

Do employees' views matter in corporate governance? The relationship between employee approval and CEO dismissal

Danni Wang¹ | Qi Zhu²  | Bruce J. Avolio³ | Wei Shen⁴  | David Waldman⁴

¹Rutgers Business School-Newark and New Brunswick, Rutgers University, Piscataway, New Jersey, USA

²Faculty of Business, Hong Kong Polytechnic University, Hung Hom, Hong Kong

³Michael G. Foster School of Business, University of Washington, Seattle, Washington, USA

⁴W. P. Carey School of Business, Arizona State University, Tempe, Arizona, USA

Correspondence

Wei Shen, W. P. Carey School of Business, Arizona State University, Tempe, AZ 85287-4006, USA.

Email: weishen@asu.edu

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Abstract

Research Summary: As important stakeholders of a firm, employees are critical to firm success because they are directly engaged in strategy implementation. Accordingly, we theorize that employees' views can impact assessment of the CEO by the board of directors beyond firm financial performance and security analysts' recommendations. Specifically, we hypothesize that employee approval of a CEO's leadership is predictive of the board's CEO dismissal decision, particularly when there is relatively higher firm financial performance, more positive security analyst recommendations, and lower CEO power. Using longitudinal data from 338 firms and 1,252 firm-year observations between 2010 and 2018, we found empirical support for the above predictions. Our theory and supportive findings have important implications for research and practice regarding employee engagement, strategic leadership, and corporate governance.

Managerial Summary: Because employees are important stakeholders of a firm and critical to its success, we argue that their views about the CEO can impact how the board of directors evaluates the CEO beyond firm financial performance and security analysts' recommendations. Our results show that higher employee approval of CEO leadership (measured by data collected from Glassdoor.com over multiple years) negatively predicts CEO dismissal, particularly when the

firm performs better financially, gets more positive recommendations from security analysts, and the CEO has less power relative to the board. These findings suggest that employees' views do matter in the retention or dismissal of the CEO, and that CEOs should be mindful of how their employees view their leadership and the strategies they are promoting at their firms.

KEY WORDS

CEO, corporate governance, employee approval, stakeholder theory, turnover

1 | INTRODUCTION

Organizational researchers have long been interested in understanding the factors that predict the dismissal of chief executive officers (CEOs) (Adams, Hermalin, & Weisbach, 2010; Finkelstein, Hambrick, & Cannella, 2009; Gentry, Harrison, Quigley, & Boivie, 2021; Hubbard, Christensen, & Graffin, 2017). Because CEOs are held ultimately responsible for a firm's financial performance from a shareholder perspective, this stream of research has focused largely on poor financial performance as the primary driver for CEO dismissal. Indeed, numerous studies have found that firm financial performance is negatively associated with the likelihood of involuntary CEO turnover (Gentry et al., 2021; Hubbard et al., 2017; Ocasio, 1994; Shen & Cannella, 2002; Wiersema & Zhang, 2011). While researchers have also studied the effects of CEO power and security analysts' recommendations on CEO dismissal (Shen & Cannella, 2002; Wiersema & Zhang, 2011), they often treat these factors as moderators that either weaken or strengthen the impact of firm financial performance on CEO dismissal (Boivie, Bednar, Aguilera, & Andrus, 2016).

Since employees are critical to firm success (Green, Huang, Wen, & Zhou, 2019; Mitchell, Agle, & Wood, 1997), we suggest that employees constitute another important stakeholder group that may impact boards' decision to retain or dismiss CEOs. We specifically propose that employee approval or disapproval of a CEO is likely to influence CEO retention or dismissal. As internal stakeholders who are directly involved in organizational operations, employee approval or disapproval of the CEO's leadership can reflect an insiders' perspective based on private knowledge that has not yet been either made available to, or necessarily utilized by external stakeholders such as shareholders and security analysts (Huang, Li, & Markov, 2020). Moreover, because employees are responsible for implementing their CEO's strategies, their approval or disapproval of the CEO's leadership can have important implications for their commitment to supporting those strategies and consequently firm financial performance (Hatch & Dyer, 2004; Schein, 2010). Therefore, boards of directors may be more likely to retain a CEO when employee approval of the CEO's leadership is high, and dismiss the CEO when employee approval is low.

We further propose the effect of employee approval on CEO dismissal is moderated by contextual factors that influence the extent to which employee approval may come into play in dismissal decisions. We identify three such contextual factors. The first two are firm financial

performance and security analyst recommendations, which we argue influence the additional value that employee approval contributes to CEO dismissal decisions. When firm financial performance is poor or when analyst recommendations are negative, boards not only have the evidence needed to dismiss the CEO, but are often under strong external pressure to do so (Finkelstein et al., 2009; Wiersema & Zhang, 2011). In this situation, employee approval is likely to show a less significant impact on a board's CEO dismissal decision. In contrast, when firm financial performance is relatively good or when analyst recommendations are more positive, information regarding employee approval is likely to be more valuable to the board as it gives the board either more or less confidence in the CEO's leadership and the firm's future financial performance. Thus, we predict that the effect of employee approval on CEO dismissal is stronger when firm financial performance is higher rather than lower, and when analyst recommendations are more positive rather than more negative.

The third contextual factor that we examine is CEO power. When CEOs are more powerful in their relationships with their boards of directors (e.g., by holding the board chair position or significant ownership), they are more able to influence board decisions and get entrenched in the position (Coles, Daniel, & Naveen, 2014; Shen & Cannella, 2002; Weisbach, 1988). Unfavorable information, including negative employee opinions of CEOs, are more likely to be discounted in board decisions (Finkelstein et al., 2009; Pfeffer & Fong, 2005). In contrast, when CEOs are less powerful, they are less able to defend themselves or influence board decisions when they receive unfavorable employee evaluations. Thus, we predict that the effect of employee approval on CEO dismissal is stronger when CEOs are less powerful in relationship with their boards.

To test the above predictions, we gathered employee ratings from the online platform Glassdoor.com for the years of 2010–2017 to construct a measure of employee approval of CEO leadership. After taking several actions to ensure that our measure is a reasonable proxy of employees' approval of their CEO's leadership and dropping observations with missing values, we had complete data for a final sample of 338 firms and 1,252 firm-year observations. Results from regression analysis using the Cox proportional hazard model provide support for our predictions of the main effect of employee approval on CEO dismissal and the moderating effects of firm financial performance, analyst recommendations, and CEO power.

Our study makes two key contributions. First, we contribute to stakeholder theory (Donaldson & Preston, 1995) by revealing the effect of employee approval on CEO dismissal, one of the most important decisions in corporate governance. Given the recent sociopolitical changes, particularly the social movements on diversity, equity, and inclusion that draw significant attention from corporate leaders (Bundy, Vogel, & Zachary, 2018; Hambrick & Wowak, 2021), we expect that employees will become an increasingly prominent stakeholder group and thus have a greater impact on corporate governance moving forward. Second, we contribute to the strategic leadership and corporate governance literature by identifying and demonstrating employee approval as an important factor predictive of CEO dismissal, particularly when firm financial performance and security analysts' recommendations are more positive or when CEOs are less powerful. Thus, our research reveals the boundary conditions that illuminate when employee opinions are more relevant to CEO dismissal. Overall, our study draws attention to the increasing importance of employees' views in corporate governance, and CEOs might be well-advised to take employees' feedback into consideration because employee approval or disapproval of their leadership can have a significant effect on their employment.

2 | THEORY AND HYPOTHESES

CEO dismissal is the ultimate sanction that a board uses to discipline a CEO when its assessment of the CEO's leadership turns out to be unsatisfactory (Fama & Jensen, 1983; Finkelstein et al., 2009). Meanwhile, because a CEO's job demands are complex and evolve along with changes in the firm's external and internal environments (Hambrick, Finkelstein, & Mooney, 2005), it is a challenging task for a board to assess whether a CEO's leadership continues to meet the job demands faced by the firm (Boivie et al., 2016; Graffin, Boivie, & Carpenter, 2013). Since CEO dismissal is often disruptive to a firm, and there is high uncertainty regarding whether the firm will be able to find a competent successor, boards tend to be cautious in making CEO dismissal decisions (Walsh & Seward, 1990).

Given that CEOs are held ultimately responsible for firm financial performance, boards rely heavily on firm financial performance to make CEO assessment and dismissal decisions (Fama & Jensen, 1983; Walsh & Seward, 1990). Indeed, earlier qualitative research suggests that boards normally do not dismiss a CEO, even if they are concerned with the CEO's leadership, unless firm financial performance becomes poor (Alderfer, 1986). Consistent with this observation, scholarly research has focused primarily on the effect of firm financial performance on CEO dismissal, and has consistently found that poor firm performance increases the likelihood of CEO dismissal (Adams et al., 2010; Finkelstein et al., 2009; Gentry et al., 2021).

Some scholars (e.g., Wiersema & Zhang, 2011) have also suggested that boards consider security analysts' recommendations in making CEO dismissal decisions for two main reasons. First, security analysts are widely recognized as legitimate external experts who are qualified to assess a firm and its leadership (Wiesenfeld, Wurthmann, & Hambrick, 2008). Second, security analysts' recommendations can have a significant impact on investors' decisions and the firm's stock prices (Francis & Soffer, 1997; Lys & Sohn, 1990). Thus, boards tend to utilize analyst recommendations to help them make CEO dismissal decisions, even if these recommendations may only confirm their assessment of the CEOs' leadership based on firm financial performance (Wiersema & Zhang, 2011).

However, there are limitations associated with firm financial performance and security analyst recommendations in terms of providing a complete picture of the CEO's performance. First, firm financial performance does not necessarily reflect the CEO's leadership, as there are many other factors that can influence firm financial performance, such as macroeconomic conditions, industry trends, and organizational endowments (Graffin et al., 2013; Shen & Cho, 2005; Walsh & Seward, 1990). Moreover, CEOs are likely to attribute high firm financial performance to their leadership, and low firm financial performance to external factors beyond their control, particularly when they have more power in their relationship with boards of directors (Fredrickson, Hambrick, & Baumrin, 1988).

Although security analysts may help counteract CEOs' self-serving attribution bias by providing an external perspective, their recommendations have limitations as well. For example, because security analysts often rely on CEOs or other senior executives for firm-specific information, they generally issue positively biased forecasts and recommendations so that they can develop a favorable relationship with executives and gain access to this information (Westphal & Clement, 2008). In addition, security analysts have been found to issue more positively biased recommendations on firms that are either the clients or potential clients of their employers (Hong & Kubik, 2003; Michaely & Womack, 1999).

In light of these limitations, we propose that employees can serve as a valuable additional source of information to a board's assessment of the CEO's leadership, in that they represent an

important internal stakeholder group that possesses private inside information on the CEO based on what they experience and observe within the firm. Stakeholder theory has long suggested that employees constitute a firm's internal stakeholders and provide valuable human and social capital that are critical to firm success (Guiso, Sapienza, & Zingales, 2015; Mitchell et al., 1997). Moreover, because firm success or failure directly influences their job security and wellbeing (Donaldson & Preston, 1995), employees have incentives to pay attention to their CEO's leadership and strategies.

Finally, as internal stakeholders who are responsible for implementing the CEO's strategies, employees have private knowledge about the firm's operations and performance that is not necessarily available to security analysts or reflected in the firm's financial reports (Huang et al., 2020). Thus, whether employees approve or disapprove of a CEO's leadership can be important and valuable information for a firm's board of directors when evaluating the CEO's leadership. Yet, the current literature is silent regarding whether employees' views are predictive of their board's decision to retain or dismiss their CEO.

To address this issue, we explain in detail why employee approval or disapproval of a CEO's leadership may be predictive of the CEO's likelihood of dismissal. We then consider how the effect of employee approval on CEO dismissal is moderated by firm financial performance, analyst recommendations, and CEO power, which have been found to influence the retention or dismissal of a CEO. Our intention is to yield insights regarding the contexts under which employee approval may, or may not, serve as an important source of information on CEO dismissal decisions.

2.1 | Employee approval and CEO dismissal

As important internal stakeholders whose cooperation and support are critical to a firm's success (Donaldson & Preston, 1995; Donaldson & Walsh, 2015), employees can exhibit three responses to CEOs, including acceptance, indifference, or rejection. When employees perceive that their CEO's vision and strategies can help their firm create and maintain competitive advantage, they tend to view the CEO as a competent leader and are more accepting of the CEO's strategies (Barnard, 1948; Yukl, 2008). In this situation, employees are more likely to exhibit a higher level of commitment to implement the CEO's strategies (Jung, Chow, & Wu, 2003). For example, employees who have favorable views towards their CEO may invest more time and energy in support of the CEO's strategic focus (Guiso et al., 2015; Schein, 2010). In contrast, if employees are indifferent to or question the CEO's vision and strategies, they are likely to be less motivated to implement the CEO's strategies (Guiso et al., 2015; Jung et al., 2003). Because employees possess valuable human and social capital that are critical to effective strategy implementation, their approval and commitment can influence the effectiveness of their CEO's strategies in creating a competitive advantage (Hatch & Dyer, 2004; Kaplan, Klebanov, & Sorensen, 2012; H. Wang, Tsui, & Xin, 2011). Supporting this position, prior research suggests that employee approval of CEO leadership is positively related to subsequent firm financial performance (Tosi, Misangyi, Fanelli, Waldman, & Yammarino, 2004; Waldman, Ramirez, House, & Puranam, 2001).

Given that employees are directly responsible for implementing a CEO's strategies and are critical to firm success (Donaldson & Walsh, 2015; Kaplan et al., 2012), we contend that employee attitudes towards CEOs could come into play in CEO retention or dismissal decisions. When a CEO receives a higher level of approval from employees, it signals that employees are

confident in the CEO's leadership and are supportive of the CEO's strategies. The board is thus more likely to keep, rather than replace, the CEO. Otherwise, it risks upsetting employees, who may in turn be less willing to work cooperatively with the successor, potentially inhibiting the firm's future success (Zhao, Seibert, Taylor, Lee, & Lam, 2016). Alternatively, when a CEO receives a lower level of approval from employees, it signals to the board that employees have less confidence in the CEO's leadership and are less likely to devote time and attention to effectively implementing the CEO's strategies. Concerned with the firm's future success, the board is more likely to consider replacing the CEO to regain employees' confidence in the firm's leadership when the CEO receives a lower level of approval from employees. Thus, we predict:

Hypothesis 1. *Employee approval of CEO leadership is negatively related to CEO dismissal.*

2.2 | Moderating effects of firm performance and analyst recommendations

The value of employee approval to a board's decision to retain or dismiss a CEO may rest on other factors, especially those that have been identified as having significant impact on CEO dismissal, including firm financial performance, analyst recommendations, and CEO power. Below, we theorize how these factors may moderate the negative relationship between employee approval and CEO dismissal.

2.2.1 | Firm financial performance

Firm financial performance is the most salient and relevant factor that boards use in deciding to retain or dismiss CEOs (Adams et al., 2010; Finkelstein et al., 2009; Gentry et al., 2021). Although firm financial performance is also affected by macro-economic conditions and industry trends that are beyond the CEOs' control, boards can make a more informed assessment by comparing their firms' financial performance to that of other firms in the same industry (Adams et al., 2010; Walsh & Seward, 1990). When financial performance declines relative to the performance of industry peers, a board not only tends to raise serious questions about the effectiveness of the CEO's leadership themselves, but is also likely under strong pressure from investors to replace the CEO (Adams et al., 2010).

Because of the salience of poor firm financial performance and its strong effect on CEO dismissal, we expect the additional contribution of employee approval to board decisions to be weaker when firm performance is poor. In this context, the firm and its board are under strong pressure from investors to turn the performance around (Chen & Meindl, 1991). To appease investors and to improve firm financial performance, the board may choose to dismiss the CEO, even if the CEO may not be directly responsible for the poor financial performance (Shen & Cho, 2005). Therefore, when performance is bad, the signal to the board in terms of what to do is strong and unambiguous (Mischel, 1977)—fire the CEO. While low employee approval confirms the board's assessment of the CEO's leadership, it is unlikely to further increase the CEO's risk of dismissal. Meanwhile, high employee approval is less likely to change the board's decision either, given the strong pressure the board is under from external stakeholders, such as investors. Therefore, employee approval of the CEO's leadership, regardless of

favorability, is likely to exhibit a weaker effect on the board's decision to dismiss the CEO because of the dominant effect of poor firm financial performance.

In contrast, when firm financial performance is relatively good, boards are not under strong pressure from investors to make a change in leadership. Thus, they may pay more attention to employee approval in their assessment of the CEO's leadership, given that this information can have important implications for the firm's future performance (Tosi et al., 2004; Waldman et al., 2001; H. Wang et al., 2011). If a CEO receives a higher level of employee approval, the board is likely to feel more assured of the CEO's leadership, and thus reinforces its decision to retain the CEO. If the CEO receives a lower level of employee approval, it raises a red flag, making the board become more alert in assessing the CEO's leadership to ensure the firm's future success. Taken together, the above arguments suggest that employee approval of CEO leadership has a stronger impact on CEO dismissal decisions when firm financial performance is relatively good than when it is poor. Thus, we predict:

Hypothesis 2. *The negative relationship between employee approval of the CEO and CEO dismissal is stronger (weaker) when firm financial performance is higher (lower).*

2.2.2 | Analyst recommendations

Because security analysts are known to make more optimistically biased recommendations (Hong & Kubik, 2003; Michaely & Womack, 1999; Westphal & Clement, 2008), we expect that employees' approval of CEOs' leadership contributes more to CEO dismissal decisions when analyst recommendations are more positive than negative. When security analysts make negative recommendations about a firm, they generally have serious concerns with the firm's performance outlook and its executive leadership (Westphal & Clement, 2008). These negative recommendations not only send a clear message to investors about analysts' pessimistic forecasts of the firm's performance outlook (Francis & Soffer, 1997; Lys & Sohn, 1990), but also put strong pressure on the board to take actions to address analysts' concerns (Wiersema & Zhang, 2011). In this context, because of the high salience of analysts' negative recommendations (Mischel, 1977), the board is likely to be under strong pressure from investors, and thus give less weight to employees' approval of the CEO's leadership in its decision, similar to the situation when firm financial performance is poor.

In contrast, when analyst recommendations are more positive, employee approval may have a stronger effect on CEO dismissal decisions. Because security analysts tend to make more positively biased recommendations (Hong & Kubik, 2003; Michaely & Womack, 1999), positive analyst recommendations are not always as informative about how optimistic the analysts truly are about the firm's future performance outlook. Being aware of this optimistic bias in security analysts' recommendations, when it actually occurs, boards are likely to pay greater attention to employees' approval of their CEO's leadership, and treat it as an important additional source of information in their assessments of CEOs. Thus, the impact of employee approval on CEO dismissal is likely to be stronger when analyst recommendations are more positive. Taken together, the above arguments suggest that the negative relationship between employee approval and CEO dismissal proposed in Hypothesis 1 is weaker (stronger) when analyst recommendations are more negative (positive).

Hypothesis 3. *The negative relationship between employee approval of their CEO and CEO dismissal is weaker (stronger) when analyst recommendations are more negative (positive).*

2.3 | Moderating effect of CEO power

We further expect CEO power in that person's relationship with the board of directors will moderate the negative effect of employee approval on CEO dismissal. Prior research suggests that CEOs can influence board decisions by either controlling the information that is presented to boards or influencing how boards interpret that information (Boivie et al., 2016; Fredrickson et al., 1988). In their relationship with boards, CEOs can increase their power by holding the chair position (Finkelstein & D'Aveni, 1994; Goyal & Park, 2002) and nominating more executives who directly report to them as inside directors (Westphal & Zajac, 1995). When CEOs simultaneously hold the board chair position, they are more capable of influencing board decisions by controlling board meeting agendas and the information presented to those boards (Bebchuk & Fried, 2004). Furthermore, CEOs are more able to take credit for good firm performance, while attributing poor firm performance to external factors beyond their control, when there is a higher proportion of insider directors on the boards relative to outside directors, because they are more likely to support the CEOs' leadership and strategies (Weisbach, 1988; Westphal & Zajac, 1995).

Because powerful CEOs are more able to get entrenched in their positions (Finkelstein et al., 2009; Fredrickson et al., 1988), employee approval is less likely to be a significant factor that influences their dismissal. Even when the level of employee approval is low, powerful CEOs can discount the importance of such information. For example, these CEOs may be able to discredit this information by describing it as representing a very biased view of disgruntled employees, rather than the views of the entire workforce. They may also argue that these employees do not have a good understanding of competitive environment and the firm's strategy. Given that powerful CEOs have more support and are beholden to the firm's directors (Coles et al., 2014; Westphal & Zajac, 1995), they are likely to be more able to convince boards to discount unfavorable employee evaluations, seeking to stay entrenched in the CEO position. In contrast, when CEOs are less powerful, they are less able to influence boards' interpretation of employee approval information. In this situation, employee approval is likely to have a stronger effect on a board's decision to retain or dismiss the CEO, and can significantly increase the CEO's risk of dismissal if the information is less favorable about the CEO's leadership. We thus predict that the negative relationship between employee approval and CEO dismissal is weaker (stronger) when CEOs are more (less) powerful.

Hypothesis 4. *The negative relationship between employee approval and CEO dismissal is weaker (stronger) when the CEO is more (less) powerful.*

3 | METHODS

3.1 | Sample and data

Our initial sample consists of all firms in the Execucomp Dataset from 2010 to 2018. The biggest challenge that we faced was to gather data on employees' evaluations of CEOs' leadership. If we

took the traditional approach, we would need to directly survey the employees of these firms. However, this approach was not practical because it would require us to send annual surveys to a large number of employees in each firm over the sample period to compile a cross-sectional, time-series panel dataset on employee approval and CEO dismissal. We thus decided to gather information on employee approval of CEOs from Glassdoor.com, an online platform started in 2008 for current and former employees to share information about their employers. Glassdoor.com encourages new users to submit reviews of their employers before accessing information on its website, and users are generally willing and motivated to contribute to the public good by providing honest reviews (Lerner & Tirole, 2002). Moreover, to prevent self-promotion by firms, Glassdoor.com requires verification from an active email address or a valid social network account. It also monitors the content provided by users via a two-step process, first using an algorithm to detect fraud, and then following up by an evaluation team of real people to eliminate any remaining invalid reviews.

To generate a reasonable measure of employee approval of CEOs using ratings from Glassdoor.com, we kept only data provided by current employees so that our measure and findings were not influenced by former employees whose views might reflect the past rather than current situation (Green et al., 2019). Furthermore, following the “wisdom of the crowd” theory (Surowiecki, 2004), we retained only the firm-years that had inputs from at least 60 current employees. Our preliminary analysis showed that the distributions of employee evaluations for these firm-years were close to normal, instead of being predominantly positive or negative. We also ran three sets of robustness checks by keeping only firm-years that had inputs from at least 55, 65, or 80 current employees, and obtained similar results. Finally, we dropped all the firm-years in which CEO succession occurred to ensure that employee approval data were about the current CEO, rather than the preceding or succeeding CEO.

We gathered the rest of the data about CEOs and boards of directors from the BoardEx and Factiva databases, and data about firm operations and financials from the COMPUSTAT North America Dataset and Historical Segments Dataset. We collected data about security analysts' recommendations from the Institutional Brokers Estimate System (I/B/E/S) database. After dropping observations with missing values, our final sample consisted of 338 firms and 1,252 firm-year observations.

3.2 | Measures

3.2.1 | Dependent variable

We measured *CEO dismissal* as a dummy variable, coded as 1 if the CEO was dismissed during the year, and 0 otherwise. Information on CEO dismissals from 2011 to 2016 was obtained from the extended dataset that was originally compiled by Peters and Wagner (2014), which is shared on the Wharton Research Data Services. We followed the same procedure used by Peters and Wagner (2014) to identify CEO dismissals that occurred in 2017 and 2018. Specifically, we first identified all CEO turnover based on information in Execucomp, and then searched the Factiva database to obtain news announcements of each instance of CEO turnover to decide whether it was voluntary turnover or involuntary dismissal.

Based on the work of Peters and Wagner (2014), we classified a turnover instance as dismissal when the following happened: First, the news reported the departing CEO was fired, forced out, or resigned under pressure. Second, the departing CEO was under age 60, and the

departure was not reported as being caused by the departing CEO's death, health problems, or acceptance of another position (including becoming the chair of the board). Third, the departing CEO was under age 60 and was reported as taking early retirement, but the firm did not make the announcement at least 6 months before the expected departure, and did not explain the early retirement as being caused by personal reasons unrelated to firm activities. We excluded CEO turnover caused by mergers and acquisitions (M&A) from the analysis because they are often the outcome of a special deal in the M&A process, rather than decisions based on assessments of CEO effectiveness (Parrino, 1997; Peters & Wagner, 2014). Among the 430 CEOs in our final sample, 219 stepped down during the observation period, and 59 of them were coded as dismissed.

3.2.2 | Independent variables

Glassdoor.com has direct evaluations of CEOs into the following three categories: approval, indifferent, and disapproval. We coded disapproval as 1, indifferent as 2, and approval as 3, so that a higher value indicates a higher level of approval. We then calculated *employee approval* of CEO in each firm-year as the mean of current employees' evaluations of the firm's CEO during the year (Green et al., 2019). To ensure the validity of this measure as a reasonable proxy of employee approval of the CEO, we conducted three sets of analyses. First, to ensure that the measure is about the CEO and not about the firm, we examined whether the ratings changed after a CEO change. Specifically, we compared employee approval ratings of the outgoing CEO (a year before the change) and the new CEO (a year after the change). The absolute differences in employee approval of the outgoing CEO and the new CEO range from 0 to 0.746, with a mean of 0.157 ($SD = 0.140$). In addition, *t*-test shows that the mean of the absolute differences is meaningfully different from 0 ($p < .001$). These findings suggest that our measure of employee approval is about the CEOs and not about the firms.

Second, to ensure that our measure of employee approval of the CEOs was not driven by firm performance (i.e., it was not about firm performance), we examined the variation of employee approval at different levels of firm performance. Specifically, we first divided the firms into five groups from low to high levels based on their performance in ROA and shareholder returns, and then calculated the mean and standard deviation of employee approval within each group. We reported the results in Table 1, which showed that employee approval had a similar level of variation at each level of firm performance. This finding suggests that our measure of employee approval of CEOs was not driven by firm performance.

Third, we examined whether our measure obtained from Glassdoor ratings corresponds strongly to employee ratings of CEOs from another online data source, namely, Comparably (<https://www.comparably.com/>), which also collects CEO ratings from employees. Comparably asks employees to rate their CEOs on a 1 to 10 scale, with 10 being best and 1 being worst. For example, the CEO of Meta has a rating of 79, which is equal to 7.9 on the scale according to our email communication with Comparably. To ensure that we compared the same CEOs of the same companies, we kept only observations from Comparably and Glassdoor that were matched with each other in terms of both CEO name and company name. The final sample that we used to conduct this analysis included 220 CEOs. We first examined the relationship between CEO ratings in year 2021 (i.e., January 2021 to December 2021) from these two different sources and obtained a correlation of .59. We further compared CEO ratings from April 2021 to April 2022, and the correlation was also .59. Such a relatively strong positive correlation with data

TABLE 1 Employee approval of CEO at different levels of firm performance

Performance level	Employee approval of CEO			
	Mean	SD	Min	Max
1 (lowest)	2.322	0.296	1.495	2.986
2	2.417	0.262	1.559	2.994
3	2.415	0.258	1.446	2.947
4	2.382	0.286	1.741	2.958
5 (highest)	2.448	0.271	1.642	2.949

collected from another source gave us further confidence that our measure using data from Glassdoor.com was a reasonable proxy of employee approval of the CEO (Fleiss, Levin, & Paik, 1981; Landis & Koch, 1977).

3.2.3 | Moderator variables

We measured *firm performance* as a composite of two variables. The first variable is industry adjusted return on assets (ROA). We first calculated firm ROA as the percentage of a firm's net income divided by total assets, and then calculated *industry adjusted ROA* as the difference between a firm's ROA and the median ROA of all the other firms in the firm's primary industry at the two-digit SIC level (Huson, Malatesta, & Parrino, 2004; Wiersema & Zhang, 2011). The second is *industry adjusted returns to shareholders*, calculated as the firm's annual returns to shareholders minus the median annual returns of all the other firms in the firm's primary industry at the two-digit SIC level. We standardized these two variables and then added them together to create the composite measure of *firm performance*.

We measured *analyst recommendations* using data from the I/B/E/S database on a 5-point scale to record analysts' recommendations of a firm's stock, with 1 = "Strong Buy," 2 = "Buy," 3 = "Hold," 4 = "Underperform," and 5 = "Sell." Our theory predicts that the effect of employee approval on CEO dismissal is weaker when analyst recommendations are more negative. Because "underperform" and "sell" are considered negative recommendations, we first used the number of "underperform" and "sell" recommendations to calculate negative recommendations as a percentage of the total number of recommendations made by all of the analysts who covered the firm in each month. We then calculated the average of these monthly recommendations for each year. To account for differences in the number of analysts who made monthly recommendations for each firm, we weighted the average percentage obtained in the first step by the number of analysts who made monthly recommendations for each firm (Wiersema & Zhang, 2011). Thus, a higher value of this measure indicates more negative analyst recommendations.

We measured CEO power as a composite of the following six variables that have been found to influence CEO power in their relationship with boards: (a) *CEO duality*, which we coded as 1 if the CEO was also the chairperson of the board, and 0 otherwise (Finkelstein & D'Aveni, 1994); (b) the number of outside boards on which the CEO serves relative to the average number of outside boards on which each director serves (Geletkanycz & Boyd, 2011); (c) the number of titles that the CEO holds within the firm (Bigley & Wiersema, 2002); (d) CEO

ownership relative to directors, calculated as the percentage of common shares owned by the CEO divided by the average percentage of shares owned by independent directors (Kang, Zhu, & Zhang, 2021); (e) board independence, calculated as the number of directors who are full-time employees of the firm divided by the total number of directors on the board (Krause, Filatotchev, & Bruton, 2016; Westphal & Zajac, 1995); (f) the percentage of outsiders appointed after the CEO, calculated by the number of outside directors appointed during the focal CEO's tenure divided by the total number of outside directors (Coles et al., 2014). We used the sum of these six variables' standardized scores to create the composite measure of *CEO power* (Krause et al., 2016).

3.2.4 | Control variables

First, because we used the information from Glassdoor.com to measure employee approval of the CEOs, we included the natural logarithm of the *number of employee raters* to control for the variance in the number of employees who provided this information across firms. We used the natural logarithm to correct the right-skewed distribution in the number of employee raters, which ranges from 60 to 4,183. We also included *employee ownership* as a control variable because it may influence CEO dismissal (Hollandts, 2018), and measured it as the percentage of firm stocks jointly owned by all nonexecutive employees. Following J. Li, Shi, and Dasborough (2021), we collected the employee ownership data from the U.S. Department of Labor Form 5,500 filings, which provide information of the total amount of a firm's common and preferred stock held by nonexecutive employees in employee stock ownership plans each year.

We controlled for several important characteristics of a CEO and the firm's board that have been found to influence CEO dismissal (Boeker, 1997; Flickinger, Wrage, Tuschke, & Bresser, 2016; Shen & Cannella, 2002; Wiersema & Bantel, 1993; Zhang & Rajagopalan, 2004). For CEO characteristics, we controlled for *CEO age* (measured in years) and *gender* (coded as 1 for female CEOs and 0 otherwise).

For board characteristics, we controlled for *board size* (measured as the number of directors on the board), *director age* (calculated as the average age of all directors sitting on the board), and the *ratio of female directors* on the board that have been extensively used in prior studies (Adams et al., 2010; Finkelstein et al., 2009). We also included board political ideology as a control variable, given that it may influence boards' views towards employees and CEO dismissal (Park, Boeker, & Gomulya, 2020). To measure board ideology, we first collected directors' political donation information between the years of 1979 and 2018 from the Federal Election Commission. Each director's political orientation score was calculated as the net donations that the director made to the Republican Party, and *Board political ideology* is the weighted summation of all board members' political orientation scores, where the weight of the board chair is 1, the weight of audit committee chair is 0.5, and the weight of other directors is 0.3 (Park et al., 2020).

At the firm level, we controlled for *firm size*, measured as the natural logarithm of the number of employees (J. Li & Tang, 2010), given our focus on employees' approval of CEOs. Next, we controlled for the levels of analyst coverage and consensus because more extensive analyst coverage leads to greater scrutiny, while a lower level of analyst consensus indicates greater uncertainty and complexity in CEO assessment (Gentry & Shen, 2013; Wiersema & Zhang, 2011). We measured *analyst coverage* as the average number of security analysts who provide recommendations for the firm in each month during a year, as reported in the I/B/E/S

database. We calculated *analyst consensus* as the standard deviation of analyst recommendations for the firm during a year multiplied by -1 , so that a higher value indicates a higher level of consensus in analyst recommendations.

At the industry level, we controlled for *industry dynamism* (Dess, Ireland, & Hitt, 1990; McNamara, Halebian, & Dykes, 2008), measured as the standard deviation of industry sales growth over the 5 years before the current year, at the two-digit SIC level, given that industry turbulence may influence executive turnover (Wiersema & Bantel, 1993). Finally, we included a set of year and industry dummy variables (at the two-digit SIC level) to account for unobserved heterogeneity across different time periods and industry conditions (Campbell, Jeong, & Graffin, 2019; Crossland, Zyung, Hiller, & Hambrick, 2014).

3.3 | Analytical models

Our final sample may not be representative of all publicly traded firms, as it includes only the firm-years that had at least 60 evaluations of the CEO in a year on Glassdoor.com by the firm's current employees. Our study thus may suffer from sample selection bias (Certo, Busenbark, Woo, & Semadeni, 2016), in which an unobserved factor may influence both the number of employee evaluations on Glassdoor.com and the effect of employee approval on CEO dismissal. To address this potential threat to the interpretation of our results, we adopted the two-stage Heckman procedure (Certo et al., 2016; Heckman, 1976). In the first stage, we used the *probit* model to predict the likelihood of a publicly traded firm being included in the final sample. In the second stage, we added the inverse Mills' ratio (IMR) generated from the first stage analysis to control for potential sample selection bias (Zhu & Shen, 2016).

In the first-stage analysis, it is critical to select appropriate instrument variables that meet the following requirements: (a) they can predict the likelihood of a publicly-traded firm to be included in the final sample, (b) they are unrelated to the disturbance or error term of the second-stage model, and (c) they are strong instruments (Certo et al., 2016; Wooldridge, 2010). A prerequisite for employees to post their reviews on Glassdoor.com is that they know the existence of this new online job search platform. At the same time, it is reasonable to assume that employees' awareness of this online platform *per se* does not influence CEO dismissal. Because Glassdoor.com is headquartered in California, and employees of high-tech industries are more likely to be aware of its existence, we decided to use the following two variables as instrument variables: (a) *whether a firm is headquartered in California*, and (b) *whether a firm is in high-tech industries*. Following prior studies (Hagedoorn & Duysters, 2002; Zaheer, Hernandez, & Banerjee, 2010), we coded firms as being in high-tech industries if they were in drugs and medicines (SIC 2833–2836), computers and office equipment (3571–3579), electrical equipment (3612–3652), communications equipment (3661–3699), aerospace and aircraft (3721–3769), measuring, photo equipment, and clocks (3821–3899), computer programming and data processing (737X), engineering services (8711), R&D and testing services (873X).

Results of the first-stage analysis, reported in Table S1 of the online supplements, show that both instrument variables are positively related to the likelihood of a firm being included in the final sample. Our further analysis showed that neither variable is meaningfully related to the error term in the second-stage model. To examine the strength of the two instruments, we conducted an *F*-test by regressing the first-stage dependent variable on the two instrument variables only (Koh, Qian, & Wang, 2014; Kotha, Zheng, & George, 2011). The *F* statistic was 13.45, well above the critical value of 11.59 (Larcker & Rusticus, 2010; Stock, Wright, & Yogo, 2002;

Tong, Wang, & Xia, 2020), indicating that these two variables are strong instruments (Certo et al., 2016; Wooldridge, 2010). We then added the IMR generated from the first-stage analysis as a control variable in the second-stage analysis to account for potential sample selection bias (Zhu & Shen, 2016), and did not find it to have any effect on CEO dismissal. Further analysis showed that including or excluding IMR in the second-stage analysis did not materially alter the results, we thus decided to not include it in the primary analysis described below.

We conducted a discrete-time survival analysis to test the hypothesized effect of employee approval on CEO dismissal. Discrete-time survival analysis has been used extensively in studies of executive turnover (e.g., Cannella & Shen, 2001; Chen, Luo, Tang, & Tong, 2015; Jenter & Kanaan, 2015) because it explicitly models each CEO's hazard (i.e., the risk of dismissal in our study) as a function of both CEO tenure and the time-varying or time-invariant variables of interest (Jenter & Kanaan, 2015). Specifically, we implemented the analysis using the Cox proportional hazard model (Cox, 1972). Unlike parametric estimates, such as log normal or Weibull models, the Cox proportional hazard model is a semi-parametric model that does not require identification of a particular baseline hazard function (Nadolska & Barkema, 2014).

Applying the Cox model to our study, the hazard of dismissal for a CEO during his/her tenure in year t is specified as the following: $h(t) = h_0(t) \exp(\beta_1 x_1 + \dots + \beta_k x_k)$, in which $h_0(t)$ is the baseline hazard for year t , x_1, \dots, x_k are the set of independent and control variables whose values are measured at the end of year $t - 1$, and β_1, \dots, β_k are the corresponding coefficients for these variables. When the value of a variable x_i increases by one-unit, it increases the hazard of CEO dismissal by $\exp(\beta_i)$ times. In other words, $\exp(\beta_i)$ is the hazard ratio caused by a one-unit increase in x_i . When the hazard ratio $\exp(\beta_i)$ is greater than 1, it indicates that variable x_i has a positive regression coefficient and a positive effect on CEO dismissal; when $\exp(\beta_i)$ is less than 1, it indicates that variable x_i has a negative regression coefficient and a negative effect on CEO dismissal. We used the robust standard errors to account for unobserved heterogeneity across the firms (Campbell et al., 2019). We also conducted analyses using the logit model and obtained consistent results.

4 | RESULTS

Table 2 contains descriptive statistics and correlations. It shows that employee approval of CEO leadership is positively correlated with firm performance during the same year at 0.16. The low correlations suggest that employees' evaluations of the CEO's leadership are not heavily driven by the firm's current financial performance. In other words, employee approval provides additional information about the CEO's leadership over and above current firm financial performance. Meanwhile, although their positive correlation is low, it is still important to control for the effect of firm financial performance in investigating the effect of employee approval on CEO dismissal.

Table 3 reports the results of Cox proportional hazard models in the form of hazard ratios (i.e., $\exp(\beta_i)$). The average variance inflation factor for all variables is 1.35 and the maximum value is 2.61. Both are well below the commonly accepted threshold of 10, suggesting that multicollinearity is unlikely to be present in our analysis (Cohen, Cohen, West, & Aiken, 2013). Model 1 includes the moderators and control variables only. It shows that firm performance

TABLE 2 Descriptive statistics and correlations

		Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	CEO dismissal	0.05	0.21																
2	Employee approval	2.40	0.28	-.07															
3	Firm performance	0.00	1.49	-.15	.16														
4	Analyst negative recommendations	8.71	11.63	.09	-.11	-.15													
5	CEO power	0.00	2.75	-.03	.02	.03	.06												
6	Number of employee raters	5.05	0.80	.05	-.02	.02	.02	.03											
7	Employee ownership	5.03	10.79	.01	-.06	.02	.04	.24	.06										
8	CEO age	57.64	5.56	-.05	.02	-.04	-.01	.28	.01	.15									
9	CEO gender	0.06	0.23	-.01	-.17	.01	-.01	-.09	.03	-.04	-.07								
10	Board size	10.85	2.20	-.02	.06	-.10	-.05	-.02	.21	.12	.13	-.01							
11	Board ideology	0.01	0.09	-.04	-.11	-.02	.04	.17	-.08	.12	.14	-.06	-.02						
12	Director age	63.35	4.51	-.09	.06	.00	-.09	-.03	-.03	.04	.18	-.02	.13	-.02					
13	Ratio of female directors	0.21	0.15	.00	-.05	.03	-.01	-.03	.11	.05	-.01	.07	.05	-.03	-.13				
14	Firm size	3.88	1.11	.00	-.21	-.06	-.02	.05	.62	.09	.13	.05	.34	.08	.02	.12			
15	Analyst coverage	0.99	0.54	.03	.05	-.01	.01	.09	.16	.01	-.06	-.06	.07	-.05	-.12	.03	.12		
16	Analyst consensus	-0.77	0.30	.01	-.15	-.05	-.26	-.01	-.08	-.03	-.03	-.01	-.06	-.04	.02	.02	-.04	-.14	
17	Industry dynamism	0.07	0.06	-.03	.06	-.04	-.07	.04	-.11	-.01	-.04	-.07	.10	.01	-.04	.00	.01	.18	

Note: N = 1,252. Correlations greater than .06 or less than -.06 have p values less than .05.

TABLE 3 Results of the Cox proportional hazard models on CEO dismissal

Variables	(1)	(2)	(3)	(4)	(5)	(6)
Employee approval		0.275 (.027)	0.151 (.001)	0.139 (.002)	0.274 (.026)	0.100 (.000)
Employee approval × Firm performance			0.491 (.004)			0.543 (.005)
Employee approval × Analyst negative recommendations				1.057 (.002)		1.040 (.031)
Employee approval × CEO power					1.595 (.002)	1.687 (.001)
Firm performance	0.694 (.000)	0.722 (.000)	3.379 (.021)	0.721 (.000)	0.732 (.000)	2.740 (.030)
Analyst negative recommendations	1.016 (.149)	1.013 (.268)	1.017 (.157)	0.901 (.009)	1.014 (.199)	0.935 (.101)
CEO power	0.796 (.001)	0.793 (.001)	0.783 (.000)	0.790 (.000)	0.266 (.000)	0.237 (.000)
Number of employee raters	2.207 (.000)	2.275 (.000)	2.355 (.000)	2.374 (.000)	2.285 (.000)	2.442 (.000)
Employee ownership	1.024 (.050)	1.023 (.056)	1.020 (.102)	1.022 (.077)	1.027 (.033)	1.023 (.074)
CEO age	0.956 (.123)	0.955 (.123)	0.961 (.176)	0.953 (.117)	0.949 (.087)	0.949 (.098)
CEO gender	0.815 (.750)	0.637 (.509)	0.511 (.377)	0.542 (.401)	0.531 (.386)	0.374 (.252)
Board size	1.092 (.227)	1.134 (.083)	1.106 (.159)	1.121 (.123)	1.088 (.275)	1.071 (.375)
Board ideology	0.287 (.508)	0.225 (.469)	0.126 (.304)	0.183 (.404)	0.187 (.422)	0.083 (.226)
Director age	0.919 (.003)	0.917 (.002)	0.916 (.003)	0.913 (.001)	0.912 (.001)	0.906 (.001)
Ratio of female directors	0.864 (.902)	0.908 (.933)	0.833 (.880)	0.983 (.988)	0.710 (.768)	0.679 (.746)
Firm size	0.890 (.507)	0.828 (.323)	0.878 (.491)	0.826 (.317)	0.864 (.453)	0.889 (.537)
Analyst coverage	0.828 (.464)	0.963 (.890)	0.795 (.423)	0.849 (.559)	1.009 (.975)	0.785 (.424)
Analyst consensus	1.928 (.225)	1.655 (.357)	1.973 (.196)	2.141 (.145)	1.782 (.285)	2.312 (.089)
Industry dynamism	0.005 (.293)	0.003 (.273)	0.007 (.315)	0.006 (.315)	0.001 (.198)	0.003 (.259)
Wald χ^2	346.9	270.8	311.2	334.5	276.9	303.5

Note: N = 1,252. Hazard ratios are reported, followed by p values in the parentheses based on two-tailed tests. Year dummies and industry dummies are included in the analysis but not reported.

and CEO power negatively predict CEO dismissal, consistent with prior findings (e.g., Shen & Cannella, 2002; H. L. Wang, Zhao, & Chen, 2017; Wiersema & Zhang, 2011).

Model 2 tests Hypothesis 1, which predicts that employee approval is negatively related to CEO dismissal. The results show that the hazard ratio for employee approval is 0.275 ($z = -2.21$, $p = .027$). Further analysis shows that, setting the values of all the other variables at their respective sample means, a one standard deviation increase in the value of employee approval from the mean would decrease the probability of CEO dismissal from 13.7% to 10.0%, corresponding to a decrease of 27.1% ($[13.7 - 10.0\%]/13.7\% = 27.1\%$). In contrast, a one standard deviation decrease in the value of employee approval from the mean would increase the probability of CEO dismissal from 13.7 to 18.5%, corresponding to an increase of 35.1% ($[18.5 - 13.7\%]/13.7\% = 35.1\%$). This finding suggests that employee approval has a sizeable and negative impact on CEO dismissal. Such a negative

relationship between employee approval and CEO dismissal also holds across Model 3 to 6, providing support for Hypothesis 1.

Hypothesis 2 predicts that the negative relationship between employee approval and CEO dismissal is stronger (weaker) when current firm performance is higher (lower). Model 3 shows that the hazard ratio for the interaction of employee approval and firm performance is 0.491 ($z = -2.90, p = .004$). Setting the values of all the other variables at their respective sample means, further analysis shows that when firm performance is high (one standard deviation above the mean), a one standard deviation increase (decrease) in employee approval from the mean would decrease (increase) the probability of CEO dismissal from 7.2% to 3.3% (14.9%), corresponding to a decrease (an increase) of 54.2% (106.9%). In contrast, when firm performance is low (one standard deviation below the mean), a one standard deviation increase (decrease) in employee approval from the mean would decrease (increase) the probability of CEO dismissal from 24.7 to 20.7% (29.2%), corresponding to a decrease (an increase) of 16.2% (18.2%). We further illustrated the moderating effect of firm performance in Figure 1a, which shows that the negative relationship between employee approval and CEO dismissal is stronger (weaker) under high (low) firm performance, as indicated by the steeper solid line (flatter dashed line). This moderating effect of firm performance also holds in Model 6, which is the full model that includes all interactions. Taken together, these results provide support for Hypothesis 2.

Hypothesis 3 predicts that the negative relationship between employee approval and CEO dismissal is weaker (stronger) when analyst recommendations are more (less) negative. Model 4 shows that the hazard ratio for the interaction of employee approval and negative analyst recommendation is 1.057 ($z = 3.13, p = .002$). Setting the values of all the other variables at their respective sample means, further analysis shows that when negative analyst recommendations are high (one standard deviation above the mean), a one standard deviation increase (decrease) in employee approval from the mean would decrease (increase) the probability of CEO dismissal from 18.2 to 15.1% (21.8%), corresponding to a decrease (an increase) of 17.0% (19.8%). In contrast, when negative analyst recommendations are low (with a value of 0), a one standard deviation increase (decrease) in employee approval from the mean would decrease (increase) the probability of CEO dismissal from 10.2 to 5.9% (17.1%), corresponding to a decrease (an increase) of 42.2% (67.6%). We further illustrated the moderating effect of negative analyst recommendations in Figure 1b, which shows that the negative relationship between employee approval and CEO dismissal is weaker (stronger) under high (low) negative recommendations, as indicated by the flatter dashed line (steeper solid line). This moderating effect of analyst recommendations also holds in Model 6, providing support for Hypothesis 3.

Hypothesis 4 predicts that the negative relationship between employee approval and CEO dismissal is weaker (stronger) when the CEO is more (less) powerful. The results in Model 5 shows that the hazard ratio for the interaction of employee approval and CEO power is 1.595 ($z = 3.06, p = .002$). Setting the values of all the other variables at their respective sample means, further analysis shows that when CEO power is high (one standard deviation above the mean), a one standard deviation increase (decrease) in employee approval from the mean would decrease (increase) the probability of CEO dismissal from 8.7 to 8.4% (9.0%), corresponding to a decrease (an increase) of 3.4% (3.4%). In contrast, when CEO power is low (one standard deviation below the mean), a one standard deviation increase (decrease) in employee approval from the mean would decrease (increase) the

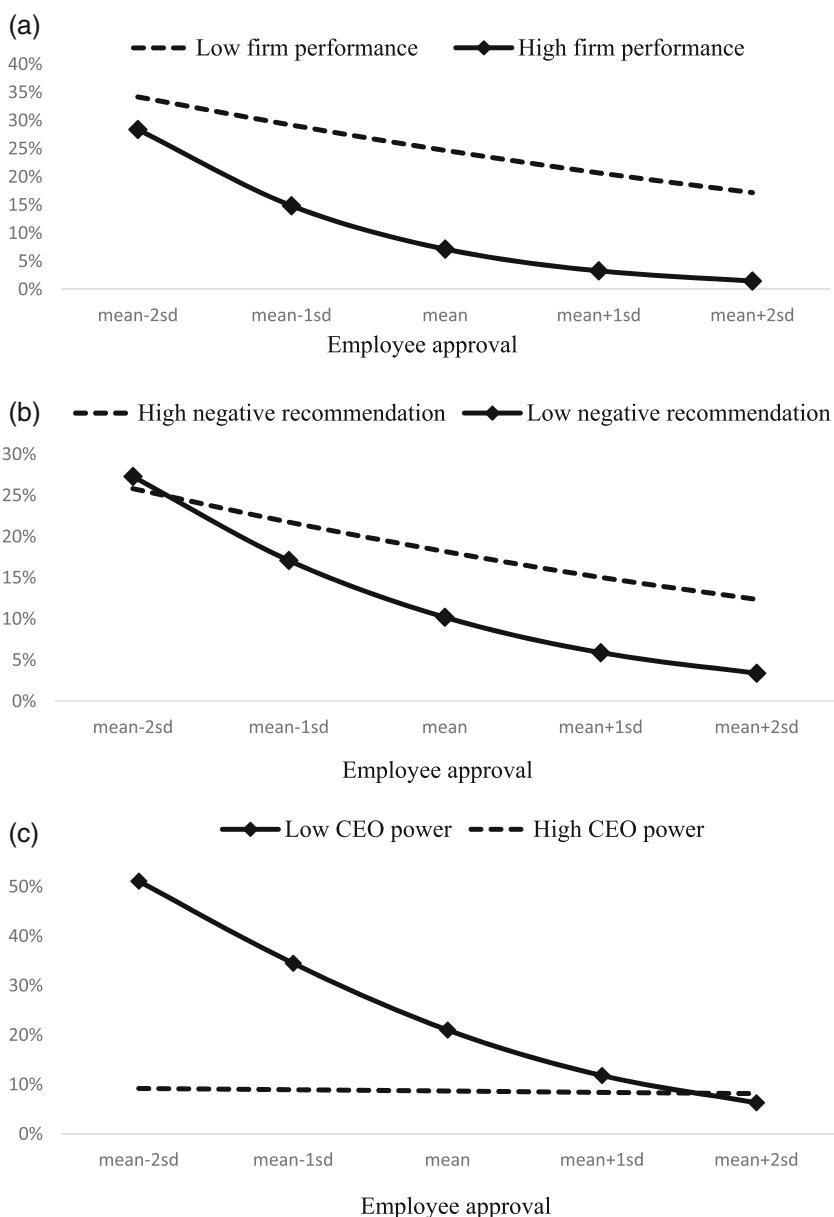


FIGURE 1 (a) The moderating effect of firm performance. (b) The moderating effect of analyst recommendations. (c) The moderating effect of CEO power

probability of CEO dismissal from 21.0 to 11.8% (34.5%), corresponding to a decrease (an increase) of 43.8% (64.3%). We further illustrated the moderating effect of CEO power in Figure 1c, which shows that the negative relationship between employee approval and CEO dismissal is weaker (stronger) under high (low) CEO power, as indicated by the flatter dashed line (steeper solid line). This moderating effect of CEO power also holds in Model 6, providing support for Hypothesis 4.

4.1 | Supplementary analyses

4.1.1 | Omitted variable bias test

Although we included a number of control variables to rule out potential confounding effects, it was still possible that we omitted some important variables. Following the recommendation of Busenbark, Yoon, Gamache, and Withers (2022), we used the robustness of inference to replacement (RIR) to address this issue. Because we cannot use the “confound” command to calculate RIR for Cox models, and we obtained consistent results from logit models, we decided to calculate RIR using results from the logit models instead. The results suggest that to invalidate our inferences of employee approval on CEO dismissal and the three moderating effects, in the order of the hypotheses, 53.6, 42.7, 30.1, and 27.9% of the estimates would have to be due to omitted variable bias. In other words, to invalidate our inferences, in the order of the hypotheses, 671, 534, 377, and 349 cases in our sample of the 1,252 cases would have to be replaced by cases with zero effect. Although absolute standards for impact thresholds are difficult to establish as the contexts of estimates differ (Larcker & Rusticus, 2010), the above results suggest that a large portion of our sample would have to be substituted by cases with zero effect to invalidate our inferences about the effects of employee approval on CEO dismissal. This finding gives us confidence that our results are unlikely to suffer from omitted variable bias to such an extent as to alter our inferences and conclusions (Hill, Recendes, & Ridge, 2019).

4.1.2 | Alternative coding of CEO dismissal

Identifying CEO dismissal is a difficult and challenging task, an issue well-recognized in prior research (e.g., Gentry et al., 2021; Peters & Wagner, 2014; Shen & Cannella, 2002). Following Peters and Wagner (2014), our study used whether a CEO turnover was expected or unexpected to identify dismissals, and coded a turnover instance as a dismissal if the firm did not release information about it to media at least 6 months prior to the date of occurrence. In contrast, Gentry et al. (2021) focused on the reported causes, coding a turnover instance as a dismissal only when they found evidence that the CEO stepped down involuntarily due to job performance or personal issues. Not surprisingly, the dismissals that we identified were not all the same as those reported by Gentry et al. (2021). To ensure the robustness of the findings, we conducted analyses on the dismissals that were identified by Gentry et al. (2021) and obtained similar results (reported in Table S2). This finding gives us confidence in our theory and hypotheses about the effects of employee approval on CEO dismissal.

4.1.3 | The relationship between employee approval and firm performance

Our theory presumes that boards of directors value information on employees' approval of CEO leadership to make CEO retention or dismissal decisions because of this information's implications for future firm financial performance; namely, higher (lower) employee approval implies higher (lower) future firm financial performance. However, it is also likely that firm performance can predict employee approval of the CEO leadership. For example, it is possible that both employee approval of the CEO and CEO dismissal are driven in part by firm performance. Thus, we first replicated our analyses by adding firm performance at time $t - 2$ as a control

variable to rule out the possibility that the effect of employee approval at time $t - 1$ on CEO dismissal was driven by firm performance at time $t - 2$. The results, reported in Table S3, still provide support for our hypotheses.

To further address the complexity of the relationship between employee approval and firm performance, we did a mediating path analysis to examine the relationships between firm performance in year $t - 2$, employee approval in year $t - 1$, and firm performance in year t , as well as CEO dismissal in year t . The results, reported in Figure S1, show that while employee approval is influenced by prior firm performance, it also influences subsequent firm performance and CEO dismissal. Together with results in Table S3, this finding supports our contention that employee approval influences CEO dismissal through its impact on subsequent firm performance, even after we account for the effect of prior firm performance on employee approval.

4.1.4 | Illustration of moderation effects with 90% confidence intervals

We also examined the 90% confidence intervals of the marginal effects of employee approval on CEO dismissal at different levels of the moderators to gain a deeper understanding of the moderation effects. Because it is problematic to use the Margins command in a Cox model, we calculated the 90% confidence intervals of the marginal effects based on the results of a simulation-based logistic estimator with robust standard errors (Zelner, 2009). This simulation-based approach produces more accurate results because it does not rely on the “delta method” and corrects for a bias in the formula used for calculation (S. Li, 2018). We reported the results in Supporting Information as Figure S2a–c. Again, consistent with our predictions, these figures show that the negative effect of employee approval on CEO dismissal is stronger under high firm performance, low negative analyst recommendation, and low CEO power, as indicated by the steeper change in the 90% confidence interval of the marginal effects under these conditions. Moreover, they suggest that the moderating effects of firm performance and analyst recommendation are more prominent when employee approval is higher, while the moderating effect of CEO power is more prominent when employee approval is lower.

5 | DISCUSSION

Employees represent a firm's internal stakeholders and are considered critical to firm success (Green et al., 2019; Guiso et al., 2015; Mitchell et al., 1997). Accordingly, we proposed that employees' views may be important in CEO retention or dismissal decisions. Specifically, CEOs are more likely to be dismissed when receiving lower employee approval. Because boards are likely to be under strong pressure from investors to replace the CEO when firm financial performance is poor or when security analysts make negative recommendations (Finkelstein et al., 2009; Wiersema & Zhang, 2011), we theorized that the negative relationship between employee approval and CEO dismissal is weaker in these contexts, as compared to when firm performance is relatively good or when analyst recommendations are more positive. Furthermore, because powerful CEOs are more able to influence board decisions in their favor (Boivie et al., 2016), we predicted that the effect of employee approval on CEO dismissal is weaker when CEOs are more powerful. Using data gathered from Glassdoor.com to construct a proxy

measure of employee approval of CEOs, we obtained empirical findings supportive of our theory and predictions.

5.1 | Theoretical contributions and implications

Our study contributes to stakeholder theory and research by revealing the impact of employees on CEO dismissal, one of the most significant decisions made by boards of directors in corporate governance. The literature on stakeholder theory traditionally emphasizes how decisions made by CEOs and their boards influence various stakeholder groups beyond shareholders (Donaldson & Preston, 1995; Mitchell et al., 1997). Although employees represent an important internal stakeholder group that is critical to firm success (Donaldson & Walsh, 2015; Hatch & Dyer, 2004; Kaplan et al., 2012), existing research has not yet systematically investigated whether employees' opinions play a role in CEO dismissal decisions.

Our theory and findings suggest that employee approval of a CEO is predictive CEO dismissal. CEOs thus can no longer focus only on meeting demands from shareholders because they also need to earn approval from their employees; otherwise, they are more at risk of dismissal by their boards. Recent research also finds that employees' reviews on Glassdoor.com predict stock returns (Green et al., 2019), and that firms respond to these reviews, especially negative reviews, by improving their workplace practices (Dube & Zhu, 2021). Together with these findings, our study suggests that stakeholder theory and subsequent research should examine how employees, as a key internal stakeholder group, influence firm decisions.

Our study also contributes to the strategic leadership and corporate governance literature by drawing attention to the impact of employees on board decisions to dismiss a CEO. Given that employees are directly engaged in strategy implementation and are critical to firm success (Donaldson & Preston, 1995; Guiso et al., 2015; Mitchell et al., 1997), we theorized that boards are likely to consider employees as an important additional source of information in their assessments of CEOs. After accounting for the effects of firm financial performance, security analyst recommendations, and a number of other factors, we found that employee approval of CEO leadership negatively predicts CEO dismissal. Our supplementary analyses further showed that employee approval is positively related to subsequent firm financial performance. This finding supports our argument that employees' views of CEO leadership can provide important information to boards about future firm performance.

More importantly, our study contributes to this literature by explaining and demonstrating when information from employees is more or less influential to board decisions by identifying three contextual factors—firm financial performance, analyst recommendations, and CEO power—that moderate the effect of employee approval on CEO dismissal. We first theorized and found that employee approval of CEO leadership has a weaker effect on CEO dismissal under poor financial performance or negative analyst recommendations when boards tend to face strong pressure from investors to replace the CEO, but a stronger effect under relatively good financial performance or more positive analyst recommendations when boards do not face such pressure. Moreover, graphical illustrations suggest that the moderating effects of firm performance and analyst recommendations are more prominent when employee approval is higher. Overall, our theory and supportive findings suggest that higher employee approval can lower a CEO's risk of dismissal more significantly under higher firm financial performance and more positive analyst recommendations when boards do not face strong pressure from investors.

In addition, we predicted and found that the relative power between the CEO and the board moderates the effect of employee approval on CEO dismissal, such that the effect is weaker when the CEO is more powerful. Graphical illustrations further suggest that the moderating effect of CEO power is more prominent when employee approval is lower. This finding is consistent with prior research findings about the role of CEO power in the relationship between firm performance and CEO turnover (Finkelstein et al., 2009). It suggests that boards' processing of information from employees is also subject to the influence of CEO power, particularly if the information is unfavorable to the CEO. Future research might investigate what characteristics of boards make them less susceptible to powerful CEOs' influence. For example, research could examine whether the presence of outside directors with the four qualities proposed by Hambrick et al. (2015)—independence, expertise, bandwidth, and motivation—helps boards counterbalance the influence of powerful CEOs in the processing of information from employees.

Our study has some important practical implications. First, although CEOs do not directly interact with all employees, they still need to build a good reputation among employees to secure their positions. Previous research has suggested that "The CEO must be highly attuned to the investment community" (Wiersema & Zhang, 2011, p.1179). Our study indicates that CEOs must be highly attuned to the views of their employees. Managing employees well not only helps organizational effectiveness in strategy implementation, but also supports CEOs to continue their tenure in their organizations. Second, our research helps employees understand their meaningful roles vis-a-vis their CEO. Given the important impact of employees' views on their CEO, we encourage employees to voice their approval or disapproval of their CEO, especially when they are provided with such opportunities in their organization and/or on social media platforms. Their views about the CEO matter to the board. Once employees realize that their evaluations can make a difference, it will motivate them to voice their views more publicly, which could further increase the importance of their views to the top leaders.

5.2 | Limitations and opportunities for future research

Our study has some limitations that provide opportunities for future research to further enhance understanding of the role of employees in corporate governance. One limitation is that we relied on data from Glassdoor.com to generate the measure of employee approval of CEO leadership. While we took several actions to ensure that our measure is a reasonable proxy of employees' evaluations of their CEO's leadership, we were not able to directly verify the extent to which the employees who provided this information on Glassdoor.com were a representative sample of all employees at their respective firms. That said, we would like to note that our descriptive analysis did not suggest that they were a biased group of employees who had overwhelmingly negative or positive views of their CEOs. Moreover, because these employees provided evaluations on a public platform both voluntarily and anonymously, they were more likely to express their views candidly based on their work experiences. Thus, their evaluations were likely to reflect how employees truly view their CEO's leadership. Future research may survey employees directly to investigate the extent to which data collected within companies are consistent with those obtained from social media platforms such as Glassdoor.com and Comparably.com.

Another limitation is that we did not directly examine how boards of directors process information from employees to make CEO dismissal decisions. Instead of gathering board decision-making data directly through surveys, we relied on publicly available archival data to

investigate whether the effect of employee approval on CEO dismissal is consistent with our theoretical predictions. While this approach is common in strategic management research due to data constraints, it is nevertheless a limitation. Thus, future research may systematically survey a large sample of directors regarding how they gather, analyze, and use information from employees, including how the emergence of public platforms such as Glassdoor.com may influence their information processing and decision making. It may also be fruitful to investigate how employees' views impact the decisions of corporate leaders and other stakeholders such as investors and consumers.

Finally, our study did not examine what caused low employee approval of CEO leadership in firms with good financial performance and positive analyst recommendations. From a stakeholder perspective, we argued and found that when there is strong financial performance and high analyst ratings, it does not mean that the CEO is necessarily seen as being a good leader by employees; instead, employee approvals of the CEO may impact whether the CEO is fired in this situation. From the traditional shareholder perspective that focuses on financial performance and analyst recommendation as predictors of CEO dismissal, it may be possible that good financial performance and positive analyst recommendations make non-performance indicators such as employee approval less salient. Future research can dig deeper into those firms that are performing well, but whose employees are unfavorable towards the CEO, to find out what causes low employee approval of the CEO, how the causes influence the salience of employee approval in CEO dismissal, and whether those firms have higher employee turnover rates and are less attractive to potential job applicants.

5.3 | Conclusions

Despite the above limitations, our study clearly shows that employee approval of CEO leadership (measured by data from Glassdoor.com) is predictive of CEO dismissal, particularly in contexts of relatively good firm financial performance, more positive security analyst recommendations, and lower CEO power in the CEO-board relationship. These findings provide support for our theory and hypotheses, suggesting that employees are an important group of stakeholders that provide an additional source of information to help boards make corporate governance decisions, over and beyond firm financial performance and security analysts' recommendations that have been the focus of prior research. Our theory and findings thus call for CEOs to pay greater attention to employees' views of their leadership and strategies, and have important practical implications for strategic leadership, corporate governance, and stakeholder engagement. We hope that our study will promote more research on how employees and other stakeholder groups may influence firm leadership and decisions.

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DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from the corresponding author upon reasonable request.

ORCID

Qi Zhu  <https://orcid.org/0000-0002-0507-8793>
Wei Shen  <https://orcid.org/0000-0002-5201-2236>

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Additional supporting information can be found online in the Supporting Information section at the end of this article.

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