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Studies of UK Chief Executive Officers in the FTSE 350: Implications for management, succession and governance

by

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ABSTRACT

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Management

Thesis for the degree of Doctor of Philosophy

STUDIES OF UK CHIEF EXECUTIVE OFFICERS IN THE FTSE 350: IMPLICATIONS FOR MANAGEMENT, SUCCESSION AND GOVERNANCE

Peter Karel Rejchrt

There is limited recent evidence from the UK on the sourcing and backgrounds of Chief Executive Officers (CEOs). Practitioner views are dominant and suggest a frequent "churn" of these individuals between lucrative roles. In particular, the implications of hiring profiles, organisational career paths and demographic backgrounds have not featured in the research focus, which has perpetuated the practitioner view of CEO succession. The governance implications of CEO successions in non-domestic companies are linked to home market culture to seek validation for different approaches to compliance with governance standards. This thesis presents three linked papers on CEO succession, with the final paper evolving a governance focus from a finding of the research into the earlier papers.

Chapter 2 (Paper 1) considers the implications for the future of the publicly traded corporation in terms of its leadership talent pipeline by considering the questions of the succession, age and tenure, and recruitment of CEOs. It examines a sample of the 350 largest UK publicly quoted companies and develops a research agenda focused on the succession, age, tenure and provenance of recruits to senior executive roles. The paper shows the predominance of internal recruitment, with ageing CEOs in role for over six years and close to retirement. These CEOs tend to be replaced by successors with similar age profile and recruitment characteristics, as the level of "churn" of CEOs between roles is reported as minimal. It may appear that focus on succession planning has produced results, as many CEOs are recruited from an

internal talent pool and enjoy longer tenures than previous research has indicated. However, the future talent pipeline may be at risk due to a lack of development opportunities.

Chapter 3 (Paper 2) examines the outcomes of talent management at the 300 largest companies in the UK, using a quantitative approach. It examines the relationship between the functional backgrounds and age demographics of CEOs and firm performance. It further links antecedent organisational performance to the internal-external CEO hiring decision. The findings show a relative predominance of general management skills in current CEOs. Replacement CEOs are usually sourced internally and long tenure is associated with improved firm performance. This holds true even with below-average antecedent firm performance, where firms are expected to address strategic shortcomings by seeking an external recruit. The article discusses the implications of the findings for succession planning and career paths.

Chapter 4 (Paper 3) engages with a small sample of non-domestic companies listed on the London Stock Exchange. Such companies may seek to access capital in a more liquid market as a statement to the market of a propensity to disclosure and a willingness to protect minority shareholders. Yet, many non-domestic companies retain tightly-controlled shareholding structures and are based in emerging regions where national cultural norms differ from the UK. The paper hypothesises on likely lower levels of compliance with the principles of the UK Corporate Governance Code. It further suggests a relationship between lower levels of compliance and non-domestic companies from countries that demonstrate high power-distance and uncertainty-avoidance in the Hofstede (1980a) cultural values framework. In this exploratory approach to analysing compliance by non-domestic companies with the “comply-or-explain” governance regime in the UK, the paper develops a framework to guide future research into the contextual and cultural underpinnings of compliance monitoring and to enable regulators to further improve corporate governance codes.

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DECLARATION OF AUTHORSHIP

I, Peter Rejchrt, declare that this thesis and the work presented in it are my own and have been generated by me as the result of my own original research.

Studies of UK Chief Executive Officers in the FTSE 350: Implications for management, succession and governance

I confirm that:

1. This work was done wholly or mainly while in candidature for a research degree at this University;
2. Where any part of this thesis has previously been submitted for a degree or any other qualification at this University or any other institution, this has been clearly stated;
3. Where I have consulted the published work of others, this is always clearly attributed;
4. Where I have quoted from the work of others, the source is always given. With the exception of such quotations, this thesis is entirely my own work;
5. I have acknowledged all main sources of help;
6. Where the thesis is based on work done by myself jointly with others, I have made clear exactly what was done by others and what I have contributed myself;
7. Parts of this work have been published as journal papers and these publications are acknowledged, as appropriate, in the relevant chapters of this thesis.

Signed:..

Date:..

Acknowledgements

This thesis would not have been possible without the help and support of many individuals.

Firstly, I acknowledge the assistance of executive search firm Thorburn McAlister, in particular Anthony McAlister and Lindsay Thorburn. Without their assistance in providing a practitioner view on CEO succession, the contribution of this research would have been significantly diminished.

Secondly, it is important for me to heartily thank my supervisory team. Dr Gerhard Kling provided invaluable encouragement and guidance in the early stages of my research project. In particular, I must thank Professor Malcolm Higgs for his invaluable contributions to this research. Both the regular meetings for feedback and invariably useful guidance, both stylistic and related to content, were significant in enabling me to deliver this thesis within a realistic and challenging timeframe. Furthermore, Malcolm's guidance during the co-authorship of the three papers meant the submissions were of a higher publishable standard. I could always rely on Malcolm for his constructive encouragement and promotion of my work and its findings amongst academic and professional colleagues and to a wider media audience.

Finally, I am also indebted to the support of my wife Sarah Rejchrt, above all for listening to the issues associated with delivering a work of this nature. Thank you for your valuable time, assistance, patience and unwavering support in this endeavour, whilst also framing the research within commercial practice.

Definitions and abbreviations

AIC – Association of Investment Companies

bn – billion

CEO – Chief Executive Officer

CFO – Chief Financial Officer

COO – Chief Operating Officer

ENRC – Eurasian Natural Resources Corporation

FRC – Financial Reporting Council

FSA – Financial Services Authority, UK financial regulator, now known as FCA – Financial Conduct Authority

FTSE – Financial Times & the London Stock Exchange, stock market indices provider wholly owned by London Stock Exchange group

GBP – British pound sterling (£)

HR – human resources

HRM – human resource management

IMD – International Institute for Management Development

LSE – London Stock Exchange

m – million

MCI – Morningstar Company Intelligence

OFWAT – Water Services Regulation Authority

ONS – Office for National Statistics

PDI – power-distance (Hofstede cultural values scale)

RBV – resource-based view

ROA – return on assets

S&P – Standard & Poor's

SFO – Serious Fraud Office

SHRM – strategic human resource management

UAI – uncertainty-avoidance (Hofstede cultural values scale)

UK – United Kingdom

US – United States

USA – United States of America

Chapter 1: Introduction[1]

1.1 Context

The papers contained within this thesis are the sole work of the author in consideration for the degree of Doctor of Philosophy, as noted in Point 6 of the Declaration of Authorship on Page vii of this thesis. The papers presented are written in the vernacular of journal articles for publication. Being co-authored, this has meant a requirement for use of the first person plural "we" throughout. The work presented here is solely the work of the author and the contribution of the second author has been limited to offering editorial guidance in the publication process.

Herewith presented as a collection of studies with a unifying theme is a series of papers in consideration for the doctoral thesis. The subject of these three studies is based around the succession of CEOs, with a focus on implications for general management, SHRM and governance. Each paper in the series identifies, develops and analyses a particular area of research interest within the succession arena. The first paper contextualises the data collected and introduces the series by examining the provenance and destination of UK leaders as well as their demographic backgrounds to consider potential management and governance implications. The second paper develops this

[1] The strong links between the papers presented in this thesis have resulted in some overlap in the references used across the three papers. The references are presented as a unified list in the References section at the end of this thesis. Additionally, the supplementary references from the Introduction and Conclusion (Chapters 1 and 5) may also be found in the full listing of references pertaining to this thesis. The authors of quoted references appear in full on the first naming within each paper, as submitted for publication with the respective journals.

within the SHRM context to analyse the implications for firm performance resulting from the individual selection decision. The final paper engages with a smaller sample, namely non-domestic companies, and extends the analysis of demographic context into an examination of the governance implications associated with the national cultural values of these non-domestic companies listed on the UK market.

Using as a basis for analysis a sample of 350 of the UK's largest companies, the data were collected from secondary sources in 2011 and again in 2012. The first paper uses the original data from 2011 to present a contextual study, setting the scene for developing an understanding of the backgrounds and selection methods of current UK leaders. The studies are contemporary, reflecting an increase in institutional shareholder activism in the UK (Becht, et al., 2010; Klein & Zur, 2009). The focus of the literature in many different disciplines is largely on CEO remuneration and research tends to involve US samples (e.g. Bebchuk, Cremers & Peyer, 2011; Blettner, Chaddad & Bettis, 2012; Conyon, Core & Guay, 2011; Guthrie, Sokolowsky & Wan, 2012; Renneboog & Zhao, 2011). This lack of recent data on the UK CEO population frames the context of the analysis and forms the basis of an exploratory research agenda. This research agenda evolves from the analysis of the key contextual issues involved in CEO successions stemming out of this initial paper, seeking therefore to address the dominance in recent times of a practitioner view of CEO succession, reflecting diminished academic interest in updating the non-US context.

1.2 Introduction to Paper 1

The paper's primary focus is to address the shortcomings of recent analysis of CEOs in the UK context. This paper considers the implications for the future of the publicly traded corporation (Jensen, 1989) in terms of its leadership talent pipeline by considering the questions of the succession, age and tenure, and recruitment of CEOs (Beeson & Valerio, 2012; Charan, Drotter & Noel, 2011). The research questions posed in this paper relate to the recruitment and demographic profiles of CEOs. With much of the practitioner research suggesting that external recruitment is prevalent and tenures are short, the paper seeks to address these perceptions in a recent UK context by sampling the 350 largest companies by market capitalisation, which make up the constituents of the FTSE 350 index. In particular, the demographic profiles of mature societal and economic contexts such as the UK have been largely ignored in the literature. With a decline in the birth rates of post-Babyboomer generations resulting in smaller pools of potential leaders, the Babyboomer generation may be extending its reign in executive management (Barrett & Beeson, 2002). This may have implications for innovation, organisational responsiveness and strategic change (Bantel & Jackson, 1989; Barker & Mueller, 2002; Miller, 1991; Miller & Shamsie, 2001; Wiersema & Bantel, 1992). The demographic implications, further analysed in the second paper, threaten a leadership deficit, with implications for talent management both for the older leaders staying in role longer and the younger talent, which may fail to see a viable future in the traditional corporate hierarchical form that has dominated in recent times (Charan, et al., 2011; Pfeffer, 2013; Tierney, 2006).

The research for this paper identified a gap in recent research into CEOs. The extant academic research is largely based on using US samples and using a variety of approaches to analyse CEO successions. This US focus has tended to mean a dominance of practitioner views of how CEOs are sourced in contexts outside the USA (*A.T. Kearney*, 2011; *Manchester Square Partners*, 2010; *SpencerStuart*, 2011). A renewed interest in the backgrounds, succession and remuneration of CEOs resulting from increased institutional shareholder activism, is the context acting as the catalyst for conducting this research. The 2011 sample of the FTSE 350 companies forms the basis of analysis for the first paper in this series, which acts as an introductory and contextual study for those that follow. It is grounded in the leadership, general management and corporate governance literatures and offers fresh perspectives on the UK context of CEO succession.

In essence, the first paper seeks to examine the hiring and demographic profiles of the UK FTSE 350 population of CEOs. A key contribution of this study is to address the lack of recent UK evidence and the widely-held practitioner perceptions that have now come to dominate in the public domain. This perceived wisdom relates to how CEOs are sourced in countries with mature economic contexts, such as the UK. In particular, practitioners promote the use of external succession to the CEO role following periods of increasing "churn", as leaders rotate between leadership roles (Brookman & Thistle, 2009; Fosberg & Rosenberg, 2002; Karaevli & Zajac, 2013; Murphy & Zabojnik, 2007). Furthermore, the paper offers a contextualisation of the secondary data (Hambrick & Quigley, 2013; Mowday & Sutton, 1993) through its incorporation into the analysis of the sourcing of new leaders and the destination of departing leaders. Such an approach to the data analysis permits more robust conclusions on the demographic make-up of the UK CEO population. Prior research has tended to focus essentially on the provenance of the new CEO without considering the continuing career path of the outgoing CEO (Guthrie & Datta, 1997), which is likely to have a significant impact on the hiring decision (Datta & Rajagopalan, 1998). By including the career path of the incoming CEO successor, as well as the route out after a CEO role, the paper's findings are a significant improvement on prior research, by refining the definition of the actual true turnover amongst the CEO population.

In addition to contextualising CEO successions, a further contribution is methodological, whereby the paper addresses shortcomings in prior research and improves on the temporal definition of terms frequently used in the CEO succession literature (Johnston, 2002). In particular, prior research in the US context has tended to use time series data and inferential tenure of CEOs based on turnover rates (Kaplan & Minton, 2012). Furthermore, the reliance on secondary data has produced inexact definitions, contributing to inconsistent findings in the literature (Cappelli & Hamori, 2004, 2005; Frydman, 2005; Karlsson & Neilson, 2009; Kesner & Sebora, 1994; McClelland, Barker & Oh, 2012; Tonello, Schloetzer & Aguilar, 2012). For example, some research uses a four-year window for in-role learning and deems this to be an internal recruitment, whereas this research takes a more conventional view of internal recruitment to be one year's service with the company prior to promotion to the CEO role. Moreover, there is considerable inconsistency in the definition of what constitutes the tenure of a CEO in spite of the many decades of research effort being dedicated to the subject. These inconsistencies may largely be attributed to the reliance on the use of secondary data without validating or improving these data. Prior research has, in fact, defined CEO tenure as commencing with appointment to the company or to the executive Board (e.g. Johnston, 2002; Karlsson & Neilson, 2009; *Manchester Square Partners*, 2010; Tonello, et al., 2012). By hand-collecting the data from secondary and archival sources, the data underpinning this paper adds significantly to the extant research, as tenure is clearly defined as the date of accession to the CEO role.

In the governance literature, internal succession is largely linked to strategic continuity (Shen & Cannella, 2002b), frequently following the retirement of the outgoing incumbent (Hutzschenreuter, Kleindienst & Greger, 2012). A general management perspective on CEO succession is offered in the paper, which shows that selection is likely to be adaptive to the firm's contextual environment (Drew, 2001). External recruitment, on the other hand, is linked with change in response to poor antecedent firm performance (Zhang & Rajagopalan, 2010b). However, vested interests and risk aversion amongst Boards (Zajac, 1990) as well as the pressure to quickly find a replacement (Zhang, 2008) produces a prevalence of internal appointments (Finkelstein & Hambrick, 1996). This is largely confirmed in the extant academic research, showing only one in four CEOs in the USA in the 1990s being appointed from outside the organisation (Murphy & Zabojnik, 2007).

The paper further incorporates sociological and psychological perspectives to the understanding of CEO selection and succession. Such an approach postulates the significance of the similarity-attraction paradigm, whereby perceived similarities enhance inter-personal attraction (Byrne, 1971; Wenzel, 2001), which is likely to be a fundamental basis of the decision on the selection of the CEO replacement. Demographic convergence (Carpenter, Sanders & Gregersen, 2001) may contribute to a shared cognition of personal experiences (Bantel & Jackson, 1989). Combined with intertwined career paths within organisations (Byrne & Neuman, 1992), these sociological principles are likely to contribute to selection based on similarity rather than ability (Davidson, Nemec & Worrell, 2006).

1.3 Introduction to Paper 2

In the second paper a shareholder perspective comes to the fore, where significant moments of strategic decision, based on the firm's internal needs and determined by external forces, create a CEO succession event. It further incorporates a strategic view of the succession by linking the firm's human capital endowment (in the form of the CEO) to its performance. This paper develops the argument from the initial contextual research in Paper 1 that internal recruitment is evidently dominant when seeking a replacement CEO. Within the HRM literature and associated practitioner publications it appears that the need for robust talent management policies to ensure a pipeline of talent for development is widely acknowledged. However, Zaccaro & Horn (2003) note the significant divergence between leadership research and practice, where practitioners may be constrained in their application of talent management by short timeframes and a perceived need for regular re-evaluation of the organisation's strategic context. The sample for this analysis uses the 2012 data collection and is based on the FTSE 350, excluding investment trusts, reducing the sample size to 300.

This paper contributes to the literature by exploring the functional backgrounds of CEOs and relationship between this and organisational performance (e.g. Koyuncu, et al., 2010). A further contribution is to consider whether poor antecedent firm performance triggers a succession event and impacts on the respective prevalence of internal and external hiring of CEOs (e.g. Zhang & Rajagopalan, 2004; Zhang, 2008). Furthermore, it incorporates the important demographic characteristics of CEOs highlighted in the first paper, considering the implications of these for future talent management. The paper addresses a number of gaps in the strategic talent management literature and the careers literature.

The CEO is the embodiment of authority within the organisation (Vancil, 1987) and a change in personnel is likely to have implications for the company's future performance (Beatty & Zajac, 1987). Alternatively, using the antecedent approach, the firm's performance has deteriorated sufficiently to precipitate a change in personnel, necessitated by a transitioning in the company's strategic context (Friedman & Singh, 1989). Nevertheless, despite the considerable research effort, it is likely the variations in data collection and design of the studies, sample selection, the definition of top management and selection of performance and independent variables have contrived to produce inconsistent findings (Shen & Cannella, 2002a). This has fuelled the on-going debate around the causes and consequences of CEO succession and associated performance effects. The driver for incorporating firm outcomes into the analysis is that the performance of the CEO (Baysinger & Hoskisson, 1990; Goffee & Jones, 2000) remains a key area of research interest. Of particular interest in this context are the antecedent motives and rationale for the succession event occurring (Cannella & Lubatkin, 1993; Cannella & Shen, 2001; Dalton & Kesner, 1985; Datta & Guthrie, 1994; Huson, Parrino & Starks, 2001; Zajac & Westphal, 1996). This paper resides within the antecedent view of firm performance, where it is firm performance that may determine whether a CEO is replaced and how this replacement is sourced. In general, it is expected that a firm will seek an external recruit when firm performance is poor (Davidson, et al., 2001; Friedman & Singh, 1989; Shen & Cannella, 2003; Zhang & Rajagopalan, 2010b).

It is the company's internal SHRM policies which are responsible for ensuring the development of a talent pipeline to fill executive roles. The strategic talent management literature further suggests it is the role of talent management to systematically identify and develop a talent pool to fill pivotal roles within organisations (Collings & Mellahi, 2009) and further to include sourcing of potential talent for such key roles from outside the organisation (DeFillippi & Arthur, 1994). Based on the RBV of the organisation, human resource practices are focused on developing the company's ability to gain competitive advantage from its endowment of human capital skills and competencies (Barney, 1991; Burke & Cooper, 2006a, 2006b; Lepak & Snell, 2002). The small pool of senior internal talent pool is a feature of traditional career paths within hierarchically-structured organisations, where upward progression within an organisation is the result of HRM policy interventions to ensure the existence of a talent pipeline (Brousseau, et al., 1996; Pfeffer, 2013).

Within the career paths literature, Baruch & Peiperl (2000) note the tension between the traditional hierarchical corporate form based on internal promotion (Curie, Tempest & Starkey, 2006) and individual boundary-less careers based on flexibility and mobility (Arthur & Rousseau, 1996), hinting at the benefits of a requirement for both internal and external experience (Hamori & Kakarika, 2009). The internal focus of strategic talent management, therefore, seems at odds with boundary-less careers (DeFillippi & Arthur, 1994; Weick & Berlinger, 1989) with its increasingly external focus of early career advancement (Cappelli, 1999a). These career developments have resulted in a shift in focus to general managerial capital over firm-specific and tacit knowledge or specific functional expertise (Koyuncu, et al., 2010).

Since Waldman, et al. (2001) posed the question on the importance of leadership and its substantive effect on organisation performance, leadership has engaged scholars. Two schools of thought have been dominant in the literature, one viewing the leader in conventional terms as the figurehead of the organisation and critically important in setting strategic direction and organisation performance (Child, 1972; Kotter, 1988; Bennis, 2009). A further stream of the literature finds that organisations are solely responsible for determining performance, with no single individual or top management team, being able to significantly impact on performance (Pfeffer, 1997). This view is based on Lieberson & O'Connor's (1972) findings of meagre or no impact on performance of different leaders, with performance differentials being more readily explained by extraneous factors, such as industry and inherited firm strategy. Hannan & Freeman (1984) developed this into a concept of inertia, whereby culture and organisational inertia prevent the leader from quickly changing strategy and company structures to address changes in context.

Bertrand & Schoar (2003), in an attempt to isolate manager effects, take a view of following an individual in different career contexts to assess performance differentials in these situations. Whilst the paper presented here does not engage itself with the philosophical debate on the importance of leadership as a determinant in performance, its basic premise is that performance will be impacted by the leader's contextualised actions in response to the firm's strategic environment.

In this study, the analysis is of the immediate context acting as a catalyst for the CEO succession event (e.g. Cannella & Shen, 2001; Zajac & Westphal, 1996). The dependent variable in the analysis is firm performance, measured in operational terms using the financial metric of ROA (Zajac, 1990) and in share price performance, as a measure of the market perceptions of anticipated future firm performance. The independent variables relate to the research hypotheses relating the functional backgrounds, demographic characteristics and internal-external hire decision to the dependent variable of firm performance. For the analysis of poorly-performing firms a sub-sample is created of those firms where antecedent ROA is below the mean versus the respective sector averages. This allows an assessment of the impact of below-average firm performance on the respective prevalence of internal and external hires to the CEO role.

1.4 Introduction to Paper 3

The final paper engages with a peripheral finding from Paper 1 on the structure of the FTSE indices and offers an investor perspective. In the course of researching the CEO context, the prominence of a sub-sample of non-domestic companies engaged the researcher's attention. It appears that the continued attractiveness of the LSE as a listing bourse, based on the number of non-domiciled companies pursuing full "premium" Main Market listing, is illustrated by the increased importance of companies from emerging markets, measure in terms of relative weighting within the FTSE indices (*LSE*, 2012). Mining companies from emerging markets represent 14% of the large market capitalisation FTSE 100 index in 2011 from 10% in 2007 (Burgess, 2011).

Non-domestic companies are increasingly present on the LSE. Such companies have specific governance requirements. They may seek to access capital in a more liquid market and to diversify ownership. The reputational "bonding" to a prestigious exchange should be a statement to the market of a propensity to disclosure and a willingness to protect minority shareholders (Coffee, 2002; Licht, 2000b). Yet, many non-domestic companies retain tightly-controlled shareholding structures and are based in emerging regions where national culture norms differ to the UK. The paper hypothesises that non-domestic companies are likely to be less compliant with the principles of the UK Corporate Governance Code and suggests a relationship between lower levels of compliance and non-domestic companies from countries that demonstrate high PDI in the Hofstede (1980a) cultural values framework.

It appears within the corporate governance literature that agency theory remains the dominant paradigm (Filatotchev & Wright, 2011), which may be a limitation in governance research relying on un-contextualised secondary data (Daily, Dalton & Cannella, 2003). An alternative behavioural approach to Board governance (van Ees, Gabrielsson & Huse, 2009) has suggested that it is not Board interactions and conflict between the interests of managers and owners that determine compliance, but the problems of coordination and managing complexity and uncertainty (McNulty & Pettigrew, 1999; Roberts, McNulty & Stiles, 2005). This alternative view of governance is based on information asymmetry (Argote & Greve, 2007; Forbes & Milliken, 1999). Nevertheless, the paper uses agency theory as its defining framework for assessing the cross-listing of shares in foreign markets, in line with prior work in the field (e.g. Karolyi, 2012).

An international business perspective is a cornerstone of the theoretical foundations of this paper. This literature suggests that the local institutional context will reflect national culture and set the defining corporate governance framework in which the company operates (Globerman & Shapiro, 2003). Companies “bonding” to the aspirationally higher standards of governance of a mature listing market such as the LSE may be keen to demonstrate a commitment to these regulations. Such a cross-listing is designed, in the face of weaknesses in domestic regulatory environments, to attract international investors, diversify shareholding structures and to increase share value (Hebb & Wojcik, 2005). On the other hand, companies from emerging markets are associated with tightly-controlled shareholding structures (e.g. Arcot, Bruno & Faure-Grimaud, 2010).

The paper initially considers the cultural implications of companies from high PDI and UAI cultures seeking a cross-listing of their shares in a regulated market such as the LSE. It hypothesises that companies from high PDI and UAI cultures are more likely to be associated with lower levels of compliance. In order to conduct this analysis, data are gathered on the Hofstede scores for the countries of origin of all the non-domestic companies within the FTSE 350 (n=45). These are benchmarked against the UK values and a sample created of those companies form cultural backgrounds with scores higher than the UK on the PDI-UAI scales (n=37). Such an approach is underpinned in the literature by the importance of culture in distinguishing differences between nations in how societies are organised (e.g. Hofstede & Bond, 1988), which is likely to be translated in the organisational arena into corporate behaviours (Chan & Cheung, 2008; Doidge, Karolyi & Stulz, 2007; Hofstede, 1983a, 2001; House, et al., 2002, 2004; Naor, Linderman & Schroeder, 2010; Schein, 1996).

Next, the paper considers the levels of compliance with the UK Corporate Governance Code. The key principles of the non-mandatory “comply-or-explain” governance code relate to how companies manage the remuneration of executives and to the effectiveness of leadership and Board structures (*FRC*, 2012). These principles are themselves anchored in agency theory, whereby compliance with the Code means a reduction in the agency costs of company owners who have no day-to-day operational control over the firm’s managers (Jensen & Meckling, 1976). In the Anglo-American world of solid corporate governance, based on addressing the agency conflict, the governance principles will include such measures as the separation of the Board Chairman and CEO functions, transparency of appointment of new directors and a balance of executive and independent non-executive directors (Aguilera &

Cuervo-Cazurra, 2004; Van den Berghe & Levrau, 2004). An implied principle of the Code relates to ownership structure, whereby it is deemed that in an agency view of governance that ownership is both an important internal governance mechanism and a determinant of compliance (e.g. Arcot & Bruno, 2012; Shleifer & Vishny, 1997). Furthermore, independent outside directors and stock ownership by Board members are deemed to mitigate the agency conflict between shareholders and management (Bathala & Rao, 1995), but the value of such controls is diminished in closely-held companies due to the strong links between the Board and the dominant shareholder. A further sub-sample (n=32) is created of non-domestic companies with closely-held shareholding structures for the analysis of potential lower levels of compliance. This reflects the lower level of influence by institutional shareholders in such tightly-controlled companies (e.g. Bebchuk & Weisbach, 2010).

This final paper defines compliance as the adoption of recommendations to improve the quality of corporate governance and increase the accountability of companies in setting and applying the norms for the role and composition of the Board, information disclosure, the remuneration of directors and in relationships with shareholders in line with the key principles of the Code (Aguilera & Cuervo-Cazurra, 2004). It analyses the hypotheses relating to the degree of compliance related to home market culture and the Code governance principles by constructing a composite compliance measure as a dichotomous variable. This permits a less subjective analysis of the degree of compliance with the various leadership and Board effectiveness principles of the Code.

1.5 Contribution

The key contributions of each paper are detailed in this section. The extant literature has largely overlooked CEO succession in a UK context in recent times, thus affording a contribution in the following ways: the first paper makes a methodological contribution in the definition of CEO tenure and the context of CEO succession. This is developed in the second paper by linking key CEO characteristics to talent pipelines, which are likely to impact firm performance. In particular, this paper assesses how antecedent firm performance might influence the decision to recruit a new CEO from within or from outside the organisation, with implications for the company's future strategy. In the final exploratory paper, the author attempts to analyse the effects of national culture on the way companies approach compliance with governance requirements in the UK. This exploratory study uses Hofstede's cultural values as the basis for analysis and questions the effectiveness of the UK governance regime in ensuring compliance from an increasing number of non-domestic companies from regions which are culturally distant to the UK baseline.

A significant contribution of the initial study, presented in Paper 1, is the contextualisation of CEO succession events. This is achieved through the analysis of both the provenance of CEOs (the route in to the role) and the next role of CEOs (the route out of role after a period as CEO). Furthermore, this paper improves on the definition of tenure from prior research (Johnston, 2002). Overall, the paper suggests further research into the organisational implications of the recruitment and demographic profiles of current CEOs. The paper notes the potential consequences for CEO selection, remuneration and performance from the particular contextual factors and organisational characteristics shaping the succession event (Hambrick & Quigley, 2013). By incorporating a demographic perspective on CEO succession events, the paper indicates the potential future recruitment issues facing large public corporations where 'better the devil you know' cognition bias may preclude the appointment and development of younger talent to senior executive roles (Jensen, 1989).

In the second paper, the SHRM perspective is incorporated and developed with a view to deepening an understanding of the performance implications of CEO succession. Using a qualitative approach to analysing the sample of the UK's 300[2] largest companies in 2012, this paper analyses the outcomes of strategic talent management policies at these companies. The emphasis in this paper is on developing links to company performance from various variables, including hiring profiles and the functional and demographic backgrounds of current CEOs. In particular, it addresses how antecedent organisational performance impacts the internal–external hiring decision and examines the functional backgrounds and demographic profiles of CEOs in the sample. The results have significant implications for HR professionals in the recruitment of CEOs. In addition, the paper contributes to SHRM theory by developing links to talent pipelines from the functional and demographic backgrounds of CEOs. These CEO characteristics may impact firm performance, which requires firms to reconsider the nature of career paths (Baruch & Peiperl, 2000; Cappelli &

[2] FTSE 350, excluding investment trusts.

Hamori, 2004) and Boards to re-evaluate how successions are managed (Zhang, 2008; Zhang & Rajagopalan, 2004, 2006).

The final paper reflects on a particular observation evolving from the data collection for the analysis into UK CEOs, in which the significant number of non-domestic companies within the sample was noted. This increase in a non-domestic presence on the LSE has, furthermore, received extensive commentary in the financial media (e.g. Branson, 2011). Reflecting the globalisation of financial markets (Baker, Nofsinger & Weaver, 2002), it appears that companies, particularly from emerging markets, are keen to "bond" to the higher standards (Coffee, 2002) required for listing on a prestigious international stock market, such as the LSE (Cetorelli & Peristiani, 2013). The article is based on analysis of the current UK governance regime, being the non-mandatory, "comply-or-explain" governance principles of the UK Corporate Governance Code (*FRC*, 2012).

This final paper in the series takes an exploratory approach to assessing the impact of the home market culture of non-domestic companies on levels of actual or perceived compliance with the compliance norms in force in the UK. National culture is likely to be reflected in organisational behaviour (Friedland & Alford, 1990; Hofstede, 2001; Naor, et al., 2010) and the way in which firms approach compliance with local standards and regulation (Licht, 2000b). The paper, therefore, hypothesises that companies' approaches to compliance with the UK standards may be linked to the national culture of the home market, national culture being static in the face of environmental change such as a change of compliance regulations (Chan & Cheung, 2008). The potential for different approaches to levels of compliance with the governance standards may be explained by national culture, linked to the Hofstede (1980a) cultural values dimensions. In particular, the paper postulates a link between the Hofstede power-distance (PDI) and uncertainty-avoidance (UAI) values, which may be linked to lower levels of compliance (Chan & Cheung, 2008). Countries high in Hofstede's PDI are likely to be associated with autocratic leaders (Hofstede, 1991) and a tendency to corruption (Davis & Ruhe, 2003). Similarly, companies from countries with high scores on Hofstede's UAI scale may likewise be associated with corruption in bureaucratic contexts (Getz & Volkema, 2001).

1.6 Summary

This thesis presents three linked papers in the CEO succession arena. The initial study into the demographic backgrounds and hiring profiles of CEOs in the FTSE 350 is focused on the management and governance implications of these changes in personnel. This is developed in the second paper in the context of SHRM by examining the strategic outcomes of talent management. It analyses the relationship between functional backgrounds and demographic profiles of CEOs and firm performance. It further analyses how career paths might impact on firm performance, linking antecedent organisational performance to the internal-external CEO hiring decision. The final paper considers succession in a governance context. It engages with the data collected in relation to Paper 1, which noted the increased prominence of non-domestic companies listed in the UK. It hypothesises on potential governance implications within the provisions of the UK Corporate Governance Code related to home market culture.

Chapter 2: Paper 1[3]

2.1 Introduction

The United Kingdom (UK) context of increased shareholder activism (Becht, et al., 2010; Daily, Dalton & Cannella, 2003; Ferri & Maber, 2013; Judge, Gaur & Muller, 2010) in response to CEO entrenchment (Finkelstein & D'Aveni, 1994; Florackis & Ozkan, 2009) and a perceived excess in compensation contracts and corporate under-performance (Ozkan, 2011) frames our research into Chief Executive Officers (CEOs). Prior research has focused on: executive gender (Branson, 2011; Oakley, 2000; *SpencerStuart*, 2011); remuneration (Bebchuk, Cremers & Peyer, 2011; Blettner, Chaddad & Bettis, 2012; Conyon, Core & Guay, 2011; Fahlenbrach, 2009; Frydman & Jenter, 2010; Guthrie, Sokolowsky & Wan, 2012; Renneboog & Zhao, 2011; Zhang & Rajagopalan, 2010a; Zheng, 2010); and performance (Chen & Hambrick, 2012; Dalton & Kesner, 1983; Huson, Malatesta & Parrino, 2004; Jensen, Murphy & Wruck, 2004; Kaczmarek, Kimino & Pye, 2012; Kang & Zardkoohi, 2005; Morck, Shleifer & Vishny, 1989; Reinganum, 1985; Shen & Cannella, 2002a; Weisbach, 1995). Yet, CEO succession has recently been neglected in academic research, leading to a predominance of practitioner views (*A.T. Kearney*, 2011; *Manchester Square Partners*, 2010; *SpencerStuart*, 2011). We address here

[3] An abbreviated version of this paper has been published as: Rejchrt, P. & Higgs, M. 2014. Who are our leaders? A study of CEO succession in the UK FTSE 350 companies. *Journal of General Management*, 39(3): 3-16. The contribution of the co-author has been to offer editorial guidance in the publication process for the paper presented here.

some of the key practitioner myths on CEOs in the UK by examining the latest CEO successions at the UK's 350 largest companies by market capitalisation.

Our contribution is threefold. Firstly, the paucity of recent UK research allowed us to evolve an exploratory research agenda, affording comparison with predominantly US studies. Our research provides a framework for improving theoretical and practitioner understanding of the key issues facing Boards in succession events, incorporating the impacts of age and tenure of incumbents and the mode of recruitment of potential CEO candidates. We study the UK context due to the continued global significance of its stock exchange, being ranked the fourth largest by market capitalisation and most international, with over 3,000 listed companies from 70 countries (*LSE*, 2014).

Secondly, we address widely-held business perceptions that CEOs of large publicly quoted companies do not stay in role for long, constantly seeking lucrative new opportunities (Tonello, Wilcox & Eichbaum, 2009). The resulting "churn" of such CEOs is likewise confirmed in the academic research in a US context (Brookman & Thistle, 2009; Fosberg & Rosenberg, 2002; Murphy & Zabojnik, 2007). Linked to the "churn" of CEOs, we analyse the mode of recruitment, with practitioners promoting external recruitment as a panacea (Karaevli & Zajac, 2013). In line with Hambrick & Fukutomi (1991: 719) we consider whether age and tenure affect CEO behaviour and organisational performance. Long CEO tenures may have implications for succession planning (Shen & Cannella, 2003; Zhang & Rajagopalan, 2010a) and talent pipelines (Conger & Fulmer, 2003) designed to address the company's future human resource management needs beyond the tenure of the current CEO incumbent

(Harris & Helfat, 1997, 1998). Inadequate succession planning is a risk to the organisation's future, which is unlikely to be mitigated without changing the culture of the Board and its approach to internal talent development (Long, 2007). We question whether ageing, risk-averse Boards (Van den Berghe & Levrau, 2004) are selecting from an internal pool of ageing leadership talent tending to longevity of tenure, with such Board decisions being subconsciously or overtly framed in the similarity-attraction paradigm (Davidson, Nemec & Worrell, 2006; Schneider, 1987; Tsui & O'Reilly, 1989; Wenzel, 2001; Zajac & Westphal, 1996). We address a US bias in recent research into managerial age. Whilst both the UK and USA are characterised by mature societal contexts, we show a significant deficit in the traditional sourcing of CEOs from the Babyboomer generation in the UK resident population and working population (*ONS*, 2009).

Thirdly, we add significantly to the current research by improving the methodology of data analysis, advancing a definition of tenure that increases the specificity of appointment timeframes. We do this by enhancing the data we collect from secondary sources, defining tenure as length of service in role as CEO. This contrasts with previous approaches, which infer tenure from turnover rates (Fizel & Louie, 1990; Shen & Cannella, 2002a; Weisbach, 1988) and use length of executive service with the company as a proxy for tenure in role, thus overstating tenure (Johnston, 2002). A further improvement in our research draws on contextualising the secondary data (Hambrick & Quigley, 2013; Mowday & Sutton, 1993), whereby we collect data both on the provenance of current CEOs (the route in to the CEO role) and destination of previous CEO (the route out after a CEO role). This approach has been largely ignored in prior research and by the practitioner community, yet adds a further dimension of analysis.

In summary, we postulate that the route in to a CEO role and the route out have implications for governance researchers and general management practitioners in the UK. The tenure and age profiles of the incumbents, combined with under-developed talent pipelines, (Cappelli & Hamori, 2004), may have serious consequences for the survival of the publicly-traded company (Jensen, 1989).

2.2 Theory review

Agency theory (Beatty & Zajac, 1994; Davis, Schoorman & Donaldson, 1997; Eisenhardt, 1989; Fayele, 2007; Hendry, 2005; Jensen, 1989; Jensen & Meckling, 1976; Walsh & Seward, 1990) remains the dominant paradigm in the corporate governance literature (Dalton & Dalton, 2005; Roberts, McNulty & Stiles, 2005), reflecting relationships between the CEO and the Board and between Boards and shareholders. Independent Boards are charged with monitoring the decision-making of salaried executives to ensure that shareholders' interests are protected when ownership is diffuse and shareholders are unable themselves to participate in the day-to-day running of the company (Fama & Jensen, 1983a, 1983b; Jensen, 2000; Monks, 2008). The agency problem ensues when the aims, interests and risks of the agents and principals are misaligned, creating opportunities for the CEO as the agent of the Board to act inappropriately (Fama, 1980; Jensen & Murphy, 1990). The agency problem may be in the form of misaligned expectations by shareholders in setting CEO compensation and incentives, in determining the longevity of the CEO and in the appointment of a successor.

In general management, a CEO succession event is simply an adaptive response to the company's strategic context (Child, 1972; Pfeffer & Salancik, 1978; Rumelt, 2011; Welsh & Dehler, 1988). The replacement of the CEO reflects poor firm performance (Kanter, 2003; Tushman & Romanelli, 1985) or strategic non-delivery (Boeker & Goodstein, 1991). This is likely to result in an externally appointed successor (Zhang & Rajagopalan, 2010b). Alternatively, the role may become vacant simply because of the incumbent's decision to depart, with the Board wishing to communicate continuity of the company's strategy in a new leadership structure (Clutterbuck, 1998; Guthrie & Datta, 1997). This is associated with an internal hire (Datta & Rajagopalan, 1998).

Finally, psychological and sociological perspectives of leadership are offered by relational demography (Pfeffer, 1983) and the similarity-attraction paradigm (Byrne, 1971; Byrne & Neuman, 1992; Davidson, et al., 2006; Schneider, 1987; Tsui & O'Reilly, 1989; Zajac & Westphal, 1996). This social identity perspective (Hogg & Terry, 2000) in CEO succession events is formed through the shared experiences and common bonds, which are linked to age (Zenger & Lawrence, 1989), personal experience (Hambrick & Mason, 1984) and tenure (Murphy, 1986).

2.2.1 CEO recruitment

Broad consensus exists on internal succession indicating continuity of strategy (Brady & Helmich, 1984; Datta & Rajagopalan, 1998; Friedman & Olk, 1995; Friedman & Singh, 1989; Shen & Cannella, 2002b) and external recruitment signalling strategic change (Kesner & Dalton, 1994; Grusky, 1963; Guest, 1962; Lewin & Wolf, 1974; Wiersema, 1995). The retirement of the previous CEO is a signal to maintaining the status quo with a likely internal successor. We define succession as a pivotal process (Datta & Rajagopalan, 1998; Hutzschenreuter, Kleindienst & Greger, 2012) in the organisation's history, resulting in the replacement of a departing "obsolete" CEO (Giambatista, Rowe & Riaz, 2005; Henderson, Miller & Hambrick, 2006) with a new incumbent with the same responsibilities. Succession is a rare (James & Soref, 1981) but complex event in the organisation's lifecycle (Gilmore, 1988). Whilst companies should select the replacement CEO candidate most likely to favourably impact firm performance (Zajac, 1990), there are indications of risk-averse Boards selecting candidates by other criteria (Vancil, 1987; Van den Berghe & Levrau, 2004; Zajac, 1990), compounding the agency problem.

The tension between the need for external recruitment to address the strategic redirection required after poor performance and vested interests (Dalton & Kesner, 1985; Shleifer & Summers, 1988) may mean selection is adaptive to the environment (Ghobadian, et al., 2008). As a result, external recruitment is more probable if performance is poor (Zhang & Rajagopalan, 2010b), addressing perceived shortcomings in strategic delivery of the outgoing CEO (Friedman & Singh, 1989) to regain the favour of investors (Davidson, et al., 2001; Shen & Cannella, 2003). Alternatively, selecting a new CEO from outside the organisation is disruptive (Helfat & Bailey, 2005; Pfeffer, 1981a; Zhang & Rajagopalan, 2004) and may reflect an absence of talent within the organisation (Cannella & Lubatkin, 1993; Cohn, Khurana & Reeves, 2005; Dalton & Kesner, 1983; Fredrickson, Hambrick & Baumrin, 1988; Ocasio, 1994; *SpencerStuart*, 2011; Zhang & Rajagopalan, 2003, 2004).

Boards feel pressured to select a successor quickly to fill the departure void (Khurana, 2002; Zhang, 2008), but Boards are ill-equipped to groom internal candidates within this timeframe or to investigate the true competencies of potential candidates (Naveen, 2006; Taylor, 2010; Zhang & Rajagopalan, 2004). Combined with pressure from shareholders, this may lead to a quick appointment to seek to restore market confidence (Geddes & Vinod, 1997; Wiersema, 2002). Opening up the recruitment to external candidates may be demotivational to existing directors (Boyer & Ortiz-Molina, 2008; Johnston, 2005; Pfeffer, 1981a; Zhang & Rajagopalan, 2010b). External candidates, having cognitive unfamiliarity with the organisation's core competences and values, are more likely to initiate inappropriate strategic change and negatively impact performance (Chen, Treviño & Hambrick, 2009; Greiner, Cummings & Bhambri, 2002; Hannan & Baron, 2002). Risk-averse nomination committees will recommend to Boards a continuation of the status quo; this may guarantee the longevity of the Board itself and nominations to Boards of other companies (Hermalin & Weisbach, 1998). Boards may, in fact, subconsciously have a preferred candidate in mind from the onset of the recruitment decision process, based on Thompson's (1967) 'outcome preference certainty'.

As a result, most appointments are internal (Finkelstein & Hambrick, 1996). Insiders may be more likely to be recruited on the basis of accumulated firm-specific human capital (Becker, 1975; Rajagopalan & Datta, 1996), cognition bias (Zhang & Rajagopalan, 2010b) or due to a superior tacit knowledge of the firm's internal networks, culture and power systems (Chung, et al., 1987; Finkelstein, 1992; Guthrie & Datta, 1997; Kotter, 1982; Pettigrew, 1973; Salaman & Storey, 2005; Schein, 2004; Waldman, et al., 2001). The retirement of the outgoing CEO may, however, alert the market to the company's unwillingness to admit to being on the wrong strategic path or the legacy ambitions of a prior CEO (Quigley & Hambrick, 2012; Sonnenfeld, 1986). Large organisations tend to select internal successors (Dalton & Kesner, 1983, 1985; Friedman & Singh, 1989; Guthrie, Olian & Gupta, 1990), reflecting the larger internal talent pool and formalised talent development policies (Fredrickson, et al., 1988). Companies may simply be "reluctant to recruit marginally better outsiders when adequate internal candidates are available" (Chan, 1996: 556), indicating the inherent additional risk of an unknown outside candidate. As the remuneration gap grows between CEOs and other employees and with diminishing internal talent pools, the likelihood of external recruitment is likely to grow (Dasgupta & Ding, 2010).

External recruitment accounted for 26.5% of CEO succession events at the largest 800 US companies in the 1990s (Murphy & Zabojnik, 2007), indicating that internal promotion remains the more likely path to the CEO role. Barron, Chulkov & Waddell's (2011) findings confirmed a similar pattern of internal recruitment, with 64% of S&P 500 appointments between 1993 and 2005 being from an internal talent pool. Earlier research by Chan (1996) showed 13% of new CEOs being sourced through external recruitment at Fortune 100 companies from 1984 to 1995. The greater career risk for external CEOs does not appear to be compensated for by higher levels of remuneration (Baker, Jensen & Murphy, 1988; Zajac, 1990), which has been attributed to the weaker social capital links between external candidates and the Board (Useem & Karabel, 1986; Main, O’Reilly & Wade, 1995; Wade, O'Reilly & Chandratat, 1990). External hires are more likely where the previous incumbent has resigned, noted in 55% of outside successions (Charan, 2005). 40% of executive directors appointed from external sources stay in their new roles for only 18 months (Conlin, 2009). This appears to confirm Zhang’s (2008) empirical study showing that external hires are more likely to be dismissed within three years, a rate 6.7 times higher than for internal hires, suggesting that Boards’ cognition of the candidate is more important to achieving long tenure than delivering organisational performance. Whilst much evidence has been presented linking externally hired CEOs to the delivery of strategic change (Greiner & Bhambri, 1989; Westphal & Fredrickson, 2001; Wiersema, 1995), this change does not necessarily translate into improved firm performance (Brady & Helmich, 1984; Greiner, et al., 2002; Shen & Cannella, 2002a; Wiersema, 2002).

The above theoretical view of CEO recruitment modes leads us to suggest:

> *Research question 1: Are CEOs predominantly recruited from an internal talent pool?*

2.2.2 Age and tenure of CEOs

Leadership continues to prove fertile ground for developing research questions (Kets de Vries, 2001; Higgs, 2003). Leadership is associated with setting corporate direction, aligning the business to the strategic context and motivating staff to deliver the strategy (Bennis & Nanus, 2003; Kotter, 1990). Leaders will be characterised by a range of skills, against which their actions will be measured in delivering the firm's strategy and superior performance (Goffee & Jones, 2000). Such leaders are likely to be associated with personality traits such as decisiveness, risk-taking, being visionary and decisive whilst at the same time effective at planning and organising (Dulewicz & Herbert, 1999; Hawkins & Dulewicz, 2007; Higgs & Lichtenstein, 2011). The selection of upper echelons leaders is likely to be influenced by attributes such as age and gender (Brickley, 2003) in line with the demographic dimensions influencing organisation success (Pfeffer, 1981a, 1983).

Boards will usually select CEO successors and Board members on the basis of similar demographic backgrounds (Hambrick, Geletkanycz & Fredrickson, 1993; Westphal & Zajac, 1995[4]; Zajac & Westphal, 1996). Reluctant to relinquish control (Sonnenfeld, 1988), outgoing CEOs will maintain their version of the corporate vision by selecting an heir with similar philosophies (Zhang, 2006), thus maintaining indirect power and tacit control of internal systems (Alderfer, 1986; Westphal, 1999). Such age effects are likely to be compounded by shared societal experiences and organisational contexts (Jackson, et al., 1991). Studies of voluntary departures show that employees of advancing age and tenures are less likely to leave (Mowday, Porter & Steers,

[4] Appears in the combined References list for the thesis as Westphal & Zajac, 1995a.

1982) due to increased investment in and psychological commitment to the organisation via share ownership and cognition of internal systems (Cotton & Tuttle, 1986; Hambrick & Mason, 1984).

CEO selection may be influenced by attributes such as age and gender (Brickley, 2003) in line with the demographic dimensions influencing organisation success (Pfeffer, 1981a, 1983). Furthermore, “people tend to be drawn to those who are similar to them in terms of demographic characteristics” (Tsui & O’Reilly, 1989: 404). Actual or perceived similarities enhance inter-personal attraction (Byrne, 1971; Byrne & Neuman, 1992; Judge & Ferris, 1993; Wenzel, 2001). Such similarity-attraction is linked to: social identity and affirmation (Lewis & Sherman, 2003; Tajfel & Turner, 1986); demographic convergence (Carpenter, Sanders & Gregersen, 2001; Rosen & Jerdee, 1976; Tsui, Egan & O’Reilly, 1992); homogeneity of experience (Bantel & Jackson, 1989); and shared backgrounds and career paths within organisations (Beal & Yasai-Ardekani, 2000; Byrne & Neuman, 1992). This leads to a shared consciousness and values (Byrne, 1971; Gilleard, 2004), shaped through the cohort effects (Rhodes, 1983) of a shared social, contextual and business cognition of events (Berscheid & Walster, 1978; Finkelstein, Hambrick & Cannella, 2009; Wiersema & Bantel, 1992). The ageing of the CEO population may be based on the similarity-attraction paradigm (Davidson, et al., 2006), reflecting higher levels of Board-to-CEO inter-personal trust and interactions (Useem & Karabel, 1986). Cohesive, cooperative and participative behaviours (Byrne & Neuman, 1992) are likely to increase in socially and demographically homogenous groups, allowing greater CEO discretion and strategic latitude (Finkelstein & Hambrick, 1990; Hambrick &

Finkelstein, 1987). Group similarity perceptions will reinforce demographic characteristics in the CEO appointment decision (Hamilton & Sherman, 1996) based on the similarity perceptions between the Board and the appointee (Dixon-Fowler, Ellstrand & Johnson, 2013). Cohesive, cooperative and participative behaviours (Byrne & Neuman, 1992) are likely to increase in socially and demographically homogenous groups, allowing greater CEO discretion and strategic latitude (Finkelstein & Hambrick, 1990; Hambrick & Finkelstein, 1987). Thus, "boards may compensate for higher risks of social and attitudinal incompatibility attending outside succession by placing greater emphasis on demographic similarity between a CEO and existing board members" (Zajac & Westphal, 1996: 83).

Whilst older leaders are less risk-oriented and creative and tend to be change-reluctant (Barker & Mueller, 2002; Miller, 1991; Miller & Shamsie, 2001; Wiersema & Bantel, 1992), suggesting implications for future innovation, dynamism and responsiveness (Bantel & Jackson, 1989; Jensen, 1989), they may demonstrate enhanced knowledge gained in role and life experiences, giving a more rounded worldview (McKnight, et al., 2000). This will produce longer tenured CEOs more likely to stay in role than to seek new challenges elsewhere, thus offering greater strategic continuity (Davidson, et al., 2006). Age demographics combine with long tenure to produce long-serving, unchanging and powerful leadership teams (Hambrick & Fukutomi, 1991; Myers, 1983) committed to maintaining the current position (Staw, 1976; Staw & Ross, 1980) through institutionalised and unquestioned networks of power and influence (Meyer & Rowan, 1977; Selznick, 1957; Zucker, 1977).

This institutionalisation of formal power and informal networks of influence is likely to result in longer CEO tenures. This reflects the lack of new challenges or opportunities outside the organisation, thus encouraging strategic continuity (Davidson, et al., 2006). Age demographics combine with long tenure to produce long-serving, unchanging and powerful leadership teams (Hambrick & Fukutomi, 1991; Myers, 1983) committed to maintaining the current position (Staw, 1976; Staw & Ross, 1980) through institutionalised and unquestioned networks of power and influence (Meyer & Rowan, 1977; Selznick, 1957; Zucker, 1977). Hambrick & Fukutomi (1991: 738) observed that "obsolescence" may occur with long tenure (Drew, 2011), resulting in low task interest, and not just with age, suggesting a greater risk with a CEO appointed at 45 and in role for ten years than for the CEO appointed at 60 and in role for five years. Further, tenure is another organisational demographic characteristic likely to determine inter-personal attraction by means of enhanced communication through shared organisational experiences (Miller & Shamsie, 2001; Simsek, et al., 2005; Wagner, Pfeffer & O'Reilly, 1984; Zenger & Lawrence, 1989).

The ageing of the CEO population in a mature economic and demographic context such as the UK is evidenced in the declining pool of available talent in that age group (*ONS*, 2009). Older leaders may be less risk-oriented and creative and tend to be change-reluctant (Barker & Mueller, 2002; Miller, 1991; Miller & Shamsie, 2001; Wiersema & Bantel, 1992). This might have implications for future innovation, dynamism and responsiveness (Bantel & Jackson, 1989; Jensen, 1989) and even for the level of international diversification (Tihanyi, et al., 2000). On the other hand, older leaders are likely to demonstrate enhanced knowledge gained in role and life experiences, giving a more rounded worldview (McKnight, et al., 2000). In this context of mature demographic profiles in the UK, youthful talent may be present in the lower echelons of management, learning and developing and awaiting its turn in upper management. This is likely to reflect the inherent stability of larger and mature organisations, with rapid promotion of younger managers to positions of seniority more likely in industries exposed to rapid change (McNeil & Thompson, 1971). Pfeffer (1981b) suggests the likelihood of increased conflict between different age cohorts in such industries where younger managers have been promoted rapidly due to a lower level of shared perceptions on contextual and societal values (Byrne, 1971; Rhodes, 1983).

Much of today's CEO population is composed of the Babyboomer generation, defined as birth years 1945-1964, with some limited penetration by Generation X leaders born between 1965 and 1983 (Tierney, 2006). It is widely accepted that each generation will be characterised by different approaches to work ethics, attitudes and expectations (Yu & Miller, 2005). Generation X is characterised by resourcefulness, independence, individualism and a lower concern with long-term career goals (Yu & Miller, 2005). Babyboomers are perceived to be more concerned with material success (Hankin, 2004) and have lived through economic transformation in the developed world from an era of heavy industrialisation to a services-based economy and, since the 2000s, to the knowledge economy. This level of frequent, disruptive change has required adaptation of leadership styles from control and supervision in the industrialised economy to a greater emphasis on inter-personal skills in the service economy to collaborative leadership in the knowledge economy (Hersey, Blanchard & Johnson, 1988). The executive leadership of Babyboomers may continue to incorporate a command-and-control approach, less relevant in managing businesses in the 21st century (Parry & Urwin, 2011; Salahuddin, 2010; Thurow, 1999). Traditional career paths have been superseded in the knowledge economy by lifetime capability development and portfolio careers (Beck, 2000; Butler & Waldrop, 2001; Despres & Hiltrop, 1995). This may require a re-skilling of Boards to attract and retain younger generations. However, much of the research effort into generations is US-focused. Furthermore, national cultural context will also determine the collective life experiences relevant to individuals in those contexts (Mannheim, 1952), impacting work attitudes grounded in the dominant societal values (Hofstede, 1991).

Lack of opportunity may cause Generations X and Y to become a "disaffected group of younger employees who may respond by decreased motivation or by seeking opportunities elsewhere" (Lawrence, 1988: 314). These later generations, being smaller in number due to lower birth rates in the UK from the 1960s, will produce a smaller talent pool from which to select senior management. This may partly explain the extended tenures of the current generation of leaders, reflecting both a lack of Generation X talent ready for promotion and a desire by Babyboomer-era executives to extend their tenures. Only when the talent pool of the current Babyboomer generation runs out will Boards feel compelled to seek younger talent (Demb & Neubauer, 1992), by which time the very existence of the public corporation may be endangered (Jensen, 1989; *The Economist*, 2012). US data show prime executive age (34-54) at year 2000 of 35m individuals increasing by only 3m by 2020 (Tierney, 2006) or declining by up to 3% by 2010 *(A.T. Kearney*, 2011).

Youthful management is associated with corporate growth (Child, 1974; Hart & Mellons, 1970), but it is unclear whether growth leads to younger executive management or whether a growing economy encourages the recruitment of young talent (Hambrick & Mason, 1984). Generational diversity may cause difficulties in replicating the strategic leadership based on diversity and entrepreneurial spirit of the Babyboomer generation (Timmons & Spinelli, 2004). These younger managers may lack the experience of leading large, diverse publicly-quoted businesses and may be more suited to entrepreneurial organisations funded by venture capital. This is, however, not backed up in US data, which shows the average age of first-time entrepreneurs at 43 and the highest rate of new business activity in the early 2000s in the Babyboomer age group of 55-64 (*Kauffman Foundation*, 2009, 2012). Younger managers may simply be focused in the lower echelons of corporate hierarchies on "management" capabilities, such as planning, budgeting, recruitment, people management and financial control, without developing their "leading" characteristics, which would allow their development to top team leadership roles (Kotter, 1990).

Generations X, defined as birth year 1965 to 1983, and Y, birth year post-1984, are moving further from the bureaucratic axioms of the past (Longenecker, McKinney & Moore, 1989). These generations have grown up and been exposed in their early corporate lives to easy access to information and instant results, which may produce behavioural traits of instant gratification and impatience, with a lower value on a work ethic and less willingness to sacrifice personal lifestyles for career in an organisation (Eisner, 2005). These generations further demonstrate less loyalty to a particular corporate entity (Callanan & Greenhaus, 2008; Hankin, 2004; Seaton & Boyd, 2007). The positive economic effects of these generations being consumption-oriented (Pelton & True, 2004) and embracing change (Hankin, 2004) with an outcome-focused outlook (Allen, 2004) are countered by their individualism and distrust of corporations (Eisner, 2005). Further, a dislike of hierarchy, less formality and a belief in merit-based reward schemes conflict with the earlier Babyboomer generation (Hankin, 2004). These Generation X characteristics suggest a lack of desire for the traditional corporate form (Sullivan, et al., 2009).

Cappelli & Hamori (2004) conducted research into the career histories of US executives in the top 100 companies between 1980 and 2001 and found, as part of changes to career paths, an increasing presence of younger executives. This appears to contradict McClelland, Barker & Oh's (2012) mean CEO age of 57.0 years in the USA in a 2001 sample of 206 S&P 500 companies. Cappelli & Hamori (2005) found that CEOs had organisational tenure of 15 years in 2001 versus 21 years in 1980 and Frydman (2005) showed organisational tenure of CEOs of 24 years in the 1990s. UK executives were more shown to be more mobile, with average tenure in their current organisation of 17.3 years versus 18.6 years in the USA (Norburn, 1989). However, the focus of the literature is on US corporations (Kaplan & Minton, 2012; Tonello, Schloetzer & Aguilar, 2012) and research methodologies are based on inferring and implying average tenure from turnover rates or "churn" of CEOs by calendar year (Kaplan & Minton, 2012; Parrino, 1997). Prior research notes declining tenures from the ten years reported in Jensen & Murphy (1990). A recent US study based on the Fortune 500 showed inferred tenure of less than seven years over the period 1992-2007, decreasing to less than six years since 2000 (Kaplan &

Minton, 2012). Inferred CEO tenure at 2,500 of the world's largest companies by market capitalisation was reported at 6.9 years in 2008 (Karlsson & Neilson, 2009).

We argue in the second strand of our research agenda that tenure and age are important in the demographic context of the organisation, offering further evidence of Boards being risk-averse in appointments by seeking to employ individuals with an internal background of continuity. Boards may view CEO successions as an opportunity to reward individuals for long service, anticipating that such a pre-retirement appointment will serve the Board well in terms of future personal earnings (Brickley, Coles & Jarrell, 1997). This is in line with shared beliefs based on age norms (Lawrence, 1988; Linton, 1940) affecting behaviour and, applied in an organisational context, by expectations that an age cohort will demonstrate attitudinal similarities (Byrne, Clore & Worchel, 1966; Pulakos & Wexley, 1983; Rosenbaum, 1984). From the above we develop:

> *Research question 2: What are the dominant demographic characteristics of the current UK CEO population in terms of age categories and tenure profiles?*

The above leads us to further develop a research hypothesis linking the two strands of the research and the research questions we proposed above:

> *Hypothesis 1: The age and tenure of CEOs is significant in determining the source of CEO recruitment (internal or external).*

2.3 Methodology

From public sources we collected data related to our research questions on CEO recruitment, age and tenure. To understand the succession process and the talent pool of potential CEOs in more depth, we included routes into the role by examining the previous role of current incumbents and movements out of the role for outgoing CEOs. We defined the data on recruitment mode as internal or external. We collected data on the age and tenure and enhanced the data available from our secondary sources by improving the data on specific appointment timeframes.

2.3.1 Sample

Our sample comprises the FTSE 350 index constituents. The FTSE 350 index is a market capitalisation weighted stock market index, incorporating the largest 350 companies by capitalisation, which have their primary listing on the London Stock Exchange. It is a combination of the FTSE 100 index of the largest 100 companies and the FTSE 250 index of the next largest 250 companies in the UK, which combined represent approximately 95% of the UK market capitalisation (*FTSE*, 2014). The indices are subject to quarterly review to reflect changes in company status and are recalculated based on updated market capitalisation data. The FTSE 350 sample is made up of domestic and non-domestic companies with a full London Stock Exchange listing and is non-homogenous in terms of size and industry. The total market capitalisation of the FTSE 100 alone is GBP1.5trillion, with companies such as Royal Dutch Shell and HSBC Holdings having market capitalisation in excess of GBP100bn, whilst the smallest companies in the FTSE 250 have market capitalisations as small as GBP0.2bn (*FTSE*, 2014). Forty-seven companies within our sample (13.4%) do not have CEO positions, largely in the Mining & Exploration and Equity Investment Trusts sectors.

2.3.2 Data collection

We used as our main source the Morningstar Company Intelligence (MCI) database (branded HemScott Company Guru at the time of the data collection). MCI is an online research service offering accurate and verifiable research into all companies listed on the London Stock Exchange and biographical facts on over 42,000 active and former directors *(Morningstar*, 2014). The benefits offered by a secondary source such as MCI include the consistent treatment of director titles and of the assessment of the value of share options. In line with prior research into management elites we relied on the use of secondary data (Pettigrew, 1992). A benefit of using a structured database source such as MCI is the consistency of the collection of large volumes of data. However, we identified a limitation with this source, which helped us to make a data methodological contribution in our own research effort, being the date of appointment into the CEO role (see below). The limitations of such an approach are widely documented, primarily the need to use proxies for the mechanics of succession planning policies and processes in the absence of direct company access to confirm their existence and extent (Behn, Riley & Yang, 2005). The secondary data from MCI were supplemented with archival data, such as regulatory announcements to the London Stock Exchange and annual reports. The use of company-driven documents has been criticised for being audience-specific and seeking to portray the company in the best possible light

(Abrahamson & Hambrick, 1997), however our use was restricted to a factual confirmation of executive biographies. A self-imposed limitation was to use only data available in electronic format, which limited the detail of data for long-serving incumbents. We used MCI to create a database, with the company as the unit of analysis, to enable us to analyse the current and previous generation of CEOs and the routes in and out of role.

The FTSE indices are dynamic, with a turnover of 7% of companies in the indices within one year (*FTSE*, 2014), reflecting both changes in market capitalisation weighting, new listings and removal from the indices through corporate reorganisations. By using a cross-sectional approach, collecting the data in August 2011, the sample of 350 entities is fixed and is not impacted by survivorship bias (Brown, et al., 1992; Gregory-Smith, Thompson & Wright, 2009).

2.3.3 Data analysis

We analysed the data by FTSE business sector (McGahan & Porter, 1997; Rajagopalan & Datta, 1996; Rumelt, 1991). Due to the small numbers of constituents in some FTSE sectors and limitations with the traditional UK sector classifications, we undertook a consolidation of FTSE sectors into an artificial construct of “meta-sectors”. We reduced the number of FTSE sectors from 38 to ten meta-sectors, retaining the uniquely homogenous Banks and Equity Investment Trusts in their original forms. The migration of the data from sectors to meta-sectors is illustrated in Appendix 1.

Given our research questions and proposed hypothesis, we reviewed and analysed the available data on the following bases to cover the main sections of our research:

2.3.3.1 Recruitment

By collecting data on the destination of the previous CEO and the previous role of the current CEO we were able to monitor movements into and out of role and build a database of the “churn” of individuals and their career paths between roles and companies. We assigned categories to previous roles to enable consolidation of the data and avoid differences in company-specific naming conventions for the same role. For the majority of succession events we were able to collect valid data and were not obliged to make assumptions or inferences in contrast to other researchers such as Puffer & Weintrop (1995) presuming all departures over age 63 are voluntary retirements. We assigned instead a ‘no data’ label to occurrences within the sample where a recently-departed CEO may be on “garden leave” or evaluating opportunities, but yet without a confirmed role. A limitation of MCI is that it carries data only on UK listed entities. Thus, if a director takes up a role abroad, in a private entity or in the third sector, we were unable to track his/her subsequent movements. We therefore assume ‘no data’ rather than ‘retired’ even if the individual may be close to retirement age and likely to be seeking the portfolio career option of a non-executive role.

Previous studies of UK CEOs (Johnston, 2002) and many databases, including MCI, show tenure based on the date of the individual CEO joining the company. We present an accurate view of actual tenure by establishing the exact date of the recruitment event and cleaned up this data by cross-checking against company websites and regulatory announcements to verify the appointment to role date, allowing us to present an accurate view of the individual's actual tenure as CEO. The date of appointment in our study is therefore the date the individual commenced CEO responsibilities, being a refinement of many databases and prior research (Johnston, 2002; Kaplan & Minton, 2012; Parrino, 1997), which relies on the date of the press release announcement, the Annual General Meeting approval date or the start date of employment with the respective corporation. This is particularly relevant with internal appointments, as total length in service within the company may be significantly longer than tenure as CEO, which has not been identified by the MCI database and prior research.

In line with prior research, our decision on the classification of a CEO as internal or external is based on the time span between hiring and appointment date to the role. Although prior research has defined external to mean up to four years of internal grooming within the organisation (e.g. Brady & Helmich, 1984), based on Kotter's (1990) three-year cycle to take up leadership of an organisation, we assumed external to mean that the CEO has been in service with the company for less than one year. Our assumption of an external appointment is the CEO has been in service with the company for less than one year, where he/she may have been appointed as an executive director with a view to promotion to CEO at the next shareholders' meeting. We excluded interim appointments, which were readily identifiable in the source data. We assigned 'no data' categories if no CEO was in post on the first of August 2011 and if an interim deputy CEO was acting up as CEO pending the announcement of a successor (Gregory-Smith, et al., 2009). Only if the interim appointee lasted in role for over 12 months was this then considered in our analysis a permanent appointment.

2.3.3.2 Age and tenure

Where disclosed, we calculated the age of the CEO in decimalised years based on published data. We used a default of the first of January where MCI was unable to verify the exact birth date of the individual CEO. We calculated age at appointment and current age and assigned age category labels to each in line with our broad generational age categories.

We used the same methodology for tenure, using a default of the first of January in the year of appointment if MCI reported no exact date, particularly evidenced for longer tenures, and created length of service categories to improve the analysis of the data.

We then used the same approach to analyse the age and tenure of executive feeder roles by including all other executive Board directors to analyse potential paths to the CEO role using the different sourcing options available to the company.

2.3.3.3 Exclusions

The structure of our data gathering means that every company with a CEO within the sample has a single observation of a CEO succession event, being the latest change of role incumbent prior to the appointment of the current CEO. We did not use time series data to highlight instances where companies may in the same period have had multiple such succession events.

2.3.3.4 Analysis

We explored the issues raised in our research agenda using the descriptive statistics functionality in SPSS version 21 to test for possible relationships between our selected variables. We used standard formulations on means and standard deviations for age and tenure to visualise the research agenda (Tukey, 1977) and suggest the research questions (Hartwig, 1979). This allowed us to develop our analysis and hypothesise on the implications for CEO recruitment methods from our selected CEO demographic variables (age and tenure) to explain the level of CEO "churn". For this test of the statistical significance of our findings we used the independent samples t-test functionality within SPSS 21. Exploratory data analysis was used to screen for normal distribution and outliers over all constructs, seeking to extrapolate a network of relationships in the data between our selected variables (Hartwig, 1979). The data are unbalanced, as we retained within the sample all of the 47 companies with no CEO Board position, including the entirety of the Equity Investment Trusts meta-sector. A further anomaly in the data is the large deviation in company size by market capitalisation.

2.4 Discussion

We present our findings and discuss potential research implications for the recruitment, age and tenure of CEOs in the UK, framed against the dominant practitioner view of these variables. Due to the exploratory nature of this study, we report the findings related to our research questions, but restrict the generalisability of these insights to a wider population.

2.4.1 Recruitment

We found that, contrary to the prevailing business and academic view (Dalton & Kesner, 1985; Zhang & Rajagopalan, 2010b), many CEO appointments are internal. CEOs in FTSE 350 businesses tend to seek retirement as their next career move and are most often replaced by internally-recruited successors, whose age profiles are a good 'fit' with those of the Boards responsible for their appointment (Zhang & Rajagopalan, 2003). These recruits are probably older, replacing departing CEOs with tenures longer than suggested in prior research in the UK context (Johnston, 2002).

Our data show that within our sample of 350 companies there were 272 recruitment events[5] from an identifiable source. Of these, 142 appointments are internal (52%) and 71 are external (26%). These results are illustrated by

[5] Sample is n=350 companies in the FTSE. We include all Equity Investment Trusts and some non-domestic companies without CEO roles in our analysis. This produces a sample of 303 companies. A further 30 companies are deemed to have no recruitment event due to being new listings, the result of a corporate reorganisation or demerger or the CEO being the founder of the company prior to its initial public flotation.

meta-sector in Table 2.1. This resonates with recent US data in a sample of S&P 500 companies showing CEOs being replaced in 64% of occurrences with an internal candidate over the period from 1993 to 2005 (Barron, et al., 2011). However, this finding appears to contradict recent studies in other developed markets (Balsmeier, Buchwald & Zimmermann, 2011). Further, the rate of internal recruitment rises to 57% if we include those founder CEOs and classify the CEOs of companies resulting from new listings and corporate restructurings as internal appointments. By including only those companies with a CEO role on the Board, the level of internal recruitment rises further to 64%.

Table 2.1 Method of CEO recruitment

	Internal n = x	External n = x
Banks	3	1
Construction	16	6
Equity investment trusts	3	
Exploration	22	9
Financial (non-banking)	25	8
Industrial	47	21
Power	4	3
Retail	12	14
Services	33	25
Technology	10	3
Telecommunications	6	1
Total	**181**	**91**

We found that 14 externally-recruited CEOs (15%) moved from another CEO position, with 13 being promoted from a Chief Financial Officer (CFO) role. A further 13 CEOs have been recruited from non-executive management roles, signifying an opportunity for Generation X managers to seek promotion to FTSE 350 company stewardship. Puffer & Weintrop (1995) suggest a link between internal recruitment and the total number of executive Board positions, which is confirmed in our sample. In Boards comprising more than two executive directors, 16 appointments (13%) are external recruits, whereas internal recruitment accounts for 41 (34%) of succession events, suggesting there is significant entrenchment in CEO recruitment where the candidate is known to the directors. In step with US research (Brickley, Linck & Coles, 1999; Gibbons & Murphy, 1992) we found that departing CEOs most frequently retire. Of 172 departures in our analysis, 84 CEOs (49%) moved into retirement. The next most common move by a departing CEO in 28 instances (16%) was to a non-executive chairmanship role. There is little evidence of "churn" and portfolio careers (retirement and non-executive chairmanships and directorships) account for 91% of succession events amongst the departing CEO population.

The descriptive statistics relating to CEO succession (route in and route out) are presented in Table 2.2 as a matrix to show both the destination of the outgoing CEO and the provenance of the incoming CEO. Allied to longer working ages, the post-CEO moves to Chairman also suggest a strong desire by the current and most recent generation of CEOs to maintain strategic influence over the future direction of the company after executive service has ended. 40% of outgoing CEOs moved on to a non-executive role, which is a reflection of the demographics of the incumbent age group. Using our data on the previous role of current CEOs we were able to establish only ten observations of a CEO departing to another CEO role. Of these, only three individuals in the sample moved to another CEO role with a FTSE 350 company, which appears to discredit the practitioner view on the ”churn” of CEOs between roles.

Table 2.2 CEO selection

Matrix of departing CEO employment and previous role of incoming CEO	**Destination of outgoing CEO**									
Previous role of current CEO	**CEO**	**Retired**	**Chairman and NED**	**Founder**	**Restructure**	**No CEO position**	**None**	**Other**	**No data**	**Total**
CEO	4	13	5	4	5	1	10	9	2	**53**
Chairman	1	1			3	1		4	1	**11**
COO	2	9	11			1	2	2		**27**
Deputy CEO		5	2				1		2	**10**
Divisional CEO	1	8	7		3		6	7	2	**34**
Divisional executive director	1	26	12	3	2	1	6	4		**55**
Financial director		16	19		2		7	2	1	**47**
Joint CEO			1	1				1		**3**
NED		1	1				2		1	**5**
No CEO position		1	1			45	1	1	5	**54**
No data		1	2	1			3	5	1	**13**
Non-board executive director		1	2		1			2	2	**8**
Unspecified management role	1	2	3	2				2	1	**11**
Restructuring				1	2			3		**6**
Founder		1		11						**12**
New listing							1			**1**
Total	**10**	**85**	**66**	**23**	**18**	**49**	**39**	**42**	**18**	**350**

2.4.2 Age and tenure

We found the mean age of CEOs in 2011 was 52.5 years. The youngest CEO in the sample was 34.6 years and the oldest 76.5 with a median of 52.1 and standard deviation of 6.0 years. There are only five CEOs currently in their thirties and only 45 appointed before reaching 40. The mean age may be relatively low in international comparisons, where McClelland, Barker & Oh (2012) reported mean CEO age of 57.0 years in the USA in a 2001 sample of 206 S&P 500 companies.

The Babyboomer generation is significantly over-represented amongst the FTSE 350 CEO population. Babyboomers make up 84% of FTSE 350 CEOs. Possibly reflecting UK trends in age legislation away from a mandatory retirement age, there are five CEOs of the Pre-War generation, with two current CEOs aged over 70. Only 49 CEOs in our sample (14%) are from Generation X, of which 20 have less than three years' service. Yet 123 CEOs with less than three years' service are of the Babyboomer generation. On the other hand, this may simply reflect UK age demographics and the size of Babyboomer cohort relative to later generations (*ONS*, 2012). We suggest this lack of generational diversity may have implications for work values, including career development (McDonald & Hite, 2008) and management style (Losyk, 1997), with a potential for workplace conflict (Karp & Sirias, 2001). Alternatively, our research may simply reflect the generational overlap between a CEO's investment of current cash flows in the future of the company. This investment is needed to elicit the employment, participation and motivation of the younger generation of managers as part of a generational contract, thus ensuring the horizon of self-interested CEOs (Jensen, 1986, 1993) is extended beyond the short term to the future longevity of the company (Allen & Gale, 2000).

Our findings are indicative of a preference amongst Boards to continue to seek the employment of the Babyboomer age category and appear to offer confirmatory evidence for the similarity-attraction paradigm as a recruitment technique (Davidson, et al., 2006; Schneider, 1987; Tsui & O'Reilly, 1989; Zajac & Westphal, 1996). Babyboomers are significantly more prevalent in CEO positions than in the general UK population, being 84% of the total FTSE 350 CEO population versus 27% of the resident population and 36% of the total working population (*ONS*, 2002, 2009). With UK life expectancy at 77.4 years for men and 81.6 for women, it is clear Boards may continue to seek incumbents from this generation in recruiting CEOs, based on perceived similarity of behavioural traits (Byrne, 1971; Davidson, et al., 2006; Schneider, 1987; Tsui & O'Reilly, 1989; Zajac & Westphal, 1996).

Table 2.3 Age and generation of CEOs

Meta-sector	**n=x**	**Current age (Mean)**	**Current age (Standard Deviation)**	**War Generation n=x**	**Babyboomer Generation n=x**	**Generation X n=x**
Banks	4	53.2	4.7		4	
Construction	23	54.0	7.7		18	4
Equity Investment Trusts	46	49.0	6.5		3	3
Exploration	39	54.1	6.9	2	27	3
Financial (non-banking)	41	52.2	4.7		32	2
Industrial	73	52.4	6.1	2	56	12
Power	9	53.7	3.7		8	
Retail	27	51.3	6.1	1	19	6
Services	64	52.2	4.7		54	6
Technology	16	53.9	7.0		14	1
Telecommunications	8	46.4	7.1		4	2
Total	**350**	**52.5**	**6.0**	**5**	**239**	**39**

We find some evidence in favour of the employment of younger generations of CEOs in the Equity Investment Trusts sector, where the current CEO age is under 47 years, offering a route in for youthful management to gain experience of leading a FTSE 350 business. This may possibly indicate an increased willingness in such investment vehicles to accommodate the perceived risk-taking of Generation X, where strategic advantage is gained by maximising returns on funds. Furthermore, these investment trusts typically feature Board structures with a strong cohort of non-executive directors and are characterised by a lower requirement for CEO leadership skills (*AIC*, 2014).

On the other hand, we note in our analysis of the feeder roles to future CEO that the demographic profiles of all executive Board members are similar to those of the CEO (Table 2.4). The average tenure of executive directors of 5.7 years indicates limited “churn”. In addition, our findings show the age of these executive directors is similar to CEOs at 51.4 years, indicating that Babyboomers predominate at all levels of executive management, with only the mean age of CFOs below 50 years.

Whilst capital markets have recently been subject to turbulence with many sectors undergoing radical change, the longevity of CEOs stands out. The “churn” of CEOs in the UK’s largest companies does not appear to be significant, as we report only three FTSE-to-FTSE CEO movements in our sample. Our findings indicate that the prevailing view (Johnston, 2002; Karlsson & Neilson, 2009; Tonello, et al., 2012) on tenure understates the length of service of current CEOs. We show the mean tenure of 6.4 years, standard deviation of 6.0 years with a maximum tenure of 35.9 years and median 4.7 years. Our research shows tenure to be longer than in previous UK studies. Nevertheless, tenure is lower than recent evidence from the USA (Karlsson & Neilson, 2009; Tonello, et al., 2012). However, discrepancies of methodology and definitions of tenure preclude a detailed comparison of the different analyses into tenure. This has produced a multiplicity of findings; another recent US study based on the Fortune 500 has inferred tenure of less than seven years over the period 1992-2007, decreasing to less than six years since 2000 (Kaplan & Minton, 2012). Inferred tenure at 2,500 of the world's largest companies by market capitalisation was reported at 6.9 years in 2008 (Karlsson & Neilson, 2009), whilst a recent UK study showed tenure of CEOs in the FTSE 250 of just 5.1 years (*Manchester Square Partners*, 2010).

Table 2.4 Executive feeder roles to CEO[6]

Executive Board Director Roles	**Number in Sample**	**Current Tenure (Mean)**	**Current Age (Mean)**
CEO in subsidiary	9	7.1	53.7
Chief Financial Officer	252	5.4	49.7
Company Secretary	7	3.7	50.6
Chief Operating Officer	40	4.8	53.4
Divisional director	100	6.3	52.2
Executive director	90	5.3	53.0
Product director	2	8.3	57.7
Regional director	12	6.3	54.8
Unspecified	10	12.1	52.2
Total	**523**	**5.7**	**51.4**

Our reported mean tenure of 6.4 years challenges earlier research by Johnston (2002), in a sample of the 220 largest UK companies by sales in financial year

[6] The sample size in Table 2.4 is n=523 as we include all Board executive directors in the FTSE 350. Although many companies are moving towards a two-member executive Board, normally composed of CEO and CFO, other companies conitinue to maintain larger Boards with more than 2 executive directors. These act as feeder roles to the CEO position.

1995/1996, showing 75% of CEOs had been in role for less than 5.5 years. The Johnston (2002) definition uses tenure with the company, which overstates actual tenure as CEO by including length of service with the company prior to accession to CEO. In fact, we found that 123 out of 350 CEOs (35%) have over 5 years' service in role and this trend is more prevalent (43%) in the UK's 100 largest companies, which might indicate Board and shareholder preference for a long-tenured CEO managing such complex businesses (Guthrie & Datta, 1997). With 6% of CEOs in service for more than 15 years, rising to 16% with over ten years in role, tenure may simply be higher than in previous research due to changing demographics. The Babyboomer CEOs in Johnston's (2002) research may have had longer career horizons and been more willing to change role frequently in the mid-1990s, now preferring continuity until retirement.

On the other hand, we note within our sample that 47 of the FTSE 350 companies are one generation removed from the founder CEO, which implies that the previous generation of CEOs may have had exceptionally long tenures as founder CEO and continuing control over these companies in a non-executive capacity. We further hypothesise that an ever diminishing pool of available Babyboomer talent may cause Boards to seek to recruit talent within the similarity-attraction paradigm with less experience at executive level in the belief that this is a lower risk appointment to seeking Generation X talent. The span of the Babyboomer generation means that there is still sufficient talent at lower levels of executive management to be promoted to CEO as part of a similarity-attraction approach, the late birth year Babyboomers being aged 52 to 57 in 2011, which may be considered prime executive age in line with prior research by Charan (2005), who notes the age of accession to the CEO post in the USA is normally between ages 46 and 52. With companies expecting tenure of ten years from their CEOs to have any significant performance impact, this means talent pipelines should be in place to allow development of CEO potential from age 30 (Charan, 2005). Our exploratory analysis does confirm this situation in the UK.

Alternatively, non-mandatory retirement age legislation may result in Babyboomer management seeking to extend its tenure and career horizon. These delayed retirements may reflect declining equity valuations of pension funds since the onset of the global financial crisis or this generation's existential cultural basis founded in a strong work ethic. On the other hand, the sheer numbers of former Babyboomer executives may result in a dearth of portfolio career opportunities due to greater competition for such non-executive roles.

We found that Industrial, Exploration and Non-Banking Financials (e.g. general financial services providers and life and general insurance companies) are the meta-sectors with the longest CEO tenures (Table 2.5). In Services there are ten companies with a CEO in role for less than one year, of which seven are within the Travel and Leisure business, suggesting a greater exposure to change and turbulence of business environment in certain sectors. The meta-sectors with the longest mean tenures are Construction (7.8 years), which may be due to greater intra-sector homogeneity, and the Equity Investment Trusts, which is constrained by the small sample with an executive CEO Board position. The Services and Technology are the meta-sectors we identified with the largest standard deviations of tenure, indicating a likelihood of increased leadership "churn". On the other hand, Banks show mean tenure of only 2.4 years, reflecting both a small population and recent financial market events, which appears to contradict Zajac & Westphal's (1996) findings that economic context (share price and return on assets) are negatively related to the probability of change in CEO characteristics (prior role and age).

Table 2.5 CEO tenure

Meta-sector	**n=x**	**Current tenure (Mean)**	**Current tenure (Standard Deviation)**
Banks	4	2.4	2.1
Construction	23	7.8	7.5
Equity Investment Trusts	46	4.5	4.0
Exploration	39	5.8	5.3
Financial (non-banking)	41	6.8	5.8
Industrial	73	6.7	6.1
Power	9	5.1	3.0
Retail	27	4.6	3.1
Services	64	6.8	7.1
Technology	16	7.6	7.0
Telecommunications	8	2.9	2.4
Total	**350**	**6.3**	**6.0**

The independent samples t-test was used to examine statistical differences in the age and tenure of CEOs appointed from internal and external sources. The results of our analysis in respect of H1 are detailed in Table 2.6[7] and show that age of CEOs recruited externally (M = 50.7; SD = 9.5) is higher than internal recruits (M = 47.7; SD = 16.0). This may reflect the later accession of external

[7] Note: Not all companies in the sample have a CEO position and some companies may be transitioning to a new CEO or have a CEO with an undeclared age, hence 272 occurrences of CEO age.

CEOs to the role and a perceived need for age-associated gravitas and experience if the more usual internal route is not selected. The data show the tenure of internally-appointed CEOs (M = 4.8; SD = 4.6) to be lower than external recruits (M = 5.3; SD = 4.6). The data show age is significant as an explanatory factor in the recruitment of CEOs from an internal or external talent pool. However, we note little variance between the age and tenure of CEOs recruited internally from those who join from outside, lending support to the similarity-attraction view (Davidson, Nemec & Worrell, 2006; Schneider, 1987; Tsui & O'Reilly, 1989; Wenzel, 2001; Zajac & Westphal, 1996). On the other hand, tenure is not shown as an important factor in the decision to recruit internally or externally. Therefore we partially support H1. The age variable is a determinant in the recruitment of CEOs, however we do not find a significant relationship between CEO tenure and source of recruitment.

Furthermore, we considered the provenance of current CEOs by including their previous roles. We were able to establish a trend to internal recruitment being historically the favoured selection option in most recent appointments from the 1990s until today based on our data definition of one succession event per company. Internal recruitment is especially more likely if selecting a new CEO older than 60 years of age. However, the mean age of appointment is lower for internal (46.4 years) than external recruitment (47.4 years), which is lower than median age of 53 years reported in a US study of 47 newly appointed CEOs in 2008 (Tonello, et al., 2009). The prevalence of internal recruitment may simply reflect the fact that these are the UK's largest organisations, with a perceived need for age and firm-specific experience to manage their complexity (Guthrie & Datta, 1997). The most usual internal route to CEO, however, is from operationally leading or managing a business unit. Our results show eight (27%) of recruited CEOs promoted from such a functional background, indicating a preference for recent operational experience (Hamori & Kakarika, 2009; Hitt & Ireland, 1985; Murphy & Zabojnik, 2004, 2007; Walsh, 1988).

Additionally, we show that the demographic profiles of FTSE 350 CEOs are similar irrespective of recruitment method, with the current age of externally recruited CEOs of 52.8 years versus 51.8 years for internal hires. This probably reflects the longer wait that internal candidates may have had before being promoted to a leadership role, with tenure in previous role at 6.9 years for external recruits and 7.6 years for internally appointed CEOs. In fact, 45 CEOs from the internal promotion route had a wait of over ten years in their most recent role prior to CEO. Furthermore, the background profiles of CEOs from the outside stable are not overly dissimilar to the internal recruits, being of a similar age and with similar organisational backgrounds. We report, for example, that the most desired external CEO is not the 'job-hopping' (Deckop, 1988) CEO moving between CEO roles but a CEO with a solid foundation in operational management. Twenty-seven externally-recruited CEOs (30%) are appointed from a most recent role as CEO of a business unit or division or executive director with operational responsibilities. These directors promoted to CEO from outside the organisation had typical tenures of 9.7 years in their most recent position before their change in role.

Table 2.6 Independent samples t-test for significance of age and tenure in the recruitment method of CEOs

Group Statistics

Internal = 1 External = 2		N	Mean	Standard deviation	Std. Error Mean
Age	1	88	47.66	15.994	1.705
	2	180	50.68	9.548	.712
Tenure	1	91	4.821	4.5964	.4818
	2	181	5.319	4.6064	.3424

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Age	Equal variances assumed	8.295	.281	-1.925	266	.050*	-3.016	1.566	-6.100	.068
Tenure	Equal variances assumed	.064	.800	-.842	270	.401	-.4979	.5915	-1.6624	.6667

* $p < 0.05$

2.4.3 Summary

Our research questions, hypothesis and associated findings present a compelling case for further research into the links between our selected variables. We found that succession events usually involve portfolio career decisions (retirement or non-executive directorships). The “churn” of CEOs leaving an organisation to take up a new CEO role in another organisation is a rare event in the FTSE 350 sample. We hypothesise that this lack of “churn” is linked to the evidence we have presented on the ageing of the CEO population. CEOs enjoy longer tenure than previously asserted. This is a probable reflection of the demographic characteristics of the role incumbents, available talent pool and Boards operating within the attraction-similarity paradigm. We report a low level of variance in the age and tenure variables across different meta-sectors or across executive Board roles, reflecting the similar demographic profiles across industries and the low level of movement between companies.

Furthermore, the majority of CEO appointments are made from an internal talent pool, which might suggest some progress in developing robust succession planning models. However, the relative dominance of the Babyboomer generation raises age-norm related questions about future talent pipelines due to the limitations to the continued supply of this age cohort (Zhang & Rajagopalan, 2003).

2.5 Limitations and future research

Typical of the exploratory research framework, we do not seek to present a comprehensive view of current practice in the UK Boardroom. From our research questions and subsequent analysis, we identified three key limitations, which frame our agenda to guide further research.

2.5.1 Limitations

Firstly, the cross-sectional research design is limiting in terms of establishing the frequency of changes to the CEO position at each company within the sample. Our time series data are limited to the immediate previous role, with the time periods in our study varying dependent on the tenure of the most recent previous incumbent, so some companies may have had multiple succession events in the same period, where companies with long-tenured CEOs have only one such event. We do not attempt in our analysis to control for the different timeframes, but we acknowledge that this artificial timeframe restricts the dynamism of the data and prevents our research from tracking the movement of individuals over timeframes other than their most recent previous role. Further limitations of the cross-sectional sampling are: the diversity of the constituents of the sample in terms of size and industry; and the composition of the indices that make up our sample, with the constituents subject to flux, regular review and removal (*FTSE*, 2014), as noted in our review of the data collection. This creates a level of environmental uncertainty in our sampling, with such volatility in the constituents of our sample reducing the replicability of such an approach. Nevertheless, this volatility is easily addressed, as these companies continue to exist outside the FTSE indices after an index re-classification and changes to their governance and leadership structures may easily be monitored through on-going review using our secondary sources.

Secondly, the data were collected from publicly available, archived sources and not fully contextualised for the external operating environment or internal organisational background at the time of the succession event. Further qualitative research into succession events might determine both the consequences of contextual stimuli and extraneous environmental effects, e.g. the post-2008 global recession, and the internal forces initiating the organisational change. Combining time series and qualitative approaches may afford further opportunities to study the effects of contextual stimuli, such as low economic growth in the UK in the period of our study, on the age and tenure variables amongst the CEO population. This would contribute to a deeper understanding of the impact of environmental uncertainty on our selected variables (Rajagopalan & Datta, 1996).

Thirdly, we acknowledge the artificial constructs and limits of the generational age categories. We apply widely accepted timeframes for the respective generations in this study. However, we recognise the arbitrariness of the cut-off dates in determining behavioural traits. Similarly, we hypothesise on the links between these age categories and our other variables, but do not imply primary causality from the age categories on tenure or type of recruitment. Indeed, the age-norm related behavioural traits may be better explained by socio-economic contextual factors other than simply birth year. In addition, we contribute to a research agenda on age using inferences from the data on possible linkages between demographic characteristics and the observed outcomes of recruitment, tenure and succession, where these attitudinal and behavioural dimensions may not be determined by demography or similarity (Byrne, 1971; Davidson, et al., 2006; Schneider, 1987; Zajac & Westphal, 1996). However, we acknowledge the limitations of the social psychology approach with its inherent difficulties in fully predicting human behaviour using an outcomes-based approach and in using a single demographic metric to determine possible firm outcomes linked to personal traits.

2.5.2 Future research

In addition to responding to the limitations above, we identified further areas valuable in directing future research.

We take a conventional definition of leadership (Hayward & Hambrick, 1997; Higgs, 2003) to be the locus of the CEO position and our study did not investigate executive management beyond the CEO. Research into shared leadership (Pearce & Conger, 2003) and upper echelons theory (Hambrick & Mason, 1984) suggests leadership exists beyond the remit of the CEO at all levels of the organisation. Extending the study to an entire top management team (Shen & Cannella, 2002a; Zajac & Westphal, 1996) would extend our knowledge of the age and tenure characteristics of the internal talent pool. Future research might include lower levels of senior management (Hambrick, 1994; Smith & Tushman, 2005), to assess alternative routes to CEO for the Generation X and Y talent pool. Future research may also need to consider changes to Board structure and size. Where many top-tier UK companies are moving to a Board structure with two executive directors (CEO and CFO), this may close the promotion route to CEO from operational management evidenced in our findings. Furthering our understanding of the frequency of CEO turnover and replacement may be better directed towards future research.

To address the exploratory nature of our study, with its limitations on generalisability, we would furthermore recommend the internationalisation of the sample. Such a research approach would allow for better comparability across developed world markets with similarly mature economic and societal contexts and, in particular, with those markets with Anglo-Saxon and continental European-style corporate governance systems (de Andres, Azofra & Lopez, 2005). Similarly, our research focus was on the largest UK companies and future research may eliminate from sampling particular sectors, or focus on smaller listed entities, private companies and the non-profit sector, as such institutions may present a different view, particularly in respect of the generational age category variable. Furthermore, future research less reliant on a qualitative approach may produce findings with greater reliability and generalisability to a wider population in both UK domestic and international contexts.

2.6 Summary and conclusion

We addressed the key practitioner myths and preconceptions around CEO succession events, including the mode of recruitment and the age and tenure of incumbents. We found that succession events are largely brought about by retirement and tenure is longer than suggested by previous research, reflecting an ageing CEO population, with replacements being recruited in many instances from an internal talent pool.

By contextualising the route into and the route out of the CEO role (Hambrick & Quigley, 2013) we show that succession events involve portfolio careers (retirement or non-executive management) for 91% of the CEOs of companies within our UK sample. 52% of recent appointments are internal, reinforcing the lack of “churn” within the current crop of leaders, with only 15% of current CEOs being recruited externally from another CEO position. The mean age of current CEOs is 52.5 years, offering support for the concept of Boards continuing to favour the appointment of new CEOs with similar age profile and perceived values characteristics in an expectation of strategic continuity. The minimal variance between age and tenure profiles in different industries and in the executive director population reinforces the uniformity of demographic profiles of UK CEOs. Mean tenure is 6.4 years, using our improved methodology to define actual tenure, reinforcing our finding on limited turnover amongst UK leadership teams.

2.6.1 Theoretical governance implications

Findings from our research have important implications for the academic community. We hypothesise that the frequency of internal recruitment, the long tenure and age demographies of current CEOs have implications for UK governance researchers and suggest a shift in focus away from solely executive compensation. In comparison with other studies (Behn, et al., 2005; Shen & Cannella, 2002a), which seek to draw inferences from proxies, we contribute to the research problem by gathering and analysing a current and detailed dataset of the largest UK companies. We suggest that ageing, risk-averse Boards may be seeking to maintain their own status and continued employment by recruiting individuals similar in terms of age, anticipated values characteristics and behavioural attributes. This will have implications for innovation, strategic change and organisational agility and frames our agenda for future research.

With internal being the preferred mode of recruitment and retirement (or the portfolio career option of a non-executive directorship) as the probable move following CEO service, we hypothesise that similarity-attraction is the dominant paradigm in which Boards operate in CEO successions (Schneider, 1987; Zajac & Westphal, 1996). This has implications for successor generations, the formulation of internal talent development programmes and succession planning beyond the role of current leaders. Due to the size and inherent stability of the businesses in our study, we found little evidence for any likely future shift in CEO recruitment and retention patterns. This leads us to hypothesise within a social psychology framework that Boards will continue to seek leaders similar in age profiles and social characteristics, which may be to the detriment of the company's strategy. In terms of leadership we likewise see little change to the status quo, with long-serving powerful leaders, bounded by their career horizons, using networks of power and influence to ensure strategic continuity and a personal legacy (Hambrick & Fukutomi, 1991; Quigley & Hambrick, 2012). Similarly, this lack of diversity in and preference for the homogeneity of top management Boards, which are not representative of the company's workforce as a whole (Kanter, 1977), may result in lower firm performance (Milliken & Martins, 1996). Diversity of occupational background has been shown to not have positive performance effects despite higher levels of innovation and lower 'groupthink' due to the different behaviours within diverse groups creating a potential for disharmonious decision-making (Murray, 1989). Similarly, it has been shown that turnover of the top management team increases with greater diversity of organisational tenure by these Board members (Wagner, et al., 1984). On the other hand, diversity of gender on Boards may have positive firm performance impacts (Carter, Simkins & Simpson, 2003). We infer the potential for similar governance implications in other mature markets with similar demographic profiles, corporate structures and entrenched management with a status quo bias (Crossland & Hambrick, 2007).

Internal recruitment may simply reflect management fashion, where a scanning of the competitive environment reveals that similar FTSE 350 businesses are working on succession plans and developing internal talent for promotion (Abrahamson, 1996; Ocasio & Kim, 1999). This may reflect the visibility of these flagship businesses within the UK economy and media attention on their leaders, encouraging a herd behaviour amongst Boards (Avery & Zemsky, 1998; Chang, Cheng & Khorana, 2000), as recruitment behaviours outside the expected norm are likely to be punished by markets, leading to lower share valuations and reduced job prospects. Furthermore, we note the size profiles of the businesses in this study, being the largest by market capitalisation in the UK, with a likely internal talent development and recruitment bias (Friedman & Singh, 1989).

2.6.2 Implications for general management and practice

For the managerial practitioner community, the implications are equally significant. With CEO "churn" being an apparent myth and the capital markets valuing age and longevity, future talent may become frustrated and leave with a resulting succession gap. This not only confounds the talent management model, requiring management to question the motivation of those left behind and to better understand the attitudinal and behavioural characteristics of a different age profile group. With only 26% of CEOs recruited externally, Boards are seen to be risk-averse in the recruitment of new leaders, indicating a 'better the devil you know' approach. Boards may be selecting new CEOs, subconsciously or deliberately, using the similarity-attraction paradigm, endangering the existence of large and mature public corporations through the age norm-related deficiencies in succession planning. As a result, we advocate a re-think by Boards on selection policies, approaches to succession and the use of demographic criteria in attracting fresh leadership talent.

The continued low level of external recruitment of CEOs has several implications for general management practitioners. Firstly, we hypothesise, in line with Chan (1996), that the external talent pool is not significantly larger than the internal, as we noted in our findings on the respective demographic profiles of each recruitment cohort. This hypothesis is based on current UK demographics, where executive management at all levels resides primarily within the Babyboomer generation. This means Boards are unlikely to seek to recruit a marginally more skilled outsider unless there are significant incentives to do so. Maintaining the status quo by taking the internal path is likely to ensure the continued longevity of the Board itself (Hermalin & Weisbach, 1998) and maintain a solid working relationship with a familiar new CEO incumbent (Chung, et al., 1987). Taking an external path to a CEO replacement is associated with certain costs in terms of finding the appropriate candidate and will suggest to the market that the company has been unsuccessful in its internal succession planning. An external recruit is, therefore, more likely to address market perceptions on a need for strategic overhaul, but external candidates are often associated with a cost focus to rebalance the business in the short-term. Such an approach typical of external recruits may be beneficial to the business to address immediate performance concerns, and is likely to win favour with markets, but is unlikely to impact the company's long-term strategic path, due to the external recruits' cognitive unfamiliarity with the organisation's culture and history (Greiner, et al., 2002; Zhang & Rajagopalan, 2010b).

Finally, we note the relevance of the demographic approach undertaken in our study. With the Babyboomer generation talent diminishing in size, as the early cohort nears conventional retirement age, we report no significant employment of later generations to leadership positions in the FTSE 350. Similarity-attraction (Byrne, 1971; Davidson, et al., 2006; Tsui & O'Reilly, 1989; Zajac & Westphal, 1996) appears to continue to be dominant, as Boards seek to appoint successor CEOs on the basis of similar demographics and perceived values congruence. This generation continues its entrepreneurial spirit and longevity of employment, reflected in the tenures of current CEOs. This may, in part, address the lower absolute numbers in the successor Generations X and Y, and contribute to the predominance of legacy strategies. However, such an approach may, in fact, endanger the future of the public corporation (Jensen, 1989), as companies fail to adapt to an evolving strategic context.

Chapter 3: Paper 2[8]

3.1 Introduction

Within the HRM literature, and related practitioner publications, there is a growing interest in the area of talent management (Lewis & Heckman, 2006). However, there appears to be a lack of clarity in relation to defining what is meant by talent management (Wright, Gardner & Moynihan, 2003). In spite of this, there does appear to be agreement that talent management is a strategic issue for organisations (Lewis & Heckman, 2006). This argument links clearly to the resource-based view (RBV) prevalent in the strategy literature (Barney, 1991, 1995, 2001; Wright & Haggerty, 2005). The RBV has increasingly focused on the extent to which organisations have clearly developed human resource based policies and practices designed to build human capital (Burke & Cooper, 2006a, 2006b; Lepak & Snell, 2002; Lepak, Takeuchi & Snell, 2003; Ray, Barney & Muhanna, 2004). This particular focus has arguably become dominant in theory development within strategic HRM (McMahan, Virick & Wright, 1999), as human capital as a resource is linked to superior firm outcomes (Barney & Zajac, 1994; Kogut & Zander, 1996; Lepak & Snell, 1999; Pfeffer, 1994; Prahalad 1983; Sherer, 1995; Uzzi, 1996).

[8] An abbreviated version of this paper, based on the first two hypotheses presented herein, is currently in review for publication as: Rejchrt, P. & Higgs, M. 2014. Talent management in the UK: Do the functional backgrounds and recruitment profiles of CEOs impact firm performance? *Human Resource Management Journal*, in review. The contribution of the co-author has been to offer editorial guidance in the publication process for the paper presented here.

Talent management has tended to focus on practices and processes associated with managing talent (Lewis & Heckman, 2006). The issues associated with developing talent have tended to be in the domain of industrial/organisational psychology (Boudreau & Ramstad, 2005). This division of focus was critiqued by Collings & Mellahi (2009), who developed a more strategic and integrated view of strategic talent management. This entailed viewing strategic talent management as being the activities and processes that involve: i) the systematic identification of the key (or pivotal) roles that contribute to an organisation's competitive advantage; ii) the identification and development of a talent pool to fill these positions; and iii) the development of specific processes and structures that ensure these positions are filled by competent and committed individuals (Collings & Mellahi, 2009).

The majority of the literature on talent management has a dominant focus on managing talent within an organisation. This ignores the challenge raised by DeFillippi & Arthur (1994) that the potency of any strategic talent management strategy is reduced by disregarding potential sourcing of key roles from outside the organisation.

In general the strategic HRM literature on talent management has not looked at issues associated with succession to specific roles (Lewis & Heckman, 2006). Much of the focus has been on the relationship between talent management practices and organisational performance (Collings & Mellahi, 2009). Commencing with Newcomer's (1955) study into US CEOs showing trends since 1900 to a higher proportion of internal appointments, the source of Chief Executive Officers (CEOs) has provided fertile ground for research ever since. In exploring organisational performance much has been written in the strategy literature that explores relationships between CEO succession and organisational performance (Zhang & Rajagopalan, 2004, 2010a, 2010b; Mackey, 2008). However, within the HRM talent literature there has been a paucity of work that explores the identification and development of talent to fulfil the key roles that influence the performance of the organisation (Baruch & Peiperl, 2000). Research into senior leadership talent has tended to be found within the careers literature.

Baruch & Peiperl (2000) point out that careers research has moved beyond examining organisational level practices to focus on more flexible and individual models. Furthermore, they respond to the critique of DeFillippi & Arthur (1994) by exploring the use of both internal and external markets (Hall, 2002). Career histories and paths have simultaneously come to prominence in the literature: “paths say a great deal about access to positions of influence and specifically about career development practices” (Cappelli & Hamori, 2004: 2). However, both Baruch & Peiperl (2000) and Cappelli & Hamori (2004) point to a requirement for further research in this area, particularly in relation to paths to the top level roles within organisations.

A number of studies have responded to the need for research identified by Baruch & Peiperl (2000). Notably Hamori & Kakarika (2009) explored and compared CEO careers in the USA and Europe. In particular, they explored the relative importance of “internal” and “external” experience in determining career success (in terms of arriving at a CEO position). They identified, based on a review of the top 500 companies in the USA and Europe, an increasing trend towards external sourcing of the CEO role. Furthermore, they proposed that general management (operational) experience was perceived as important to success in obtaining a CEO role (Hamori & Kakarika, 2009). They suggested that this explained the upward trend in external hires. The importance of an operational background to the achievement of a CEO role was provided with further support by Koyuncu, et al. (2010). However, their study was based exclusively in the USA; in addition, they called for further research in this area and, in particular, to explore the relationship between the CEO's functional background and the performance of an organisation under their leadership as a CEO.

These studies do point to the importance of understanding leadership succession and the relationships between such successions and organisation performance (Burke & Cooper, 2005; Cappelli & Hamori, 2004; Giambatista, Rowe & Riaz, 2005; Rowe, et al., 2005). Furthermore, the need for further research into this area, particularly from outside the USA, is seen as important (Rowe, et al., 2005; Hamori & Kakarika, 2009; Koyuncu, et al., 2010; Zhang & Rajagopalan, 2006).

Organisations are facing a shortage of available and effective executive talent with development and deployment potential (Burke & Cooper, 2006a, 2006b). The demographic characteristics of top executives, especially tenure, have been widely researched in many different literatures. Long CEO tenures may have implications for succession planning and talent pipelines (Shen & Cannella, 2003; Zhang & Rajagopalan, 2010a) designed to address the company's future human resource management needs beyond the tenure of the current CEO incumbent (Conger & Fulmer, 2003; Harris & Helfat, 1997, 1998). A long tenure is likely to impact the degree of social influence the CEO has over Board decisions (Wade, O'Reilly & Chandratat, 1990; Westphal & Zajac, 1995b). The impact of tenure on performance has been widely researched but evidence remains inconclusive (Miller, 1991; Shen & Cannella, 2002a; Simsek, 2007), whilst the question of CEO age has been less actively researched in the literature (Bantel & Jackson, 1989; Brickley, 2003; Johnston, 2002, 2005; Wiersema & Bantel, 1992).

Against the background outlined above, this paper presents a study that examines CEO succession within the UK FTSE 350 companies. In particular, it contributes to the literature by exploring: i) the functional backgrounds of CEOs and relationship between this and organisational performance; ii) the respective prevalence of internal and external hiring of CEOs and related performance implications; and iii) the demographic characteristics of CEOs and the implications of these for future talent management.

Overall, the paper (and study findings) address a number of gaps in the strategic talent management literature and integrate findings from both this literature and the careers literature. In particular, we incorporate sociological and behavioural approaches to address how individual attributes and demographic characteristics impact performance and examine pathways to the most powerful corporate leadership positions within organisations in the UK.

3.2 Theory development

CEOs are amongst the most widely researched topics in the management literature in such diverse disciplines as strategy, finance, organisational behaviour, governance and leadership. One of the key areas of interest in the research community has been the performance of the CEO (Baysinger & Hoskisson, 1990; Goffee & Jones, 2000), with many researchers focusing on post-succession firm performance to analyse the effectiveness of CEO succession (Beatty & Zajac, 1987; Behn, Riley & Yang, 2005; Bertrand & Schoar, 2003; Cannella & Rowe, 1995; Daily & Johnson, 1997; Davidson, Worrell & Cheng, 1990; Grusky, 1964; Haleblian & Finkelstein, 1993; James & Soref, 1981; Kesner & Sebora, 1994; Lubatkin, et al., 1989). Event studies have focused attention on the immediate succession event and corporate performance around the event (Hambrick & Fukutomi, 1991; Johnson, et al., 1985; Worrell, Davidson & Glascock, 1993, Worrell, et al., 1986). Still others have engaged with the succession context to establish the antecedent motives and rationale for the succession event occurring (Cannella & Lubatkin, 1993; Cannella & Shen, 2001; Dalton & Kesner, 1985; Datta & Guthrie, 1994; Huson, Parrino & Starks, 2001; Zajac & Westphal, 1996). Despite the considerable research effort over many decades, it is likely the variations in data collection and design of the studies, sample selection, the definition of top management and selection of performance and independent variables have contrived to produce inconsistent findings (Furtado & Karan, 1990; Shen & Cannella, 2002a) and fuelled the on-going debate around the causes of CEO succession and associated performance effects.

The extant research into talent management in the HRM arena has evolved in parallel to the succession literature. The CEO is the embodiment of authority within the organisation (Lauenstein, 1980; Vancil, 1987) and central strategist determining corporate direction (Mintzberg, 1990). Change events relating to CEOs are likely to impact the corporation, its employees and stakeholders and have been viewed as a disruptive event (Brady & Helmlich, 1984), likely to be interpreted as a signal of the company's future performance (Beatty & Zajac, 1987). CEO succession remains a defining event in an organisation's life cycle (Friedman & Singh, 1989), as it sets the corporate response to its strategic context for a significant time period (Chaganti & Sambharya, 1987; Jauch, Osmond & Martin, 1980). The responsibility for selecting the successor individual is a complex task due to the uniquely atypical characteristics, behavioural traits and idiosyncratic approach to delivering performance required for the role of CEO (Cannella & Lubatkin, 1993; Zajac, 1990). Due to the infrequency of succession events, learning therefrom is difficult (Hogarth, 1987), reflecting a selection process divorced from the organisation's internal processes and culture.

Attempts at defining talent management have been based on the RBV-related human resource practices evolved from the upper echelons literature focused on gaining competitive advantage from the skills and competencies that an organisation moulds into a culture, network and form that delivers sustained competitive advantage (Barney, 1995; Barney & Wright, 1998; Hambrick & Mason, 1984; Lepak & Snell, 2002; Lepak, et al., 2003; Miller, Burke & Glick, 1998; Quinn, 1992; Wernerfelt, 1984, 1995). The RBV remains dominant in explaining how organisations create and maintain strategic competitive advantage through the ownership and control of human capital (Burke &

Cooper, 2006a, 2006b; Lepak & Snell, 2002; Lepak, et al., 2003; Ray, et al., 2004). The RBV postulates that performance differences across firms can be attributed to the variance in firms' resources and capabilities. Because human capital is a resource that is valuable and unique, it can provide the basis for competitive advantage (Amit & Schoemaker, 1993; Barney, 1991; Wright & McMahan, 1992; Wright, McMahan & McWilliams, 1994). Human capital, as an intangible resource, is more likely to produce a competitive advantage, because it is socially complex and difficult to imitate (Barney, 1991; Boxall, 1996, 1998; Peteraf, 1993; Rao, 1994).

Furthermore, firms' resource endowments of intangible resources are difficult to change in the short term (Teece, Pisano & Shuen, 1997). Human capital capabilities may not be valuable for all firms, as some capabilities are based on firm-specific knowledge, which means they may only have a firm-internal value. Even within organisations, there is variance in the valuation of skills based on their uniqueness and usefulness to delivering the organisational strategy (Lepak & Snell, 1999). Human capital must therefore be nurtured, valued and managed internally to ensure retention and development, as it only has value when matched to an organisation's strategic needs in a systematic fashion (Wright, Dunford & Snell, 2001). The time lag for the acquisition of these rare, difficult to imitate, firm-specific skills precludes the easy and swift acquisition of replacement human capital from external sources (Eisenhardt & Martin, 2000; Nelson & Winter, 1982; Peteraf, 1993).

Human capital has long been argued as a critical resource in most firms (Pfeffer, 1994) and the characteristics of top managers affect firm outcomes

(Finkelstein & Hambrick, 1996; Wright, Smart & McMahan, 1995). Thus, the RBV arguably remains the dominant theory in strategic HRM, based on the earlier succession theories of ensuring leadership continuity (Rothwell, 1994), where the primary role of strategic HRM is to promote alignment between the organisation's resource endowment and its competitive environment (Christiansen & Higgs, 2008; Wright & Snell, 1998). Strategic talent management may be defined as "activities and processes that involve the systematic identification of key positions which differentially contribute to the organisation's sustainable competitive advantage, the development of a talent pool of high potential and high performing incumbents to fill these roles" (Collings & Mellahi, 2009: 304). This talent pool is likely to include only a small group of directors with the relevant skills and attributes to be considered potential candidates for the CEO role (Castanias & Helfat, 1991; Ocasio, 1999).

This small pool of senior talent is therefore limiting in sustaining an adequate flow of internally-generated replacements. An important outcome of this focus on talent management is the ascendancy of the concept of an internal talent pool for sourcing and promoting individuals to pivotal talent positions due to the risks associated with insufficient talent to meet future business needs. An internal promotion route will feature a career path of upward progression within an organisation (Brousseau, et al., 1996; Sturges, 1999). Internal succession remains dominant in the literature, as it ensures organisational stability and requires the firm's management to engage in the process of ensuring a talent pipeline (Rowe, et al., 2005).

This internal focus seems at odds with boundary-less careers and job mobility (DeFillippi & Arthur, 1994; Weick & Berlinger, 1989). The internal development path is related to the careers literature, focused on sequential progress of individuals through their career stages, frequently in large and stable organisations (Dyer, 1976; Glaser, 1968; Hall, 1976; Gunz, 1988). A new career landscape of boundary-less careers has gained more recent prominence (Arthur & Rousseau, 1996; DeFillippi & Arthur, 1994), based around the increasingly external focus of early career advancement (Cappelli, et al., 1997; Cappelli, 1999a, 1999b). This interplay of weaker internal structures and organisational boundaries and greater career mobility across corporations is bounded by industry, function, occupational and individual social networks (Bagdadli, et al., 2003). These career developments have resulted in putting the individual at the centre of career choices and a shift in focus to general managerial capital over firm-specific and tacit knowledge or specific functional expertise (Frydman, 2005; Koyuncu, et al., 2010; Lane & Lubatkin, 1998; Liebeskind, 1996; Murphy & Zabojnik, 2004, 2007; Teece, et al., 1997).

In this study, we analyse the immediate context acting as a catalyst for the CEO succession event (Cannella & Lubatkin, 1993; Cannella & Shen, 2001; Dalton & Kesner, 1985; Datta & Guthrie, 1994; Zajac & Westphal, 1996). We consider succession to be the recruitment of a new CEO to replace a departing incumbent, with the new CEO inheriting the same responsibilities of the role (Hutzschenreuter, Kleindienst & Greger, 2012). The research into successor origin is grounded in the work of Carlson (1961) and Grusky (1964), who first alerted the research community to successor origin as the critical variable in developing our understanding of the sourcing of potential CEOs and the paths into the role. Selection and tenure were further linked to organisational context and the external environment (Pfeffer & Salancik, 1977, 1978). Results remain inconclusive with Kesner & Sebora (1994) reporting the likelihood of external successors in firms with average performance, whilst Cannella & Lubatkin (1993) demonstrated a link between poor prior performance and external recruitment. Mixed results have continued to be reported due, in part, to definitional issues surrounding the insider/outsider variable (Cannella & Lubatkin, 1993; Dalton & Kesner, 1983, 1985; Davidson, et al., 1990; Lubatkin, et al., 1989; Vancil, 1987).

3.2.1 Functional background

Upper echelons theory suggests that the strategic perspectives and behaviours of CEOs will be formed by their functional backgrounds (Cannella, Park & Lee, 2008; Gupta, 1984; Finkelstein, Hambrick & Cannella, 2009; Hambrick & Mason, 1984; Ocasio, 1994; Stern & Westphal, 2010). Superior performance will be attained when the functional expertise of the CEO and the organisational strategy are aligned (Finkelstein & Hambrick, 1996; Gupta & Govindarajan, 1984). This supports the RBV, whereby firms gain value from the use of managerial resources (Castanias & Helfat, 1991) to exploit environmental opportunities (Barney, 1997) through the strategic management of talent (Boudreau & Ramstad, 2005). Furthermore, this is evidenced by the prominence of generic management skills that are more readily transferrable between industries and firms, associated with the rise of boundary-less career paths not constrained by organisational structure (Castanias & Helfat, 1991; Zhang & Rajagopalan, 2003).

'General management capital' reflects the importance of general management rather than firm-specific experience in the selection of CEOs (Hamori & Kakarika, 2009). CEOs appointed from narrow functional backgrounds are unlikely to bring with them the strategic view of a broader spectrum of business issues and functional experiences (Hambrick & Mason, 1984; Hillman, Cannella & Harris, 2002; Ocasio & Kim, 1999; Peterson, et al., 1998; Simons, Pelled & Smith, 1999). A preferred selection is the CEO with a background in operations, who has been exposed and groomed as a successor CEO (Zhang & Rajagopalan, 2006). This is particularly in evidence since the late 1980s when globalisation based on slicing up the value chain (Krugman, 1995) began to influence companies' strategies, especially in the developed world. In particular, companies' strategic focus shifted increasingly to the operational efficiency of supply chains based on delivering higher quality services and products at lower cost (Ketchen & Hult, 2007; Mentzer, et al., 2001; Slack, Chambers & Johnston, 2007).

Such a business environment evolving under conditions of disruptive strategic change increased the importance of certain CEO characteristics, including career experiences (Beal & Yasai-Ardekani, 2000; Carpenter, Sanders & Gregersen, 2001; Guthrie & Datta, 1997; Higgs & Rowland, 2000; Koyuncu, et al., 2010; Ocasio & Kim, 1999). This apparent preference for CEOs with wider business perspectives may have reversed earlier trends for CEOs with a financial background (Fligstein, 1987, 1990). Combined with strategic change, the structural reform of organisations contributed to the changing conceptions of CEO characteristics, with a greater emphasis on quasi-independent business units permitting potential CEO development at divisional and subsidiary level (Slone, Mentzer & Dittman, 2007). Such changes in conceptions of control

(White, 1992) tend to be longer term, reflecting the culture, degree of change and sources of power within the organisation (Ocasio & Kim, 1999), rather than short-term fashion and fads that bring to prominence certain management styles (Abrahamson, 1996). On the other hand, intra-organisational career paths are still prevalent due to the continued acceptance of a corporate form dominated by traditional hierarchical structures (Curie, Tempest & Starkey, 2006; Jacoby, 1999).

Koyuncu, et al. (2010) build on the earlier research into CEO backgrounds in the US context. Their research shows that from 1992 to 2005 CEOs appointed to the largest companies in the USA from operational backgrounds out-performed CEOs from finance backgrounds in three year post-succession return on assets (ROA). Their results confirmed and updated earlier findings by Ocasio & Kim (1999), which showed a decline in CEOs from a finance background in the period from 1981 to 1992 in 280 of the largest US corporations. “As long as the role of finance is seen as mainly about accounting and control – essentially, managing numbers – then it is unlikely to produce people with a broad commercial outlook” (*SpencerStuart*, 2012: 1).

From the above theory and empirical evidence we suggest:

> *Hypothesis 1: Companies will demonstrate higher post-succession firm performance if their CEOs are appointed from a functional background in operational management rather than a recent financial role.*

3.2.2 Hiring profiles

Organisations need to ensure they can attract, retain and appropriately remunerate talented individuals to successfully plan for the succession of CEO (Dulewicz & Higgs, 2003). Much research has been dedicated to deepening our understanding of the performance differentials of CEOs recruited externally to those promoted from an internal talent pool (Kesler, 2002; Kesner & Dalton, 1994; Pascal, 2004; Shen & Cannella, 2002a; Wiersema, 1995; Zajac, 1990; Zhang & Rajagopalan, 2004; Zhang, 2008). CEOs promoted from inside the organisation have accumulated firm-specific experience and are valued for their knowledge of internal networks (Chung, et al., 1987; Guthrie & Datta, 1997; Harris & Helfat, 1997; Kotter, 1982; Pettigrew, 1973; Zhang & Rajagopalan, 2003, 2004). Performance improvements of internal CEOs tend to be incremental (Zhang & Rajagopalan, 2010b), reflecting the likely ability of these new CEOs to build on organisational capabilities and resources.

Broad consensus exists on internal succession indicating continuity of strategy (Brady & Helmich, 1984; Datta & Rajagopalan, 1998; Friedman & Olk, 1995; Friedman & Singh, 1989; Shen & Cannella, 2002b). The recruitment of an external CEO is a likely signal for strategic change (Cannella & Lubatkin, 1993; Kesner & Dalton, 1994; Grusky, 1963; Guest, 1962; Lewin & Wolf, 1974; Wiersema, 1995) to bring fresh perspectives (Harris & Helfat, 1997; Zhang & Rajagopalan, 2003, 2004). Firm performance is an important determinant in a change of the CEO incumbent (Boeker & Goodstein, 1993; Cannella & Lubatkin, 1993; Ocasio, 1994; Zhang & Rajagopalan, 2004). In situations where firm performance is poor, strategic continuity is less valued (Kimberly & Quinn, 1984) and external recruitment becomes more probable (Zhang & Rajagopalan, 2010b), addressing perceived shortcomings in strategic delivery of the outgoing CEO (Friedman & Singh, 1989). In such situations, the importance of succession planning is diminished, reflecting the organisational context requiring companies to demonstrate to shareholders responsiveness to the new strategic environment (Boeker & Goodstein, 1993; Shen & Cannella, 2003; Zajac, 1990).

However, the appointment process is dysfunctional (Zhang & Rajagopalan, 2006), with various internal actors contesting power and Boards feeling pressured to select a successor quickly (Khurana, 2002; Zhang, 2008) to ensure the confidence of markets (Davidson, Nemec & Worrell, 2001; Geddes & Vinod, 1997; Shen & Cannella, 2003; Wiersema, 2002). Without effective grooming through talent management, Boards are ill-equipped to develop and promote internal candidates within this timeframe (Fizel, Louie & Mentzer, 1990; Taylor, 2010; Zhang & Rajagopalan, 2004). Similarly, Boards are unable to investigate the true competencies and context-specific skills of potential external candidates (Naveen, 2006; Zhang & Rajagopalan, 2006). Opening up the recruitment to external candidates may be demotivational to existing directors (Boyer & Ortiz-Molina, 2008; Johnston, 2005; Pfeffer, 1981[9]; Zhang & Rajagopalan, 2010b). External candidates, having cognitive unfamiliarity with the organisation's core competences, values and culture, are more likely to initiate inappropriate strategic change. This will negatively impact firm performance (Chen, Treviño & Hambrick, 2009; Greiner, Cummings & Bhambri, 2002; Hannan & Baron, 2002; Shen & Cannella, 2002a; Wiersema, 2002).

[9] Appears in the combined References list for the thesis as Pfeffer, 1981a.

As a result, most appointments are internal (Cappelli & Hamori, 2004; Finkelstein & Hambrick, 1996; Johnston, 2005; Ocasio, 1999; Vancil, 1987). Insiders may be more likely to be recruited on the basis of accumulated firm-specific human capital (Becker, 1975; Rajagopalan & Datta, 1996) or cognition bias (Zhang & Rajagopalan, 2010b). Large organisations tend to select internal successors (Dalton & Kesner, 1983, 1985; Friedman & Singh, 1989; Guthrie, Olian & Gupta, 1990), reflecting the larger internal talent pool and formalised talent development policies (Fredrickson, Hambrick & Baumrin, 1988). A likely indicator of an internal successor is the existence of several potential internal candidates for the role (Zhang & Rajagopalan, 2004), which is likely to have a positive impact on firm performance after the succession event (Zajac, 1990). Companies may simply be "reluctant to recruit marginally better outsiders when adequate internal candidates are available" (Chan, 1996: 556), indicating the inherent additional risk of an unknown outside candidate (Johnston, 2005). Clutterbuck's (1998) interview-based research into 24 companies in nine countries showed a preference amongst executive management for seamless successions, likely to be based on identified internal heir acceding to the top job. This demonstrates to shareholders that the company is delivering against its strategy and performance measures and marks out the pathway to the top for internal talent, whilst also indicating forward-thinking in the top management team (Clutterbuck, 1998).

The RBV, with its focus on resource capabilities, has produced an internalised view of the organisation and its talent resources. The strategic view of talent management involves the identification of critical roles that contribute to an organisation's competitive advantage, the development of a talent pool of top management to fill these positions with associated support structures that ensure a supply of talent to fill these roles (Collings & Mellahi, 2009). Within the RBV applied to HRM, therefore, a requirement arises for the generation, exploitation, transfer and development of knowledge, which in the knowledge-based theory of the firm is the embodiment of the existence of the firm (Grant, 1996; Hansen, 1999; Liebeskind, 1996; Nonaka, 1999). The internal view of the organisation involves the systematic use of the portfolio of competences and knowledge that comprise the organisation's talent base to gain strategic advantage (Lepak & Snell, 1999; Nordhaug & Gronhaug, 1994).

The value of an internal heir apparent has been widely discussed in the succession literature (Cannella & Shen, 2001). It signals that company has engaged in the succession planning process and identified contingencies for the planned departure of the CEO. Individuals holding a role of Chief Operating Officer (COO) are frequently identified as heirs apparent (Cannella & Shen, 2001; Vancil, 1987). In-role experience as COO engages the prospective heir in the upper echelons of organisational and strategic decision-making and increases the social profile of the individual with the Board (Bigley & Wiersema, 2002). Hambrick & Cannella (2004) found that the COO role is more likely in dynamic industries, demanding responsiveness to strategic context, and in diversified corporate structures, where an operational perspective in managing diverse units is particularly valued. In such situations, the CEO is charged with scanning the environmental context for an appropriate strategic response, leaving the COO to oversee operations, which creates an ideal opportunity for learning and grooming the COO as heir (Aguilar, 1967; Hamel & Prahalad, 1994; Murray, 2000). However, having a COO role in the executive management structure may indicate a weak CEO and is associated with inferior firm performance, measured on ROA (Hambrick & Cannella, 2004).

Alternatively, it may indicate a powerful CEO wishing to craft an identical successor to preserve a legacy (Kets de Vries, 1988).

On the other hand, the careers literature and corporate focus on general human capital as a critical characteristic in top management suggest a greater reliance on external hires for CEOs (Baruch & Peiperl, 2000; Beckman & Burton, 2011; Cappelli, et al., 1997; Cappelli, 1999a; Frydman, 2005; Murphy & Zabojnik, 2004, 2007; Osterman, 1999; Zhang & Rajagopalan, 2003). This confirms the research pointing to a talent management deficit, with companies failing to develop new CEOs from the available pool of internal leaders. This talent deficit may be linked to the CEO role being viewed as a high-risk position exposed to intense public and shareholder scrutiny (Zhang & Rajagopalan, 2006). As a result, the paucity of internal candidates deemed to have the skills, experience and background requisite for the CEO role may also encourage the firm to look externally for a replacement (Howard, 2001). Furthermore, external recruitment may simply reflect the supply and demand conditions in the labour market, with an age cohort of similar demographic backgrounds more likely to be available in the external market (Byrne, 1971; Davidson, et al., 2006; Kaczmarek, Kimino & Pye, 2012; Neilsen, 2009; O'Reilly & Main, 2010; Pfeffer, 1983; Rhodes, 1983; Schneider, 1987; Tsui & O'Reilly, 1989; Young & Buchholtz, 2002; Wenzel, 2001; Zajac & Westphal, 1996; Zhang & Rajagopalan, 2003).

From the perspective of the CEO, an external move requires the incumbent to relinquish the acquired non-transferrable skills and internal networks built up over a career (Johnston, 2005). Such a scenario of 'job-hopping' (Deckop,

1988) is only likely if the individual's remuneration offer from an outside company exceeds his/her current remuneration. This appears unlikely, as evidence from prior research suggests a strong link between internal promotion to CEO and higher remuneration (Johnston, 2005) with only a weak relationship between pay and performance (Jensen & Murphy, 1990; Main, 1992). CEO remuneration has further been linked to the degree of power and influence the CEO has over the Board (Westphal & Zajac, 1994, 1998, 2001), which is likely to be built up internally. Stability and continuity of the executive Board, and long tenures, are thus ensured, as internal appointments are often associated with higher baseline and discretionary remuneration, as the CEO's personality, skills and knowledge become well known to the Board (Johnston, 2005; O'Reilly, Main & Crystal, 1988). Furthermore, evidence suggests that CEOs have a limited longevity; having reached the pinnacle of the organisation there is little incentive to leave to seek new challenges once they have reached internal obsolescence (Henderson, Miller & Hambrick, 2006; Ocasio, 1994).

External recruitment accounted for 26.5% of CEO succession events at the largest 800 US companies in the 1990s (Murphy & Zabojnik, 2007), indicating that internal promotion remains the more likely path to the CEO role. Barron, Chulkov & Waddell's (2011) findings confirmed a similar pattern of internal recruitment, with 64% of S&P 500 appointments between 1993 and 2005 being from an internal talent pool. The greater career risk for external CEOs does not appear to be compensated for by higher levels of remuneration (Baker, Jensen & Murphy, 1988; Zajac, 1990), which has been attributed to the weaker social capital links between external candidates and the Board (Useem & Karabel, 1986; Main, O'Reilly & Wade, 1995; Wade, et al., 1990). External hires are more likely where the previous incumbent has resigned, noted in 55% of outside successions by Charan (2005). 40% of executive directors appointed from external sources stay in their new roles for only 18 months (Conlin, 2009). This appears to confirm Zhang's (2008) empirical study showing that external hires are more likely to be dismissed within three years, a rate 6.7 times higher than for internal hires, suggesting that Boards' cognition of the candidate is more important to achieving long tenure than delivering organisational performance. Whilst much evidence has been presented linking externally hired CEOs to the delivery of strategic change (Greiner & Bhambri, 1989; Westphal & Fredrickson, 2001; Wiersema, 1995), this change does not necessarily translate into improved performance (Brady & Helmich, 1984; Greiner, et al., 2002; Shen & Cannella, 2002a; Wiersema, 2002). More recently, Zhang & Rajagopalan (2004), using a sample of 204 successions at large US companies, found that external hires are not associated with superior firm performance.

The above theory, and associated empirical evidence, lead us to propose, in line with the literature on antecedent performance leading to a CEO succession event:

> *Hypothesis 2: Firms performing poorly are more likely to recruit an external CEO.*

3.2.3 Demographic characteristics – Age and tenure

Demographic characteristics in CEO successors may affect investor perceptions of the future of the firm and market sentiment on its valuation (Lee & James, 2007). Social legitimacy and referential beliefs are likely to determine the organisation's cultural acceptance of a leader with demographic characteristics outside expected values and norms based on its peer group and strategic context (Ridgeway, 1997; Ridgeway & Berger, 1986: Suchman, 1995).

Group similarity perceptions are likely to reinforce demographic characteristics in the CEO appointment decision (Carlson & Karlsson, 1970; Feldman, 1984; Hamilton & Sherman, 1996; Lincoln & Miller, 1979). "Boards may compensate for higher risks of social and attitudinal incompatibility attending outside succession by placing greater emphasis on demographic similarity between a CEO and existing board members" (Zajac & Westphal, 1996: 83). Social capital, or "class-linked personal contacts or network ties that can be crucial to organizational and professional development" (Useem & Karabel, 1986: 185), is the sociological and psychological approach to CEO recruitment and retention. This means Boards are likely to seek to attract and retain individual CEOs with whom they can closely identify on the basis of: i) cognition bias (Zhang & Rajagopalan, 2010b); ii): knowledge of internal systems and networks (Cotton & Tuttle, 1986; Hambrick & Mason, 1984); and iii) social identity affirmation (Lewis & Sherman, 2003; Tajfel & Turner, 1986), based on actual or perceived similarities (Byrne, 1971; Byrne & Neuman, 1992; Davidson, et al., 2006; Judge & Ferris, 1993; Tsui & O'Reilly, 1989; Wenzel, 2001; Westphal & Zajac, 1995a; Zajac & Westphal, 1996). Age is an important demographic attribute considered by Boards in selecting a CEO (Brickley, 2003), as it reinforces common experiences and shared networks (Boeker, 1997; Hambrick & Mason, 1984; Ocasio, 1994; Tushman, Virany & Romanelli, 1985; Wagner, Pfeffer & O'Reilly, 1984; Wiersema & Bantel, 1992; Zenger & Lawrence, 1989). Age will combine with functional and career path backgrounds to reinforce perceptions of homogeneity of experience and contribute to inter-personal attraction based on perceived similarity (Bantel & Jackson, 1989; Beal & Yasai-

Ardekani, 2000; Byrne & Neuman, 1992; Lewis & Sherman, 2003; Tajfel & Turner, 1986; Wenzel, 2001).

Age impacts the incumbent's approach to the agency problem (Matta & Beamish, 2008), increasing the risk of decisions contrary to shareholder value maximisation (Fama, 1980; Jensen & Meckling, 1976), whereby the duty of fiduciary care is neglected in favour of personal gain, such as increasing the value of share options (Johnson, Daily & Ellstrand, 1996; Miller, 1993). Similarly, age impacts career horizons (Finkelstein & Hambrick, 1996; Gibbons & Murphy, 1992; Hambrick & Mason, 1984; Wagner, et al., 1984), which implies a short-termist profit focus by the CEO over long-term corporate growth. Linked to the RBV, organisations need to manage the ageing of executive populations and generational differences to maintain long-term strategic advantage (Gorman, Nelson & Glassman, 2004). This is due to the continued influence as non-executive directors of earlier generations through portfolio careers (Handy, 1989; Sullivan, et al., 2009) and to the lower birth rates in following generations, meaning fewer opportunities for talent to be nurtured (Lawrence, 1988).

Older leaders may be less risk-oriented and innovative (Barker & Mueller, 2002; Miller, 1991; Miller & Shamsie, 2001; Vroom & Pahl, 1971; Wiersema & Bantel, 1992). This has implications for firm dynamism and responsiveness (Bantel & Jackson, 1989; Jensen, 1989) and even for the level of international growth (Tihanyi, et al., 2000). However, older leaders may demonstrate enhanced knowledge gained in role and life experiences, giving a more rounded worldview (McKnight, et al., 2000). Davidson, et al. (2006) argue that this is likely to be positive in terms of firm performance and tenure. Younger leaders are more likely to engage in 'job-hopping' (Deckop, 1988) in their early careers (Veiga, 1983). Companies with older CEOs are likely to demonstrate superior share price performance due to the social alignment of the management team (Wiersema, 2002).

The probability of departure falls with ages up to 52 and rises beyond that in line with mandatory retirement policies in the USA, even if performance is strong (Barro & Barro, 1990; Coughlan & Schmidt, 1985; Weisbach, 1988). On the other hand, Geddes & Vinod (1997) found a negative non-linear relationship between firm performance and age. High-performing CEOs, even those at or around retirement departure age, are significantly less likely to leave than those CEOs in businesses with poor performance. This may be beneficial in terms of strategic continuity, but is associated with the pitfalls of long tenure and staying on in role beyond obsolescence (Ocasio, 1994).

A relatively lengthy tenure may be desirable due to the length of time needed to acquire the necessary job-specific knowledge and skills (Harris & Helfat, 1997; McKnight, et al., 2000; Shen, 2003). This is due to extensive in-role learning in the early years of tenure (Hambrick & Fukutomi, 1991) as the CEO formatively develops and matches his skills to the expectations of the Board (Jovanovic, 1979). A lengthy tenure may also assist in transferring knowledge to younger generations of talent to ensure a knowledge pipeline (Carraher, Sullivan & Crocitto, 2008; Conger & Fulmer, 2003; Kapp, 2007) and preparing the organisation for a succession.

There are, however, potential dangers associated with long-tenured CEOs. The incumbent will be well-known to the Board, which might continue to recognise past success even in the face of deteriorating performance (Audia, Locke & Smith, 2000; Brookman & Thistle, 2009; Miller, 1991; Nelson & Winter, 1982; Shen, 2003; Walsh, 1995). It has been argued that long-tenured CEOs may lose their strategic focus (Boeker, 1997; Miller & Chen, 1994; Miller & Friesen, 1980, 1984; Porter, 1980; Schneider, 1987; Staw, Sandelands & Dutton, 1981) due to the adoption of a preferred paradigm (Hambrick & Fukutomi, 1991; Prahalad & Bettis, 1986; Walters, Kroll & Wright, 2007). This style of managing is further likely to see the CEO being increasingly committed to the established status quo (Finkelstein & Hambrick, 1990, 1996; Hambrick, Geletkanycz & Fredrickson, 1993; Simsek, 2007; Walsh, 1995). Such long-serving, unchanging and powerful leadership teams (Hambrick & Fukutomi, 1991) are more likely to demonstrate over-confidence (Higgs, 2009; Li & Tang, 2010) and hubris (Roll, 1986). This may be associated with negative firm performance, as competitors improve their competitive positions by adjusting to the changed strategic context (Henderson, et al., 2006; Miller, 1991). Similarly, the exit of a long-tenured CEO may cause disruption to the organisational status quo and result in the firm's post-succession performance tailing off due to the internal instability and inertia created by the departure of the outgoing long-tenured incumbent (Shen & Cannella, 2002a).

Cappelli & Hamori (2004) conducted research into the career histories of US executives in the top 100 companies between 1980 and 2001 and found, as part of changes to career paths, an increasing presence of younger executives. This appears to contradict McClelland, Barker & Oh's (2012) mean CEO age of 57.0 years in the USA in a 2001 sample of 206 S&P 500 companies. Cappelli &

Hamori (2005) found that CEOs had organisational tenure of 15 years in 2001 versus 21 years in 1980 and Frydman (2005) showed organisational tenure of CEOs of 24 years in the 1990s. UK executives were more shown to be more mobile, with average tenure in their current organisation of 17.3 years versus 18.6 years in the USA (Norburn, 1989). However, the focus of the literature is on US corporations (Kaplan & Minton, 2012; Tonello, Schloetzer & Aguilar, 2012) and research methodologies are based on inferring and implying average tenure from turnover rates or “churn” of CEOs by calendar year (Kaplan & Minton, 2012; Parrino, 1997). Prior research notes declining tenures, with a recent US study based on the Fortune 500 showing inferred tenure of less than seven years over the period 1992–2007, decreasing to less than six years since 2000 (Kaplan & Minton, 2012). Inferred CEO tenure at 2,500 of the world’s largest companies by market capitalisation was reported at 6.9 years in 2008 (Karlsson & Neilson, 2009).

The above theory on the demographic characteristics of CEOs is the basis for:

> *Hypothesis 3: Firms with ageing and long-tenured CEOs will be associated with lower firm performance.*

3.3 Methods

This study’s primary focus is to address succession to the CEO role (Lewis & Heckman, 2006), which we link to organisational performance (Baruch & Peiperl, 2000; Collings & Mellahi, 2009). We collected data to seek evidence relating to our three hypotheses on CEO functional background, hiring profiles and demographic characteristics. Our cross-sectional approach to the data produces a sample fixed at the time of the data collection in August 2012. As a result, there is no inherent survivorship bias (Brown, et al., 1992; Gregory-Smith, Thompson & Wright, 2009) in the sample. Such survivorship bias is evidenced in a 7% turnover of constituent companies within the FTSE 350 index in the 12 months to August 2012 (*FTSE*, 2014).

3.3.1 Sample

In order to explore the hypotheses, we studied the 300 largest corporations in the UK by market capitalisation. The sample is based on constituents of the FTSE 350 index, being the largest publicly traded companies listed on the London Stock Exchange (LSE) by market capitalisation in August 2012. In order to clean up the data, we removed the 50 companies of the index that make up the equity investment trusts sector. These are typically the listed funds of various fund managers with Board structures normally featuring only non-executive directors and fund managers responsible for the investment funds (*AIC*, 2014). This produces our final sample for analysis. Within the sample, 284 have a current CEO in role. Eight have no executive management or CEO role and a further eight are in transition following the recent departure of the previous incumbent, with either the Chairman assuming temporary executive responsibility or an interim CEO appointed to fill the gap. We retained all 16 observations with no CEO within our final sample (n=300).

3.3.2 Data collection

We identified the sample from the FTSE-Index Committee publications and used as secondary sources for the data collection: the Morningstar Company Intelligence (MCI) database for CEO biographies and timelines; FAME, maintained by Bureau van Dijk, for accounting metrics and share price data; company internal sources, such as regulatory Stock Exchange announcements and annual reports, to verify the data in the event of any discrepancy and gap-fill data items. MCI is an online research service offering accurate and verifiable research into all companies listed on the LSE and biographical facts on over 42,000 active and former directors *(Morningstar*, 2014). FAME similarly provides an online business intelligence and company information service and is particularly useful for accounting data due to the 10-year history it carries for UK companies (*FAME*, 2014). In line with prior research into management elites we relied on the use of secondary data (Pettigrew, 1992). The limitations of such an approach are widely documented, primarily the need to use proxies for the mechanics of succession planning policies and processes in the absence of direct company access to confirm their existence and extent (Behn, et al., 2005).

Given the hypotheses, we reviewed the available data on the following bases to cover the main areas:

3.3.3 Measures

We defined the variables to explore our hypotheses, focusing on firm performance using both accounting and share price metrics.

3.3.3.1 Dependent variable

To assess firm performance, we examine both accounting measures and share price data (Daily, Certo & Dalton, 2000; Finkelstein & Hambrick, 1996; Ocasio, 1994; Zajac, 1990)[10]. For our analysis of the accounting variables we used ROA, which is a widely understood and used measure of operational performance (Zajac, 1990). ROA is the preferred measure, as it is not affected by extraordinary items in the accounts (Barber & Lyon, 1996; Core, Guay & Rusticus, 2006). Furthermore, it is a good reflection of a business metric within the scope of management control (Grossman & Hoskisson, 1998; Hambrick & Finkelstein, 1995; Shen & Cannella, 2002a) and thus likely to be linked to compensation (Hambrick & Finkelstein, 1995; Jensen & Murphy, 1990). We collected the ROA data from the FAME database, which uses a conventional definition for ROA of profit before tax (PBT) divided by total assets. To address the potential for path dependencies resulting from organisational learning, we controlled for prior performance measure as profitability $_{t-1}$ to $_{t-6}$. We construct a measure of composite meta-sector ROA performance, being the mean of ROA of all constituents of a particular industry.

We define share performance as the change in the company's share price on the first of August 2012 versus the year-end share price in $_{t-1}$ to $_{t-6}$, irrespective of appointment date of the CEO. We sourced these data from the FAME database as a proxy for firm performance. To standardise the data collection

[10] An alternative measure of firm performance is Tobin's *q*, being a future-oriented, risk-adjusted measure of both current and anticipated profitability. It is widely used as a measurement of the value added by management, reflecting the premium capital markets are willing to pay for a portfolio of assets (e.g. Huselid, Jackson & Schuler, 1997; Welbourne & Andrews, 1996). This is beyond the scope of this research.

and to link to mean tenure, we used the six-year position throughout and aggregated these against the derived performance by meta-sector.

Due to the potential for self-selection bias (Heckman, 1979) within the FTSE sample we focus our analysis using the performance measure based on the accounting metric (ROA). We decided on this approach due to the inherent self-selection of the FTSE index based on the required above-average share performance to maintain a position in the regular quarterly market capitalisation-based reviews (*FTSE*, 2014).

In order to analyse H2 on firm performance, we create a sub-sample of poorly-performing firms (n=175), where we calculate the ROA over $_{t-1}$ to $_{t-6}$ is lower than the respective sector averages. We then assigned a dichotomous variable 1=CEO succession event and 2=CEO has stayed the same throughout the period of analysis. We further cross-matched 1=CEO succession event to a further dichotomous variable of 1=internal successor and 2=external hire. We deem this to be a robust reflection of antecedent firm performance prior to the CEO succession event (Cannella & Lubatkin, 1993; Cannella & Shen, 2001; Dalton & Kesner, 1985; Datta & Guthrie, 1994; Huson, Parrino & Starks, 2001; Zajac & Westphal, 1996; Zhang & Rajagopalan, 2010b) without the need to incorporate factor analysis of composite performance measures using revenue and PBT (Dulewicz & Herbert, 2004).

3.3.3.2 Independent variables

Our independent variables relate to our research hypotheses and are based on the CEO functional backgrounds, hiring profiles and demographic characteristics, as discussed in the Theory development section.

We define functional background by examining the recent career histories of the CEOs in our sample. This approach involves both the CEO's most recent role prior to becoming CEO and previous roles within the organisation for internal appointments and, where possible, granularity on their previous roles in other companies. Furthermore, we capture data on qualifications, which allows us to assess the professional and educational background of individual incumbent CEOs. We created sets of dichotomous variables for functional background, coded 1=operational background and 2=finance background. Whilst we acknowledge in line with Barker & Muller (2002) that CEOs may have had multiple career experiences we take functional background to be the most recent prior role to CEO and ignore early career roles. We note, however, that some generalist CEOs may have commenced with an accounting or finance qualification and/or business role before being promoted to operational roles, such as divisional, regional or functional director.

To analyse the impact of hiring profiles on performance we created a dichotomous variable, coded as 1=internal appointments and 2=external appointments and we define internal or external recruitment by examining the CEO's most recent prior role. In line with prior research, our decision on the classification of a CEO as internal or external is based on the time span between hiring and appointment date to the role. Although some researchers, including *inter alia* Brady & Helmich (1984), take external to mean up to four years of internal grooming within the organisation, we assumed external to mean that the CEO has been in service with the company for less than one year. Often CEOs may be appointed to the Board as an executive director with a view to promotion to CEO at the next shareholders' meeting and we define this as an external appointment in line with our assumption of a minimum one year's service to qualify as an internal candidate. Interim appointments pending the selection of a new CEO were excluded from the analysis.

We define tenure as the CEO's length of service from date of appointment to role. We improved the MCI data to ensure that this reflected the actual date of appointment into the role of CEO, defining tenure as length of service in role as CEO and excluding any additional tenure on the Board or with the company. Many secondary sources, including databases such as MCI, show appointment date as the date the CEO was appointed to the Board or the date of ratification of appointment by shareholders at the Annual General Meeting, resulting in prior research overstating tenure by using length of executive service with the company as a proxy for tenure in role (Johnston, 2002). Prior research has at times lacked precision, tending to infer tenure from CEO turnover rates (Fizel & Louie, 1990; Shen & Cannella, 2002a; Weisbach, 1988). Where an exact date of appointment was not easily verifiable, a default position of the first of January was applied for the year of the respective appointment. This is particularly relevant with internal appointments, as total length in service within the company may be significantly longer than tenure as CEO, which has not been identified by MCI and prior research. To better understand the talent pool of potential CEOs and contextualise our analysis, we included moves into the role by looking at the previous role of current incumbents and movements post-role in line with the contextual drivers of the succession event underlying our hypotheses. We examine tenure in previous role to assess implications for tenure in current role based on previous stability of tenure. This approach allowed us to assess the level of 'job-hopping' (Deckop, 1988) amongst the CEO population. We define age in decimalised years, using the date of birth data from MCI, enhanced with further secondary research to address any gaps in our data.

3.3.3.3 Control variables

Several factors may influence firm performance in the context of CEO succession. These are likely to include firm size and complexity, industry and governance structure (Finkelstein & Hambrick, 1996).

We incorporate firm size as a control variable, as we note in line with prior research that size will impact approaches to CEO recruitment, with internal recruitment being associated with the larger talent pools found in large organisations (Dalton & Kesner, 1983, 1985; Finkelstein & Hambrick, 1996; Fredrickson, et al., 1988; Friedman & Singh, 1989; Guthrie, et al., 1990; Helfat & Bailey, 2005; Kesner & Sebora, 1994; Shen & Cannella, 2002a; Wiersema, 1995; Zajac, 1990; Zhang & Rajagopalan, 2004; Zhang, 2008). To further control for firm size, we incorporated measures of the number of employees (Henderson, et al., 2006; Kumar, Rajan & Zingales, 1999), market capitalisation (Claessens, Djankov & Lang, 2000; Yermack, 1996) and total assets (Agrawal & Knoeber, 1996).

Firm complexity is included as a further control variable. We use two measures of complexity, being the number of subsidiaries and the degree of product diversification as proxies for complexity (Brickley, Smith & Zimmerman, 1995, 1997). To develop our measure of product diversification we use a standard Herfindahl index based on product groups (Datta & Rajagopalan, 1998; Montgomery, 1982). Following Montgomery (1982), we determined the Herfindahl index of sales across the ten largest product classes in the segmental analysis of revenue in company annual reports for the most recent financial year. The measure is standardised with limits of 0 (focused firm) and 1 (diversified firm) and the equation below shows the measure (*product_div*), where sales refer to firm *i* in period *t* and product class *j*.

$$product\_div_{it} = 1 - \frac{\sum_{j=1}^{10} sales_{jit}{}^{2}}{\left(\sum_{j=1}^{10} sales_{jit}\right)^{2}}$$

Industry effects will impact on firms' strategic choices, managerial responses and hence performance (Bain & Qualls, 1987; Datta, Rajagopalan & Zhang, 2003; Hambrick & Finkelstein, 1987; McGahan & Porter, 1997; Parrino, 1997; Porter, 1980; Rajagopalan & Datta, 1996; Rumelt, 1991; Schmalensee, 1985). Industry homogeneity is associated with certain critical skills and knowledge only evidenced in industry insiders (Datta, et al., 2003; Finkelstein & Hambrick, 1990; Gupta, 1984, 1988; Zhang & Rajagopalan, 2003), which may be highly valued in the CEO selection process. We analysed the data by FTSE business sector. Due to the small numbers of constituents in some FTSE sectors and limitations with the traditional UK sector classifications, we undertook a consolidation of FTSE sectors into an artificial construct of "meta-sectors". We reduced the number of FTSE sectors from 38 to ten meta-sectors, retaining the uniquely homogenous banking sector in its original form. The migration of the data from sectors to meta-sectors to form our industry classifications is illustrated in Appendix 1.

In particular, our sample has many constituents within sectors such as mining and exploration, where performance is known to be impacted by commodity prices and discoveries of minerals, over which the CEO has little control (Dawkins, Gouveia de Oliveira & Russell, 2012). In such undifferentiated industries both the selection of a new CEO and his/her ability to implement strategic change in role will reflect a deep knowledge and understanding of the industry characteristics (Datta, et al., 2003). Other industries may be impacted by specific regulatory effects, e.g. utilities and financial services (Finkelstein & Boyd, 1998; Harrington, 1984; Hillman, Cannella & Paetzold, 2000). Similarly, in the period under review other industries may have been subject to particular performance constraints. This reflects extraneous factors like the industry's competitive environment, where growing industries will attract new market entrants (Dess & Beard, 1984; Sutton, 1991) or economic shocks, such as the global financial crisis increasing the requirement for financial institution solidity and resulting in increased shareholder scrutiny on Board performance (Becht, et al., 2010; Ferri & Maber, 2013; Johnson, et al., 1996; Judge, Gaur & Muller, 2010).

As firm-specific knowledge and the CEO's industry experience (Dess, Ireland & Hitt, 1990) may play a role in firm performance (Datta & Rajagopalan, 1998), we control for potential industry-specific effects (Henderson, et al., 2006) by coding the industry meta-sectors, as described above. We further calculate industry ROA and include it in our analysis, aligned with Tushman & Rosenkopf (1996). We derive the calculation for industry ROA as follows: We take the ROA from individual companies within a meta-sector for those years prior to the most recent CEO succession event benchmarked against the mean ROA of all companies within our meta-sectors. This provides us with an industry-weighted mean ROA prior to the CEO succession for analysis.

Industry heterogeneity has been addressed in prior research (Zhang & Rajagopalan, 2004) by focusing the analysis only on manufacturing companies. Whilst our industrials sector includes 75 companies, we discarded this approach due to the relative importance of services in the UK economy (Vargo & Lusch, 2004).

We analyse CEO remuneration as baseline salary and total remuneration, to include bonus, pension and share options, to assess links between hiring profile and remuneration (Zajac, 1990). Agency theory suggests CEO will attempt to reduce career risks by ensuring a higher level of base salary (Boyd, 1994; Conyon & Peck, 1998; Gomez-Mejia & Welbourne, 1988; Lawler, 1990). In order to minimise the principal-agent conflict, effective monitoring, reward structures and incentives are required to align the behaviours of managers and shareholders' interests (Beatty & Zajac, 1994; Jensen & Meckling, 1976; Zajac & Westphal, 1994). Such compensation mechanisms should lead to superior performance, but there is little evidence of any significant pay-for-performance relationship (Jensen & Murphy, 1990; Tosi, et al., 2000), remuneration being more closely linked to firm size than performance (Baker & Hall, 2004; Baker, et al., 1998; Gabaix & Landier, 2008). More recent evidence from the UK suggests a relationship between relative performance and CEO pay (Farmer, Archbold & Alexandrou, 2013).

Finally, we note the firm performance implications of governance structure (Johnson, Hoskisson & Hitt, 1993; Weisbach, 1988) and shareholding structure, especially the presence of institutional investors (Davis & Thompson, 1994; Useem, 1993). Whilst institutional shareholders are likely to exert their voting power on specific issues they may not necessarily wish to upset the status quo by challenging management on wider performance issues (Daily, 1996; Kim & Ocasio, 1995; Westphal & Zajac, 1997). We include as control variables the ratio of non-executive directors to total Board size and the size of the core shareholding group, which may include institutional investors and a stable core group of owners.

3.3.3.4 Statistical analysis

We tested our hypotheses using independent samples t-test analyses, hiearchical regressions and correlations to give a conservative testing result. All analyses were conducted using SPSS version 21. The results of these analyses should be interpreted as the likelihood of firm performance impacting CEO recruitment profiles (internal or external). We further anticipate firm performance will be impacted by CEO characteristics and attributes (functional background, age and tenure). For the regression analyses we first loaded our control variables, such as firm size, complexity, industry, governance and shareholding structures and CEO remuneration. We followed this by including our independent variables, namely the functional backgrounds, hiring profiles and demographic characteristics (age and tenure) of CEOs. Finally, we included within our model for analysis within SPSS our selected dependent performance variables related to firm performance, being of an accounting nature (the change in the firm's revenues and profits over the tenure of the CEO) and market-derived (change in share price over the CEO's tenure). Furthermore,in order to assess how the selection of the CEO is impacted by our selected independent variables we included the antecedent change in ROA measured against the industry-mean ROA. This allowed us to contextualise negative firm performance as an environmental factor in precipitating a CEO succession event.

3.4 Findings and discussion

We present below our findings related to our three hypotheses on the performance relationships of CEO functional background, hiring profiles and demographic characteristics.

3.4.1 Functional background

Our inferential statistical research confirms recent evidence for a preference of general human capital skills in CEOs (Hamori & Kakarika, 2009; Koyuncu, et al., 2010). Thirty-seven current CEOs have been promoted internally from Chief Financial Officer (CFO) versus 101 CEO appointments from a most recent operational role, being COO, divisional CEO or other executive director with operational or business unit responsibilities. This illustrates that the era of CEO promotion routes from a functional specialisation in a finance discipline is out of vogue (Ocasio & Kim, 1999; *SpencerStuart*, 2012), contrasting with the dominant view in the 1980s (Mines, 1981).

Table 3.1 illustrates our findings on CEOs with operational backgrounds. We show the tenure of CEOs recruited from operational backgrounds (M = 5.77; SD = 1.9) is lower than for CEOs with finance backgrounds (M = 6.19; SD = 2.2). This significant difference may reflect the higher career risk faced by an operational CEO in response to changing strategic context.

Table 3.1 Performance of CEOs with operations background – Group statistics

Operations = 1 Finance = 2		N	Mean	Std. Deviation	Std. Error Mean
SIZE – Market capitalisation	1	129	6557.79	15458.708	1361.063
	2	170	5132.96	10980.100	842.135
SIZE – Total assets	1	123	29154.93	171559.167	15468.969
	2	153	38301.77	178848.631	14459.055
SIZE – Number of employees	1	122	30642.82	76546.271	6930.174
	2	151	21897.64	47326.988	3851.416
COMPLEXITY – Herfindahl index	1	119	.52	.261	.024
	2	153	.52	.262	.021
COMPLEXITY – Number of subsidiaries	1	125	155.73	298.974	26.741
	2	158	201.34	392.052	31.190
Controlling shareholder	1	125	16.42	13.556	1.213
	2	158	17.55	14.876	1.183
CEO with operations background	1	130	63.31	5.515	.484
	2	167	63.69	6.751	.522
CEO current age	1	128	3.13	1.164	.103
	2	167	3.03	1.542	.119
CEO tenure	1	128	5.77	1.880	.166
	2	167	6.19	2.240	.173
Number of executive Board directors	1	128	8.89	2.235	.198
	2	167	9.22	2.588	.200
Number of non-executive directors	1	130	1052791.508	844749.163	74089.403
	2	170	929688.712	949897.590	72853.819
Total board size	1	130	1231076.208	1207403.635	105896.304
	2	170	1203564.212	1446507.249	110942.042
Total remuneration before options	1	71	8.223	7.700	0.914
	2	62	9.283	11.026	1.400
Total remuneration including options	1	73	0.157	0.447	0.052
	2	67	0.205	0.479	0.058
Mean antecedent ROA	1	77	1.268	5.942	0.677
	2	75	0.879	2.914	0.336
Revenue change	1	117	.01	.183	.017
	2	138	-.01	.142	.012
Profit before tax change	1	130	1.31	.463	.041
	2	114	1.39	.491	.046
Share price change versus sector	1	130	1.69	.463	.041
	2	114	1.61	.491	.046

Table 3.1 (continued) Performance of CEOs with operations background – Independent samples t-test

		Levene's Test for Equality of Variances		t-test for Equality of Means					95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (1-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
SIZE – Market capitalisation	Equal variances assumed	2.136	.145	.932	297	.176	1424.826	1529.563	-1585.329	4434.981
SIZE – Total assets	Equal variances assumed	.609	.436	-.430	274	.334	-9146.836	21270.637	-51021.481	32727.808
SIZE – Number of employees	Equal variances assumed	3.024	.083	1.157	271	.124	8745.184	7559.224	-6137.087	23627.454
COMPLEXITY – Herfindahl index	Equal variances assumed	.114	.736	.020	270	.492	.001	.032	-.062	.064
COMPLEXITY – Number of subsidiaries	Equal variances assumed	6.030	.015	-1.076	281	.141	-45.607	42.376	-129.023	37.808
Controlling shareholder	Equal variances assumed	.620	.432	-.664	281	.254	-1.137	1.713	-4.509	2.235
CEO with operations background	Equal variances assumed	2.997	.084	-.521	295	.603	-.380	.730	-1.817	1.056
CEO current age	Equal variances assumed	1.347	.247	.582	293	.281	.095	.163	-.227	.417
CEO tenure	Equal variances assumed	2.582	.109	-1.709	293	0.044*	-.420	.246	-.904	.064
Number of executive Board directors	Equal variances assumed	2.630	.106	-1.133	293	.129	-.325	.287	-.889	.240
Number of non-executive directors	Equal variances assumed	.368	.545	1.166	298	.122	123102.796	105544.355	-84603.905	330809.497
Total board size	Equal variances assumed	2.260	.134	.175	298	.431	27511.996	157081.324	-281617.217	336641.209
Total remuneration before options	Equal variances assumed	5.554	.020	-.649	131	.259	-1.060	1.633	-4.291	2.171
Total remuneration including options	Equal variances assumed	.617	.434	-.620	138	.268	-.048551343060536	.078259578158808	-.203294284151499	.106191598030428
Mean antecedent ROA	Equal variances assumed	.832	.363	.510	150	.305	.388657192931413	.762308902095725	-1.117593030509120	1.894907416371950
Revenue change	Equal variances assumed	3.175	.076	1.217	253	.112	.025	.020	-.015	.065
Profit before tax change	Equal variances assumed	7.437	.007	-1.424	242	.078	-.087	.061	-.207	.033
Share price change versus sector	Equal variances assumed	7.437	.007	1.424	242	.078	.087	.061	-.033	.207

** $p < 0.01$
* $p < 0.05$

In order to assess the career limitations of a CFO we analysed current CEOs in our FTSE 350 sample. We found that few CFOs move into operational management and these companies with CEOs from a finance background may lack some of the wider organisational perspectives associated with functional diversity (Simons, et al., 1999). Furthermore, the tenure of CFOs is notably shorter than CEOs at 5.4 years versus 6.5 years for CEOs. More CFOs are likely to 'job-hop' (Deckop, 1988) to another role as CFO than to make the leap to CEO. We report 60 CFOs being appointed from external sources to a CFO role in a FTSE 350 company from another CFO role. The promotion to CFO may be career limiting, with very few financial directors pursuing general management, which appears to be preferred in CEO selection. This indicates the likelihood of internal promotion to CEO from an operational background, as the individual will have become known to the Board during his/her tenure as executive director.

Furthermore, we show that CEOs with financial backgrounds are more likely to be appointed in complex businesses. This might indicate that CFOs are more valued for their strategic risk management in businesses with traditional hierarchical structures of control, where the CFO is more likely to have been exposed to some operational experience at business unit, subsidiary or divisional level (*SpencerStuart*, 2012). In terms of remuneration, CEOs with a finance background report total remuneration, excluding share options at GBP1.2m versus GBP0.8m for CEOs with recent operational experience. This may reflect the early career premium for professional accounting qualifications continues to senior management and perhaps the increased risk-management scrutiny placed on the CFO role since the global financial crisis.

A key driver in appointing an operational CEO is the outgoing CEO's tenure, with long-serving CEOs more likely to have a designated heir apparent in the form of a Board level COO, indicating the success of strategic talent management processes in filling these roles internally (Collings & Mellahi, 2009). In fact, we find that current COOs are aged 54 years, having tenure with the company of over 13 years, of which 11 are as a Board member. This indicates that a potential danger for operational executives, namely COOs may be 'career COOs' and never make the step up from heir apparent to CEO (Cannella & Shen, 2001; Shen & Cannella, 2003). In contrast to Gupta (1984) we found no evidence for a relationship between CEOs with an operational background and organisational size and complexity. Similarly, we found industry-specific experience and intra-industry 'job-hopping' CEOs concentrated only within specific industries, such as mining and exploration. In fact, the recent prevalence of operational CEOs may simply reflect the similarity-attraction theory institutionalised in group social capital (Byrne, 1971; Byrne & Neuman, 1992; Davidson, et al., 2006; Feldman, 1984; Tsui & O'Reilly, 1989; Vancil, 1987; Wenzel, 2001; Zajac & Westphal, 1996).

Table 3.2 illustrates the results of our hierarchical regression analysis, relating our selected performance variables to the CEO's functional background. We do not statistically support H1. CEOs from financial backgrounds are as likely as operational CEOs to be associated with superior post-succession firm performance. This finding from our hierarchical regression analysis appears to contradict Koyuncu, et al. (2010). This lack of significance in the results may reflect that our sample consists largely of high-performing businesses and the functional background of the CEO has little impact on firm performance.

3.4.2 Hiring profiles

In responding to the call for more research into career paths by Baruch & Peiperl (2000) and Cappelli & Hamori (2009), our research confirms that the path to the top is from internal sources (Barron, et al., 2011; Brousseau, et al., 1996; Zhang & Rajagopalan, 2003, 2004). We find 197 of 300 CEOs in the UK's largest listed companies recruited internally, with only 80 from external sources. This may reflect successful implementation of talent management to ensure succession pipelines, or may simply reflect the size of these organisations and greater potential for internal development opportunities (Dalton & Kesner, 1983, 1985; Fredrickson, et al., 1988; Friedman & Singh, 1989; Guthrie, et al., 1990). Of the 80 external recruits, we find little evidence of 'job-hopping' (Deckop, 1988), with only one CEO leaving a smaller capitalisation FTSE 250 business to seek promotion to a more 'visible' role at a larger FTSE 100 company. The boundary-less career landscape (Arthur & Rousseau, 1996; DeFillippi & Arthur, 1994), therefore, appears to be less relevant in large, stable FTSE businesses.

Table 3.2 Regression analysis of functional background of CEOs

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
CEO background	0.437	.191	-.074	.518

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
CEO background	Regression	3.297	17	.194	.722	0.767
	Residual	13.974	52	.269		
	Total	17.271	69			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
CEO background	(Constant)	.476	.885		.538	.593
	Market capitalisation	-6.274	.000	-.244	-1.045	.301
	Total assets	6.784	.000	.093	.230	.819
	Number of employees	1.420	.000	.107	.582	.563
	Herfindahl index	.014	.263	.008	.053	.958
	Number of subsidiaries	.000	.000	-.224	-.523	.603
	Controlling shareholder	9.257	.006	.002	.016	.987
	Number of exec directors	.016	.011	.197	1.449	.153
	Number of non-exec directors	-.023	.047	-.087	-.498	.620
	Total CEO base remuneration	-.085	.053	-.247	-1.599	.116
	Total CEO remuneration including bonus and options	-.002	.045	-.011	-.054	.957
	Antecedent ROA	5.028	.000	.107	.313	.756
	Revenue change	-.995	.000	-.038	-.128	.899
	PBT change	.001	.006	.028	.190	.850
	Share price change	-.069	.133	-.068	-.521	.605
	CEO operations/finance background	-.035	.029	-.167	-1.243	.219
	CEO internal/external recruitment	-.101	.472	-.030	-.214	.831
	CEO age	.142	.116	.161	1.225	.226

Many vacancies are created by retirement, with 49% of departing CEOs leaving their role for retirement[11], so continuity through internal hiring remains the norm in the FTSE 350 businesses in our investigation (Brady & Helmich, 1984; Datta & Rajagopalan, 1998; Friedman & Olk, 1995; Friedman & Singh, 1989; Shen & Cannella, 2002b). We further note the profiles of departing CEOs are similar irrespective of the internal-external hire decision. Departing CEOs in the under-performing companies have average tenures of 8.6 years (external hires) and 8.7 years (internal hires) and we record only five instances of CEO 'job-hopping' from one CEO role to another to create the vacancy for a successor. Operational experience (24 new hires) continues to predominate over financial backgrounds (ten appointments). The age of the successors is 52.5 years for both internal and external appointments. With 30% of incoming CEOs recruited externally being brought in from another CEO role, it appears the main reason for hiring externally is to source prior CEO experience. 46% of these CEO to CEO moves remain within sector. Certain sectors may demand sector-specific skills (exploration), yet other sectors also demonstrate similar intra-sector recruitment patterns (travel and leisure; industrials). Such an external path to the top appears to contradict the academic literature on the value of generalist CEOs over sector-specific skills (Hamori & Kakarika, 2009).

Responding to DeFillippi & Arthur's (1994) challenge on further research on the external sourcing of key executive roles, we present here our analysis into the contrasting paths of internal and external candidates to the CEO role. It appears the primary reason for taking the external appointment route is to source prior CEO experience. Whilst internal appointments may be perceived as

[11] Chapter 2 provides the detailed analysis of CEO moves to retirement.

reward for long service, 49% of external appointments in the poorly performing companies were in order to source CEO experience from external companies. Furthermore, we note that 43% of external appointments are from outside of the same industry (Rowan, 1983). These CEOs are likely to have been selected on the basis of superior 'general human capital' and associated leadership skills (Gupta, 1984). On the other hand, there is a very significant relationship between a financial background and internal recruitment to the CEO role, which suggests that Boards may continue to value solid financial management or that the CFO role is evolving to take on broader commercial and operational focus (*Korn/Ferry Institute*, 2012).

We incorporated industry as a control variable in our analysis (Datta, et al., 2003; Hambrick & Finkelstein, 1987; McGahan & Porter, 1997; Rajagopalan & Datta, 1996; Rumelt, 1991) and note the significance of hiring profiles related to industry (Table 3.3). The likelihood of a change in CEO increases in businesses such as computer services and travel and leisure, which have been subject to disruptive strategic change and intense competition. The travel and leisure industry reported a turnover rate of 100% of CEOs between 2009 and 2012, indicating the career risks for CEOs in highly disruptive industries. With increased competition, firm performance is likely to decline, increasing the need for adaptive responses to the redefined strategic context, with further pressure likely from shareholders to improve performance. In such turnaround situations, the external CEO candidate appears to be favoured and the vacancy may arise as the outgoing CEO decides to leave before further performance declines might impact his/her continued tenure (Kesner & Dalton, 1994).

Table 3.3 CEO hiring – Analysis by industry sector

Independent samples test – Meta-sectors		Levene's test for equality of variances		t-test for equality of means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean difference	Std. error difference	95% confidence interval of the difference Lower	Upper
SIZE – Market capitalisation	Equal variances assumed	.164	.687	.203	111	.839	.0183	.0900	-.1600	.1965
Industrial	Equal variances assumed	.313	.577	-.281	111	.780	-.0233	.0831	-.1881	.1414
Financial services	Equal variances assumed	10.549	.002	1.548	111	.125	.0898	.0580	-.0252	.2049
Services	Equal variances assumed	16.672	.000	-2.044	111	0.043**	-.1630	.0797	-.3210	-.0050

** $p < 0.01$

We show that the demographic profiles of FTSE 350 CEOs are similar irrespective of recruitment mode, with the current age of externally recruited CEOs of 52.8 years versus 51.8 years for internal hires. This probably reflects the longer wait that internal candidates may have before being promoted to a leadership role, with tenure in previous role at 6.9 years for external recruits and 7.6 years for internally appointed CEOs. In fact, 45 CEOs from the internal promotion route had a wait of over ten years in their most recent role prior to CEO. Furthermore, the background profiles of CEOs from the outside stable are not overly dissimilar to the internal recruits, being of a similar age and with similar organisational backgrounds. We report, for example, that the most desired external CEO is not the 'job-hopping' (Deckop, 1988) CEO moving between CEO roles but a CEO with a solid foundation in operational management. 30% of external CEOs are recruited from a most recent role as CEO of a business unit or division or executive director with operational responsibilities. These directors promoted to CEO from outside the organisation had typical tenures of 9.7 years in their most recent position before their change in role.

Our research shows that internal hires to the CEO role command a 65% premium in remuneration over external candidates (remuneration data are shown in Table 3.4[12]). Although there is considerable variance in remuneration depending on the sourcing of the recruit, it is noteworthy that CFOs command higher levels of remuneration when promoted to CEO than an externally-sourced CEO with prior experience of the top job. With internal recruitment, CFOs command compensation 44% higher than COOs, and we show no

[12] Note: Remuneration includes base salary, pension, bonus and the value of any applicable share options.

significant performance improvement linked to this higher level of remuneration. In fact, externally sourced CEOs (40% drop) and internal CFOs (10% drop) are more likely to destroy shareholder value, measured as the ROA over seven years benchmarked against intra-sector competitors, whilst appointing a COO would have grown ROA by 24% higher than the sector average.

Table 3.4 CEO remuneration – Internal versus external hires

Previous role of CEO	**Current remuneration in GBP'000 Internal recruitment**	**Current remuneration in GBP'000 External recruitment**	**Difference (%) internal versus external recruitment**
CEO (external)	n/a	1,287	n/a
CFO	1,532	1,566	(2.2%)
COO	1,062	931	12.3%
Average	**1,846**	**1,114**	**39.7%**

To report on antecedent performance as a contextual factor in precipitating a CEO succession event, we analysed a sub-sample within our FTSE 350 sample (n=300). We found 175 companies, which we defined as having negative performance based on ROA against our measure of the industry mean ROA. The analysis of our t-tests is presented in Table 3.5. We found of the 175 companies with negative pre-succession ROA that 89 also had negative to sector mean share price growth. In 113 of the 175 companies we report a change of CEO after controlling for tenure effects; we therefore include only analysis of CEOs where tenure was below our anticipated figure for the total population (6.5 years). This finding indicates that poor firm performance is likely in two-thirds of cases to result in the replacement of the incumbent CEO. We find, however, that only 39 of these replacement CEOs are external hires, with 61 poorly-performing CEOs being replaced by an internal successor. This appears to contradict prior research (Boeker & Goodstein, 1993; Greiner, et al., 2002; Hannan & Baron, 2002; Shen & Cannella, 2002a; Wiersema, 2002; Zhang & Rajagopalan, 2004) favouring external hiring when firm performance deteriorates.

Whilst we do not support H2 statistically, due to the prevalence of internal recruitment even when firm performance is negative, we do, however, note a significant decline in the prevalence of internal recruitment in such situations. Whereas internal recruitment accounts for 71% of all CEO hires in the FTSE 350, within our sub-sample of firms with negative antecedent performance (n=175) we report this at 35% of CEO hires. Furthermore, 76% of all external CEO hires are in firms with poor antecedent performance, defined as firm ROA lower than the industry mean. This provides some support for H2, as it demonstrates that firms will consider an outside hire only if firm performance is poor, in order to demonstrate that these performance shortfalls are being addressed. This is closely aligned with the prior work on external hires (Cannella & Lubatkin, 1993) and suggests that any talent deficit is being addressed by organisations through internal paths. This appears to contradict findings in the careers literature suggesting that external hires are prevalent to address these shortages of internal talent (Cappelli, et al., 1997; Cappelli, 1999a; Zhang & Rajagopalan, 2003).

In Table 3.6 we present the results of our regression analysis relating our selected performance variables to internal and external recruitment types.

Table 3.5 Analysis of performance of CEOs by hiring profile – Group statistics

Internal = 1 External = 2		N	Mean	Std. Deviation	Std. Error Mean
SIZE – Market capitalisation	1	61	7496.528	16452.567	1304.773
	2	39	3660.548	6183.573	674.683
SIZE – Total assets	1	61	29255.581	141646.644	11377.332
	2	39	37048.065	195589.903	22289.538
SIZE – Number of employees	1	61	27398.388	68488.328	5555.137
	2	39	26132.312	61632.645	7023.692
COMPLEXITY – Herfindahl index	1	57	0.521	0.258	0.021
	2	36	0.550	0.277	0.032
COMPLEXITY – Number of subsidiaries	1	58	201.910	331.871	26.656
	2	38	135.329	345.973	38.925
Controlling shareholder	1	58	15.855	13.656	1.100
	2	39	15.929	12.312	1.377
CEO with operations background	1	59	1.434	0.497	0.039
	2	37	1.529	0.502	0.054
CEO with finance background	1	59	1.648	0.479	0.038
	2	37	1.824	0.383	0.042
CEO current age	1	54	63.226	5.507	0.437
	2	36	64.097	6.467	0.701
CEO tenure	1	54	6.068	4.909	0.392
	2	35	4.670	3.847	0.417
Number of executive Board directors	1	61	3.228	1.231	0.098
	2	39	2.810	1.444	0.158
Number of non-executive directors	1	61	6.051	2.153	0.171
	2	39	5.869	1.574	0.172
Total board size	1	61	9.278	2.503	0.199
	2	39	8.679	1.896	0.207
Total remuneration before options	1	53	1132507.352	854379.165	67756.675
	2	34	1018844.871	908464.230	98536.781
Total remuneration including options	1	53	1444268.742	1427899.872	113239.826
	2	34	1148667.518	1068503.491	115895.476
Mean antecedent ROA	1	55	8.687	9.327	1.024
	2	36	8.697	9.851	1.437
Revenue change	1	56	0.166	0.417	0.044
	2	35	0.161	0.467	0.072
Profit before tax change	1	52	0.661	1.792	0.181
	2	32	2.097	8.164	1.217
Share price change versus sector	1	55	.00	.166	.013
	2	34	-.01	.162	.019

Table 3.5 (continued) Analysis of performance of CEOs by hiring profile – Independent samples t-test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (1-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference Lower	Upper
SIZE – Market capitalisation	Equal variances assumed	12.280	.001	2.060	241	0.020*	3835.981	1862.354	167.411	7504.550
SIZE – Total assets	Equal variances assumed	.736	.392	-.346	230	.365	-7792.484	22513.566	-52151.678	36566.710
SIZE – Number of employees	Equal variances assumed	.000	.983	.137	227	.446	1266.076	9270.027	-17000.230	19532.383
COMPLEXITY – Herfindahl index	Equal variances assumed	1.347	.247	-.757	222	.225	-.028	.037	-.102	.045
COMPLEXITY – Number of subsidiaries	Equal variances assumed	3.037	.083	1.431	232	.077	66.581	46.542	-25.118	158.279
Controlling shareholder	Equal variances assumed	.415	.520	-.041	232	.484	-.074	1.821	-3.662	3.514
CEO with operations background	Equal variances assumed	.868	.352	-1.424	242	.078	-.095	.067	-.227	.037
CEO with finance background	Equal variances assumed	44.095	.000	-2.918	242	0.002**	-.176	.060	-.294	-.057
CEO current age	Equal variances assumed	.266	.607	-1.106	242	.135	-.871	.787	-2.421	.680
CEO tenure	Equal variances assumed	2.090	.150	2.275	240	0.012*	1.3986	.6148	.1874	2.6098
Number of executive Board directors	Equal variances assumed	.000	.990	2.368	240	0.010**	.418	.177	.070	.766
Number of non-executive directors	Equal variances assumed	5.415	.021	.682	240	.248	.182	.266	-.343	.706
Total board size	Equal variances assumed	5.085	.025	1.922	240	.028	.600	.312	-.015	1.215
Total remuneration before options	Equal variances assumed	.094	.760	.968	242	0.334*	113662.482	117372.328	-117539.307	344864.270
Total remuneration including options	Equal variances assumed	2.082	.150	1.674	242	.048	295601.224	176600.784	-52269.672	643472.121
Mean antecedent ROA	Equal variances assumed	.008	.927	-.006	128	.498	-.011	1.738	-3.449	3.428
Revenue change	Equal variances assumed	.066	.797	.068	129	.473	.005501467782849	.081153481731619	-.155062683391936	.166065618957634
Profit before tax change	Equal variances assumed	9.987	.002	-1.662	141	.049*	-1.435782480667770	.863756331825196	-3.143369571559840	.271804610224298
Share price change versus sector	Equal variances assumed	.233	.630	.503	221	.308	.012	.024	-.035	.058

** $p < 0.01$
* $p < 0.05$

Table 3.6 Regression analysis of CEOs by hiring profile

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
CEO recruitment	0.498	.248	.002	.440

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
CEO recruitment	Regression	3.319	17	.195	1.010	0.463
	Residual	10.053	52	.193		
	Total	13.371	69			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
CEO recruitment	(Constant)	.476	.885		.538	.593
	Market capitalisation	-6.274	.000	-.244	-1.045	.301
	Total assets	6.784	.000	.093	.230	.819
	Number of employees	1.420	.000	.107	.582	.563
	Herfindahl index	.014	.263	.008	.053	.958
	Number of subsidiaries	.000	.000	-.224	-.523	.603
	Controlling shareholder	9.257	.006	.002	.016	.987
	Number of exec directors	.016	.011	.197	1.449	.153
	Number of non-exec directors	-.023	.047	-.087	-.498	.620
	Total CEO base remuneration	-.085	.053	-.247	-1.599	.116
	Total CEO remuneration including bonus and options	-.002	.045	-.011	-.054	.957
	Antecedent ROA	5.028	.000	.107	.313	.756
	Revenue change	-.995	.000	-.038	-.128	.899
	PBT change	.001	.006	.028	.190	.850
	Share price change	-.069	.133	-.068	-.521	.605
	CEO operations/finance background	-.035	.029	-.167	-1.243	.219
	CEO internal/external recruitment	-.101	.472	-.030	-.214	.831
	CEO age	.142	.116	.161	1.225	.226

3.4.3 Demographic characteristics

We found the mean age of CEOs in our sample to be 52.7 years with a standard deviation of 6.0 years. The mean tenure of current CEOs is 6.5 years with a standard deviation of 6.0 years. Furthermore, we note mean tenure of 8.4 years in the most recent generation of CEOs prior to current incumbents. These demographic profiles may indicate implications for succession planning in the ageing of the executive management population (Shen & Cannella, 2003; Zhang & Rajagopalan, 2010a) and talent pipelines for the development of potential younger executives (Conger & Fulmer, 2003; Harris & Helfat, 1997, 1998). Inadequate succession planning is a risk to the organisation’s future, which is unlikely to be mitigated without changing the culture of the Board and its apparent commitment to the status quo via internal talent development (Long, 2007). We have suggested the risks associated with long tenures in terms of lack of innovation and responsiveness to changing strategic contexts (Hambrick & Fukutomi, 1991; Miller, 1991). As the firm seeks to adjust to the loss of a long-tenured CEO, the resulting inertial loss of focus in the post-succession context may lead to deteriorating performance (Shen & Cannella, 2002a).

In Tables 3.7 and 3.8 we present the results of our regression analyses relating our selected performance variables to our selected demographic variables of CEO age and tenure.

3.4.4 Inferential statistical analysis

Table 3.9 shows the results of our correlations between firm performance and our selected variables of CEO functional background, recruitment type and demographic characteristics. We find support for H3 on a relationship between CEO tenure and performance, expressed as share price performance and ROA against the sector average. However, our inferential statistics do not show any such performance implications due to the age of CEOs.

These results are further illustrated and confirmed in the regression analyses related to CEO age and tenure. In Table 3.7 we show no significant relationships, however in Table 3.8 we demonstrate declining firm performance, using the accounting metrics of revenue and profit, as CEO tenure increases. This suggests there is probably an optimal CEO tenure (Luo, Kanuri & Andrews, 2013; Shen & Cannella, 2002a).

Furthermore, we note a relationship between CEO functional background and tenure, with CEOs from operational backgrounds more likely to be associated with longer tenures. This probably reflects a deeper understanding of the business and their prior career paths within the organisational, developing in operational roles to executive operational roles and finally to the CEO position. Another noteworthy relationship is between CEO age and Board size, reflected in the number of non-executive directors, where Boards may decide to increase the relative size of non-executive directors if there is a younger CEO in place to alleviate market fears of recruiting such an individual against the accepted status quo.

In addition, we note a significant relationship between longer CEO tenure and Board structure. This might indicate the effectiveness of the firm's succession planning by increasing the Board size in advance of the CEO's retirement through the creation of additional executive Board roles aimed at establishing an heir apparent (Zhang & Rajagopalan, 2003, 2004). The increased Board size might simply reflect the increased power of the CEO through long tenure, resulting in members of an in-group being rewarded with a Board position based on long service or social identity affirmation (Feldman, 1984; Hamilton & Sherman, 1996; Useem & Karabel, 1986; Zajac & Westphal, 1996; Zhang & Rajagopalan, 2010b).

Table 3.7 Regression analysis of CEO age

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
CEO age	0.495	.245	-.002	5.567

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
CEO age	Regression	522.843	17	30.755	.992	0.481
	Residual	1611.459	52	30.990		
	Total	2134.302	69			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
CEO age	(Constant)	70.327	5.583		12.596	.000
	Market capitalisation	4.460	.000	.137	.583	.563
	Total assets	2.673	.000	.292	.719	.475
	Number of employees	3.844	.000	.229	1.260	.213
	Herfindahl index	-3.075	3.303	-.136	-.931	.356
	Number of subsidiaries	-.005	.006	-.344	-.807	.423
	Controlling shareholder	-.099	.073	-.191	-1.361	.179
	Number of exec directors	-.733	.584	-.217	-1.255	.215
	Number of non-exec directors	.697	.680	.161	1.026	.310
	Total CEO base remuneration	-1.022	.552	-.377	-1.853	.069
	Total CEO remuneration including bonus and options	8.506	.000	.143	.418	.677
	Antecedent ROA	-1.179	.000	-.035	-.119	.906
	Revenue change	.052	.082	.093	.634	.529
	PBT change	-2.085	1.666	-.161	-1.251	.216
	Share price change	-.065	.366	-.024	-.179	.859
	CEO operations/finance background	2.263	5.971	.054	.379	.706
	CEO internal/external recruitment	-1.332	1.478	-.120	-.902	.371
	CEO age	2.494	1.721	.197	1.449	.153

Table 3.8 Regresssion analysis of CEO tenure

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
CEO tenure	0.726	.527	.372	1.3014

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
CEO tenure	Regression	98.079	17	5.769	3.406	.000
	Residual	88.076	52	1.694		
	Total	186.155	69			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
CEO tenure	(Constant)	5.900	2.497		2.363	.022
	Market capitalisation	-2.900	.000	-.307	-1.685	.098
	Total assets	6.692	.000	.247	.771	.444
	Number of employees	3.708	.000	.075	.513	.610
	Herfindahl index	-.239	.778	-.036	-.308	.760
	Number of subsidiaries	-.003	.001	-.641	-1.953	.056
	Controlling shareholder	-.005	.017	-.034	-.303	.763
	Number of exec directors	.298	.155	.233	1.919	.061
	Number of non-exec directors	-.133	.132	-.166	-1.006	.319
	Total CEO base remuneration	1.653	.000	.940	3.962	.000
	Total CEO remuneration including bonus and options	-1.016	.000	-.103	-.440	.662
	Antecedent ROA	.030	.019	.184	1.617	.112
	Revenue change	-.812	.379	-.213	-2.143	0.037*
	PBT change	-.177	.082	-.224	-2.162	0.035*
	Share price change	2.472	1.355	.199	1.824	.074
	CEO operations/finance background	-.194	.347	-.059	-.560	.578
	CEO internal/external recruitment	-.204	.409	-.055	-.498	.620
	CEO age	-.040	.032	-.136	-1.255	.215

* $p < 0.05$

Table 3.9 Correlations of CEO demographic characteristics

Correlations		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1. Market capitalisation	Pearson Correlation																					
	Sig. (2-tailed)																					
	N	299																				
2. Total assets	Pearson Correlation	.422**																				
	Sig. (2-tailed)	.000																				
	N	276	276																			
3. Number of employees	Pearson Correlation	.393**	.327**																			
	Sig. (2-tailed)	.000	.000																			
	N	273	273	273																		
4. Herfindahl index	Pearson Correlation	-.197**	-.134*	-.190**																		
	Sig. (2-tailed)	.001	.032	.002																		
	N	272	256	253	272																	
5. Industry	Pearson Correlation	-.020	-.020	-.041	.084																	
	Sig. (2-tailed)	.735	.741	.503	.166																	
	N	299	276	273	272	300																
6. Shareholding structure	Pearson Correlation	-.066	.073	-.020	.057	-.049																
	Sig. (2-tailed)	.270	.232	.746	.357	.412																
	N	283	271	268	263	283	283															
7. CEO with operations background	Pearson Correlation	-.054	.026	-.070	-.001	.020	.040															
	Sig. (2-tailed)	.352	.668	.248	.984	.726	.507															
	N	299	276	273	272	300	283	300														
8. CEO with finance background	Pearson Correlation	-.013	.025	.041	-.013	.059	.072	-.267**														
	Sig. (2-tailed)	.821	.685	.496	.825	.308	.225	.000														
	N	299	276	273	272	300	283	300	300													

Table 3.9 (continued) Correlations of CEO demographic characteristics

Correlations		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
9. CEO age	Pearson Correlation	.054	-.013	.035	-.105	.040	-.075	.030	-.038													
	Sig. (2-tailed)	.355	.827	.570	.085	.495	.208	.603	.518													
	N	296	274	271	269	297	281	297	297	297												
10. CEO tenure	Pearson Correlation	-.097	-.100	-.072	.018	.000	.013	.190**	.005	.110												
	Sig. (2-tailed)	.105	.109	.252	.773	.996	.828	.001	.928	.068												
	N	279	260	257	254	280	266	280	280	278	280											
11. Number of Exec directors	Pearson Correlation	.033	-.039	.034	.012	.068	-.074	-.034	-.081	-.007	.133*											
	Sig. (2-tailed)	.573	.517	.575	.848	.245	.214	.561	.166	.909	.026											
	N	294	274	271	268	295	281	295	295	294	278	295										
12. Number of non-exec directors	Pearson Correlation	.565**	.342**	.334**	-.220**	-.016	.034	.099	-.139*	.124*	-.079	-.063										
	Sig. (2-tailed)	.000	.000	.000	.000	.781	.574	.088	.017	.034	.187	.280										
	N	294	274	271	268	295	281	295	295	294	278	295	295									
13. Total board size	Pearson Correlation	.504**	.272**	.303**	-.180**	.025	-.011	.066	-.165**	.102	.007	.515**	.823**									
	Sig. (2-tailed)	.000	.000	.000	.003	.674	.855	.258	.004	.080	.904	.000	.000									
	N	294	274	271	268	295	281	295	295	294	278	295	295	295								
14. CEO internal recruit	Pearson Correlation	-.132*	.023	-.009	.051	-.004	.003	.091	.184**	.071	-.145*	-.151*	-.044	-.123								
	Sig. (2-tailed)	.040	.730	.891	.450	.956	.968	.156	.004	.270	.024	.019	.496	.056								
	N	243	232	229	224	244	234	244	244	244	242	242	242	242	244							

Table 3.9 (continued) Correlations of CEO demographic characteristics

Correlations		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
15. CEO external recruit	Pearson Correlation	.132*	-.023	.009	-.051	.004	-.003	-.091	-.184**	-.071	.145*	.151*	.044	.123	-1.000**							
	Sig. (2-tailed)	.040	.730	.891	.450	.956	.968	.156	.004	.270	.024	.019	.496	.056	0.000							
	N	243	232	229	224	244	234	244	244	244	242	242	242	242	244	244						
16. Total remuneration pre-options	Pearson Correlation	.423**	.182**	.229**	-.091	-.009	-.067	-.067	-.096	.092	.172**	.088	.369**	.367**	-.062	.062						
	Sig. (2-tailed)	.000	.002	.000	.133	.878	.258	.244	.098	.114	.004	.132	.000	.000	.334	.334						
	N	299	276	273	272	300	283	300	300	297	280	295	295	295	244	244	300					
17. Total remuneration including options	Pearson Correlation	.471**	.148*	.214**	-.106	-.022	-.091	-.010	-.096	.083	.188**	.091	.439**	.429**	-.107	.107	.892**					
	Sig. (2-tailed)	.000	.014	.000	.082	.709	.127	.861	.098	.155	.002	.118	.000	.000	.095	.095	.000					
	N	299	276	273	272	300	283	300	300	297	280	295	295	295	244	244	300	300				
18. ROA mean difference to sector antecedent performance	Pearson Correlation	.165	.011	.062	-.062	-.004	.154	.018	-.038	-.040	.119	.003	.162	.145	-.037	.037	.125	.195*				
	Sig. (2-tailed)	.058	.903	.482	.492	.968	.080	.834	.664	.651	.174	.972	.063	.097	.677	.677	.152	.024				
	N	132	131	131	124	133	130	133	133	133	133	133	133	133	130	130	133	133	133			
19. Revenue change	Pearson Correlation	-.021	-.027	-.012	.009	-.023	-.030	.053	.077	-.018	.059	-.028	-.064	-.072	-.006	.006	-.022	-.019	-.066			
	Sig. (2-tailed)	.802	.753	.892	.919	.791	.726	.536	.367	.829	.499	.741	.450	.401	.946	.946	.792	.827	.569			
	N	139	139	139	133	140	137	140	140	140	135	140	140	140	131	131	140	140	77	140		
20. Profit before tax change	Pearson Correlation	.001	-.020	-.017	.032	-.028	.042	-.042	.049	.130	.150	.183*	.063	.155	.139	-.139	.198*	.103	-.041	-.019		
	Sig. (2-tailed)	.995	.809	.832	.703	.730	.612	.611	.552	.110	.070	.024	.441	.057	.099	.099	.015	.207	.708	.821		
	N	151	151	151	141	152	148	152	152	152	147	152	152	152	143	143	152	152	84	140	152	
21. Share price change	Pearson Correlation	-.040	-.159*	-.080	-.040	.133*	.030	-.111	.112	-.015	.150*	.080	-.186**	-.111	-.047	.047	-.037	-.031	-.029	.043	-.036	
	Sig. (2-tailed)	.525	.013	.219	.544	.034	.636	.076	.075	.814	.020	.207	.003	.078	.488	.488	.557	.617	.750	.616	.663	
	N	254	244	241	237	255	244	255	255	254	239	252	252	252	223	223	255	255	125	137	148	255

In summary, our research shows that despite a preference for CEOs with recent operational experience, there does not appear to be any significant performance benefit of such recruitment against selecting a CEO with a financial background. This is further confirmed by our analysis of prior role, with COOs and CFOs promoted to CEO being equally likely to be associated with growth in firm performance, measured as above-sector average share price growth. Internal hires are significantly more prevalent than external hires, with 71% of new CEOs being from an internal talent pool. There is little evidence for Deckop's (1988) 'job-hopping', reflecting the long tenures (6.5 years) and age (52.7 years) of the current CEO incumbents. Once the CEO role is attained, retirement or the portfolio career option of a non-executive directorship is the likely destination after a period as CEO. These internal hires are associated with higher levels of remuneration. Internal recruitment remains an important means of sourcing a replacement CEO even when firm performance is poor, where 35% of replacement CEOs are sourced internally. Long CEO tenures are associated with superior firm performance, which suggests that these FTSE 350 businesses are unlikely to deviate from the status quo of the internal sourcing of CEOs with an operational background in their 50s, who will lead the company for upwards of six years before retiring from executive management.

3.5 Limitations and future research

We acknowledge that factors outside the influence of the CEO will impact firm performance (Mackey, 2008) and we have attempted in the Theory

Development and Discussion sections to guide the reader by suggesting some of these contextual factors as relevant variables. Our analysis into extraneous context should not be viewed as extensive, as the focus of this paper is to develop a deeper knowledge on the sourcing, backgrounds and demographic characteristics linked to firm performance. Due to the difficulties of access to top management teams at Board level, our research is aligned with prior research in using secondary data to examine the relationships between demographic profiles and firm performance in most prior studies (Higgs & Dulewicz, 1998; Pettigrew, 1992).

Our research focus is on the late career stages of CEOs in line with Lyness & Schrader (2006). We do not include detailed analysis into early career progression and experience (Dreher & Cox, 2000; Lam & Dreher, 2004) or multiple career moves (Mao, 2004; Valcour & Tolbert, 2003), examining only the most recent career move, resulting in the CEO role. Such an approach to a view of lifelong career paths to the CEO role, by changing the unit of analysis from the corporation to the individual, may direct future research into top management talent pipelines. Mao (2004) showed that career success was influenced by internal and external moves. In our sample, however, we encounter stable businesses and long tenures and therefore restrict our focus to the single move to the CEO role, however acknowledge that in an era of change and boundary-less careers (Arthur & Rousseau, 1996; DeFillippi & Arthur, 1994; Weick & Berlinger, 1989) that executives are likely to have made an external move at some historical point in their career paths.

Further, we note that our sample includes the 300 largest companies in the UK. These are likely to have large internal labour markets, supporting policies aimed at promoting talent from within the organisation (Cappelli & Hamori, 2004). This will tend to produce a more stable population of executive leaders and their career paths. Our results should therefore not be interpreted as generalisable to all UK companies. Future research may extend this analysis to the next tier Alternative Investment Market companies on the London Stock Exchange or private equity to further control for the effects of company size, history and complexity on executive management pipelines.

Finally, the structure of our data collection with the company as the unit of analysis means that there is one succession event per company, being the latest change of role incumbent prior to the appointment of the current CEO. Future research should consider the use of time series data to highlight instances where companies may in the same period have had multiple such succession events. The frequency of succession events may give researchers further clues to the instability of certain industries and the precipitating environmental contexts of these successions. Furthermore, such a time series approach would better capture the societal, economic and organisational contexts of CEO successions. The regularity of CEO succession may be better explained in different time period analyses by contextual factors, including ownership effects (Durand & Vargas, 2000); founder generations of CEOs (Baron, Hannan & Burton, 1999; Uzzi, 1996); organisational evolution, history and complexity (Aldrich, 1979); and organisational form related to its currency in management vogue (Abrahamson, 1996; White, 1992).

3.6 Conclusion and research implications

In the quest for sustainable competitive advantage, talent management has come to prominence in the strategic HRM and careers literature. This is based around the RBV of strategy (Barney, 1991; Wernerfelt, 1995), which suggests that firms will outperform their competitors (Barney & Zajac, 1994; Kogut & Zander, 1996; Lepak & Snell, 1999; Pfeffer, 1994; Prahalad 1983; Sherer, 1995; Uzzi, 1996) through the identification, acquisition and development of human capital resources (Burke & Cooper, 2006a, 2006b; Lepak & Snell, 2002; Lepak, et al., 2003; Ray, et al., 2004).

3.6.1 Contribution to HRM theory

Our research confirms that such strategic advantage may be attained through the employment of ‘general management capital’ in leadership roles, reflected in a preference for CEOs with a functional background in operational management (Koyuncu, et al., 2010). This better reflects the anticipated needs of the business through the operational CEO’s wider organisational perspectives (Simons, et al., 1999).

Furthermore, our findings contribute to HRM theory by documenting the dominance of the internal hiring profile in CEO succession events with our UK sample of the 300 largest companies. Clearly, the size and complexity of these firms creates a large internal market for development of career paths, with the potential for executives to ‘cut their teeth’ below Board level through operational management of business units. The Collings & Mellahi (2009) view of talent management as the systematic development of processes to ensure a supply of leadership potential is still confined to the internal view of the organisation (DeFillippi & Arthur, 1994). This internal focus in CEO succession will have implications for the identification of executive talent and the systematic development of pipelines to ensure these are filled (Collings & Mellahi, 2009). Internal recruitment further offers a contrary view to the careers literature, suggesting a need for external hires (Hamori & Kakarika, 2009). Whilst it is encouraging to see an increased likelihood of external hires with poor antecedent firm performance, we report more below average performing firms continuing to prefer an internal hire. Clearly, more work is needed on identifying how boundary-less external career paths can feed predominantly internal development pipelines (Baruch & Peiperl, 2000; DeFillippi & Arthur, 1994).

By examining the career histories and relating these to age and tenure demographics, our research was able to demonstrate a strong correlation between CEO tenure and performance, although the age of the incumbent appeared to have little performance impact. We further demonstrated the beneficial effects on firm performance of long CEO tenures, in line with prior research into learning CEOs (Finkelstein & Hambrick, 1996). Whilst this may reflect the inherent stability of these businesses, it does suggest implications for the succession planning process. In particular, prior research has noted the dangers of strong leaders with extended tenures, which may preclude formalised talent management to ensure a pipeline of future leaders, as the CEO may have a preferred candidate to preserve his/her legacy (Kets de Vries, 1988). On the other hand, the stability and continuity of an extended leadership spell may encourage development of a leadership pipeline (Carraher, et al., 2008), suggesting the organisation will be better prepared for the eventual departure of the long-tenured leader. Our research seems to offer confirmatory evidence for the latter due to the prevalence of internally groomed CEOs with long company service. This internal view of the organisation seems to stem from our sample selection, with the UK's largest businesses continuing to offer evidence of stability of form, hierarchy and leadership development pipelines (Levinson, 1978; Super, 1957). Furthermore, the ageing of executive pipelines presents a challenge for future succession planning and the development of an adequate flow of younger talent to the top management team (Harris & Helfat, 1997, 1998; Shen & Cannella, 2003; Zhang & Rajagopalan, 2010a).

3.6.2 Contribution to HRM practice

Our research makes various contributions to practice. By suggesting that traditional internal career paths are dominant, we show implications for career development in an era of boundary-less careers (Arthur & Rousseau, 1996). In fact, individuals tend to be mobile in early career stages but less so in late career (Lyness & Schrader, 2006) and the CEO role appears to be the apex of individual achievement, from which portfolio careers options evolve (non-executive directorships and retirement). Significant effort is therefore required by HR professionals to craft meaningful flexible, individual-centric career paths, when these remain constrained by hierarchical organisation forms and Board networks.

HR professionals can further play a part in ensuring a flow of top management team talent, and thus future organisational success, by ensuring operational management is equipped with adequate financial knowledge or by recruiting strong CFOs, thus ensuring both robust operational and financial expertise on the Board.

The ageing of the executive population presents a challenge for HR managers in markets with similar mature economic and societal contexts such as the UK, where there is an ever diminishing pool of talent with the same social and organisational backgrounds as current Board members. Where selection still appears to be grounded in the shared backgrounds and perceived similarities of group social capital (Byrne, 1971; Byrne & Neuman, 1992; Davidson, et al., 2006; Tsui & O'Reilly, 1989; Zajac & Westphal, 1996), HR professionals need to face the challenges of sourcing such executives from a smaller domestic and mature market context. Alternatively, this implies the potential risks for the organisation's future where succession planning is inadequate and means that strategic HRM will need to become more involved at Board level to evolve a new cultural paradigm for attracting and developing younger talent (Long, 2007).

The apparent conflict between the leadership view of organisational careers, where the work environment is dominated by ensuring a sufficient pipeline of talent for development and promotion (Inkson & Baruch, 2008), and the individual view of personal careers continues to be a feature of the HRM landscape. Whilst individuals are assuming a person-centric transactional approach to their own career paths, self-initiating responses to changes in environmental context and levels of job security (Hall, 2002, 2004; Rousseau, 1999; Sullivan, 1999), it appears large organisations continue to view career paths as linear, requiring loyalty in exchange for greater levels of intrinsic responsibility, reward and personal development (Feldman & Ng, 2007; Hall, 2002). Such a divergence in career approaches between the intrinsic organisational view and the extrinsic, non-linear portfolio approach of individuals will continue to contribute to a disparity in outcomes.

Chapter 4: Paper 3[13][14]

4.1 Introduction

The globalisation and integration of international financial markets (Baker, Nofsinger & Weaver, 2002; Cetorelli & Peristiani, 2013) reflects the desire by individuals to diversify their investor portfolios and by companies to seek international expansion and demonstrate a willingness to adhere to more rigorous compliance regimes. National culture impacts organisational behaviour (Friedland & Alford, 1990; Hickson & Pugh, 1995; Naor, Linderman & Schroeder, 2010) and frames our research context, as culture underpins governance and how companies approach compliance monitoring (Licht, 2001b; Sison, 2000). We note the significant penetration of non-domestic companies on the London Stock Exchange (LSE) and hypothesise that such companies may have less focus on compliance with corporate governance codes in their adopted market due to cultural divergence (Doidge, Karolyi & Stulz, 2009b).

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[13] An earlier and abbreviated version of this paper was presented as a conference paper at the British Academy of Management 2013 Annual Conference "Managing to Make a Difference" as: Rejchrt, P. & Higgs, M. 2013. Non-domestic companies listed in the UK: Governance compliance and behaviours related to home country culture. Conference paper, *British Academy of Management*. The contribution of the co-author has been to offer editorial guidance in the presentation of the earlier conference paper.

[14] This paper has been accepted for publication as: Rejchrt, P. & Higgs, M. 2014. When in Rome: How non-domestic companies listed in the UK may not comply with accepted norms and principles of good corporate governance. Does home market culture explain these corporate behaviours and attitudes to compliance? *Journal of Business Ethics*, forthcoming. Published online 10th March 2014, DOI available: 10.1007/s10551-014-2151-6. The contribution of the co-author has been to offer editorial guidance in the publication process for the paper presented here.

Yet despite the increased globalisation of the business environment, economic theory remains firmly grounded in the Anglo-American approach to capitalism. Such an Anglo-dominated view of industrial organisation is based on agency theory, whereby control systems need to be in place to control excess risk-taking by managers, who are not simultaneously owners of capital (Jensen, 1993; Shleifer & Vishny, 1996). Hollingsworth, Schmitter & Streeck (1994) suggest that such governance mechanisms are external (financial markets) or internal (hierarchical structures designed to mitigate the agency problem). There is “no accepted theoretical framework for comparing systems of corporate governance within or between cultures” (Demb & Neubauer, 1992: 9). Much governance research has failed to address the cultural implications for governance where the Anglo-American model of capitalism is not the dominant ideology, for example, where the ‘values consensus’ (Hollingsworth, et al., 1994) relies more on social and/or political networks than on mandated and regulated rules-based systems of organisation (Hollingsworth & Lindberg, 1985).

Finance, economics, law and strategy provide a framework for this research (Bebchuk & Weisbach, 2010). We incorporate an international business perspective, whereby national governance frameworks are influenced by cultural norms and societal values (Strange, et al., 2009). This reflects the societal and institutional context of micro level decision-making of businesses (Dunning & Lundan, 2008). Agency theory (Fama & Jensen, 1983a, 1983b; Jensen & Meckling, 1976) remains the dominant paradigm in corporate governance research and sets the organisational context of our research. We consider the governance implications of non-domestic listings, by examining the effectiveness of internal mechanisms of control through compliance with the principles of the UK governance framework. Agency theory further sets the standard for companies, particularly from emerging markets, to “bond” to the higher standards of regulation more rigorously enforced on prestigious exchanges such as the LSE (Coffee, 1999, 2002). Because institutional change tends to occur slowly, companies from emerging markets may prefer the “bonding” option to demonstrate to international investors a desire to adhere to more rigorous governance standards. Such a move is both quicker and more effective in addressing the shortcomings of the home country governance regimes (Aguilera & Jackson, 2003; Peng, 2003).

We gather data on non-domestic companies listed in the UK FTSE 350. The continued attractiveness of the LSE as a listing bourse, with non-domiciled companies pursuing full “premium” Main Market listing (*LSE*, 2012), is illustrated by the increased weighting of mining companies from emerging markets representing 14% of the large market capitalisation FTSE 100 index in 2011 from 10% in 2007 (Burgess, 2011). Our research shows there are now non-UK domiciled companies in 21 sectors, predominantly in exploration and mining, accounting for market capitalisation of almost GBP500bn. This is a probable reflection of the prestigious reputation of the LSE and strong financial infrastructure (Cetorelli & Peristiani, 2013) and presents an alternative view to recent US research showing reduced volumes of cross-listings (Doidge, et al., 2009a; Karolyi, 2012). We note a shift in the domiciles of companies seeking a listing on the LSE to emerging markets, which we define by the market structure of an under-developed institutional framework rather than economic measures such as GDP per capita (Khanna & Palepu, 2010). In particular, this global shift to the east and the south may have implications for compliance.

Companies from these markets continue to seek the benefits of adopting stricter governance standards, but are likely to be culturally associated in their domestic environment with weaker regulatory regimes (Hoskisson, et al., 2013), strong leaders (Moore, Bell & Filatotchev, 2010) or dominant shareholders (Claessens, et al., 2002).

The increasing non-domestic presence on the LSE and a dearth of recent research into the UK context is the gap we identified in the current literature. Whilst the primary focus of our research is on internal governance, we contribute to theory development by incorporating an environmental context (Renders & Gaeremynck, 2012). We do this by including Hofstede's (1998) cultural values dimensions, which we in turn relate to compliance measures to develop a framework for understanding how the cultural norms of the home markets of these non-domestic companies might impact their approach to compliance. In particular, we hypothesise on lower levels of compliance at companies from markets with cultural values on Hofstede's (1980a, 1980b, 1983a, 1983b, 1984, 1990, 1993, 1994a, 1994b, 1997, 1998) scales divergent from our UK baseline. In particular, we suggest that high power-distance (PDI) and uncertainty-avoidance (UAI) cultures are likely to be less compliant (Carl, Gupta & Javidan, 2004). The recent sample allows us to identify any potential challenges to the current UK governance regime from the potential for lower levels of compliance in the growing population of non-domestic companies listed on the LSE.

We define compliance referenced against the key standards of the Financial Reporting Council's September 2012 UK Corporate Governance Code ("the

Code") on leadership, Board structure, effectiveness and remuneration. These standards represent the essence of the Code, setting the UK standard for the interpretation of current good practice, as defined by its governing principles and specific provisions. The Code principles, anchored in the reduction of agency costs (Jensen & Meckling, 1976), are the UK standard applicable to all listed entities and provide an aspirational framework of governance for non-domestic companies whose home markets may be characterised by institutional or political weakness (Ware & Noone, 2003). Two further principles on relations with shareholders and accountability form part of the Code, but are less central to our analysis of compliance, requiring further qualitative investigation. Instead, we incorporate shareholding structure and analyse the effects of controlling ownership structure as a determinant of compliance. We report compliance in terms of full, partial or non-compliance. We acknowledge the subjectivity in cultural studies in assessing levels of compliance with our selected variables (Treisman, 2000) and develop a composite compliance measure of Board structure and effectiveness to analyse the compliance implications.

The paper is structured as follows: In the next section we review and develop the theory in line with our proposed structure, firstly by incorporating Hofstede's cultural dimensions. We then define compliance and evaluate how culture may impact approaches to compliance related to the principles of the UK Corporate Governance approaches to compliance related to principles of the Code. In the following sections, we then describe our methodology in gathering and analysing the data before presenting our results, together with implications for researchers and practitioners.

4.2 Theory review

Governance, though widely researched, has not as yet produced a consensus around its definition (Kaufmann, Kraay & Mastruzzi, 2010). It is generally accepted at a minimum to set rules, enforcement mechanisms and a monitoring regime, where corporate governance, “the system by which companies are directed and controlled” (Smerdon, 1998: 1), is focused on the equity of “the structure of rights and responsibilities among the parties with a stake in the firm” (Aoki, 2000: 11). Much of the corporate governance literature focuses on links between compliance monitoring and performance (Aguilera & Cuervo-Cazurra, 2009; Dedman, 2003; MacNeil & Li, 2006) and the definition of a measure of good governance (Arcot & Bruno, 2007; Brown & Caylor, 2006; Renders & Gaeremynck, 2012; Thomas, 2010; van Essen, Engelen & Carney, 2013). We define compliance in terms of full, partial or non-adherence to key principles of the Code. Our contribution to theory development is in the theoretical link between home market culture (Hofstede, 1984, 1991, 2001) and possible non-compliance with the Code principles for the growing numbers of non-domestic companies listed in the UK (Burgess, 2011; Dawkins, Gouveia de Oliveira & Russell, 2012).

4.2.1 Home market culture

Culture is “the collective programming of the mind that distinguishes the members of one category of people from those of another” (Hofstede & Bond, 1988: 6) and is likely to influence organisational behaviour (Hofstede, 1983a, 2001; Doidge, Karolyi & Stulz, 2007; House, et al., 2002, 2004). Nations “are the source of considerable amount of mental programming of their citizens” (Hofstede, 1991: 12), thus organisational behaviour is likely to be reflected in differences in national cultural values and practices (Chan & Cheung, 2008; Naor, et al., 2010; Schein, 1996). Similarly, culture underpins governance systems (Mintz, 2005) and behavioural attitudes impact the culture of compliance and approaches to monitoring and enforcement (Licht, 2001b).

“Many aspects of organizational theories produced in one culture may be inadequate in other cultures” (Triandis, 1983: 139). Dominant values in the global context are a free market economy, democracy, freedom of choice, individual rights and respect for the rule of law while tolerating and promoting local norms (Gupta & Govindarajan, 2000). Yet amid a greater emphasis on global business, local and national cultural norms determine companies’ attitudes to structure, organisation, control and regulation based on ‘‘deeply embedded patterns and rules that still continue to regulate the business environment’’ (Randall, 2001: 10). Culture is static (Hofstede, 1980a) and is reflected in the intractability of social institutions (Licht, Goldschmidt & Schwartz, 2003; McCarthy & Puffer, 2002). Cultural distance, a construct denoting the degree of similarity or dissimilarity between cultures, has come to prominence and is likely to be associated with divergent organisational characteristics and behaviours (England, 1975; Kelley & Worthley, 1981; Laurent, 1981; Lincoln, Hanada & Olson, 1981; Scarborough, 2000).

Hofstede's (1980a) work on the role of national cultural norms impacting organisational culture has been widely used as a reference standard in cross-cultural research. The Hofstede framework has been largely validated (Sondergaard, 1994) and the cultural values widely applied in the international business arena to demonstrate the value of understanding the relationship between culture and firm performance, structure and governance (Li & Harrison, 2008). The origins of Hofstede's study were in an audit of company morale among IBM employees at global locations in 1968 and 1972. The data were collected and analysed from 116,000 employee satisfaction surveys completed by 88,000 IBM employees in 50 countries and three multi-country regions, being West Africa, East Africa and the Arab countries. The sample was reduced to 40 countries and regions with more than 50 responses each. Country-level factor analytic results allowed a classification along four dimensions, subsequently increased to a fifth dimension (Hofstede & Bond, 1988). Hofstede argued that the crucial requirement is that samples be well matched across countries, not that they be representative, and asserted that comparing IBM subsidiaries shows national culture differences with unusual clarity, because the samples are so homogeneous in terms of employer, type of work and education level.

Furthermore, a basic premise in the international business literature is that national, cultural, political as well as formal and informal institutional contexts may set the defining corporate governance framework (Globerman & Shapiro, 2003; Strange, et al., 2009). In this environment, the Anglo-American model of governance, based on the notion of the firm operating in the interests of shareholders (Fama & Jensen, 1983a, 1983b), is an aspirational framework for ensuring the effective monitoring of company performance despite the widely-reported weak relationship between executive pay and performance (Frydman & Saks, 2010; Gregg, Jewell & Tonks, 2012; Gregg, Machin & Szymanski, 2009; Jensen & Murphy, 1990; McKnight & Weir, 2009). Typically, it is perceived that the separation of the roles of Chief Executive Officer (CEO) and Chairman and a single-tier Board are conducive to improved monitoring by shareholders (Dahya, Lonie & Power, 2006), principles which are enshrined in the Code (*FRC*, 2012). This convergence on the Anglo-American governance model (Davis & Steil, 2001; Rubach & Sebora, 1998; Witt, 2004) is a result of the share premium for companies applying such governance principles (Hebb & Wojcik, 2005).

Non-domestic companies tended in the 1980s and 1990s to seek destination exchanges to cross-list based on common language or institutional similarity (Davidson, 1980; Licht, 2004; Pagano, Roell & Zechner, 2002) or cultural homogeneity (Pagano, et al., 2001). Later evidence suggests a cultural divergence based on a further globalisation of the world economy (Doidge, et al., 2009b, 2012; Ellis, et al., 2012; Stulz, 1999). A convergence on codes of good governance based around English common law and the Anglo-American shareholder value model (Aguilera & Jackson, 2003; Shleifer & Vishny, 1997) had been evidenced in 64 countries by 2008 (Aguilera & Cuervo-Cazurra, 2009). The diffusion of governance codes (Cuervo-Cazurra & Aguilera, 2004) and extension of the Anglo-American model is based around principles related to: (i) the balance of executive and non-executive directors; (ii) separation of Chairman and CEO functions; (iii) quality of financial statements and of information provided to the Board; (iv) transparency of appointment of new directors; and (v) an internal system of control and accountability (Aguilera & Cuervo-Cazurra, 2004; Van den Berghe & Levrau, 2004).

Answering a call from Banalieva & Robertson (2010) for research into the relationship between foreign cross-listing and home country institutional context, norms and behaviours, we incorporate Hofstede's (1998) framework of cultural dimensions into our analysis using the well-defined PDI, UAI, individualism versus collectivism, masculinity-femininity and long-term versus short-term orientation axes. We supplement this analysis with the country-level World Bank's governance indicators (Kaufmann, et al., 2010) based on accountability, political stability, governmental effectiveness, regulatory quality, rule of law and the level of corruption.[15]

A critical reason for seeking a non-domestic listing on the LSE is likely to be its reputation for institutional quality, combined with weaknesses in the governance environment in domestic markets, particularly for those companies incorporated in emerging markets or with a large share of operations in such countries (Hoskisson, et al., 2013; Peng, 2012; Peng & Blevins, 2012; Vaaler & Zhang, 2011). We hypothesise that the compliance regimes in those countries and regions that are significantly divergent from the UK cultural values ascribed by Hofstede will be characterised by weaker effectiveness of governance. This may reflect: (i) states with failed democratic institutions (Shleifer, 1997); (ii) low economic development or exclusion from the global

[15] We acknowledge the contribution of the World Bank's GLOBE cultural and governance indicators, but adhere to prior research which uses the Hofstede scales as a basis for cultural analysis (Sivakumar & Nakata, 2001).

trading economy (Treisman, 2000); (iii) a poorly-developed regulatory environment subject to insufficient controls or ineffective enforcement (Brownbridge & Kirkpatrick, 2000); and (iv) the existence of "well-known cultural differences around the globe with respect to standards of acceptable and unacceptable behavior" (Ware & Noone, 2003: 198). Although attempts at defining the likelihood of non-compliance are likely to be subjective (Treisman, 2000), these assessments potentially reflect and influence behaviours in these countries (Mauro, 1995). Non-compliance is more likely in countries with an ineffective legal system or where the enforcement of the rule of law is weak (Durnev, Errunza & Molchanov, 2009).

Sison's ground-breaking (2000) work established a link between Hofstede's cultural values and corporate governance practice, building on the earlier research by Turnbull (1997) and Gatignon & Anderson (1998) showing governance implications linked to cultural distance based on different cultural approaches to risk (Caves, 1982). National differences in corporate governance mechanisms have long engaged scholars (O'Sullivan, 2000; Shleifer & Vishny, 1997; Thomsen & Pedersen, 2000). Chan & Cheung (2008) develop this by using multiple regressions linking corporate governance practices in 43 countries with stock market data, finding significant relationships between Hofstede's cultural values and good corporate governance practice. The relationship between the PDI and UAI variables and governance compliance is particularly strong.

Our research develops from the earlier work indicating the value of Hofstede's cultural values dimensions for corporate governance (Caves, 1982; Chan & Cheung, 2008; Gatignon & Anderson, 1998; Turnbull, 1997). Globalisation has reinforced the considerable differences in the quality of standards and approaches to corporate governance and has reinforced the need for protection for minority shareholders. This includes an increased emphasis within the governance arena on shareholding structure (Hofstede, 2004). We select the PDI-UAI dimensions in line with prior governance research using Hofstede's culture metrics (Chan & Cheung, 2008), as these values dimensions are expected to offer the greatest insight into the potential for compliance issues. From the work of Hofstede (2001) it is evident that in high PDI countries there is a strong hierarchy that dominates decisions within organisations. Decision-making tends to be centralised around powerful individuals, with no evident involvement of others. In such a context, compliance with regulations will be seen as coming from outside of the organisation's power structure and thus subservient to the internal authority. Where countries have high levels of UAI, organisations tend to react to perceived threats from external ambiguous contexts by developing internally-driven bureaucratic processes designed to protect the interests of the organisation. When high UAI is combined with high PDI then organisations tend to have highly developed internal bureaucracies which are power-based and in which the internal power structures dominate, which appears to be culturally divergent from the principles of the Code. Thus compliance with external demands, rules and regulations is likely to be of secondary importance.

The PDI dimension is defined as "the extent to which a society accepts the fact that power in institutions and organizations is distributed unequally"

(Hofstede, 1980b: 45) or "the degree of inequality among people which the population of a country considers normal" (Hofstede, 1994b: 5). In management terms, it is the extent to which subordinates are not expected to express disagreement with their supervisors and supervisors are not expected to consult with their subordinates in the decision-making process (Hofstede, 1980a, 2001).

We note the tendency for high PDI on the Hofstede cultural values scale to be associated with a strong leader, with less scope for discretionary action by shareholders and groups not associated with the power axis (Daily & Johnson, 1997) thus inferring implications for the company's approach to compliance (Moore, et al., 2010). Countries high in PDI are often associated with autocratic or paternalistic leaders (Carl, et al., 2004) and the use of coercion (Hofstede, 1980a, 1991; House, et al., 2004). Such societies will have unequal distribution of power (Chan & Cheung, 2008), with a tendency to corruption (Davis & Ruhe, 2003), from which we hypothesise a greater propensity to non-compliance. On the other hand, the UK cultural norm is for lower PDI, which is likely to empower and motivate employees and shareholders (Nakata & Sivakumar, 1996) and improve communication (Naor, et al., 2010).

UAI is defined as "the extent to which a society feels threatened by uncertain and ambiguous situations and tries to avoid these situations by providing greater career stability, establishing more formal rules, not tolerating deviant ideas and behaviors, and believing in absolute truths and the attainment of expertise" (Hofstede, 1980b: 45). This dimension has been further linked to people's preference for the flexibility of unstructured situations (Hofstede, 1994b). Uncertainty avoidance should not be confused with risk avoidance, as "it does not describe one's willingness to take or avoid risk, but rather is associated with preferences for clear rules and guidance" (Hofstede, 2001: 149).

High UAI cultures tend to display well-established norms and processes and an intolerance of vagueness (Husted, 2002), which may imply a need for informal channels (Getz & Volkema, 2001) in response to bureaucratic institutional contexts. In fact, Chan & Cheung (2008) found that 42% of the difference in various countries' approaches to corporate governance could be explained by the PDI and UAI variables. Chan & Cheung (2008) further showed that countries with high PDI and UAI scores were associated with low factor scores in international corporate governance rankings based on 2004 data from *International Institute of Management Development* (IMD). We therefore hypothesise that companies from countries with high scores in these two dimensions will be associated with lower levels of compliance. Utilising these two dimensions concurrently enables us to define cultural similarity to our UK benchmark and we subsequently consider the likely implications for compliance with the Code principles from this cultural disconnect between the home country and listing market. Empirical evidence (Hofstede, 1980a, 1994b) suggests the PDI-UAI matrix is significant in how national culture impacts on organisational behaviour and is deemed critical in determining how societies approach organising themselves.

We exclude analysis of the Hofstede dimensions relating to individualism-collectivism, masculinity-femininity and long-term orientation to focus on the two dimensions most closely related to our central hypothesis. Individualism-collectivism (IDV) is defined as "the degree to which people in a country prefer to act as individuals rather than as members of groups" (Hofstede, 1994b: 6). Individualism is "a loosely knit social framework in which people are supposed to take care of themselves and of their immediate families only," and collectivism "is characterized by a tight social framework in which people distinguish between ingroups and outgroups, they expect their ingroup to look after them, and in exchange for that they feel they owe absolute loyalty to it" (Hofstede, 1980b: 45).

The fourth dimension is masculinity-femininity (MAS), with masculinity defined as "the degree to which values like assertiveness, performance, success and competition, which in nearly all societies are associated with the role of men, prevail over values like the quality of life, maintaining warm relationships, service, care for the weak, and solidarity, which in nearly all societies are more associated with the role of women" (Hofstede, 1994b: 6). Femininity is further associated with a society based on cooperation (Hofstede, 2001). If there are large differences between the role of men and women, "the dominant values are "masculine" (Hofstede, 1994b: 6). Long-term orientation (LTO) refers to future-oriented values such as persistence and thrift, and short-term orientation refers to past- and present-oriented values such as respect for tradition and fulfilling social obligations (Hofstede & Bond, 1988).

The above theory and empirical evidence linking culture to governance leads us to suggest:

> *Hypothesis 1: Non-domestic companies from countries with values in the Hofstede PDI and UAI dimensions higher than the UK benchmark will have lower levels of compliance with key principles of the Code.*

4.2.2 The non-domestic context

The globalisation of financial markets (Aguilera & Cuervo-Cazurra, 2004; Doidge, et al., 2012; La Porta, et al., 2008) sets the context for companies to seek a cross-listing of their equity. Despite few barriers to international investment in a globalised financial market, firms continue to seek to list their shares in non-domestic markets. Market liquidity theory determines the reason for the strategic choice (Karolyi, 2012) to cross-list is: (i) to appeal to investors (Foerster & Karolyi, 1998; Karolyi, 1998; Rao, Greve & Davis, 2000); (ii) to take advantage of the regulation regime promoted by certain exchanges that are valued by investors (Licht, 2000); (iii) because the home market is associated with an institutionalised environment of poor investor protection (Bergman & Nicolaievsky, 2007; Durnev & Kim, 2005; Hollingsworth & Boyer, 1997; La Porta, et al., 1998, 1999; Lins, Strickland & Zenner, 2004; Reese & Weisbach, 2002; Saudagaran, 1988); (iv) to lower the cost of capital by widening the shareholder base and allowing current shareholders to dispose of their holdings in a more liquid market (Bancel & Mittoo, 2009; Doidge, et al., 2009b; Fanto & Karmel, 1997; Hail & Leuz, 2009; Karolyi, 2006; Licht, 2004; Lombardo & Pagano, 1999; Saudagaran, 1988; Stulz, 1999); and (v) to reduce the information asymmetry, as non-domestic exchanges are likely to have superior knowledge of pricing of the industry's stocks (Pagano, et al., 2002). A non-domestic listing will be associated with considerable costs (Gompers, Ishii & Metrick, 2003). These costs relate to meeting the greater compliance requirements of the prestigious exchange and the increased scrutiny by the media and analysts (Baker, et al., 2002; Lang, Lins & Miller, 2003; Stulz, 1999). These costs are offset by the benefits of higher firm valuations following the adoption of stronger shareholder rights (*Deutsche Bank*, 2004).

Corporate governance and agency theory set a second defining framework for companies to seek a cross-listing. This "bonding" hypothesis suggests corporations seek to list their equity on a non-domestic exchange due to a poor corporate governance regime in their home markets and a desire to access capital in countries with more rigorous and stringently-enforced governance standards (Coffee, 1999, 2002; Karolyi, 2012; Licht, 2003; Reese & Weisbach, 2002; Stulz, 1999). Agency theory proposes that the moral hazard of managers may be mitigated when companies are subject to the more strictly-enforced governance guidelines required by mature stock markets. This permits companies from markets with lower standards of governance to "borrow" the higher standards of a mature market (Licht, 2004). The benefits of "bonding" to a non-domestic market with defined governance standards may be in the form of: (i) increased firm value (Bianconi & Tan, 2010; Claessens, et al., 2002; Morck, Stangeland & Yeung, 2000); (ii) 'visibility' through greater coverage by analysts and recognition by investors of being a serious player in the global market (King & Mittoo, 2007; Lang, et al., 2003; Merton, 1987; Sarkissian & Schill, 2004; Saudagaran, 1988), which reduces the information asymmetry reflected in the psychological influence of cultural familiarity and geographical proximity on investors' stockholding decisions

(Coval & Moskowitz, 1999; Huberman, 2001; Kang & Stulz, 1997; Portes & Rey, 2000); (iii) a commitment to disclosure and protection of minority shareholders (Biddle & Saudagaran, 1992; Doidge, 2004; Doidge, Karolyi & Stulz, 2004; La Porta, et al., 1998, 2002; Moore, et al., 2010; Shi, Magnan & Kim, 2012; Shleifer & Vishny, 1997; Vaaler & Schrage, 2006); and (iv) signalling to investors an acceptance of the formal institutions and governance of the host country (Banalieva & Robertson, 2010; Cantale, 1996; Certo, Daily & Dalton, 2001; Fanto & Karmel, 1997; Filatotchev & Bishop, 2002; Moore, et al., 2010; North, 1990; Sanders & Boivie, 2004).

The most cited reason for the cross-listing of shares on a perceived prestigious exchange is to access capital (Banalieva & Robertson, 2010; Baker, 1992; Bell, Filatotchev & Rasheed, 2012; Bianconi & Tan, 2010; Ding, Nowak & Zhang, 2010; Doidge, et al., 2004, 2009a; Mittoo, 1992; Fanto & Karmel, 1997). However, cross-listing on the LSE does not appear to guarantee opportunities for companies to increase their capital-raising activities (Doidge, et al., 2009b). Based on the information environment hypothesis (Lang, et al., 2003), it is assumed that information asymmetry between markets, and a perceived premium for markets with more stringent information disclosure requirements, will encourage firms to list on non-domestic markets (Cantale, 1996; Fuerst, 1998; Merton, 1987; Moel, 1999; Saudagaran, 1988).

Furthermore, an institutional theory perspective on how organisations may respond adaptively to their strategic context (Rajagopalan & Spreitzer, 1997) suggests that within particular industries mimetic isomorphic forces may drive the strategic decision-making that seeks to deliver competitive advantage

(D'Aveni, 1994). It has been argued that companies do not act homogenously and respond to the external pressures to comply with the institutional intra-industry status quo (Greenwood & Hinings, 1996; Kondra & Hinings, 1998). Such imitation may, in the minds of managers, legitimise their actions, reducing the uncertainty of changes in strategic context, and demonstrate a commitment to fashionable management techniques and organisation structures (Daft, 2010; Dutton & Dukerich, 1991; Kogut, 1988; Sharma & Vredenburg, 1998). This is likely to be evidenced in concentrated industries, such as mining and exploration, where these isomorphic pressures to imitate the behaviour of competitors are greater (Di Maggio & Powell, 1983; Granovetter, 1985; Husted & Allen, 2006; Meyer & Rowan, 1977; Powell & DiMaggio, 1991; Scott, 1995). Additionally, in extractive industries these mimetic forces are intended to address the risk profile of the industry, which is subject to volatilities, such as the price of inputs (technology and labour), commodity prices outside the control of the firm and the valuation by markets of new exploration finds (Hoffman, 1997; Sharma, 2000; Snider, Hill & Martin, 2003; Suchman, 1995; Young & Marais, 2012). Indeed, there may be a cultural clash between the informal power structures of the emerging home and operating markets of such companies (Selznick, 1957) and the stronger emphasis on rigorous institutional effectiveness in a developed market (DiMaggio & Powell, 1983).

This sociological perspective on organisational mimesis suggests the cross-listing decision by non-domestic companies may also reflect herd behaviour and hence congregate in certain industries (Baker, et al., 2002). The increased visibility of a cross-listed security will benefit the controlling shareholders in the form of increased market valuations of the firm (Amihud, Mendelson & Uno, 1999; Errunza & Miller, 2000; Merton, 1987), in spite of the additional costs associated with higher levels of disclosure and scrutiny by analysts and the financial media in the developed listing market (Baker, et al., 2002; Lang, et al., 2003). The counter-argument is that controlling shareholders maintain their ability to consume the private benefits of control associated with the weak investor protection in their home markets despite the regulatory enforcement requirements of their adopted listing market (Siegel, 2005). This may be a result of the same mimetic forces, where controlling shareholders seek a listing on a market such as the LSE with its reputation for welcoming stocks from emerging market extractive industries, where the visibility gains of cross-listing are reduced by “hiding” performance shortfalls in a market with a concentration of mining and exploration stocks.

Although certain stock exchanges are viewed as providing access to investors with a focus on higher risk investments with the potential for future growth (King & Mittoo, 2007), the presence of controlling shareholders is likely to remove the potential liquidity gains of cross-listing and to be reflected in the company’s approach to disclosure in its earnings reporting (Leuz, Nanda & Wysocki, 2003; Siegel, 2005). This will have implications for the firm’s market valuation and for the protection of minority shareholders (King & Segal, 2009). In fact, the presence of a controlling shareholder is likely to see any temporary gains in market valuation being eroded (King & Segal, 2009). This may mean that institutional shareholders desert the company in their pursuit of lower-risk investments, with a likely return of the company to private ownership in its domestic market to internalise the benefits of control (Baker, et al., 2002; Foerster & Karolyi, 1999). Any short-term gains in visibility may be reflected in improved employment prospects for independent executive directors through their experiences in an international market (King & Mittoo, 2007), whilst non-executive Board members will be exposed to the higher disclosure requirements and standards of compliance reporting in a developed stock market.

4.2.3 The UK context – The 2012 UK Corporate Governance Code

We define compliance in relation to the principles of the Code, framing our analysis into anticipated lower levels of compliance by non-domestic companies within the recommendations of the Code. The UK governance environment, anchored in Cain & Hopkins' (1980, 1986, 1993) "gentlemanly capitalism", is based on common law and "collective individualism" (Currie, 1979), centred on non-mandatory compliance with the Code principles (*FRC*, 2012), summarised in Appendix 1.

The fundamental precept of the Code is to address the principal-agent conflict (MacNeil & Li, 2006; Young, et al., 2002). The discordance of the evolution of the Anglo approach in the Anglo-American model of governance has produced a set of voluntary rules and regulations, now widely adopted globally. A "comply-or-explain" approach, enshrined since the first code was produced by the Cadbury Committee in 1992, remains the guiding principle. The approach requires companies seeking a listing on the LSE to adhere to the Code or explain non-compliance of any unwarranted deviations from its principles in an internal system of self-governance, based on the principle of establishing Board structures unlikely to create an opportunity for the breach of fiduciary duty (MacNeil & Li, 2006). Prior research has shown mixed results, with some authors noting a strengthening of oversight capability (Arcot, et al., 2010; Conyon & Mallin, 1997; MacNeil & Li, 2006; McKnight & Weir, 2009; Weir & Laing, 2000; Weir, Laing & McKnight, 2002), whilst others report lower levels of compliance or significant evidence of non-compliance (Dedman, 2003; Guest, 2008; MacNeil & Li, 2006).

The Code offers flexibility (Arcot, et al., 2010; MacNeil & Li, 2006), setting the principle of good governance in the UK, and applies to all companies listed on the LSE in line with the Listing Rules of the Financial Services Authority (*FSA*, 2004). The key sections of the Code detailed below on the leadership, effectiveness, accountability, remuneration of the Board provided us with the measures to evolve hypotheses linked both to the Code and the literature. We focus our analysis on those sections of the Code that we feel have the greatest impact in terms of governance. In addition to the Code's recommendations of good practice, we further incorporate shareholder structure, which is not included in the letter of the Code, but is widely held within the spirit of Anglo-American governance as an indicator of a solid approach to governance compliance. Scholars have argued that the UK system works on companies' behaviours being monitored by means of institutionalised trust through a shared social network (Uzzi, 1996, 1997). This voluntary disclosure and monitoring through networks may have less relevance to newly-listed non-domestic companies, which feel less pressured to conform to accepted norms (Moore, et al., 2010).

4.2.3.1 Leadership

Agency theory and the reduction of agency costs resulting from the separation of ownership and control (Berle & Means, 1932; Coase, 1937; Fama, 1980; Fama & Jensen, 1983a, 1983b; Jensen & Meckling, 1976) is a central thesis in the corporate governance literature and is fundamental to the UK compliance environment. Governance relies on internal mechanisms to control the potential for self-interested opportunism by managers (Williamson, 1988). These internal controls include: (i) Board structure (Guest, 2008; Hermalin & Weisbach, 2003; Raheja, 2005); (ii) Board monitoring through the removal of excessive managerial control by means of duality (Brickley, Coles & Jarrell, 1997; Donaldson & Davis, 1991; Kesner & Dalton, 1986; Rechner & Dalton, 1991); (iii) non-executive directors, although the academic literature offers mixed findings on Board size, which may simply reflect increased firm size, complexity and growth (Boone, et al., 2007); (iv) stock ownership by Board members; and (v) the presence of institutional shareholders (Davis & Steil, 2001; Peasnell, Pope & Young, 2003; Shleifer & Vishny, 1997; Vafeas & Theodorou, 1998; Weir, et al., 2002; Young, 2000). Such principles form the basis of the UK approach to governance, diminishing the level of opportunistic behaviours by managers at the expense of shareholders' interests suggested by organisational economics (Licht, 2001a; Williamson, 1995).

This leadership principle in the Code (*FRC*, 2012) requires an effective Board with a collective duty of delivering long-term performance, with a recommendation of clearly-defined responsibilities and no single Board member having excessive decision-making power. A further recommendation is the presence on the Board of a Chairman with ultimate responsibility for its leadership, reflecting the importance of the relationship with the Chief Executive Officer (Tricker, 1994). The implication for good governance is the separation of the role of Chairman and CEO and the presence on the Board of executive decision-makers responsible to a non-executive Chairman (de Andres, Azofra & Lopez, 2005).

4.2.3.2 Effectiveness and Board structure

The Code guidelines (*FRC*, 2012) on effectiveness are designed to ensure balance to allow the Board to deliver effectively. The key principles relate to Board structure, including size, diversity, a combination of executive and non-executive directors and the presence of a nomination committee of majority independent non-executive directors. This is allied with the extant academic research, which confirms the critically important role of the Board in scrutinising and moderating executive management's decision-making (Fama, 1980; Gilson & Kraakman, 1991; Mizruchi, 1983).

From the above Code principles and theories related to the cross-listing decision, we propose in relation to all cross-listed non-domestic companies:

> *Hypothesis 2: Non-domestic companies will demonstrate lower levels of compliance with the Code's leadership, effectiveness and Board structure principles.*

4.2.3.3 Remuneration

The Code (*FRC*, 2012) specifies the use of remuneration to attract, retain and motivate executive management to deliver successful performance, without paying excessively, and to link individual executive to corporate performance measures. This leads us to suggest:

> *Hypothesis 3: Non-domestic companies will demonstrate lower levels of compliance with the Code's remuneration principles.*

4.2.3.4 Ownership structure

Globalisation based on slicing up the value chain (Krugman, 1995) has produced growing levels of international trade in a world of greater integration and interdependency (Gundlach & Nunnenkamp, 1996). This geographical dispersion of production, deregulation of global financial markets and resulting growth in trade and capital flows, combined with the changing nature of ownership structures of firms (Aguilera & Cuervo-Cazurra, 2004), has produced the convergence on Anglo-American standards of governance detailed above. However, the lower level of enforcement of governance regulations on foreign firms listed in the USA and UK (Siegel, 2005) has brought into question this convergence. Some authors report a divergence in compliance, with these non-domestic firms likely to retain the large Board size and concentrated ownership characteristics of their home markets (Arcot, Bruno & Faure-Grimaud, 2010; Claessens, et al., 2002; Davis & Marquis, 2005). A concentrated shareholding structure is usually negatively associated with firm value due to the rights to the company's cash not being shared amongst minority shareholders (Ayygari & Doidge, 2010; Shleifer & Vishny, 1997). Other researchers present 'crossvergence' as a more likely scenario, adapting the expectations of global investors based around Anglo-American governance with the lesser needs of local shareholders (Peng & Pleggenkuhle-Miles, 2009; Young, Ahlstrom & Bruton, 2004; Young, et al., 2008).

Whilst the Code is not explicitly concerned with company control or shareholding structure, agency theory suggests ownership is both an important internal governance mechanism and a determinant of compliance (Arcot & Bruno, 2012; Arcot, et al., 2010: 198; Cuervo, 2002; Dawkins, et al., 2012; *GrantThornton*, 2011; Shi, et al., 2012; Shleifer & Vishny, 1997). Countries with governance practices based on common law and the sanctity of property rights are likely to be characterised by dispersed share ownership (La Porta, et al., 1999). Widely-held companies are likely to be more compliant due to the pressure on management from greater shareholder influence and activism by institutional investors (Bebchuk & Weisbach, 2010; Brancato, 1997; Cremers & Nair, 2005; Davis & Thompson, 1994; Gorton & Schmid, 1999; Guercio & Hawkins, 1999; Hadden, 1994; Mallin, 2010; Shleifer & Vishny, 1986). Ownership structure may be deemed an implicit principle of the Code, as it relates to the potential for governance issues in the presence of a dominant shareholder. As noted earlier, independent outside directors and stock ownership by Board members are widely believed to mitigate the agency conflict between shareholders and management (Bathala & Rao, 1995), but the value of such controls is diminished in closely-held companies due to the strong links between the Board and the dominant shareholder. Hofstede (2001) himself notes the positive correlation between a high PDI score and dominant shareholding structures in 12 European countries. However, institutional shareholders may take a passive approach to maintaining their relationships with the management of the companies in which they are heavily invested (Black & Coffee, 1994), with any activism likely to be limited to individual proposals rather than being expressed as wholesale disapproval of management (Gillan & Starks, 2000).

A dominant shareholder's ability to take private benefits from the firm may be associated with disincentives to make full public disclosures or to allocate resources for the personal gain of the controlling shareholder (Arcot, et al., 2010; Barclay & Holderness, 1989; Benos & Weisbach, 2004; De Jong & Semenov, 2006; Denis & McConnell, 2003; Dyck & Zingales, 2004; Faccio & Lang, 2002; Liu & Magnan, 2011; Morck, 1996; Renders & Gaeremynck, 2012). Such a dominant shareholder is likely in turn to be associated with a higher concentration of power in the CEO (Adams, Almeida & Ferreira, 2005), based on Finkelstein's (1992) dual sources of power arising from position and ownership. The effect of ownership on governance variables remains relatively unexplored in the literature (Judge, 2011), but is associated with dominant shareholders seeking Board positions and presenting companies with greater challenges in meeting the governance requirements for the independence of directors. Yet, it has been noted that dominant shareholders are common in emerging countries (Claessens, et al., 2002), where there is a potential clash of interests between minority shareholders and controlling, often family, shareholder groupings (Arcot & Bruno, 2012). "Controlling shareholders trade off the cost of cross-listing, defined by the improved investor protection that reduces their private benefits, against the benefit of cross-listing, captured by their ability to fund growth opportunities on better terms" (Doidge, et al., 2009b: 255). On the other hand, a large shareholder or shareholder concentration may address agency issues through the dominant shareholders seeking profit maximisation with sufficient control over voting rights to force compliance (Shleifer & Vishny, 1986).

We develop from the above theory of concentrated shareholding structures being associated with lower levels of protection for minority shareholders a final hypothesis, which relates ownership structure to likely levels of compliance.

> *Hypothesis 4: Closely-held non-domestic companies will display lower levels of compliance with the Code.*

4.3 Methods

We collected data in August 2012 from public sources (Morningstar Company Intelligence, henceforth MCI) to seek evidence relating to our four hypotheses, supplementing these where necessary with additional materials from other secondary sources, such as company press releases, annual reports or from LSE regulatory news filings. We define our key measure as compliance with the Code and assess any non-compliance with the Code principles on leadership, Board effectiveness, director remuneration and shareholder structure. We controlled for industry effects based on the FTSE sector classifications (McGahan & Porter, 1997; Rajagopalan & Datta, 1996; Rumelt, 1991) and considered firm size in our analysis, using market capitalisation as a measure (Laing & Weir, 1999). We take a cross-sectional view of the data and do not attempt to capture any changes over time, so our sample is fixed at the date of data collection.

4.3.1 Sample

In order to explore these hypotheses, we studied the 350 largest corporations in the UK by market capitalisation, constituents of the FTSE 350 index. We eliminated companies with a domestic domicile or incorporation, producing a sample of 68 non-domestic companies. Within this group, we found 23 companies from one of seven countries conventionally viewed as a tax haven (Jersey, Guernsey, Bermuda, Cayman Islands, British Virgin Islands, Gibraltar and Luxembourg). This latter group includes companies that were previously domestic but changed their incorporation simply to take advantage of a different tax regime to reduce their tax liability in the UK. The avoidance of corporate tax burdens has been a feature of the corporate landscape for many years (Hines & Rice, 1994). We excluded from our sample all 23 companies domiciled in tax havens due to the lack of Hofstede data for these territories. Many of these companies are likely to be culturally aligned to the Anglo approach to governance due to the status of their domiciles as Crown dependencies of the UK. Of the remaining 45 companies, 35 are large multi-national enterprises (MNEs) with origins outside the UK and continuing to report the majority of their business abroad, with multiple international Stock Exchange listings, but for historic reasons retaining the primacy of a listing on the LSE and, in many cases, UK incorporation status. We find a further ten traditional non-domestic companies, readily defined as those incorporated outside the UK but cross-listed on the LSE. This constitutes our final sample of 45 companies (Table 4.1).

4.3.2 Data collection

We define compliance in terms of full, partial or non-compliance with the Code principles, as detailed in the hypotheses in the previous section, anchored in the standards of the Code.

Table 4.1 Sample size for analysis

Analysis	**Sample size (n=x)**
FTSE 350, excluding investment trusts	300
Non-domestic companies listed on LSE	68
Non-domestic companies from tax haven territories	(23)
Total non-domestic companies in our analysis H2 and H3	**45**
Non-domestic companies from high PDI-UAI countries/regions in our analysis for H1	37
Composite compliance measure - Sub-sample of non-domestic companies with lowest levels of compliance on leadership and Board effectiveness principles	14
Non-domestic companies with a closely-held shareholding structure in our analysis for H4	32

4.3.2.1 Home market culture

The Code is an international benchmark for good governance (Arcot, et al., 2010) and the “comply-or-explain” principles have been widely adopted in countries with a legal framework based on common law. We incorporated Hofstede’s cultural dimensions for the UK and apply a cultural proximity measure, based on the PDI and UAI variables, to analyse degrees of compliance with the Code principles.

We examine the domestic environments of the foreign-listed firms on the LSE to assess potential Code compliance issues in line with Hofstede's (1980a, 1983a, 1983b, 1984, 1997, 1998) cultural dimensions. Table 4.2 details the Hofstede cultural values scores on the PDI-UAI scales for each market for which there is a LSE listing, benchmarked against the UK baseline values. We selected the PDI and UAI dimensions in the anticipation of the greatest insight into the potential for governance issues, based on the concentrated decision-making around powerful individuals and uncertainty avoidance, which appear to be culturally distant to the principles of the Code (Carl, et al., 2004; Chan & Cheung, 2008; Davis & Ruhe, 2003; Hofstede, 1980a, 1991; House, et al., 2004). We found that Ireland, Sweden, Finland, Switzerland, the USA, Hong Kong, Australia and South Africa have scores that are culturally proximate to the UK benchmark in PDI and UAI, with all other countries/regions being ranked high on PDI and UAI in absolute terms and relative to the UK.

Secondly, we compared the Hofstede dimensions with the World Bank Worldwide Governance Indicators (WGI). WGI (*World Bank*, 2012) incorporates more recent as well as time series data, a larger number of data sources and includes an emphasis on perceptions of government and regulatory effectiveness, the legal environment and country-level perceptions on the adequacy of political stability and democracy and the absence of corruption (Kaufmann, et al., 2010). The results are broadly in line with Hofstede's dimensions, showing regulatory similarity between the UK, Ireland, Sweden, Finland, Switzerland, the USA, Australia and, excluding the political stability/absence of violence (PS) variable, South Africa. Following Chan &

Cheung (2008) we further incorporate IMD data (*IMD*, 2013). IMD's international competiveness index is based on variables such as fiscal discipline, the diversification and open-ness of economies and standards of technology, education and infrastructure. The results are again broadly aligned with Hofstede's cultural values benchmark, with only the United Arab Emirates replacing South Africa as culturally proximate. Thus, in the analyses in respect of H1 we have focused on the data from Hofstede's dimensions.

In order to analyse our cultural proximity construct using the Hofstede PDI and UAI dimensions related to the literature as described above, we sought to establish a composite measure of compliance to address the potential subjectivity of our measure of the levels of compliance. We created dichotomous variables by codifying cultural proximity as 1 = a score lower than the UK benchmark and 2 = a score higher than the UK on both PDI and UAI scales. We find within our sample of 45 companies for analysis that 37 are from markets with scores on both the Hofstede PDI and UAI dimensions higher than the UK values. We noted above that the countries in our sample with scores lower than the UK are Ireland, Sweden, Finland, Switzerland, the USA, Hong Kong, Australia and South Africa, all other companies in our sample being from countries/regions with PDI and UAI higher than the UK. This represents our sub-sample (n=37) for analysis in respect of H1.

Table 4.2 Hofstede's cultural dimensions – Domestic countries/regions of foreign shares on the LSE benchmarked against UK scores

Country/Dimension	PDI	PDI diff	UAI	UAI diff	PDI and UAI benchmarked to UK baseline
UK	35	–	35	–	–
Ireland	28	−7	35	0	−7
France	68	+33	86	+51	+84
Sweden	31	−4	29	−6	−10
Finland	33	−2	59	+24	+22
Czech Republic	57	+22	74	+39	+61
Switzerland	34	−1	58	+23	+22
India	77	+42	40	+5	+47
Hong Kong	68	+33	29	−6	+27
Indonesia	78	+43	48	+13	+56
Australia	36	+1	51	+16	+17
South Africa	49	+14	49	+14	+28
Tanzania	70	+35	50	+15	+50
Nigeria	80	+45	55	+20	+65
Russia	93	+58	95	+60	+118
Ghana	80	+45	65	+30	+75
Mexico	81	+46	82	+47	+93
Peru	64	+29	87	+52	+81
Chile	63	+28	86	+51	+79
USA	40	+5	46	+11	+16
UAE	80	+45	68	+33	+78
East Africa	64	+29	52	+17	+46
West Africa	77	+42	54	+19	+61

The table above takes an additive approach to Hofstede's PDI and UAI dimensions. These two dimensions are closely related. Hofstede himself notes

Inkeles & Levinson's (1969) "intersubjective" approach to cultural classification, which distils approaches to conflict resolution related to the perception of authority as a useful index of possible corruption. Furthermore, "the combination of PDI and UAI affects in particular organization structures and functioning through the implicit models of the ideal organization" (Hofstede, 1980a: 312), which justifies the additive approach taken within this analysis. As early as the 1960s cultural researchers were working on clusters similar to the combined Hofstede PDI and UAI, noting especially the tendency for high PDI and UAI to coincide, particularly within Latin American and Mediterranean cultures (e.g. Van der Haas, 1967). Prior research has attempted further to create a single additive cultural factor index using these Hofstede dimensions (e.g. Tian, 2008). Similarly, attempts have been made at operationalising a generic definition of organisational culture related to lower adherence to governance compliance rules related to societal corruption, individual risk-taking, the potential for unethical corporate behaviours and strong leadership characteristics, strongly correlating Hofstede's PDI and UAI dimensions (Orij, 2010: 878).

Furthermore, we reviewed the available data for the full non-domestic sample (n=45) on the following bases to cover the main principles of the Code:

4.3.2.2 Leadership, Board effectiveness and structure

We gathered data on the supporting principles suggested by the Code relating to Board effectiveness, including the number of executive and non-executive directors, total Board size and structure, diversity of background (age and tenure) and the presence of a nomination committee. We proxy excessive decision-making power as: (i) the presence of an executive Chairman; (ii) the non-separation of the roles of Chairman and CEO; (iii) an unbalanced Board size with excessive representation of executive directors, suggesting an opportunity for entrenched decision-making concentrated in the hands of a single individual or a group of individuals; (iv) a Board structure divergent from the UK norm, which anticipates an executive Board composed of, at a minimum, a CEO and Chief Financial Officer (CFO); and (v) the age and tenure of the CEO. Where disclosed, we calculated the age of the CEO in decimalised years based on published data. We used a default of the first of January where MCI was unable to verify the exact birth date of the individual CEO. We followed an identical methodology to calculate the tenure of the CEO, enhancing our database with additional secondary sources to establish the date of appointment to role.

We used the secondary source MCI as our first source of reference for the data collection; MCI is an online research service offering accurate and verifiable research into all companies listed on the London Stock Exchange and biographical facts on over 42,000 active and former directors *(Morningstar*, 2013). It offers a consistent treatment of director titles and of the assessment of the value of share options. We improved on the computation of tenure in MCI and in prior governance studies (Johnston, 2002; Kaplan & Minton 2012; Karlsson & Neilson, 2009) by defining tenure as the date of appointment to the CEO role rather than inferring tenure from prior CEO turnover or using commencement in executive service in equivalence to CEO tenure (Fizel & Louie, 1990; Shen & Cannella, 2002; Weisbach, 1988). Our data on the formation of nomination committees are sourced from the governance pages of company websites and from annual financial statements.

We then collected data from MCI detailing the major shareholders of each non-domestic company in our sample. We included in our analysis the ownership structure of the non-domestic listings on the LSE in spite of Doidge, et al. (2009a) finding no association between ownership characteristics and the probability of a company having a listing on the LSE. We define companies as widely held at the 20% shareholding level and assign three further categories of shareholder types, being companies under the control of a majority shareholder at over the 20% threshold; family-controlled firms; and companies with a domestic or international public body as majority shareholder. We further gathered data on compliance related to shareholding at incremental thresholds from 20% to majority ownership over 50%.

4.3.2.3 Remuneration

We collected data on total remuneration, including base salary, bonus, pension and the value of share options, calculated to include the value of vested long-term incentive plans. We link the Code principle on performance-related pay to that portion of remuneration that is discretionary based on the individual CEO's performance, which we define as the cash bonus element of salary and options-related remuneration. This allows us to explore whether excessive discretionary remuneration is linked by means of power and control over the Board to the likelihood of lower levels of compliance.

4.3.2.4 Ownership structure

We found within our sample of 45 non-domestic companies that 32 have closely-held shareholding structures at the widely accepted 20% of share capital. Within this group, we seek to establish variances from our results for the total non-domestic sample and from the UK norm.

4.3.2.5 Exclusions

We did not proxy for compliance with all principles within the Code, selecting instead key measures related to the governance principles of the Code. In particular, we excluded detailed analysis of the accountability principle, which is related to the assessment, reporting and control of risk, and of relations with shareholders, which is designed to encourage constructive communication with investors. We suggest a requirement for further qualitative research into these Code principles (Dulewicz & Herbert, 2004).

We focus on the degree of compliance with the Code principles. Prior research (Arcot & Bruno, 2007; Arcot, et al., 2010) has devoted considerable effort to examining the enforcement and monitoring of non-compliance. In the event of non-compliance, we do not include in our analysis the degree of non-compliance by examining the degree of detail included in the "explain" statements reported in the "comply-or-explain" process. UK domestic company William Morrison Supermarkets Plc had a long history of non-compliance with the Code provisions on Board structure and supplied either none or poor quality explanations for its position (MacNeil & Li, 2006). Only shareholder action to address non-compliance following a period of poor performance resulted in a change in behaviour at Morrison's (Arcot, et al., 2010). We do not therefore consider it useful to include detailed analysis of the "explain" statements in this exploratory research.

4.3.3 Basis of analysis

We detailed above our approach to gathering the data. Now we describe the methodological bases for our analyses. We analyse compliance in line with key principles of the Code. We define compliance as the adoption of recommendations to improve the quality of corporate governance and increase the accountability of companies in setting and applying the norms for the role and composition of the Board, information disclosure, the remuneration of directors and in relationships with shareholders in line with the key principles of the Code (Aguilera & Cuervo-Cazurra, 2004).

In order to analyse H1 and H2, we assess compliance with the leadership and Board effectiveness Code principles at: i) H1 those non-domestic companies on the high PDI-UAI scale (n=37); and ii) the full non-domestic companies (n=45). We do this by codifying the separation of the roles of CEO and Chairman on the Board and through collecting data on the number of executive and non-executive directors and the total Board size. Board size should be limited to allow effective coordination (Yermack, 1996) and may reflect a requirement of more complex organisations to have more non-executive directors (Raheja, 2005). We suggest that effective Board monitoring will be reflected in its composition with a split of executive and non-executive directors. We used data on the age and tenure of the CEO as proxies for potential risk-taking or management entrenchment and indicate the potential for an agency conflict (Fama, 1980).

Furthermore, we construct a composite compliance measure as a dichotomous variable to analyse the degree of compliance with the various leadership and Board effectiveness principles of the Code. We codify these as 1 = complies with the requirements of the Code and 2 = does not comply and sum these across eight measures of leadership and Board effectiveness. These are related directly to the Code and include: (i) a Board composed of an executive Chairman on the Board and/or a combined Chairman-CEO role; the presence of executive directors, being (ii) CEO and (iii) CFO; the size of the Board, being (iv) the number of executive directors outside the normal distribution referenced against the UK baseline and (v) the total Board size, including executive and non-executive Board members, referenced to the UK baseline; (vi) the existence of a nomination committee, being responsible for making recommendations on Board appointments and on maintaining a balance of skills and experience on the Board; (vii) the tenure of the CEO, measured against the normal distribution of the total FTSE 350 population; and (viii) the age of the CEO, measured against the normal distribution of the total FTSE 350 population. A lower score across our composite measure of compliance therefore indicates a greater degree of compliance with the Code's principles on leadership and Board effectiveness. The small sample size of non-domestic companies essentially precludes the use of inferential statistics and we present indicative findings to our exploratory hypothesis H1 relating anticipated lower levels of compliance to higher scores on PDI and UAI on the Hofstede scales.

To analyse H3 we include CEO remuneration as a variable in our analysis, as excess control by a single executive director or group of shareholders may encourage excessive discretionary remuneration out of line with firm performance (Adams, et al., 2005; Arcot, et al., 2010). We include in our analysis all non-domestic companies listed on the LSE as detailed above (n=45). We include analysis of CEO remuneration. This includes basic salary, bonus and the value of any share options vested in long-term incentive plans. We calculate the percentage of remuneration composed of discretionary elements. This is related to the Code principle recommending remuneration that is not excessive, but sufficient to attract the appropriate individual to the role and relates pay to firm performance.

Key characteristics of the non-domestic firms listed on the LSE include closely-held ownership-controlled firms (n=32). We used managerial control and the power of the CEO as a proxy by using shareholding structure, reflecting the likely degree of influence exerted on the company by managers, particularly as founders (Baker & Gompers, 2003; Denis & Sarin, 1999). The occurrence of CEO replacement and turnover, reflected in tenure, is a likely reflection of the power of controlling shareholders (Weisbach, 1988). This is likely to be reflected in shorter CEO tenures in closely-held companies (Yermack, 1996). In H4 we hypothesised that closely-held companies, under the influence of a dominant shareholder, are more likely to demonstrate lower levels of compliance with all of the Code principles in our analysis. Our analysis considers both the type of controlling shareholder and the potential for lower levels of compliance in companies under majority control, defined as a holding in excess of 50% of share capital.

4.4 Findings

In this section we present our findings in relation to our hypotheses. We present descriptive statistics and analyses in Tables 2 to 5 detailing the means, standard deviations, minima and maxima of the variables used in our analyses. In summary, we find evidence for partial compliance with the Code principles for non-domestic companies.

4.4.1 Home market culture

We find some supporting evidence for H1. We report lower levels of compliance with the Code's recommendations on leadership, particularly in the definition and scope of the chairmanship role and the structure of the executive Board, for companies from markets with high PDI and UAI on the Hofstede cultural values scale. The results are presented in Table 4.3[16].

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[16] Note: UK benchmark refers to FTSE 350 index. This is composed of the FTSE 350 index constituents, excluding investment trusts (300 companies). We exclude the investment trusts due to the specific characteristics of these investment vehicles, which are the listed companies for collective investments by individuals seeking to diversify their risk (Levis & Thomas, 1995), with management residing with the parent fund management group. We further exclude the 45 non-domestic companies, reducing the total UK benchmark sample to 255.

High PDI/UAI relates to H1 and is based on sample n=37 non-domestic companies from countries of origin high on the Hofstede PDI and UAI scales. Non-domestic refers to our full sample n=45 non-domestic companies, with the data cleaned up to avoid duplication of the minima and maxima from the n=37 sample of high PDI-UAI countries. These data are presented in respect of H2.

We find further evidence of non-compliance with the spirit of the Code in the number of executive chairmanships, with 12 of the 37 companies (32%) from the high PDI and UAI companies maintaining an executive role for the Board Chairman. Similarly, in the detailed analysis of the Board structures we report one company in the exploration sector with no chairmanship role on the Board and another company in the same industry with no executive directors.

Further, we report a low level of discretionary remuneration, composed of bonus and options, for the CEO, a likely reflection of the lower level of Anglo-American bonus culture penetration in the domestic markets of these companies from high PDI and UAI cultures. We interpret this as a lower level of compliance, related to the Code's remuneration principle on performance-related remuneration.

The tenure of CEOs in our sample of non-domestic companies from high PDI and UAI domiciles is notably lower than the UK benchmark of 6.5 at 3.5 years, indicating a cultural disconnect from the UK norm and opportunities for non-compliance based on cultural distance. The lower tenure may, however, simply reflect these entities having a shorter history as a listed entity and our primary data source defines tenure from date of LSE listing.

We also note the relevance of company size, with the high PDI-UAI non-domestic companies (n=37) on average 27% larger by market capitalisation than their domestic counterparts, indicating the likely continuation of a significant non-domestic company presence in the FTSE indices.

Table 4.3 Descriptive statistics – Compliance by culturally distant high PDI-UAI non-domestic companies versus all non-domestic companies and UK benchmark[17]

Variable	Description	Mean	Std dev	Min	Max
Number of executive directors	UK benchmark	3.1	1.4	1.0	9.0
	High PDI/UAI	2.8	1.4	0.0	6.0
	Non-domestic	2.7	1.4	1.0	5.0
Number of non-executive directors	UK benchmark	5.9	1.9	0.0	14.0
	High PDI/UAI	7.0	2.7	0.0	14.0
	Non-domestic	6.3	1.5	4.0	9.0
Total number of directors	UK benchmark	9.0	2.4	5.0	17.0
	High PDI/UAI	9.8	2.9	4.0	17.0
	Non-domestic	9.0	2.5	5.0	14.0
Age of CEO	UK benchmark	52.7	5.6	35.6	72.4
	High PDI/UAI	46.8	6.2	36.6	77.5
	Non-domestic	48.9	7.1	36.6	58.6
Tenure of CEO	UK benchmark	6.5	6.1	0.0	36.6
	High PDI/UAI	3.5	2.3	0.3	15.3
	Non-domestic	6.7	6.1	0.0	9.2
CEO remuneration % discretionary (bonus and options)	UK benchmark	42.8	21.6	0.0	97.8
	High PDI/UAI	39.7	21.1	0.0	75.6
	Non-domestic	44.0	20.1	0.0	84.8
Core shareholder group % shareholding	UK benchmark	10.1	6.5	3.0	34.2
	High PDI/UAI	43.9	23.2	31.0	84.3
	Non-domestic	35.6	17.3	13.3	69.4
Company size (market capitalisation in GBPm)	UK benchmark	5,748	13,096	184	90,745
	High PDI/UAI	7,953	19,198	365	97,939
	Non-domestic	1,804	2,573	371	8,902

[17] In this table the UK benchmark is the FTSE350, excluding investment trusts, n=300, non-domestic sample size is n=45 and n=37 for the high PDI/UAI non-domestic companies.

Our composite compliance measure, codifying the degree of compliance with eight leadership and Board effectiveness principles of the Code, with minimum score 8 and maximum 16, is now analysed. The results are shown in Table 4.4. We find the mean compliance score of 9.6 and use standard deviations to eliminate companies within the normal distribution of our composite compliance index score. This leaves a sub-sample (n=14), being outside the normal distribution of the total scores across all leadership and Board effectiveness variables. We conduct analysis into these 14 companies and find a prevalence of Board structures divergent from the UK norm, particularly companies with executive chairmanships, no CEO and/or no CFO role on the Board and fewer than anticipated executive directors. 71% of the companies in this sub-sample (n=14) are in the mining and exploration sector and 93% are in the extremely high range of PDI on the Hofstede scale (65 to 93 versus the UK benchmark of 35) and 64% at extremely high levels of UAI (68 to 95 on the Hofstede scale; UK: 35). The analysis of this sub-sample acts to confirm our findings related to our remaining hypotheses, showing CEO demographic characteristics divergent from the UK norm. We find younger CEOs, suggesting a greater propensity to risk-taking (Wiersema & Bantel, 1992), lower levels of knowledge gained in role and life experiences (McKnight, et al., 2000). Combined with short tenures as CEO, this indicates a potential for strategic drift (Davidson, Nemec & Worrell, 2006; Johnson, 1992) or initiating inappropriate strategic change (Chen, Treviño & Hambrick, 2009; Greiner, Cummings & Bhambri, 2002; Hannan & Baron, 2002).

Table 4.4 Descriptive statistics – Composite leadership and Board effectiveness compliance measure high PDI-UAI non-domestic companies[18]

Sector	Market cap	Home market	PDI	UAI	Exec chair	No CEO	No CFO	Exec board size	Total Board size	Nomination committee	CEO age	CEO tenure
Banks	386	Georgia	93	95	1	1	2	2	2	1	2	1
Industrial	1,076	France	68	86	2	1	1	2	2	1	1	1
Industrial	822	India	77	40	2	1	2	2	2	1	1	1
Industrial	365	UAE	80	68	2	1	1	2	2	1	2	1
Exploration	1,140	Ukraine	93	95	2	1	2	2	2	1	2	1
Exploration	4,604	Kazakhstan	93	95	2	2	2	2	1	1	1	1
Exploration	1,453	Peru	64	87	1	1	2	2	2	1	1	1
Exploration	775	Czech Republic	57	74	1	2	1	2	2	1	1	1
Exploration	1,374	Nigeria	80	55	2	1	2	2	2	1	1	1
Exploration	1,710	India	77	40	2	1	1	2	2	1	1	1
Exploration	1,317	India	77	40	1	1	1	2	2	1	2	1
Exploration	2,052	Tanzania	70	50	2	1	2	2	2	1	2	1
Exploration	505	Russia	93	95	2	1	1	2	2	1	1	1
Exploration	1,276	Russia	93	95	1	1	1	1	1	1	2	1

[18] Note: This composite score ranges from 8 (most compliant) to 16 (least compliant). Detailed here are the 14 companies we found to be least compliant with the leadership and Board effectiveness Code principles.

4.4.2 Leadership and Board effectiveness

We report some support for H2 on a significant link between non-domestic company status and lower levels of compliance in terms of the leadership, Board effectiveness and Board structure principles. Our findings relating to H2 are detailed in the descriptive statistics in Table 4.3.

In detail, we find evidence of a significant proportion of executive chairmanships at eleven companies in the full non-domestic sample (n=45), with one company in the exploration sector failing to comply with the Code requirement for a Chairman role at the head of the Board. The proportion of executive chairmanships is significantly higher in the non-domestic sample compared to the full FTSE 350 index, where we report 52 companies (15%) with an executive Chairman role.

Similarly, we note a lower level of compliance amongst the non-domestic sample (n=45) in terms of executive management. Five companies (12% of the sample) have no CEO role on the Board and no executive directors. All companies in the FTSE 350 with such an unusual Board structure are non-domestic. We show 11 non-domestic companies (24%) without a Board role for the CFO versus 7% in the FTSE 350 (n=25). Such companies may therefore lack some of the wider organisational perspectives associated with functional diversity (Simons, Pelled & Smith, 1999).

In our sample, the non-domestic companies have mean Board sizes of 9.0 members, of which 2.7 are executive directors. This is aligned both with the full FTSE 350 constituents and with Vafeas & Theodorou's (1998) median UK Board sizes at 250 firms of eight members and Main & Johnston's (1993) finding of 66% of companies with Board sizes under ten directors. 10% of the companies in the sample had one or less executive director. On the other hand, we find 38% of companies in our sample with a Board size in excess of ten, suggesting a likelihood of entrenched decision-making. 33% of companies load their Boards with more than nine non-executive directors. This suggests that companies take seriously the Code requirement to demonstrate Board independence. However, we note that the greater compliance on non-executive directors may be correlated with firm size as much as a desire to comply with the Code (Boone, et al., 2007).

We report the age of CEOs of 48.9 years in the non-domestic companies with tenure of 6.7 years to be broadly in line with the FTSE 350. Deviations from the expected tenure and age of CEOs are reported in non-domestic companies from emerging markets, where there is a tendency for longer-tenured (7.2 years) and younger CEOs (48.9 years). This indicates possible implications for compliance in terms of greater risk-taking (Wright, et al., 2002) by younger managers and the over-confidence (Higgs, 2009; Li & Tang, 2010) and hubris (Roll, 1986) more prevalent in long-tenured CEOs (Hambrick & Fukutomi, 1991). The lower CEO tenures may, however, reflect the flux in the exploration sector, the largest in our sample, more than a lower level of compliance.

We find 100% compliance with the requirement for a Board nomination committee. This is aligned with other recent UK research (Arcot, et al., 2010; MacNeil & Li, 2006; McKnight & Weir, 2009).

The industry effect proved an illuminating basis of analysis (DiMaggio & Powell, 1983; Rajagopalan & Datta, 1996; Rumelt, 1991; Powell & DiMaggio, 1991). Mining and exploration represented the largest sector in our sample with nine companies. Noteworthy within the companies in this industry was the misalignment of Board structures to the spirit of the Code. In detail, we noted that all companies in the exploration sector have executive chairmanships and four companies in this sector (n=19) have no CEO. The average age of CEOs in this sector is 52.6 years and tenure is only 2.2 years. We further note an average controlling shareholding of 62% of share capital (Siegel, 2005). We surmise that short CEO tenures are indicative of both industry-specific characteristics, with CEO longevity and fortunes closely tied to exploration discoveries and commodity prices, and the power of controlling shareholders, with the potential for Board dysfunction. Due to the small sample size we were unable to cross-match these results against similar UK-domiciled mining and exploration entities, and we question the usefulness of such an approach, as even UK-domiciled mining entities will likely have significant operations in countries/regions high in PDI and UAI.

4.4.3 Remuneration

Responding to a call from Peng & Su (2014) for research into the link between cross-listing and executive compensation, our data offer some support for a lower level of compliance with the remuneration principle of the Code expressed as H3. Table 4.5 illustrates these results. The mean level of performance-related pay, defined as bonus and options, makes up 44% of total remuneration for the CEOs of non-domestic companies against 43% for the full FTSE 350 sample. However, the basic salary of non-domestic CEOs is higher than their domestic counterparts, suggesting remuneration for the non-domestic CEOs may be linked less to performance than to other factors, such as connections to the Board. The five CEOs in the FTSE 350 with the highest levels of basic remuneration (GBP1.3m to GBP1.6m) are all in non-domestic companies.

Table 4.5 Descriptive statistics – Compliance of non-domestic companies related to remuneration [19]

Variable in GBP'000 except % discretionary	Description	Mean	Standard deviation	Minimum	Maximum
CEO basic salary	Non-domestic	806	422	154	1,619
	FTSE 350	604	268	100	1,295
CEO total remuneration pre-options	Non-domestic	1,289	1,123	159	3,593
	FTSE 350	983	906	150	4,900
CEO total remuneration including share options	Non-domestic	1,337	2,052	224	8,620
	FTSE 350	1,215	1,346	150	7,355
CEO remuneration % discretionary (bonus and options)	Non-domestic	44.0	20.1	0.0	84.8
	FTSE 350	42.8	21.6	0.0	97.8

[19] The sample size is n=45 for non-domestic companies and n=300 for the FTSE350 companies, exclusing investment trusts.

4.4.4 Ownership structure

We hypothesised that there would be implications for non-compliance with the Code principles on the basis of ownership characteristics. Table 4.6 [20] summarises the results and we find some evidence in support of H4.

Ninety per cent of the UK's largest companies are widely held at the 20% threshold of share capital (Faccio & Lang, 2002). In our sample only 21% of firms are widely held at that level and we further report 12% of companies in the non-domestic sample are under the majority control of a single shareholder and 28% under the majority control of a group of core shareholders. Fully 47% of our non-domestic sample is controlled by a majority shareholder, family or public body, with 31% of the sample having a family or director grouping as the majority shareholder.

In detail, we note the fewer executive directors amongst majority-controlled and family-held companies, suggesting some influence on the Board by the major shareholders and family. Family-controlled companies tend also to have Boards with fewer non-executive directors and smaller Board sizes. This possibly reflects the family influence is through share ownership rather than day-to-day management. The family firms are also the smallest by market capitalisation and the discretionary element of CEO remuneration is notably lower than in the rest of our sample. We show CEO tenure to be above the

[20] Note: We define public body shareholders as: sovereign wealth funds; public national or international groupings or entities created specifically to hold shares in the company, which may or may not be under state control of the home country and are likely to be strongly influenced by an individual or group of owners.

mean in both widely-held and majority-controlled non-domestic companies and significantly below the mean in corporations with a family or public body controlling shareholder. Some of the lower tenures we report are probably due to the lower average ages of current CEOs in the group of companies with a public body controlling shareholder, whilst the lower tenure of family CEOs a probable indication of recent admission to trading on the LSE and we do not record tenure prior to the initial public listing.

Table 4.6 Descriptive statistics – Compliance of non-domestic companies by shareholder type [21][22]

Variable	Description	Mean	Standard deviation	Minimum	Maximum
Number of executive directors	Widely held	3.1	2.0	0.0	12.0
	Majority shareholder > 20%	2.6	1.5	1.0	5.0
Number of non-executive directors	Widely held	7.0	2.7	0.0	14.0
	Majority shareholder > 20%	7.8	0.8	7.0	9.0
Total number of directors	Widely held	10.1	2.8	6.0	17.0
	Majority shareholder > 20%	10.4	1.8	8.0	13.0
Age of CEO	Widely held	53.2	5.6	40.6	67.5
	Majority shareholder > 20%	57.9	9.6	50.4	68.7
Tenure of CEO	Widely held	8.0	6.6	0.0	26.6
	Majority shareholder > 20%	9.9	5.7	3.9	15.3
% of CEO remuneration discretionary (bonus and options)	Widely held	51.3	19.7	28.5	90.7
	Majority shareholder > 20%	39.8	10.2	24.9	47.3
Core shareholder group % shareholding	Widely held	24.1	11.6	6.0	69.4
	Majority shareholder > 20%	49.2	7.8	41.6	60.1

[21] The total sample size of non-domestic companies is n=45. 13 companies are widely-held at the 20% shareholding, so the data pertaining to companies with controlling shareholdings > 20% is n=32.
[22] The published paper also included data on controlling shareholders made up of families and public bodies, such as sovereign wealth funds. This additional detail was removed from the paper presented here at the request of the examiners.

Furthermore, widely-held companies at the 20% threshold are more likely to have strong representation of executive and non-executive directors on their Boards. Once the 50% threshold of ownership is passed, the ratio of non-executive to executive directors remains compliant, but there appears scope for greater influence by the controlling shareholders in those Boards where we report Boards composed of as few as four directors. We note a tendency to lower discretionary remuneration within the group of companies with a controlling shareholder at the 40% or higher threshold and with family shareholders. This appears to confirm prior research showing lower levels of CEO remuneration in companies with concentrated ownership (Gomez-Mejia, Tosi & Hinkin, 1987; O'Reilly, Main & Crystal, 1988; Tosi & Gomez-Mejia, 1989).

4.4.5 Summary

We addressed the subjectivity of the partial compliance results we encountered through a detailed analysis of the leadership and Board effectiveness variables. We found that companies high on the Hofstede PDI and UAI scales (n=37) have a tendency to lower levels of compliance with the Code's recommendations on leadership, with Board structures deviant from the UK norm, with a prevalence of executive chairmanships. This is further evidenced in the sub-sample (n=14) of companies with highly divergent PDI-UAI scores.

Amongst the non-domestic sample (n=45), we reported little evidence of overt non-compliance with the Code, rather shades of partial compliance, with a propensity to lower compliance with leadership and Board effectiveness principles when compared to the UK baseline. 24% of the non-domestic companies in our sample have an executive chairman versus 15% in the FTSE 350. In terms of leadership and Board effectiveness, we note that 12% of the sample has no CEO position, whilst 24% of the non-domestic companies have no executive CFO role. The levels of partial compliance we report may also reflect legitimation, where the company's size, structure and industry may be determinants in approaches to governance compliance (Seidl, Sanderson & Roberts, 2013).

Whilst the Code principles do not make specific recommendations on ownership, we found this to be an area of interest for further research, with only 21% of non-domestic companies having a widely-dispersed shareholding structure. This may be interpreted as non-compliance with the spirit of the Code.

4.5 Statistical analysis[23]

This section details our tests for statistical significance using the independent samples t-tests functionality within SPSS related to Hypothesis 1, which relates the likelihood of lower levels of non-compliance with key principles of the Code to Hofstede's cultural values framework. We hypothesised non-domestic companies from countries with values in the Hofstede PDI and UAI dimensions

[23] This section is included at the request of the examiners' review of the thesis and was not included in the published paper.

higher than the UK benchmark will have lower levels of compliance with key principles of the Code.

We tested for the significance of differences in the means of the PDI and UAI measures using our sample of 45 non-domestic companies, excluding companies domiciled in tax havens. Of these 37 are from home countries with PDI and UAI higher than UK levels (Table 4.1). The results of these analyses are presented in Table 4.7 related to the PDI variable and in Table 4.8 for the UAI cultural values dimension. We show that there is a highly significant difference in the means of CEO tenure between high and low PDI companies from non-domestic domiciles. This is a good indicator of the potential for lower levels of adherence to corporate governance standards, reflected in frequent changes in leadership and possible influence by the Board and key controlling shareholders in the appointment and length of tenure of the CEO. This flux of management personnel and lack of management transparency may have an impact on the company's stability and its approach to compliance with governance. Furthermore, we show that there are significant differences in the means of further governance principles between non-domestic companies domiciled in high and low UAI countries. We find that there are differences between high and low UAI companies in terms of Board structures and CEO remuneration. This suggests that the bureaucratic tendencies of companies from high UAI markets in response to a cultural context of corruption may affect how such companies approach compliance by maintaining unnecessarily large Boards, stifling efficient decision-making. Similarly, our results show a potential for the CEOs of such companies to engage in remuneration practices which are not in the interests of shareholders. Our analysis supports Hypothesis 1.

Table 4.7 Statistical tests for differences in means of high PDI sample – Group statistics

1 = high PDI, 2 = low PDI		N	Mean	Std. Deviation	Std. Error Mean
Exec chairman	1	37	1.71	.460	.075
	2	5	1.60	.894	.400
Exec Board size	1	37	2.71	1.313	.213
	2	5	3.40	1.517	.678
Non-exec Board size	1	37	7.00	2.857	.463
	2	5	6.80	1.304	.583
Total Board size	1	37	9.71	3.039	.493
	2	5	10.20	2.280	1.020
Total core shareholding group	1	37	41.455	21.9782	3.5653
	2	5	34.460	17.1128	7.6531
CEO tenure	1	33	4.5621	3.95443	.68838
	2	5	11.2980	9.10594	4.07230
CEO age	1	31	52.9606	8.70327	1.56315
	2	3	53.9133	5.03322	2.90593
Bonus % of total remuneration	1	21	39.224	18.6759	4.0754
	2	1	49.600		
Bonus and options % of total remuneration	1	21	44.110	20.6178	4.4992
	2	1	41.800		
No CFO role	1	37	1.737	.4463	.0724
	2	5	1.400	.5477	.2449

Table 4.7 (continued) Statistical tests for differences in means of high PDI sample – Independent samples test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (1-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Exec chairman	Equal variances assumed	3.732	.060	.448	41	.328	.111	.247	-.387	.609
Exec Board size	Equal variances assumed	.077	.783	-1.086	41	.142	-.689	.635	-1.972	.593
Non-exec Board size	Equal variances assumed	2.109	.154	.153	41	.440	.200	1.306	-2.437	2.837
Total Board size	Equal variances assumed	.307	.583	-.346	41	.366	-.489	1.415	-3.347	2.368
Total core shareholding group	Equal variances assumed	.968	.331	.682	41	.249	6.9953	10.2528	-13.7108	27.7013
CEO tenure	Equal variances assumed	4.483	.041	-2.920	36	0.003**	-6.73588	2.30717	-11.41504	-2.05672
CEO age	Equal variances assumed	.615	.439	-.185	32	.427	-.95269	5.15175	-11.44645	9.54108
Bonus % of total remuneration	Equal variances assumed			-.543	20	.297	-10.3762	19.1154	-50.2502	29.4979
Bonus and options % of total remuneration	Equal variances assumed			.109	20	.457	2.3095	21.1030	-41.7105	46.3296
No CFO role	Equal variances assumed	.905	.347	1.549	41	.065	.3368	.2175	-.1024	.7760

** $p < 0.01$

Table 4.8 Statistical tests for differences in means of high UAI sample – Group statistics

1 = high UAI; 2 = high UAI		N	Mean	Std. Deviation	Std. Error Mean
Exec chairman	1	36	1.68	.530	.087
	2	6	1.83	.408	.167
Exec Board size	1	36	2.65	1.296	.213
	2	6	3.67	1.366	.558
Non-exec Board size	1	36	6.81	2.515	.413
	2	6	8.00	3.847	1.571
Total Board size	1	36	9.46	2.545	.418
	2	6	11.67	4.590	1.874
Total core shareholding group	1	36	42.786	21.7771	3.5801
	2	6	27.417	13.9126	5.6798
CEO tenure	1	32	4.9078	4.13412	.73082
	2	6	8.3317	9.38120	3.82986
CEO age	1	29	52.9424	8.96892	1.66549
	2	5	53.6380	4.21692	1.88586
Bonus % of total remuneration	1	19	38.763	17.6448	4.0480
	2	3	45.600	26.0133	15.0188
Bonus and options % of total remuneration	1	19	41.137	18.1103	4.1548
	2	3	62.167	26.9949	15.5855
No CFO role	1	36	1.676	.4746	.0780
	2	6	1.833	.4082	.1667

Table 4.8 (continued) Statistical tests for differences in means of high UAI sample – Independent samples test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (1-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Exec chairman	Equal variances assumed	2.403	.129	-.693	41	.246	-.158	.227	-.617	.301
Exec Board size	Equal variances assumed	.006	.941	-1.773	41	.042*	-1.018	.574	-2.177	.141
Non-exec Board size	Equal variances assumed	2.227	.143	-.996	41	.163	-1.189	1.194	-3.600	1.222
Total Board size	Equal variances assumed	5.361	.026	-1.745	41	.044*	-2.207	1.265	-4.761	.347
Total core shareholding group	Equal variances assumed	3.168	.082	1.665	41	.052	15.3698	9.2319	-3.2744	34.0140
CEO tenure	Equal variances assumed	5.200	.029	-1.483	36	.073	-3.42385	2.30910	-8.10693	1.25922
CEO age	Equal variances assumed	1.348	.254	-.169	32	.434	-.69559	4.12621	-9.10040	7.70923
Bonus % of total remuneration	Equal variances assumed	1.056	.316	-.590	20	.281	-6.8368	11.5874	-31.0076	17.3340
Bonus and options % of total remuneration	Equal variances assumed	1.151	.296	-1.764	20	.046*	-21.0298	11.9187	-45.8919	3.8322
No CFO role	Equal variances assumed	3.976	.053	-.767	41	.224	-.1577	.2055	-.5727	.2574

* $p < 0.05$

4.6 Limitations and future research

A limitation in our analysis is the small sample size at country level of the non-domestic companies and we present here an exploratory approach to using Hofstede's cultural dimensions in the context of non-domestic listings on the LSE. Whilst we have attempted in our research to impose an objective analysis of compliance with the Code, such an approach must be viewed as exploratory. Research in the strategy literature has further argued that links between the value of Board human capital, expressed as Board structure and independence, and one of our key variables (Board effectiveness) is inconclusive (Johnson, Daily & Ellstrand, 1996; Tian, Haleblian & Rajagopalan, 2011; Zahra & Pearce, 1989).

Our selection of variables was influenced by the Code and restricted to governance in a UK context. We acknowledge that national culture described in Hofstede's (1980a) framework is only one aspect of organisational culture. We address one limitation of the Code in its current format by including shareholder structure as a unit of analysis to better understand how approaches to compliance might be influenced by factors other than culture. However, firm variables, such as the maturity, size and complexity, and industry-specific variables are equally likely to impact a firm's approach to compliance. Following Hymer (1960) and Kogut & Singh (1989) we expect the degree of companies' compliance with governance regulations to be impacted by: cultural characteristics; the nature, extent and prescriptiveness of the Code in force in the country of listing and home country; firm variables; and industry variables.

A second limitation is that our sample includes only companies listed on the LSE Main Market and constituents of the FTSE 350 index. This excludes all Alternative Investment Market (AIM) listings, where there is considerable non-domestic penetration (Doidge, et al., 2009b). The AIM market remains an active component of the LSE and continues to attract initial public offerings and smaller, non-domestic companies with growth opportunities seeking access to capital in the UK markets. AIM is associated with a lower level of regulation than is required by the Main Market, based merely on the light touch "appropriate corporate governance" (*LSE*, 2012) with none of the *FRC* (2012) framework requirements. Analysis of the non-domestic AIM market companies may produce significantly different results in levels of compliance. Further, we note the predominance within our sample of companies operating in the exploration sector. This creates the potential for self-selection bias (Heckman, 1979), as the types of companies seeking cross-listing seem to congregate in certain industries, particularly exploration.

Finally, we note the methodological limitations of Hofstede's approach (Kogut & Singh, 1988; McSweeney, 2002) and subsequent attempts at defining national cultures are widely discussed (Oyserman, Kemmelmeier & Coon, 2002; Smith, 2006). We do not attempt to further contribute to this debate, but note that our attempt at cross-cultural evaluation makes a critical assumption on the uniformity (Naor, et al., 2010) and constancy of national cultures (Ralston, et al., 1999), belatedly acknowledged in Hofstede (1999). We note a further limitation in the use of the Hofstede (1980a, 1993) framework, in particular the under-development of the cultural values dimensions in some emerging

African regions. These represent a key market for LSE listing due to historic cultural ties (Licht, 2004; Pagano, et al., 2001; Sarkissian & Schill, 2004) and to the growth of companies from emerging markets in mining and exploration (Dawkins, et al., 2012). Further, we infer closeness to the Russian values for countries formed out of the former Soviet states such as Kazakhstan, but postulate that cultural values for these countries may now be more distant to Russia. The cultural dimensions are subjective and resulting assumptions on the level of coercive power leading to corruption may be subject to biases of the researcher's own cultural background and tolerance of corruption (Seleim & Bontis, 2011).

We further suggest the following directions for future research:

Firstly, we hypothesise that applying a time series approach to both the cultural values and companies' changing views of compliance may be useful in future governance research (*World Bank*, 2012). This is because it is likely that the effect of Board decisions and the results of non-compliance will be visible over longer timeframes (Aguilera & Cuervo-Cazurra, 2009; Weir, et al., 2002) and we recommend further research using time series data to establish changes to the levels of compliance. We further suggest that a selection of the companies in our sample, particularly from the emerging markets, are young companies and their approach to governance issues is similarly likely to change over time, as both companies and their domestic stock markets mature (Dawkins, et al., 2012). Further, by taking a cross-sectional approach in our analysis we do not control for compliance before introduction of the Code (Chen & Nowland, 2011) or for compliance before being subject to the requirements of the Code. Company life cycle is also likely to affect the company's approach to governance and likely compliance (Long, 2007). In early years there may be a greater desire to demonstrate compliance to gain favour in the market. Indeed, new companies formed with an intention of a non-domestic listing may be more easily able to adapt to the reporting requirements of the proposed listing exchange than companies with an institutionalised approach to governance (Davis & Marquis, 2005).

A case study approach using a time series analysis of compliance with the Code principles may shed further light on the link between cultural proximity and compliance. Many South African companies sought dual listing on the LSE in the 1980s and 1990s, primarily to address weaknesses of the illiquid domestic capital market and foreign currency exchange controls. In order to seek fresh capital and an international presence, "bonding" to the LSE provided an opportunity to internationalise the investor base in a more liquid capital market context (Bhana, 2000; Sarkissian & Schill, 2011). These South African companies quickly restructured their *modus operandi* and adopted the Code recommendations of their adopted market. South Africa is characterised by a business sector with close historical ties and continuing business links to the UK, with accounting standards closely mirroring those of the UK and corporate law based on English common law. Therefore, detailed analysis of the speed of adoption of the Code recommendations might further illustrate whether the determinant in compliance is cultural proximity, both national and systemic organisational, or the duration of the share listing on a prestigious international stock market, or indeed simply the desire to gain appeal with investors.

Secondly, the FTSE indices are dynamic, with a 7% annual turnover in FTSE 350 constituents *(FTSE*, 2012). 22% of companies in our non-domestic sample are additions to the FTSE indices within the 12 months prior to our sampling date and 25 are small capitalisation, defined as market capitalisation of less than GBP1bn. It is highly probable that of our sample many companies may not remain in the indices due to shifts in market capitalisation reflected in the FTSE Index Committee quarterly review process, with potential implications for governance as they move off the Main Market. Due to the level of flux within the largest sector in our sample (exploration) and the relative youth of some of the companies, we further hypothesise that they more likely to be targets in the market for corporate control (Dahlstrand, 2000; Slovin & Sushka, 1993) or to seek a suspension of their listing and return to private company status to internalise the benefits to the controlling shareholders (Arcot, et al., 2010; Denis & McConnell, 2003; Dyck & Zingales, 2004; Faccio & Lang, 2002).

Thirdly, future research might incorporate qualitative approaches to report the degree of explanation in cases of non-compliance to illustrate whether non-domestic firms make use of the "explain" approach in any non-compliance with the Code. However, even the level of explanation provided by domestic companies is of poor quality and dubious veracity, reflecting the lack of formal authority monitoring the "explain" statements (Arcot, et al., 2010; MacNeil & Li, 2006). We do not cover every paragraph of each section of the Code, but select key variables for analysis. This reflects the difficulty of independent verification of some aspects of the code (*Pensions Investment Research Consultants*, 2004) and the need for a qualitative approach to the data collection on the Code principles of accountability and relations with shareholders (Dulewicz & Herbert, 2004). As we did not examine the "explain" reports in response to non-compliance, we do not hypothesise on whether the levels of partial compliance reported in our analysis represent weaknesses in the Code in its current version.

Fourthly, future research should consider the heterogeneity of firms from emerging markets. Countries from the emerging markets constitute 46% of our sample, and we did not differentiate between different forms of industrial organisation in these countries of origin. We note, however, that state-owned enterprises or para-statals are common in emerging markets (Peng, Bruton & Stan, 2012) and are likely to be less minded to seek a cross-listing for reasons of reputational bonding. Similarly, business conglomerate groups are another organisation type that feature regularly in emerging markets and they are likely to be able to overcome local institutional weakness through business diversification (Khanna & Palepu, 1997). Future research may extend the analysis of shareholding structure to develop our understanding of potential relationships between family and controlling shareholder groupings and the degree of non-compliance at the likely expense of minority shareholders (Doidge, et al., 2009a).

4.7 Conclusion and research implications

We present the findings in response to our hypotheses, relating levels of compliance with key principles of the Code to the Hofstede cultural values dimensions. To analyse the approach of non-domestic companies to compliance, we utilised a sample of non-domestic companies listed on the LSE.

We used key principles of the Code to understand how non-domestic companies cross-listing on the LSE might differ from their domestic counterparts in likely compliance with the Code, reflecting the home country cultural context, associated norms and anticipated behaviours in line with Hofstede's values.

4.7.1 Contribution to theory and knowledge

As with prior research into compliance with the Code amongst domestic UK companies (Arcot, et al., 2010; Conyon & Mallin, 1997; Dedman, 2003; Guest, 2008; MacNeil & Li, 2006; McKnight & Weir, 2009; Weir & Laing, 2000; Weir, et al., 2002), we found mixed results. We present here a nuanced picture and demonstrate a mix of full compliance with certain aspects of the Code, partial compliance with many of the paragraphs of the Code, but little evidence of outright or overt non-compliance. This probably reflects the "comply-or-explain" governance regime, which requires only voluntary explanation of non-compliance rather than mandated sanction. Our results may simply reflect that the governance structures in the UK could in their delivery conflict with their intended aims: Governance mechanisms may be focused on bureaucratic compliance and be misaligned with the target of their intended measurement and the prevention of non-compliant behaviours. "Modern governance structures for listed companies are often conflicted in their aims; whilst attempting to formalise expectations, roles and communication channels, non-executive directors are distanced from executives and operations, diminishing their overall contribution" (Long, 2007: 57). The trend to ever increasing volumes of reporting indicates that companies have taken to heart disclosure without necessarily engaging in greater compliance.

We report some supporting evidence for our central theory on a lower level of compliance in those companies cross-listed on the LSE from a culturally divergent background to our UK benchmark, defined as high PDI and UAI in the Hofstede cultural values dimensions. In particular, this group of non-domestic companies is likely to be less compliant with the Code's leadership principles, with a reliance on executive chairmanships. We also note a disconnect with the UK benchmark amongst these companies with the CEO characteristics we analysed (age and tenure) and a lower level of discretionary remuneration. Specifically, we show a strong link between companies, ranked high PDI and UAI, with no CFO role on the Board and lower levels of compliance with the Code's leadership and Board effectiveness principles.

In relation to other sections of the Code, we report encouraging signs of compliance with the Code's principles, particularly in Board structure, with all non-domestic companies having a Board nomination committee. This should mean that non-domestic companies are addressing the Code requirements on the effective balance of the Board and succession planning. In reality, this Code requirement may represent a 'quick win' to demonstrate compliance without necessarily delivering results in terms of concrete and measurable compliance gains.

On the other hand, we showed only partial compliance in leadership and Board effectiveness measures in the non-domestic sample, where companies tend to have Board structures that differ from the UK norms in terms of the role of the

Chairman of the Board and its executive management. We further note lower levels of adherence to the Code's executive management practices, in long-tenured CEOs, which may have implications for innovation and entrenchment. These lower levels of compliance were particularly noted amongst companies from emerging markets.

We found the shareholding structure of the non-domestic companies to be fertile ground for research. 47% of our non-domestic sample is closely-held by a controlling shareholder, which is out of step with companies in the FTSE 350. For these companies under the control of a majority shareholder, we report lower levels of compliance with the Code's executive leadership, Board structure and remuneration principles.

4.7.2 Methodological contribution

We incorporate CEO age and tenure into our exploratory framework. These measures are indicative of the potential for the entrenched decision-making, complacency, rigidity and lack of innovation that are associated with long-tenured leaders (Bantel, 1993; Haleblian & Finkelstein, 1993; Hambrick & D'Aveni, 1992; Tushman & Romanelli, 1985). We link these traits associated with strong leaders to the small Board sizes, lower levels of accountability and controlling shareholders evidenced to the home market culture in our non-domestic sample (Aguilera & Cuervo-Cazurra, 2004; Hofstede & Bond, 1988; Treisman, 2000; Vafeas & Theodorou, 1998). Furthermore, we contribute a clearer definition of tenure based on service in CEO role rather than using inferential data based on CEO turnover relying on secondary sources, which tend to interpret CEO tenure as length of executive service, thus overstating tenure (Johnston, 2002).

4.7.3 Policy implications

Our research has implications for regulators in considering the design of governance regimes and monitoring of compliance with these. We suggest that similar results to ours may be applicable to non-domestic companies listed in other countries with governance codes similar to the Anglo "comply-or-explain" approach (Renders, Gaeremynck & Sercu, 2010). This defines the context for future research, aligning with doubts over the efficaciousness of "comply-or-explain" regimes (Andres & Theissen, 2008) and providing input into the European Commission's study into whether effective governance requires mandated regulation (*European Commission*, 2011). Whilst we find, contrary to Dawkins, et al. (2012), no supporting evidence for a dilution of UK governance standards resulting from the increased presence of non-domestic companies on the LSE, we suggest possible areas of the UK governance regime where compliance is weakest. By addressing these governance mechanisms, policymakers may be able to craft corporate governance codes to further improve disclosure reporting and monitoring, removing any distinctions between domestic and non-domestic companies. We infer that market regulators using "comply-or-explain" standards will face similar issues when approached by non-domestic companies for a share listing.

For institutional investors and fund managers, the implications of our research are especially significant. The results illustrate potential pitfalls associated with investment decisions based on the perceived safeguards of a prestigious stock exchange listing for non-domestic companies from a cultural background more tolerant of lower levels of regulation and compliance. The impact of failures to fully or appropriately monitor compliance was highlighted when Kazakhstan-based Eurasian Natural Resources Corporation (ENRC) became subject to a UK Serious Fraud Office investigation following asset write-downs and the resignation of Board directors (Jones & Thompson, 2013). Only 20% of the company was offered for free float on its listing on the LSE in 2007, with the founders retaining a controlling shareholding, but with market capitalisation of GBP4.6bn the company was included in the high-visibility FTSE 100 index, which would have encouraged interest from pension and tracking funds and other institutional investors and resulted in increased public visibility. The ENRC case illustrates the issues facing exchanges such as the LSE in welcoming equity listings from markets with weaker domestic governance regimes. We suggest the Hofstede cultural values for Kazakhstan aligned with those of Russia, which is high on both the PDI and UAI measures and the company was included within our sub-sample (n=14) of companies from high PDI and UAI markets with a high composite compliance measure, indicative of a lower level of compliance with the Code's leadership and Board effectiveness principles. The company is now likely to be taken private, with the Kazakhstan government seeking to minimise reputational damage to its resource-dependent business sector. Such a move might actually prove to be most beneficial for the enterprise, as the public limited liability form of corporate organisation may be unsuited to organisations such as ENRC based on their lifecycle stage and cultural background (Jensen, 1993; Turnbull, 1995).

The incorporation of shareholding structure into this research is particularly relevant, as it pertains to the desire by regulators to ensure the protection of minority shareholders and the active involvement of institutional shareholders in promoting long-term performance (*European Commission*, 2011). The implications for minority shareholders in companies with dominant shareholders are reflected in the lower levels of compliance noted in our research. For the owners of these companies, it appears the 'visibility' gained by listing on a prestigious international exchange is often offset by lower market valuations of the stock. This may permit owners to dispose more readily of their holdings in a liquid stock market but seems to ignore the interests of minority shareholders. When governance failures come to light, noted above with ENRC, minority shareholders face losses from the decision by the controlling shareholder block to take the company private. Removing the company from the regulator's spotlight may give it an opportunity to address its failure to adhere to the expected governance norms of a prestigious exchange, but by doing so behind closed doors, in its domestic cultural context, international investors will be marginalised. Compliance may not be directly priced in a stock, due to the potential for above-average returns in riskier equity, so ENRC provides a stark reminder of the dark side of risk diversification through investments in companies with an unproven track record.

Chapter 5: Conclusion

5.1 Concluding remarks

From the studies presented within this thesis, it is possible now to note several conclusions, which are linked to the contributions of this research. The research set out to establish the context of CEO successions in the UK. The analysis for this research, presented within the three papers, has made significant contributions to developing knowledge around CEO succession. The methodological contribution of the first paper has resulted in an improved definition of CEO tenure and contextualised the succession event by incorporating both the previous role and experience of the current CEO and the next role of the outgoing CEO. This research has illustrated the dominance of internal recruitment of CEOs with an extensive background of knowledge of the company's operations. Furthermore, CEOs tend to demonstrate similar age profiles and demographic characteristics.

This approach was further developed in the second paper, which established the respective prevalence of internal recruitment even if firm performance is poor. A preference for finding a CEO with general human capital management skills and a recent background in operational management is shown to be important. The research, however, did not uncover a significant performance surplus for CEOs with an operational background versus CEOs from a financial background. This analysis also indicates a strong relationship between CEO tenure and firm performance, which implies that companies need to devote more attention and effort not only to recruitment strategies for the CEO role but, significantly, to the retention of the individual.

In the final exploratory paper, the author attempts to analyse the effects of national culture on the way companies approach compliance with governance requirements in the UK. This exploratory study uses Hofstede's cultural values as the basis for analysis and questions the effectiveness of the UK governance regime in ensuring compliance from an increasing number of non-domestic companies from regions culturally distant to the UK baseline.

It appears that 'better the devil you know' is the defining paradigm in which Boards operate (Zhang & Rajagopalan, 2004; Michaels, Handfield-Jones & Axelrod, 2001) in the recruitment of a replacement CEO. Incumbent CEOs seem to fill the role on a one-time only basis, as there is little evidence of serial CEOs 'job-hopping' between CEO roles (Deckop, 1988; Giannetti, 2011; Gudell, 2011). Departing CEOs are shown to move largely to retirement or non-executive management as part of a portfolio career move following a period of over 6 years as CEO. 'Passing the baton' (Vancil, 1987) through internally-developed succession plans to an internally-appointed replacement with similar demographic characteristics is the most frequently evidenced pattern of succession. This suggests Boards operate within the similarity-attraction paradigm (Byrne, 1971; Byrne & Neuman, 1992; Davidson, et al., 2006; Schneider, 1987; Tsui & O'Reilly, 1989; Zajac & Westphal, 1996), whereby similarities in age and other demographic characteristics enhance the perceived value of these similarities through inter-personal attraction and a shared cognition of personal and business experiences (Bantel & Jackson, 1989; Byrne, 1971; Byrne & Neuman, 1992; Davidson, et al., 2006; Schneider, 1987; Tsui & O'Reilly, 1989; Wenzel, 2001; Zajac & Westphal, 1996). These are the findings to which Paper 1 alludes through its review of current succession practices in the UK FTSE 350. This general management perspective questions the demographic characteristics of individuals promoted to the CEO role, how long they stay in role and what they do after their time as CEO. By examining succession in detail, the paper postulates a further research theme on the sourcing of future CEOs due to the declining population cohort of the Babyboomer generation, which continues to be the in-vogue demographic pool from which to select future CEOs. The potential for such a talent deficit in the succession pipeline is addressed in the SHRM perspective offered by Paper 2.

The paper based on the SHRM perspective of CEO succession reports on the importance of talent management internally. It presents a dichotomy between the traditional corporate form, with hierarchies of command, and the notion of boundary-less careers (Arthur & Rousseau, 1996; DeFillippi & Arthur, 1994), which have risen to prominence in an era of greater job mobility, resulting in an increase in the external focus of early career advancement (Cappelli, 1999a, 1999b). The challenge for HRM professionals in such a scenario of disconnect between internal and external hires is to ensure the attraction and retention of potential CEO candidates. Furthermore, the analysis contained within the paper considers how firm performance impacts on the recruitment of a replacement CEO. HRM professionals therefore need to further consider developing and nurturing CEOs once in role to ensure they remain interested, focused and challenged (Hambrick & Fukutomi, 1991), as well as appropriately motivated through reward schemes (e.g. Luthans & Stajkovic, 1999). This is demonstrated in the research presented in this paper, which develops a strong correlation between CEO tenure and firm performance. A further requirement, in the absence of any strong Board commitment to hire externally, is the development of robust succession plans, involving the identification of a pool of potential CEO candidates (Charan, 2005; Zhang & Rajagopalan, 2003), including, but not exclusively, an heir apparent (Bigley & Wiersema, 2002; Cannella & Shen, 2001; Shen & Cannella, 2003; Zhang & Rajagopalan, 2004).

In the UK sample of FTSE 350 companies, this may be a challenge for HRM executives with 38% of companies in the sample now having a two-person executive Board made up of CEO and CFO (Rejchrt & Higgs, 2013) and an apparent recent preference for generalist management experience over financial knowledge in incoming CEOs. A further challenge is presented by age demographics, with 30% of all companies having Boards with executives over the age of 55 (Rejchrt & Higgs, 2013). In fact, the same mimetic forces (DiMaggio & Powell, 1983; Granovetter, 1985; Husted & Allen, 2006; Powell & DiMaggio, 1991), noted in the competitive context of extractive industries within Paper 3, may be a feature of the wider corporate landscape facing all FTSE corporations. Management fashion (Abrahamson, 1996), such as the perceived benefit in terms of the appeal to the investment community of the Babyboomer CEO's gravitas and diversity of management experience, may be the driving force in CEO selection. CEO selection, rather than being adaptive to the firm's environment (Child, 1972; Pfeffer & Salancik, 1978; Rumelt, 2011), may simply reflect a desire by Boards not to 'break the mould', which may discourage institutional investors (e.g. Hirshleifer & Toh, 2003). Indeed, the research within this paper shows a tendency to persevere with the tried and trusted internal hiring route. This suggests that competitive context is less a driver of CEO selection than a desire to not differ from the herd and risk investor disfavour, being an extension of human social convergence behaviours (Raafat, Chater & Frith, 2009). Prior research has reported a congruence of such isomorphic mimesis in certain industries (Baker, et al., 2002), but this may apply more generally to FTSE 350 companies in the high visibility of the media spotlight (Kogut, 1988).

The importance of non-domestic companies to the LSE should not be under-estimated, with such entities now representing GBP500bn of market capitalisation (Rejchrt & Higgs, 2014). With non-domestic companies representing such a large and growing segment on the LSE, it is furthermore imperative that the current corporate governance regime in the UK meets the requirements of the exchange in terms of delivery of compliance monitoring sufficient to ensure the protection of both institutional investors and minority shareholders. The final paper questioned the determinants of compliance levels with the UK's "comply-or-explain" corporate governance regime. An important basis for understanding levels of compliance is that lower levels of compliance may be associated with lower firm performance (e.g. Vafeas & Theodorou, 1998), as markets seek reassurance from governance compliance as an indicator of a commitment to ensuring financial stability and acceptance of a minimum standard of corporate behaviour. Past research has focused on all UK listed companies and reported varying degrees of compliance (e.g. Arcot, et al., 2010).

The paper presented in partial consideration for this thesis used an exploratory approach to analyse how the cultural background of the non-domestic companies listed on the LSE might impact their approach to compliance with the UK's governance code. Using Hofstede's (1980a) cultural values framework a central hypothesis was developed linking the potential for lower levels of compliance with the PDI and UAI dimensions (Chan & Cheung, 2008). Prior research has shown a tendency in countries high in Hofstede's PDI and UAI scales to be associated with autocratic leaders (Hofstede, 1991) and corruption (Davis & Ruhe, 2003; Getz & Volkema, 2001). Whilst the paper reported little evidence of overt non-compliance, rather different shades of partial compliance, some attempt was made to create a composite measure of compliance to improve the objective rigour of the analysis. The paper further incorporates ownership structure as a variable for analysis. Ownership structure does not form a principle in its own right within the Code in its current guise, but is an implied principle based on the agency view of governance (e.g. Shleifer & Vishny, 1997). The paper reports some evidence of a less stringent approach to compliance for those non-domestic companies from high PDI and UAI regions. In particular, the presence of a dominant shareholder was linked in the research to lower levels of compliance, which suggests a basis for future improvements to the Code wording to ensure more effective governance. The governance misdemeanours reported within the paper at one company from a high PDI-UAI home culture have highlighted the contemporaneous relevance of the study and its significance in guiding future research into improving governance standards.

This thesis has presented three linked papers in the CEO succession arena. As noted in detail above, the papers individually and collectively make significant contributions both to advancing theoretical understanding of the issues in differing disciplines and to improving practical application of the results in the corporate context. The first paper's methodological contribution in the definition of CEO tenure and the context of CEO succession improved the definition of a key term in usage within the succession literature, studying CEO tenure as the time in role from the date of appointment to role. The significance of this data definition, and the importance of refining the definition of what constitutes tenure, is amplified in the second paper, which shows how CEO tenure impacts firm performance. Furthermore, this paper has shown links between key CEO demographic characteristics, hiring profiles and functional background to the management of talent pipelines. The paper further illustrated the predominance of internal hiring, even with poor antecedent firm performance, and analysed the HRM implications of this recruitment profile. In the final exploratory paper, it is shown that the national cultural background of organisations may have an effect on how companies approach compliance with the more rigorous governance requirements of a developed stock market such as the UK. This exploratory study used Hofstede's cultural values as the basis for analysis and questions the effectiveness of the UK governance regime in ensuring compliance from an increasing number of non-domestic companies from regions which are culturally distant to the UK baseline.

5.2 Summary of key findings

The research presented in the papers above offers some strong support for prior research. Paper 1 advanced confirmatory evidence for the relative dominance of internal hires in CEO succession events (Barron, et al., 2011). In Paper 2 it was demonstrated that companies tend to prefer CEO recruits with general management skills and a background in operational management (Hamori & Kakarika, 2009). Furthermore, this research proposed an increased likelihood of external CEO recruitment with poor antecedent firm performance (Cannella & Lubatkin, 1993). Finally, Paper 3 illustrated the potential link between Hofstede's PDI-UAI cultural dimensions variables and lower compliance noted in Chan & Cheung (2008). In addition, evidence is presented in line with prior research into a UK sample of companies on the nuanced effectiveness of the "comply-or-explain" governance regime (Arcot, et al., 2010). On the other hand, the research presents new evidence contesting prior work. Cappelli & Hamori (2004) noted a decline in the age of executive directors, which is not supported in the recent UK FTSE sample. Furthermore, the general management (e.g. Zhang & Rajagopalan, 2003) and careers literatures (e.g. Cappelli, 1999a) suggest that external successions to the CEO role reflect a shortage of internal talent. However, the research for this thesis shows a strong internal talent pool based around effective executive feeder roles – albeit focused strongly around a singular and declining demographic age group. Prior practitioner work within corporate governance has suggested that the reputation of the LSE and corporate regulators has come under a negative spotlight (Dawkins, et al., 2012). However, the research within Paper 3 hints at a significantly more nuanced picture, with only the occasional governance failings making headlines in the financial media. Such outcomes are strongly linked in this research to controlling shareholders (La Porta, et al., 2000), an aspect of governance which is not explicitly regulated within the Code.

Paper 1 found that the typical hiring profile for CEOs at the UK's largest companies is through internal promotion and the most usual destination after the CEO role is the portfolio career option of retirement or non-executive directorships. Furthermore, the research showed only three CEOs moving between roles. Therefore, the widely-held practitioner view of a "churn" of CEOs between roles is refuted. CEOs typically attain the role at an age where the subsequent career move is to a portfolio role of retirement or non-executive management after an average tenure of 6.4 years. They tend to be replaced by successors with similar age profile and recruitment characteristics and an implied tendency to longevity of tenure. Only a handful of UK CEOs can demonstrate having had CEO roles at more than one company. In fact, it may be the preference for general management skills noted in Paper 2 that means CEOs 'cut their teeth' at leading a business unit within a large organisation. This is further highlighted in our research data, showing that 30% of CEOs appointed from an external source previously served as operational head of a business unit. This then means the CEO role of the flagship parent company represents reward for successfully managing at business unit level, in the anticipation of superior performance being replicated across a portfolio of businesses.

Furthermore, CEOs at the UK's largest companies demonstrate a mean age of 52.5 years and 91% of succession events involve the previous incumbent CEO retiring or moving to non-executive directorships. This suggests that the public and media scrutiny of the role, combined with the incumbent's age and tenure, are likely to preclude further periods in such roles. The resultant diminishing talent pool of the Babyboomer generation, which makes up 84% of current UK CEOs, is a concern for the future pipeline of executives to the upper echelons management roles within these corporations. This theme is further developed in the SHRM view of the second paper and presents a potential threat to the future of large public corporations reliant on recruiting from this talent pool (Jensen, 1989). This future threat, once the Babyboomer demographic pool has run dry, is based on the seeming predominance of the similarity-attraction paradigm on which it appears Board decisions are made on the recruitment of future CEOs. The apparent risk aversion in the demographic characteristics utilised in the selection of company leaders may produce a future succession crisis, with insufficient talent being groomed for executive leadership, creating a talent void (Beechler & Woodward, 2009; Chambers, et al., 1997; Guthridge, Komm & Lawson, 2008; Michaels, et al., 2001). In addition, the paper hypothesises on the potential for frustration amongst younger talent due to the limited evidence of any significant penetration of younger talent into senior executive roles beyond the CEO, with only 21% of CFOs and 16% of other executive directors being of generations later than the Babyboomer generation (Rejchrt & Higgs, 2013). Whilst it may appear that focus on succession planning has produced results, the paper seeks to question the future talent pipeline, which forms the contextual basis for Paper 2.

The findings from Paper 2 showed a relative predominance of general management skills in current CEOs and long tenure is associated with superior firm performance. Replacement CEOs are usually sourced internally, with an exception being to secure prior CEO experience in the incoming successor. The predominance of internal recruitment is maintained even with below-average antecedent firm performance, where firms are expected to address strategic shortcomings by seeking an external recruit (Dalton & Kesner, 1985; Shleifer & Summers, 1988). Whilst it is shown that the age of CEOs does not appear to have a significant impact on firm performance, length of CEO tenure is strongly correlated with superior performance, both in accounting metrics and market valuation. This suggests that Boards need to pay attention not only to recruiting the appropriate candidate but to motivating, rewarding and retaining that individual appropriately to remain in role to deliver results. This result appears to call into question the effectiveness of companies seeking CEO talent from a single age category such as Babyboomers, which was a key finding from Paper 1 on the age of CEOs. Whilst it appears that Boards may seek the benefits of a CEO with similar demographic characteristics, such as inter-personal attraction and enhanced communication based on shared cognitive experiences and similarity of backgrounds, these are not necessarily associated with superior firm performance. The article discusses the implications of the findings for succession planning and career paths.

Meanwhile, the governance perspective offered in Paper 3 focuses on a smaller sub-sample of non-domestic companies. It found some encouraging signs of compliance with the reigning governance Code principles in Board structures. However, it demonstrated only partial compliance in leadership and Board effectiveness measures in those companies from cultures high on the PDI-UAI scales. This perspective offers confirmatory evidence of the potential for different approaches to compliance at those companies with a home market cultural background high in PDI and UAI on the Hofstede scales. Further, the paper illustrated the value of including in the analysis the ownership characteristics of non-domestic firms. An important observation in the data analysis was the dominance of controlling shareholders in companies from these emerging markets with high PDI and UAI score. The presence of a controlling shareholder is likely to impact on attitudes to compliance and to dilute effective lines of responsibility and accountability in those companies with Board structures divergent from the UK norm, such as those company Boards with no executive directors or led by an executive Chairman. In addition, the paper developed a framework to guide future research into the contextual and cultural underpinnings of this sub-sample of companies, hypothesising that the frequency of changes to the FTSE indices, and resultant changes in media scrutiny and investor visibility, may divert attention away from any potential compliance issues. The analyses within the paper and proposed future research agenda are likely to have a practical application in guiding future versions of the UK "comply-or-explain" governance framework and in setting policy to improve disclosure.

5.3 Limitations and future research

As with any cross-sectional research employing secondary data, the papers contained within this thesis are constrained by some limitations. These would be usefully addressed in future research into CEOs in the UK context. These limitations and suggestions for future research are outlined below.

Firstly, the self-selection bias of our data produced a sample of companies with above-average performance. The sample selection therefore precludes the generalisability of the findings of these papers to a wider population. The FTSE 350 is naturally self-selecting (Heckman, 1979; Lee, 1982) based on market capitalisation, as it requires the share price of constituents to at grow at least as much as the next tier of listed companies in order to remain part of the index. This means that the analyses presented herewith is of significant interest, as the sample represents the elite of UK companies. In order to remain in the top 350, a certain level of share price growth is required. Future research might, therefore, be directed at addressing this bias. This would involve using time series data and focusing on those companies near the bottom of the FTSE 350, which are subject to regular re-appraisal by the FTSE Index Committee. A further approach would be to extend the sample beyond the FTSE 350 to incorporate the FTSE SmallCap Index companies. Similarly, internationalising the sample would benefit the generalisability of the findings from Paper 1 and Paper 2 to other mature economic and societal contexts.

A limitation in Paper 1 is the cross-sectional view of the data without a detailed contextualisation of each succession event in the analyses. The paper presents a cross-sectional overview of CEO succession in a specified timeframe and does not examine the wider economic, industry, firm lifecycle or financial context or even the personal context of the individual incumbent CEO framing each change in CEO. Whilst the research presented within this thesis has attempted a contextualisation of the secondary data and an improvement in the definition of standard demographic terms, further contextualisation might be achieved through a qualitative approach, such as depth interviewing around the upper echelons team (Dulewicz & Herbert, 2004). Rather, the papers presented here are required to make assumptions on the demographic make-up of organisations beyond the upper echelons of management. There may indeed be significant cohorts of younger generations in talent development programmes being groomed in a pipeline to top management vacancies. Without access to top management teams to verify such programmes, the papers have presented here evidence available in public sources. In fact, the recent economic downturn in the UK following the 2008 global financial crisis may have encouraged younger talent to seek opportunities outside conventional hierarchical structures, represented by the FTSE 350 sample, in entrepreneurial ventures rather than await their turn at the top. This crisis may also have resulted in a desire by the Babyboomer generation to remain in role for longer than anticipated, delaying retirement to address declining values of their pension funds (Siedle, 2013).

The findings from Paper 2 are constrained by the definition of firm performance. The paper uses in its analyses of firm performance a conventional definition of this variable as value created to shareholders, measured in accounting terms as ROA and in market value as share price performance. Appropriation theory (e.g. Steigenberger, 2014) suggests that value created is the economic value resulting from the transformation of inputs into higher value outputs, with the value being distributed amongst key stakeholders in the firm. Out-performance in share price and ROA may therefore simply reflect the relative power of shareholders to “appropriate” the excess value created through the company’s superior management and productivity for the personal gain of the shareholders. The paper presented here takes a more conventional view of leadership, with management action being reflected in performance in terms of productivity, profitability, strategic renewal, growth and corporate survival (Bloom & Van Reenen, 2007). In this organisational perspective, the CEO – as the embodiment of practices such as setting targets and rewards (Bell & Van Reenen, 2012) and measuring results – is the ultimate authority for delivering firm performance. This addresses the question of the importance of the CEO in driving firm performance and forms a fundamental basis of this research’s analyses.

Finally, the findings from an exploratory study such as the one included as Paper 3 are constrained by the small sample size. Whilst the paper has succeeded in offering an exploratory view of how the national culture of non-domestic companies might impact their approaches to governance, it has not fully considered how such views of compliance may change over time, as companies and markets mature and adopt more robust governance principles. Furthermore, prior research in the UK context has shown that a non-mandatory governance regime based on “comply-or-explain” principles is likely to have a significant level of partial compliance. Further research may consider a more rigorous comparison of UK and non-UK companies, including variables such as company lifecycle or industry characteristics. Future research might wish to focus on the particular characteristics of the extractive industries and approach the research problem from the lens of this industry’s specific idiosyncrasies in approaches to governance.

An additional limitation of the analysis in Paper 3 is its consideration only of compliance with the Code in its current form. Whilst the analysis hints at potential issues for regulators due to the increased presence on the market of companies from culturally distant regions, it makes no attempt to prescribe alternative approaches to compliance regulations or monitoring mechanisms, which might be usefully directed to future research. Finally, prior research has noted that some UK companies, notably William Morrison Supermarkets Plc had a long history of non-compliance with certain Code provisions on Board structure. A constraint in “comply-or-explain” governance regimes without mandated sanction for non-compliance is this tendency to partial compliance, and Morrison’s was widely known to supply no or poor quality explanations for its non-complaint position (MacNeil & Li, 2006). Shareholder action eventually resulted in a change to this approach to governance compliance, but only after a period of poor performance at Morrison’s (Arcot, et al., 2010). This does point to a key weakness in “comply-or-explain” governance regimes, and from a shareholder perspective suggesting compliance may be seen as secondary to financial performance.

5.4 Research contributions

This section outlines and reinforces the key contributions of the papers presented within this thesis.

5.4.1 Theoretical contributions

The papers presented within this thesis make significant theoretical contributions within different research areas. The focus in Paper 1 was to incorporate psychological and sociological perspectives into CEO succession, which has been dominated by governance and the agency view (e.g. Zajac, 1990) and the strategic adaptation view of CEO succession (e.g. Friedman & Singh, 1989; Zhang & Rajagopalan, 2010b). The inclusion of such a social identity perspective allowed the research to formulate research questions for analysis, suggesting that the dominant paradigm in CEO selection may be similarity-attraction (e.g. Davidson, et al., 2006), reflecting the evidenced demographic characteristics of the Board. This strategic view of the organisation is further analysed within Paper 2, where this potential talent deficit (e.g. Burke & Cooper, 2006a, 2006b) is linked to SHRM policies for talent management (e.g. Lewis & Heckman, 2006) and its implications for firm performance (e.g. Burke & Cooper, 2005). The paper develops its analysis linking firm performance to the hiring profiles of CEO, their demographic characteristics and functional background. The key findings showed a strong relationship between CEO tenure and firm performance, which implies further effort is required by HRM and Boards to ensure CEO retention. This may, however, prove problematic based on the age profiles of those being hired, which re-connects with the results presented in Paper 1. Of further note is the dominance of internal recruitment even if antecedent firm performance is poor, which may be interpreted as confirmatory evidence for the similarity-attraction perspective of CEO hiring presented within Paper 1.

Finally, Paper 3 undertook a different approach to CEO succession, incorporating this as a unit of analysis within a governance view of the organisation. Incorporating finance, law, economics, strategy and international business perspectives, this paper focused on compliance with UK governance principles. In collecting the data for the papers on CEO succession, the researcher noted the increased incidence of non-domestic companies as constituents of the FTSE index. This was further developed in formulating the contextual background for the research's exploratory approach linking cultural background to compliance.

Paper 1's findings showed a predominance of internal recruitment and CEO tenures longer than reported in prior research (e.g. Johnston, 2002). Furthermore, using the relational demography approach, the research documented the prevalence of Babyboomer incumbents in CEO roles. The research produced an opportunity for future research based on the hypothesis that ageing, risk-averse Boards may be seeking to maintain their own status and continued employment by recruiting CEOs based on similarity in terms of age, anticipated values characteristics and behavioural attributes. This has implications for the development of a talent pipeline to ensure the availability, retention and motivation of successor generations. On the other hand, the prevalence of internal recruitment reported in the research may simply reflect the size of these businesses with their large internal labour markets (e.g. Friedman & Singh, 1989) and management fashion (e.g. Abrahamson, 1996; Ocasio & Kim, 1999).

The findings from Paper 1 served to underpin the SHRM perspective on the research problem contained within Paper 2. In this paper, the author incorporated a performance perspective into the analysis. The findings contribute to HRM theory by confirming the predominance of internal hires in CEO successions. The challenge for talent management is to ensure a supply of leadership potential, within and outside the internal boundaries of the organisation (Collings & Mellahi, 2009; DeFillippi & Arthur, 1994). Only by incorporating an external recruitment perspective will organisations of the future be able to address the potential talent shortage based on changing demographic profiles (Hamori & Kakarika, 2009). Indeed, the research reports significantly more firms performing below average continuing to prefer an internal CEO hire. More academic and professional research into identifying how boundary-less external career paths can feed predominantly internal development pipelines remains a requirement for organisations to respond to these talent shortages (Baruch & Peiperl, 2000; DeFillippi & Arthur, 1994). Such stability and continuity of leadership may further encourage the internal development of a leadership pipeline (Carraher, et al., 2008) and a tradition and expectation of internal promotion. This means the organisation is likely to be better prepared for an eventual succession context, but indicates that it lacks environmental scanning of its strategic context by focusing largely on an internal pipeline. Furthermore, strategic advantage may be attained through the employment of CEOs with a functional background in operational management (Koyuncu, et al., 2010), which better reflects the wider organisational perspectives of the role. This is not, however, reflected within this research in improved firm performance.

The theoretical contributions of Paper 3 are largely within the corporate governance literature and reinforce the debate on the definition of a measure of good governance (e.g. van Essen, Engelen & Carney, 2013). Prior research into compliance with the Code in the domestic UK context (e.g. Arcot, et al., 2010) has reported similarly mixed results of a nuanced picture of partial compliance presented within this paper. Little evidence of outright or overt non-compliance is shown in this research, a probable reflection of the "comply-or-explain" governance regime, which requires only voluntary explanation of non-compliance rather than mandated sanction. These results may be interpreted as contributing to the debate in the corporate governance arena on the appropriateness of "comply-or-explain" compliance monitoring and the efficacy of placing the onus of reporting on the company within the compliance regime. This approach to governance may simply be generating bureaucratic reporting volumes without necessarily engaging corporate players in developing an aptitude for or willingness to effect improved standards of compliance or in the potential firm performance benefits of a strong compliance regime (e.g. Aguilera & Cuervo-Cazurra, 2009).

The research reports some supporting evidence for its hypothesis on a lower level of compliance in those companies cross-listed on the LSE from a culturally divergent background to the UK benchmark, defined as high PDI and UAI in the Hofstede cultural values dimensions. Such partial compliance in leadership and Board effectiveness measures in the non-domestic sample is likely to have implications for possible Board structures divergent from the UK norm, which diminishes some of the "bonding" benefits of cross-listing to a perceived prestigious stock exchange such as the LSE (e.g. Coffee, 2002). In addition to the research related directly to the Code principles, the incorporation of ownership structure was a further contribution to the research problem. 47% of the sample of non-domestic companies is closely-held by a controlling shareholder, which is associated with notably lower levels of compliance with the Code's executive leadership, Board structure and remuneration principles. Extending the analysis into the ownership effects of governance compliance presents an opportunity for further research.

5.4.2 Practical contributions

Each of the papers presented within this thesis contributes to practice within the research area on which it is focused, as noted in earlier sections of this thesis. The policy implications of CEO succession events in the UK are noted within each chapter and linked to the non-domestic context in the final paper. In a work of this nature, the practical policy implications of the research will be diverse and this section intends only to reiterate the potential applications of a few key contributions in the research in diverse fields such as HRM and governance.

Paper 1 notes the apparent myth of CEO "churn" and job-hopping between such CEO roles. Capital markets are shown to value age and longevity of tenure. The paper hypothesises, therefore, on the potential for future talent to become frustrated, leaving the organisation with a succession gap and talent deficit. This requires Boards to better understand the attitudinal and behavioural characteristics of a different age profile group. With only 26% of CEOs recruited externally, Boards are seen to be risk-averse in the recruitment of new leaders, indicating a 'better the devil you know' approach. This further perpetuates the similarity-attraction paradigm, endangering the existence of large and mature public corporations through the age norm-related deficiencies in succession planning. The low level of external recruitment of CEOs has several implications for shareholders, Boards and HRM professionals, a theme which is noted in detail in Paper 2.

Firstly, the external talent pool is unlikely to be significantly larger than the internal, reflecting demographic profiles, where the Babyboomer generation is prevalent in management roles. This usually means that Boards are unlikely to seek to recruit a marginally more skilled outsider unless there are significant incentives to outweigh the costs of such a hire in mature societal contexts such as the UK. The recruitment of an external candidate is associated with recruitment costs (executive search and Board time), higher levels of remuneration (Rejchrt & Higgs, 2013) and strategic disconnect (Zhang & Rajagopalan, 2010b). This external path is only likely to gain market approval if there is a perceived need for a turnaround leadership to address poor performance and indicates that company has been unsuccessful in its internal succession planning. Secondly, similarity-attraction (Davidson, et al., 2006) appears to remain the dominant paradigm in which similarity-seeking Boards appoint successor CEOs. This may, in part, address the lower absolute numbers in the successor Generations X and Y and yet may endanger the future of the public corporate (Jensen, 1989), as companies fail to adapt to the evolving strategic context. Furthermore, there appear to be fewer career opportunities for these younger generations to make it to the upper echelon executive roles due to the preference by companies and markets to pursue best practice in Board structures of two-person executive Boards, normally made up of the CEO and CFO (*OFWAT*, 2014).

Paper 2's practical contribution is to develop the theory on external career paths as a potential solution to the demography-induced shortage of CEO talent within a growing number of organisations, reflecting the lack of sufficient internal talent and its ageing, as noted in the first paper. However, the traditional internal career path remains dominant in promoting individuals to CEO. This appears to contradict the notion of boundary-less careers in the early career stages of executives (Arthur & Rousseau, 1996). This conflict between the conventional, linear and intrinsic organisational view of internal promotion routes and the portfolio, non-linear and extrinsic individual view of career paths remains a defining feature of the SHRM landscape. Whilst the paper offers the external route as an alternative promotion route, it is acknowledged that this is no panacea. As noted in Paper 1, external candidates are likely to be characterised by small and diminishing demographic talent pools of potential candidates and to be hindered in role by the cognitive unfamiliarity of the organisation they are being employed to lead (Zhang & Rajagopalan, 2010b).

The LSE remains focused on developing its reputation as a stock exchange that encourages the listing of shares in non-domestic companies. However, the research presented as Paper 3 suggests a weaker approach to compliance with governance regulations at these non-domestic companies, in particular those from regions that are divergent from the UK baseline in the Hofstede PDI and UAI cultural values dimensions. The research suggests areas where compliance is potentially weaker than at similar UK-domiciled companies, which frames the further applications of this research in a policy environment. The research appears to have implications for stock markets with a similar exposure to listing by non-domestic companies and contributes to the debate on the usefulness of "comply-or-explain" governance regimes in balancing unmandated recommendations with effective compliance and monitoring (*European Commission*, 2011). The research's implications for the investor community are especially significant. The results illustrate potential pitfalls associated with investment decisions based on the perceived safeguards of a prestigious stock exchange listing for non-domestic companies from a cultural background more tolerant of lower levels of regulation and a reliance on informal approaches to compliance.

As noted within the section on the theoretical implications of Paper 3's research, shareholding structure is particularly relevant, reflecting the desire by regulators to ensure the protection of minority shareholders and the active involvement of institutional shareholders in promoting long-term performance (*European Commission*, 2011). The implications for minority shareholders in companies with dominant shareholders are reflected in lower levels of compliance and the potential for a significant write-down of investments by minority shareholders when governance irregularities are reported and the market loses confidence in the ability of the management to act outside the constraints of the controlling shareholder.

5.5 Final thoughts

The papers within this thesis have grown over time and evolved through various iterations to the final versions presented here to reflect the versions as submitted to journals for publication. Noted earlier within this chapter were some limitations and constraints to help steer future research. On reflection, the author would change nothing in the sample selection and approach to the data collection and analysis. However, using the same data and extending some of the analysis to further contextualise CEO successions might prove a useful application of the dataset in future research. Responding to a key finding from Paper 1 further qualitative research might be undertaken to gather data on post-CEO role activity and employment to validate the finding on the prevalence of portfolio careers as the typical route out of role for the majority of CEOs. Similarly, analysis of the next level of executive management below the board of directors might establish the presence of structured internal pipelines of talent development. Furthermore, detailed analysis of a sub-set of the data, such as external appointees, would allow further investigation of the less popular and more infrequent external recruitment route and the underlying reasons for this strategic choice. Finally, much academic debate continues around the measurement of CEO performance (e.g. Zhang & Rajagopalan, 2010b; Gangloff, Connelly & Shook, 2014), which might be measured in terms of legacy by *ex post* firm performance instead of examining the *ex ante* performance environment resulting in the CEO succession event. Such a measure is indicative of the in-role performance of the CEO, which is beyond the scope of this current work.

Appendices relating to Paper 1

Appendix 1 Meta-sectors at August 2011

Meta-sector	Total	FTSE sector inclusions within meta-sectors
Industrial	73	Aerospace & Defence; Automobiles & Parts; Beverages; Chemicals; Electronic & Electrical Equipment; Food Producers; Forestry & Paper; General Industrials; Health Care Equipment & Services; Household Goods; Industrial Engineering; Industrial Metals; Industrial Transportation; Personal Goods; Pharmaceuticals; Tobacco
Services	64	Software & Computer Services; Support Services; Travel & Leisure
Equity investment trusts	46	Equity investment trusts
Financial (non-banking)	41	General Financial; Life Insurance; Nonlife Insurance
Exploration	39	Mining; Oil & Gas Producers; Oil Equipment, Services & Distribution
Retail	27	Food & Drug Retailers; General Retailers
Construction	23	Construction & Materials; Real Estate
Technology	16	Media; Technology Hardware & Equipment
Power	9	Electricity; Gas, Water & Multiutilities
Telecommunications	8	Fixed Line Telecommunications; Mobile Telecommunications
Banks	4	Banks

Appendices relating to Paper 2

Appendix 1 Meta-sectors at August 2012

Meta-sector	**Sample (n= x)**	**FTSE sector inclusions within meta-sectors**
Industrial	75	Aerospace & Defence; Automobiles & Parts; Beverages; Chemicals; Electronic & Electrical Equipment; Food Producers; Forestry & Paper; General Industrials; Health Care Equipment & Services; Household Goods; Industrial Engineering; Industrial Metals; Industrial Transportation; Personal Goods; Pharmaceuticals; Tobacco
Services	62	Software & Computer Services; Support Services; Travel & Leisure
Exploration	43	Mining; Oil & Gas Producers; Oil Equipment, Services & Distribution
Financial services	38	General Financial; Life Insurance; Nonlife Insurance
Retail	24	Food & Drug Retailers; General Retailers
Construction	23	Construction & Materials; Real Estate
Technology	14	Media; Technology Hardware & Equipment
Telecommunications	8	Fixed Line Telecommunications; Mobile Telecommunications
Power	7	Electricity; Gas, Water & Multiutilities
Banks	6	Banks

Appendices relating to Paper 3

Appendix 1 The UK Code of Corporate Governance (2012 principles)

Leadership and effectiveness

Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.

As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.

The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.

All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.

The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

Remuneration

Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose.

A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

Accountability

The board should present a fair, balanced and understandable assessment of the company's position and prospects.

The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.

The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.

Relations with shareholders

There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

The board should use the AGM to communicate with investors and to encourage their participation.

Source: *FRC*, 2012. Available: http://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.aspx

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