Our Fates Entwined: A Social and Psychological Perspective of Control in Corporate Governance

By

Guy Shani

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Doctoral Committee:

Professor James D. Westphal, Chair
Professor Gautam Ahuja, Cornell University
Assistant Professor Seth Carnahan
Professor Gerald F. Davis
Professor Michael Jensen
Professor Mark S. Mizruchi

Guy Shani

gshani@umich.edu

ORCID iD: 0000-0002-7237-076X

DEDICATION

To Billie, Ofek and Stav

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ABSTRACT

In this dissertation I examine how the exercise of board control at one firm can influence governance at other firms by affecting the social cognitions of other corporate leaders about their own board. Existing corporate governance research has focused on the dyad-level relationship between management and the board or other constituencies of the same firm and has raised a variety of questions about the efficacy of boards as a control mechanism. I develop a novel theoretical framework in which the actions of a single board, such as the dismissal of a CEO, can reverberate across multiple firms and affect the behavior of other CEOs that are likely to be aware of the dismissal. The theory developed in the first study suggests that a CEO is likely to experience sanctions against a fellow CEO in a way which generates deterrence by increasing the salience of the board's power over management and describes contingencies under which such CEOs are likely to preemptively alter their behavior in order to avoid similar sanctions. This perspective uncovers a much broader effect of boards than has been identified in prior research by considering how a single act of control by a board at one firm can bolster control at multiple other firms, while incurring costs only at the originating firm. Whereas existing governance literature emphasizes reactive forms of control, such as dismissing a CEO at a firm that is already in decline, the theoretical perspective introduced here suggests a proactive form of control in which CEOs react to control at other firms by engaging in behaviors aimed at preempting a similar fate. In the second study, I extend this theoretical framework by considering how subjective feelings of common fate among CEOs can cause sanctions aimed at one CEO to have unintended consequences for strategic preferences due to intergroup biases that are activated by relatively automatic cognitive processes of self-categorization. Overall this dissertation develops a cross-level perspective on governance that suggests how micro level socio-cognitive sources of control can affect corporate governance across industry boundaries, at the field level.

Chapter I: Introduction

A core concern of corporate governance research deals with the agency problem that arises from the separation of ownership and control (Berle & Means, 1932; Williamson, 1985), wherein managers are dissuaded from sacrificing shareholder interests in pursuit of their own goals through legal and economic mechanisms emphasizing direct monitoring and control by the board of directors (Fama & Jensen, 1983). However, such a conception of corporate governance has been criticized as being under-socialized (Westphal & Zajac, 2013), and there are ample findings demonstrating that social influence enables managers to coopt the board and undermine its control over management (e.g., Mace, 1971; Pfeffer & Salancik, 1978). More specifically, as the conception of *control* in corporate governance emphasizes direct mechanisms of control (e.g., monitoring of management decisions by the board of directors), indirect sources of control are neglected. In this dissertation, I develop a novel perspective on control in corporate governance which considers how the psychological reactions of CEOs to the exercise of control at other firms enables an indirect form of social control. This perspective reveals how the reactions of corporate leaders to the rewards and sanctions levied by the board at one firm, influences control by shaping the behavior and cognitions of managers across multiple other firms.

A growing stream in strategy research focuses on the various ways in which corporate leaders are affected by their peers at other firms, such as learning from other firms about strategy and the competitive environment (Baum, Li, & Usher, 2000; Westphal, Seidel, & Stewart, 2001; Zajac & Bazerman, 1991), or looking to other firms as a reference in identifying legitimate

practices (DiMaggio & Powell, 1983). Other research has found that they also attend to psycho-social dimensions such as evaluating leaders at other firms for their likely cooperativeness as alliance partners (Gulati & Westphal, 1999), turning to their peers for advice and support (McDonald & Westphal, 2003), and whether they adopt practices that bolster their power over the board (Davis, 1991; Davis & Greve, 1997). More recent work has begun to attend to how corporate leaders are affected by the treatment of their counterparts by other stakeholders, and their reaction to these same stakeholders (Shani & Westphal, 2016).

Yet social perspectives on *control* in corporate governance have not advanced beyond focusing on social and psychological processes within the same relationship and are often constrained to relationships within the same organization. For instance, researchers have examined the contingencies under which control is bolstered or undermined by connections between directors and the CEO within the same firm (e.g., Westphal, 1998). However, leaders are embedded within a larger network of leaders that includes equivalent CEO-Board relationships across multiple firms, and it is important that we consider the manner in which social and psychological processes within one relationship can affect these processes within CEO-Board relationships at other firms, thus suggesting that CEO-board relationships can exert indirect control over CEOs at other firms.

In the first study in this dissertation (chapter II), this is addressed by adopting a multi-level perspective on social control in corporate governance, wherein inter-organizational ties have a multiplier effect with the power to influence the control relationships within multiple organizations, in turn shaping behaviors of CEOs. This multi-level perspective ultimately suggests a broader and more powerful effect of control by boards of directors on performance than has been previously identified in the literature (for a review see Boivie, Bednar, Aguilera, &

Andrus, 2016). The board of directors plays a key role in keeping managers aligned with the interests of shareholders (Jensen & Meckling, 1976), and they are armed with the authority to ratify management initiatives and monitor their implementation. The board also has formal authority over the hiring, firing, and compensation of top management (Williamson, 1985), but research has also found that managers are able to coopt the board and undermine their control over management (i.e., Mace, 1971; Pfeffer & Salancik, 1978). From an agency theory perspective, managerial pursuit of self-interest is a form of rational choice, and the threat that the board at a firm will exercise their authority generates compliance by aligning managers with shareholder interests (Fama & Jensen, 1983). This view has been criticized as under-socialized in the sense that it does not account for the social processes which operate at the dyad-level of manager-board relations, processes which can weaken board control (for a review see Westphal & Zajac, 2013).

However, agency theory is also under-socialized in the sense that it ignores the potential for these dyad-level manager-board relations to be affected by inter-organizational ties. The theory developed in the first study (chapter II) uncovers a mechanism by which equivalent CEO-Board relationships—embedded within the larger network of leaders—provide a frame of reference through which CEOs can understand and interpret the internal context at their own firm. Specifically, this perspective suggests how direct exercise of board control at one firm can operate as an indirect source of social control which vicariously deters other CEOs—making the board's power salient to managers at other firms, emphasizing that they are ultimately accountable to the board. Considering vicarious sources of deterrence suggests that control over management is not exerted just by the actual distribution of rewards or punishment, but instead lies in the board's *potential* to constrain management, such that the explicit exercise of control by

the board underestimates its power (Mizruchi, 1983). In other words, it is that the board *can* fire the CEO which keeps the CEO in check, and can bolster the perceived deterrent threat (Akers, 1990, 2009) of dismissal and similar sanctions in the eyes of other corporate leaders.

While increasing subjective feelings of accountability to the board can increase shareholder alignment, it can also have unanticipated negative consequences should a CEO become overly preoccupied with their accountability to the board and the need to appease the demands of influential stakeholders. In the second study in this dissertation (chapter III), I develop a theoretical framework suggesting that the CEO's perception of the board's power to control can also influence their risk preferences and subsequent decisions, analogous to how actual control can influence the behaviors and risk preferences of employees and top management. In evaluating management decisions, the board often relies on inferences about the quality of decisions, or on measurable performance outcomes (Ouchi, 1979; Thompson, 2003), and such evaluation is effective only to the extent that management feels protected from being held accountable for outcomes that are outside of their control (Baysinger & Hoskisson, 1990; Williamson, 1985). The CEO may therefore become concerned when a fellow CEO at another firm is "penalized or rewarded for outcomes partially outside his/her control" (Eisenhardt, 1985: 136). Hence, the misfortune of others can fuel a desire to reduce the likelihood of sharing a similar fate, and a subsequent preference towards strategic decisions which reduce the CEO's perceived risk bearing (Hill & Snell, 1989).

The theoretical framework developed in this second study (chapter III) suggests that the psychological reactions of corporate leaders to the exercise of control by boards at other firms has the potential to trigger relatively automatic cognitive processes of self-categorization and biased attributions which can raise concerns about the quality of board evaluation. Specifically, I

argue that these processes have the power to exacerbate a CEO's concerns about the *potential for unfairness* of evaluations by their own board, which can result in a preference for strategic decisions that involve relatively incremental changes to strategy. Furthermore, these psychological processes can also influence a CEO's *certainty* about the future behavior of their board. This is because a CEO's expectations about the behavior of directors serving on their board might become suspect following actions by a board at another firm. Specifically, the actions of another board can introduce uncertainty about the future behavior of directors—when they are acting as a group. Subsequently, such uncertainty can prompt a CEO to prefer strategies for which the board's reaction might be more predictable, such as strategies which increase conformity.

In summary, this dissertation develops and tests theory which explains how the exercise of control by the board at one firm bolsters perceived board control in the eyes of corporate leaders at several other firms to which they are connected. The theory developed in the first study (chapter II) suggests that this form of social control results from psychological reactions which alter a CEO's conceptions about potential future behavior of the board at their own firm. In turn, these reactions lead to a reduction in agency costs because these CEOs are more likely to exercise restraint in their interactions with the board, possibly as an anticipatory tactic to avoid a fate similar to that of the sanctioned CEO. While these behaviors are somewhat strategic and intentional in nature, the theory developed in the second study (chapter III) suggest that the mechanisms by which this form of social control can cause CEOs to become overly concerned about being accountable to the board, are driven by the relatively automatic cognitive processes of self-categorization and social identification.

Taken together, the two studies in this dissertation highlight that a more complete theory of social control in corporate governance needs to accommodate both for processes which result in strategic and intentional behaviors, as well as unintentional processes which introduce biases that can affect strategic decision making. While extant literature has enhanced our understanding of how social connections serve to undermine direct mechanisms of control, the theoretical framework presented here illuminates how the connections between corporate leaders create an unrecognized form of social control, ultimately suggesting a broader and more powerful effect of control by boards of directors than has previously been recognized in the literature, with important implications for corporate governance and strategy research.

Chapter II: Indirect Social Control: How Dismissals Reverberate to Affect Governance Across Firms

The theoretical framework developed in this chapter adopts a multi-level perspective on social control in corporate governance, wherein inter-organizational ties have a multiplier effect with the power to influence the control relationships within multiple organizations, in turn shaping the behaviors and strategic decisions of the leaders at those firms. This multi-level perspective ultimately suggests a broader and more powerful effect of control by boards of directors on performance than has been previously identified in the literature (for a review see Boivie et al., 2016).

A core concern of corporate governance research deals with the agency problem that arises from the separation of ownership and control (Berle & Means, 1932; Jensen & Meckling, 1976), wherein managers, as agents, might pursue their own interests at the expense of those of shareholders. The separation of ownership and control gives rise to the agency problem wherein managers, as agents, might pursue their own interests at the expense of those of (Berle & Means, 1932; Jensen & Meckling, 1976). A prominent literature views this problem as one to be addressed through legal and economic mechanisms, and the main goal is to curb the pursuit of managerial self-interest through incentives, and formal systems of monitoring and control (Fama, 1980). The effectiveness of these mechanisms lies in the assumption that managers are rational actors that select goals based on self-interest and personal risk preferences; In this view, formal incentives, monitoring, and control mechanisms, form the governance mechanisms which align

the behavior and decisions of managers with the interests of shareholders (Fama & Jensen, 1983). For agency theorists, management decision making is monitored and evaluated by the board of directors in order to ensure that these decisions promote the interests of shareholders.

In order to be able to undertake this duty, the board of directors is charged with the responsibility to ratify management decisions and monitor the implementation of these decisions (Fama & Jensen, 1983). An additional powerful source of board power is the formal authority over the hiring, firing and compensation of top management (Williamson, 1985). This authority also includes the dismissal of the CEO and hiring of a successor. In agency theory terms, pursuit of self-interest is a form of rational choice, and the threat that the board at a firm will exercise its authority generates compliance in the form of pursuing strategies which promote shareholder interests (Fama & Jensen, 1983). In this perspective, compliance is generated by the direct threat that the board will exercise direct control and its authority, which exists at the dyad-level of the relationship between management and the board—a relationship that is within the same firm.

While some scholars have argued that agency theory is an under-socialized view of governance—and research has identified various social processes by which control is weakened at the dyad-level of the relationship between management and the board (for a review see Westphal & Zajac, 2013)—it is also under-socialized in the sense that it ignores the potential for these dyad-level manager-board relations to be affected by inter-organizational ties. Specifically, the multiple CEO-Board relationships embedded within the larger network of leaders provide a frame of reference through which CEOs can understand and interpret the internal context at their own firm (Berger & Luckmann, 1967). Stated differently, the direct exercise of board control at one firm could serve as a frame of reference which influences the social cognitions of other CEOs about board control at their own firms. Thus, a single instance of control can have the

power to operate as an indirect source of social control, one which vicariously deters multiple other CEOs. Hence, by ignoring the influence of the social context, agency theory is limited to the direct deterrence generated by the punishment of an individual and does not consider how one act of punishment generates vicarious deterrence among those socially and psychologically linked to the punished individual (Bandura, 1986: 273). Considering vicarious sources of deterrence suggests that control over management is not exerted just by the actual distribution of rewards or punishment, but also lies in the board's *potential* to constrain management, such that explicit exercise of control by the board underestimates its power (Mizruchi, 1983). In other words, it is that the board *can* fire the CEO which keeps the CEO in check; and the exercise of this power at one firm affects social cognitions which strengthen the 'deterrent threat' (Akers, 1990, 2009) of dismissal and the threat of similar sanctions in the eyes of other corporate leaders.

A conception of board control which is based only on the incentives and ability of the board to monitor and control management does not take this social form of control into account. When the exercise of control over management occurs at other firms, it generates vicarious deterrence in much the same way that punishment affects those socially connected to the individual who was punished. Due to the focus on compliance that is generated through direct mechanisms of monitoring and control (Fama & Jensen, 1983), agency theory does not capture the potential to bolster compliance through the indirect influence of such a social source of control with the capacity to generate powerful incentives for managers to align with shareholder interests. This echoes Mizruchi's (1983) observation that explicit exercise of control fails to fully capture a board's power over management.

The theoretical framework developed in this chapter suggests that the exercise of board control—such as the dismissal of a CEO at one firm—can influence management behavior at

multiple other firms by bolstering perceived board control, to the extent that a dismissal is salient to CEOs at other firms. This perspective further suggests that indirect social control has the capacity to function as an especially effective form of control. Specifically, the direct threat of dismissal likely diminishes as performance increases (Boeker, 1992; Fama & Jensen, 1983; Walsh & Seward, 1990), and behavioral agency perspectives also suggest that rising performance influences managerial risk preferences (March & Shapira, 1987; Wiseman & Gomez-Mejia, 1998). In contrast, the indirect social control resulting from dismissals at other firms may become an especially effective and powerful control mechanism by inducing corporate leaders to voluntarily restrain themselves in the face of the more abundant resources and rewards that may be available (Jensen, 1986). Furthermore, the reactions of managers to the threat of dismissal may be less effective when a firm is already in a downward spiral (Hambrick & D'Aveni, 1988, 1992), suggesting the proactive nature of this indirect form of social control, because it has the capacity to induce managers to act before firm performance deteriorates. It is precisely when performance is good that managers have an opportunity to be proactive, yet that is also when there is a potential for agency costs in order to further managerial self-interests (Jensen, 1986). Therefore, an additional way in which this study contributes to theory is by identifying a mechanism with the power to improve governance by influencing managers to forgo pursuit of managerial self-interests, and instead seize the opportunity in order to take action before performance problems arise.

While extant literature has enhanced our understanding of how social connections serve to undermine direct mechanisms of control, the theoretical framework presented here illuminates how the connections between corporate leaders create an unrecognized form of social control, suggesting a broader and more powerful effect of control by boards of directors than has

previously been recognized in the literature, with important implications for corporate governance research. In effect, this unrecognized form of control has the capacity to have a broader and more proactive influence over corporate leaders, ultimately enhancing the efficiency and effectiveness of control at the community or system level.

Theoretical framework

Social control and corporate leaders

In a social and psychological perspective on control in corporate governance, the links between corporate leaders enable a form of indirect social control. The distribution of rewards or sanctions by a board at one firm serves as a source of social control due to the way managers at other firms are likely to psychologically react to the demonstration of a board's power over management, and consequently alter the manner in which they regard the board at their own firm. The links between corporate leaders have the power to bind them together as members of a sort of social group, as has been demonstrated by research showing how corporate leaders can intentionally act so as to protect the interests of the corporate elite (Davis, 1991; Mizruchi, 1996; Useem, 1982, 1984). Such action need not even require intent or coordination among corporate leaders, as is demonstrated by more recent research finding that the various ways in which corporate leaders are socially and psychologically linked can cause leaders to distance themselves from journalists which provide negative coverage about other leaders (Shani & Westphal, 2016). When the effect of these multiple links is considered in aggregate, this leads to a form of bounded collective action (Mizruchi, 1990; Portes, 1998: 8, 2010), one that protects the reputations of corporate leaders as a social group (Shani & Westphal, 2016).

An important distinction made in the social control literature is that control can be exerted in the form of sanctions against individuals, or the social groups to which they belong

(Heckathorn, 1990). Yet it is often the case that sanctions are not constrained just to the targeted individual, and from a social cognitive perspective an act of punishment also affects members of the individual's social group (Bandura, 1986: 273). In his group mediated theory of social control, Heckathorn (1990: 367) points out that: "In the real world of social behavior, few sanctions are either strictly individual or strictly collective. Virtually all individuals are members of groups such as, family members, friends, neighbors, co-workers and others with whom the individual interacts".

In essence, social control is a result of the various ways in which sanctions directed against an individual member of a social group can have an indirect effect on other members of the social group. There are different ways in which such an indirect social control mechanism can operate. For instance, extant literature on the development of social control has highlighted that interdependence among members of a social group can strengthen social control, such as in collectivist societies (Greif, 1994); resulting in strong norms against deviant behavior (Hechter, 1987; Hechter & Kanazawa, 1997); and that close-knit communities have the potential to create conditions for loyalty and trust among members of the group (Granovetter, 1985). The closure between members of a community can also enable efficient flow of information needed for monitoring and control by members of the community (Coleman, 1988). Granovetter (1985: 492) highlights that: "Like other densely knit networks of actors, [the social ties] generate clearly defined standards of behavior easily policed by the quick spread of information about instances of malfeasance". Thus, the effectiveness of a sanction is enhanced by social ties because they can bolster norms and increase the threat of detection and punishment by enhancing the spread of information (Heckathorn, 1990); and group cohesion further empowers group members to

engage in sanctioning against deviants by providing support and legitimation of taking such action (Horne, 2001).

In the context of corporate governance, corporate leaders are not members in a social group to the same extent as the communities and social groups in the literature reviewed above. While there is evidence for social identification of some corporate leaders as the 'corporate elite' (Domhoff, 2006; Useem, 1982, 1984)[1], there is evidence supporting more broad yet subtle forms of interdependence as a social group. For instance, the compensation of corporate leaders has been shown to be based on selective comparison to the compensation of CEOs at comparable firms (DiPrete, Eirich, & Pittinsky, 2010; O'Reilly, Main, & Crystal, 1988; O'Reilly & Main, 2010; Porac, Wade, & Pollock, 1999), and there can be indirect consequences as a result of sanctions against the CEOs one compares with. Furthermore, the reaction of corporate leaders to the negative coverage by a journalist against another leader, was shown to be facilitated by the various ways corporate leaders are socially and psychologically linked (Shani & Westphal, 2016). The theory developed here further suggests that to the extent that CEOs view the punishment of another CEO as a sanction that is directed at a member of their social group, it can act as a form of social control, and these CEOs are likely to react in ways that are intended to reduce the likelihood of additional sanctions (Horne, 2001).

A different way in which social control can induce individuals to voluntarily adhere to norms is through processes of social learning. When members of a community perceive how the perpetrators of behavior that deviates from norms are punished, or at least unrewarded, they generate socially learned accounts that are disapproving of such deviant behavior (Akers, 2009: 50). From a deterrence theory perspective, deviant behavior is a result of a rational choice,

[1] However, recent findings indicate a decline in the cohesion of the corporate elite (Chu & Davis, 2016; Mizruchi, 2013).

wherein the behavior of individuals is chosen based on expected rewards and punishments (Gibbs, 1975; Hechter & Kanazawa, 1997). This emphasis on rational choice is shared by agency theory, wherein structures of formal incentives, monitoring and control, are put into place in order to influence individuals that are acting out of rational choice. These individuals are thus deterred from choosing self-, rather than shareholder-interest (Fama & Jensen, 1983). However, the conception of control offered by agency theory neglects that expectations about monitoring, expected rewards and punishment can be derived from social sources, rather than solely from direct monitoring and incentive systems.

A key component in deterrence theory is that behavior is affected not only through rewards and punishments, but that these are weighted by one's subjective perception of the probability of detection (Piliavin, Gartner, Thornton, & Matsueda, 1986). As such, sanctions against another corporate leader indicate to other leaders that the board is able to detect when managers intentionally prefer their own interests, or simply fail to pursue shareholder interests. The ability of the directors to monitor and evaluate management decisions is contingent on access to the information necessary to do so (Fama & Jensen, 1983), and directors often rely on management for such information (Hermalin & Weisbach, 1998). This is especially the case for outside directors (Baysinger & Hoskisson, 1990; Joseph, Ocasio, & McDonnell, 2014), and scholars have argued that effective monitoring requires that a director possesses multiple characteristics including independence, knowledge specific to governance domains (e.g., finance), bandwidth, and motivation (Hambrick, Misangyi, & Park, 2015). Furthermore, given that managers often succeed at limiting actual exercise of board control through various social influence processes, they might assume that the board is unlikely to act against them outright. However, observing a board at another firm that does not sit idly by can demonstrate to a CEO

that it may be unwise to make such an assumption. From a deterrence perspective, sanctions against other corporate leaders can undermine one's sense of invulnerability by signaling that the board is more likely to detect perceived failures to pursue shareholder interests and demonstrating that directors do not necessarily take a passive stance.

From the perspective of corporate leaders as rational actors, the dismissal of a fellow CEO influences subjective perceptions about the costs associated with pursuit of self-interests, such as lavish perquisites and compensation. Observing such a dismissal affects both the perceived likelihood of detection, and perceived severity of sanctions by a board, which may not be tolerant of such behavior. While corporate leaders are well aware that the board has the authority to dismiss the CEO, individuals may vary in their subjective perception of the likelihood that this will happen (Braithwaite & Makkai, 1991). For instance, while the threat of dismissal might be more salient when performance is low (Boeker, 1992; Fama & Jensen, 1983), as firm performance increases, the indirect social control resulting from dismissals at other firms may become a more effective and powerful control measure. To the extent that observing the dismissal of a fellow CEO provides a social narrative which demonstrates that failure to pursue shareholder value is not condoned, it may increase concerns among other CEOs that even a seemingly passive board could eventually act, and thus induce these other CEOs to exercise restraint. Moreover, such restraint may be especially valuable when firm performance is high, and CEOs have more abundant resources and rewards at their disposal (Jensen, 1986).

An important observation by deterrence scholars is that relying solely on direct deterrence can skew managers' perceptions about the certainty and severity of sanctions; as Gibbs observes: "If individuals commit crimes because they have not been deterred and if individuals refrain from crimes because they have been deterred, then those who commit crimes

tend to perceive punishment as less certain and/or less severe than do those who conform to laws" (1975: 208). Hence, a CEO observing a fellow CEO experiencing the negative consequences of deviating from desirable behaviors will be more strongly deterred from engaging in behaviors that are perceived as likely to lead to a similar consequence.

The integration of social control, deterrence, and social learning theory suggests why corporate leaders are likely to experience sanctions against a fellow corporate leader in a way which causes them to attempt to avoid behaviors which can lead them to a similar fate. The social control literature reviewed here suggests that ties between individuals in a social group enable outright self-policing (Horne, 2001), or incentivize members of a social group to assist each other in the avoidance of detection (Heckathorn, 1990). Yet, corporate leaders may not be apt to engage in such self-policing, and ties between corporate leaders have instead been shown to be instrumental in the diffusion of practices which undermine the protection of shareholder rights (e.g., Davis, 1991). However, the social control suggested by the theory developed here is based instead on a social learning process that bolsters deterrence by observing the distribution of sanctions against another corporate leader. This is because demonstrating that a board is both able to detect and is willing to take action against managers which fail to pursue shareholder value, will cause other corporate leaders to adjust their subjective perception of the likelihood that a board may exercise its authority to dismiss the CEO. This distinction underlies how the same ties that have been instrumental in weakening the board's power over management, can instead influence the cognitions of corporate leaders in ways that increase the perceived power of the board over management.

Salience of CEO dismissals at other firms

In summary, the theory developed above proposes that the exercise of control by the board of directors at one firm, can have a more profound effect than has been identified in existing literature. This is a result of the social control generated by the way corporate leaders are socially and psychologically linked, such that the sanctions levied by the board at one firm can influence the cognitions and behaviors of managers across multiple other firms. More specifically, the theory suggests that the exercise of control by a board at one firm—such as dismissal of the CEO—will generate indirect deterrence among other CEOs, to the extent that the exercise of control is salient to other CEOs.

In this study, I focus on two factors which can make the dismissal of a CEO at one firm salient to other corporate leaders. Extant literature has shown that corporate leaders are likely to be influenced by the decisions of other firms that are headquartered in the same city (Davis & Greve, 1997; Marquis, 2003), and a dismissal of a CEO would be salient to other corporate leaders at firms headquartered in the same city. Furthermore, a dismissal would also be especially salient for CEOs serving as an outside director at the dismissing firm. The multiple ways in which CEOs could be aware of the actions of boards at other firms suggest how the actions of a single board can reverberate and affect corporate leaders at multiple other firms.

In organizational theory, the external ties of managers, such as appointments of CEOs as outside directors at other firms, are valuable conduits through which a CEO can learn about the environment from other firms, and knowledge of decisions made by the managers at these other firms: "…external contacts convey information about the environment and its changing contingencies. At the same time, they shape the frames of reference by which executives understand the external context" (Geletkanycz & Hambrick, 1997: 656). This notion is extended

here in arguing that external ties can also influence one's understanding of the internal context (Berger & Luckmann, 1967), namely the context, processes and circumstances which might ultimately lead to a dismissal.

When CEOs participate in the decision-making process that leads to the dismissal of a CEO, they may gain insights and direct experience with the core components of such a decision. Since the dismissal of a CEO is a relatively rare event (Boeker, 1992; Pfeffer, 1981), it would be uncommon for CEOs to have had previous, first-hand experience with what processes precipitate such a decision. For most CEOs, having a front row seat to such an event can grant a measure of foresight, and provide an opportunity to take steps that might avert a similar demise—steps they might otherwise not have deemed necessary. In a sense, service on a board can sensitize corporate leaders to how their actions are viewed by the board and make them especially cognizant of the board's perspective.

Prior research has also highlighted that geographical proximity affects the development of ties among corporate leaders, such as when firms have their headquarters located in the same city (Kono, Palmer, Friedland, & Zafonte, 1998). Scholars have also shown that practices which undermine governance can diffuse among firms headquartered in the same city (Davis & Greve, 1997). Therefore, the dismissal of a CEO at one firm is likely to be especially salient to other CEOs at firms which are also headquartered in the same city. Corporate leaders are likely to take heed of a such a dismissal due to informal communication with other corporate leaders and top managers. Although other CEOs might not be privy to the deliberations leading up to such a decision, gossip—which is broadly defined in the sociological literature as conversations about social and personal topics (Dunbar, 1998)—about the misfortune of a fellow member of one's social group, is likely to be a central subject of gossip within a community (Dunbar, 2004).

Hence, the dismissal of a CEO at a firm is likely to be more salient to other CEOs at firms headquartered in the same city.

Exercise of board control and anticipatory symbolic actions among CEOs of other firms

The theory developed in the previous section highlights the social learning process by which a sanction levied against one corporate leader can influence future behavior of other corporate leaders. A key component of this process is that the actions of a board of directors at another firm influences the expectations of corporate leaders regarding their own board's future behavior, and these social cognitions subsequently shape future behavior (Bandura, 1986).

From a role-theoretic perspective, a CEO might perceive the relationship between a CEO and the board as equivalent in some respects across firms, and a CEO's conceptions about how their own board will carry out their role as representing the interests of shareholders, can be influenced by generalizing from the actions of a board at another firm. Specifically, the social cognitions of other corporate leaders are shaped by generalizing from the actions of one board to another board, and these social cognitions have the capacity to trigger behaviors in anticipation of adjusted expectations about the board's behavior at one's own firm. For instance, one's conceptions can be influenced by generalizing from the actions of referent others, as Biddle describes: "Generalization occurs when one forms a second expectation that is similar to another, as for example when one assumes that a younger brother will behave as did his older sibling" (Biddle, 1979: 208), or as in the context of interest here, generalization occurs when a CEO forms an expectation that their own board may behave as did the other board.

To the extent that a CEO generalizes from observed board behavior at one firm, to future behavior by the board at their own firm, it can form the basis for developing social cognitions about their own board (Bandura, 1986), cognitions which in turn shape the CEO's future

behavior. In other words, a CEO's expectations toward their board serve as a lens through which the actions of their board are evaluated, interpreted and gain meaning, such that: "… one line of action will follow upon another, and for making evaluations of individual actions" (Turner, 1962: 24). Taken together, the theory suggests that observing the dismissal of a CEO at another firm can influence the social cognitions other CEOs have about future actions by their own board, cognitions which become a lens through which each CEO weighs their own actions.

In other words, if the exercise of control by a board at one firm shapes the conceptions of CEOs at other firms about their own board as a potentially vigilant one, each of these other CEOs might try to signal to their respective boards that he/she is aligned with the pursuit of shareholder value. Stated differently, the dismissal of a fellow CEO can make salient that the CEO is ultimately accountable to the board, and these heightened subjective feelings of accountability induce actions which signal conformity to the expectations of a salient audience (Tetlock, 1981). Therefore, other CEOs are apt to react to the dismissal of a fellow CEO by engaging in behaviors which are associated with an alignment with shareholder interests, possibly as a form of anticipatory impression management which promotes a positive perception of the CEO (Elsbach, Sutton, & Principe, 1998).

Extant corporate governance literature provides support that CEOs who fail to correctly anticipate how the board will regard their behavior can face stiff penalties due to a process of 'Settling-up' (Wiesenfeld, Wurthmann, & Hambrick, 2008; Wowak, Hambrick, & Henderson, 2011). The notion of 'settling up' in corporate governance is rooted in the board's need to incorporate current and future effort when setting compensation (Jensen & Murphy, 1990). However, 'settling up' has also been associated with more social perspectives on corporate governance; wherein a CEO's behavior is tolerated by the board for a time, only for the board's

disapproval for the CEO's behavior to reassert itself later in the form of sanctions—including dismissal (Wowak et al., 2011). From an impression management perspective, a heightened concern about the reaction of one's board to a current threat can be addressed by employing remedial tactics (Elsbach, 1994). However, the concern here is directed at future behavior, which may, or may not constitute a threat. This ambiguity as to whether the CEO faces a negative event requiring remedial tactics can make the use of overt remedial action appear premature, and even cause undesired reactions should the CEO inadvertently call attention to negative information that would otherwise be less salient (Elsbach et al., 1998: 83). Yet, the earlier one engages in preventive action, the more effective such action at ameliorating negative responses (Sitkin & Bies, 1993: 362). One course of action which can address the tension between pre-emptive and premature action is to engage in symbolic actions as an anticipatory impression management tactic aimed at "…averting negative perceptions and behavior, or to encourage positive perceptions and behavior" (Elsbach et al., 1998: 69). Based on such a perspective, an increase in the CEO's concern about future action by their own board will be countered by the use of symbolic action as a form of anticipatory impression management. Therefore, a CEO's heightened subjective feeling of accountability will induce actions which signal conformity to the expectations of the board (Tetlock, 1981), and as the source of concern is whether the board views the CEO's actions as aligning with shareholder interests, a CEO might engage in symbolic action which promotes a more positive perception of the CEO's behavior among their directors.

Symbolic actions as anticipatory impression management tactics

To summarize, the theory developed above suggests that to the extent that the exercise of board control at other firms is salient, other CEOs will engage in symbolic action which promotes a positive perception of their behavior among directors. There are various symbolic

actions a focal CEO can engage in in order to promote a positive perception among directors and external constituencies, and two especially high-profile actions, which tend to garner considerable attention among stakeholders that are concerned with control, are considered here.

Important constituencies are likely to evaluate executive compensation, and decoupling pay from performance can draw criticism from various audiences; for instance, labor unions might demand a more equitable share (Finkelstein & Hambrick, 1988), and analysts might infer excessive slack—making unfavorable evaluations of future firm performance (Boivie, Lange, McDonald, & Westphal, 2011; Williamson, 1963). On the other hand, tying manager compensation to firm performance provides incentives for managers to increase shareholder value (Fama & Jensen, 1983; Jensen, 1986; Jensen & Murphy, 1990), and it tends to be viewed favorably by the market (Tehranian & Waegelein, 1985).

Furthermore, stock repurchase plans decrease surplus cash holdings, in effect returning them to shareholders rather than using them for the pursuit of CEO self-interests such as lavish acquisitions often associated with empire building (Jensen, 1986). Furthermore, stock repurchases tend to have a positive effect on traditional indicators of firm performance and a CEO's confidence to engage in a repurchase is a strong signal that is viewed favorably by external constituents (Sanders & Carpenter, 2003). Actions of this sort also represent an alignment with shareholder values, even to the point that the announcement of stock repurchase plans are taken for granted as indicative of alignment with shareholder interests, and subsequently result in more positive assessments by external constituents (Westphal & Zajac, 2001).

In summary, the level of a CEO's direct cash compensation, as well as the announcement of plans to repurchase stock, may each have symbolic value as an indicator of the quality of governance, thus promoting a positive perception among directors and external constituencies.

Summary of theoretical framework

Taken together, the overall theoretical framework developed in this paper considers the psychological and social processes by which the actions of the board of directors against a CEO at one firm affects other corporate leaders by generating a previously unrecognized form of social control. More specifically, this framework suggests that this form of social control is likely to lead to symbolic action which encourages the board to view the CEO as aligned with the pursuit of shareholder interests. In concrete terms, the conceptual model underlying this framework suggests that a CEO's conceptions about the board at their own firm are affected by the exercise of control by another board, such as by the dismissal of a CEO at another firm. A concern about accountability to the board can be addressed by engaging in symbolic action intended to promote a positive perception among directors and other important constituencies—such as changes to direct cash compensation and stock repurchase plan announcements.

In the following section I develop hypotheses which aim to test this theoretical framework by examining whether a CEO dismissal at one firm, induces other CEOs—for which the dismissal is salient—to engage in behaviors which have been shown to have symbolic meaning by signaling an alignment with the pursuit of shareholder value. Specifically, the theory suggests that dismissals at firms headquartered in the same city, and dismissals at firms where the focal CEO served on the board, are associated with lower levels of direct cash compensation, and a higher likelihood of announcing stock repurchase plans.

Hypotheses

Salience of CEO dismissals at other firms and the level of CEO direct compensation

The determinants and justification of CEO compensation have been of interest to a variety of scholars, such as the justification of compensation on the basis of managerial discretion and the extent to which it is related to subsequent firm performance (Finkelstein & Boyd, 1998); social comparison influences on setting CEO compensation (O'Reilly et al., 1988); perquisites such as the CEO's use of a corporate jet (Boivie et al., 2011); and decoupling of CEO pay from performance (Tosi & Gomez-Mejia, 1989; for a review, see Bebchuk & Fried, 2004).

Formally, the board of directors is charged with setting executive compensation and is considered an important source of the board's power to keep management aligned with shareholder interests (Mace, 1971; Williamson, 1985). However, it is often the case that the CEO has a large amount of influence over the recommendations of the compensation committee (O'Reilly et al., 1988), and prior research found that social influence and reciprocity play an important role in the setting of CEO compensation (for a more recent review, see O'Reilly & Main, 2010). Yet, while a CEO may exert their influence in order to secure high levels of direct cash compensation, prior generous compensation which might be tolerated by the board when performance is good, can suddenly prompt disdain when the tides turn (Wiesenfeld et al., 2008). Eventually, those CEOs who are seen as overpaid by the board, are more likely to find themselves on the receiving end of settling up in the form of CEO dismissal (Wowak et al., 2011). Consequently, an increase in direct cash compensation which seemed appropriate when it was awarded, might later be perceived in a negative light.

Furthermore, important constituencies are likely to attend to the characteristics of executive direct cash compensation, and changes to levels of direct cash compensation can

influence the perceptions and evaluations of these constituencies (Finkelstein & Hambrick, 1988: 553). Prior research has found that psychological factors such as a CEO's organizational identification makes a CEO less likely to exert their influence over the board in order to secure high levels of direct cash compensation when firm performance is low, because they feel that it is more difficult to justify such actions to themselves (Boivie et al., 2011). Similarly, a CEO might also exercise restraint due to a heightened subjective feeling of accountability to their board (Tetlock, 1981) because it demonstrates a CEO's commitment to doing what is in the firm's best interest, and also signals that the CEO is mindful of the audiences to whom directors are themselves accountable. These actions have the power to encourage positive perceptions about the CEO and can therefore be considered forms of anticipatory impression management (Elsbach et al., 1998). Furthermore, the satisfaction of demands, even when they are not explicit, can be used to mollify dissatisfied constituencies, and can be used to generate social support for the CEO (Pfeffer, 1981: 207). To the extent that the departure of a CEO at another firm causes the CEO to conceive that the board at their own firm might be dissatisfied with their decisions, exercising restraint from securing high levels of direct cash compensation can be used as a symbolic gesture to pre-emptively signal to the board that the CEO is receptive to doing what is right for the organization. Furthermore, such a gesture would also signal that the CEO is sensitive to the need to avoid decisions which generate "outrage" amongst external constituencies, and exercising restraint can be credited as an indicator of good governance by the board.

Following the logic underlying the theoretical framework of this study, the reactions to the salient dismissal of a fellow CEO can result in anticipatory impression management in the form of symbolic action which promotes a positive perception about the CEO (Elsbach et al.,

1998: 69), and a CEO which exercises restraint from securing high levels of direct compensation is likely to generate positive perceptions about the quality of governance. Therefore, the first set of hypotheses about the effect of salient dismissals on a focal CEO's direct compensation are that:

> *H1.1a: There will be a negative relationship between dismissal of an alter CEO at a firm where a focal CEO serves as an outside director, and the focal CEO's subsequent level of direct cash compensation.*
>
> *H1.1b: There will be a negative relationship between dismissal of an alter CEO at a firm headquartered in the same city as a focal CEO's firm, and the focal CEO's subsequent level of direct cash compensation.*

Salience of CEO dismissals at other firms and stock repurchase plan announcements

Stock repurchase plans decrease surplus cash holdings, in effect returning them to shareholders instead of using them for the pursuit of CEO self-interests such as lavish acquisitions often associated with empire building (Jensen, 1986). Furthermore, announcement of repurchase plans signal a CEO's confidence in the firm and serves to reassure external constituencies (Sanders & Carpenter, 2003). Actions of this sort represent an alignment with shareholder values, to the point that even the announcement of stock repurchase plans are taken for granted as indicative of good governance, and subsequently result in more positive assessments by external constituents (Westphal & Zajac, 2001).

Following the logic presented in the theoretical framework, a focal CEO's awareness and attention to a dismissal at another firm sensitizes him/her to the value of using stock repurchases in order to signal an alignment with shareholder interests, and that such announcements can also bolster the reputation of directors on their own board. Therefore, the reactions to the dismissal of a fellow CEO can result in anticipatory impression management in the form of symbolic action which promotes a positive perception about the quality of governance at a focal CEO's firm

(Elsbach et al., 1998: 69), such as in the form of announcement of plans to repurchase firm stock. Specifically, the second set of hypotheses are that:

> *H1.2a: There will be a positive relationship between dismissal of an alter CEO at a firm where a focal CEO serves as an outside director, and the subsequent likelihood of stock repurchase plan announcement at the focal firm.*
>
> *H1.2b: There will be a positive relationship between dismissal of an alter CEO at a firm headquartered in the same city as a focal CEO's firm, and the subsequent likelihood of stock repurchase plan announcement at the focal firm.*

The moderating effect of focal firm performance

While the direct threat of dismissal may be powerful when firm performance is low (Boeker, 1992; Fama & Jensen, 1983), as performance increases, the indirect social control resulting from dismissals at other firms may become a more effective and powerful control mechanism, inducing corporate leaders to voluntarily restrain themselves in the face of the more abundant resources and rewards available (Jensen, 1986). When firm performance is high, the CEO has both greater opportunity to secure more direct cash compensation—should they so choose—or, to exercise restraint in the interest of signaling alignment with shareholder interests. Should a CEO exercise restraint from securing high levels of direct cash compensation when performance is good, it is more likely to be credited to the CEO's choice—attributed to the CEO's volition—and therefore may be interpreted as a sincere gesture and reflecting their true disposition (Kelley, 1979). Therefore, as firm performance increases, low levels of direct cash compensation may be viewed as a more compelling indicator of alignment with shareholder interests and promote a positive perception among directors and external constituencies. This suggests that the level of performance at a focal firm could moderate the previously hypothesized effects of alter CEO dismissals on a focal CEO's direct cash compensation. Specifically, that:

> *H1.3a: The negative relationship between dismissal of an alter CEO at a firm where a focal CEO serves as an outside director, and the focal CEO's level of direct cash*

compensation, will be moderated such that the relationship becomes more negative as performance at the focal firm increases.

H1.3b: The negative relationship between dismissal of an alter CEO at a firm headquartered in the same city as a focal CEO's firm, and the focal CEO's level of direct cash compensation, will be moderated such that the relationship becomes more negative as performance at the focal firm increases.

Additionally, at high levels of firm performance, excess firm resources could be used by managers in the pursuit of self-interests, such as lavish acquisitions that are often associated with empire building (Jensen, 1986). Under such conditions, the announcement of stock repurchase plans would return these excess cash stocks to shareholders and would be an especially meaningful indicator of good governance. This suggests that the level of performance at a focal firm could also moderate the previously hypothesized effects of salient alter CEO dismissals on stock repurchase plan announcements at a focal CEO's firm. Specifically, that:

H1.4a: The positive relationship between dismissal of an alter CEO at a firm where a focal CEO serves as an outside director, and the likelihood of announcing stock repurchase plans, will be more positive as performance at the focal firm increases.

H1.4b: The positive relationship between dismissal of an alter CEO at a firm headquartered in the same city as a focal CEO's firm, and the likelihood of announcing stock repurchase plans, will be more positive as performance at the focal firm increases.

Methods

I draw on an initial sample based on all firms in the S&P 1500 and collected data on the dismissal of CEOs at these firms between the years 1997-2008, based on the EXECUCOMP database. Because of a need for at least two years of prior observations to construct some of the variables, the data for this study was comprised of year-CEO observations spanning 1999-2008 (data for 1997-1998 was used to construct required lag variables). In order to evaluate the effect of dismissal of a CEO on the various outcomes at other firms, several databases were linked and merged in order to create indicators for CEOs at firms headquartered in the same city or served as an outside director at a firm which experienced the departure of their CEO. Construction of

CEO and directorship variables were drawn from merging the EXECUCOMP and Riskmetrics/ISS databases, while firm annual performance and accounting measures were drawn from annual report data in COMPUSTAT[2]; and firm stock repurchase announcements were drawn from Thomson Reuter's SDC Platinum platform.

Analysis strategy

The longitudinal data includes approximately 2700 CEOs, with an average of 4 year-observations for each CEO, resulting in approximately 10000 CEO-year observations. The hypotheses regarding CEO direct compensation are tested with OLS regression of CEO direct compensation on measures for conditions argued to increase the salience of dismissals at other firms (i.e., at firms sharing the same headquarter city, and firms where a focal CEO served as an outside director), and the measure for focal firm performance as a moderator. The hypotheses regarding announcement of stock repurchase plans are tested with a conditional fixed-effects logistic regression of announcing stock repurchase plans in a certain year on the measures for conditions argued to increase the salience of dismissals at other firms, and the measure for focal firm performance as a moderator[3]. The fixed-effects estimation model is equivalent to adding a dummy variable for each focal CEO and accounts for the time-invariant unobserved variables for each CEO (Angrist & Pischke, 2009; Greene, 2003). Additionally, year-dummies were included in order to control for macro level temporal effects associated with events which can affect focal CEO compensation, and announcement of a stock repurchase plan. Additional control measures were included in order to account for industry or headquarter-city time-varying factors which

[2] Wharton Research Data Services (WRDS) was used in preparing this study. This service and the data available thereon constitute valuable intellectual property and trade secrets of WRDS and/or its third-party suppliers.

[3] Logistic fixed effects models (e.g., using STATA *clogit* or *xtlogit* procedures), exclude observations for which there are no observed stock repurchase plan announcements. Additional analysis was performed using logistic regression with random effects (using the STATA *xtlogit* procedure) – such an analysis does not exclude these observations, and results were unchanged from those reported here.

could affect dismissals and the dependent variables. Furthermore, cluster-robust standard errors on focal CEOs are used to address within-panel serial autocorrelation (Arellano, 1987; See also Wooldridge, 2002: 275).

The OLS and logistic fixed-effects regressions produce coefficients which reflect differences in the dependent variable associated with a unit of the independent variable. Specifically, a coefficient produced by the OLS and logistic fixed-effects regressions reflect the relationship between dismissals at other firms (e.g., at firms headquartered in the same city, or where the focal CEO serves as an outside director), and the dependent variables.

Independent variables and moderators

CEO dismissals

Dismissals are identified based on Execucomp data on CEO departures, and follows the approach used by Fisman and colleagues (Fisman, Khurana, Rhodes-Kropf, & Yim, 2013). The EXECUCOMP database includes a record for each year an executive is listed as the CEO of that firm. Although the database includes a field which explicitly codes the reason for departure (including death, retirement, dismissal), it is unreliable due to several reasons. Namely, this field is may be overwritten by subsequent departures for a specific individual, which means that a reason that was valid for the most recent departure, is not necessarily correct for any prior departures. An extreme, yet not uncommon example is that for a CEO which passed away, prior departures appear as due to death of the CEO, and such a CEO will appear to have passed away more than once during their career as a CEO. Additionally, it is rare for the departure of a CEO to be outright labeled as a dismissal, and it is more common for a CEO to be marked as retired, even if the departure was not a retirement. Therefore, departures were identified based on a transition of the role of CEO to a different individual and, any records where the CEO was

marked as deceased, except for the last appearance in the dataset, were coded as non-death related departures. However, departures by CEOs at or after the age of retirement (i.e., 65), were not coded as a dismissal because they are more likely to be a result of voluntary retirement (Fisman et al., 2013).

In order to capture dismissals that are likely to be salient to a certain focal CEO, separate measures were generated for different bases of salience. For each focal CEO, a dismissal was coded as salient based on conditions argued above as likely to increase the salience of dismissals at other firms. This resulted in two count measures aggregating dismissals over the previous 2 years that occurred at other firms where: (a) a focal CEO served as an outside director on the board that dismissed the CEO; and (b) dismissal of an alter CEO at a firm headquartered in the same city as that of a focal CEO's firm (see also Appendix for details on construction of this variable)[4].

Performance

The hypotheses involving focal firm performance were tested using Return on Assets (ROA) as the measure for focal firm performance. ROA is an accounting based measure for operational firm performance which has been widely used in prior research on the relationship between firm performance and top management decisions, compensation and succession (Hill & Snell, 1988; Shen & Cannella, 2002; Zajac, 1990). The effect of focal firm performance was measured using ROA (return on assets) in the previous year and was used in order to test

[4] There were 37 dismissals of CEOs in the NYC MSA in the two years prior to FY2007 (15 of them in the previous year). In 2007, there were 188 firms headquartered in NYC (the largest MSA in the data set). That same year, the CEOs of the 52 firms headquartered in relatively smaller Atlanta MSA, observed an aggregate of only 9 dismissals over the previous 2 years. In Memphis, there were only 3 dismissals observed over the prior two years by the CEOs of the 10 firms in this even smaller sized MSA. In FY2003, the 162 CEOs of firms headquartered in the large NYC MSA observed 28 dismissals over the previous 2-year period; the CEOs of the 46 firms headquartered in Atlanta observed 8 dismissals over the same previous 2-year period; and the CEOs of the 10 firms headquartered in Memphis observed 3 dismissals in this prior two-year period.

hypotheses regarding the moderating effect of increasing firm performance on the relationship between dismissals at other firms and the dependent variables[5].

Dependent Variables

CEO direct cash compensation

Agency costs are measured as the changes in a focal CEO's total current compensation and is the sum of the CEO's annual Salary and Bonus, which are reported on Execucomp. As argued in the theoretical section, these components of CEO compensation are associated with agency costs in that they are not tied to a firm's long term performance, lack power to incentivize CEOs to pursue shareholder value, and changes to a CEO's direct cash compensation have been shown to have negative symbolic value to important constituencies to which the board is accountable to (Jensen, 1986; Jensen & Murphy, 1990; for a review see Finkelstein, Hambrick, & Cannella, 2008; and also O'Reilly & Main, 2010). The direct cash compensation of CEOs is reported on EXECUCOMP and was logged in order to deal with extremely high direct pay observations. Furthermore, as the data includes CEOs which have annual pay or annual bonus with a value of zero, 1 was added to all observations prior to logging.

Stock repurchase plan announcements

Data on the announcement of stock repurchase plans was collected from the Thompson Reuter's SDC Platinum platform. Any announcement of a stock repurchase was identified and coded as occurring during the financial year it was announced. This measure captures only whether the firm announced plans to repurchase stock, regardless of whether this was indeed executed at a later date. This is because the theoretical arguments are based on the symbolic value of such announcements, while the implementation of these plans have been shown to draw

[5] Results using industry adjusted firm ROA remain substantially unchanged to those reported here.

less attention, and that plans which are not implemented have been shown to be ignored by external constituencies (Westphal & Zajac, 2001: 202). For the conditional fixed-effects logistic regression, the number of announcements in a financial year were converted to a dummy variable with announcement of any stock repurchase plans coded as 1, 0 otherwise[6].

Controls

CEO fixed-effects were included in order to order to better estimate the change in compensation for each focal CEO. Using fixed-effects estimation is appropriate given the longitudinal data; Dummy variables for years were included to capture macro-economic trends which might affect the dependent variables, or firm performance at dismissing and focal firms; Additional control variables include: CEO age, indicator for focal CEO dismissal during the current year, firm size (as log of sales), and measures for average performance and number of firms for the headquarter city and industry (at the four digit SIC level). Control variables are based on data collected from Execucomp, Standard and Poor's Capital IQ, and the Riskmetrics/ISS databases[7].

Results

Descriptive statistics are provided in Table II.1, and bivariate correlations are presented in Table II.2. The results of the fixed-effects OLS regressions of focal CEO direct compensation are presented in Table II.3, and results of the conditional fixed-effects logistic regressions of announcement of a stock repurchase plan by a focal CEO's firm are presented in Table II.4.

As shown in Model 6 of Table II.3, in support of hypothesis 1.1b, the relationship between dismissal of an alter CEO at a firm headquartered in the same city as a focal CEO's firm

[6] Additional analyses were performed using logistic random effects and using the number of stock repurchase plans announced in a fiscal year (with the *xtpoisson* STATA procedure) – results were similar to those reported here.

[7] The control variables for industry and headquarter city level variables are based on the complete population of firms for which data is available on the COMPUSTAT data base and include firms which could not be included as focal firms.

and the focal CEO's subsequent level of direct compensation is significantly different from zero in the hypothesized direction. Specifically, the results indicate that when the number of alter CEO dismissals at firms headquartered in the same city is one standard deviation above the mean, the direct compensation of a focal CEO at a firm headquartered in the same city decreases by an average of approximately 40 thousand dollars. However, the results in model 3 indicate that the relationship between dismissal of an alter CEO at a firm where a focal CEO serves as an outside director, and the focal CEO's subsequent level of direct compensation is not significantly different from zero, and thus do not support hypothesis 1.1a.

The results regarding the moderating effect of focal firm performance on the relationship between alter CEO dismissals and focal CEO direct compensation provide strong support for the relationship in hypothesis 1.3a. In model 6 of Table II.3, the relationship between dismissal of an alter CEO at a firm where a focal CEO serves as an outside director and the focal CEO's level of direct compensation is moderated such that as performance at the focal firm increases, the relationship is significantly different from zero in the hypothesized direction. Specifically, the results indicate that when an alter CEO is dismissed at a firm where a focal CEO serves as an outside director, the direct compensation of a focal CEO at a firm which performed at one standard deviation above the sample mean decreases by an average of approximately $92000. However, the results do not support hypothesis 1.3b: the moderating effect of firm performance on the relationship between dismissal of an alter CEO at a firm headquartered in the same city as a focal CEO's firm and the focal CEO's level of direct compensation is not significantly different from zero. Thus, the negative effect of alter CEO dismissals at firms headquartered in a certain city on the direct compensation of CEOs at firms headquartered in the same city is not moderated by the performance of a focal CEO's firm.

The results regarding announcement of stock repurchase plans provide support for the hypothesized relationship in hypothesis 1.2b. As shown in the results of model 6 in Table II.4, the relationship between dismissal of an alter CEO at a firm headquartered in the same city as a focal CEO's firm and the subsequent likelihood of stock repurchase plan announcement at the focal firm is significantly different from zero in the hypothesized direction. Specifically, the results indicate that when the number of alter CEO dismissals at firms headquartered in the same city is one standard deviation above the mean, the odds of a firm headquartered in the same city subsequently announcing a stock repurchase plan increases by approximately 1.4. However, the results do not support hypothesis 1.3a: the relationship between dismissal of an alter CEO at a firm where a focal CEO serves as an outside director and the subsequent likelihood of stock repurchase plan announcement at the focal firm was not significantly different from zero.

Furthermore, the results in model 6 of Table II.4 do not support hypotheses 1.4a and 1.4b. The moderating effect of firm performance is not significantly different from zero for the relationship between dismissal of an alter CEO and the likelihood of stock repurchase plan announcements at a focal firm whether the alter CEO was dismissed at: (a) a firm where a focal CEO serves as an outside director; or (b) a firm headquartered in the same city as a focal CEO's firm.

Additionally, it is notable that the in the full model (model 6 in Table II.3), the results indicate that the main effect of focal firm performance on the focal CEO's subsequent level of direct compensation is not significantly different from zero, with a weakly positive relationship between focal firm performance and a focal CEO's level of direct compensation. In contrast, focal firm performance strongly moderates the relationship between alter CEO dismissals at firms where a focal CEO serves as an outside director, and the focal CEO's subsequent level of

direct compensation. Taken together, these results indicate that the performance at a focal CEO's firm has a significant association with subsequent direct compensation, only to the extent that the focal CEO is an outside director at a firm where an alter CEO was dismissed[8].

Discussion

The theoretical framework and findings in this study advance a multi-level perspective on social control in corporate governance by revealing how control relationships at one firm have the power to influence control relationships within other firms. The overall pattern of results indicates that the exercise of board control at one firm can influence governance at multiple other firms—as demonstrated by lower levels of direct compensation and higher likelihood of stock repurchase plan announcements. Specifically, the results are consistent with the indirect social control described in my theoretical argument, wherein focal CEOs react to the dismissal of an alter CEO at another firm by pre-emptively altering his/her behavior in order to avoid a similar fate. Taken together, these findings provide partial support that the reactions to a salient dismissal at another firm can generate a powerful form of indirect social control, one which is an especially effective deterrent from the pursuit of self-interests when firm performance is relatively high.

This study makes a noteworthy contribution in that it is among the first to demonstrate how exercise of board control at one firm can serve as a source of vicarious deterrence (Akers, 2009; Bandura, 1986), and advances our understanding of social control in and between organizations. The emphasis placed by agency theory on compliance that is generated through direct mechanisms of monitoring and control (Fama & Jensen, 1983, 1983) does not capture the potential to bolster compliance through an indirect mechanism such as suggested by the theory

[8] Results reported here are robust to using industry adjusted focal firm ROA.

developed here. While prior research has shown how social connections can undermine direct mechanisms of control (Davis, 1991; Davis & Greve, 1997; Mizruchi, 1996; Useem, 1982, 1984), the theoretical perspective developed here demonstrates that inter-organizational connections can also induce managers to align with shareholder interests.

The theory and findings here also highlight that focusing on the dyad-level relationship between management and the board of the same firm, or the firm's external constituencies, underestimates the effect of boards on governance. Whereas scholars have questioned the effectiveness of control by individual boards (Boivie et al., 2016), the findings here provide some evidence indicating that the exercise of board control at one firm can influence the behavior of CEOs at multiple other firms, while incurring monitoring and control costs only at the originating firm. Therefore, the form of indirect social control identified in the theory here can ultimately enhance the efficiency of control at the community or system level and suggests a broader and more powerful effect of control by boards of directors than has previously been recognized in the literature.

Furthermore, the empirical finding in support of the moderating effect of focal firm performance reveals how this form of indirect social control can be especially powerful when firm performance is high. Extant literature suggests that the direct threat of dismissal likely increases as performance deteriorates (Boeker, 1992; Fama & Jensen, 1983; Walsh & Seward, 1990), and prior research has demonstrated how psychological mechanisms can bolster governance when firm performance is low (Boivie et al., 2011). The current study however identifies a socio-cognitive mechanism which becomes especially effective and powerful when firm performance increases. Not only does this mechanism have the power to induce managers to seize upon the opportunity and be proactive by taking action before performance problems arise,

but it is also precisely when firm performance is good that there is a potential for managers to incur agency costs by pursuing their self-interests (Jensen, 1986).

Additionally, the theory and findings here contribute to upper-echelon theory by identifying a socio-cognitive mechanism in which a CEO's psychological reaction to control relationships within other firms has the capacity to shape his/her subsequent behaviors and decisions. From the perspective of upper-echelon theory, a manager's decisions are influenced by his/her cognitive base; where assumptions about future events are a lens through which information is filtered (Hambrick & Mason, 1984). Extant research has largely focused on relatively stable factors which shape the cognitive base, such as education, functional background, personality, and even political ideology (Briscoe, Chin, & Hambrick, 2014; Chatterjee & Hambrick, 2007; Crossland, Zyung, Hiller, & Hambrick, 2014; Finkelstein, Hambrick, & Cannella, 2009). Furthermore, upper-echelon scholars have also devoted less attention to social sources of cognition which originate outside the same organization. This study highlights how the control relationships at other firms can dynamically shape *social*-cognitions through which information is filtered. Specifically, the theory suggests that a dismissal appears to induce a focal CEO to restrain from exerting influence over their board in order to secure high levels of direct compensation, by altering his/her perception of how the level of direct compensation might be interpreted by the board and other important stakeholders. While rising past performance appears to be weakly associated with increases in direct compensation, it became strongly associated with lower levels of direct compensation to the extent that a focal CEO was an outside director at a firm where an alter CEO was dismissed. In a sense, this effect of dismissals can be described as a lens through which a focal CEO perceives good performance

as an opportunity to be proactive and signal an alignment with shareholder interests—inducing him/her to exercise restraint when firm performance increases.

Prior research promoting a social and psychological perspective on control in corporate governance has demonstrated how internal psychological factors such as a CEO's organizational identification can influence agency costs (Boivie et al., 2011). However, this study is among the first to identify a psychological mechanism which originates from inter-organizational ties and provides some support that it has the power to affect the subsequent behavior of corporate leaders. Therefore, this study extends our understanding of the role of external ties as a social-cognitive reference for corporate leaders (Geletkanycz & Boyd, 2011; Geletkanycz & Hambrick, 1997), wherein the dismissal of an alter CEO provides a social-cognitive reference for a CEO's perceptions about potential future behavior of the board at their own firm and shapes their preferences on corporate governance policies such as executive compensation (Bandura, 1986). A CEO's external ties can serve as a frame of reference through which a CEO can understand and interpret the internal context at their own firm (Berger & Luckmann, 1967), and is distinct from diffusion, wherein specific processes or practices spread across organizations (Davis, 1991). In the theory presented here, the effect of external ties is not limited to a specific practice because they affect a CEO's conceptions about future behavior of their board, and these conceptions can be expressed in a variety of ways.

This study furthers the development of a cross-level perspective on governance that suggests how micro level socio-cognitive sources of control can affect corporate governance across industry boundaries, at the field level. By considering the various ways in which corporate leaders are socially and psychologically linked, an action affecting one corporate leader has the power to influence the social cognitions of multiple other corporate leaders. For instance, a

recent study (Shani & Westphal, 2016) found that the multiple social and psychological connections between CEOs can affect the propensity for corporate leaders to distance themselves socially from journalists who engage in negative reporting about firm leadership at other companies, which in turn exerts a powerful effect on the valence of journalists' subsequent reporting. It was further suggested by Shani and Westphal (2016), that the multiple ways in which corporate leaders are socially and psychologically connected enables "bounded solidarity" among corporate leaders in the form of limited coordinated action which promotes their reputational interests as a social group. While the reactions of CEOs to negative reporting by a journalist was argued to trigger an emotional reaction toward the same journalist, the CEOs examined in the current study react to control by boards at other firms by strategically yielding to the other party—possibly because the behavior is directed toward a different party. As a result, the mechanism underlying the theory developed in this current study produces behaviors which have the potential to bolster governance and promote the interests of shareholders, and future research should continue to explore how social control can influence governance and strategy.

Tables

Table II.1: Descriptive statistics

	Variable	Mean	SD	Min	Max
1	Focal CEO direct compensation (logged)	6.905	0.785	0	11.264
2	Focal firm announcement of stock repurchase plan	0.151	0.358	0	1
3	Focal CEO Age	55.387	7.476	29	92
4	Focal CEO departure	0.105	0.307	0	1
5	Focal firm size (log of sales)	7.246	1.583	-3.058	12.960
6	Focal CEO tenure	4.619	3.242	1	17
7	Terms as CEO (focal)	1.073	0.340	1	10
8	Industry ROA mean	0.0218	0.169	-3.914	7.772
9	Firms in industry	21.447	25.837	1	123
10	HQ city ROA mean	0.031	0.206	-1.187	15.492
11	Firms in HQ city	49.229	47.887	1	188
12	Focal firm ROA (1-year lag)	0.0375	0.171	-10.669	4.833
13	HQ city dismissals	8.537	9.049	0	37[9]
14	Director tie dismissals	0.046	0.223	0	3

[9] The highest number of observed CEO dismissals by CEOs headquartered in the same city was in the MSA covering the extended NYC metropolitan area and occurred in the two years prior to FY2006. This is largely due to the overall size of this MSA, which consisted of between 155 and 188 firms during the 2000-2008 time-period (these dismissals occurred in firms from a variety of industries) and is somewhat proportional to the rate of observed dismissals in MSAs with fewer headquartered firms (e.g., in the Memphis MSA, there were 3 observed dismissals among the 10 firms headquartered in the MSA during this same time period).

Table II.2: Bivariate correlations

	Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Focal CEO direct compensation (logged)	1													
2	Focal firm announcement of stock repurchase plan	0.04	1												
3	Focal CEO Age	0.13	-0.03	1											
4	Focal CEO departure	-0.02	-0.01	0.15	1										
5	Focal firm size (log of sales)	0.56	0.1	0.08	0.04	1									
6	Focal CEO tenure	0.11	0	0.28	0.04	0.1	1								
7	Terms as CEO (focal)	0.08	0	0.06	0.04	0.1	-0.2	1							
8	Industry ROA mean	0.08	0.02	0.05	-0.02	0.09	0.05	-0.02	1						
9	Firms in industry	-0.02	0.01	-0.09	-0.02	-0.13	0	0.01	-0.09	1					
10	HQ city ROA mean	0.03	0.01	0.02	0	0.04	0.02	-0.01	0.06	0.01	1				
11	Firms in HQ city	0.09	0.02	0.02	0	0.02	-0.01	0.07	0	0.06	-0.02	1			
12	Focal firm ROA (1-year lag)	0.1	0.08	0.04	-0.03	0.17	0.03	-0.03	0.1	-0.05	0.04	0	1		
13	HQ city dismissals	0.08	0.02	0.02	0	0.02	-0.02	0.06	0	0.03	-0.03	0.93	0	1	
14	Director tie dismissals	0.1	0	0.03	0.02	0.14	-0.04	0.16	0	-0.02	0	0	0	0.02	1

Table II.3: CEO Fixed-effects OLS model for focal CEO direct cash compensation (logged)

VARIABLES	(1) HQ city dismissals	(2) HQ city dismissals	(3) Outside director firm dismissals	(4) Outside director firm dismissals	(5) Total main effect of dismissals	(6) Total main effect and performance
Focal CEO age	-0.00971	-0.00967	-0.00850	-0.00859	-0.00965	-0.00976
	(0.0125)	(0.0125)	(0.0128)	(0.0128)	(0.0126)	(0.0126)
Focal CEO departure	-0.0773***	-0.0773***	-0.0770***	-0.0763***	-0.0776***	-0.0768***
	(0.0175)	(0.0176)	(0.0175)	(0.0175)	(0.0175)	(0.0175)
Focal firm size	0.189***	0.189***	0.190***	0.191***	0.189***	0.190***
(log of Sales)	(0.0373)	(0.0374)	(0.0375)	(0.0374)	(0.0373)	(0.0373)
Focal CEO tenure	0.0163	0.0163	0.0170	0.0171	0.0158	0.0159
	(0.0128)	(0.0128)	(0.0129)	(0.0128)	(0.0127)	(0.0127)
Terms as CEO (focal)	0.0285	0.0285	0.0374	0.0379	0.0280	0.0284
	(0.0628)	(0.0628)	(0.0634)	(0.0630)	(0.0626)	(0.0622)
Industry ROA mean	0.0384	0.0384	0.0396	0.0392	0.0384	0.0379
	(0.0308)	(0.0308)	(0.0309)	(0.0308)	(0.0308)	(0.0307)
Firms in industry	-0.000906	-0.000906	-0.000940	-0.000947	-0.000907	-0.000914
	(0.000615)	(0.000615)	(0.000616)	(0.000615)	(0.000615)	(0.000614)
HQ city ROA mean	0.0315	0.0316	0.0321	0.0318	0.0316	0.0313
	(0.0199)	(0.0200)	(0.0203)	(0.0200)	(0.0199)	(0.0197)
Firms in HQ city	-0.00203	-0.00203	-0.00244	-0.00245	-0.00207	-0.00208
	(0.00177)	(0.00176)	(0.00182)	(0.00182)	(0.00178)	(0.00178)
Focal firm ROA	0.0516*	0.0578	0.0519*	0.0602*	0.0516*	0.0599
(1y lag)	(0.0302)	(0.0378)	(0.0304)	(0.0334)	(0.0302)	(0.0406)
HQ city dismissals	**-0.00406****	**-0.00402****			**-0.00400****	**-0.00406****
	(0.00209)	(0.00208)			(0.00208)	(0.00208)
HQ city dismissals X		-0.00110				-0.00003
Focal firm ROA		(0.00390)				(0.00414)
Director tie dismissals			-0.0200	-0.00216	-0.0181	-0.000488
			(0.0247)	(0.0247)	(0.0247)	(0.0247)
Director tie dismissals				**-0.407*****		**-0.413*****
X Focal firm ROA				(0.0908)		(0.0914)
Constant	6.214***	6.212***	6.136***	6.134***	6.213***	6.212***
	(0.740)	(0.739)	(0.749)	(0.749)	(0.742)	(0.742)
Observations	10,284	10,284	10,284	10,284	10,284	10,284
Number of CEOs	2,729	2,729	2,729	2,729	2,729	2,729

*** p<0.01, ** p<0.05, * p<0.1; Robust standard errors in parentheses

* T-tests are one-tailed for hypothesized effects, two-tailed for control variables; CEO fixed effects and year dummies included in all models.

Table II.4: Conditional fixed-effects logistic regression for likelihood of stock repurchase plan announcement at a focal CEO's firm

VARIABLES	(1) HQ city dismissals	(2) HQ city dismissals	(3) Outside director firm dismissals	(4) Outside director firm dismissals	(5) Total main effect of dismissals	(6) Total main effect and performance
Focal CEO age	-0.129	-0.127	-0.139	-0.139	-0.132	-0.129
	(0.123)	(0.123)	(0.122)	(0.122)	(0.123)	(0.123)
Focal CEO departure	-0.150	-0.152	-0.160	-0.160	-0.147	-0.150
	(0.133)	(0.133)	(0.133)	(0.133)	(0.133)	(0.133)
Focal firm size	0.463**	0.467**	0.473**	0.473**	0.467**	0.472**
(log of Sales)	(0.204)	(0.205)	(0.204)	(0.204)	(0.206)	(0.207)
Focal CEO tenure	-0.0491	-0.0486	-0.0589	-0.0588	-0.0549	-0.0535
	(0.121)	(0.121)	(0.120)	(0.120)	(0.119)	(0.118)
Terms as CEO (focal)	-0.442	-0.442	-0.459	-0.459	-0.429	-0.421
	(0.855)	(0.854)	(0.863)	(0.863)	(0.840)	(0.835)
Industry ROA mean	-0.0584	-0.0585	-0.0646	-0.0646	-0.0573	-0.0572
	(0.187)	(0.186)	(0.189)	(0.189)	(0.187)	(0.185)
Firms in industry	0.0117**	0.0118**	0.0119**	0.0119**	0.0116**	0.0117**
	(0.00597)	(0.00598)	(0.00594)	(0.00594)	(0.00590)	(0.00590)
HQ city ROA mean	0.825	0.819	0.704	0.704	0.800	0.788
	(0.833)	(0.833)	(0.836)	(0.837)	(0.834)	(0.834)
Firms in HQ city	0.000971	0.000980	0.00365	0.00365	0.000342	0.000275
	(0.00661)	(0.00663)	(0.00673)	(0.00673)	(0.00673)	(0.00677)
Focal firm ROA	2.521***	2.964***	2.502***	2.500***	2.528***	2.977***
(1y lag)	(0.677)	(0.954)	(0.673)	(0.673)	(0.676)	(0.957)
HQ city dismissals	**0.0345****	**0.0381****			**0.0355****	**0.0395****
	(0.0144)	(0.0151)			(0.0145)	(0.0154)
HQ city dismissals X Focal firm ROA		-0.0595				-0.0633
		(0.0887)				(0.0874)
Director tie dismissals			-0.205	-0.209	-0.231	-0.274
			(0.187)	(0.245)	(0.189)	(0.259)
Director tie dismissals X Focal firm ROA				0.0718		0.757
				(2.942)		(2.989)
Observations	4,689	4,689	4,689	4,689	4,689	4,689

*** p<0.01, ** p<0.05, * p<0.1; Robust standard errors in parentheses; 5819 observations dropped because of all positive of all negative outcomes.

* T-tests are one-tailed for hypothesized effects, two-tailed for control variables; CEO fixed effects and year dummies included in all models.

Chapter III: The Impact of Fellow CEO Dismissals on Strategic Decision Making

The theoretical framework developed in the previous chapter demonstrated how the social connections between corporate leaders can facilitate a form of social control by which the sanctions levied by the board of directors at one firm has the power to make corporate leaders at multiple other firms feel more accountable to their respective boards. This form of social control is generated by the reactions of corporate leaders to sanctions directed at another CEO, which may alter their conceptions about the potential future behavior of the board at their own firm. As a result, these altered conceptions trigger anticipatory impression management tactics aimed at avoiding a fate similar to that of the sanctioned CEO.

While the anticipatory impression management tactics explored in the first chapter have the potential to reduce agency costs and increase alignment to shareholder interests, it is important to consider how such a form of social control can also impact the strategic decision making of corporate leaders. The literature on organizational control mechanisms highlights that control can affect management behavior and risk preferences (Eisenhardt, 1985). In corporate governance, the evaluation of management decisions by the board often requires making inferences about the quality of decisions, such as through interpretation of measurable performance outcomes (Ouchi, 1979; Thompson, 2003); and evaluation of management by the board is effective only to the extent that managers feel protected from being held accountable for outcomes that are outside of their control (Baysinger & Hoskisson, 1990; Williamson, 1985). As a result, management may feel that the board fails to provide such protection when a manager is "penalized or rewarded for outcomes partially outside his/her control" (Eisenhardt, 1985: 136).

In effect, penalties of this kind shift organizational risks onto management; and increases in risk bearing have been shown to make managers more risk averse, subsequently affecting their strategic decisions (e.g., Hill & Snell, 1989). However, the way in which corporate leaders psychologically react to the exercise of control by boards at other firms can trigger relatively automatic cognitive processes of self-categorization and biased attributions about the other board's decisions which raise concerns about the quality of board evaluation. Drawing from interrelated literatures on the implications of organizational forms of control (Smith, Tyler, Huo, Ortiz, & Lind, 1998; Tyler, 1989; Eisenhardt, 1985; Lind & Tyler, 1988; Trevino, 1992; for a review see Tyler & Blader, 2000), I argue that the psychological reactions of corporate leaders to the exercise of control by boards at other firms can increase concerns about the *potential for unfairness* of evaluations by one's own board. I further argue that these reactions can make corporate leaders apt to take a more passive strategic decision-making role, leading to decisions that involve relatively incremental changes to strategy.

Another way in which the dismissal of a fellow CEO can affect other corporate leaders is by reducing their *certainty* about the future behavior of their board. I extend the theoretical framework in order to explain how these psychological reactions of corporate leaders can *undermine their certainty and confidence* about the quality of the board's evaluations of their future decisions. This is because a CEO's expectations about the behavior of directors serving on their board can be challenged by observing the actions of the board at another firm. Even if a CEO is somewhat certain about the behavior of particular directors as individuals, the observed actions at another board introduce uncertainty about the future behavior of the board of directors when acting as a group. Therefore, these relatively automatic cognitive processes of self-categorization and group attribution biases can prompt a CEO to prefer strategies for which the

board's reaction is more certain, such as increasing conformity to prevailing strategies in their industry.

These implications of bolstering the perceived potential for board control are reflected in views about the dual role of the board of directors, wherein alongside the primary role of the board as representing the interests of shareholders (Fama & Jensen, 1983; Jensen & Meckling, 1976), a secondary yet crucial role is to function as "… a way by which to safeguard the contractual relation between the firm and its management" (Williamson, 1985: 298). In order to fulfill both of these roles, the board needs to be capable of discriminating between instances where poor performance is the result of adverse external conditions, which are outside the control of managers, and poor performance "that result[s] from opportunism or persistently incompetent decisions" (Baysinger & Hoskisson, 1990: 76). Therefore, it is important to cultivate conditions under which a CEO is likely to anticipate that their board will safeguard them from being held unduly accountable for unfortunate outcomes. The theory developed here suggests that the actions of one board can inadvertently undermine these conditions by raising concerns about unfair evaluation and exacerbating uncertainty about the evaluations of management decisions, subsequently affecting CEO strategic decision making.

Theoretical Framework

Social identification and intergroup attribution biases in the wake of alter CEO dismissal

I begin by developing theory which highlights how the dismissal of a CEO at one firm has the power to trigger social identification with the dismissed CEO by other corporate leaders for which the dismissal is likely to be salient (e.g., CEOs at firms headquartered in the same city where the dismissed alter CEO's firm is headquartered; a CEO serving as an outside director on the board of the firm that dismisses a CEO; CEOs at firms operating in the same industry as that

of a dismissed CEO's firm). In effect, I argue that the dismissal makes salient that corporate leaders share social group membership with the dismissed CEO. By extension, this accentuates the perception of the Board as a different social group—an outgroup—which can affect the outcomes of corporate leaders. Therefore, the dismissal of a CEO causes other corporate leaders to regard their relationship with the board at their own firm in terms of their divergent social group memberships, thus shifting the interaction towards an intergroup relationship wherein perceiving the board as an outgroup triggers various attributions and biases with consequences for cognitions, future behavior and decisions.

In organizational theory, the external ties of managers serve as conduits through which a CEO can learn about the environment from other firms, and knowledge of decisions made by the managers at these other firms (Geletkanycz & Hambrick, 1997: 656). This notion is extended here, arguing that external ties can also influence one's understanding of the internal context. Namely the context, processes and circumstances which might ultimately lead to a dismissal, and how partially automatic cognitive processes involving self-categorization and socially identifying with a dismissed CEO, introduce cognitive biases with implications for strategic decision making.

An important component of the intergroup system is that there are multiple possible relationships one can experience, as Horwitz and Rabbie describe: "The subject in the intergroup situation can simultaneously perceive and may respond to such distinct relationships as that between himself and his ingroup, his outgroup, individual ingroup members, individual outgroup members, as well as to what he perceives as the relationship between the two groups as separate entities." (1982: 243). In essence, an ingroup has no meaning, unless there is also an outgroup,

and “There can be no intergroup behavior unless there is also some “outside” consensus that the group exists …” (Tajfel, 1982a: 2).

The distinction between interpersonal and intergroup situations has been defined as existing on a continuum of social interaction spanning from ‘pure’ interpersonal to ‘pure’ intergroup. In such a view, relationships are interpersonal in nature to the extent that they are determined by the personal characteristics of the involved individuals; and these relationships gradually transition to being intergroup in nature as interaction is determined by the social group membership of the individuals involved (Tajfel, 1982a: 13). A prevailing definition of intergroup relations is that they “… refer to relations between two or more groups and their respective members. Whenever individuals belonging to one group interact, collectively or individually, with another group or its members *in terms of their group identification*, we have an instance of intergroup behavior” (Sherif, 1966: 12). The shift from interpersonal to intergroup is accompanied by automatic cognitive processes related to self-categorization, as well as motivational processes associated with self-description (Turner, 1982: 21).

One way in which social group membership influences individual-level behaviors is embodied in the concept of social identification. A social identity is defined as “…those aspects of an individual’s self-concept based upon their social group or category memberships together with their emotional, evaluative and other psychological correlates…” (Turner, 1987: 29; See also Tajfel, 1982b: 2). An important distinction is that social identification encompasses both the process of locating oneself within a system of social categories, and the process by which one’s self-concept is shaped by these perceived social category memberships (Turner, 1982: 17–18). Research on the minimal conditions for group formation and intergroup biases indicates that similarity and attraction appear to influence social identification (Brewer, 1979a), but these

conditions are neither sufficient nor necessary for group formation—rather it is "… the mere perception by individuals that they are joined in common category membership, [which] seems to be both necessary and sufficient [for group formation]." (Turner, 1982: 22). In other words, it is the perception and awareness that one is a member of a social category which is necessary for group formation in the psychological sense (Tajfel, 1982a: 2).

Although common category membership is necessary for group formation in the psychological sense, a social identity requires some external criteria to validate that the category exists: "There can be no *inter*group behavior unless there is also some 'outside' consensus that the group exists." (Tajfel, 1982a: 2). There are various sources of external classifications, such as similarity on demographic characteristics (e.g., gender, age, and ethnicity), which can form the basis for intergroup behavior and discrimination, as demonstrated by research on ethnocentrism (see Brewer, 1979b for a review). Additionally, the positions of individuals within a social structure such as membership in a profession can provide a source for external criteria (Deschamps, 1982), and there is ample evidence to support that corporate leaders form a categorization criterion which could function as a basis for perceiving common category membership (e.g., Davis, Yoo, & Baker, 2003; McDonald & Westphal, 2011; Shani & Westphal, 2016; Useem, 1979, 1982).

An additional implication of the primacy of shared category membership is that attraction among individuals is not required for group cohesion to occur. Specifically, it suggests that once common membership has already been established, interpersonal attraction and similarity among group members further bolsters group cohesion; and that interpersonal attraction is—to a certain extent—a consequence of shared group membership (Oakes & Turner, 1980; Tajfel, 1982a; Turner, 1975, 1987). Therefore, an important antecedent of social identification and subsequent

intergroup behavior is the triggering of one's perception and awareness of common group membership.

There are various ways in which individuals can be aggregated into distinct groups, and the notion of *Entitativity*[10] refers to the relative perception of certain aggregates of individuals as a social group and emphasizes that "Among actual or potential aggregates of persons, there are certain aggregates which meet criteria of being "entities," and other aggregates which do not." (Campbell, 1958: 15). This perspective emphasizes the perceptual nature of group formation, wherein a stimulus can trigger the perception of a group as an entity (Horwitz & Rabbie, 1982). In terms of perception, a collection of individuals appear less different from each other compared to the differences between a certain collection of individuals and other collections of individuals, which is also described as the meta-contrast ratio (Campbell, 1958; Turner, 1987). This is in effect a conception of salience in which certain comparison dimensions function to influence the perception of group membership (see review in Hewstone, 1989: 192–193). In such a model of group formation, with the simple presence of a certain stimulus—a perception of an in-group and out-group can become salient—where previously there was no such distinction (Turner, 1982: 23). Thus, it is the dismissal of a CEO has the power to emphasize intergroup boundaries—such as by heightening perceived shared group membership among CEOs for which the dismissal is likely salient.

There are multiple actual and potential boundaries delineating different aggregations of individuals "…these boundaries will always be relative… and for human social groupings, the boundaries drawn by similarity seem somewhat secondary to those based upon common fate." (Campbell, 1958: 20). This echoes Lewin's assertion that it is "… not similarity or dissimilarity

[10] Campbell (1958: 17) defines *Entitativity* as "…the degree of being entitative. The degree of having the nature of an entity, of having real existence.

that decides whether two individuals belong to the same or to different groups, *but social interaction or other types of interdependence*. A group is best defined as *a dynamic whole based on interdependence rather than on similarity* … the fact that it is classified by the majority as a distinct group is what counts . . . the main criterion of belongingness is *interdependence of fate*." (Lewin, 1948: 148). In essence the perception that one's outcomes are tied to membership in a group activates ingroup—outgroup biases (Horwitz & Rabbie, 1982), and these biases have been shown to be expressed in the form of in-group favoritism (Brewer, 1979a; Turner, 1975). However, an additional consequence is that in-group members may also expect the outgroup's behavior to be affected by equivalent biases which promote outgroup favoritism (Horwitz & Rabbie, 1982: 258), and outgroup actions which appear to confirm this expectation, even if they are observed as directed toward a fellow member of one's social group, strengthen the boundary between the two groups (see also Tajfel, 1982a: 16). With regard to perception of shared social category membership by CEOs, the exercise of board control—such as the dismissal of a CEO at another firm—is an action [by a board that is] directed at a member of one's social category; and such action makes salient the boundary between corporate leaders and boards of directors as separate groups.

I now draw on self-categorization theory to argue that corporate leaders are prone to perceive the dismissal of another CEO in terms of their shared group membership. More specifically, I describe how social identification and self-categorization influence other corporate leaders to make favorable attributions about the dismissed CEO, which also paint the dismissing board in a less favorable light.

Social categorization is the result of a relatively automatic cognitive process wherein individuals "…structure their perception of themselves and others by means of abstract social

categories, that they internalize these categories as aspects of their self-concepts…" (Turner, 1982: 17). This internalization process is driven by a desire for positive social comparisons and "It assumes that people are motivated to evaluate themselves positively and that in so far as they define themselves in terms of some group membership they will be motivated to evaluate that group positively, i.e., people seek a positive social identity." (Turner, 1987: 30; see also Hogg & Abrams, 1990). Therefore, corporate leaders would be motivated to engage is social comparisons which contribute to a positive and distinctive self-concept, and in an intergroup context this is expressed in biases affecting evaluation regarding other corporate leaders as well as evaluation of boards (Turner, 1975, 1982: 17, 1987: 30).

Furthermore, this desire for a positively distinct social identity (Turner, 1987: 30), influences accentuation of within-group similarities [and between-group differences] which are value-significant to corporate leaders. This is due to a social comparison process (Festinger, 1954) guided by self-enhancement motives to make comparisons which promote a positive self-concept (Tajfel, 1981; Tajfel & Turner, 1979; Turner, 1987; Oakes & Turner, 1980; for a review see Hogg & Abrams, 1990). In effect, people accentuate similarities between fellow group members on dimensions which promote a positive social identity and exaggerate differences from other groups on dimensions which promote positive intergroup comparisons (Hogg & Abrams, 1990; Oakes & Turner, 1980; Tajfel, 1981; Turner, 1982: 28).

In other words, the process of self-categorization results in the assimilation of one's self-concept such that it is defined in terms of a group prototype—accentuating similarities among corporate leaders. In this view, dismissal of a fellow CEO can trigger self-categorization among other CEOs, making their shared social identity more salient. Specifically, it activates self-stereotypes which are an exaggeration of the similarity among corporate leaders on dimensions

and characteristics which provide positive self-evaluations. For instance, there is support that CEOs often evaluate their leadership capabilities and strategic decision making to be above average (Meindl, Ehrlich, & Dukerich, 1985; Park, Westphal, & Stern, 2011; Pfeffer, 2010: 200), and salience of shared social identity can cause CEOs to extend these biased self-evaluations to the dismissed CEO's decision-making capabilities as well. It is important to note that the activation of common social identification results in depersonalization which can be described as elevating individual level identity to a social level identity. This social level identity is the vehicle through which one is influenced by the experiences of ingroup members[11].

In summary, the dismissal of an alter CEO situationally increases the salience of shared social identity among other corporate leaders due to the relatively automatic cognitive process of self-categorization. This is accompanied by the assignment of the experiences of the social category to oneself, an experience which can be inferred from the experience of other members of their category. This is also referred to as "*Vicarious personalism*—that is, the perception by members of one group that another group's actions are aimed at…them…" (Cooper & Fazio, 1979: 151). In other words, a focal CEO "…vicariously feel[s] the pain [of the situation] …" through an alter CEO, with whom they socially identify (Heider, 1958: 278). Therefore, when circumstances make category membership salient, individuals are apt to act on the basis of their category membership—taking the dismissal of another CEO personally—even in the absence of empathy or contagion (Turner, 1982: 30).

[11] In his self-categorization theory, Turner (1987: 50–51) points out that depersonalization of the self enables elevation of self-identity to a social-identity: "…group behavior is assumed to express a change in the level of abstraction of self-categorization in the direction which represents a depersonalization of self-perception, a shift towards the perception of self as an interchangeable exemplar of some social category and away from the perception of the self as a unique person defined by individual differences from others. Depersonalization, however, is not a loss of individual identity, nor a loss or submergence of the sell in the group (as in the concept of de-individuation), and nor any kind of regression to a more primitive or unconscious form of identity. It is the *change* from the personal to the social level of identity, a change in the nature and content of the self-concept corresponding to the functioning of self-perception at a more inclusive level of abstraction. In many respects depersonalization may be seen as a *gain* in identity, since it represents a mechanism whereby individuals may act in terms of the social similarities and differences produced by the historical development of human society and culture."

While observing the dismissal of an alter CEO triggers these self-categorization and social identification processes among other corporate leaders, it also triggers biases which affect the attributions they make about the dismissal. This involves fundamental attribution errors (Jones & Nisbett, 1972; Ross, 1977) made by other corporate leaders about the causes for the dismissal. In essence, identification with the dismissed CEO triggers self-enhancement biases (e.g., Tajfel & Turner, 1979; see Hogg & Abrams, 1990 for a review) which cause other corporate leaders to make favorable attributions about the dismissed CEO's decisions, while making unfavorable attributions about the board's dismissal decision. Owing to these contrasting attributions about the dismissed CEO and the quality of the board's decision, corporate leaders will experience: (a) Exacerbated concerns about organizational and procedural justice; and (b) an increase in uncertainty about future board evaluation.

Attribution errors and biases in the evaluation of the dismissal of a fellow CEO

An important question in the attribution literature focuses on the conditions under which individuals engage in processes of causal attribution. From a cognitive perspective, behavior that deviates from expectations triggers correspondence inferences which are biased toward making dispositional attribution to the person rather than to the situation (Jones & Davis, 1965: 224; Kelley, 1979). However, when making attributions about oneself, this tendency is reversed and one's own failures are often attributed to situational constraints (Jones & Nisbett, 1972). This is due to the threat a personal failure poses to one's self-esteem and introduces self-serving biases in the form of attributional reasoning which emphasizes situational constraints such as task related factors and luck (Weiner et al., 1972; Wong & Weiner, 1981). These self-serving biases include a person's tendency to attribute success to internal causes, such as one's skill and ability, and is referred to as the 'self-enhancing bias'; and a person's tendency to attribute one's own

failures to external factors such as the task or situational constraints and is referred to as the 'self-protecting bias' (Hewstone, 1989: 58). There is evidence that corporate leaders are also susceptible to these self-enhancing and self-protecting biases and are prone to attribute failures to external factors while crediting success to their leadership and strategic decision-making capabilities (Meindl et al., 1985; Park et al., 2011; Pfeffer, 2010: 200; Shani & Westphal, 2016).

However, because other corporate leaders are likely to regard the dismissal of a fellow CEO in terms of their shared group identification, it activates intergroup attributions wherein corporate leaders are prone to explain behavior and outcomes in terms of their shared group membership. When an alter CEO is dismissed, the salience of their shared social identity causes other [focal] CEOs to regard the decision in terms of their shared group identification. In intergroup relations: "A person attributes the behavior of another person not simply to individual characteristics, but to characteristics associated with the group to which the other person belongs." (Hewstone, 1989: 166). When considering the self-evaluative motivations relating to social identification and self-categorization (Hogg & Abrams, 1990), individuals are apt to extend their self-serving biases to members of their social group, such that failures of others are attributed to external factors, and successes of others are attributed to internal factors (Hewstone & Jaspars, 1982). From a self-categorization perspective, elevation of the individual level identity to a social level identity causes other corporate leaders to vicariously experience the misfortune of a fellow CEO in terms of their shared group membership (Turner, 1987: 50–51). As a result, social identification with a dismissed CEO has the potential to trigger self-protecting biases causing other corporate leaders to make favorable evaluations of the decisions of the dismissed CEO, emphasizing situational factors as explanations for any failure that might have led to a dismissal.

In addition to self-protecting biases resulting from corporate leader self-categorization and social identification with a dismissed CEO, the dismissal can also trigger unfavorable attributions about the outgroup. The literature on intergroup conflict and prejudice highlights the tendency to make unfavorable attributions about the behavior of outgroup members such that they exacerbate conflict and negative views about the outgroup (Allport, 1954; Pettigrew, 1979; see Hewstone, 1990 for a review). This has been described as the 'ultimate attribution error' (Pettigrew, 1979), and is an extension of the fundamental attribution error (Ross, 1977), such that attributions about an action by the outgroup against one's own group serve to strengthen negative views of the outgroup (Hewstone, 1990). Specifically, in the context of dismissal of an alter CEO, this suggests that other CEOs are also likely to make similar unfavorable attributions about the board's decision.

In summary, I argue that the dismissal of an alter CEO triggers relatively automatic cognitive processes of self-categorization which can cause other [focal] CEOs—for which the dismissal is likely salient—to socially identify with the alter. The feelings of shared social group membership with alter, influence attributional judgments about the dismissal; in particular, that other corporate leaders are made more sensitive to situational factors which led to the dismissal. In the following section, I develop theory explaining how biased attributions about the causes for dismissal and the intentions of the board affect the strategic decision making of other corporate leaders.

Implications of perceived fairness of board evaluation for strategic decision making

A key concern in this section is with regard to the dual-role of the board of directors, wherein corporate governance often focuses on the board's primary role as "…a governance structure safeguard between the firm and owners of equity capital". However, a secondary, yet

crucial, role is as "…a way by which to safeguard the contractual relation between the firm and its management" (Williamson, 1985: 298). This highlights that for directors to fulfill both the primary and secondary roles, they need to be able to discriminate between instances where poor performance is the result of adverse external conditions, which are out of the control of managers, and poor performance "that result[s] from opportunism or persistently incompetent decisions" (Baysinger & Hoskisson, 1990).

From an organizational control perspective, a central concern in this context is whether a board appears to treat an alter CEO fairly or not, and how this can influence the focal CEO's level of trust and confidence in the board as a fair, impartial, and supporting entity at the focal firm. The evaluation of managerial decisions faces challenges due to uncertainty in making attributions about firm performance (Pfeffer & Salancik, 1978), and is therefore vulnerable to biases which can cause the board and corporate leaders to make diverging causal inferences based on observed firm performance. As a result, it is possible that a focal CEO would question the fairness of the inferences made by the board at an alter CEO's firm (Blader, Wiesenfeld, Fortin, & Wheeler-Smith, 2013; Lind & Tyler, 1988; Tyler, 1989, 2001), and heighten concerns that they too could face unfair evaluations by their own board.

As argued previously, self-enhancing biases affect corporate leaders such that they are prone to attribute poor performance to situational factors rather than to their own decisions (e.g., Meindl et al., 1985; Park et al., 2011; Shani & Westphal, 2016). Furthermore, the relatively automatic cognitive processes of self-categorization following the dismissal of an alter CEO cause other CEOs to socially identify with the alter CEO (e.g., Abrams & Hogg, 1990; Turner, 1987). Such social identification can cause these other CEOs to extend their self-enhancing biases to members of their social group, in effect sensitizing them to factors that were at least

partially outside the control of an alter CEO. These biased attributions about the dismissal of an alter CEO may be viewed as indicative of incorrect attribution of poor firm performance to the CEO and may be perceived as unfair—because it can imply that the board did not distinguish between "legitimate and illegitimate causes of financial misfortune" (Baysinger & Hoskisson, 1990: 76). Hence, the dismissal of the alter CEO can reflect the appearance of unfairly holding the CEO accountable for outcomes that are at least partially outside of his or her control, and signal to other CEOs as to the quality of treatment a member of their social group receives from a board as representing the outgroup.

In terms of the group-value model (Tyler & Lind, 1992), the decisions of a board can be viewed as representing a group authority decision which is evaluated in terms of its fairness toward the dismissed CEO (Tyler & Blader, 2000). In the current context, the attribution biases associated with socially identifying with the dismissed alter CEO, sensitizes a focal CEO to potential situational determinants which affected alter's decisions. Thus, the board's decision to dismiss the alter CEO may appear to conflict with the board's role as a fair evaluator of management decisions and might be interpreted as an indication of an unfair punishment toward the dismissed CEO. Such violations of procedural justice can also be vicariously experienced by members of the dismissed CEO's social group such that other corporate leaders may even feel that the unfair treatment of the dismissed CEO is directed towards themselves as well (Cooper & Fazio, 1979; Tyler, 1989), and could be taken as indicative of future behavior (Heider, 1958; Smith et al., 1998; Tyler & Lind, 1992). Stated differently, the decision to punish the alter CEO can represent a violation of the basic group value about a board's role to safeguard the relationship between management and owners. More crucially, it may appear not only as a failure [of the manner in which management decisions are evaluated] by this specific board, but

can heighten concerns that the conditions that precipitated a subjectively flawed board attribution might happen again, and at one's own board as well. In summary, the theory here suggests that focal CEOs may be biased such that it appears to them that the board at the alter CEO's firm—as a group—can appear to make a subjectively unfair evaluation of an alter CEO's decisions. What assurances do focal CEOs have that their own respective boards will not follow a similar path?

Prior research has highlighted that concerns about managerial risk bearing (Eisenhardt, 1985) can lead to decisions aimed at directly reducing managerial risk bearing—such as in the form of the increased unrelated diversification described by Baysinger and Hoskisson (1990: 76). However, such decisions reduce risks that are specifically associated with the evaluation of outcomes of decisions rather than the quality of the decisions (Eisenhardt, 1985; Ouchi, 1979; Thompson, 2003). In the following section, I develop theory which suggests that a focal CEO might react to concerns about unfair evaluation of decisions by enacting fewer, or more incremental changes to strategy.

Psychological responses to concerns about board evaluation fairness

Within the literature on strategic change, the strategic choice perspective credits management with the ability to direct firm strategy (Child, 1972), as opposed to perspectives which have a diminished view of the importance of management in affecting change (Hannan & Freeman, 1977). In this view, management directs strategy by identifying opportunities to be pursued (Cyert & March, 1963), or problems that need to be solved (March, 1991). Management then formulates and implements strategic changes through the allocation of corporate resources (Finkelstein & Hambrick, 1990), negotiating support for changes with internal and external stakeholders (Pfeffer, 1981), and by engaging in symbolic actions which give meaning to changes that are instigated (Gioia & Chittipeddi, 1991). In the upper-echelons literature, strategic

change is associated with the cognitive characteristics of the top management team because these characteristics affect receptivity to consider different strategies, a willingness to accept the risks associated with strategic change, as well as the ability to generate diverse alternatives (Hambrick & Mason, 1984). While this literature focuses on top management teams, CEOs have a key role in strategic change due to their position of power in the organization (Pfeffer, 1981), and the literature on managerial discretion has demonstrated that CEOs which have discretion over the allocation of firm resources are better able to affect change in their organization (Finkelstein & Hambrick, 1990; Hambrick & Finkelstein, 1987).

Nevertheless, political factors can constrain strategic change because preservation of the status quo helps maintain the balance of power among units and coalitions within the organization (Pfeffer & Salancik, 1978), yet such inertia can cause management to potentially ignore information indicating that change is needed (Tushman & Romanelli, 1985). Furthermore, ecological views of strategic inertia emphasize that the disruption which strategic change introduces can increase the risk of failure and firm death (Hannan & Freeman, 1984). Similarly, the concern suggested by my theory, about the potential for unfair evaluation by one's board could also exacerbate strategic inertia by causing CEOs to enact fewer changes to strategy—simply because a CEO might be worried whether such decisions would be evaluated fairly in the future.

The literature on decision making under uncertainty highlights the role of regret on choosing between action and inaction (Kahneman & Tversky, 1982a). More specifically, regret is a result of comparing reality to an imagined scenario of what might have been, and people are more likely to feel regret when imagining negative outcomes following an action, compared to when imagining negative outcomes following inaction (Kahneman & Tversky, 1982b; see also

Landman, 1987). Furthermore, when making causal attributions, inaction is less salient than an action and is thus less cognitively available during the attribution process (Nisbett & Ross, 1980; Ross, 1977). As a result, it is likely easier to come up with alternative choices for an action compared to coming up with alternatives to inaction (Kahneman & Miller, 1986). Corporate leaders may also feel a need to reduce regret about their past decisions; for instance, prior research indicates that CEOs draw reassurance about past decisions from their interactions with other corporate leaders (McDonald & Westphal, 2003). A more recent perspective considers an emotional component by which concerns about unfair evaluation might induce CEOs to prefer inaction over action. Specifically, emotions can indirectly affect behavior by operating as a feedback system, wherein emotional experiences stimulate cognitive learning processes, such that: "… people learn to anticipate emotional outcomes and behave so as to pursue the emotions they prefer" (Baumeister, Vohs, DeWall, & Zhang, 2007: 168). Therefore, negative emotions associated with unfair evaluation toward an alter CEO can become salient and influence a focal CEO as he or she is considering strategic decisions.

In cognitive perspectives of strategic change, the characteristics of managers are argued to be indicative of the cognitive base which influences attention to the environment and is the lens through which alternatives are evaluated (Hambrick & Mason, 1984). The extant literature on the cognitive factors affecting strategic change has considered demographic characteristics as indicators of cognitive preferences (Wiersema & Bantel, 1992), the experiences of top management teams (Hambrick, Cho, & Chen, 1996), the variety of a CEO's experience (Crossland et al., 2014), and even narcissistic preferences causing CEO's to give more weight to alternatives they learn of personally (Zhu & Chen, 2014). While these perspectives—in varying degrees—emphasize comparisons between alternative choices, the theory developed here

suggests that concerns about unfair evaluation of such choices can influence CEOs to simply prefer inaction. This is due to the cognitive availability of negative outcomes that could result from a decision, such that a focal CEO might more readily consider a *worst-case-scenario*—which they anticipate that they may come to regret. In other words, through automatic cognitive processes and the activation of associated biases, a focal CEO may anticipate similar unfair evaluation of decisions by their own board—because such a scenario may become more cognitively available—and as a result feel more comfortable by avoiding the promotion of *significant* strategic decisions.

While the automatic cognitive mechanisms and biases described here do not require that CEOs intentionally adopt a more cautious stance with regard to strategic decision making, it may be that such preferences have an intentional component as well. For instance, a focal CEO who is concerned about unfair board evaluation, will be more likely to engage in smaller and incremental changes to strategy because decisions of such nature may be less likely to attract attention (Fazio, Sherman, & Herr, 1982; Newman, Wolff, & Hearst, 1980), and scrutiny by the board. Additionally, corporate leaders might be hesitant to engage in sweeping changes to strategy because they might require board approval—making a decision more salient compared to situational factors during subsequent board evaluation of outcomes. Even if the CEO has a high degree of managerial discretion (Hambrick & Finkelstein, 1987), exercising their discretion might make it easier for a board to dissociate themselves from such decisions.

Cautious strategic decision making

Prior research on strategic change views the temporal reallocation of resources among domains such as research and development, advertising, financial leverage and capital investments, as a reflection of changes in strategic priorities and a result of the implementation of

strategic decisions (Boeker, 1992; Hoskisson & Johnson, 1992; Wiersema & Bantel, 1992). More recently, the construct of strategic dynamism has been used to describe the magnitude of changes to resource allocations from year to year and was argued to capture the relative strategic novelty resulting from the expression of a CEO's professional background variety (Crossland et al., 2014).

Based on the theory above, a focal CEO concerned about how decisions might be unfairly evaluated is likely to be more cautious with regard to decisions which reallocate strategic resources. Furthermore, a focal CEO with such concerns might be more comfortable avoiding decisions which require large resource reallocations, because possible negative outcomes may be more cognitively available and salient during decision making. In summary, the dismissal of an alter CEO can potentially activate self-categorization and social identification processes among [focal] CEOs of other firms for which the dismissal is likely salient (e.g., focal CEOs at firms headquartered in the same city where the dismissed alter CEO's firm is headquartered; focal CEOs which served as an outside director on the board of the firm that dismissed the alter CEO; focal CEOs at firms operating in the same industry as that of a dismissed alter CEO's firm); and cognitive biases associated with these processes can heighten the salience of the potential for unfair evaluation of a focal CEO's strategic decisions at their own firm. The theory here asserts that as a result, such focal CEOs will become more cautious in their strategic decision making, such as by making fewer—or incremental—strategic resource reallocations.

> *H2.1: The dismissal of an alter CEO at one firm, will have a negative relationship with the magnitude of subsequent strategic resource reallocation by focal CEOs at other firms, for whom the dismissal is likely salient.*

Moderating effects of focal firm performance

The dismissal of an alter CEO has up to this point been argued to potentially raise concerns among other focal CEOs about their board, and it was suggested that such CEOs are likely to prefer decisions which reduce the risk of being held accountable for outcomes that are at least partially outside of their control (Eisenhardt, 1985: 136).

Concerns about being unfairly held accountable may be especially powerful for a focal CEO as performance at the focal firm increases. This is because managers might become concerned about changes that could degrade performance—consequently influencing their risk preferences such they will be likely more risk averse. Such managerial risk aversion is central to concerns in behavioral agency perspectives which are concerned that with rising performance, managers prefer to take fewer risks (March & Shapira, 1987; Wiseman & Gomez-Mejia, 1998). This suggests that focal firm performance will bolster the effect of alter CEO dismissal on the subsequent level of cautious strategic decision making at a focal CEO's firm. Specifically, that:

> *H2.2: The negative relationship between dismissal of an alter CEO at one firm and the level of subsequent strategic resource reallocation by focal CEOs at other firms, for whom the dismissal is likely salient, will be more negative as performance at the focal firm increases.*

Undermining certainty about future board behavior and strategic decision making

The theory developed to this point, focused on psychological reactions of corporate leaders which increase concerns about the *potential for unfairness* in evaluation by one's own board. These psychological reactions were argued to cause corporate leaders to become more cautious in their strategic decision making—in effect preferring decisions with relatively incremental changes to strategy. Here, this theory is extended to address psychological reactions which have the potential to increase *uncertainty* about how a focal CEO's board might evaluate the CEO's decisions and explain why such a CEO may be apt to mitigate this uncertainty by

promoting decisions which result in more predictable evaluations by the board—such as strategies which conform to prevailing strategies within one's own industry.

Despite the criticisms about interdependencies between corporate leaders and directors serving on their board as enabling the pursuit of self-interest (e.g., Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976; Useem, 1982), more recent research has developed a more nuanced and socialized view of the effect of relationships between CEOs and the directors serving on their board. Of specific relevance here is the way in which social ties can promote trust and cooperation between the CEO and the board—and the positive consequences this can have for firm performance. On the one hand, CEOs have been shown to engage in social influence toward directors in response to increases in structural independence, increasing agency costs such as in the form of unrelated diversification and CEO compensation structure (Westphal, 1998). Yet, friendship ties between a CEO and directors can also facilitate trust and cooperation which promotes firm performance through increased board involvement such as by the provision of advice (Westphal, 1999). The theory developed here argues that in much the same way that friendship ties between a CEO and a director can promote trust, social identification and intergroup attribution processes following the dismissal of an alter CEO can inadvertently undermine trust. Drawing from the intergroup literature, I highlight how group attribution processes can cause corporate leaders to depersonalize behavioral expectations about their board as a group (Allison & Messick, 1985; Pettigrew, 1979; Turner, 1987), meaning that even if a focal CEO feels confident about their relationship with specific directors on their board, they are apt to become suspicious of the behavior of directors when they act as a group.

In essence, I argue that biases in attribution about observed board decisions affect a focal CEO's judgements about the values and attitudes of directors, and these judgments have the

potential to reduce one's confidence and certainty about predicting the behavior of directors on their own board. In other words, the extent to which the behavior of the board at alter's firm [as a group] deviates from the focal CEO's [biased] expectations that the board should have supported alter has the potential to reduce a focal CEO's confidence to reliably anticipate how their own board might act.

The extant literature indicates that in their interactions with their own board, CEOs are likely to observe behavior which cultivates an expectancy that the board will not challenge their decisions. For instance, prior research found that it is normative behavior for directors to avoid openly raising new issues during board meetings (e.g., Mcdonald & Westphal, 2013; Mizruchi, 2004), and that directors may often be reluctant to take actions such as reducing CEO compensation (Bebchuk & Fried, 2004; see O'Reilly & Main, 2010 for a more recent review). These norms are promoted through social influence tactics and socialization processes (e.g., Mcdonald & Westphal, 2013; Westphal, 1998), or enforced through [often subtle] social sanctioning (Westphal & Khanna, 2003). Yet, the dismissal of an alter CEO might disrupt expectations and norms of board support and can cause other [focal] CEOs to become uncertain about whether their board will support their decisions and choices. Such uncertainty can be described as uncertainty about one's social standing with the board (Tyler & Blader, 2000: 90).

I develop theory suggesting that such uncertainty can be mitigated by seeking external sources of legitimacy; for instance, by preferring strategies which conform to prevailing strategies within one's own industry (e.g., Haunschild & Miner, 1997). The rationale being that a focal CEO may feel that it is easier to predict how their board will evaluate prevailing strategies because decisions which align with industry practices are more likely to be regarded as legitimate (Elsbach, 1994). Furthermore, it is less likely that pursuing a legitimate strategy would

be judged as resulting from incompetence or self-interest, and the focal CEO may feel more certain that board members will support a CEO which pursues strategies which directors can justify to the audiences that they are in turn accountable to.

Group attribution errors and depersonalization of the board

The previous discussion of self-categorization and social identification focused on the manner in which self-enhancing biases and favorable attributions are extended to the members of one's own social group. An additional related process involves the *depersonalization*[12] of the outgroup (Tajfel, 1981: 243), and in the prejudice literature, such depersonalization has been associated with mechanisms which maintain negative views of the outgroup by preventing counterfactual behavior of outgroup members from changing conceptions about the outgroup as a social group (Allport, 1954; Pettigrew, 1998). These biases result in a tendency to make attributions about the values, traits and dispositions of group-members, based on inferences from the observed behavior of the group, while discounting external constraints that might have led to the group's decision (Allison & Messick, 1985: 564). By discounting external constraints, a group decision which deviates from prior decisions can lead to biased inferences that create the impression of changes to underlying values, traits and dispositions of individual group members (Mackie & Allison, 1987). Furthermore, actions against a member of one's own social group contributes to the processes of *vicarious personalism*, which can result in a "…simplistic correspondent inference about the evil nature of the outgroup members…" (Cooper & Fazio, 1979: 152).

[12] Tajfel describes *depersonalization* of the outgroup as a tendency "…for members of the ingroup to treat members of the outgroup as undifferentiated items in a unified social category"; and this depersonalization is expressed by "… the attribution to members of the outgroup of certain traits assumed to be common to the group as a whole, in value judgments pertaining to these traits, in the emotional significance associated with these evaluations, and in other forms of behavior associated with the ingroup-outgroup categorization." (1981: 243).

Hence, generalized inferences about a decision to dismiss an alter CEO could appear to a focal CEO as revealing that directors will abandon a CEO, and fail to stand up to external or group pressures to dismiss a CEO. Horwitz and Rabbie point out that groups "…view others' relationship with them in terms of the varying degrees of weight that others accord and ought to accord their desires", and that they are likely to "…respond with anger if they believe the … [outgroup] has given their desires less weight than they feel is due them…" (1982: 264). In other words, the dismissal of an alter CEO has the power to challenge a focal CEO's trust that directors will object to unfair decisions, and that when acting as a group, directors appear to give less weight [or due consideration] to a CEO's fate.

The concept of trust has been defined as having an expectancy component, a motivational component, and some measure of risk involving a worse outcome in the event that the expectancy is violated (Deutsch, 1958: 266)[13]. In the context of a CEO's perceptions about the conduct of the board, trust can be described as the expectancy a CEO holds about the backing of the board and individual directors in the form of evaluating their strategic decisions as justified. In other words, inferences about the implied support of directors for the dismissal of an alter CEO, can make a focal CEO question whether directors on their board will similarly violate their trust, consequently reducing their expectancy that when acting as a group, individual directors may not justify the CEO's strategic decisions.

Disruption of perceived board norms and strategic conformity

As described above, prior research suggests that CEOs are likely to come to expect support from their board. However, group discussions leading up to the dismissal of an alter

[13] Deutsch formally defines "trust" as: "An individual may be said to have trust in the occurrence of an event if he expects its occurrence and his expectation leads to behavior which he perceived to have greater negative motivational consequences if the expectation is not confirmed than positive motivational consequences if it is confirmed." (1958: 266)

CEO are likely to include some criticism of the CEO, criticism that prior to the decision may have been held privately or appeared to lack sufficient support. From a group polarization perspective, raising criticism of the CEO can lead to shifts in the positions of directors, or embolden others to voice their criticism (Burnstein & Vinokur, 1975, 1977), and contribute to a more extreme critical position by the board (Myers & Lamm, 1976) compared to an apparent norm of support for the CEO.

An important dimension in the literature on private-attitude and public-behavior consistency is referred to as *literal consistency*, which can be described simply as whether "…people do what they say they will do…" (Schuman & Johnson, 1976: 164). In the context of intergroup relations, *literal inconsistency* describes a discrepancy between a group's attitudes and their overt behavior (Miller, Monin, & Prentice, 2000: 102); and in terms of literal inconsistency—the dismissal of an alter CEO could appear to demonstrate that directors 'do not necessarily do what they say they will do'. For a focal CEO, the dismissal of the alter CEO exposes a lack of uniform support for an assumed norm (Prentice & Miller, 1993), wherein support for a CEO may not hold for all directors. Furthermore, given group polarization processes (Burnstein & Vinokur, 1977; Myers & Lamm, 1976; Zhu, 2013), even directors who privately support the CEO, might appear to go along with the prevailing negative sentiment of the board as a group.

From a focal CEO's perspective, the dismissal of an alter CEO triggers psychological reactions which ultimately cause them to question the appearance of public support by directors on their board as well. These relatively automatic cognitive mechanisms potentially challenge a CEO's conceptions about their board's future behavior. Specifically, the theory here suggests

that such a CEO is prone to be uncertain of the behavior of directors when considering their conduct when acting as a group (board).

At the organizational level, increases in uncertainty can be alleviated by increasing conformity such that organizations imitate institutionalized practices as a source of legitimacy (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Furthermore, the literature on accountability and managerial decision-making highlights that pressures to justify choices lead to pre-emptive self-criticism which can take the form of strategically shifting toward strategies that a CEO estimates will be justified in the board's view (Tetlock, 1992: 343). From an evaluative perspective, prevailing practices generate legitimacy because their prevalence is indicative of cognitive legitimacy (e.g., Fligstein, 1985; see also Suchman, 1995 for a review), and frequency imitation is enhanced under uncertainty (Haunschild & Miner, 1997). Therefore, imitation of prevailing strategies can be used by CEOs to alleviate legitimacy threats and can affect the legitimacy evaluations of important constituencies such as the board (Elsbach, 1994).

Strategic conformity has been defined as the extent to which a firm's strategy conforms to the central tendency within the firm's industry (Finkelstein & Hambrick, 1990: 487), and deviation from these central tendencies is argued to reflect the pursuit of strategies that are—for a specific industry—more innovative and untested (Crossland et al., 2014). Furthermore, objective indicators make it possible to assess the extent to which a conforming strategy is realized (Geletkanycz & Hambrick, 1997: 659), and the adherence of a firm's resource allocation profile, to the resource allocations of other firms in the same industry has been shown to capture strategic conformity (Crossland et al., 2014; Finkelstein & Hambrick, 1990; Geletkanycz & Hambrick, 1997).

In summary, the theory described here suggests that focal CEOs—to which the dismissal of an alter CEO is likely to be salient—will favor prevailing strategies within the focal firm's industry. This is because the dismissal of the alter CEO increases a focal CEO's uncertainty about board support, and they will prefer to conform to prevailing strategies in their industry. This leads to the following hypothesis:

> *H2.3: The dismissal of an alter CEO at one firm, will have a positive relationship with the level of subsequent strategic conformity by focal CEOs at other firms, for whom the dismissal is likely salient.*

Methods

See description of sample and data construction in the methods section for the first study[14].

Analysis strategy

The longitudinal data includes approximately 2700 CEOs, with an average of 4 year-observations for each CEO, resulting in approximately 10000 CEO-year observations. The hypotheses regarding cautious strategic decision making and strategic conformity/distinctiveness are all tested using OLS regression of each of the two dependent measures on measures for conditions argued to increase the salience of dismissals at other firms. For the moderation hypotheses were tested by including the measure for focal firm performance (in the prior year). See detailed explanation in the methods section of chapter 1 for the use of a fixed-effects estimation model, cluster-robust standard errors, year-dummies, and additional controls.

Data collection and construction of variables

See detailed description for data collection and construction of variables in appendix A.

[14] Wharton Research Data Services (WRDS) was used in preparing this study. This service and the data available thereon constitute valuable intellectual property and trade secrets of WRDS and/or its third-party suppliers.

Independent variables and moderators

Salience of fellow CEO dismissal at other firms

See description of the dismissal measure in the methods section for the first study.

In this study, I focus on three factors which can make the dismissal of a CEO at one firm salient to CEOs at other firms. As described in detail in the first chapter of this dissertation, the dismissal of an alter CEO at one firm is likely to be salient to focal CEOs of other firms that are headquartered in the same city (also see Appendix). Furthermore, dismissal of an alter CEO is also likely to be especially salient for focal CEOs serving as an outside director on the board of the dismissing firm. Another factor that is focused on in this study, is shared industry—specifically, that dismissal of an alter CEO is likely to be salient to the CEOs of other firms in the same industry as the firm from which alter CEO is dismissed.

Focal firm performance

See detailed description of this variable in the methods section for the first study.

Dependent Variables

Cautious strategic decision making

Prior research on strategic change views the temporal reallocation of resources among domains such as research and development, advertising, financial leverage and capital investments, as a reflection of changes in strategic priorities and a result of the implementation of strategic decisions (Boeker, 1992; Hoskisson & Johnson, 1992; Wiersema & Bantel, 1992). More recently, the construct of strategic dynamism uses the magnitude of year over year changes to resource allocations as a way to capture the relative strategic novelty resulting from the expression of a CEO's professional background variety (Crossland et al., 2014).

This measure is derived from 6 accounting ratios which reflect the strategic reallocation of corporate resources (Geletkanycz & Hambrick, 1997). Cautious strategic decision making was described as making relatively incremental changes to strategy and would be reflected in low levels of strategic resource reallocation and would be expressed as low year-over-year changes in these 6 accounting ratios (Crossland et al., 2014). In contrast, large and sweeping changes to strategy would likely require high levels of strategic resource reallocation and would be expressed as high year-over-year changes in these 6 accounting ratios.

The accounting ratios which are used to create the corporate resource reallocation index include: (a) advertising intensity (advertising expenditures as a proportion of firm sales; (b) R&D intensity (R&D expenditures as a proportion of firm sales); (c) Overhead efficiency (selling, general, and administrative expenses as a proportion of firm sales); (d) capital intensity (the ratio of fixed assets to total employees): (e) plant and equipment newness (the ratio of changes to plant and equipment to gross plant and equipment); and (f) financial leverage (the ratio of a firm's total debt to shareholder equity). The absolute differences in these 6 measures between the current and prior year are combined such that a higher score indicates a higher amount of resource reallocation in the current year compared to the prior year, and a score which is near zero, indicates a low amount of resource reallocation in one year compared to the prior year.

Strategic distinctiveness

The strategic distinctiveness measure is based on the same 6 resource allocation accounting ratios used in the strategic dynamism index and is the sum of the standardized deviations across each of the firm's resource allocation ratios from the industry mean for each ratio. This index captures the extent to which a firm's specific pattern of resource allocation across these 6 ratios, differs from the industry norm, such that a higher score indicates a greater

deviation from the norm, or a greater degree of strategic distinctiveness (Finkelstein & Hambrick, 1990; Geletkanycz & Hambrick, 1997).

Control variables

See controls in the methods section for the first study.

Results

Descriptive statistics are provided in Table III.1, and bivariate correlations are presented in Table III.2. The hypotheses regarding cautious strategic decision making were tested by examining strategic dynamism at a focal firm; which is a measure of the magnitude of the year-over-year changes to strategic resource allocation at a focal CEO's firm. The results of the fixed-effects OLS regressions for strategic dynamism are presented in Table III.3. The hypotheses regarding strategic conformity were tested by examining the distinctiveness of strategic resource allocations at a focal CEO's firm. The results of the fixed-effects OLS regression of strategic distinctiveness at a focal CEO's firm are presented in Table III.4.

As shown in model 4 of Table III.3, the results do not provide support for Hypothesis 2.1 about a positive relationship between dismissals of alter CEOs and the level of strategic resource reallocation at the firms of focal CEOs, for whom the dismissal of the alter CEO is likely to be salient. Specifically, the results show that the relationship between dismissal of an alter CEO, and the subsequent level of strategic resource reallocation at the firms of focal CEOs where: (a) the focal CEO served as an outside director at alter CEO's firm; and (b) the focal CEO's firm is in the same industry as alter CEO's firm; is not significantly different from zero. Furthermore, the results indicate that the relationship between dismissal of an alter CEO and the subsequent level of strategic resource reallocation at the firms of focal CEOs that are headquartered in the

same city in which alter CEO's firm is headquartered, is significantly different from zero, but in a direction opposite to that hypothesized.

The results regarding the moderating effect of focal firm performance on the relationship between alter CEO dismissal and subsequent strategic resource reallocation at the firms of focal CEOs that are headquartered in the same city in which alter CEO's firm is headquartered provide strong support for the relationship in hypothesis 2.2. In model 6 of Table III.3, performance at a focal CEO's firm moderates the relationship between dismissals of alter CEOs headquartered in the same city as the headquarters of a focal CEO's firm, and the subsequent strategic resource reallocation at the focal CEO's firm. This is consistent with hypothesis 2.2 wherein following the dismissal of an alter CEO, strategic resource reallocation at a focal firm decreases, as firm performance increases.

The results regarding strategic conformity provide support for the hypothesized relationship in Hypothesis 2.3. As shown in the results of model 4 in Table III.4, the relationship between dismissal of an alter CEO and the subsequent level of strategic distinctiveness at the firms of focal CEOs which are in the same industry as alter CEO's firm, is significantly different from zero, and in the hypothesized direction. Specifically, the results indicate that the strategic distinctiveness index at a focal firm decreases as the number of dismissals of alter CEOs at firms in the same industry as a focal firm increases. This is consistent with Hypothesis 2.3, such that as the number of dismissals in an industry rises, firms in that industry subsequently become more similar in their strategic resource allocation. However, the results indicate that the relationship between dismissal of an alter CEO and the subsequent level of strategic distinctiveness at the firms of focal CEOs where: (a) the focal CEO served as an outside director at alter CEO's firm;

and (b) the focal CEO's firm is headquartered in the same city as the headquarters of alter CEO's firm; is not significantly different from zero.

Additional post-hoc analyses

A post-hoc analysis tested whether there is a curvilinear relationship between alter CEO dismissals and subsequent strategic resource reallocation at a focal CEO's firm. Model fit greatly increased only in models which included a second order effect for alter CEO dismissals at firms where the focal CEO served as an outside director. Such a model tests whether the effect of alter CEO dismissals of this sort changes when the number of dismissals increases beyond one. The results in model 2 of Table III.5 provide partial support for hypothesis 2.1, indicating that the relationship between an increase of a single dismissal of an alter CEO at a firm where a focal CEO served as an outside director on the board and the subsequent strategic resource reallocation at the focal CEO's firm is significantly different from zero, and in the hypothesized direction. However, the second order effect of alter CEO dismissals at a firm where a focal CEO served as an outside director on the subsequent strategic resource reallocation at such a focal CEO's firm is also significantly different from zero, but opposite to the direction of the main effect hypothesis.

Discussion

The theoretical framework and partially supportive findings in this study advance a multi-level perspective on social control in corporate governance by considering how the strategic decision making of corporate leaders is likely to be influenced by the exercise of control by boards at other firms. Specifically, the theoretical framework developed here suggests that such reactions can include relatively automatic cognitive processes of self-categorization and subsequent biased attributions about the other board's decisions—biases which can increase concerns about the quality of board evaluation. The overall pattern of results provides partial

support that the exercise of control by a board at one firm can influence strategy at the firms of other CEOs for which the dismissal of an alter CEO is likely salient—as reflected by reduced strategic conformity, and more incremental changes to strategy, under some of the conditions examined in this study.

This study makes a noteworthy contribution by finding some evidence indicating that changes to strategy can become increasingly incremental following dismissal of alter CEOs as performance at a focal CEO's firm increases. This highlights an important aspect of how dismissals at other firms might have the power to negatively influence strategy—specifically at firms that are performing well. When firm performance is high, managers may be concerned with promoting changes that degrade performance (Wiseman & Gomez-Mejia, 1998), and the dismissal of an alter CEO at another firm appears to be associated with subsequent caution such as by preferring smaller and incremental changes to strategy.

On the other hand, the results indicate that the reaction to dismissal of alter CEOs at other firms need not always have such a negative consequence. Specifically, dismissals at other firms appear to have, on average, a positive effect on the subsequent strategic dynamism at focal firms headquartered in the same city. In other words, for focal CEOs at firms with average performance, such dismissals are associated with less incremental changes to strategy compared to focal CEOs at highly performing firms. This suggests that dismissals at other firms might—under certain conditions—cause focal CEOs to engage in more sweeping changes to strategy. Future research could identify conditions under which the exercise of control by the boards of other firms can prompt other CEOs to be more—or less—complacent.

Furthermore, the results provide some indication that dismissal of alter CEOs appears to influence the subsequent direction of strategic changes among other firms. Specifically,

consistent with the theory, as the number of dismissals of alter CEOs in an industry increases, the subsequent strategy at the firms of the remaining focal CEOs become more similar to each other. The theory developed in this paper suggests that strategic decisions which are similar to prevailing strategies in an industry can be a source of external legitimacy, and such external legitimacy might address a focal CEO's uncertainty about how their own board might evaluate strategic decisions. As such, this result suggests that exercise of board control might lead to undesired consequences in the form of increasing strategic homogeneity among firms in an industry. Future research could further examine the long-term effects of board control across firms in an industry. For example, the theory and results appear to indicate that the prevalence of CEO dismissal in an industry could influence reactions of remaining CEOs to adverse industry conditions. More specifically, is there a level of CEO dismissals which influences an optimal response by remaining CEOs in an industry?

This study makes a noteworthy contribution in that it develops theory which suggests how dismissal of a CEO can affect the strategy implemented by CEOs at other firms. Specifically, focal CEOs in this study appear to become more cautious in their strategic decision making following the dismissal of an alter CEO at another firm—caution that seems to be expressed in the form of more incremental reallocation of corporate resources.

The theory developed in this chapter focuses on relatively automatic cognitive processes of self-categorization which are unintentional in nature, wherein it is suggested that the external ties of CEOs activate intergroup biases because these ties cause them to elevate their individual identity to a social level identity shared with other CEOs. These cognitive processes are argued to be accompanied by the assignment of the experiences of other CEOs to oneself in a form of vicarious personalism. The theory proposes that these subjective feelings of common fate among

CEOs have the power to cause sanctions aimed at one CEO to have unintended consequences for the cognitions of other corporate leaders. The theory highlights that though a CEO may be confident in the support of individual directors, the actions at another board can make salient that when acting as a group, director support may be less certain.

An additional application for the theory developed here is with regard to strategic inertia, specifically inertia which sets in as a CEO's tenure increases. There is much evidence to support that CEOs typically decrease their strategic dynamism a few years after their appointment (e.g., Crossland et al., 2014). Additionally, the longer the CEO stays in power, the more likely that they appointed directors on the board, and such CEOs may have established a stable relationship with internal and external constituencies, in effect reducing uncertainty about social standing (Kramer, 1994; Tyler & Lind, 1992: 141) with these stakeholders and buffering them from becoming overly concerned about unfair evaluation by their board. For such CEOs, a more secure relationship with their board may buffer the negative effects of attributional uncertainty following the dismissal of an alter CEO. From a managerial incentives perspective, the increased feelings of accountability to the board argued by my theory, could serve to bolster managerial incentives and lead to increased managerial effort—resulting in an increase to shareholder value (Fama, 1980; Jensen & Murphy, 1990). In other words, observing the misfortune of other CEOs might generate incentives to re-evaluate current strategy, and trigger strategic change, which might be especially effective for firms led by long-tenured corporate leaders, in a sense 'refreshing' a CEO that has become 'stale in the saddle' (Miller, 1991).

At the industry level, the theory and partially supportive findings highlight that dismissals of CEOs in a certain industry might have detrimental consequences for the strategy at other firms within that industry. In aggregate, an industry where dismissal is more common may cultivate

norms which contribute to a preference for doing what other firms are doing, rather than attempting something different. Prior research has found evidence that a lack of adaptation can occur through direct social influence processes wherein the advice networks of a CEO at a firm which is declining in performance, can exacerbate strategic inertia (Carpenter & Westphal, 2001; McDonald & Westphal, 2003; Westphal & Zajac, 1995). Future research could focus on the consequences of industry level tolerance for failure, and the effect this has on managerial risk taking among non-dismissed CEOs. In the innovation and entrepreneurship literature, recent research has found that variation among venture capital funds with regard to their tolerance for failure explains variation in the risk taking and innovation of the ventures that they back (e.g., Chemmanur, Loutskina, & Tian, 2014; Tian & Wang, 2014). While these studies focused on tolerance to failure at a level of analysis which is constrained to distinct VCs, the theory developed here implies that perceptions of tolerance for failure can be derived from the decisions at a higher level of analysis. In effect, an industry can appear to exhibit different levels of tolerance for failure as a result of decisions by boards of directors at multiple firms. There are several interesting research questions which could be developed, such as whether industries with low levels of tolerance for failure cultivate better adaptation among firms in the industry; or whether high tolerance for failure can actually empower corporate leaders by cultivating confidence to attempt innovative strategies.

The theory developed here can also uncover the effects of exercise of board control on the cognitions of directors. While the theory in this chapter is constrained to addressing the psychological reactions of corporate leaders, directors can also be influenced by processes of self-categorization, which can create intergroup attributional biases that can affect their ability to fill their role as directors or have implications for their career development. For instance,

directors might be replaced by a CEO or powerful shareholder, and other directors which observe this might also identify with the replaced director, with cognitive and behavioral consequences which might affect governance at multiple firms.

Tables

Table III.1: Descriptive statistics

	Variable	Mean	SD	Min	Max
1	Focal firm Strategic dynamism†	-0.303	2.798	-6.119	35.134
2	Focal firm Strategic distinctiveness‡	2.257	0.995	0	9.502
3	Focal CEO Age	56.535	7.25	34	92
4	Focal CEO departure	0.105	0.307	0	1
5	Focal firm size (log of sales)	7.4	1.573	-3.058	12.960
6	Focal CEO tenure	6.203	3.11	1	17
7	Terms as CEO (focal)	1.098	0.408	1	10
8	Industry ROA mean	0.021	0.106	-1.171	3.358
9	Firms in industry	90.766	67.359	1	251
10	HQ city ROA mean	0.027	0.162	-1.187	15.492
11	Firms in HQ city	49.57	47.61	1	188[15]
12	Focal firm ROA (1-year lag)	0.0366	0.171	-10.669	1.311
13	Industry dismissals	2.526	3.483	0	18
14	HQ city dismissals	8.526	9.049	0	37
15	Director tie dismissals	0.046	0.222	0	3

† Lower values indicate more incremental year-over-year strategic resource redistribution

‡ Lower values indicate conforming to prevailing strategic resource allocation

[15] The highest number of observed CEO dismissals by CEOs headquartered in the same city was in the MSA covering the extended NYC metropolitan area and occurred in the two years prior to FY2006. This is largely due to the overall size of this MSA, which consisted of between 155 and 188 firms during the 2000-2008 time-period (these dismissals occurred in firms from a variety of industries) and is somewhat proportional to the rate of observed dismissals in MSAs with fewer headquartered firms (e.g., in the Memphis MSA, there were 3 observed dismissals among the 10 firms headquartered in the MSA during this same time period).

Table III.2: Bivariate correlations

	Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	Focal firm Strategic dynamism†	1														
2	Focal firm Strategic distinctiveness‡	0.32	1													
3	Focal CEO Age	-0.06	-0.01	1												
4	Focal CEO departure	0.04	0.03	0.09	1											
5	Focal firm size (log of sales)	-0.19	-0.09	0.08	0.04	1										
6	Focal CEO tenure	-0.08	0	0.28	0.03	0.1	1									
7	Terms as CEO (focal)	0.07	-0.01	0.06	0.03	0.1	-0.21	1								
8	Industry ROA mean	0	0.07	0.04	0	0.08	0.06	-0.02	1							
9	Firms in industry	0	-0.21	-0.11	0	-0.24	-0.08	0	-0.23	1						
10	HQ city ROA mean	-0.04	-0.02	0.02	0	0.04	0.02	-0.01	0.06	-0.04	1					
11	Firms in HQ city	0.06	0	0.03	0.01	0.03	-0.02	0.07	-0.02	0.09	-0.02	1				
12	Focal firm ROA (1-year lag)	-0.22	-0.07	0.04	-0.03	0.78	0.03	-0.04	0.06	-0.09	0.05	-0.01	1			
13	Industry dismissals	0.04	-0.24	-0.09	0	-0.1	0	0.03	-0.12	0.46	-0.02	0.03	-0.05	1		
14	HQ city dismissals	0.06	0	0.03	0.01	0.03	-0.02	0.07	-0.02	0.06	-0.03	0.93	-0.01	0.01	1	
15	Director tie dismissals	0	-0.02	0.04	0.02	0.14	-0.04	0.16	-0.02	-0.02	0	0	0	0	0.02	1

† Lower values indicate more incremental year-over-year strategic resource redistribution

‡ Lower values indicate conforming to prevailing strategic resource allocation

Table III.3: CEO Fixed-effects OLS models for strategic dynamism at focal CEO's firm

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Focal CEO age	-0.00600	0.00234	-0.00584	0.00172	0.00246	0.00403	0.00126
	(0.0486)	(0.0491)	(0.0482)	(0.0490)	(0.0488)	(0.0484)	(0.0490)
Focal CEO departure	0.0684	0.0705	0.0695	0.0714	0.0719	0.0728	0.0731
	(0.0448)	(0.0447)	(0.0448)	(0.0447)	(0.0447)	(0.0445)	(0.0446)
Focal firm size	-0.398***	-0.393***	-0.399***	-0.395***	-0.398***	-0.405***	-0.391***
(log of Sales)	(0.143)	(0.142)	(0.142)	(0.142)	(0.142)	(0.138)	(0.142)
Focal CEO tenure	-0.0631	-0.0549	-0.0591	-0.0515	-0.0516	-0.0504	-0.0511
	(0.0504)	(0.0511)	(0.0503)	(0.0509)	(0.0508)	(0.0508)	(0.0508)
Terms as CEO (focal)	0.149	0.209	0.155	0.215	0.212	0.220	0.217
	(0.384)	(0.391)	(0.386)	(0.391)	(0.390)	(0.390)	(0.390)
Industry ROA mean	0.135	0.144	0.138	0.144	0.146	0.146	0.139
	(0.208)	(0.208)	(0.208)	(0.208)	(0.208)	(0.209)	(0.208)
Firms in industry	-0.00341	-0.00350	-0.00340	-0.00351	-0.00353	-0.00379	-0.00363
	(0.00435)	(0.00433)	(0.00435)	(0.00433)	(0.00433)	(0.00425)	(0.00433)
HQ city ROA mean	-0.173	-0.169	-0.173	-0.170	-0.168	-0.166	-0.171
	(0.148)	(0.146)	(0.148)	(0.147)	(0.145)	(0.143)	(0.147)
Firms in HQ city	0.000154	-0.00244	0.000359	-0.00221	-0.00219	-0.00210	-0.00222
	(0.00381)	(0.00391)	(0.00380)	(0.00392)	(0.00392)	(0.00393)	(0.00391)
Focal firm ROA	-0.337	-0.331	-0.336	-0.333	-0.161	0.160	-0.309
(1y lag)	(0.365)	(0.361)	(0.364)	(0.363)	(0.357)	(0.305)	(0.356)
Industry dismissals	-0.00248			-0.00435	-0.00437	-0.00567	-0.00550
	(0.0151)			(0.0151)	(0.0149)	(0.0150)	(0.0150)
HQ city dismissals		**0.0281****		**0.0280****	**0.0280****	**0.0304****	**0.0278****
		(0.00953)		(0.00954)	(0.00952)	(0.00973)	(0.00952)
Director tie dismissals			0.124	0.110	0.109	0.109	0.175
			(0.137)	(0.137)	(0.137)	(0.137)	(0.153)
Industry dismissals X Focal firm ROA					-0.0630		
					(0.0394)		
HQ city dismissals X Focal firm ROA						**-0.0723****	
						(0.0338)	
Director tie dismissals X Focal firm ROA							-1.421
							(1.408)
Constant	2.650	2.077	2.611	2.105	2.088	2.052	2.117
	(2.786)	(2.817)	(2.760)	(2.816)	(2.811)	(2.782)	(2.820)
Observations	10,574	10,574	10,574	10,574	10,574	10,574	10,574
Number of focal CEOs	2,783	2,783	2,783	2,783	2,783	2,783	2,783

*** p<0.01, ** p<0.05, * p<0.1; Robust standard errors in parentheses; CEO fixed effects and year dummies included in all models

Table III.4: CEO Fixed-effects OLS models for strategic distinctiveness of focal CEO's firm

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Focal CEO age	0.0149	0.0168	0.0175	0.0144	0.0145	0.0145	0.0141
	(0.0124)	(0.0132)	(0.0131)	(0.0125)	(0.0125)	(0.0125)	(0.0125)
Focal CEO departure	-0.0135	-0.0135	-0.0133	-0.0136	-0.0136	-0.0135	-0.0125
	(0.0114)	(0.0114)	(0.0114)	(0.0113)	(0.0113)	(0.0113)	(0.0111)
Focal firm size	-0.127***	-0.123**	-0.122**	-0.128***	-0.128***	-0.128***	-0.125***
(log of Sales)	(0.0475)	(0.0478)	(0.0477)	(0.0476)	(0.0477)	(0.0472)	(0.0473)
Focal CEO tenure	-0.0152	-0.0155	-0.0148	-0.0156	-0.0156	-0.0156	-0.0154
	(0.0189)	(0.0190)	(0.0190)	(0.0189)	(0.0189)	(0.0189)	(0.0189)
Terms as CEO (focal)	-0.101	-0.109	-0.105	-0.105	-0.105	-0.104	-0.103
	(0.143)	(0.145)	(0.145)	(0.144)	(0.144)	(0.143)	(0.143)
Industry ROA mean	-0.0138	-0.00279	-0.00217	-0.0142	-0.0140	-0.0141	-0.0175
	(0.0762)	(0.0781)	(0.0781)	(0.0763)	(0.0763)	(0.0762)	(0.0759)
Firms in industry	-0.00319*	-0.00314*	-0.00314*	-0.00319*	-0.00319*	-0.00320**	-0.00326**
	(0.00163)	(0.00164)	(0.00164)	(0.00164)	(0.00164)	(0.00163)	(0.00164)
HQ city ROA mean	0.00841	0.00972	0.0100	0.00820	0.00836	0.00840	0.00748
	(0.0125)	(0.0126)	(0.0127)	(0.0125)	(0.0125)	(0.0126)	(0.0122)
Firms in HQ city	0.00144	0.00153	0.00133	0.00160	0.00160	0.00160	0.00159
	(0.00182)	(0.00185)	(0.00183)	(0.00186)	(0.00186)	(0.00186)	(0.00186)
Focal firm ROA	0.0298	0.0362	0.0366	0.0295	0.0477	0.0544	0.0442
(1y lag)	(0.0385)	(0.0383)	(0.0383)	(0.0385)	(0.0474)	(0.0382)	(0.0360)
Industry dismissals	**-0.0235*** **			**-0.0234*** **	**-0.0234*** **	**-0.0234*** **	**-0.0241*** **
	(0.00445)			(0.00445)	(0.00443)	(0.00444)	(0.00419)
HQ city dismissals		-0.00221		-0.00167	-0.00166	-0.00154	-0.00177
		(0.00230)		(0.00232)	(0.00232)	(0.00235)	(0.00232)
Director tie dismissals			-1.76e-05	0.00270	0.00255	0.00262	0.0429
			(0.0423)	(0.0425)	(0.0424)	(0.0425)	(0.0526)
Industry dismissals X Focal firm ROA					-0.00668		
					(0.0168)		
HQ city dismissals X Focal firm ROA						-0.00365	
						(0.00645)	
Director tie dismissals X Focal firm ROA							-0.887
							(0.605)
Constant	2.621***	2.454***	2.411***	2.652***	2.650***	2.649***	2.660***
	(0.762)	(0.797)	(0.791)	(0.768)	(0.768)	(0.768)	(0.767)
Observations	10,574	10,574	10,574	10,574	10,574	10,574	10,574
Number of focal CEOs	2,783	2,783	2,783	2,783	2,783	2,783	2,783

*** p<0.01, ** p<0.05, * p<0.1; Robust standard errors in parentheses; CEO fixed effects and year dummies included in all models

Table III.5: Post-Hoc CEO Fixed-effects OLS models for strategic dynamism

	(1)	(2)
Focal CEO age	0.00234	0.00466
	(0.0491)	(0.0485)
Focal CEO departure	0.0700	0.0714
	(0.0448)	(0.0446)
Focal firm size (log of Sales)	-0.392***	-0.403***
	(0.142)	(0.138)
Focal CEO tenure	-0.0550	-0.0539
	(0.0509)	(0.0508)
Terms as CEO (focal)	0.208	0.212
	(0.389)	(0.387)
Industry ROA mean	0.144	0.146
	(0.208)	(0.209)
Firms in industry	-0.00358	-0.00387
	(0.00433)	(0.00425)
HQ city ROA mean	-0.169	-0.165
	(0.146)	(0.142)
Firms in HQ city	-0.00260	-0.00249
	(0.00387)	(0.00389)
Focal firm ROA (1y lag)	-0.336	0.159
	(0.364)	(0.306)
Industry dismissals	-0.00393	-0.00525
	(0.0151)	(0.0150)
HQ city dismissals	**0.0283****	**0.0308****
	(0.00954)	(0.00974)
Director tie dismissals	**-0.513****	**-0.519****
	(0.295)	(0.296)
Director tie dismissals^2	0.492***	0.496***
	(0.185)	(0.185)
HQ city dismissals X Focal firm ROA		**-0.0725****
		(0.0339)
Constant	2.083	2.029
	(2.823)	(2.789)
Observations	10,574	10,574
Number of focal CEOs	2,783	2,783

*** p<0.01, ** p<0.05, * p<0.1; Robust standard errors in parentheses; t-tests are one-tailed for hypothesized effects, two-tailed for control variables; CEO fixed effects and year dummies included in all models.

Chapter IV: Conclusion

The conception of control which dominates prior research on the agency problem in corporate governance emphasizes direct mechanisms such as monitoring of management decisions and the distribution of punishments and rewards in order to incentivize managers to pursue shareholder interests. The overall theoretical framework and results presented in this dissertation promote a perspective explaining the effect of a social and indirect form of control. This novel theoretical perspective considers the potential influence of the psychological reactions of corporate leaders to the exercise of direct control at other firms. In doing so, the theory here asserts that the conception of control offered by agency theory neglects that expectations about monitoring, expected rewards and punishment can be derived from social sources, rather than solely from direct monitoring and incentive systems.

The theory and hypotheses in the first study focus on mechanisms which are more intentional in nature, wherein the external ties of CEOs can provide such CEOs with reference frames that affect their understanding of expectations within their own firm. The conceptual model underlying this framework suggests how and when a CEO's conceptions about the board at their own firm might be affected by the dismissal of a CEO at another firm and suggests that these conceptions have the power to trigger the use of symbolic action as an anticipatory impression management tactic. The social learning from the misfortune of other CEOs is expressed by drawing generalizations across equivalent CEO-board relationships and has the potential to sensitize such CEOs to the implications of pursuing self-interest and influence their perceptions about the balance of power between the CEO and the board.

The perspective developed in the first study also contributes to theory by taking a role-theoretic view which considers the equivalence of CEO-board relationships. More specifically, the theory suggests a tentative and reciprocal dynamic, wherein the CEO's conceptions about their own board trigger behaviors that are aimed in turn at influencing the board's conceptions about the CEO. This perspective portrays corporate leaders as having the potential for strategic social action not only in response to actual changes at their firm, such as an increase in board structural independence (Westphal, 1998), but to adjust their behavior in response to expectations that are derived from socially relevant ties.

Furthermore, the results in the first study provide some indication that this indirect social control mechanism is especially powerful when firm performance is high while the deterrent threat upon which direct mechanisms of control rely is likely limited. This highlights how such indirect mechanisms of control have the potential to prompt managers to take pre-emptive action when performance is good, rather than when performance is in decline and managerial actions are constrained.

The theory and hypotheses in the second study focus on relatively automatic cognitive processes of self-categorization which are unintentional in nature, wherein the external ties of CEOs activate intergroup biases because they cause them to elevate their individual identity to a social level identity shared with other CEOs. These cognitive processes are argued to be accompanied by the assignment of the experiences of other CEOs to oneself in a form of vicarious personalism. The theory suggests that these subjective feelings of common fate among CEOs can cause sanctions aimed at one CEO to have unintended consequences for the cognitions of other corporate leaders. The theory highlights that even if a CEO is confident in the support of individual directors, the actions at another board can make salient that when acting as a group,

director support may be less certain. The results provide some support which indicates that focal CEOs may become more cautious in their strategic decision making following salient dismissals of CEOs at other firms, and future research should explore the contingencies under which the exercise of control at other firms can have either positive or negative effects on strategic decision making.

In summary, the overall theory developed in this dissertation attempts to provide a more complete theory of social control in corporate governance by accounting for intentional and unintentional reactions by CEOs to these social sources of control.

APPENDIX

Data collection and construction of variables

In order to collect the data required for testing the theory and hypotheses, it was necessary to merge several data sources and link thousands of records for individual executives and firms. A central challenge was to create universal unique identifiers for firms and executives which would enable linking records across datasets because each dataset implemented a proprietary unique identifier within the database. In order to overcome this, I created a custom identifier for CEOs and firms, and created programs in SAS which dynamically linked the custom identifier to the equivalent unique identifier for the same individual or firm that is used by each database. The data sources used were: (1) from WRDS, firm financial information was attained from the CRSP/COMPUSTAT databases, while executive compensation and individual characteristics/historical data was drawn from the EXECUCOMP database within COMPUSTAT; (2) Directorship data was drawn from the Riskmetrics and ISS databases, which each cover a separate time period (Riskmetrics was acquired by ISS), but when combined these provide uninterrupted coverage throughout the timeframe for which data was collected; (3) Acquisition and stock repurchase announcements were drawn from the Thompson Reuters SDC Platinum database.

These diverse data sources suffered from a variety of inconsistencies, both internal to the dataset, and between each database. I developed SAS programs which accessed the data, cleaned internal inconsistencies, created global keys which linked records across time periods covered by Riskmetrics and ISS (directorship data), as well as linking between a specific individual's

records on different databases (i.e., the Execucomp records and the directorship records). Furthermore, separate SAS programs cleaned and created global keys which linked firms across the COMPUSTAT, Riskmetrics/ISS, and SDC Platinum databases.

In order to reliably link firm records across the different databases, a custom firm identifier was generated such that it enabled linking each proprietary firm identifier used by each database. This was completed by iteratively matching on known financial reporting identifiers, which were unique within a specific time period. An additional validation process leveraged historical data on the time periods during which each identifier was associated with an active firm, which allowed eliminating non-unique matches which did not overlap with the data timeframe of interest (e.g., if the algorithm returned two matched firms from one database to a single firm from the other database, the incorrect match was eliminated because there was always one match based on an earlier time period during which the identifier was in use, and it was coded as no longer associated with an active firm-record). This process resulted in a custom generated *universal unique firm identifier* which was valid for all data sources, across the complete time period covered by each database. An additional challenge resulted from a change in the unique firm identifier used in the Riskmetrics, and later in the ISS database, which required merging the two different unique identifiers across the complete time period. This was possible due to temporal overlap in the use of each identifier, such that there was at least a single time-period during which both identifiers were associated with the same firm record. This overlap enabled the program to make a unique match between these identifiers. This merged firm identifier for all firms in the Riskmetrics/ISS combined database was then matched to the *universal unique firm identifier* described above.

Once a universal unique firm identifier was established across all data sources, the next hurdle was to generate an equivalent unique key to identify individuals across the different databases (specifically between Riskmetrics/ISS and EXECUCOMP). In order to accomplish this, a SAS program was developed to leverage the known position of a certain individual as a CEO at a certain firm, during a specific year. This was possible because the CEO was internally identified uniquely on both the Riskmetrics/ISS and EXECUCOMP databases. Therefore, a SAS program was developed to compare all individuals which were listed as the CEO for a specific firm, during a specific year, and validate that it was indeed the same person. This was done using a fuzzy name-matching algorithm which compared first, last and even middle names between the individual listed in each database[16]. In order to improve the reliability of the fuzzy name-matching algorithm, the names were standardized by a program which removed common pre- and post-nominals (e.g., Hon., CPA) without altering the actual names to be matched. For the vast majority of records, there was only one matching record from each database, and the fuzzy name-matching algorithm was used to validate that the two databases referenced the same person. However, because of source data differences due to Riskmetrics/ISS drawing from annual meeting reports, and EXECUCOMP drawing from annual financial reports, change of CEO might be reflected in one source at a lag, compared to the other source. Therefore, this fuzzy matching algorithm corrected for erroneous matches which were actually between a CEO and their successor (or vice versa) and replaced them with a match using a later record where the successor was listed as the CEO in both databases (this is possible by ranking the best match among multiple CEO-firm-year records).

[16] This algorithm uses the SAS COMPGED function, which "…returns the generalized edit distance between two strings. Specifically, the COMPGED function returns a generalization of the Levenshtein edit distance, which is a measure of dissimilarity between two strings. The Levenshtein edit distance is the number of operations (deletions, insertions, or replacement) of a single character that are required to transform string-1 into string-2." (Russell, 2015; See also SAS Institute, 2013: 336)

Finally, linking directorships for each CEO could not be based on unique identifier matching because the Riskmetrics/ISS database only lists the name of the firm for as the employer of the director. In other words, while it was possible to uniquely identify and match the firm where an alter is CEO, and the focal CEO serves as a director ("the board firm"), there was no unique identifier for a focal CEO's focal firm ("the employing firm"). However, for each "board firm", there was only one individual which had the same firm name for the "board firm", and the "employing firm"; and that individual was the CEO. For instance, on Apple's board, only records for Tim Cook listed Apple Inc. as the "board firm" and as the "employing firm"; all other individuals had a different "employing firm". Therefore, these records where the "board firm" and the "employing firm" were identical, were used to use replace the "employing firm" name, with the *universal unique firm identifier*. This also required additional programming effort in order to deal with incorrect "employing firm" names, which could result from firm name changes (unique identifiers are immune to such inconsistencies, as firm name changes do not alter the underlying unique identifier assigned to that firm within a specific database); some errors in "employing firm" names also seem to be a result of data entry mistakes, as this field appears to have been filled in a (at least) partially manual process. Therefore, matching of "board firm" name, and "employing firm" name, included a fuzzy name-matching algorithm which operated similarly to that for name matching of CEOs across databases described above. The process of matching "board firm" and "employing firm" made it possible to link each CEO serving as an outside director (appearing in the Riskmetrics/ISS database), to their matching firm-level data of their employing firm (from COMPUSTAT), and individual-level data (from EXECUCOMP).

These several cross-database matching procedures introduced constraints which excluded some firms and CEOs from the sample. While both Riskmetrics/ISS, and COMPUSTAT cover firms and executives in the S&P 1500, there were a handful of instances (out of ~3500 CEOs in the database) where a firm was not covered by one of these databases, and that firm was excluded from the sample. This is because mutual coverage was required in order to identify outside directorships for the CEO's in the sample, and firms which are not covered by Riskmetrics/ISS lack information on the directors serving on the board.

Once all CEO, firms and directors were identified and linked across databases, a SAS program was developed to validate the integrity of the data. This program was able to identify inconsistencies resulting from errors cross-linking data for individuals which have near-identical names. The program identified data entries which were then manually verified against additional entries in the database, and against the biographies of the executives as listed on www.bloomberg.com and in the Capital IQ database (there were ~150 non-unique entries of this sort). Following verification, all entries which linked an executive to the records of another executive with a near-identical name were corrected and "hard-coded" into the SAS program.

The measures for same city headquarter location are based on the Micropolitan Statistical Area (MSA) where each firm's headquarters was located. The MSA has been used in prior research as a meaningful geographical clustering unit of analysis (Marquis, 2003: 665). An MSA largely correspond to major metropolitan areas and cities. For example, San Jose is represented in one MSA, and the Boston MSA also includes Cambridge and Quincy. In order to identify firms headquartered in the same city, the headquarter address appearing in COMPUSTAT was used in order to match each firm with the Micropolitan Statistical Area (MSA) to which it is associated with.

Additional sample description

The timeframe chosen for this study spans 2000-2008. The beginning of the time frame is based on the availability of reliable director and data from the Riskmetrics/ISS database. The first year in which director data and identifiers were reliably linked to the other data sources was 1998. Due to the need to construct 2-year lag variables, the first year for which all variables were available is 2000. The last year included in this study was 2008, which was chosen in order to avoid the effects of the 2008 financial crisis.

The headquarter cities in the sample covered 222 MSAs, with the number of headquartered firms in a specific MSA, in a specific year, varying from 1 to 188. For example, the largest MSA captures the greater NYC metropolitan area, and consisted of 188 firms headquartered in the MSA in FY2007 (in FY2001 it consisted of only 155 firms headquartered in the MSA). A smaller MSA captured the Atlanta metropolitan area, and in 2007 it included 52 firms headquartered in the MSA. An even smaller MSA captures the Memphis metropolitan area, which included 10 firms headquartered in the MSA. The region referred to as "Silicon Valley" corresponds with the Santa Clara, CA MSA (including the headquarters of Fairchild Semiconductor Corp) and in 2007 there were 84 firms headquartered in this MSA. This MSA also captures some of the "dot com" bubble of the early 2000s, and between 2000 and 2002, the number of firms headquartered in this MSA dropped from 85 to 76 (the San Francisco MSA shows a similar drop from 61 firms in 2000, to 52 firms headquartered in the MSA in 2002).

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