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CEO Succession in the Emerging Markets: Political Ties, Institutions and Networks

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Abstract: Drawing on the resource based view and network perspective, this paper explains how firm manage their political resources over time under the condition of different geographical institutions and inter-organizational networks. Firms obtain political resources through managers' personal connections, and in the dynamic environment, such resources evolve in the life cycles. However, the value of political ties decreases when firms access more learning opportunities in inter-organizational networks and with geographical institutions well developed. We test this effect in CEO turnovers by using data from China listed firms in 2008 and compare the contextual roles of political resource in affecting CEO dismissals. The contributions are due to a synthesis of institutional and ecological perspectives and to research on CEO succession in emerging market and organization learning in networks.

Key words: political resource; CEO dismissal; dynamic RBV; networks, institutions
JEL code: M51

1. Introduction

Resource based view is one of the most prominent theoretical perspectives in strategic management (Wernerfelt, 1984; Barney, 1991; Teece et al., 1997). The central argument of this perspective is that heterogeneity in resource and capabilities makes firms different in competitive positions. Resources may refer to all the tangible or intangible assets that an organization owns, controls, or has access to (Wernerfelt, 1984), and capabilities may refer to firms' abilities to utilize resources, and perform a set of tasks to gain intended results.

Barney (1991) argues firms achieve competitive advantage when they implement value- creating strategies which the competing firms are not engaging in. However, competitive position of firms may shift over time due to the evolution of resources and capabilities, and the dynamic capabilities have attracted increasing attention (Teece et al., 1997; Zollo and Winter, 2002). Such evidence suggests the use of evolutionary economics to enhance the resource based view (Bromiley and Fleming, 2002). For instance, Helfat and Peteraf (2003) studied the evolutionary patterns and paths of capabilities from the perspective of capability lifecycle. In dynamic resource based view, it is debated that competitive advantages are becoming more temporary because of environmental uncertainty (Miller, 1993; Lewis and Harvey, 2001), and the firms' capabilities should be renewed, improved and updated simultaneously. Therefore, it is necessary to investigate the evolution of resources and capabilities in dynamic settings.

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Social embeddedness has long been argued to be crucial (Granovetter, 1973). In various settings, individuals, groups, or firms could use their social networks to gain favorable results (Moran, 2005; Walter, Lechner, and Kellermanns, 2007). Along with resource based view, social capital refers to actual and potential resources embedded in the relationships of individuals, communities, networks, or societies (Nahapiet and Ghoshal, 1998).

In management, social capital is important for the performance and behavior of firms. It is generally believed that the social capital can be utilized to enhance the effectiveness of firms (Nahapiet and Ghoshal, 1998). In sociology, social capital benefits actors themselves who have social ties (Burt, 1992). The different levels of social capital could interact with each other, and this enables a mechanism that the individual's social capital transfers to the organization. However, previous work has not paid sufficient attention to this mechanism. In this paper, I argue that managers' personal social network could be absorbed and utilized by the firms, and inter-level transformation could influence the recruitment and dismissal of managers.

The purpose of my paper is to study the trajectory of resource and capabilities from a dynamic perspective. Especially, the government plays a role to foster cooperation among local organizations and provide both institutional and resource supports for firms. So I focus on firms' capability lifecycle to obtain, use, and update political resource which is originally introduced though managers' personal social ties. The primary research questions addressed in this article are: Does firms' political resource change or persist over time? How do firms develop capabilities to exploit managers' social capital? How do the political connections affect firms' decision on the recruitment and dismissal of manager? Do the effects above vary across different cultures and market environments? These questions are important both managerially and theoretically and will be addressed through the formulation of hypotheses and via a novel empirical study.

This article contributes in three important ways. First, I extend resource-based theory into new application of social capital by identifying an important role of political resource from a dynamic perspective that has not been fully specified previously. I find that, in managing political resources, firms' capability evolve from the exploitation of current political resources to exploration of the new ones. Firms will posit itself in different stages of the capability lifecycle, and they need to update and renew their political connections under the uncertainty during the financial crisis. Second, I argue that the social capital of individual level could be utilized by and then transferred to the organization. Firms which get political resources via managers' personal network will develop new relationship of organizational level which could substitute the managers' personal ties. And this will devalue the political connected managers, making them dismissed and succeeded by managers with new and valuable political connections. Third, I examined my assertions in the context of both emerging and developed economies. I found contingent results for political resources and capabilities to evolve over time in the contexts of China. In this way, my paper echoes Lin and Si's (2010) call for comparative examination of the dynamics of social capital in China and other developing or underdeveloped countries.

The current paper begins by deriving a review of the previous literature as well as the core arguments regarding social capital, and dynamic resource based view. In the discussion that follows, I lay out the hypotheses and elaborate on these ideas to build an integrated research framework. Then I use the data from Chinese listed firms to test all the hypotheses and achieve the empirical results. Finally, I make conclusions and give suggestions for the future research.

2. Theory and Hypotheses

2.1 Social Capital as Valuable Resource

In the strategy literature, RBV provides an explanation of competitive heterogeneity based on heterogeneous resources and capabilities (Peteraf, 1993; Hoopes et al., 2003). In this view, firms are bundles of resources which include the physical capital, human capital, organizational capital and social capital that enable firms to achieve strategic goals (Barney, 1991). The socially embedded relations are critical resources for social actions (Burt, 1992). According to Maurer and Ebers (2006), social capital "signifies an asset available to individual or collective actors that draws on these actors' positions in a social network and/or the content of these actors' social relations". As a type of rather intangible asset, social capital provides access to information, resources, technology, markets and other resources through social network.

In the tradition of public choice theory, government expose exerts intervention on firms for the purpose of rent seeking, extraction, and protection (McChesney, 1987; Shleifer and Vishny, 1998). So firms take efforts to use the power of government to benefit themselves through the engagement in policy-making and the connection to the government. The capability to build network of external relationships with government can increase social capital and thereby gain interests in the form of superior access to information, power and solidarity.

Previous research has noticed that social capital can be related to the important factors as turnover rates (Krackhardt and Hanson, 1993) and career success (Gabbay and Zuckerman, 1998). As a special form of social capital, political ties could affect firms' decision on the recruitment, selection and dismissal of top managers. Managers with political ties are attractive to firms, and this advantage makes them the potential competitors for CEO position in a firm. After a firm hires a new CEO with political ties, the firm begins to create, maintain and develop relationships with government via the CEO's personal networks, and further utilizes the valuable resources embedded in these relationships. In summary, I argue that candidates who have political ties are more likely to increase the hazard the current CEOs' dismissal.

The existing literature on CEO dismissal has suggested that poor firm performance and political reasons are two major factors for CEO dismissals (Fredrickson et al., 1988; Ocasio, 1994; Shen and Cannella, 2002). While organizations are ruled by political elites, or dominant coalitions these "... elites do not last. The history of man is the history of the continuous replacement of certain elites: as one ascends, another declines" (Pareto, 1968). So CEOs might not able to perpetuate their power even though they maintain certain kinds of political ties before. Instead, as the organization faces change in its environment, executive capabilities will be questioned, rivals and enemies will emerge, and the likelihood is greater so that those in position of power will lose their power (Pfeffer, 1992), especially when the firm is seeking for new political ties to undermine uncertainty. Based on the above arguments, I posit the following hypothesis.

Hypothesis 1: The political connections of successor increase the hazard rates of incumbent CEOs' dismissal.

2.2 Moderation of Inter-organizational Networks and Geographical Institutions

The social capital of individual-level and organizational-level often interweaves together. Personal ties can be a driving force behind resources obtained from inter-organizational networks where the relationships depend on specific individuals (Dyer and Singh, 1998). The firms could develop capability to utilize the individuals' personal social resource in the transformation of relationships at the personal level into relationships at the organizational level. In this way, individuals' social ties could grant firms access to valuable resources and information, so individuals draw on social capital to perform their jobs (Burt, 1992). Particularly, top managers play an essential role in the corporate strategy (Finkelstein and Hambrick, 1996). They not only contribute human capital such as education and experience (Coleman, 1988), but also provide social capital which represents the top managers' relationships with organizational members and other actors outside (Geletkanycz and Hambrick, 1997).

Besides the political ties, there might be some other ways for firms to access resources and learn valuable knowledge. Since the mid-1980s strategic alliances and networks have been paid increasing attention by strategic management scholars. In the organizational behavior field, the topics of organizational learning and the learning organization have similarly become major foci of attention. More recently, there has developed an emergent literature concerning learning in networks and between organizations.

By interact with each other in networks, organizations share information and other resources. In what is becoming known as the "knowledge-based-view of the firm", knowledge is seen as the resource on which firms base their competitive advantage. Participating into the inter-organizational networks, the knowledge could be transferred more effectively and efficiently through individual firm that within the net. In that case, the importance of political ties might be devaluated to some extent. So, we argue that inter-organizational networks bring firms other options to access knowledge. Then, the influence of political ties might be weakened. The above arguments yield the following hypothesis.

Hypothesis 2: Inter-organizational networks negatively moderate the relationship between successor's political ties and former CEO's dismissal in such a way that the relationship would be weakened at a higher level of inter-organizational networks.

As one of the most influential emerging markets, China has its own characteristics. It has significant geographical institutions across provinces. The difference of geographical institutions makes political ties valued differently in firms. Research on organizations already emphasizes the convergence effect between organizational forms and strategies. They argue that organizational forms and strategies tend to converge around common structure and practices in an institutional environment under the pressure of existing norms (DiMaggio and Powell, 1983; Meyer and Rower, 1977). Institutional environments can change over a sufficient period of time. In the case of China, firms those located in different provinces are influenced by quiet different institutions which might be changing constantly. The widespread changes in national institutional environments, such as "institutional upheaval" or "institutional transition" (Hoskisson et al., 2000; Newman, 2000; Peng, 2003) can be a fundamental stimulus to strategic change for all the firms operating there.

As we mentioned that in different geographical institutional environments, firms might have other better choices to acquire resources and rather maintain their competitive positions. A firm that is managed in a location which is well developed in institutions, might access more opportunities and lower its cost in the routine businesses. And the need for seeking security by establishing political ties becomes also not so important that other area. Then the value and necessity of searching and maintaining political ties might be decreasing. And the important role of political ties also becomes weakened. So, we have the following hypothesis.

Hypothesis 3: Geographical institutions negatively moderate the relationship between successor's political ties and former CEO's dismissal in such a way that the relationship would be weakened at a higher level of institutional development.

2.3 Dynamic Resource Based View

While the theorists have paid explicit attention to investigate how sustained competitive advantage is achieved, more recent work on the temporary competitive advantage and the evolution of organizational capabilities suggests an application of dynamic resource-based theory (Helfat, 2000). The competitive advantage could be eroded not only by the imitation and efforts of rivals, but also by environmental dynamics.

Changes in economic and industrial conditions are crucial environmental uncertainty for a firm. In the 1990 and 2000s, the technological advances in information, multimedia, and internet shaped the consumer behaviors and the competitive landscape in some industries. And in 2008, financial crisis challenged firms' capability financing and marketing. Dynamic nature of the business environment makes it very difficult to maintain a permanent competitive advantage, so the strategic success comes from a continuous stream of temporary advantages (Brown and Eisenhardt, 1998). In the shifting environment, firms need dynamic capabilities to integrate, build, and reconfigure internal and external competences (Teece et al., 1997). Helfat and Peteraf (2003) introduced a new concept of capability lifecycle (CLC) which provides a more fully dynamic approach to resource-based view. In that study, the authors describe founding, development, and maturity stages of capability lifecycle as well as retirement, retrenchment, renewal, replication, redeployment, and recombination branches after maturity.

Along with this logic, two scenarios of the firms' capability to manage social capital should be taken into account. Organizations seek to balance between exploitation of current resources and exploration of new resources. First, firms could exploit and utilize the top managers' social capital over time, and then achieve and maintain capabilities to invest and develop such social capital. Firms in later stages are able formalize their own network which provides a different type of strategic resource in the exchange at organizational level. As the inter-organizational ties become more important, consequently, the top managers' personal ties begin to lose crucial importance (Bratkovic et al., 2009). Therefore, the firms' capability of developing social ties goes into maturity. Second, it is also pointed out that "it is unlikely that a firm's competitive position is solely attributable to any one specific resource or capability (Newbert, 2008)". A firm has to deal with different challenges in the life stages, so needs to renew or update the capability of developing social capital of a new kind. Assume that the social capital the current top managers' provide could not satisfy the firm's growth, then the top managers' network will also become less valuable.

Specifically, after the firm has gained the capability of managing the political capital by exploiting the current top managers' political connections with the government, the top managers become less attractive to the firms. Winter (2000), the famous scholar, notes that a crisis may motivate the organization to improve the level of capability. To survive in the dynamic environment, firms also tend to explore new set of political ties which are useful for the future. For instance, when financial crisis came out in 2008, some businesses may rely more on financial support from the government, so have to update their capability of establishing the network with government officers who have power in the banking sector. As such, it is not surprising that CEO with political ties is more likely to be dismissed and succeeded by other new alternatives in the renewal of organizational capability.

The political ties create power for incumbent CEOs, which make them maintaining their position at least in a short period of time. However, the power is a circulation created by the interplay of two underlying mechanisms: obsolescence and contestation (Ocasio, 1994). The firm is seen as a political coalition and executives as its primary political brokers in political theories of organization (March, 1962; Cyert and March, 1963). In this kind of organization, CEOs play a central role in the dominant coalition by exercising their influence through both their formal authority and their informal power (Pfefer, 1992). In the global financial crisis in 2008, firms are managing themselves to minimize the negative influence of uncertainty. Under both the internal political processes and external uncertainty, incumbent CEOs' previous political ties lose their value. Then those firms' behavior might respond to the new interests and belief of the future dominant coalition to benefit them. My argument yields the following hypotheses:

Hypothesis 4: After taking positions for a certain period of time, politically connected CEO is more likely to be dismissed.

My overall theoretical framework is illustrated in Figure 1.

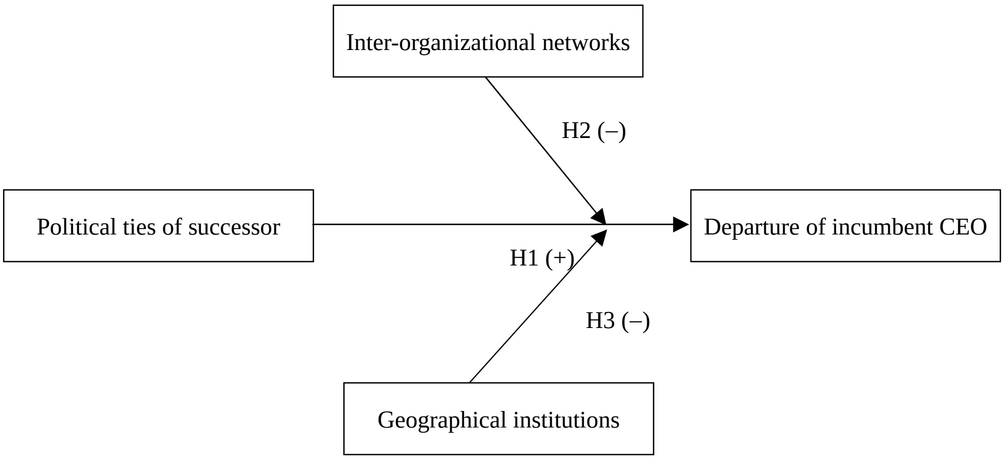

Figure 1 Theoretical Model of Hypothesis 1, 2 and 3

2.4 Contextual Social Capital

Social capital influenced by the norms, values, and sanction mechanisms of the society refers to a feature of a country's social structure (Coleman, 1988), so it is necessary to study social capital in the different national contexts. Comparative studies between societies, such as France, Italy, and China (Fukuyama, 1995), have shed insights on the dynamics of social capital. Lin and Si (2010) proposed a conceptual framework to account for the dynamics of social capital by using Chinese cases, and called for comparative empirical research on this issue.

In this paper, I specialize in the institutions of China, which have different levels of market development. The two countries differ in institutions in terms of formal laws and regulations and informal norms and values (North, 1990).

China has been encountering problems like market fragmentation, state intervention, and rent-seeking activities (Huang, 2008). Chinese government exercises control over firms' operations and management in terms of resource distribution, investment size, bank loans, public policies and industrial support (Li et al., 2006). Chinese organizations find that investing in and maintain "guanxi" with the government is necessary for their survival (Peng and Luo, 2000). Nowadays, the Chinese firms have more and more incentives as well as opportunities to participate in political processes to obtain valuable information and favorable government policies.

Generally, the Chinese firms get their political connections in the following ways. First, in the wave of "Xiahai"[1] in 1990s in China, some prior government officials who could get rare resources via their social network have established their own companies and become entrepreneurs. So these kinds of firms are born with political connections. Second, the managers in state-owned enterprises and collectively-owned enterprises in China usually have similar positions with government officials in the hierarchy, and such firms have political background by nature. It should also be noticed that, in the process of privatization, some state-owned enterprises and collectively-owned enterprises became private through restructuring or MBO. The prior managers who then

[1] "Xiahai" is a special Chinese term which means the officials resign from the government or institutions, and set up their own business.

become new owners or top managers could provide political capital to the new private firms. Third, the top managers in Chinese firms could be legally elected as members of the Chinese People's Political Consultative Conference (CPPCC), National People's Congress (NPC) and Communist Party of China National Congress (CPCNC). As members of CPPCC, NPC and CPCNC, they could influence the policy-making process directly by giving suggestions and indirectly by joining in the network of government officials. In this way, the firms could cultivate their political connections.

The various levels of Chinese government exercise different functions and powers. The central government makes plans for macro-economy, such as industrial preferential policies, and monetary policies. The ministries of central government also take charge of the supervision for public firms, support for the special programs and so on. The local government could provide the firms with land, execute approval authority for administration, affect financing and loading from banks, and intervene in other daily affairs. So when firms have connections with the higher levels of government, they may obtain important information and supporting policies for investing into profitable project, entering new markets, getting listed, etc. If they have connections with lower levels of government, firms may operate in a more favorable environment as well as get financial support easily.

3. Method

3.1 Sample

The sample of Chinese firms was selected from firms listed in the Small and Medium Enterprises Segment in the Chinese stock market. I obtained the data for my empirical analysis for Chinese firms from the following sources. First, I collect the basic information of Chinese firms from Sinofin, a database compiled and maintained by the China Center for Economic Research at Peking University. Second, I cross checked the basic data with Wind Chinese Financial Database provide by a Chinese company called Wind Info. Third, I got detailed information on the resumes of top managers from the published annual reports of the listed firms. Forth, I collect the information about CEO dismissals from the famous GTA Information Technology Company who provides comprehensively relative data about all the listed firms in China. Governance Structure Dataset is suitable for collecting data of CEOs' turnovers.

3.2 Measurement

3.2.1 Political connection

I use three dummies to measure the firms' political capital. The Chinese government has multiple tiers of provinces, municipalities, cities, counties, municipal districts, towns, and nationality towns. Accordingly, I focus on CEO and chairmen's connections with the government on three main levels in this paper. First, I encoded province-level 1 if the CEO and chairmen are either a prior official of and above the province and ministry level government or a member of CPPCC, NPC or CPCNC of and above the province level; otherwise 0. Second, I encoded city-level 1 for the CEO and chairmen who have prior position or membership of and above the city level. Third, I encode county—level 1 for the CEO and chairmen who have prior position or membership of and above the county level. It should be pointed out that I use the connection of both CEO and chairmen in that the chairmen of board has dominant power in Chinese firms and usually holds a concurrent position of CEO. Given the president makes the final decision for the strategic actions of the firm, it is necessary to investigate the roles of both CEO and chairmen.

3.2.2 CEO forced departure

There are various reasons for CEO turnover. It might happen either because of the incumbent CEO's voluntary leave or as a result of its forced departure. Separating the voluntary leave and forced departure are the main issue in the succession literature. Fortunately, for Chinese sample, the data source reports the details of information about reasons why a CEO leaving his or her position. That makes my identification of dismissals convenient and confirmative. I define that a CEO dismissal happens when his or her career terminated abnormally. Or by other words, I identify CEO dismissals depending on the reasons that reported when the CEO leaves the position. Because the GTA reports the reasons that cause CEOs leaving their position in detail, I can easily identify the dismissal observations. In sum, in line with previous research, I only focus on the forced departures that appear in the data source.

CEO turnover is a dichotomous dependent variable, and it is coded as 1 if the event of CEO turnover occurs and 0 otherwise. In China, "general manager" is the statutory title used in China's Company Law and is equivalent to CEO in the West (Pi and Lowe, 2010).

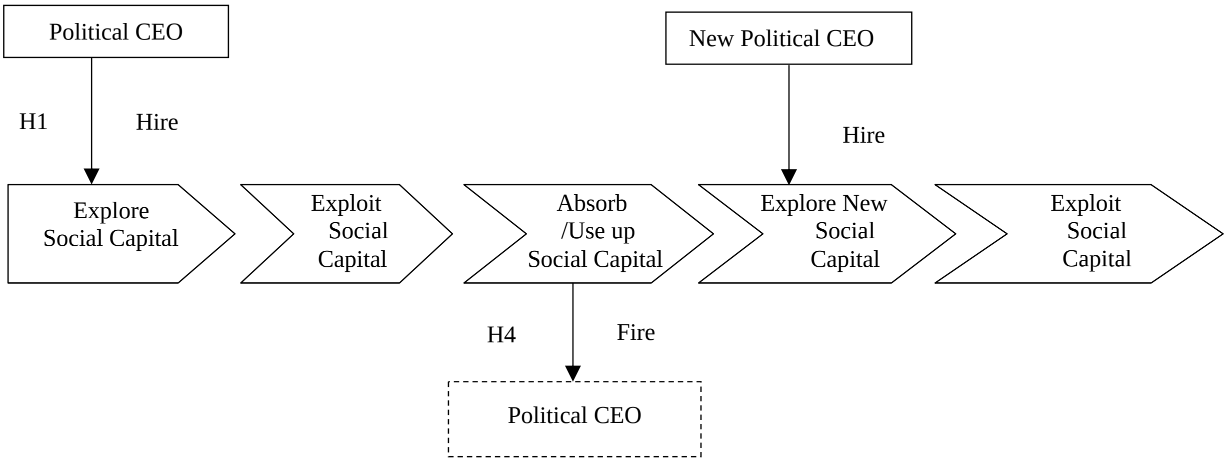

Figure 2 Framework of Turnovers of CEOs with Political Ties

3.2.3 Institutions

We used the measurement of marketing index introduced by the National Economic Research Institute, China Reform Foundation who reports the index every year. The measurement represents the general adoption of the market principle of every province in China, which is widely adopted by scholars (James and Lauson, 2006).

We select the three many index: market score, government score and law score. And the principal component analysis is used to extract a variable name "institutions" in models. Market score measures the development of production and factor market across provinces. The government score represents the relationship between local government and market. Law score measures the development of industry associations and commercial intermediaries, as well as the legal institutional environment. Each of the three measurements ranges for 0 to 10. The higher score means the higher maturity of institutional development. More details of the information please see the Appendix.

The calculation of those indexes is from two ways, based on the theoretical relationship between indexes score and the degree of market development. When the index value is positively related to the degree of marketization, the score will be calculated using the following equation (1), which means that the higher index value, the higher index score. For instance, the index "labor mobility" is measured by

$$Score = \frac{Vi - V\min}{V\max - V\min} \times 10 \tag{1}$$

Above *Vi* is the original data of *ith* index of a province; *Vmax* is the largest original value of corresponding index among the 31 provinces; while *Vmin* the smallest value.

When the index value is negatively related to the degree of marketization, it is calculated based on the following equation (2). Then higher original value, lower the index score will be. For instance, the score of the index "cutting down the regional protectionism in commodity market" is measured by the situation of regional trade barrier in the sample, which is calculated using the following equation (2). The score of the *ith* index is calculated by the following equation:

$$Score = \frac{V\max - Vi}{V\max - V\min} \times 10 \tag{2}$$

3.2.4 Network centrality

We measure the centrality of each firm using the following equation (1). It worth mentioning that here my analysis is conducted at the firm level by taking every firm as an actor. The measurements of centrality do capture the actions of individual firms, which is our main concern. The degree centrality is calculated by the following standardization of the measure:

$$C'_D(n_j) = \frac{d(n_j)}{g-1} \tag{3}$$

That equation summarizes the proportion of nodes that are adjacent to n_i . And $c'_D(n_i)$ is independent of g, and thus can be compared across networks of different sizes.

3.2.5 Controls

I also incorporated a series of control variables to isolate the CEO- and firm-level influences on depend variables. Firm size is typically associated with the degree of formalization, bureaucracy, and requirements for managerial expertise of a firm (Hamori, 2006), which affects not only the efforts needed for replacing a CEO, but also the availability of the candidates for CEO (Pi and Lowe, 2010). The firm size is measured as logarithm of total assets. To control the impact of CEO retirement policy on CEO turnover, a dummy variable of CEO age is used in this study. It is coded as 1 for CEOs who are 60 years old and above and 0 otherwise (Pi and Lowe, 2010). Previous literature (e.g., Datta and Guthrie, 1994) argued that CEO's educational background affect the CEO turnover. CEO's education level was estimated using following criteria: below junior college; junior college; college; master degree; Doctoral degree. Thus I measured turnover type for CEO and his successors for Chinese firms.

3.3 Analytical Methods

My main dependent variable is CEO dismissal, and thus I used Cox model which offers the best approach to modeling time dependence. The Cox proportional hazard model is a semi-parametric regression model (Hosmer et al., 1999) in which the baseline hazard is given no particular parameterization. I also employed Gompertz regression for robustness check. Unlike the semi-parametric Cox regression, the Gompertz model assumes that the baseline hazard takes on a specific parametric functional form. Note that results from one method each are shown in the table due to space limitations.

4. Result

Table 1 provides summary statistics.

Table 1 Description and Summary Statistics of Key Variables

Variable	Mean	Min	Max	Label
Political Connection				
Province-level Connection	0.06	0	1	1 if CEO connected with Province-level government
City-level Connection	0.10	0	1	1 if CEO connected with City-level government
County-level Connection	0.21	0	1	1 if CEO connected with County-level government
Control Variables				
Assets†	20.69	19.20	22.73	Asset (log)
CEO Age Dummy	0.19	0	1	1 if age of CEO is over 60
Education	3.26	1	5	1 if below junior college; 2 junior college; 3 college; 4 master degree; 5 Ph.D
Origin	0.74	0	1	1 if CEO comes from inside firm
Follower type	0.63	0	1	1 if CEO followed by insider succession

Note: † Natural logarithm.

Table 2 shows correlations matrixes for key variables used in the study. And we present the inter-organizational networks in the Figures 3 and 4.

Table 2 Correlation Matrix

	1	2	3	4	5	6	7	8	9	10	11
Asset	1.00										
CEO age	-0.01	1.00									
	(-0.92)										
CEO Education	0.02	-0.26	1.00								
	(-0.73)	(0.00)									
Origin	-0.05	-0.14	-0.09	1.00							
	(-0.52)	(-0.48)	(-0.29)								
Follower type	-0.03	-0.05	-0.06	-0.15	1.00						
	(-0.73)	(-0.51)	(-0.45)	(-0.44)							
Province -level	0.00	0.03	0.04	0.01	-0.05	1.00					
	(-0.97)	(-0.72)	(-0.53)	(-0.95)	(-0.47)						
City-level	-0.01	0.06	-0.04	0.04	0.01	0.75	1.00				
	(-0.83)	(-0.41)	(-0.50)	(-0.58)	(-0.87)	(0.00)					
County-level	0.06	0.05	-0.03	-0.13	-0.09	0.50	0.67	1.00			
	(-0.25)	(-0.50)	(-0.60)	(-0.10)	(-0.22)	(0.00)	(0.00)				
Country-level (Successor’s)	0.02	-0.05	-0.06	0.13	0.02	-0.06	-0.08	-0.12	1.00		
	(-0.81)	(-0.54)	(-0.52)	(-0.54)	(-0.82)	(-0.44)	(-0.32)	(-0.15)			
Province-level (Successor’s)	-0.02	-0.01	-0.20	0.18	0.01	0.00	-0.04	-0.05	0.71	1.00	
	(-0.78)	(-0.91)	(-0.02)	(-0.38)	(-0.91)	(-0.99)	(-0.61)	(-0.52)	(0.00)		
County-level (Successor’s)	-0.01	-0.07	-0.16	-0.07	-0.11	0.02	0.02	0.13	0.52	0.73	1.00
	(-0.95)	(-0.43)	(-0.07)	(-0.75)	(-0.16)	(-0.80)	(-0.86)	(-0.12)	(0.00)	(0.00)	

Note: p-values in parenthese.

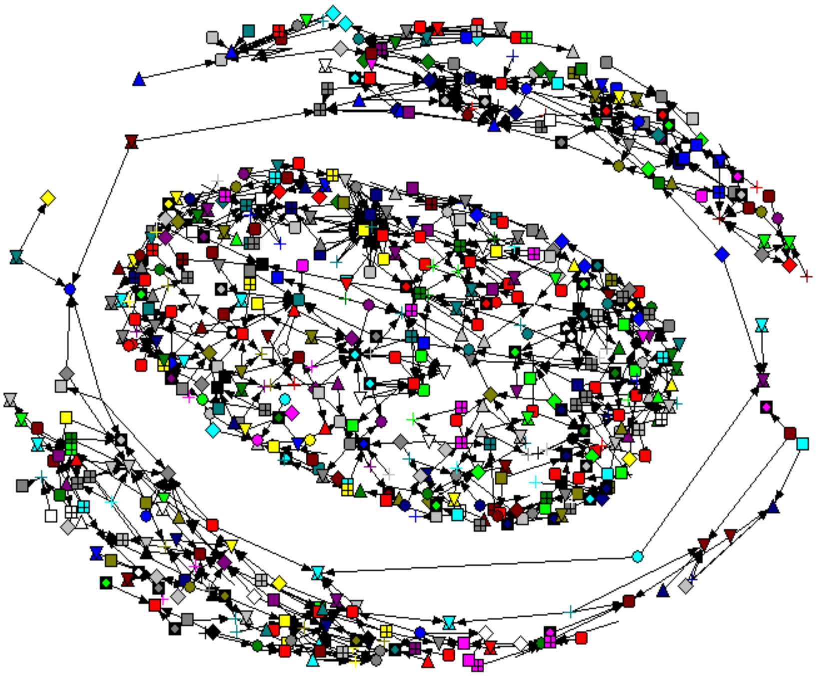

Figure 3 Inter-organizational Networks in 2008, Individuals as Actors

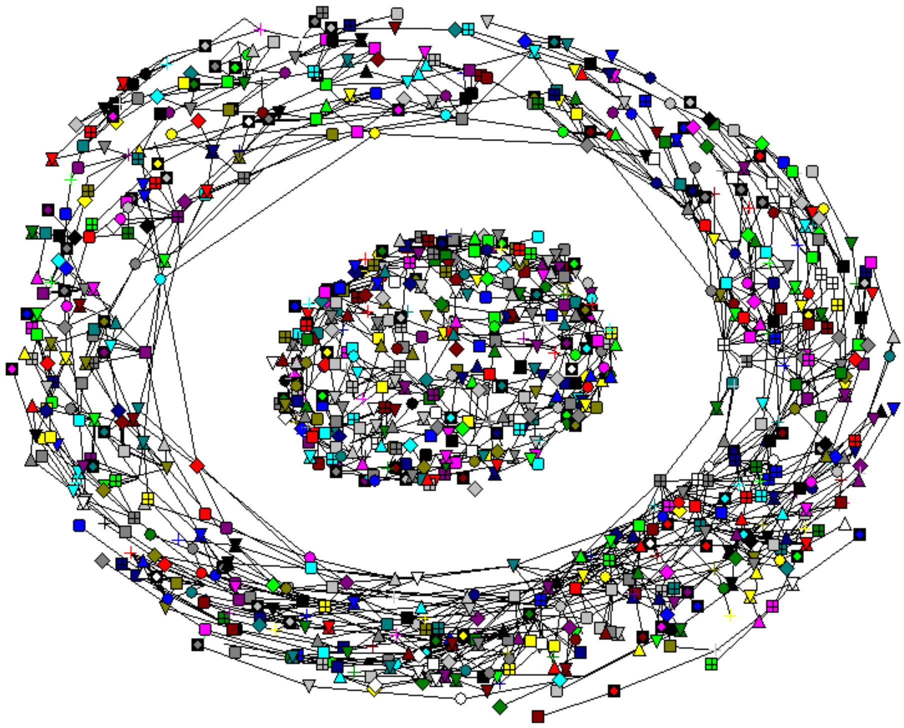

Figure 4 Inter-organizational Networks in 2008, Organizations as Actors

For Hypothesis 1, I posited that former CEOs are more likely to be dismissed if their successors have political connections. So, my hypothesis 1 is supported.

I argued that, in Hypothesis 2, if CEOs have political connections, they are more likely to be dismissed after they taking positions for a long time. The findings provide strong support for this hypothesis, confirming that political connections of CEO are significantly related with CEO dismissal. As shown by Model 4 and 5 in Table 3, the coefficients of province- and city- connections are all positive and significant, which indicates the higher dismissal rate of relevant CEOs who having the correspondent political ties (coefficient = 83.18, p-value < .01; coefficient = 12.99, p-value < .10).

Table 3 Result of Hypothesis 1 and 2

	Hypothesis 1 (Gompertz Model)			Hypothesis 2 Institutions (Gompertz Model)			
	Model 1	Model 2	Model 3		Model 4	Model 5	Model 6
Political connection							
Institutions				1.42**	0.44**	0.49	0.93
				(-0.03)	(-0.03)	(-0.39)	(-0.88)
Province-level	31.98**				0.76		
	(-0.03)				(-0.56)		
Institutions×Province-level					-2.37***		
					(-0.00)		
City-level		0.39				0.25*	
		(-0.50)				(-0.06)	
Institutions×City-level						-2.08*	
						(-0.06)	
County-level			0.68				0.24**
			(-0.71)				(-0.03)
Institutions×County-level							4.98
Control							(-0.26)
Assets	0.24**	0.44	0.42	-0.87	0.35	0.61*	0.40*
	(-0.03)	(-0.13)	(-0.12)	(-0.52)	(-0.11)	(-0.08)	(-0.07)
CEO age	1.77	1.86	1.65	0.26	2.58	2.156	2.24
	(-0.64)	(-0.59)	(-0.66)	(-0.23)	(-0.48)	(-0.43)	-0.52
CEO education	0.92	1.04	0.93	-2.64	0.75	0.68	(0.72)
	(-0.85)	(-0.95)	(-0.88)	(-0.128)	(-0.56)	(-0.52)	-0.66
Origin type	0.52	0.77	0.73	-2.17	0.68	0.46	0.28
	(-0.44)	(-0.74)	(-0.71)	(-0.24)	(-0.19)	(-0.13)	(-0.39)
Follower type	0.25*	0.35	0.36	-2.06	0.12**	0.14**	0.32
	(-0.06)	(-0.12)	(-0.13)	(-0.22)	(-0.03)	(-0.04)	(-0.15)
Log likelihood	-16.46	-18.15	-18.32	-8.202	-10.28	-13.9	-14.34
Number of observations	126	126	126	126	126	126	126

Hypothesis 3 was also partly supported. In China, connected (only county-level) CEO is resigned, his or her successor are selected from the CEO who has country-level connection. Note that other levels of connections in China are not provided in the regression because of multi-collinearity. In sum, all the Hypotheses are partly supported. Implications will be discussed in next section.

Table 4 Result of Hypothesis 3

	Hypothesis 1 (Gompertz Model)			Hypothesis 3 Networks (Gompertz Model)			
	Model 1	Model 2	Model 3		Model 4	Model 5	Model 6
Political connection							
Network Centrality				5.01**	2.86	2.19	0.59
				(-0.04)	(-0.49)	(-0.73)	(-0.40)
Province –level	31.98**				0.87		
	(-0.03)				(-0.58)		
Centrality×Province -level					-3.68***		
					(-0.00)		
City-level		0.39				3.49	
		(-0.50)				(-0.49)	
Centrality×City-level						-2.51*	
						(-0.16)	
County-level			0.68				0.92
			(-0.71)				(-0.85)
Centrality×County-level							-2.57
Control							(-0.38)
Assets	0.24**	0.44	0.42	-0.67	0.61	0.39*	0.20*
	(-0.03)	(-0.13)	(-0.12)	(-0.42)	(-0.01)	(-0.37)	(-0.07)
CEO age	1.77	1.86	1.65	0.56	2.45	2.79	1.36
	(-0.64)	(-0.59)	(-0.66)	(-0.13)	(-0.58)	(-0.93)	-0.62
CEO education	0.92	1.04	0.93	-2.74	0.95	0.79	(0.72)
	(-0.85)	(-0.95)	(-0.88)	(-0.17)	(-0.59)	(-0.62)	-0.76
Origin type	0.52	0.77	0.73	-3.17	0.40	0.73	0.50
	(-0.44)	(-0.74)	(-0.71)	(-0.25)	(-0.09)	(-0.53)	(-0.29)
Follower type	0.25*	0.35	0.36	-1.06	0.16**	0.15**	0.20
	(-0.06)	(-0.12)	(-0.13)	(-0.22)	(-0.13)	(-0.13)	(-0.05)
log likelihood	-16.46	-18.15	-18.32	-8.902	-12.98	-13.9	-16.24
Number of Observations	126	126	126	112	112	112	112

Table 5 Result of Hypothesis 4

	Hypothesis 1 (Gompertz Model)			Hypothesis 4 (Gompertz Model)		
[China]	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Political connection						
Province -level	31.98**			83.18***		
	(-0.03)			(-0.00)		
City-level		0.39			12.99*	
		(-0.50)			(-0.07)	
County-level			0.68			2.98
			(-0.71)			(-0.18)
Control						
Assets	0.24**	0.44	0.42	0.31	0.281*	0.30*
	(-0.03)	(-0.13)	(-0.12)	(-0.11)	(-0.09)	(-0.07)
CEO age	1.77	1.86	1.65	2.35	2.169	2.24
	(-0.64)	(-0.59)	(-0.66)	(-0.48)	(-0.53)	-0.52
CEO education	0.92	1.04	0.93	0.75	0.78	(0.82)
	(-0.85)	(-0.95)	(-0.88)	(-0.56)	(-0.62)	-0.66
Origin type	0.52	0.77	0.73	0.30	0.33	0.48
	(-0.44)	(-0.74)	(-0.71)	(-0.19)	(-0.23)	(-0.39)
Follower type	0.25*	0.35	0.36	0.12**	0.14**	0.30
	(-0.06)	(-0.12)	(-0.13)	(-0.03)	(-0.04)	(-0.15)
Constant	4.434e+12**	8716991.61	31356191	5.195e+10*	2.830e+11*	2.832e+10*
	(-0.03)	(-0.15)	(-0.13)	(-0.09)	(-0.07)	(-0.07)
log likelihood	-16.46	-18.15	-18.32	-12.28	-13.9	-14.34
N	126	126	126	129	129	129

Note: p-values in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

5. Discussion

This paper provides an empirical examination of the factors influencing CEO turnover in Chinese listed companies. This paper further investigated succession type of politically connected CEOs. First important finding of this study is that CEO turnover is affected by political connection of top manager. I found that politically connected CEOs are more likely to be dismissed than CEOs without connections. My results look counterintuitive and contrary to previous studies. Pi and Lowe (2010) found that political connections, measured by membership to the People’s Congress (PC) or Chinese People’s Political Consultative Conference (CPPCC), provide Chinese CEOs with significant power to protect them from being replaced involuntarily. The resource dependency theory (Pfeffer and Salancik, 1978) argues that executive power can be derived from abilities to provide firms with vital resources. Thus CEOs with political connections are important assets for firm because it can make business operations easier and thus CEOs may acquire power from their political connections. However, in this study, I proposed new perspective using dynamic resource based views. Firms have to deal with different challenges in the life stages and so update the capability by changing politically connected CEOs. Thus, politically connected CEOs can be easily dismissed after firm extracted their political resource. My findings can be also interpreted with dynamic model of “exploration” and “exploitation” (March, 1991). After the firms exploit the CEOs’ political resources, they explore another political capabilities by appointing new CEOs. As Gupta et al. (2006) pointed out, very few studies have examined the dynamics of each of these mechanisms in different contexts. My study might be first attempt to investigate how firms achieve the optimal adaptation by ceaseless choice between exploration and exploration.

Second, I found that CEO turnover is associated with its successor’s political connections. The power perspective highlights interest conflicts and power struggles within organizations, especially among senior executives (Lazear and Rosen, 1981). For example, Fama (1980) proposed that competition among top managers plays an important role in the internal monitoring of firms. However, no previous studies within my best knowledge, examine the power contests between politically connected CEOs. I argued that incumbent CEOs are vulnerable to the power contest with new CEO candidates who have powerful political resources if they have not proven their political capability. My result suggests that new emergence of politically connected candidates can increase the dismissal rate of incumbent CEOs. Thirds, I found that politically connected CEOs are replaced by new politically connected CEOs. Especially my results shows that type of successors’ political connection are similar with that of incumbent CEOs. For example, after elite is dismissed, other elite will take this position. Why do firms need similar kind of political resources? When politically connected CEOs are appointed as a firms’ CEO position, they try to utilize their political resources and construct social network with government during their tenure. When the firms run out of their incumbent CEOs’ political resources, firms would like to utilize the existing social network. Thus firms recruit the CEO who has similar type of political resources. This finding is aligned with perspective of exploration and exploitation (March, 1991) that the strategy of exploration depends on existing capability of firms.

Third, the findings of geographical institutions and inter-organizational networks are more interesting. We suggest that organizations those located in regions underdevelopment in institutions are more like to rely on political ties to access other resources and gain legitimacy. More importantly, inter-organizational networks are also valuable trajectories that could be utilized by firms to maintain their competitiveness. Firm can use inter-organization networks to learn and share knowledge. Thus, the importance of political ties decreases. Our hypotheses about those arguments are strongly supported by the empirical results.

Lastly, I found that effect of successors' connections is related with dismissal rate of incumbent CEO only in China. This result suggested that political connections of Chinese CEO is are more vulnerable to power contest with successors. This finding is very interesting and may be interpreted as the difference in market institutions. Chinese business environment is more volatile and dynamic. To deal with unpredictable environment, Chinese firm may easily discard the incumbent CEO and scout new manager if the candidate has updated political resources.

Despite the contributions, it is worth noting some limitations of this study. First, the sample of this study includes only companies listed on the Chinese stock markets. Thus it is not safe to claim that these results would necessarily hold for non-listed companies in China. However, further study could be done on Chinese non-listed firms to generalize my study to other settings. Second, I did not take consider of performance effect on CEO turnover. The prior research of CEO turnover found that firm performance (Pi and Lowe, 2010) is negatively related with CEO dismissal. Fourth, I did not include effect of regime change. Siegel (2007) argued that change in political regime could change benefit of political connection into liability to firm. Unexpected regime change can negatively affect the CEO's tenure if he had political connection with ruling party. In China, I cannot observe the regime change. However when political patrons lose their position because of corruption, the CEOs who had connection with these officials lose all the benefit from connection, and they are more likely to be dismissed. In the future, researchers may construct relevant variables based on this information to comprehensively explore change of political situation and its impact on CEO turnover.

The present research provides insight into determinants of politically connected CEO turnover using Chinese firms. Based on dynamic resource theory, my analysis confirmed that politically connected CEOs are vulnerable to power contest. In addition, I showed that political connection can increase the dismissal rate of incumbent CEOs. I also found that firms prefer the similar type of political connection when they run out the capability of incumbent political resources.

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