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RESEARCH ARTICLE

Go your own way: Exploring the causes of top executive turnover

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***Research Summary*:** Why do top executives leave their firms? Research on executive turnover has either focused on CEO dismissal or on group-level top management team (TMT) departure rates, mostly ignoring individual-level factors that would predict why non-CEO executives exit. Here, we extend the shock perspective of the unfolding model of turnover used in organizational behavior research to show how relational and reputational shocks influence turnover at the executive level. Our sample includes over 4,000 executives from S&P 1500 firms over 11 years. We hypothesize and find that relational and reputational shocks increase the likelihood of top executive exit. We also consider the moderating influence of pay disparity on these relationships, which impacts how each type of shock influences executive turnover.

***Managerial Summary*:** Replacing top executives can be extremely costly for firms. Consequently, understanding the reasons behind top executive exit are important. We examine the effect of different types of shock on the likelihood a top executive will exit their firm. We find that both relational shocks (e.g., other members of the TMT leaving), as well as reputational shocks (e.g., litigation or shareholder activism against the firm), increase turnover. However, we find that higher status executives experience these shocks differently than lower status executives.

KEYWORDS

executive compensation, executive exit, executive labor market, micro foundations, top management teams

Replacing an executive entails a time-intensive, costly search process that can range from 90 to 200% of the departing person's salary (Cascio & Boudreau, 2010). Indeed, some authors even estimate that

filling a C-suite position can cost firms up to 40 times the salary of the departing executive (Downey, March, & Berkman, 2001). As such, an important problem for scholars and practitioners to address is what causes top executive turnover? Unfortunately, there is a surprising lack of research on the dynamics of the top management team (TMT) labor market at the individual level that would help to address this question. In comparison, there is an extensive literature on the antecedents and consequences of CEO departures (Finkelstein, Hambrick, & Cannella, 2009; Kesner & Sebora, 1994), as well as group-level turnover of the TMT (Boeker, 1992; Wiersema & Bantel, 1993; Wiersema & Bird, 1993). However, the mechanisms that lead to individual executive exit may be different than those underlying CEO succession, which is overseen almost exclusively by the board of directors and is often a public matter (Kesner & Sebora, 1994). Moreover, the assumption that executive turnover follows similar patterns as group-level TMT turnover may lead to the ecological fallacy since the theoretical mechanisms and levels of analysis are different (Rousseau, 1985). Thus, given the lack of individual-level turnover research in the executive setting, there are few insights that strategy scholars can offer into why individual executives voluntarily or involuntarily exit their firms.

Conversely, micro turnover research may offer important theoretical insights into what impacts executive turnover. In that regard, a dominant paradigm for explaining individual-level turnover is the "shock" perspective of the unfolding model of turnover, which argues that significant, jarring events at the individual, firm and environmental levels initiate the exit process and ultimately lead to turnover (Holtom, Mitchell, Lee, & Inderrieden, 2005; Trevor & Nyberg, 2008). However, this perspective has only been applied to lower-level employees, and even then, it remains underdeveloped in two key areas. First, while different types of shocks are often implied in turnover studies, such shocks are rarely measured or explicitly tested (e.g., T. H. Lee, Gerhart, Weller, & Trevor, 2008; Trevor & Nyberg, 2008). Second, the literature largely assumes that the effects of any type of shock on turnover will be similar for all employees. Given these limitations, not only is our understanding of individual-level executive turnover incomplete, but so is our knowledge around the shock perspective of turnover.

In that regard, our study helps to address the question of what causes individual executives to exit their firms by drawing on the shock perspective of turnover previously only studied in non-executive samples. However, by applying this perspective to an executive context, we also extend the shock perspective of turnover by developing theory on two different forms of shock and testing how their effects on turnover unfold differently for those with higher versus lower status. In particular, we suggest that within the executive context, individuals and firms are often subjected to two different forms of shock that have important implications for both voluntary and involuntary turnover of executives—namely, relational and reputational shocks.

We suggest that each of these shocks experienced by an executive affects the likelihood of their exiting the firm (Holtom et al., 2005). However, since relational and reputational shocks occur at a different level—with relational occurring at the individual level, and reputational occurring at the firm level—we suggest that these types of shocks will not operate uniformly across all executives. Specifically, we predict that executives receiving higher pay are less likely to exit due to their elevated status among other executives. For reputational shocks, however, higher relative pay exacerbates the shock's effect on executive exit.

This study contributes to the literature in a number of ways. First, our study helps to answer the question of what specific factors cause individual executives to leave their firms. The executive labor market literature has generally focused on understanding job markets for CEOs (e.g., Gayle, Golan, & Miller, 2015; Judge, Cable, Boudreau, & Bretz, 1995) despite the fact that top executives also influence firm outcomes and may, voluntarily or involuntarily, leave firms for different reasons than

CEOs. Moreover, of the few studies that do examine executive turnover, the level of analysis has almost exclusively been at the TMT group level. By drawing on the unfolding model of turnover, however, we extend the executive turnover literature to individual executives and thereby expand our understanding of the executive labor market.

Furthermore, we extend the shock perspective of turnover (T. W. Lee & Mitchell, 1994) in two ways. First, shocks are typically only theorized, not explicitly measured, and rarely have different types of shocks been identified and linked to turnover. As such, we extend the unfolding model of turnover by identifying and examining the effects of two distinct types of shocks on turnover. Second, studies have rarely considered how different types of shocks differentially affect turnover for different employees. In that regard, we examine relative pay as a moderator of the effects of shock on turnover, but in doing so, we further extend the shock perspective of turnover. Specifically, under the shock perspective of turnover, higher relative pay would serve as an embeddedness factor—that is, a benefit or resource forfeited by leaving a job—since it is an indicator of status within the firm, and would thus be considered as primarily preventing turnover. However, our study challenges this assumption by proposing that for certain types of shocks, higher relative pay may *exacerbate* rather than buffer turnover. This provides a more nuanced perspective of how shocks and embeddedness factors jointly influence turnover.

1 | THEORY

While the executive labor market functions similarly to other labor markets, there are important distinctions that make it unique. In particular, research assumes executive labor markets are different due to variations in job demands, discretion, liability, stability, and visibility (Busenbark, Krause, Boivie, & Graffin, 2016; Hambrick, Finkelstein, & Mooney, 2005). The executive labor market literature generally focuses on the antecedents and consequences of CEO succession (Kesner & Dalton, 1994), CEO compensation (Devers, Cannella, Reilly, & Yoder, 2007), and the influence that CEOs have on performance (Fitza, 2014; Hambrick & Quigley, 2014). As such, an extensive literature exists on the CEO's position in the executive labor market (Finkelstein et al., 2009).

However, researchers have focused less attention on the labor market for executives—and particularly, issues dealing with turnover—despite the individual importance of these executives to firm outcomes (Carpenter, Geletkanycz, & Sanders, 2004; Hambrick & Mason, 1984). The limited research that does exist on executive labor markets largely focuses on factors that predict group-level TMT turnover (Wagner, Pfeffer, & O'Reilly, 1984). While these studies do explore an important aspect of executive labor markets—specifically, why *collective* groups of executives exit their organizations—little research exists on the role of *individual*, non-CEO executives in the executive labor market (Notable exceptions include Fee & Hadlock, 2004; and Hayes, Oyer, & Schaefer, 2006). As such, our knowledge of executive labor markets—and, specifically, the factors that predict individual executive departure—is limited.

Moreover, a sizeable literature on non-managerial employee turnover at the individual-level (Griffeth, Hom, & Gaertner, 2000; Holtom, Mitchell, Lee, & Eberly, 2008). Yet strategy researchers have largely ignored this work when exploring why executives leave their firms. The lack of research on individual-level executive turnover is surprising given that there are theoretical reasons why these individuals may experience shocks differently than both the CEO and lower-level employees. In particular, the shock perspective of the unfolding model of turnover focuses on how discrete, jarring events cause employees to re-evaluate their commitment to and future in the firm (T. W. Lee & Mitchell, 1994; T. W. Lee, Mitchell, Holtom, McDaniel, & Hill, 1999). This event-based view of

turnover differs from other individual-level turnover models, which tend to focus on general feelings of dissatisfaction as the key driver of employee turnover. Shocks initiate the psychological processes involved in reevaluating one's commitment to the organization and eventually leaving a job and they can be either positive, negative, or neutral as well as expected or unexpected (T. W. Lee et al., 1999: 451). Shocks may also jar decision makers at the firm to reconsider whether the individual's tenure should continue.

In an effort to extend the unfolding model of turnover, we theorize and empirically examine two types of shocks—relational and reputational—that directly influence individual-level executive turnover. While we acknowledge that there are other types of shock that exist (e.g., T. H. Lee et al., 2008; Trevor & Nyberg, 2008), we believe that relational and reputational shocks are particularly meaningful in the executive labor market. In particular, the relational capital that executives build with their colleagues in the TMT over a period of time have a tremendous influence on executives' commitment to the firm as well as how the firm functions (Hambrick, 1994; Jackson, 1992; Simons & Peterson, 2000). Thus, shocks that disrupt TMT relationships can be particularly jarring for executives and influence how the firm operates. Moreover, a firm's reputation of integrity and competence is critical not only for firm success but also for how the executive is perceived in the labor market (Fama, 1980).

1.1 | Relational shocks

Research on upper echelons has shown that interpersonal relationships in the TMT—both between the CEO and executives and between executives themselves—are critical for executive job attitudes and organizational commitment (e.g., Colbert, Kristof-Brown, Bradley, & Barrick, 2008). However, functional interpersonal relationships in the TMT do not form immediately, but rather, over time as executives gain experience working together. For that reason, events that result in the loss of relational capital between executives should not only be jarring for individuals executives, but should also disrupt the firm's operations. We define *relational shocks* as disruptive events that change the relationships between an executive and those with whom he/she works closely. We consider two relational shocks that influence executive turnover: (a) outside CEO succession, and (b) when other members of the TMT exit the firm.

First, outside CEO succession is not only disruptive for the firm (Finkelstein et al., 2009) but particularly for its executives (Barron, Chulkov, & Waddell, 2011; Vancil, 1987). Executives are dependent on CEOs for much of what they do (Barrick, Bradley, Kristof-Brown, & Colbert, 2007), and therefore, the relational capital that executives build with their CEOs directly impacts their work experiences, job attitudes, and performance (Colbert et al., 2008). Assuming that executives are less familiar with a new CEO hired from outside the firm (compared to a CEO appointed internally), outside CEO succession results in executives losing the relational capital they once had with the CEO, which should affect their feelings of embeddedness and security in the firm. That said, an executive can work to establish new relationships with the new CEO, yet it requires significant time to do this and some executives may opt to voluntarily leave the firm. Furthermore, outside CEO succession can suggest a concerted effort by a firm's board to change its previous strategy and/or signal that the current executives do not match the firm's new strategic direction (Finkelstein et al., 2009). As such, executives may be dismissed from the firm and forced to seek other opportunities (Zhang, Ji, Tao, & Wang, 2011).

Executives not only establish relational capital with their CEOs, but also with fellow executives on the TMT. This relational capital is important because of the degree of interdependence in the work executives do (Barrick et al., 2007). Moreover, relational capital with other executives facilitates

knowledge sharing and other benefits that enable executives to perform their roles successfully (Gardner, Gino, & Staats, 2012). Given the interdependencies between executive members, the departure of other TMT members significantly disrupts the collective functioning and operation of the TMT, as well as increasing time spent on recruitment and socialization of new members (Hausknecht & Trevor, 2011). For example, while it is possible for executives to establish relational capital with new executives that are appointed; yet, it still requires significant time and energy to build relational capital with new team members, which some executives may not be willing to do. Additionally, as with outside CEO succession, the departure of other TMT members may suggest a "cleaning house" effort by the firm that implies a discontent with current firm leadership, leading to dismissal of top executives (Finkelstein et al., 2009). In sum, executives that experience a relational shock—either because a new outside CEO is hired or because other TMT members have exited the firm—are more likely to exit a firm than executives who do not experience a relational shock.

Hypothesis (H1). *For an executive, relational shocks will be associated with an increased likelihood of exit.*

1.2 | Reputational shocks

Reputational shocks are specific events at the firm level that pose a threat or risk to the executives' and firm's reputations as viewed by stakeholders outside the firm (Sutton & Callahan, 1987). Reputational shocks are primarily negative in nature and not only cast doubt on the legitimacy of the firm, but can also discredit and stigmatize the firm's leaders (Pozner, 2008). Firm-level reputational shocks decrease stakeholder trust, resulting in a breakdown between a firm's leadership and its owners (Selznick, 1957), as well as interfirm collaborations (Andersen & Sørensen, 1999). Shocks can also directly limit an executive's future opportunities in the labor market and make it more difficult for the firm to fill vacated executive positions. For these reasons, reputational shocks should be jarring, not only leading executives to question their employment at the firm but also making it more likely that they could be dismissed.

While there are a variety of reputational shocks, we focus on two specific types at the firm level that affect executive turnover: (a) lawsuits against the firm and (b) shareholder activism. These events are salient reputational shocks because they come as a relative surprise (i.e., no prior warning) to the firm, and because firms have little control over these events given that they are instigated by outside parties. Furthermore, both of these events can lead directly to stigma removal and reputation management activities, either on the part of organization (in the case of involuntary turnover) or executives (in the case of voluntary turnover). As a result, events like these have an important impact on firms that can effect executive turnover. In the event of a reputational shock, executive turnover can be the result of the firm's efforts to remove the stigma of the negative shock in order to regain legitimacy with stakeholders. Firms often attempt to mitigate such legitimacy threats through signaling some type of strategic change, which may include changes to the firm's leadership (Durand & Vergne, 2015; Gomulya & Boeker, 2014). In these instances, firms attempt to engage in legitimacy restoration via disassociation (Suchman, 1995), which involves shifting the focus from the firm to one or more individuals for vilification (Wiesenfeld, Wurthmann, & Hambrick, 2008). This process often leads to the dismissal of targeted individuals.

An external shock that threatens the firm and the individual's reputation can lead to proactive behavior by the executive that is motivated by both extrinsic and intrinsic processes (Gagné & Deci, 2005). This proactive behavior is known as reputation management, which occurs when individuals

sense an external threat to their reputation and leads them to be extrinsically motivated to behave in ways that mitigate any loss of reputation and intrinsically motivated to protect their identity and sense of competence (Dutton, Dukerich, & Harquail, 1994; Zavyalova, Pfarrer, Reger, & Hubbard, 2016). Evidence suggests that organizational leaders exit firms precisely to avoid reputational damage and devaluation on the executive labor market as a result of these types of events (Boivie, Graffin, & Pollock, 2012; Harrison, Boivie, Sharp, & Gentry, 2018; Jiang, Cannella, Xia, & Semadeni, 2017).

Such behavior can lead to the disassociation of the individual's identity with the firm, leading to a voluntary exit from the firm in order to preserve future opportunities (Harrison et al., 2018). In sum, shocks that threaten the reputation of a firm or the executive will make it more likely that executives will voluntarily exit or be dismissed from the firm, as compared to executives in firms that do not experience reputation-related shocks. Thus, we hypothesize:

Hypothesis (H2). *For an executive, reputational shocks will be associated with an increased likelihood of exit.*

1.3 | The moderating influence of executive pay disparity

As noted above, both relational and reputational shocks should increase the likelihood of executive exit. However, drawing on the shock perspective of turnover, we propose that these relationships are differentially affected by the executive's pay relative to other TMT members. We focus specifically on pay disparity because within the shock perspective of turnover, it is theorized that in the face of shocks, individuals stay or leave a firm depending on whether there are significant sacrifices that individuals would have to make if they were to leave the firm (Mitchell, Holtom, Lee, Sablynski, & Erez, 2001). In terms of what might help an executive feel embedded, higher pay is a valuable resource that executives seek to maximize as it is an important indicator of the amount of status and social influence an executive has in the organization relative to other executives (Bloom & Michel, 2002; Fredrickson, Davis-Blake, & Sanders, 2010; Ridgeway & Walker, 1995). This is particularly true since TMT members are at a similar level of the organizational hierarchy and thus have presumably similar positional influence. Further, higher pay allows executives greater access to information and resources in the organization and signals their value to the external labor market (Carpenter & Wade, 2002). Thus, higher relative pay is thought to increase job embeddedness, as it is an element of one's job that would require a significant sacrifice if they exit the firm.

Given that relative pay would normally serve as an embeddedness factor, we argue that in the face of losing relational capital due to relational shocks, more highly-paid executives are less likely to voluntarily leave the firm than those who are paid less relative to other executives. While certain relational resources are lost when relational shocks occur, higher-paid executives command greater social influence in the organization, which affords them with additional resources that they can draw on both for personal and professional uses in the event of losing relational capital resources. Moreover, higher-paid executives are less likely to be dismissed from the firm in the wake of a relational shock because their social standing in the organization can make them be seen as having a greater impact on and thus being more valuable to the firm. As such, they may be less affected by strategic changes and team membership changes associated with relational shocks, and, therefore, more stable members of the organization.

Conversely, executives who are paid less than other TMT members are more likely to lean on relational capital to make them feel committed to and embedded in the organization. As such, lower-paid executives are even more likely to voluntarily leave the firm when relational shocks bring about

the loss of relational capital given their already disadvantaged position in the firm. Moreover, when relational shocks occur, those being paid less in the TMT are more likely to be subsequently dismissed from the firm as new leaders step in because they are seen as having lower standing in, value to, and influence on the organization.

Hypothesis (H3a). *Executive pay disparity will moderate the relationship between relational shocks and the likelihood of exit such that an executive being paid more relative to the average of the rest of the TMT will be less likely to exit following a relational shock.*

While relative pay acts as a buffer of relational shocks on executive turnover, we expect that higher relative pay will *exacerbate* turnover when it comes to reputational shocks. In general, reputational shocks lead to stigma removal and reputation management activities by executives, which involve their attempts to distance themselves from the firm in cases of wrongdoing and negative media attention (Zavyalova et al., 2016). However, as shown by Harrison et al. (2018), reputation maintenance is more prevalent among those who have higher status and social influence in the organization as they are more likely to internalize the risks and uncertainties posed by reputational shocks. Furthermore, higher-paid executives are more likely perceived as having the skills that facilitate job opportunities at other firms, making it easier for them to find employment elsewhere (Akerlof & Yellen, 1986; Finkelstein et al., 2009). Thus, as higher compensation is an indicator of a higher status and social standing in the firm (Graffin, Wade, Porac, & McNamee, 2008; Milbourn, 2003; Wade, Porac, Pollock, & Graffin, 2006), we expect that higher paid executives will be more likely to engage in reputation management following a reputational shock, which may include searching for other employment opportunities at a new firm.

Similarly, firms may also engage in reputational management activities following a reputational shock. Firm owners, as well as board members, tend to have higher expectations for executives who receive higher relative pay. In that sense, higher compensated individuals not only have higher status, but are held to higher standards by the firm's stakeholders, leading to increased likelihood of negative attribution when firm reputation does not meet stakeholder expectations (Fredrickson, Hambrick, & Baumrin, 1988). Thus, executive turnover can serve a social control function, meaning that reputational shocks at the firm level will lead higher compensated TMT members to involuntarily exit the firm via the firms' stigma removal and reputational management strategies aimed at higher-status executives in the firm.

Hypothesis (H3b). *Executive pay disparity will moderate the relationship between reputational shocks and the likelihood of exit such that an executive being paid more relative to the average of the rest of the TMT will be more likely to exit following a reputational shock.*

2 | METHODS

2.1 | Sample

We test our hypotheses on a sample of top executives from firms listed in the *S&P 1500* in 2003. Data for our sample were collected for the years 2003 to 2013. Executive and firm-level data were collected from several sources, including Execucomp, Compustat, BoardEx, MSCI GMI Ratings, AuditAnalytics, and company proxy statements. To examine the turnover events, we restricted our analyses to those executives appearing in the Execucomp Database for the first time in 2003 or who

subsequently joined one of our sample firms after this initial year. Through our study design, we attempted to control for some extraneous factors that might influence an executive's likelihood of exit. In part, we set up the sample so that all of the executives had their entry time begin at or after 2003. In this way, each executive entered the potential risk set (their first year listed as a top five highest paid executive) either at or after 2003. As we detail below, we then mapped executive data from Execucomp to BoardEx in order to determine eventual exit from their focal firms. Data were available for 949 firms representing 4,232 executives providing us with a final, unbalanced sample of 15,897 executive-firm-year observations.

2.2 | Dependent variable

Top executive turnover captures whether an individual top executive departs from his or her current firm. The measure was operationalized by examining whether the individual who was previously listed as a corporate executive is present on the list of corporate executives from the Execucomp database and company proxy statements in the subsequent three years. The Execucomp database only covers the five highest paid executives of a firm given the Security and Exchange Commission (SEC) mandates that firms report the compensation for these individuals. As such, executives may drop out of the data in a given year not because the individual departed from the firm, but rather because the individual dropped outside this top five compensated designation. To ensure the individual had in fact departed the focal firm, we examined the firm's list of top executives provided in Execucomp database in subsequent time period as well as examining the executive profile from the BoardEx database. We then identified and removed the CEO from this group using both Execucomp and BoardEx identifiers. Our identification of TMT members is consistent with other work on top executives (e.g., Fredrickson et al., 2010), which consists of several steps. First, Execucomp provides a variable, *Date Left Company* (*leftco*), which provides the exact date in which an executive left the company. For approximately one-third of executives, the *Date Left Company* variable is complete providing the exact date of exit for these executives. To determine the exit date for the remaining executives, we matched all executives in our sample with the executive profiles from the BoardEx database, which provides complete start and end dates for all executive positions. Utilizing this matched data, we are able to specify the exact date of exit for executives who depart from the firm within our sampling timeframe. Any executive without an exit date is assumed to be right censored. For those individuals with a departure date within the three year window, we coded the turnover variable as "1." If the departed dates from the Date Left Company and BoardEx database were outside of the three year window or not yet available, indicating the focal executive was still currently employed by the firm but no longer reported as one of the top-five compensated executives, the observation was treated as right censored and coded as "0."[1]

[1]Although this turnover variable is calculated on an annual basis using the actual exit dates for these individuals, we also checked to make sure that the person does not reappear in the data for three years as a way of ensuring that they actually left the firm. As mentioned, we used the Execucomp database for the yearly compensation data, which means that an individual executive is observed only for those years in which the individual is reported by the Execucomp database, and a potential turnover event occurs when an individual is no longer listed in the database. At this point, we examined the Date Left Company variable and the BoardEx executive profiles data to determine whether the individual had departed from the focal firm within a 3-year period following this last reported year in Execucomp.

2.3 | Independent variables

For relational shocks, we examine outside CEO appointments as well as group-level TMT turnover. We measured *outside CEO appointed* by examining a successor's tenure at the focal firm as a proxy to determine whether a newly appointed CEO was selected from within or outside of the firm. Outside successors represented newly appointed CEOs who have been at the focal firm for less than two years, whereas inside successors had at least two years of experience at the focal firm prior to becoming CEO (Cannella & Lubatkin, 1993). CEO outside succession is a binary variable coded "1" if the successor was considered an outsider at the time of appointment and "0" if the executive was considered an insider. *Total TMT turnover* is an indicator of the number of TMT members exiting the firm that year. To operationalize this variable, we examined all TMT members listed in Execucomp for a given year and then examined whether the individuals reappeared in the database in the subsequent three years. Non-CEO executives who did not reappear in the subsequent 3 years were coded as exiting the focal firm. We then summed all of the exits, excluding the CEO and focal top executive, for a given firm to capture total TMT turnover. For the reputational shock variables, we examined shareholder activism fillings and litigation court filings. The variable, *shareholder concerns*, is derived from the *AuditAnalytics Shareholder Activism* database, which provides information about Section 13(d) shareholder activism filings in which a shareholder indicates interest in influencing the firm management. We examined all the Schedule 13D filings classified as shareholder concerns regarding management activities. The variable is count of shareholder concern filing within the prior year. We also used the *AuditAnalytics Legal Case and Legal Parties* database, which provides information about civil cases filed in federal district courts, to capture reputational concerns in which the firm is a defendant. Our *litigation* measure is a count of the legal cases in which the focal firm is listed as a lead defendant in a court case in the prior year. Finally, for our moderator, we followed past research and examined *executive pay disparity* by dividing the focal executive's total current compensation by the average compensation of the other TMT members (Ridge, Aime, & White, 2015). Given our focus on top executives, we measure the focal executive's compensation relative to the other non-CEO members of the TMT.

2.4 | Control variables

Prior research has identified other factors, in addition to those theorized herein, that may affect top executive turnover. In particular, the metropolitan area in which a firm is located may influence an executive's other employment opportunities. We included an annual population effect (divided by 1000 for ease of interpretation) that was derived from the core-based statistical area (CBSA), which includes both metropolitan and micropolitan statistical areas defined by the United States Census Bureau. Using the zip code for each executive's firm headquarters, we mapped on the CBSA and the associated estimated *CBSA population* for the focal year.[2] At the firm level, we control for firm performance and size as they have been previously recognized as important factors that influence executive turnover events, in general (Grusky, 1961; Ocasio, 1999). *Firm performance* was operationalized as return on assets, measured as net income divided by total assets. *Firm size* was measured by taking the natural logarithm of the total number of employees. Current CEO and other governance characteristics also may influence an executive's turnover event (Finkelstein et al., 2009). As such, we control for current *CEO Age.* While we examine outside succession, we also sought to control for succession events in which a current executive is appointed to the CEO position. Given the influence a board of directors may have through the monitoring function (Lorsch & MacIver,

[2]Data were obtained from the U.S. Bureau of Census and the Real Estate Center at Texas A&M University.

1989; Westphal & Fredrickson, 2001), we also control for *board independence,* which is measured as the number of independent directors divided by board size. We also examined the *average industry compensation* for non-CEO executives, which is the averaged total current compensation for all non-CEO executives at the two-digit SIC code level.

At the individual level, given the limited number of female executives (Daily, Certo, & Dalton, 1999), female executives may experience different likelihoods of turnovers. We control for *gender* with "1" representing female executive and "0" for male executive. The executive's current age may influence the likelihood of turnover (Davidson, Nemec, & Worrell, 2006), encouraging us to control for the current *Executive age.* We also control for an executive's overall company *tenure*, measured as the number years between the focal year and when the individual first joined the company. The variable, *CFO, COO, or President*, is a binary variable indicating if the executive currently serves as either the CFO, COO, or president in a given year. The variable, *number of executive titles*, is operationalized as a raw count of the number of titles an individual currently holds. Finally, we control for unexercisable options, which may tie executives to their firms given its association with future wealth (Devers, McNamara, Wiseman, & Arrfelt, 2008).

3 | ANALYSIS

While we examine executive exit, individuals may be appointed to the CEO position within their home firms. Therefore, we tested our hypotheses using a competing risk regression model. Competing risks regression generalizes the hazard approach provided by event history analysis to instances in which the individual or entity can experience more than one event (or failure). To do so, competing risk regression models an event-specific cumulative incidence function. This event-specific cumulative incidence function provides the likelihood that an individual in a current state (non-exit) will experience a certain event (i.e., exit), in the presence of the competing risk event (i.e., CEO appointment in their home firm) that also would cause the entity to leave their current (non-succession) position (Upson, Ketchen, Connelly, & Ranft, 2012). For our particular, analysis we examined our focal dependent variable, executive exit, with the competing risk of being appointed the CEO of their home firms because such a change in position would alter the executive's relative position to the other executives. Within our data, we had 252 competing events of an executive being appointed CEO at their home relative to 2,356 number of executive exit events. The competing risks regression models subhazard rates (represented by shr in our results), which are similar to hazard ratios, and focuses on the risk that an event occurs at time t given it did not occur in the previous time period (Fine & Gray, 1999).

4 | RESULTS

Means and correlations for all variables appear in Table 1. All means and correlations were as expected. As a check for multicollinearity, we computed variance inflation factors (VIFs) for all control and independent variables. The mean VIF diagnostic of 1.05 is well below accepted limits and no VIF is larger than 2.0.

Results from our competing risk analysis are reported in Table 2. Model 1 presents the results of the control variables on the subhazard of top executive exit. Of the control variables, *CBSA population* (shr = 1.000; $p = 0.014$), *firm performance* (shr = 0.341; $p = 0.000$), *inside succession* (shr = 0.734; $p = 0.000$), *CEO age* (0.986; $p = 0.001$), *board independence* (shr = 2.769; $p = 0.000$),

TABLE 1 Descriptive statistics and correlations

	Variables	Mean	*SD*	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1.	Top executive turnover	0.15	0.35	1																	
2.	Executive appointed CEO	0.02	0.12	−0.05	1																
3.	CBSA population[a]	5,060.02	5,330.80	0.02	0.00	1															
4.	Firm performance	0.04	0.11	−0.06	−0.01	−0.03	1														
5.	Firm size	2.39	1.29	0.00	0.00	0.06	0.16	1													
6.	Inside succession	0.09	0.29	0.00	0.24	0.02	−0.03	0.03	1												
7.	CEO age	55.81	6.43	−0.02	−0.06	0.05	0.01	0.07	−0.12	1											
8.	Board independence	0.80	0.11	0.05	−0.03	0.01	0.01	0.12	−0.04	−0.03	1										
9.	Avg. Ind. total compensation	490.15	162.75	−0.03	0.01	0.06	0.04	0.14	0.00	0.05	−0.12	1									
10.	Female executive	0.10	0.29	0.03	0.00	0.05	0.01	0.02	−0.01	0.02	0.02	0.03	1								
11.	Executive age	50.70	6.24	0.11	0.04	0.02	0.01	0.12	0.02	0.13	0.05	0.02	−0.04	1							
12.	CFO, COO, or president title	0.31	0.46	−0.14	0.10	−0.01	0.02	0.02	0.02	0.00	−0.02	0.01	−0.05	−0.10	1						
13.	Number of executive titles	1.04	0.95	−0.06	0.08	0.01	0.00	−0.02	0.03	0.05	0.07	−0.02	0.04	0.00	0.17	1					
14.	Unexercisable options	675.24	2,898.38	−0.03	0.02	0.03	0.09	0.16	−0.01	0.05	−0.01	0.06	−0.02	0.02	0.03	0.01	1				
15.	Outside CEO appointed	0.04	0.20	0.06	0.17	0.00	−0.08	−0.05	−0.07	−0.12	−0.01	0.01	0.02	−0.02	0.01	−0.01	−0.02	1			
16.	Total TMT turnover	0.72	0.93	0.03	0.04	0.01	−0.14	0.05	0.07	−0.02	0.04	−0.03	0.02	−0.02	0.04	−0.01	−0.03	0.17	1		
17.	Shareholder concerns	0.02	0.13	0.04	0.01	−0.01	−0.05	−0.04	0.01	0.01	0.01	−0.02	0.00	−0.02	0.00	−0.01	−0.02	0.02	0.05	1	
18.	Litigation	0.17	0.37	0.02	0.00	0.02	0.01	0.18	0.01	−0.02	0.00	0.07	0.00	0.00	0.01	−0.03	0.03	0.04	0.05	0.01	1
19.	Total pay disparity	1.05	2.47	−0.02	0.15	0.00	−0.01	0.00	0.02	0.00	0.01	−0.01	0.02	0.02	0.03	0.01	0.00	0.04	0.03	0.01	0.00

[a]CBSA population is scaled by 1000.
Note. $N = 15{,}897$. TMT, top management team.

TABLE 2 Competing risk analysis predicting top executive turnover

Variables	Model 1	Model 2	Model 3	Model 4
CBSA population[a]	1.000	1.000	1.000	1.000
	(0.000) [0.014]	(0.000) [0.001]	(0.000) [0.002]	(0.000) [0.001]
Firm performance	0.341	0.378	0.378	0.369
	(0.055) [0.000]	(0.054) [0.000]	(0.054) [0.000]	(0.051) [0.000]
Firm size	1.038	1.031	1.031	1.028
	(0.022) [0.079]	(0.017) [0.062]	(0.017) [0.062]	(0.017) [0.095]
Inside succession	0.734	0.734	0.734	0.721
	(0.059) [0.000]	(0.055) [0.000]	(0.055) [0.000]	(0.055) [0.000]
CEO age	0.986	0.987	0.987	0.986
	(0.004) [0.001]	(0.003) [0.000]	(0.003) [0.000]	(0.003) [0.000]
Board independence	2.769	2.732	2.784	2.513
	(0.666) [0.000]	(0.517) [0.000]	(0.528) [0.000]	(0.471) [0.000]
Avg. ind. total compensation	0.999	0.999	0.999	0.999
	(0.000) [0.010]	(0.000) [0.000]	(0.000) [0.000]	(0.000) [0.000]
Female executive	1.205	1.197	1.206	1.215
	(0.074) [0.003]	(0.073) [0.003]	(0.073) [0.002]	(0.074) [0.001]
Executive age	1.031	1.031	1.032	1.031
	(0.003) [0.000]	(0.003) [0.000]	(0.003) [0.000]	(0.003) [0.000]
CFO, COO, or president title	0.436	0.429	0.429	0.441
	(0.025) [0.000]	(0.024) [0.000]	(0.024) [0.000]	(0.025) [0.000]
Number of executive titles	0.876	0.876	0.877	0.881
	(0.019) [0.000]	(0.019) [0.000]	(0.019) [0.000]	(0.019) [0.000]
Unexercisable options	1.000	1.000	1.000	1.000
	(0.000) [0.000]	(0.000) [0.000]	(0.000) [0.000]	(0.000) [0.000]
Outside CEO appointed		1.177	1.202	1.621
		(0.101) [0.057]	(0.102) [0.030]	(0.222) [0.000]
Total TMT turnover		1.054	1.055	1.144
		(0.022) [0.014]	(0.022) [0.011]	(0.042) [0.000]
Shareholder concerns count		1.037	1.038	0.957
		(0.023) [0.098]	(0.023) [0.092]	(0.041) [0.299]
Litigation count		1.106	1.106	1.251
		(0.056) [0.048]	(0.056) [0.045]	(0.114) [0.014]
Total pay disparity			0.983	0.991
			(0.006) [0.005]	(0.007) [0.183]
Outside CEO × pay disparity				0.815
				(0.066) [0.012]
TMT turnover × pay disparity				0.925
				(0.027) [0.007]
Concerns ct. × pay disparity				0.891
				(0.070) [0.142]
Litigation ct. × pay disparity				1.074
				(0.040) [0.055]
Log pseudo-likelihood	−17,353.808	−17,343.093	−17,787.78	−17,760.30
Wald $\chi 2$	626.87	646.88	659.37	687.46

TABLE 2 (Continued)

Variables	Model 1	Model 2	Model 3	Model 4
df	13	16	17	21

[a]CBSA population is scaled by 1000.
Note. $N = 15{,}897$. Robust *SEs* in () and exact *p*-values in []. TMT, top management team.

average industry compensation (shr = 0.999; p = 0.010), *female executive* (shr = 1.205; $p = 0.003$), *executive age* (shr = 1.031; $p = 0.000$), *CFO, COO, or president title* (shr = 0.436; $p = 0.000$), *number of titles* (shr = 0.876; $p = 0.000$), and *unexercisable options* (shr =1.000; $p = 0.000$) were all significant. Interpreting the subhazard ratios indicates that each unit change in executive age, for example, increases the subhazard of exiting a firm by 3.2% (1.032 − 1.000 = 0.032), whereas a unit change in firm performance lowers the subhazard of exiting a firm by 66.7% (1.000 − 0.333 = 0.667).

In Model 2, we introduce the hypothesized independent variables for relational shock. Hypothesis H1 predicted that relational shocks would be positively associated a top executive's likelihood of exiting a focal firm. In support of our hypothesis, we find the coefficient for outside CEO appointed is greater than one and significant (shr = 1.177; $p = 0.057$). In this case, top executives experience a 17.7% increase in their hazard to exit the firm in the subsequent years when an outside CEO is appointed (1.177 − 1.000 = 0.177). Similarly, the subhazard ratio for *Total TMT turnover* is greater than 1 and significant (shr = 1.054; $p = 0.014$), indicating that for every one-unit change in total TMT turnover, the hazard that an individual TMT member exits increases by 5.4% in the subsequent years (1.054 − 1.000 = 0.054). Thus, we find support for Hypothesis H1.

In Hypothesis H2, we argued that reputational shocks would be positively associated a top executive's likelihood of exiting a focal firm. We examine two indicators of potential reputational shock: number of filed shareholder concerns and number of lawsuits against the focal firm. As reported in Model 2, the subhazard ratio for the *shareholder concerns count* variable is greater than 1 (shr = 1.037; $p = 0.098$). In this case, an individual's subhazard of exit increases by 3.7% (1.037 − 1.000 = 0.037) when a shareholder concern is filed. Similarly, the subhazard ratio for the *litigation* variable is greater than 1 and significant (shr = 1.106; $p = 0.048$), meaning that for every unit change in lawsuits an executive's hazard of exit increases 10.6% in the subsequent year (1.106-1.000 = 0.106). Hypothesis H2 is supported.

Hypothesis H3a and H3b suggests that executive pay disparity with the rest of the TMT should moderate the relationship between relational and reputational shocks and executive exit. The coefficient for the moderating variable, *total pay disparity*, is introduced in Model 3. The subhazard ratio for this variable is less than 1 and significant (shr = 0.983; $p = 0.005$) indicating that in general, as an executive is paid more relative to the rest of the TMT, the individual is less likely to exit. Our tests of the moderating relationships are in Model 4. In examining Hypothesis H3a, the subhazard ratios for *Outside CEO* × *Pay Disparity* (shr = 0.815; $p = 0.012$) and *TMT Turnover* × *Pay Disparity* (shr = 0.925; $p = 0.007$) are both below 1, providing general support for the negative moderating influence of executive pay disparity on the relationship between relational shock and executive exit. We thus conclude that there is support for Hypothesis H3a. Conversely, for Hypothesis H3b, the subhazard ratios for *Concerns* × *Pay Disparity* (shr = 0.891; $p = 0.142$) in Model 7 is not significant, whereas *Litigation* × *Pay Disparity* (shr = 1.074; $p = 0.055$) is above 1 suggesting a positive moderating influence of pay disparity on the relationship between reputational shock and exit. Hypothesis H3b is partially supported.

4.1 | Robustness checks

Beyond the analyses reported, we also sought to ensure our results were not affected by other potential factors, different operationalizations of our independent variables, and our choice of analysis. In particular, we examined additional factors that, while potentially important to our focal dependent variable, were found to not significantly influence overall results. Following recent recommendations regarding the treatment of control variables (Becker, 2005; Becker et al., 2016), after examining these factors, we removed them from the final model to aid in the interpretation of our focal results. These additional control variables were at the firm- and environmental-levels. In particular, we examined three environmental factors: dynamism, complexity, and munificence (Dess & Beard, 1984). At the firm-level, we examined family firm and CEO founder status as potential factors that influence exit. We also examined *CEO-to-board tenure* and *CEO duality* as potential control variables. Additionally, we included the total compensation disparity between the CEO and overall TMT (Ridge et al., 2015). We also examined different operationalizations of our reputational shock variables. In particular, we examined binary indicators of lawsuits and shareholder concerns, which did not substantially change our results. We also obtained media data from Thomson Reuters MarketPsych news. Using these data we constructed Janis and Fadner's (1965) coefficient of imbalance to capture the media tenor regarding the firm. To capture the reputational shock, we then examined the firm's media tenor relative to the average tenor in the prior 3 years. These results were also similar to those results obtained from our focal measures of reputational shock.

Finally, while we believe a competing risk model is the most appropriate analytic method to address our research question, we examined whether our results were affected if we employed other event history approaches. In particular, we reanalyzed our hypotheses using a Cox proportional hazard model (Allison Paul, 1984), a discrete event history approach employed using a logit regression model (Singer & Willett, 2003), and two mixed-effects parametric survival-time models using a three-level random-intercept model to capture the firm- and individual-level effects separately applying Weibull and lognormal distributions (Rabe-Hesketh & Skrondal, 2012). For each, we obtained results that were similar to those derived from our competing risks regression approach with the exception that the main effect for total TMT turnover became non-significant in the mixed-effects parametric survival-time model ($p = 0.297$ and $p = 0.201$, respectively for the Weibull and lognormal distributions).

5 | DISCUSSION

We began our study by asking the question: What causes an executive to leave his or her firm? Drawing on the unfolding model of turnover in the organizational behavior literature, we show that relational and reputational shocks are important stimuli that lead executives to leave a firm. Within our framework, we argue that shocks which negatively influence the relational capital of executives or the reputation of the firm can cause executives to enter a decision path that may lead to their exiting a firm (Holtom et al., 2005). However, these effects are differentially influenced by executives' relative pay compared to other TMT members. Specifically, executives who are paid more relative to other non-CEO members of the TMT are less likely to leave the firm following a relational shock. Conversely, following a reputational shock, higher paid executives actually become more likely to leave.

Our findings contribute to research on executive labor markets by examining individual level predictors of exit. Executive turnover is a critical problem in organization, but it has received a sparse amount of attention by scholars. Prior literature on the executive labor market has typically focused on CEOs, despite evidence that other TMT members may leave firms for different reasons than the CEO. Further, the limited literature that has looked at individual TMT exit has focused on the group-

level, rather than at the individual-level. This is an important distinction as not all executives in the TMT exit the firm through the same mechanisms, as suggested by the various paths theorized in the unfolding model of turnover.

Besides empirically addressing an important problem in organizations (i.e., executive turnover), we also extend theory on shocks and turnover in two ways. First, we operationalize and theoretically distinguish between relational and reputational shocks. Even though shocks are a critical part of the unfolding model, prior turnover studies, for the most part, have not operationalized shocks, let alone developed and measured different kinds of shocks. Second, a critical component of our paper is that while each type of shock directly affects executive turnover, their effects are moderated by executives' relative status in the firm, as indicated by their relative compensation in the TMT. This is an important extension of the unfolding model of turnover in that prior research has generally characterized shocks as having relatively uniform effects on turnover, and embeddedness factors such as status as having unilaterally buffering effects on shocks and turnover. In that sense, we extend knowledge on how shocks impact turnover by providing a more nuanced, balanced, and realistic perspective of how shocks influence turnover.

5.1 | Limitations and opportunities for future research

Although the shock perspective generally assumes that turnover voluntary (Holtom et al., 2008; T. W. Lee et al., 1999), we are unable to empirically distinguish between voluntary and involuntary turnover. However, while the theoretical perspectives utilized in this study have typically been used to predict voluntary turnover, our arguments apply to both voluntary and involuntary turnover. For example, relational shocks such as outside CEO and group turnover may indicate dissatisfaction with current firm leaders, suggesting that there is a greater chance that the executive will be fired. Similarly, a reputational shock may lead higher status executives to be dismissed as they are more likely to have greater visibility to external stakeholders. Future research should consider ways to distinguish between voluntary and involuntary executive exit.

Future research on executive turnover should also consider how other types of shocks influence executive departure. Of particular importance is the development of models that better explain how shocks interact with other types of embeddedness factors (T. W. Lee et al., 1999). However, besides drawing on the unfolding model of turnover to explain executive exit, future research on this topic could draw on other theories of employee turnover. For instance, the expansive organizational commitment literature outlines a number of constructs that incrementally explain turnover (Meyer & Allen, 1991). Furthermore, job satisfaction is one of the stronger predictors of employee turnover (Tett & Meyer, 1993), and could likewise play a role in executive turnover. For example, researchers could examine how executives grow dissatisfied with their firms and jobs, and under what conditions this dissatisfaction will cause them to exit.

Finally, another topic for future research is the effect of geography on the executive labor market. Most research assumes that the executive labor market is national in nature, implying that local characteristics have little impact on turnover decisions. However, our control variable showed that the specific CBSA a firm was located in had an effect on the likelihood of exit. Future work may look at how executive labor markets vary across communities as values, beliefs and cultures may differentially influence the process of turnover at the individual level.

6 | CONCLUSION

In this paper, we drew on the unfolding model of turnover to develop a theoretical framework to identify antecedents of executive turnover. At the same time, we also extend the unfolding model of

turnover by operationalizing different kinds of turnover shocks and evaluating how they differentially influence turnover based on the relative status (pay) of executives. Taken together, our study not only adds to what scholars know about the executive labor market, but compared to the prior micro turnover literature, our study presents a more nuanced perspective of how shocks interact with embeddedness factors to influence turnover.

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