

# CEO'S FIELD OF STUDY AND BANK ATTENTION TO DIGITAL TRANSFORMATION: MODERATING ROLE OF CEO CHARACTERISTICS

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## ABSTRACT

*According to an upper echelons (UE) perspective Hambrick and Mason 1984 and attention-based view (ABV) of the firm, what managers pay attention to will eventually affect a bank's strategic direction. Based on this notion, this paper argue that while all CEOs should promote the digital transformation of the bank, some CEOs will pay more attention to digital transformation than others, based on their educational background: both field and level. Further, this work mentions that additional CEO characteristics (such as CEO educational level, tenure and Duality), will strengthen or weaken this positive relationship. This relationship has never been tested to the best of our knowledge. Following a quantitative approach, a sample of 1342 banker between 2018 and 2020 have been used. This paper makes three contributions to the literature on CEO characteristics and digital transformation. First, it contributes to the UE literature in general and the CEO education literature in particular by linking CEOs educational background (both field and level) with digital transformation and by providing a new driver for bank performance. Furthermore, results confirm that the CEO tenure and Duality positively moderate this positive relationship Secondly, this study provides insights for regulators, intending to digitally transform their organizations, regarding their CEOs recruitment decisions. Given the relationship between a CEOs' attentional focus and educational background, close attention should be paid to the characteristics of potential CEO candidates. Finally, these insights could also be helpful to strategic decision-makers predicting a competitor's digital transformation moves based on their CEO's profile.*

**Keywords:** Digital Transformation, CEO Educational Background, Covid-19, Upper Echelons Theory, Attention- Based View.

## INTRODUCTION

We live in an exciting time. Through the convergence of the physical and virtual worlds, digitalization is becoming one of the main drivers of development. The digital revolution has just begun and things are rapidly changing. Buzzwords like “*innovation*”, “*digitalization*” and “*smart*” are often used to describe the development that is happening around us. Digitalization is becoming an increasingly important mediator for processes and structural changes both in

national economies and in the world economy. Digitalization is a global trend in all aspects of human activity and the banking sector is no exception. Digitalization is highly spoken of, and it is relevant in the new ways of doing business, as it is the great future, and that if you don't follow, you will never be able to compete with the rest of those that will. Nowadays it is vital for a business to go digital. However, two main questions may arise: what does digitalizing of a business mean? How can a business become or stay competitive in this new era?.

Nowadays, competition has intensified due to the specifics of banking products and services. Such technological innovations as a blockchain, online banking, AI, digital hygiene have a very high velocity which helps increase the products availability, make it easier to use as well significantly reduce transaction costs. Building on the upper echelons theory (UET) Hambrick & Mason (1984) and the attention-based view (ABV) of the firm Ocasio (1997), this paper adds three contributions to the existing literature. First, this literature adds to the UET literature generally and to the CEO characteristics literature by showing that CEO's financial education positively and significantly increases the bank attention to the digital transformation. This result confirm also the principle of the ABV, which consider that CEOs gives more attention to decisions confirms related to their fields. In addition, this paper among the first to test the moderating effect of CEO educational level, CEO tenure and CEO duality on the CEO Field of study-Bank attention to DT relationship. The existing literature mentions that CEO duality is the main cause of conflicts of interests between the principle and the agent (Jensen & Meckling, 1992; Fama & Jensen, 1983). Generally CEO duality negatively affects banks performance However, this paper adds to the existing literature by showing that CEO duality positively affects banks attention to the digital transformation process.

## THEORETICAL BACKGROUND

### Upper Echelon Theory

The inventors of upper echelon theory (UET), Hambrick and Mason, claim that CEOs' actions are inherently influenced by their educational and professional backgrounds. Despite the fact that CEOs tend to become generalists as a result of their overall responsibility, it is clear that they place a greater emphasis on decisions in their field than on other decisions (Hambrick, 2007; Hambrick & Mason, 1984). As a result, the theory is predicated on bounded rationality (Cyert & March, 1963; March & Simon, 1958). As mentioned by Hambrick if we want to understand why organizations perform the way they do we must evaluate the biases and dispositions of their most powerful actors (Hambrick, 2007).

Hambrick (2007) advanced that CEO actions were based on their “*personalized interpretations of the strategic situations they face*” which intend to was a function of CEO functional background and values. Child (1972), Lawrence & Lorsch (1967) and others who support the echelon theory concur that CEOs are involved in strategic decision-making and choices that have a direct impact on the firm's success. The acts of CEOs modify organizational structures, making them more adaptable to environmental and economic constraints. According to a proponent of this school of thought “*in a competitive economy, above all, the quality and*

*performance of the managers determine the success of a business; indeed they determine its survival. Hannan & Freeman (1977), who evaluate business performance from the perspective of "population ecology," are a major school of thought that opposes the concept that firm performance is tied to the functional or educational background of the CEO.*

Support for the above school of thought comes from the new institutional theory DiMaggio & Powell (1983) which claims that business performance may be explained better by a succession of events, regulatory framework, and other variables that are completely beyond the CEO's control. CEOs, according to DiMaggio & Powell (1983) are a minor and insignificant player in the processes. Hambrick & Mason (1984) introduced the concept of management discretions to be incorporated into the Echelon theory as a moderating component in order to resolve these contradictory viewpoints on the role of the CEO and business performance.

### **Attention-Based View and Firm Attention on Digital Transformation**

The second line of literature is focused on the firm's ABV (Ocasio, 1997), which states that the firm decisions are the result of how decision-makers disperse their attention. What decision-makers do is determined by which issues they concentrate on. What they concentrate on are determined by the scenario at hand, as well as how the firm's rules, resources, and relationships divide up diverse issues. The ABV seeks to investigate the underlying mechanisms that link CEO qualities to strategic decision-making. According to proponents of this viewpoint, what managers pay attention to will influence their decisions and actions, and so have a substantial impact on a company's strategic orientation (Cho & Hambrick, 2006; Eggers & Kaplan, 2009; Kaplan, 2008; Ocasio, 1997).

They believe that how managers perceive and interpret change, as well as how they transform these perceptions into choices, shapes strategic activity (Daft & Weick, 1984; Reger & Palmer, 1996). According to the ABV, top managers' essential involvement in steering various sorts of strategic change, such as organizational reorientations. Tushman & Rosenkopf (1996); Virany et al. (1992), new product launches (Boeker, 1997; Ciborra, 1996; Eisenhardt & Tabrizi, 1995; Kaplan, 2008), or changes in research and development plans (Kor, 2006), is driven by management attention. Management Attention plays a crucial role in managers planning, problem-solving, conflict resolution and decision-making. Executives' attention leads cognition and action in non-routine operations when there is no predetermined schema to attain goals or when there are conflicting goals, or in short, when uncertainty is significant (Ocasio, 1997).

Divergent results are supported by a review of the literature on CEO educational background and firm performance. The problem with such a large body of literature is that it has been published from a variety of perspectives, including sociological, ecological, institutional, traditional management theories, and efficiency theories. Different schools of thought oppose these views, with some based on traditional management theories and others leaning toward the organizational ecological school, which claims that firms and CEOs have little impact on firm performance because they are constrained by environmental factors such as industry culture and history (Wasserman et al., 2001).

## Population and Sampling Plan

The analysis is based on a sample of CEOs and bankers at Tunisian banks. Our sample period is from 2018 to 2020. We begin by collecting data on CEOs and bankers by a direct research questionnaire and match accounting data obtained from annual reports sourced from the Tunisian stock exchange site for listed banks and from the annual reports published online for other banks. This produces a sample of 1700 interviewees. From this initial list, we retain only those for which we could collect detailed data. We collect this information by visiting CEOs directly to ask them about personal information and from their profiles on social networks. The questionnaire is addressed to 1700 bankers and agency's directors of public and private Tunisian bank and 21 CEO of banks (91.3 percent) from the total banks in Tunisia. Only two banks are eliminated from the sample because they are not listed on the stock exchange and their annual reports are not published on line. In addition, their number of branches is less than 5. So this paper encompasses the entire Tunisian banks (Abualsauod & Othman, 2020).

All the respondents have been given a code name in order to mask their identity. The choice of confidentiality has been a requirement from the case bank, but this confidentiality does help us build trustworthiness with the respondents. With a guarantee of anonymity, the respondents' willingness to discuss negative aspects of the case bank is increased, which increases the possibility that multiple aspects of the case bank is a part of the data collection (Chipeta & Muthinja, 2018).

<i>Socio-professional category</i>	N	Sum
Bankers	1342	60.92%
Agency directors	1342	32%
CEO	1342	1.56%
Employee in another financial Institution	1342	5.52%
<b><i>Gender</i></b>		
Female	1342	18.88%
Male	1342	81.22%
<b><i>Age</i></b>		
18-25	1342	6.9%
26-45	1342	77.4%

46-60	1342	12.4%
Older than 60	1342	3.2%

Source: By the Author

Results from table 1 show that the lowest percentage of socio-professional category is CEO, However, it is the most important. In Tunisia we have 23 resident bank: the total of bank CEOs in Tunisia is 23. In this work information about 21 CEO have been collected (which represents 91.30 percent from the total CEOs but it represents only 1.56 percent from the total of the sample). In addition, we have approximately 2000-bank agencies in Tunisia, 429 agency have been visited which represents 21.45 percent from the total of bank agencies, however, it represents 32 percent from the sample. The highest percentage is for bankers, which represents 61 percent. This sample was made up of men mainly which represent 81 percent from the sample and their average age is approximately between 26 and 45 years.

	<b>N</b>	<b>Sum</b>
<b>Field of study</b>		
Finance	100%	24%
Engineering	100%	10%
Management	100%	19%
Economics	100%	19%
<b>Educational Level</b>		
Postgraduate	100%	62%
Undergraduate	100%	38%

Source: Zaidi et al., 2021.

## Definition and Coding of Variables

In this study both dependent and independent variables have been used. These independent variables were mostly centered on CEO and bank characteristics. Control was also made for traditional factors which have been found to affect bank performance. This study makes use of various discrete and continuous variables. Dummy variables have been used to account for discrete variables. Dummy variables can assign the value of 0 or 1. 0 would indicate the absence of the variable and 1 would indicate the presence of the variable. The dummy variables were used because of the presence of qualitative independent variables. These dummy variables have been used to represent the various types of CEO educational backgrounds (finance, engineering, economics, accountability or management). The independent variables were used to explain variations in the dependent variable Table 2.

## Independent Variables

### CEO Educational Background

CEO Educational backgrounds have been considered as the area of training in which a CEO has his/her highest qualification. To measure the CEO educational training, dummy variables have been created to represent each educational background. Finance is a dummy variable that takes the value of 1 if CEO has a finance-related degree, and zero otherwise. The same coding process has been used for economics, management and engineering. To ensure that the actual education of the CEOs was well-specified, I visit each one of them to ask him about his educational background. Also their profiles on different social networks are consulted. The goal was to provide accurate and reliable data for the study. In situations where the CEO does not give me enough information he was completely excluded from the sample. Given that there was a lot of training associated with CEOs, the educational backgrounds have been limited to Engineering, finance, management and economics training because they are the most represented in the dataset with four or more CEOs. Finance is the reference background used for this work.

### CEO Educational Level

I grouped educational level into two main groups. Under the Undergraduate group CEO's with only Bachelor's degree (baccalaureate + three years or baccalaureate + four years) have been grouped. In the Postgraduate group CEO's with master's degree and CEO's with doctorate degree have been grouped. To facilitate this I ensure that only CEOs that they have at least bachelor's degree were considered to be included in the educational background variable.

## Moderating variables

### CEO Gender

CEO gender is an interesting variable that constituted an aspect of CEO characteristics intended to examine the impact of the involvement of women in the composition of top management teams. However the observed sample is totally composed by men (100 percent). This variable takes the value 1 when the CEO gender is male.

### CEO Tenure

CEO tenure is introduced as a control variable in this work. CEO tenure refers to how long the CEO has been working in the same bank. Many authors have confirmed that longer serving CEOs improve bank performance given that, he has spent his entire job in the same environment so he is able to deal with varied set of problems. Ayaba points out that "*CEO who*

*has spent a longer time in a company is a vital asset for firm performance*". Although, no period is commonly accepted as shorter, intermediate or longer for CEO tenure. I guess that banks with longer-serving CEOs outperform others

### **CEO Age**

CEO age is discrete variable used on this work. Hermann & Datta, 2006 on their work have shown that the younger the CEO is, the more he is risk taker. Also they have mentioned that older CEO's have low propensity for risk while younger CEO's are dynamic to change Hermann & Datta, 2006. So according to them younger CEOs have higher physical and mental capacity to process and analyze information. Based on this conclusion I guess that banks with younger CEOs give more attention to the digital transformation. This sample is composed by CEOs with more than 40 years old (Bellofatto et al., 2018).

### **CEO Duality**

CEO duality means that CEO is the Chief Executive Officer and the Chairman of the Board. According to Donaldson when the CEO has dual roles (the Chief Executive Officer and the Chairman of the Board), the conflict of interests increase, owners have to practice incentive programs such as tie CEO compensation to stockholders benefits to make the interest of the CEO aligned to that of shareholders (Donaldson & Davis, 1991). The literature provides mixed evidence on the relation between CEO duality and firm performance but the majority confirms that CEO duality increases interest's conflict. It takes 1 to indicate the presence of CEO duality and 0 otherwise.

### **Dependent Variable**

#### **Bank attention to Digital Transformation**

In order to measure the bank attention to digital transformations, bankers have been asked about their bank degree of attention to digital transformation. This variable takes the values from 1 to 4. 1 if the bank gives no attention to the digital transformation and 4 if the bank gives a very high attention to the digital transformation.

### **Validation of the Items**

Cronbach's Alpha of the items representing CEO personal characteristics and educational background is  $\alpha=0,889$  which is largely significant (higher than 7 percent). The variables (Age, gender, management, economics and engineering have been eliminated from the sample because

they seems not significant and results without these variables are better). Once the internal consistency between the items is checked, it is necessary to ensure the reliability of these items. Indeed, we will carry out a principal component analysis (PCA). First, we began our analysis with Bartlett's and (KMO) tests. The (KMO) test showed a value higher than 0.5 (KMO=0.817), also the Bartlett's sphericity test has a high Chi-square recorded at a value of satisfaction equal to (Chi-square=0.000). Bartlett's tests and the KMO's confirmed the feasibility of factor analysis. Next, we performed a principal component analysis (ACP) on all the items, which revealed that they have a strong factor contribution and good discriminating power. This (PCA) suggests one-factor structure representing 82.29 percent of the total variance. For the sake of simplification we see the factor solution presented in Table 3.

	<b>Composante</b>
Finance	971
Educationallevel	768
Attention to the DT	954
Duality	923
Tenure	922

### **Méthode d'extraction : Analyse en composantes principales**

*Source: By the Author*

### **Empirical Validation of Research Hypotheses**

Once the reliability and validity of our questionnaire has been verified, it is appropriate to test the empirical validity of our hypotheses Table 4.

### **Descriptive Statistics**

	N	Minimum	Maximum	Moyenne	Ecart type	Skewness		Kurtosis	
Attention to the DT	1340	1	4	3,19	1,218	-,991	,067	-,806	,134
Duality	1340	0	1	,71	,456	-,905	,067	-	,134

Economics	1340	0	1	,25	,434	1,142	,067	-,696	,134
EDLEV	1340	0	1	,71	,455	-,917	,067	- 1,161	,134
Engineering	1340	0	1	,16	,369	1,837	,067	1,378	,134
Finance	1340	0	1	,70	,457	-,889	,067	- 1,211	,134
Management	1340	0	1	,09	,279	2,978	,067	6,877	,134
Numberofbranches	1340	2	207	137,91	62,35 1	-,890	,067	-,237	,134
Tenure	1340	1	4	3,19	1,202	-1,017	,067	-,725	,134
Whatisyourgender	1340	1	2	1,19	,390	1,605	,067	,576	,134
Whichagegroupdoy oubelongto	1340	1	4	2,12	,557	1,184	,067	3,211	,134
N valide (liste)	1340								

Source: By the Author

This research presents findings from 21 banks out of 23 resident banks in Tunisia (91.30 percent of the banking sector). The survey questionnaire delivered precisely to 1340 bankers. The main aim of this survey to gain comprehension with regard to the effect of CEO educational background on bank attention to digital transformation. Our results are as follow the population of CEO was made up totally of men where 57 percent of them are postgraduate. Among these degree holders we find that 24 percent of CEOs have a Finance related degree, 19 percent in Economics, 10 percent in engineering and 19 percent in Management. The average age of CEOs is approximately 61 years, and the average tenure is 4 years. For the rest of interviewees male represents 60 percent of the total population and their average tenure is 3 years. 70 percent from the interviewees belongs to banks headed by financially educated CEO, 25percent belongs to banks headed by CEOs on the area of Economics, 16 percent belongs to those headed by CEOs with engineering related degree last and not least only 9 percent of our sample belongs to CEOs in the area of Management. 71 percent of our sample belongs to banks headed by CEOs with postgraduate degree. To test the normality of the data we notice that the Skewness value is positive for the majority of variables. This means that the distribution tail is asymmetrical to the right. So we reject the null hypothesis of data normality. Indeed, the "Kurtosis" coefficient is a coefficient that measures the distribution's degree of flattening. However, in our case we notice that the majority of the flattening coefficients of the variables are less than 3 which means that the distribution is more flattened than the normal law. Thus we reject the null hypothesis of normality.

## Regression Analysis

In this study, Linear regression analysis has been used given that there are two or more explanatory variables. Four dummy variables have been created to represent the various types of educational background. These dummy variables were necessary because I had to convert each of the qualitative independent variables into quantitative variables so that I could able to run a multi-regression analysis to assess the impact on each of the variables. In addition to establish the relationship between educational level and the bank attention to digital transformations, a dummy variable(s) for the CEO educational level has been created. I assigned the value 1 to postgraduate and 0 to undergraduate. Since the independent variable CEO age, bank size (measured by the number of branches), AROA, AROE, and CEO tenure were not categorical; I didn't do any coding on them (Ocasio & Joseph, 2005).

### Model 1

The  $R^2$  for the model 1, which was used to test for hypothesis 1: “*CEOs educational background positively affects the bank attention to the digital transformation process*” is 0.921 this means that 92.10 percent of the regression model or variation in the dependent variable (ROE) is explained by the independent variables. This  $R^2$  gives a significance value of 0,000 this is less than the p-value of 0.05 at 95 percent level of confidence. This thus indicates that the regression model is significant at this level of confidence Table 5.

<b>Variables</b>	<b>Beta</b>	<b>Significance</b>	<b>Expected Relationship</b>	<b>Found Relationship</b>
Constant		,000***		
Finance	,512	,000***	+	+
Educationallevel	-,002	,847	+	+
Tenure	,569	,000***	+	+
Duality	-,091	,000***	-	-
<b>Dependent Variable: DT *, **, ***, respectively signification at 10%, 5%, 1%</b>				

*Source: By the Author*

The results from table 5 show that CEOs with finance-related degree gives more attention to the digital transformation of banks ( $\beta=0,435$ ) than others with different backgrounds such as management engineering and economics. This relationship is significant at the level of 1 percent. However, there is no evidence that higher educated CEOs gives more attention to the banking digital transformation ( $\beta=0,002$ ) which is significant at the level of 10 percent.

Thus, it is evident that banks run by CEO who has a finance-related degree outperform others, which are run by a CEO who has a background in other fields such as economics, management and engineering. These results confirm those found by (Custódio & Metzger, 2014; Zaidi et al., 2021) and partially confirm the hypothesis number 1 of our research. Yet this concern is not shared by Andrew. In addition, the result indicates that the CEO tenure positively and significantly increase the bank attention to digital transformation. Thus we can conclude that banks headed by longer serving CEOs deliver significantly higher attention to the digital transformation table 6.

<b>Table 6</b>					
<b>CORRÉLATIONS</b>					
		Finance	EDLEV	Tenure	Duality
Finance	Corrélation de Pearson	1	,725**	,856**	,907**
	Sig. (bilatérale)		,000	,000	,000
	N	1340	1340	1340	1340
<b>** . La corrélation est significative au niveau 0,01 (bilatéral).</b>					

Source: By the Author

<b>Table 7</b>					
<b>Corrélation de Pearson</b>					
		Attention to the DT	EDLEV	Tenure	Duality
Attention to the DT	Corrélation de Pearson	1	,634**	,932**	,831**
	Sig. (bilatérale)		,000	,000	,000
	N	1340	1340	1340	1340
<b>** . La corrélation est significative au niveau 0,01 (bilatéral).</b>					

Source: By the Author

Results from table 4 and 5 confirm the results of Hayes V4.0 process to measure the moderating effect of CEO educational level, CEO tenure and CEO duality on the CEO

educational field- Bank attention to digital transformation. Financially educated CEOs, which are higher, educated (H2), longer serving (H3) and those, which have a dual role in the bank (H4), give more attention to the banking digital transformation. These findings validate our second, third and fourth research hypothesis. CEO educational level, CEO tenure and CEO dual role positively and significantly (at the 1% level) moderate the relationship between CEO Field of study and bank attention to the digital transformation process. These findings confirm those of (Zaidi et al., 2021) which confirm that CEOs with financial background and those which are higher educated are more likely to perform better Table 7.

## DISCUSSION

Facing the challenges of the digital revolution banks must adopt. Despite the growing interest of scholars in digital transformation, existing research has failed to examine the relationship between CEOs educational background and Bank Attention to Digital Transformation. This work fills in this gap by investigating the impact of CEO's educational background on bank attention to digital transformation and how this relationship is moderated by further CEO characteristics (CEO tenure, educational level and CEO Duality). By integrating the UE perspective and the ABV of the firm, this work adds to the existing literature two main contributions. First, this work contributes to the UE literature in general and the CEO education literature in particular by linking CEO's educational background with digital transformation. Evidence for the empirically unexplored conjecture have been provided, that the presence of financial CEOs in banks significantly increases bank attention to digital transformation. Therefore, the findings are in line with previous studies that show that CEO educational background have a positive impact on innovation (Lee et al., 2020) and firm performance (Zaidi et al., 2021).

Results show that CEO's educational background matter on bank attention to digital transformation. CEOs in the area of Finance gives more attention to the digitalization process. Which confirm the concept of ABV and the UET. CEOs in the area of finance are more likely to manage well a financial institution. Despite the recent literature have shown that higher educated CEOs are more likely to perform better, this work show that there is no evidence that CEO educational level have a direct effect on bank attention to the banking digital transformation. (Zaidi et al., 2021), do not share this concern.

CEO financial background significantly affects the bank attention to the digital transformation. The CEO educational level, tenure and dual role positively and significantly moderates this relationship. However, CEO tenure, the COVID's impact, the bank size and performance level highly and significantly strengthen this positive relationship.

Second, this paper show that previous findings in UE research regarding CEO age and CEO educational background may not hold in the face of digital transformation and that this

phenomenon may, therefore, indeed require novel theorizing. While previous studies in the UE field have focused on Age variable, this study shows that there is no connection between bank attention to digital transformation and CEO age. Further, there is no evidence that CEO gender affects the bank attention to digital transformation. These findings seem very logic; men represents 100% of the CEOs sample. A male CEO heads all the Tunisian banks. In addition, all the Tunisian bank system belongs to the same age group between 49 and 55 years old.

From an ABV, CEOs are paying greater attention to decisions directly related to their field of study. CEOs may, at some point in their careers, pay more attention to their respective fields. As a result, perception and strategic decision-making may be influenced by functioning. CEOs may perceive the same level of uncertainty differently according on their educational backgrounds, and they may make various decisions on digital transformation based on their value preferences.

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