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CEO Selection:
A Model and Direction for Future Research
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Abstract

CEO selection is one of the most important events in the life of an organization. It has never been more critical than it is today. The purpose of this paper is to use the existing literature to identify the most important variables in the selection process. A direction for future research of the effect of these variables on the selection process is suggested. Finally, a model of the variables and their influence on the selection process is developed.

CEO Selection: A Model and a Direction for Future Research

CEO selection has never been more critical to the success of an organization (Khurana, 2001). The events of 9/11 have put an exclamation point on the importance of leadership, and the increase in large corporate bankruptcies is reflective of a very challenging economy. Succession is an extremely crucial decision for a company (Guthrie & Datta, 1998; Sessa & Taylor, 2000). Twenty percent of the U.S.'s largest companies replaced their CEOs in 2000 versus about 11% in 1999 (Leonard, 2001). Replacement of the individuals in these positions is a very complex process. There are an extremely limited number of candidates capable of leading strategic change (Lawler & Finegold, 1997), and the job is unique in each situation (Rock, 1977), making the search for the right person more difficult. Due to changes in the environment, the cost of an error in CEO selection has been increased (Gupta, 1992). As many as one-third fail, with another one-third are performing at a mediocre level (Sorcher, 1985).

Researchers suggest future studies should focus on identifying strategic and organizational variables that might mediate the relationship between CEO tenure and organizational performance. The purpose of this paper will be to identify strategic, organizational, and human variables that are significant to CEO selection. This paper will not address external variables such as environment or competition. While these are important to the selection process, because of the major effect they have on performance of organizations, they are beyond the scope of this treatment. This subject is important for researchers because it sets forth testable propositions for this understudied area. It is important for practitioners because of the very significant consequences that errors in CEO selection have.

CEO succession and CEO selection should be studied together; these subjects have not been well researched (Hollenbeck, 1994). One reason is that research is particularly difficult in this area due to the secrecy that surrounds the process in most organizations. Hollenbeck (1994) concluded that very little significant literature on CEO selection is available. His treatment of the selection process reviews the relevant work published to the time of his book in 1994. This paper uses his review of that work and extends the literature review since that time in an attempt to create a researchable framework of the most important internal variables in CEO selection.

I have organized this paper around the seven areas that appear to receive the major focus in the literature. These are: Organizational Strategy, Boards of Directors, Position Requirements, KSAs, Incumbents, Outside Candidates, and Selection Resources. Since these areas receive the lion's share of the attention in the literature, it is important that these areas be researched in order to determine their affect on CEO selection. Propositions have been created for each of these areas to suggest an avenue for further study of this topic, and a model of the

effect of each of these areas on the selection process is developed. Many of the propositions refer to successful selection decision outcomes. I am defining these as decisions that result in a hire of a CEO who improved the performance of the organization.

Organizational Strategy

Organizational strategy appears to be an important variable in of the selection process. CEO selection starts with an assessment of strategy and the translation of that strategy into executive competencies required for the position (Van Clieaf, 1992). It is integral to organizational performance. Corporate strategy interacts with CEO selection decisions to impact organizational effectiveness (Guthrie & Datta, 1998). There is no substitute for matching the strategy requirements of the organization with the type of CEO and executive development process (Lawler & Finegold, 1997) and vice versa. This brings up a question, must a new CEO be able to buy into and execute the current strategies, should s/he have a strategy to execute, or does s/he have to be able to implement a strategy that is brought by others, i.e., the board? It, of course, depends.

Selection effectiveness is contingent upon strategy, structure, and culture (Keir & Jackofsky, 1989). These are areas that define an organization. Obtaining a CEO is a matter of finding the best fit between the candidate and the organization (Raelin, 1997). Ocasio and Kim's (1999) study showed that over the 10-year period from 1981 to 1992 strategy in organizations moved from a financial focus to a wider strategic focus. This shift has put an emphasis on the ability of individuals to adjust to the changing requirements of the organization. The CEO has the major role in shaping the firm's strategy and competitive advantage (Gupta, 1992). There is no question as to the importance of strategy in the selection of a CEO.

The CEO selection process is a struggle over defining the corporate agenda and strategy (Ocasio & Kim, 1999). By defining these areas, the profile of a potentially successful candidate can be drawn. Consequently, succession should be fundamentally tied to the strategic business plan (Guthrie & Datta, 1998). Research found that CEO turnover did not have a major effect on strategy changes (Van Clieaf, 1992), giving support to the notion that continuation of the strategic direction of the organization should be a driving force in the CEO selection process. The question that remains open is, in the selection process should the search focus on an individual who can implement the current strategic plans of the organization, or on someone who can implement their own strategic direction? The answer to both questions is yes. The ability to adapt to either of these situations is necessary. The key is really the ability to decide which strategy is the best, and implement it. Choosing a CEO who can implement strategic change is critical (Hambrick & Fukutomi, 1991). Either a change in strategy or continuation of existing strategy may be the correct course of action, the situation will dictate, and the CEO has to execute.

Proposition 1. Successful CEO selection outcomes will result when CEO candidates can adjust to the strategic situation of the organization.

The future strategy of the organization helps to outline the skills necessary that a CEO will need to direct the future of the organization (Carey & Ogden, 2000), just as the current

situation defines the skills needed to direct the current organization. Leading the future organization is crucial, as crucial as the present. A leader must be able to see what is on the horizon and prepare the organization for change; this ability defines a great leader (Romanelli & Tushman, 1988). The future strategic needs of the organization should drive executive selection (Gupta, 1992). Succession planning starts with the assessment of the future strategy of the organization (Carey & Ogden, 2000).

In Khurana's (2001) study, strategic purpose was a common denominator for organizations that used position requirements and future needs of the company rather than the personality of the candidate to make selection decisions. Strategic future direction is a critical issue in an organization, and strategy is a major component of the selection process. In subsequent sections of this paper we will see that strategy is linked to many of the other major areas. It may be that strategy is an overarching element in the selection process.

Proposition 2. The selection decision will be successful when the candidate is aligned with the future strategic needs of the organization rather than the current strategy.

Boards

The CEO selection decision is usually reserved for the Board of Directors (Carey & Ogden, 2000; Leonard, 2001). Boards play a critical role in selecting CEOs to lead the organization in an increasingly turbulent environment (Raelin, 1997). The current economy and recent misdeeds in the senior management ranks of corporations have underscored how critical these decisions are. The CEO has ultimate accountability (Rock, 1977). When an error is made in a selection decision, it is not the board that is fired; the CEO faces the consequences (Forbes & Milliken, 1999). The board continues on to select a replacement.

It is the most important responsibility of the Board (Hollenbeck, 1994), and some of the board members will not have had to perform this task before, and may not have to again. There is no learning curve for this process (Vancil, 1987). Experience in CEO selection is a very valuable skill for directors, given the critical nature of this task. Experience can come in the form of choosing a new CEO in their own company, or in another board setting. Some directors sit on multiple boards where they may have had this experience. This is an experience that is valuable to directors and should be considered when selecting board members.

Proposition 3. Boards that are experienced in CEO selection will make more successful selection decisions.

Directors rely on formal and informal rules of CEO succession. Rules enable and constrain board decisions (Ocasio, 1999). Because rules, political or ideological issues, and power considerations are involved in CEO selection, boards are heavily influenced in their decisioning. These considerations will sometimes overshadow other, more strategic and organizational considerations in selection decisions. A study of Fortune 500 companies found that boards would select CEOs whose strategies match more closely to their own firms (Westphal & Fredrickson, 2001). Board members' strategies show up in the strategies of organizations that

they govern. At the same time, those who make the selection decision may come to more clearly understand the vision for the organization.

A power structure exists in organizations within the board, and has influence on CEO succession decisions (Shen, 2000). CEOs usually select their directors and this can create political situations. Decisions are made more difficult if directors feel they owe something to the CEO for the appointment. CEO selection is a political contest and ideological struggle among the powers within the organization (Ocasio & Kim, 1999). These contests will detract from other, more rational processes in the selection decision.

Proposition 4. More successful selection decisions are made when boards can control political influences.

In addition to experience in making selection decisions, boards need expertise in aligning strategy with the CEO requirements (Lawler & Finegold, 1997). A role of directors is to advise management on strategic change and implementation of strategy. In a study of 600 corporations in the Forbes 1000, Westphal (1999) found that boards that advised CEOs on strategic issues had higher performance. The strategic fit of the CEO candidate is critical to the fulfillment of this role (Carpenter & Westphal, 2001). Boards need to understand the strategic challenges a CEO will face as well as assess the future direction of the company. As critical, however, is how well the board is able to explain their view of the strategic direction to the candidates.

Boards also may assume power at the time of senior management turnover. The literature on group decision-making indicates that boards may consider strategy changes at the time of CEO succession (Westphal & Fredrickson, 2001). Critical at these times, again, is how well the board communicates these strategy changes. Boards should be evaluating the strategic fit of the candidate with the organization, in essence, a realistic job preview of the board's expectations for strategic fit.

Proposition 5. The board's ability to fully communicate expectations of strategy implementation will result in a more successful selection decision.

Position Requirements

CEO selection decisions often fail because of a misunderstanding of the position requirements (Tarr, 1998). As mentioned earlier, realistic job preview and communication are key elements of successful selection decisions. Identifying the dimensions of the job is basic to improving the process of CEO selection (Gupta, 1988). Search committees should begin by defining the requirements of the position (Khurana, 2001). These elements are as essential for the CEO position as other positions in the organization.

There is a need for the position requirements, dictated by strategy, to be considered in CEO selection (Guthrie & Datta, 1998). Again, strategy overlaps into this element of the selection process. Strategic mission and competitive strategy are the two main concepts that affect the job of the CEO (Gupta, 1988). Position requirements, competencies, and roles must be consistent with the strategic mission and competitive strategy of the business. Strategy should help guide the position requirements.

Selection decisions are influenced by position requirements along with the fit of the candidate with those requirements (Guthrie & Datta, 1997). The best-fit discussion concentrates on the position requirements of the job. Matching candidate attributes and competencies with position requirements helps ensure a better fit to the situation. It is more difficult to specify exactly what the job is as you go higher in the organization (Sorcher, 1985), but a better understanding of the job is needed to know how the selection process should proceed (Hollenbeck, 1994). This understanding should be shared by the decision makers and by the candidates. Additionally, the strategic influence on position requirements is important. This is because, as shown earlier, the overarching influence of strategy on the selection process is also evident here.

Proposition 6a. CEO position descriptions that are accurate for the position and driven by strategic requirements are necessary for a successful selection decision.

Proposition 6b. Candidate's ability to fully comprehend the position requirements is necessary for a successful selection decision.

The elimination process sometimes produces a survivor and not necessarily the best-suited individual (Khurana, 2001). Candidates need to be evaluated against the requirements of the position and not against each other. A process of inclusion of candidates rather than exclusion is preferable. When the survivor process is employed, an overall, more desirable candidate may be screened out early in the process. Narrowing the field of candidates is usually a process of elimination rather than inclusion; the process searches for flaws in the subjects (Sorcher, 1985). This procedure contradicts the theory of fit, in that the candidate with the best over-all fit may have some flaws.

Proposition 7. More successful CEO selections will result from processes that measure the candidates against the job requirements than will result from processes that measure the candidates against each other.

Knowledge, Skills, and Abilities

One of the principles governing the selection process is that it must include an understanding of the situations that the selected individual will face (Sorcher, 1985). Individuals when facing these situations acquire knowledge, skills and abilities. Leading corporations have selected executives by correlating competencies with business strategy (Van Clieaf, 1992). Empirical research has linked these together. Individuals acquire these competencies through the attainment of KSAs.

In a study of institutional change in colleges during the 1970s and 1980s, Kraatz and Moore (2002) found the hiring of experienced leaders resulted in more normative changes in the institutions, while less experienced individuals resulted in more radical and less successful changes. We can interpret these successful "normative" situations as ones that were aligned with the strategy of the organizations. We can conclude that experience in the position does matter, but moreover we can see from this study that KSAs of CEO candidates need to be aligned with

strategy. In this way, the CEO would be in a position to execute the strategy.

Proposition 8. CEOs who possess KSAs that complement the strategy of the organization will be the most successful in their new situations.

Basing the decision of selection solely on the performance of the company of the candidate can be a mistake. Prior performance is, however, an important consideration in the selection process. The candidate's fit with the organization is also an important element (Leonard, 2001) however, the goals and objectives of the search should determine the candidate pool (Khurana, 2001). These objectives will be determined by the existing situation of the organization and the future strategic focus. Candidates need experience and exposure to elements of the business (Leonard, 2001), and these are essential to evaluate potential future performance. Prior job assignments help assess potential in candidates (Rock, 1977) by demonstrating a track record of performance.

Guthrie and Datta (1997) looked at CEO successions of *Business Week* 1000 firms from 1977 to 1989. They found that the importance and desirability of the experience that a CEO candidate possesses is affected by firm characteristics, particularly size and performance. This study helps demonstrate the importance of prior performance in the CEO selection process. A later study by Guthrie and Datta (1998) found that CEO candidates with firm specific experience at lower levels of the organization perform better than those without. The best-fit discussions concentrate on the past performance of the candidate (Sorcher, 1985). So a successful CEO candidate may be found in a high performing organization because past performance is indicative of future performance.

Proposition 9. Prior performance in CEO positions will predict performance in a new CEO position.

CEOs often are required to use skills that have not been used previously. Most CEOs identified as high potential individuals early in their careers, were good at their jobs and excellent communicators (Sorcher, 1985). Cognitive power is indicative of the level of complexity that executives are capable of managing (Van Clieaf, 1992). They are selected to perform in an unknown future. For this reason, past behavior may not be a useful predictor (Hollenbeck, 1994), but CEO candidates must be skilled managers who can also lead strategically (Lawler & Finegold, 1997), and understanding corporate culture is a key element for a new CEO (Leonard, 2001). Clearly a very wide array of experience and skills are necessary for the CEO.

Raelin's (1997) study using existing databases found little support for the use of functional executive skills as a basis for CEO selection. These skills were not a major consideration in the decision to hire. It does not necessarily mean that skills are not important in the selection process, it may be that the assumption is made that all candidates at a certain level will have the requisite skills, but time spent on evaluating these is of little value. Personality and temperament are not overly important to selection unless they are destructive (Van Clieaf, 1992). Any dysfunctional traits need to be identified in the selection process.

The literature on the discussion of KSAs is conflicting on the point of how much value KSAs have in the outcome of the CEO selection process. The literature would suggest that some deficiencies in KSAs are only important if they have caused a problem in the past performance of the candidate. This might lead to a conclusion that all candidates at a certain level have enough KSAs to be successful at the job. Having more KSAs over a certain level is not necessarily a plus, and even not having as much may not be a negative, but having some dysfunctional experiences will affect performance on the job.

Proposition 10. Only dysfunction in KSAs will have an effect on the success of CEO selections.

Incumbents

A concern in CEO selection is the retirement process of the incumbent CEO (Sonnenfeld, 1988). Surveys show that incumbent CEOs are very influential on the choice of successors (Lawler & Finegold, 1997), but boards are not leaving decisions on succession to incumbent CEOs, they are becoming more involved in the process (Khurana, 2001).

Boards reward firm specific experience when strategies result in higher performance (Guthrie & Datta, 1997). The attribution of the results may also be placed on other members of the management team, particularly those singled out by the incumbent. This may lead a Board to weigh the recommendation of a high performing incumbent CEO more heavily in the selection process. Powerful CEOs have a great deal of influence in determining who succeeds them (Cannella & Shen, 2001) for this reason.

Incumbent CEOs, even when the organization is underperforming, are usually reluctant to step down (Cannella & Shen, 2001). When they do give up their positions, they often select someone similar to succeed them, thus insuring the continuation of the incumbent's strategies. This is almost certainly a mistake when the firm's performance is an issue, or when new strategies may be appropriate, even in high performing organizations. Complementary rather than consistent strategies may improve performance, regardless of the current performance. Selection is the time to address strategy, after the new CEO is in place, strategy may not change again until another change in leadership is made. A change in CEO is an opportunity to adjust direction and strategy. This can vary from small to large change, but selecting a clone of the incumbent, with consistent strategies, is a misuse of an opportunity to improve performance.

Proposition 11. A more successful selection outcome will result when the profile of the new CEO compliments rather than matches the incumbent CEO.

Outside Candidates

There is an increase in reliance on selecting external candidates for CEO positions (Hollenbeck, 1994; Raelin, 1997; Vancil, 1987). The search process often goes outside of the organization to find a new CEO when the organization is performing poorly, and confidence in the ability of internal candidates to return the organization to acceptable performance is lacking (Guthrie & Datta, 1998; Khurana, 2001; Westphal & Fredrickson, 2001). An outside candidate is an obvious choice when the organization desires to change the strategic direction (Leonard,

2001). Internal candidates may not have the experience required to engage new strategies. Often the candidate from the outside “looks” the best (Sessa & Taylor, 2000), perhaps because less is known about any personality issues of the outside candidate, but also because no internal candidate has the ability to effect a change in the strategy.

Strong empirical evidence exists that CEOs selected from outside the organization tend to facilitate changes in strategy. These changes often resemble the strategies of their prior employers (Westphal & Fredrickson, 2001). The propensity to change strategy may be lower in firms that do not look outside of the organization for CEO succession. There also may be reduced innovation in firms that do not go outside of the organization for CEO selection because of a resistance to change in the organization.

Proposition 12. In firms that require a change in strategy, the choice of a candidate from outside the organization will result in a more successful selection outcome.

Selection Resources

Formal assessment procedures are often used, but there is no consensus in the literature on which selection instruments are effective (Hollenbeck, 1994). Systematic selection systems are the most effective, but are not often used (Sessa & Taylor, 2002). The reasons for the under-use of selection systems are unclear in the literature. Many are relatively new and as such, not extensively tested. I suspect though that one reason why these tools are not widely used is because of unfamiliarity with the tool or its usage. As a result, training and marketing of these devices is not as pervasive as it could be and resultantly, managers are somewhat hesitant to use them. If a selection device is used to predict performance of individuals, validity of the use of that tool is important (Klinvex, O’Connell & Klinvex, 1999). Testing of validity assumptions is critical.

One of the principles governing CEO selection is that someone without a vested interest in the outcome should be leading the process (Sorcher, 1985). It would ensure a more unbiased process, and is the impetus for the use of outside consultants. Outside assistance from consultants in the selection process can be helpful (Hollenbeck, 1994; Lawler & Finegold, 1997; Rock, 1977). Consultants have a precise role in selection (Khurana, 2001) but a search firm’s responsibility should only be to identify candidates (Leonard, 2001). It is necessary for individuals inside the organization, including directors, to make selection decisions. For all of their positive points, employment consultants rarely have a good grasp of the strategic issues of the organization. Interviews with people who have worked with a candidate in executive positions are also good sources of information (Rock, 1977), but the quality of interviewing is debatable.

Proposition 13a. Firms that use outside consultants and recruiters as resources for CEO selection have more successful selection outcomes.

Proposition 13b. Firms that use assessment and selection devices as resources for CEO selection have more successful selection outcomes.

Model

In the literature there is no model that covers all of the contingencies, processes and issues of CEO selection (Hollenbeck, 1994). The model shown as Figure 1 is a simple model. There is no research that concludes that complex contingency models are better predictive tools than more simple models (Bass, 1990; Gupta, 1988). All seven areas are shown to exert influence on the selection process, and they are in turn constrained by environmental forces.

Limited Past Research on CEO Selection

There is a limited amount of research on CEO selection. Some reasons for these limitations are as follows:

First, the study of CEO succession should be approached by a longitudinal design (Guthrie & Datta, 1998; Hollenbeck, 1994), rather than retrospectively (Rock, 1977). This is of course, more easily said than done and is a major reason there is a limited amount of research of CEO selection.

Second, measurement of the performance of boards in the selection process is very difficult for researchers because of the confidential nature of board activities (Forbes & Milliken, 1999). Boards and CEOs put a high premium on secrecy in order to not have to deal with unfavorable publicity that may result from the market being made aware that an incumbent is leaving the organization and to protect the privacy of a candidate. This creates a barrier to research (Hollenbeck, 1994; Sonnenfeld, 1988).

Finally, other barriers to entry for research in this area are formidable. Sources mainly include current and former board members and CEOs who mostly value the sanctity and secrecy of the boardroom, and recruiters and consultants who are privy to some, but not all of the conversations and deliberations of the process. A possible alternative to researching CEO selection in for-profit organizations may be to look at President and Chancellor selections in higher education. That process tends to be more open, and more of the material related to the selection decision is available in the public domain. The same issues discussed above would be present in these scenarios. Generalization to for-profit organizations would be an issue, but a more robust data set may be obtained. Hollenbeck (1994) gives a description of other reasons why data is scarce. He advises that multiple methods must be used and admonishes that understanding the context that selection takes place is critical to research.

Additional Research Recommendations

In addition to improvements to past research, several areas of new research should be considered. First, researchers should look at failures of CEO selections, where the new CEO is dismissed or leaves after a short tenure. What causes failure rather than what is needed for success? Most of the literature focuses on success factors. Factors that cause failure in CEO selections are of significant interest also.

Second, there is agreement in the literature on what constitutes critical flaws (Sorcher, 1985), but the effect of external factors may have added to the list. External factors such as the environment, competition, and world events were specifically excluded from this paper. The model shows these factors constraining the selection process, and as such, they should be researched.

Third, what are the alternatives when no candidate fulfills all of the desired requirements for a CEO position? What have organizations historically done in these types of situations? How were these decisions reached? What have been the outcomes of these actions? It is likely that the ideal candidate does not appear in more circumstances than anyone wishes to admit, and research in this area would be valuable.

Finally, more research needs to look specifically at the incumbent CEOs view of the process. While this area is covered to an extent in this paper, a more in-depth examination of what incumbents do in the selection process and why would be instructive.

Conclusion

The study of executive selection is unique and it is difficult. Insight into the CEO selection process may be gained by looking at other related types of positions such as college presidents, head coaches, or non-profit organizations such as the United Way and American Red Cross. This is an area of significant interest to researchers and importance to practitioners. This paper has identified important variables in the selection process and developed propositions that can help improve CEO selection. The propositions in this paper will be challenging to empirically test, but the data derived from those tests could provide valuable information on a subject of vital importance to organizations.

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Figure 1. Model of necessary areas of evaluation in the CEO selection process.

