Socio-cognitive dynamics in directors’ evaluations of the CEO: An empirical analysis of CEO dismissal and compensation

Hauke Meyer

Abstract

Due to the position of the board of directors at the apex of the firm, its inner workings are of considerable interest to governance researchers. While agency research on the role of the board has proliferated over the last decades, it has faced increased criticism for treating the socio-cognitive dynamics of board decisions as mere unmeasured intervening factors. In contrast, an emerging stream of literature on behavioral corporate governance has started to unpack boards’ decision-making, focusing on the role of directors’ bounded rationality and social cognition. This dissertation contributes to this emerging stream of research by extending evidence on the role of directors’ bounded rationality and socio-cognitive attribution processes in shaping one of the primary tasks of the board of directors, the evaluation of the CEO for compensation and retention purposes. To do so, I conduct empirical analysis by using comprehensive commercial and public datasets and employing sophisticated econometric methodologies. In the first research paper, I study how directors’ perception of the CEO’s personality traits shape directors’ performance attributions. In the second paper, I uncover an implicit egotism bias that results in a higher level of compensation for CEOs who share their forename with a non-executive director. In the third research paper, I shed light on an attribute substitution bias resulting from directors’ difficulties in evaluating discontinuous technologies. I also show that the resulting career risks for CEOs may inhibit incumbent firms’ adaptation to discontinuous technologies. All three research papers emphasize the relevance of socio-cognitive interactions in shaping CEOs’ compensation and dismissal. Thereby, the findings of this dissertation not only contribute to existing research but also provide avenues for future research, as well as implications for practice.