

# Symbolic Shareholder Democracy: Toward a Behavioral Understanding of the Role of Shareholder Voting in CEO Dismissals

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**Abstract.** We investigate the effect of expressive shareholder dissent voting, in which shareholders use their votes symbolically to express their discontent with management, on subsequent chief executive officer (CEO) dismissals. Using the routine but highly symbolic executive board discharge proposal voted on at the annual shareholder meetings of German firms, we argue that the board of directors understands these votes as a “vote of confidence in management” that challenges the CEO’s mandate to lead the firm. Arguing that board chairs are uniquely positioned to take up the stance of a steward of the firm and its leadership, we examine how independent and family board chairs moderate the board’s response to expressive voting dissent. Using a sample of German public firms over the period 2008–2015, we find that expressive voting dissent increases the chance of CEO dismissal increasingly with the level of dissent expressed. Contrary to prevailing agency theoretical expectations, we do not find that independent chairs are more responsive to expressive voting dissent, nor that this relationship is strengthened by the degree of minority institutional investor ownership of the firm. Consistent with the symbolic perspective on shareholder voting that we seek to develop, however, we find that family chairs are more likely to lead the board to dismiss the CEO due to the intrinsic disvalue they incur from symbolic leadership legitimacy challenges in their firms, and that the positive effect of having a family chair on the dissent induced chance of CEO dismissal is strengthened by the level of family ownership in the firm.

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**Keywords:** CEO dismissal • expressive dissent voting • behavioral corporate governance • symbolic management • board chair • family ownership • institutional ownership

## Introduction

In spite of the separation of ownership and control that has taken place in many listed firms around the world (Franks and Mayer 2017), shareholders have held on to their ultimate control right: the right to vote on leadership and governance changes in the firms they own (Iliev et al. 2015). Strengthened by agency theoretical beliefs that shareholder voting rights are fundamental in protecting minority shareholders against self-serving managers in dispersedly owned firms in the United States and the United Kingdom (Bebchuk 2005) or the controlling family blockholders that are highly prevalent in much of the rest of the world (Villalonga and Amit 2020), countries around the world have adopted corporate governance reforms to strengthen the role of shareholder voting in corporate governance (Pinto 2008, Ferri 2010).

Empirical research, however, has consistently shown that shareholders are hardly ever able to command

the majority voting outcomes required to effectuate leadership changes in the firms they own (Cai et al. 2009). As a result, corporate governance scholars have dismissed the role of shareholder voting in dismissing the CEO as a “paper tiger” (Cai et al. 2013) and have argued that “the Soviet Union was more democratic than the selection of corporate boards” (Zingales et al. 2018). As a result, the consensus among corporate governance researchers seems to be that the functioning of shareholder democracy in dismissing the executive leadership of firms is a persistent myth (Bebchuk 2007).

Management researchers developing a behavioral perspective on corporate governance, however, have shown that the social meaning and actual functioning of corporate governance practices often differ from their agency theory-informed functional purpose (Westphal and Zajac 2013). In the symbolic management literature, specifically, research has shown that corporate governance practices

are often implemented to express managerial commitment to prevailing corporate governance beliefs instead of their expected efficacy in realizing their avowed functional purpose (Westphal and Zajac 1994, 1995, 2001; Fiss and Zajac 2004). Although this has typically made governance practices less effective than agency theorists have claimed them to be (Westphal and Park 2020), infusing governance practices with symbolic meaning may also make these practices more effective. In this study, we theorize and present empirical evidence that this is the case with the symbolic role of shareholder voting in effecting CEO dismissals in both dispersedly owned and family-controlled listed firms.

We begin with explaining how the instrumental and normative legitimacy that shareholder voting has acquired over time has enabled and motivated minority shareholders to use their voting rights symbolically (Yermack 2010). Specifically, we argue that by decoupling the formal function of a proposal voted on at a shareholder meeting from its symbolic use to express their dissent with firm executive leadership (Grundfest 1993, Del Guercio et al. 2008), minority shareholders have been able to use their “expressive voting dissent” as a vote of no-confidence in management (Sauerwald et al. 2016), the social meaning of which has been documented across the United States (Cuñat et al. 2016) and Western Europe alike (Sauerwald et al. 2016).

We then draw upon a stream of behavioral research in corporate governance investigating the effects of informational signals other than firm financial performance on CEO dismissals, such as negative media attention (Bednar 2012) and negative investment analyst recommendations (Wiersema and Zhang 2011), to argue that boards are likely to understand and act upon expressive voting dissent symbolically as if it were a vote of no-confidence in management that challenges the CEO’s mandate to lead the firm. Consistent with our theorizing that expressive voting dissent functions as a vote of confidence that challenges the legitimacy of firm leadership, we hypothesize that boards will be increasingly more likely to dismiss the CEO the stronger the signal transmitted by expressive voting dissent becomes.

To further investigate the responsiveness of the board to expressive voting dissent, we focus on the board chair, who not only serves as the “CEO’s boss” (Krause 2017, p. 697), but who is also uniquely positioned to mediate between firm leadership and the firm’s main constituencies more generally (Krause et al. 2016). As such, board chairs are expected to take up the stance of a steward of the legitimacy of the firm and its leadership and initiate actions to deal with the legitimacy challenge presented by expressive dissent (Withers and Fitza 2017). Different types of chairs are likely to be differentially responsive to the leadership legitimacy challenge communicated through expressive voting dissent, however, as they are likely to be guided

by the different beliefs, values, and interests (Park et al. 2019) of the corporate constituency that they identify with most (Zhang and Greve 2019). Given the transition of German corporate governance from an insider-dominated system to a system that is more open to minority investors (Franks et al. 2015), these beliefs, values, and interests differ mostly between controlling family owners and minority investors in German firms (Bottenberg et al. 2017).

Following the rationally functionalist agency theoretical logic that has motivated corporate governance reforms in Germany over the past few decades (Fiss and Zajac 2004), we first hypothesize that independent chairs, who have been increasingly appointed in German firms to make them more attractive for outside minority investors (Hopt 2015), are likely to identify with minority investors and are hence more prone than other types of chairs to lead the board to dismiss the CEO in response to expressive voting dissent. Given that expressive dissent voting is mostly undertaken by outside institutional investors (Sauerwald et al. 2018), we also argue that the positive moderation effect of having an independent chair will be strengthened by the level of institutional ownership in the firm.

In contrast to the agency theoretical logic, we also hypothesize that family chairs that are members of a controlling family shareholder who are known to intrinsically value family control over the firm for socio-emotional reasons (Gómez-Mejía et al. 2011, Zellweger et al. 2012), will be more sensitive to expressive voting dissent than other types of chairs due to the disvalue that such a public contestation of firm leadership creates for the controlling family. To resolve the loss of socio-emotional wealth that results from high levels of expressive voting dissent, we predict family chairs to be more prone than other types of chairs to lead the board to dismiss the CEO. We also hypothesize that the positive moderation effect of having a family chair will be strengthened further by the level at which the family is invested in the firm.

We test our hypotheses in the empirical setting of listed German firms because the prevailing symbolic understanding of the so-called executive board discharge proposal as a vote of no-confidence in management in Germany provides an exemplary setting to investigate the consequences of expressive voting dissent in corporate governance (Unanyants-Jackson 2008, Glass Lewis 2015). Despite concentrated family ownership being remarkably persistent over the past 30 years, Germany has experienced a major increase in widely held firms (Franks et al. 2015). This makes Germany a highly suitable context to test the functioning of expressive dissent voting as a governance practice for minority shareholders across the different ownership configurations that prevail globally (Iliev et al. 2015).

Using a sample of 198 German public firms over the period 2008–2015, comprising 1,271 firm-year observations with an almost even distribution of family and nonfamily firms, we employ a two-stage residual inclusion (2SRI) estimation technique to test our hypotheses and mitigate endogeneity concerns (Terza et al. 2008). We find that expressive voting dissent increases the chance of CEO dismissal increasingly with the level of dissent expressed. This effect is stronger for firms that have a family chair, while the positive moderation effect of having a family chair increases with the level of family ownership in the firm, consistent with our hypotheses. Contrary to our predictions, we do not find that independent board chairs are more responsive to expressive voting dissent, nor that this predicted relationship is strengthened by the degree of institutional ownership in the firm.

The findings and nonfindings of this study contribute to three separate but related literatures. Our study contributes, first, to the CEO dismissal literature that has largely ignored the role of shareholder voting in CEO dismissals. Second, by showing that shareholders can symbolically use their voting rights as a vote of confidence in management to provoke CEO dismissals, our main finding also contributes to the emerging behavioral theory of corporate governance (Westphal and Zajac 2013) and the symbolic management literature more specifically (Westphal and Park 2020). Finally, by showing that different types of chairs are differentially able and willing to act as stewards of the legitimacy of the firm and its leadership in response to the public leadership legitimacy challenge presented by expressive voting dissent (Krause et al. 2016, Withers and Fitza 2017), our study contributes to the recently revived literature on the corporate governance role of board chairs (Withers and Fitza 2017).

## Theory and Hypotheses

By defining corporate governance in terms of the agency costs that result from the separation of ownership and control in listed firms and conceiving corporate governance practices as rationally devised functional treatments against these costs, agency theory has long been the leading theory in corporate governance (Shleifer and Vishny 1997). Increasingly, however, the rational-functional paradigm of corporate governance provided by agency theory is being challenged by research showing that the actual functioning of corporate governance practices often differs from their agency theory-informed functional purpose. As a result, the so-called behavioral theory of corporate governance has emerged, which aims to develop a more realistic and socially informed understanding of corporate governance practices (Westphal and Zajac 2013, Westphal and Park 2020).

Studies on executive compensation (Westphal and Zajac 1994), share repurchase programs (Westphal and Zajac 2001), and board independence (Westphal and Zajac 1995), for example, have shown that these governance practices have acquired strong normative legitimacy within the prevailing agency theoretical understanding of corporate governance that deviates substantively from how these practices function as a matter of fact (Fiss and Zajac 2004). Specifically, research has shown that by symbolically adopting corporate governance practices to express commitment to the prevailing agency theoretical corporate governance logic, managers both sustain this logic and contribute to the decoupling of the social meaning of these practices from their functioning in everyday reality (Westphal and Park 2020). It is not surprising, therefore, that some of the most widely implemented corporate governance practices have been less effective in accomplishing their avowed functional purpose than agency theorists have predicted them to be (Dalton et al. 2007, Aguilera et al. 2015, Boivie et al. 2016a).

Yet it is not necessarily the case that the decoupling of the prevailing social meaning from the avowed function of corporate governance practices will make these practices less effective in what they are functionally expected to do. Specifically, the instrumental and normative legitimacy that a corporate governance practice may acquire in everyday life may enable and motivate parties in corporate governance to use this practice symbolically and thereby make that practice more effective than it would be without this symbolic meaning (Cooter 1998, Schnackenberg et al. 2019). The role of shareholder voting in effecting CEO dismissals is a case in point, or so we argue next.

## The Symbolic Meaning of Shareholder Voting Dissent

Spurred by investor campaigns and corporate governance codes and regulations around the world (Goranova and Ryan 2014), the past few decades have seen a surge of corporate governance reforms to enable and motivate shareholders to use their voting rights more actively (Pinto 2008). These reforms have not only reduced the costs of shareholder voting significantly (Ferri 2010) but have also promoted a dominant corporate governance logic in which shareholder voting is conceived as a responsibility that institutional investors especially should take seriously (Yermack 2010). As a result, the importance of shareholder voting in corporate governance has increased across the globe (Iliev et al. 2015).

A particularly relevant development in this respect has been the use of shareholder voting to voice shareholder dissent with firm leadership in so-called “just vote no” campaigns (Grundfest 1993, Del Guercio et al. 2008). In such campaigns, shareholders are encouraged

to use their voting rights to symbolically express their dissent with firm leadership, irrespective of what the proposal voted on is formally about. Prior research has conceived such voting, in which the instrumental decision-making function of shareholder voting is decoupled from its expressive use in voicing discontent with firm leadership, as expressive voting dissent (Sauerwald et al. 2016), and has documented its widespread use as a public communication channel with management (Yermack 2010).

Hillman and colleagues (2011), for example, find that director elections in the United States not only serve to appoint directors to the board, but also constitute a platform for shareholders to express their agency theory-informed evaluation of the monitoring performance of the board as a whole. Similarly, Sauerwald and colleagues (2016) show that the concerns that shareholders express by voting against management differ between 16 Western-European countries in ways that are consistent with the corporate governance logic that prevails in these countries. More concretely, Ertimur and colleagues (2018, p. 3400) find that shareholders vote against director candidates to “get directors to address specific problems, rather than to vote them onto or off of the board”, while Cuñat et al. (2016) document that voting on say-on-pay proposals in U.S. firms is understood to function more as a vote of (no)confidence in management than as a dedicated appraisal of a firm’s executive remuneration practices. In our German empirical context, specifically, proxy advisors explicitly advise shareholders of listed firms to use the routine but legally obsolete executive board discharge proposal as if it were a vote of confidence in firm leadership, as we explain later (Unanyants-Jackson 2008, Glass Lewis 2015).

### Hypotheses Development

Although the literature has documented that expressive voting dissent may acquire symbolic meaning as a vote of confidence in management from the perspective of shareholders, it is not known whether boards actually understand expressive voting dissent as such. Even if the board would understand it in this way, it is not clear what would lead the board to act upon this signal by dismissing the CEO. We next theorize and develop hypotheses that will help us to explain both gaps in our understanding.

#### Expressive Voting Dissent as a Leadership Legitimacy Challenge

Behavioral research on CEO dismissals suggests various reasons why the board may consider the informational signal expressed by shareholder voting dissent in dismissing the CEO. Bednar (2012), for example, shows that boards are receptive to negative media coverage in implementing CEO dismissals because the media has an

influential governance role in investigating and publicly challenging the legitimacy of firm leadership (Dyck et al. 2008). Similarly, Wiersema and Zhang (2011) document that investment analyst rating downgrades foreshadow CEO dismissals because these downgrades provide an informational signal that challenges the mandate of the CEO as an effective leader of the firm going forward. Moreover, by voting with their feet, institutional investors challenge the CEO’s mandate by signaling that an informed class of investors is losing faith in firm leadership, thereby triggering the board to dismiss the CEO (Parrino et al. 2003, Helwege et al. 2012). In deciding whether to dismiss the CEO or not, directors are known to consider and act upon informational signals other than financial performance that challenge the legitimacy of the CEO’s mandate to lead the firm (Fischer et al. 2009).

Boards are likely to be responsive to the leadership legitimacy challenge presented by expressive voting dissent for three broad reasons. First, boards must process a vast amount of information (Tuggle et al. 2010, Falato et al. 2014), and are therefore prone to rely on easily interpretable informational signals that capture a broad spectrum of information relevant for assessing the CEO (Schaffer 2002, Graffin et al. 2013, Campbell et al. 2016). Second, boards are especially likely to be responsive to expressive voting dissent due to the identity of the sender. Notwithstanding the de facto inability of shareholders to dismiss the CEO in director elections, directors consider shareholders to be a primary corporate constituency, which will make them sensitive to symbolic expressions of their concerns. Third, expressive voting dissent is a publicly visible informational signal that may also be perceived by other stakeholders that the board is concerned with. For the board to notice, understand, and act upon expressive voting dissent as a symbolic vote of no-confidence in management, however, it will have to stand out from what it would ordinarily expect. We therefore expect the signal expressed through expressive voting dissent to stand out more the higher the level of voting dissent becomes.

**Hypothesis 1.** *The level of expressive voting dissent is positively associated with the likelihood of CEO dismissal, such that CEO dismissal becomes increasingly more likely the higher the level of expressive voting dissent becomes.*

#### Board Responsiveness to Expressive Voting Dissent

To investigate the responsiveness of the board to expressive voting dissent further, we focus on the chair of the board for several reasons.<sup>1</sup> First, the chair leads the board (Lorsch and Zelleke 2005) and is also the main conduit through which the board engages with

the CEO (Krause 2017). Second, the board chair typically presides over the shareholder meeting and is therefore able and likely to observe and interpret voting outcomes realized at these meetings.<sup>2</sup> More generally, third, the chair is uniquely positioned and tasked to mediate between firm leadership, on the one hand, and the firm's most important internal and external constituencies, on the other (Lorsch and Zelleke 2005, Krause et al. 2014). As such, fourth, the chair generally performs a crucial role in securing access to resources from critical stakeholders (Hillman et al. 2009) and in safeguarding the legitimacy of the firm and its leadership, more specifically (Krause et al. 2016, Withers and Fitza 2017).

As a result of their unique positioning in the firm, the chair is the director on the board that is most likely seeking to serve the interests of the firm (Boivie et al. 2021) and take up the stance of a steward of the legitimacy of the firm and its leadership (Davis et al. 1997, Hernandez 2012). This is especially likely in response to leadership legitimacy challenges (Harrison et al. 2018), such as the symbolic challenge expressed through voting dissent. In taking up this stance, however, different types of chairs will be guided by the beliefs, values, and interests (Park et al. 2019) of the firm constituency that they identify with most (Zhang and Greve 2019). In the shareholder base of German listed firms, which have become increasingly open to arm's length outside minority investors over time (Franks et al. 2015), these beliefs, values, and interests have come to differ mostly between outside minority investors, on the one hand, and controlling family insiders, on the other (Bottenberg et al. 2017).

### The Responsiveness of Independent Chairs to Expressive Voting Dissent

Despite the default separation of the board chair and CEO positions in the mandatory two-tier board system in German firms, not all chairs are independent. Some chairs are considered nonindependent because they have material business or personal relationships with the company or its insiders (Adams et al. 2011, Kodex 2022). Family chairs are a case in point as they have an intimate relationship with one of the firm's main shareholders, and so are (recent) former CEOs of the firm, relatives of directors, or representatives of internal or external stakeholders of the firm (Glass Lewis 2019, Kodex 2022). In general, director independence is a relatively recent agency theory informed corporate governance innovation in German firms that has resulted from their "increased orientation towards capital markets, as well as the associated stronger engagement of institutional investors" over the last few decades (Bottenberg et al. 2017, p.174). Precisely because independent chairs are typically appointed in German firms to make them

more attractive to outside minority investors (Hopt 2015), we expect them to be more responsive to voting dissent expressed by this type of investor.

First, given their agency theory avowed role of being a steward of outside minority shareholder interests (Bebchuk and Hamdani 2017), independent chairs that have been appointed in German listed firms are likely to understand their role in the firm correspondingly and will be more responsive to minority shareholder voices expressed through dissent voting. Second, this agency theory avowed understanding of serving as a steward of outside minority shareholders will likely be strengthened by the fact that dissent voting is a public and highly visible informational signal. The negative public exposure resulting from high levels of expressive voting dissent may also threaten the mandate of the chair, which independent chairs will seek to avoid by showcasing their responsiveness to outside minority shareholders and lead the board to dismiss the incumbent CEO. Finally, as outsiders without pre-existing ties to management or large shareholders, independent chairs are more likely to suffer from information asymmetry than nonindependent chairs (Joseph et al. 2014). This will make them rely more on readily available and easily interpretable informational signals, such as expressive voting dissent, both to gauge management performance and to implement CEO dismissals. Hence, we make the following hypothesis.

**Hypothesis 2.** *Having an independent chair of the board will strengthen the positive relationship between expressive voting dissent and the likelihood of CEO dismissal.*

Moreover, the responsiveness of independent chairs to expressive voting dissent is likely to be stronger the larger the fraction of institutional ownership is in the firm. This is, first, because institutional owners are the most informed and active outside minority investors in listed firms (Iliev and Lowry 2015, Malenko and Shen 2016) that have both the motivation and capacity to monitor portfolio firms and use their voting rights actively (Iliev et al. 2015). As a result, most dissent voting in listed firms is undertaken by institutional investors (Sauerwald et al. 2016), which is more likely to be noticed and acted upon by independent chairs the larger the fraction of institutional ownership in the firm becomes. Second, institutional investors, as well as the proxy advisors that they rely on to monitor and vote in portfolio firms (Sauerwald et al. 2018), have been important drivers behind the global adoption of corporate governance reforms in public firms, including the drive toward more board independence (Schnatterly and Johnson 2014). The larger the fraction of institutional investors in the firm, therefore, the more influential the beliefs, values, and interests of this increasingly important corporate constituency in German firms will be in

shaping the stance and responsiveness of independent chairs toward expressive voting dissent. We hence hypothesize the following.

**Hypothesis 3.** *The percentage of institutional ownership enhances the moderating effect of having an independent chair (on the positive relationship between expressive dissent and CEO dismissal).*

### The Responsiveness of Family Chairs to Expressive Voting Dissent

Even in listed firms, family-controlled firms are globally the most prevalent form of ownership outside the United States and the United Kingdom (Villalonga and Amit 2020). Family control is interesting for our present purposes because it is associated with behaviors, outcomes, and governance challenges that differ from those observed in dispersedly owned nonfamily firms (Villalonga et al. 2015). Compared with the latter, for example, research has shown family ownership and control to also be motivated by nonfinancial objectives, conceptualized as socio-emotional wealth maximization (SEW) (Gómez-Mejía et al. 2007, 2011). Although SEW comprises a whole spectrum of nonfinancial objectives that family owners pursue (Berrone et al. 2012, Gómez-Mejía and Herrero 2022), studies have shown that family owners especially and intrinsically value family control over the firm, which they often seek to secure for future generations of family members (Bertrand and Schoar 2006, Zellweger et al. 2012).

Although family ownership is the foundation of family control, it is often exercised by family members holding controlling positions in the firm (Anderson and Reeb 2004, Villalonga and Amit 2009). A key position through which families control their firms is by having a family member chair the board (Banerjee et al. 2020). Being the face of the family in the firm, family chairs identify with both the firm and the family, which likely engenders an understanding of their role in the firm as stewards of the legitimacy of both (Le Breton-Miller et al. 2011, Madison et al. 2016). As such, family chairs are more sensitive than other types of chairs to expressive voting dissent and more likely to lead the board to dismiss the CEO.

First, family chairs are more sensitive to the symbolic signal expressed by voting dissent because they intrinsically value control (Le Breton-Miller et al. 2011, Zellweger et al. 2012). Because of the symbolic meaning of high levels of expressive voting dissent as a vote of no-confidence in firm leadership, family chairs will experience disvalue from this public contestation of firm leadership, which they will seek to resolve by dismissing the CEO. Compared with other types of chairs, second, family chairs are not only concerned about the repercussions of high levels of expressive voting dissent for the legitimacy of the firm and its

leadership, but also for the legitimacy and reputation of the controlling family that they represent, and which may be tainted by public contestations of firm leadership (Chen et al. 2010, Deephouse and Jaskiewicz 2013, Chua et al. 2015). We hence hypothesize the following.

**Hypothesis 4.** *Having a family chair of the board will strengthen the positive relationship between expressive voting dissent and the likelihood of CEO dismissal.*

Moreover, higher degrees of family ownership are likely to further strengthen the responsiveness of family chairs to expressive dissent. This is, first, because the intrinsic value of family control that family chairs experience is likely to be stronger the larger the family ownership stake is in the firm (Gómez-Mejía et al. 2007, 2011). This is not only because family chairs are likely to identify more with the firm the more the family is financially and emotionally invested in the firm, but also because family control over the firm is stronger with higher levels of family ownership, which will correspondingly increase the disvalue that family members experience from symbolic contestations of firm leadership. Second, the family becomes a more dominant constituency with higher levels of family ownership whose beliefs, values, and interests the chair will consider in leading the board to dismiss the CEO (Zhang and Greve 2019). High levels of family ownership will also make family chairs more powerful to turn these beliefs, values, and interests into swift and decisive actions and lead the board to dismiss the CEO. Hence, we hypothesize the following.

**Hypothesis 5.** *The percentage of family ownership enhances the moderating effect of having a family chair (on the positive relationship between expressive dissent and CEO dismissal).*

## Methods

### Empirical Context

We test our theoretical predictions in the empirical context of German public firms for two main reasons. First, Germany offers a unique empirical setting to investigate the relationship between expressive voting dissent and CEO dismissals because of the so-called “executive board discharge proposal.” This is a routine and backward-looking proposal on the agenda of the annual shareholder meeting of German firms that formally serves to relieve (i.e., discharge) the executive board from legal liabilities to shareholders incurred while leading the firm in the prior year, but which has largely become legally obsolete. Instead, voting on this proposal is now generally understood as constituting a symbolic vote of confidence in management (Unanyants-Jackson 2008, Glass Lewis 2015). Second, because of German firms becoming much more open to outsider minority investors over the last few decades (Dasgupta et al. 2021), our

German sample strikes a good balance between dispersedly owned firms, on the one hand, and family-controlled firms, on the other, with roughly half of the listed German firms being family-owned at around 25% of shares outstanding (Franks et al. 2015). This suits our explanatory ambition to investigate the effectiveness of expressive voting dissent in provoking CEO dismissals across the chair-ownership configurations that we have hypothesized.

### Sample

We start our sampling window after the passage of the European Union Shareholder Rights Directive in 2007, which mandated the disclosure of voting results for all listed firms in the European Union (De Pril 2015). Seeking a sampling design that best covers the population of the largest German listed firms, we select all firms included in the DAX30, MDAX50, TecDax20, or DAXplus Family 100 indices during the period 2008–2015. This yields a sample of 203 firms with an almost even distribution between family-controlled and widely held firms. Given that not all of these firms were listed for the entire period, our data set is an unbalanced panel and includes 1,312 firm-year observations. After merging this sample with voting data (both from Institutional Shareholder Services (ISS) and hand-collected from companies' publications or HV-Info.de), financial data (Thomson Reuters Datastream/Eikon, Worldscope, Orbis), and ownership and analyst recommendations data (Institutional Brokers Estimate System (IBES), Eikon), our final sample includes 1,271 firm-year observations covering 198 firms.

### Dependent Variable

**CEO Dismissal.** For each firm in our sample, we check the annual composition of the executive board. Whenever there is a change in the CEO's name from one year to the next, we trace back information to the exact dates of the change in leadership announcement and the effective departure of the CEO. In assessing whether the departure was voluntary or forced, we examine company press releases, business press coverage of the event, and CEO and supervisory board chair interviews up to one year before and closely around the dismissal date. We consider a CEO turnover to be a dismissal when it was either: (a) announced as such (fired, agreed to step down, at the request of the board), (b) when the CEO stepped down immediately after a supervisory board or shareholder meeting, without a designated successor, or (c) when news coverage before the turnover mentions performance-related concerns with executive leadership (Wiersema and Zhang 2011). We exclude all interim CEO turnovers and turnovers due to retirement, health, or death. As such, we identify 144 CEO turnover events, of which 56 are coded as dismissals (39%).<sup>3</sup> The remaining CEO turnovers are coded as nondismissals (i.e., 0).

### Explanatory and Moderator Variables

**Discharge Dissent.** We operationalize expressive voting dissent as the percentage of shareholder votes opposing the executive board discharge proposal (henceforth, discharge dissent), as explained earlier. Shareholders can either vote for, against, or abstain their votes on this proposal. Following recent studies on shareholder voting (Conyon and Sadler 2010, Ertimur et al. 2013, Sauerwald et al. 2016), we consider all votes not cast in favor of the proposal as shareholder dissent; hence including both against and abstain votes. Due to the skewed distribution of this variable, we apply a log ( $x + 1$ ) transformation.

**Supervisory Board Chair.** We identify three main types of supervisory board chairs—*family chair*, *independent chair*, and *other chair* (nonfamily and nonindependent), with the latter type being the reference category in our analyses. The variable is coded 1 (i.e., family chair) whenever the supervisory board chair is a member of the family with an ownership stake in the firm. For every firm with an observable level of family ownership, we identify the founder and trace all family names, including the names of in-law family members, up until the latest generation. We then identify whether the chair is a family member by checking the chair's name against the family name, as well as all other related family names that we have manually identified to be involved in the firm.<sup>4</sup> The variable is coded 2 for a board chair who is "independent from the company and its Management Board or any controlling shareholder" (Kodex 2022) (i.e., independent chair). We collected information on each supervisory board chair's personal and professional relationships following this definition. We read firm disclosures regarding conflicts of interest, corporate governance reports, and any press article that we could find related to each chair's name. We consider a chair to be independent when the chair has no personal (family ties or close associates) or professional (employment or advisory) relationship with a company stakeholder (e.g., management, shareholder, customer, or supplier). Additionally, any chair appointed within two years after stepping down from the management board was coded as nonindependent. Coding was done manually by two people, with an overall interrater reliability (Cohen's kappa) of 0.93. Disagreements between coders were discussed and resolved by the coders themselves.

**Institutional Ownership.** We code institutional ownership by aggregating the percentage of a firm's shares owned by institutional investors (i.e., investors that invest on behalf of other investors) in a firm-year. The data were extracted from Refinitiv Eikon and checked against firms' annual reports. We use Eikon's ownership-type classification to identify shares held by institutional investors (i.e., investment advisors, hedge funds,

sovereign wealth funds, endowment funds, banks, insurance companies, and pension funds).

**Family Ownership.** We code family ownership by adding all ownership percentages held by the founding family or individual family members. This ownership percentage is calculated using the percentage of voting shares of total shares outstanding (Villalonga and Amit 2006).<sup>5</sup>

### Control Variables

In implementing our 2SRI research design, we control for a host of control variables that either prior research has documented to affect the chance of CEO dismissal, or that theoretically plausible alternative theoretical explanations would suggest controlling for. These are listed and explained in Table 1.

### Analytical Strategy

Following recent research on CEO dismissals (Hubbard et al. 2017), we use a probit estimation procedure to account for the dichotomous nature of our dependent variable. To mitigate endogeneity concerns about confounding factors that may affect both discharge dissent and CEO dismissals, we employ a two-stage residual inclusion (2SRI) technique as introduced by Hausman (1978), and more recently advocated by Terza and colleagues (2008). This approach has been shown to effectively address endogeneity concerns in both linear and nonlinear models, whereas endogeneity procedures such as two-stage residual substitution (2SRS), of which 2SLS is a prominent example, are only consistent for linear models such as ordinary least squares (OLS). We then regress discharge dissent on all control variables as well as two instruments in the first stage.

**Instrument 1: Shareholder Turnout.** As shareholder dissent voting is mostly driven by minority shareholders who do not have behind-the-scenes access to managers (Sauerwald et al. 2016, 2018), levels of discharge dissent are likely to be influenced by shareholder turnout in annual meetings because the costs and incentives to vote weigh more heavily on smaller shareholders (Yermack 2010). This is especially true for retail investors, who, unlike institutional investors, do not owe a fiduciary duty to their clients to actively use their voting rights. For similar reasons, retail investors are generally much less informed than institutional investors, and hence more likely to follow management voting recommendations and reduce shareholder dissent. Although shareholder turnout is likely to negatively affect discharge dissent, shareholder turnout is unlikely to be associated with CEO dismissals because the costs and incentives driving shareholder turnout are not related

to the nature of the proposals voted on. We operationalize this variable as the ratio of the number of shares represented at the shareholder meeting over the total number of shares outstanding (Sauerwald et al. 2016).

**Instrument 2: Industry Average Dissent.** Recent studies in finance (Yang and Zhao 2014, Liu et al. 2015) and management (Zorn et al. 2017), use the industry average of the main predictor (discharge dissent in our case), excluding the focal firm, as an instrument. This is considered to be a relevant instrument because industry averages correlate with the focal firm because firms in the same industry have similar businesses, investors, and governance practices, whereas “an industry average that excludes the focal firm is not endogenous with focal firm outcomes” (Zorn et al. 2017, p. 2632).

We subsequently predict CEO dismissal in the second stage with the residuals derived from the first-stage model included as a control variable. Whereas methodological research guiding the use of instrumental variables (IVs) estimations uses linear regression models, more recent research replaces linear regression models with “nonlinear regression models, including generalized linear models, as these are often more appropriate for limited dependent variables, count variables, and skewed distributions” (Terza et al. 2008, p. 532). Following these recent methodological advancements, we use generalized linear models (GLM) estimation procedures in both stages. In the first stage, we use a Gaussian distribution with an identity link function.<sup>6</sup> In the second stage, we use a binomial distribution with a probit link function. In both stages, we control for year-fixed effects by including year dummy variables.

## Results

Table 2 reports descriptive statistics and correlations. Consistent with prior CEO dismissal research (Wiersema and Zhang 2011, Hubbard et al. 2017, Wang et al. 2017), CEO dismissal occurs in around 5% of our firm-year observations. The average CEO tenure is close to 7.5 years, which is slightly longer than the six years reported for U.S. firms (Kaplan and Minton 2012). The average discharge dissent level that directors should expect is 2.7%, which is close to the European average level of dissent on all proposals voted on in recent years (De Pril 2015).

We report the results from the first stage in Table 3. We observe that CEO variable pay, CEO tenure, and firm size are statistically significant in explaining the variation in discharge dissent. Furthermore, both our instruments show strong statistical significance in explaining discharge dissent, suggesting their relevance. We formally test instrument relevance using the first-stage joint significance statistic (test for underidentification). The value of the  $F$ -statistic ( $F = 131.99, p = 0.000$ ) is larger



**Table 1.** Control Variables Description

Variable	Operationalization	Explanation
<i>Firm performance</i>	Return on Assets (ROA) = net income/ total assets Tobin's Q = market value of assets/book value of assets	Two types of firm performance: accounting (Wiersema and Zhang 2011, Wang et al. 2017) and market valuation (Chung and Pruitt 1994, Benischke et al. 2019). These measures were industry-adjusted by calculating annual mean industry firm performance (excluding the focal firm) for each industry (2 SIC-code classification) and then subtracting this value from the performance of the focal firm (Wiersema and Zhang 2011). The data on ROA and Tobin's Q were collected from Orbis and Eikon.
<i>Firm size</i>	Number of employees	Because larger firms are under closer scrutiny by external stakeholders (Wiersema and Zhang 2011, Hubbard et al. 2017), we control for firm size, which we operationalize as the total number of employees (log-transformed).
<i>Blockholders</i>	Number of shareholders ≥ 5% voting rights	An important corporate governance characteristic of a firm is related to the blockholder ownership in a firm (Thomsen et al. 2006, Hubbard et al. 2017).
<i>Family CEO</i>	Binary, 1 when CEO is part of the family and 0 otherwise	For every firm with an observable level of family ownership, we identify the founder and trace all family names, including the names of in-law family members, up until the latest generation. We then identify whether the CEO is a family member by checking the CEO's name against the family name, as well as all other related family names that we have manually identified to be involved in the firm.
<i>CEO tenure</i>	Number of years since CEO appointment	CEO tenure is considered to be an indication of CEO power (Shen and Cannella 2002), which may enable CEOs to avoid dismissal.
<i>CEO variable pay</i>	(bonus + share-based compensation)/ total compensation	CEOs whose compensation is linked to firm performance are assumed to act in the interests of the firm and may therefore have a lower probability of dismissal. We manually collected this variable from companies' annual reports.
<i>CEO nr other public boards</i>	Number of positions on other public boards that the CEO occupies	The number of board positions that the CEO has in other publicly listed firms may leave the CEO less time and attention to manage their firms, which may increase the chance of CEO dismissal (ISS 2021).
<i>Supervisory board average tenure</i>	Average number of years since appointment on the board for all supervisory board members	Board tenure is considered relevant for a board's relationship with management (Kosnik 1990), and captures directors' knowledge about the firm's capabilities which enables them to make strategic decisions (Acharya and Pollock 2021).
<i>Supervisory board number of other public board positions</i>	Ratio of the total number of other board positions that supervisory board directors occupy over the total number of directors on the supervisory board	The number of outside director positions may distract the supervisory board from its monitoring duties or increase the power of the supervisory board vs. the CEO (Flickinger et al. 2016).
<i>Shareholder representative (excluding family)</i>	Number of (nonfamily) shareholder representatives on the supervisory board	Control for the influence of nonfamily shareholders in the board room, which may affect the chance of CEO dismissal (Bebchuk 2007).

**Table 1.** (Continued)

Variable	Operationalization	Explanation
<i>Analyst recommendations</i>	Scale 1–5 (reverse-coded such that 1 = strong sell, 2 = sell, 3 = hold, 4 = buy, 5 = strong buy)	Prior research has found that financial analysts' recommendations predict CEO dismissal (Wiersema and Zhang 2011). Analyst recommendations are reported on a scale where a high score reflects a lower recommendation. We reverse-coded the recommendations.
<i>Discharge dissent (first stage) residuals</i>	Residuals from predicting discharge dissent (stage 1 of SRI)	As we employ a two-stage residual inclusion (2SRI) estimation technique, we include the residuals predicted from the first stage of our analysis as an additional control variable in the main analysis of the second stage in which we predict CEO dismissal.

than the 11.59 threshold introduced by Stock et al. (2002), indicating that our instruments are reasonably strong. We also test the exogeneity of our instruments (Semadeni et al. 2014), using the Wald test of exogeneity statistic reported in Table 3 ( $\chi^2 = 0.85$ ,  $p = 0.356$ ), and observe it to be insignificant. This suggests that our two instruments fulfill the exclusion restriction if at least one of our instruments is exogenous (Semadeni et al. 2014). Together, these findings suggest that our two instruments are statistically relevant and exogenous.

Table 4 presents the results of the second-stage analysis. Given the nonlinear nature of the probit function, the significance and sign of the relationship to be tested cannot be assessed based on regression coefficients alone but requires us to inspect marginal effects (Wiersema and Bowen 2009). Therefore, we report in Table 4 the regression coefficients, but assess the statistical support for our hypotheses based on marginal effects and predicted probabilities tables (Table 5–12). Table 4, Model 1 contains only the control variables. Model 2 includes the independent variable and the residuals predicted from the first stage. Models 3 to 6 include the moderation effects and the post hoc analysis.

Hypothesis 1 predicts that discharge dissent will increase the probability of CEO dismissal and is tested in Model 2. The coefficient for discharge dissent is positive and significant, implying that an increase in discharge dissent is associated with an increase in the likelihood of CEO dismissal ( $b = 0.452$ ,  $p = 0.007$ ). We next assess the average marginal effect of discharge dissent in Table 5. We observe that for every 1% increase in discharge dissent, the average probability of CEO dismissal increases by 3.5%. In line with our theorizing that discharge dissent will matter more the more it deviates from the average level of discharge dissent, we also predict probabilities of CEO dismissal at different levels of discharge dissent. We present these predicted probabilities in Table 6, where we show the effects at low (0%,

minimum observed), average (2.7%), high (1 standard deviation (SD): 11.4% and 2 SD: 20% from the mean), and maximum observed levels of dissent (99%). We find that, on average, a firm with a high level of discharge dissent (1 SD above the mean) has a 16.7% likelihood of CEO dismissal, whereas a firm with an average level of discharge dissent (2.7%) has a 7% chance of CEO dismissal.<sup>7</sup> The chance of CEO dismissal is 62.1% at the maximum observed level of discharge dissent (99%). Panel (a) of Figure 1 depicts the increasingly positive relationship between discharge dissent and CEO dismissal and shows that the more discharge dissent exceeds the mean, the increasingly more likely CEO dismissal becomes. This is consistent with our theory that discharge dissent functions as an informational signal that is progressively more likely to be noticed and acted upon by the board the stronger it becomes. Therefore, we infer support for Hypothesis 1.

Model 3 tests Hypothesis 2, predicting that discharge dissent is more likely to result in CEO dismissal when an independent chair leads the board. Because our chair variable is a categorical variable capturing three categories (i.e., family, independent, and other), we check Table 4, Model 4, and Tables 7 and 8. The estimated coefficient is negative but not statistically significant ( $b = -0.080$ ,  $p = 0.573$ ). Turning to the marginal effects analysis in Table 7, we observe that the marginal effect is positive (3.5%) and statistically significant. Although positive, both the marginal effect and the predicted probabilities of CEO dismissal due to discharge dissent are always the smallest for independent chairs compared with the other two categories, suggesting that an independent chair does not strengthen and may even weaken the positive relationship between discharge dissent and CEO dismissal (for any level of discharge dissent). We therefore reject Hypothesis 2.

Model 5 in Table 4 tests Hypothesis 3, predicting that the level of institutional ownership will strengthen the moderating effect of having an independent chair

**Table 2.** Descriptive Statistics and Correlations

Variables	Mean	SD	(1)	(2)	(3a)	(3b)	(3c)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	
(1) CEO dismissal	0.043	0.203	1.000																						
(2) Discharge dissent	2.690	8.637	0.123	1.000																					
(3a) Chair category 1 (family)	0.128	0.335	0.011	-0.089	1.000																				
(3b) Chair category 2 (independent)	0.564	0.496	0.000	0.075	-0.436	1.000																			
(3c) Chair category 3 (other)-Reference	0.308	0.462	-0.008	-0.016	-0.256	-0.758	1.000																		
(6) Family ownership (%)	23.557	26.436	-0.011	-0.103	0.269	-0.039	-0.154	1.000																	
(7) Institutional ownership (%)	20.999	15.268	-0.014	0.012	-0.141	0.194	-0.106	-0.428	1.000																
(8) Shareholder turnout (IV1)	58.346	17.808	-0.038	-0.215	0.092	-0.063	0.001	0.369	-0.118	1.000															
(9) Industry average dissent (IV2)	2.943	1.61	0.071	0.247	-0.066	0.093	-0.052	-0.023	0.076	-0.014	1.000														
(10) Residuals stage 1 (2SRI)	0.005	0.776	0.077	0.609	-0.047	0.053	-0.022	-0.077	0.038	-0.016	-0.005	1.000													
(11) Industry-adjusted ROA	0.000	10.453	-0.064	-0.165	0.038	0.026	-0.056	0.061	0.092	0.116	0.000	-0.016	1.000												
(12) Industry-adjusted Tobin's Q	0.000	8.838	-0.033	-0.019	0.092	0.015	-0.083	0.058	-0.023	0.106	0.000	-0.003	0.176	1.000											
(13) Firm size	8.259	2.303	-0.009	-0.061	0.008	-0.016	0.011	-0.124	0.159	0.128	-0.132	-0.012	0.116	-0.082	1.000										
(14) Blockholders (nr)	2.061	1.337	-0.031	0.023	0.031	-0.064	0.047	0.049	0.182	0.068	0.016	-0.027	-0.132	0.027	-0.199	1.000									
(15) CEO tenure	7.488	7.120	-0.089	0.017	-0.098	0.127	-0.066	0.235	-0.153	0.046	-0.022	0.003	0.094	0.099	-0.121	-0.034	1.000								
(16) CEO variable pay	48.441	26.334	-0.061	-0.156	0.063	-0.011	-0.034	-0.235	0.302	0.032	-0.176	0.034	0.235	0.047	0.520	-0.183	-0.006	1.000							
(17) CEO nr other public boards	0.156	0.471	0.027	-0.045	0.002	0.051	-0.056	-0.010	0.084	0.044	0.021	-0.002	0.050	0.015	-0.012	0.013	-0.079	0.028	1.000						
(18) Family CEO	0.265	0.441	-0.086	-0.011	-0.054	0.112	-0.081	0.494	-0.322	0.051	0.062	-0.030	0.058	0.023	-0.334	0.088	0.518	-0.335	-0.031	1.000					
(19) Supervisory board (SB) average tenure	5.138	2.779	-0.047	-0.067	0.104	-0.036	-0.037	0.085	-0.034	0.055	-0.087	0.004	0.123	0.121	0.006	-0.138	0.257	0.129	-0.052	0.035	1.000				
(20) SB other public boards (nr)	2.118	3.710	0.029	-0.012	0.025	-0.032	0.017	-0.001	-0.027	0.018	0.014	-0.016	-0.015	0.010	0.059	-0.020	-0.073	0.003	0.362	-0.085	-0.065	1.000			
(21) Shareholder representative (excluding family)	3.947	3.287	0.001	-0.046	-0.081	0.021	0.036	-0.123	0.197	0.155	0.054	-0.026	0.035	-0.048	0.274	-0.045	-0.065	0.263	0.003	-0.188	-0.035	-0.030	1.000		
(22) Analyst recommendations	3.681	0.617	-0.079	-0.018	0.030	0.028	-0.052	-0.031	-0.041	-0.163	0.023	-0.021	0.069	-0.087	-0.096	0.004	0.022	-0.091	0.008	0.150	-0.012	0.049	-0.075	1.000	

Note. Correlations larger than  $|0.06|$  are significant at the level of  $p < 0.05$ , two-tailed.

**Table 3.** Results Stage 1 of 2SRI

(Estimation: GLM, family Gaussian, link identity)	Discharge dissent (M0)
Shareholder turnout (IV1)	−0.016*** (0.003)
Industry average dissent (IV2)	0.157*** (0.024)
Industry-adjusted ROA	−0.008* (0.005)
Industry-adjusted Tobin's Q	0.045 (0.093)
Firm size	0.058** (0.023)
Blockholders (nr)	0.044 (0.031)
CEO tenure	0.018* (0.010)
CEO variable pay	−0.010*** (0.002)
CEO nr other public boards	−0.067 (0.085)
Family CEO	−0.195 (0.168)
SB average tenure	−0.018 (0.017)
SB other public boards (nr)	0.006 (0.010)
Shareholder representative (excluding family)	0.016 (0.022)
Analyst recommendations <sup>a</sup>	−0.030 (0.067)
Constant	−0.620 (0.354)
Observations	1,280
Year dummy	Yes

Notes. Underidentification test (instrument relevance) Test joint significance = 131.99.  $p = 0.000$ . Weak identification test (weak instruments). Stock, Wright, and Yogo (2002) rule of thumb:  $F$ -statistic  $> 10 \Rightarrow$  Instruments are not weak. Stage 2: Overidentification (instrument exogeneity)  $\chi^2 = 0.85$ ,  $p = 0.356$ . All models use robust standard errors.

<sup>a</sup>Average over the six months prior the shareholder meeting, weighted by the number of analysts covering the security.

\* $p < 0.1$ ; \*\* $p < 0.05$ ; \*\*\* $p < 0.01$ .

on the relationship between discharge dissent and CEO dismissal. The estimated coefficient of this three-way interaction is positive and not statistically significant ( $b = 0.010$ ,  $p = 0.534$ ). We turn to the moderator marginal effects analysis in Tables 9 and 10 and observe a significant marginal effect only at average levels of institutional ownership. For example, from Table 9, we observe that in firms with average levels of institutional ownership, on average, a 1% increase in discharge dissent is associated with an increase in the likelihood of CEO dismissal by 3.3% for firms with an independent chair, which is similar to firms with other types of chairs, but almost half of that for firms with a family chair. These findings do not support Hypothesis 3.

Model 4 tests Hypothesis 4, predicting that discharge dissent is more likely to result in CEO dismissal

when the board is chaired by a family member. The estimated coefficient in Table 4, Model 4 is positive but not statistically significant ( $b = 0.350$ ,  $p = 0.188$ ). To appropriately assess Hypothesis 4, we again turn to the marginal effects analysis. From Table 7, we observe that the marginal effect of discharge dissent on the probability of CEO dismissal is highest for family chairs. Specifically, for a 1% increase in discharge dissent, the average probability of CEO dismissal increases by 8.5% for firms with a family chair, compared with 3.5% for firms with an independent chair, and by 3.6% for firms with other types of chair. This effect is statistically significant. Panel (b) of Figure 1 depicts the moderating relationship. As earlier, we also predict probabilities of CEO dismissals at different levels of discharge dissent (see Table 8). We observe that at high levels of discharge dissent (1 SD above the mean), the likelihood of CEO dismissal is about 53.2% for firms having a family chair, 17.5% for firms having an independent chair, and 20.6% for firms having an other type of chair. Panel (b) in Figure 1 also shows that the discharge dissent–CEO dismissal relationship becomes progressively stronger when a family member chairs the supervisory board. These findings support Hypothesis 4.

Model 6 in Table 4 tests Hypothesis 5, predicting that family ownership will strengthen the moderating effect of having a family chair on the relationship between discharge dissent and CEO dismissal. The estimated coefficient of this three-way interaction is positive and statistically significant ( $b = 0.066$ ,  $p = 0.003$ ). To appropriately assess Hypothesis 5, we turn to the moderator marginal effects analysis in Table 11, showing the marginal effects of discharge dissent on the probability of CEO dismissal for family, independent, and other chairs at low ( $< 5\%$ ), mean (23%), and high (51%) levels of family ownership. At average levels of family ownership, the marginal effect of a 1% increase in discharge dissent on the probability of CEO dismissal is almost two times larger for firms with family chairs compared with independent chairs, and more than four times larger compared with other chairs (note that the latter is not statistically significant). At high levels of family ownership, this probability is more than four times larger for family chairs compared with independent chairs (14.2% vs. 3.4%), and 1.5 times compared with other chairs. These results support Hypothesis 5 that family ownership strengthens the positive effect that a family chair has on the discharge dissent–CEO dismissal relationship. As before, we also investigate the moderating effects at relevant values of discharge dissent. Table 12 shows the predicted probabilities of CEO dismissal as a consequence of discharge dissent at low, average, and high levels of family ownership, over informative values of discharge dissent, while comparing family chairs with all other chairs. At high levels of discharge dissent

**Table 4.** Results 2SRI – Stage 2 (Probit coefficients - glm)

Dependent variable: CEO dismissal	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Industry-adjusted ROA	-0.003 (0.005)	-0.001 (0.006)	-0.001 (0.006)	0.000 (0.006)	0.000 (0.006)	0.002 (0.007)
Industry-adjusted Tobin's Q	-0.107 (0.099)	-0.115 (0.119)	-0.121 (0.113)	-0.117 (0.122)	-0.133 (0.116)	-0.064 (0.114)
Firm size	0.006 (0.032)	-0.005 (0.034)	0.016 (0.033)	0.021 (0.034)	0.023 (0.033)	0.021 (0.035)
Blockholders (nr)	-0.096* (0.055)	-0.094 (0.058)	-0.097 (0.064)	-0.105* (0.063)	-0.121* (0.064)	-0.086 (0.064)
CEO tenure	-0.028* (0.014)	-0.045*** (0.016)	-0.043*** (0.016)	-0.044*** (0.016)	-0.047*** (0.016)	-0.047*** (0.017)
CEO variable pay	-0.007** (0.003)	-0.002 (0.003)	-0.003 (0.003)	-0.003 (0.003)	-0.003 (0.003)	-0.003 (0.003)
CEO nr other public boards	0.112 (0.125)	0.207* (0.125)	0.237* (0.133)	0.234* (0.134)	0.248* (0.131)	0.247* (0.135)
Family CEO	-0.561** (0.226)	-0.565** (0.253)	-0.584** (0.275)	-0.579** (0.276)	-0.577** (0.276)	-0.599** (0.28)
SB average tenure	-0.019 (0.029)	-0.005 (0.032)	-0.008 (0.033)	-0.008 (0.034)	-0.005 (0.032)	0.000 (0.031)
SB other public boards (nr)	0.007 (0.016)	0.011 (0.017)	0.01 (0.017)	0.009 (0.018)	0.005 (0.018)	0.010 (0.018)
Shareholder representative (excluding family)	0.008 (0.022)	0.004 (0.022)	0.001 (0.022)	-0.002 (0.022)	0.000 (0.023)	0.006 (0.024)
Analyst recommendations <sup>a</sup>	-0.272*** (0.099)	-0.318*** (0.11)	-0.29** (0.114)	-0.305*** (0.115)	-0.329*** (0.11)	-0.309*** (0.113)
Residuals stage 1		-0.232 (0.185)	-0.246 (0.187)	-0.294 (0.188)	-0.286 (0.192)	-0.406* (0.209)
Discharge dissent		0.452*** (0.166)	0.464*** (0.167)	0.523*** (0.185)	0.621*** (0.225)	0.883*** (0.233)
Family ownership (%)			0.001 (0.003)	0.002 (0.003)	0.001 (0.003)	0.013* (0.007)
Institutional ownership (%)			-0.001 (0.006)	-0.001 (0.006)	0.011 (0.009)	-0.002 (0.006)
Family chair			0.232 (0.224)	-0.039 (0.324)	0.858 (0.552)	-0.22 (0.659)
Independent chair			0.074 (0.16)	0.143 (0.213)	0.510 (0.314)	0.202 (0.253)
Discharge dissent × Family chair				0.35 (0.265)	-0.164 (0.515)	-0.06 (0.557)
Discharge dissent × Independent chair				-0.08 (0.143)	-0.261 (0.232)	-0.259 (0.177)
Discharge dissent × Institutional ownership					-0.006 (0.007)	
Family chair × Institutional ownership					-0.065 (0.041)	
Independent chair × Institutional ownership					-0.018 (0.011)	
Discharge dissent × Family chair × Institutional ownership					0.038 (0.031)	
Discharge dissent × Independent chair × Institutional ownership					0.01 (0.009)	
Discharge dissent × Family ownership						-0.057*** (0.018)
Family chair × Family ownership						-0.007 (0.013)
Independent chair × Family ownership						-0.01 (0.008)
Discharge dissent × Family chair × Family ownership						0.066*** (0.022)
Discharge dissent × Independent chair × Family ownership						0.053*** (0.019)
Constant	-0.52 (0.606)	-0.744 (0.649)	-1.025 (0.664)	-1.038 (0.668)	-1.133 (0.706)	-1.292* (0.72)

**Table 4.** (Continued)

Dependent variable: CEO dismissal	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Observations	1,271	1,271	1,271	1,271	1,271	1,271
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes

Note. Robust standard errors are in parentheses.

\* $p < 0.1$ ; \*\* $p < 0.05$ ; \*\*\* $p < 0.01$ .

(11.4%) and low family ownership (up to 5%), for example, the probability of discharge dissent provoking CEO dismissal is 30.9% for firms with a family chair, 20.6% for firms with an independent chair, and 19.6% for firms with other chairs. Yet at high levels of discharge dissent at the mean level of family ownership (23%), the probability of CEO dismissal is about 2.6 times higher for firms with a family chair compared with an independent chair (48.3% vs. 18.4%, respectively). As can be seen from marginal effects analysis in Table 12 and panel (c) of Figure 1, at 51% of family ownership, the difference between family and independent chairs becomes even more pronounced (74.4% vs. 15.2%). These findings support Hypothesis 5.

### Post hoc Analysis

To further explore the responsiveness of a family chair to expressive dissent, we also test whether the positive moderation effect of having a family chair is strengthened by the degree of institutional ownership in the firm and find that this is indeed the case (see Table 4, Model 5, the moderation effects analysis in Tables 9 and 10, and the graph in Figure 1, Panel D). Showing that family chairs are also more responsive to expressive dissent when institutional ownership is high,<sup>8</sup> these results suggest that family chairs do not just consider the beliefs, values, and interests of family owners when responding to the leadership legitimacy challenge presented by expressive voting dissent, but also those of institutional investors. We return to this finding in the discussion section.

### Robustness Checks

We perform several robustness checks to validate our findings. First, to ensure that the main effect is robust over different operationalizations of our independent variable, we also test our hypotheses with discharge dissent including only votes against instead of votes

against and abstains. Although the abstain vote is already understood to constitute a signal of dissatisfaction (Bebchuk 2007), we also apply a measure of discharge dissent that exclusively includes votes against. We register similar findings, both in terms of the direction and the significance of the effects reported in our main analysis.

Second, to ensure that our findings are not dependent on our estimation procedure, we also use a random-effects probit estimation procedure that includes endogenous covariates (xtprobit). The support for our hypotheses does not differ materially between our 2SRI GLM estimation and the xtprobit estimation. We also ran the first-stage analysis using simple panel data OLS estimations and find that our results are not affected by the choice of our first-stage estimation procedure. We hence conclude that the results reported in our main analysis are robust over various estimation procedures.

Third, to alleviate the concern that our inferences may be affected by omitted variable bias, we compute the robustness of inference to replacement (RIR) (Xu et al. 2019).<sup>9</sup> The RIR provides information about the percentage of a parameter that would need to be biased to invalidate a causal inference (Xu and Frank 2021, Busenbark et al. 2022). Our computation indicates that 33.16% of the estimate would have to be due to bias, or 415 cases (observations) “would have to be replaced with null hypothesis cases to invalidate the inference” (Xu et al. 2019, p. 527). Considering that this RIR is rather large, we are confident that our inference regarding the relationship between discharge dissent and CEO dismissal is supported (Busenbark et al. 2022). Note that RIR can only be estimated for our main effect as the method does not allow testing for interaction effects (Busenbark et al. 2022).

Fourth, because the probability of CEO dismissal depends on and changes over CEO tenure, we also conduct a survival analysis using both Weibull and Cox proportional hazard models that already incorporate CEO tenure in the hazard function (Jenter and Kanaan 2015, Hubbard et al. 2017).<sup>10</sup> We draw similar inferences on the influence of discharge dissent and board chair moderation effects.

Fifth, considering that the use of ratios has triggered concerns about exaggerating effect estimations among management scholars (Wiseman 2009), we test

**Table 5.** Marginal Effect of Discharge Dissent on the Probability of CEO Dismissal (Hypothesis 1)

Average marginal effect			
Margin	Exp (Margin) [%]	z-statistic	p-value of z-statistic
0.0346	3.5%	2.67	0.008

**Table 6.** Predicted Probabilities of CEO Dismissal over the Range of Discharge Dissent (Hypothesis 1)

Discharge dissent (%)	Predicted probability		z-statistic	p-value of z-statistic
	Margin	Exp (Margin) [%]		
0%	0.022	2.2%	4.20	0.000
2.7% (mean)	0.068	7.0%	3.99	0.000
11.4% (+1 sd)	0.155	16.7%	2.27	0.023
20% (+2 sd)	0.207	22.9%	2.05	0.040
99%	0.483	62.1%	1.99	0.042

the robustness of our inferences when operationalizing dissent in the number of votes rather than a percentage. We ran all our analyses with the number of votes cast against the management discharge proposal (the numerator) while controlling for the total votes cast on the management discharge proposal (the denominator). The results remain qualitatively similar to the percentage operationalization of discharge dissent as a ratio.

Finally, to ensure that our analyses do not underestimate the role that financial performance may have on driving the discharge dissent–CEO dismissal relationship (Jenter and Lewellen 2021), we run a moderator analysis of financial performance on our main relationship. We find no significant moderating effect of either accounting performance or market performance, which increases confidence in our finding that discharge dissent explains CEO dismissals as an informational signal in its own right.

## Discussion

### Expressive Voting Dissent and CEO Dismissals

Our study contributes, first, to the CEO dismissal literature. Presumably because of the rarity of CEO dismissals in director elections (Cai et al. 2009), research on CEO dismissals has largely ignored the role of shareholder voting in effecting CEO dismissals (Berns et al. 2021). Focusing on the role of the board instead, researchers have investigated various factors that boards consider when dismissing the CEO. Given the dominance of agency theory, the main focus was initially on investigating the role of firm performance in CEO dismissals (Berns et al. 2021), which a recent study suggests has been systematically underestimated in the literature (Jenter and Lewellen 2021).

Most studies in management, however, have moved beyond researching the firm performance–CEO dismissal relationship to investigate factors that condition this relationship. We currently know that earnings persistence (positively) (Suk et al. 2021), the number of directors that hired the CEO (negatively) (Zorn et al. 2020), CEO ownership (negatively), board independence (positively), nonfamily ownership (positively) (Li 2018), board loyalty (negatively) (Boeker 1992), prior corporate social responsibility (CSR) investments (positively) (Hubbard et al. 2017), firm-specific knowledge (positively) (Wang et al. 2017), board network embeddedness (negatively) (Flickinger et al. 2016), abnormal compensation (positively) (Chen et al. 2019), and CEO overpayment (positively) (Wowak et al. 2011), moderate the performance–CEO dismissal relationship, which also varies between countries (Crossland and Chen 2013).

Finally, boards were found to consider informational signals beyond firm performance when dismissing the CEO, such as negative investment analysts’ ratings (Wiersema and Zhang 2011) and negative media coverage (Bednar 2012). Our study contributes to this literature by showing that the symbolic signal transmitted by expressive voting dissent from minority shareholders can provoke CEO dismissals in a way that shareholders are unable to effect by voting in director elections (Cai et al. 2009).

### Symbolic Shareholder Democracy

By developing a more realistic and socially informed understanding of the role of shareholder voting in provoking CEO dismissals than agency theory has been able to provide to date, this study can be seen to advance a symbolic understanding of shareholder democracy, which contributes to the behavioral corporate governance literature (Westphal and Zajac 2013)

**Table 7.** Marginal Effect of Discharge Dissent on the Probability of CEO Dismissal Considering Board Chair Moderation Effect (Hypotheses 2 and 4)

Supervisory board chair category	Average marginal effect		z-statistic	p-value of z-statistic
	Margin	Exp (Margin) [%]		
Family	0.0812	8.5%	2.56	0.010
Independent	0.0340	3.5%	2.48	0.013
Other (nonfamily insider)	0.0355	3.6%	2.57	0.010

**Table 8.** Predicted Probabilities of CEO Dismissal over the Range of Discharge Dissent for the Different Board Chairs (Hypotheses 2 and 4)

Discharge dissent (%)	Supervisory board chair category	Predicted probability		z-statistic	p-value of z-statistic
		Margin	Exp (Margin) [%]		
0%	Family	0.0137	1.4%	1.56	0.120
	Independent	0.0231	2.3%	3.35	0.001
	Other	0.0165	1.7%	2.63	0.009
2.7% (mean)	Family	0.1269	13.5%	2.59	0.010
	Independent	0.0710	7.4%	3.55	0.000
	Other	0.0694	7.2%	3.11	0.002
11.4%(+1sd)	Family	0.4268	53.2%	2.27	0.023
	Independent	0.1612	17.5%	2.19	0.029
	Other	0.1875	20.6%	2.20	0.028
20% (+2sd)	Family	0.5806	78.7%	2.55	0.011
	Independent	0.2142	23.9%	1.99	0.046
	Other	0.2601	29.7%	2.09	0.037

and the symbolic management literature within that literature more specifically (Westphal and Park 2020).

First, our finding that shareholders can provoke CEO dismissals through an expressive use of their voting rights builds upon earlier studies in behavioral corporate governance that have shown that managers adopt corporate governance practices to express their loyalty to prevailing corporate governance beliefs instead of their expected effectiveness (Westphal and Zajac 1994, 1995, 2001; Fiss and Zajac 2004). Our study suggests that such expressive actions may go both ways in corporate governance, however, and is not the exclusive prerogative of cunning managers over passive and uninformed shareholders. Specifically, our study calls attention to how prevailing beliefs and shared symbolic meanings may enable and motivate expressive action in corporate governance (Daft 1983, Elsbach 1994, Sauerwald et al. 2016), and provide minority shareholders with a low-cost behavioral mechanism to provoke leadership dismissals in the firms they are invested in.

It is important to note that our findings show that the symbolic use of shareholder voting dissent to provoke CEO dismissals is effective in both dispersedly owned and family-controlled firms (Table 4, Model 3).

This suggests that it may be an effective corporate governance practice across the spectrum of ownership configurations and associated corporate governance problems found around the world. Whether a symbolic use of shareholder voting rights can be equally effective in provoking CEO dismissals across national contexts depends on the corporate governance beliefs and shared social meanings that prevail in a country, however, as these enable shareholders to use, and boards to understand, expressive voting dissent as a vote of confidence in firm leadership. Future research may further investigate how prevailing beliefs and shared social meanings in corporate governance may condition the cross-national effectiveness of governance practices (Sauerwald et al. 2016, 2018).

Second, our finding that the symbolic meaning and use of a corporate governance practice may strengthen the functioning of that practice contributes to the symbolic management literature, more specifically. The notion that the symbolic meaning of an organizational practice may strengthen the functioning of that practice is hardly novel (Cooter 1998, Schnackenberg et al. 2019), but seems to have been overlooked by symbolic management researchers in corporate governance. This may

**Table 9.** Marginal Effect of Discharge Dissent on the Probability of CEO Dismissal Considering Independent Chair and Institutional Ownership Moderation Effects (Three-Way Interaction; Hypothesis 3)

Institutional ownership %	Supervisory board chair category	Average marginal effect		z-statistic	p-value of z-statistic
		Margin	Exp (Margin) [%]		
5% (low)	Family	0.0710	7.3%	1.44	0.149
	Independent	0.0311	3.2%	1.79	0.074
	Other	0.0375	3.8%	2.27	0.023
20% (mean)	Family	0.0651	6.7%	2.57	0.010
	Independent	0.0329	3.3%	2.34	0.019
	Other	0.0361	3.7%	2.50	0.012
35% (high)	Family	0.0611	6.3%	1.69	0.091
	Independent	0.0341	3.5%	2.27	0.023
	Other	0.0338	3.4%	1.71	0.088



**Table 10.** Predicted Probabilities of CEO Dismissal over the Range of Discharge Dissent for Different Board Chairs and Institutional Ownership (Three-Way Interaction; Hypothesis 3)

Discharge dissent (%)	Supervisory board chair category	Low institutional ownership (5%)				Mean institutional ownership (20%)				High institutional ownership (35%)			
		Average marginal effect [Margin]		p-value	z-statistic	Average marginal effect [Margin]		p-value	z-statistic	Average marginal effect [Margin]		p-value	z-statistic
0%	Family	0.039	1.47	0.141	0.010	0.83	0.406	0.001	0.31	0.760	0.006	2.76	
	Independent	0.029	2.45	0.014	0.022	3.31	0.001	0.018	2.07	0.006	0.006	2.11	
	Other	0.014	2.09	0.036	0.019	2.70	0.007	0.028	2.11	0.035	0.035	2.11	
2.7% (mean)	Family	0.146	1.90	0.058	0.110	2.17	0.030	0.081	1.26	0.208	0.208	1.26	
	Independent	0.069	2.73	0.006	0.066	3.54	0.000	0.062	3.19	0.001	0.001	3.19	
	Other	0.064	2.50	0.012	0.069	3.17	0.002	0.073	2.58	0.010	0.010	2.58	
11.4% (+1sd)	Family	0.342	1.32	0.185	0.467	2.19	0.028	0.596	1.70	0.090	0.090	1.70	
	Independent	0.137	1.83	0.067	0.144	2.12	0.034	0.152	1.95	0.052	0.052	1.95	
	Other	0.184	1.85	0.065	0.169	2.06	0.040	0.154	1.66	0.098	0.098	1.66	
20% (+2sd)	Family	0.444	1.30	0.195	0.651	2.60	0.009	0.819	2.62	0.009	0.009	2.62	
	Independent	0.176	1.65	0.099	0.190	1.91	0.056	0.206	1.77	0.076	0.076	1.77	
	Other	0.261	1.77	0.077	0.229	1.89	0.058	0.200	1.49	0.137	0.137	1.49	

be due to early path-breaking studies showing that managers cunningly adopt corporate governance practices to secure their legitimacy at the expense of the avowed functional effectiveness of these practices (Westphal and Zajac 1994, 1995, 2001). Yet the somewhat cynical perspective that emerged from these studies is not representative of the broader literature on the role of symbolic and social meaning in organizations (Schnackenberg et al. 2019), which has long held that it may infuse management practices with value beyond their avowed functional purpose (Selznick 1984). Research may further explore how the symbolic meaning of corporate governance practices may strengthen rather than weaken the effectiveness of these practices (e.g., Zott and Huy 2007, Lungeanu and Zajac 2016).

### Board Chairs as Stewards of the Legitimacy of the Firm and Its Firm Leadership?

Finally, our study contributes to research on the corporate governance role of board chairs (Krause et al. 2016, Krause 2017). This literature is going through a revival due to the increasing separation between the functions of the CEO and the board chair in countries such as the United States (Withers and Fitza 2017), but which has long been a mandatory governance practice in countries like Germany as a matter of law (Hopt 2015). Our unexpected nonfindings are as interesting as our findings in this respect.

Contrary to prevailing agency theoretical beliefs that independent board chairs serve as stewards of outside minority investors (Bebchuk and Hamdani 2017), we do not find independent chairs to be more responsive to expressive voting dissent than other types of chairs, and sometimes even less responsive than any type of chair. Nor do we find the level of outside institutional ownership in the firm to matter in this respect. Aside from existing explanations about the failure of director independence as an effective corporate governance practice more generally (Dalton et al. 2007, Boivie et al. 2016b), or about the symbolic adoption but nonimplementation of agency theory informed corporate governance reforms in German firms specifically (Fiss and Zajac 2004), it is worthwhile to speculate about why independent chairs do not seem to be particularly responsive to expressive voting dissent.

First, despite the prevailing agency theoretical logic that has driven their increasing appointment in Germany, independent chairs may not be appropriately motivated to serve as a steward of outside minority investors in response to expressive dissent. This may be because the social distance between minority investors and independent chairs is too large to cultivate a true sense of stewardship on their behalf, and which may also make it more difficult for them to gauge the reasons that drive expressive dissent. Relatedly, it may be more difficult for independent chairs to muster support in the board to fire

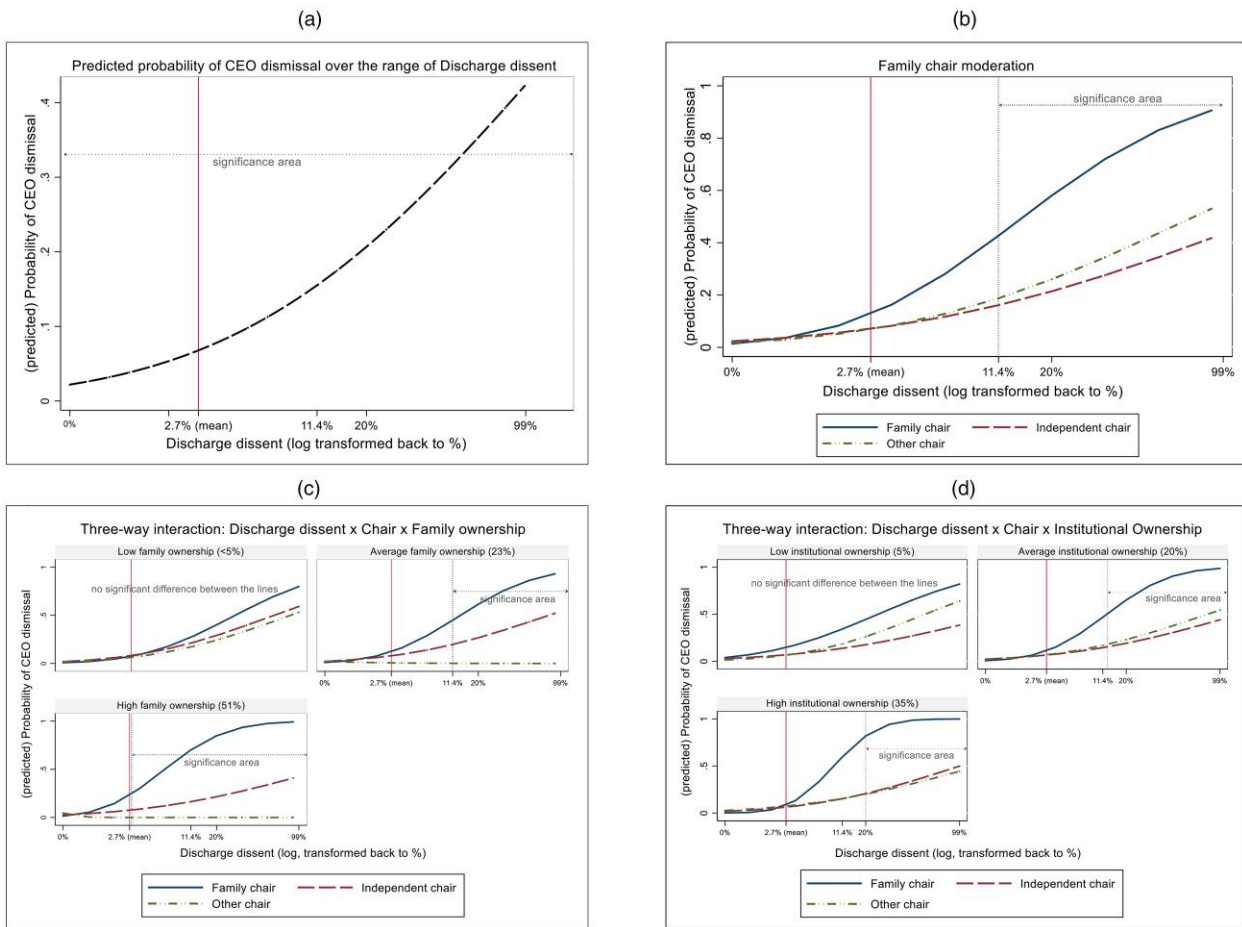
**Table 11.** Marginal Effect of Discharge Dissent on the Probability of CEO Dismissal Considering Family Chair and Family Ownership Moderation Effects (Three-Way Interaction; Hypothesis 5)

Family ownership %	Supervisory board chair category	Average marginal effect			z-statistic	p-value of z-statistic
		Margin	Exp (Margin) [%]			
<5%	Family	0.0407	4.2%		1.47	0.141
	Independent	0.0436	4.5%		2.73	0.006
	Other	0.0377	3.8%		2.06	0.039
23% (mean)	Family	0.0701	7.3%		2.45	0.014
	Independent	0.0397	4.0%		2.78	0.005
	Other	-0.0176	1.7%		-0.90	0.369
51% (high)	Family	0.1330	14.2%		2.58	0.010
	Independent	0.0334	3.4%		2.12	0.034
	Other	-0.0987	9.4%		-1.49	0.135

**Table 12.** Predicted Probabilities of CEO Dismissal over the Range of Discharge Dissent for Different Board Chairs and Family Ownership (Three-Way Interaction; Hypothesis 5)

Discharge dissent (%)	Supervisory board chair category	Low family ownership (< 5%)			Mean family ownership (23%)			High family ownership (51%)		
		Average marginal effect [Margin]	z-statistic	p-value	Average marginal effect [Margin]	z-statistic	p-value	Average marginal effect [Margin]	z-statistic	p-value
0%	Family	0.008	0.67	0.505	0.010	0.99	0.322	0.015	1.68	0.092
	Independent	0.017	2.77	0.006	0.020	3.35	0.001	0.024	2.64	0.008
	Other	0.049	2.38	0.017	0.025	2.64	0.008	0.050	1.74	0.082
2.7% (mean)	Family	0.079	1.52	0.128	0.130	2.23	0.026	0.250	2.25	0.025
	Independent	0.076	3.29	0.001	0.073	3.57	0.000	0.069	2.93	0.003
	Other	0.069	2.34	0.019	0.007	0.74	0.460	0.000	0.23	0.816
11.4% (+1sd)	Family	0.309	1.09	0.274	0.483	2.05	0.040	0.744	3.42	0.000
	Independent	0.206	2.13	0.033	0.184	2.23	0.025	0.152	1.98	0.047
	Other	0.196	1.61	0.107	0.002	0.31	0.753	0.000	0.000	0.940
20% (+2sd)	Family	0.452	1.12	0.262	0.656	2.41	0.016	0.885	5.62	0.000
	Independent	0.284	2.02	0.043	0.250	2.08	0.037	0.200	1.85	0.064
	Other	0.275	1.54	0.122	0.001	0.25	0.806	0.000	0.05	0.957

**Figure 1.** (Color online) Direct and Moderating Effects of Discharge Dissent on CEO Dismissal (Predicted Probabilities)



the CEO in response to expressive dissent, as independent chairs are less likely than nonindependent chairs to be able to build or rely on a supporting coalition inside the firm to implement their stewardship intentions (Zhang and Greve 2019). Future research should further investigate the motivations and capabilities of independent chairs to deal with leadership legitimacy challenges.

In contrast, our findings do support our theorizing about the enhanced sensitivity and responsiveness of family chairs to expressive voting dissent. Specifically, our results are consistent with our theorizing that family chairs are more responsive to expressive dissent because family members intrinsically (dis)value (contestations of) control over the firm, on the one hand, and are concerned about the reputational fall-out of expressive dissent for the firm and the family, on the other. That the level of family ownership strengthens the responsiveness of family chairs further supports these explanations.

Unlike independent chairs, family chairs are deeply socialized within, and typically maintain close relationships with, both the family and the firm. This enables them to internalize the beliefs, values, and interests of

the family and the firm and develop the capabilities to act as a steward of the legitimacy of the firm and its leadership when it is publicly challenged. Although our findings are thereby consistent with the stewardship theory of family firms more generally (Madison et al. 2016), this literature has often been overly generalizing and too coarse-grained to develop informative and testable implications in specific situations and contexts (Chrisman 2019). Research has shown, for example, that controlling family members may act as a steward in one set of conditions and as an agent in another (Le Breton-Miller et al. 2011). It was also argued that stewardship theory is ambiguous on the principals and objectives that controlling family stewards are expected to serve (Chrisman 2019).

What makes our study particularly interesting, however, is not only that family chairs are more prone than any other type of chair to act as a steward of the legitimacy of the firm and its leadership when it is challenged, but also that this stance of family chairs is reinforced by both the degree of family ownership and the degree of institutional ownership in the firm, as our post hoc analysis shows. The latter finding suggests

both a warning and an interesting question for future research.

Although family chairs seem to consider the beliefs, values, and interests of multiple firm constituencies when dealing with leadership legitimacy challenges, one should be careful to conclude that family chairs therefore act like stewards of the firm and its stakeholders in general. Our findings merely suggest that family chairs are either motivationally more sensitive to, or politically more capable of dealing with leadership legitimacy challenges than other types of chairs, or both. In other types of situations, the motivations and capabilities of family chairs may still deviate sufficiently from those of minority shareholders to take actions that benefit their kin at the expense of minority shareholders, as a stream of research on family firm governance has shown (Villalonga et al. 2015).

An interesting research question is whether family chairs are better able than other types of chairs to serve as a broker between different firm constituencies to deal with leadership legitimacy challenges. Compared with independent chairs, who have no relations with firm insiders, family chairs can rely on the powerful constituency of family owners within the firm and often have a long and ongoing involvement with the firm. This provides them with both the social capital and the skills to be uniquely able to build coalitions between firm constituencies to deal with leadership legitimacy challenges. Although an interesting and classic conjecture (March 1962), its further and finer-grained investigation is beyond the means of this study, and must hence be left for future research.

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### Endnotes

<sup>1</sup> In Germany, the chair of the board is always separate from the CEO due to the mandatory two-tier board system, in which the CEO chairs the executive board and someone else chairs the supervisory board (Hopt 2015). From hereon, we will use the terms "chair" to denote a separate position of that of the CEO and "board" to refer to the supervisory board, unless we say otherwise.

<sup>2</sup> The question of who chairs the shareholder meeting is typically resolved in the firm's articles of association. As a matter of fact, "the articles of association of most German stock corporations designate the chairman of the supervisory board as chairman of the meeting." See: <https://www.rosepartner.de/en/chairman-general-meeting-ag-germany-lawfirm.html>.

<sup>3</sup> To both demonstrate our CEO dismissal coding and illustrate our main effect hypothesis with a paradigmatic example, we refer to the

case of Anshu Jain's dismissal at Deutsche Bank in June 2015. Jain's stepping down was both sudden and surprising and happened following the annual shareholder meeting of 2015 (criterion b) in which a large minority (38.95%) of shareholders voted against the executive board discharge proposal (*Financial Times*, May 21, 2015; <https://www.ft.com/content/78c14c60-ff97-11e4-8c46-00144feabdc0>), which also aptly demonstrates our main effect hypothesis. Although Jain was replaced by John Cryan, Cryan was already on Deutsche Bank's supervisory board as a nonexecutive director, suggesting this replacement was more of a temporary solution to Jain's dismissal than a planned turnover. Upon further analysis, we also found both prior and subsequent news coverage to mention performance concerns at Deutsche Bank in the year prior to the meeting (criterion c), while explicitly mentioning that Jain's dismissal was attributable to the high level of shareholder dissent on the executive board discharge proposal at the 2015 shareholder meeting (criterion a), for example, "The supervisory board is reacting to the disastrous vote at the [annual general shareholder meeting]" (*Financial Times*, June 7, 2015; <https://www.ft.com/content/ed750e16-0d02-11e5-b850-00144feabdc0>).

<sup>4</sup> Take the family-controlled firm Henkel for example. Two of Henkel's chairs during our sample period were family members, despite having different family names; Albrecht Woeste and Simone Bagel-Trah are the fourth and fifth generation descendants of Henkel's founder, Friedrich Karl Henkel.

<sup>5</sup> In Germany, the dual class share system consists of only two classes of shares: A (common shares, with voting rights—one vote per share), and B shares (preferent shares, no voting power) (Bentel and Walter 2016).

<sup>6</sup> Using regular panel data OLS (xtreg) as an estimation procedure in this stage yields similar inferences.

<sup>7</sup> Because discharge dissent is log-transformed, we need to exponentiate the marginal effects and predicted probabilities reported in all tables (in the brackets) to interpret its effect on the probability of CEO dismissal in percentage terms.

<sup>8</sup> Note that there are only few observations where we observe the presence of a family chair and high institutional ownership. We hence also explored the family chair effect at lower levels of institutional ownership (4%, 15%, and 26%, representing low, average, and high institutional ownership for firms with family chairs). The results show increased statistical significance and larger effect sizes, suggesting that our inference regarding the family chair is robust.

<sup>9</sup> Recently, researchers in management have started calculating the impact threshold of a confounding variable (ITCV) to test how vulnerable their inferences are to omitted variable bias. Because our dependent variable is binary, the ITCV cannot be applied as the method is currently deemed inappropriate for such specifications (Xu et al. 2019, Xu and Frank 2021, Busenbark et al. 2022). In such cases, the RIR is considered a useful alternative (Xu et al. 2019, Xu and Frank 2021).

<sup>10</sup> Semiparametric Cox models are most often used to estimate the survival in position due to their flexibility in assuming/knowing the a priori functional form of the baseline hazard (Cleves et al. 2010), as well as their ability to handle right censoring. We follow this common practice but also consider a Weibull parametric model due to the rare events nature of our data. Cox modeling is used when the time clock to dismissal is CEO tenure (in months), and Weibull when the event is the CEO dismissal occurrence (using annual data).

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