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OUTSIDER CEOS: THE IMPACT ON FIRM PERFORMANCE AND EMPLOYEE COMMITMENT

ANNA LOCKMER
University of Rhode Island

CEOs are top executives that provide overall direction and strategy to companies under the supervision of a Board of Directors or other governing body. As the top level of leadership for strategic decision making they are ultimately held responsible for all aspects of company performance. The Board of Directors, shareholders, employees, customers, and the public tend to perceive a CEO and a corporation as one and the same; the lines are blurred between CEO and corporation. CEOs such as Mark Zuckerberg, Larry Page, and Jeff Bezos are synonymous with their organizations: Facebook, Google, and Amazon. These CEOs have imprinted their values on their organization either as a founder or as a successor.

Over time CEOs leave organizations for a variety of reasons and under innumerable economic and organizational conditions. Boards generally seek replacements that have the knowledge and expertise to lead an organization successfully over the long-term and must select either an internal or outsider candidate. The selection of a new CEO is a critical decision for a Board of Directors. Arguably, the values, decisions and actions of a new CEO have significant impact on the performance of an organization as well as employees.

Internal candidates from organizations’ executive level positions account for nearly 76% of CEO successions at S&P 500 organizations in 2013 according to a report from The Conference Board, a non-profit business research group (Tonello, 2014). Internal successors have intimate working knowledge of an organization and are embedded in its culture. With the selection of an internal candidate, it is usually assumed that the Board is signaling a continuation of the status quo: the mission and competitive advantage of the organization is sound and significant organizational change is not required.

The focus of this paper is on the approximately 24% of succeeding CEOs that are outsiders. The Conference Board defines outsiders as individuals who are retained as CEO with less than one year’s tenure at an organization. Outsiders will generally have expertise and knowledge in the industry, but little if any operational knowledge of the organization. They are hired by Boards because they have some specific knowledge, skills, abilities and experience which has led the Board to believe they can bring about strategic change.

Less often discussed is the direct or indirect effect that outside CEOs have on employees. Outside CEOs are charged with strategic change which can mean a shift in the organization’s mission or a shift in its competitive advantage resulting in restructuring or layoffs. Outsiders also bring with them their own personal values which may or may not align with the social values of the organization which had been formed and solidified under the predecessor CEO. As the top leader in an organization, the outsider CEO values may begin to change the existing culture and change the employer-employee relationship. This relationship can be analyzed through an evaluation of employee organizational commitment.

CEO succession is a multifaceted topic in human resource management and there is a great deal of academic research on it. This paper attempts to clarify the impact outsider successor CEOs have on organizational performance and employee commitment through a discussion of values and culture. Additionally, it seeks to identify the circumstances under which outsider CEO can achieve the most positive organizational performance and employee commitment outcomes.

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CEO Turnover

According to a report from Challenger, Gray & Christmas, an outplacement firm, a total of 1,246 CEOs departed American firms in 2013 (Abrams, 2014). Through 3rd quarter 2013, 43 companies on S&P 500 replaced CEOs (Green & Hymowitz, 2013). And according to a Booz & Company Chief Executive Study, CEO turnover was 15% in 2012, the second highest since 2000 (Strategy&, 2013). Figure 1 is a graphical representation of CEO departures at American firms by month and year.

FIGURE 1
CEO Departures by Month, 2014 May CEO Report, Challenger, Gray & Christmas, Inc.

CEOs leave organizations though retirement, resignations, and ousting, which are prompted by enticing retirement benefits, organization operational performance, stock price, economic conditions, and the need for new organizational strategies. One reason that 2013 experienced such high CEO turnover was the modest economic recovery. With the improving economic conditions, it was a lucrative time for retirement for aging CEOs. Retirements leave Boards in a good position to make a change; organizations are generally in a stable place and CEO succession planning has likely been in place (Green & Hymowitz, 2013).

Resignations and oustings are more likely to be disruptive to organizations. Resignations usually fall on the heels of some type of fallout from poor organizational performance, to a serious organizational mistake like Target’s data breach, to political missteps as in the case with Mozilla CEO Brendan Eich in 2014. Boards may oust CEOs or pressure resignation when a change in direction or competitive advantage is believed to be needed. In 2013, Walmart was experiencing slow sales growth in the US and slowing global expansion. Also in 2013 Microsoft was transitioning from software to internet and mobile devices and services (Green & Hymowitz, 2013). Activist investors at Proctor & Gamble and J.C. Penney put pressure on the board to replace their CEOs due to low stock price.

As can be expected, poor company performance leads to high CEO turnover (Kaplan & Minton, 2012). Additionally, according to a 2010 Headlight International study, organizations performing badly turnover CEOs more frequently than those performing well (Friedl & Resebo, 2010). CEO turnover is also impacted
by the economy. During the most recent economic crisis boards postponed CEO transitions to maintain stability and avoid costly strategic changes. With improvement in the economy Boards are more willing to make changes and invest in large-scale strategic change initiatives.

**Outsider CEOs & Company Performance**

When replacing a CEO, Board of Directors seek experienced and reputable individuals to lead organizations over the long term (Mooney, Dalton, Dalton, & Certo, 2007). It is generally held by business analysts, academic researchers, and members of Boards of Directors that outsider CEOs will bring fresh perspectives and the ability to bring about the strategic change that they feel is necessary to improve organizational performance.

In 2012, Yahoo hired Marissa Mayer, a 37 year old web-search executive. Yahoo was struggling with consumer websites, having difficulty making itself relevant to internet users, and was on the path to obscurity. A select group of board members felt that Yahoo needed a product expert to turn the company around and found that in Mayer, a Google vice president (Efrati & Letzing, 2012). At least according to an interview with NPR, Carlos Watson, co-founder of Ozy.com, said the CEO is doing incredibly well, with the stock price tripling since 2012 (Rath, 2014). However, Marissa Mayer is in the minority.

According to a Center for Creative Leadership report, 55% of outsider CEOs are dismissed within their first 18 months (Mooney et al., 2007). Yet Boards continue to select outsider CEOs to lead a change in organizational direction and the business community advocates this practice. Karaevli and Zajac (2013) suggest that the temporal expectations for bringing about strategic change are the reasons for most dismissals; either the CEO cannot bring change quick enough or in some cases delivers it too quickly. As will be discussed below other organizational factors such as predecessor CEO tenure, nature of the predecessor departure, organizational performance itself, and post-successor executive turnover can have an impact on the outside successor’s ability to bring about change and improve organizational performance.

**Outsider CEOs & Organizational Commitment**

The business community takes interest in the financial impact new CEOs will bring to an organization. Boards make a change when a change in business strategy is needed, many times under the pressure of investors and falling stock prices. The implementation of strategic change is wanted quickly and efficiently. Arguably, this focus on profitability comes at the detriment of employees. Boards are looking at organizational performance and are many times not looking out for the best interest of their employees.

Beyond qualifications and expertise, selection committees and boards consider the person-organization fit of new CEOs. Many times it is the person-organization fit between the Board and the CEO not necessarily between the culture of the organization itself and the CEO. But if and how Boards take into account how an outsider CEO successor will affect employees and specifically employee commitment is not as clear. Boards should be concerned about the impacts as decreasing commitment will result in higher turnover and rising costs.

**THEORETICAL FRAMEWORK**

**CEO Values**

CEOs are individuals who hold personal values. These values shape their leadership style and decision making processes. While leadership style is not the focus of this paper, it is important to realize the role the personal values play in all forms of leadership styles. Value-based and mission approaches to leadership especially rely on individual and group values (Dolan & Garcia, 2002). It would follow that the
mission, or goal of the organization would be best achieved in circumstances when a CEO’s values are aligned with those of the organization. The basis of a value approach to leadership is that individuals’ behaviors are shaped by established social values. This would suggest that the leader should share the same values as the group, or that the leader shapes the social values of the group. If values are not aligned it can be posited that employee motivation will decline and performance will follow.

Values also play a critical role in the decision making process. Due to their top executive leadership position, CEOs are the ultimate decision makers for their organizations. It follows that a CEO’s personal values will guide and shape strategic decision making at the highest organizational level. As strategic decisions should have a significant impact on organizational performance, the values of the decision maker should have an impact on organizational performance.

**Culture.** Organizational culture has been defined in a wide variety of ways. In their research, Berson, Oreg and Dvir (2007) describe organizational culture as a phenomenon by which key members create shared meaning. Social norms, shared values, shared mental models, and social identities are aspects of culture that shape the behaviors of members of a group (Kilmann, Saxton, & Serpa, 1986). Cultures strengthen or change based on evolving social values. Role modeling and selective hiring are practices that can have an effect on culture. As top leaders, CEOs play a role in the evolution of an organization’s culture, shaping it to increase employee and organizational performance. When pressure is exerted on a culture to change, the CEO’s values will help determine its direction. Therefore, a culture might change in one direction under one CEO and in the opposite direction under another. For instance, CEOs will favor different HRM systems resulting in different organizational cultures.

Berson, Oreg and Dvir (2007) propose a model where culture shapes the relationship between CEO values and organizational outcomes, which is depicted in Figure 2.

**FIGURE 2**

**CEO Values, Organizational Culture, and Organizational Outcomes**

Source: Berson et al, 2008: 616

Their theory indicates that CEO values shape organizational culture which then leads to different organizational outcomes. Cultures have been found to have a number of positive outcomes for organizations including increased employee commitment and profitability and sales growth. It has been shown that different cultures can also bring about different performance results, such as sales growth, efficiencies, and employee satisfaction, or decreased turnover (Berson, Oreg, & Dvir, 2007). Their research study is discussed below.

**Influencing Firm Performance – Strategic Diagnosis**

When a new outsider CEO begins work at an organization it is usually because a Board believes strategic change is needed to improve organizational performance (Mooney et al., 2007). However, increasing organizational performance is usually not an overnight achievement. One approach to identifying areas of organizational improvement is to apply a form of strategic diagnosis to the levels of organizational strategy. From the organization’s mission, to its corporate strategy, to its business strategy,
and to its functional strategies, CEO’s can gather information to make informed decisions on where opportunities may lie. In many high-profile outsider CEO replacements, new CEOs are charged with developing new missions or directions for large companies or shifting the organization’s competitive strategy. New operational strategies may be required to support an existing mission and competitive strategy. CEOs can also impact firm performance through employee performance. Since performance is a function of ability and motivation, CEOs can influence performance through policies and practices that have the potential to increase employee motivation. CEO decision making lies at the center of these changes to organizational strategy. As such CEO values will influence all of these changes. Figure 3 shows how CEO values reach all aspects of organizational strategy.

FIGURE 3
Model of the reach of CEO values

Commitment Theory & Culture

Organizational commitment is a concept that is used to describe an employee when the employee exhibits a specific pattern of behaviors. In displaying these behaviors, we would say an employee has high organizational commitment. Scholl (2010) defines three components of commitment as: identification with the organization’s goals and/or mission, long-term membership in the organization and intention to remain with the organization, and high levels of extra role behaviors (ERB).

Identification with an organization may be with the employer itself, seen as commitment to the organization or it can be with the employer’s social mission, tied to commitment to a profession, or occupational commitment. Long-term membership is gained by a positive on-going relationship with the organization. This is often referred to as loyalty to the organization. The last component of commitment is the exhibitions of ERBs. ERBs are generally explained by expectancy theory; however, ERBs still exist in committed employees when the components of expectancy theory degenerate (Scholl, 2010).

Arguably, organizations with employees who have high levels of organizational commitment have a competitive advantage over their peers in the marketplace. Richard Walton (1985) sets out two approaches to workforce management: the traditional control approach and the commitment approach.
Walton asserts that the commitment approach to workforce management “pays tangible dividends for the individuals and for the company” (Walton, 1985, p. 1). The commitment approach focuses on practices that encourage talking about common interests, developing mutual trust, and sponsoring quality-of-work-life and employee involvement activities. Walton endorses a change from traditional hierarchies to a team-based organization, where performance is gauged on the success of the team, not the individual, and that business information is shared with employees. Performance expectations are set high, to define “stretch objectives,” rather than to define minimum performance or adequate role behavior (Walton, 1985).

Commitment, defined by Scholl as “a stabilizing force that acts to maintain behavioral direction when expectancy/equity conditions are not met and do not function,” (Scholl, 1981: 593) is affected by four mechanisms: investments, reciprocity, lack of alternatives, and social identities. It would follow that by setting practices in place that invest in these mechanisms, an organization could increase its employee’s level of commitment, and thereby increase its performance as a whole. The following table relates the four commitment mechanisms to some related HR strategies.

<table>
<thead>
<tr>
<th>Commitment Mechanism</th>
<th>Concept</th>
<th>Related HR Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>“Paying Dues” – a contribution today with the expectation of future gain</td>
<td>Foster long-term relationships. Develop trust that contributions will be rewarded in the future.</td>
</tr>
<tr>
<td>Reciprocity</td>
<td>“Indebtedness” - A benefit (training, opportunity) is awarded to an employee today with the notion that it will be repaid to the organization in the form of future performance</td>
<td>Foster long-term relationships. Inform &amp; educate employees of business. Provide training and benefits.</td>
</tr>
<tr>
<td>Lack of Alternatives</td>
<td>As employee’s experience and skills becomes specific to an organization, ability to move from that organization decreases. Alternative employment considered measurably worse than current employment.</td>
<td>Develop specialized skills. Provide rewards and benefits not seen elsewhere.</td>
</tr>
<tr>
<td>Social Identities</td>
<td>The link between an employee’s social identity and their specific role in an organization.</td>
<td>Recruitment of employees with passion for the mission of the organization. Sense of security and career path. Sense of belonging to the organization. Validation of employee skills through a sense of trust.</td>
</tr>
</tbody>
</table>

An organization’s structure, employee relationship-building practices, and social mission are factors that affect commitment. The mechanisms of investments, reciprocity, and lack of alternatives generally correlate to the time of employment (long-term membership) as they rely on training and development. However, they also can correlate to the length of relationship with a CEO. The relationship with a new outsider CEO is inherently a new relationship and mutual trust has not yet been established. The dues paid under the previous CEO may not be considered paid by the new CEO. Similarly, reciprocity can be disrupted with a change in mission or competitive advantage; new skills learned may no longer be important to the organization and employees may no longer feel indebted to the organization.

In the context of outsider CEO successor values the mechanism of social identity is likely the most important. As discussed above, the values of new outsider CEOs can begin to reshape the mission, strategies and culture of an organization. As this shift takes place, employees may no longer feel passionate about the organization’s mission. As strategic changes take place, such as restructuring, employees may no longer feel secure in their positions. These actions will have a negative effect on employee commitment.
The methodologies and practices based in commitment theory are primarily focused on the employee-employer relationship, which is maintained and developed over time. When a new CEO is hired and begins to imprint his or her values on the mission and culture of the organization, the employee-employer relationship changes. Trust must be reestablished for employee commitment to be maintained.

Hypotheses

It is generally believed that the hiring of an outsider CEO signals the need for strategic change within an organization. And it is assumed that the hired outsider will bring the expertise and knowledge to make the right strategic decisions and further have the ability to implement changes to bring about increased organizational performance. However, the fact that 55% of outsider CEOs fail in the first 18 months brings into question as to whether or not outsider CEO successors have the ability to increase organizational performance. If they can, it is worth understanding what CEO values are most important to increase performance.

Hypothesis 1. Outsider CEOs can have an effect on organizational performance.

Hypothesis 1a: Outsider CEOs will be most successful in increasing organizational performance when they hold clearly defined values that are in line with the company mission and compliment an established organizational culture.

Additionally, it is important to understand the impact outsider CEOs have on employees. I have chosen employee commitment as the dependent variable to understand the effect of outsider CEOs on employees. Given the theoretical framework above, I believe the following hypothesis to be supported.

Hypothesis 2. Employee commitment is negatively affected by the hiring of an outsider CEO.

Hypothesis 3. The degree of negative impact on employee commitment can be minimized when outsider CEO values support the established organizational culture.

FINDINGS AND DISCUSSION

Organizational Performance

CEO Characteristics. John Wood and Tricia Vilkinas performed a small study to identify which characteristics CEOs should possess and demonstrate to be successful (Wood & Vilkinas, 2007). This study differed from previous leadership characteristic studies because it analyzed a variety of characteristics, not just one, and incorporated subordinate staff responses. A humanistic approach, achievement orientation, a positive outlook, a sense of integrity, inclusiveness, and learning and self-awareness were characteristics identified for success.

The study consisted of the selection of 20 successful CEOs, 16 men and four women, which had been in their position at least two years as well as 38 of their subordinates. CEOs were chosen based on CEO awards, entrepreneurial actions, large and fast growing organizations, and peer-nominated CEOs. Subordinates had to have reported directly to the CEO for at least two years and were knowledgeable of their organizations. The authors used questionnaires and interviews to determine what characteristics and traits CEOs and their subordinates felt were most important in becoming successful. Figure 4 is a graphical representation of which characteristics CEOs and their subordinates felt they needed to be successful (Wood & Vilkinas, 2007).
A humanistic approach, achievement orientation, and a positive outlook ranked the highest. Integrity and inclusivity ranked in the middle, followed by balance and learning and self-awareness.

There are some serious limitations to this study. First, it was an exploratory study and the authors suggest that a study be conducted on a larger scale. With such a small sample, it could be argued that this impacted the results. Also this was a subjective survey study completed by the CEO and their subordinates without consideration of actual firm performance.

This study does indicate that integrity, defined as clearly defined values that govern behaviors, is viewed as an important value of a successful leader, interestingly more so by subordinates than CEOs themselves. Extending the research of this small study could lead to more substantive results of the relationship between CEO values and organizational performance.

**Values, Culture & Organizational Performance.** Berson, Oreg, and Dvir (2007) performed an empirical study of 26 public Israeli companies to examine the relationship between CEO values and organizational culture. They started with the premise that leaders help shape their organizations through their values and pass their values onto their employees through decision making and policies and practices. The authors cite other works to define values as “conceptualized as explicit or implicit formulizations of the ‘desirable’ that influence individuals’ means and ends of actions (Berson et al., 2007, p. 616).”

The authors suggest that cultures change under CEOs and CEOs are responsible for managing culture. They use three cultural dimensions in their study: innovation, bureaucratic, and supportive and Schwartz’s system of basic human values as their taxonomy of personal values. Of the ten values, they chose to focus on self-direction, security, and benevolence. The authors hypothesized that the self-direction value leads to innovation-oriented culture, security value leads to bureaucratic culture, and benevolence leads to supportive culture (Berson et al., 2007).

The authors cite other works which show performance outcomes of culture range from increased employee commitment to financial performance. The authors used sales growth, increased efficiencies, and employee satisfaction for positive organizational outcomes. They hypothesized that Innovative cultures were positively associated with sales growth, bureaucratic cultures were positively associated
with organizational efficiency and negatively with employee satisfaction and supportive cultures were positively associated with employee satisfaction (Berson et al., 2007).

282 individuals reported for the 26 companies using Schwartz’s value inventory, Wallach’s measure of the three cultures with 24 questions about the characteristics of their culture, and sales growth, ratio of sales to number of employees for efficiency, and satisfaction with the Hart and Quinn scale. A graphical representation of the results is shown in Figure 5.

**FIGURE 5**

**PLS Structural Equations Model**

All of the hypotheses proposed by the authors were supported by this study. The practical implications of this study are that executives, including CEOs, would benefit from understanding how their own personal values interact with the cultures in which they are immersed so they can actively manage their influence on the existing culture. It also shows that the type of culture influences the kind of organizational results; desired results may be achieved with a shift in culture (Berson et al., 2007).

**CEO Characteristics & Culture.** Giberson, Resick, Dickson, Mitchelson, Randall and Clark (2009) set out to empirically study the link between leadership and culture, specifically the personality traits and values of CEOs and the cultural values of organizational members. Their theoretical framework included supporting evidence that organizations should consider person-organization fit between current or desired organizational culture and CEO characteristics, that to accomplish organizational change, an organization may need to change its CEO, and that CEO values impact culture. They use the Competing Values Model of culture, which says the two dimensions of ‘demand for flexibility versus stability and control’ work with ‘focus on internal maintenance versus external competitive positioning’ to form four types of organizational culture: clan, adhocracy, market, and hierarchy. Leadership of an organization makes business decisions that impact these dimensions to form and support these cultures. (Giberson et al., 2009).
Secondly, the authors suggest that leaders establish goals based on their characteristics, namely personality, traits and values, and that through their actions and decision making reinforce or change the existing culture. Their overall theory is that organizational culture forms through a CEO’s strategic and operational decisions which reflect the CEO’s characteristics (Giberson et al., 2009).

They make a number of hypotheses describing the relationship between CEO Big 5 personality traits of agreeableness, emotional stability, extraversion, openness to experience and the four different cultures. They also attempted to determine which CEO personal values influenced the four cultures. They used Smith, Dickson, Grojean and Hanges’ (2002) taxonomy of 10 values: aesthetic, affiliation, benevolence, economic, hedonistic, power, security, status, theoretical, and tradition. They performed an exploratory study of these values without hypotheses (Giberson et al., 2009).

The authors collected surveys from 32 CEOs and 467 employees. CEOs were given Goldberg’s Big-Five personality inventory and a values measure from Smith et al (2002). Cultural values were measured with the Competing Values Instrument. Results were mixed, though several CEO personality traits were related to the different culture values. Agreeableness, emotional stability, and openness to experience were positively and negatively related to the various cultures. Extraversion and conscientiousness were not related to any of the cultures. The authors found few relationships between CEO values and culture. Status values had some positive correlation with clan culture and negative correlation with market cultures. The authors suggested that this could be due to the less developed taxonomy of values used in the study (Giberson et al., 2009).

This study did provide evidence that leadership characteristics, specifically personality, can be linked to different organizational cultures. It did less to support the idea that CEO values shape organizational cultures but it did point out that very little empirical research had been performed on CEO values and culture and suggested this work for the future.

**Context Matters.** Shen and Cannella’s 2002 study focused on the indicators of CEO successor performance outcomes outside of CEO’s characteristics namely successor type, post-succession executive turnover, and departing CEO tenure. The authors suggest that CEO successors should not be labeled either insider or outsider but that there are two forms of insiders called followers and contenders. Followers replace CEOs that retire and contenders are insiders that replace dismissed CEOs. These three types of successors differ by their ability to manage change, their firm-specific knowledge, and the risk of adverse selection outcomes. They also suggest that firm size, governance structure and industry conditions also impact firm performance post-succession and must be adjusted for in studies (Shen & Cannella, 2002).

The authors hypothesize that contender successors will be positively associated with post succession operational performance and that outsiders will have negative impacts on performance. Outsiders will have a negative impact because they are under significant pressure by the Board and investors to take quick action without firm-specific knowledge and because competent and supportive executives may be hard to come by. Additionally, Shen and Cannella (2002) believe that selection practices, as rigorous as they are, can inaccurately assess and evaluate CEO KSAs and person-organization fit.

Senior executive turnover post-succession can be a difficult issue for outsider CEOs. Some turnover will be initiated by the incoming CEO and voluntary turnover will likely occur because senior leaders will be turned off by an external hire or will leave in fear of being involuntarily terminated. This increases the probability that a senior executive who would be helpful in sharing firm-specific knowledge and decreasing leadership disruption will be absent. Therefore the authors hypothesize that senior executive turnover following outside CEO succession will be negatively associated with post-succession organizational performance.

Lastly, the authors hypothesize that predecessor CEO tenure has a u-shaped relationship with post-successor organizational performance. Long predecessor tenure usually indicates an organizational
commitment to the status quo and short tenures usually are disruptive to business strategies and operations.

The authors used a final sample of 228 CEO successions with 159 followers, 41 contenders, and 28 outsiders from large, publicly traded companies reporting at least $200m in sales for 1998. ROA was used as a measure of post-succession operational performance.

They did not find support that contender CEOs had positive organizational performance outcomes but did find that outsider CEOs had a negative effect on performance. Figure 6 shows the relationship found between performance and executive level turnover. For outsider CEOs firm performance decreased with high executive turnover.

FIGURE 6
Interactive Effect of Successor Type and Postsuccession Senior Executive Turnover on Firm ROA

Source: Shen & Cannella, 2002:727

Shen and Cannella showed that organizations should focus on top management positions other than the CEO in periods of CEO turnover when looking to improve organizational performance, clarified that outsider CEOs will likely experience top level management turnover, and that predecessor CEO tenure matters in achieving increased organizational performance. The authors suggest that outsider CEOs should exercise caution with other top leaders as they can be assets in bringing about change. They also believe that Boards should give more time to new CEOs to achieve increases in performance allowing them more time to learn about the intricacies of the business and that they should actively manage CEO tenure (Shen & Cannella, 2002).

Employee Commitment

No empirical studies were found that directly examined the effects of an outside CEO succession on employee organizational commitment. However, outsider CEO succession can be categorized as a form of organizational change and there is a large body of research on this topic.

Fedor, Caldwell, and Herold (2006) examined the effect of organizational change at 32 different organizations on individuals’ commitment to the change itself and the individuals’ organizational commitment as a whole. They suggest that how fairly the change is carried out and how favorable the outcomes can impact both commitment to the change and commitment to the organization. Feelings of uncertainty, loss of control, and fear of failure shape attitudes of the change. The authors further suggest that how the change affects an individual’s job and work unit is related to commitment both to the change...
and to the organization. This might suggest that a CEO change may have little impact on commitment for low level employees and a very significant impact on top executives. Their three hypotheses were:

H1. Change fairness at work unit level will be positively related to perceptions of both change commitment and to changes in organizational commitment.

H2. Change favorableness at work unit level will be positively related to perceptions of both change commitment and to changes in organizational commitment.

H3: The positive relationships between change fairness and change favorableness and the two commitment-related outcomes will be moderated by job level and work level changes.

This study consisted of two different surveys with a total final response of 764 employees in 32 organizations in the southeastern US. One survey was used to collect data on the change and change practices and the other focused on employee reactions to the change. The results supported that change circumstances and outcomes determined a complex relationship between organization change and commitment and showed that it is necessary to examine the impact of the change on an individual’s job and work unit to more fully explain the relationship (Fedor, Caldwell, & Herold, 2006).

Organizational commitment increased when there was a high level of favorable change at the work unit level. This supports that commitment increases when changes are made to improve work unit operations. However, when changes were seen as favorable to the unit but were small work unit changes with large amounts of individual job level changes, commitment was negatively affected. Commitment was also affected negatively or neutrally when changes were unfavorable to the work unit. Findings supported that fairness of the change were related to organizational commitment especially when work level changes were high. The authors stress that favorableness of the change at the work unit and individual level must be communicated and realized in order to increase organizational commitment. It is not enough for organizations to manage change effectively and increase commitment; they must make changes favorable to employees’ individual jobs and work units in order for commitment to be increased (Fedor et al., 2006).

CONCLUSIONS AND RECOMMENDATIONS

Hypothesis 1 stated that outsider CEOs can have an effect on organizational performance. This hypothesis is generally supported by the findings in this paper. However, the ability of an outsider CEO to improve the performance of an organization depends on a wide variety of factors, many outside the control of the CEO. Predecessor CEO tenure, circumstances of predecessor CEO departure, availability of assets, and economic conditions combine with CEO capabilities to impact performance. Hypothesis 2 stated that outsider CEOs will be most successful in increasing organizational performance when they hold clearly defined values that are in line with the company mission and compliment an established organizational culture. Little evidence was found to support this hypothesis; however, it was shown that values play an important role in the CEO decision making, which can lead to improved organizational performance.

Employee commitment is valuable to an organization because of its relationship to turnover, attendance, job satisfaction, prosocial behaviors and motivation. No empirical studies examining the specific relationship between CEO succession and employee organizational commitment were identified. However much can be learned by treating a CEO succession as a form of organizational change. Outsider CEO successions are the highest form of leadership change and are accompanied by the expectation of future significant strategic organizational changes.

Hypothesis 2 stated that employee commitment is negatively affected by the hiring of an outsider CEO. While no empirical evidence to support this was identified, Fedor, Calwell, and Herold’s (2006) study supports that an outsider CEO change could impact commitment either positively or negatively. Their
research suggests that organizational changes have a complex relationship to employee organizational commitment and the impact of the change on employees’ individual jobs and work units play a role in this relationship.

Hypothesis 3 stated that the degree of negative impact on employee commitment can be minimized when outsider CEO values support the established organizational culture. No empirical research was identified to support this hypothesis. However, empirical evidence does support that CEO values do have an effect on the mission and culture of the organization. The theoretical framework then supports that a stabilized culture could mitigate any negative impact on commitment.

Further Research

Two areas stand out for future research. First, further understanding of the relationship between CEO change and employee organizational commitment is warranted. The commitment outcome of turnover alone is underrated and it is possible that any incremental performance benefit attributable to the replacement of a CEO may be outweighed by the turnover it creates. Additionally, research on the direct relationship between CEO succession and turnover would be valuable to both the academic and business communities.

Second, given the current economic climate and the incredible pressure for American organizations to grow, CEO turnover will continue to rise. The belief that a change in leadership will bring improvements in organizational performance is firmly entrenched in the business community. Boards and investors form beliefs that a certain organizational direction will bring increased performance and then seek and retain a CEO that they feel has the expertise to lead the firm in that direction. With a 55% failure rate, this brings up two areas for research. The first is the CEO selection process and its effectiveness. The second is an investigation into the power of the Board and investors.

REFERENCES


