The Evaluation of Chief Executive Officer Performance: A Stakeholder Theory Perspective

Rezgalla M. Abdalla¹, Arfah Saleh, Naresh Kumar and Jo Ho Ann

The debate about board role in the evaluation of CEO performance has attracted the attention of many researchers in the last decades. However, past research examined the determinants of CEO performance evaluation based on agency theory. In addition to that, such studies neglected the fact that CEO performance evaluation is a very complex phenomenon and consequently ignored the processes and procedures which are associated with such phenomenon. Therefore, the aims of this paper are to make a comprehensive review of the existing literature regarding the determinants of CEO performance evaluation and justify stakeholder perspective of corporate governance, explore board members role in evaluating CEO performance evaluation and proposing a stakeholder model conceptual framework to the evaluation of CEO performance. The study found that most studies which investigated the determinants of CEO performance evaluation consider corporate governance variables based on agency theory. Also, the study found that board of directors play an essential role in CEO performance evaluation in particular in the strategic performance measurement process and CEO performance evaluation process. Furthermore, the CEO performance evaluation is influenced by the politics between board members and CEO and the orientation of board members such as shareholder values and stakeholder values. The findings suggest that companies which adopt stakeholder model of corporate governance are likely to have stakeholder based CEO performance evaluation. Therefore, future studies should go beyond agency theory and postpositivist view to more holistic views of modern corporations which enhance theory building in corporate governance literature based on real perceptions and practices of practitioners.

Field of Research: Agency Theory: Stakeholder Theory: CEO Performance Evaluation: Nonfinancial Measures

1. Introduction

The latest debt crisis has once again brought back the issue of corporate governance to the debate among academic researchers and practitioners (Cole, McCullough, Semykina & Sommer, 2011). The gist of this debate is based on two conflicting paradigms which are agency theory and stakeholder theory both of which conceptualize modern corporations differently. According to agency theory, the modern corporation should be governed in the interest of its shareholders and provide shareholder wealth maximization as the main criteria for decision making (Abdalla, 2011). On the other hand, stakeholder theory rejects the claim that the modern company should be governed in the interests of its shareholders and argues that the modern corporation

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should be governed in the interests of multiple stakeholders such as employees, suppliers, creditors and community and therefore it provides stakeholder wealth maximization as the main criteria for decision making (Chilosi & Damiani, 2007).

Unlike, agency theory which stipulates that Chief Executive Officer (CEO) compensation is paid to align the interests of shareholder with the interests of management, stakeholder theory stipulates that CEO compensation is paid to align the interests of multiple stakeholders with the interests of management (Arora & Alam, 2005). Therefore, each theory leads to different determination of CEO compensation and in particular to different CEO performance evaluation because the compensation is determined based on CEO performance evaluation.

Performance measurement systems are based either on shareholder perspective which focus only on financial performance or stakeholder perspective which focus on financial and nonfinancial performance. In performance measurement systems, financial measures capture financial performance aspects which are related to shareholders, while nonfinancial measures capture nonfinancial performance aspects which are related to stakeholders (Fitzgerald, 2007). Therefore, companies which adopt shareholder model of corporate governance evaluate CEO performance based on financial measures, while companies which adopt stakeholder model of corporate governance evaluate CEO performance based on financial and nonfinancial measures. Although board of directors is not required by law to evaluate CEO performance, business professionals have long considered it as a feature of corporate governance (Ahmad, 2004). Board of directors are responsible to ensure an effective and transparent CEO performance evaluation based on a broad set of financial and nonfinancial measures which are aligned with company’s mission, vision and long term interests (Epstien & Roy, 2005). The use of nonfinancial measures in the evaluation of CEO performance is an indicator of an effective CEO performance evaluation (Northcott & Smith, 2010).

However, previous research have documented that board members have generally have not used non-financial measures in the evaluation of CEO performance which reflect a short term shareholder value (Siciliano, 2002; Epstein & Roy, 2005). In addition to that, the research literature is dominated by agency model as well. There are several studies that address the issue of the use of performance measurement in CEO compensation; however, most these studies if not all used the agency theory framework to examine the factors that influence the use of financial and non-financial measures in the evaluation of CEO performance (Bushman et al, 1996; Schiehll & Bellavance, 2009; Ittner et al, 1997; Said et al, 2003, 2005; Banker et al, 2000).

Unlike previous research, the current study considers the stakeholder perspective of corporate governance to address the issue of CEO performance evaluation. Agency theory is concerned shareholder wealth maximization and makes questionable claims and assumptions regarding the view of modern firms, business philosophy and human behavior. Stakeholder theory is used in the literature as alternative approach to corporate governance which is broader approach than the shareholder approach. Stakeholder approach provides the bigger picture regarding the view of modern firm,
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business, business philosophy and human behavior and therefore using this approach in the current study helps to produce a different knowledge regarding the evaluation of CEO performance.

The aims of this paper are to make a comprehensive review of literature about the factors which influence CEO performance evaluation and justify stakeholder perspective of corporate governance illustrate board of directors’ role in the evaluation of CEO performance and suggest a conceptual framework which conceptualizes the relationship between stakeholder model of corporate governance and CEO performance evaluation. The remaining of this paper is organized as follows. Part 2 discusses the postpositivist research findings regarding the determinants of CEO performance evaluation and the use of nonfinancial measures in CEO performance evaluation. Part 3 discusses board of directors’ role in the evaluation of CEO performance evaluation from other managerial theories. Part 4 proposes a conceptual framework of the relationship between stakeholder model of corporate governance and CEO performance evaluation. The final Part summarizes the paper with some concluding remarks.

2. Literature Review

Historically, managers’ performance measurement was based only on financial measures. Yet, the role of financial measures has been criticized from many scholars (Johnson & Kaplan, 1987; Atkinson et al, 1997; Verbeteen & Boons, 2009). Therefore, nonfinancial measures have received enormous attention from researchers and practitioners in the last two decades (Kaplan & Norton, 1992; Nely et al, 2002; Van der Stede et al, 2006; Datar, 2001; Lambert, 2001; Fitzgrald, 2007). However, past research reveal that most board members do not consider nonfinancial measures in the evaluation of CEO performance and bonus contracts (Ittner et al, 1997; Said et al, 2005; Epstien & Roy, 2005; Schiehll & Bevllavance, 2009; Ibrahim & Lloyd, 2010). A summary of past research regarding the determinants of CEO performance evaluation is presented in Table 1.
<table>
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<tr>
<th>Author and Year</th>
<th>Methods and Major Findings</th>
<th>Gaps and Remarks</th>
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<tbody>
<tr>
<td>Bushman et al, 1996</td>
<td>By using a sample of 396 U.S firms and multiple regression analysis the authors found that CEO Individual performance measurement increases with growth opportunities, product development, product life cycles, CEO tenure, market-to-book value of equity and firm size which suggest that financial measures alone are not the only criteria that reflect CEO performance for many investors and researchers</td>
<td>Noise in financial measures and stock prices measures do not influence individual performance measurement. Also the study is based on agent principle framework</td>
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<td>Ittner et al, 1997</td>
<td>In sample of 317 U.S firm and Squared Multiple Correlation analysis showed that use of nonfinancial measures in CEO performance evaluation is associated with the level of regulations, the extent to which the company follows an innovation-oriented strategy, the adoption of strategic quality initiatives and noise of financial measures</td>
<td>The use of nonfinancial measures is not associated with financial distress, CEO ownership and board independence based on agency theory</td>
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<td>Schiehll &amp; Pual, 2003</td>
<td>In a sample of 67 companies using descriptive statistics analysis showed that the integration of nonfinancial measures is associated with board independence</td>
<td>Shareholder wealth maximization is the assumption of the study</td>
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<td>Davila &amp; Venkatachalam, 2004</td>
<td>In 35 companies of the U.S airline industry and using correlation statistics analysis found that passenger load factor is an important nonfinancial measure which is used in compensation contracts and positively related to cash compensation</td>
<td>The result suggest that nonfinancial measures provide incremental information than financial measures which is one of the main assumptions of agency theory</td>
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<td>Silva and Tosi, 2004</td>
<td>Based on 1000 questionnaires were sent to the American Compensation Association (ACA) members who were top executive compensation officers of their companies and using multiple regression analysis the authors found that CEO tenure, CEO duality and board meeting control are positively associated with the anonymity of CEO performance evaluation</td>
<td>Anonymity of performance evaluation refers to board members are not identified to CEO when making performance evaluations The framework of the study is based on agency theory</td>
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<td>HassabEinaby et al, 2005</td>
<td>The sample is based on the 91 firms in Said et al (2003) which indicate the retention of nonfinancial measures and using multiple regression analysis showed that Company’s decision to retain nonfinancial measures in compensation contracts are determined by company’s characteristics such as the degree to which a firm follow innovative strategies, quality-initiative strategy, the length of firm’s product life cycle, level of regulation and financial distress and subsequent enhanced performance</td>
<td>The study assumes executive compensation is paid to align the interests of managers with shareholders</td>
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<td>Study</td>
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<td>Findings</td>
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<td>Caranik-Walker et al, 2007</td>
<td>Based on a sample of 185 and using multiple regression analysis the authors found that insider dominated boards use nonfinancial measures in the evaluation of CEO performance and they found that directors use human judgment in evaluating and rewarding CEO performance</td>
<td>The findings of this study is not consistent with previous studies which found the use of nonfinancial measures in the evaluation of CEO performance is associated with outside dominated boards</td>
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<td>Schiehll &amp; Bevallavance, 2009</td>
<td>In sample of 184 firms drawn from Canadian public listed companies on the Toronto Stock Exchange (TSE) and using Multiple Logistics Regression found that the use of nonfinancial measures in the CEO bonus plan is associated with board independence and CEO ownership in companies with high growth opportunities</td>
<td>The study is formulated based on agency theory</td>
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<tr>
<td>Ibrahim &amp; Lloyd, 2010</td>
<td>Based on a sample of 357 U.S companies drawn from S&amp;P 500 index and using Multivariate analysis, the authors found that companies which consistently use financial and nonfinancial measures in compensation contracts have lower extent of earnings manipulation</td>
<td>The finding imply that nonfinancial measures are harder to manipulate than financial measures The study is based on agency theory</td>
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<tr>
<td>Veen-Dirks, 2010</td>
<td>Based on a survey of 140 of product managers and managerial accountants of industrial companies in Holland and using multiple regression analysis the authors found that more weight is given to both financial and nonfinancial measures in the periodic evaluation than in the evaluation of compensation which is based on financial measures</td>
<td>The study also found that production strategy and departmental interdependent influence the importance attached to performance measures in the two uses</td>
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<td>Balsam et al, 2010</td>
<td>Based on a sample of 11087 obtained from Compustat database and a using a multivariate analysis the authors found that more weight is given to financial measures in the evaluation of CEO performance in companies that follow cost leadership strategy, while less weight is given to financial measures in companies which follows differentiation strategy</td>
<td>The study is formulated based on agency theory</td>
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From above studies the literature review regarding CEO performance evaluation can be classified into three categories. First, studies which explore the association between corporate governance variables and the use of nonfinancial measures in the evaluation of CEO performance and compensation (Bushman et al, 1996; Intter et al, 1997; Schiehll & Paul, 2003; Davila & Venkatachalam, 2004; Caranik-Walker et al, 2007; Schiehll & Bevallance, 2009). Second, studies which explore the association other issues such as strategy and earnings management and the use of nonfinancial measures (Ibrahim & Lloyd, 2010; Veen-Dirks, 2010; Balsam et al, 2010). The final category involves studies which investigate the association between corporate governance and other constructs of CEO performance evaluation (Silvia & Tosi, 2004;
Hassab Elnaby et al, 2005). However, these studies are based on shareholder perspective of corporate governance and ignore the stakeholder perspective of corporate governance.

Mostly the debate between stakeholder theory and agency theory in the academic literature in the form of either criticizing assumptions and the arguments agency theory and proposing the stakeholder theory as alternative approach in corporate governance or comparing the main assumptions and arguments of the two theories and concluding that the stakeholder theory is a better theory to address corporate governance issues. The main criticisms that stakeholder theory scholars attribute to agency theory assumptions and arguments are regarding the use of individual property rights, the agent morality view of business philosophy and the appropriateness of the egoistic paradigm in order to justify the legitimacy of the shareholder wealth maximization claim. For example, agency theory scholars justify that managers have moral obligations to maximize shareholder wealth because shareholders are ones who provide the capital for wealth creation and therefore they are more venerable to risk exposure. However, managers must consider the interests of multiple stakeholders even on instrumental in order to uphold to their contractual obligations to shareholders. This argument shows how a narrow view of agency theory is contradictory in itself. Also, the rights which are implicit in the ownership of privat property put limits on the use of individual property which means that individual property right does not give unlimited rights to shareholders and therefore does not support the agency theory claim that the main purpose of firms is to maximize shareholder wealth and not considering the actions which can influence the interests of employees, customers, community and environment (Shankman, 1999).

Also, the egoism paradigm which agency theory uses to explain the behavior of managers has been questioned in the literature. In the agency framework managers are seen as self interests and opportunist in their behavior and therefore there is a need for an agent to monitor managers’ behavior and also the managers has at least four moral responsibilities to be able to conduct the agency relationship. These four important moral principles are honoring agreements; avoid lying, respecting the autonomy of others and avoiding harm to others which are preconditions to any principle – agent relationship (Quinn & Jones, 1995).

However, agency theory is founded in economic and finance field and not really related a field of descriptive ethics which focus is the role of motive in shaping human behavior. Therefore, to understand the problems of agency assumptions probably require an examination of the egoistic paradigm itself (Shankman, 1999).

The problems with self – interest assumption in agency theory framework is that if it were true there would be place for normative principles in economics theories because human behavior would be known in advance (Shankman, 1999). This sort of thinking limits the contributions to economic perspective and as a result could neglect other fields such as sociology, psychology, strategic management and other sciences. For instance, decision theory has indicated that the adoption of the assumptions that exchange partners will be trustworthy and loyal is a profit – maximizing strategy (Kreps, 1982). Accordingly, it could be said that self – interest assumption contradicts the gist of the agency relationship.
In addition to that, some authors have compared between stakeholder and agency theories and from the comparisons it can be argued that stakeholder is a better theory as an approach to corporate governance issues and provides the bigger picture of governance in its framework. For example, Kochan & Rubinstein (2000) provided the key distinctions between shareholder and stakeholder perspective of corporate governance based on five dimensions which are the purpose of the corporation, governance structure, governance process, performance metrics and residual risk holder as indicated in Table 4. In the shareholder perspective the purpose of the corporation is solely to maximize shareholder wealth, while in the stakeholder perspective the purpose of the firm is to achieve multiple objectives of parties with different interests. The governance structure in the shareholder perspective is based on the principle – agent model, while the stakeholder perspective is based on the team production model. Also, in the shareholder perspective the governance process is based on control and compliance, while in the stakeholder perspective the governance process is based on coordination, cooperation and conflict resolution. However, in the shareholder perspective performance measures are mainly financial measures which are related to shareholder value, while in the stakeholder perspective nonfinancial measures are used in order to indicate that value created is fairly distributed among different stakeholders. Finally, in the shareholder model only shareholders are exposed to risk, while in the stakeholder perspective all stakeholders are exposed to risk.

Table 2: Comparison between shareholder and stakeholder perspectives of corporate governance

<table>
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<tr>
<th>Dimension</th>
<th>Shareholder Perspective</th>
<th>Stakeholder Perspective</th>
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<tr>
<td>Purpose</td>
<td>Maximize shareholder wealth</td>
<td>Pursue multiple objectives of parties with different interests</td>
</tr>
<tr>
<td>Governance Structure</td>
<td>Principle - agent model</td>
<td>Team production model</td>
</tr>
<tr>
<td>Governance process</td>
<td>Control</td>
<td>Coordination, cooperation and conflict resolution</td>
</tr>
<tr>
<td>Performance metrics</td>
<td>Shareholder value sufficient to maintain investors commitment</td>
<td>Fair distribution of value created to maintain commitment of multiple stakeholders</td>
</tr>
<tr>
<td>Residual risk holder</td>
<td>Shareholders</td>
<td>All stakeholders</td>
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Source (Kochan & Rubinstein, 2000)

From the above discussions which are related to refuting the assumption of self interests and the arguments of the agency theory which are based on individual property rights and the agent morality view of business philosophy it is clear that the stakeholder perspective of corporate governance is a boarder approach to corporate governance and takes into account the bigger picture of managing modern corporations. This has increased the importance of the stakeholder theory in corporate governance research as alternative approach o corporate governance. Indeed, recently more published articles in international journals which consider corporate governance issues based on the stakeholder perspective of corporate governance.

For instance, (Jiao, 2011) found that stakeholder welfare such as employee welfare and environmental performance are positively associated with firm value which is a critical for shareholder value. Also, (Pace & Choi, 2011) showed that companies lower their
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cost of capital and increase firm value by adopting the stakeholder perspective of corporate governance and committing to higher standards of business ethics. Cole et al (2011) provide an empirical that the presence of stakeholders as monitors offset the degree or presence of others, and that most stakeholders are associated with a reduction of overall firm risk. Additionally, (Demirbas & Yukhanaev, 2011) found that board members are in favor of employees’ representatives on board of directors and agree that board size and composition should be enhanced by employee representation on boards. Also, (Lahovink, 2009) based on a survey found that managers' strategic behavior considers the interests of multiple stakeholders and some stakeholders such as customers and employees are even more important than shareholders. However, there is a lack of research which addresses the issue of CEO performance evaluation based on stakeholder perspective of corporate governance which justifies the current study to adopt the stakeholder theory as the main paradigm.

3. Board Members Role in the Evaluation of CEO Performance

Board members play a leading role in the evaluation of CEO performance. In particular, their role in the evaluation of CEO performance is to develop a strategic performance measurement system and to conduct CEO performance evaluation process. Strategic performance measurement represents the design and the adoption of the measurement system, while the CEO performance evaluation process represents the implementation of the performance measurement system. Furthermore, the politics between the CEO and board members could influence the transparency of CEO performance evaluation. Finally, the theoretical and philosophical orientations could influence CEO performance evaluation as well.

The strategic performance measurement process represents the adoption level the performance measurement system. According to several scholars such as (Akintson et al, 1997; Andersen & Kleiner, 2003; Kaplan & Norton, 2004; Epstien & Roy, 2005; Johnson & Bancroft, 2005) who suggested that strategic performance measurement involves the following steps:

- Identifying the mission and vision of the company
- Identifying financial and nonfinancial strategic objectives
- Identifying key performance indicators
- Identifying a set of financial and nonfinancial measures

Once board members have established the strategic performance measurement system by the identification of the strategic objectives, the key performance derivers and mixed set of financial and non-financial measures. Board members would be able to evaluate CEO’s performance in line with the company’s mission and vision. Usually CEOs are evaluated once they are hired the CEO and then the evaluation process is conducted on a yearly basis (Jay, 1996).

The other role of board members is to conduct the CEO performance evaluation process. According to Anderson and Brian (2003) the effectiveness of the evaluation process can be determined by answering the following questions:
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- Is there an annual evaluation process for the CEO?
- Does the evaluation list specific guidelines or are there generalities?
- Has the board debated or negotiated when evaluating the performance of the CEO?
- Has the present and past CEOs agreed with the outcome of the evaluation?
- Have new members of the board been able to easily adapt to the evaluation process?
- Is overall performance able to be measured with the current system?

Any negative answer to any of the aforementioned questions changes should be made in the evaluation process (Bassett, 1998). Board members must have high level of participation in the CEO evaluation process and meet the needs of both the board and CEO (Johnson & Bancroft, 2005).

According to several scholars such as (Anderson & Kleiner, 2003; Johnson & Bancroft, 2005; Kaufman, 2008; Heimeman, 2009) suggested that a standards CEO performance evaluation process involves the following steps:

- Board members and CEO agree in advance on the goals and criteria to be used in the evaluation of CEO performance
- Board members separately evaluate CEO performance
- CEO evaluates his own performance
- Board members and CEO together make an overall evaluation of CEO performance
- Feedback back is given to CEO based on the overall assessment made by the board members and CEO

However, the politics which are sounded by the CEO-board relationship represent a challenge to attain a fair and an independent CEO performance evaluation. Personal relationships between directors and CEO can lead to a negative impact on the effectiveness and independence of the evaluation of CEO performance process. Quite often, relationships among relatives exist which may complicates matters and result in negative impact on the company's future (Andersen & Kleiner, 2003).

Also, board members believe if they insist at the proper conduct of the evaluation they might lose their future career (Hellriegel, 1998). Some boards believe that their only responsibility is to hire a competent management and after that their duties have been attained. The CEO should know how the board feels and executes the board’s vision (Roche, 1996).

Theoretical Orientations of board members are considered instrumental to the corporation’s performance which is supported by several theories including the agency theory, the resource dependence theory and the stakeholder theory (Wang & Dewhirst, 1992). The agency theory argues that shareholders and managers have conflicting interests. Therefore, monitoring what managers are actually doing becomes the central problem for shareholders (Mustapha & Ahmad, 2011). Board of directors and especially outside directors are considered as one of the most important monitoring mechanisms.
that shareholders can use in order to monitor the opportunism behavior of top management (Ben-Amar & Zeghal, 2011). Resource dependence theory on the other hand suggests that outside directors as strategic resources who provide tangible and intangible resources to the top management (Wang & Dewhurst, 1992; Pfeffer & Salancik, 2003). Finally, stakeholder theory views the role of outside directors as representatives and protectors of a broad range of stakeholders. Their role is to enhance not only financial performance but also, more importantly, stakeholders and corporate social performance (Ben-Amer & Zeghal, 2011).

From this discussion it can be inferred that board members can have different orientations toward the purpose of the corporation and this greatly influences the procedures and process of CEO performance evaluation. For instance, directors who hold shareholder value might be inclined to use only financial measures in the CEO evaluation, whereas directors who hold values which are related to stakeholder theory or resource dependence theory might use non-financial measures in the CEO evaluation.

4. The Stakeholder Conceptual Framework and CEO Performance Evaluation

From the discussion in the last two sections, the lack between postpositivist research which is dominated by agency theory and strategic management theories such as stakeholder theory and performance measurement theories which consider the interests of multiple stakeholders and build managerial theories based on practices and executives’ orientations and characteristics is clear. Therefore, the current paper attempts to provide a conceptual framework which conceptualizes the relationship between stakeholder model of corporate governance and CEO performance evaluation. CEO performance evaluation which is the dependent variable is conceptualize based on three constructs which are the use of nonfinancial measures in the evaluation of CEO performance, strategic performance measurement and CEO performance evaluation process. The stakeholder model of corporate governance is conceptualized on the corporate level and individual level. Dimensions which represent the stakeholder at the corporate level are stakeholder orientation and board independence, while the dimensions which represent the stakeholder model at the individual level are stakeholder values and visionary leadership style.

The best way to discover whether a company adopts a shareholder or stakeholder is through the examination of its mission statement. The mission statement is considered as the starting point of the strategic plan (Omeran et al, 2002; Kalifa, 2011). Performance measurements systems are designed to implement and control the strategic plan (Atkinson, 1997). Therefore, the design and the use of performance measurement are influenced by the mission statement because it is considered the starting point of the strategic plan which derives the organizational objectives and therefore determines the perspective of the performance measurement system either shareholder or stakeholder perspective (Coasts et al, 1991).
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Therefore, companies which have stakeholder oriented in their mission statements are more likely to consider stakeholders interest in the managerial decision making and establish stakeholder perspective of performance evaluation such as the integration of nonfinancial measures in CEO performance evaluation and the conduct of the processes of strategic performance measurement and CEO performance evaluation process. Consequently, three testable hypotheses on the relationship between stakeholder orientation and CEO performance measurement are suggested in order to test these explanations:

**H1a:** Stakeholder orientation is positively associated with the integration of financial and nonfinancial measures in CEO performance evaluation  
**H1b:** Stakeholder orientation is positively associated with the strategic performance measurement process  
**H1c:** Stakeholder orientation is positively associated with CEO performance evaluation process

In addition, stakeholder theory views the role of outside directors as representatives and protectors of a broad range of stakeholders. Their role is to enhance not only financial performance but also, more importantly, stakeholders and corporate social performance (Wang and Dewhirst, 1992). Also, some studies have found a positive association between outside directors corporate social responsibility performance (Oeyono et al, 2011; Saleh et al, 2011; Cheng & Wang, 2011) while, other studies found no relationship between outside directors and corporate social responsibility performance (Crisostomo et al, 2011; Chapple and Ucbasaran, 2007).

Accordingly, it could be argued that independent directors are more likely to consider stakeholders interest in the managerial decision making and establish stakeholder perspective of performance evaluation such as the integration of financial and nonfinancial measures in CEO performance evaluation and the processes of strategic performance measurement and CEO performance evaluation process. Therefore, three testable hypotheses on the relationship between board independence and CEO performance measurement are suggested in order to test the aforementioned explanations:

**H2a:** Stakeholder representation on board is positively associated with the integration of financial and nonfinancial measures in CEO performance evaluation  
**H2b:** Stakeholder representation on board is positively associated with the strategic performance measurement process  
**H2c:** Stakeholder representation on board is positively associated with CEO performance evaluation process

Stakeholder value is another criterion that can be used for managerial decision making which has been promoted by the stakeholder theory (Freeman, 1984; Donaldson and Preston, 1995). Stakeholder theory suggests that managers and directors should consider and balance the interests of multiple stakeholders groups, including employees, customers, environmental constitute and the broader community, instead of
shareholder wealth maximization as the only criterion for managerial decision making (Phillips, 2003; Walsh, 2005).

In addition, executives will maintain an underlying appreciation for the complexity of their decision making environment and believe that the corporation will benefit from this broader consideration (Washburn et al, 2007). Therefore, executives who hold stakeholder values are less likely to focus on quantifiable or economic-based outcomes and more likely to focus on relationships with stakeholders as a result holding values which are related to fairness and integrity (Lueque et al, 2008).

Consequently, it could be argued that directors who hold stakeholder values use nonfinancial measures in CEO performance evaluation as these measures provide the bigger picture of performance and conduct the processes of strategic performance measurement and CEO performance evaluation. Hence, in order to test these explanations the following testable hypotheses are suggested

**H3a:** Stakeholder values is positively associated with the integration of financial and nonfinancial measures in CEO performance evaluation  
**H3b:** Stakeholder values is positively associated with the strategic performance measurement process  
**H3c:** Stakeholder values is positively associated with CEO performance evaluation process

Stakeholder values are associated with visionary leadership style which means that individuals who hold stakeholder values are found to be visionary leaders as well (Luque et al, 2008). Therefore, this study considers the influence of visionary leadership style as a determinant of the choice to integrate nonfinancial measures in CEO performance evaluation and to conduct the processes of strategic performance measurement and CEO performance evaluation.

Directors who are visionary leaders are more likely to use nonfinancial along with financial measures in the CEO performance evaluation because these measures provide more information than the financial ones especially in the long-term and provide information about different stakeholders. In addition to that, such leaders would conduct the process of strategic performance measurement and the process of CEO performance evaluation. As a result the following testable hypotheses are suggested:

**H4a:** Visionary leadership style is positively associated with the integration of financial and nonfinancial measures in CEO performance evaluation  
**H4b:** Visionary leadership style is positively associated with the strategic performance measurement process  
**H4c:** Visionary leadership style is positively associated with CEO performance evaluation process
5. Conclusion

The paper found that most research which investigated the factors which influence CEO performance evaluation consider corporate governance variables based on agency theory and other market variables theory as the main paradigm for their study and the neglected the fact that performance measurement is either based on shareholder perspective or stakeholder perspective. The paper also has suggested a conceptual framework between stakeholder model of corporate governance and CEO performance evaluation.

Most previous research take the corporation as the unit of analysis and neglect the individuals such as CEOs, board members and senior management and therefore there is lack of information about the real practices of performance measurement and the orientations and values of individual directors about the shareholder and stakeholder models of corporate governance and consequently, we would know the statues of CEO performance evaluation based on real practices and not only based theoretical assumptions. Therefore, there is a need for empirical evidence that goes beyond agency theory and adopts other theories such as stakeholder theory and other management theories especially in corporate governance literature which links real practices with academic research in order to help the transition from shareholder model of corporate governance to stakeholder model of corporate governance which would have desirable implications to CEO performance evaluation.

Therefore, future research should focus on more comprehensive models in their studies which consider individual orientations and the processes of performance measurement and not simply examining assumed correlations between corporate governance variables and CEO performance evaluation phenomenon. This helps to enhance theory building research based on real practices instead following theoretical assumptions which have largely criticized in the literature.

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