use misconduct as an explanatory variable, additional information regarding when the event is disclosed is needed. The author of this paper, therefore, hand-collected disclosure dates for all relevant cases, consistent with the approach used in Karpoff et al. (2017).

The data is then computed such that successions happening because of financial fraud can happen on both an ex-ante and ex-post basis, as the disclosure from SEC happens at a different time than the actual misconduct. The underlying assumption is that the board of directors will be aware of potential misbehaviour before they materialise in the form of a SEC statement (Collins, Reitenga, & Sanchez, 2008; Katz, 2005). This knowledge will, in many cases, lead to preventative actions, whereby the board wants to ensure they make changes before the public becomes aware. Nevertheless, there are cases where SEC has acted more swiftly, and the board has been unaware and subsequently cannot act until after disclosure (Karpoff et al., 2017). Therefore, a reasonable time period, both before and after disclosure, is necessary when determining when the succession is attributed to misconduct. The misconduct variable is a dichotomous variable equal 1 when there is financial misconduct, and 0 otherwise. Following the first succession after misconduct, the binary variable changes to 0 to avoid multiple successions following a single case of financial fraud impacting the results. This is done to avoid firms with several successions and path dependence in a time of crisis impacting our data to provide less meaningful results. This also ensures that the results are not driven by path dependence through continued negative implications of the firm's malpractice.

Whilst it is difficult to estimate exactly when a misconduct event is relevant for the succession, it is worth noting that the period from the firms initially becoming aware of the pending investigation by SEC until an AAER has been filed can take over two years (Karpoff et al., 2017). Generally, firms are informed that SEC might start an investigation 5 months before they do, and then there is, on average, a 20-month gap before there is made an actual decision. Furthermore, there is "[...] 53.8 months elapse between the initial public revelation of the misconduct and the last regulatory proceeding" (Karpoff et al., 2017: 141). Therefore, the firm can react by replacing its CEO well before an actual filing has been made. Subsequently, a measure of five years before and after disclosure is applied to provide the most

robust means of testing when the succession event is relevant as a response to misconduct[56]. This decreases our total sample of relevant misconduct successions to 131 cases, compared to the 175 previously described. The five years are relevant because of the aforementioned long period before the final decision was taken. Whilst studies tend to focus solely on the departures happening after the announcement of misconduct and/or restatements, there is evidence that it may be relevant to also consider a period leading up to the announcement as the board have additional inside information, and therefore decides to take preventive actions, in an attempt to mitigate the negative reactions upon disclosure (Feroz, Park, & Pastena, 1991; Hennes, Leone, & Miller, 2008).

5.3.3 Moderating variables

For the paper, four moderating variables are identified. The first variable, *age* of the new CEO, relies on data from ExecuComp and is further cross-verified using data from BoardEx. The age is taken in the year where the CEO is hired to reflect the age at the appointment (McKnight et al., 2000). *Predecessor dismissal* is a dichotomous variable equal 1 if the previous CEO was dismissed, and 0 otherwise. We rely on the open-sourced data from Gentry et al. (2021) for the dismissal measure. The dataset is updated continuously, ensuring data availability beyond the original sample end of 2018[57]. Furthermore, as 1999 was the first year in the sample, we do not have any succession until the year 2000 as our data reflect new CEO entries only. The author has manually cross-checked the data to ensure accuracy of the dismissal measure. For *Outsider CEO,* the paper relies on data from ExecuComp to determine whether their first role in the firm was as CEO or not. The variable is dichotomous and takes the value of 1 if the CEO entered the firm as CEO and 0 otherwise, consistent with the literature (Barron et al., 2011; Chen, 2015; Georgakakis & Ruigrok, 2017; Shen & Cannella, 2002). The data has been further cross-verified with other datasets and screenings of annual reports. Finally, for *heavily regulated industries,* the paper utilises the measure proposed by Luoma and Goodstein (1999: 557) "Using the Standard Industrial Classification (SIC) primary industry codes, we specified heavily regulated industries as those included in the 4000 or 6000 SIC categories (transportation, utilities, banking, and finance) or in the 2830 category

[56] Alternative measures such as 1 year, 3 years and difference in the pre and post announcement are also considered, but the 5 years gives the theoretical best fit.
[57] The title of the paper indicates departure reasons until 2018, but this data has since been extended by the original authors

(pharmaceuticals)". The measure is a binary variable taking the value of 1 if the firm is operating in the specified highly regulated industries and 0 if in any other primary industry.

5.3.4 Control variables

A wide range of control variables consistent with the strategic leadership and pay literature is applied. These different variables reflect different levels of the organisation, including individual-level factors, firm-level factors and industry characteristics. For the individual level, we control for *gender* of the CEO (dichotomous variable equal 1 for females), as this variable previously has been found to impact CEO pay (Glass & Cook, 2016). Furthermore, the risk-taking propensity is higher for males (Barber et al., 2001), something that can lead to a difference in the compensation design, leading to changes in the compensation structure, such as providing higher levels of equity compensation (Harris et al., 2019). The prior experience of the CEO is accounted for in two ways, first by looking at the *intrapersonal functional diversity* where a Blau (1977) index[58] of the different functional backgrounds of the CEO's career is applied (Roth, 1995). Secondly, the number of jobs the CEO had prior to appointment is included as a second experience control variable (Bragaw & Misangyi, 2017). For education, the paper controls for relevant educational background by computing two dichotomous variables, one for financial education and one for executive education (MBA, executive degree, etc.) (Kilduff et al., 2000). Finally, to control for the potential *power of the new CEO*, a binary variable equal 1 when the new CEO is also chairman of the board and 0 otherwise is included (Goyal & Park, 2002; Hayward & Hambrick, 1997).

At the firm level, the size of the firm matters greatly for compensation (Tosi & Gomez-Mejia, 1989), so the paper controls for the natural logarithm of the number of employees (Herrmann & Datta, 2005; Uzzi, 1999; Wu, Richard, Triana, & Zhang, 2022). Furthermore, a control measure of prior performance through the average return on assets (ROA) over a three-year period is applied (Hutzschenreuter & Horstkotte, 2013b). At the same time, to test for the performance compared to the industry (Gibbons & Murphy, 1990), there is included a control variable for the relative return on sales (ROS) against peers within the same SIC classification (Hambrick & Mason, 1984). Additionally, a control for the predecessor CEO's tenure is included, as this can have a potential impact on the power that individual had and the working

[58] $Blau = 1 - \sum_{i=1}^{k} p_i^2$ where p is the proportion of the total career in specific functional category. The classifications of functions is according to 11 different subcategories, also applied in chapter 3 and 5 of this thesis.

conditions of the new CEO (Friedman & Saul, 1991). We also employ a set of board-level variables, as the characteristics of the board impact the compensation as they are the focal entity setting the CEO pay (Ruigrok, Peck, Tacheva, Greve, & Hu, 2006). Included for controlling is the size of the board, as larger boards impact the monitoring capacity (Liao et al., 2018). Further impacting the monitoring capabilities, controlling for the proportion of non-executive directors (Main et al., 1995) and the proportion of females (Bazel-Shoham, Lee, Rivera, & Shoham, 2020; Farrell & Hersch, 2005) on the board is warranted. In both cases, the control variables are computed by taking the number of specific individuals divided by the total number of directors. This variable is cross-verified with information available through BoardEx. Finally, as job demands are expected to impact the compensation, we control for various types of industry factors to avoid the results being driven by the context of the industry. Industry munificence is calculated by regressing the industry sales average over the period and dividing the slope by the industry means sales (Dess, Gregory & Beard, 1984). Industry dynamism explains the instability of the environment faced by the organisation within its industry (Ruigrok et al., 2013) and is calculated by taking the standard error of the former regression of industry sales and dividing it by the mean of sales (Dess, Gregory & Beard, 1984; Zhang & Rajagopalan, 2004). Finally, the industry complexity is measured by taking an inverse Gibbs-Martin (Gibbs & Martin, 1962) ratio of industry sales concentration (Datta, Guthrie, & Rajagopalan, 2002; Dess, Gregory & Beard, 1984).

5.3.5 Analytical strategy – matched sample regression

Similarly to previous studies on financial misconduct and several papers on executive pay, we apply a matched sample approach (Arthaud-Day et al., 2006; Collins et al., 2008; Koch-Bayram & Wernicke, 2018; Schrand & Zechman, 2008). The main justification for this approach is the rarity of succession cases that also contain misconduct. In an overall sample of all successions, misconduct-successions represent only a small proportion of all succession events. When dealing with rare events like this, a matched sample approach can provide a more meaningful picture of the situation we have at hand and help overcome biases that would otherwise occur, testing for the misconduct effect in an overall sample of all firms (Holford, 2002). For the matching, we are applying a propensity score matching technique to ensure each observation of misconduct succession is matched to a comparative non-misconduct succession (Hooghiemstra et al., 2019). The approach is chosen as we are able to take different covariates into consideration when matching the firms, allowing the sample to be more balanced and providing us with the real effects of misconduct in the succession situation (Bai & Clark, 2019).

Once the right matched pairs are selected, we run Ordinary Least Square (OLS) regression, only considering the misconduct-successions and their non-misconducting succession peers.

To make the propensity score used for matching, it is important to select appropriate covariates. When making decisions regarding covariate selection, two important criteria set forth by Bai & Clark (2019) are applied; 1) the theoretical fit, using knowledge from relevant literature and 2) the statistical fit. While the former rest on other scholars' work, the latter requires the covariates to be related to either the treatment or the outcome variable or both. The best covariates predict the likelihood of treatment as the aim of creating a propensity score is to find the probability of the treatment occurring (Rosenbaum & Rubin, 1983). In the next step, the misconducting firms (treatment group) are paired with similar observations in the control groups (non-misconducting but with CEO succession). Selecting the right covariates is an important aspect of overcoming the selection bias that naturally occurs in such data – especially with the treatment effect being a rare event compared to the control group.

The first matching criteria we chose is based on firm size, as it is widely established that it is perhaps the biggest predictor of executive pay (Kulich, Trojanowski, Ryan, Haslam, & Renneboog, 2011; Tosi, Werner, Katz, & Gomez-Mejia, 2000). Notably, the paper follows the approach of Koch-Bayram and Wernicke (2018) and matches based on sales[59]. Besides that, we include previous performance and the firm's market capitalisation[60]. Additionally, the paper follows their guidance by matching based on industry classifications (SIC) and the year of the event. The nearest neighbour matching approach with no substitution is applied, ensuring that the firms matched are of equal size, in the same industry and same year. Combining this with the selected control variables when running the regression analysis, the results are meaningful in estimating the effect of misconduct on initial CEO pay after misconduct. Some scholars criticise the use of propensity scores for matching purposes, saying it is increasing the bias because of the selection of covariates (King & Nielsen, 2019). However, given the rarity of misconduct as a treatment effect, combined with the selection variables, the approach applied follows the practice in the strategic management literature (Koch-Bayram & Wernicke, 2018). To ensure that the results are meaningful, different robustness tests, including running an OLS regression on the full sample is done, providing consistent results, albeit with less change in the r square. This is partially explained by the small number of observations that

[59] By running a t-test we confirm that this variable is statistically as sound as it is theoretically for matching.
[60] Whilst further covariates are considered, we follow recommendations from the strategic leadership literature to keep this matching as simple as possible.

contain misconduct vis-à-vis non-misconduct. Thus, the analytical strategy is fit for the field of research we seek to contribute to. The results of the probit model determining the propensity score is presented in table 5.1. The model identifies 131 treatment cases which we use for running the analysis.

VARIABLES	(1) Model 1
Dependent variable: Misconduct	
Sales (ln)	0.27101***
	(0.04003)
ROA (t-1)	-0.35801*
	(0.19201)
Market Capitalisation (ln)	-0.08160**
	(0.03557)
SIC 2 digit	Included
Year	Included
Observations	2918
Pseudo R-squared	0.1347

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table 5.1 Propensity score matching – Probit

5.4 Results

The correlation matrix for the matched sample is presented in table 5.2. To ensure the data is not subject to multicollinearity, we ran a variance inflation factor (VIF) test. The maximum VIF score we observe is 1.98, indicating that we do not have issues with multicollinearity in the data (Cohen, Cohen, West, & Aiken, 2002; Wooldridge, 2020). The matched sample OLS regression results are presented in table 4.2[61].

[61] For ease of reading, the table is split into two pages. The first contains all independent and moderating variables. On the second page are all the control variables.

	Mean	*SD*	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
CEO pay (ln)	8.3413	1.3026	1.00000																					
Misconduct	.5	.5	.09095	1.00000																				
CEO Age	52.1335	6.2097	.19070	.01270	1.00000																			
Previous CEO Dismissal	.2595	.4392	−.07754	.37577	.05888	1.00000																		
Outsider CEO	.1679	.3745	−.21441	.00016	−.01298	.17655	1.00000																	
Heavily Regulated Industry	.2023	.4025	.04735	.03260	.09339	.07032	−.09915	1.00000																
Gender (1=F)	.0458	.2095	−.01661	.01005	−.00767	−.00477	.09694	−.06488	1.00000															
Previous No. of Jobs	8.2366	3.4226	.16940	.01212	.06917	−.05376	−.20448	.10419	.00086	1.00000														
Financial Experience	.0839	.2779	.03856	−.04122	.10006	.07189	−.09920	−.01543	−.06633	.11600	1.00000													
Executive Education	.0802	.2721	.08328	−.05682	.00044	−.07857	−.01981	−.00868	.20428	.05773	−.08937	1.00000												
CEO Chair Duality	.3206	.4676	.11705	−.16498	.18048	−.07092	−.13360	.00016	−.07227	.21336	.08689	.03817	1.00000											
Prop. of Non-ex. Directors	.8488	.0881	.17715	.03488	.12543	.09789	.08269	.05812	.00068	.07755	.00804	.01589	−.01886	1.00000										
Prop. of Female Directors	.1480	.1075	.17578	−.01922	.00849	−.12158	−.10494	.01528	.21813	.08183	−.08486	−.03236	.03224	.14371	1.00000									
Functional experience Diversity	.4928	.1896	.15521	−.02448	−.08972	−.13040	−.09285	−.08313	.08471	.34891	−.10726	.12996	.03215	.09293	.04455	1.00000								
Board Size	10.3588	2.7932	.31803	.01412	.12468	−.07932	−.14205	.40211	−.07404	.20550	−.04390	−.03295	.15800	.23938	.17040	.16430	1.00000							
Relative ROS	.595033	.6762	.06463	−.03240	.02003	.05968	−.14232	.01074	.01464	.01254	.00280	.01744	.00895	−.10439	−.02855	−.01127	−.01807	1.00000						
Average ROA (firm)	.0218	.1089	.06823	−.15319	−.09812	−.27907	−.01288	−.05607	−.06400	.02205	.05621	−.05217	.08057	.05409	.11000	.01328	.08941	−.11138	1.00000					
Firm Size (ln Employees)	2.6328	1.5084	.37771	−.02216	.12612	.00619	−.19701	−.02674	.06628	.21581	.08346	−.01824	.05491	.15616	.24150	.18649	.44812	.03947	.06287	1.00000				
Previous CEO Tenure	6.2634	3.7706	.12442	−.09324	.06673	−.07845	−.08841	.03545	−.08810	.01118	−.01753	.06151	.01277	.05492	.00913	.11825	.17507	.00680	.06922	.13862	1.00000			
Ind. Munificence	.0578	.0156	−.06528	−.05061	−.02737	−.06718	−.03720	−.14762	.05945	−.02528	−.02440	−.04008	−.13641	−.04430	.05553	−.02555	−.21038	.00541	−.06061	.11340	−.08751	1.00000		
Ind. Dynamism	.0039	.0014	−.12491	.01562	−.00254	.12945	−.03017	.08851	.00448	−.13329	−.03604	−.07670	−.01612	−.05749	−.00075	−.13525	.02783	.02063	.02517	−.00967	−.00113	.08978	1.00000	
Ind. Complexity	.9321	.0535	.06887	.03368	−.03529	.04609	−.00860	.20104	.07031	−.03168	−.05022	.09802	.01218	−.05366	.01527	−.01934	.07903	.16302	.03437	−.19094	.10518	−.24310	−.09531	1.00000

Table 5.2 – Correlation Matrix

As shown in model 1 of table 5.3, the control variables impact the pay largely as expected, with only a few surprising impacts. First, firm size is significantly predicting a larger initial compensation, consistent with expectations as larger firms generally pay their CEOs more (Tosi et al., 2000). However, it is interesting to see that variables such as gender and CEO-chairman duality provide insignificant results. Normally the former would predict a lower salary (Kalogeraki & Georgakakis, 2021), whereas chairman status would provide opportunities for higher pay. However, given the context of misconduct succession in a matched sample, this should not cause concern, as it is found that females might be more likely to get distressed jobs, through the concept of the 'glass cliff' (Ryan & Haslam, 2007; Ryan et al., 2016). Therefore, it might be that the higher executive job demands lead to a more comprehensive pay package and thus cancel out some of the gender effects, leaving us with an insignificant relationship. Furthermore, it should be noted that women only account for around 4.5 % of the overall sample, thus, the potential effects of some being rewarded for taking a position on the glass cliff can easily level out the relationship. Model 2 presents the results, including the occurrence of misconduct and detects a positive and significant relationship (β=0.326 and p=0.0313). This result provides support for hypothesis 1, suggesting that the added executive job demands stemming from taking over a firm following misconduct-succession lead to a 31.3% higher initial CEO compensation compared to peers taking the same role in firms not caught engaging in misconduct. Model 3 includes all the moderator variables without the interactions, and the results here lend further support for hypothesis 1 (β=0.378 and p=0.0185). Whilst this supports the results for a baseline relationship, it is essential to also understand the other moderating factors, to have a full understanding of the accurate relationship between misconduct-succession and initial CEO pay. However, it confirms that taking over in a firm that has previously engaged in misconduct increases the job demands and the new CEO is rewarded accordingly.

Hypothesis 2 predicts that age will negatively moderate the relationship detected in hypothesis 1, as the extra executive job demands from personal aspirations will increase the compensation requirements. The results in model 4 suggest that the interaction is negative and statistically significant (β-0.0506 and p<0.05), providing support for the hypothesis[62]. The effect is such that when the age of the new CEO increases, the positive pay premium paid to

[62] We further run the test based on a measure of career horizon, by taking the age of 70 (retirement age) and subtract the actual age (Matta & Beamish, 2008). As expected, this gives a positive significant interaction, further supporting the support for hypothesis 2.

the focal individual becomes smaller. Hypothesis 3 predicts that if the previous CEO was dismissed, it is associated with a positive moderation of the relationship in hypothesis 1. The results in model 5 indicate a positive and significant result (β=1.137 and p<0.01), supporting the hypothesis. The increased pressure from taking over after dismissal puts further pressure on the new CEO, which leads to higher compensation. Hypotheses 4 and 5 suggest a positive moderating effect on the misconduct-succession → pay relationship between outsider CEOs and CEOs taking charge in heavily regulated industries. The results for hypothesis 4 in model 6 show a marginally significant positive relationship (β=0.662 and p<0.1). However, when adding all interactions together in the full model (model 8), the result is insignificant. We, therefore, reject hypothesis 4, suggesting that hiring an outsider CEO is not necessarily leading to higher compensation. We discuss the implications of this further later in the paper, as it is highly relevant for the CEO succession and pay literature in general. Model 7 shows an opposite relationship compared to the one predicted in hypothesis 5, such that there is a negative, marginally significant moderating effect (β=-0.725 and p=0.0505) of heavily regulated industries towards the positive misconduct-succession → pay relationship. In the discussion, we provide potential explanations for this opposite effect, likely caused by regulators' influence on firms and the amount they can pay their executives. Particularly, findings suggesting that the heavier regulations tend to increase the certainty of the job role as there is less latitude for action in the job (Semadeni et al., 2022). However, similarly to hypothesis 4, the result becomes insignificant in the overall model, leading us to reject the hypothesis, suggesting that heavy regulations do not directly moderate the main relationship.

VARIABLES	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
Dependent variable: CEO pay								
Misconduct		0.326	0.378	2.954	0.204	0.200	0.464	2.785
		(0.0313)	(0.0185)	(0.0176)	(0.247)	(0.223)	(0.00631)	(0.0239)
		0.151	0.160	1.236	0.176	0.164	0.168	1.225
CEO Age			0.0280	0.0510				0.0495
			(0.0224)	(0.00223)				(0.00295)
			0.0122	0.0165				0.0165
Misconduct * CEO Age				-0.0506				-0.0494
				(0.0326)				(0.0367)
				0.0236				0.0235
Previous CEO dismissal			-0.255		-1.109			-0.861
			(0.196)		(0.00123)			(0.0205)
			0.197		0.339			0.369
Misconduct * Previous CEO dismissal					1.102			0.946
					(0.00580)			(0.0253)
					0.396			0.420
Outsider CEO			-0.375			-0.745		-0.407
			(0.0769)			(0.00979)		(0.192)
			0.211			0.286		0.310
Misconduct * Outsider CEO						0.693		0.297
						(0.0892)		(0.482)
						0.406		0.422
Heavily Regulated Industry			-0.0854				0.301	0.0388
			(0.686)				(0.292)	(0.891)
			0.211				0.285	0.284
Misconduct * Heavily Regulated Industry							-0.679	-0.427
							(0.0701)	(0.254)
							0.373	0.373

Note: pval in parentheses; standard errors below

Table 5.3 (1) – OLS regression (Matched Sample)

VARIABLES	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
Dependent variable: CEO pay								
Gender (1=F)	-0.384	-0.382	-0.320	-0.388	-0.299	-0.205	-0.429	-0.257
	(0.309)	(0.307)	(0.389)	(0.293)	(0.417)	(0.587)	(0.251)	(0.488)
	0.376	0.373	0.371	0.368	0.368	0.376	0.373	0.369
Previous No. of Jobs	0.00857	0.00537	-0.000973	0.00315	-0.00219	-0.00655	0.00964	-0.00445
	(0.723)	(0.823)	(0.968)	(0.894)	(0.927)	(0.787)	(0.691)	(0.853)
	0.0241	0.0240	0.0240	0.0236	0.0237	0.0242	0.0242	0.0240
Financial Experience	0.121	0.142	0.0818	0.168	0.221	0.111	0.170	0.224
	(0.660)	(0.604)	(0.764)	(0.536)	(0.413)	(0.684)	(0.532)	(0.406)
	0.275	0.273	0.272	0.271	0.269	0.271	0.273	0.270
Executive Education	0.387	0.423	0.371	0.481	0.344	0.365	0.416	0.389
	(0.169)	(0.131)	(0.181)	(0.0833)	(0.214)	(0.190)	(0.137)	(0.157)
	0.281	0.279	0.276	0.277	0.276	0.278	0.279	0.274
CEO Chair Duality	0.160	0.220	0.129	0.137	0.225	0.200	0.187	0.0943
	(0.330)	(0.183)	(0.442)	(0.409)	(0.167)	(0.223)	(0.262)	(0.568)
	0.164	0.165	0.167	0.165	0.162	0.164	0.166	0.165
Prop. of Non-ex. Directors	1.289	1.227	1.390	0.959	1.447	1.426	1.239	1.220
	(0.140)	(0.157)	(0.113)	(0.264)	(0.0944)	(0.0997)	(0.152)	(0.157)
	0.870	0.864	0.874	0.857	0.862	0.863	0.862	0.859
Prop. of Female Directors	1.030	1.052	0.837	1.259	0.772	0.910	1.079	0.973
	(0.163)	(0.151)	(0.251)	(0.0834)	(0.287)	(0.213)	(0.140)	(0.179)
	0.736	0.731	0.728	0.724	0.725	0.728	0.729	0.721
Functional Experience Diversity	0.297	0.324	0.349	0.426	0.323	0.243	0.312	0.342
	(0.489)	(0.447)	(0.418)	(0.316)	(0.444)	(0.567)	(0.468)	(0.421)
	0.429	0.426	0.430	0.424	0.421	0.423	0.430	0.425
Board Size	0.0538	0.0523	0.0459	0.0526	0.0440	0.0549	0.0520	0.0590
	(0.101)	(0.109)	(0.202)	(0.102)	(0.174)	(0.0908)	(0.149)	(0.101)
	0.0327	0.0325	0.0359	0.0321	0.0322	0.0323	0.0359	0.0358
Relative ROS	0.00215	0.00240	0.00190	0.00239	0.00230	0.00243	0.00242	0.00216
	(0.339)	(0.282)	(0.392)	(0.276)	(0.294)	(0.280)	(0.276)	(0.327)
	0.00224	0.00223	0.00222	0.00219	0.00219	0.00225	0.00222	0.00220
Average ROA (firm)	0.248	0.475	0.414	0.543	0.299	0.558	0.580	0.528
	(0.719)	(0.493)	(0.562)	(0.431)	(0.671)	(0.417)	(0.406)	(0.459)
	0.689	0.692	0.714	0.689	0.705	0.686	0.697	0.711
Firm Size (ln Employees)	0.251	0.250	0.235	0.233	0.264	0.232	0.266	0.234
	(4.26e-05)	(4.05e-05)	(0.000169)	(0.000106)	(1.27e-05)	(0.000125)	(2.33e-05)	(0.000200)
	0.0602	0.0598	0.0616	0.0591	0.0593	0.0596	0.0616	0.0618
Previous CEO Tenure	0.00997	0.0141	0.00756	0.0110	0.0103	0.0114	0.0139	0.00629
	(0.622)	(0.485)	(0.705)	(0.579)	(0.602)	(0.567)	(0.489)	(0.748)
	0.0202	0.0201	0.0199	0.0199	0.0198	0.0199	0.0201	0.0196
Ind. Munificence	-2.013	-1.205	-2.412	-0.877	-3.054	-2.355	-1.340	-2.964
	(0.693)	(0.813)	(0.632)	(0.861)	(0.544)	(0.641)	(0.791)	(0.550)
	5.100	5.076	5.035	5.001	5.026	5.046	5.062	4.958
Ind. Dynamism	-86.24	-89.63	-80.14	-85.52	-78.01	-87.08	-84.42	-72.77
	(0.105)	(0.0902)	(0.132)	(0.101)	(0.139)	(0.0981)	(0.111)	(0.164)
	53.06	52.69	52.99	51.92	52.50	52.44	52.85	52.16
Ind. Complexity	2.181	2.025	2.330	2.189	1.796	1.957	2.051	2.050
	(0.148)	(0.177)	(0.121)	(0.139)	(0.228)	(0.187)	(0.175)	(0.166)
	1.504	1.495	1.495	1.473	1.485	1.480	1.506	1.477
Constant	3.938	3.922	2.446	1.329	4.303	4.201	3.755	1.659
	(0.0230)	(0.0226)	(0.178)	(0.481)	(0.0122)	(0.0139)	(0.0307)	(0.384)
	1.722	1.709	1.811	1.881	1.704	1.696	1.728	1.902
Observations	262	262	262	262	262	262	262	262
R-squared	0.231	0.245	0.279	0.274	0.277	0.266	0.256	0.317

Note: pval in parentheses; standard errors below

Table 5.3 (2) OLS regression (Matched Sample) Continued

5.4.1 Robustness and post-hoc tests

Studying CEO succession following a case of misconduct is considered fundamentally different from normal succession (Gangloff et al., 2016). The uncertainty and relative rareness of such succession challenge both scholars and practitioners. As such, the scarce knowledge on the topic calls for additional robustness testing to ensure that the data interpretation holds across different settings. Additionally, the paper seeks to further test the data to disentangle the situation occurring, contributing to academics and practitioners alike.

5.4.1.1 The impact of Sarbanes-Oxley Act

First, the sample and regression effects are tested using a sample excluding data from 2002 and earlier to see if the results are impacted by the introduction of the Sarbanes-Oxley act (Cohen, Dey, & Lys, 2004). This act was implemented to ensure greater transparency and control following a series of financial frauds, including highly publicised cases such as the Enron Scandal (Rockness & Rockness, 2005). Excluding the observations before the introduction of Sarbanes-Oxley, before 2003, led to a decrease of 28 misconduct cases and their matched pair, leading to a sample size of 206. The results remain largely the same, albeit with the moderation of age only being marginally significant (β=*-0.057* and p<0.1) (See table 5.4, model 1). The implications of the small changes are discussed later in the paper.

5.4.1.2 Breakdown of pay

As an increasing number of studies are looking at the relationship between compensation and risk-taking (Aabo et al., 2020; Graffin et al., 2020; Harris et al., 2019), it has become clear that disentangling CEO compensation further is needed. Notably, the focus on how the impact of excessive risk-taking (i.e., misconduct) can impact either firm performance (Bahoo et al., 2020) or the likelihood of turnover under different social situations (Bernile & Jarrell, 2009) warrants such research. It is essential to understand the role compensation potential plays in the situation of misconduct, regardless of whether it is on an ex-ante basis, where high pay leads to overconfidence and risk-taking (Aabo et al., 2020), or ex-post, as this study seeks to investigate. To test the compensation effects further, and understand how the new CEO is remunerated, the paper breaks down the pay measure into fixed salary and variable

compensation, in this instance, measured through the options awarded to the CEO[63]. If the firm is concerned with excessive risk-taking, it might want to prefer more performance-related pay (Jensen & Murphy, 1990a). However, the firms can also be afraid of the new CEO continuing to "Cook the Books", to increase their variable compensation (Lobo, Manchiraju, & Sridharan, 2018). Additionally, from an Executive Job Demands perspective, the higher demands imposed on the CEO should lead to them demanding some security, i.e., the CEO will prefer a high baseline salary. As presented in Table 5.4, model 2, the results are supported when running the regression with fixed baseline salary as the determinant, albeit with one notable change. Instead of being insignificant, the outsider CEO shows a significant negative moderating effect (β=-.738 and p<0.01). This potentially means that the board of directors in their estimation of compensation, are more concerned with paying a high baseline salary to outsiders, as they perceive it as added risk. Finally, when running the regression on options awards (see table 5.4 model 3), the results shows that most of the relationships are insignificant, suggesting that the effects of corporate misconduct-succession on CEO initial compensation are primarily driven by the fixed salary effects. One notable observation is that the *heavily regulated industries* interaction is negative and marginal significant (β=-1.524 and p<0.1). This could suggest that effects of excessive compensation variable remunerations face stronger regulatory scrutiny – something discussed further later in the paper.

[63] Similar to the overall pay measure we take the variable from ExecuComp, lead it 1 year to reflect the first full CEO year. We then take the natural logarithm. Options valuation is chosen as it is often one of the areas that can increase the compensation drastically. The results for options valuation are comparable to alternative measures for variable compensation.

VARIABLES	(1) Exclude pre-2002		(2) DV: Salary (log)		(3) DV: Options awards	
Misconduct	3.153		2.427		2.825	
	(0.0508)	1.604	(0.00309)	0.812	(0.322)	2.848
CEO Age	0.0604		0.0544		0.0193	
	(0.00252)	0.0197	(3.84e-06)	0.0115	(0.629)	0.0399
Misconduct * CEO Age	-0.0570		-0.0444		-0.0368	
	(0.0627)	0.0304	(0.00498)	0.0157	(0.503)	0.0549
Previous CEO dismissal	-1.218		-0.905		0.0514	
	(0.0163)	0.502	(1.31e-05)	0.203	(0.933)	0.613
Misconduct * Previous CEO dismissal	1.347		0.901		-1.109	
	(0.0167)	0.558	(0.000344)	0.248	(0.165)	0.795
Outsider CEO	-0.328		0.593		-0.0515	
	(0.428)	0.413	(0.00291)	0.197	(0.937)	0.647
Misconduct * Outsider CEO	0.162		-0.738		0.424	
	(0.757)	0.525	(0.00658)	0.269	(0.640)	0.904
Heavily Regulated Industry	-0.0261		0.0603		-0.727	
	(0.944)	0.373	(0.711)	0.163	(0.197)	0.561
Misconduct * Heavily Regulated Industry	-0.329		-0.142		-1.524	
	(0.480)	0.464	(0.535)	0.229	(0.0656)	0.824
Gender (1=F)	-0.372		0.0456		1.208	
	(0.406)	0.446	(0.856)	0.251	(0.189)	0.916
Previous No. of Jobs	-0.0140		0.00524		0.0543	
	(0.607)	0.0271	(0.746)	0.0161	(0.366)	0.0600
Financial Experience	0.287		-0.339		-0.308	
	(0.401)	0.341	(0.0379)	0.162	(0.582)	0.559
Executive Education	0.494		0.0858		-0.286	
	(0.127)	0.322	(0.633)	0.179	(0.624)	0.582
CEO Chair Duality	0.0784		-0.161		0.711	
	(0.702)	0.205	(0.115)	0.102	(0.0643)	0.383
Prop. of Non-ex. Directors	2.850		1.415		1.513	
	(0.0164)	1.176	(0.0122)	0.560	(0.442)	1.963
Prop. of Female Directors	1.169		0.345		-1.559	
	(0.180)	0.869	(0.452)	0.458	(0.383)	1.785
Functional Experience Diversity	0.634		-0.133		-1.162	
	(0.221)	0.516	(0.623)	0.270	(0.260)	1.028
Board Size	0.0715		0.0113		0.181	
	(0.142)	0.0485	(0.594)	0.0211	(0.0399)	0.0874
Relative ROS	-0.00152		-0.000730		0.00728	
	(0.638)	0.00322	(0.590)	0.00135	(0.154)	0.00510
Average ROA (firm)	2.665		0.146		-2.709	
	(0.0193)	1.128	(0.750)	0.457	(0.137)	1.814
Firm Size (ln Employees)	0.185		0.0403		0.237	
	(0.0219)	0.0800	(0.308)	0.0394	(0.122)	0.153
Previous CEO Tenure	0.00817		0.0247		-0.0719	
	(0.719)	0.0227	(0.0580)	0.0130	(0.117)	0.0458
Ind. Munificence	-3.191		2.029		6.062	
	(0.589)	5.892	(0.502)	3.019	(0.585)	11.09
Ind. Dynamism	-59.75		52.60		61.35	
	(0.346)	63.21	(0.0722)	29.12	(0.589)	113.3
Ind. Complexity	1.383		0.616		4.659	
	(0.443)	1.798	(0.445)	0.806	(0.143)	3.173
Constant	0.106		1.356		-5.647	
	(0.964)	2.350	(0.249)	1.174	(0.181)	4.213
Observations	206		270		258	
R-squared	0.362		0.267		0.183	

Note: pval in parentheses underneath; standard error next to pval

Table 5.4 – Robustness testing

5.4.1.3 additional post-hoc test of new CEO age

Attempting to further understand the results and their implications, the next step is to consider potential non-linear effects. Particularly, the findings in the previous section regarding *age* lead to a test of whether the variable might have a U-shaped interaction effect, such that it is negative at first, but changes at some point. For example, the changes in significance when excluding pre-Sarbanes-Oxley act leads to such a consideration. Theoretically, a non-linear age effect could happen if the firms would, at some point, see the benefits of having an experienced CEO to steer the firm (Wang, Holmes, Oh, & Zhu, 2016). As explained when forming the hypothesis, the paper argued that the executive job demands were the most prevalent, leading to a negative relationship. However, there are benefits to get from more widely experienced CEOs of older age increase the likelihood of survival (Belenzon, Shamshur, & Zarutskie, 2019). Some firms' desire to reap such potential benefits from having older and more experienced CEOs warrants a test of a potential curvilinear relationship. Table 5.5 presents the regression analysis where both the normal interaction term and a squared version of age are included. The results show support for a U-shaped relationship, as the original interaction term is negative and significant, but the squared term is positive and significant (β=.0064 and p<0.01). The implications of a significant curvi-linear relationship will be considered further in the discussion part of the paper.

VARIABLES	Coefficient	p-value	Standard Error
Dependent variable: CEO pay			
Misconduct	20.27	(0.00233)	6.587
CEO Age	0.509	(0.00281)	0.169
Misconduct * CEO Age	-0.721	(0.00445)	0.251
CEO Age^2	-0.00438	(0.00677)	0.00160
Misconduct * CEO Age^2	0.00640	(0.00769)	0.00238
Gender (1=F)	-0.365	(0.317)	0.364
Previous No. of Jobs	-0.00490	(0.836)	0.0237
Financial Experience	0.171	(0.524)	0.267
Executive Education	0.493	(0.0723)	0.273
CEO Chair Duality	0.121	(0.458)	0.163
Prop. of Non-ex. Directors	1.070	(0.218)	0.867
Prop. of Female Directors	1.461	(0.0431)	0.718
Functional Experience Diversity	0.417	(0.320)	0.418
Board Size	0.0537	(0.0907)	0.0316
Relative ROS	0.00226	(0.300)	0.00217
Average ROA (firm)	0.705	(0.307)	0.689
Firm Size (ln Employees)	0.225	(0.000151)	0.0584
Previous CEO Tenure	0.00812	(0.680)	0.0197
Ind. Munificence	-1.400	(0.777)	4.940
Ind. Dynamism	-79.82	(0.121)	51.35
Ind. Complexity	2.080	(0.153)	1.453
Constant	-10.39	(0.0248)	4.600
Observations	262		
R-squared	0.300		

Table 5.5 – Post-hoc analysis

5.5 Discussion

This study makes several contributions to both academics and business leaders alike. By advancing the knowledge of executive job demands in the case of corporate misconduct, the paper makes several contributions to different burgeoning research fields. The main contribution is to develop knowledge on misconduct-successions as a source of executive job demands (Hambrick et al., 2005) and contribute to the literature showing how greater executive job demands lead to higher initial compensation (Chen, 2015). These contributions are important as understanding the challenges faced by executives will enable a greater

understanding of the roles of business leaders and how succession and remuneration can be handled amidst relatively rare events that also have severe impacts on firms. By doing so, the paper provides important insight into two substantial streams of academic literature: 1) CEO compensation research and 2) firms' approaches to handling financial misconduct – more specifically, how to ensure the right skills are available for restoring the firm to their pre-misconduct levels.

The CEO pay literature has attracted attention for a long time (Jensen & Murphy, 1990b; Tosi & Gomez-Mejia, 1989), seeking to understand the role of the CEO and whether large remuneration packages are justifiable through performance enhancements. Recently, a focus on the initial CEO pay has gained traction, as the challenges associated with determining an appropriate size and structure of the remuneration package are challenging amid scarce information on a new CEO (Chen, 2015; Mueller et al., 2021). The second strand of research, focusing on corporate misconduct and financial fraud, is a burgeoning academic field that addresses an area of immense importance. Whilst studying corporate misconduct is not a new phenomenon, scholars have recently advanced the field substantially (Connelly et al., 2022; Gangloff et al., 2016; Koch-Bayram & Wernicke, 2018; Schrand & Zechman, 2008; Shi, Connelly, et al., 2017; Troy et al., 2011), especially since Dechow et al. (2011, 2012) started coding the AAER data filed by the SEC. This data has allowed scholars to understand better the antecedents that drive corporate scandals and the subsequent consequences. By combining the fields of CEO pay and corporate misconduct, the paper provides a novel perspective that advances the knowledge of both academic fields. A better understanding of what happens when firms are trying to restore their reputation after being caught in malpractice is essential (Chiu & Walls, 2019; Wiersema & Zhang, 2013). Using CEO succession is a widely applied response (Connelly et al., 2022; Gangloff et al., 2016), yet limited knowledge is available on what it means for the new CEO, taking responsibility after someone involved the misconduct. This paper helps fill this void.

This study, thus, provides several important contributions to theory and practice. The main contribution is furthering the knowledge of how a CEO assuming the role in a post-financial misconduct firm faces a higher level of executive job demands and consequently accumulates higher compensation than their peers in non-misconduct firms. The higher executive job demands come through the three facets proposed by Hambrick et al. (2005), being task challenges, performance challenges and aspiration challenges. Whilst all three sets of challenges remain important for understanding executive job demands, *task challenges* are

central in the study of how misconduct impacts the job of a new CEO in the focal firm. Notably, the support of hypotheses 1 and 3 and the partial support for hypothesis 4 indicate that the disruptions occurring from the role of a new CEO post misconduct, particularly when the predecessor gets dismissed, increase the complexity the CEO face. This complexity is consistent with the task challenges through increasing the pressure on choosing a proper strategic path going forward amid more hostile stakeholder pressure. The reason for the previous CEO's dismissal mattering, in this case, is that it increases the publicity of the firm. If the succession was handled in a more discrete way, mass media, regulators and the general public would be less likely to take specific notice. However, by dismissing the previous CEO, the firm sends a signal that the situation has been bad, which amplifies the task challenges for the new CEO. Whilst it might seem that most successions following misconduct will be because of dismissal, it is not the case (Connelly et al., 2022). There can be several other reasons, such as the CEO stepping down before the board make a dismissal situation (McDonnell & Cobb, 2020; Roulet & Pichler, 2020). Furthermore, there are also instances of "mutual agreements", which might not be as mutual when investigating further. Whilst some of the latter are noted in the data applied for the analysis of dismissal (Gentry et al., 2021), far from all of them are covered in the data. Hence, there is sufficient variance in the data to see that the higher pressure a new CEO faces because of the typical public signalling of a dismissal increases the executive job demands on the new CEO.

Our findings further extend and add knowledge to those of Connelly et al. (2022) by showing that there is a need for specific skills to handle the amplified executive job demands associated with restoring the firm's reputation. This especially becomes evident when the previous CEO is dismissed, as the firm is sending a strong signal of blame but also indicating that the crisis following misconduct might be more severe than otherwise anticipated. Following the dismissal, the public will be more aware of the firm's situation, thus increasing the level of scrutiny. Such effects lead to an increase in the task challenges as there will constantly be media, shareholders and other parties interested in how the new CEO performs and whether they are up to the challenge. Thus, the new CEO has to deal with both restoring the firm from the previous misconduct, but also handle the extra attention that comes from external parties, such as investors, analysts and the general public (Connelly et al., 2016; Farber, 2005). The positive moderation effect of predecessor dismissal lends support to this argumentation, indicating higher task challenges associated with added executive job demands impact the new CEO's compensation. The critical takeaway from this finding is that when

understanding the task challenges in the executive job demands, it is not enough to only consider the current context of the firm. There should also be included actions made by the previous regime in the firm, including how the firm handled the situation in the intermediate period. Things such as dismissal of a CEO is a disruptive event (Fredrickson et al., 1988; Georgakakis & Ruigrok, 2017), which adds to the task challenges for a new CEO. Such notions are relevant not only in pure CEO studies, but also in wider TMT studies. As CEO change has been found to implicate other TMT members' potential departure (Andrus et al., 2019; Buyl et al., 2015), and can create potential faultlines in the TMT (Georgakakis & Buyl, 2020), the knowledge generated on executive job demands in restoring the firm's reputation has wider implications. Studies on TMT's effectiveness and firm performance can consider investigating elements of CEO succession in corporate misconduct situations.

The second challenge in executive job demands, *performance challenges*, is also evidenced in the results as the firm has been caught in malpractice, meaning it will likely be suffering from poor performance. Alternatively, the previous good performance of the firm will be ascribed to the misconduct (Feng et al., 2011; Koch-Bayram & Wernicke, 2018), meaning that the firm will not get full credit for doing well. This leads to a situation where, besides the already elevated task challenges, there will be pressure to get the firm to perform better rapidly. Given the past poor performance, there will be less leeway and flexibility imposed by short-term investors and other watchdogs (Essman et al., 2021; Schnatterly et al., 2018; Shi, Connelly, et al., 2017). All of these stakeholders expect that the firm (and, by extension, the new CEO) will rapidly improve its performance, creating pressure through expectations to perform. Should the CEO fail to live up to these expectations by failing to restore performance, they might rapidly find themselves out of their job again (Zhang & Qu, 2016). Future research could look at this conundrum, investigating whether the higher-paid CEOs are able to turn the firm around, or suffer from early departure. Another one of the indications that performance challenges are rising is similar to that of the tasks challenge, by looking at the results regarding previous CEO dismissal. The predecessor is more likely to be dismissed if there is both misconduct and poor performance (Wiersema & Zhang, 2013), creating dual pressure on the new CEO to both ensure survival through improved performance and restore the reputation. This suggests that performance challenges add to the already heightened executive job demands, increasing the compensation of the executive.

The final set of challenges associated with executive job demands occurs through *aspiration challenges.* Our results indicate that these are also occurring in the post-misconduct

succession, as we find support for a negative moderation effect of age as shown in hypothesis 2. Whilst the non-linear relationship explained in the post-hoc tests changed the relationship slightly, the original findings, nevertheless, show clear signs that younger CEOs are facing a greater challenge and feel a more personal responsibility for succeeding. They are subsequently rewarded with higher pay compared to their older peers in an effort to attract them to a role associated with a lot of pressure. The initial finding of declining pay when the CEO gets older is contrary to the literature suggesting that older CEOs, through their increased experience and status, can accumulate higher compensation (McKnight et al., 2000). It is further contrary to the results in the sample used in the paper if applied to the overall sample and not in relation to the matched sample, focusing on misconduct-successions. The results, thus, confirm that the personal aspiration of younger age, combined with the greater career risk (Wiesenfeld, Wurthmann, & Hambrick, 2008), leads to the new post-misconduct CEOs facing higher executive job demands and being rewarded accordingly. Research should use this finding when considering other forms of crises firms may face. This can enable the firms to see whether the younger CEOs are capable of restoring the firm to a pre-crisis level. If the younger CEOs are indeed worth the higher price in such contexts, it will have potentially wide-reaching implications for the ways firms go about hiring new CEOs in crises – such as restoring the firm after being caught in misconduct. However, the alternative explanation can also be that, similar to women in the literature on the glass cliff (Ryan & Haslam, 2005, 2007; Ryan et al., 2016), that they are willing to take a job no one more experienced wants. Perhaps, the firms have exhausted their opportunities and are willing to pay a premium for a younger CEO in the hope of significant changes. Nevertheless, out findings provide some interesting results that can help advance the study of initial CEO compensation through a crisis contextualisation.

However, when considering the CEO age, the results in table 5.5, showing that there is a curvilinear (U-shaped) relationship, is interesting. It suggests that the compensation starts increasing again with age after a certain tipping point. This finding suggests that there are potentially different approaches to handling misconduct-successions. Either the firm pays a premium to get a young CEO willing and capable of making substantial changes. Alternatively, the firm selects older CEOs that are more stable in ensuring continued operations amid pressure (Belenzon et al., 2019). Those in between are, according to our results, not deemed to bring the same value and, thereby, are paid less. Whilst the findings add further understanding to executive job demands of the aspiration challenges, it also shows how some firms select the more experienced CEO, who might have an extensive background to steer the firm through the

crisis (Li & Patel, 2019). Whilst the more experienced CEOs are unlikely to feel the same internal pressure and not work under similarly high aspiration challenges, they bring their added human- and social capital to the firm that they need to be rewarded accordingly (Mueller et al., 2021). Future research should investigate further what the consequences of the different strategies are on things such as firm growth, restoring the performance and early departures of the new CEOs, depending on different age groups.

Besides these findings, the paper also contributes by shedding further light on regulators' impact on CEO pay in turbulent situations (Joskow, Rose, Shepard, Meyer, & Peltzman, 1993). It was expected that industries classified as highly regulated would amplify the executive job demands and thereby increase the CEO's initial pay. The new CEO would, upon entry, despite turning the firm around, also operate in a highly complex environment, making decision-making more challenging and under further constraints (He & Fang, 2016). On the contrary, results show that if any moderating effect occurs on the CEO's initial pay following misconduct-succession, it is negative and decreases the pay in heavily regulated industries. This means that the higher pay associated with taking over in misconducting firms is less pronounced when taking over in a heavily regulated industry. One explanation for this can be that the added external oversight makes the board more concerned about providing excessive remuneration. For example, in the aftermath of banking scandals, such as Lehman Brothers, it has been questioned why executives were earning excessive wealth whilst the public suffered (Bebchuk, Cohen, & Spamann, 2010). Since the banking crisis, regulations have increased and they have wide implications worldwide on the remuneration policies (Hail et al., 2018). Therefore, the regulatory impact on wages has a stronger effect than the increased executive job demands, leading to a negative moderating effect. Additionally, an early study on executive pay found that when there are regulatory constraints, the added oversight was associated with lower expected pay (Joskow et al., 1993). A second explanation of the finding is that whilst the heavy regulations can lead to more bureaucracy in handling the many rules, it also provides a greater deal of certainty in the job (Semadeni et al., 2022). Since there are some very clear rules and regulations to follow, the new CEO will have less pressure in coming up with very novel strategies and instead focus their time on running the day to day business, which can be considered more straightforward. Overall, the findings lend support to regulatory oversight impacting wages negatively, both as the jobs might bring less uncertainty than less regulated industries, and because the regulations often aim to have such an impact on the wage structure.

The paper, however, also shows some interesting highlights in terms of rejected hypotheses. For example, in hypothesis 4, the overall model shows that outsider CEOs do not get a higher compensation when it comes to the misconduct situation. This is unexpected, given that firms would often require an outsider to take over the position to completely break ties with the previous regime (Georgakakis & Buyl, 2020). The result likely reflects a situation where the insider CEOs might be more aware of the nature of the misconduct, thereby being able to bring valuable insider information and be rewarded a premium for this. Furthermore, it can be a consequence of the lower attractiveness of the specific job. The best CEOs in the external labour market, requiring the highest possible pay, may not always be available as it is running too much of a risk compared to a safer job in a firm not caught in misconduct (Wiesenfeld et al., 2008). This is further supported by the negative, significant relationship shown in the robustness testing between outsider CEO and pay after misconduct succession. Another interesting finding in the results, at the control level, is that the previous average performance of the firm does not seem to impact the compensation. This could mean that some of the performance challenges are less pronounced than first suggested. Instead, the tasks challenges associated with restoring the firm is the primary driver of the higher pay for a new CEO following misconduct-succession. This is further supported by the insignificant impact of the proportion of non-executive directors on the board and the size of the board. Especially the former, which in normal cases is associated with lower pay (Essman et al., 2021; Musteen, Datta, & Herrmann, 2009), signals that the mechanisms differ when misconduct is driving the CEO succession and the initial pay.

Overall, the paper's main contribution is how higher executive job demands determine the new CEO pay, thereby making a distinct contribution that follows the line of other papers showing how executive job demands matter in initial CEO pay (Chen, 2015; Mueller et al., 2021). When breaking down the pay measures, the insights provided become more substantial as it adds to the research on breakdowns of initial pay. The results suggest that the higher pay is driven by a higher baseline salary in the initial compensation – something that goes against early suggestions on ensuring a strong pay and performance relationship (Jensen & Murphy, 1990b). The main reason potentially stems from the new CEO wanting additional security to take on the higher demands and ensure they get their rewards (Woo, 2019). As stated, there will be substantial performance challenges associated with taking on a role like this, which is why it is important for the new CEO to get security rather than rely on bonus payments. However, it can potentially also showcase that the new CEOs are struggling to achieve the

desired performance, subsequently leading to not reaching specified targets to ensure the maximum value of bonuses and stock options. Finally, it shows how the mechanisms might fundamentally differ for CEO initial pay in times of crisis compared to more stable periods. It is likely that firms, because of their critical conditions, will have less bargaining power and have to succumb to the requested higher baseline salary. However, the findings in table 5.4, model 2 suggesting a negative moderation effect of the baseline salary when the new CEO is an outsider to the firm contradicts this latter notion. Further research is needed to understand whether the structure of baseline salary is driven solely by executive job demands, or whether other factors in the new CEO's background further shape the initial pay.

5.5.1 Managerial implications

The paper provides new knowledge that can have important managerial implications. Whilst far from all firms, fortunately, have to replace a CEO following misconduct, our results are nevertheless important for the people in charge of running the process. Notably, members of compensation committees can use the results to better understand some of the factors driving the selection process of new CEOs in turbulent times. Because while our primary focus was on handling the case of CEO initial compensation following misconduct successions, the results are transferable to other types of crises. The results show that CEOs taking over a firm that has previously been engaging in misconduct and being penalised by the SEC face increased executive job demands, which they need to be rewarded for. Therefore, in the planning process, the hiring committee need to be aware of the potential hesitation to take on a role because of the increased challenges – particularly the increased task challenges. As such, our results indicate that to attract people that are skilled to handle the context of restoring a firm after a crisis, there is a need to pay a premium compared to more stable firms, as the firm otherwise will not be able to attract sufficient talent.

The paper also provides insights into the individual potential new CEO candidate on the job market. Such candidates should be aware of the added challenges of taking such a role. Especially when the predecessor was dismissed amid the misconduct, the candidate should be aware of the higher pressure from the added scrutiny, and that other firms in the past have been willing to pay a premium for taking such a role. That being said, it can also be considered a valuable opportunity for younger (early career) potential CEOs will be able to get a higher compensation than they would in other firms. Hence, if they have the skills to succeed under

the higher job demands, it can be a great opportunity to increase prospective earnings, and show their worth. Success in the given position can thus excel a CEO's career into being an expert in turnaround situations – but it can also signal a good ability to steer complex organisation. However, it remains important to be aware of the potential risks and downsides, as these jobs are harder to handle.

5.5.2 Limitations and future work

Whilst this study makes some important contributions to executive job demands and CEO initial pay, it is not without limitations. These limitations, however, open some intriguing research avenues for future research. The first limitation concerns the survival bias of the firms in our sample (Ball & Watts, 1979). A common criticism of many studies investigating firm events is that studies are only capturing the surviving firms, at least in the sample period of interest. This paper is particularly subject to such a bias, as misconduct is an event that leads to a real threat of discontinued firm operations (Abatecola, 2019; Desai et al., 2006). Therefore, it is important to stress that the effects found in this study only apply to firms that survive the initial stage following misconduct and change their CEO to improve the situation. As such, this paper provides insight into the approaches taken by firms that successfully fend off the initial distress and continue their operations. The issue of survival bias, thus, is not as critical an issue as the findings remain meaningful. It is important to understand how firms successfully manage such crises, and this paper contributes to this area by showing the importance of firms acknowledging the heightened executive job demands and paying the new CEO accordingly. Notwithstanding, it would be interesting if future research looks at how successful firms differ from those firms that fail at restoring their reputation and go bankrupt. Is it purely a matter of hiring the right executive, or are there other factors impacting the survival? By considering the immediate performance impacts following a succession and potentially a longer-term survival measure, such studies can add further to whether the executive job demands can be handled, or whether there is a tipping point where they become too excessive. Such studies would have far-reaching implications for academics and practitioners alike.

A second limitation of the paper is the lack of assessment regarding the firm's progress after the misconduct-succession, where they grant a higher initial CEO pay. To advance the understanding of the effectiveness associated with the higher pay to secure a CEO capable of restoring the firm, more research is needed. Solely basing the findings regarding executive job

demands on the initial pay lacks a long-term implication element. As initial compensation is highly challenging the determine (Connelly et al., 2022), research should also investigate ex-post settling up mechanisms (Fama, 1980; Pathak et al., 2014). Using ex-post settling up, it can be tested whether the new CEOs deserve the higher pay long-term. If that is not the case, the new CEO may face a large downward settling-up mechanism, where their compensation falls drastically. An alternative approach to test the success of the new, higher-paid CEO is to examine whether he or she can retain their position in the firm or suffer from an early exit. Some of the firms in the sample have multiple succession, which are omitted to only study the first ex-post misconduct-succession. However, it would be interesting to see if the initial pay in this situation leads to early departure – either voluntarily or forced. Here it can also be worth investigating specific functional backgrounds, to test whether some of the firms hire specialists in turnaround situations and pay them a premium for a short-term job (Fitzsimmons, Callan, & Paulsen, 2014; Gabarro, 2007; Hambrick & Fukutomi, 1991). Lastly, regarding the area of understanding the longer-term implications, generic firm performance following misconduct-succession is needed to provide an accurate conclusion for some of the findings. It might be that firms are willing to pay a higher compensation, but if the performance does not follow, then the practice might not be worthwhile replicating for firms going forward.

Another way of advancing the knowledge is to provide further depth on the type of succession. Previous literature (Barron et al., 2011) distinguishes between "follower", "contender" and "outsider" – something that potentially can impact the results in the context of misconduct-succession. It should be noted that there are indications in the extant literature that under more disruptive departures, outsiders are preferable (Kavadis et al., 2022). However, it would be worth it to look additionally at whether the board looks for new perspectives (Tushman & Nadler, 1978) or close ranks with an insider (Boone et al., 2004). While a “follower” might be problematic as they are usually associated with status quo (Georgakakis & Buyl, 2020), differences between contenders and outsiders can yield interesting research. For example, a contender might be different enough from the predecessor to make meaningful changes, but at the same time have some required firm-specific knowledge that can make change implementation easier. This would further be complemented by the debate on whether the preferences are known in advance, potentially leading to either a Coup D’Etat or a Comprehensive Search (Friedman & Olk, 1995). By the same token, the replacement framework presented in chapter 3[64], where four types of replacements, 1) Continuity

[64] See chapter 3 of this thesis

Replacement, 2) Minority Replacement, 3) Reinforcement Replacement and 4) Disruption Replacement can be adapted to fit the specific context of the CEO rather than the broader TMT. It would be interesting to see whether the new CEO is more disruptive or, despite e.g., being an outsider, displays high similarity with the other TMT members, as well as the departing CEO. Furthermore, knowledge of what such similarity/dissimilarity would mean for the compensation is intriguing. Such research would add even further advancement to the fields of executive job demands and CEO initial pay.

Following on from the previous thought, another interesting stream of literature that is relevant to consider for the firm's handling of misconduct-succession is the impact on the wider top management team. Particularly because potential faultlines can emerge within the teams as a consequence of the crisis (Georgakakis et al., 2017; Lau & Murnighan, 1998; Thatcher & Patel, 2012). For example, Georgakakis and Buyl (2020) find that in the case of CEO succession, it is possible that factional faultlines between members hired by the previous CEO and member hired by the CEO occur. Such faultlines can have damaging implications. It is interesting to test whether the context of firm-level misconduct leading to a change of CEO would have similar implications. Likewise, it would be interesting to see whether there are stronger faultlines emerging when a crisis like misconduct is added. Additionally, investigating whether misconduct-succession induces other replacements within the wider top management team, as well as the implications for the firm is encouraged.

5.6 Conclusion

This paper makes important contributions to executive job demands and research on CEO initial pay. By using the context of succession following corporate misconduct, the results show that new CEOs taking over under such contexts receive a higher initial compensation compared to firms hiring a new manager without having engaged in misconduct. The analysis is based on a sample of 131 cases of misconduct-succession, matched with 131 firms of similar size, industry and year, also engaged in CEO-succession. By matching the sample, our results show that misconduct itself leads to higher initial compensation, further strengthened by predecessors being dismissed. We additionally find that the age of the executive impacts the pay relationship further. Overall, the paper adds further notion to the three challenges of executive job demands: *task challenges, performance challenges* and *personal aspirations.* Particularly, we find that while all the challenges are important in determining the added job

demands associated when taking over a firm that has been caught in misconduct, the task challenge is the most important. As such, a firm should first and foremost be looking for a new CEO that can handle such challenges, and they might need to pay a premium to get the candidate.

Chapter 6: Concluding remarks

6.1 Main findings and theoretical contributions

This thesis has various theoretical and empirical contributions to the extant literature – particularly to research investigating top management succession. Whilst the succession literature itself is broad in nature (Finkelstein et al., 2009; Kesner & Sebora, 1994; Lin & Liu, 2012), the main focus of this thesis has been to advance the understanding of specific top management replacements (i.e., looking at specific roles being replaced within the leadership cadre). In taking this focus, the thesis has examined different levels of leadership to understand how firms go about replacements of their non-CEO top managers (chapter 4) and the CEO (chapter 5). By looking at different levels of leadership, the thesis provides a broader view of differences that occur based on factors such as the level of leadership (see figure 1.1). Furthermore, by analysing different datasets, with samples of different countries and firm sizes, the thesis contributes significantly to the debate on the importance of contextualising top management research (Georgakakis, Wedell-Wedellsborg, et al., 2022; Hitt, Beamish, Jackson, & Mathieu, 2007; Samimi et al., 2020; Schotter & Beamish, 2013), including the specific context of succession. By doing this, the thesis advances the understanding of executive-role fit and how firms actively refit their TMTs and CEOs based on their challenges.

In chapter 2, the focus was to explore how firms achieve strategic agility by having a certain level of shared distributed cognition (i.e., knowledge overlaps) and behavioural integration (i.e., tenure overlaps) among the senior leaders. Whilst the focus of that paper does not directly link to how firms are going about replacing top managers, it provides insights about the importance of handling the composition correctly and having a sufficient, but not excessive, level of top management succession. By using knowledge assimilated with transactive memory systems (Lewis & Herndon, 2011; Zajac et al., 2014), the chapter proposes a 3 by 3 framework considering the two important factors explained above, enabling strategic agility. Based on this framework, the paper shows how when firms are not having enough succession, it is likely that the overlapping tenure becomes excessive, which can lead to groupthink, whereby the leadership stops challenging each other, which can ultimately have damaging implications on the performance – both financially and strategically. Likewise, having too many successions means there will not be sufficient utilisation of the diverse skills available within the senior

leadership. Simultaneously, it becomes clear that when faced with successions, it is also important to get the skills (in this case, level of functional experience diversity) right, as this can help ensure sufficient distributed cognitions – thereby facilitating the essential communication.

Besides these important notions, the paper also explores critically important data regarding some of the world's largest firms – the Fortune 500 Global. This examination provided further insight into the data structure, which enabled the analysis in chapter 4. Furthermore, the chapter presented critical and insightful case studies. For example, providing key examples of how important it is to tackle executive selection well for future firm success. Particularly, the case of General Motors provides crucial insights into handling succession in the aftermath of a crisis. Following their restructuring in the late 2000s, they were faced with the task of refitting their senior leadership, leading to very low behavioural integration. By starting off with high levels of cognitively distributed executives, General Motors created a means for communication, and as they over the subsequent period were able to increase the behavioural integration, they could simultaneously increase the level of specialisation (and thereby lower the average cognitive distribution). As such, 10 years later, General Motors ended up with a senior leadership possessing the optimal conditions for utilising transactive memory.

Based on this understanding of how succession can shape an organisation and a thorough assessment of the top management literature, chapter 3 provides a theoretical framework of how direct top management replacements can be analysed – primarily intended to study non-CEO top managers. Particularly, it applies theory from the *Fit-Drift/Shift-Refit* model (Finkelstein et al., 2009). The direct replacement theorised occurs when matching predecessor and successor in the same exact role, something that has only seldom been done in the literature (Collins et al., 2008; Georgakakis et al., 2021). Previous research has either been narrowed to a few specific roles (such as CEO or CFO) or considered all TMT managers' entries as the homogenous without taking into account the actual predecessor. As such, the paper suggests a 2 by 2 framework, comparing the new non-CEO TMT members to their direct predecessor (same role, e.g., CHRMO for CHRMO) as well as the aggregate incumbent TMT. The comparison can be made on a variety of different variables – either straightforward, simple demographics (Hambrick, 1994; Hambrick & Mason, 1984; Pfeffer, 1985) or more complex, personality-based measures (Maitland & Sammartino, 2015a; McDonnell & Cobb, 2020; Semadeni et al., 2022). By making these comparisons, the chapter presents four overarching

types of top management replacements; 1) Continuity Replacements, 2) Minority Replacements, 3) Reinforcement Replacements and 4) Disruption Replacements.

Besides developing this framework and accessing the broader literature of top management succession and replacement processes, the paper further goes in-depth with the importance of contextualising the replacements, as this will be vastly impactful. In order to find out what firms are selecting in terms of the characteristics of the new top manager, it is often relevant to understanding a variety of different concepts, such as whether the firm has performed well or poorly in the previous period (Cannella & Shen, 2001; Wiersema & Zhang, 2011; Zajac, 1990), has engaged in misconduct (Chen, 2015; Feng et al., 2011; Wiersema & Zhang, 2013), or face a simultaneous CEO change (Barron et al., 2011; Ma & Seidl, 2018). Furthermore, the external environment the firm is operating in becomes relevant – such as the institutional or cultural environment (Biemann & Wolf, 2009; Ruigrok et al., 2007; Wowak et al., 2017). In the quest for understanding how the framework can potentially be applied to relevant research contexts, the paper sets forth different propositions to explain the paradox that can occur with the framework. That paradox is that when not considering other contexts, a simple non-CEO TMT change can either increase or decrease the homogeneity of the team. This is because leaving out other contexts, it is unknown whether the need for increased information processing capabilities and special knowledge is more prevalent (Greve et al., 2009; Rickley, 2019; Tasheva & Nielsen, 2022), or alternatively, whether the Similarity-Attraction (Byrne, 1971; Liu et al., 2012) will drag the team towards homogeneity.

Partially based on the theorising of chapter 3, chapter 4 presents an empirical examination of how Fortune 500 Global firms go about non-CEO TMT replacements amid different contextual factors. Thus, the chapter further leverages the data explored in chapter 2 by going more in-depth with a more specific subsample of the data – the narrow top management team rather than the extended senior leadership. The TMT of each firm is identified through extensive manual coding through the reading of annual reports. Essentially, the paper theorises about the importance of considering multi-level predictors when studying top management as they are nested within firms, which are nested within their environment (Cannella & Holcomb, 2005; Nielsen & Nielsen, 2011; Peterson et al., 2012). One of the paper's major contributions comes through a thorough matching of predecessor-successor, ensuring a fit between the specific role and the predecessor departure date and successor entry date. Considering specific replacements, the paper examines two core constructs when dealing with top managers – the

international experience (Carpenter et al., 2004; Patzelt et al., 2009) and the functional experience (Buyl et al., 2011; Heavey & Simsek, 2017).

In order to test the contexts that impact the successor characteristics vis-à-vis the predecessor and the incumbent TMT, the paper utilises a hierarchical linear modelling technique – including both random and fixed effects. This allows the modelling to consider the relevant variance at the different levels and avoid over- or underestimating the effects (Peterson et al., 2012). Through testing various hypotheses, the paper finds that when looking at the international experience against the predecessor, foreign predecessor was associated with dissimilarity in international experience, as the new top manager needs to fill the void left behind through a different skill set. However, when it came to the predecessor tenure, the opposite relationship was found, such that higher tenure was associated with higher similarity – typically suggesting the centrality of the predecessor in the TMT and the good fit with the specific skillset. In terms of performance implications, the paper finds that performance above the industry average was associated with higher similarity – showing how when the firm is doing well, they want to retain a similar skillset when making changes. For the degree of internationalisation, the results are insignificant – typically because the largest MNEs are very dispersed in terms of their experience (Boone et al., 2019; Kano & Verbeke, 2019), meaning that depending on who departs, the similarity will differ, leading to insignificant results. In that regard, the non-finding regarding IE in the predecessor-successor link, the post-hoc assessment, using a different measure provides further insight as to why this is the case. Because utilising this measure, there is marginal support ($p<0.1$) for DOI leading to an increase in the IE diversity – suggesting that the highly international firms are generally increasing their international experience when finding new managers. However, when a highly IE manager departs, they will likely replace with someone of similar IE levels. Future research should examine this closer.

Switching to comparing the new entrant to the incumbent TMT (group) based on their international experience background, paper 4 finds support for a scenario where if the predecessor was a foreigner, it leads to an increase in the dissimilarity of international experience against the incumbent TMT. Thus, holding it together with the findings against the predecessor (individual), it becomes evident that when a foreign top manager leaves a firm, the focal firm responds through a Disruption Replacement to ensure that the new top manager will bring a distinct skill set. The results are insignificant regarding the predecessor's tenure at the

group level. This non-finding likely occurs because comparing other factors to the group level, such as the knowledge base, is more relevant than the international experience in this context. Furthermore, holding it together with the finding that higher DOI impacts such that the new entrant shows higher dissimilarity to the TMT based on IE, the results can be explained further by the skillset needed to run the firm. This is consistent with the literature on TMT composition and the firm's international diversification (Herrmann & Datta, 2005). The final finding regarding IE and new entrants vis-à-vis the incumbent TMT shows that unlike comparing to the predecessor, the performance compared to industry peers does not matter greatly – likely an indication that the firm is considering other skills that IE when trying to improve the relative industry performance.

Switching to a different variable of interest – functional experience – the paper has some interesting findings, showing the relevance of considering different vital variables in understanding how firms handle replacements. Comparing the new top manager with the predecessor regarding functional experience, the only significant result is in terms of the predecessor's tenure – leading to a higher degree of similarity. This is as expected, given that the long-tenured manager will have been a focal part of the firm, thus considered a good fit and something the firm like to continue with in the new manager (Friedman & Saul, 1991; Herrmann & Datta, 2006). On the other hand, we find insignificant results for the other three explanatory variables – predecessor network size, performance against the industry average, and ICT adoption. This lack of findings likely exposes one of the limitations of the current study – the single variable focus when considering executive characteristics. Especially given that the functional experience variable is something dispersed differently across the TMT, leading to different requirements based on the role – for example, a COO is expected to have wider and more general knowledge compared to a Chief Legal officer. As such, extant literature has primarily used the functional experience to assess CEO or overall TMT characteristics, not specific non-CEO top managers (Li & Patel, 2019; Mueller et al., 2021; Teodoridis et al., 2018). Potentially, this means that in future research, if looking at functional experience, different measures may need to be applied or alternatively apply the measure in conjunction with other measures.

The final set of findings with regard to the functional experience in chapter 4, however, reveals why it can indeed be relevant to study a new entrant against both the predecessor and the incumbent TMT. This is because contrary to the findings above, the different explanatory

variables provide significant insight into the functional experience vis-à-vis the TMT. Of notable results, the paper finds that when a highly networked top manager leaves, they are replaced by someone displaying dissimilarity to the incumbent TMT – i.e., they are bringing a new and different skillset. This is consistent with arguments from chapter 2 about the importance of highly networked individuals in enabling strategic agility through their contacts (Burt, 1997; Gladwell, 2000). Secondly, the paper finds marginal support for longer predecessor tenure being associated with higher similarity – confirming the previous argument about the good fit leading to TMT centrality and Continuity Replacement. For the comparative performance, it is similarly found that performance above the industry is associated with continuity, consistent with extant research (Fritsch, 2015; Virany et al., 1992). Finally, the paper finds that firms operating under institutions (country-level) associated with high levels of ICT adoption leads to increased dissimilarity for the new manager vis-à-vis the TMT. Such findings confirm the importance of the surrounding context and how challenging environments impact the characteristics of the successor.

The final paper (5) then investigates a more narrow and niche contextualisation – firm level misconduct. Furthermore, it goes one step up the corporate ladder to focus on the replacement of CEOs rather than non-CEO TMT members. This change is due to the desire to better understand the differences between the two types of leadership replacements, acknowledging CEOs' distinct role within the TMT (Bromiley & Rau, 2016; Dewar et al., 2019; Kalogeraki & Georgakakis, 2021). Secondly, the paper considers the CEO's initial compensation, in an attempt to advance the understanding of contexts that can impact the CEO's compensation. As such, this final paper ensures that the thesis covers different leadership tiers (senior leadership, TMT and CEO). Furthermore, it ensures we understand the potential benefits for firms in handling succession and replacements appropriately (fostering strategic agility, paper 2), how firms go about the succession (papers 4 and 5), as well as the impacts on senior leaders (particularly paper 5 – remuneration).

The specific findings in chapter 5 contribute greatly to different strands of literature. The theoretical foundation of the paper is in executive job demands (Hambrick et al., 2005), to which the paper contributes by showing how firm-level misconduct can be considered an event that impacts the three main challenges in the focal theory – *Task Challenges, Performance Challenges and Personal Aspiration*. Furthermore, the paper contributes to the CEO succession literature. Finally, it contributes to the literature on CEO pay – particularly CEO initial pay

(Chen, 2015; Mueller et al., 2021). To ensure most accuracy in the regression analysis, the paper applies a matched sample technique, using propensity score matching to analyse comparable firms, where the main difference is in the treatment effect – i.e., comparable firms where the difference is whether they have been caught in misconduct or not. The results of the paper indicate that taking over the CEO position in the aftermath of misconduct increases the executive job demands and leads to higher CEO initial compensation compared to the non-misconducting peers. Additionally, the paper finds that the CEO's age negatively moderates the relationship, such that higher age makes the initial positive misconduct-pay relationship less pronounced. This effect is caused by increased career risk (Strike et al., 2015; Wiesenfeld et al., 2008) and the desire of the younger CEO to make substantive changes – something approved by the board. Additionally, the paper finds that the initial relationship would be amplified if the previous CEO was dismissed, rather than departing for other reasons. This is explained by the increased level of scrutiny in such a situation (Castro et al., 2020; Fredrickson et al., 1988). When the firm dismisses a CEO, they send a strong signal. If, at the same time, the firm is pronounced as being part of misconduct, the firm will likely be questioned further in the future.

However, contrary to hypothesised expectations, the paper does not find significant moderation effects by outsider CEOs or the firm being in a heavily regulated industry. In both cases, there is a marginally significant result ($p<0.1$), but they are not robust enough to maintain significance in the main model. In the case of outsider CEOs, the lack of finding a significant relationship is surprising and contrary to the extant literature suggesting outsider CEOs obtain higher compensation (Essman et al., 2021; Main et al., 1995; Peng et al., 2015). The reason for this likely comes from the specific sample, which focuses on misconducting firms. It is likely that the highly capable outside CEOs tend to steer slightly away from the added risk associated with such a role – hence, the most competent CEOs will not go for the job. Secondly, it is likely that the insider, through their greater knowledge of the firm, can bring added value to the turnaround situation, assuming they are not associated with the CEO regarding the misconduct. Held together, the lack of significant impact shows the importance of contextualising, as this case of executive job demands face different requirements and talent pools. Finally, the impact of heavily regulated industries is found to, if anything, have a negative moderating effect (contrary to hypothesised). However, as discussed in the chapter, this is likely a consequence of the higher level of certainty with what a CEO must comply with in these industries (Semadeni et al., 2022).

Together, these papers provide a lot of insight into how firms go about refitting their key leadership positions according to needs and contexts. Particularly, the thesis seeks to provide a holistic understanding of two accounts – 1) differences between different levels of top management; 2) the impact replacements can have on firms and individuals. Holding the papers together, it becomes evident how top management succession and replacement must be considered a strategically important event in firms that must be handled appropriately, consistent with previous research (Vancil, 1987). This is evident as too few successions can have damaging implications in terms of leading to groupthink and lack of efficiency, whereas too many successions can have the consequence of insufficient capabilities to tap into all the knowledge in the firm. Holding this together with assessing how firms over time can make refits based on the context, as shown in paper 4, it becomes clear that firms are indeed considering this a strategic tool. This is further exemplified by how firms are willing to pay a premium to new CEOs for taking on the increased pressure associated with higher executive job demands amid misconduct. Similar findings could potentially apply to other types of shocks impacting firms.

6.2 Managerial implications

By bringing the thesis papers together, some clear managerial implications and recommendations become apparent. These recommendations can largely be split into two sections – implications for 1) firm-level decision makers and 2) individual prospective managers. Furthermore, the recommendations primarily relate to listed firms of a certain size. Whilst some of the findings and recommendations can also be relevant for smaller firms, the choice of sample and focus of the studies lend itself best to those running larger organisations, having to respond to a plethora of different stakeholders.

Regarding the firm-level decision makers, the mentioned suggestion to consider top management succession and replacement as key strategic decisions is important. The findings in this thesis make it clear that top management departures are inevitable, and by extension, how the firms handle successions and replacements is of utmost importance. There are situations where departures from the senior leadership happen as a process of a wider restructuring of TMTs. In these cases, firms would typically change roles, titles and other compositional measures to enter new markets or ensure sufficient turnaround. Whilst such

restructuring is important, this thesis focuses on those cases where overall composition remains largely the same, and the changes are in terms of individuals and their characteristics. In these cases, firms are able to make small tweaks and changes to ensure that their executives are a better fit with the environment and the challenge at hand.

As such, this thesis recommends that managers in charge of the hiring process – whether the CEO or an executive selection committee – engage in continuous succession planning. Whilst it might not be necessary to find new managers all the time, keeping a portfolio of potential internal and external candidates can be valuable, as should an executive decide to leave their job, the firm will quickly be able to identify a good-fitting replacement. This will also allow firms to make necessary refits of current available capabilities amid strategic changes. That way, rather than making substantial changes to make sudden strategic changes, the firm will be able to adapt the leadership capabilities to fit the context gradually. With the understanding from this thesis, it can be seen how the surrounding context can be used to guide the decision-making regarding external environments, who is leaving, and whether the firm is facing some large shocks. This way, the firm can ensure long-term stability, as well as optimising the conditions for creating strategic agility and successful conduct of business.

The final implication for decision-makers particularly concerns those on the compensation committees in firms. The findings of this paper, particularly paper 5, make it clear that in contexts where firms have been caught in misconduct, the decision-makers face increased pressure through more challenging job demands. Accordingly, it is worthwhile for firms to pay a premium to get capable managers who can handle such demands. This can help restore the firm and avoid the negative consequences that can occur due to stress or lack of skills to cope. Furthermore, it can be worth following other firms' practices and paying a premium to slightly younger CEOs who may bring fresh perspectives and thereby help turn the business around. The recommendations can also extend further than just with misconduct and apply to other types of firm-level crises – whether endogenous or exogenous.

This thesis also provides some interesting insights for prospective managers to consider when developing their careers. First, the thesis provides further insights into debates on the accumulation of experience. Taking the context of international experience, it has previously been contested that such experience abroad can bring a lot of value, but prospective managers often lost out on important promotions by being away from the HQ. This has particularly been the case as they would lose out on important networking. The findings of this thesis suggest

that international experience can bring additional benefits for the right firms with a higher degree of internationalisation. This is particularly the case in the external labour market. As such, this thesis recommends prospective managers who desire to reach the upper senior leadership in large firms to consider the accumulation of international experience in their early career.

Finally, this thesis provides insights for prospective managers in terms of compensation. Particularly, it is suggested that younger CEOs can potentially benefit from targeting firms that need to restore their reputation or turn the situation around. In such firms, they might be able to be rewarded with a larger compensation to take on the added risk. Furthermore, successful stints at such firms can potentially improve career prospects. Thus, a key recommendation is to consider firms in challenging times when looking for a senior leadership position, as they can be a good opportunity – assuming that the skill set possessed by the individual manager is appropriate.

6.3 Overall limitations of the thesis – and avenues for future research

As the individual chapters address their limitations of them respectively, this section is not intended to discuss the limitations in depth. However, it is important to highlight some limitations of the thesis overall that can lead to fruitful potential research avenues. The first one is the underlying assumption of characteristics determining individual behaviour. This is a limitation that has been applied to research on Upper Echelons theory for a long time (Lawrence, 1997) and remains relevant, also for this particular thesis. However, it is also a limitation that is not necessarily problematic based on what this thesis ought to do. This is because a key focus is understanding how the firms tackle succession and replacement amid different contexts. While it would be good to understand some of the mechanisms of the replacement process and the executive behaviour when taking over, the thesis still provides valuable insight into how replacements are handled – particularly in terms of which characteristics the firm considers and find valuable. However, future research could benefit from looking more thoroughly into how the contexts specifically impact the replacement process and chosen successor. Whether through a case-based study, ethnography or other methodologies, the framework presented in chapter 3 of this thesis could provide further important insights by considering more behavioural and psychological aspects.

Secondly, future research should test whether the replacement strategies presented are worthwhile for the firms. The thesis has theorised about different ways of handling replacement, as well as contexts such as misconduct, internationalisation and performance compared to the industry and how it shapes things such as characteristics, executive job demands and pay. Future studies should use some of the terminology presented in this study to test how it impacts firm-level outcomes, such as performance and strategic changes. Doing so would make a strong contribution to the literature. Particularly, it can be relevant to see which of the replacement types in chapter 3 provides the best prospects for firms or whether the higher CEO pay helps restore the misconducting firms.

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