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An Exploration of the Dynamics Between CEO Status and Firm Status

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Abstract

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Although research on individual and organizational status has deepened our understanding of each, to date, little attention has been paid to the interlinkages between the two. Drawing from the status literature, we suggest that how organizations value the status of CEOs will differ depending on their organizational context, namely organizational status. To address this, we develop a notion of *status disparity*, which refers to the relative dominance of CEO status over firm status. Specifically, we explore how the relative standing of the CEO with respect to the firm may affect CEO valuation and examine the impact of such status disparity on CEO-level outcomes:

CEO power, compensation, and dismissal likelihood. Empirical results from the panel data set of CEOs in S&P 500 firms supported that the CEOs with greater status disparity are more likely to have higher power and receive greater compensation. The findings indicate that the perceived value of CEO status is linked to organizational status, thus exhibiting how stakeholder's perception and attribution can be explained through the idea of status disparity.

Keywords: CEO Status, CEO power, CEO compensation, CEO dismissal likelihood
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1. Introduction

In a market context, the quality of an actor is hard to verify ex-ante due to information asymmetry (Akerlof, 1970). So we often rely on various social perceptions to indirectly measure the quality of the subject (Podolny, 1993; 1994). Status, or one's relative position in the social hierarchy (Sauder, Lynn, & Podolny, 2012; Washington & Zajac, 2005), serves two functions. First, status projects the competence level of the focal actor. Individuals or organizations are willing to engage with high-status actors because they are believed to have greater competence than others (Darley & Gross, 1983). Here, status mainly functions as a quality signal of a focal actor, especially when the direct quality assessment of focal actor is imperfect (Podolny, 1993). Regarding competence, high-status generates a higher performance expectation from audiences (Philips & Zukerman, 2001) and also endows greater accessibility and/or greater value of the resources and opportunities (Lin, 1999; Thye, 2000). Second, status creates deference from others. High-status actors are respected or admired by others (Ridgeway & Walker, 1995; Anderson, John, Keltner, & Kring, 2001). The prominence of high-status ensures the focal actor not only to enjoy greater control over the environment (Lin, 1999; Gould, 2003; Berger, Rosenholtz, & Zelditch, 1980) but also to receive greater rewards (Wade, Porac, Pollock, & Graffin, 2006; Graffin, Wade, Porac & Mcnamee, 2008). Moreover, as a way of expressing

deference, audiences tend to show higher approval tendency towards high-status actor's performance (Pettit & Sivanathan, 2012).

The complex characteristic of status distinguishes itself from a similar, socially constructed perception: reputation. Though earlier studies have used status and reputation interchangeably (e.g., Shrum & Wuthnow, 1988), recent studies have started to distinguish reputation and status and examine their relationship and effects on various individual and firm-level outcomes (Washington & Zajac, 2005; Jensen & Roy, 2008; Stern, Dukerich, & Zajac, 2014; Pollock, Lee, Jin & Lashley, 2015). Prior studies highlight the theoretical distinctiveness of each social perception. While reputation is an economic related construct that is highly dependent on the actor's previous performance, status is a social construct derived from actor's relative standing in the society (Sorenson, 2014). To be specific, since status is formed through third parties' action or evaluation on an actor, the audience type takes a significant role on status development. Multiple audiences, who are facing different types of concern and uncertainty, shows a different perspective on the evaluation of the actor (Ertug, Yogev, Lee & Hedstrom, 2015; Pontikes, 2012; Cattani, Ferriani & Allison, 2014). Therefore, status has its own unique social effect that cannot be fully explained from a purely economic perspective. Based on the status literature, we conclude that the audience-specific nature provides a great opportunity for a multi-level

analysis.

Although a substantial body of literature has advanced our understanding of status in both individual and organizational level, however, so far, little attention has been paid to the dynamics of status in organizational settings. We know very little, for instance, about the linkage between the status of the actors and the status of their own organization. Given that their perception and decision making are influenced by the broader social structure that they are embedded within (Granovetter, 1985, Uzzi, 1996), examining such dynamics would provide a keen insight on status in an organizational context. In this paper, we explore the interplay between CEO-level status and firm-level status. Prior studies have shown that status of CEO is associated with greater reward and power (Graffin, Wade, Porac & McNamee, 2008; Belliveau, O'Reilly, & Wade, 1996). However, scholars have not yet examined the role of *organizational* status in such processes. We believe that the dynamics between two different levels of status – the individual CEO and the organization – will provide a deeper understanding of the antecedents of CEO governance issues, as well as how the perception and attribution of stakeholders may vary by different status configurations.

In this paper, we focus on the notion of *status disparity*, or the relative difference between CEO and firm level status. We attempt to

identify the value of status disparity by looking at three CEO level outcomes: CEO power, compensation, and dismissal likelihood. Analyses of data from S&P 500 firms between 2002 and 2006 confirm our main arguments. Our results suggest that the status disparity between the CEO and his firm tends to enhance his sociopolitical standing in the organization, as manifested in his power and compensation. To date, our study is the first to consider the role of absolute and relative status of a CEO with respect to the organizational status.

2. Theory and Hypotheses

2.1. Status in a Business Context

For many years, the concept of status has attracted a great deal of attention from strategy and organizational scholars (e.g., Belliveau et al., 1996; D'Aveni, 1996; Chung, Singh & Lee, 2000). Status is generally defined as a socially constructed perception based on a relative standing in the social hierarchy (Washington & Zajac, 2005, Weber, 1978). This definition suggests that status is a relative construct, which is only identifiable in a collective sense and is conferred only by audiences with their respective uncertainty and interest. Because of its socially situated nature, the effects of status have been regarded to be complex and overlapping with other related constructs.

First, as much research suggests, high-status actors have greater

advantages compared to low-status actors in the context of market exchange.[1] Here, status is mainly regarded as a tool to indirectly measure an actor's economic competence. Starting with Podolny (1993), researchers have shown that status serves as a signal of quality. In the market where direct quality observation is imperfect, actors prefer to affiliate with high-status actors because of the high level of expected competence of the actor (Spence, 1974). Regarding quality signal, Matthew Effect suggests that status is generally associated with the greater level of status attainment afterward (Merton, 1968b). However, status is not always favorable to the focal actor in an economic transaction context. Inverse Matthew Effect claims that high-status position can also magnify negative consequences when firms face a failure (Jensen, 2006). Furthermore, based on actors' perceived level of competence, high-status actors tend to have easier access to resources (Lin, 1990; 1994), price advantages (Podolny, 1993), and more opportunities (Jensen, 2004). These advantages of status tend to be pronounced under situation with greater uncertainty in the environment (Podolny, 1994).

Second, high-status actors receive greater deference from others. Individuals or organizations show their esteem to high-status actors by ensuring greater control or greater rewards to the focal actor for any given performance (Gould, 2003; Merton, 1968b). For example, research has shown

[1] If not otherwise specified, actors refer to both individuals and organizations.

that CEOs, after earning a high-status, receive higher compensation from the organization (Graffin et al., 2008; Malmendier & Tate, 2009). Also, audiences tend to posit lower performance standards (Washington & Zajac, 2005) or show greater approval tendency (Pettit & Sivanthan, 2012) as a means to show admiration to the high-status actor.

How do some individuals and organizations manage to gain high status while others fail to do so? The prior research indicates that the actual and perceived abilities, prior performances, and affiliations with others can be main sources of status. The complex mixture of quality and social standing creates what we call a "status" (Podolny, 1993; Piazza & Castellucci, 2014). In same sense, CEO status is formed by the combination of various sources like CEO attributes including educational background, prior performance, and previous and current working occupations' status (Harrison, Torres & Kukalis, 1988; Beliveau, et al., 1996; Bidwell, Won, Barbulescu, & Mollick, 2014). Since it is difficult, if not impossible, to directly observe the attributes and ability of potential and current CEO, we often rely on third-party evaluations such as media attribution or certifications to measure the CEO's quality which in turn become a base of status development (Hayward, Rindova & Pollock, 2004; Graffin, et al., 2008). Likewise, firm status is developed from multiple sources like prior financial performances, affiliation with other firms in the industry, and its rankings

and certification from third-party institutions (Podolny, 1993; Stuart, Hoang & Hybels, 1999; Lin, Yang, & Arya, 2009).

At times, status-seeking actors prefer to affiliate with high-status actors in anticipation of resource usage and status spillover (Stuart et al., 1999; Pollock & Gulati, 2007). Status is transferable to other affiliated actors because the affiliation itself signals the underlying quality. For these reasons, CEOs have a preference for working at a high-status firm, and firms also want to hire a high-status individual for a CEO position if all other factors remain unchanged. CEOs believe that working at a high-status firm will signal their managerial ability and aid their career development (Phillips, 2001; Graffin et al., 2008). Likewise, firms are also eager to hire a high-status CEO with greater managerial competence and valuable network ties (Belliveau et al., 1996). Hiring high-status actors will not only bring firms to have a heightened expectation regarding firm performance but also draw greater attention from media and stock market (Malmendier & Tate, 2009; Hayward et al., 2004). Thus, employing a high-status CEO will signal to both inside and outside stakeholders to have greater performance expectation towards the organization. Therefore, both firm and CEO status act as a significant advantage to the focal actor in both labor market and output market.

2.2. Status in a CEO-Firm Relationship

Considerable evidence has shown that an actor's tendency to affiliate with similar actors, is a crucial antecedent of relationship formation (e.g., Lazarsfeld & Merton, 1954). While actors are eager to get benefit from high-status affiliations, high-status actors actively try to defend their status (Bothner, Kang & Stuart, 2007). Generally, they tend to invest more to meet expectations coming from high-status (Eden, 2003; Pettit & Lount, 2010). They also attempt to protect their status by undertaking strategic changes to recover or rebuild status as the loss in status leads to dampened economic and social values (Hambrick & Cannella, 1993; Gephart, 1978). To prevent the possible threat to their status, high-status actors will actively try to avoid status incongruent situations (Pearce, Ramirez, & Branyiczki, 2001).

When looking at the relationship between CEO and the firm, in most cases, a low-status CEO will be more likely to work at a low-status firm, while a high-status CEO will be more likely to work at a high-status firm for the following reasons. First, the CEO and the firm evaluate each other based on its social standing and estimate their competence. Therefore, high-status firms will look for a high-status CEO whose perceived managerial quality, regardless of his actual quality, best suits to the firm. Also, CEOs expecting status spillover from the firm, which will eventually benefit them in the labor market, will prefer to work at a firm whose status is equal to or greater

than their status. Firms, having a concern on status degradation by affiliating with low-status actors (Benjamin & Podolny, 1999), will also prefer to hire CEOs whose status is equal to or greater than firm status.

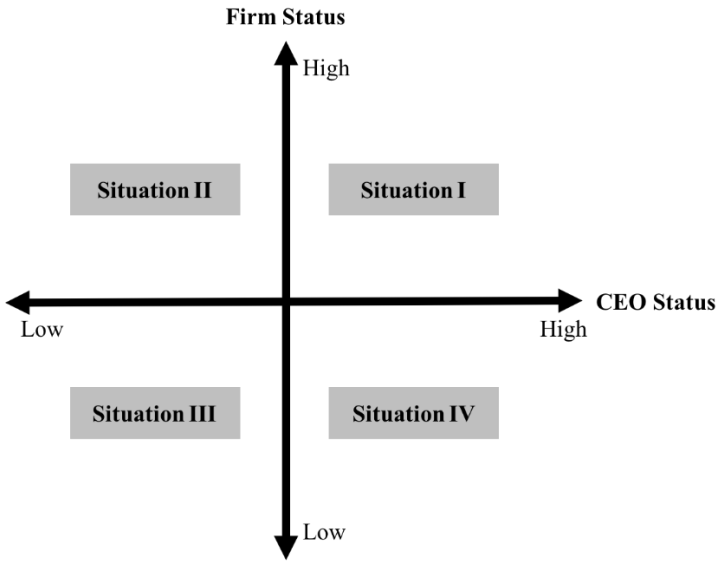
However, anecdotally and empirically, relationship with status disparity does exist between the CEO and the organization. High-status CEOs working at a low-status firm or low-status CEOs at a high-status firm can be categorized into this status disparity. Low-status actors may be motivated to affiliate with high-status actors since they could gain status (Stuart et al., 1999). In contrast, high-status actors have relatively low motivation to associate with low-status actors since there is a great amount of uncertainty and threat of status loss in the relationship (Podolny, 1994). Nevertheless, prior studies did find that high-status actors have a unique advantage when affiliating with low-status actors. For example, Castellucci & Ertug (2010) found that high-status actors enjoy a greater level of commitment from the low-status actor while paying lower price. Moreover, He and Huang (2011) argued that status hierarchy defines a clear and distinct role of each participant; the empirical results also showed that the directors with unequal levels of status reach consensus on their decisions more easily, ultimately with a positive impact on performance.

Although there seem to be certain benefits linked with status-heterophilous ties, most studies have found that actors feel status disparity

uncomfortable and try to overcome this disparity by changing their position. For example, Pearce et al. (2001) show that executives make an organizational change to overcome status incongruence in communist transition economies. Similarly, the study by Hambrick & Cannella (1993) examines the departure decision of executives under their relative status degradation. Therefore, if when status disparity exists between the CEO and the firm, we expect that the firm with relatively low status must compensate the higher status CEO for maintaining the relationship.

2.3. The Conceptual Framework of CEO Status and Firm Status

FIGURE 1



To explore the dynamics between CEO status and firm status, we divide CEO and firm status into two levels – high and low – and define four distinct situations. Figure 1 shows the two-by-two matrix of CEO status and

firm status. Note that this framework addresses the relative (not nominal) status between the CEO and the firm.

Situation I: High CEO Status and High Firm Status

Situation I is characterized by a high-status CEO at a high-status firm. The high statuses of both parties are the outcome of consistent quality demonstration and their position in the market. Examples in this quadrant would include Bill Gates at Microsoft, Jack Welch at General Electric, and Steve Jobs at Apple Inc. A CEO in this situation is often recognized as the "big player", who has a strong influence in both the organization and the industry and receives a great amount of attention from the inside and outside stakeholders (Hayward et al., 2004). The similarity between CEO-level and firm-level status reduces the uncertainty for its future actions and performance (Podolny, 1994; Lynn, Podolny & Tao, 2009). In addition, both the high-status CEO and the firm, with a strong desire to prevent status spillover, would attempt to maintain their own respective status (Podolny, 1993; Benjamin & Podolny, 1999). Beyond maintaining its status quo, the high-status CEO and the high-status firm are likely to create a synergy, which in turn positively impacts the level of status, since high-status actors are more likely to develop status more quickly than low-status actors (Podolny & Philips, 1996; Merton, 1968b). Mutual reciprocity exists between

two parties, and the benefits and costs of being each other's affiliation are well balanced (Gould, 2002). Thus, in this quadrant, one would expect that both CEOs and firms to have a strong motive to maintain the relationship.

Situation II: Low CEO Status and High Firm Status

Situation II is characterized by a low-status CEO at a high-status firm. First-time CEOs in the high-status firm without any demonstrated managerial ability can be categorized as this quadrant. Examples would include Sundar Pichai at Google or Anne Mulchany at Xerox. Here, relative standing of the firm is greater than the CEO and thus the firm takes relative dominance over the CEO in status, which makes 'small frog in a big pond' situation (Frank, 1985). This over-dominance will make the CEO to have relatively low level of managerial discretion while facing a great amount of pressure to live up to expectations of the high-status firm. Under pressure, the low-status CEO is more likely to follow the norm of the organization and even try to compensate the reward that he or she receives by affiliating with the high-status firm.

From the firm's perspective, in order to resolve this status disparity, high-status firms may adjust the level of CEO reward to compensate the possible spillover of firm status to the CEO. In addition, the firm would expect a greater level of commitment from the low-status CEO while

providing relatively low reward than the high-status CEO (Castellucci & Ertug, 2010). In turn, low-status CEOs would be willing to tolerate relatively low reward in terms of power and compensation to compensate their advantage for working at a high-status firm (Hamori, 2006). Moreover, we believe that the CEO's performance will be relatively underrated compared to his peers in the industry and the pay gain will remain modest even when firm performance improves substantially in a given year since the performance attribution to the CEO will be less likely to appear.

Situation III: Low CEO Status and Low Firm Status

Situation III is characterized by a low-status CEO at a low-status firm. Low-status firms lack in their resources and also receive little attention from their audiences (Philips & Zuckerman, 2001). As such, they would generally hire similar low-status CEOs. Relatively unrecognized, small and recently founded firms are likely to belong to this group, bearing liability of newness and smallness. Here, those CEOs and firms whose status is not established or identified yet because of their recent introduction to the network are categorized as low status. Situation III is similar to Situation I where the level of CEO status and that of firm status is similar; however, there are significant differences with respect to status advantages. Both the CEO and the organization have no status asset to create any advantages, which makes

both not that attractive in the external market. In this situation, we believe that there is a balance between the bargaining power of the CEO and the firm so that corporate governance issues would be mostly determined by economic related performance and established norms.

Situation IV: High CEO Status and Low Firm Status

Situation IV is characterized by a high-status CEO at a low-status firm. Similar to Situation II, there is a status disparity between the CEO and the firm – but in the opposite direction. Firms and CEOs in this quadrant can be categorized into two cases: 1) low-status CEOs at a low-status firm suddenly gaining one's status and 2) low-status firms scouting a star CEO exceptionally to enjoy status advantages from its CEO. Example figures could be Scott McNealy, former CEO of Sun Microsystems, who recently joined at Wayin and Dick Costolo, former CEO of Twitter, who launched a fitness startup.

In both cases, status disparity exists between the CEO and the firm, which creates the relative dominance of the CEO over the firm. To borrow Frank (1985)'s expression, this quadrant displays 'a big frog in a small pond' situation. Compared to Situation I, where both CEO status and firm status is high, high-status CEOs are highly visible in the low-status firm. Under status disparity, high-status CEOs and low-status firms have two different

motives to gain benefit and be compensated. On one hand, low-status firms will expect status spillover by bringing a high-status CEO to the firm. To affiliate with high-status CEOs, low-status firms are even willing to provide a greater reward to overcome the tension coming from status disparity. On the other hand, high-status CEOs will face status spillover threat and opportunity loss for the advantages of having a high-status affiliation. Therefore, in this quadrant, firms need to compensate high-status CEOs for having a status spillover effect. This will enable CEOs to enjoy a greater level of power in the organization and higher compensation. Also, during performance downturns, high-status CEOs at a low-status firm are less likely to be dismissed since he is recognized as a significant contributor in the organization.

So far, we have explored the characteristics of perceived parity and disparity in each quadrant and discussed the unfolding of status dynamics in each of these four different situations. From now on, we would like to address the impact of both absolute and relative value of status on CEO governance issues. To capture how the CEO valuation of organizations differs by status disparity, we chose CEO power, compensation, and dismissal as three CEO-level dependent variables. These three CEO-level outcomes are widely considered as a proxy of CEOs value. All these dependent variables are causally related with status, and, especially for

power and compensation, they can also be mutually reinforcing. However, there is a clear theoretical distinction between these concepts, and exploring how absolute and relative CEO status affect these variables regardless of actual quality of CEO will bring more insights on status effects.

2.4. Hypotheses

2.4.1. CEO Power

CEO power refers to the relative dominance of the CEO in the organization (Magee & Galinsky, 2008). CEOs with high managerial power, which is driven by the value of available resources, take a significant role in the strategic decision-making process (Child, 1972). Status and power are highly correlated but conceptually distinct: Status is based on an audiences' evaluation, and power is based on the value of resources which an actor beholds. Status, by acting as a positive quality signal and also as a positional prestige, allows high-status CEOs to have greater prestige and authority over others (Podolny, 2005; Magee & Galinsky, 2008; Pearce, 2011). Finkelstein (1992) proposed four types of executive power: structural power, ownership power, expert power, and prestige power. In this study, we focus mostly on structural power, the degree of distribution of formal positions within an organization, to capture how organizations value CEO status. We propose two behavioral mechanisms regarding CEO structural power as a

source of CEO status valuation. On one hand, the board of directors attempts to provide high-quality CEO with a greater level of power in order to utilize their managerial quality and maximize shareholder value. By providing power, CEOs have a high level of managerial discretion to influence firm's strategic choice. With status acting as a quality signal, high-status CEOs tend to receive a great level of power (Finkelstein, 1992). On the other hand, CEO power can be understood as a reward given by the organization. In this perspective, the power of CEO is subject to social context and perception rather than economic logic (Pfeffer, 1981). Thus, proving one's quality through certification or performance generation increases the level of bargaining power of CEO in the organization. For example, Wade et al. (2006) found that CEO after gaining status by receiving certification for his or her managerial ability tend to have greater prestige power in the organization than before (Finkelstein, 1992).

The effect of CEO status on its power in the organization will be greater when there is a status disparity, where a significant status gap exists between the CEO and the firm. The level of power reveals the executive's relative standing in the organization. High-status CEOs will be more valued in the low-status firm, and low-status firms will allow CEOs to have more dominance over the organization. Therefore, we offer the following hypotheses to test the impact of absolute and relative value of status on CEO

power:

> *Hypothesis 1a: Ceteris paribus, high-status CEOs are more likely to have greater power than low-status CEOs.*

> *Hypothesis 1b: Ceteris paribus, status disparity (CEO relative status to firm status) will have a positive impact on CEO power.*

2.4.2. CEO Compensation

Similar to power, CEO compensation signals the significance of the underlying value of the CEO in the organization (Daily & Johnson, 1997; Bebchuk, Cremers & Peyer, 2006). CEO compensation is a complex system; individual, organizational, and sociopolitical factors play a role in the determination of executive compensation (Murphy, 1999; Zajac & Westphal, 1995). Prior studies have found that individual-level factors such as CEO's managerial ability or power (Finkelstein & Boyd, 1998; Bebchuk, Fried & Walker, 2002; Bebchuk & Fried, 2003; Milbourn, 2003) and firm-level factors such as firm size and governance structure may influence the amount of CEO compensation (Kostiuk, 1990; Boyd, 1994; Baker & Hall; 1998; Core, Holthausen & Larcker, 1999).

Subsequently, there are two distinct approaches explaining the level of executive compensation. First, in the optimal contracting approach, the board of directors decides compensation level and structure based on shareholder value maximization (Mirrlees, 1976; Ross, 1973; Gibbons, 1997). In this perspective, CEO status can act as a signal of managerial ability

(Graffin et al., 2008; Wade et al., 2006). Moreover, the multiple benefits of status affect the board's positive perception of the managerial ability of CEO and willingness to provide greater authority to the executive. Therefore, in order to acknowledge the value of executive's competence, the board of directors offers a high-status CEO a greater compensation, presumably to create greater stakeholder value. As an alternative approach to optimal contracting, managerial power approach suggests that the compensation committee do not always operate as a rational system when deciding a pay package, but executives exert their power to influence compensation arrangement negotiation. (Bebchuk et al., 2002). Here, CEO compensation is not only an important indicator of the board's perception of CEOs, or how they value them, but also shows how CEOs value their own contribution to the organization and demands a proper reward by exerting his bargaining power in the negotiation process. Overall, in both of mechanisms determining the level of compensation, the value of CEO status takes an important role to both firm and CEO's side (Belliveau et al., 1996).

The value of CEO status will be pronounced under status disparity, where great inequity of CEO value to reward might occur. Therefore, in the case of high-status CEOs working at a low-status firm, CEOs will be more likely receive a greater level of compensation with respect to his relative significance and opposite will happen to the inverse case. Therefore, we

hypothesize as follows:

Hypothesis 2a: Ceteris paribus, high-status CEOs are more likely to receive greater compensation than low-status CEOs.
Hypothesis 2b: Ceteris paribus, status disparity (CEO relative status to firm status) will have a positive impact on CEO compensation.

2.4.3. CEO Dismissal Likelihood

The fit between the organizational characteristics and CEO characteristics is important to generate positive firm value (Datta & Guthrie, 1994). The misfit between the need of organization and the ability of the CEO may have a negative impact on organizational performance. Therefore, the board of directors continuously evaluate the value added versus the cost paid. Though poor firm performance is a major cause of involuntary turnover of CEOs (e.g., Fredrickson and Hambrick, 1988; Denis and Kruse, 2000), not every CEO might face the same level of dismissal threat for performance downturn. Often times, the process of CEO selection and succession is less explainable by economic logic than by social psychological and sociopolitical factors. Although top executives' decision plays a crucial role in firm operation (Hambrick and Mason, 1984), it is difficult to attribute firm performance solely to executives because external environmental factors also affect organizations (Thompson, 1967). To reduce this ambiguity and the lack of information, stakeholders tend to rely on legitimate third-party evaluators, such as investor analysts (Wiersema and Zhang, 2011),

media evaluations (Deephouse, 2000; Chen & Meindl, 1991) and also socially constructive perceptions, like status or reputation (Barron & Rolfe, 2012). CEO status will contribute to the director's positive evaluation of CEO's efficacy, resulting in lower probability of CEO dismissal. Therefore, high-status CEOs might enjoy more favorable performance aspirations (Ocasio, 1994) and are less likely to be dismissed than low-status counterparts even when they face the same performance downturn (Wiesenfeld, Wurthmann, & Hambrick, 2008). Furthermore, when there is a wide status disparity between the CEO and the firm, CEO's relative standing will determine CEO's influence and significance over the organization (Frank, 1985). So that even two CEOs with same social status face performance downturn, CEOs with greater status disparity will exert his managerial power to protect oneself from turnover (Flickinger, Wrage, Tuschke & Bresser, 2015). Therefore, a high-status CEO at a relatively low-status firm will be less likely to be dismissed. On the contrary, a low-status CEO at a high-status firm will be more likely to be dismissed, making the CEO a scapegoat of low performance (Shen & Cho, 2005). Therefore, we hypothesize as following:

Hypothesis 3a: Ceteris paribus, high-status CEOs are less likely to be dismissed than low-status CEOs.

Hypothesis 3b: Ceteris paribus, status disparity (CEO relative status to firm status) will have a negative impact on CEO dismissal likelihood.

3. Methods

3.1. Sample

We tested the hypotheses using the sample of CEOs in EXECUCOMP database for the years 2002 to 2006 inclusive. We dropped the panel data containing any missing values because data for all sample firms were not available in the database. The final sample consists of 2,526 CEO observations.

3.2. Measures

3.2.1. Dependent Variables

CEO power. We used CEO duality as a proxy for CEO power (Finkelstein, 1992). We coded "1" when CEO holds chairman position in a given year, and "0" otherwise. The data was obtained from Standard & Poor's EXECUCOMP database.

CEO compensation (absolute). By using Standard &Poor's EXECUCOMP database, we collected CEO's annual total compensation in a given year (EXECUCOMP item TDC1). EXECUCOMP provides data on salary, bonus, stock options, and other total compensation for the top five executives in the firm.

CEO compensation (relative). To obtain relative CEO compensation among top executives, we calculated the relative proportion of the CEO's total compensation with respect to the other top five executives. Total compensation includes salary, bonus, other annual pay, long-term incentive

payouts, the total value of restricted stock granted that year, the Black-Scholes value of stock options granted that year, and all other total compensation (EXECUCOMP item TDC 1) (Liu & Jiraporn, 2010). We calculated the portion of CEO compensation among top five executives including the CEO.

CEO dismissal. Following Shen and Cannella (2002), we examined news report on CEO turnover from Factiva and Lexis-Nexis. We analyzed news articles to define the reason of CEO turnover. We categorized as voluntary turnover if any of following reasons was found: (1) CEO's death or health problems, (2) CEO's acceptance of a similar position at another firm, or (3) merger or acquisition. Also, we categorized as CEO dismissal if any of following reasons were found: (1) the article directly reports that CEO was fired, (2) CEO have involved in crime, (3) CEO was resigned immediately or unexpectedly due to poor performance or undisclosed personal reasons, (4) CEO took early retirement with performance problems.

3.2.2. Independent Variables

CEO status. We assessed CEO status using data of recipients of *BusinessWeek's Best Managers of the Year Award.* During our sample period, 20 recipients of U.S. firms were awarded on average each year after excluding non-U.S. firms and small firms whose data accessibility was problematic.

First, we computed a variable indicating whether a CEO won an award in a current year and previous five years (1=yes, 0=no at time t). Next, we followed the formula of Bowers, Greve, Mitsuhashi & Baum (2014)'s formula, which weighs the value of status by its recency: a sum of $1/(\text{year}_t - \text{year of award})$.

Firm status. Following prior research on social status, we measured firm status with *Fortune's Most Admired Companies* list (e.g., Lin et al., 2009). This annual survey covers Fortune 1000 and Fortune Global 500 firms and is evaluated by its peer CEOs, executives, directors, and financial analysts. We first excluded non-U.S. firms from our data and computed a dummy variable indicating firms listed in Fortune's Most Admired Companies in the current year and previous three years (1=yes, 0=no at time t). Then, we again adopted the formula of Bowers et al. (2014)'s and calculated the weighted value of status by its recency: a sum of $1/(\text{year}_t - \text{year listed})$.

Status disparity. Status disparity represents relative dominance of CEO status over firm status. To capture relative standing of CEO status over firm status, we subtract standardized score of *Firm status* from *CEO status*. We standardized each variable in order to control the variance difference between two variables.

3.2.3. Control Variables

Firm size. We defined firm size as a logarithm of a firm's total assets. Data was collected from COMPUSTAT database.

Firm performance. Return on equity (ROE) was used for accounting firm performance measure, which was calculated by the formula (*ROE = net income / stakeholder's equity).*

Industry return. Since our data includes multiple industries, we tried to control industry variance by industry return. We coded as the same industry when company shared two-digit SIC codes. Then, we calculated industry return with following formula (Wade et al., 2006; Graffin et al., 2008). Data was collected from COMPUSTAT database.

Industry Return $ij = \sum_{ij}(Total\ Assets_{ij} * Total\ Return_{ij})\ /$

$(\sum_{ij}(Total\ Assets_{ij})$,

where *i* is each company in industry *j* for a given year.

CEO tenure. CEO tenure was calculated by the number of years he or she has been employed as the CEO. We collected data from company profiles from business related journals like *Forbes* and *Businessweek*.

Outside CEO. We created a dummy variable to control the effect of outsiderness on dependent variables. We coded "1' when CEO's company tenure and CEO tenure was equal or less than three, and "0" otherwise.

New CEO. We also included New CEO dummy variable. We coded "1" if one became CEO in past three years including a current year, and "0"

otherwise.

CEO Duality. This dummy variable, which shows CEO having chairman position in his organization, was only included in testing hypotheses 3a and 3b on CEO dismissal likelihood.

CEO 6163/CEO 64. To control the CEO age effect on CEO dismissal, we coded two dummy variables (Cannella & Shen, 2001; Ocasio, 1994; Zhang, 2006). Following Zhang (2006), *Age6163* was coded "1" if CEO age was 61, 62, or 63 in a current year, and "0" otherwise. *Age64up* was coded "1" if CEO age was 64 or older in a current year, and "0" otherwise. These dummies were only included in testing hypotheses 3a and 3b on CEO dismissal likelihood.

3.3 Data Analysis

First, since the data on CEO status and firm status are released to the public on the different month of the year, we expected some temporal lag for CEO status and status disparity to materialize. Therefore, we adopted a lag structure which uses the values at the end of fiscal year t for independent and control variables and t+1 for dependent variables to effectively detect the effect of status.

Second, we address the issue of unobserved CEO and firm heterogeneity by constructing a panel data set and including both CEO and

firm fixed effects in the model. The fixed effects model, by controlling time-invariant characteristics, mitigates such concerns as cross-sectional heterogeneity and endogeneity. Also, using a Hausman (1978)'s test, we found that there is a correlation between the independent variables and unobserved variables that are not controlled for. Thus, the fixed-effects model was once again confirmed. Our analyses were estimated using *xtreg* function in STATA with the fixed effects option (*fe*). For binary dependent variables, CEO Power (CEO duality) and CEO Dismissal, we employed logistic (the *xtlogit* routine in STATA) and rare event logistic model (*relogit* routine in STATA). Models are estimated with robust standard errors to control for heteroscedasticity.

4. Results

Table 1 reports the descriptive statistics of variables, including observation numbers, means, standard deviations, and correlations. All variance inflation factors were below three with the average of 1.65, which suggests that standard errors are not being inflated by factors significantly. Therefore, we assume that multicollinearity does not exist in these variables.

The results of analyses testing Hypothesis 1a and 1b on CEO power are shown in Table 2. We estimated that CEO status and status disparity will have a positive impact on the level of CEO power. Model 1 is a control

model and Model 2 and 3 explores the statistical significance of the relationship between variables. All of the results support Hypothesis 1a and 1b, and tell that both absolute and relative value of CEO status is an important factor for determining the level of CEO power in the organization. In Hypothesis 2a and 2b, we expected that both absolute and relative status of CEO over the firm will also have a positive impact on compensation level. Table 3 presents the results of the analyses on CEO total compensation and Table 4 shows the results of the analyses on relative CEO compensation among top five executives. In each table, Model 2 shows the statistical significance of Hypothesis 2a, which predicts the positive influence of CEO status on CEO compensation. Status, as a quality signal, increases the significance of CEO in the organization. Model 3 shows that the coefficient on the status disparity is positive and significant. This suggests that the high-level of CEO status dominance over the firm status will result in a greater level of CEO compensation. Taken together, both Hypothesis 2a and Hypothesis 2b were supported.

Table 5 reports the estimates of the logistic models with the dependent variable of CEO dismissal. Using Model 2 and 3, we investigate the level of statistical support for Hypothesis 3a and 3b. First, Hypothesis 3a predicts the positive relationship between CEO status and CEO dismissal likelihood. However, there was no significant effect this relationship.

Hypothesis 3b predicts that, if all things are equal, the status disparity between CEO status and firm status decreases the likelihood of CEO dismissal. Model 3 in Table 5 tests this prediction. The results suggest that status disparity is not a significant factor for CEO dismissal, suggesting that relative standing of CEO in the organization did not act as a quality signal in performance downturn. Therefore, Hypothesis 3b is not supported. In addition, only the Model 3 has shown the significant positive impact of firm status on dismissal likelihood, which was included as a control variable. Taken together, the result suggests that both absolute and relative value of CEO status does not impact the level of CEO dismissal likelihood. To further analyze this relationship, we tested how unexpected performance variation affects the relationship between CEO status and CEO dismissal likelihood by conducting additional analysis. We utilized *performance extremeness*, which was calculated by following the procedure described by Sanders & Hambrick (2007). We first estimated "predicted performance" by regressing firm performance on control variables: past performance, firm size and industry return. Then we obtained an absolute value of residuals from the regression, which represents the difference between actual and expected performance. Table 6 shows the results of rare events logistic regression on CEO dismissal likelihood (King & Zeng, 2001). We found that the moderating effect of performance extremeness on CEO dismissal is greater

when the status disparity is high. This indicates that CEOs with greater status disparity are more likely to be appreciated for their unexpected positive performance than CEOs with lower status disparity.

TABLE 1

Descriptive Statistics (N=2,526)

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. CEO status	0.04	1.10	1.00														
2. Status disparity	-0.05	1.14	0.62	1.00													
3. CEO power	0.73	0.45	0.00	0.00	1.00												
4. CEO compensation (absolute)	9.00	1.38	-0.04	-0.10	0.15	1.00											
5. CEO compensation (relative)	0.40	0.12	-0.07	0.00	0.15	0.47	1.00										
6. CEO dismissal	0.01	0.11	0.03	0.00	0.01	-0.01	-0.07	1.00									
7. Firm status	0.10	1.15	0.18	-0.66	-0.01	0.09	-0.07	0.03	1.00								
8. Firm size	9.89	1.32	0.09	-0.18	0.11	0.26	-0.13	0.01	0.31	1.00							
9. Firm performance	0.27	2.62	-0.01	0.00	-0.01	-0.01	-0.01	-0.01	0.00	-0.03	1.00						
10. Industry return	-3.47	0.98	-0.02	-0.12	-0.07	-0.03	0.05	0.01	0.13	-0.34	0.00	1.00					
11. CEO tenure	9.18	7.78	0.02	-0.03	0.02	0.01	-0.04	-0.01	0.06	0.01	-0.02	0.02	1.00				
12. New CEO	0.18	0.39	-0.08	-0.06	-0.10	0.02	0.02	-0.03	0.00	0.01	0.03	-0.02	-0.49	1.00			
13. Outside CEO	0.32	0.47	0.01	0.11	-0.08	-0.09	-0.03	0.03	-0.12	-0.14	0.00	-0.01	-0.01	0.05	1.00		
14. Age6163	0.14	0.34	0.00	-0.01	0.01	-0.01	0.02	0.03	0.01	0.03	-0.02	-0.02	0.04	-0.11	0.03	1.00	
15. Age64	0.33	0.47	-0.04	-0.08	0.07	0.04	-0.01	-0.03	0.06	0.05	0.04	-0.02	0.49	-0.29	-0.08	-0.28	1.00

TABLE 2
CEO Power

Variables	Model 1	Model 2	Model 3
Firm status	0.046**	0.044**	0.067***
	(0.02)	(0.02	(0.02)
Firm size	0.113***	0.101***	0.101***
	(0.03)	(0.0)	(0.03)
Firm performance	-0.003	-0.003	-0.003
	(0.00)	(0.00)	(0.00)
Industry return	0.004	0.004	0.004
	(0.01)	(0.01)	(0.01)
CEO tenure	-0.035***	-0.034***	-0.034***
	(0.01)	(0.01)	(0.01)
New CEO	-0.094*	-0.087***	-0.087***
	(0.03	(0.03)	(0.03)
CEO status		0.023***	
		(0.01)	
Status disparity			0.028***
			(0.01)
Constant	-0.034	0.0630	0.063
	(0.33)	(0.330)	(0.33)
Observations	2,526	2,526	2,526
R-squared	0.027	0.031	0.031
Number of id	658	658	658

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

TABLE 3
CEO Compensation (Absolute)

Variables	Model 1	Model 2	Model 3
Firm status	-0.029	-0.037	0.079
	(0.05)	(0.05)	(0.05)
Firm size	-0.137	-0.195**	-0.195**
	(0.09)	(0.09)	(0.09)
Firm performance	-0.002	-0.003	-0.003
	(0.01)	(0.01)	(0.01)
Industry return	0.030	0.028	0.028
	(0.03)	(0.03)	(0.03)
CEO tenure	0.078***	0.084***	0.084***
	(0.01)	(0.01)	(0.01)
New CEO	0.003	0.0370	0.037
	(0.07)	(0.07)	(0.07)
CEO status		0.116***	
		(0.02)	
Status disparity			0.147***
			(0.03)
Constant	9.745***	10.242***	10.242***
	(0.83)	(0.83)	(0.83)
Observations	2,526	2,526	2,526
R-squared	0.027	0.043	0.043
Number of id	658	658	658

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

TABLE 4
CEO Compensation (Relative)

Variables	Model 1	Model 2	Model 3
Firm status	0.008	0.007	0.014**
	(0.01)	(0.01)	(0.01)
Firm size	-0.075***	-0.078***	-0.078***
	(0.01)	(0.01)	(0.01)
Firm performance	-0.001	-0.00119	-0.001
	(0.00)	(0.00)	(0.00)
Industry return	0.004	0.00408	0.004
	(0.00)	(0.00)	(0.00)
CEO tenure	0.005**	0.005***	0.005***
	(0.00)	(0.00)	(0.00)
New CEO	0.000	0.002	0.002
	(0.01)	(0.01)	(0.01)
CEO status		0.006**	
		(0.00)	
Status disparity			0.008**
			(0.00)
Constant	1.118***	1.145***	1.145***
	(0.108)	(0.109)	(0.109)
Observations	2,526	2,526	2,526
R-squared	0.025	0.028	0.028
Number of id	658	658	658

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

TABLE 5
CEO Dismissal

Variables	Model 1	Model 2	Model 3
Firm status	0.230	0.215	0.287*
	(0.14)	(0.14)	(0.17)
Firm size	0.063	0.060	0.060
	(0.16)	(0.16)	(0.16)
Firm performance	-0.110	-0.110	-0.110
	(0.18)	(0.18)	(0.18)
Industry return	0.065	0.067	0.067
	(0.23)	(0.23)	(0.23)
CEO duality	0.297	0.296	0.296
	(0.44)	(0.44)	(0.44)
CEO tenure	-0.024	-0.025	-0.025
	(0.03)	(0.03)	(0.03)
New CEO	-1.548**	-1.516*	-1.516*
	(0.78)	(0.78)	(0.78)
Outside CEO	0.681*	0.670*	0.670*
	(0.37)	(0.38)	(0.38)
Age6163	0.240	0.262	0.262
	(0.46)	(0.47)	(0.47)
Age64	-0.703	-0.673	-0.673
	(0.53)	(0.53)	(0.53)
CEO status		0.073	
		(0.12)	
Status disparity			0.092
			(0.15)
Constant	-4.776***	-4.758***	-4.758***
	(1.49)	(1.50)	(1.50)
Observations	2,526	2,526	2,526
Number of id	658	658	658

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

TABLE 6
CEO Dismissal

Variables	Model 1	Model 2	Model 3	Model 4	Model 5
Firm status	0.296	0.290	0.284	0.356	0.379*
	(0.18)	(0.18)	(0.18)	(0.23)	(0.23)
Firm size	0.090	0.087	0.088	0.087	0.071
	(0.19)	(0.19)	(0.19)	(0.19)	(0.19)
Firm performance	0.083***	0.083***	0.076***	0.083***	0.078***
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Industry return	0.05	0.054	0.055	0.054	0.045
	(0.37)	(0.37)	(0.37)	(0.37)	(0.37)
CEO duality	0.019	0.024	0.005	0.024	-0.002
	(0.45)	(0.45)	(0.46)	(0.45)	(0.45)
CEO tenure	-0.012	-0.012	-0.014	-0.012	-0.014
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
New CEO	-0.595	-0.587	-0.581	-0.587	-0.612
	(0.78)	(0.79)	(0.79)	(0.79)	(0.79)
Outsider CEO	0.977**	0.967**	0.972**	0.967**	0.987**
	(0.44)	(0.44)	(0.44)	(0.44)	(0.44)
Age6163	0.049	0.057	0.091	0.057	0.085
	(0.53)	(0.52)	(0.52)	(0.52)	(0.52)
Age64	-0.678	-0.666	-0.646	-0.666	-0.656
	(0.57)	(0.56)	(0.57)	(0.56)	(0.57)
Performance extremeness	-6.692*	-6.670*	-6.771*	-6.670*	-6.866**
	(3.49)	(3.49)	(3.49)	(3.49)	(3.49)
CEO status		0.066	0.103		
		(0.12)	(0.12)		
CEO status * Performance extremeness			2.320		
			(1.57)		
Status disparity				0.084	0.095
				(0.15)	(0.16)
Status disparity * Performance extremeness					3.287***
					(1.22)
Constant	-4.999***	-4.971***	-4.966***	-4.971***	-4.825**
	(1.91)	(1.90)	(1.91)	(1.90)	(1.90)
Observations	1,868	1,868	1,868	1,868	1,868

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

5. Discussion and Conclusion

The object of this study was to examine the effect of CEO status and firm status on corporate governance issues like CEO power, compensation, and dismissal likelihood. Our study makes three broad contributions to the status and corporate governance literature. First, we aimed to extend the status literature by linking two different levels of status and focusing on the status disparity between those two, which represents the relative dominance of CEO status over firm status. We expected that actors perceive the value of status not just in an absolute term, but also in a relative term so that one's social setting will influence the relative value of status. The findings of this research highlight that CEO status has both an absolute and relative value and both influence a perceived significance of CEO over the organization.

Current literature on status emphasizes the nature and advantages of status homophily (e.g., Podolny, 1993; 1994). Status homophily reduces uncertainty and risk and expects partners to contribute to an equal level of commitment (McPherson et al., 2001). However, the motive of status heterophily has been relatively less examined (except few studies such as Castellucci & Ertug (2010) and Shipilov, Li & Greve (2011)). This study contributes to the current evolving literature on status heterophily by both examining status dynamics between the CEO and the firm. In our research context, for high-status CEOs working at a low-status firm, firms, to attract

high-status CEOs, provide an additional premium to compensate CEO's cost of status spillover to the firm. The additional premium given by the firm was captured through CEO power, total compensation, and relative compensation among top five executives.

In addition, our results suggest that while status has a strong relationship with executive power and compensation level, it has relatively weak linkage with CEO dismissal likelihood. The finding distinguishes the different characteristics of CEO governance inside the organization and CEO termination. This suggests that the organization's decision on CEO reward and termination decision somehow have a different mechanism. We can explain this by two different approaches. First, a greater cost may be associated with dismissal. When deciding CEO termination, the board of directors has to consider the subsequent cost of searching for a new CEO or adapting to overall change after CEO succession. Therefore, the impact of status as a quality signal on CEO dismissal can be weaker compared to its impact on CEO power or CEO compensation. The second approach deals with the associated cost of having high-status CEOs. If the cost of maintaining the relationship with high-status CEO is considerable, the board of directors might have stricter standards on performance evaluation. Merton (1968b) argues that while high-status actors enjoy Matthew Effect, which allows them to gain status and generate performance benefits more

easily, they are also bound to inverse Matthew Effect, suggesting high-status leaders are more subject to face harsh reaction when the expected performance is not realized. We found general support for this explanation through the examination of the moderating effect of performance extremeness in additional analyses. Therefore, organizations, especially when the status disparity is high, might have two different cost mechanisms that affect executive termination.

Although we adopted one of the widely used measurements of status in the literature, the proxies still do not comprehensively capture how the CEO and the firm themselves perceive status and compare with theirs. The measurement of status can be largely divided into three types, network centrality (e.g., Jensen, 2008), deference (e.g., Washingon & Zajac, 2005) and ranking (e.g., Philips & Zuckerman, 2001). Among these various types of status operationalization, we chose to use ranking measure on both CEO and firm-level status. Because network centrality and deference capture the subject's relative position in the certain network, these two measurements are more suitable to the context where there is a defined set of players and audiences in the market. For example, studies examining status of the venture capital (Pollock et al., 2015) or inter-organizational partner selection (Chandler, Haunschild, Rhee & Beckman., 2013) take these operationalization types. But, in our research context, we focus on the CEO

and the firm's status as the signal for quality, which makes ranking as an ideal proxy to capture status. However, this measurement has a limitation since it assumes that status evaluation will be equal regardless of audience types. Although closely related, the board of directors inside the organization may have a different set of standard for evaluating a manager's status compared to those stakeholders outside the organization. Future research should consider developing audience-specific proxies for status and explore how the public's evaluation and the board of director's evaluation on CEO status can differ by context.

The dynamic characteristics of status have been increasingly captured in status research recently (e.g., Ozmel & Guler, 2014; Cowen, 2012). However, the linkage between two different types of status has been limitedly examined. Our framework of absolute and relative level of status needs to be applied to various topics and settings. While current research explicitly focuses on major issues of CEO governance (CEO power, compensation and dismissal likelihood), future research might examine this framework in more specific issues on corporate governance and explore how the impact of absolute and relative status differ by various governance issues. Although our study focused limitedly on the level of total compensation and relative compensation among top five executive, future research could consider their effects on compensation structure. For example, CEOs with a

high level of status disparity with their firm might receive a greater amount of perquisites compared to CEOs with a low level of status disparity.

Also, future studies can examine the level of attribution on positive and negative performance to high- and low-status CEOs. High-status actors are considered to be more superior in terms of its ability and quality than low-status actors (Lynn et al., 2009). Thus, high-status CEOs may be more attributed to positive performance than low-status actors for the same level of performance outcome, which can result in greater pay gain after an earnings surprise. We found the evidence of attribution discrepancy on performance extremeness by the level of CEO status (Table 6). Further analyzing how positive and negative deviation from expected performance affect CEO dismissal likelihood would provide clearer insight on how CEO status affects performance attribution to the CEO. Furthermore, this framework can be also applied to inter-organizational relationship research and deepen our understanding of status homophilous and heterophilous ties in the network. For example, by extending Shen, Tang & Chen (2014), we can apply this framework to examine how exchange participants define one's role based on their absolute and relative level of status. We hope future research extends our understanding of status dynamics by further exploring the distinct effect of absolute and relative status in various contexts.

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국 문 초 록

CEO 지위와 기업 지위 간의 역학관계 연구

본 논문은 CEO 지위와 기업 지위 간의 역학관계를 연구한다. 기존의 CEO 지위의 절대적 가치에 관한 연구에 이어, 본 연구는 CEO 지위의 상대적 가치에 주목한다. S&P 500 기업의 CEO 들을 대상으로 패널 데이터를 구성하여 가설을 검증한 결과, CEO 와 기업 간의 지위 격차가 클 수록 기업은 이런 격차를 보상하기 위해 CEO 에게 더 많은 권력과 보상을 제공하는 것으로 나타났다. 해당 논문은 CEO 의 경영 자질에 대한 이사회의 평가 및 그에 따른 보상 제공 행동을 CEO 와 그가 속한 기업 간의 지위 격차를 통해 분석한 첫 연구이다.

주요어: CEO 지위, 기업 지위, 경영자 권력, 경영자 보수, 경영자 해임

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