




Social connections and involuntary CEO turnover: evidence from the Brazilian market

Conexões sociais e rotatividade involuntária do CEO: evidências do mercado brasileiro

Conexiones sociales y rotación involuntaria del CEO: evidencias del mercado brasileño

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Abstract

This study aimed to investigate whether the social connections between the members of the Board of Directors and the Chief Executive Officer (CEO) decreases the probability of involuntary turnover of the CEO in the Brazilian context. We collected data from *Formulário de Referência* between 2012 and 2018 of the companies listed on the Brasil Bolsa Balcão [B]³ and developed a Social Connection Index (SCI). Logistic regression results indicate that the probability of involuntary turnover of the CEO decreases as the SCI increases, consistent with the previous studies. Results are significant even in the presence of corporate governance indicators and additional control variables. Results show that the social connections affect the monitoring ability of the Board with respect to the CEO turnover decision. It also shows that the aggregated analysis of the data through the proposed SIC better captures this effect in the Brazilian market.

Keywords: Board of Directors; Social Connections; CEO; Involuntary turnover

Resumo

Este estudo teve como objetivo investigar se as conexões sociais entre os membros do conselho de administração (CA) e o *Chief Executive Officer* (CEO) diminuem a probabilidade de rotatividade involuntária do CEO no contexto brasileiro. A partir dos dados do Formulário de Referência entre 2012 e 2018 das empresas listadas na Bolsa Brasil Balcão [B]³, desenvolveu-se um Índice de Conexão Social (ICS). Os resultados da regressão logística indicam que a probabilidade de rotatividade involuntária do CEO diminui quando o ICS aumenta, consistente com estudos precedentes. O resultado se manteve mesmo na presença de indicadores de governança corporativa e de demais controles. Os resultados evidenciam, assim, que as conexões sociais afetam o monitoramento do CA quanto à rotatividade, bem como que a análise agregada dos dados através do ICS proposto captura melhor este efeito no mercado brasileiro.

Palavras-chave: Conselho de administração; Conexões Sociais; CEO; Rotatividade Involuntária

Resumen

Este estudio tuvo como objetivo investigar si las conexiones sociales entre los miembros de la Junta Directiva y *Chief Executive Officer* (CEO) disminuyen la probabilidad de reemplazo involuntario del CEO en el contexto brasileño. A partir de los datos del *Formulario de Referencia* entre 2012 y 2018 de las empresas que cotizan en la Bolsa Brasil Balcão [B]³, se desarrolló un Índice de Conexión Social (ICS). Los resultados de la regresión

logística indican que la probabilidad de reemplazo involuntario del CEO disminuye con las conexiones sociales, consistente con estudios previos. El resultado se mantuvo incluso en presencia de indicadores de gobierno corporativo y características estructurales de la Junta Directiva. Los resultados muestran que las conexiones sociales inciden en el seguimiento de la Junta en términos de facturación, así como el análisis agregado de los datos a través del ICS propuesto capta mejor este efecto, en el mercado nacional.

Palabras clave: Junta de Directores; Conexiones sociales; CEO; Reemplazo involuntario

1 Introduction

The separation between control and ownership has raised questions over the potential conflicts arising from the relationship between owners and managers. The lack of alignment of the interests of the players in the corporate relationship can appear between the principal and the agent, but can also develop between the principals, primarily when ownership concentration is a factor. (Jensen & Meckling, 1976; Sutton et al., 2018; Young et al., 2008). Within this scenario, majority shareholders exercise their control at the expense of minority shareholders by expropriating them, since they do not wish to risk losing control of the company and providing the investor with less legal protection (Harris & Raviv, 2008; La Porta et al., 1999; Young et al., 2008; Céspedes et al., 2010).

Amongst the corporate governance (CG) practices that can be seen as suitable instruments for mitigating these types of conflict, is the existence of an independent Board of Directors (BD). The independence of the members of the BD is usually associated with the absence of any commercial or family relations between them and the company, not including, however, aspects relating to common past experiences (educational or professional backgrounds, or hobbies, for example) that typify social connections between members of the BD and the company CEO, and which could compromise the efficiency of the BD in its monitoring role (Fracassi & Tate, 2012; Hoitash, 2011; Krishnan et al., 2011; Schmidt, 2015; Westphal, 1999, Hermalin & Weisbach, 1998).

Amongst the monitoring activities that could be affected by the existence of social connections is the decision to dismiss the CEO or not. Research suggests that the social connections between the CEO and the members of the BD are associated with a reduction of the involuntary turnover of the CEO (Balsam et al, 2017; Hwang & Kim, 2009). As such, in an emerging market in which ownership concentration is commonplace, such as is the case in Brazil, investigation into the influence of the social connections between the CEO and the members of the BD becomes very important, especially in relation to the changing of the CEO. Therefore, the aim of this study is to investigate whether the social connections between the members of the BD and the CEO decrease the likelihood of involuntary turnover of the CEO within the Brazilian context.

There is very little published material addressing this issue. No existing studies have been found that analyze the influence of social connections on the involuntary turnover of CEOs on the Brazilian market, meaning that a research gap exists that needs filling. Likewise, there is no knowledge of the existence of any studies that address these social connections based upon a single index. Studies have been found that analyze the impacts of the social connections from the perspective of an analysis of social networks, including those performed by Liu (2014), Renneboog & Zhao (2017), and Gao et al. (2017).

The results of the present study provide empirical evidence about the Brazilian market, indicating a greater proportion of companies in which the CEO and the members of the BD are socially connected when compared to other markets. They also indicate that the probability of involuntary turnover of CEOs is lower in relation to a CEO without social connections even when controls related to CG mechanisms are present, thus corroborating previous studies undertaken in other markets (Balsam et al., 2017; Hwang & Kim, 2009).

Furthermore, the study intends to develop a Social Connection Index (SCI) which will measure the level of connectivity of the CEO with members of the BD, thus contributing to a greater understanding amongst the stakeholders of the existence and gauging of the social connections. It also permits a comparison of the effects of the social connections between companies based upon a single index that highlights the extent to which the CEO and the BD are connected socially. Along these lines, the study makes a contribution in the realm of methodology, since it makes advances in relation to previous studies, which have assessed the social connection based upon isolated indicators or from the perspective of an analysis of social media.

The study is structured into six sections, the first being the introduction and the second containing theoretical framework. Following this is a presentation of the research methodology, with the fourth section containing the results obtained. These results are discussed in the fifth section, whilst the sixth concludes the study with some final considerations.

2 Theoretical framework

2.1 Board of Directors and social connections

The BD is a form of connection between the shareholders and the management in relation to an organization's governance structure (Jensen, 1993). Manuals on good corporate governance practices

recommend that the BD should preferentially be made up of external parties who declare themselves to be independent (*Brasil, Bolsa, Balcão*, 2018; Cadbury, 1992; Interagentes, 2016; IBGC, 2015; OECD, 2016). The formal definition of independence is usually linked to the absence of a family, financial or corporate relationship between the members of the BD and the CEO, or between them and the company. The definition does not, therefore, take into account those connections arising from past backgrounds such as, for example, when the CEO and the members of the BD share previous experiences involving educational institutions, professional activities, social clubs, etc. (Hwang & Kim, 2009; Krishnan et al., 2011).

The relations facilitated by the existence of social connections can lead to a sense of belonging that, as a consequence, can facilitate personal interaction through a form of 'homophilia' (an affinity for similar people), that suggests that people seem to be more comfortable relating to those with whom they share characteristics and similarities (McPherson et al., 2001). The material that has previously been published reports ambiguous effects for the company when this feeling is shared between the CEO and the members of the BD. If, on the one hand, it favors an exchange of information that improves the involvement of the BD in strategic decisions (Adams & Ferreira, 2007; Hoitash, 2011), then, on the other, it can mean a low level of monitoring by the BD, thus favoring decisions that benefit the CEO (Schmidt, 2015).

The results of the study performed by Hwang and Kim (2009) suggest that socially independent BDs authorize significantly lower levels of remuneration and are more likely to pursue a rotation policy based upon performance than companies with BDs that have only been classified as formally independent (lack of a commercial relationship with the company or with the CEO, lack of a family relationship with the company's directors and a lack of 'interlocking'). Hoitash (2011) demonstrates that the presence of social connections is associated with higher remuneration for the management, while Krishnan et al (2011) show an association between social connections and the management of results.

From this perspective, the missing formal independence of social independence may be insufficient to ensure the efficacy of the boards in the performance of their monitoring function (Tung, 2011). Amongst the monitoring functions performed by the BD that could be affected by the existence of social connections is the involuntary turnover of the CEO, which could become more difficult if there is a connection between the CEO and the members of the BD, as will be addressed in the next section.

2.2 Social connections and involuntary turnover of the CEO: previous studies and development of the hypothesis

Falling within the BD's scope of decisions is the hiring and dismissal of the CEO, with the latter decision being considered as involuntary turnover. The involuntary turnover of the CEO may be related to different issues that can be classified as management aspects, (Kaplan & Minton, 2012; Gao et al., 2017; Hu & Kim, 2019) or characteristics that are specific to the position (Brookman & Thistle, 2009; Bushman et al, 2010), or personal to the CEO (Campbell et al., 2011; Gao et al., 2017; Liu, 2014). In this sense, when the BD has the ability to assess the performance of the CEO more precisely, there is less possibility of a significant error, such as the maintaining of a poor CEO or replacement of a good one (Parrino, 1997).

However, given that the BD is made up of individuals with different conditions and interests (be they financial, share-related, or shareholder/controller-related, etc.), its members will have different personal incentives to perform their functions. In much the same way, the members of the BD also differ in terms of their relationship with the CEO and their willingness to monitor them. As such, the independence of the BD becomes important, since it can be assumed that members of a more independent BD would be more inclined to make a greater effort in monitoring the CEO than non-independent members.

Within this context, the social connections of the members of the BD with the CEO take on added significance, since they bear influence on the incentives and willingness of the BD to monitor the CEO. Guo e Masulis (2015) note that with less independent boards a downturn in the company's performance is necessary before a CEO starts to be considered in a negative light, given that more independent board members are more likely to replace a CEO than non-independent board members. Empirical studies relate the presence of dual CEOs and social or commercial connections between the BD and CEO negatively in relation to the probability of CEO turnover.

In analyzing a sample taken from the United States, Hwang and Kim (2009) note the alteration in monitoring when this is classified as conventional or socially independent. The evidence suggests that companies with socially independent boards are more disposed to a turnover based upon performance than those with a board that is just formally independent. Coles e Naveen (2014) relate the occurrence of board members being appointed after the CEO has assumed office (co-optation) to a low level of monitoring. Their evidence demonstrates that as the co-optation increases, the disposition to turnover decreases. Balsam et al. (2017) divide turnover into 'voluntary' and 'involuntary', and the evidence obtained on companies from the United States shows an association between the existence of social connections between the CEO and the members of the BD with a reduction in the likelihood of a CEO's involuntary turnover.

The mitigation of monitoring whilst social connections are present may become even more accentuated in markets with shareholder concentration where, in extreme cases, the controlling shareholders may decide upon the composition of the entire BD, thus annulling its ability to monitor (Balsam et al., 2017).

The study performed by Vieira e Martins (2018) corroborates this claim by demonstrating that shareholder concentration reduces the willingness to a turnover of CEOs within the Brazilian context. Brazil is an emerging market where the majority of companies have a high level of shareholder concentration (Lana et al., 2018). It is here worth mentioning that in the sample analyzed in this study the average amount of shares held by the largest shareholder is 49.80%. Within this scenario, the social connections could be a determining factor in the efficiency of the BD.

As such, it is understood that the social connections that exist between the members of the BD and the CEO could interfere in the strategic decisions taken by the board, precisely in relation to the contracting or dismissal of the CEO. A BD that is socially connected to the CEO could be more resistant to dismissing him/her than a socially independent BD. It is hoped, therefore, that there would be a negative relationship between the existence of a social connection between the members of the BD and the CEO and the likelihood of involuntary turnover of the CEO, which leads us to the research hypothesis:

H: *The existence of social connections between members of the BD and the CEO reduces the likelihood of involuntary turnover of the CEO.*

In order to test the hypothesis presented in this section, the methodology pursued is described in the next section.

3 Methodology

3.1 Public and sample

The group studied included 364 publicly held companies listed in the [B]³ between the years 2012 and 2018. Not included in the sample were financial companies due to their specific characteristics that could misdirect the results. Also not included were companies about which only one year of information was available (meaning that it would be impossible to identify any involuntary turnover of CEOs), and one company that had two CEOs within the same year (since this would invalidate any investigation of a single Social Connection Index - SCI).

Given that the SCI is structured by the crossing of the CEO's and the BD's data, the most relevant piece of data was chosen as being the Higher Education Institution (HEI) from which the CEO graduated, with those companies for which the CEO's HEI information was not available being excluded from the sample. The composition of the final sample is shown in Table 1.

Table 1:
Composition of the Sample

Population	364
(-) Financial Sector and similar	(89)
(-) Companies with one year of information	(31)
(-) Companies with 2 CEOs	(1)
(-) Companies with no HEI data on the CEO	(44)
Final sample	199

Source: Research Date (2020).

Based upon the data available, an unbalanced sample of 199 companies was obtained, culminating in 959 observations.

3.2 Operationalization of the research

As a multi-varied analysis technique, the research employed logistical regression, considering that the response variables used in this study are binary (Gujarati & Porter, 2011). The maximum likelihood estimation method was used through a logistics function with a pool of cross-sections, with clustering of the residues per company to estimate the probability of occurrence of the event with the equation 1.

$$P_j (y_{it} \neq 0 | x_{it}) = e^{\varepsilon_{it}} / (1 + e^{\varepsilon_{it}}) \quad (1)$$

Where ε is estimated from the equation (2).

$$INVT_{it} = \beta_0 + \beta_1 SCI_{it-1} + \sum_{k=1}^m \{\gamma_k Controls_{kit-1}\} + \varepsilon_{it} \quad (2)$$

The involuntary turnover variable ($INVT_{it}$) is a binary variable that identifies whether the CEO was dismissed (1) or not (0). It is considered to be involuntary turnover if, in the leaving data (t) the CEO is aged under 60 and does not continue or does not return to the market in the role of a CEO, or as a member of the BD or Executive Board of the same company or another company listed on the [B]³, within two years of leaving (Balsam et al., 2017; Coles et al., 2014; Hwang & Kim, 2009). Furthermore, it is classified as voluntary turnover ($VOLT_{it}$) if the CEO continues or returns to the market within two years of leaving, or if they are aged over 60

at the time of leaving (t).

The independent variable (SCI_{it-1}) is defined as in equation 3. The SCI consists of a scale that varies between 0 and 1. As such, an SCI of 0 shows that no member of the BD has a connection with the CEO, whilst an SCI of 1 show that all the members of the BD are connected to the CEO.

Construction of the SCI was based upon five indicators representing sources of social connection that have been highlighted in academic writings, such being: i) family relationship; ii) higher education institution; iii) professional experience; iv) participation on boards; and v) duality of the board. (Chahine & Goergen, 2013, 2014; Fracassi & Tate, 2012; Hoitash, 2011; Ishii & Xuan, 2014; McGuinness, 2018, Balsam et al., 2017; Hwang & Kim, 2009; Cohen et al., 2010; Kang et al., 2018; Khedmati et al., 2020; Nguyen, 2012; Young et al., 2008). The indicators were measured in accordance with Appendix A. The SCI was operationalized by means of the following equation:

$$SCI_{it} = \frac{\sum IND_{it}}{5} \quad (3)$$

where:

SCI = Social Connection Index of the CEO with the members of the BD of the company i in period t .

IND = Social Connection Indicators of the CEO with the members of the BD of the company i in period t .

5 = Number of indicators.

As shown in the academic writings for construction of corporate governance indexes (Black et al., 2017; Crisóstomo et al., 2020), the index applied is operationalized by the simple addition of the indicator divided by the number of indicators. There is no balancing between the indicators considering that no base theory was identified by which to attribute different weights to the indicators within this phenomenon. Previous studies argue that indexes constructed without balancing are less susceptible to the subjectivity of the researchers who enable their reproduction (Beiner et al., 2006; Brown & Caylor, 2004; Black et al., 2017).

This set of indicators includes points of interaction between the CEO and the members of the BD that have already been highlighted by previous writings. However, the effect of its joint analysis is seen as a gap that the present study intends to fill based upon development of the SCI. Validation of the index was performed using the Delphi Technique and involved a panel of six specialists, the results from whom can be found in Appendix B (Cooper & Schindler, 2016; Martins, 2006, Campbell et al., 2002).

Based upon previous studies on turnover of CEOs, the control variables found in Appendix A were established, these being classified as financial, governance, and characteristics of the company, the CEO and the BD.

The data relating to the personal information of the CEO and the members of the BD, the CEO's remuneration, size of the board, duality of the CEO, number of mandates of the CEO, independence of the BD and level of corporate governance, were all taken from the *Formulário de Referência* sent in by the companies listed on the [B]³ between 2011 and 2018. The data contained in the *Formulário de Referência* was taken from the site of the [B]³ by means of the 'Rstudio' statistics software, using the GetDFPData package (Perlin et al., 2018). Data relating to the characteristics of the company that constitutes control variables was obtained from Economática[®].

The variables were grouped together in an electronic spreadsheet, after which they were exported to the Stata[®] statistics software where the analyses were performed. The financial variables were winsorized with a lower limit (1%) and an upper limit (99%) minimizing the effects of outliers, in accordance with Balsam et al. (2017). The results obtained are presented in the following section.

4 Descriptive Statistics and Results

The data shows that in 19.29% of the observations from the sample there was a turnover of CEOs, and of these 7.71% were classified as involuntary (INVT). This percentage is higher than the 3.9% found by Balsam et al. (2017), indicating that Brazilian companies have a greater propensity towards involuntary turnover than US companies. This difference could be related to the greater volatility of business cycles in emerging markets, within which Brazil is inserted, making this analysis pertinent to Brazil.

The descriptive statistics of the independent variable and the control variables are summarized in Table 2.

Table 2:
Descriptive statistics

Variable	Observations	Average	Standard Deviation	Minimum	Maximum
INVT	959	0.0771	0.2669	0	1
SCI	959	0.192	0.123	0	0.60
Financial characteristics					
Leveraged	959	0.6388	0.3498	0.1175	2.777

continuous

continuation

Variable	Observations	Average	Standard Deviation	Minimum	Maximum
<i>EBIT</i>	959	756,168	2,315,748	-2,128,620	17,572,598
<i>Size</i>	959	15.0100	1.6580	10.94	19.3
<i>ROA</i>	959	0.0229	0.1030	-0.441	0.295
<i>Growth</i>	959	1.1220	0.4320	0	4.145
<i>Loss</i>	959	0.2980	0.4580	0	1
<i>Operational Cycle</i>	959	4.8330	0.8490	2.893	7.317
<i>Age of the company</i>	959	32.4800	19.0600	1	126
Characteristics of the BD					
<i>Dual CEO</i>	959	0.1170	0.3210	0	1
<i>BD Size</i>	959	7.3830	2.5590	2	17
<i>Perc. men</i>	959	0.9330	0.1130	0.333	1
<i>Average age</i>	959	56.1200	6.5410	28	77
<i>Percentage of independents</i>	959	0.2430	0.2220	0	1
<i>Percentage elected to controller</i>	959	0.7370	0.3140	0	1
<i>HR Committee</i>	959	0.0469	0.2120	0	1
<i>Remuneration Committee</i>	959	0.0177	0.1320	0	1
Governance variables					
<i>Family Company</i>	959	0.4590	0.4990	0	1
<i>Novo Mercado</i>	959	0.4620	0.4990	0	1
<i>State control</i>	959	0.0719	0.2590	0	1
<i>Foreign control</i>	959	0.0188	0.1360	0	1
<i>Private control</i>	959	0.9090	0.2870	0	1
<i>Shareholder concentration</i>	959	49.8000	26.7200	7.2580	100
Characteristics of the CEO					
<i>CEO remuneration</i>	959	15,625	114,574	0	1,129,000
<i>Age</i>	959	54.0700	10.0900	24	92
<i>Tenure</i>	959	6.2540	8.5460	0	64
<i>Gender</i>	959	0.9680	0.1770	0	1
<i>Elected controller</i>	959	0.7730	0.4190	0	1
Sector dummy					
<i>Industrial goods sector</i>	959	0.1820	0.3860	0	1
<i>Cyclical consumer sector</i>	959	0.2950	0.4560	0	1
<i>Non-cyclical consumer sector</i>	959	0.0761	0.2650	0	1
<i>Basic materials sector</i>	959	0.1200	0.3250	0	1
<i>Petroleum, gas and bio-fuels sector</i>	959	0.0261	0.1590	0	1
<i>Health care sector</i>	959	0.0709	0.2570	0	1
<i>Technology and telecommunications sector</i>	959	0.0355	0.1850	0	1
<i>Public utilities sector</i>	959	0.1940	0.3960	0	1

Source: Research Date (2020).

In the sample analyzed, 93.22% of the observations show some degree of connection between the BD and the CEO (or in other words, $SCI > 0$), being higher than that found by Balsam et al. (2017), in which 42.6% of the companies show some connection between the CEO and the members of the BD, and by Hwang e Kim (2009), in which observed the percentage of the members of the BD being socially connected to be 37.6%. This result indicates a higher level of social connection between members of the BD and CEOs in Brazil than in the US. Despite the existence of many companies with connections between the members of the BD and CEOs in the US, the level of connections observed (average SCI of 0.192) indicates a low degree of connection between BDs and the CEO for the sample analyzed.

The results of the estimates concerning the effects of the social connections on involuntary turnover can be seen in Table 3. The control variables have been inserted incrementally, with six specifications being estimated.

Table 3:
Results for involuntary turnover

Variables	(1) INVT	(2) INVT	(3) INVT	(4) INVT	(5) INVT	(6) INVT
<i>SCI</i>	-4.5696*** (1.2024)	-4,0540*** (1.1681)	-4,0247*** (1.1410)	-3,5493*** (1.1275)	-2.8182** (1.1864)	-3,2198*** (1.2385)
<i>Leveraged</i>		-0.1153 (0.4012)	0.0311 (0.4655)	0.0174 (0.4490)	0.0839 (0.4459)	-0.0872 (0.4685)
<i>EBIT</i>		-0.0000* (0.0000)	-0.0000** (0.0000)	-0.0000** (0.0000)	-0.0000** (0.0000)	-0.0000** (0.0000)
<i>Size</i>		0,2264*** (0.0809)	0.1782* (0.1024)	0.1525 (0.1059)	0.1859* (0.1094)	0.2877** (0.1251)
<i>ROA</i>		0.3354 (1.3831)	0.3613 (1.4710)	0.6560 (1.6402)	1.0424 (1.7119)	0.6462 (1.6066)
<i>Growth</i>		0,3873*** (0.1446)	0,3710*** (0.1357)	0,4223*** (0.1308)	0,3686*** (0.1390)	0,4889*** (0.1592)
<i>Loss</i>		1,1375*** (0.3435)	1,1722*** (0.3442)	1,2316*** (0.3526)	1,2361*** (0.3571)	1,4294*** (0.4293)

continuous

continuation

Variables	(1) INVT	(2) INVT	(3) INVT	(4) INVT	(5) INVT	(6) INVT
<i>Operational Cycle</i>		0.0428 (0.1544)	0.1290 (0.1558)	0.1368 (0.1477)	0.1233 (0.1499)	0.2235 (0.1719)
<i>Age of the company</i>		-0.0116* (0.0067)	-0.0128* (0.0068)	-0.0091 (0.0069)	-0.0050 (0.0070)	-0.0078 (0.0085)
<i>Dual CEO</i>			-1.3006 (0.8150)	-1.1179 (0.8371)	-0.7616 (0.8380)	-0.6919 (0.7604)
<i>BD Size</i>			0.0401 (0.0850)	0.0491 (0.0835)	0.0419 (0.0799)	0.0503 (0.0837)
<i>Perc. men</i>			-0.0108 (1.4742)	-0.3226 (1.4620)	-0.8547 (1.4619)	-0.3069 (1.5424)
<i>Average age</i>			0.0052 (0.0235)	0.0153 (0.0248)	0.0225 (0.0240)	0.0093 (0.0265)
<i>Perc. independents</i>			-1.0128* (0.6122)	-0.5082 (0.7234)	-0.7633 (0.7116)	-1.3888 (0.8634)
<i>Perc. elected p/controller HR Committee</i>			0.1442 (0.5090)	0.4861 (0.6336)	0.3998 (0.6412)	0.5044 (0.7260)
<i>Committee</i>			0.2333 (0.6445)	0.3660 (0.6642)	0.2969 (0.6724)	0.6663 (0.6459)
<i>Remuneration</i>			-0.5526 (1.2429)	-0.6870 (1.2793)	-0.8055 (1.2824)	-1.5500 (1.4291)
<i>Concentration</i>				-0.0021 (0.0067)	-0.0004 (0.0067)	-0.0007 (0.0068)
<i>Shareholder Family Company</i>				-0.6722* (0.3659)	-0.7901** (0.3750)	-0.4714 (0.3994)
<i>'Novo Mercado'</i>				-0.2093 (0.3478)	0.0068 (0.3232)	-0.0401 (0.3570)
<i>State control</i>				-0.7562 (0.6286)	-0.5663 (0.6342)	-1.1000* (0.6416)
<i>Foreign control</i>				1.4678** (0.7173)	1.3058* (0.6812)	1.6959** (0.8099)
<i>CEO remuneration</i>					0.0000* (0.0000)	0.0000** (0.0000)
<i>Age</i>					-0.0441*** (0.0157)	-0.0488*** (0.0177)
<i>Gender</i>					0.5473 (0.6089)	0.6969 (0.7770)
<i>Elected controller</i>					-0.0350 (0.3143)	-0.1942 (0.3449)
<i>Tenure</i>					-0.0166 (0.0242)	-0.0060 (0.0251)
<i>D. year</i>	No	No	No	No	No	Yes
<i>D. Sector</i>	No	No	No	No	No	Yes
Constant	-1,7305*** (0.2241)	-5,8835*** (1.5276)	-5,9734*** (2.1191)	-6,1142*** (2.2596)	-4.8464* (2.5743)	-4.9237* (2.9058)
Observations	959	959	959	959	959	959
Pseudo R ²	0.0349	0.0998	0.1141	0.1318	0.1552	0.2230
Statisticχ ²	14.44	69.00	71.76	95.67	111.29	174.58

Standard-error between brackets. *** p<0.01; ** p<0.05; * p<0.1.

Source: Research Date (2020).

The coefficient of the SCI variable was shown to be statistically significant in all the estimated specifications, thus confirming the research hypothesis. The results are in line with the academic writings reviewed, corroborating the results of Balsam et al. (2017), and Hwang & Kim (2009). It is shown that, even with the inclusion of the control variables, the SCI continues to have a negative impact on the involuntary turnover of the CEO. Or in other words, for the companies in the sample, the presence of social connections between members of the BD and the CEO reduces the likelihood of involuntary turnover of the CEO. The statistical classification of the full specification (6) by means of the Hosmer-Lemeshow Test shows that 92.28% of the events were properly classified.

5 Discussion of the Results

Hwang & Kim (2009) show that the likelihood of involuntary turnover of the CEO was reduced by 3.7 p.p. when social connections are present, whilst in the study performed by Balsam et al (2017) the reduction is of 1.9 p.p. The effect of the SCI on the involuntary turnover in this study is that the likelihood of there being an involuntary turnover of a totally connected CEO dropped by 19.03 p.p. in relation to a CEO without any social connections. Different to the studies compared, the SCI is an ongoing indicator. The estimated marginal effects indicate that the likelihood of an involuntary turnover of a CEO reduces by 2.34 p.p. for each standard deviation of the SCI.

The difference in magnitude of the probabilities between the studies may be associated with the use of the SCI in the present study, considering that the basis for the studies performed by both Hwang and Kim

(2009), and Balsam et al (2017) were isolated social indicators. The additional test performed in this study, and presented in Table 5, demonstrates that, when used in isolation, the indicators do not adequately capture the effects of the social connections, even when variables that represent aspects of CG are present. In this sense, an aggregated analysis of data by means of SCI is found to be more efficient for demonstrating the effects of the social connections in the monitoring of the BD, this being a contribution made by this article.

The results show that the individual willingness to be monitored outlined by Hermalin and Weisbach (1998), in the Brazilian market, is more influenced by social connections. The results do not apparently relate to the shareholder concentration characteristic of the Brazilian market, since such variable did not hold importance for the proposed model, thus going against the findings of Vieira and Martins (2018). On the other hand, the greater influence of social connections on the domestic market, when compared to the US market, may be associated with the control structure of the companies. This is because the holding of shareholding control by a foreign company shows itself to be significant; allowing one to infer that there is greater monitoring of the BD on the performance of the CEO in companies whose control structure is not identified with Brazil.

The results presented continued to remain significant even when variables representing other aspects of CG are present. Going against the manuals of good CG practices, the formal independence of the BD does not show itself to be of importance in the involuntary turnover of the CEO, which, however, is consistent with the results of Vieira and Martins (2018). These findings offer empirical support concerning the Brazilian market to what was referred by Tung (2011), that when considered exclusively, formal independence is not sufficient to ensure monitoring by the BD.

None of the variables proposed in relation to the characteristics of the BD showed themselves to be of any importance to the model. These findings challenge the study performed by Guo & Masulis (2015), that was performed using data on US companies, and which indicates that the structural characteristics of the BD, such as the presence of remuneration and HR committees, affect the involuntary turnover of CEOs. Likewise, the results also challenge the findings of Vieira and Martins (2018), since the duality of the CEO is not found to be of importance. The findings therefore demonstrate that the analysis of the social connections is of importance in the Brazilian scenario. From this perspective, it is shown that the proxies usually used by academic writing for monitoring the BDs in relationship to involuntary turnover do not capture all the determinants, since they omit social connections. As such, the use of SCI can be seen as the most efficient alternative for gauging the monitoring of the BD.

Specifically in relation to the characteristics of the CEO, the results indicate that the older the CEO the less the chance of involuntary turnover, an assertion that is in accordance with the study performed by Hoitash (2019).

The results, therefore, offer empirical evidence that social connections influence the monitoring of the BD with respect to the involuntary turnover of the CEO. This fact may arise from a greater involvement of the BD in the strategic decisions of the company (Adams & Ferreira, 2007; Hoitash, 2011) to the detriment of the function of monitoring, given the presence of the social connections. The evidence also suggests that the use of SCI better captures the effect of the social connections on the monitoring in the Brazilian context than isolated indicators. It also consists of a better monitoring *proxy* than the structural characteristics of the BD.

6 Robustness tests

The impact of SCI on the likelihood of the turnover classified as voluntary was also tested. The results are summarized in Table 4.

Table 4:
Results for voluntary turnover

Variables	(1) VOLT	(2) VOLT	(3) VOLT	(4) VOLT	(5) VOLT	(6) VOLT
SCI	1.2820 (0.8151)	1.5687* (0.8946)	2.1265** (0.9674)	2.3447** (0.9845)	2.5868*** (0.9938)	2.6520** (1.0423)
Financial variables	No	Yes	Yes	Yes	Yes	Yes
Characteristics of the BD	No	No	Yes	Yes	Yes	Yes
CG variables	No	No	No	Yes	Yes	Yes
Characteristics of the CEO	No	No	No	No	Yes	Yes
D.year	No	No	No	No	No	Yes
D.Sector	No	No	No	No	No	Yes
Constant	-2,2885*** (0.1922)	-6,0068*** (1.3016)	-7,4786*** (1.5824)	-7,2086*** (1.6130)	-8,7183*** (1.7520)	-9,3347*** (2.0822)
Observations	959	959	959	959	959	959
Pseudo R ²	0.0036	0.0328	0.0471	0.0528	0.1137	0.1320
Statisticχ ²	2.47	43.56	49.47	95.67	102.52	131.16

Standard-error between brackets. *** p<0.01; ** p<0.05; * p<0.1

Source: Research Date (2020).

The results show that the likelihood of voluntary turnover increases when social connections are present between the members of the BD and the CEO. As such, the SCI exercises a positive influence on

voluntary turnover, different to that which occurs in involuntary turnover where the effect is negative. This result is consistent with the studies performed by Liu (2014), Renneboog & Zhao (2017) and Gao et al. (2017). These studies indicate that when social connections are present, the CEOs are more likely to leave the company since they have greater bargaining power with the BD, thus hindering a negotiation that aims to benefit the owners to the detriment of the interests of the CEO.

Furthermore, as in previous literature, which gauges the social connection between the CEO and the members of the BD by means of isolated indicators, the effects of the indicators that made up the SCI in the involuntary turnover of the CEO were tested. The results of the six specifications are summarized in Table 5.

Table 5:
Results for involuntary turnover based upon the indicators

Variables	(1) INVT	(2) INVT	(3) INVT	(4) INVT	(5) INVT	(6) INVT
<i>HEI</i>	-4,313*** (1.53)	-3,898** (1.58)	-3,421** (1.53)	-3,201** (1.57)	-3,086* (1.63)	-2,887* (1.63)
<i>Executive Board</i>	0,851 (0.91)	1,319 (1.02)	1,104 (0.97)	1,077 (0.98)	1,030 (0.97)	0,753 (0.99)
<i>Professional Experience</i>	-0,589 (0.59)	-0,623 (0.66)	-0,722 (0.68)	-0,900 (0.66)	-0,574 (0.68)	-0,434 (0.76)
<i>Experience in BD</i>	-0,748** (0.35)	-0,641* (0.37)	-0,616* (0.36)	-0,499 (0.35)	-0,448 (0.35)	-0,632* (0.36)
<i>Family Connection</i>	-4,208** (1.91)	-4,107** (1.85)	-3,996** (1.93)	-3,410* (1.97)	-2,937 (1.94)	-2,873 (2.16)
<i>Financial variables</i>	No	Yes	Yes	Yes	Yes	Yes
<i>Characteristics of the BD</i>	No	No	Yes	Yes	Yes	Yes
<i>CG variables</i>	No	No	No	Yes	Yes	Yes
<i>Characteristics of the CEO</i>	No	No	No	No	Yes	Yes
<i>D.year</i>	No	No	No	No	No	Yes
<i>D.Sector</i>	No	No	No	No	No	Yes
Constant	-1,743 (0.24)	-5,062 (1.73)	-4,567 (2.29)	-4,722 (2.50)	-3,627 (2.76)	-3,805 (3.08)
Observations	959	959	959	959	959	959
Pseudo R^2	0.0660	0.1268	0.1345	0.1479	0.1678	0.2324
Statistic χ^2	17.70	65.08	69.68	87.69	106.43	180.20

Standard-error between brackets. *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

Source: Research Date (2020).

The data shows that none of the indicators making up the SCI, when analyzed in isolation, is significant at 5% significance in the complete specification (6). It can be seen that the indicators, contrary to that which occurs with the SCIs, lose significance when the control variables are added into the model. This evidence demonstrates that, when analyzed in isolation, the indicators do not capture the effect of the phenomenon observed, making the use of data aggregated by means of the index proposed, important and pertinent in the Brazilian market.

7 Final Considerations

The aim of this study has been to gauge the impact of the social connections that exist between the members of the BD and the CEO on the involuntary turnover of the CEO within companies listed on the [B]⁹ through use of a Social Connection Index (SCI). As such, it is felt that the research fills an important gap in the information available, since it provides data on the performance of the CG control mechanisms when social connections are present in a situation involving concentrated shareholding. The results show that, in the vast majority of companies (93.22%), there exists some degree of connection between the CEO and the members of the BD. This result is higher than that found by similar studies in other countries, and could indicate that the high level of connectivity between the CEO and the BD is a characteristic specific to the Brazilian market (Balsam et al., 2017; Hwang & Kim, 2009).

The results confirm that when social connections are present, there is less likelihood of involuntary turnover of the CEO and that this is not related to the shareholder concentration or to the structural characteristics of the BD, thus countering previous studies (Vieira & Martins, 2018; Guo & Masulis, 2015).

The results also contribute to the debate over the non-observable characteristics of the BD that are capable of being influential in its monitoring abilities. This is because the influence of social connections on the involuntary turnover of the CEO continues even in the presence of proxies for good corporate governance practices. The study therefore adds to the published work on governance by providing support for analysis of the practices of CG that are not related to the structural issues of the BD. In this sense, the SCI is seen as a more efficient proxy for the monitoring of the BD.

Likewise, the findings and, primarily, the SCI proposed, provide the stakeholders with a new perspective for analysis of the practices of Corporate Governance. The robustness test demonstrated that the indicators which the published literature relates to social connection and which are tested in isolation, are not

found to be significant. This result shows that the aggregated analysis of data by means of the proposed index is found to be useful in understanding the effects of the social interactions between the members of the BD and the CEO in the Brazilian market, and this can be used for other ends or for monitoring of the actions of the BD.

It should be noted that the study presents limitations in relation to the classification of involuntary turnover, since criteria used in previously published works was adopted. There are also limits in relation to the SCI, given that indicators were selected based upon the literature reviewed, whilst the study is also limited by the employment of data drawn from the Reference Forms in the construction of variables which could contain errors or mistakes. However, it is understood that these limitations do not detract from the importance of the research in the discussion of the monitoring of the CEO by the BD when social connections are in play.

For future studies, it is recommended that alternative forms of gauging turnover be applied, including companies that are not listed on the [B]³. The inclusion of other indicators that are peculiar to the Brazilian context, such as connectivity via political relations, is also recommended.

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DATASET

The dataset that supports the results of this study is not publicly available.

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Does not apply.

APPROVAL OF THE RESEARCH ETHICS COMMITTEE

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