

2005

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GOVERNANCE STRUCTURES IN THE POST ASSET RESTRUCTURING PERIOD:
RESPONSES BY BOARDS OF DIRECTORS AND TOP MANAGERS TO
INSTITUTIONAL PRESSURES

A Dissertation

Submitted to the Graduate Faculty of the
Louisiana State University and
Agricultural and Mechanical College
in partial fulfillment of the
requirements for the degree of
Doctor of Philosophy

in

The Interdepartmental Program in Business Administration Through
The William W. and Catherine M. Rucks Department of Management

by

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December 2005

ACKNOWLEDGMENTS

There are many people who have contributed to the completion of my dissertation. First, I would like to thank my committee members, Bryant Hudson, Kevin Mossholder, James Moore, Robert Justis, Timothy Chandler, and Reid Bates. In particular, I would like to thank my dissertation chair, Bryant Hudson, for his vision, patience, professionalism, and support. I am thankful for having the opportunity to be his student.

I am eternally grateful to my family and share this accomplishment with them. In particular, I would like to thank my mother, Anne Cashen, for her love, encouragement, and unwavering belief in my abilities. Words cannot express my appreciation for her selflessness and everything she has given and taught me throughout the years.

I wish to express my gratitude to my friends who have helped me through the program and have become a valued part of my life. I am forever indebted to each of you. In particular, I thank Robin Cheramie for her friendship, encouragement, and laughter during our program. I thank Scott Geiger for his friendship, advice, and everything he has taught me. Thanks to my friends, Kathy Bosworth, Kerry Sauley, Michael Sturman, Marcia Simmering, Larry Faulk, and Mark Brown, who helped me survive the program.

Lastly, I want to thank Tammy Touchet, my companion and best friend. Your patience, encouragement, sacrifice, friendship, and love have been endless throughout this endeavor. I share this accomplishment with you. Everyday, I am steadfast in my belief that my success in completing this program would not have been possible without you. Simply put - you are, and always will be, the love of my life.

TABLE OF CONTENTS

ACKNOWLEDGMENTS	ii
LIST OF TABLES	vi
LIST OF FIGURES	viii
ABSTRACT	ix
CHAPTER1. INTRODUCTION	1
CHAPTER 2. LITERATURE REVIEW	10
2.A. Portfolio Restructuring and Its Antecedents	11
2.A.1. The Agency Explanation	12
2.A.2. The Mimicry Explanation	15
2.A.3. The Environmental Explanation	16
2.A.4. The Strategy Explanation	17
2.B. Corporate Governance	18
2.B.1. The Institutionalization of Agency Arguments	18
2.B.2. Defining Good Governance	20
2.C. Governance and Its Impact on Performance	22
2.D. The Board of Directors	24
2.E. The Impact of Ownership Concentration	28
2.F. Governance and Portfolio Restructuring	32
2.G. Key Findings in the Governance-Restructuring Literature	34
2.G.1. Blockholder Ownership	35
2.G.2. Equity Held by Outside Board Members	41
2.G.3. Equity Held by Inside Board Members	44
2.G.4. Proportion of Outsiders on the Board	45
2.G.5. Board Size	46
2.G.6. Equity Held by the Top Management Team	47
2.G.7. Turnover on the Board of Directors	49
2.G.8. Outside Directors' Power	49
2.G.9. Board Diversity	49
2.G.10. Board Tenure	50
2.G.11. Institutional Ownership	51
2.G.12. CEO Duality	51
2.G.13. Summary of the Literature	52
2.H. Potential Sources of Conflicting Findings	53
2.H.1. Different Operationalizations of Restructuring	53
2.H.2. Survivor Bias	54
2.H.3. Statistical Power	55
2.H.4. Failure to Differentiate Why Firms Restructure	55
2.H.5. Failure to Investigate Non-Restructuring Firms	57
2.I. The Next Step	58

CHAPTER 3. THEORY DEVELOPMENT	63
3.A. Pressures for Change	63
3.A.1. Pressures for Governance Changes	65
3.A.2. Examples of Institutionally Legitimated Change	68
3.A.3. Governance in the Post-Restructuring Period	71
3.B. Specific Changes in Governance Structures	72
3.B.1. Board Composition	72
3.B.2. Board Leadership Structure	77
3.B.3. Board Linkages	78
3.B.4. CEO, Top Manager, and Director Stock Ownership	81
3.C. The Moderating Impact of Governance	84
3.C.1. Evidence of Governance's Impact on Market Valuations	86
CHAPTER 4. HYPOTHESES AND METHODS	89
4.A. Governance in the Post-Restructuring Period – The First Study	89
4.A.1. The Sample	89
4.A.2. The Variables and Hypotheses	93
4.A.3. Testing the Hypotheses	103
4.B. The Moderating Impact of Governance – The Second Study	105
4.B.1. The Sample	105
4.B.2. The Variables and Hypotheses	105
4.B.3. Testing the Hypotheses	109
4.C. Statistical Power Considerations	109
CHAPTER 5. RESULTS	111
5.A. Study 1 Results: Governance in Post-Restructuring Periods	111
5.A.1. Proportion of Outsiders on the Board	118
5.A.2. CEO Duality	119
5.A.3. Board of Director Ties	126
5.A.4. CEO Equity Ownership	127
5.A.5. Top Management Team Equity Ownership	134
5.A.6. Board of Director Equity Ownership	138
5.B. Study 2 Results: Governance's Impact on Market Valuation	141
5.B.1. Collective Findings	142
5.B.2. Post Hoc Analyses and Results	152
CHAPTER 6. DISCUSSION, CONTRIBUTIONS, IMPLICATIONS, LIMITATIONS, AND FUTURE DIRECTIONS	162
6.A. Discussion	162
6.A.1. Discussion – Study 1	162
6.A.2. Discussion – Study 2	170
6.B. Reasons for Mixed Results	173
6.B.1. Any Change is Good News	174
6.B.2. Substitution Effects	175
6.B.3. CEO Influence	175
6.B.4. Organizations Vary in Their Ability to Conform	176
6.B.5. The Impact of Board Interlocks	177

6.C. Contributions and Implications	178
6.D. Limitations and Future Research	180
6.D.1. Portfolio Restructuring as a Dichotomous Variable	180
6.D.2. Only Considering Portfolio Restructuring	181
6.D.3. Only Assessing Single Divestiture Moves	182
6.D.4. Longevity of Governance Changes	183
REFERENCES	185
VITA	217

LIST OF TABLES

1. Governance-Restructuring Relationship – Summary of Findings	36
2. Potential Sources of Conflicting Findings	56
3. Definition of Variable Measurement	95
4. Means, Standard Deviations, and Correlation of Variables – Study 1	113
5. Comparisons of Means – Study 1	117
6. Results of Regression Analysis Predicting the Proportion of Outsiders on the Board of Directors in Year t_1	120
7. Results of Regression Analysis Predicting the Proportion of Outsiders on the Board of Directors in Year t_2	121
8. Results of Logistic Regression Analysis Predicting CEO Duality in Year t_1	124
9. Results of Logistic Regression Analysis Predicting CEO Duality in Year t_2	125
10. Results of Regression Analysis Predicting Board of Director Ties in Year t_1	128
11. Results of Regression Analysis Predicting Board of Director Ties in Year t_2	129
12. Results of Regression Analysis Predicting CEO Equity Ownership in Year t_1	132
13. Results of Regression Analysis Predicting CEO Equity Ownership in Year t_2	133
14. Results of Regression Analysis Predicting Top Management Team Equity Ownership in Year t_1	136
15. Results of Regression Analysis Predicting Top Management Team Equity Ownership in Year t_2	137
16. Results of Regression Analysis Predicting Board of Director Equity Ownership in Year t_1	139
17. Results of Regression Analysis Predicting Board of Director Equity Ownership in Year t_2	140
18. Means, Standard Deviations, and Correlation of Variables – Study 2	143
19. Results of Regression Analysis Using Outsider Proportion to Predict Shareholder Returns in Year t_1	146

20. Results of Regression Analysis Using CEO Duality to Predict Shareholder Returns in Year t_1	147
21. Results of Regression Analysis Using Board of Director Ties to Predict Shareholder Returns in Year t_1	148
22. Results of Regression Analysis Using CEO Equity Ownership to Predict Shareholder Returns in Year t_1	149
23. Results of Regression Analysis Using Top Management Team Equity Ownership to Predict Shareholder Returns in Year t_1	150
24. Results of Regression Analysis Using Board of Director Equity Ownership to Predict Shareholder Returns in Year t_1	151
25. Results of Post-Hoc Analysis Using CEO Duality to Predict Shareholder Returns in Year t_1	154
26. Results of Post-Hoc Analysis Using Outsider Proportion to Predict Shareholder Returns in Year t_1	156
27. Results of Post-Hoc Analysis Using Board of Director Ties _(t) to Predict Shareholder Returns in Year t_1	158
28. Results of Post-Hoc Analysis Using Board of Director Ties _(t1) to Predict Shareholder Returns in Year t_1	159
29. Summary of Findings – Study 1	164

LIST OF FIGURES

1. Governance Structures in the Post-Restructuring Period – Study 1	7
2. The Moderating Impact of Governance on Post-Restructuring Firm Performance – Study 2	9
3. Interactive Effect of Change in Performance and Restructuring on CEO Equity (Year t_2)	134
4. Interactive Effect of Outsider Proportion (Year t) and Restructuring on Shareholder Returns	157
5. Interactive Effect of Board of Director Ties (Year t) and Restructuring on Shareholder Returns	160
6. Interactive Effect of Board of Director Ties (Year t_1) and Restructuring on Shareholder Returns	161

ABSTRACT

This dissertation investigates two relationships between governance and portfolio restructuring. First, post-restructuring governance is addressed. Prior research suggests that firms restructure because of less than desirable performance, which results from managerial inefficiencies. Such inefficiencies are predominantly believed to be the result of inadequate governance. Research has never proven that governance is weak in the pre-restructuring period, yet this philosophy has become institutionalized. Thus, if governance is weak or a complete failure in the pre-restructuring period, then what changes do firms make in the post-restructuring period? Drawing on institutional and resource dependence theories, this dissertation addresses this issue by suggesting that modifications to governance structures in the post-restructuring period are greatest for those firms with poor performance in the pre-restructuring period. Specifically, these firms will adjust their governance structures to reflect socially valid indicators of sound governance. By changing governance structures that adhere to the prescriptions of rationalizing myths in the institutional environment, an organization might enhance its legitimacy and demonstrate that it is behaving on collectively valued purposes in a proper manner. The results revealed that the relationship between restructuring and governance is best characterized as direct, irrespective of firm performance. Restructuring was positively related to the proportion of outsiders on the board, and CEO, top management team, and board of director equity ownership in the post-restructuring period. The results also revealed an interaction effect between restructuring and CEO equity ownership, as well as a curvilinear relationship between restructuring and CEO duality.

Second, this dissertation focuses on the impact of governance on the restructuring-performance relationship. Due to institutionalized beliefs about what constitutes sound governance, it is argued that firms will be positively rewarded if their firms possess socially valid indicators of governance because there is evidence that market valuations can be impacted by non-financial factors, such as governance structures. The results revealed that CEO duality negatively influences shareholder returns. Additionally, shareholders of restructuring firms were positively rewarded by holding ownership positions in firms with independent boards and boards with large ties to the environment. Discussions for both studies are offered, in addition to contributions, limitations, and areas for future research.

CHAPTER 1: INTRODUCTION

Corporate restructuring has been a significant area of interest to strategy and finance scholars in helping to understand the limits of firm growth, the implications of changes in the firm's business portfolio, as well as the effectiveness of changes in organizational and capital structures (Bergh, 2001; Bowman & Singh, 1993; Johnson, 1996). Although a considerable amount of restructuring research has been carried out resulting in much insight for scholars and practitioners alike, significant contributions can still be made (Bergh & Lawless, 1998; Bowman & Singh, 1993; Bowman, Singh, Useem & Bhadury, 1999; Chatterjee, Harrison & Bergh, 2003; Johnson, 1996; Markides & Singh, 1997).

Even though the literature has clearly established and empirically verified the existence of three different types of corporate restructurings (Bowman & Singh, 1993), this dissertation focuses strictly on the phenomena of *portfolio restructuring* (also known as asset restructuring, refocusing, or downscoping – Johnson, 1996). Specifically, portfolio restructuring involves the process of divesting and acquiring businesses that entails a refocusing on the organization's core business(es), resulting in a change of the diversity of a firm's portfolio of businesses (Bergh, 1998; Bowman, & Singh, 1990; 1993; Bowman et al., 1999; Gibbs, 1993). The other two types of restructuring are *financial restructurings*, which involve significant changes in the capital structure of a firm, including leveraged buyouts and debt for equity swaps, and *organizational restructurings*, which involve significant changes in the organizational structure of the firm, including a realignment of structure with strategy, flattening of hierarchic levels, and employment downsizing (Bowman et al., 1999; Bowman & Singh, 1993).

Portfolio restructuring is an important organizational phenomenon worthy of study since it is, and has been, a much undertaken practice by top executives (Bergh, 2001; Bowman et al., 1999; Chatterjee et al., 2003; Filatotchev, Buck & Zhukov, 2000; Hoskisson & Hitt, 1994; Johnson, 1996). During the 1990s and into the 21st century, mergers and acquisitions, as well as restructuring activities were quite prevalent. For instance, Frank and Sidel (2002) and Frank (2002) noted that the biggest wave of mergers and acquisitions was during the 1990s, which totaled \$8.7 trillion. Furthermore, the authors noted that spin-offs and sales of subsidiaries accounted for 35% of the total market of mergers and acquisitions in 2001, which compared to 21% in 2000 and 22% in 1999. In January 2002 alone, there were 75% more announced spin-offs compared to the same month a year prior (Frank, 2002). Additionally, the *U.S. Bureau of Census* reported that in the years 2000 and 2001, a total of 3,497 and 2,776 divestitures were undertaken in the United States, with a total market value of \$891.8 billion and \$654.7 billion, respectively.¹ Recent announcements of portfolio restructurings have come from large firms such as Merck, AT&T, Citigroup, Fleet Boston Financial, JC Penney, Diageo, Motorola, Emerson Electric, and Philips Electronics.

The decade of the 1980s also produced a considerable amount of refocusing activity (Johnson, 1996). For example, there were 1,200 divestitures worth \$59.9 billion in 1986 alone; 2,450 leveraged buyouts worth \$297 billion between 1981 and 1989; and an overwhelming 55,000 mergers and acquisitions worth just under \$2 trillion between 1981 and 1989 (Jensen, 1993; *Mergers & Acquisitions*, 1990). Markides (1993)

¹ These Bureau of Census figures cover transactions valued at \$5 million or more. Additionally, divestiture activity reported by the Bureau of Census requires a divesting firm to have at least a 40% stake or a \$100 million investment in the divested firm prior to divestiture.

reported that at least twenty percent and as many as fifty percent of the *Fortune 500* firms refocused in the period of 1981 through 1987. These numbers are in contrast to the approximately one percent of the *Fortune 500* organizations that refocused in the 1960s.

Portfolio restructuring is not only a valuable area of study since it has been, frequently employed by managers, but is theoretically important because it represents a shift in an organization's domain in response to endogenous and exogenous factors (Smart & Hitt, 1994). These changes in the firm's level and type of diversification represent critical decisions that affect not only the boundaries of the organization, but also the allocation of resources within them (Goodstein & Boeker, 1991). Furthermore, such changes in the organization's domain redefine the expectations of both the members of the firm and for others with whom they interact, and alter the "image of the organization's role in the larger system, which in turn serves as a guide for the ordering of action in certain directions and not in others" (Thompson, 1967: 29).

A multitude of empirical and theoretical investigations into the antecedents of portfolio restructuring have revealed that various factors precipitate the shedding and/or expansion of corporate assets. A synthesis of this research reveals that there are four main drivers of portfolio restructuring. First, the premier explanation (also known as the *agency* explanation) is that firms engage in portfolio restructuring as a direct response to less than desirable organizational performance (Duhaime & Grant, 1984; Hoskisson & Hitt, 1994; Hoskisson, Johnson & Moesel, 1994; Johnson, 1996; Johnson, Hoskisson & Hitt, 1993; Markides, 1995; Montgomery, Thomas & Kamath, 1984; Smart & Hitt, 1994), which is claimed to have resulted from past managerial inefficiencies. Such managerial inefficiencies occurred largely as a result of weak governance mechanisms,

and, as a result of its overwhelming acceptance by restructuring researchers, the agency explanation has made portfolio restructuring synonymous with weak or poor governance (Bethel & Liebeskind, 1993; Chatterjee et al., 2003; Hoskisson & Turk, 1990; Markides & Singh, 1997). Second, researchers have argued that firms restructure as a result of mimicking the behavior of other organizations that are engaged in the divestiture of assets (DiMaggio & Powell, 1983; Markides & Singh, 1997; Oliver, 1991). Third, it is suggested that environmental conditions serve as antecedents to portfolio restructuring (Bergh & Lawless, 1998; Shleifer & Vishny, 1991). Lastly, researchers suggest that firm strategy is a driver of portfolio restructuring (Baysinger & Hoskisson, 1989; Johnson, 1996; Markides, 1992, 1995). These four antecedents are elaborated upon in the following chapter.

Although poor performance driven by weak governance is the most widely investigated antecedent of portfolio restructuring, it is also the most widely contested area since the governance structures of restructuring firms are automatically labeled as inappropriate. As will be revealed later in this dissertation, research has not really proven that governance is weak in the pre-restructuring period, yet this school of thought has become institutionalized in the literature. Markides and Singh (1997) attempted to address this issue in their research and revealed that the governance structures of firms that did restructure are not statistically different from the governance structures of firms that did not restructure. As such, much work remains in this area in order to assess the relationship between governance and restructuring. It is important to note that unlike the other three drivers of restructuring mentioned above (i.e., mimicry, environmental conditions, and firm strategy), which are well-accepted and undisputed, governance still presents a gray area for restructuring researchers.

One area that has received little or no attention is that of post-restructuring governance. In calls for future portfolio restructuring research, Johnson (1996) asked that if governance is truly weak or a complete failure in the pre-restructuring period, then what changes does a firm make in the post-restructuring period? The basic implications of this question is that if firms do not correct such inefficiencies or shortcomings, then the process of portfolio restructuring may be followed by renewed expansion or continued inefficiencies in various governance mechanisms.

Within the first part of this dissertation, it is argued that not all firms will change their governance structures in the post-restructuring period. Specifically, it is suggested that firms that suffer from poor performance in the pre-restructuring period will initiate governance changes in the post-restructuring period. The rationale behind these arguments is that for these firms it is common for their governance structures to be labeled as weak or inadequate (i.e., the *agency* explanation of restructuring). As such, boards of directors and the CEO are pressured by institutional investors and substandard performance assessments by the financial markets to not only address the performance issues but also address the governance issues that are frequently linked with the firm's poor performance. Such arguments are reasonable since it is suggested that in times of organizational crises, such as poor performance, CEOs and boards of directors are spurred to action (Chatterjee & Harrison, 2001; Daily, 1996; Daily & Dalton, 1994, 1995; Smart & Hitt, 1994; Westphal & Fredrickson, 2001).

Thus, the first part of this dissertation argues that governance changes are most prevalent in firms that restructured their portfolio of assets and experienced sub-optimal performance in the pre-restructuring period. In other words, low performance leads to changes in governance, and the magnitude or probability of these changes is amplified

for those firms that have restructured their portfolio of assets. A graphical representation of the impacts of performance and restructuring on governance structures in the post asset restructuring period is offered in Figure 1.

By drawing on the basic tenets of institutional (DiMaggio & Powell, 1983; Meyer & Rowan, 1977) and resource dependence (Pfeffer & Salancik, 1978) theories this dissertation suggests that firms experiencing poor performance redesign their governance structures in post-restructuring periods to enhance, or even maintain, organizational legitimacy (Oliver, 1991), whether or not such changes are instituted for substantive or symbolic reasons. By changing governance structures that adhere to the prescriptions of rationalizing myths in the institutional environment, an organization may demonstrate that it is behaving on collectively valued purposes in a proper and adequate manner (Meyer & Rowan, 1977). Thus, by not making significant changes in post-restructuring governance structures, the firm becomes more vulnerable to claims that they are negligent or irrational. Additionally, as posited by the resource dependence perspective, conformity of organizations to normative pressures increases the flow of societal resources and enhances the chances of survival (Meyer & Rowan, 1977; Parsons, 1960; Tolbert & Zucker, 1996; Zucker, 1987).

Based on these arguments, the first set of research questions are “*Do organizations experiencing substandard performance in pre-restructuring periods modify their governance structures in post-restructuring periods?*” and “*If governance structures do change in post-restructuring periods, what types of changes are made?*”

As prior research suggests, the ultimate goal of restructuring firms is to adjust an organization’s portfolio of businesses with the intent, either directly or indirectly, of

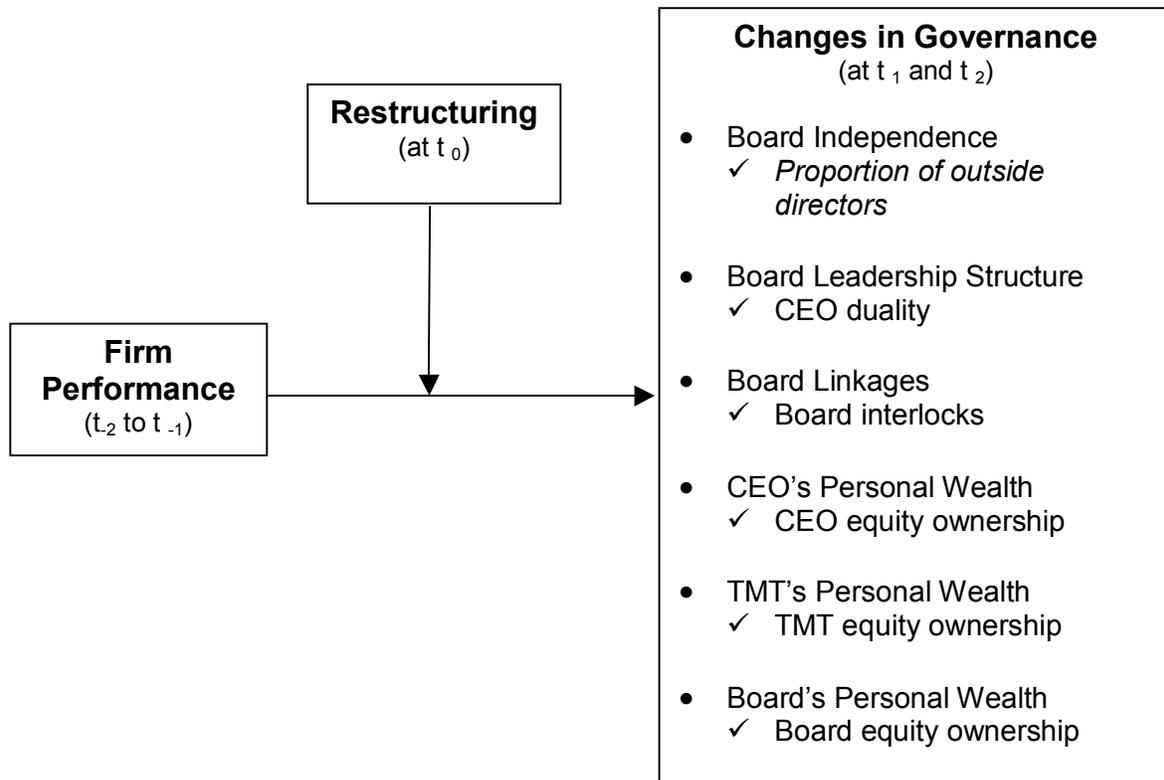


Figure 1
Governance in the Post-Restructuring Period – Study 1

improving firm performance. Thus, this dissertation addresses a second, yet related, topic – the impact of post-restructuring governance and governance changes on firm performance. Utilizing institutional theory to address this topic is valuable since the financial markets' reactions may reflect social benefits resulting from symbolic actions that reduce uncertainty about managerial motives (Westphal & Zajac, 1998).

Institutional theorists have argued that symbolic actions are most effective under conditions of uncertainty or ambiguity (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, 1995; Westphal & Zajac, 1998). The restructuring literature suggests that assets restructuring events are significant enough to surround the organization with

uncertainty and ambiguity as a result of considerable changes to the firm's routines and organizational domain.

Thus, one could argue that potentially symbolic actions such as socially valid governance structures might play a role in the social construction of market value when firms are engaging in portfolio restructuring activities. As such, it is suggested that the returns to shareholders are greater for those organizations exhibiting socially legitimated governance structures. As such, the second research question of this dissertation is *"What is the moderating impact of governance on the relationship between portfolio restructuring and performance?"* A graphical representation of these relationships is offered in Figure 2.

The outline for the remainder of this dissertation is as follows. In chapter 2 the existing literature on portfolio restructuring and governance is reviewed with the intent of synthesizing existing empirical findings and discussing the gaps in the literature. Chapter 3 develops the theoretical foundation of this research project along with propositions. The specific hypotheses, the variables of interest, and methods used to test the hypotheses are offered in chapter 4. Chapter 5 discusses the findings of the analyses. Lastly, chapter 6 contains a discussion and offers implications and contributions of this dissertation, as well as its limitations.

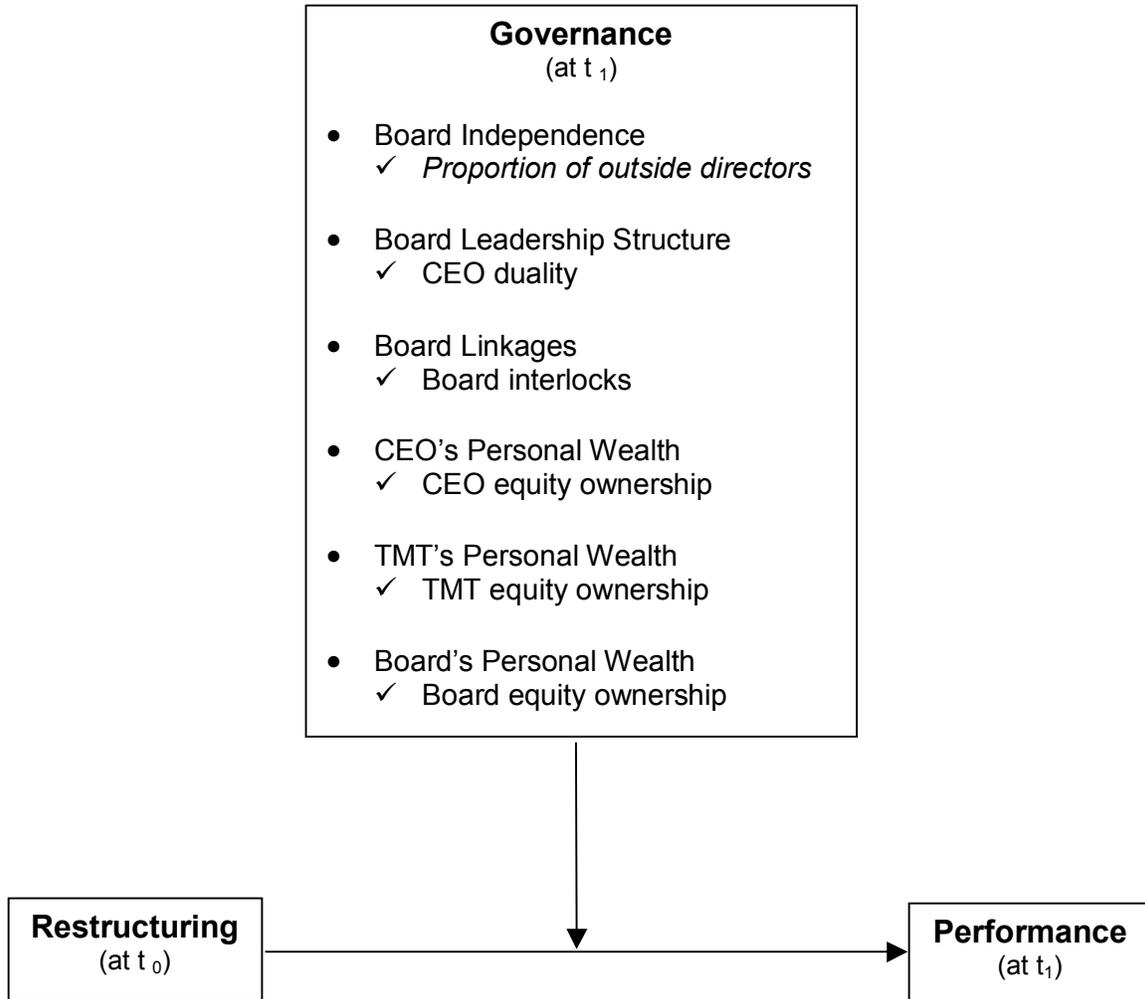


Figure 2
The Moderating Impact of Governance on Post-Restructuring Firm Performance – Study 2

CHAPTER 2: LITERATURE REVIEW

Within this chapter a variety of issues will be discussed in relation to governance and restructuring. First, there is a discussion about the concept of portfolio restructuring and its antecedents. Even though the literature has settled on four primary drivers, research has overwhelmingly focused on the relationship between governance and restructuring since agency arguments have become institutionalized in the restructuring literature. In essence, portfolio restructuring as a result of poor performance has automatically been attributable to weak governance.

Following such a discussion, the chapter discusses how agency arguments have also been taken for granted in not only the restructuring literature, but also the literature on corporate governance. As such, an explanation of this phenomenon and the literature's interpretation of what constitutes good governance are discussed. The third section draws upon this discussion of what the literature deems to be sound governance practices by discussing the impact these structures have on organizational performance. One would assume that overwhelming consensus concerning best governance practices would be reached due to their positive impact on performance, yet there are no real systematic relationships between governance characteristics and organizational performance.

In the fourth and fifth sections I build upon the prior discussion by elaborating on boards of directors and their roles within organizations. Such a discussion is important because the primary focus of governance research, as evidenced earlier, revolves around the board of directors. I elaborate on the value boards have in conferring legitimacy upon their organizations. Furthermore, I discuss the pressures boards face in periods of poor performance from external constituencies, and the types of reforms

they seek with the intent of improving the governance of the organization and ultimately the performance of the organization.

Following the above discussions, I review the governance-restructuring relationship in general and specific relationships in the literature that address the impacts of governance structures on restructuring activity. Specifically, I review in detail twelve governance-restructuring relationships found in the literature. It is evident at the conclusion of this review that, for the most part, there are no systematic relationships between governance and restructuring activity. As such, the eighth section of this chapter attempts to shed light on five issues that might contribute to contradictory findings. Lastly, I discuss the next logical step in the governance-restructuring literature, which serves as the focus of this dissertation. This discussion also points out the specific contributions of this research project.

2.A. Portfolio Restructuring and Its Antecedents

During the 1960s and 1970s, many firms diversified their organizations predominantly via the acquisition of businesses unrelated to their core business(es), thus frequently achieving 'conglomerate' status (Bergh, 2001; Davis et al., 1994; Hoskisson & Hitt, 1994; Johnson, 1996; Servaes, 1996; Shleifer & Vishny, 1991). Such undertakings resulted in firms very large in size and, in some instances, producing firms that owned over 500 different business lines. However, during the 1980s and 1990s, many of these highly diversified businesses were reorganized as a result of refocusing initiatives intended to reduce both the breath of corporate portfolios (i.e., lower levels of diversification) and overall company size, thus ultimately translating into firms holding more related diversified portfolios (Berger & Ofek, 1995; Comment & Jarrell, 1995; Davis et al., 1994; Kose & Ofek, 1995; Johnson, 1996; Markides, 1992; Williams, Paez

& Sanders, 1988). A related diversified portfolio is one in which the organization controls businesses that share similarities in products, markets, and/or technologies with the intent of allowing management to exploit the interrelationships between the businesses (Hoskisson & Hitt, 1990, 1994; Palepu, 1985; Rumelt, 1974).

As previously mentioned, a multitude of empirical and theoretical investigations into the antecedents of portfolio restructuring have revealed that various factors precipitate the shedding of corporate assets. A synthesis of this research reveals that there are four main drivers of portfolio restructuring.

2.A.1. The Agency Explanation

The premier explanation as to why organizations engage in portfolio restructuring is in response to less than desirable organizational performance (Duhaime & Grant, 1984; Hoskisson & Hitt, 1994; Hoskisson, Johnson & Moesel, 1994; Johnson, 1996; Markides, 1995; Markides & Singh, 1997; Montgomery, Thomas & Kamath, 1984; Smart & Hitt, 1994). In other words, an organization divests assets with the intent of improving performance, whether it is their performance in relation to competitors, the overall industry, or a predetermined aspiration level (Greve, 1998). In fact, research has clearly demonstrated that firms engaged in restructuring often are performing poorly prior to the initiation of restructuring activities (Bergh, 2001; Bowman et al., 1999; Duhaime & Baird, 1987; Duhaime & Grant, 1984; Hoskisson & Hitt, 1994; Hoskisson & Johnson, 1992; Hoskisson et al., 1994; Johnson, 1996; Lang, Poulson & Stulz, 1995; Markides, 1992, 1995; Markides & Singh, 1997; Montgomery & Thomas, 1988; Montgomery et al., 1984; Ravenscraft & Scherer, 1987; Sicherman & Pettway, 1987; Smart & Hitt, 1994). For example, Jain (1985) found that firm performance began to suffer approximately a year

prior to divestiture and resulted in negative excess stock return of 10.8% within the one year prior to the actual restructuring event.

Such assessments of one's own performance are valuable since sound performance is needed to ensure the maintenance and survival of the organization (Child, 1972), in addition to offering feedback to the firm as to the viability of its plans (Cyert & March, 1963). Thompson notes that publicly traded firms closely monitor fluctuations in the price of their stock since "the market represents a visible social judgment about the firm's fitness for the future" (1967: 90).

More commonly known as the *agency* explanation of portfolio restructuring (Filatotchev et al., 2000; Hoskisson & Hitt, 1994; Hoskisson & Turk, 1990; Markides & Singh, 1997; Ravenscraft & Scherer, 1987), poor performance as an antecedent of portfolio restructuring has become the leading explanation in the academic literature to account for the restructuring wave of the 1980s. Essentially, this rationale suggests that performance needs to be improved as a direct result of past managerial inefficiencies. Such inefficiencies include excessive levels of diversification, improper diversification, sub-optimal investments in research and development, unprofitable capital investments, and over-leveraging.

For example, it is argued that CEOs and their top managers frequently increased firm size and levels of diversification without comparable increases in firm value (Hoskisson & Turk, 1990; Jensen, 1986, 1993; Johnson, 1996). Within the literature it is argued that CEOs have the opportunity to diversify their organizations even when doing so does not increase the market value of the firm because their personal wealth is linked more to firm size than to firm performance (Amihud & Lev, 1981; Bethel & Liebeskind, 1993; Jensen & Meckling, 1976). Empirical evidence does support the

argument that managers in public firms have been inclined to increase diversification without ensuring increasing firm value. Grant, Jammine and Thomas (1988) suggested that increased levels of diversification led to decreased accounting returns, thus implying that, over time, top executives sacrificed performance for growth and diversification. Additional studies (e.g., Bergh, 2001; Lubatkin & Chatterjee, 1991; Mayer & Whittington, 2003; Palich, Cardinal & Miller, 2000; Rumelt, 1974; Wernerfelt & Montgomery, 1988) have substantiated such a finding by arguing that firms pursuing a strategy of unrelated diversification possess lower accounting and market returns than firms pursuing related diversification strategies.

Proponents of the agency explanation suggest that such managerial inefficiencies occur largely as a result of agency costs (i.e., increased managerial consumption of corporate resources resulting from weak, poor, or inefficient governance mechanisms). Basically, this view argues that the board of directors, ownership concentration (equity held by blockholders and institutional investors), and managerial incentives were ineffective and resulted in the failure of internal governance as a system (Bethel & Liebeskind, 1993; Chatterjee & Harrison, 2001; Gibbs, 1993; Hoskisson et al., 1994; Hoskisson & Turk, 1990; Jensen, 1993; Johnson, 1996; Johnson et al., 1996). Although never truly defined in the literature, weak governance is believed to be characterized by diffusion of shareholdings among outside owners, certain characteristics of managers and boards (e.g., minimal equity ownership by top managers and board members or an insufficient amount of outsiders sitting on the board), and board passivity (Bethel & Liebeskind, 1993; Dalton, Daily, Certo & Roengpitya, 2003; Gibbs, 1993; Johnson et al., 1993; Johnson, 1996; Westphal & Fredrickson, 2001).

Due to its overwhelming acceptance by restructuring researchers and simplistic and intuitive appeal, the agency explanation has made portfolio restructuring synonymous with weak governance (Bethel & Liebeskind, 1993; Hoskisson & Turk, 1990; Markides & Singh, 1997). Smart and Hitt echoed this sentiment by suggesting that “many of the arguments and concepts embedded in the agency literature seem so compelling that agency and governance related arguments have become a virtual de facto explanation for many types of corporate restructuring” (1996: 1). As a result, the academic and practitioner literatures on portfolio restructuring have devoted much effort to pointing out such governance alleged failures and highlighting ways of improving the corporate governance system of the modern corporation (Jensen, 1993).

Shareholder scrutiny as a result of a firm’s failure to meet expectations places considerable pressure on executives to take action designed to close the gap between expected and actual performance (Sanders & Carpenter, 2003). Failure to manage shareholder impressions and narrow the gap between expectations and actual performance increases the chance that an executive will actually be removed from office (Puffer & Weintrop, 1991). As such, it might be reasonable to assume that establishing the caliber of the board and senior management and the soundness of the strategic direction of the organization is crucial to impressing investors and commentators (Stiles & Taylor, 2001), which is consistent with arguments from institutional, signaling, and impression management perspectives.

2.A.2. The Mimicry Explanation

Outside of the agency explanation of restructuring, some have argued that firms restructure as a result of mimicking the behavior of other organizations that are engaged in the divestitures (Markides & Singh, 1997). Consistent with mimetic

isomorphism (DiMaggio & Powell, 1983; Oliver, 1991), this viewpoint suggests that firms, either consciously or unconsciously, engage in mimicry of institutional models of other actors in their networks who are perceived as more legitimate or successful. Executives of organizations engaged in such imitation believe that their actions will be seen as appropriate and rational (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Such arguments were utilized by Davis, Diekmann, and Tinsley (1994) in their explanation of the decline of the conglomerate firm (i.e., the deconglomeration movement) in the United States during the 1980s.

2.A.3. The Environmental Explanation

Other scholars have suggested that environmental conditions serve as antecedents to portfolio restructuring (e.g., Bergh & Lawless, 1998; Chatterjee, 1992; Grinyer & McKiernan, 1990; Hoskisson & Hitt, 1990; Johnson, 1996; Kose, Lang & Netter, 1992; Meyer, Brooks & Goes, 1990; Shleifer & Vishny, 1991). Researchers have argued that tax rationales, antitrust policy changes, junk bond financing, global competition, deregulation, technology shifts, and takeover activity through the market for corporate control are reasons for the increase in restructuring activity in the early 1980s (Johnson, 1996). A synthesis of studies investigating these relationships suggests that changes in the environment, which increase turbulence or uncertainty, result in an increased likelihood of restructuring.

For example, Grinyer & McKiernan (1990) suggested that restructuring might result from changes in the industry that create an “aspiration-induced crisis” based on the current performance or market share and where top management believes the organization ought to be. Additional support of the environment argument was offered by Meyer et al. (1990) who examined organizational responses to discontinuous change

at the industry level. Their study investigated the hospital industry in San Francisco, which was experiencing great turbulence, which resulted in excess capacity, resource scarcity, and regulatory changes. To cope with these changes the hospitals engaged in spin-offs of non-core areas, underwent divestitures of peripheral services, and formed networks among themselves to respond to the need for managed care in the San Francisco area. A third study to substantiate the environment argument was conducted by Bergh and Lawless (1998), who examined environmental uncertainty and its impact on the strategic decisions the firm makes. Their findings suggested that organizations confronted with highly uncertain conditions engage in divestitures to reduce the costs of managing a diverse portfolio.

2.A.4 The Strategy Explanation

Lastly, researchers suggest that firm strategy is a driver of portfolio restructuring (Baysinger & Hoskisson, 1989; Duhaime & Grant, 1984; Johnson, 1996; Markides, 1992, 1995; Montgomery et al., 1984). In other words, divestiture activity may be related to a firm's corporate or business level strategy. These divestitures often include decisions to exit an industry sometimes attributable to a lack of fit between the firm's portfolio of businesses, move toward core businesses (i.e., a conscious choice to emphasize core operations), realign a firm's product mix within a given industry, focus on synergistic economies (i.e., reestablish strategic controls), reduce debt levels, and place a renewed emphasis on research and development.

Although the four aforementioned drivers of restructuring were discussed, the agency explanation (i.e., weak governance rationales) is the most pervasive one in the literature. As such, it is important to discuss corporate governance and governance issues in relation to portfolio restructuring. Before doing so, it is paramount to provide a

clear definition of the concept of corporate governance and its predominant focus and institutionalization in the management literature. As such, these issues are discussed in the following section.

2.B. Corporate Governance

Drawing on Berle and Means (1932), Fama and Jensen (1983a, 1983b) and Williamson (1984), Baysinger and Hoskisson defined *corporate governance* as the “integrated set of internal and external controls that harmonize manager-shareholder (agency) conflicts of interest resulting from the separation of ownership and control” (1990: 72). Furthermore, these authors and others (e.g., Amihud & Lev, 1981; Baysinger & Hoskisson, 1990; Chatterjee & Harrison, 2001; Chatterjee et al., 2003; Daily, Dalton & Cannella, 2003; Fama & Jensen, 1983a, 1983b; Finkelstein & Hambrick, 1996; Hillman & Dalziel, 2003; Hoskisson & Hitt, 1994; Hoskisson et al., 1994; Johnson, Daily & Ellstrand, 1996) argued that in the absence of proper governance mechanisms, managers are more likely to deviate from the interests of shareholders.

2.B.1. The Institutionalization of Agency Arguments

There is unequivocal consensus that the dominant theoretical perspective employed to investigate governance and governance issues in a host of disciplines (e.g., law, finance, and strategic management) is agency theory (Daily et al., 2003a; Daily, Dalton & Rajagopalan, 2003; Dalton et al., 1998, 1999, 2003; Hillman & Dalziel, 2003; Jensen, 1998; Lynall et al., 2003; Schulze, Lubatkin & Dino, 2003; Shen, 2003; Shleifer & Vishny, 1997; Young, Stedham & Beekun, 2000). The central premise of this theory is that managers, as agents, can engage in decision making and behaviors that may be inconsistent with maximizing shareholder wealth (Berle & Means, 1932; Fama & Jensen, 1983a; Jensen & Meckling, 1976; Eisenhardt, 1989; Mizruchi, 1983).

Agency theorists see the primary functioning of the board of directors as monitoring the actions of agents (i.e., managers) to protect the interests of principals (i.e., owners). Similarly, legal and financial scholars emphasize the fiduciary responsibilities of directors to ensure that managers are acting in the interests of shareholders (Bainbridge, 1993; Berle & Means, 1932; Mace, 1986). Thus, even though the monitoring function of the board of directors includes a number of specific activities (e.g., monitoring the CEO, monitoring strategy implementation, planning CEO succession, and evaluating and rewarding the CEO/top managers of the firm), the primary driver of each of these activities is the obligation to ensure that management operates in the interests of shareholders.

According to various researchers (e.g., Daily et al., 2003a; Markides & Singh, 1997), the popularity of agency theory in governance research is likely due to two factors. First, agency theory is a simple theory, in which large corporations are reduced to two participants – managers and shareholders – and the interest of each are assumed to be both clear and consistent. Second, according to Daily et al., “the notion of humans as self-interested and generally unwilling to sacrifice personal interests for the interests of others is both age old and widespread” (2003a: 372).

It is important to note that agency explanations have become so ingrained in governance research that alternative paradigms are too often ignored. Daily et al. referred to this barrier as *empirical dogmatism*, which they suggested has negatively impacted researchers’ willingness to “embrace research that contradicts dominant governance models and theories (e.g., a preference for independent governance structures) or research that is critical of past research methodologies or findings” (2003a: 379).

In essence, agency arguments have been institutionalized in reference to corporate governance. These have become the norms for viewing governance, and, as such, impact the organization of firms (e.g., the structure of the board) (D'Aunno et al., 2000). The agency arguments are embedded in how practitioners, institutional investors, and for the most part, academicians define what is good or sound corporate governance. In other words, there is remarkable consensus as to the best practices that need to reside in all firms if they are to maximize performance. Support for this idea was offered by Westphal and Zajac (1998) and Zajac and Westphal, who noted that "large investors appear to have co-opted normative agency theory to help legitimate their political agenda, thus contributing to and benefiting from the growth of agency theory as a dominant perspective on corporate control" (1995: 287-288).

2.B.2. Defining Good Governance

A major area of academic study within the governance literature is the investigation as to what constitutes good governance. As a result of the institutionalization of agency arguments, the literature has reached considerable agreement that the proper internal mechanisms of a firm include effectively structured boards, executive and board compensation contracts that encourage a shareholder orientation, and concentrated ownership holdings that lead to active monitoring of executives (Chatterjee & Harrison, 2001; Daily et al., 2003a, 2003b). In essence, the social validity of these pressures and desired outcomes are largely unquestioned because they have been taken for granted. In other words, within the academic literature, popular press, and corporate practice, there is an extremely clear understanding as to what constitutes good governance. In fact, these conceptions are so ingrained in the minds of academicians, shareholder activists, large shareholders,

and institutional shareholders that the validity of these conceptions goes unquestioned even in spite of contradictory evidence.

It is obvious that agency theory principles, as elaborated in the academic literature, have also dominated corporate practice (Daily et al., 2003; Shleifer & Vishny, 1997). Evidence of this can be found by considering the reforms sought by shareholder activists, thus lending insight into those governance practices that are perceived as both legitimate and effective in protecting shareholders' interests (Ryan & Schneider, 2002). According to Daily et al., shareholder activism is "designed to encourage executives and directors to adopt practices that insulate shareholders from managerial self-interest by providing incentives for executives to manage firms in shareholders' long-term interests" (2003: 373). It is argued in the literature that such activism acts as a trigger to destabilize managerial power and makes managers more responsive to the needs of institutional investors through increased monitoring by owners and boards of directors (David et al., 2001). As noted by David et al., "through activism, managers are pressured to take actions to signal their commitment to owners" (2001: 146).

Specifically, corporate governance reforms have included configuring boards largely, if not exclusively, of independent, outside directors; separating the positions of board chair and CEO; imposing age and term limits for directors; and providing executive compensation packages that include contingent forms of pay (e.g., Brown, 2003; Business Roundtable, 1997; Byrne, 2000; Clark, 2003; Craig, 2003; Daily et al., 2003a; Dalton et al., 1999; Felton & Hudnut, 1995; Hymowitz, 2003; Johnson et al., 1996; Langley, 2003; Lublin, 1998; Minard, 1998; National Association of Corporate Directors, 1996; Pratt, 1993; Rich, 2003; Schultz, 1996; Silverman, 2002; Teachers Insurance and Annuity Association-College Retirement Equities Fund, 1997). Some of

the more notable shareholder activists are private and public pension funds, such as the College Retirement Equities Fund (CREF) and the California Public Employees Retirement System (CalPERS) (Daily et al., 2003; Davis & Thompson, 1994; Ryan & Schneider, 2002).

Over the years there has been a large push for firms to have their governance structures evaluated by outside associations, councils, groups, and companies such as The Corporate Library, Institutional Shareholder Services, Inc., the Council of Institutional Investors, the United Shareholders Association, and Governance Metrics International, Inc., with the intent of bringing governance structures more in-line with the interests of shareholders (i.e., addressing agency issues with the intent of reducing agency costs). This intense focus on corporate accountability has heated up again as a result of recent corporate scandals, such as Enron, HealthSouth, Global Crossing, and WorldCom. In essence, these and other corporate scandals have spawned a cottage industry of firms that rate corporate governance as an investment risk (Langley, 2003), yet the vast majority of these calls for better governance are not proven to positively impact performance (Dalton et al., 1998, 1999, 2003; Tosi, Werner, Katz & Gomez-Mejia, 2000).

In the next section I will delve into this issue in greater detail by discussing the research that investigates the impact of certain governance structures on firm performance.

2.C. Governance and Its Impact on Performance

A recent meta-analysis by Dalton et al. (1998) focused on research that assessed the impact of board composition and board leadership structure configurations on firm financial performance. The authors focused on these two

governance characteristics since they noted that these two issues have received much attention by governance reform activists, who have strongly argued for boards comprised predominantly, if not exclusively, of independent directors and the formal separation of the CEO and board chairperson positions.

The authors identified 54 and 31 empirical studies that investigated the board composition-financial performance relationship and board leadership-financial performance relationship, respectively. The studies included in the meta-analysis were published from 1972-1996 for board composition and from 1978-1996 for board leadership structure. Their conclusion was that there is no relationship between either of the two governance structures and firm performance. Additionally, the authors investigated the type of performance measure (i.e., accounting-based versus market-based) and found no evidence of a moderating effect based on the nature of the performance indicator.

Another recent meta-analysis by Dalton et al. (2003) sought to investigate the impact of equity holdings by various groups (i.e., CEO, top managers, and directors) on financial performance (i.e., Tobin's Q, ROA, ROE, ROI, EPS, shareholder returns, Jensen's Alpha, and P/E ratio). The authors identified 229 empirical studies (published from 1968-2001) that investigated the equity-performance relationship; however, not all studies investigated all equity holdings by different actors and the subsequent impact on multiple measures of firm performance. The results of the meta-analysis revealed that, with the exception of officer and director equity and EPS, none of the correlations between measures of insider equity and financial performance exceed .02.

The two meta-analyses above reveal that the linkage between governance and firm performance is basically non-existent. However, it is important to note that within

these meta-analyses, causality could not be tested or imputed. It is important that these issues be studied in a longitudinal context (Dalton et al., 2003). Additionally, there is the assumption in the literature that these governance variables have a direct impact on the performance of the firm. As will be discussed later, I propose that these governance variables are important, as moderators to the restructuring-performance relationship. As such, it is premature for the literature to reach the conclusion that governance does not matter in relation to the performance of the organization.

In the following section I build upon the prior discussion by elaborating on the issue of boards of directors and their roles within organizations. Such a discussion is important because the primary focus of governance research, as evidenced earlier, revolves around the board of directors. This section elaborates on the value boards have in conferring legitimacy upon their organizations. The section concludes with a discussion of the pressures boards face, particularly in periods of poor performance, by external constituencies.

2.D. The Board of Directors

When discussing the control of the firm, or even corporate governance in general, the predominant focus has been on the boards of directors as a control mechanism since, theoretically, the board is the ultimate source of power in an organization (Bazerman & Schoorman, 1983), and is ultimately responsible for effective organizational functioning (Blair & Stout, 2001; Jensen, 1993, Johnson et al., 1996). Additionally, Stiles and Taylor (2001) noted that it is the board that has formal control of the organization, and its statements and behaviors have the power to confer legitimacy and authority upon the firm. Gilson and Kraakman suggest, “in the corporate

governance debate, all arguments ultimately converge on the role of the board of directors” (1991: 873).

A vast amount of research has demonstrated that a variety of alternatives to board monitoring exist. Some of those mechanisms include the market for corporate control (i.e., the transferring of managerial control to new capital providers, such as shareholders, through acquisitions, divestitures, and other control-transfer mechanisms – Hitt, Hoskisson, Johnson & Moesel, 1996; Manne, 1965), competitive forces in capital and product markets, corporate law, and managerial labor markets. Even with such mechanisms in place, the board of directors is considered central to ensuring that management acts in the best interest of shareholders (Alchian & Demsetz, 1972; Fama & Jensen, 1983a; Finkelstein & Hambrick, 1996; Chatterjee & Harrison, 2001).

Boards of directors are viewed as a crucial element in the governance structure of large corporations (Fama & Jensen, 1983), especially since corporate law in the United States requires that the business of publicly traded corporations be conducted under the direction of a board of directors (Eisenberg, 1976). Their value is driven by the importance of their many responsibilities, which include: exercising oversight and control of CEOs and their top management teams in an effort to reduce the potential for agency problems (Baysinger & Hoskisson, 1990; Chatterjee & Harrison, 2001; Gibbs, 1993; Johnson et al., 1996; Pfeffer & Salancik, 1978; Walsh & Seward, 1990; Williamson, 1975), and offering strategic and administrative advice and insight to executives (Baysinger & Butler, 1985; Chatterjee & Harrison, 2001; Dalton, Daily, Ellstrand & Johnson, 1998; Johnson et al., 1996; Judge & Zeithaml, 1992; Mintzberg, 1983; Westphal & Fredrickson, 2001).

Additionally, the literature suggests that board members serve as a connection to the external environment by providing valuable information that may lead to the acquisition of critical resources, including prestige and legitimacy (Chatterjee & Harrison, 2001; Daily & Dalton, 1994; Johnson et al., 1996; Mintzberg, 1983; Pfeffer, 1972, 1973; Pfeffer & Salancik, 1978; Selznick, 1949). Proponents of resource dependence theory suggest that external board members act as boundary spanners between the organization and its environment (Dalton, Daily, Johnson & Ellstrand, 1999; Hillman, Cannella & Paetzold, 2000; Hillman & Dalziel, 2003; Johnson et al., 1996; Pfeffer & Salancik, 1978). In this role, outside directors provide access to resources needed by the firm. For example, outside directors who are also executives of financial institutions may assist in securing favorable lines of credit; outside directors who are partners in a law firm may provide legal advice, either in board meetings or in private communication with executives that may otherwise be more costly for the firm to secure (Daily et al., 2003b).

As a result of boards often being composed of lawyers, financial representatives, top management of other firms, public affairs or marketing specialists, and former governmental officials and community leaders, firms have access to important expertise, experience, and skills that facilitate advice and counsel. The provision of, and access to, resources reduces uncertainty that is associated with the firm's environment, as well as enhances organizational functioning, firm performance, and survival (Gales & Kesner, 1994; Hillman & Dalziel, 2003; Pfeffer & Salancik, 1978; Provan, 1980; Stearns & Mizruchi, 1993; Thompson, 1967; Zahra & Pearce, 1989).

In addition to providing resources to top executives, board members have the ability to provide the firm with legitimacy and a positive reputation (Certo, 2003; Daily &

Schwenk, 1996; Hambrick & D'Aveni, 1992; Hillman & Dalziel, 2003; Lynall, Golden & Hillman, 2003). It is suggested that the prestige of directors can enhance the credibility and performance of the firm they serve (Certo, 2003; Certo Daily & Dalton, 2001; Hillman & Dalziel, 2003). Pfeffer and Salancik noted that "prestigious or legitimate persons or organizations represented on the focal organization's board provide confirmation to the rest of the world of the value and worth of the organization" (1978: 145). A similar argument was offered by Bazerman and Schoorman who suggested, "An organization's reputation can be affected by who serves on the board of directors and to whom the organization is seen to be linked" (1983: 211).

Research has suggested that legitimacy bestowed upon an organization by board members can translate into a decreased probability of organizational failure (Baum & Oliver, 1991; DiMaggio & Powell, 1983; Meyer & Rowan, 1977). This might result in further benefits for legitimate firms such as suppliers of capital accepting lower risk premiums (e.g., lower interest rates) in loan repayment schedules (Cornell & Shapiro, 1987; Miller & Bromiley, 1990; Mizruchi, 1996), less hesitation by investors to invest in the organization (Mizruchi, 1996), and greater stock performance for firms undertaking initial public offerings (Certo, 2003), to name a few. Given the need to satisfy the organization's shareholders, firms may adopt organizational structures (e.g., certain board of directors configurations and characteristics) to signal legitimacy (Certo, 2003; DiMaggio & Powell, 1983; Luoma & Goodstein, 1999; Suchman, 1995), because "organizations that incorporate societally legitimated rationalized elements in their formal structures maximize their legitimacy and increase their resources and survival capabilities" (Meyer & Rowan, 1977: 352). As such, it is evident that boards have a symbolic role/value that is independent of the board's tangible activities (Certo, 2003).

Within the next section, I discuss the impact of pressures that are exerted on boards of directors as a result of ownership concentration. These pressures are continually growing due to investors consistently assuming larger ownership positions in corporations, but these pressures are especially prevalent in times of declining performance. It is important to discuss these pressures because it is argued (in the next chapter) that these actors will press for changes in the governance structures of firms suffering from poor performance in the pre-restructuring period.

2.E. The Impact of Ownership Concentration

The literature suggests that large firms are under considerable pressure from institutional investors and other external constituencies to increase the board's role in strategy formulation, as well as to properly configure the board – all with the intention of improving performance (Barnard, 1991; Finkelstein & Hambrick, 1996; Westphal & Zajac, 1997; Useem, 1993, 1996; Useem, Bowman, Myatt & Irvine, 1993; Westphal & Fredrickson, 2001). Additionally, there is significant evidence that shareholder ownership (i.e., institutional investors and blockholders) can and does impact corporate issues such as corporate strategy (Hill & Snell, 1988; Rajagopalan, 1997), restructuring activity (Bethel & Liebeskind, 1993; Hoskisson et al., 1994; Ryan & Schneider, 2002), capital structure (Chaganti & Damanpour, 1991; Short, 1994), board of director composition (Carleton et al., 1998; Ryan & Schneider, 2002; Smith, 1996), executive compensation (Brown, 1998, David et al., 1998; Kroll, Wright, Toombs & Leavall, 1997; Ryan & Schneider, 2002), corporate social responsibility (Johnson & Greening, 1999), management turnover (Holderness & Sheehan, 1985; Shleifer & Vishny, 1986), adoption of poison pills (Mallette & Fowler, 1992), risk taking (Wright, Ferris, Sarin & Awasthi, 1996), research and development (David et al., 2001; Hill & Snell, 1988; Ryan

& Schneider, 2002), international diversification (Tihanyi et al., 2003), organizational performance (Brown, 1998; Chaganti & Damanpour, 1991; Gedajlovic & Shapiro, 1998; Gibbs, 1993; Ryan & Schneider, 2002; Short, 1994; Thomsen & Pederson, 2000; Wahal, 1996), and firm value (Morck, Shleifer & Vishny, 1988; Prevost & Rao, 2000; Ryan & Schneider, 2002; Smith, 1996; Teoh & Welch, 1999; Wright & Ferris, 1997). Additionally, support has been offered for individuals in managerial positions to respond to these pressures if they wish to remain employed (James & Soref, 1981).

Pressures from institutional investors are continually increasing since they are actively taking large ownership positions in corporations (e.g., ownership stakes by institutional investors have greatly increased over the years to nearly 60% of U.S. corporate equity - Daily et al., 2003a; Davis & Thompson, 1994; Gompers & Metrick, 2001; Johnson & Greening, 1999; Ryan & Schneider, 2002; Securities Industry Association, 2000; Smith, 1996; Tihanyi et al., 2003) and thus becoming more vocal in influencing top managers both through boards and directly (Barnard, 1991; Chatterjee & Harrison, 2001; Conference Board, 2000; Dalton et al., 2003; Davis & Thompson, 1994; Ryan & Schneider, 2002; Shleifer & Vishny, 1997; Tihanyi, Johnson, Hoskisson & Hitt, 2003). Salancik and Pfeffer discuss the value and power of equity ownership and note that ownership “represents a source of power that can be used to either support or oppose management depending on how it is concentrated and used” (1980: 655).

Specifically, institutional investors are a heterogeneous group of organizations, including banks, public and private pension funds, mutual funds, and insurance companies that hold equity ownership positions in corporations (David, Hitt & Gimeno, 2001; David, Kochhar & Levitas, 1998). The largest types of institutional investors are private and public pension funds, such as the College Retirement Equities Fund (CREF)

and the California Public Employees Retirement System (CalPERS) (Davis & Thompson, 1994; Ryan & Schneider, 2002).

Due to their sizeable holdings (approximately \$10.8 trillion in 1999), institutional investors are increasingly limited in their ability to divest from firms with which they are dissatisfied. Previously, institutional investors that were dissatisfied with management would typically sell their stake rather than confront management. Now that ownership stakes by institutional investors are greatly increasing, selling out depresses the share price and harms the seller. In addition, for the largest funds, the number of alternative investments is limited. As Davis and Thompson suggested, “faced with such a high cost of exit, voice – shareholder activism – became more appealing” (1994: 154).

These authors and others (e.g., Daily et al., 2003a; Useem, 1996) additionally state that activism has increased by pension funds as a result of increases in investments and federal regulations, which placed greater demands on these funds to fulfill their fiduciary duty to the plans’ participants and beneficiaries. Thus, as a result of institutional investors increasingly assuming larger ownership positions in firms, they not only have an economic incentive to monitor/pressure boards and top managers, but they also have the ability to do so (Dalton et al., 2003; Shleifer & Vishny, 1997). Evidence exists that suggests fund managers have demonstrated a propensity to actively monitor executives in the firms in which their funds invest (Black, 1992; Dalton et al., 2003; Useem et al., 1993). Furthermore, institutional fund managers have been particularly effective in achieving governance changes in the firms they target (Dalton et al., 2003; Ryan & Schneider, 2002; Wahal, 1996).

It is argued in the literature that ownership concentration has a dominant focus on improving the financial performance of the firms in which they invest (Ryan &

Schneider, 2002). These financial improvements include both corporate financial measures, such as operating and net income, and return on assets, as well as by stock valuation, which is a measure of the market's perception of firm value (Chaganti & Damanpour, 1991; Prevost & Rao, 2000; Ryan & Schneider, 2002; Smith, 1996; Wahal, 1996). Additionally, these activist investors may extend their desired performance improvements to non-financial indicators of performance, such as enhancements in the composition of the board of directors and changes in the level and composition of executive compensation (Carleton et al., 1998; David et al., 1998; Del Guercio & Hawkins, 1999; Gillan & Starks, 2000; Mallette & Fowler, 1992; Rehfeld, 1998; Ryan & Schneider, 2002).

In fact, there is evidence that pension funds have pressed target organizations to initiate governance reform (i.e., board changes) in response to poor organizational performance (Barnard, 1991; Black, 1990; Daily & Dalton, 1995; Davis & Thompson, 1994; Fligstein, 1990; Fromson, 1990; O'Barr & Conley, 1992; Salwen & Lublin, 1992; Useem, 1996). Among more commonly sought actions are increasing the proportion of outside directors and separating the positions of CEO and board chairperson. Thus, it is evident that ownership concentration can and does impact governance changes *within firms suffering from sub-optimal performance*. Additionally, the reforms sought by these constituencies are quite uniform in nature, since they seek the implementation of good governance structures in the firms in which they invest. In other words, there is considerable consensus as to what is good or correct governance – it is namely that which supposedly minimizes agency costs (Brown, 2003; Byrne, 2000; Colvin, 2002, 2003; Felton & Hudnut, 1995; Langlely, 2003; Ozanian & Decarlo, 2003; Pratt, 1993).

It is important to note that such pressures to reform the governance structure of the firm may not be driven by solid evidence that the governance structure was actually inappropriate, since precise causes of poor performance are often difficult to identify (Cyert & March, 1963; Nelson & Winter, 1982). However, it is widely suggested that poor performance does stimulate such changes within organizations (Davis et al., 1994) even when performance deficits cannot be attributed unambiguously to efficiency problems that the proposed changes seek to rectify (Palmer et al., 1993).

Within the next section I review the general findings of research investigating governance issues in relation to portfolio/asset restructuring. The intent of this section is to discuss the key relationships between governance structures and portfolio restructuring. As they are presented in the literature, the governance characteristics discussed below have been studied as antecedents to portfolio restructuring. As will become, the overwhelming conclusion of this research stream is that there are no clear and systematic relationships between certain governance structures and portfolio restructuring. However, in the literature, researchers appear to assert that sound governance will lead to firms holding the correct portfolio of businesses. Additionally, the consensus is that poor governance leads to performance problems and, ultimately, the need to restructure the firm.

2.F. Governance and Portfolio Restructuring

Researchers have devoted attention to investigating the conditions under which organizations are likely to make fundamental changes in strategies, structures, and internal processes (Boeker, 1989; Carroll, 1984; Ginsberg & Buchholz, 1990; Hannan & Freeman, 1984; Pfeffer & Salancik, 1978; Tushman & Romanelli, 1985). Theorists have long argued that organizations can and do respond to important changes in their

environments by initiating strategic changes (Child, 1972; Pfeffer & Salancik, 1978; Tushman & Romanelli, 1985). Shifts in regulatory (Smith & Grimm, 1987) or technological environments (Tushman & Anderson, 1986) motivate important strategic changes in organizations. In addition to environmental changes, declines in performance (Child, 1972; Harrigan, 1981; Hoskisson & Hitt, 1994; Markides, 1992; Miller & Friesen, 1982; Robbins & Pearce, 1992), as well as executive succession (Meyer, 1975; Pfeffer & Salancik, 1978; Tushman & Romanelli, 1985) might also motivate changes in strategy. Other studies (e.g., D'Aunno, Succi & Alexander, 2000; Davis et al., 1994; Greenwood & Hinings, 1996; Kraatz & Zajac, 1996; Leblebici, Salancik, Copay & King, 1991) have emphasized the importance of both market competition and institutional factors in causing organizational change. For example, Kraatz and Zajac (1996) found that local market forces (e.g., consumer demand) prompted divergent changes in curricula among U.S. liberal arts colleges (e.g., offering business degrees). In contrast, results from Davis et al. (1994) suggested that institutional factors caused decreased use of the conglomerate form of organization in the 1980s.

It is not uncommon for these aforementioned strategic changes to be defined in the literature as changes in product and service domains (Ginsberg, 1988; Goodstein & Boeker, 1991; Goodstein et al., 1994; Westphal & Fredrickson, 2001). As mentioned in chapter one, by adding and divesting products and services, organizations alter their domains. These product/service changes represent critical decisions that not only affect the boundaries of the organization, but also the allocation of resources within them. For these reasons, it is believed that changes in governance structures are likely to have an important effect on the magnitude of major changes in product and service

offerings, thus overcoming the organization's resistance to change (Goodstein & Boeker, 1991). This is substantiated by the findings in the literature, which noted that executive and director changes make the firm less committed to how the organization previously operated (Helmich & Brown, 1972; Johnson et al., 1996; Pfeffer & Salancik, 1978; Ocasio, 1999; Scott, 1995).

It has been argued that new top managers, particularly managers recruited from the outside of the organization, typically initiate change and determine the new strategic direction for their firm (Golden & Zajac, 2001; Goodstein & Boeker, 1991; Grimm & Smith, 1991; Miles, Snow, Meyer & Coleman, 1978; Pfeffer & Salancik, 1978; Tushman & Romanelli, 1985; Westphal & Fredrickson, 2001). The process of executive succession – especially one in which an outsider becomes the new CEO – provides an opportunity for existing power relationships to be altered and for new strategic perspectives to be introduced. However, it is unlikely that top management team changes are the only factor that might create conditions for strategic reassessment and change. Interestingly, it was not until the 1990s (with the notable exceptions by Carroll, 1984 and Boeker, 1989) that researchers began to look beyond the CEO to consider how changes in the broader governance structure of a firm, specifically its ownership and board of directors, affect strategic change.

2.G. Key Findings in the Governance-Restructuring Literature

The following discussion concerns the key findings of studies that investigated the relationships between governance and restructuring. Each governance characteristic and its impact on restructuring are discussed separately. Following this discussion of the key findings, I present various reasons (i.e., sources of confound) that

might be responsible for the generally mixed results in the literature. These findings are summarized in Table 1 below.

2.G.1. Blockholder Ownership

As demonstrated in Table 1, four studies have investigated the relationship between blockholder ownership and restructuring, and, in general, there is not a clear and systematic relationship between the two. The majority of the studies (i.e., Bethel & Liebeskind, 1993; Hoskisson et al., 1994; Bergh, 1995) demonstrated a positive impact in relation to blockholder ownership.

For example, Bethel and Liebeskind (1993) investigated the relationship between ownership structure and corporate restructuring in a sample of 93 surviving *Fortune 500* firms from 1981-1987. The authors' results revealed that as blockholder ownership in 1981 rose, total diversification decreased (i.e., firms became more focused).

Furthermore, the authors found that diversification decreased when blockholders bought into the firm. They interpreted this finding to mean that new blockholders pressured managers to reduced diversification. Lastly, the results of Bethel and Liebeskind (1993) suggested that the only determinant of divestiture activity was blockholder ownership in 1981. An interesting extension of this research is to investigate blockholder holdings in the post-restructuring period. Drawing on the research of Bethel, Liebeskind, and Opler (1998), which suggested that blockholders tend to purchase shares in firms with poor profitability, one could argue that new blockholders might purchase shares and existing blockholders might purchase additional shares in post-restructuring firms. One could reason that this would only be the case in firms that suffered poor performance prior to engaging in restructuring activity.

Table 1
Governance-Restructuring Relationship – Summary of Findings

Governance Variable	Key Studies	Findings	Summary of Findings		
<i>Blockholder ownership</i>	Bethel & Liebeskind (1993)	Ownership by blockholders was positively related to divestiture of assets	Mixed results – more evidence exists that ownership by blockholders is positively related to restructuring		
	Hoskisson et al. (1994)	The presence of non-board blockholders had an indirect, positive effect on corporate divestiture intensity as mediated by relative product diversification			
	Bergh (1995)	The percentage of total outstanding common voting shares held by blockholders is negatively related to the sale of related units and the size of the units sold.			
	Markides & Singh (1997)	Blockholder ownership was unrelated to the divestiture of assets			
	<i>Equity held by outside board members</i>	Johnson et al. (1993)		Equity ownership by outside board members was positively related to divestiture of assets	Mixed results – no evidence of a systematic relationship between equity held by outside board members and restructuring
		Hoskisson et al. (1994)		Equity ownership by outside board members did not have an indirect effect on corporate divestiture intensity as mediated by relative product diversification	
		Bergh (1995)		Equity ownership by outside board members strengthened the negative relationship between blockholders and the relatedness and size of the units sold	
		Chatterjee et al. (2003)		Equity ownership by outside board members was negatively related to restructuring	

(Table 1 continued)

<i>Equity held by inside board members</i>	Bethel & Liebeskind (1993)	Equity ownership by insider board members was unrelated to divestitures	Mixed results – although two of the three studies suggest no relationship between equity held by inside board members and restructuring, consensus is lacking
	Hoskisson et al. (1994)	Equity ownership by inside board members did not have an indirect effect on corporate divestiture intensity as mediated by relative product diversification	
	Chatterjee et al. (2003)	Equity ownership by insider board members was positively related to restructuring	
<i>Proportion of outsiders on the board</i>	Goodstein & Boeker (1991)	Proportion of outsiders on the board was positively related to service additions in hospitals, but not to service deletions	Mixed results – the majority of the results from these studies suggest that there is the proportion of outsiders on the board in unrelated to restructuring, however consensus is lacking
	Johnson et al. (1993)	Proportion of outsiders on the board was positively related to board involvement in restructuring	
	Hoskisson et al. (1994)	The proportion of outsiders on the board did not have an indirect effect on corporate divestiture intensity as mediated by relative product diversification	
	Markides & Singh (1997)	The proportion of outsiders on the board was unrelated to the divestiture of assets	
	Chatterjee et al. (2003)	The proportion of outside directors was unrelated to restructuring	
	Goodstein et al. (1994)	Board size was negatively related to service reorganizations in hospitals, but unrelated to service additions or deletions	
<i>Board size</i>	Markides & Singh (1997)	Number of board members was unrelated to the divestiture of assets	Although only two studies investigated this relationship, both suggest that board size is unrelated to restructuring

(Table 1 continued)

<i>Equity held by the top management team</i>	Gibbs (1993)	Top management team ownership was positively related to portfolio restructuring	Mixed results – no systematic relationship between equity held by the top management team and restructuring
	Johnson et al. (1993)	Top management team equity stakes were negatively related to board involvement in restructuring	
<i>Turnover on the board</i>	Goodstein & Boeker (1991)	Turnover on the board was positively related to service additions in hospitals, but not to service deletions	Only one study – turnover on the board is unrelated to restructuring since it has no impact on divestitures
<i>Outside directors' power</i>	Gibbs (1993)	Board power [(ratio of outside to inside directors) x (ratio of average tenure of outside directors to inside directors)] was positively related to the sale of property, plant, and equipment	Only one study –board power is positively related to restructuring
<i>Board diversity</i>	Goodstein et al. (1994)	Hospitals with more occupationally diverse boards tended to initiate fewer service additions, divestitures, and reorganizations	Only one study – board diversity is negatively related to restructuring

Hoskisson et al. (1994) supported the conclusion reached by Bethel and Liebeskind (1993), who suggested that blockholders play a significant role in influencing restructuring. Hoskisson et al. (1994) investigated the impact of firm governance on strategic change. Drawing on agency arguments, the authors proposed that certain governance structures (e.g., the presence of non-board blockholders) would have indirect effects on divestment activity as mediated by relative product diversification. They tested their hypotheses on a sample of 203 firms that initiated programs of divestitures between 1985 and 1990 and found that the presence of non-board member blockholders appeared to significantly decrease relative product diversification and total product diversification, which, in turn, was positively related to corporate divestiture intensity. Thus, the authors concluded that the presence of non-board blockholders had an indirect effect on corporate divestiture intensity as mediated by relative product diversification. Unlike the finding of Bethel and Liebeskind (1993) and Hoskisson et al. (1994), the positive relationship between blockholder ownership and restructuring was not found by Markides & Singh (1997), who posited and found no relationship between blockholder ownership and restructuring.

Although Bergh (1995) found value in the research investigating the relationship between governance and restructuring, he felt that the major shortcoming of the restructuring research at the time was that there was insufficient knowledge of the antecedents and consequences of the characteristics of units sold. As such, Bergh (1995) investigated the effects of ownership concentration (i.e., the percentage of total outstanding common voting shares held by blockholders) and outside director ownership on the size and relatedness characteristics of units sold by parent firms. He

hypothesized that ownership concentration is negatively associated to the relatedness and size of the unit sold.

Bergh's (1995) argument for the negative relationship between ownership concentration and the *relatedness* of the unit sold was that the owners' interests are best served by selling unrelated businesses since the disposal of such units may refocus a company back toward its basic businesses and improve the selling firm's market performance. Additionally, he suggested that the sale of related units reduces synergies that owners cannot duplicate in their own portfolio holdings.

Bergh's (1995) argument for the negative relationship between ownership concentration and the *size* of the unit sold was that owners favor selling small businesses since the sale does not immediately threaten the company's overall stream of revenues and incomes as much as the sale of large units, in addition to the fact that the overall risk of the owners' investments in the company does not substantively change. Bergh (1995) furthermore argued that these relationships are magnified by outsider equity holdings. When outsider equity is high, boards become more committed to the owners, and thus would favor actions protecting profit maximization and cooperative synergies of the firm.

Bergh (1995) tested these hypotheses on a sample of 112 firms that divested units during the 1986 – 1990 time period. The results supported Bergh's (1995) arguments that ownership concentration is negatively related to the sale of related units and the size of unit sold. Additionally, the results revealed that the relation of blockholdings to the size and relatedness of the unit sold was greater when outside director equity (i.e., the percentage of total outstanding common voting shares held by outsiders on the board) was correspondingly higher.

The aforementioned findings generally support the expectation that owners and managers favor different types of sell-offs. Bergh's (1995) results support the argument that when managers have power, restructurings are used to build core competencies through unrelated diversification and competitive internal resource allocation. By selling related and larger units, the managers are able to reposition the organization toward competitive and financial synergies. In other words, these managers attempt to achieve competitive and financial benefits (i.e., financial economies) by allocating resources more efficiently internally than through investments in external markets (Dundas & Richardson, 1982; Hill & Hoskisson, 1987; Hoskisson, 1987; Williamson, 1975, 1985). Conversely, when owners have power, sell-offs appear to be used to develop core competencies through cooperation and related diversification. By selling unrelated and smaller units, the owners are able to reposition their organizations toward cooperative and strategic synergies. As Bergh suggests, "owners and managers favor different types of sell-offs because they are motivated by different types of economic benefits" (1995: 234).

2.G.2. Equity Held by Outside Board Members

Four studies investigated the relationship between equity held by outside board members and restructuring, and their findings suggest that there is no evidence of a systematic relationship between these two constructs. Support has been found for a positive relationship (Johnson et al., 1993; Bergh, 1995), a negative relationship (Chatterjee et al., 2003), and no relationship (Hoskisson et al., 1994) between the two.

A positive relationship was suggested by Johnson et al. (1993), whose basic premise was that, due to their oversight role, board members (especially outsiders) become more involved in restructuring only when managerial strategy implementation

appears to be deficient. Their sample consisted of 92 firms that had voluntarily divested at least 10% of their total assets within the 1985-1990 timeframe and with some operations in the industrial manufacturing segment (SIC 2000-4000). The authors found that outside board member equity was positively related to the involvement of the board on restructuring decisions (i.e., the decision to divest or acquire business units). This relationship was based on agency arguments that equity ownership creates greater incentive alignment and vigilance by outside board members since their personal wealth is directly tied to the performance of the organization.

Similarly, Hoskisson et al. (1994) suggested that equity ownership by outside directors encourages greater vigilance. Drawing on the basic tenets of agency theory, they posited that substantial ownership positions in the firm results in increased willingness on behalf of directors to press for continuous strategic corrections. Specifically, they suggested that outside board membership results in active monitoring of strategy formulation, thus preventing excessive diversification that may lead to restructuring. The authors did not find statistical support for this argument.

Recent research by Chatterjee et al. (2003) sought to test the impact of governance on restructuring activity. Specifically, the authors sought to investigate whether firms that effectively repelled a hostile takeover attempt would subsequently engage in restructuring activities. They argued that a hostile takeover attempt might be viewed as a 'wake-up call' that the target firm has been managed inefficiently and thus changes in strategies could produce value. The authors hypothesized that such a 'wake-up call' would occur in firms in which management has too much discretion. Chatterjee et al. (2003) defined these firms as organizations with non-independent boards, which could ultimately translate into entrenched management and give rise to

agency costs. Such agency costs are likely to manifest themselves as a level of diversification that is sub-optimal from the shareholder's point of view. Under such circumstances, most firms would benefit from refocusing or reducing their levels of diversification. Thus, the takeover offer serves to reduce agency costs by exposing sub-optimal diversification, which motivates management to reverse the process to prevent further takeover offers and/or a loss of their jobs.

Conversely, Chatterjee et al. (2003) argued that even after a major event such as a takeover attempt, boards that have taken their monitoring duties seriously might still assume that their organization's strategies are appropriate. In other words, the existence of a vigilant board (i.e., independent board) should mean that the firm's diversification strategy was under constant scrutiny and that it was appropriate for the firm, or, at least, board members believed that it was appropriate. As such, the authors hypothesized that board independence was negatively related to refocusing activity.

Drawing upon a sample of 76 firms that successfully repelled takeover bids between 1981 and 1991, Chatterjee et al. (2003) found support for two of the four governance variables used to operationalized board independence – equity held by outside board members and equity held by inside board members were two of these variables. Specifically, refocusing (operationalized as spin-offs or sales of plants or divisions) was more likely in firms with low levels of outside director stock ownership and relatively high levels of inside director stock ownership (which is discussed in the next section). These are both characteristics associated with a lack of board independence. Thus, the authors concluded that ownership by outside board members increases board vigilance, which suggests that such a board is more likely to be vigilant on an ongoing basis with regard to evaluating firm strategies.

Chatterjee et al. (2003) suggest that their findings contribute to the stream of research that supports the idea that governance characteristics are more likely to be relevant during times of organizational stress by demonstrating that governance can make a difference with regard to how firms respond to failed takeover attempts. They explained their results in terms of board vigilance by stating that an independent board (e.g., one with significant equity holdings by outside board members) is more likely to be vigilant on an ongoing basis with regard to evaluating strategies. Consequently, a shock such as a takeover attempt is less likely to cause the board to believe that the firm's diversification strategy is inappropriate.

2.G.3. Equity Held by Inside Board Members

Three studies have investigated the relationship between equity held by inside board members and restructuring. An analysis of this research reveals that there is no consensus concerning the relationship between insider equity holdings and restructuring. Although Chatterjee et al. (2003) demonstrated a positive relationship between the two, research by Bethel and Liebeskind (1993) and Hoskisson et al. (1994) suggested that insider equity holdings were unrelated to restructuring activity.

Both Bethel and Liebeskind (1993) and Chatterjee et al. (2003) argued that equity ownership by insiders at the beginning of their time periods of study would be negatively related to restructuring activity. Their rationales for suggesting such a relationship were quite similar, in that they argued that the economic and fiduciary incentives and the power of inside board members with equity were sufficient to ensure that the firms from the outset of their study time frames should have already been efficiently configured. As such, the authors expected that these firms were less likely to restructure.

Hoskisson et al.'s (1994) argument concerning insider board member ownership was identical to the one they posited for outsider board member ownership, which suggests that substantial ownership positions in the firm results in increased willingness on behalf of inside directors to press for continuous strategic corrections. The authors did not find support for their belief that equity ownership by inside board members would be negatively related to levels of diversification. This finding agrees with that of Bethel and Liebeskind (1993), yet contradicts Chatterjee et al.'s (2003) findings. It is important to note that the primary difference might be attributable to the fact that Chatterjee et al. (2003), unlike the other two, studied firms that successfully repelled a takeover attempt.

2.G.4. Proportion of Outsiders on the Board

As evidenced in Table 1, the relationship between the proportion of outsiders on the board and restructuring is the most researched governance-restructuring relationship. Out of a total of five studies, four studies (i.e., Goodstein & Boeker, 1991; Hoskisson et al., 1994; Markides & Singh, 1997; Chatterjee et al., 2003) concluded that the proportion of outsiders on the board was unrelated to restructuring or the divestiture of assets or services. Johnson et al. (1993) was the only study that contradicted the results of the four aforementioned studies. However, Hoskisson et al. (1994) hinted that the statistical power of their study complicated their ability to find significant results concerning the impact of board outsiders on relative product diversification. They suggested that an increase in their sample size from 203 to 250 firms would lead to marginal significance of this relationship.

Much like Johnson et al. (1993) and Hoskisson et al. (1994), Goodstein and Boeker (1991) argued that greater proportions of outsiders on the board would lead to greater restructuring activity in their sample of 327 hospitals in California that underwent

significant changes during the early 1980s. The authors claimed that increases in the proportion of outsiders on the board would increase the number of service additions and divestitures a hospital initiates. They drew upon the literature that suggests that outsider-dominated boards will initiate substantial changes, even if they are in conflict with the interests of incumbent CEOs (Chatterjee & Harrison, 2001; Johnson et al., 1996; Kimberly & Zajac, 1988; Mizuchi, 1983). The results revealed that increases in outsider representation on a board have a significant, positive effect on service additions but not on divestitures. In other words, increases in outsiders on the board appear to be unrelated to restructuring activity. The main contribution of their study was that board changes could directly influence strategic change independent of CEO succession.

Chatterjee et al. (2003) speculated that the lack of significance in the board demography variable (proportion of outside directors) may be an indication that it is stock ownership by outside directors (as discussed earlier) and not simply their board seats that results in influence on executive decisions. Although this is a plausible explanation for their non-significant finding, the authors failed to mention that non-significance of findings might be attributable to a low level of statistical power (approximately .50) in their tests.

2.G.5. Board Size

The impact of board of director size and restructuring was investigated by two studies – Goodstein et al. (1994) and Markides and Singh (1997) – and the results of both studies suggest that board size is unrelated to restructuring activity. Unlike Goodstein et al. (1994), Markides and Singh (1997) hypothesized governance (e.g., board size) does not impact restructuring. They cast much doubt on the well-received

notion that governance impacts restructuring by arguing that sub-optimal performance might not have resulted from governance weaknesses but from honest managerial weaknesses (i.e., a mis-alignment of strategy and structure). In other words, there may be instances when top managers are acting in good faith, yet their actions are actually creating inefficiencies. Thus, restructuring is undertaken to improve the sub-optimal performance that is created by managerial inefficiencies. As such, the authors claimed that the governance characteristics of restructuring firms in the pre-restructuring period would not be different from the governance characteristics of non-restructuring firms.

Markides and Singh (1997) tested their assertion on a sample of 132 firms in the late 1980s and early 1990s. Of the 132 firms in the sample, 91 firms restructured (operationalized as a 10% divestiture of the company's asset base) and 41 did not restructure. Their results revealed that not just board size, but none of the governance variables were significantly different for those firms that did restructure versus those firms that did not restructure. This finding is significant since it casts doubt on the heavy emphasis placed on corporate governance structures in the agency explanation of restructuring. Additionally, it challenges the accepted wisdom that the governance structure of the public corporation is in need of a major overhaul.

2.G.6. Equity Held by the Top Management Team

As seen in Table 1, Gibbs (1993) and Johnson et al. (1993) investigated the relationship between equity held by the top management team and restructuring. These two studies reached completely opposite conclusions.

Johnson et al. (1993) argued that boards with a higher proportion of outside members and outside members with equity ownership are more likely to become involved in major strategic decisions. Conversely, when the members of the top

management team have equity ownership in their organization, they have the power to forestall board involvement, but they also have the incentive for greater monitoring and making decisions in the best interest of the stockholders. That is, because they have an ownership interest in the organization, when top management team members have longer tenure on the team as well as longer tenure in the organization, they are likely to have more power that allows them to forestall board involvement. Furthermore, the authors suggest that there is less need for board involvement in strategic decisions when top managers have equity ownership because top management's decisions are more likely to be in the best interest of the shareholders.

In spite of this, top management team equity ownership was not significantly correlated with either relative firm performance (i.e., performance relative to average industry performance) or market performance. The authors noted that the implication of this finding is that top management equity ownership might translate into greater perceived legitimacy by outside board members in reference to strategic decisions by top managers. In other words, boards might not get involved in strategic decisions (e.g., divestiture and/or acquisition decisions) because equity ownership on behalf of top managers signals to the board that the top managers will make prudent decisions. Additionally, the authors were clear to point out that top managers might assume equity ownership in their organizations because they are pressured to do so by key constituencies (i.e., outside board members, blockholders, and institutional investors).

Contradicting the findings of Johnson et al. (1993), Gibbs (1993) found support for a positive relationship between management equity interests and portfolio restructuring. In fact, outside directors and management equity interests, accounted for approximately one-third of the variance explained in their model.

2.G.7. Turnover on the Board of Directors

Goodstein and Boeker (1991) is the only study that has investigated the relationship between board turnover and restructuring activity. Specifically, the authors hypothesized that turnover on the board would increase the number of service additions and divestitures in their sample of 327 hospitals in California that underwent significant changes during the 1980-1986 time period due to the fact that membership changes would increase the likelihood that new perspectives would enter the strategic decision-making process. The results revealed that change in board composition due to turnover on a board has a significant, positive effect on service additions but not on divestitures. As such, board turnover is unrelated to restructuring.

2.G.8. Outside Directors' Power

Gibbs (1993) studied the impact of outside directors' power on restructuring activity. He attempted to directly measure board power by using a multiplicative indicator of power. Gibbs (1993) operationalized board power as the ratio of outside directors to inside directors times the ratio of the average tenure of outside directors to inside directors. He investigated this impact by studying 86 firms during the 1982-1987 timeframe. Based on the results, Gibbs (1993) concluded that firms with strong boards were less likely to restructure, or at least, restructured less.

2.G.9. Board Diversity

Goodstein et al. (1994) investigated how board diversity, which has traditionally been associated with optimal institutional and governance performance of boards, affects its ability to initiate strategic changes during periods of environmental turbulence. Specifically, they studied a panel of 334 hospitals in California during the 1980-1985 timeframe. They examined three distinct types of strategic change in hospitals –

service additions, service divestitures, and service reorganizations. Consistent support was found for the hypothesized negative relationship between board diversity and strategic change. Hospitals with more occupationally diverse boards tended to initiate fewer service additions, divestitures, and reorganizations. The basic conclusion of the authors is that board diversity limits its ability to take timely strategic actions.

2.G.10.Board Tenure

The only study investigating the impact of board tenure on restructuring activity was undertaken by Johnson et al. (1993). The authors suggested that a board composed of senior directors is more resistant to change. As such, long tenure among board members may compromise governance of top management regardless of efficiency. Additionally, the authors suggested that the longer a group works together, the higher the social pressures within the group for conformity to group norms. Thus, Johnson et al. (1993) posited that board tenure was likely to be negatively related to board involvement in restructuring activity.

Their analysis revealed that mean board tenure was not a statistically significant predictor of board involvement in restructuring. Johnson et al. suggested that one explanation of their finding is that “it may be inappropriate to extend upper-echelon theory and arguments to board members. The board of directors functions quite differently than top management teams. While a top management team meets and interacts on a regular basis, boards of directors meet only a few times a year. Therefore, power and political processes may have less effect on board operations than in top management teams” (1993: 46). The authors failed to point out that lack of a significant finding might be due to less than desirable statistical power of their test (approximately .71).

2.G.11.Institutional Ownership

Bethel and Liebeskind (1993) was the only study to investigate the relationship between institutional ownership and restructuring. The authors hypothesized that institutional ownership at the outset of the 1980s would be negatively correlated with corporate restructuring during the 1980s. They argued that if institutional investors are efficient monitors of managers, then firms with high levels of institutional ownership at the outset of the 1980s should have already been efficiently configured, and so are expected to be less likely to restructure subsequently. Additionally, the authors argued that if institutional investors promote efficiency, then firms in which the level of institutional ownership increased during the 1980s should have undertaken more restructuring than other firms. The results of their study demonstrated that no significant relationship existed between institutional ownership/increases in institutional ownership and restructuring activity. A potential explanation of non-significant findings of these relationships is the low statistical power of their tests (approximately .61).

2.G.12.CEO Duality

As previously mentioned, Chatterjee et al. (2003) argued that even after a major event such as a takeover attempt, boards that have taken their monitoring duties seriously might still assume that their organizations' strategies are appropriate. In other words, the existence of a vigilant board (i.e., independent board) implies that the firm's diversification strategy was under constant scrutiny and that it was, at least believed to be, appropriate. The authors believed that the lack of CEO duality creates greater board independence, and, as such, they hypothesized that CEO non-duality was negatively related to refocusing activity. Contrary to their arguments, Chatterjee et al.

(2003) did not find support for their hypothesized negative relationship between CEO non-duality and restructuring activity.

2.G.13. Summary of the Literature

From the above discussion and the synthesis of findings in Table 1 it is apparent that, for the most part, there are no systematic relationships between governance structures and restructuring activity, and for those relationships that have been investigated by multiple studies, the results often have led to contradictory findings.

The debate regarding the role of the board of directors typically has been framed by alternative characterizations of boards. On one end of the spectrum, boards have been characterized as 'rubber stamps' (Herman, 1981) or as 'tools' of management (Pfeffer, 1972) that rely heavily on top management for leadership, direction, and information. This line of research, inspired by scholars emphasizing power in organizations (Zajac & Westphal, 1996) and agency relationships (Jensen, 1989), has tended to emphasize how powerful CEOs ensure that boards have essentially no effect on a firm's strategy or changes in strategy.

On the other end of the spectrum, researchers are increasingly viewing boards as comprised of independent thinkers who take an active role in shaping the strategic direction of their organization (Walsh & Seward, 1990; Davis & Thompson, 1994; Finkelstein & Hambrick, 1996). Even if vigilant boards do not restructure because they view organizational strategies as adequate, any changes in post-restructuring periods might be due to pressures from key constituencies that attempt to align managements' interests with those of the shareholders, or at least to attenuate managerial opportunism. Such extremely divided conceptualizations of boards as passive versus active have led to very different conclusions regarding descriptions of board

characteristics and behaviors and their impact on restructuring. In order to interpret the results of the governance-restructuring literature, an understanding of potential sources of the conflicting findings is needed.

2.H. Potential Sources of Conflicting Findings

An assessment of the studies reviewed reveals contradictory findings. A variety of reasons for such conflicting findings may be identified in the studies investigating the relationship between governance and restructuring: 1) survivor bias; 2) inadequate statistical power; 3) different operationalizations of restructuring; 4) failure to differentiate why firms restructure; and, 5) failure to include control groups (i.e., firms that did not restructure). Each of these explanations is discussed below. Table 2 shows which studies were affected by each potential problem.

2.H.1. Different Operationalizations of Restructuring

There is no consensus in the literature on how to properly operationalize restructuring, which may contribute to the contradictory findings concern the governance-restructuring relationship. For example, Johnson et al. (1993) argued that companies engaged in restructuring when they divested multiple businesses (more than two), involving a minimum of 10% of their total assets. Gibbs (1993) argued that single measures of portfolio restructuring, such as asset divestment and decreased diversity might not differentiate restructuring from clean-up activities associated with large acquisitions and from normal growth differentials among business segments. As such, Gibbs (1993) used a more restrictive measure of portfolio restructuring – the joint product of asset divestiture (i.e., total sales of property, plant, and equipment during the study period divided by net property, plant, and equipment at the beginning of the study period) and decreased diversity (i.e., the change in diversity from the beginning to the

end of the study period). Yet another measure of portfolio restructuring was provided by Bethel and Liebeskind (1993), who used a variety of different measures of portfolio restructuring – downsizing, change in total diversification, change in total diversification, and divestitures. Investigating strategic change in a hospital setting, Goodstein and Boeker (1991) and Goodstein et al. (1994) used three hospital specific measures of strategic change – service additions, service divestitures, and service reorganizations.

As is evident from these examples, there are multiple operationalizations of restructuring. Furthermore, the samples (hospitals versus Fortune 500) might lead to contradictory findings regarding the board-restructuring relationship. As Goodstein and Boeker noted, “there are some important differences in the structures and functions of corporate and hospital boards. A major difference is the locus of responsibility for initiating strategic change. Hospitals rely on their managements, physicians, and directors to provide direction regarding strategic changes. But for most corporate entities, the CEO and the top management team assume responsibility for strategic changes” (1991: 325).

2.H.2. Survivor Bias

All of the studies in Table 2 that have assessed the governance-strategic change relationship suffer methodologically by using data exclusively from organizations that have survived a strategic change. These studies have only focused on the survivors of change and their governance structures. As shown in Table 2, studies that suffer from this problem are Bergh (1995), Bethel & Liebeskind (1993), Chatterjee et al. (2003), Gibbs (1993), Goodstein & Boeker (1991), Goodstein et al. (1994), Hoskisson et al. (1994), Johnson et al. (1993), Markides and Singh (1997). Since this issue is a form of selection bias it poses a threat to internal validity (Cook & Campbell, 1979: 53;

Pedhazur & Schmelkin, 1991: 227), and, thus, calls into question the validity of assertions regarding the effects of the independent variable(s) (i.e., governance) on the dependent variable(s) (i.e., restructuring) since these studies neglected to include those organizations that failed at the process of strategic change.

2.H.3. Statistical Power

Conflicting and non-significant findings might also partially be attributable to a lack of statistical power. Studies that suffer from substandard power levels leave conclusions open to great interpretation. Non-significant findings could be due to insufficient statistical power or the true absence of the phenomenon (Cohen, 1977; Cortina & Folger, 1998; Greenwald, 1993). For example, Chatterjee et al. (2003) failed to find significance for their arguments that CEO non-duality and the proportion of outsiders on the board were negatively related to incidences of restructuring. In discussing these findings, the authors failed to mention that non-significance might have resulted from a substandard power levels (approximately .50). Other studies that suffered from below-optimal power levels were Bethel and Liebeskind (1993), Gibbs (1993), Johnson et al. (1993), Hoskisson et al. (1994), and Bergh (1995). In fact, Hoskisson et al. (1994) even noted that with a slight increase in the sample size of their study, one of the hypothesized relationships reached significance.

2.H.4. Failure to Differentiate Why Firms Restructure

A multitude of empirical and theoretical investigations into the antecedents of portfolio restructuring have revealed that various factors precipitate the shedding of corporate assets. However, the vast majority of the studies reviewed here (with a notable exception by Gibbs, 1993) did not take this fact into consideration. They proceeded as if governance issues and governance concerns were pervasive in all

Table 2
Potential Sources of Conflicting Findings

Study	Operationalization of Restructuring	Survivor Bias	Low Power	No Reasons Why Firms Restructure	No Control Group
Goodstein & Boeker (1991)	Two different measures – the number of service additions and divestitures in hospitals	X		X	
Bethel & Liebeskind (1993)	Three different measures – change in total diversification, change in related diversification, and divestitures	X	X	X	
Gibbs (1993)	A multiplicative item defined as <i>asset divestment</i> (percentage of property, plant, and equipment sold during the study period) times <i>decreased diversification</i> (difference in diversification from the beginning to the end of the study period)	X	X		
Johnson et al. (1993)	Voluntary divestment of at least 10% of a firm's total assets	X	X	X	X
Goodstein et al. (1994)	Three different measures – service additions, divestitures, and reorganizations in hospitals	X		X	
Hoskisson et al. (1994)	Divestment intensity was measured with three variables measuring different aspects of the construct – the number of business units divested, percentage of sales divested, and time required to restructure.	X	X	X	X
Bergh (1995)	Selling or disposition of some previously owned corporate asset, product line, or ongoing entity to another company	X	X	X	X
Markides & Singh (1997)	10% divestiture of the company's asset base	X		X	
Chatterjee et al. (2003)	Any spin-offs or sale of plants or divisions (no minimum percentage)	X	X	X	

organizations that implement restructuring programs, thus resulting in less robust results. By combining all these firms into one sample, or at least not controlling for alternate explanations, may have diluted the effects. As Kosnik suggested, “observations need to be restricted to situations involving acute conflict of interest between top management and shareholders” (1990: 145).

2.H.5. Failure to Investigate Non-Restructuring Firms

As shown in Table 2, three studies – Johnson et al. (1993), Hoskisson et al. (1994), and Bergh (1995) – only analyzed firms that restructured their operations. As such, internal validity of the findings is compromised. Internal validity refers to the “validity of assertions regarding the effects of the independent variable(s) on the dependent variable(s)” (Pedhazur & Schmelkin, 1991: 224). In other words, is the phenomenon observed (i. e., restructuring activity) due to the variables the researcher claims to be operating (i.e., certain governance characteristics), or can it be attributable to other variables? (Cook & Campbell, 1979; Pedhazur & Schmelkin, 1991). For example, Johnson et al. (1993) concluded that outside director ownership and outsider representation on the board were positively related to board of director involvement in restructuring. Without comparing these results against a group of firms that did not restructure (or at least have a sample of firms that did and did not restructure), Johnson and colleagues’ findings, as well as those of Bergh (1995) and Hoskisson et al. (1994), lack internal validity.

Markides and Singh (1997) addressed this issue by comparing their results to a control group. More specifically, their sample of 132 firms was divided between 91 firms that initiated restructuring and 41 firms that did not implement a restructuring program. They concluded that the governance characteristics of firms that did and did not

restructure were not significantly different from each other. If Johnson et al. (1993) had structured their study in a similar manner, they might have concluded that outside director ownership and outsider representation on the board might also be prevalent in firms that did not undertake restructuring programs.

2.1. The Next Step

The portfolio restructuring literature is clear that restructuring corrects the immediate problems of firms experiencing poor performance that are attributable to substandard governance. Interestingly enough, these same researchers have yet to empirically or conceptually examine the real source of the problem – poor governance. A few have mentioned that more radical action besides restructuring is needed. They have predicted the ‘eclipse of the modern corporation’ (Jensen, 1989) and have called for a radical reexamination of the governance systems of the firm (Jensen, 1993). Hoskisson and Turk (1990) suggested that such a reexamination is possible in post-restructuring periods by providing the firm with the opportunity to reconfigure the governance structure in ways that restrict the management discretion that originally resulted in excess diversification.

According to Golden and Zajac (2001) there has been an increased scrutiny on board activities over the years, which is not only driven by academic researchers, but also government regulators and the business press. The authors furthermore state that most of the recommendations emerging from the corporate governance debate tend to revolve around changes in board structure, such as increasing the proportion of outside directors, which are aimed at increasing the independence of board decision-making. Thus, if restructuring is, in part, directed at repairing corporate governance breakdowns, it is not unreasonable to assume that new ownership and governance patterns would

emerge in post-restructuring periods. As Johnson suggests, “If corporate governance is weak or a failure in the pre-restructuring period, what changes does a firm make in the post-restructuring period? If a firm does not correct governance inefficiencies or shortcomings, then the process of refocusing may be followed by renewed expansion or continued inefficiencies” (1996: 477). Addressing this issue is crucial and the next logical step in making a contribution to the restructuring and governance literatures.

Specifically, I argue that during a crisis (i.e., periods of poor performance), firms face significant pressures from independent boards, large individual shareholders, and institutional investors to improve performance and ensure corporate accountability (Bethel & Liebeskind, 1993; Chatterjee & Harrison, 2001; Davis & Thompson, 1994; Gilson & Kraakman, 1991; Hoskisson et al., 1994; Ryan & Schneider, 2002; Useem et al., 1996; Westphal & Fredrickson, 2001; Westphal & Zajac, 1997). Responses to such pressures will manifest themselves in restructuring activity, as well as voluntary and involuntary modifications to firms’ governance structures so as to demonstrate to these powerful constituencies that the managerial strategies are sufficiently adequate to safeguard shareholder interests. It is important to note that such changes occur for substantive reasons or as symbolic gestures (Daily & Dalton, 1995; Meyer & Rowan, 1977; Westphal & Zajac, 1994; 1998; Zajac & Westphal, 1995).

Based upon the literature on board of directors and governance in general, it would not be unreasonable to assume that restructuring programs are coupled with governance changes in firms that experience poor performance in the pre-restructuring period. For example, as uncertainty arises in an organization (e.g., changing diversification levels along with poor performance) the board will focus more on its external role by increasing the board’s diversity to maintain links with the external

environment (Pfeffer, 1972; 1973; Pfeffer & Salancik, 1978; Provan, 1980; Stiles & Taylor, 2001). This idea is substantiated by Chatterjee and Harrison (2001) and Sutton and Callahan (1987), who mention that during any type of crisis, maintaining exchange relationships with key constituencies is important, which, on occasion, calls for adjustments to the governance structure. Other evidence that substantiates governance reform after periods of poor performance was offered by Pearce and Zahra (1992) and Hermalin and Weisbach (1988), who noted that outside directors are added to boards following periods of poor performance. Stearns and Mizruchi (1993) found that declining profits were related to the appointment of representatives from financial institutions. Some have suggested that any board reforms must first be preceded by improvements in board composition (Schellenger, Wood & Tashakori, 1989). Board leadership structure has also been targeted as a means for improving board of directors (e.g., Mallette and Fowler, 1992; Rechner & Dalton, 1991).

To date, there has been no empirical examination that specifically addresses governance as an outcome of the restructuring process. As previously mentioned, governance (coupled with poor performance) is the most discussed antecedent of portfolio restructuring, yet it is completely ignored in the post-restructuring period. The literature has focused on strategy (e.g., Hitt et al., 1996; Hoskisson & Johnson, 1992), employee effects (e.g., Brockner, Grove, O'Malley, Reed & Glynn, 1993; Brown, James & Mooradian, 1994; Kose et al., 1992; Reilly, Brett & Stroh, 1993), and firm performance (e.g., Bergh, 1995; Bowman et al., 1999; Comment & Jarrell, 1995; Kose & Ofek, 1995; Markides, 1992, 1995; Montgomery et al., 1984) in the post-restructuring period. Research has demonstrated that, on average, portfolio restructuring has a positive impact on performance in the post-restructuring period. However, if the agency

explanation of restructuring is correct, firms are still saddled with the same weak governance structures in the post-restructuring period. As such, the idea of governance reforms in the post-restructuring period has merit, yet lacks conceptual and empirical examination, leaving a large gap in the literature.

It would seem reasonable to assume that such changes in governance would occur predominantly for firms that suffered poor performance prior to restructuring. It is predicted that such changes would occur in post-restructuring periods for the following reasons:

- The time between declines in performance and the initiation of a restructuring is narrow – e.g., less than a year (Bergh, 1995; Jain, 1985). However, changes to governance structures, such as board size, proportion of outsiders on the board, outside and inside board equity, CEO duality, the presence of prestigious board members, and the representation of key constituencies (e.g., financial institutions) on the board are time intensive processes, thus, not able to be fully carried out until after the restructuring.
- As previously mentioned, Markides and Singh (1997) investigated the governance characteristics of firms that did and did not restructure, concluding that there were no significant differences between the two sets of firms. As such, an empirical investigation is needed to determine if calls for governance reform are implemented in the post-restructuring period since governance has been labeled as problematic and needs to be addressed, yet has not been done so in the pre-restructuring period.
- When firms are faced with the threat of significant declines in performance, they may suffer from ‘threat-rigidity’ responses (Staw, Sandelands & Dutton,

1981), characterized by increasing conservatism and resistance to change. As such, to overcome such resistance a firm must engage in restructuring and only in the post-restructuring period can changes be brought about in the governance structure of the firm.

Additionally, it is argued in this dissertation that governance structures moderate the portfolio restructuring-performance relationship. The idea here is that due to the taken for granted nature of what constitutes sound governance, the financial markets will positively reward those firms whose governance structures possess socially valid indicators of sound governance. This is an area in the restructuring-market performance relationship that requires investigation since there is significant evidence that market evaluations can be impacted by non-financial factors, such as alterations of governance structures. This investigation examines whether the positive impact of restructuring on performance is impacted by the governance structures of the firm.

CHAPTER 3: THEORY DEVELOPMENT

This chapter contains the theoretical background and propositions concerning governance in the post-restructuring period, as well as the impact of governance on the restructuring-performance relationship. The chapter draws upon arguments set forth in the prior chapter concerning how investors, governance activists, and experts view governance and ultimately define what is good or sound governance.

Utilizing institutional, signaling, impression management, and resource dependence arguments, I offer propositions concerning how restructuring organizations will conform to these expectations of good governance and modify their governance structures in the post-restructuring period. Additionally, arguments are offered that predict the impact of governance structures on the market evaluation of organizations in the post-restructuring period. The main idea behind this latter set of relationships is that the market evaluations of firms will be more positive for those organizations exhibiting good governance.

3.A. Pressures for Change

Institutional theory suggests that organizational legitimacy is paramount for firm performance and survival (Certo, 2003; DiMaggio & Powell, 1983; Scott, 1995; Suchman, 1995). To gain legitimacy, organizations respond to institutional pressures stemming from such sources as suppliers of capital, consumers, owners, boards of directors, and regulatory agencies by adopting similar organizational forms (DiMaggio & Powell, 1983; Greenwood & Hinings, 1996; Luoma & Goodstein, 1999; Townley, 2002). Better known as isomorphism (Deephouse, 1996; DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, 2001), this process forces an organization to resemble other

organizations that are confronted with the same set of environmental issues (DiMaggio & Powell, 1983).

Additionally, the literature suggests that isomorphism does impact organizational characteristics, such as structures and practices (Deephouse, 1996; Meyer & Rowan, 1977; Tolbert & Zucker, 1983). The adoption of these prevailing practices and procedures results in increases in organizational legitimacy, which helps organizations acquire more resources and lessen the probability of failure (Baum & Oliver, 1991; DiMaggio & Powell, 1983; Kraatz & Zajac, 1996; Meyer & Rowan, 1977; Oliver, 1991; Pfeffer & Salancik, 1978; Suchman, 1995; Westphal, Gulati & Shortell, 1997).

This argument is consistent with the tenets of signaling theory (Bhattacharya, 1979; Certo, 2003; Riley, 1989; Ross, 1977; Spence, 1973; Turban & Greening, 1997; Williams & Gauer, 1994), which suggests that compliance with institutional norms will be seen as signaling to the population at large the firm's reputation and legitimacy. The theory suggests that information asymmetry exists between owners and executives since executives are more informed about the firm's prospects for firm growth and profitability. As such, executives must effectively demonstrate that they are working in the best interests of shareholders (Beatty & Zajac, 1994; Leland & Pyle, 1977).

Based on the aforementioned arguments it is suggested that governance structures face these same pressures from their external environment. The pressures are greatest when performance is sub-optimal since the literature has linked sub-optimal governance to deteriorations in firm performance. As such, the following section argues that firms suffering from poor performance will not only face these pressures, but will have to make changes to their governance structures, either voluntarily or involuntarily, in order to conform to these pressures.

3.A.1. Pressures for Governance Changes

It is argued in this dissertation that following a crisis, such as declining financial performance followed by portfolio restructuring, boards/firms will institute changes in their governance structures as a result of increased pressures by large shareholders (i.e., institutional investors and blockholders) and vigilant boards of directors, since power shifts away from management to boards in times of poor performance (Mizruchi, 1983; Westphal & Fredrickson, 2001). As a response to declining performance, a variety of firms opt to restructure their portfolio of assets with the intent of placing the firm on a track for improved performance, or at least demonstrate to their constituencies that they are attempting to do so.

In addition to the attempt to correct the declining performance situation, it is argued that significant pressures are placed upon firms (i.e., boards of directors and managers) to address the causes of the poor performance – namely, inadequate governance and inefficient governance structures, as advocated by the overwhelmingly accepted arguments in the portfolio restructuring literature as set forth by agency theory. However, to date, no research has either conceptually or empirically addressed this issue.

Given the need to positively influence these sources of power (namely institutional investors and the markets, in general), firms may adopt organizational structures to signal legitimacy, because “organizations that incorporate societally legitimated rationalized elements in their formal structures maximize their legitimacy and increase their resources and survival capabilities” (Meyer & Rowan, 1977: 352). The anticipated result is an improved perception of the organizational image and renewed confidence in the organization’s future (Daily & Dalton, 1995; Schwartz & Menon, 1985).

Conceptual research indicates that such organizational structures include characteristics of boards of directors and top managers (Certo, 2003; Mizruchi, 1996; Pfeffer & Salancik, 1978; Westphal & Zajac, 1994; 1998).

The literature on institutional theory would suggest that firms would incorporate or institute governance changes that reflect the myths of their institutional environments. These changes will become part of the organization's rationalized formal structure (e.g., board of director and top management team), whose elements reflect rules that are socially constructed, deeply ingrained, taken for granted, may be supported by public opinion, and/or enforced by the views of important constituents (Berger & Luckmann, 1967; Meyer & Rowan, 1977; Starbuck, 1976). In other words, rather than incorporate elements in terms of efficient coordination and control of productive activities, firms incorporate elements that are legitimated externally. Thus, making alterations to one's governance structures by adhering to the prescriptions of myths in the institutional environment (i.e., effective and high performing firms are those with sound governance structures), an organization demonstrates that it is acting on collectively valued purposes in a proper and adequate manner (Dowling & Pfeffer, 1975; Kamens, 1977; Meyer & Rowan, 1977, 1978; Scott, 1991; Tolbert & Zucker, 1996). This is crucial to an organization because they require more than material resources and technical information if they are to survive and thrive in the social environment. They also need social acceptability and credibility (Scott, Ruef, Mendel & Coronna, 2000).

As previously argued, significant pressures are exerted by shareholders upon boards of directors to effectively respond in times of organizational crisis (e.g., period of declining performance). Additionally, top managers face similar pressures for performance enhancements by boards of directors. It is important for top managers and

boards to manage these multiple contingencies in order to preserve their positions. Failures to keep shareholders satisfied may result in removal from the board and the potential for a negative impact to the board members' reputation/prestige, thus decreasing the probability of an attractive board assignment with another firm. Additionally, corporate boards not active in their pursuit of performance improvements might be regarded as negligent in their protection of stockholder interests (Westphal & Zajac, 1994).

Executives also face immediate demands to show that they are maximizing shareholder wealth. Failure to keep shareholders satisfied presents significant hazards, including hostile takeovers (Chatterjee et al., 2003; Davis & Stout, 1992; Kabir, Cantrijn & Jeunink, 1997; Sundaramurthy, 1996); intervention by vigilant, professional money managers (Daily, 1996; David et al., 2001; Useem, 1996); board interference in corporate strategy (Boeker & Goodstein, 1991; Westphal & Zajac, 1998); involuntary executive replacement (Boeker, 1992; Chatterjee et al., 2003; Daily et al., 2003a; Dalton & Kesner, 1985; James & Soref, 1981; Johnson et al., 1996; Pfeffer & Salancik, 1978; Puffer & Weintrop, 1991; Schwartz & Menon, 1985; Wright et al., 1996); downgrading of the company's stock (Sanders & Carpenter, 2003); and the loss of potential gains from stock options (Rajagopalan & Finkelstein, 1992; Wiseman & Gomez-Mejia, 1998). As such, it is extremely important in times of substandard performance and organizational change for organizations to conform to these pressures since firms are dependent on these sources for stability, legitimacy, and the appearance of rationality (Oliver, 1991; Pfeffer & Salancik, 1978; Suchman, 1995).

It is important to offer examples where organizations institute changes as a response to the demands of constituencies. The belief is that the instituted changes will

be ones that are favorably received by these constituencies. The following section specifically addresses this issue by offering the reader examples of institutionally legitimated change. Such a discussion is important since this dissertation posits that firms experiencing poor performance will not only restructure their portfolio of assets, but also will be pressured to institute governance changes that are institutionally legitimated.

3.A.2. Examples of Institutionally Legitimated Change

The literature contains examples where executives are likely to respond to pressures by instituting shareholder and board of director mollification strategies to manage pressures in their environment. Specifically, it is suggested that executives deal with shareholder and board demands by adopting structures or implementing programs that are generally favorably received by the shareholders, boards, and the markets (Elsbach, 1994; Harrison, 1987; Sanders & Carpenter, 2003; Wade, Porac & Pollock, 1997; Westphal & Milton, 2000; Westphal & Zajac, 1994, 1998; Zajac & Westphal, 1995).

For example, Sanders and Carpenter (2003) suggested that a CEO might announce a stock repurchase to send a strong signal that he or she is bullish about the firm. The authors noted that this perception is shared by financial market analysts, who view repurchase programs as a tactic to reassure nervous investors. From an institutional perspective, announcing a stock repurchase program has achieved taken-for-granted status in U.S. capital markets as a shareholder-friendly initiative (Jensen, 1986; Sanders & Carpenter, 2003; Westphal & Zajac, 2001). However, while a stock repurchase program redistributes wealth and ownership, it does nothing in and of itself to create long-term value or better a firm's competitive position relative to its

competitors. Thus, according to Sanders and Carpenter (2003) it is reasonable to assume that if CEOs and their top managers fail to maximize shareholder returns, the announcement of stock repurchase programs may look like an intendedly rational method of managing shareholder impressions and expectations. Such actions should not be unexpected since “executives resort to all sorts of actions to allay shareholders’ near-term concerns” (Sanders & Carpenter, 2003: 175). From an impression management perspective, the adoption of a repurchase plan may enhance a firm’s image with its shareholders (cf. Bolino, 1999).

The results obtained by Sanders and Carpenter (2003) suggested that strategic initiatives that tend to garner favorable stock market responses, such as stock repurchase programs, become tempting choices for executives, even when they may be sub-optimal firm strategies. The authors labeled such tactics as *strategic satisficing*. Sanders and Carpenter argued that “by adopting such programs, executives mitigate perceived threats to their tenure and personal wealth, but potentially supplant other strategic contingencies that require significant funding” (2003: 173).

Another example of an adopted reform is the use of long-term incentive plans (LTIPs – plans that focus on profitability over a multiyear period as well as on stock price) as part of executives’ pay packages (Westphal & Zajac, 1998). The use of these plans is seen as a mechanism to minimize the extent to which the interests of agents (top management) diverge from those of principals (shareholders) (Jensen & Meckling, 1976). Furthermore, LTIPs are expected to lengthen executives’ time horizons and focus their attention on creating shareholder value. The use of these plans receives positive praise by governance reform advocates and positive ratings by *Business*

Week's (2002) "The Best & Worst Boards," which, among other things, evaluates boards on the degree to which they link the CEO's pay to specific performance targets.

Given the presumed advantages of LTIPs, most research investigating the consequences of LTIP adoption have found a positive market reaction to the announced adoption of LTIPs (Larcker, 1983; Brickley, Bhagat & Lease, 1985; Tehranian, et al., 1987; Kumar & Sopariwala, 1992). According to Kumar and Sopariwala, "this positive reaction is consistent with the view that there will be a lower degree of agency problems and lower agency costs subsequent to the adoption of these plans" (1992: 562). Thus, the notion of protecting shareholders' interests through incentive alignment may have acquired institutional or symbolic value over time as an explanation for the introduction of LTIPs (Meyer & Rowan, 1977; Zajac & Westphal, 1995; Zucker, 1983, 1987).

Westphal and Zajac (1998) studied the adoption of LTIP by executives and concluded that the adoption of these programs is an important form of symbolic action, regardless of whether or not the plans are actually implemented. Additionally, the authors found that the use of agency language in the proxy statements (i.e., language that explicitly discusses how LTIPs promote shareholder interests by tying CEO compensation more closely to shareholder wealth) results in more favorable stock market reaction to LTIP adoption, again, irrespective of whether the plans were implemented. Thus, the authors argued that their study illustrated how structural or policy changes (whether decoupled or not) might provide a vehicle or opportunity for firms to manage impressions.

Westphal and Zajac (1994) suggested that boards use impression management in response to poor performance. Independent of CEO influence over the board, declining prior performance is positively related to the likelihood of LTIP adoption but

not to the likelihood or magnitude of subsequent grants in actual compensation packages. Drawing on their results, the authors concluded that it appeared that LTIP adoption frequently represented a symbolic rather than a purely substantive adaptation to poor performance. In effect, boards facing the pressures associated with a firm's poor performance may seek to restore their credibility with stakeholders by ceremonially increasing control over management (Salancik & Meindl, 1984; Elsbach & Sutton, 1992). As such, LTIP adoption can provide an opportunity for the firm to manage stakeholders' impressions about CEO compensation and the role of compensation in organizational affairs (Westphal & Zajac, 1994).

3.A.3. Governance in the Post-Restructuring Period

Based on the fact that a common research proxy for a board's governing effectiveness is firm financial performance (Kosnik, 1987; Mallette & Fowler, 1992), and revolutionary, yet not universally accepted, statements in the portfolio restructuring literature such as "If perfect governance is achieved, no performance problems should exist" (Johnson et al., 1993: 34), pressures for, and adoptions of, governance reforms should be greatest when shareholders' interests are viewed as having been neglected (Westphal & Zajac, 1994). As such, it is believed that this has direct implications for firms engaged in portfolio restructuring, specifically those organizations that are experiencing substandard performance.

It has been argued from an institutional and signaling perspective that directors and executives must respond to these pressures in order to, among other things, maintain legitimacy, credibility, employment security, and reputation. These arguments are reinforced from an impression management perspective (Bolino, 1999; Pfeffer, 1981; Schlenker, 1980; Schlenker & Weigold, 1992; Tedeschi & Reiss, 1981), which

suggests that poor performance threatens the credibility of board members as guardians of shareholder interests (Fama & Jensen, 1983a). In order to alleviate this negative attribution, boards must at least “give the appearance of efficacy” (Salancik & Meindl, 1984: 238) by symbolically affirming and tightening their control over management (Pfeffer, 1981; Westphal & Zajac, 1994).

Thus, it is suggested that restructuring firms who experience poor performance in the pre-restructuring period will face significant pressures from ownership groups and vigilant boards to address the commonly agreed upon cause of poor performance – substandard governance. Thus, boards will respond to these pressures, either voluntarily or involuntarily, by modifying their current governance structures, which will reflect common conceptions of what good governance ought to be. Formally stated,

Proposition 1: Firms experiencing poor performance in the pre-restructuring period will institute governance changes in the post-restructuring period

3.B. Specific Changes in Governance Structures

In this section I will specifically discuss what types of changes I expect owners, the markets, and, potentially, outside board members will demand, and thus eventually be instituted in firms. It is important to note that the changes in governance (those that possess social validity and are institutionally legitimated) discussed pertain specifically to the post-asset restructuring organizations that experienced poor performance in the pre-restructuring period.

3.B.1. Board Composition

One of the most widely studied governance structure is the composition of the board since many believe that its composition is a critical determinant of the board’s ability to effectively carry out its governance responsibilities (Daily & Schwenk, 1996;

Fama & Jensen, 1983b; Finkelstein & Hambrick, 1996; Judge & Zeithaml, 1992; Williamson, 1975, 1985). There is a commonly held belief in the academic literature (e.g., Bathala & Rao, 1995; Daily, 1995; Daily et al., 2003a; Daily & Johnson, 1997; Daily, Johnson & Dalton, 1999; Hoskisson et al., 1994; Fama & Jensen, 1983; Mizruchi, 1983; Monks & Minnow, 1991; Rock, 1991; Weisbach, 1988; Young et al., 2000; Zahra & Pearce, 1989) and the popular press (Brown, 2003; Langley, 2003; Nussbaum & Dobrzynski, 1987; Ozanian & Decarlo, 2003; Pozen, 1994) that the interests of shareholders are better protected when there is greater board independence (i.e., a higher proportion of independent directors sitting on the board).

Dalton et al. noted the prevalence of this belief by stating, “There is near consensus in the conceptual literature that effective boards will be comprised of greater proportions of outside directors. The corporate community is even more outspoken on this issue. Among practitioners, especially institutional investors and shareholder activists, it is not unusual to find advocates for boards which are comprised exclusively of outside directors” (1998: 270). These arguments echoed prior arguments by Hoskisson et al., who stated that “outside directors have often been viewed in the governance literature as having few costs in terms of strategic formulation and unbound benefits for governance and monitoring” (1994: 1237). Lastly, Baysinger and Butler argued that “proposals for corporate board reform devote special attention to the issues of board composition and director independence. According to many reformers, the boards of all major U.S. corporations should have at least a majority of outside directors. Moreover, the ideal board would have no director, except for the chief executive officer, who is also an employee of the firm, past or present” (1985: 102). Based on this evidence, there is a taken for granted notion that boards characterized by

a predominance of outsiders, those individuals not currently employed by the organization, are ones that lead to the greatest reduction of uncertainty about managerial motives.

There is evidence in the popular press that firms respond to increases in pressures from ownership groups or social expectations by replacing insiders with outsiders with the intent of achieving greater, or even maintaining, legitimacy and social acceptability. For instance, Tenet Healthcare Corporation recently announced that its CEO and three directors would step down from the board and be replaced by four individuals not working for the organization (Rundle, 2003). The move was part of a broad plan by the organization to quell shareholder discontent about its governance practices. When asked about the change, the CEO, Jeffrey Barbekow, mentioned, "It is an indication of the level of seriousness we have about this...when we talk about independence, we really mean it" (2003: A8).

In the academic literature, it is theorized that the greater representation of management on the board, the greater the degree of managerial discretion and the increased likelihood that executives will act opportunistically. Such opportunistic action may manifest itself in decisions, among other things, to pursue diversification that is either inappropriate or too great in scope (Amihud & Lev, 1981), pay greenmail (Kosnik, 1987), or persist in existing courses of action and strategic directions that are detrimental to the functioning of the organization (Harrigan, 1983). In other words, an insider-dominated board is expected to allow managers to "indulge their preference for non value-maximizing behavior" (Morck et al., 1988: 294).

Signaling theory suggests that a board composed predominantly of outside directors may signal that effective controls are in place (Certo et al., 2001). As such,

board independence may provide investors greater confidence in the firm's potential. Evidence of this belief was offered by Seward and Walsh (1996), who hypothesized and found evidence of their assertion that spun-off firms would create outsider-dominated boards as a means of communicating that management wanted to "do right" by shareholders and have effective monitoring in place. Here, again, there is an assumption that effective monitoring and proper governance manifests itself in the form of a majority of outsiders on the board of directors. Westphal and Zajac (1994) suggested that such changes in board composition, although substantive in appearance, might be largely symbolic since the CEO may have the opportunity to recruit sympathetic outsiders to the board (Wade et al., 1990). While such changes may enhance the formal structural bases of board power, they may nevertheless decrease the board's informal power over management if CEOs effectively control the selection process. As such, changes in the formal structure of the board are highly visible to stakeholders, especially institutional investors, yet the inability of stakeholders to discern what outcomes they are obtaining or the value of such outcomes makes it easier for boards to take such symbolic action (Pfeffer, 1981; Westphal & Zajac, 1994).

The resource dependence perspective (e.g., Pfeffer & Salancik, 1978; Selznick, 1949) views outside directors as a critical link to the external environment. Such board members may provide access to valued resources and information (Bazerman & Schoorman, 1983; Pfeffer & Salancik, 1978; Provan, 1980; Stearns & Mizruchi, 1993). It has also been noted that this resource dependence role of directors may be particularly useful in shielding the organization from diversity (e.g., Daily & Dalton, 1994a, 1994b; Sutton & Callahan, 1987; Zahra & Pearce, 1989). Pfeffer & Salancik noted that "one would expect that as the potential environmental pressures confronting

the organization increased, the need for outside support would increase as well (1978: 168). Thus, the resource dependence perspective suggests that performance advantages accrue to organizations with effective board-environment linkages (Dalton et al., 1998).

Conversely, it is argued that insiders on the board or insider-dominated boards may be less likely to meet the resource dependence role (Daily & Dalton, 1994a; Dalton et al., 1998; Pfeffer & Salancik, 1978; Sutton & Callahan, 1987). As noted by Dalton et al., “Given their operational responsibilities, inside directors generally may not have the same access to external information and resources that would be enjoyed by the firm’s outside directors (e.g., CEOs of other firms, investment bankers, former governmental officials, major suppliers)” (1998: 275). It is argued that these outside members bring with them important expertise, experience, and skills to facilitate advice and counsel (Baysinger & Butler, 1985; Gales & Kesner, 1994; Hillman & Dalziel, 2003).

In summary, based on the above arguments, it is believed that greater levels of outsider representation on the board (i.e., a more independent board) provide access to valuable resources. More importantly, outsider representation on the board has received social validation and legitimacy because greater levels of independence are believed to positively impact the functioning of the firm and subsequent firm performance. In other words, there is an institutionalized belief among ownership groups, governance reform activists, the popular press, and for the most part, academicians that a move toward greater levels of outsider representation is a move towards greater accountability and subsequent levels of firm performance. It is important to note that greater levels of independence (i.e., more outsiders on the board) might be instituted in the post-restructuring period due to pressures from ownership

groups or as a result of impression management and signaling behavior on behalf of the board and CEO. As such, the following proposition is offered.

Proposition 1a: Restructuring firms experiencing poor performance in the pre-restructuring period will have greater levels of board independence in the post-restructuring period

3.B.2. Board Leadership Structure

Dalton et al. noted that “As with board composition, there is strong sentiment among board reform advocates, most notably public pension funds and shareholder activist groups, that the CEO should not serve simultaneously as chairperson of the board” (1998: 271). Young et al. echoed these comments by stating that “this arrangement has been widely criticized as potentially undermining the board’s responsibility to oversee top management” (2000: 279). Lorsch & MacIver strongly advocated the independent board leadership structure, suggesting that “providing a leader separate from the CEO could significantly help directors prevent crises, as well as to act swiftly and effectively when one occurs” (1989: 185). Besides these authors, many in the academic community (e.g., Beatty & Zajac, 1994; Black, 1992; Daily et al., 2003a, 2003b; Daily & Johnson, 1997; Fama & Jensen, 1983; Finkelstein & D’Aveni, 1994; Kesner & Johnson, 1990; Lorsch & MacIver, 1989; Mallette & Fowler, 1992; Mizruchi, 1983; Monks & Minnow, 1991; Rechner & Dalton, 1989, 1991; Rock, 1991; Singh & Harianto, 1989; Zahra & Pearce, 1989) and popular press (e.g., Brown, 2003; Dobrzynski, 1991; Geneen, 1984; Langlely, 2003; Levy, 1993a, 1993b; Ozanian & Decarlo, 2003; Patton & Baker, 1987; Pozen, 1994; Rock, 1991; Simison & Blumenstein, 1995) have also embraced the idea that separation of these positions is favorable for the firm’s welfare.

Institutional investors and advocates of board reform have pressured firms to separate the CEO and board chair positions as a means of improving board monitoring and control of management decisions. Reforms for separation of these duties are especially notable when firms are experiencing performance difficulties (Dalton et al., 1998; Dobrzynski, 1995). Levy noted that “most separate chairmen are named during times of stress for the corporation” (1993a: 10).

In summary, based on the above arguments, it is believed that for those firms experiencing poor performance in the pre-restructuring period will face significant pressures to not possess CEO duality status. It is important to note that like board independence, independent board leadership structure has received social validation and legitimacy because greater levels of independence are believed to positively impact the functioning of the firm and its subsequent performance. There is an institutionalized belief among ownership groups, governance reform activists, the popular press, and for the most part, academicians that a move toward an independent board leadership structure is a move towards greater accountability and subsequent levels of firm performance. As before, it is important to note that pressures for independent board leadership structures might be instituted in the post-restructuring period due to pressures from ownership groups or as a result of impression management and signaling behavior on behalf of the board. As such, the following proposition is offered.

Proposition 1b: Restructuring firms experiencing poor performance in the pre-restructuring period will have independent leadership structures in the post-restructuring period

3.B.3. Board Linkages

In response to institutional pressures, an organization may choose to co-opt the source of the pressure (Finkelstein & Hambrick, 1996; Gulati & Westphal, 1999;

Haunschild & Beckman, 1998; Hillman et al., 2000; Oliver, 1991; Pennings, 1980; Pfeffer & Salancik, 1978; Thompson, 1967; Scott, 1995). Selznick defined co-opting as “the process of absorbing new elements into the leadership or policy-determining structure of an organization as a means of averting threats to its stability or existence” (1949:13). For example, an organization may attempt to persuade an institutional constituent, such as a representative of a financial institution, to join the board of directors. Pfeffer’s (1974) research on electrical utility boards showed how political support and legitimacy were obtained by co-opting important economic sectors in which the utility was under regulation. Selznick’s (1949) study of the Tennessee Valley Authority also described how outside interests were co-opted by the organization and persuaded to support its projects. The intended effect of co-optation tactics is “to neutralize institutional opposition and enhance legitimacy...[and] to demonstrate the organization’s worthiness and acceptability to other external constituencies from whom it hopes to obtain resources and approval” (Oliver, 1991: 157).

The predominant way that firms co-opt sources of environmental uncertainty is via board interlocks, which is when a person affiliated with one organization sits on the board of directors of another organization (Mizruchi, 1996). Research has suggested that interlocking directorates can play an important role in disseminating information across firms (Burt, 1980; Mizruchi, 1996; Palmer, 1983; Useem, 1984), serve as a mechanism for the diffusion of innovation (Haunschild & Beckman, 1998), facilitate the adoption of organizational initiatives (Haunschild, 1993, 1994; Palmer et al., 1993), facilitate access to strategic information and opportunities (Pfeffer, 1991), expose firms to the best practices of other organizations (Haunschild, 1993; Mizruchi, 1996), and enhance environmental scanning (Useem, 1984). Additionally, empirical evidence has

shown that executives' external ties play a critical role in future strategy formulation and subsequent firm performance (Eisenhardt & Schoonhoven, 1996; Geletkanycz & Hambrick, 1997; Hillman & Dalziel, 2003).

An interesting finding in the literature about interlocking directorates is that unprofitable firms are more likely to interlock (Allen, 1974; Boeker & Goodstein, 1991; Dooley, 1969; Kaplan & Minton, 1994; Lang & Lockhart, 1990; Mizruchi & Stearns, 1988; Richardson, 1987; Stearns & Mizruchi, 1993; Weisbach, 1988). For example, Richardson (1987) confirmed that bankers often join a board when a firm is in financial difficulty. Such results suggest that when profits are lowest that interlocking may occur. Additionally, these results imply that interlocks may serve as means of monitoring the activities of the firm and its executives, thus serving as a means for corporate control (Aldrich, 1979; Mizruchi, 1996).

Whether interlocks serve as a means of corporate control or co-optation, they serve as a provision of resources to the organization (Pfeffer & Salancik, 1978). Interlocks also assist in acquiring resources from important elements outside the firm, such as capital influence and influence with political bodies or other important stakeholder groups (such as customers, suppliers, and communities). Directorate ties allow firms to secure critical resources, often on more favorable terms (Boeker & Goodstein, 1991; D'Aveni, 1990; Hillman & Dalziel, 2003; Zald, 1969). Pfeffer (1972) demonstrated that organizations with directorate ties to sectors in the environment posing the most critical constraints outperformed their industry counterparts who lacked such ties. Additionally, Provan (1980) suggested that attracting powerful board members has the potential to reduce uncertainty in its environment and is likely to enhance its potential to attract scarce resources, such as funding.

In addition to serving as a co-opting mechanism that provides control and resources, board linkages also provide the firm with legitimacy (DiMaggio & Powell, 1983; Gulati & Westphal, 1999; Haunschild & Beckman, 1998; Selznick, 1949). It is a way of signaling to the environment that the board possesses knowledge, experience, and the ability to manage interorganizational dependencies (Fama & Jensen, 1983). Mizruchi suggested, “when investors decide whether to invest in a company, they consider the firm’s strengths and the quality of its management. By appointing individuals with ties to other important organizations, the firm signals to potential investors that it is a legitimate enterprise worthy of support” (1996: 276). Bazerman and Schoorman stated, “An organization’s reputation can be affected by who serves on the board of directors and to whom the organization is seen to be linked” (1983: 211). It is important to note that such legitimacy is a prerequisite for securing resources. For example, a bank may be more willing to lend money to a firm if it believes that the firm is directed by reputable individuals (DiMaggio & Powell, 1983).

Based on the above research that suggests firms with poor performance will be more likely to form linkages via the board of directors, it is reasonable to assume that restructuring firms experiencing poor performance will create greater linkages via existing and new board members with the intent of providing more control, resources, and legitimacy to the firm. As such, the following proposition is offered.

Proposition 1c: Restructuring firms experiencing poor performance in the pre-restructuring period will have an increased number of linkages with other organizations in the post-restructuring period

3.B.4. CEO, Top Management Team, and Director Stock Ownership

It is an institutionalized belief in the academic literature and popular press that managers who hold ownership positions in the firms they serve are more likely to act in

the shareholders' interests given their shared financial interests (Bryan, Hwang & Lilien, 2000; Coles et al., 2001; Dalton et al., 2003; Perry & Zenner, 2000). Thus, ownership positions cause executives' wealth to vary directly with firm performance. The taken for granted argument is that absent an ownership position in their firms, managers are more likely to behave opportunistically by supporting projects that further their own interests and, thus, decreasing their employment risk (Himmelberg, Hubbard & Palia, 1999; Zahra & Neubaum & Huse, 2000).

Researchers have also applied this alignment rationale to corporate board members. The norm is to view board members' stock ownership as closely aligning the interests of the board members with the interests of shareholders, and, thus, creating an incentive for the board to exercise greater control over the CEO and his/her top management team (Dalton et al., 2003; Jensen, 1993). Moreover, voting rights afford additional power to owner-directors and this power increases with the portion of total shares held (Zald, 1969). Thus, higher stock ownership may give directors greater relative power in relation to the CEO.

This way of thinking has become habitualized and objectified and has led to shared social understandings by environmental actors as to what constitutes good governance (Berger & Luckmann, 1967; Tolbert & Zucker, 1996; Zucker, 1977, 1987). For example, *Business Week's* annual review of "The Best and Worst Boards" reflects these understandings about proper versus improper governance. In their effort to define sound governance the publication's researchers survey the "nation's largest pension funds and money managers, as well as authorities on directors and boards," in order to identify the least and most effective boards (Byrne, 2000). One of the main attributes of an effective board is that "directors ought to hold serious stakes in the

company.” The survey gave a particularly positive assessment of the board of General Electric by noting that outside directors each own an average of \$6.6 million of General Electric stock, which they argued clearly aligns the interests of outside directors with shareholders.

Despite such evidence, a culmination of equity ownership-firm performance research has failed to establish a consistent, direct relationship between equity ownership and firm performance (Dalton et al., 2003). Yet, I still predict that in times of poor performance, which is frequently accompanied by uncertainty within the organization, external constituencies will press for executives’ and directors’ to hold greater equity in their organizations because of the institutionalized belief that equity ownership is an effective alignment mechanism. It is believed that such pressures for corrections to the governance structure of the firm to make executives and boards of directors more responsive to the shareholders.

As such, there is an institutionalized belief among ownership groups, governance reform activists, the popular press, and for the most part, academicians that a move toward establishing a link between the CEO’s wealth and firm performance is a move towards greater accountability and subsequent levels of firm performance. It is important to note that these changes take place whether forced to by powerful actors (i.e., acquiescence to pressures – Oliver, 1991), done for substantive reasons (i.e., to become more accountable to the shareholders), or as a symbolic gesture on behalf of executives and board members (i.e., as a mollification device – Sanders & Carpenter, 2003). This basic belief is rooted in institutional theory, which suggests that structures and procedures might become part of the formal structure not for efficiency reasons, but

because such practices and procedures have social validation and legitimacy (DiMaggio & Powell, 1983; Meyer & Rowan, 1977).

Additionally, it is important to note that executives, in a symbolic gesture to the firm's shareholders, might institute such equity ownership programs. The implementation of an equity ownership program may signal commitment to the interests of the shareholders, which is most important in times when shareholders' interests are viewed as having been neglected (e.g., poor performance) (Westphal & Zajac, 1994). From an impression management standpoint, poor performance threatens the credibility of board members and the firm's executives as protectors of shareholders' interests. Thus, in order to ease these tensions and attenuate such concerns, board members and executives must at least appear to be pursuing the best interests of the shareholders (Pfeffer, 1981; Salancik & Meindl, 1984; Westphal & Zajac, 1994). As such, the following propositions are offered.

Proposition 1d: Restructuring firms experiencing poor performance in the pre-restructuring period will have stronger links between the CEO's personal wealth and firm performance in the post restructuring period

Proposition 1e: Restructuring firms experiencing poor performance in the pre-restructuring period will have stronger links between the top management team's personal wealth and firm performance in the post restructuring period

Proposition 1f: Restructuring firms experiencing poor performance in the pre-restructuring period will have stronger links between the board of directors' personal wealth and firm performance in the post restructuring period

3.C. The Moderating Impact of Governance

In this section, I draw on the aforementioned propositions with the intent of discussing the impact that governance structures have on the restructuring-performance relationship. Specifically, I argue that these governance structures improve market performance by influencing the perceptions of investors and analysts, due to the fact

that the positive value of these governance structures have been socially constructed and possess social validity. I contend that the aforementioned governance structures are clearly what governance activists, institutional investors, the popular press, and, to a great extent, academicians view as sound and appropriate governance.

Recent research suggests the importance of financial information (e.g., earnings, cash flows, and book values) in determining equity values has decreased steadily over the past two decades (Lev & Zarowin, 1999). The decreasing relevance of financial information has motivated a stream of research that indicates the increasing importance of nonfinancial information in determining equity valuations (e.g., Amir & Lev, 1996; Certo, 2003; Trueman, Wong & Zhang, 2000). Despite the fact that the research concerning the influence of board of director and managerial characteristics is limited, the propositions to follow are in-line with existing research (e.g., Certo, 2003; Mavrinac & Siesfeld, 1998), which suggests that the credibility of boards of directors and management is an important factor for shareholders, boards, and, ultimately, the evaluation by the stock markets.

I argue that certain governance configurations (i.e., those with greater legitimacy) will elicit positive stock market reactions that reflect not only the perceived economic benefits of reduced agency costs, but also social benefits resulting from symbolic actions that reduce uncertainty about managerial motives. Such symbolic actions are most effective under conditions of uncertainty, such as managerial accountability to the welfare of the firm (Meyer & Rowan, 1977; Pfeffer, 1981; DiMaggio & Powell, 1983; Scott, 2001). It is suggested that market reactions can be viewed in “terms of *soft* numbers that reflect the subjective perceptions of a heterogeneous audience, neatly

quantified and aggregated, reacting to changes in formal policy that may be independent of substantive practices” (Westphal & Zajac, 1998: 131).

This dissertation contends that the presence of certain governance structures and configurations can play a role in the social construction of market value. In line with prior research (e.g., Westphal & Zajac, 1998; Zajac & Westphal, 1995), it is assumed that investors are boundedly rational information processors who are interested in reducing uncertainty and value socially legitimate indications that agency problems are being addressed. This thought is congruent with evidence from surveys of large institutional investors, who were willing to pay 11% more on average for companies considered well governed – that is, companies in which outsiders constitute a majority of the board, own significant amounts of stock, are subject to formal evaluation, and are not personally tied to management (Bianco & Byrne, 1997). As such, firms with sound governance structures might be extremely effective in enhancing organizational legitimacy by attenuating concerns about managerial and board loyalties (Oliver, 1991; Westphal & Zajac, 1998).

3.C.1. Evidence of Governance’s Impact on Market Valuations

Within the financial economics and strategic management literature, the adoption of governance reforms have been linked with positive stock market reactions as evidenced by the prior discussion concerning Zajac and Westphal’s (1995) and Westphal and Zajac’s (1998) investigation of market reactions to long-term incentive plans (LTIP) adoptions. A series (e.g., Brickley, Coles & Terry, 1994; Byrd & Hickman, 1992; Gaver, Gaver & Battistel, 1992; Rosenstein & Wyatt, 1994; Tehranian, Travlos & Waegelein, 1987) of work relying on financial theory has examined the relationship between board composition and stockholder wealth. This stream of research has

demonstrated that stockholders may interpret independent boards as a signal that the firm is being managed in their interest (Johnson et al., 1996).

For example, Rosenstein & Wyatt (1994) found that the appointment of outside directors was positively and significantly associated with firms' stock price. In a study of the effect of a takeover bid announcement on the stock price of the bidding firms, Byrd and Hickman (1992) found that organizations with high proportions of unaffiliated outside directors (i.e., those individuals with no current or former relationship with the organization, whether via employment, family, or business or other professional relationship) realized higher abnormal returns following the announcement of the tender offers than did firms with fewer independent directors. Lastly, Brickley et al. (1994) reported that the stock price of firms with predominantly unaffiliated outside directors rose after the announcement of the adoption of a poison pill anti-takeover provision, in contrast to firms with a majority of inside and affiliated boards. The results of Brickley et al. (1994) suggest that the markets treat the presence of an independent board as a signal that poison pills will be used in stockholders' interests.

Recent research is supportive of the importance of reputation as a signal of the quality and performance potential of the firm. D'Aveni (1990), for example, found that prestigious managers are important to the survival of bankrupt firms in their ability to receive greater concessions with debtors. Additionally, he noted that prestigious top managers leave the failing firm prior to bankruptcy filing and that this bailout may signal to creditors that the firm is no longer deserving of their continued financial support.

Drawing on these arguments, I suggest that governance characteristics such as board independence, board leadership structure, board interlocks, and equity ownership will positively impact the restructuring-market performance relationship. It is believed

that restructuring creates uncertainty for organizations and those organizations exhibiting favorable governance structures are able to reduce this uncertainty by signaling that board of directors and managers have greater alignment with shareholders' interests. Based on the fact that investors are interested in reducing uncertainty and therefore value socially legitimate indications that agency problems are being addressed, it is believed that the socially valid governance structures previously discussed serve as an mechanism for reducing uncertainty about managerial motives. Thus, the presence of socially valid governance variable might engender a favorable stock market reaction because they appear to address the specific goals of key constituents while also exploiting more general social beliefs. As such, the following propositions are offered.

Proposition 2a: Restructuring's impact on the subsequent market performance of the firm will be positively moderated by board independence

Proposition 2b: Restructuring's impact on the subsequent market performance of the firm will be positively moderated by an independent board leadership structure

Proposition 2c: Restructuring's impact on the subsequent market performance of the firm will be positively moderated by board linkages with other organizations

Proposition 2d: Restructuring's impact on the subsequent market performance of the firm will be positively moderated by firm ownership by the CEO

Proposition 2e: Restructuring's impact on the subsequent market performance of the firm will be positively moderated by firm ownership by the top management team

Proposition 2f: Restructuring's impact on the subsequent market performance of the firm will be positively moderated by firm ownership by the board of directors

CHAPTER 4: HYPOTHESES AND METHODS

Within this chapter a variety of issues will be discussed. Initially, there is a discussion about the sample of firms for the first part of my study. Following this discussion, I provide an overview of the specific variables (i.e., dependent, independent, and control variables) and their measurements as they correspond to the first part of my study. Based on these operationalizations, I present six hypotheses that address governance characteristics in the post-restructuring period. This is followed by a review of the analytical techniques used to test the first set of hypotheses.

Following this discussion, I provide an overview of the sample of firms for the second part of my study. Next, I lay out the specific variables and their measurements as they correspond to the second part of my study. Based on these operationalizations, I formally present six hypotheses that address the moderating impact of governance on the restructuring-performance relationship. Next, I review the analytical techniques used to test the second set of hypotheses. Lastly, I incorporate a discussion of the desired statistical power of my entire set of analyses. Such a discussion is crucial since low statistical power is a primary threat to statistical conclusion validity (Cook & Campbell, 1979) in this research domain.

4.A. Governance in the Post-Restructuring Period – The First Study

4.A.1. The Sample

Essentially, the first part of this dissertation argues that governance changes are most prevalent in firms that restructured their portfolio of assets and experienced sub-optimal performance in the pre-restructuring period. In other words, low performance that leads to changes in governance, and the magnitude or probability of these changes is amplified for those firms that have restructured their portfolio of assets. As such, it is

important to assess this impact by sampling two types of firms – ones that did and ones that did not restructure their portfolios of assets. Randomization of sample selection for both sets of firms allowed me to increase the potential validity of my inferences (Cook & Campbell, 1979).

The propositions developed so far suggest that there will be significantly different governance outcomes for those firms that did restructure versus those firms that did not restructure. It is important to note that my sampling and subsequent method of testing reflect the hypothesized relationships presented in Chapter 3. I feel that my sampling is appropriate since I am contrasting firms who did or did not engage in a certain activity (i.e., restructuring) over time, which is different than investigating changes in firms over a number of time periods where one measures both dependent and independent variables over time to trace how changes in one variable are followed by changes in the other (Cohen, Cohen, West & Aiken, 2002). The latter would be investigated using time-series regression, which can present inferential problems caused by common causes and causal effects in the opposite direction. As noted by Cohen et al. “we may find that the presumed effect of X_t on $Y_{(t+1)}$ was really due to the effect of Y_t or $Y_{(t-1)}$ on both, or to other common causes (serially correlated errors and omitted variables). Of course with time series data this is a potential problem with regard to every variable at every time point” (2002: 601). To correct for this, one would have to partial out from each variable that proportion of its variance that is attributable to its value in the previous time period. In addition to this issue, when employing time series analysis, one needs to account for company specific effects, which dictates adding a series of firm-specific control variables.

The sample of restructuring firms was collected from the *SDC Platinum Database* published by *Thomson Financial*. The data contained in this database is drawn from SEC filings. I limited my search to U.S. firms that had \$1 billion or more in annual revenues. This cutoff was chosen to ensure full access and availability of data contained in other data sources, such as *Lexis-Nexis* and *CompuStat*. Due to data availability constraints, I accessed data from 1986 through 2000. Incorporating firms that have and have not restructured their portfolio of assets and sampling across 15 years allows for greater confidence in any causal relationships since it increases the external validity of my conclusions and inferences (Cook and Campbell, 1979). External validity is also enhanced since my sample of firms will be a cross-industry sample.

In order to qualify as having restructured, a firm must have divested at least 10% of its assets, which represents significant strategic change by an organization. This criterion has been used in previous restructuring research (e.g., Hoskisson & Johnson, 1992; Johnson, Hoskisson & Hitt, 1993; Markides, 1992; Simmonds, 1990) and is accepted as a construct valid indicator of restructuring activity.

The *SDC Platinum Database* allowed me to search based on asset restructuring, however, it did not permit for searches based on the percentage of assets divested. Approximately 18,000 restructuring events were uncovered in my initial search. After factoring out non-U.S. organizations and those organizations with less than \$1 billion in annual revenue, I was left with approximately 10,000 companies. Using a random number generator, I began selecting companies to determine if they met the 10% rule. To do this, I compared the restructuring event in the database against the actual SEC filings for each firm for that particular year in order to obtain the specific percentage of assets divested. Specifically, the asset data was located in the firm's 'notes to the

consolidated financial statements' contained within the annual report to shareholders. Although an extremely time-intensive process, validating each restructuring allowed me to be confident in my sample and collect additional data, such as the actual percentage of assets divested.

A total of 100 restructuring firms were included in the sample, which was added to an equal-sized sample of non-restructuring firms (specifics concerning the selection of a sample of non-restructuring firms are offered in the following paragraph). This sample size was sufficiently large to ensure adequate statistical power. The average firm in my sample of restructuring firms divested 19.84% of its assets for an average dollar value of \$1.63 billion. The minimum and maximum divested percentages for my sample were 10% and 46.7%, respectively. The minimum and maximum divested dollar amounts were \$508 million and \$4.57 billion, respectively.

The restructuring sample needed to be matched with a non-restructuring firm sample. From the same database, I randomly selected a sample of non-restructuring firms and matched them up with randomly selected years within the same time frame as the restructuring firms – 1986 through 2000. I used the same criteria for my searches – U.S. firms and firms with \$1 billion or more in annual revenues – and, additionally, chose firms that did not engage in asset restructuring. Once again, I cross-referenced the firms from the database with the actual SEC filings. A firm qualified as a non-restructuring firm if it had not engaged in any restructuring activity within a six-year period (i.e., three years before and three years after). A total of 110 non-restructuring firms were selected, however one firm was acquired in the following year, thus reducing the non-restructuring sample to 109 firms. The non-restructuring sample was statistically not different from the restructuring sample based on assets, revenues, and

capital structures. Adding the 100 restructuring firms to the 109 non-restructuring firms gave me a total sample size of 209 firms.

As mentioned in Chapter 2, several studies that investigated the governance-strategic change relationship suffer methodologically by gathering data exclusively on those organizations that have survived a strategic change. In other words, the validity of the findings might be called into question as a result of this survivor bias. I have guarded against this bias in that all firms in my sample survived during the periods in which they were investigated. In other words, none of the restructuring or non-restructuring firms initially chosen for the sample were removed from this study.

4.A.2. The Variables and Hypotheses

Dependent Variables. The governance constructs in propositions 1a – 1f were operationalized using well-accepted variables and measurements offered in the literature – *the proportion of outsiders on the board* (proxy for board independence), *CEO duality* (proxy for board leadership structure), *number of board interlocks* (proxy for board linkages), and *the percent of total equity held by the CEO, the top management team, and the board of directors* (three proxies for CEO, top management team, and director wealth tied to performance) (Baliga et al., 1996; Bilimoria & Piderit, 1994; Certo et al., 2001; Chatterjee et al., 2003; Daily, 1995; Gales & Kesner, 1994; Gibbs, 1993; Goodstein et al., 1994; Kaplan & Minton, 1994; Kesner, Pfeffer, 1972; Wade et al., 1990; Zajac & Westphal, 1995). The formulas for calculating each of these governance structures are as follows:

$$\textit{Proportion of Outsiders on the Board} = \frac{\textit{Number of outside board members}}{\textit{total number of board members}}$$

$$\textit{CEO Duality} = 1 \textit{ if the CEO is also the chairperson of the board; 0 if not}$$

Number of Board Interlocks = $(\sum \text{number of board seats to external companies or organizations held by each director})$

Percentage of Equity Held by the CEO = $\frac{\text{number shares held by the CEO}}{\text{total number of shares outstanding}}$

Percentage of Equity Held by the Top Management Team = $\frac{\text{number of shares held by the TMT}}{\text{total number of shares outstanding}}$

Percentage of Equity Held by the Board of Directors = $\frac{\text{number of shares held by the BOD}}{\text{total number of shares outstanding}}$

I opted for multiple operationalizations of governance in order to increase the validity of my conclusions. Data sources for these governance characteristics were drawn from SEC filings (annual reports and proxy statements). Data for all other variables in this dissertation, including the second study, were drawn from *CompuStat*, *Moody's Manuals*, and SEC filings. A summary of all variables used in this dissertation is offered in Table 3.

Independent and Moderating Variables. An assessment of my first set of propositions could lead to the conclusion that it is low performance that leads to changes in governance. Additionally, the magnitude or amount of changes in governance structures should be greater for those firms that have restructured their portfolio of assets. This implies that there is an interaction effect between these two constructs, which will be addressed in the testing section of this chapter. I operationalized performance as *change in return on assets (ROA)*.

This measure is appropriate for this study since I am identifying restructuring firms as those who alter their assets, and increases and decreases in this measure is indicative of the quality of investment decisions. ROA is considered a fairly robust measure of performance, as compared to return on equity, because ROA is a measure

Table 3
Definition of Variable Measurement

Variable	Definition/Measurement	Formula
Advertising intensity	Advertising expenditures divided by sales	$= \frac{\text{advertising expenditures}}{\text{total sales}}$
Board interlock	The sum of all non-duplicated ties the firm's board has to all other boards, that is, the total number of other boards each director sat on, summed across all directors, minus any duplicated ties (i.e., cases in which two or more directors sit on the same two boards)	$= (\sum \text{number of board seats to external companies or organizations held by each director})$
Capital structure	Debt-to-equity – long-term debt divided by shareholders' equity	$= \frac{\text{long-term debt}}{\text{shareholders equity}}$
CEO duality	Separate CEO and board chair – a binary variable coded 1 if a CEO is not also chairperson of the board, and 0 otherwise	$= 1 \text{ if the CEO is also the chairperson of the board; } 0 \text{ if not}$
CEO tenure	Number of months as the CEO	$= \text{number of months the CEO has been in the CEO position}$

(Table 3 continued)

Change in return on assets	Calculated as calculated as the difference in ROA (net income divided by total assets) from year t_2 to year t_1	= ROA in year t_2 – ROA in year t_1
Dividends	Total dollar amount of dividends paid to shareholders during the year	= total dollar amount of dividends paid to shareholders in one year
Ownership concentration	Number of shares outstanding divided by the total number of shareholders	= $\frac{\text{number of common shares outstanding}}{\text{total number of shareholders}}$
Percentage of equity held by the CEO	Sum of the equity holdings by the CEO divided by the total common shares outstanding	= $\frac{\text{number shares held by the CEO}}{\text{total number of shares outstanding}}$
Percentage of equity held by the top management team	Sum of the equity holdings by the top management team divided by the total common shares outstanding	= $\frac{\text{number of shares held by the TMT}}{\text{total number of shares outstanding}}$
Percentage of equity held by the board of directors	Sum of the equity holdings by the board of director divided by the total common shares outstanding	= $\frac{\text{number of shares held by the BOD}}{\text{total number of shares outstanding}}$

(Table 3 continued)

Period effect	Measured as 1 if the restructuring took place during 1986 – 1992. Measured as 0 if the restructuring took place during 1993 – 2000	= 1 if restructuring was from 1986-1992; 0 if from 1993-2000
Portfolio restructuring	Measured as 1 for those firms that did restructure. If no restructuring took place – measured as 0	= 1 if restructure; 0 if not restructure
Proportion of outside directors on the board	The number of outside board members divided by the total number of directors. Outside board members are those directors not currently or formerly employed by the firm. All others were considered inside board members	$= \frac{\text{number of outside board members}}{\text{total number of board members}}$
R&D intensity	R&D expenditures divided by sales	$= \frac{\text{R\&D expenditures}}{\text{total sales}}$
Total diversification	The entropy measure for total diversification (DT)	$= \sum P_j \ln(1/P_j)$

(Table 3 continued)

Total shareholder returns	Capital gain (i.e., price change) in the share over a year plus the value of dividends paid during the year, divided by the value of the share at the beginning of the year	$= \frac{\text{share price at end of year} - \text{share price at beginning of year} + \text{dividend paid during year}}{\text{share price at the beginning of year}}$
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of return on total (debt and equity) investment. Specifically, I incorporated a change score for ROA, which was calculated as the difference in ROA for the year prior to restructuring and the year of restructuring. The specific formula is as follows.

$$\text{Change in ROA} = \text{ROA in year } t_2 - \text{ROA in year } t_1$$

It is important to discuss the issue of time (i.e., the temporal dimension) in the measurement of each of the variables. The performance variable (i.e., ROA) will be measured on a one-year time lag. In other words, if restructuring is in year t , the change in ROA will be measured from year t_2 to year t_1 . I am using a one year time lag since research has clearly demonstrated that firms engaged in restructuring often are performing poorly just prior to the initiation of restructuring activities (Bergh, 2001; Bowman et al., 1999; Duhaime & Baird, 1987; Duhaime & Grant, 1984; Hoskisson & Hitt, 1994; Hoskisson & Johnson, 1992; Hoskisson et al., 1994; Johnson, 1996; Lang, Poulson & Stulz, 1995; Markides, 1992, 1995; Markides & Singh, 1997; Montgomery & Thomas, 1988; Montgomery et al., 1984; Ravenscraft & Scherer, 1987; Sicherman & Pettway, 1987; Smart & Hitt, 1994). For example, Jain (1985) found that firm performance began to suffer approximately a year prior to divestiture and resulted in negative excess stock return of 10.8% within the one year prior to the actual restructuring event.

When it came to operationalizing restructuring firms, I chose to measure restructuring as a dichotomous variable. I opted for this because I am interested in assessing if differences exist between restructuring and non-restructuring firms in the post-restructuring period. This is the first study that addresses this issue, thus a more broad-based approach is warranted. As such, *restructuring* firms were coded as 1, and non-restructuring firms were coded as 0. More fine-grained analyses that involve

operationalizing restructuring as a continuous variable would be a natural follow up to this investigation, thus allowing me to study and understand any differences that might exist at different percentages of assets divested versus using a dichotomous operationalization.

To come closer to inferring causality, I measured the dependent variables (i.e., governance) in years t_1 and t_2 . It is not appropriate to measure governance and restructuring cross-sectionally for two reasons. First, I am predicting that portfolio restructuring will lead to subsequent changes in governance. Second, governance mechanisms, like compensation and employment contracts, limit the ability of the firm to immediately institute governance changes (Westphal & Zajac, 1998). Thus, if a restructuring took place in 1992, I measured the governance variables in 1993 and 1994. It is important to note that ascertaining the direction of causality is a key issue for internal validity, necessitating the longitudinal measurement of independent and dependent variables.

Based on the operationalizations of the independent and dependent variables, the formal hypotheses tested in the first part of this study are as follows:

Hypothesis 1a: A more negative change in ROA for a portfolio restructuring firm in the year prior to a restructuring will result in an increased proportion of outsiders on the board in the post-restructuring period

Hypothesis 1b: A more negative change in ROA for a portfolio restructuring firm in the year prior to a restructuring will result in a non-CEO duality structure in the post-restructuring period

Hypothesis 1c: A more negative change in ROA for a portfolio restructuring firm in the year prior to a restructuring will result in an increased number of board interlocks in the post-restructuring period

Hypothesis 1d: A more negative change in ROA for a portfolio restructuring firm in the year prior to a restructuring will result in CEOs holding greater equity ownership positions in the post-restructuring period

Hypothesis 1e: A more negative change in ROA for a portfolio restructuring firm in the year prior to a restructuring will result in the top management team holding greater equity ownership positions in the post-restructuring period

Hypothesis 1f: A more negative change in ROA for a portfolio restructuring firm in the year prior to a restructuring will result in the board of directors holding greater equity ownership positions in the post-restructuring period

Control Variables. Cook and Campbell (1979) noted that to increase internal validity of a study's conclusions, one must account for third-variable alternative interpretations of the relationships between the independent and dependent variables. As such, I have included the following control variables.

Other governance variables. One must control for the other governance variables contained in this study to counter any substitution effects that take place between these governance mechanisms. The concept of substitution effects is discussed in the next chapter, clarifying why these controls are needed (section 6.B.2.). Because the CEO is always part of the top management team, and these two variables are highly correlated (approximately .80 - .85), I did not control for TMT equity ownership when CEO equity ownership was the dependent variable (hypothesis 1d). Doing so otherwise would lead to inflated R^2 values. Likewise, when TMT equity ownership was the dependent variable (hypothesis 1e), I did not control for CEO equity ownership.

CEO tenure. Controlling for CEO tenure is imperative since a number of studies have hypothesized a link between tenure and CEO influence over the board (Finkelstein & Hambrick, 1989, 1996; Hill & Phan, 1991; Ocasio, 1994; Singh & Harianto, 1989). It is typically argued that as tenure increases, CEOs acquire personal power by populating boards with supporters (Finkelstein & Hambrick, 1996; Fredrickson et al., 1988) while gaining expert power through an increased familiarity with the firm's

resources (Singh & Harianto, 1989; Young et al., 2000; Zald, 1969). CEO tenure was measured in months using the following formula.

CEO tenure = number of months the CEO has been in the CEO position

Ownership concentration. I controlled for ownership concentration because concentrated ownership increases the ability and incentive to monitor investments and their subsequent ability to institute changes in the organization (Bethel & Liebeskind, 1993; Brickley, Lease & Smith, 1988, 1994; Tihanyi et al., 2003). As such, I want to partial out the impact of ownership concentration to accurately assess the impact of performance (and the moderating impact of restructuring) on changes in governance. Ownership concentration was operationalized using the following formula.

Ownership Concentration = $\frac{\text{number of common shares outstanding}}{\text{total number of shareholders}}$

Period effects. Pressures for greater accountability in governance have not been uniform throughout time. As such, I incorporated dummy variables to control for period effects. First, I must discuss the rationale for my period effects. The rise of shareholder activism has forced a weakening of control over the corporation by top management (Davis & Thompson, 1994; Ryan & Schneider, 2002). It was not until the mid 1980s that a social movement of corporate control manifested itself. This came about during the Reagan administration, which fostered and encouraged a pro-shareholder stance in the United States and encouraged the formation of shareholder rights groups. In particular, the shareholder-rights movement began around 1985 with the formation of the *Council of Institutional Investors* and the *Institutional Shareholders Services*. Shortly thereafter in 1986, the *United Shareholders Association* was formed (Davis & Thompson, 1994).

It was not until late 1992 when groups of significant shareholders were no longer required to file with the Securities and Exchange Commission (SEC) their communications when seeking to influence the management of an organization. Specifically, the SEC had to examine and approve communications aimed at influencing the votes of more than ten other shareholders, provided that they collectively owned more than five percent of the firm's shares. Additionally, if the group owned ten percent or more of the firm's shares, the members would be subject to insider-trading rules requiring monthly disclosures of their purchases and sales of company stock and liabilities for short-term manipulations of stock price. Since 1993 shareholder passivity decreased as a result of fewer legal rules that made it difficult, expensive, and legally risky to own large percentage stakes or undertake joint efforts (Black, 1990; Davis & Thompson, 1994).

Based on these circumstances, I controlled for these issues by incorporating a period effect into my analyses. As my data collection starts at 1986 and continues through 2000, I am coded the 1986-1992 period as 1 to account for the stricter regulations placed upon shareholders, and coded the 1993-2000 period as 0 to account for the less strict regulations and resulting increases in activism by shareholders. In other words,

Period Effect = 1 if restructuring was from 1986-1992; 0 if from 1993-2000

4.A.3. Testing the Hypotheses

In my theory development chapter I suggested that it is low performance that leads to changes in governance. Additionally, the magnitude or probability of these changes is amplified for those firms that have restructured their portfolio of assets. This basically implies that there is an interaction effect between these two constructs. To

test for hypotheses 1a – 1f interaction effects, I used moderated multiple regression. A moderator effect suggests that the relationship between two variables changes as a function of a moderator variable (Baron & Kenny, 1986).

Separate regression analyses were run for each of the hypotheses. I entered the control variables in stage one. The next step was to enter the main effect (i.e., performance and restructuring), which was followed by entering the independent variable interaction in the third stage. A significant interaction effect is present if the interaction term is significant. If statistical significance was found, I plotted each interaction to determine the slope and relationship with the dependent variable. In order to truly be confident that my results imply an interaction effect, I needed to test for a curvilinear effect, which was done by entering a square term of the change in ROA variable in the regression equation in the last model.

I deviated from using ordinary least squares (OLS) regression when testing hypothesis 1b since the dependent variable – CEO duality – is dichotomous. I utilized logistic regression to assess CEO duality in the post-restructuring period. Much like OLS regression, logistic regression allows for testing of effects in a multiple model format, as well as testing of moderator and quadratic effects. Unlike OLS regression, which assesses model significance by the change in R^2 , I assessed the change in log-likelihood and by the significance of the change in chi-square for each model.

To ensure the soundness of my analyses, I wanted to address two key issues. First, the potential threat of collinearity needed to be assessed. To do this, I estimated the variance inflation factors and found none above the recommended ceiling of 10 (Kleinbaum, Kupper & Muller, 1988). Variance inflation factor measures the impact of

collinearity among the independent variables in a regression model. It expresses the degree to which collinearity among the predictors degrades the precision of an estimate.

Second, I wanted to abide by one of the primary requirements of OLS regression, which is that the residuals of the regression analyses be normally distributed (approximate mean of 0 and standard deviation of 1). All of the residuals were plotted against a normal curve and evaluated against normality statistics to ensure that this criterion was not violated.

4.B. The Moderating Impact of Governance – The Second Study

4.B.1. The Sample

The sample for the second study was the same as for Study 1.

4.B.2. The Variables and Hypotheses

The governance characteristics that were incorporated into the hypotheses below were the same as those incorporated into hypotheses 1a through 1f – proportion of outsiders on the board, CEO duality, board interlocks, and equity ownership by the CEO, top management team, and the board of directors.

Dependent Variable. *Total shareholder returns*, was measured in the year following the restructuring. In other words, if a restructuring was undertaken in 1993, performance is to be measured in 1994. This measure has been employed in the literature (e.g., Davis, 1991; Westphal & Zajac, 1994; Zajac & Westphal, 1995) to represent a fair evaluation of the market performance of the firm and has the ability to capture both information concerning financial information, such as earnings and cash flows, as well as non financial information, such as socially valid indicators of sound governance. Thus, I believe that the total shareholder returns are positively impacted for those firms exhibiting sound governance because such initiatives symbolically affirm

and tighten control over management. Displays of good governance signal that the board of directors and top managers are credible and legitimate guardians of shareholder interests. The specific operationalization of this variable is as follows.

$$\text{Total Shareholder Return} = \frac{\text{share price at end of year} - \text{share price at beginning of year} + \text{dividend paid during year}}{\text{share price at the beginning of year}}$$

Independent/Moderating Variables. The independent variable for each hypothesis is *portfolio restructuring*. The moderator variable differs depending on the governance characteristic of interest. As previously mentioned, the six governance characteristics are proportion of outsiders on the board, CEO duality, board interlocks, and equity ownership by the CEO, top management team, and the board of directors. Section 4.A.2. above and Table 3 provide specific operationalizations of these variables.

Based on the aforementioned independent and dependent variables, the formal hypotheses tested in the second part of this study are as follows:

Hypothesis 2a: Shareholder returns in the post-restructuring year will be higher for those organizations with greater proportions of outsiders on the board of directors

Hypothesis 2b: Shareholder returns in the post-restructuring year will be higher for those organizations with non-CEO duality structures

Hypothesis 2c: Shareholder returns in the post-restructuring year will be higher for those organizations with greater numbers of board interlocks

Hypothesis 2d: Shareholder returns in the post-restructuring year will be higher for those organizations with greater percentages of equity shares owned by the CEO

Hypothesis 2e: Shareholder returns in the post-restructuring year will be higher for those organizations with greater percentages of equity shares owned by the top management team

Hypothesis 2f: Shareholder returns in the post-restructuring year will be higher for those organizations with greater percentages of equity shares owned by the board of directors

Control Variables. As previously mentioned, it is crucial for researchers to account/control for variables that impact the relationship between the independent and dependent variables so as to increase internal validity. As such, there are a variety of factors that might possibly impact the restructuring-performance relationship for which I controlled. Table 3 provides specific operationalizations of these variables.

Dividends. I controlled for dividend payout due to its general positive impact on performance (Sanders & Carpenter, 2003) and other research that suggests portfolio restructurings accompanied by payouts to shareholders have a positive impact on performance in the post-restructuring period (Lang et al., 1995). The exact calculation of dividends is as follows.

$$\text{Dividends} = \frac{\text{total dollar amount of dividends paid to shareholders in one year}}{\text{total sales}}$$

R&D Intensity. Controlling for R&D intensity is crucial because it captures the extent of innovation opportunities within firms (Hansen & Hill, 1991; Henderson & Fredrickson, 1996; Hitt, et al., 1996; Hitt, Hoskisson & Kim, 1997; Hoskisson & Johnson, 1992), and has directly been linked with performance improvements in the post-restructuring period (Hoskisson & Hitt, 1994). Spending on research and development efforts can lead to positive returns for organizations as a result of new product or service creations. Additionally, research suggests that R&D activity is an important contributor to competitiveness. Franko (1989) provided evidence that one important contributor to the decline of U.S. competitiveness in the global markets of the 1980s is the “R&D factor.” The exact calculation of R&D intensity is as follows.

$$\text{R\&D Intensity} = \frac{\text{R\&D expenditures}}{\text{total sales}}$$

Advertising Intensity. It is not uncommon for firms to spend significant amounts of money in advertising to differentiate their product from those of their competitors (Sharma & Kesner, 1996). The literature suggests that advertising provides useful information about the availability of products and their attributes, enabling consumers to make informed purchase decisions. As such, expenditures on advertising have the ability to create images and convey information about products and services, which may help develop brand awareness and loyalty (Anand, 2001; Comanor & Wilson, 1974; Gatewood, Gowan & Lautenschlager, 1993; Kessides, 1986; Sharma & Kesner, 1996; Tesler, 1964). Like investments in R&D, investments in advertising can positively impact firm performance by boosting the visibility of a firm and, subsequently, sales revenue (Comanor & Wilson, 1974; Finkelstein & Hambrick, 1990). As such, it is important to control for advertising intensity. The exact calculation of advertising intensity is as follows.

$$\text{Advertising Intensity} = \frac{\text{advertising expenditures}}{\text{total sales}}$$

Total Diversification. I controlled for total diversification because research suggests that positive performance accrues to those firms who experience an increase in focus/relatedness (Berger & Ofek, 1995; Bhagat, Shleifer, Vishny, Jarrell & Summers, 1990; Bowman et al., 1999; Chatterjee et al., 2003; Comment & Jarrell, 1995; Kose, 1995; Kaplan & Weisbach, 1992; Lang & Stulz, 1994). I utilized the entropy measure of total diversification. The specific formula is as follows,

$$\text{Entropy measure} = \sum P_j \ln(1/P_j)$$

where P_j is defined as the share of sales in segment j and $\ln(1/P)$ is the weight for each segment j (the logarithm of the inverse of its sales). This number takes into account the

number of segments in which a firm operates and the relative importance of each segment in sales (Palepu, 1985).

Capital Structure. I controlled for the firm's capital structure, since a firm's leverage may affect its propensity to engage in activities such as innovation and acquisitions, in addition to impacting the firm's performance via its debt obligations (Hoskisson & Turk, 1990; Sanders & Carpenter, 2003). The specific operationalization of capital structure is as follows.

$$\text{Capital Structure} = \frac{\text{long-term debt}}{\text{shareholders equity}}$$

4.B.3. Testing the Hypotheses

I used moderated regression to test the interaction effects that are noted in hypotheses 2a – 2f. As with testing the first set of hypotheses, I ran separate regression analyses for each of the hypotheses. If statistical significance of the interaction term was found, I plotted each interaction to determine the slope and relationship with the dependent variable. As previously mentioned, in order to truly be confident that my results imply an interaction effect, I tested for a curvilinear effect.

4.C. Statistical Power Considerations

Cook and Campbell (1979) noted that a threat to statistical conclusion validity is low statistical power. Statistical power is the probability that the test will reject a false null hypothesis - that it will not make a Type II error (Cohen, 1977). I assessed the statistical power for my analyses to avoid this problem. There are three components that determine the level of statistical power of an inference test: (1) the significance level (α - Type I error - the probability of rejecting the null hypothesis when it is actually true), (2) the sample size, and (3) effect size (the magnitude or strength of the relationship

among the variables in the population). The relationship between power and its three determinants is such that if one of the four elements (i.e., power, significance level, sample size, or effect size) is unknown, it can be calculated using the known values of the other three elements. Hence, researchers are able to *a priori* determine statistical power levels of their tests. Following standard conventions, I opted for a power level of .95, a level of significance equal to .05, and medium effect sizes (i.e., the size of a statistically significant difference) (Cohen, 1977, 1992; Mone, Mueller & Mauland, 1996; Nickerson, 2000; Sauley & Bedeian, 1989; Sedlmeier & Gigerenzer, 1989).

Based on these three components and Cohen's (1977) power analysis tables and formulae, I calculated the levels of statistical power for each model in each of the regression analyses. The power levels for the regression analyses in the first study (hypotheses 1a – 1f) ranged from .95 to .99. The power levels for the regression analyses in the second study (hypotheses 2a – 2f) ranged from .95 to .98.

CHAPTER 5: RESULTS

This chapter presents and discusses the findings, which are structured in three main sections. First, I discuss the findings associated with study one, which attempts to assess governance structures in the post-restructuring period. Each governance structure tested is presented with accompanying tables and figures (if applicable). Two sets of results exist for each governance structure because each one was measured in the first and second year after a restructuring. As it will become clear, distinct differences exist in the behavior of governance in the post-restructuring period.

Second, I discuss the findings associated with study two, which attempts to assess the moderating impact of governance on market valuations in the post-restructuring period. As before, each governance structure is presented with accompanying tables. Unlike the findings in the first study, the results of the second study were remarkably consistent across the entire set of governance structures, and, as such, the findings are collectively discussed.

Lastly, a series of post-hoc studies were conducted to test the generalizability and robustness of study two results. A discussion of the strategy utilized for conducting the post-hoc studies is presented, which primarily involved variations to the measurement of the dependent variable (i.e., shareholder return) and changes to the time period in which the independent variables were measured. Following this discussion, the results of these analyses and all accompanying tables and figures are presented.

5.A. Study 1 Results: Governance in Post-Restructuring Periods

Table 4 presents the means, standard deviations, and correlations for the first study, which assesses governance structures in the post-asset restructuring period.

The findings in the table reveal that restructuring activity is correlated with governance structures in the post-restructuring period. For instance, asset restructuring is positively correlated with CEO equity ownership one year ($r = .20$, $p < .01$) and two years ($r = .18$, $p < .05$) after a firm restructures its assets. The same relationship holds true for TMT equity ownership one and two years after restructuring ($r = .22$, $p < .01$, for both years). Additionally, restructuring activity is positively correlated with the proportion of outsiders on the board of directors in one year and two years following a restructuring ($r = .24$, $p < .05$ and $r = .27$, $p < .05$, respectively).

It is important to note that the means reported in Table 4 are for the combined sample of restructuring and non-restructuring firms. As such, it is difficult to draw conclusions based on the combined sample. Thus, I broke out the means for the two groups in my sample (i.e., restructuring and non-restructuring firms) and conducted t-tests to investigate the differences in means of the governance and performance variables for firms that did and did not engage in restructuring. The means and results of the t-tests are shown in Table 5.

It is not surprising to find that the two groups of firms differ significantly on a large number of governance characteristics. With regard to performance, restructuring firms had an average ROA in the year preceding a restructuring that was 53% less than non-restructuring firms in the same period. However, ROA for restructuring firms greatly improved -- approximately 273% -- in the year following a restructuring, yet ROA for the non-restructuring sample improved by a little more than 3%.

Significant differences in governance characteristics were also uncovered when assessing the means of the two groups. For instance, restructuring firms have greater proportions of outsiders on their boards (around .78 - .80) in the year of restructuring, as

Table 4
Means, Standard Deviations, and Correlations of Variables – Study 1

Variable	Mean	S.D.	1	2	3	4	5	6	7	8
1. CEO equity t	1.76	5.69	-							
2. CEO equity t ₁	1.95	5.80	.96**	-						
3. CEO equity t ₂	1.67	4.26	.81**	.88**	-					
4. TMT equity t	3.11	10.02	.96**	.93**	.79**	-				
5. TMT equity t ₁	2.62	4.98	.89**	.87**	.78**	.95**	-			
6. TMT equity t ₂	2.96	5.88	.90**	.86**	.82**	.93**	.96**	-		
7. BOD equity t	3.88	13.45	.19**	.17*	.20**	.17*	.31**	.32**	-	
8. BOD equity t ₁	6.82	38.90	.10	.10	.07	.10	.12	.15*	.96**	-
9. BOD equity t ₂	5.26	24.28	.39**	.36**	.33**	.49**	.44**	.40**	.56**	.41**
10. CEO duality t	.84	.37	-.16*	-.16*	-.04	-.18*	-.09	-.12	.06	.04
11. CEO duality t ₁	.88	.33	-.27**	-.26**	-.08	-.28**	-.22**	-.21**	.01	.02
12. CEO duality t ₂	.87	.34	-.28**	-.26**	-.11	-.26**	-.24**	-.21**	.01	.03
13. Outside proportion t	.76	.12	-.12	-.09	-.08	-.14	-.28**	-.25**	-.12	-.04
14. Outside proportion t ₁	.76	.12	-.13	-.11	-.07	-.13	-.25**	-.23**	-.09	-.02
15. Outside proportion t ₂	.77	.12	-.08	-.07	-.09	-.08	-.20**	-.20**	-.01	.04
16. Board ties t	40.89	24.83	-.03	-.02	-.03	-.01	-.12	-.09	.03	.05
17. Board ties t ₁	41.24	24.83	-.03	-.01	.04	-.02	-.08	-.05	.04	.06
18. Board ties t ₂	41.62	24.77	-.01	-.02	.05	.01	-.06	-.03	.09	.10
19. CEO tenure t ₁	84.91	81.07	.01	-.03	.02	.01	.02	.01	.03	.01
20. CEO tenure t ₂	97.12	163.37	-.01	-.02	.01	.01	.02	.01	.02	.01
21. Restructuring	.48	.50	.18*	.20**	.18*	.19**	.22**	.22**	.13	.13
22. Period effect	.41	.49	-.11	-.13	-.11	-.12	-.15*	-.15*	.01	.01
23. ROA change – t ₂ to t ₁	-.22	7.68	-.01	-.01	.12	-.02	.14	.17*	.00	-.01
24. Owner concentration t	12.1	23.91	.29**	.31**	.17*	.27**	.35**	.33**	.15*	.06
25. Owner concentration t ₁	12.72	24.68	.30**	.33**	.21**	.30**	.34**	.33**	.15*	.07
26. Owner concentration t ₂	13.26	25.73	.29**	.32**	.22**	.31**	.33**	.35**	.14*	.07

N = 209 for V7 and V10 – V26. N = 205 for V26 – V28. N = 198 for V2 and V8. N = 196 for V1, V3, and V9. N = 187, 185, and 183 for V5, V6, and V4, respectively. ** p < .01; * p < .05. Means and standard deviations for V1 – V9 are in millions.

(Table 4 continued)

	20	21	22	23	24	25	26
1. CEO equity t							
2. CEO equity t ₁							
3. CEO equity t ₂							
4. TMT equity t							
5. TMT equity t ₁							
6. TMT equity t ₂							
7. BOD equity t							
8. BOD equity t ₁							
9. BOD equity t ₂							
10. CEO duality t							
11. CEO duality t ₁							
12. CEO duality t ₂							
13. Outside proportion t							
14. Outside proportion t ₁							
15. Outside proportion t ₂							
16. Board ties t							
17. Board ties t ₁							
18. Board ties t ₂							
19. CEO tenure t ₁							
20. CEO tenure t ₂							
21. Restructuring	-.16*	-					
22. Time effect	.02	-.26**	-				
23. ROA change – t ₂ to t ₁	.05	-.05	-.08	-			
24. Owner concentration t	.02	-.04	-.22**	-.01	-		
25. Owner concentration t ₁	.03	-.03	-.21**	-.03	.95**	-	
26. Owner concentration t ₂	.02	-.03	-.21**	-.04	.96**	1.00**	-

well as the one and two years after, versus the non-restructuring group (around .735 - .745). Major differences were also seen with equity ownership by CEOs, TMTs, and BODs. As noted in Table 5, equity ownership among these three groups was substantially higher in restructuring firms across all three years, except for equity ownership by BOD members in the second year following a restructuring. Specifically, the average number of shares held by the CEO of a restructuring firm across the three years reported (i.e., the year of restructuring and one and two years following the restructuring) was 2.89 million versus 0.9 million held by the CEO of a non-restructuring firm. The average number of shares held by the TMTs and BODs of restructuring firms were 4.61 million versus 1.68 million and 9.1 million versus 2.24 million held by the TMTs and BODs of non-restructuring firms, respectively.

Lastly, differences between the two groups were observed in CEO turnover and tenure. Restructuring firms reported significantly more turnover by the CEO in the year following a restructuring, yet less turnover in the second year following a restructuring. CEOs of restructuring firms were significantly less tenured than their counterparts in non-restructuring firms. The average CEO of the restructuring group had been the CEO for approximately 69 months as opposed to 101 months for the CEO of a non-restructuring firm, which supports the idea that CEOs with shorter tenure bring about more change within their organizations than CEOs with longer tenures.

Regression analyses were employed to assess governance structures in the post-restructuring periods. As previously discussed, these analyses sought to evaluate six specific governance structures – board independence, CEO duality, board ties, and equity ownership by the CEO, TMT, and BOD. Each regression analysis for the first study tested four models. Model 1 contained the control variables. Model 2 added the

Table 5
Comparisons of Means – Study 1

Variable	Total Sample	Restructured Firms	Non-Restructured Firms	T-Statistic for Equality of Means (2-tailed)
PERFORMANCE				
➤ ROA _(t-1)	4.230	2.654	5.676	3.068**
➤ ROA _(t)	7.804	9.921	5.861	-2.217*
➤ ROA _(t+1)	5.528	5.129	5.894	0.886
➤ Change in ROA _(t-2 to t-1)	-0.216	-0.647	0.179	0.770
GOVERNANCE				
➤ CEO Duality _(t)	0.842	0.810	0.872	1.209
➤ CEO Duality _(t+1)	0.876	0.840	0.908	1.479
➤ CEO Duality _(t+2)	0.866	0.850	0.881	0.646
➤ Outsider Proportion _(t)	0.757	0.781	0.735	-3.541**
➤ Outsider Proportion _(t+1)	0.761	0.792	0.733	-3.574**
➤ Outsider Proportion _(t+2)	0.775	0.808	0.745	-4.069**
➤ CEO Equity _(t)	1.758	2.890	0.836	-2.334*
➤ CEO Equity _(t+1)	1.946	3.218	0.886	-2.652**
➤ CEO Equity _(t+2)	1.680	2.547	0.990	-2.337*
➤ TMT Equity _(t)	3.109	5.416	1.507	-2.247*
➤ TMT Equity _(t+1)	2.617	3.890	1.686	-2.829**
➤ TMT Equity _(t+2)	2.963	4.510	1.861	-2.776**
➤ BOD Equity _(t)	3.880	5.870	2.258	-1.721 [†]
➤ BOD Equity _(t+1)	6.821	12.332	2.229	-1.672 [†]
➤ BOD Equity _(t+2)	5.265	5.280	5.252	-.009
➤ Board Ties _(t)	40.885	42.380	39.514	-.833
➤ Board Ties _(t+1)	41.244	43.470	39.202	-1.243
➤ Board Ties _(t+2)	41.622	43.44	39.954	-1.016
➤ CEO Turnover _(t to t+1)	0.081	0.120	0.046	-1.932 [†]
➤ CEO Turnover _(t+1 to t+2)	0.096	0.060	0.128	1.708 [†]
➤ CEO Tenure _(t)	85.722	69.160	100.917	2.897**
➤ CEO Tenure _(t+1)	84.914	63.280	104.761	3.889**
➤ CEO Tenure _(t+2)	97.120	69.880	122.110	2.422*

** < .01, * < .05, and [†] < .10. Equity means are reported in millions. Tenure is reported in months.

independent variables – a change in performance variable and the dichotomous restructuring variable. Model 3 tested the interaction between the two aforementioned variables – performance and restructuring. Lastly, Model 4 assessed a curvilinear effect.

5.A.1. Proportion of Outsiders on the Board

Tables 6 and 7 show the results of the regression analyses that attempted to understand board independence (operationalized as the proportion of outsiders on the board of directors) in the post-restructuring period. Specifically, Table 6 assesses the proportion of outsiders in the year following restructuring (i.e., t_1) and Table 7 assesses the proportion of outsiders in the second year following a restructuring (i.e., t_2). Both Models 1 in Tables 6 and 7 reveal that the period effect variable and CEO tenure are negatively related to the proportion of outsiders on the board for t_1 and t_2 . This first finding suggests that organizations studied in years marked by greater shareholder activism (i.e., after 1993) were likely to have greater proportions of outsiders on the board. This second finding suggests that as CEO tenure increases proportion of outsiders on the board decreases. This finding might be attributable to increased tenure leading to increased CEO power and control, which allows CEOs to have boards more beholden to them (Finkelstein & Hambrick, 1994). Additionally, the results suggest that CEO duality and the number of board ties are positively related to the proportion of outsiders at year t_1 and t_2 . Lastly, ownership concentration was negatively related to the proportion of outsiders on the board only for t_1 .

Models 2 in Tables 6 and 7 clearly demonstrate that performance and restructuring are predictors of the proportion of outsiders on the board in the first ($R^2 = .283, p = .005$) and second year ($R^2 = .346, p = .000$) after a restructuring. More

specifically, the change in ROA is negatively related to the proportion of outsiders at t_1 ($p < .05$) and t_2 ($p < .01$). Thus, firms experiencing poor performance are coerced to adopt (either voluntarily or involuntarily) greater proportions of outsiders on their boards. Such a move might be viewed as an attempt to institute socially legitimated characteristics of better or good governance since poor or inadequate governance is often times believed to be the driver of organizational performance. In addition to the significance of the performance change, restructuring proved to be significant and positive predictor of the proportion of outsiders on the board in years t_1 and t_2 ($p < .05$ for both). Models 3 (the interaction of performance and restructuring) and Models 4 (curvilinear effect) did not produce any significant effects for either years t_1 or t_2 .

Overall, the findings that relate to the proportion of outsiders in the post-restructuring period allow me to find partial support for hypothesis 1a. Although the hypothesis predicted that restructuring firms with low ROA in the pre-restructuring period would have greater proportions of outsiders on their boards in post-restructuring periods, support was found for the direct effects of performance and restructuring. Restructuring firms had greater proportions of outsiders on their boards in post-restructuring years (t_1 and t_2) and firms experiencing low performance had greater proportions of outsiders on their boards in years t_1 and t_2 , but an interaction effect did not exist.

5.A.2. CEO Duality

Tables 8 and 9 show the results of the regression analyses that attempt to understand board leadership structure (operationalized as CEO duality) in the post-restructuring period. Specifically, Table 8 assesses CEO duality in the year following restructuring (i.e., t_1) and Table 9 assesses CEO duality in the second year following a

Table 6
Results of Regression Analysis Predicting the Proportion of Outsiders on the Board of Directors in Year t₁

Variables	Dependent Variable: PROPORTION OF OUTSIDERS ON THE BOD (t ₁)							
	Model 1		Model 2		Model 3		Model 4	
	β	t	β	t	β	t	β	t
Period Effect	-0.259	-3.874**	-0.235	-3.475**	-0.232	-3.410**	-0.228	-3.370**
Ownership Concentration t ₁	-0.242	-3.427**	-0.227	-3.254**	-0.219	-3.124**	-0.234	-3.322**
CEO Equity t ₁	-0.001	-0.020	-0.037	-0.519	-0.035	-0.497	-0.012	-0.170
BOD Equity t ₁	-0.008	-0.131	-0.029	-0.454	-0.031	-0.481	-0.036	-0.557
CEO Duality t ₁	0.254	3.608**	0.237	3.412**	0.240	3.454**	0.240	3.410**
CEO Tenure t ₁	-0.152	-2.229*	-0.109	-1.611	-0.115	-1.685 [†]	-0.114	-1.679 [†]
BOD Ties t ₁	0.121	1.786 [†]	0.124	1.859 [†]	0.126	1.898 [†]	0.120	1.799 [†]
Performance			-0.139	-2.179*	-0.070	-0.716	-0.160	-1.012
Restructure			0.161	2.322*	0.160	2.299*	0.186	2.622**
Performance x Restructure					-0.091	-0.941	0.006	0.046
(Performance) ²							0.090	0.708
(Performance) ² x Restructure							-0.160	-1.619
R ²		.239		.283		.287		.299
Adjusted R ²		.211		.248		.247		.252
Change in R ²				.044		.004		.012
Significance of R ² Change				.005		.348		.219

N = 192. [†] p < .10, * p < .05, and ** p < .01

Table 7
Results of Regression Analysis Predicting the Proportion of Outsiders on the Board of Directors in Year t₂

Variables	Dependent Variable: PROPORTION OF OUTSIDERS ON THE BOD (t ₂)							
	Model 1		Model 2		Model 3		Model 4	
	β	t	β	t	β	t	β	t
Period Effect	-0.331	-4.946**	-0.302	-4.538**	-0.302	-4.510**	-0.229	-4.481**
Ownership Concentration t ₂	-0.115	-1.621	-0.109	-1.570	-0.107	-1.541	-0.118	-1.696†
CEO Equity t ₂	-0.111	-1.439	-0.121	-1.543	-0.120	-1.522	-0.109	-1.374
BOD Equity t ₂	-0.094	-1.309	-0.088	-1.267	-0.089	-1.268	-0.095	-1.369
CEO Duality t ₂	0.229	3.361**	0.217	3.325**	0.218	3.319**	0.217	3.222**
CEO Tenure t ₂	-0.249	-3.746**	-0.211	-3.265**	-0.212	-3.260**	-0.207	-3.167**
BOD Ties t ₂	0.114	1.694†	0.111	1.723†	0.112	1.727†	0.108	1.675†
Performance			-0.192	-2.979**	-0.177	-1.828†	-0.272	-1.693†
Restructure			0.173	2.524*	0.172	2.506*	0.200	2.842**
Performance x Restructure					-0.019	-0.199	0.079	0.576
(Performance) ²							0.092	0.716
(Performance) ² x Restructure							-0.159	-1.623
R ²		.278		.346		.346		.358
Adjusted R ²		.248		.311		.307		.311
Change in R ²				.068		.000		.012
Significance of R ² Change				.000		.843		.215

N = 194. † p < .10, * p < .05, and ** p < .01

restructuring (i.e., t_2). Due to the dichotomous nature of the dependent variable (1 = duality; 0 = non-duality), logistic regression was utilized.

The baseline model (i.e., control variables) predicting duality structure in post-restructuring periods is reflected in Model 1 in Tables 8 and 9. Both baseline models show significantly positive relationships between the proportion of outsiders on the board ($p < .01$) and BOD ties ($p < .05$), which might be explained by the presence of substitution effects between CEO duality and the proportion of outsiders on the board, as well as between CEO duality and the number of BOD ties. In other words, the adoption of institutionally legitimated form of good governance (e.g., a greater proportion of outsiders on the board and a greater number of board ties) might forestall a push for non-duality structures within organizations (Dalton et al., 2003; Rediker & Seth, 1995; Shleifer & Vishny, 1997; Westphal & Zajac, 1998; Young et al., 2000; Zajac & Westphal, 1994). (Substitution effects in corporate governance are discussed in greater detail in Chapter 6.) Additionally, both baseline models concluded that CEO tenure in years t_1 and t_2 was positively related ($p < .01$) to CEO duality in the same year, which supports the long-standing argument that CEO tenure builds power and control, thus leaving the CEO in a better position to be elected as the chairperson of the board of directors. Separately, only the baseline model for year t_1 revealed a statistically negative relationship ($p < .10$) between CEO equity and CEO duality. The overall hit ratios for Model 1 for years t_1 and t_2 were 91.7% and 88.4%, respectively. Unlike moderated multiple regression, logistic regression attempts to correctly classify each occurrence of the dependent variable (e.g., duality versus non-duality) based on the independent variables in the model. A correct classification is considered a 'hit'. Thus,

the addition of independent variables that properly explain/predict CEO duality will increase the model's hit ratio.

The independent variables – change in ROA and restructuring – were added in Model 2. The results revealed that only a change in performance was significantly related to CEO duality – negative relationship ($p < .10$) in year t_1 . Although the log-likelihood values for Model 2 in year t_1 decreased, thus suggesting a better model fit, the change did not lead to model significance. Additionally, the change in χ^2 was not significant ($\Delta\chi^2 = 4.22$, sig = .12). The overall hit ratio for Model 2 for year t_1 was 90.6%, which was 1.1% less than that for Model 1. Model 2 results for CEO duality in year t_2 were less impressive since neither of the two independent variables significantly improved overall model fit ($\Delta\chi^2 = 1.32$, sig = .52) versus the baseline model. The overall hit ratio for Model 2 for year t_2 was 88.4%, which was unchanged from Model 1.

The addition of the interaction between change in performance and restructuring did not improve the goodness-of-fit of the model. As evidenced in the results of Model 3 in Tables 8 and 9, the interaction terms were not significant for either year t_1 ($\Delta\chi^2 = 1.94$, sig = .16) or t_2 ($\Delta\chi^2 = .88$, sig = .35). The overall hit ratios for Model 3 for years t_1 and t_2 were 91.1% and 87.8%, respectively, which suggests that overall model fit has not improved from the previous model.

Significant improvements in model fit for were made when a quadratic equation was entered into the logistic regression model for year t_2 . As evidenced in Table 9, a curvilinear relationship was uncovered when the *(performance)² X restructuring* variable was entered into the model for year t_2 ($p < .10$). The negative coefficient suggests that the relationship is an inverted U relationship, which means that CEO duality in the

Table 8
Results of Logistic Regression Analysis Predicting CEO Duality in Year t_1

Variables	Dependent Variable: CEO DUALITY (t_1)							
	Model 1		Model 2		Model 3		Model 4	
	B	SE	B	SE	B	SE	B	SE
Constant	-5.856	2.080**	-6.743	2.360**	-6.760	2.361**	-6.824	2.362**
Period Effect	0.008	0.637	-0.289	0.688	-0.543	0.720	-0.649	0.699
Ownership Concentration t_1	0.015	0.020	0.009	0.019	0.002	0.018	0.013	0.024
CEO Equity t_1	-0.225	0.126 [†]	-0.242	0.128 [†]	-0.253	0.141 [†]	-0.305	0.163 [†]
BOD Equity t_1	0.135	0.108	0.174	0.116	0.193	0.122	0.236	0.137 [†]
Outsider Proportion t_1	7.276	2.509**	8.531	2.910**	8.834	2.951**	9.102	2.975**
CEO Tenure t_1	0.022	0.008**	0.023	0.008**	0.026	0.009**	0.026	0.010**
BOD Ties t_1	0.032	0.015*	0.033	0.015*	0.030	0.015*	0.029	0.015 [†]
Performance			-0.052	0.031 [†]	-0.033	0.033	0.052	0.053
Restructure			0.967	0.703	1.095	0.725	1.458	0.823 [†]
Performance x Restructure					-0.097	0.070	0.075	0.105
(Performance) ²							-0.002	0.002
(Performance) ² x Restructure							-0.004	0.004
-2 Log Likelihood	92.721		88.500		86.564		81.954	
χ^2	48.019 **		52.239**		54.176 **		58.786 **	
Change in χ^2			4.220(n.s.)		1.937(n.s.)		4.610(n.s.)	
Cox & Snell R ²	.221		.238		.246		.264	

N = 203. [†] p < .10, * p < .05, and ** p < .01

Table 9
Results of Logistic Regression Analysis Predicting CEO Duality in Year t_2

Variables	Model 1				Model 2				Model 3				Model 4			
	B	SE	B	SE	B	SE	B	SE	B	SE	B	SE	B	SE		
Constant	-7.478	2.172**	-7.979	2.273**	-7.930	2.248**	-8.735	2.442**								
Period Effect	0.867	0.612	0.708	0.646	0.614	0.654	0.578	0.668								
Ownership Concentration t_2	-0.002	0.010	-0.003	0.010	-0.005	0.011	-0.003	0.011								
CEO Equity t_2	-0.104	0.069	-0.098	0.072	-0.097	0.069	-0.106	0.073								
BOD Equity t_2	0.061	0.062	0.071	0.068	0.069	0.065	0.086	0.071								
Outsider Proportion t_2	8.912	2.474**	9.626	2.638**	9.699	2.638**	10.979	2.859**								
CEO Tenure t_2	0.021	0.007**	0.022	0.007**	0.023	0.007**	0.024	0.008**								
BOD Ties t_2	0.026	0.012*	0.025	0.012*	0.023	0.012†	0.022	0.013†								
Performance			0.001	0.032	0.009	0.029	0.099	0.044*								
Restructure			0.637	0.563	0.670	0.572	1.275	0.682†								
Performance x Restructure					-0.056	0.058	0.125	0.084								
(Performance) 2							-0.002	0.001								
(Performance) 2 xRestructure							-0.005	0.003†								
-2 Log Likelihood	114.690		113.368		112.484		103.687									
χ^2	40.334**		41.656**		42.540**		51.337**									
Change in χ^2			1.323(n.s.)		.884(n.s.)		8.796*									
Cox & Snell R 2	.192		.198		.202		.238									

N = 193. † p < .10, * p < .05, and ** p < .01

second year following a restructuring is contingent upon the change in ROA in the pre-restructuring period. Specifically, restructuring firms who experienced either significant declines or significant gains in ROA the year before a restructuring tended to have lower occurrences of duality, whereas firms whose change in ROA could have been characterized as moderate, tended to have increased likelihoods of CEO duality structures. For year t_2 , Model 4 was significant ($\Delta\chi^2 = 8.80$, sig = .012). The overall hit ratio for Model 4 for year t_2 improved from 87.8% to 88.9%. Overall, this finding provides partial support for hypothesis 1b. The relationship between performance, restructuring, and CEO duality in year t_2 seemed to be more intricate than was predicted by the hypothesis since the hypothesis found support only at the extremes of performance (low and high). Model 4 results for CEO duality in year t_1 were less impressive since neither of the quadratic terms achieved significance, thus leading to overall non-significance of the Model ($\Delta\chi^2 = 4.61$, sig = .10). The overall hit ratio for Model 4 for year t_1 improved from 90.6% to 91.1%.

5.A.3. Board of Director Ties

Tables 10 and 11 show the results of the regression analyses that attempt to understand BOD ties in the post-restructuring period. Specifically, Table 10 assesses BOD ties in the year following restructuring (i.e., t_1) and Table 11 assesses BOD ties in the second year following a restructuring (i.e., t_2). Both Models 1 in Tables 10 and 11 reveal that ownership concentration is negatively related ($p < .10$) and the proportion of outsiders on the board is positively related ($p < .10$) to the number of BOD ties in years t_1 and t_2 . Separately, Model 1 in Table 10 revealed that CEO duality is positively related ($p < .05$) and CEO tenure is negatively related ($p < .05$) to the number of BOD ties in year t_1 . It would seem reasonable that a positive relationship exists between CEO

duality and the number of BOD ties due to the fact that CEO duality is, and has been, viewed as a bad form of governance that adversely impacts organizational performance and increases opportunistic behavior on behalf of the CEO. As such, a push for greater number of ties may serve as means of monitoring the activities of the firm and its executives and/or serve as a means of co-opting resources from important elements outside the firm, as a result of the uncertainty created by a restructuring (Aldrich, 1979; Mizruchi, 1996; Pfeffer & Salancik, 1978).

The addition of the independent variables – restructuring and performance – did not yield any greater explanation of BOD ties in either year t_1 (Model 2 $R^2 = .13$, $p = .64$) or t_2 (Model 2 $R^2 = .09$, $p = .85$), which suggests that changes in a firm's performance in the pre-restructuring period or the restructuring event itself does not appear to directly impact the size of the networks BOD members create with the external environment. Much like the Models 2, Model 3 (the interaction between performance and restructuring) and Model 4 (curvilinear effects) did not produce any significantly better results for predicting BOD ties in years t_1 and t_2 . Model 3 for year t_1 yielded an $R^2 = .13$, R^2 change = .002, and $p = .47$, whereas Model 3 for year t_2 yielded an $R^2 = .09$, R^2 change = .003, and $p = .43$. Model 4 for year t_1 yielded an $R^2 = .13$, R^2 change = .005, and $p = .63$, whereas Model 4 for year t_2 yielded an $R^2 = .10$, R^2 change = .003, and $p = .71$. Based on these results for BOD ties in the post-restructuring periods t_1 and t_2 , hypothesis 1c was not supported.

5.A.4. CEO Equity Ownership

Tables 12 and 13 show the results of the regression analyses that attempted to understand CEO equity ownership in the post-restructuring period. Specifically, Table 12 assesses the proportion of outsiders in the year following restructuring (i.e., t_1) and

Table 10
Results of Regression Analysis Predicting Board of Director Ties in Year t_1

Variables	Dependent Variable: BOD TIES (t_1)							
	Model 1		Model 2		Model 3		Model 4	
	β	t	β	t	β	t	β	t
Period Effect	0.025	0.334	0.038	0.486	0.035	0.453	0.033	0.429
Ownership Concentration t_1	-0.136	-1.753 [†]	-0.128	-1.626	-0.133	-1.682 [†]	-0.137	-1.708 [†]
CEO Duality t_1	0.193	2.513*	0.201	2.581*	0.196	2.514*	0.185	2.329*
CEO Tenure t_1	-0.169	-2.316*	-0.169	-2.269*	-0.163	-2.179*	-0.168	-2.226*
Outsider Proportion t_1	0.140	1.786 [†]	0.151	1.859 [†]	0.155	1.898 [†]	0.148	1.799 [†]
CEO Equity t_1	0.092	1.217	0.092	1.189	0.091	1.168	0.100	1.265
BOD Equity t_1	0.057	0.814	0.055	0.786	0.057	0.805	0.055	0.774
Performance			0.068	0.949	0.009	0.082	0.083	0.471
Restructure			0.011	0.142	0.012	0.149	0.016	0.205
Performance x Restructure					0.078	0.725	0.036	0.235
(Performance) ²							-0.077	-0.544
(Performance) ² x Restructure							-0.017	-0.157
R ²		.120		.125		.127		.132
Adjusted R ²		.087		.082		.079		.074
Change in R ²				.005		.002		.005
Significance of R ² Change				.636		.469		.628

N = 192. [†] p < .10, * p < .05, and ** p < .01

Table 11
Results of Regression Analysis Predicting Board of Director Ties in Year t₂

Variables	Dependent Variable: BOD TIES (t ₂)							
	Model 1		Model 2		Model 3		Model 4	
	β	t	β	t	β	t	β	t
Period Effect	-0.003	-0.035	0.005	0.064	0.003	0.033	0.001	0.016
Ownership Concentration t ₂	-0.137	-1.817 [†]	-0.131	-1.717 [†]	-0.136	-1.770 [†]	-0.137	-1.760 [†]
CEO Duality t ₂	0.104	1.376	0.103	1.357	0.101	1.327	0.087	1.101
CEO Tenure t ₂	-0.118	-1.579	-0.118	-1.556	-0.112	-1.469	-0.118	-1.534
Outsider Proportion t ₂	0.144	1.753 [†]	0.156	1.803 [†]	0.157	1.809 [†]	0.153	1.730 [†]
CEO Equity t ₂	0.076	0.984	0.071	0.884	0.061	0.751	0.070	0.850
BOD Equity t ₂	0.079	1.036	0.082	1.066	0.084	1.098	0.081	1.039
Performance			0.043	0.569	-0.022	-0.201	0.062	0.330
Restructure			0.001	0.015	0.004	0.053	0.006	0.077
Performance x Restructure					0.087	0.785	0.034	0.211
(Performance) ²							-0.085	-0.575
(Performance) ² x Restructure							0.000	-0.001
R ²		.088		.090		.093		.096
Adjusted R ²		.053		.044		.042		.035
Change in R ²				.002		.003		.003
Significance of R ² Change				.851		.434		.706

N = 189. [†] p < .10, * p < .05, and ** p < .01

Table 13 assesses the proportion of outsiders in the second year following a restructuring (i.e., t_2). Both Models 1 in Tables 12 and 13 reveal that the ownership concentration is positively related to CEO equity ownership in years t_1 and t_2 . As ownership becomes more concentrated (i.e., fewer owners own more shares), CEOs hold greater number of shares in the firms they lead. This finding supports the general consensus that powerful owners have the ability to force CEOs to somewhat align their personal wealth with the success of their organizations. As with other governance mechanisms, greater CEO equity ownership is seen as good governance. Furthermore, the results on Modes 1 suggest that CEO duality is negatively related to CEO equity ownership in t_1 and BOD equity ownership is positively related to CEO equity ownership in t_2 .

Models 2 of Tables 12 and 13 indicate that restructuring is positively related to CEO equity ownership in years t_1 ($p < .05$) and t_2 ($p < .01$), which suggests that restructuring drives CEOs to adopt greater equity positions in their firms. A restructuring incidence and its significant impact on governance in post-restructuring periods is a fairly common occurrence throughout this study. Unlike restructuring, the change in performance was positively related to CEO equity ownership in year t_2 ($p < .10$), which runs counter to the philosophy that poor performance creates pressures to institute tighter and better governance. In other words, I would have expected to see increases in CEO equity ownership in times of negative changes in performance because the slide in performance would create pressures for organizations to make socially legitimated changes to their governance structures. Models 2 for CEO equity ownership in years t_1 and t_2 were both significant ($R^2 = .21$, $p = .04$, and $R^2 = .21$, $p = .01$, respectively).

Models 3 and 4 did not produce any significantly better results for CEO equity ownership in year t_1 . The addition of the interaction between restructuring and performance (Model 3) and the addition of curvilinear terms (Model 4) did not produce any significant results. Models 3 and 4 results were $R^2 = .21$, $p = .75$ and $R^2 = .21$, $p = .64$, respectively. Model 3 for CEO equity ownership in year t_2 did produce an interesting finding when the interaction between restructuring and performance was entered into the model. The addition of this term eliminated the positive relationship between performance and CEO equity ownership in year t_2 significant. However, as revealed in Model 3 of Table 13, the interaction between restructuring and performance is significant and positive ($p < .05$), in addition to significance of the entire model ($R^2 = .22$, $p = .04$).

The plotting of the interaction effect is shown in Figure 3. The methodology for plotting the regression equations (one for restructuring firms and one for non-restructuring firms; $Z = 0$ and 1) was taken from Aiken and West (1991). The anchoring values used to plot the slopes of the lines needed to be meaningful; as such, I chose two standard deviations below the mean and two standard deviations above the mean. This strategy was utilized for all interaction plotted in this dissertation. As evidenced in Figure 3, restructuring firms experiencing poor performance in the pre-restructuring period had CEOs who held *less* equity in organizations they managed versus those restructuring firms experiencing above average performance in the pre-restructuring period. This finding contradicts the arguments set forth in this dissertation. However, there is a substantial difference in equity holdings when comparing restructuring firms versus non-restructuring firms. The overall conclusion drawn from Figure 3 is that compared to the CEOs of non-restructuring firms, the CEOs of restructuring firms hold

Table 12
Results of Regression Analysis Predicting CEO Equity Ownership in Year t_1

Variables	Dependent Variable: CEO EQUITY OWNERSHIP (t_1)							
	Model 1		Model 2		Model 3		Model 4	
	β	t	β	t	β	t	β	t
Period Effect	-0.071	-1.033	-0.028	-0.391	-0.029	-0.409	-0.032	-0.454
Ownership Concentration t_1	0.293	4.201**	0.307	4.428**	0.304	4.340**	0.315	4.528**
BOD Equity t_1	0.078	1.166	0.053	0.793	0.054	0.799	0.059	0.885
CEO Duality t_1	-0.262	-3.732**	-0.249	-3.537**	-0.250	-3.540**	-0.234	-3.290**
CEO Tenure t_1	0.028	.0401	0.064	0.908	0.066	0.929	0.066	0.938
Outsider Proportion t_1	-0.002	-0.020	-0.040	-0.519	-0.039	-0.497	-0.013	-0.170
BOD Tiest $_1$	0.086	1.228	0.079	1.132	0.078	1.113	0.087	1.257
Performance			-0.014	-0.211	-0.039	-0.378	0.028	0.172
Restructure			0.180	2.508*	0.180	2.508*	0.138	1.879 [†]
Performance x Restructure					0.032	0.317	-0.065	-0.456
(Performance) ²							-0.064	-0.483
(Performance) ² x Restructure							0.062	0.481
R ²		.179		.208		.208		.210
Adjusted R ²		.153		.173		.169		.164
Change in R ²				.029		.000		.002
Significance of R ² Change				.041		.751		.641

N = 192. [†] p < .10, * p < .05, and ** p < .01

Table 13
Results of Regression Analysis Predicting CEO Equity Ownership in Year t₂

Variables	Dependent Variable: CEO EQUITY OWNERSHIP (t ₂)							
	Model 1		Model 2		Model 3		Model 4	
	β	t	β	t	β	t	β	t
Period Effect	-0.062	-0.827	0.000	0.002	-0.006	-0.076	0.000	-0.005
Ownership Concentration t ₂	0.174	2.429*	0.195	2.768**	0.179	2.541*	0.191	2.736**
BOD Equity t ₂	0.308	4.435**	0.307	4.511**	0.307	4.550**	0.313	4.709**
CEO Duality t ₂	-0.108	-1.499	-0.094	-1.327	-0.096	-1.367	-0.080	-1.123
CEO Tenure t ₂	0.001	0.011	0.020	0.283	0.033	0.462	0.039	0.548
Outsider Proportion t ₂	-0.032	-0.405	-0.036	-0.438	-0.032	-0.395	-0.003	-0.039
BOD Tiest ₂	0.070	0.984	0.062	0.884	0.052	0.751	0.058	0.850
Performance			0.117	1.674 [†]	-0.040	-0.386	-0.027	-0.159
Restructure			0.195	2.736**	0.198	2.797**	0.152	2.096*
Performance x Restructure					0.207	2.030*	0.151	1.050
(Performance) ²							-0.005	-0.035
(Performance) ² x Restructure							0.092	0.592
R ²		.161		.206		.224		.225
Adjusted R ²		.129		.166		.180		.179
Change in R ²				.045		.018		.001
Significance of R ² Change				.008		.044		.658

N = 189. [†] p < .10, * p < .05, and ** p < .01

greater amounts of equity in their organizations. Moreover, this difference becomes more noticeable with better (not worse) performance in the pre-restructuring period. Based on these results, hypothesis 1d was not supported.

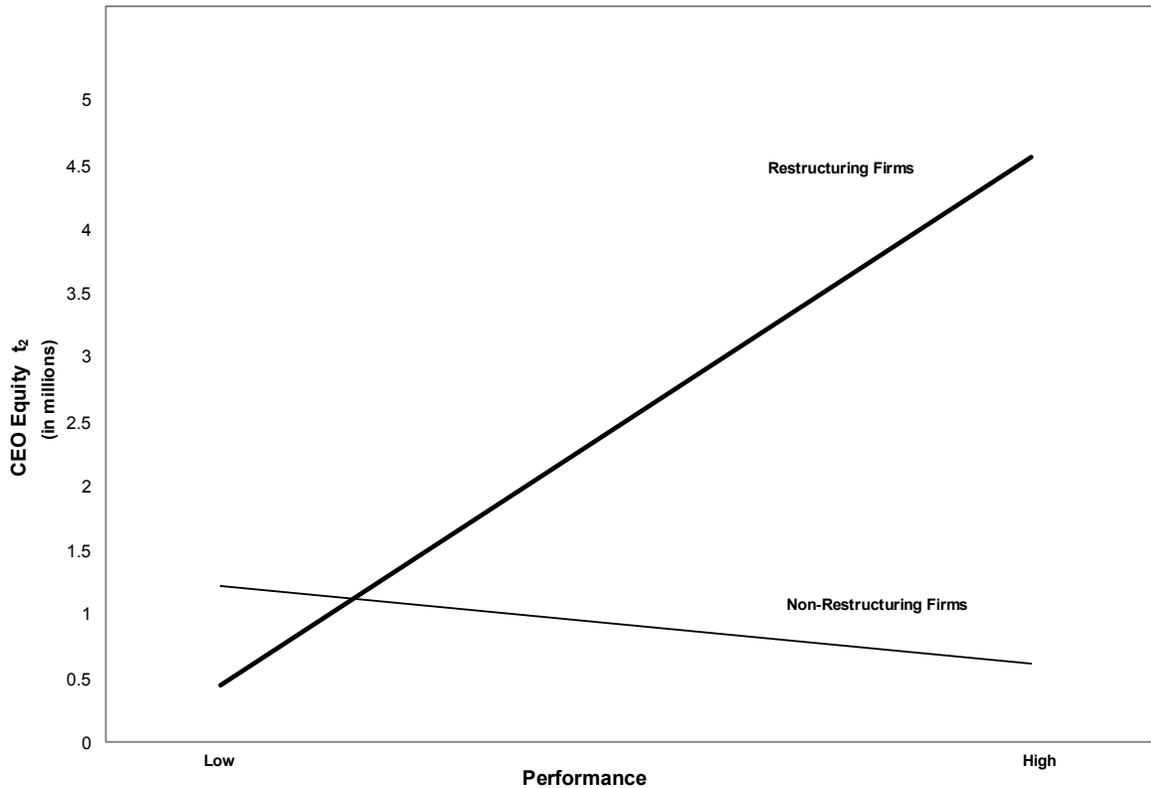


Figure 3
Interactive Effect of Change in Performance and Restructuring
on CEO Equity (Year t_2)

5.A.5. Top Management Team Equity Ownership

Tables 14 and 15 show the results of the regression analyses that attempt to understand TMT equity ownership in the post-restructuring period. Specifically, Table 14 assesses TMT equity ownership in the year following restructuring (i.e., t_1) and Table 15 assesses TMT equity ownership in the second year following a restructuring (i.e., t_2). Both Models 1 in Tables 14 and 15 reveal that ownership concentration is positively

related ($p < .01$) and CEO duality is negatively related ($p < .05$) to TMT equity ownership in years t_1 and t_2 . Separately, Model 1 in Table 14 reveals that both the proportion of outsiders on the board and the time effect variable is negatively related ($p < .05$ and $p < .10$, respectively) to TMT equity ownership in year t_1 . It would seem reasonable to find that an inverse relationship exists between the proportion of outsiders on the board and TMT equity ownership as a result of a substitution effect between these two governance issues. A greater proportion of outsiders on the board might forestall a push for greater equity ownership by top managers. The negative relationship between the period effect and TMT equity ownership suggests that organizations studied in years marked by greater shareholder activism (i.e., starting in 1993) were more likely to have TMTs with greater equity holdings in their organizations than organizations studied in years marked by less shareholder activism (i.e., before 1993). Lastly, Model 1 in Table 15 reveals that BOD equity ownership is positively related to TMT equity ownership in year t_2 ($p < .01$).

Models 2 in Tables 14 and 15 clearly demonstrate that performance and restructuring are predictors of TMT equity ownership in years t_1 ($R^2 = .26$, $p = .001$) and t_2 ($R^2 = .38$, $p = .00$). Specifically, a change in performance during the pre-restructuring period is positively related to TMT equity ownership in years t_1 ($p < .10$) and t_2 ($p < .05$), which runs counter to the hypothesized relationship between these two variables. The same positive relationship holds true between restructuring and TMT equity ownership for years t_1 and t_2 ($p < .01$), which, as predicted, suggests that restructuring firms have TMTs that hold greater amounts of equity in the firms they manage. Models 3 (the interaction of performance and restructuring) and Models 4 (curvilinear effect) did not yield any significant effects for either years t_1 or t_2 .

Table 14
Results of Regression Analysis Predicting Top Management Team Equity Ownership in Year t_1

Variables	Dependent Variable: TMT EQUITY OWNERSHIP (t_1)							
	Model 1		Model 2		Model 3		Model 4	
	β	t	β	t	β	t	β	t
Period Effect	-0.138	-1.875 [†]	-0.068	-0.923	-0.069	-0.944	-0.068	-0.922
Ownership Concentration t_1	0.251	3.400**	0.273	3.810**	0.269	3.720**	0.266	3.647**
CEO Duality t_1	-0.170	-2.282*	-0.124	-1.706 [†]	-0.127	-1.736 [†]	-0.116	-1.556
CEO Tenure t_1	0.039	0.528	0.078	1.089	0.082	1.135	0.086	1.186
Board Ties t_1	0.028	0.393	0.015	0.210	0.012	0.177	0.016	0.221
BOD Equity t_1	0.106	1.548	0.070	1.054	0.072	1.068	0.071	1.056
Outsider Proportion t_1	-0.169	-2.168*	-0.196	-2.530*	-0.193	-2.478*	-0.194	-2.458*
Performance			0.115	1.691 [†]	0.071	0.688	-0.031	-0.186
Restructure			0.260	3.591**	0.261	3.588**	0.266	3.515**
Performance x Restructure					0.058	0.574	0.131	0.910
(Performance) ²							0.104	0.773
(Performance) ² x Restructure							-0.041	-0.399
R ²		.197		.262		.263		.266
Adjusted R ²		.164		.223		.220		.213
Change in R ²				.065		.001		.003
Significance of R ² Change				.001		.567		.722

N = 192. [†] p < .10, * p < .05, and ** p < .01

Table 15
Results of Regression Analysis Predicting Top Management Team Equity Ownership in Year t₂

Variables	Dependent Variable: TMT EQUITY OWNERSHIP (t ₂)							
	Model 1		Model 2		Model 3		Model 4	
	β	t	β	t	β	t	β	t
Period Effect	-0.100	-1.435	-0.019	-0.283	-0.022	-0.317	-0.020	-0.290
Ownership Concentration t ₂	0.261	3.894**	0.289	4.507**	0.282	4.374**	0.286	4.399**
CEO Duality t ₂	-0.177	-2.615*	-0.158	-2.453*	-0.159	-2.463*	-0.154	-2.298*
CEO Tenure t ₂	-0.013	-0.191	0.013	0.197	0.018	0.273	0.020	0.300
Board Ties t ₂	0.015	0.219	0.004	0.060	0.000	0.001	0.002	0.033
BOD Equity t ₂	0.371	5.702**	0.369	5.974**	0.369	5.970**	0.371	5.979**
Outsider Proportion t ₂	-0.107	-1.439	-0.115	-1.543	-0.113	-1.522	-0.104	-1.374
Performance			0.147	2.322*	0.085	0.898	0.089	0.560
Restructure			0.260	4.010**	0.261	4.023**	0.246	3.626**
Performance x Restructure					0.081	0.872	0.064	0.473
(Performance) ²							-0.001	-0.005
(Performance) ² x Restructure							0.063	0.657
R ²		.305		.382		.384		.388
Adjusted R ²		.277		.349		.348		.344
Change in R ²				.077		.002		.004
Significance of R ² Change				.000		.385		.634

N = 189. † p < .10, * p < .05, and ** p < .01

Based on the aforementioned results, hypothesis 1e is, at best, partially supported by the finding that restructuring firms do institute greater TMT equity ownership in the first and second years after a restructuring. However, support for hypothesis 1e fails to be granted due the fact that greater performance leads to greater adoption of equity by the TMT. This finding runs counter to my argument, which suggested that TMTs will adopt greater equity ownership positions when pre-restructuring performance decreases, not increases.

5.A.6. Board of Director Equity Ownership

Tables 16 and 17 show the results of the regression analyses that attempt to understand BOD equity ownership in the post-restructuring period. Specifically, Table 16 assesses BOD equity ownership in the year following a restructuring (i.e., t_1) and Table 17 assesses BOD equity ownership in the second year following a restructuring (i.e., t_2). Model 1 in Table 16 contains the control variables for BOD equity ownership in year t_1 and the results for this model were quite different than the preceding control variable models in that all of the control variables, in addition to the model itself, failed to achieve significance ($R^2 = .02$, $p = .84$). The control variables continued to achieve non-significance in all of the models that were tested in the attempt to explain BOD equity ownership in year t_1 . Model 1 in Table 17 assesses the control variables for BOD equity ownership for t_2 revealed that CEO equity ownership is positively related ($p < .01$), and the proportion of outsiders on the board is negatively related ($p < .10$), to BOD equity ownership two years after a firm undertakes a restructuring (i.e., year t_2). Unlike Model 1 for BOD equity ownership in year t_1 , Model 1 for BOD equity ownership in year t_2 did achieve significance ($R^2 = .13$, $p = .00$).

Table 16
Results of Regression Analysis Predicting Board of Director Equity Ownership in Year t_1

Variables	Dependent Variable: BOD EQUITY OWNERSHIP (t_1)							
	Model 1		Model 2		Model 3		Model 4	
	β	t	β	t	β	t	β	t
Period Effect	0.034	0.425	0.062	0.765	0.063	0.780	0.063	0.771
Ownership Concentration t_1	0.059	0.714	0.072	0.870	0.075	0.904	0.067	0.791
CEO Duality t_1	0.044	0.534	0.056	0.675	0.058	0.700	0.060	0.709
CEO Tenure t_1	0.002	0.021	0.028	0.352	0.025	0.310	0.024	0.301
Board Ties t_1	0.063	0.814	0.061	0.786	0.063	0.805	0.061	0.774
CEO Equity t_1	0.093	1.162	0.063	0.772	0.064	0.778	0.073	0.875
Outsider Proportion t_1	-0.011	-0.131	-0.039	-0.454	-0.041	-0.481	-0.049	-0.557
Performance			0.003	0.034	0.038	0.339	-0.004	-0.024
Restructure			0.152	1.882 [†]	0.152	1.871 [†]	0.164	1.958 [†]
Performance x Restructure					-0.048	-0.422	-0.004	-0.023
(Performance) ²							0.042	0.284
(Performance) ² x Restructure							-0.070	-0.605
R ²		.018		.037		.038		.040
Adjusted R ²		.017		.024		.019		.015
Change in R ²				.019		.001		.002
Significance of R ² Change				.173		.673		.813

N = 192. [†] p < .10, * p < .05, and ** p < .01

Table 17
Results of Regression Analysis Predicting Board of Director Equity Ownership in Year t₂

Variables	Dependent Variable: BOD EQUITY OWNERSHIP (t ₂)			
	Model 1	Model 2	Model 3	Model 4
	β	β	β	β
	t	t	t	t
Period Effect	-0.061	-0.081	-0.078	-0.080
Ownership Concentration t ₂	-0.298	-0.446	-0.388	-0.542
CEO Duality t ₂	1.277	1.248	1.261	1.210
CEO Tenure t ₂	0.007	0.002	-0.002	-0.003
Board Ties t ₂	1.036	1.066	1.098	1.039
CEO Equity t ₂	4.435**	4.511**	4.550**	4.709**
Outsider Proportion t ₂	-1.900 [†]	-1.933 [†]	-1.938 [†]	-2.096*
Performance		-0.068	-0.015	-0.073
Restructure		-0.041	-0.044	-0.018
Performance x Restructure			-0.070	-0.005
(Performance) ²				0.054
(Performance) ² x Restructure				-0.132
R ²	.134	.139	.141	.150
Adjusted R ²	.100	.096	.093	.092
Change in R ²		.005	.002	.009
Significance of R ² Change		.575	.517	.385

N = 189. [†] p < .10, * p < .05, and ** p < .01

The addition of the independent variables – restructuring and performance – yielded greater explanation of BOD equity ownership in year t_1 , but not year t_2 . Specifically, restructuring was positively related ($p < .10$) to BOD equity ownership in year t_1 , which suggests that incidences of restructuring lead to BODs adopting more equity ownership in the firms they govern. It is important to note that, in spite of this finding, Model 2 was not significant ($R^2 = .04$, change in $R^2 = .02$, $p = .17$). Even though the model was not significant, the aforementioned positive finding does allow for greater insight into BOD equity ownership in the post-restructuring period. Beyond the significance of the control variables in Model 1, Model 2 predicting BOD equity ownership in year t_2 did not produce any significant findings ($R^2 = .14$, $p = .58$). Additionally, Models 3 (the interaction of performance and restructuring) and Models 4 (curvilinear effect) did not produce any significant effects for either years t_1 or t_2 . Even though restructuring was positively related to BOD equity in year t_2 , this finding did not allow for full support of hypothesis 1f.

5.B. Study 2 Results: Governance's Impact on Market Valuation

Table 18 presents the means, standard deviations, and correlations for Study 2, which assesses the impact of governance structures on post-asset market valuations of the firm. The basic contention of this study is that organizations exhibiting more socially legitimated forms of governance (i.e., good or sound governance) shall be rewarded with greater shareholder returns in the year following a restructuring. Specifically and drawing on the governance structures used in the first study, firms with non-duality structures, greater proportions of outsiders on the board of directors, CEOs, TMTs, and BODs who hold have their personal wealth tied to the market performance of the firm via equity ownership, and BODs with greater ties to their external environments shall

have shareholder returns in the post-restructuring year than those firms not exhibiting these governance characteristics.

Table 18 presents the means, standard deviations, and correlations for the second study. None of the governance structures are significantly correlated to shareholder returns in year t_1 . Additionally, the correlation between restructuring and shareholder returns was not significant. Shareholder returns in year t_1 , which averaged 6.04%, were significant and positively correlated to dividends paid in year t_1 ($r = .14$, $p < .05$), R&D intensity in year t_1 ($r = .27$, $p < .01$), and negatively correlated to capital structure in year t_1 ($r = -.10$, $p < .10$).

Regression analyses were employed to assess the moderating impact of governance structures on shareholder returns in the post-restructuring year (i.e., t_1). The governance structures evaluated were the same as those utilized in the first study – board independence, CEO duality, equity ownership by the CEO, TMT, and BOD, and board ties. Every hypothesis was tested using four models. Model 1 contains the control variables. Model 2 adds the independent variables – the dichotomous restructuring variable and the governance variable of interest. Model 3 tests the interaction between the two aforementioned variables – restructuring and governance. Lastly, Model 4 utilizes a quadratic equation to test for a curvilinear effect.

5.B.1. Collective Findings

The results for the second study of this dissertation were disappointing in that none of the hypothesized relationships were supported for any of the six governance structures. Before discussing these results, I begin with a discussion of the models containing the control variables. The moderating impact of the six governance

Table 18
Means, Standard Deviations, and Correlations of Variables – Study 2

Variable	Mean	S.D.	1	2	3	4	5	6	7
1. Total Diversification t_1	0.64	0.58	-						
2. Restructuring	0.48	0.50	.17*	-					
3. Assets t_1	16767	37404	.18*	.08	-				
4. Dividends t_1	0.94	0.78	.22**	-.06	.28**	-			
5. Shareholder Return t_1	6.04	13.84	-.07	-.06	-.08	.14*	-		
6. Capital Structure t_1	0.85	1.20	-.09	.01	.27**	.05	-.10 [†]	-	
7. Advertising Intensity t_1	0.02	0.03	-.10	-.05	-.07	-.06	-.06	.11	-
8. R&D Intensity t_1	0.03	0.05	-.03	.01	-.04	-.05	.27**	-.16*	.01
9. Duality t_1	0.88	0.33	.05	-.10	-.01	.16*	-.04	.13	.08
10. CEO Equity t_1	1.95	5.80	.08	.20**	-.01	-.13	-.06	-.02	.02
11. TMT Equity t_1	2.62	4.98	.06	.22**	-.01	-.20**	-.13	-.03	.07
12. BOD Equity t_1	6.82	38.90	.18*	.13	.01	.04	-.05	-.03	.01
13. Outside Proportion t_1	0.76	0.12	.11	.24**	.10	.19**	.08	-.01	-.02
14. Board Ties t_1	41.24	24.83	.23*	.09	.35**	.53**	.01	.11	.08

Notes: N = 187 for TMT equity. N = 198 for CEO and BOD equity. N = 203 for Total Diversification. N= 209 for all remaining variables. [†] p < .10, * p < .05, and ** p < .01. Means and standard deviations for assets, CEO, TMT, and BOD equity ownership (i.e., variables 3, 10 – 12) are reported in millions.

(Table 18 continued)

Variable	8	9	10	11	12	13	14
1. Total Diversification t_1	-						
2. Restructuring							
3. Assets t_1							
4. Dividends t_1							
5. Shareholder Return t_1							
6. Capital Structure t_1							
7. Advertising Intensity t_1							
8. R&D Intensity t_1							
9. Duality t_1	-.10	-					
10. CEO Equity t_1	-.09	-.26**	-				
11. TMT Equity t_1	-.08	-.22**	.87**	-			
12. BOD Equity t_1	.08	.02	.10	.12	-		
13. Outside Proportion t_1	.01	.27**	-.11	-.25**	-.02	-	
14. Board Ties t_1	.09	.19**	-.01	-.08	.06	.24**	-

structures was tested utilizing six separate regression analyses, yet Model 1 (i.e., the control variables model) for each analysis was the same. The results for each Model 1 are offered in Tables 19 through 24. The results suggest that the control variables collectively account for 14.8% of the variance (i.e., $R_2 = .15$, $p = .00$) in shareholder return in the year following a restructuring. Specifically, R&D Intensity ($p < .01$), dividends ($p < .05$), and shareholder returns in the restructuring year ($p < .05$) were significant and positively related predictors of shareholder returns in year t_1 .

In Model 2 the independent variables – restructuring and one of the six governance structures – were added to the control variables. This was repeated six times – one for each governance structure. Each Model 2 did not provide any better explanatory power of returns in the post-restructuring period. In every instance, the addition of the restructuring variable and governance structure variables did not yield any significant results. Although R^2 values did increase in three of the six models, the increase was attributable to the addition of the two independent variables, which is corroborated by the substantial decreases in the adjusted R^2 values for each analysis.

Results for the interaction between restructuring and governance (Model 3) and for a curvilinear effect (Model 4) were equally disappointing. None of the interactions between restructuring and governance structures were significant predictors of shareholder returns in the post-restructuring period. As noted in Tables 19 through 24, the addition of the interaction term in the regression equations lead to sizeable decreases in the adjusted R^2 values for each analysis. Overall significance values for the interaction models (Model 3) ranged from .353 to .899. These findings were comparable to those models that incorporated a curvilinear effect (Model 4). None of the curvilinear effect variables, or the models themselves, was significant. In all but

Table 19
Results of Regression Analysis Using Outsider Proportion to Predict Shareholder Returns in Year t_1

Variables	Dependent Variable: SHAREHOLDER RETURN (t_1)							
	Model 1		Model 2		Model 3		Model 4	
	β	t	β	t	β	t	β	t
Assets t_1	-0.111	-1.523	-0.113	-1.539	-0.114	-1.545	-0.127	-1.692 [†]
Advertising Intensity t_1	-0.077	-1.145	-0.078	-1.165	-0.078	-1.155	-0.066	-0.967
R&D Intensity t_1	0.228	3.302**	0.226	3.271**	0.226	3.261**	0.240	3.432**
Capital Structure t_1	-0.030	-0.423	-0.028	-0.399	-0.027	-0.380	-0.029	-0.410
Dividends t_1	0.173	2.438*	0.157	2.149*	0.159	2.148*	0.173	2.328*
Shareholder Return t	0.173	2.510*	0.174	2.490*	0.173	2.473*	0.171	2.446*
Total Diversification t_1	-0.084	-1.219	-0.085	-1.202	-0.085	-1.204	-0.074	-1.038
Restructure			-0.027	-0.375	-0.107	-0.236	-0.200	-0.106
Outsider Prop t_1			0.079	1.125	0.069	0.771	-0.957	-1.154
Outsider Prop t_1 x Restructure					0.084	0.180	0.491	0.114
(Outsider Prop t_1) ²							1.049	1.243
(Outsider Prop t_1) ² x Restructure							-0.332	-0.0131
R ²		.148		.154		.154		.164
Adjusted R ²		.118		.114		.110		.111
Change in R ²				.006		.000		.010
Significance of R ² Change				.529		.858		.325

N = 203. [†] p < .10, * p < .05, and ** p < .01

Table 20
Results of Regression Analysis Using CEO Duality to Predict Shareholder Returns in Year t_1

Variables	Dependent Variable: SHAREHOLDER RETURN (t_1)							
	Model 1		Model 2		Model 3		Model 4	
	β	t	β	t	β	t	β	t
Assets t_1	-0.111	-1.523	-0.118	-1.609	-0.116	-1.573	-0.117	-1.584
Advertising Intensity t_1	-0.077	-1.145	-0.071	-1.057	-0.070	-1.040	-0.069	-1.036
R&D Intensity t_1	0.228	3.302**	0.223	3.220**	0.209	2.955**	0.214	3.007**
Capital Structure t_1	-0.030	-0.423	-0.018	-0.255	-0.019	-0.263	-0.020	-0.266
Dividends t_1	0.173	2.438*	0.188	2.590**	0.193	2.648**	0.191	2.625**
Shareholder Return t	0.173	2.510*	0.166	2.379*	0.172	2.450*	0.168	2.394*
Total Diversification t_1	-0.084	-1.219	-0.078	-1.104	-0.079	-1.118	-0.080	-1.124
Restructure			-0.017	-0.240	-0.189	-0.956	-0.007	-0.109
CEO Duality t_1			-0.088	-1.274	-0.167	-1.524	-0.086	-1.259
CEO Duality t_1 x Restructure					0.193	0.930	0.189	0.894
(Duality t_1) ²							0.077	1.145
(Duality t_1) ² x Restructure							0.054	0.815
R ²		.148		.155		.159		.160
Adjusted R ²		.118		.116		.115		.111
Change in R ²				.007		.004		.001
Significance of R ² Change				.443		.353		.487

N = 202. † p < .10, * p < .05, and ** p < .01

Table 21
Results of Regression Analysis Using Board of Director Ties to Predict Shareholder Returns in Year t₁

Variables	Dependent Variable: SHAREHOLDER RETURN (t ₁)							
	Model 1		Model 2		Model 3		Model 4	
	β	t	β	t	β	t	β	t
Assets t ₁	-0.111	-1.523	-0.095	-1.272	-0.099	-1.291	-0.105	-1.332
Advertising Intensity t ₁	-0.077	-1.145	-0.067	-0.989	-0.067	-0.980	-0.059	-0.852
R&D Intensity t ₁	0.228	3.302**	0.238	3.404**	0.239	3.404**	0.242	3.425**
Capital Structure t ₁	-0.030	-0.423	-0.026	-0.360	-0.023	-0.324	-0.031	-0.426
Dividends t ₁	0.173	2.438*	0.212	2.602**	0.216	2.594**	0.215	2.562*
Shareholder Return t	0.173	2.510*	0.176	2.512*	0.175	2.493*	0.178	2.525*
Total Diversification t ₁	-0.084	-1.219	-0.075	-1.055	-0.073	-1.026	-0.072	-1.013
Restructure			0.001	0.012	-0.027	-0.201	0.099	0.460
BOD Ties t ₁			-0.085	-1.014	-0.103	-0.908	0.170	0.565
BOD Ties t ₁ x Restructure					0.038	0.242	-0.336	-0.661
(BOD Ties t ₁) ²							-0.300	-0.987
(BOD Ties t ₁) ² x Restructure							0.314	0.793
R ²		.148		.153		.153		.157
Adjusted R ²		.118		.113		.109		.104
Change in R ²				.005		.000		.004
Significance of R ² Change				.595		.809		.607

N = 202. † p < .10, * p < .05, and ** p < .01

Table 22
Results of Regression Analysis Using CEO Equity Ownership to Predict Shareholder Returns in Year t_1

Variables	Dependent Variable: SHAREHOLDER RETURN (t_1)											
	Model 1		Model 2		Model 3		Model 4		Model 3		Model 4	
	β	t	β	t	β	t	β	t	β	t	β	t
Assets t_1	-0.111	-1.479	-0.111	-1.460	-0.111	-1.463	-0.108	-1.408				
Advertising Intensity t_1	-0.077	-1.113	-0.077	-1.108	-0.078	-1.116	-0.075	-1.072				
R&D Intensity t_1	0.228	3.208**	0.228	3.175*	0.228	3.170**	0.230	3.190**				
Capital Structure t_1	-0.030	-0.411	-0.030	-0.408	-0.029	-0.394	-0.034	-0.459				
Dividends t_1	0.173	2.368*	0.172	2.311*	0.173	2.309*	0.172	2.285*				
Shareholder Return t	0.173	2.438*	0.171	2.379*	0.172	2.379*	0.172	2.373*				
Total Diversification t_1	-0.084	-1.184	-0.083	-1.137	-0.082	-1.129	-0.080	-1.087				
Restructure			-0.007	-0.100	-0.003	-0.036	-0.029	-0.344				
CEO Equity t_1			-0.001	-0.021	0.042	0.168	-0.624	-0.876				
CEO Equity t_1 x Restructure					-0.046	-0.182	0.631	0.880				
(CEO Equity t_1) ²							2.985	0.997				
(CEO Equity t_1) ² x Restructure							-3.009	-1.005				
R ²		.148		.148		.148		.153				
Adjusted R ²		.116		.106		.101		.097				
Change in R ²				.000		.000		.005				
Significance of R ² Change				.994		.856		.601				

N = 192. † p < .10, * p < .05, and ** p < .01

Table 23
Results of Regression Analysis Using Top Management Team Equity Ownership to
Predict Shareholder Returns in Year t_1

Variables	Dependent Variable: SHAREHOLDER RETURN (t_1)							
	Model 1		Model 2		Model 3		Model 4	
	β	t	β	t	β	t	β	t
Assets t_1	-0.111	-1.435	-0.109	-1.390	-0.107	-1.363	-0.102	-1.292
Advertising Intensity t_1	-0.077	-1.079	-0.074	-1.022	-0.074	-1.020	-0.063	-0.859
R&D Intensity t_1	0.228	3.110**	0.224	3.038**	0.225	3.032**	0.229	3.074**
Capital Structure t_1	-0.030	-0.399	-0.032	-0.425	-0.033	-0.433	-0.038	-0.501
Dividends t_1	0.173	2.297*	0.164	2.107*	0.164	2.100*	0.157	1.999*
Shareholder Return t	0.173	2.364*	0.168	2.260*	0.167	2.216*	0.165	2.193*
Total Diversification t_1	-0.084	-1.148	-0.080	-1.069	-0.081	-1.071	-0.075	-0.984
Restructure			0.000	0.006	-0.005	-0.054	-0.054	-0.559
TMT Equity t_1			-0.043	-0.572	-0.057	-0.427	-0.406	-1.154
TMT Equity t_1 x Restructure					0.018	0.127	0.436	1.140
(TMT Equity t_1) ²							0.469	1.069
(TMT Equity t_1) ² x Restructure							-0.534	-1.190
R ²		.148		.150		.150		.157
Adjusted R ²		.114		.105		.100		.097
Change in R ²				.002		.000		.007
Significance of R ² Change				.845		.899		.494

N = 181. † p < .10, * p < .05, and ** p < .01

Table 24
Results of Regression Analysis Using Board of Director Equity Ownership to
Predict Shareholder Returns in Year t_1

Variables	Dependent Variable: SHAREHOLDER RETURN (t_1)							
	Model 1		Model 2		Model 3		Model 4	
	β	t	β	t	β	t	β	t
Assets t_1	-0.111	-1.479	-0.111	-1.464	-0.110	-1.443	-0.109	-1.433
Advertising Intensity t_1	-0.077	-1.113	-0.077	-1.100	-0.074	-1.042	-0.070	-0.976
R&D Intensity t_1	0.228	3.208**	0.230	3.178**	0.229	3.160**	0.227	3.118**
Capital Structure t_1	-0.030	-0.411	-0.030	-0.408	-0.031	-0.417	-0.027	-0.371
Dividends t_1	0.173	2.368*	0.173	2.339*	0.171	2.276*	0.162	2.102*
Shareholder Return t	0.173	2.438*	0.168	2.228*	0.168	2.215*	0.165	2.168*
Total Diversification t_1	-0.084	-1.184	-0.081	-1.100	-0.080	-1.083	-0.070	-0.923
Restructure			-0.007	-0.096	-0.011	-0.145	0.002	0.020
BOD Equity t_1			-0.011	-0.153	-0.143	-0.176	-0.195	-0.239
BOD Equity t_1 x Restructure					0.132	0.163	-0.166	-0.176
(BOD Equity t_1) ²							0.350	0.623
(BOD Equity t_1) ² x Restructure							-0.524	-1.211
R ²		.148		.148		.149		.150
Adjusted R ²		.116		.106		.101		.098
Change in R ²				.000		.001		.001
Significance of R ² Change				.983		.871		.534

N = 192. † p < .10, * p < .05, and ** p < .01

one analysis – proportion of outsiders on the board – did the addition of a curvilinear term lead to a drop in the adjusted R^2 value for each analysis. Overall significance values for the curvilinear term models (Model 4) ranged from .325 to .607. Based on the results for each model across all six governance characteristics, hypotheses 2a through 2f were not supported.

5.B.2. Post Hoc Analyses and Results

Although my results revealed that there appeared to be no financial reward for firms exhibiting socially constructed and legitimated forms of good governance despite the fact that the governance structures tested are clearly what governance activists, institutional investors, the popular press, and, to a great extent, academicians view as sound and appropriate governance. As mentioned in Chapter 3, there is evidence that the presence of certain governance structures and configurations can play a role in the social construction of market value (Bianco & Byrne, 1997; Brickley et al., 1994; Byrd & Hickman, 1992; Gaver, Gaver & Battistel, 1992; Rosenstein & Wyatt, 1994; Tehranian, Travlos & Waegelein, 1987; Westphal & Zajac, 1998; Zajac & Westphal, 1995). As such, I conducted a series of post hoc analyses to truly determine if governance surrounding a restructuring event does not play a role in the social construction of market value.

In order to test the aforementioned assertion, my post hoc analyses were driven by a two-pronged approach. First, I utilized an additional measure of market valuation that is commonly accepted in strategic management research – *return on equity*. Second, instead of measuring governance structures and shareholder returns in the same year (i.e., t_1), I measured the governance structures in the restructuring year (i.e., t) in order to assess the presence of a causal effect. Thus, the additional analyses: (1)

evaluated the original dependent variable – *shareholder returns* – in relation to the governance structures, which were measured during the year of the restructuring; (2) evaluated the alternative dependent variable – *return on equity (ROE)* – in relation to the governance structures, which were measured both during the year of restructuring and the year after. Only significant findings from these additional analyses will be presented and discussed. The specific formula for ROE is as follows.

$$\text{Return on Equity (ROE)} = \frac{\text{net income}}{\text{shareholders' equity}}$$

Regressing *shareholder returns* against the six governance variables measured the year of the restructuring, returned one significant finding. As shown in Model 2 of Table 25, *CEO duality during the restructuring year* is significantly and negatively related to shareholder returns ($p < .01$). In other words, shareholders in firms adopting non-duality structures during the year of a restructuring, will be positively rewarded in the post-restructuring year. This finding is supportive of the prior assertion that the presence of certain governance structures and configurations can play a role in the social construction of market value; that is, sound or good governance leads to greater market valuations. Overall, R^2 , change in R^2 , and significance of Model 2 are .19, .04, and .01, respectively. Models 3 (the interaction between restructuring and CEO duality) and 4 (curvilinear effect) did not yield any significant findings.

Additional significant findings were uncovered when using *ROE* as the dependent variable. For instance, significant results were obtained when assessing the impact of *proportion of outsiders on the board during the year of restructuring* (i.e., year t). Table 26 shows the results from this analysis. As shown in Model 2 of the table, the addition of the independent variables – proportion of outsiders on the board in year t

Table 25
Results of Post-Hoc Analysis Using CEO Duality to Predict Shareholder Returns in Year t_1

Variables	Dependent Variable: SHAREHOLDER RETURN (t_1)											
	Model 1		Model 2		Model 3		Model 4					
	β	t	β	t	β	t	β	t	β	t	β	t
Assets t_1	-0.111	-1.523	-0.105	-1.459	-0.105	-1.462	-0.106	-1.466				
Advertising Intensity t_1	-0.077	-1.145	-0.054	-0.822	-0.055	-0.833	-0.053	-0.829				
R&D Intensity t_1	0.228	3.302**	0.184	2.666**	0.190	2.725**	0.192	2.799**				
Capital Structure t_1	-0.030	-0.423	-0.020	-0.292	-0.021	-0.300	-0.022	-0.307				
Dividends t_1	0.173	2.438*	0.202	2.852**	0.203	2.866**	0.202	2.860**				
Shareholder Return t	0.173	2.510*	0.140	2.025*	0.143	2.061*	0.141	2.055*				
Total Diversification t_1	-0.084	-1.219	-0.081	-1.183	-0.083	-1.209	-0.083	-1.201				
Restructure			-0.028	-0.420	0.082	0.486	0.089	0.488				
CEO Duality t			-0.214	-3.105**	-0.160	-1.546	-0.178	-1.727				
CEO Duality t x Restructure					-0.126	-0.713	-0.125	-0.711				
(Duality t) ²							-0.116	-1.002				
(Duality t) ² x Restructure							-.126	-0.717				
R ²		.148		.189		.191		.191				
Adjusted R ²		.118		.151		.149		.143				
Change in R ²				.041		.002		.000				
Significance of R ² Change				.009		.477		.599				

N = 203. † p < .10, * p < .05, and ** p < .01

and restructuring – into the regression equation did not yield any significant results ($R^2 = .23$, change in $R^2 = .02$, and $p = .15$). However, when the interaction term was entered, significant results were obtained (positive relationship; $p < .05$). Overall, the R^2 for Model 3 improved by .016, for an overall $R^2 = .25$, $p = .04$. Thus, these results suggest that variance in ROE in year t_1 can be explained by the interaction between the proportion of outsiders on the board during the year of restructuring.

The interaction effect is depicted in Figure 4 and provides support for the idea that shareholder returns are influenced by socially legitimated forms of good governance. Specifically, Figure 4 suggests that the combination of restructuring and greater proportions of outsiders on the board during the year of a restructuring has a positive impact on ROE in the post-restructuring year. This result did not hold for non-restructuring firms. As such, support is found for the assertion that board independence is a desirable governance structure and is positively valued by the markets.

Additional variance in ROE in year t_1 was explained by *BOD ties in both the year of, and year after, a restructuring*. Regression results in Tables 27 and 28 reveal that the direct effects of BOD ties (in either year) and the restructuring event itself did not have any direct effects on ROE in year t_1 ($R^2 = .22$, $p = .28$ for year t and $R^2 = .22$, $p = .32$ for year t_1). However, the addition of the interaction term in the regression models resulted in model significance. As evidenced in Models 3 in Tables 27 and 28, the addition of the interaction terms resulted in their significance ($p < .10$ for BOD ties in year t , and $p < .05$ for BOD ties in year t_1), as well as overall Model 3 significance ($R^2 = .24$, change in $R^2 = .01$, and $p = .08$ for BOD ties in year t , and $R^2 = .24$, change in $R^2 = .02$, and $p = .03$). The addition of a quadratic term in the regression equation to assess a curvilinear effect did not produce any significant findings for either year.

Table 26
Results of Post-Hoc Analysis Using Outsider Proportion to Predict Shareholder Returns in Year t_1

Variables	Dependent Variable: RETURN ON EQUITY (t_1)			
	Model 1	Model 2	Model 3	Model 4
	β	β	β	β
	t	t	t	t
Assets t_1	-0.109	-0.099	-0.120	-0.122
Advertising Intensity t_1	0.101	0.099	0.105	0.103
R&D Intensity t_1	0.100	0.104	0.106	0.104
Capital Structure t_1	0.363	0.364	0.378	0.380
Dividends t_1	0.204	0.217	0.241	0.239
ROE t	0.200	0.222	0.218	0.221
Total Diversification t_1	0.018	0.036	0.035	0.039
Restructure		-0.061	-0.904	-1.525
Outsider Prop t		-0.104	-0.215	-0.294
Outsider Prop t x Restructure			0.884	2.318
(Outsider Prop t) ²				0.082
(Outsider Prop t) ² x Restructure				-0.835
R ²	.214	.230	.246	.247
Adjusted R ²	.186	.194	.207	.199
Change in R ²		.016	.016	.001
Significance of R ² Change		.147	.041	.919

N = 203. † p < .10, * p < .05, and ** p < .01

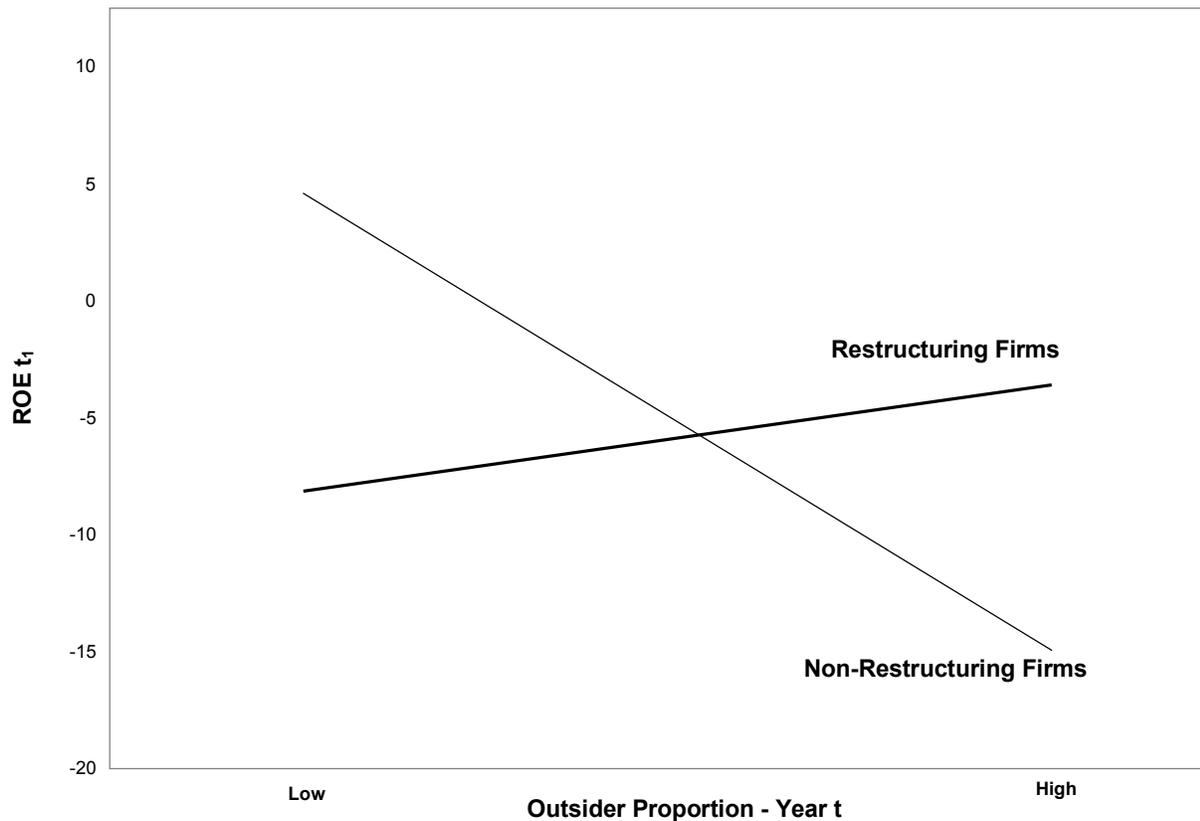


Figure 4
Interactive Effect of Outsider Proportion (Year t) and Restructuring on Shareholder Returns

A visual assessment of the interaction plots in Figures 5 and 6 shows that restructuring firms possessing governance structures, which allow organizations to co-opt sources of uncertainty in their external environments or serve as a means for corporate control for executives (Aldrich, 1979; Mizuchi, 1996), can be seen as responsible governance. As such, this form of good governance is rewarded by the markets. Assessing the interaction plots, it is important to note that the rewards for restructuring firms only start to accrue at fairly high amounts of linkages with their environments. Below this level, non-restructuring firms performed better.

Table 27
Results of Post-Hoc Analysis Using Board of Director Ties_(t) to Predict Shareholder Returns in Year t₁

Variables	Dependent Variable: RETURN ON EQUITY(t ₁)							
	Model 1		Model 2		Model 3		Model 4	
	β	t	β	t	β	t	β	t
Assets t ₁	-0.109	-1.557	-0.121	-1.663 [†]	-0.152	-2.043*	-0.140	-1.776 [†]
Advertising Intensity t ₁	0.101	1.563	0.091	1.400	0.089	1.385	0.090	1.394
R&D Intensity t ₁	0.100	1.547	0.089	1.367	0.096	1.478	0.096	1.476
Capital Structure t ₁	0.363	5.329**	0.358	5.234**	0.378	5.483**	0.374	5.365**
Dividends t ₁	0.204	3.004**	0.155	2.011*	0.182	2.318*	0.178	2.234*
ROE t	0.200	3.112**	0.215	3.285**	0.219	3.358**	0.220	3.351**
Total Diversification t ₁	0.018	0.273	0.155	2.011*	0.034	0.502	0.029	0.419
Restructure			-0.084	-1.269	-0.275	-2.156*	-0.262	-1.275
BOD Ties t			0.085	1.067	-0.044	-0.403	0.157	0.499
BOD Ties t x Restructure					0.260	1.748 [†]	0.197	0.398
(BOD Ties t) ²							-0.228	-0.671
(BOD Ties t) ² x Restructure							0.075	0.182
R ²		.214		.224		.237		.239
Adjusted R ²		.186		.188		.197		.191
Change in R ²				.010		.013		.002
Significance of R ² Change				.278		.082		.712

N = 203. [†] p < .10, * p < .05, and ** p < .01

Table 28
Results of Post-Hoc Analysis Using Board of Director Ties_(t1) to Predict Shareholder Returns in Year t₁

Variables	Dependent Variable: RETURN ON EQUITY(t ₁)							
	Model 1		Model 2		Model 3		Model 4	
	β	t	β	t	β	t	β	t
Assets t ₁	-0.109	-1.557	-0.116	-1.609	-0.149	-2.038*	-0.138	-1.840†
Advertising Intensity t ₁	0.101	1.563	0.088	1.357	0.092	1.420	0.091	1.393
R&D Intensity t ₁	0.100	1.547	0.091	1.387	0.102	1.574	0.100	1.527
Capital Structure t ₁	0.363	5.329**	0.360	5.281**	0.380	5.570**	0.374	5.420**
Dividends t ₁	0.204	3.004**	0.160	2.059*	0.192	2.449*	0.186	2.340*
ROE t	0.200	3.112**	0.214	3.252**	0.215**	3.302**	0.214	3.275**
Total Diversification t ₁			0.024	0.351	0.037	0.548	0.034	0.507
Restructure			-0.086	-1.284	-0.320	-2.520*	-0.376	-1.842†
BOD Ties t ₁			0.073	0.917	-0.085	-0.787	0.002	0.006
BOD Ties t ₁ x Restructure					0.322	2.161*	0.470	0.976
(BOD Ties t ₁) ²							-0.090	-0.314
(BOD Ties t ₁) ² x Restructure							-0.113	-0.302
R ²		.214		.223		.242		.244
Adjusted R ²		.186		.187		.202		.196
Change in R ²				.009		.019		.002
Significance of R ² Change				.322		.032		.743

N = 203. † p < .10, * p < .05, and ** p < .01

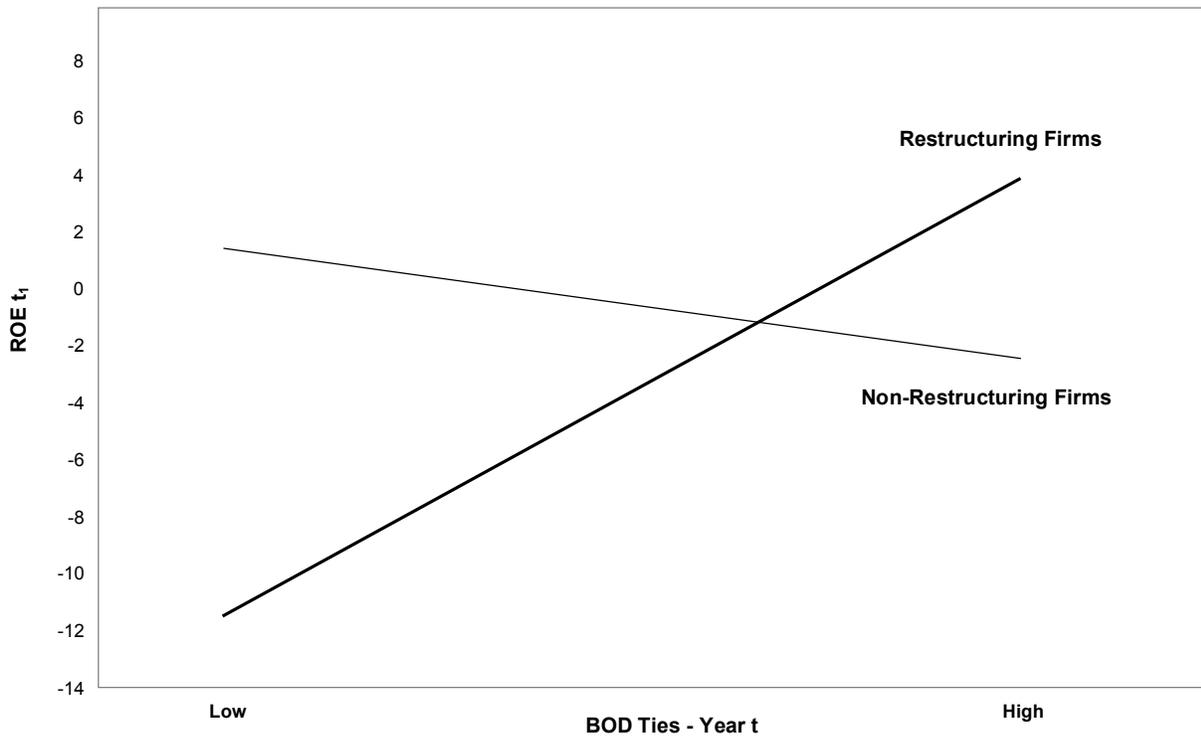


Figure 5
Interactive Effect of Board of Director Ties (Year t) and Restructuring on Shareholder Returns

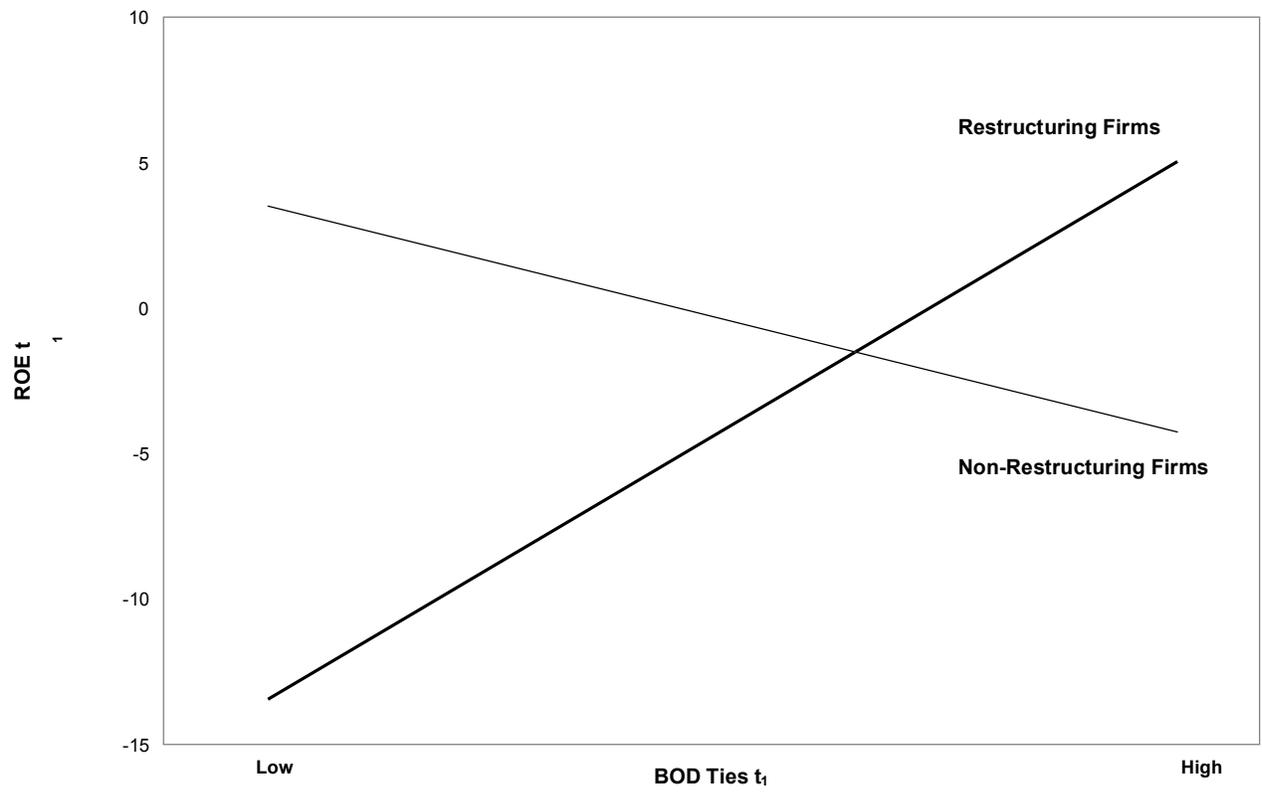


Figure 6
Interactive Effect of Board of Director Ties (Year t_1) and Restructuring on Shareholder Returns

CHAPTER 6: DISCUSSION, CONTRIBUTIONS AND IMPLICATIONS, LIMITATIONS, AND FUTURE DIRECTIONS

The intent of this chapter is four-fold. First, the chapter offers a discussion of the findings presented in the previous chapter. Two discussions are presented – one for each study. Second, this chapter attempts to shed light as to why not all my hypotheses were supported. Third, the contributions and implications of this dissertation are discussed. Lastly, this chapter addresses the limitations of my studies and offers directions for future research.

6.A. Discussion

6.A.1. Discussion – Study 1

This first study in this dissertation was concerned with the relationship between performance and restructuring, and their impact on governance in the post-restructuring period. Drawing on the basic tenets of institutional and resource dependence theories, this dissertation argues that modifications to governance structures in the post-restructuring period will be the greatest for those firms experiencing poor performance in the pre-restructuring period because poor governance is believed to drive poor performance.

It is believed that a restructuring creates a fundamental shift in the domain of the organization and alters the resource allocation process, thus ultimately leading to a period of instability within the organization. Furthermore, it is believed that this instability is magnified in periods of poor performance. As a result of these events, the organization is more vulnerable to challenges from outside forces (e.g., powerful owners), which might press for changes to the status quo (Davis & Thompson, 1994). Additionally, it is argued that, although each organization has its own

sources of pressures (e.g., different/various powerful owners), the intent or purpose of these pressures are the same – to improve the governance of the firm and realign management’s interests to be congruent with those of shareholders. It was hypothesized that these firms will adjust their governance structures to reflect socially valid indicators of sound governance as set forth by large shareholders and the markets. By changing governance structures that adhere to the prescriptions of rationalizing myths in the institutional environment, an organization might enhance its legitimacy and demonstrate that it is behaving on collectively valued purposes in a proper and adequate manner.

The general findings of Study 1 are presented in Table 29. Overall, the results generally support the notion that restructuring firms do institute governance changes in the post-restructuring period. This overarching finding leads me to believe that there is a general consensus in corporate America that governance modifications, along with the restructuring itself, are necessary in order to improve organizational performance. Why would powerful owners or institutional investors push for modifications to governance structures and/or firms volunteer to institute governance changes if there were not socially constructed beliefs that governance truly does matter and that these particular changes are means of improving organizational performance?

Table 29 reveals that the restructuring event itself, irrespective of performance in the pre-restructuring period, is causally related to changes in governance structures in the post-restructuring period. These positive relationships reflect a push towards governance structures that are believed to be for the betterment of the organization and its functioning. Specifically, restructuring was

Table 29
Summary of Findings – Study 1

Governance Structures	DIRECT, LINEAR RELATIONSHIPS			
	Restructuring (+)	Performance (-)	Restructuring (-)	Performance (+)
Prop Outsiders t ₁	X	X		
Prop Outsiders t ₂	X	X		
CEO Duality t ₁				
CEO Duality t ₂				
BOD Ties t ₁				
BOD Ties t ₂				
CEO Equity t ₁	X			
CEO Equity t ₂	X			
TMT Equity t ₁	X			X
TMT Equity t ₂	X			X
BOD Equity t ₁	X			
BOD Equity t ₂				
	INTERACTION EFFECTS AND NON-LINEAR RELATIONSHIPS			
CEO Duality t ₂	Duality was more prevalent for restructures with <i>low</i> or <i>high</i> performance. It was less prevalent for firms with <i>moderate</i> performance. Relationship does not hold for non-restructurers.			
CEO Equity t ₂	Ownership was greater for restructurers with <i>moderately low</i> to <i>high</i> performance. Contrary to arguments, for restructurers, the greater the positive change in performance, the greater the equity ownership.			

positively related to the proportion of outsiders on the board of directors, CEO equity ownership, and TMT equity ownership in the first and second years following a restructuring. Additionally, restructuring was found to be positively related to BOD equity ownership in the first year following a restructuring. It is not surprising that these structures were modified because they are the most frequently targeted for change by institutional investors, as well as being easily changed compared to the other governance structures assessed in this study (Daily et al., 1999, 2003a; Dalton et al., 1998, 2003; Johnson et al., 1996). It is important to note that all of these relationships reflect a move towards sound or better governance. In other words, none of these relationships contradicted the theoretical arguments set forth in this dissertation.

In all, four of the six governance structures studied were modified in the post-restructuring period, which is supportive of the fact that restructuring is all-to-often associated with substandard governance. As previously mentioned, poor governance is posited to negatively impact performance, even though the academic literature, popular press, and institutional activists have never soundly defined poor governance. The result of this situation has resulted in the consensus that if firms experiencing poor performance must have reached that point as a result of poor governance. As such, modifications are made to governance structures in such a way that these structures will reflect current socially constructed norms.

Even though these modifications to governance structures are instituted, what remains uncertain relates to *how* these changes came about. In other words, do organizations make changes as a result of powerful actors forcing these changes upon them, or are these changes instituted as a proactive measure in

order to appease powerful actors in the external environment (Oliver, 1991)? In fact, these changes might constitute a compromise between the organization and multiple constituent demands (Oliver, 1991), since powerful actors might have the different agendas (Hoskisson et al., 2002). Although beyond the scope of this dissertation, these issues are important to address in order to attain a greater understanding of governance in the post-restructuring period.

The two governance structures that did not have a direct relationship with restructuring were CEO duality and board of director ties. It would seem reasonable to assume that CEO duality would not be impacted for two main reasons. First, CEO duality gives a CEO greater power and control over its board of directors and top management team (Baliga et al., 1996; Finkelstein & D'Aveni, 1991; Finkelstein & Hambrick, 1994), which makes these two groups more beholden to the CEO and, thus, less likely to negatively impact the duality status. Second, CEOs might not be forced to step down from their duality roles since other governance reforms might be put into place to minimize the control that CEO duality offers (Rediker & Seth, 1995; Shleifer & Vishny, 1997). For instance, as depicted in Table 29, powerful owners may push for governance changes such as greater proportions of outsiders on the board and greater equity ownership by CEOs in the firms they manage. These two moves can be seen as ways to attenuate the increasingly negative perception of CEO duality.

As previously mentioned, BOD ties in the post-restructuring period did not seem to be impacted by the restructuring event. In hindsight, I would explain the non-significance of this finding more as a matter of ability than desire. As my theoretical arguments suggested, it would seem reasonable for power

constituencies to *desire* greater number of BOD linkages in the post-restructuring period because such linkages may serve as a means of co-opting the environment for resources and also serve as a means of corporate control. However, in hindsight, these external constituencies might not have the *ability* to significantly increase their boards' networks of linkages because of the simple fact that in order to serve on the boards of other organizations, one must be invited to serve. As such, this governance structure might not be directly controllable by powerful owners, such as institutional investors.

An assessment of the results, as presented in Table 29, revealed confirming and contradictory results concerning the relationship between performance and governance structures. Congruent with theoretical arguments set forth in this dissertation, a firm experiencing a negative change in performance in the pre-restructuring period tends to have an increase in the proportion of outsiders on the board in both the first and second years after a restructuring. It was once believed that independent boards would have a positive impact on performance (Johnson et al., 1996), yet another stream of research has suggested a reverse causal relationship (e.g., Daily & Johnson, 1997; Hermalin & Weisbach, 1988; Kaplan & Minton, 1994; Pearce & Zahra, 1992). Various authors empirically demonstrated that following periods of poor performance, firms tended to add outside directors to the board, which provides some evidence that poor performance signals a need for more vigilant monitoring of firm management and a need to realign the firm with its external environment. This is accomplished via a more independent board, which is believed to be a better governance mechanism than a dependent board (Daily et al., 2003a, 2003b).

Contradictory to my theoretical arguments, it was revealed that poor prior performance was positively related to top management team equity ownership in both years. Several explanations for this relationship are offered. First, it might be that top managers opportunistically and voluntarily take on more shares in their organizations as a signal to the public that they have faith in their organizations, and, thus others should as well. A second explanation might be that as a result of the increase in performance, top managers have exercised their stock options, thus increasing their overall equity ownership in the organizations they govern. A last explanation might be that this relationship is masking the true relationship between performance and CEO equity ownership since CEOs are always member of the top management team. In other words, as performance increases, CEOs adopt greater equity positions in their firms for the same reasons offered for top managers – to signal to the markets or as a result of exercising stock options.

The two sections above discussed governance in terms of their direct relationships with performance and restructuring, however, some other interesting findings are worthy of discussion. The first interesting finding related to CEO duality in year t_2 . The results revealed that the behavior of duality was contingent on whether or not a firm engaged in a restructuring. For non-restructuring firms, poor performance was found to have no significant impact on duality. For restructuring firms, however, the relationship was curvilinear (i.e., inverted U relationship) in relation to performance.

At the extremes of performance (low and high), restructuring firms subsequently exhibited non-duality structures. At the middle ground (moderate performance), restructuring firms exhibited duality structures. As predicted, it is not

surprising to find restructuring firms with low pre-restructuring performance to subsequently possess non-duality structures. In other words, in instances when it is believed that shareholder interests have been neglected and governance is weak, corrective action must be taken and managerial interests must once again be aligned with those interests of the shareholders. In fact, given the belief that restructuring is frequently associated with failure of a firm's prior governance structure irrespective of performance, it would not be unreasonable to accept that non-duality structures exist at high prior performance levels as well. As previously mentioned, firms exhibiting moderate levels of performance in the pre-restructuring period were best characterized as having duality structures in the second year after a restructuring. Although no straightforward theoretical rationale exists to explain this phenomenon, it might be attributable to the fact that this group of restructurers was more inclined to have other changes made to their governance structures and not to duality. It might be that CEOs and their respective top managers opted to have their personal wealth more heavily invested in the firm, as discussed above.

The second interesting finding relates to CEO equity ownership in year t_2 . As is evidenced in Figure 3, equity ownership was greater for restructurers with moderately low to high performance. For low performing organizations, non-restructuring firms subsequently had CEOs who held more equity in their organizations than CEOs of restructuring firms. Specifically, the regression lines intersected at 1.4 standard deviations below the mean of firm performance. Since the mean change in ROA performance for the entire sample was -.22 and the standard deviation was 7.68, the intersection of the two regression lines occurred at a negative change in ROA performance which equaled 10.75. Thus, restructuring

firms in my sample experiencing a change in ROA greater than -10.75 (which amounted to 93% of the firms) had CEOs with greater equity ownership than their non-restructuring counterparts.

The greater use of CEO equity ownership for restructuring firms versus non-restructuring firms is a clear indication that socially legitimated governance structures are used to institute perceived better governance within organizations. In other words, restructuring firms, as a whole, when compared to non-restructuring firms had CEOs who had greater equity positions in the firms they managed.

6.A.2. Discussion – Study 2

The second area of study within this dissertation involved the moderating impact of governance on the restructuring-performance relationship. The idea here is that due to institutionalization of what constitutes sound governance, the financial markets will positively reward those firms whose governance structures possess socially valid indicators of sound governance. Up until this point, this was an untested area of research in the restructuring-market performance relationship that required investigation because there is significant evidence that market evaluations can be impacted by non-financial factors, such as alterations of governance structures.

Drawing on the basic tenets and arguments of institutional, resource dependence, and signaling theories it was argued that the financial markets' reactions may reflect social benefits resulting from symbolic actions that reduce uncertainty about managerial motives (Westphal & Zajac, 1998). Institutional theorists have argued that symbolic actions are most effective under conditions of uncertainty or ambiguity (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott,

1995; Westphal & Zajac, 1998). Thus, it was argued that potentially symbolic actions such as socially valid governance structures might play a role in the social construction of market value when firms are engaging in portfolio restructuring activities.

The initial relationships tested revealed no moderating impact of governance on the restructuring-shareholder return relationship. The governance structures tested were measured the same year as shareholder returns (i.e., year t_1). For each governance structure studied, its moderating impact on the restructuring-shareholder return relationship was non-existent. Although there appears to be no clear reasoning for the non-significant findings, one plausible explanation is worth mentioning. I believe that measuring governance structures in the year following a restructuring will be symbolically less powerful because, on average, firm performance increases in the year after a restructuring and thus fewer concerns over improper/weak governance exist in times of improving performance (Daily & Schwenk, 1996; Johnson et al., 1996). Additionally, as organizational performance increases, far less uncertainty exists surrounding the health of the organization and its governance structures. As such, assessments of proper governance may only be salient (or at least more salient) in times of uncertainty and questionable performance. This is supported by evidence that institutional investors, blockholders, and other large shareholders only start to focus on governance and push for modifications in times of weakening or stagnant performance (Barnard, 1991; Davis & Thompson, 1994; Hoskisson et al., 2002; Stiles & Taylor, 2001). For example, Disney's CEO, Michael Eisner, had his duality status stripped in 2004 after lackluster/stagnant performance of Disney's stock price. Additionally, in

response to this performance, Disney's top managers pay packages were revised in December 2004 to include greater amounts of equity ownership.

As per the discussion in Chapter 5, several post-hoc studies were conducted to assess the robustness of my non-significant findings. Measuring governance structures in the restructuring year and/or using ROE as an alternate dependent variable proved somewhat fruitful. CEO duality in the restructuring year proved to be negatively related to shareholder returns in the following year. Although an interesting finding and supportive of the arguments that CEO duality is viewed as a mechanism by which CEOs can pursue their own personal agendas and silence opposition from the board, this relationship was present in my entire sample – restructuring and non-restructuring firms.

Moderating impacts were discovered when assessing the proportion of outsiders on the board (measured in the year of the restructuring) and BOD ties (measured in the year of, and year after, the restructuring). These relationships were plotted in Figures 4 – 6. The results revealed that greater proportions of outsiders on the board and greater BOD ties improved ROE in the following year. These relationships did not hold for non-restructuring firms, which makes sense considering that the absence of a restructuring event, by default, implies less ambiguity and uncertainty surrounding the organization and the motives of the individuals and/or groups who govern it. Thus, outsiders on the board can be a valuable signal by enhancing the reputation and credibility of the organization, helping it establish and maintain the firm's legitimacy, and serving as a means of controlling opportunistic behavior by the CEO and top managers. Additionally, board members with substantial linkages with their environments can signal to

potential investors that their firms are legitimate enterprises worthy of support (Mizruchi, 1996). Furthermore, substantial linkages allow for cooptation of potentially disruptive elements in the organization's environment (Pfeffer & Salancik, 1978) and serve as a source for corporate control (Mizruchi, 1996).

In conclusion, while conventional and institutionalized agency perspectives assume that the positive moderating impact of these governance structures reflect economic benefits from reduced agency costs, a perspective based on institutional, resource dependence, signaling, and impression management theories offer a different interpretation – market valuations may instead reflect social benefits resulting from symbolic actions that reduce uncertainty about managerial motives. Such symbolic actions are most effective under conditions of ambiguity and/or uncertainty (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Pfeffer, 1981; Scott, 1995; Westphal & Zajac, 1998) (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Pfeffer, 1981; Scott, 1995; Westphal & Zajac, 1998), and, as such, serve as explanations of the moderating impact of governance on the restructuring-performance relationship.

Although it was not broad-based, I did find support for the argument that market valuations may reflect social benefits resulting from symbolic actions such as good governance. This support was found with the positive moderating impact of CEO duality in the restructuring year, the proportion of outsiders on the board in the restructuring year, and board ties in the restructuring and following years.

6.B. Reasons for Mixed Results

As the results revealed, not all of my hypotheses were supported. A variety of explanations can be offered. In the following sections I offer five specific reasons

as to why the results were mixed. In fact, I believe these explanations are important to consider in any study that wishes to assess changes in governance structures.

6.B.1. Any Change is Good News

Research (e.g., Westphal & Zajac, 1994, 1998; Zajac & Westphal, 1995) suggests that investors have great interest in reducing uncertainty and therefore value socially legitimate indications that appear to be beneficial to the shareholders. The basic implication here is that external constituencies reduce their pressure for change and/or markets positively reward firms for initiating socially legitimate moves that are perceived as value-added to the shareholder. As such, it would seem reasonable that not all pressures for change as hypothesized in this study would be addressed, due to the fact that partial modifications are enough to elicit a positive response from the markets or a reduction in pressure from external constituencies.

There is evidence that external constituencies and the financial market positively value announcements of change to a firm's governance structure or control procedures, even if these changes are decoupled from actual practice (i.e., not implemented by the firm). The adoption of formal governance reforms may be particularly effective in enhancing organizational legitimacy by helping to allay concerns about managerial loyalties, irrespective of whether such reforms are actually implemented in the organization. For example, research by Westphal and Zajac (1994) Zajac and Westphal (1995) indicates that firms might actually adopt long-term incentive plans (LTIPs) for their CEOs, never implement these programs, and still receive a positive reaction from the markets. Essentially, the decoupling of LTIPs adoption from implementation can relieve pressures that firms face from shareholder groups to enact other governance reforms.

6.B.2. Substitution Effects

Closely aligned with the aforementioned idea, it is believed that *substitution effects* exist in relation to governance and changes in governance (Beatty & Zajac, 1994; Dalton et al., 2003; Rediker & Seth, 1995; Shleifer & Vishny, 1997; Westphal & Zajac, 1998; Young et al., 2000; Zajac & Westphal, 1994). The idea behind substitution effects of governance is that some substantive governance issues or substantive changes in governance might serve as substitutes for each other. In other words, substitution theory addresses the relationship among alternative governance mechanisms.

For example, governance reform activists believe that a higher level of monitoring by the board (i.e., greater outsider representation) would be required when a CEO does not accept any compensation risk tied to firm performance versus when a CEO's incentives are tied to the performance of the firm (e.g., Fama & Jensen, 1983a). In essence, the substitution effect of governance states that the desired level of one governance mechanism is to be contingent on the magnitude of other governance mechanisms. Governance mechanisms incorporated into this debate include pay for performance, outsider representation on the board, CEO duality, equity held by directors, and equity held by the top management team. By formally adopting institutionally legitimated procedures indicative of CEO accountability, top managers may effectively preempt or forestall alternative changes in board structure.

6.B.3. CEO Influence

CEOs possess varying degrees of power in their organizations and do not favor any governance changes that might decrease their autonomy or increase their

employment or compensation risks (Daily & Johnson, 1997; Oliver, 1991; Shen, 2003; Westphal & Zajac, 1998). The literature suggests that CEOs who have more control over the governance of their organizations via CEO duality, board members who were appointed by the CEO, and a longer tenured CEO have more influence relative to the board. As such, powerful CEOs might be able to forestall initiatives desired by constituencies that reduce the CEOs' power or translate into greater risk assumption by the CEOs in relation to their compensation packages. It is important to note that I am not suggesting that CEOs will never give in to external pressure, but I would be surprised to find changes in those governance characteristics least desired by powerful CEOs.

6.B.4. Organizations Vary in Their Ability to Conform

Institutional theorists recognize that organizations may vary in the degree to which they conform to changes in their external environments (DiMaggio & Powell, 1983; Oliver, 1991; Young et al., 2000). It is suggested that an organization's strategic positioning (Davis et al., 1994; Fligstein, 1991; Judge & Zeithaml, 1992), as well as its own traditions and history may also affect the extent of conformity to isomorphic pressures (Eisenhardt, 1988; Young et al., 2000). Additionally, it is suggested organizations must be responsive to external demands and expectations in order to survive, yet it is posited that organizations vary in their resistance and proactiveness to conforming to the institutional environment. As such, these issues could manifest themselves in varying degrees of organizational responses (Meyer & Rowan, 1977; Pfeffer & Salancik, 1978; Oliver, 1991).

Furthermore, because my sample of firms was drawn from multiple industries, I believe that the stability of organizational fields (i.e., the industry or

competitive environment) would be a major determining factor in the likelihood of change in any given organization. The actions of others in the organizational fields can either legitimate current practices or else constitute reasons for change (Fligstein, 1990, 1991).

6.B.5. The Impact of Board Interlocks

One of the most-studied forms of interorganizational influence is the director interlock, which acts as a mechanism for interfirm cooperation, functions as a source of legitimacy, and serves a source of information about business practices (Haunschild, 1993, 1994; Haunschild & Beckman, 1998; Mizruchi, 1996; Palmer et al., 1993). The literature has established that board interlocks function as important conduits of information about business practices, which might result in firms doing the same things their interlocked partners are doing. In other words, it is suggested that organizations adopt legitimated practices, routines, and structures of other organizations (DiMaggio & Powell, 1983).

Evidence of interorganizational imitation via the board interlock is plentiful. For example, Haunschild (1993) demonstrated that premiums paid by an acquiring firm are related to those paid by other firms through which the organization was linked. In a related study, Haunschild (1994) found support for her arguments that firm managers are exposed to the acquisition activities of other firms when they sit on those firms' boards, which will serve as models to be imitated. Additional evidence of the power of interlocks was offered by Palmer et al. (1993) in their investigation of the multidivisional form among large U.S. industrial corporations in the 1960s. Their results showed that firms whose directors had corporate board

contacts with the directors of multidivisional firms adopted the multidivisional form more frequently than other firms.

Based on this stream of research, I would expect that organizations also imitate the governance practices and responses to pressures for governance reform of those organizations with whom they are linked. Existing governance practices of other firms may be viewed as legitimate, and thus the adoption of these governance practices might function as a source of legitimacy for the firm and its own board of directors and top managers. Since firms respond differently to pressures for greater accountability in the governance structure of their own firm, and due to the fact that governance structures are different across firms, it could be that organizational imitation will result in different patterns of governance characteristics.

6.C. Contributions and Implications

The purpose of this dissertation was to integrate the domains of governance and portfolio restructuring in a post-restructuring setting. Addressing this issue makes this study unique in a number of ways. Conceptually, it provides an analysis of the relationship between portfolio restructuring and organizational governance structures of the parent firm, as well as an examination of the moderating impact of governance on the restructuring-performance relationship. This dissertation examined these issues empirically using a multitude of variables, which have received thorough scrutiny in the governance and restructuring literatures, yet have never been examined in the post-restructuring period.

Such an examination was crucial because the literature suggests that inadequate governance negatively impacts the performance of the organization and thus precipitates a firm's need to restructure its portfolio of businesses. The

literature contains studies that address the actions firms take to place them on a path of renewed performance, yet, to date, no research has examined the alleged driver of poor performance – inadequate governance – in the post-restructuring period. As stated in the beginning of this dissertation, if governance is truly weak in the pre-restructuring period, what do firms do to correct this issue in the post-restructuring period? As such, it would seem appropriate to assume that firms will have a need to address this issue on either a voluntary or involuntary basis. The empirical results revealed that restructuring firms do make significant changes to governance structures in the post-restructuring period. Many of these changes are instituted irrespective of performance in the pre-restructuring period.

The arguments set forth in this dissertation suggests that the literature concerning organizational control and its relationship to managing the firm's portfolio of businesses are the result of years of institutionalized beliefs based in agency theory. This dissertation makes another contribution by breaking free from the ingrained way of viewing these topics and predominantly employs institutional arguments, along with arguments from the signaling, impression management, and resource dependence literatures, to suggest that the portfolio restructuring and governance literatures have become locked into a way of thinking that basically equates poor performance with poor governance. The existing literature has clearly, although not convincingly, established what constitutes sound governance. This dissertation makes a contribution by arguing that firms will alter their governance structures in the post-restructuring period to address the governance problem. It is believed that external constituencies will press for reforms –

predominantly ones that are taken for granted and those that are believed to positively impact the performance of the organization.

The second major focus of this study was to investigate the impact of governance on the restructuring-performance relationship. It was argued that sound governance (i.e., those characteristics that are socially valid and taken for granted as those which appear to minimize managerial opportunism) positively moderates the restructuring-performance relationship. Until now, the portfolio restructuring literature has consistently incorporated governance variables and their importance to the restructuring decision, yet has failed to consider these same variables in the post-restructuring period. Additionally, the restructuring-performance literature has narrowly focused on the positive relationship between these two variables and has made no attempt to investigate phenomena that might positively or negatively impact this relationship. As such, it was important to investigate variables that might moderate this relationship in order to test its robustness. It was believed that the governance characteristics of the firm were a good place to start since there was significant evidence that market evaluations can be impacted by non-financial factors signals, such as alterations of governance structures. This investigation attempted to define and examine governance structures that were believed to impact the restructuring-performance relationship.

6.D. Limitations and Future Research

6.D.1. Portfolio Restructuring as a Dichotomous Variable

Using a dichotomous variable to operationalize restructuring only allows researchers to draw conclusions about firms based on their membership in one of these two categories – restructuring versus not restructuring. By grouping firms into one of

two categories the variance in this variable is greatly reduced. As such, there is an implicit assumption that the relationships uncovered in this research are relevant to all restructuring firms, which might not be the case at all.

As mentioned in Chapter 4, the sample of restructuring firms ranged from 10% of assets divested all the way up to 46.7%. It would not be unreasonable to assume that the pressures for change in the latter group (i.e., divesting nearly half of the firm's assets) would be far greater than those in the former group, especially if substandard performance preceded the restructuring event.

Future research in this area could investigate the same set of relationships posited in this dissertation with restructuring operationalized as a continuous variable, such as the percentage of assets divested. Doing so, will allow for greater variance in the restructuring variable, and, as such, permit researchers to more accurately assess restructuring's impact on governance structures. Other operationalizations of restructuring have been percentage of sales divested (Bethel & Liebeskind (1993); Hoskisson et al. (1994); Johnson et al. (1993) and number of business units divested (Hoskisson et al., 1994).

6.D.2. Only Considering Portfolio Restructuring

As discussed in Chapter 1, portfolio restructuring is not the only type of restructuring firms may undertake. Firms may also engage in *financial restructurings*, which involve significant changes in the capital structure of a firm, including leveraged buyouts and debt for equity swaps, or *organizational restructurings*, which involve significant changes in the organizational structure of the firm, including a realignment of structure with strategy, flattening of hierarchic levels, and employment downsizing.

Although this dissertation only considered portfolio restructurings, there are instances where firms might engage in two or all three of these restructurings simultaneously or sequentially (Gibbs, 1993; Hoskisson et al., 1994; Johnson, 1996). As such, it is important for researchers to carefully examine the nature of the restructurings before they can put any findings into context. For instance, if a firm simultaneously engages in a portfolio restructuring and a financial restructuring, researchers must address which changes in governance, the firm's strategy, firm performance, or any other variable(s) of interest, are attributable to each of the restructurings.

Thus, future research could contrast the various types of restructurings and assess their individual impacts on governance in the post-restructuring period. Some preliminary results by Smart and Hitt (1996) suggest that the governance arguments commonly used to explain asset restructurings might not be as strong for financial restructurings. As such, these explanations and investigations would begin with broad theoretical discussions of the links between the other types of restructurings and governance, since these linkages are not as well developed as they are between portfolio restructuring and governance.

6.D.3. Only Assessing Single Divestiture Moves

Studies examining firm performance as an antecedent to restructuring tend to be classified into one of two categories: those examining programs of divestitures and those examining single divestitures. Examining the latter allows a researcher to focus on one event, thus allowing one to examine variables of interest before and after the restructuring. In other words, it is easier to identify the pre- and post-restructuring periods than it is when examining a program of divestitures. This dissertation, like most

restructuring research, only examined firms that engaged in a single divestiture of company assets. Research has consistently demonstrated that for these types of restructurings, the divested units tended to be weak performers and that the parent firm exhibited significantly lower levels of performance than matched control firms. In other words, poor business unit or firm performance is positively associated with single business unit divestiture activity (Duhaime & Grant, 1984; Johnson, 1996; Montgomery & Thomas, 1988).

Unlike firms in single divestiture studies, firms engaging in programs of divestiture may not do so as a result of substandard business unit performance (Johnson, 1996). A company that undertakes a program of divestitures might do so as a result of lower than expected growth in the unit or as a result of an exploratory move into new markets that did not live up to expectations or did not fit the firm's strategy. Based on these issues the link between substandard performance and restructuring activities might not be as strong for chronic restructuring firms as it would be for firms engaging in a single divestiture with the intent of rectifying a drop in performance. As such, it would be reasonable to assume that linkages between governance deficiencies, firm performance, and restructuring would not be as strong for these firms as they are for single divestiture firms. This is obviously an empirical question that needs to be assessed in future research in order to determine the boundaries of the governance-performance-restructuring paradigm.

6.D.4. Longevity of Governance Changes

As evidenced in Study 1, restructuring was related to a fair amount of governance characteristics in the post-restructuring period. Although this dissertation is one of the first studies to assess multiple governance structures in multiple years after a

firm restructures its assets, the governance structures were not studied beyond the second year in the post-restructuring period. Thus, I am uncertain as to how long these changes will last. As the firm finalizes its restructuring and experiences increases in performance, do these changes in governance slowly return to pre-restructuring levels? Evidence does exist in the literature that during times of improved performance CEOs are given more freedom and latitude in terms of governing their organizations. As such, do CEOs try to gain more control over their organizations via such measures as decreasing the proportion of outsiders on the board and/or pressing for duality structures?

Future research would investigate how these governance structures might change or evolve in the post-restructuring period beyond the two years that were assessed in this dissertation. Based on the results that suggest performance has a direct impact on performance, I would imagine that, as firm performance fluctuates in the post-restructuring period, modifications to the firm's governance structures would manifest themselves. However, in the absence of a future restructuring event, these changes might not be as great and/or affecting the same governance structures.

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VITA

Luke Hendrik Cashen was born on July 25, 1972, in Great Yarmouth, England, to the parents of Fritz Hulen Cashen and Baukje Anneke Hoekstra-Cashen, and to the sister of Carrie Agatha Cashen Trosclair. He is the grandson of Thomas Hulen Cashen, June Roberta Welch-Cashen, Hendrik Reitse Hoekstra, and Agatha Alida Anna de Winter-Hoekstra.

It was not until 1984 when Luke moved to the United States and settled in New Iberia, Louisiana. Prior to moving to the United States, Luke lived with his family in England, Singapore, Borneo, and The Netherlands.

Upon his graduation from Catholic High School of New Iberia in 1990, Luke attended Louisiana State University where he obtained a Bachelor of Science in economics in 1994. After graduation, he worked as a Management Associate for the Federal Reserve Bank of Atlanta in New Orleans. Luke later returned to Louisiana State University on a full-time basis and graduated with a Master of Business Administration degree in 1997. Based on the influence of Dr. Lamar Jones, Luke decided to pursue a doctorate in Business Administration (Management) with a predominant focus on strategic management. He is scheduled to graduate in December 2005.

Luke is currently a tenure track faculty member in the Management and Marketing Department at Nicholls State University in Thibodaux, Louisiana. Additionally, he teaches for the Executive Education Program in the E. J. Ourso College of Business at Louisiana State University. Prior to accepting a position at Nicholls State University, Luke was an Instructor at Louisiana State University and an adjunct instructor at the University of Louisiana – Lafayette.