EXECUTIVE LOYALTY AND EMPLOYER ATTRIBUTES

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Abstract

An employee's attachment to their employer is one of the central topics across the social sciences. We examine an important aspect of attachment, job search, in the context of executive jobs using a unique data set from a prominent executive search firm that identifies whether executives have declined or pursued offers of employment at other companies. This measure offers an improvement over previous studies on attachment, which rely on actual turnover and, as such, are confounded by opportunities in the labor market. We examine a range of factors concerning jobs and employment practices that increase an executive's identification with the organization and discourage him/her from looking for alternative employment.

Key words

voluntary turnover, job search, executives

Introduction

The issue of employee attachment to their employer, their willingness to remain in an employment relationship, has been a central topic across the social sciences and has implications for both individual and organizational performance. As Steers and Mowday (1981) note in their seminal work on the topic, employee attachment is at the heart of the general issue of commitment to organizations. “Behavioral commitment” is their term for the willingness of employees to stay with their employer, and it is surely the most significant aspect of employee commitment to an organization. Employees who decide to leave their employer typically cause considerable disruption as well as direct turnover costs while those who are contemplating a move may withdraw effort in important ways that affect their job performance. Understanding the factors driving employee attachment has therefore been a crucial question both for understanding employee behavior and organizational outcomes.

But efforts to examine employee attachment empirically face important challenges that are conceptual as well as empirical. They begin with the fact that the only observable outcome typically associated with employee attachment is voluntary turnover or quits. Employee quits are strongly conditioned on opportunities to work elsewhere: Because virtually all employees are dependent on income from employment, their decision to leave their current job depends very much on opportunities to move to another job. In the U.S., for example, two-thirds of workers who quit move immediately into a different job (Akerlof, Rose, and Yellen 1989). The fact that actual quits depend heavily on opportunities for other work raises three conceptual difficulties. First, employees may want to quit but be unable to because of a lack of alternatives, leading to Type II statistical errors when using quits to measure attachment. Second, employees who may be more attached to their employers than others may nevertheless leave if they are offered alternative jobs that are much more attractive, leading to Type I statistical errors. Finally, if the decision to quit is based both on current circumstances and on opportunities, then the decision to quit is part of a simultaneous equation model based on these two factors. Traditional techniques for analyzing attachment cannot be used, an issue we discuss in more detail below.

Acknowledging the influence of labor market alternatives, behavioral researchers often describe voluntary turnover as having a “push” component, a lack of attachment to their current employer that is associated, e.g., with job dissatisfaction, and a “pull” component that is associated with opportunities elsewhere. Virtually all of the behavior research has focused on these “push” factors within the current employment relationship, such as the attributes of individuals, organizations, and the relationships between them that bind employees to their employers. These factors have important practical implications because they also tend to be those that are within the control of the employer.

An alternative to examining attachment using actual quits in the behavioral literature has been to ask employees about their *intentions* to quit. The advantage of this approach is that the employee can be instructed to abstract from their ability to find a job elsewhere and to focus on their desire to quit, the “push” factors. The extent to which they can actually detach themselves from their ability to leave (given that perceptions of their current jobs are shaped at least in part by comparisons with other jobs) is a serious caveat. Research on these

“behavioral intentions” constructs by Hom, Griffeth and Sellaro (1984), Lee and Mowday (1987), and Hom and Griffeth (1991) find statistically significant relationships between turnover intentions and actual turnover. But turnover intentions explain only about six percent of the total variance in quits, no doubt at least in part because these models miss the “pull” factors of labor market opportunities. And a more fundamental question with this approach is whether stated intentions to quit accurately proxy one’s behavior when confronted with the opportunity to quit. Cognitive research has demonstrated that decision making is different when confronted by actual opportunities than when considering hypothetical choices. These studies suggest that an individual may imagine what they will do in the future and yet act very differently when faced with the real consequences of their actions.

The basic problem facing behavioral research on employee attachment, therefore, is the difficulty in getting measures of attachment that are not confounded by labor market opportunities and yet are “real” enough to represent actual behavior. In the analyses that follow, we are able to address this problem by exploiting a unique set of data that examines how executives react when approached by an executive search firm about taking a position at another company. Such an invitation is highly credible, not hypothetical, and for the reasons explained below, we believe their decision at the point where we examine it is driven by their attachment to their current employer.

The Issue of Executive Attachment

In addition to the general literature on employee attachment, researchers interested in business strategy and organizational governance have focused special attention on the attachment of executives to organizations because changes in the executive ranks are associated with fundamental changes in the strategies and direction of companies. Evidence suggests that executive turnover has risen sharply over the past two decades (Cappelli and Hamori 2005) and that the overall level of such turnover is high. Downey, March and Berkman (2001) report, for example, that 47 per cent of the executives who were appointed as presidents of public US companies left their organizations within four years. They also report that out of a sample of 90 applications that were received for a leadership position, 61 or 68 per cent were sent by executives who have been in their previous position for 12 months or less, suggesting that many executives may be actively seeking to change positions.

There are reasons for believing that executive attachment and voluntary turnover reflect different processes than for other employees and that studies that focus on front-line or clerical employees (as most do) may not translate well to executive jobs. First, the job search process for executives is idiosyncratic. Firms looking to hire executives rarely post advertisements, and executives interested in moving rarely circulate resumes (Capell, 2001; Howell, 2004). Most of these outside searches are managed by executive search firms that operate as intermediaries (Britton and Ball, 1999; Khurana, 2002, pp. 137-150). Second, executive positions are much less standardized than other jobs. The functions an individual will perform and the terms and conditions of employment, especially pay, are virtually always subject to negotiation (Citrin and Smith, 2003, pp. 256-257). Job search for

executives, therefore, is much more complicated as it requires detailed discussions and negotiations with potential employers. Third, because executive loyalty is so prized by organizations, it is highly damaging to the prospects of an executive in their current organization to appear to be searching for jobs elsewhere (Khurana, 2002, pp.32-35). Employee search by employers, therefore, is complicated by the difficulty in identifying who would be interested in being a candidate for a job.

Previous literature

Research on executive turnover. While there is a substantial body of research on executive turnover per se, the focus of interest has been on the consequences of turnover rather than its causes. Most of the existing research combines voluntary and involuntary turnover into an overall measure. Wiersema & Bantel (1993), for example, define the rate of executive turnover as the proportion of the top management team members in 1980 that were no longer employed by the organization in 1983 and were greater than 65 years of age, regardless of why they left. Similarly, Daily and Dalton (1995) use a dichotomous variable of turnover, whether a CEO has been replaced in a given year. Taylor, Audia and Gupta (1996) look at the turnover of 109 general managers and define turnover as “managers’ movement out of the corporation”.

Studies that attempt to distinguish between voluntary and involuntary turnover note the difficulty in doing so in part because organizations go to substantial lengths to cover up executive dismissals. Announcements that an executive resigned to “spend more time with their family” or “pursue other options” are presented as voluntary turnover but are often suspected of being proxies for dismissals. Employers obfuscate on this matter because dismissals suggest failure both for the individual and for the company, damaging public and investor perceptions of the company in the process. DeFond and Park (1999), for example, use the PR Newswire, Business Wire and Lexis/Nexis databases, which typically rely on company announcements, to identify the reasons for CEO departures and found that seventy per cent were reported as due to “retirement”, five per cent of executives “pursue opportunities outside the organization”, and no reason given for 22 percent of CEO turnover. None indicated that an executive had been dismissed. All turnover was reported as voluntary. The authors note that the stated reasons for CEO turnover are therefore unlikely to be unreliable. Walsh (1988), Krug and Hegarty (2001), and Lubatkin et al. (1999) also study executive turnover and reach the same conclusion, that it is impossible to distinguish voluntary from involuntary turnover.

Some papers have attempted to identify involuntary executive turnover by associating it with organizational performance levels that are below objective standards (Harrison et al., 1988; Weisbach, 1988; Barro & Barro, 1990; Puffer & Weintrop, 1991; Allgood & Farrell, 2000), bankruptcy (Gilson, 1989), fraud (Agrawal et al., 1994) or with financial performance indicators such as stock returns or ROA (Weisbach, 1988; Barro & Barro, 1990; Allgood & Farrell, 2000). Such efforts are obviously inferential, and it is impossible to validate the extent to which the residual category of voluntary turnover is measured accurately.

Besides its inability to differentiate between voluntary and involuntary departures, another limitation of the literature on executive turnover is that it almost exclusively looks at CEOs (e.g. Salancik & Pfeffer, 1980; Allen, 1981; Harrison et al., 1988; Weisbach, 1988; Puffer & Weintrop, 1991; DeFond & Park, 1999; Allgood & Farrell, 2000; etc.) and, to a lesser extent, the top executive team, such as the operating committee (Wagner et al., 1984; Harrison, Torres & Kukalis, 1988; Walsh, 1988; Wiersema & Bantel, 1993; Daily & Dalton, 1995; Lubatkin, Schweiger & Weber, 1999). CEO jobs are clearly very important positions, but they are also idiosyncratic in a variety of ways even from other executive positions that make it difficult to generalize from their experience to that of executives per se, such as the fact that dismissal decisions come from boards of directors that are often dominated by the CEO. Wiersema and Bantel (1993) find significant differences between their analysis of turnover of the entire top management team versus that which used only data on CEOs. Their model also predicts turnover better for the second tier of executives than for the top tier because tier one executives (Chairpersons, CEOs, Presidents and COO-s) had more entrenched power than lower-level executives and were less likely to move when firm performance was disappointing or when strategic change was needed.

Executive voluntary turnover. Only a handful of papers attempt to examine the *voluntary* turnover of executives. Gaertner and Nollen (1992) explore the variables that distinguish four groups of executives based on their intent to leave, consistent with the two dimensions of the classic March and Simon (1958) turnover model (interest in and ability to move). Both are captured by self-reported data in the form of the following question: “If you had your way, how many more years would you remain with this company?” and “How long do you actually expect to be with this company?” The study finds that *Leavers*, who both desire and intend to leave, have higher turnover and also lack social integration, have a low length of service, low satisfaction and commitment to the organization. Limitations of the study include those of the behavior intentions literature described earlier.

Veiga (1981) uses self-reported measures similar to intention to quit to examine the propensity of managers to leave. “Plateaued” managers, defined as unlikely to be promoted further and operationalized as spending seven or more years in their current position, may be more likely to change companies as opposed to those who have not “plateaued.”

Job search behavior as an alternative measure. Economic models of voluntary turnover have the advantage of focusing precisely on the decision to look for another job, rather than moving immediately to turnover as the relevant event. These models suggest that employee voluntary turnover cannot be neatly classified into separate “push” and “pull” factors. Instead, employees are continuously comparing their current circumstances to possibilities outside and will leave whenever the value of outside opportunities exceeds those in their current position (Lippman and McCall 1976; Mortenson 1986). It is the *comparison* of opportunities with current circumstances that matter, not the circumstances (push factors) or opportunities (pull factors) per se. The decision to search and to collect information about alternatives is the interesting question because it is costly to do.

This approach to job search also makes clear the estimation problem associated with previous attempts in the behavior sciences to examine the attachment decision. To illustrate,

one can think about the “push” factors as analogous to a job seeker’s labor supply function: under what circumstances will they seek a new job? The pull factors, in turn, can be seen as attributes of employers’ labor demand function in the form of job offers. The decision of an individual as to whether to take a job is, of course, the intersection of these two functions. In a typical job search model, the job is accepted when the offer exceeds one’s current reservation price. As with supply and demand decisions more generally, the estimation problem is one of identification because the relevant outcomes are determined simultaneously with the interaction of push and pull forces. Just as it is impossible to reveal changes in supply from movements in prices, one cannot identify push or pull factors separately from changes in attachment. Many of the measures of search, for example, are focused on the opportunities associated with individual jobs, such as submitting job applications or going to interviews. As a result, it is impossible to say anything about the determinants of search or quits by looking solely at such outcomes.

Most of the research on job search has focused on understanding macroeconomic patterns, such as the persistence of unemployment or wage variations (see Davidson and Woodbury, 2002 for a survey). Relatively little empirical research has attempted to examine how workers actually search. Exceptions include efforts to examine the job matching functions that explain returns to search (e.g., Blanchard and Diamond 1989), but these are also based on macroeconomic rather than individual-level data. With few exceptions, this literature is designed to explain patterns of labor market outcomes in the economy as a whole, particularly wage dispersion, rather than the behavior of an individual job seeker.

Although not perfect, job search is arguably a better measure of attachment than intentions to quit because it represents actual, discrete behavior associated with moving to a new job. The behavioral literature on voluntary turnover has tended to neglect the process of job search (see, e.g., Price, 1977; Price & Mueller, 1981; Blau, 1993). And while there is a considerable literature on job search behavior in psychology (see, e.g., Schwab, Rynes & Aldag, 1987), it focuses on the ways in which individuals search for jobs rather than on the factors that induce them to engage in job search.

Two studies using the same data have examined job search behavior in the executive ranks. Bretz et al. (1994) constructed a Job Search Behavior Index, which asked executives whether they had engaged in ten different job search activities (e.g., read a book about getting a job, revise a resume, initiate contact with Executive Search Firms, etc.) over the past year. Their study finds that “push” factors (job satisfaction, compensation and perceptions of organizational success) are much more strongly linked to more extensive job search behavior than “pull” factors (visibility of the executive). If search behavior is the simultaneous product of push and pull factors, however, it is not strictly possible to separate out the effects of these factors without a more complicated analysis. More generally, at least some of the search behavior that the survey asks about is likely to be embedded in the context of a search for a specific job, which surely combines the two.

This study also examined effects associated with one’s current employer. Perceived success of the organization and work-family balance policies of one’s current organization are inversely related to job search behavior. And publicly held companies experience more

intense executive job search behavior. While the study was not framed by the literature on job search, the results suggest that executives who see problems with their current job are more likely to believe that alternatives must be better elsewhere and therefore to engage in more job search.

Boudreau et al. (2001) use these same self-report measures of job search to look at the “Big Five” personality traits and at cognitive ability as predictors of executive job search. While the personality predictors have mixed results, higher cognitive ability induces executives to engage in a more intensive job search when situational factors, such as perceived organizational success, pay and job satisfaction, are included in the model. One way to fit these results into the traditional model of job search is simply that certain individual characteristics make it easier/cheaper to search. DellaVigna and Passerman (2004) use a series of variables including dispositional attributes related to personality (e.g., is the respondent acting in an impatient manner?) to predict the length of an individual’s job search for a cross section of the labor force.

In summary, while the literature on employee attachment is huge and that specifically on executive turnover is large and growing, there are significant gaps in it. With respect to executives, there is still little known about voluntary turnover and even less about the factors associated with attachment. Virtually all of the studies in the broader field of attachment face serious estimation challenges in separating the factors traditionally associated with attachment (“push” factors) from those associated with opportunities (“pull” factors). We address both challenges below with data that make use of the special context of the executive search industry and the quasi-experiment it offers.

The Context of Executive Search

We examine attachment through the lens of interactions between executive search firms and executives who they see as potential candidates for vacancies. Specifically, the context is the “retained search” business where search firms are paid a retainer by clients to help them find candidates to fill executive vacancies whether or not they find an acceptable candidate (Spencer Stuart, 2004).

The executive recruiting industry, which includes retained search, was one of the fastest growing industries in the world the 1990’s (Hunt-Scanlon Consultants). The total revenues of the executive search industry are about \$11.5 billion dollars worldwide, with more than half of that revenue generated in the US (Khurana, 2002). Executive recruiters are becoming more important not only in the economy, but in the perception of executives and employing organizations as well. From 2001 to 2003, organizations recruited externally 54 percent of the time for jobs paying above \$150,000 (IACPR 2003 survey). As part of our effort to understand the search process, one of the authors went through the training program at a leading retained search firm and conducted hundreds of hours of interviews with search consultants as to the process they use with candidates.

A retained search firm does not contact potential job candidates unless it has a specific vacancy to fill. Executives know that these firms have credibility when they call: the position is real, and the executive is being seen by the firm as a potential candidate for it. In contrast to measures of intentions or more passive measures of job search, the decision by the executive to take up the invitation is a real life decision that is the first step in leaving their current employer. It has real consequences and costs, as described below, and therefore is a very accurate measure of their attachment to their firm as manifested by their interest in changing jobs.

Specifically, we examine whether executives agree to be a candidate for a position when approached by a search consultant. Unlike behavioral intentions measures, this is a real decision with real consequences. The data are reported not by the executive but by the search firm, eliminating a range of possible response bias problems. Other things equal, we see the decision by executives to turn down the invitation as a sign of greater attachment to their current employer. The decision to take up the invitation is the first step toward leaving the current employer, and we see this as a sign of lower attachment. The research question, then, is what factors determine that attachment decision?

As with studies examined earlier, one might imagine that the nature of the job being offered would condition strongly the willingness of executives to be considered as candidates, raising the same identification problem described above. The special context of retained executive search helps address this complication, however. Specifically, potential candidates know very little about the possible job before they are asked whether they are interested in interviewing for it. At the initial point of contact where they are asked whether they are willing to be a candidate, executives are given so little information about what the potential job might ultimately look like that it is very difficult to make an assessment of the value it represents (Citrin and Smith, 2003, p. 255), an issue we discuss in more detail below. Further, executive jobs are not standardized or easily comparable. They are shaped in important ways by the search firm as part of the search assignment (Spencer Stuart, 2004). And at the level of the senior positions considered here, they are ultimately shaped by a process of negotiations between the candidate and the employer. Important aspects of the job, especially compensation, are not determined until a job offer has been extended and the two sides agree that they would like to work together (Citrin and Smith, 2003, pp. 256-7.). When executive search consultants approach executive candidates, therefore, they are essentially offering them the opportunity to begin a process which, if successful, will lead them to negotiate a package that is attractive enough to cause them to leave their current job (Citrin and Smith, 2003, p. 255).

Executives who are interested in moving will very likely agree to this initial step as it is necessary in order to learn more about the position. Search consultants have also noted that it is in the interests of an executive who wants to move to get to know search firms and consultants as they clearly have other positions to fill in the future, even if the current one does not prove attractive or a good fit (Citrin and Smith, 2003, pp. 252-7.).

Because executives learn so little about the position in question at this initial stage, there is essentially no “pull” factor at this point. Later in the process, of course, the pull

factors can be substantial. Their decision as whether to begin the process, therefore, is likely to focus on their assessment of their current situation, the “push” factors that are the focus of attachment research or at least a sense of how it stacks up next to opportunities elsewhere.

Given the above, it might seem reasonable to assume that all executives will pursue the invitation – why not get more information? But in the corporate world where executives are seen less as individual performers and more as part of a leadership team, such a move can be fatal for one’s career if knowledge of it gets out. Current employers are typically disturbed to find that their executives have been searching for jobs elsewhere, seeing them as “disloyal” and not invested in their current assignments. And bridges can be burned with search firms as well if candidates get to the point of engaging offers and then turning them down (Khurana, 2002, pp. 137-50; Spencer Stuart, 2004). Further, there is a chance that the candidate will be rejected as not qualified or acceptable, an outcome that not everyone finds pleasant.

The fact that search can be costly also explains why executives who are not in fact interested in moving should be reluctant to pursue a search. In the academic world, securing outside offers is a common means of demonstrating one’s “worth” to their current institution, but that is not the case in the corporate world, especially in the executive ranks. Given the costs, it might also be reasonable to assume that relatively few will take up the invitation to search: It is the ultimate act of disloyalty, possibly even hypocrisy, to be leading an organization and seeking to leave it at the same time. Yet, as described below, there is considerable variation in the responses of executives, and understanding that variance is the key question.

What about the reverse case, if executives who are interested in moving nevertheless decline the invitation to search because what little they learn from their initial conversation – and they do learn something – suggests that the opportunity is not a good enough fit for them. In other words, do they say “no” even though they are interested in moving? Because they learn so little about a position in the initial conversation, such a scenario would occur only if the candidate places a number of binding constraints on any potential move that cannot be overcome through negotiable items such as pay or terms and conditions. Search consultants try to have a reasonable sense before approaching a potential candidate as to whether a position would be a poor match for them and do not approach candidates about positions that they believe would obviously be unattractive, such as those representing an apparent step down (Howell, 2004). If a candidate defines their interest in such a way that it rules out a variety of potential positions a priori – absolutely no manufacturing jobs, no foreign employers, etc.- then they in fact are not very interested in moving. That is another way of saying that they are attached to their current situation. Some aspects of that attachment may relate to factors outside their job, of course, such as family issues (see below), but it still plays out through attachment to one’s current job.

Estimating the attachment decision. The context of executive search offers a measure of real behavior, as opposed to intentions, that reflects the interest of the executive in leaving their current employer. More important, this measure is largely independent of “pull” factors, allowing us to estimate directly the push factors that are associated with employee

attachment. Because they learn so little about the outside job in the initial conversation, we believe that executives decide whether to advance the search process primarily based on aspects of their current situation.

From the perspective of the individual executive, the call from the search firm is an exogenous event. Nothing that the candidate is currently doing is likely to trigger a call from the search firm. Instead, the call is based on that particular candidate's "fit" with a particular job, a fit that is unknown to the candidate and based on attributes of the candidate that were developed over decades of work. As noted above, search consultants argue that they do not pick candidates based on any prior sense of their willingness to move but on their own sense of a perceived "fit" with the vacancy. This process avoids what might otherwise be selection biases if executives appeared in the sample on the basis of their prior search related behavior. From the perspective of the potential candidate, the call is a random event.

An important aspect of the executive job context for the purposes of this study is that there in fact is no "market" in the usual sense nor anything like market-clearing wages. Jobs are highly idiosyncratic as are the attributes of candidates; terms and conditions of employment are negotiated; jobs with similar titles vary considerably as a result; and compensation is typically contingent on future individual and firm performance, making it very difficult to compare across jobs. Because of this, it is very difficult for an executive to have anything like a clear sense of what they are "worth" in the outside market. But they are quite likely to have *some* information about their relative position, and it is important to factor that into the analysis.

Hypotheses

The hypotheses below define the factors that drive the willingness of executives to take up the search consultant's invitation, the first step toward leaving their employer and a crucial behavioral measure of their attachment. These factors can be organized into reflecting attributes of the individual that lower the costs of job change and those of the current job and employer that reduce the expectation that a job offer would be better.

Individual attributes. Although most studies of attachment and search focus on the March and Simon (1958) framework that involves assessing the current jobs against alternatives, it is also clear from the prior research that other factors associated with the individual and their disposition to search play a role as well. The early research on corporate mobility in sociology, for example, referred to individuals who moved frequently across companies as "cosmopolitans," that there was something about them in addition to their job or the opportunities they faced that caused them to move.

Surveying 1700 executives above the vice president level in three corporations, Veiga (1981) finds that "plateaued" executives are more prone to change companies fairly early in their career. Veiga defines a plateau as "the point in one's career at which the likelihood of additional hierarchical promotion is very low and a future move is in doubt because the

length of time in the present position has been long.” Gaertner and Nollen (1992) also find that managers who felt passed over for promotion were more likely to quit.

Employee tenure is another factor associated with the propensity to search. Extensive research in economics documents that turnover is lower for those with longer tenure where the typical explanation is that longer tenure is associated with a good fit or “match.” Workers with good matches see less reason to search, and tenure is a proxy for match quality. Empirical evidence on two samples of executives is consistent with the above results. Gaertner and Nollen (1992) found that long organizational tenure differentiated between executives who stayed and those who left a US consumer products company. In a sample of 109 general managers working for Fortune 500 companies, Taylor, Audia, and Gupta (1996) found that managers’ tenure with an organization was positively related to their commitment to the organization, an antecedent to turnover, but was unrelated to turnover (Taylor et al. did not distinguish between voluntary and involuntary turnover).

We also examine how other changes in one’s previous career affect the decision to search. For example, prior relocations, even if in the same company, imply that the executive has already experienced some of the important costs that could be associated with changing employers. Changes in job function or in segments of the industry may help lessen uncertainty about a potential change in employer as well even if within the same company. We might expect each of these prior changes to increase the probability that an executive will take up the search consultant’s invitation.

Hypothesis 1: “Plateaued” executives will be more likely to take up the search consultant’s invitation.

Hypothesis 2: Executives with shorter tenure on the job and with their organization will be more likely to take up the search consultant’s invitation.

Hypothesis 3: Prior changes (in job function and location) will make an executive more likely to take up the search consultant’s invitation.

Employer attributes. The second set of factors concerns the attributes of the executives’ employer. Attention to these aspects of organizational context is important not only because turnover behavior is embedded in the context of organizations (Bennett et al., 1993) but also because these practices and attributes are ones over which employers may have control.

Firm reputation in the broader business community may capture more intangible aspects of the employment relationship. Firms with more positive reputations may offer better jobs, other things equal, reducing the interests of employees to look elsewhere. On the other hand, strong corporate reputations also make the executives in those companies more attractive to other employers who hope to acquire some of the success of these admired companies by hiring away their executives. Such executives may find it attractive to “cash in” the value of their experience with admired companies by moving elsewhere (Hamori, 2003).

Weil and Kimball (1995) found that the financial uncertainty of an organization triggered hospital CEOs to leave. Hospitals' income and operating margin were negatively related to the voluntary turnover of the CEO. Incentive-based compensation also makes being with a financially strong organization more attractive as executives are likely to leave much more money on the table if they quit than will those at financially weaker firms.

Changes in governance or structure of the firm may also affect its relative attractiveness. A merger and acquisition, for example, is typically seen as a destabilizing event in the corporate world where the inevitable restructuring generates uncertainty about job security and future advancement, especially for executives. Walsh (1988), Lubatkin et al. (1999) and Krug & Hegarty (2001) found that mergers and acquisitions increased the rate of turnover for the top management team of the acquired or merged company (no distinction was made between voluntary and involuntary turnover).

An "Initial Public Offering" (IPO), on the other hand, may have the opposite effect. Moving from a privately held company to a public company with significantly greater exposure to the public as well as greater regulatory requirements represents an important change for executives. While change per se may disrupt an individual's attachment to the firm, this particular change is likely to enhance attachment. First, publicly-held companies are more prominent and typically seen as more significant enterprises, which may increase identification. Second and more important, executives in firms that are going public are typically compensated with significant amounts of company stock or options on stock that cannot be sold until some period of time following the IPO. Because executives would lose so much money if they left the company before their options vest, we expect executives to have greater attachment to companies that are about to have an IPO or have recently had one. One can think of this as an example of the "side bets" described by Becker (1975).

Hypothesis 4: Executives affiliated with organizations that have a good labor market reputation will be less likely to take up the search consultant's invitation.

Hypothesis 5: Executives affiliated with companies that have below-par financial performance will be more likely to take up the search consultant's invitation.

Hypothesis 6: Executives with below-par compensation will be more likely to take up the search consultant's invitation.

Hypothesis 7: Executives affiliated with organizations that have recently undergone a merger or an acquisition will be more likely to take up the search consultant's invitation.

Hypothesis 8: Executives affiliated with organizations that have recently undergone an IPO will be less likely to take up the search consultant's invitation.

Methods

Sample. The data used in this study come from one of the world's largest and most influential retained executive search firms. Their databases identify executives in most of the large, prominent firms within the search firm's target markets. In this case, the database is limited to financial service companies: asset and money management firms, banks, finance companies and investment banks. This helps to control for other sources of variation across jobs at the expense of the generalizability of the findings to other industries and occupations.

In addition to executives holding jobs in leading companies, potential candidates from lesser companies may find their way into the database through references from industry experts. As noted above, the firm asserts that an individual's willingness or interest in moving plays no role in the decision to include them in the database. No doubt it would be very useful for the firm to identify candidates with above average performance, but selection into the database is mostly due to the position one holds. (Descriptive results described below suggest that the sample is not disproportionately based on executives who are searching for new positions.) While it is certainly fair to say that the individuals in the database are not drawn randomly from the population of all executives, it is difficult to define and identify the sampling frame more precisely. But the fact that the sample contains 14,000 executives suggests that it must be reasonable inclusive of the population of all financial executives at that level in larger U.S. firms. The firm has an incentive to make the information in the database as accurate as possible because it enables them to target potential candidates better and save effort and cost on sourcing calls.

Available data includes information on the executive's current job and most recent previous job (the name of the employing organization, the executive's title, function and function segment, industry affiliation, industry segment and the month and year when the executive started and ended the job) as well as their educational background and international experience. Additional data on the executives' employer were collected from the Hoover's and Compustat databases. Other information about the executives that would allow one to identify additional individual attributes such as age and gender were not available due to a confidentiality agreement with the search firm.

We limit the logistical challenges of coding the data and adding information to it by drawing a random sample of 2,000 executives from the original 14,000 and use these in the analyses that follow.

CEO-s and Chairpersons represent 32 percent of the sample of 2000 executives, Executive Vice Presidents 13 percent, Senior Vice Presidents 17 percent, and Vice presidents 19 percent. Managers and financial consultants account for most of the remainder of the entries. They are employed in four segments of the financial services industry: investment banks and securities (42 percent), asset and money management firms (26 percent), banks (20 percent) and finance companies (12 percent). Ninety-two percent of the executives work for a US company, the others for financial institutions situated in Europe, Canada, South America and East Asia (mostly Japan and Hong Kong). The executives have extensive educational experience: 55 per cent earned a Master's degree (76 percent of which were MBA degrees), 6

per cent were Ph.Ds, and 0.1% had only a high school diploma. Based on their human capital attributes, the executives in this sample are comparable to the executives that were sampled by the executive search firm in Bretz et al. (1994), Judge et al. (1995), and Boudreau et al. (2001).

Dependent variable. The important classification in these data is whether or not, once contacted by the firm about a position, an executive was willing to move to the first phase in moving to a new employer. Do they agree to share their resumes and be interviewed by the search consultant for a position? The firm makes this determination. It is a reasonably straight-forward assessment to make, and we have every reason to believe that it is made accurately. We classify executives as “disloyal” if they have accepted an invitation to pursue a position at least through the first step (=1) and “loyal” (=0) if they turn down the invitation.

Predictor variables. Industry background. Organizations are grouped into four sub-industries using three binary (0/1) variables: 1. asset and money management firms, 2. domestic and international banks, 3. consumer finance companies and 4. investment banks (omitted category). There is a strong perception in the search industry that investment banking is a segment of the economy with extremely low executive loyalty, a perception we can examine.

Executive's title. Executives are grouped into six categories using five binary (0/1) categories: 1. Top management team, 2. Executive Vice Presidents, 3. Senior Vice Presidents and the heads of organizational functions, 4. Vice Presidents, 5. Directors, and 6. Managers and professionals (e.g. consultants) – omitted category. Those in the positions just below the top team are seen as plateaued because they are unlikely to achieve a higher position unless the CEO leaves and an outsider is not brought in from the outside, which is often unpredictable.

Functional background. We identify three categories for functional background: general management, finance, and supporting functions (omitted category). Supporting functions include human resource management, IT, sales, marketing, law, etc. Each function is represented by a binary variable. Previous research suggests that mobility across companies may be greater in the finance function.

Career Background. We have detailed information about the executives' current job and their previous job. This allows us to tell whether their current position represented a change in employer or a move within the same company. As noted earlier, we expect that a previous move within the same company (*Prior Loyalty*), other things equal, should reduce the probability of disloyalty. We also know whether their current job represents a change in functional area or segment of the industry and whether it represents an *International Assignment*, which we assume required relocation. We expect such a move to increase the probability of being disloyal. We also expect that changes in function (*New Function*) should increase disloyal responses.

Tenure. Our data on tenure in the organization includes years in their current and previous position, which are summed to proxy organizational tenure. While this is less than

ideal, given the mobility of most executives across companies now, it may not be far off the true measure of firm tenure (see the discussion below).

Employer reputation. A binary variable is used to assess how the employer is perceived in the business community that indicates whether the organization was included in Fortune magazine's 100 Best Companies to Work for rankings. Each year the ranking is constructed through a survey of 46,000 employees from 300 candidate companies. We also control for the fact whether the organization was eligible to be included in the survey (eligible=1; non-eligible= 0). Comparing organizations with competitors is an especially helpful approach because competitors resemble an organization on important dimensions such as industry or type of products (Bartel, 2001).

Organizational financial performance is operationalized by *Difference in ROA*, the difference between an organization's Return-on-Assets and the industry average, as well as the company's *profit margin*. These data are only available for the publicly held companies in the sample.

Compensation: We know the annual compensation for each executive in the sample. We measure the extent to which individual executives are paid above or below prevailing levels by constructing a wage equation based on their demographic and company variables -- education, tenure in firm, industry segment, and function area are regressed against their annual compensation. Positive residuals suggest that the job pays something of a premium and, as a result, that job search would be less likely, other things equal, to pay off. Negative residuals suggest the opposite. It is highly unlikely that individual executives have anything like this level of information, but their perceptions may well be correlated with it. We do not have complete information on the contingent compensation that the executives receive. What we do know from COMPUSTAT data is the level of bonus payments for each executive's CEO, which we use as a proxy for the level of otherwise unobserved compensation that executives may receive. This variable is only available for publicly held companies.

IPO and M&A indicates organizations that underwent an initial public offering any time in the five years preceding 2002 and whether they were involved in a merger or acquisition in that period. An important caveat is that different specifications for these variables might lead to different results: Effects might be more powerful for more recent M&A's, before any restructuring outcomes have become clear. Knowing exactly when any stock options associated with IPOs vest would also be important, information that is unfortunately not available.

Other data that are unavailable and would be useful include further demographic data on executives. Age would be especially relevant given the number of papers that show that younger executives are more likely to relocate to another geographic area within the same organization (Gould & Penley, 1985; Brett & Reilly, 1988; Brett, Stroh & Reilly, 1993), although these results do not always control for tenure. The variation in age among the sample here may not be so great, however, given similar executive positions. Marital status, the employment status of the spouse, the number and age of the children, and other family-related variables are related to willingness to relocate, and possibly, to change organizations

(Brett, Stroh & Reilly, 1993). Omitted variables such as these are always a concern and are a special problem if they are related in some systematic way to the independent variables, as this leads to biased estimators. It is not obvious that there is any relationship between these omitted variables and those included in the analyses, however, except for the possible relationships between age and tenure in one's current job or age and job level.

Results

Table 1 displays the means, standard deviations and Pearson correlations of the dependent variable and the key independent variables in the analysis.

-- Insert Table 1 about here --

Descriptive statistics for the key variables reveal intriguing insights concerning the mobility of executives. Over half of the executives in the sample were willing to consider a job opportunity when the executive search firm contacted them. Given the high costs incurred by organizations whose executives are looking for alternatives and the apparent concern that top executives profess for loyalty and talent retention, this result seems remarkably high. As a comparison, empirical studies of actual job search in the U.S. find that the percentage of employees across all job titles who are actively searching for alternative jobs is rather small – about five percent in the late 1990s, the period with the most recent, reliable data (Meisenheimer 2000). And the definition of active search represents a relatively low threshold -- submitting applications counts but so does simply soliciting information about job openings from friends.

A large majority (68 per cent) of executives changed employers to get into their current job. This suggests that perhaps our measure of company tenure may not be so far off based on the last two positions. An average executive has spent only 3.7 years in jobs, a figure that is quite close to the estimate that Cappelli and Hamori (2005) generate for top executives in Fortune 100 companies.

Table 2 describes how attachment varies by type of firm, functional position, and level in the executive hierarchy. There are clear differences across these variables. The fact that general managers are the most loyal of the job functions may fit with the notion that such positions involve firm-specific projects and tasks. The fact that executives in supporting functions are just as likely to search as finance executives suggests at least that the latter are not unusually footloose. Arguably the most interesting point is that loyalty actually seems to decrease as one goes higher up the executive ladder: Managers are almost twice as loyal as EVPs.

-- Insert Table 2 about here --

Another interesting fact about the executives in this sample concerns the nature of the companies with which they are affiliated as it says a great deal about the candidates who are targeted for executive search. Thirty-six per cent of the executives are employed by a Fortune

500 employer, and thirty-two per cent work for an employer whose stock is included in the S&P 500. Thirty-four per cent of the executives have an employer who was in Fortune's America's or Global most admired companies. Six per cent of those employers have been on Fortune's 100 best to work for list. The results indicate that the potential candidates that are of interest to search firms, presumably acting on the preferences of their clients, come overwhelmingly from large, prominent corporations. It is difficult not to draw the conclusion that organizational affiliation is a crucial determinant of an executive's attractiveness to other employers.

Table 3 shows the results of binary logistic regressions. The control variables and the individual-level predictors are regressed on the dependent variable, "Unattached executive."

-- Insert Table 3 about here --

Because of space constraints, results for the control variables are suppressed. Positive coefficients suggest greater likelihood of taking up the invitation to search. In terms of control variables, both executives in general manager roles and those in support functions are less likely to search than executives in the finance function (the omitted variable). Disloyalty is higher among EVPs, the title that meets the previous definition of being plateaued in terms of advancement.

The results indicate that when the previous job was with a different company, disloyalty is higher (specifically, loyalty is greater when the previous job was within the same company). Even when controlling for that effect, however, the results suggest that every type of previous change in career increases disloyalty among executives.

The sign on the firm size variable is the opposite of that expected, but the relationship is not significant.

Firm reputation is strongly and positively related to the loyalty of executives. Interestingly, just having the basic attributes to be eligible for the "best places to work" ranking is the most powerful relationship among all the variables. High performing companies as measured by their return on assets are also more likely to have loyal executives, perhaps because of prospects for contingent pay, perhaps because of identification with a successful firm.

Executives who appear to receive a compensation premium over equivalent jobs elsewhere are less likely to search. The assumption in our research design is that the executives know so little about the job being considered that it cannot represent much of a "pull" on their willingness to enter the search process. But despite the fact that executive jobs are idiosyncratic and difficult to compare, executives may well have some sense of how they are paid relative to others in similar positions: Those who are paid relatively less are more likely to be disloyal. Controlling for level of pay, CEO bonus payments, a proxy for unmeasured contingent compensation in the firm, is negatively related to executive disloyalty. M&A's reduce attachment while IPOs increase it, as predicted.

Discussion and conclusions

In the arguments above, we explore the intriguing question of executive loyalty, the extent to which individual executives are willing to pursue job opportunities that would cause them to leave their current employer. One can think of this decision conceptually as equivalent to high stakes job search. It represents one of the very few pieces of empirical research on the voluntary turnover of executives. The few studies that explore the antecedents of executives' departure from organizations, with very few exceptions, examined executive dismissals or could not distinguish between voluntary and involuntary turnover. The uniqueness of the contribution here is that we can focus on voluntary turnover based on the actual behavior of executives as reported by observers who have an interest in accuracy. It also represents one of the few pieces of empirical research examining actual job search behavior.

We examine organizational antecedents to executive voluntary turnover that have not been considered in previous empirical papers. For example, while the impact of mergers and acquisitions on executive turnover has been considered before, this paper is the first to look at the effect on voluntary executive departures. To our knowledge, many of these variables, such as organizational reputations and prior career experiences, have not been examined with respect to voluntary turnover at all.

Overall, the results support the notion that identification of executives with their organizations is an important factor in driving their attachment and, in particular, that changes in their own experiences and that of their employer erode that attachment.

One of the surprising results is the lack of a relationship between organizational size and executive attachment given the findings of a strong, positive relationship in other studies of lower-level employees (Price, 1977; Bennett et al., 1991). Size effects may be driven by the greater ability of larger organizations to offer internal promotion opportunities, which we effectively control for with the variable capturing whether the executive has been promoted in the organization.

There are, of course, a wide range of other organizational attributes that could be related to executive attachment. It would also be important to see to what extent individual-level factors that are known to influence attachment are related to such attributes.

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Table 1. Mean, standard deviation and Pearson correlations of key variables

Variables	Mn	S.d.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1. Unattached executive	.52	.50	1.00																				
2. Asset and money mgmt	.26	.44	-.05	1.00																			
3. Banks	.20	.40	.08	-.29	1.00																		
4. Finance companies	.11	.31	-.01	-.16	-.22	1.00																	
5. Investment banks	.43	.50	-.02	-.40	-.55	-.30	1.00																
6. Finance function	.64	.48	.04	.06	-.14	-.18	.19	1.00															
7. General mgmt function	.14	.34	-.00	-.02	-.01	.10	-.04	-.45	1.0														
8. Support functions	.19	.40	-.07	-.04	.17	.14	-.21	-.76	-.18	1.00													
9. EVP (career plateau)	.05	.23	.10	.02	.11	-.02	-.11	-.06	.13	-.01	1.00												
10. Same co. for both jobs	.32	.47	-.12	.02	-.02	.05	-.02	-.05	.12	-.03	.08	1.00											
11. Average tenure in jobs	3.7	2.44	-.20	.03	-.01	-.03	.01	.08	-.07	-.03	.06	.05	1.00										
12. Size of organization	8.0	3.32	.02	-.15	.27	.02	-.14	-.03	-.04	.08	.01	.06	-.06	1.00									
13. Int'l experience	.15	.36	.21	-.03	.04	-.03	-.00	-.01	.03	-.03	-.02	-.01	-.11	.05	1.00								
14. Change in function	.36	.48	.10	-.03	.01	.13	-.07	-.34	.29	.15	.06	-.05	-.04	.00	-.03	1.00							
15. Labor mkt reputation	.33	1.6	-.12	-.01	-.13	-.02	.14	.06	-.02	-.05	-.00	.09	-.07	.02	.01	.01	1.00						
16. Eligible, reputation	.06	.23	-.09	.07	-.13	.07	.02	-.03	.02	.04	-.00	.12	-.08	.10	.02	-.01	.83	1.00					
17. Difference, profit marg	-.03	1.0	-.15	.08	-.02	.04	-.07	-.01	.01	.01	.06	.07	.02	-.05	-.04	.04	.22	.06	1.00				
18. Difference in ROA	-.17	.99	-.15	.13	.05	.13	-.22	-.06	.01	.07	.08	.08	.03	.12	-.04	.09	.30	.15	.78	1.00			
19. Compensation	-0.00	.85	-.17	.00	.00	.00	-.00	.14	-.10	-.08	.01	.08	-.03	-.00	.01	-.11	.30	.14	.28	.25	1.00		
20. IPO	.06	.23	-.10	-.01	-.18	-.02	.19	.06	.01	-.08	.02	.08	-.09	-.10	.01	.03	.69	.50	.20	.28	.38	1.00	
21. M&A	.07	.25	.09	-.07	.22	-.12	-.07	.04	-.07	-.00	-.01	.04	-.05	.14	-.04	-.06	-.11	-.13	-.18	-.14	.15	-.10	1.00

Correlations greater than 0.06 are significant at the $p < .05$ level

Correlations greater than 0.08 are significant at the $p < .01$ level

Correlations greater than 0.095 are significant at the $p < .001$ level

Table 2. The percentage of unattached vs. attached employees in different categories

	Attached (% of total)	Unattached (% of total)	Total
Functional breakdown			
General management	71	108	179
	39,7%	60,3%	100,0%
Finance	112	109	221
	50,7%	49,3%	100,0%
Support functions	334	339	673
	49,6%	50,4%	100,0%
Industry breakdown			
Asset mgmt	173	132	305
	56,7%	43,3%	100,0%
Banks	90	138	228
	39,5%	60,5%	100,0%
Finance companies	56	74	130
	43,1%	56,9%	100,0%
Investment banks	222	240	462
	48,1%	51,9%	100,0%
Levels			
CEO	91	112	203
	44,8%	55,2%	100,0%
EVP	24	44	68
	35,3%	64,7%	100,0%
SVP	166	196	362
	45,9%	54,1%	100,0%
VP	101	89	190
	53,2%	46,8%	100,0%
AVP	9	8	17
	52,9%	47,1%	100,0%
Director	37	45	82
	45,1%	54,9%	100,0%
Manager	46	26	72
	63,9%	36,1%	100,0%

Table 3. Logistic regressions. DV= Unattached executive

Variables	Model 1 Coeff. (st. e)	Model 2 Coeff. (st. e)	Model 3 Coeff. (st. E)	Model 4 Coeff. (st. e)	Model 5 Coeff. (st. e)	Model 6 Coeff. (st. e)
Asset and money mgmt	-.36 (.39)	-.57 (.39)	-.08 (.43)	-.08 (.44)	.13 (.59)	-.44 (.39)
Banks	-.32 (.31)	-.45 (.32)	-.19 (.34)	-.18 (.34)	-.07 (.43)	-.62+ (.34)
Finance companies	-.17 (.41)	-.36 (.42)	.20 (.47)	.08 (.46)	.17 (.58)	-.16 (.41)
General mgmt	-.77 (.48)	-.92+ (.49)	-.64 (.54)	-.65 (.53)	-.09 (.66)	-.63 (.48)
Support functions	-.81* (.32)	-.83* (.32)	-.84* (.35)	-.76* (.34)	-.80+ (.43)	-.83* (.32)
C-level	.38 (.59)	.44 (.61)	.25 (.65)	.35 (.66)	-.81 (.91)	.42 (.61)
EVP	1.44* (.67)	1.59* (.69)	1.29+ (.74)	1.29+ (.74)	.92 (1.01)	1.62* (.69)
SVP	.67 (.46)	.64 (.47)	.51 (.51)	.55 (.51)	-.18 (.79)	.63 (.47)
VP	.49 (.49)	.48 (.51)	.24 (.55)	.29 (.56)	-.36 . (83)	.58 (.51)
Assistant VP	.92 (.95)	.65 (.95)	.65 (.99)	.60 (.99)	-.67 (1.21)	.89 (.96)
Director	.63 (.61)	.65 (.62)	.57 (.70)	.67 (.69)	-.16 (1.13)	.55 (.62)
Same company	-.44+ (.26)	-.42 (.26)	-.47+ (.28)	-.52+ (.28)	-.72* (.35)	-.37 (.26)
Tenure in jobs	-.25***(.06)	-.26*** (.07)	-.28*** (.07)	-.26***(.07)	-.26** (.09)	-.24*** (.06)
Organization size	.04 (.07)	.02 (.07)	.02 (.07)	.08 (.07)	.19 (.13)	.04 (.07)
International experience	.72* (.33)	.71* (.32)	1.07** (.38)	.96** (.36)	1.41** (.47)	.73* (.32)
New function	.91** (.31)	1.00** (.32)	.84* (.34)	.93** (.34)	.84* (.42)	.94** (.32)
Labor market reputation		-.40** (.13)				
Eligible, reputation		-2.01* (.92)				
Profit margin difference			-.37** (.14)			
ROA difference				-.44** (.14)		
Compensation					-.48* (.20)	
M&A						.98* (.44)
IPO						-1.18* (.51)
Constant	.70 (.87)	3.15* (1.37)	.93 .97	.14 (.98)	-.46 (1.62)	.69 (.90)
LR chi2	46.84***	58.83***	54.76***	54.12***	45.94***	58.41***
Pseudo R2	.11	.14	.15	.15	.18	.14

+p<.1 *p<.05 **p<.01 ***p<.001

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