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Abstract

Chief Executive (CEO) Dismissals has received much attention in research literature due to its increasing occurrence. However, there has been little attention to how CEO dismissals affect stock market reactions, specifically in Norway. This paper focuses on the extent to which the stock market guides and responds to the forced dismissal of CEOs. Prior research has demonstrated the occurrence of cognitive biases when perceiving leaders in relation to organizational performance as suggested by romance of leadership (Meindhl et al., 1985). In a sample of 36 instances of CEO dismissals in Norway we measured stock market reactions by gathering data on share price changes from day to day in a six-month period before and after the dismissal. The results were similar to the notions in romance of leadership, as the CEO was dismissed after a downturn, and an increase in share prices occurred following the dismissal. Future research should be conducted to see if the same pattern occurs when expanding the time interval.

Keywords: CEO dismissal, Romance of Leadership, Stock Market Reactions

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1.0 Introduction

Chief Executive Officer (CEO) dismissal has become an increasingly common activity for Board of directors to engage in as part of their governing of a company. This increase in CEO dismissals, both voluntary and involuntary, has led to high attention from researchers trying to understand the phenomenon from a leadership- organizational- strategic- or shareholder perspective (Berns et al., 2010). Despite the high attention of CEO dismissals in existing literature, factors contributing to this, or the outcome of these decisions, have been difficult to assess. Existing literature is inconclusive with regards to whether the decision to change the CEO can add value (Freidman & Singh, 1989; Berns et al., 2010). However, what existing literature agrees on is that CEO dismissal is one of the most important tasks the Board of Directors do – implying that the overall purpose of the dismissal should be to ensure that the decision adds value for the organization. CEO dismissals are of central concern in organizations (Friedman & Singh, 1989). Berns and colleagues (2010) state that there is an increasing trend in CEO dismissals in modern corporations. We see this trend also in Norway (Øyvik & Motalleb, 2018), which is the focus of this study. One suggested reason for this increase may be the "greater scrutiny of CEO behavior, a greater desire for swift justice and action, and a smaller margin of error" (Karlsson et al., 2017, p. 3). Thus, we suggest the underlying rationale behind CEO dismissals can be explained by the theory romance of leadership.

Almost 40 years have passed since Meindhl and collegues (1985) introduced the concept romance of leadership. The theory is concerned with the psychological attributions which leaders gain through the lens of media and relevant stakeholders. Based on these attributions, we tend to praise leaders when things are good and blame them when things take a downturn (Meindhl et al., 1985; Arnulf et al., 2012). Romance of leadership remains a theoretical framework used for explaining outcomes in organizations, politics, religions, economics, and society as a whole. We analyze leaders' strengths and weaknesses, their actions and the lack thereof, debate what they should or should not have done and discuss who they are and who we expect them to be.

One could therefore argue that looking at what happens before and after a CEO dismissal is influenced by the notion of romance of leadership.

Nevertheless, the question of how crucial a leader is for organizational performance is still an important focus for researchers. Theorists have long tried to understand and hypothesize what happens to an organization when a dismissal occurs. Some suggest that this change may occur as an adaptive response to the changes in the environment (Thompson, 1967; Katz & Kahn, 1978; Perrow, 1986). Others (e.g., Grusky, 1964) view succession as disruptive events that can lead to a decline in performance. It has also been suggested that succession events have no consequence for organizational outcomes (Gamson & Scotch, 1964). An informative indicator, however, can be the reactions of shareholders to the event of a CEO dismissal (Friedman & Singh, 1989).

The romanticized view on leadership can help explain how the stock market reacts to CEO dismissals. RoL, which emphasizes a leader's significant role in organizational processes (Meindl et al., 1985), can contribute to the significance attached to CEO dismissals and their potential effects on stock performance. In this paper, we propose that in the case of a CEO dismissal, there will be a decline in stock prices as a result of the anticipated dismissal. However, following the succession, stock prizes will stabilize and subsequently increase in accordance with the theory of romance of leadership. Given the notion that forced dismissals are both expensive and uncomfortable, is it worth the risk of signaling organizational dysfunction, in the anticipation that shareholders react and act positively to the uncertain end? Our research question is therefore: *To which extent do reactions in the stock market guide and respond to the forced dismissal of CEOs?*

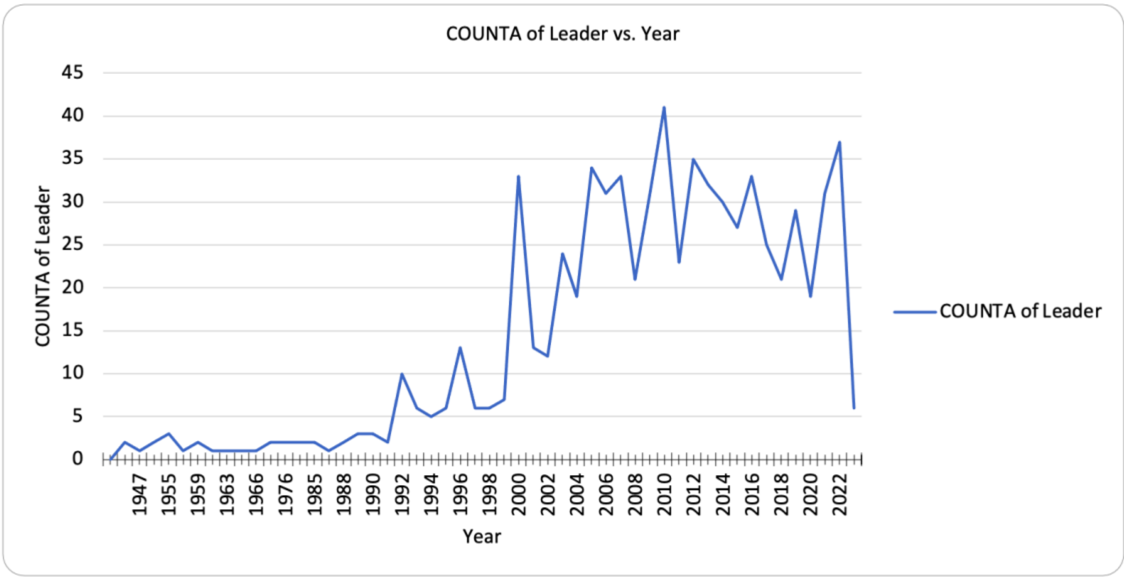
2.0 Literature review

CEO dismissal signals an important shift within the organizational structure and can have both positive and negative implications for organizations (Berns et al., 2010). To further investigate this phenomenon, we used a database which included cases of CEO dismissals covered in media, both voluntary and involuntary, in Norway from 1946 to 2018. This database provided us with an indication that there was an increase in CEO dismissals in Norway up until 2018 (Øyvik & Motalleb, 2018). We used this database as a starting point for our study, and included CEO dismissals from 2018 to 2023, using data retrieved from archival records of media coverage available online at National Library of Norway. The increase found through this database also continued from 2018-2023 (see Figure 1). However, for listed companies the dynamics in the stock market can be an indicator of what happens pre and post dismissals.

Therefore, we decided to focus on listed companies on Oslo Stock Exchange (OSE), to see how CEO dismissals affect stock market reactions. We assume that the close link and interdependence between listed companies and the stock market when it comes to performance and the possibility to create value can give us important knowledge about the period before and after CEO dismissal and increase our understanding of how the stock market (as an important stakeholder) perceive leaders in companies. This will enable us to assess to what extent the RoL theory is relevant for the Norwegian stock market. OSE has significant influence on the national economy of Norway. It serves a critical component of Norwegian financial infrastructure, fostering economic growth, capital formation and investment opportunities in the dynamic market. These segments of companies and their leaders are some of the most influential and central organizations in Norway.

Figure 1

Leadership dismissals in Norway from 1946-2023.



2.1 CEO dismissal

CEO dismissal can be defined as "a situation in which the CEO's departure is ad-hoc (e.g., not part of mandatory retirement policy) and against his or her will" (Fredricson et al., 1988, p. 255). There are various factors that can lead to the termination of a CEO. The turnover can relate to factors such as ethical misconduct, poor performance, lack of trust, illness, death, retirement, acceptance of a new job opportunity, etc. Fredricson and colleagues (1988) argues that CEO dismissal is not directly linked to the organizations performance, but mediated by four constructs, "(a) the board of directors' expectations and attributions, (b) the board's allegiances and values, (c) the availability of alternative candidates for CEO, and (d) the power of the incumbent CEO" (1998, p. 255). This suggests that CEO dismissals are not influenced by organizational performance alone. Board expectations, values, alternative options, and power dynamics all contribute to dismissing or not dismissing a CEO (Berns et al., 2010).

Jenter & Lewellen (2021) introduced a new way of classifying dismissal, rather than categorizing turnovers as either forced or voluntary. Due to the many reasonings behind CEO dismissal they introduced *performance-*

induced turnover, they further define this concept “as turnover that would not have occurred had performance been “good.” (2021, p. 1). The underlying assumption is that turnovers occurring at performance levels that are sufficiently high are independent of performance and would have taken place regardless of the level of performance. Jenter & Lewellen (2021) found that when investigating performance-induced turnover the percentage of dismissals were roughly twice the size compared to forced turnovers identified in previous literature (2021; Warner et al., 1988, Denis and Denis, 1995, Kim 1996, and Parrino, 1997). This suggests that performance-related factors play a more significant role in CEO dismissals than previously recognized, emphasizing the importance of considering performance-induced turnover in understanding CEO dynamics.

Huson and colleagues (2001; Berns et al., 2010) argued that one of the most important decisions board of directors do is replacing a CEO, stating that the decision itself would cause long term implications for the organization. Some of these implications are related to the organization's financing, investment and operating. Berns et al., (2010) demonstrates how various individual, organizational, and environmental factors contribute to CEO dismissals. In addition to poor company performance and ethical violations, CEO characteristics, executive compensation, and board independence are identified as drivers of CEO dismissal.

Dismissals of CEOs frequently attract considerable attention due to their visibility, public profile, and intrigue (Gupta et al., 2020). Observers and stockholders tend to attribute extreme negative or positive performances of an organization to the leader. Crossland & Chen (2013) states that “CEO dismissal is a window to the heart of executive accountability” (p. 79). The cross-sectional relationship related to firm performance and CEO turnover can depend on how payments are made and whether the board of directors are funded by incentives. Perry (1999; Adams et al., 2010;) found that when the board is offered incentives it prompts them to act more vigilant.

One of the most prominent theories within CEO dismissal is *agency theory,* which is a theoretical framework with the intention of organizing and resolving conflict between shareholders. The agency theory is based on the agency relationships of publicly held companies (Desai et al., 2003). A primary method of protecting shareholder interests is through the monitoring from the board of directors, according to agency theorists (Desai et al., 2003; Fama & Jensen, 1983). When CEO dismissal is considered, agency theory emphasizes the power struggle between the board in relation to monitoring shareholders (Berns et al., 2010; Jensen & Meckling, 1976). Different corporate governance mechanisms, including boards of directors, control markets and ownership structures, can be affected by agency theory (Aguilera & Jackson, 2010; Dalton et al., 2007). The agency relationship entails separation between a company's shareholders and management. As a result of this separation, the agent's self-serving agendas and the principal's policies might diverge. Furthermore, this divergence in managerial interests and shareholders' interests results in monitoring managerial decisions becoming imperative. For this reason, boards of directors have the authority to monitor the CEO's actions in order to comply with shareholders' interests (Desai et al., 2003; Berle & Means, 1932; Jensen & Meckling, 1976). Stakeholders' perception of the governance, and the company's alignment of managerial decisions with shareholder interests, is an important implication in stock market reactions. Positive stock market reactions can occur when these factors are perceived favorably, while negative reactions may result in concerns about governance deficiencies or instability. When a board initiates the removal of a CEO, it communicates to different stakeholders that the board is taking action to address a problematic situation and fulfilling its responsibility to oversee and regulate management (Friedman & Singh, 1989).

In order to effectively carry out control or oversight duties, the board must maintain independence from the firm. However, to effectively provide guidance, support, and strategic advice to the firm, the board must be familiar with the company (Zhang, 2013). The dynamics within the board can fluctuate between periods of cooperation, where board members work together and support the CEO, and periods of increased scrutiny, where they focus more on monitoring the CEO's actions and decisions. Cycles of cooperation and control are self-perpetuating, which means that once a pattern is established, it tends to continue (Zhang, 2013; Sundaramurthy & Lewis, 2003).

Kahneman & Miller (1986) propose that individuals tend to look for alternative outcomes in comparison to reality when decision making, also known as *norm theory*. The research emphasizes that the context in which individuals are presented plays a significant role in shaping their judgments, and it suggests that people generally exhibit a greater aversion to risk when assessing potential gains, while displaying a higher inclination towards risk-taking when evaluating potential losses. Thus, norm theory assumes that stakeholders generally will prefer the board to take action, regardless of whether the outcome is positive or negative (Arnulf et al., 2012; Kahneman & Miller, 1986; Kahneman & Tversky, 1982).

The institutionalization theory outlines the process by which organizations, norms and practices become embedded and established within social structures. The theory is concerned with the formation and acceptance of institutional norms and routines that guide behavior in a society and organizations (Scott, 2005; Zucker, 1995). According to this theory, this phenomenon occurs through three processes: cognitive, regulatory and normative. The cognitive processes are regarding the development of shared understandings and beliefs regarding certain structures' value and legitimacy. Regulatory processes provide incentives and sanctions for compliance or non-compliance with formal rules and regulations. Lastly, normative processes involve social pressures and expectations influencing individuals and organizations to conform to established institutional norms (DiMaggio & Powell, 1983). Institutionalization theory is concerned with shaping behavior and organizational outcomes in a societal perspective. In addition to this, the theory emphasizes the importance of legitimacy, and recognizing why certain practices and structures become legitimate and are viewed as desirable. Some practices are not consistent with widely recognized norms, values and rules. The theory seeks to uncover how these practices gain legitimacy (Krenn, 2017; Scott, 2001). The institutionalization theory can help us understand the growing trend of CEO dismissal. Certain expectations and norms may become deeply ingrained in organizations and our current society about what constitutes effective leadership. Stock market reactions may reflect investors' assessment of the impact of the CEO's departure on the company's future performance and strategic direction. Positive market reactions, such as an increase in stock prices, may indicate that shareholders perceive the CEO dismissal as a positive step towards improving company performance and aligning with expected leadership norms. According to Zuckerman (1999; Fanelli & Grasselli, 2006; Guiso et al., 2004) there is a strong social component to the stock market. Stock prices are more aligned with investors' expectations regarding future performance rather than past performance. Berns and colleagues (2010) further state that dismissal of a CEO is strongly correlated with company performance, stock prices, and strategic risk-taking in an organization.

Fanelli & Grasselli (2006) investigated the relationship between CEO charisma and the US stock market. They found that CEOs and analysts do not need to use their position or authority to force their influence on others. Rather, they make an impact by actively participating in discussions and contributing ideas. It is through this collaborative process that charisma can emerge and be evident. However, a CEOs charisma can attract investors, which can enhance stock prices and further influence the market segment. Therefore, one can assume that CEO charisma plays a significant role in shaping investor perceptions and market dynamics. Fanelli & Grasselli (2006) further argue that the socially constructed phenomenon of CEO charisma is a collective effort, involving stakeholders such as the CEO themselves, financial analysts, media coverage and investors. The study by Jenter & Lewellen (2021) suggests that while CEO turnover due to poor performance is generally positively received by the market, the reaction varies depending on the circumstances and the characteristics of the firm and the CEO.

Understanding the role of CEO charisma and its influence on stakeholders and society can be important when comprehending the dynamics of the stock market and implications for corporate performance (Fanelli & Grasselli, 2006). If a CEO's charisma is positively perceived and associated with successful leadership, it may contribute to job security and a reduced likelihood of dismissal. On the other hand, if a CEO's charisma is viewed negatively or if there are concerns about their ability to effectively lead the organization, it could increase the chances of dismissal (Viertmann, 2018). The relationship between CEO charisma and CEO dismissal can be viewed in the context of the idealized image and expectations associated with charismatic leaders. In this context, charismatic CEOs may be initially celebrated and regarded as exceptional leaders, attracting admiration and support from various stakeholders. Their charisma can create a sense of excitement, inspiration, and confidence among employees, investors, and the public. However, if the reality of the CEO's performance fails to live up to the heightened expectations associated with their charisma, disillusionment and skepticism may arise (Fanelli & Grasselli, 2006; Meindhl et al., 1985). Stakeholders may become more critical and less forgiving, questioning the actual impact of the CEO's charisma on tangible results and organizational success. In such cases, a discrepancy between the perceived charismatic qualities and the actual leadership effectiveness can lead to increased scrutiny, potential loss of confidence, and ultimately an elevated risk of CEO dismissal (Viertmann, 2018; Meindhl et al., 1985).

2.2 Romance of Leadership

Romance of leadership (RoL) is a theory often used in the field of leadership and organizational behavior. RoL is concerned with the collective conscientiousness and perception of a leader (Meindhl et al., 1985). We assume that stock market perception of a CEO may influence their expectations regarding the future. As such, this relationship becomes important for the company, and for the CEOs tenure. Leaders gain collective attributions depending on what they do, what they are able to accomplish, and the general effect they have on one’s life. Although the concept of RoL has significantly influenced the way leadership is understood and studied, this approach has also been criticized for oversimplifying the complexities of leadership and for promoting narrow and idealized expectations regarding leadership (Arnulf & Gottschalk, 2013). However, Meindhl and colleagues (1985) argue that leaders often assume a romanticized and heroic role in individuals’ perception and understanding. Thus, the leader is often perceived as a central figure in an organization and is seen as a powerful force in shaping organizational events and outcomes (Meindhl et al., 1985; Northouse, 2021).

Meindhl et al. (1985) executed multiple studies seeing how leaders are perceived in the sense of an organization’s failure or success. Firstly, they conducted archival studies to examine the relationship between leadership emphasis and organizational performance. They found that in the years when organizations performed well, leadership was more emphasized. However, they found that in years of poor performance, leadership was also more highly emphasized. This suggests both a positive and a negative bias towards leadership during periods of success and failure. They also found that interest in leadership tends to be highest during economic upswings. Further, the authors, through experimental conditions, demonstrated that attributions of leadership as a casual explanation were more likely to occur when performance was either very good or very poor. Thus, Meindhl et al. (1985) challenges the assumption that leaders have significant control over organizational outcomes, and states that the role of a leader is symbolic.

Meindhl et al. (1985) suggest that there is more emphasis on leadership in media when an organization performs both good and bad and that this leads to cognitive biases towards the leader during organizational success or failure. Thus, the mentioned study implies the relevance between CEO dismissals and leadership emphasis for participants in the stock market who pay attention to the media. As such, it could be suggested that investors and participants in the stock market, who rely on media coverage, should be interested in the dismissals of leaders as it may have a significant impact on share prices. Further, Meindhl et al. (1985) revealed that the emphasis on leadership is typically highest during economic upswings, suggesting that CEO dismissals can influence market sentiment and investor behavior. This also indicates that CEO dismissals and the associated media attention can potentially affect market perceptions and investor decisions, making it relevant for stock market participants to closely follow leadership changes in organizations.

The notion of romance of leadership can provide insights about the reasons for changing leadership in response to perceived variations in an organization’s performance. As a result of the concept of RoL, CEOs are often perceived as larger-than-life figures who have a significant influence on the success or failure of a company (Arnulf & Gottschalk, 2013). Even the most successful and seemingly powerful leaders can be vulnerable and subject to termination. Thus, the CEO will be praised in the business community if the organizational performance is positive and blamed for the negative performance outcomes. Consequently, dismissals are more likely to be used as a means of holding CEOs accountable (Lerner & Tetlock, 1999; Crossland & Chen, 2013). Research suggests that CEOs are replaced not because of a lack of capability, but rather as scapegoats for poor performance of their firms (Firth, 2006).

Furthermore, romance of leadership can also play a role in the way that CEO dismissals are perceived and anticipated by the public and investors. When the CEO is perceived as having strong leadership qualities and a compelling vision for the company, their dismissal may be viewed as a setback for the organization and could negatively affect the stock market. In contrast, if the CEO has failed to deliver results or to demonstrate good leadership, their dismissal may be viewed as a necessary step towards a better future for the company.

There exists a body of literature aimed at understanding the causes and outcomes of CEO dismissal. Empirical studies indicate that poor organizational performance increases the likelihood and speed of managerial succession (Grusky, 1963; Helmich and Brown, 1972; Arnulf et al., 2012). There is less consensus regarding organizational performance after a succession takes place (Meindhl et al., 1985). One might think that the effect of organizational performance after a dismissal should be positive, given the positive intentions and expectation associated with such events. However, some argue that successions are disruptive to crucial processes, leading to a decline in performance (Grusky, 1963). In addition, Grusky (1963) views leadership succession as a form of "ritualistic scapegoating", placing emphasis on its symbolic nature and contending that its impact on organizational performance is limited. It has also been suggested that succession events have no consequence for organizational outcomes (Gamson & Scotch, 1964). Building on the assumptions from RoL stating that CEOs are praised when the organizations perform well, and blamed when performance are declining (Meindhl et al., 1985), one could argue that when a leader is dismissed an assumption can occur that a more capable successor will replace them and further create organizational success. Thus, in the stock market, the belief that a “problem” has been solved when dismissing the CEO, could lead to positive reactions and share prices may potentially increase.

Further, Arnulf and colleagues (2014; Kelley, 1967) found that when hope is lost and negativity prevails, the same manager who was once viewed as a hero becomes branded a failure. This highlights the dynamics of attributions in comprehending how poor performance is interpreted. The perception of poor performance is also vulnerable for being influenced by collective responsibility, and the context attributed to the leader and the shift in individual attributions from hero to scapegoat. Additionally, Arnulf and colleagues (2012) argue that the decision-making process is influenced by cognitive biases, leading to what they refer to as “heroic leadership illusions”, and previously suggested by Meindhl et al., (1985) and the notion of romance of leadership. These illusions arise when decision-makers overestimate the change in leadership and underestimate other contributing factors to outcomes. Instead of considering long-term trends or underlying factors that contribute to team success, football managers risk being dismissed because of short-term performance fluctuations. This indicates that decisions to dismiss CEOs may be more driven by the desire to create a perception of taking decisive action. Which further attributes sole responsibility for organizational difficulties to the CEO, also known as “scapegoating” (Arnulf et al., 2012; Viertmann, 2018). This phenomenon can explain how stock market perceptions could lead to the stock market reacting positively when the organization acts and dismisses the CEO. However, as stated in the study by Arnulf et al. (2012) this positive effect could be temporary, and performance might regress to previous levels.

Leadership is frequently perceived as encompassing responsibilities that transcend the specific job duties or functional role of the leader. Society's expectations are projected onto leaders, and leadership becomes less important than acting as a substitute for a larger concern. This perspective highlights how CEOs take on a leading role in shaping public narratives, influencing our perception of industry dynamics and the broader significance they hold in the public sphere. While people engage in storytelling, the act of attributing symbolic blame provides a momentary soothing effect, fostering a sense of collective purpose within a society (Viertmann, 2018).

Romance of leadership can help explain how the stock market reacts to CEO dismissals. In modern society leaders can often be seen as the face of the organization. The romanticized view of leadership, which emphasizes a leader's central role in organizational processes (Meindl et al., 1985), can contribute to the significance attached to CEO dismissals and their potential effects on stock performance. There is an unprecedented growth in media coverage within the last decades who is devoted to document and discuss organizational matters. OSE listed companies have mandatory disclosure agreements where stakeholders have a right to insight into current situations within the companies. Therefore, shareholders have daily access to recent developments through business media outlets, and stock market disclosures. A great deal of attention is paid by the media to leaders associated with dramatic accomplishments in their organizations (Chen & Meindl, 1991).

3.0 Development of the hypothesis

As previously mentioned, we have seen an increase in CEO dismissals in Norway. This sparked our curiosity about how important the CEO is for organizational performance and especially how the stock market reacts to CEO dismissals. Hence, this research aims to examine the relationship between CEO dismissals and stock prices during critical periods before and after the event. Using RoL as our theoretical perspective, we propose that stock market perception of a CEO will be identified in the stock prices. Moreover, after a new CEO is appointed, the stock prices are expected to stabilize and then increase. The study aims to investigate whether this pattern remains valid and to provide insights into the impact of CEO dismissals on stock market behavior. In the realm of corporate dynamics, leadership changes can often have profound implications for organizations and their stakeholders. One crucial aspect that has garnered our attention is the perceived influence of the CEO on stock prices before and after the anticipation of a leadership change. Our research aims to examine the extent to which the CEO, as perceived by market participants, impact stock prices during critical periods. By further analyzing the impact of CEO dismissal, we seek to establish the relationship between perceived importance of the CEO and stock market dynamics, providing valuable insights for both academic and practical perspectives.

Based on this foundation, and our research question ("*To which extent do reactions in the stock market guide and respond to the forced dismissal of CEOs?")* we formulated two hypotheses:

Romance of leadership argues that a leader is perceived as a larger-than-life figure who is attributed capabilities they may not possess. However, when an organization experiences a downturn in performance, the CEO will be blamed, which can end in a dismissal. Thus, we expect a significant decrease in stock prices leading up to the dismissal of the CEO. We hypothesize that:

Hypothesis 1: *CEO dismissals on the stock exchange will be preceded by a significant drop in the company's share prices*.

For stockholders and participants in the stock market, a change in leadership after a downturn can lead to positive expectations in the new CEO. Thus, aligned with RoL, we hypothesize that:

Hypothesis 2: *After CEO dismissal there will, on average, be a significant increase in the stock prices.*

4.0 Research Methodology

The aim of this research paper was to see how CEO dismissal affects stock market reactions. SPSS was used to create regression equations and graphical representations of stock prices. Based on the sample of all listed companies between 2003-2023 dismissing a CEO, we wanted to see if there was a pattern in the stock market that could predict when a CEO is dismissed and how the dismissal affects the listed companies and their stocks after the fact. We hypothesize that CEO dismissals in these companies can have a significant impact on their stock prices, market perceptions and investor confidence. OSE provides a real-time market platform where we are able to analyze immediate market reactions and their consequences. Since OSE is a regulated marketplace, they operate under specific rules and regulations. This means that the listed companies are required to disclose CEO departures and their reasonings. It provides valuable insights into the causes, patterns, and consequences of CEO departures in Norwegian organizations. In our perspective, the reaction of stockholders to a CEO dismissal serves as a valuable indicator of the significance attributed to the event.

4.1 Sample

Given our specific focus on listed companies on Oslo Stock Exchange, our final sample consists of 36 unique instances of CEO dismissals across 29 distinct listed companies, which includes all CEO dismissals in Norway covered in media from 2003 to 2023 (See Table 1).

Table 1

Our sample of all listed companies who experienced CEO dismissals from 2003-2023.

Listed companies CEO dismissals	Day of dismissal
PGS	27.11.2003
PGS	01.01.2004
Orkla	25.01.2005
Marine Harvest AS	24.03.2010
Orkla	02.07.2010
Selvaag bolig	19.10.2020
Orkla	03.05.2012
Det norske	31.10.2012
Noreco	24.11.2014
Endur	02.09.2021
Q-free	04.11.2015
Yara	07.10.2014
Noreco	13.10.2015
North Energy	30.04.2015
Atea	24.04.2015
Targowax	02.11.2016
Cxense	08.09.2017
Kongsberg Automotive	06.09.2020
Orkla	11.04.2022
Norwegian	21.06.2021
Axactor	03.04.2020
Flyr	25.11.2022

Pexip	23.08.2021
Noreco	29.11.2021
Multiconsult	11.01.2019
B2Holding ASA	15.09.2019
XXL	13.05.2022
Sandnes Sparebank	29.08.2016
Evry	24.03.2015
Odfjell drilling	09.12.2014
Scana	12.01.2023
Zaptec	28.02.2022
Yara	19.11.2018
Equinor	10.08.2020
DNB	25.08.2019
Storebrand	07.05.2012

Note. N = 36

4.2 Procedure

In order to investigate whether the dismissal of a CEO has a significant impact on the stock market reactions we collected data on the share price per day and the OBX index of the 36 different instances by using Refinitiv 365. We further collected the share price per day and the OBX index three months before and three months after the date of dismissal disclosed through media coverage. The objective was to examine the stock market reactions pre- and post-dismissal and investigate whether there are any observable stock market reactions that could indicate the perceived importance of the CEO.

4.3 Data analysis

We conducted multiple regression analysis where we used *days before and after departure, where the values are negative before dismissal, positive after dismissal and 0 the day of departure* (Day) as a dependent variable. Further we used *Share price per day* (P*), OSE Index per day* (OBX), *Percentage change in share price from day to day* (Sharechange*)* and *Percentage change in OSE index from day to day (*Indexchange) as independent variables. We modified the Day variable to only consist of the days leading up to the dismissal, to see if the variables could predict the dismissal of the CEO's. In the second analysis we modified the Day variable to only consist of the days after the dismissal, to see how the share prices moved after the dismissal. Further, a variable named "abnormal returns" was made to see how much the share prices move compared to the index. Which was also demonstrated with graphs to illustrate the movements.

5.0 Results

We hypothesized that the days leading up to a CEO dismissal could be predicted by the stock market reactions. A multiple regression analysis was performed in SPSS to determine if the days leading up to a CEO dismissal could be predicted by the share price per day (P) and the OSE index per day (OBX) and the percentage change in these variables from day to day (sharechange and indexchange).

Results demonstrated (see Table 2) that share price per day were negatively associated with the days leading up to the CEO dismissal (β = - .027, p = .230), however not significantly. In contrast, percentage change in share price from day to day (sharechange) had a significant negative association with the days leading up to the dismissal (β = - .049, p = .035). Further, OSE index (OBX) also had a negative association, but it was not significant (β = - .004, p = .842). Lastly, percentage change in OSE index from day to day (indexchange) had a positive association with the days leading up to a CEO dismissal, thus not significantly (β = .021, p = .362). These results suggest that percentage change in share price from day to day (sharechange) predicts a CEO dismissal better compared to OSE index (OBX), share price per day (P) and percentage change in OSE index from day to day (indexchange). Indicating that the share price dynamics are a good indicator for CEO dismissals and stock market reactions.

Table 2

Predictors of days before CEO dismissal

Variable	*B*	*SE*	*β*
Constant	-31.01**	1.06	
P	-.006	.005	-.027
OBX	.00	.001	-.004
Sharechange	-45.81**	21.70	-.049
Indexchange	4.69	5.14	.021
R^2	0.003		
F	1.54		

Note. SE = Standard error, P = share price per day, OBX = OSE index per day, sharechange = percentage change in share price from day to day, indexchange = percentage change in OSE index from day to day. ***p* <.05.

To further illustrate these findings, plots were made in SPSS (see Figure 2, 3 and 4). Due to only one significant variable, we focused our further analysis on percentage change in share price from day to day (sharechange). Figure 2 shows how the change in share price from day to day was for all 36 listed companies in the three months before the CEO dismissal. As not all companies had –67 days, and the highest point in the graph is at –45 days, we made another graph from –45 to –1 days (see Figure 3). This shows a steeper downfall in the share price from day to day from –45 days to –1 days, indicating that the closer one gets to the dismissal of the CEO, the worse the stock market reactions are. By viewing Figure 2 one can see that there is another interval where the stock prices fall steeper, from –45 to –19 (see Figure 4). This suggests that it is in this time period the board begins to doubt the CEO and where the discussions of their dismissal may begin.

Figure 2

Percentage change in share price from day to day in the three months before dismissal.

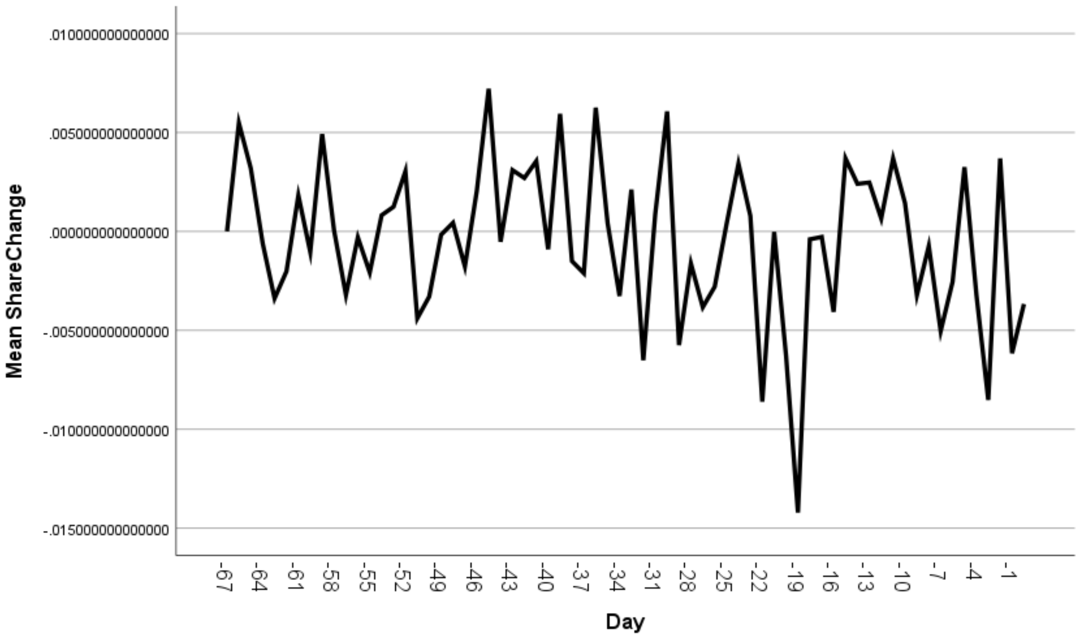


Figure 3

Percentage change in share price from day to day with the time interval -45 to -1 days before dismissal.

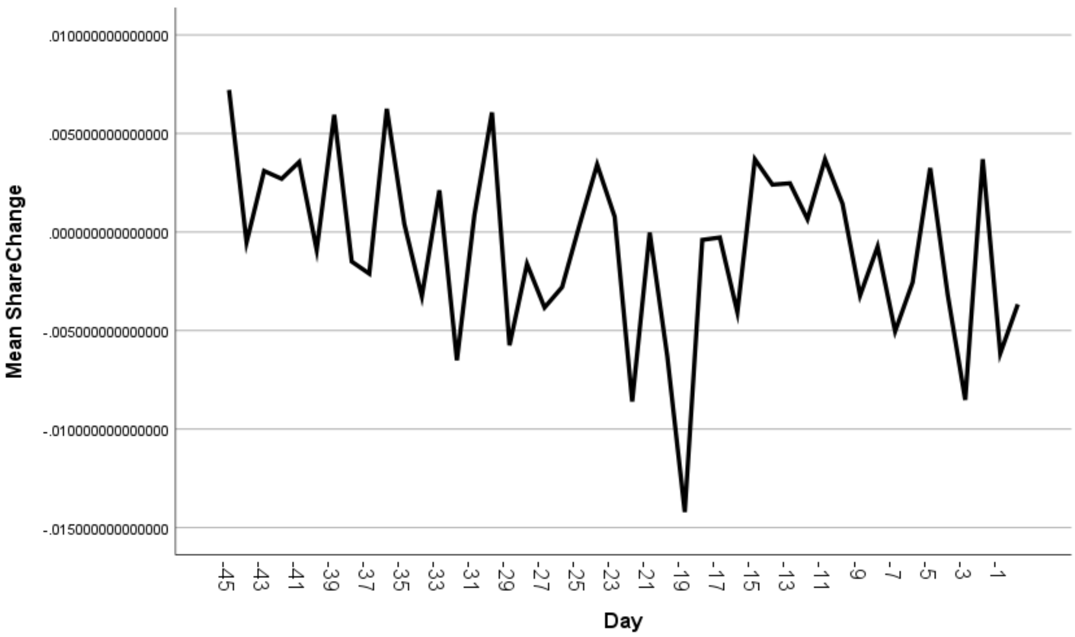
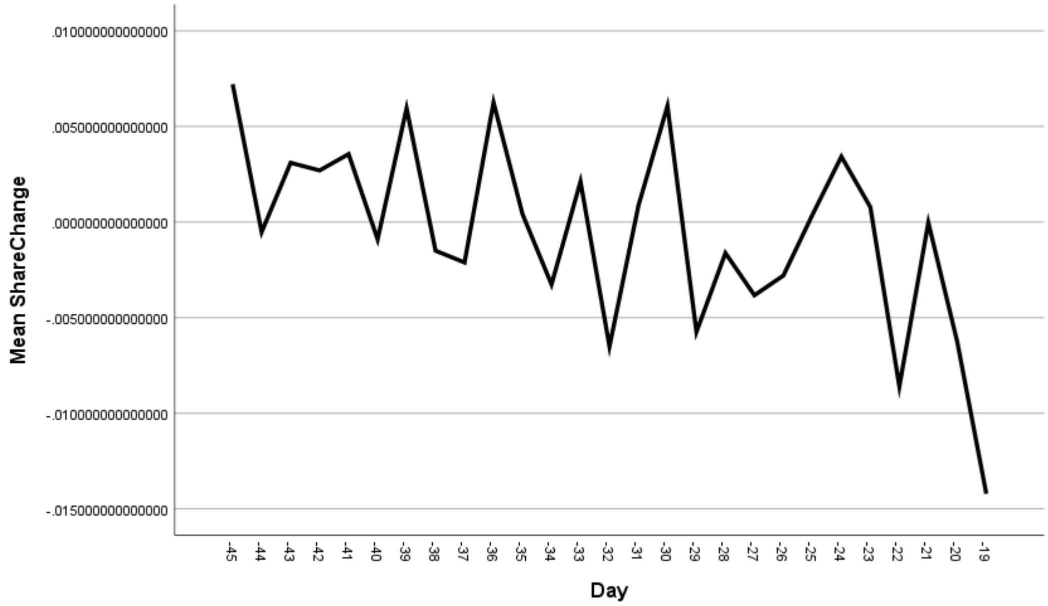


Figure 4

Percentage change in share price from day to day with the time interval -45 to -19 days before dismissal.



A second multiple regression analysis was performed to determine what happened with the share price from day to day and OSE index (OBX) from day to day after the dismissal of a CEO. Results demonstrated (see Table 3) that share price per day (P) were positively associated with the days after a CEO dismissal (β = .008, *p* = .727), however not significantly and has no effect. In contrast, percentage change in share price from day to day (sharechange) had a significant positive association with the days after the dismissal (β = .053, *p* = .025). Lastly, percentage change in OSE index from day to day (indexchange) had a negative association with the days after a CEO dismissal, thus not significantly (β = - .015, *p* = .535). These results suggest that percentage change in share price from day to day (sharechange) better predicts the aftermath of a CEO dismissal compared to OSE index per day (OBX), share price per day (P) and percentage change in OSE index from day to day (indexchange).

Table 3

Predictors of days after a CEO dismissal.

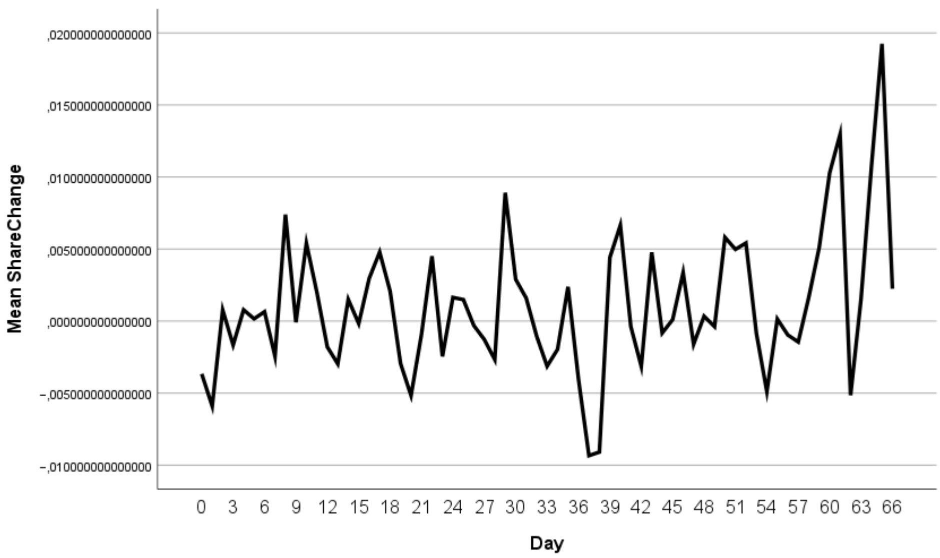
Variable	*B*	*SE*	*β*
Constant	-31.03**	1.07	
P	-.002	.005	-.008
OBX	.000	.001	-.000
Sharechange	51.12**	22.77	-.053
Indexchange	-3.15	5.08	-.015
R^2	.003		
F	1.32		

Note. SE = Standard error, P = share price per day, OBX = OSE index per day, sharechange = percentage change in share price from day to day, indexchange = percentage change in OSE index from day to day. ***p* <.05.

To further illustrate these findings, plots were made in SPSS (see Figure 5). Due to only one significant variable, we focused our further analysis on percentage change in share price from day to day (sharechange). Figure 5 shows how the change in share price from day to day was for all 36 listed companies in the three months after the CEO dismissal. As illustrated by Figure 5, there is an immediate downfall the days after the dismissal. However, it stabilizes within two weeks and by the end of the three months it increases.

Figure 5

Percentage change in share price from day to day in the three months after dismissal.



To conclude, we wanted to see the relationship between the stock change and the index change in the days leading up to and the days after the CEO dismissal, a variable we named abnormal returns. Figures 6, 7 and 8 show the stock market reactions for the 36 companies and the rest of the listed companies on Oslo Stock Exchange. As demonstrated by Figures 6, 7 and 8, the line is flat. This suggests that the 36 companies do not perform better or worse in the stock market than the rest of the listed companies on Oslo Stock Exchange.

Figure 6

A graph demonstrating how much the share prices move compared to the OSE index, in the three months before and after dismissal.

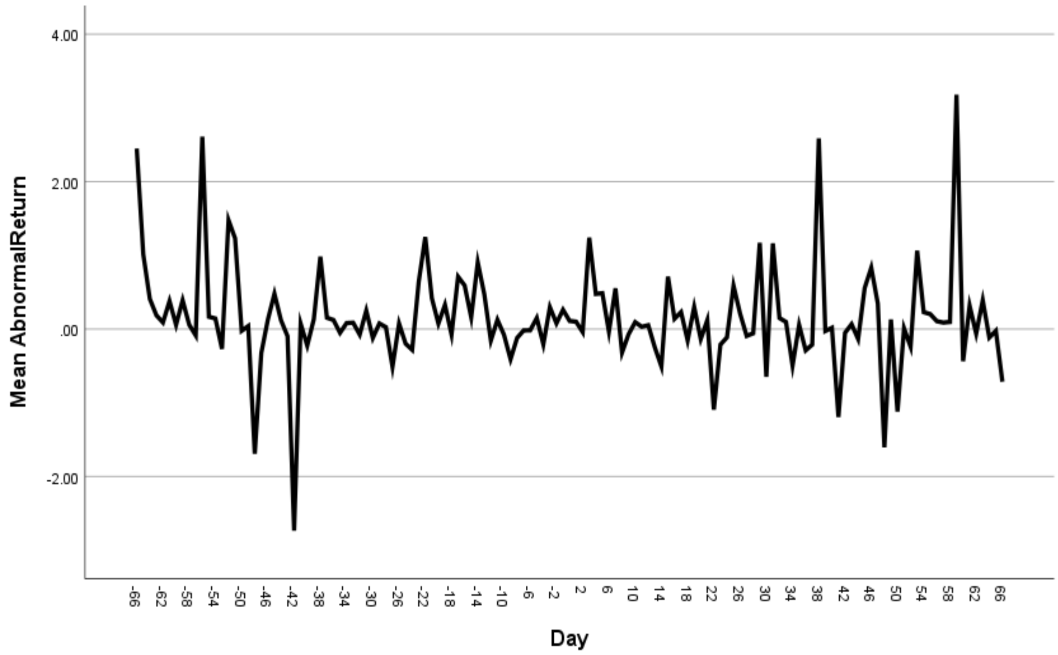


Figure 7

A graph demonstrating how much the share prices move compared to the OSE index, from day -45 to -19 before dismissal.

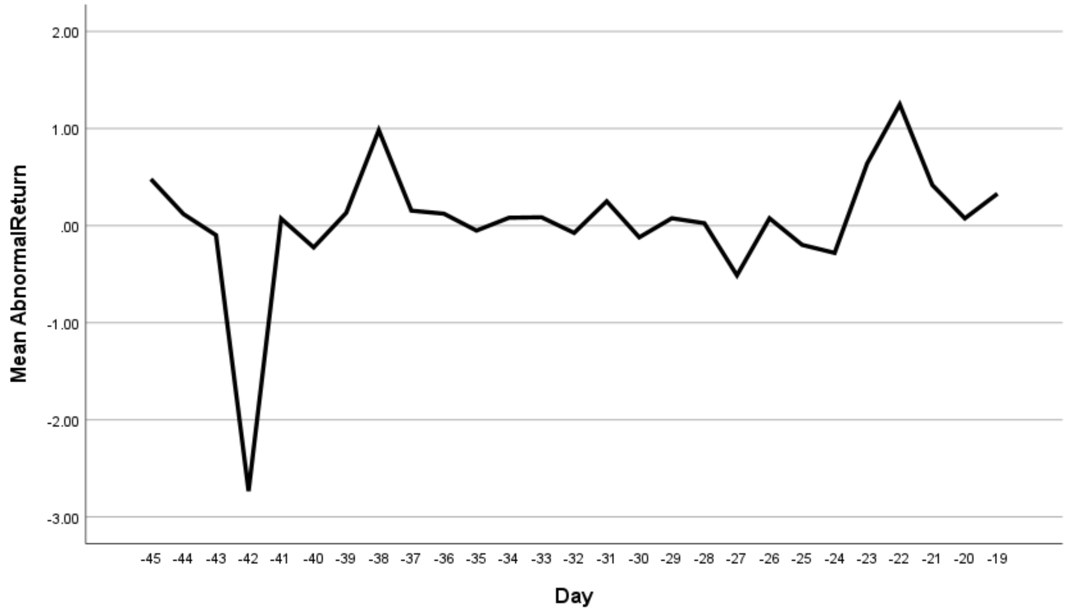
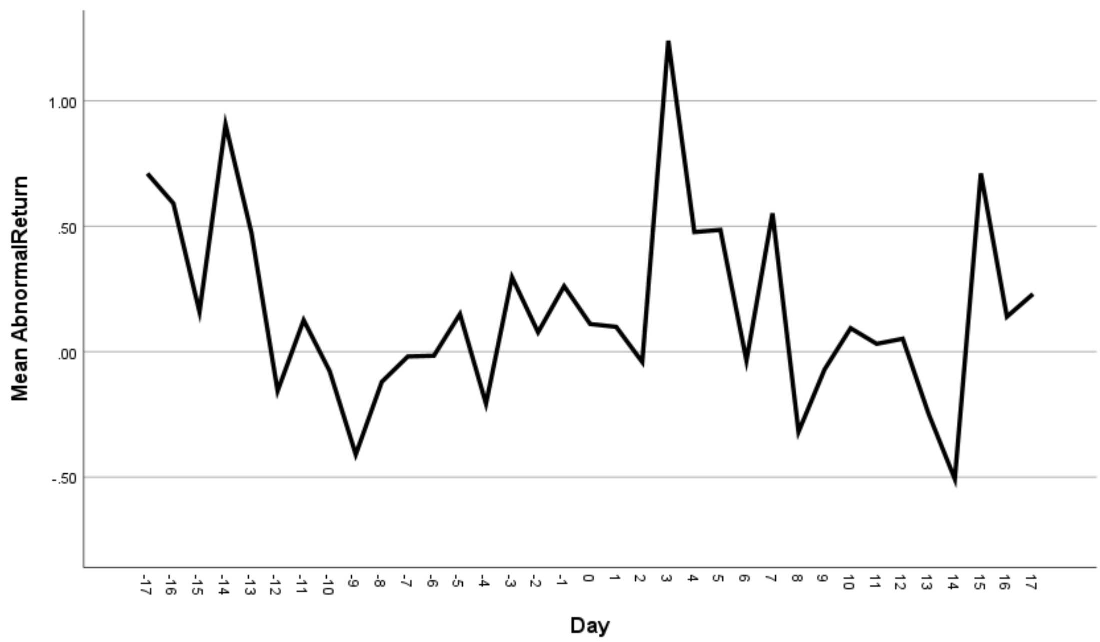


Figure 8

A graph demonstrating how much the share prices move compared to the OSE index, from day -17 to 17.



6.0 Discussion

This study aimed to examine to which extent the reactions in the stock market guide and respond to the forced dismissal of CEOs. Our results support the first hypothesis (H1), namely that CEO dismissals on the stock exchange will be preceded by a significant drop in the company's share prices. In addition, the second hypothesis (H2), after a CEO dismissal there will, on average, be a significant increase in the stock prices, was also supported since the companies ultimately performed better after the dismissals. However, these effects were small.

The results argue that stock market reactions can be a contributing factor to a CEO's dismissal. The results indicate that there is a significant downfall in the stock price in the three-month period before a leader is dismissed. Moreover, it is in the 45 to 19 days before the dismissal that the biggest downfall happens. In this time interval the stock market reacts, and a downfall occurs. Thus, an argument can be made that the board feels pressured to act in this interval and the talk about dismissing the CEO starts spiraling. On day 19 before dismissal is the greatest fall, which may indicate the turnover point where the board starts doubting the CEO and the final decision is made.

Furthermore, the results suggest that the company's stock price increases in the three-month period after the CEO dismissal, indicating that performance in the stock market increase after a CEO dismissal. However, the increase is small. Moreover, in the first week after the dismissal there is a decrease, suggesting that the companies perform worse for a brief period, making the effect short-lived.

Moreover, the decline in stock price can indicate the board's willingness to dismiss the CEO. Thus, feeding into the idea that the company's performance is based entirely up to the collective perception of the CEO, as suggested by Meindhl et al. (1985). However, as indicated by abnormal returns this decline may be without cause for concern. To elaborate, the abnormal returns had a flat line indicating that the companies did not perform worse nor better than the rest of the companies on OSE. This means that the board may dismiss leaders without regard for how the stocks in the rest of the listed companies are performing, only their own company, suggesting that they tend to look at the downfall with tunnel vision. According to agency theory the boards may face challenges in fulfilling their responsibilities due to the tension between independence and familiarity, which can result in a dismissal that could have been avoided (Zhang, 2013).

According to our findings, doubt emerges within the board and research has shown that in such situations, the CEO will be less inclined to ask for guidance. This is often to avoid being perceived as weak (Zhang, 2013; Westphal, 1999). Relational risks, defined as “the probability and consequences of not having a satisfactory corporation” (Das & Teng, 2001, p. 253), often impact board task performance. The skepticism can lead to a reluctance to openly discuss difficulties or information sharing with the board, thereby hindering effective communication and decision-making. An unsatisfactory relationship between the board and the CEO causes inability to perform tasks effectively (Zhang, 2013). Board control tasks can be defined as “evaluating company and CEO performance to ensure corporate growth and protection of shareholder’s interest” (Zahara & Pearce, 1989, p. 294), and stems from agency theory. As part of its control responsibilities, the board ensures that the CEO's effort is rewarded through appropriate remuneration while minimizing agency costs. Inefficiencies and potential financial losses may occur when the CEO's actions do not align with those of the shareholders (Jensen & Meckling, 1976). As stated earlier, the board-CEO dynamic can fluctuate between periods of cooperation and control, which are self-perpetuating (Zhang, 2013; Sundaramurthy & Lewis, 2003).

From our data we observe a tendency where, once doubt occurs, the bord feels an urge to take action and dismisses the CEO. Furthermore, as previously mentioned, the board must maintain independence from the firm in order to carry out control or oversight duties (Zhang, 2013). However, financial incentives can be a determining factor when the board decides to dismiss a CEO. As Perry (1999; Adams et al., 2010) states financial incentives can prompt the board to act more vigilant. The board often hold shareholder positions within the company (Nguyen, 2011), and could potentially be driven by financial incentives, thus the board can be perceived as subjective due to potential personal gain. This can be because they are dependent on the financial performance of the company due to subjective investments. One can therefore argue that the board may lack a sense of independence from the company.

As mentioned previously, the institutionalization theory provides a theoretical framework for how norms and expectations around CEO behavior and performance can evolve. With changing societal values and expectations, CEOs may be increasingly scrutinized to demonstrate certain qualities or achieve certain goals. CEO dismissal has become a trend within corporate organizations the last decades (Berns et al., 2010). One can argue that in the light of evolving governance that CEO dismissal to some extent has become a norm. As boards respond to external pressures or changing stakeholder expectations, CEOs who fail to conform to the new institutional norms may face dismissal. This is due to the board complying with the evolving governance expectations (Zhang, 2013). As previously mentioned, CEOs are often regarded as “the face of the organization”, meaning that their behavior reflects back on the organization. The CEO can have a significant impact on the company’s legitimacy and reputation. The board may therefore feel compelled to dismiss the CEO if his or her actions fail to meet the values and expectations of stakeholders, in order to save face (Chen & Meindl, 1991). Norm theory suggests that one can assume that negative performance can lead to increased pressure on the board members, establishing a norm to act (Arnulf et al., 2012; Kahneman & Miller, 1986; Kahneman & Tversky, 1982). If dismissing a CEO is seen as an investment in better future performance, the monitoring of the new CEO may be following similar patterns to investors monitoring the performance of their assets. Establishing an organizational routine of changing leaders when in crisis is a type of scapegoating that may prevent learning and the establishment of social capital (Arnulf et al., 2012).

Our results further align with the concept of performance-induced turnover, introduced by Jenter & Lewellen (2021). They found performance-induced turnover percentage to be twice the size of forced dismissals when investigating previous research, suggesting that performance-related factors have an impact on CEO dismissals (2021; Warner et al., 1988, Denis and Denis, 1995, Kim 1996, and Parrino, 1997). According to the information presented from our data an assumption can be made that the CEO dismissals occur due to downfall of share prices before the dismissals. This indicates that most of the cases in our sample is indeed performance-induced turnovers.

Fanelli & Grasselli (2006) suggest that CEO charisma can be a contributing factor when the decision of a dismissal is taking place, which can result in a higher barrier for dismissals if the CEO is perceived as charismatic by the collective. However, romance of leadership contradicts this by suggesting that leaders are attributed with qualities they may not necessarily possess because they are evaluated based on the organization's financial performance. Being perceived as good leaders when the organization is performing well, and thus being perceived badly when the organization is not performing as well (Meidhl et al., 1985). As indicated by our study, CEO dismissal is a result of overall financial performance loss in the organization, which suggests that leaders will be blamed.

Media is a powerful force in relation to CEO dismissal and can in fact contribute to determining the destiny of the leaders (Meindhl et al., 1985). The media has the power to shape public perception of CEOs or organizations and their performance, shaping a narrative surrounding their capabilities, effectiveness, and leadership style. Positive or negative portrayal in the media can influence public sentiment towards the CEO and organization, which may impact their reputation (Gupta et al., 2020; Viertmann, 2018). Based on media coverage, the collective may assume that the successor will improve the organization, thus positioning themselves positively in regard to CEO dismissal, which can further lead to an increase in share prices (Meindhl et al., 1985). However, Gamson & Scotch (1964) stated that CEO dismissals have no consequence for organizational outcomes. Further, Grosky (1963) stated that CEO dismissals are disruptive and can lead to a decline in organizational performance. Our results indicate a positive relationship between days after dismissal and share prices, suggesting that shareholders are positive to leadership change, and can further lead to increased organizational performance. To elaborate, the results suggested by this study showed a small increase in stock price, which indicates that CEO dismissals can have positive consequences.

7.0 Limitations and future research

It is important to acknowledge the limitation of our sample in this analysis. It is also a lot of noise in the dataset causing non-regularity in the data. Furthermore, the effects discovered are small and short-lived. The duration of our data is also a limitation as it is only a six-month period, as it makes it difficult to draw conclusions from our data. Since the paper is limited to the Oslo Stock Exchange, this creates a possibility for the findings in this study to not be generalizable to the entire country of Norway. Additionally, OSE can be affected by international aspects, including international investors, and the overall world economy. Moreover, our dataset has little statistical power due to the small sample size. Furthermore, there may be other factors contributing to the rising trend of CEO-dismissals in Norway that are not addressed in this study. For instance, covid-19 may have had a significant impact on CEO dismissals, which we have not accounted for in this study. In addition, for many of the instances, the board and the CEO have not disclosed an apparent reason as to why the dismissal happened, which could be a crucial factor when analyzing the data.

For future research it could be interesting to see if there are any types of CEO’s that are more prone to be dismissed. In addition, one could see if the trend of dismissals is transactional, if it is easier to dismiss a leader if one has done it before. Furthermore, the emotional state in which the board finds itself when discussing the fate of the CEO, and if and how it changes, is of importance to understanding their ultimate decision. Yet, we found no studies exploring the emotional dynamics within the boardroom preceding CEO dismissal. This is surprising given the extent of the literature on emotions within groups and considering the pressure that exists as the board tries to make a decision as significant as dismissing a CEO and it should be further researched. It could be informative to investigate a larger timespan to see if the patterns observed in our study can be replicated with longer time intervals. As such, future research should further investigate this.

8.0 Conclusion

In conclusion, this research study aimed to examine to which extent the reactions in the stock market guide and respond to the forced dismissal of CEOs. The study found support for both hypotheses, indicating that CEO dismissals were preceded by a significant drop in the company's share prices. In addition, after CEO dismissals there was a significant increase in stock prices. The study highlights the increasing phenomenon of CEO dismissals in the stock market due to romance of leadership and other relevant theories, and their implications. We found support for the notions in romance of leadership which suggests that the CEO is blamed when the organization performs poorly. Indicating a relationship between organizational performance and CEO dismissals.

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Appendix

https://docs.google.com/spreadsheets/d/1r4LtRyvciNcxY8WWrJmk5z2DOB-x8-QVbK5zfeqsOFY/edit?usp=sharing